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DBS ASIAN INSIGHTS CONFERENCE 2013

POST CONFERENCE REPORT

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The DBS Asian Insights Conference 2013 brought together many of the region's top government and business leaders whose policies and decisions shape and move Asia. A comprehensive range of current topics and issues that will profoundly impact Asian economies was covered: from the internationalisation of the renminbi, to Abenomics, the Iskandar development in Malaysia and Myanmar as Asia's most exciting emerging economy.

A highlight of the event was the inaugural DBS Asia Leadership Dialogue with the Prime Minister of Singapore, Mr Lee Hsien Loong, hosted by DBS CEO Piyush Gupta. Distinguished speakers from the region included: Mr Andrew Sheng, President of Fung Global Institute and Chief Adviser to the China Banking Regulatory Commission, who gave the Opening Address, Mr Luo Xi, Senior Executive Vice President, Industrial and Commercial Bank of China (ICBC), and Mr Yoichi Suzuki, the Japanese Ambassador to Singapore. The programme also included DBS Asian Insights from a team of economists and analysts.

With more than 500 top management executives and private investors in attendance, this was an excellent platform for building relationships and the exchange of ideas. As a bank born and bred in Asia, DBS prides itself as knowing Asia best.

56

ASIA LEADERSHIP DIALOGUE

PRIME MINISTER LEE HSIEN LOONG

The DBS Asia Leadership Dialogue brings emerging trends and viewpoints from Asia's movers and shakers to the discussion table. In the first of this annual series, Lee Hsien Loong, Prime Minister of Singapore, talks to Piyush Gupta, CEO of DBS Group Holdings and DBS Bank, and shares his insights on the opportunities and challenges in Asia.

CONTENTS

PIYUSH GUPTA

WELCOME

It's often said we live in uncertain times, and perhaps no more uncertain than these. The US economy is on a recovery, but at a slow pace. Europe continues to face immense restructuring challenges and the pushback in austerity measures is surfacing in many places.

But closer to home in Asia, there is a whole spate of issues that interest and challenge us. This year, we have chosen to highlight current topics and issues that will profoundly impact Asian economies: from the internationalisation of the renminbi, to Abenomics, the Iskandar development in Malaysia and Myanmar as Asia's most exciting emerging economy.

We've also chosen this platform to launch our inaugural Asia Leadership Dialogue, where we invite top leaders and thinkers in Asia to sit down and share with us their perspectives and insights. Through these sessions, we hope to be able to glean ideas, agenda and actionable items that will inform all of us. We are privileged to have Mr Lee Hsien Loong, Prime Minister of Singapore, to kick off the first of this annual dialogue series.

As a bank born and bred in Asia, we pride ourselves in knowing Asia best. We have over a hundred economists and research analysts, and access to all the movers and shakers across the region. We also have thousands of bankers who have millions of conversations up and down the streets of Asia every day, and we have talked to consumers, companies both big and small, and governments. And therein lies a tremendous wealth of knowledge.

A year ago, we decided to pool these resources together to create the Insights Office with the agenda to aggregate, distill and curate the information. These are then shared with our clients and partners through over a hundred publications we put out monthly, via our websites and portals, and events of this nature.

At DBS, we are long-time bulls of Asia and we believe that this is Asia's time. And like all emerging markets, we will go through cycles. But the compelling reality of Asia's consuming middle classes, its infrastructure growth, integrating trade patterns, and the youthful populations embracing technology cannot be wished away.

We hope the rich discussions and key insights from the conference captured in this report will help you gain useful insights on Asia, and position your businesses for greater growth and success.

Piyush Gupta
Chief Executive Officer
DBS Group Holdings and DBS Bank

ANDREW SHENG

UNCONVENTIONAL MONETARY POLICY, CONVENTIONAL REALITY

These are uncertain days for the global financial system, says Andrew Sheng, president of the Fung Global Institute

The global financial crisis has changed the game in terms of international regulation, policy, structure and investments. Huge transformative shifts are ongoing with unconventional monetary policy, high levels of distortion being the new norm and advanced economies living with negative real interest rates for the past few years.

"We are in unusual times. Central banks today stand in the vortex of all this and they're trying to seek stability within change," said keynote speaker Andrew Sheng in his opening address at the DBS Asian Insights Conference.

But six years into the crisis, sustained recovery remains as elusive. The Bank for International Settlements (BIS) in its June annual report warned that monetary policy may have run its course and central banks are living on borrowed time.

Central banks need to work on an exit plan. Monetary policy cannot repair balance sheets of households and financial institutions. Neither can it ensure fiscal sustainability nor promote structural reforms. In short, central banks cannot do more without compounding the risks they have already created.

According to BIS estimates, if bond yields were to rise by 300 basis points, there could be losses between 8-35% of GDP in terms of the bond market. "To stop this, central bank assets have been increasing hugely," said Sheng. "They are now roughly 7-8% of the total assets of the financial system globally. So central banks in some cases have not just become lenders of last resort, they have become lenders of first resort".

Currently, the impact has been mainly on the financial rather than real markets. "Negative real interest rates have long-term bond implications," said Sheng. This was evident earlier in May, with emerging markets particularly affected by tapering, implying that they have not decoupled from the US economy. The latest Institute of International Finance (IIF) data showed that net capital flows into emerging markets

Central banks today are trying to seek stability within change

are beginning to withdraw and they may reverse over the next two years, said Sheng.

Global finance

With global finance being highly interconnected and interactive, Sheng emphasised that central banks' balance sheets must be seen in the context of the real economy because the system has become highly leveraged and banks are more internationally exposed.

Compared to 1980 when financial assets was only 100% of GDP, in 2011, the size of the total financial system excluding derivatives was 509% of GDP in Europe, 424% of GDP in America, 786% of GDP in the UK, and 282% of GDP in China. "While China's is not as big as the advanced economies, it's the speed of growth that people are concerned about," said Sheng. That leverage is not just to the real sector, he said, as intra-financial credit has grown exponentially relative to lending to households, government or even the corporate sector.

The real problem, however, lies in shadow banking.

"A lot of them are financial institutions. The transactions with them are below the line through derivatives, swaps, equities, etc., but all offshore. As a result, national regulators focus on what is within the economy, but nobody's mentioned looking at it as a whole," said Sheng. "And so you have a situation whereby banks are global, but central banks are focusing on the national book. And that is one major statistical problem that has been under measured".

Unconventional monetary policy

"Unconventional monetary policy has taken us to a new level, and some of it is due to flawed analysis arising from the imbalanced policies," he added.

The whole problem revolves around global imbalance. At the end of 2010, reserve currency countries – the US, the EU, the UK and Japan – owe the rest of the global economy US$3.9 trillion dollars, equivalent to 11% of GDP, said Sheng. The figure increases to around 20% if Japan, a surplus economy, is excluded.

Trade imbalance has narrowed quite significantly, with deleveraging, slower growth, devaluation and deflation in advanced countries. Emerging markets are seeing inflation, asset bubble, capital flows and revaluation. Central banks are now operating in a completely changed role.

Sheng also highlighted that central banks are holding a greater share of assets in an attempt to reflate the economy. Central banks' balance sheets have expanded to 40% of GDP. In Asian economies such as China, Hong Kong, Indonesia and Korea, central banks' assets as a percentage of currency circulation is huge relative even to the advanced


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markets, and rather substantial compared to bank credit – 49% in China's case.

Interestingly, he said foreign exchange reserves form the bulk of the Asian central banks' assets, which are not borrowed but earned through current account surpluses. "To a large extent, I don't understand why the credit rating agencies don't factor this in. The sovereign debt liabilities of Asia are largely backed by real foreign exchange assets. This is very different from advanced markets. The foreign exchange reserves are more than adequate to cover short-term debt".

Central banking

Unconventional monetary policy has also pushed both the central banks' balance sheets and the financial system into uncharted territory.

With changes in the central banks' balance sheet affecting the economy through inflation, credit creation, and recapitalisation of the banking system, the greatest risks come from policy and regulatory mistakes. But who pays for the crisis losses?

"Banking is global in life, but national in death," said Sheng, quoting former Bank of England governor Mervyn King. "There is no free lunch. You pay for it one way or another," he said, referring to taxpayers, depositors and pensioners, the next generation, foreign holders of domestic obligations, and the private sector through unemployment, bankruptcy or inflation, who end up subsidising the banking system losses.

Conventional consequences

Japan is the leading economy that has experimented with quantitative easing, but the reality is that it has yet to solve some of the structural issues, which highlights the importance of Abenomics, said Sheng. The Fed monetary policy did not create the positive yield curve, resulting in negative inflation-linked yield for most of 2012. Referring to the Taylor Rule, Sheng said that the nominal interest rate should be moved much closer to nominal GDP, suggesting that higher interest rates are warranted.

With this uncertainty, where are we headed?

"Basically, we have a global situation whereby everybody is looking after national interest, but nobody's looking after global interest. Central banks have been able to influence the risk-free rate – the benchmark sovereign debt rate – but the market determines the credit risks on top of that. And that's why you've seen the corporate bond pricing falling and yields rising," said Sheng.

"Markets have realised that even though central banks want rates at a certain level, the credit risks associated with it are

> foreign exchange reserves form the bulk of the Asian central banks' assets, which are not borrowed but earned through current account surpluses

we have a global situation whereby everybody is looking after national interest, but nobody's looking after global interest

much larger than they thought". What is happening as a result is that while the central bank may be able to affect the official rate, the market is having a re-rating of the credit and liquidity risks involved. "It will not be easy to get out of quantitative easing," he said.

On China

"What most people didn't quite see is that with the tapering, external interest rates started rising," said Sheng, who is also chief adviser to the China Banking Regulatory Commission. "And domestic liquidity pressures that were already building up, particularly through the shadow banking system, essentially gave the central bank the opportunity to send the important signal that you should not totally rely on the central bank to provide the liquidity and caused that spike".

Looking at the Chinese economy from a bird's eye view, there is no reason why there should be a liquidity problem, he argued. China's savings rate is the world's highest, at around 50% of GDP, and it is also a net lender to the rest of the world. "From a macro perspective, movements in net interest rates should not be a surprise and it is only an adjustment in the economy as a whole," he said.

Sheng also added that one has to understand and appreciate that the balance sheet of China's banking system is not a wholesale shadow banking system. "Nearly 40% of its book is either purchases of government bonds or central bank reserve requirements, which locks up a lot of liquidity and by nature causes the interbank market to always be slightly on the tight side".

"The interbank market issue is something that is part of that overall strategy that you would need to get more market signals into the economy. This is a sign of confidence, rather than one of weakness".

The views expressed by Andrew Sheng are personal and not related to any organisation he is associated with.

ANDREW NG

INTERNATIONALISATION OF THE RENMINBI

Andrew Ng, Group Executive, Treasury and Markets, DBS Bank speaks to four panellists about the internationalisation of the renminbi and the challenges China's policymakers face.

For decades, the US dollar has dominated international trade as the benchmark unit of exchange. The continued shift of the world's economic centre to Asia will require policy-driven adjustments enabling a more diverse foreign exchange regime to better reflect the new balance of economic power.

Enter the internationalised renminbi.

Over the past nine years, the People's Bank of China has made incremental changes that allow the Chinese currency's use offshore and as a unit of international trade settlement. The renminbi is currently the 13th most used currency for international trade settlement. While a more openly traded renminbi seems inevitable, how long will it be before it rubs shoulders with the US dollar, euro, Japanese yen and pound sterling? Which global financial centres will be instrumental in this transformation?

David Carbon, DBS Bank Chief Economist, responded to the question of what is driving China's desire to internationalise its currency, noting the country is expected to add some US$4 trillion to its economy between now and 2020. In context, this is larger than the German economy and larger than the amount the Federal Reserve has expanded its balance sheet by since the onset of the global financial crisis in 2008. Financing for China's own economic expansion is not likely to come from traditional western sources of capital.

"China needs to start putting its own currency out there for its own transactions, for Asia's transactions and indeed for global transactions," Carbon said.

"It's not just an issue of wanting to globalise the renminbi – the centre of gravity is moving to Asia and China practically needs to globalise the currency".

There are many peripheral reasons why China might

DAVID CARBON

want to internationalise its currency such as reducing the foreign exchange risk and inefficiencies currently associated with international trade. At the heart of the push, however, are the lessons learnt during the financial meltdown that followed the collapse of Lehman Brothers in 2008. Back then, Asian exports “fell off a cliff”, not because real demand for these goods collapsed, but because trade counterparties could not complete these transactions as funding lines in the traditional US dollar trade finance markets froze.

“The transmission went through the financial sector, not through the real sector,” Carbon said.

“If Asia had something to trade with like renminbi and we didn’t have to use US dollars then all of this might have been averted”.

While there may be a compelling need to internationalise the renminbi, there are Herculean logistics associated with this task.

“Overall, the internationalisation of the renminbi is very complicated work and it will take a long time to achieve full internationalisation,” said Luo Xi, Senior Executive Vice-President, Industrial and Commercial Bank of China.

Responding to the question of what major challenges the renminbi faces in the process of internationalisation, Luo highlighted three: achieving exchange rate stability, narrowing the current account imbalances and deepening offshore demand for renminbi products.

The trajectory of currency appreciation will in part depend on the timing of the Federal Reserve’s exit of its

> In the future, we won't see a linear appreciation of the renminbi – we're likely to see a two-way fluctuation

quantitative easing activities, but the broad opening up of China's capital inbound and outbound investment flows will mean much greater two-way price action.

"The appreciation of the renminbi will force our enterprises to be more innovative, bring down their costs and improve the quality of their products as they become more competitive," Luo said in response to a question about whether the currency's rate of appreciation should slow as China's economy slows.

"In the future, we won't see a linear appreciation of the renminbi – we're likely to see a two-way fluctuation".

Addressing a question from the audience about how China's regulators are dealing with the country's so-called "shadow banking system", Luo said new arrangements made by respective regulators last year are already addressing issues of capital size and transparency in this still emerging sector.

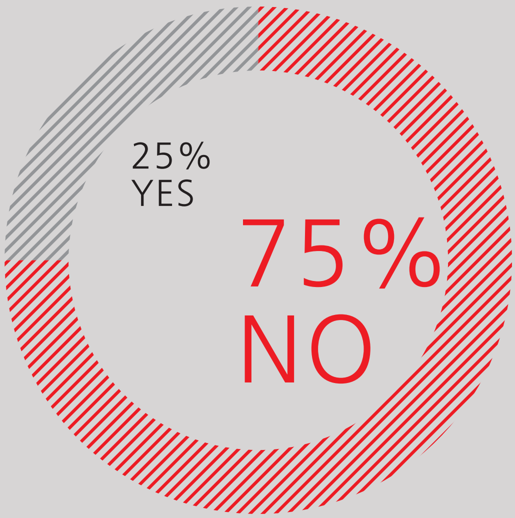
"My view is that in China there is no 'shadow banking' strictly speaking because (financial institutions) all fall under supervision – it's just a degree of the maturity of the supervision," he said.

As the world's major financial hubs scramble to prepare themselves for the full internationalisation of China's currency, Singapore has emerged as a likely venue for increased settlement and issuance of renminbi-denominated instruments in the ASEAN region. But can the city-state compete with Hong Kong and Taiwan as an offshore renminbi centre?

"If we believe that the renminbi is going to be an important international currency just like the US dollar

AUDIENCE POLL

Will Beijing slow down the renminbi internationalisation process?



LUO XI

NG NAM SIN

NATHAN CHOW

Singapore is already an unrivalled financial hub in Southeast Asia and is increasingly a prominent wholesale funding centre in both the debt and equity markets for the wider Asia region

is, on that basis then there is scope for more than one centre to participate in the offshore renminbi market – not just Singapore but also London and New York," Ng Nam Sin, Managing Director (Development Group), Monetary Authority of Singapore (MAS) said.

Singapore is already an unrivalled financial hub in Southeast Asia and is increasingly a prominent wholesale funding centre in both the debt and equity markets for the wider Asia region. It is the world's fourth largest foreign exchange centre and has very deep US dollar funding capabilities. In addition to the hundreds of multinational corporations that use Singapore as their regional headquarters, the city-state also hosts some 4,000 companies from mainland China who use Singapore as a launching pad for their Southeast Asian trade.

"There's a demand for trade finance, there's a demand for cash management (in Singapore) and this is what makes a difference," Ng of MAS said.

The division of the Chinese currency market into onshore and offshore units remains one major obstacle for the renminbi's internationalisation, but recent developments may herald an end to this bifurcation. The creation of the Qianhai economic zone near Shenzhen is designed to bridge the gap between the growing pool of offshore renminbi wealth in Hong Kong and the financing needs of companies on the mainland. Companies located in this economic zone – which will be linked to the main transport hubs in Hong Kong – will be able to access Hong Kong's cheaper renminbi funding market. Nathan Chow, DBS Bank (Hong Kong) CNH Currency Strategist said this development is a major breakthrough for the currency in terms of its mainland convertibility.

What will this mean for Hong Kong's competitiveness as an offshore renminbi centre? Will Qianhai complement or pose a threat to Hong Kong's power as a financial hub?

China's early moves into the global economy in the 1970s – initially with the establishment of labour-intensive manufacturing centres – only bolstered Hong Kong's economy by granting the then British colony's manufacturers access to the low-cost labour pool in the Pearl River Delta. As China's economy climbs the value chain, the availability of lower cost professional services is similarly likely to make Hong Kong a more competitive financing hub.

"History has proven the establishment of these economic zones has indeed strengthened Hong Kong's competiveness rather than weakened it… Qianhai is pretty much an analogy to the Special Economic Zones in the 1970s," Chow said.

"But we are now talking about professional services – banking and financial services instead of manufacturing. Qianhai can also serve as a financial bridge".

MACRO AND MARKETS OUTLOOK

What happens in the US has immediate spillover effects on the rest of the global economy, including Asia. What is in store for Asian economics with rising concerns over the negative impact of higher interest rates on economic growth, currencies and the regional equity markets? Lim Say Boon, Chief Investment Officer, DBS Bank turned to the in-house panel of experts to get their views on the macro and markets outlook for the second half of 2013.


Asian Insights Conference 2013

LIM SAY BOON

First and foremost, "Is the US economy recovering (with a forecast of 3-3.5% real GDP growth for next year) and is it self-sustaining?" Lim asked.

David Carbon, Chief Economist, DBS Bank said the house view was somewhat less optimistic than the US Federal Reserve's, which he described as contradictory. "The recent data in particular has not been especially strong and in fact, the Fed downgraded the outlook for 2013 and upgraded the outlook for 2014 at the same time, so there's a clear question mark there as to what is going on".

Carbon highlighted that recovery will continue, but it has been painfully slow – four years since the US economy hit bottom in 2009, it continues to grow at a 2% rate. "Most recently, growth has dropped to about 1% rate from the 2% rate, so things are not speeding up," he said.

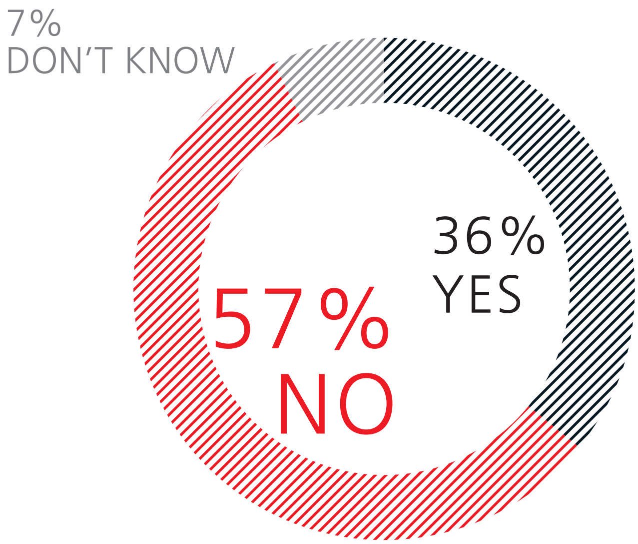
"It looks like the Fed is going to start tapering QE later this year and I suspect the trigger point would be when the unemployment rate drops below 7.5%. We hit 7.5% last month and we're back at 7.6% now. I don't think [the Fed] will move yet as they're going to have to see something better than that – at the moment, I would say it would be in December," Carbon said.

What is the impact on equities?

Equity markets are driven by growth expectations, the level of risk-free interest rates and equity risk premium, explained Timothy Wong, Regional Head of Group Research, DBS Bank. "And when we talk about QE tapering, two of those three factors come into play. If the Fed is tapering QE, it means growth expectations in the US are obviously looking north, but we do have a situation where risk-free rates have been at exceptionally low-levels for a long time".

"My sense is that this is a bit of a pause. We are seeing an opportunity to look at stocks that have come back 10, 15% – valuations are looking more attractive. The bull

Is the US economy on a self-sustaining growth path, without the aid of quantitative easing?



AUDIENCE POLL

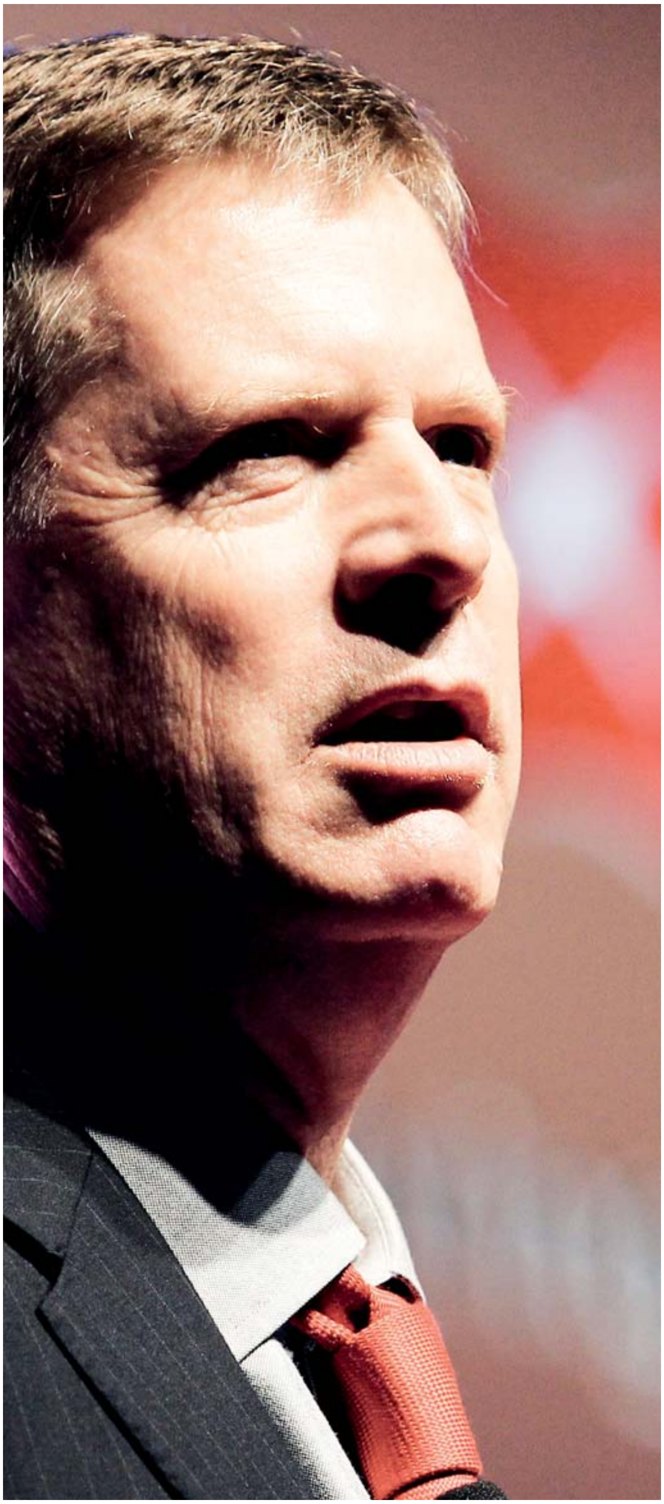
market is still alive and well, and until we see a significant change in the growth outlook, I'm not particularly worried".

Responding to a question on the risk of another Asian financial crisis driven by fund outflows from emerging markets as a result of QE tapering, Wong remained confident of Asia's changing economies.

"Asia is very different now than it was in 1997 and the composition of the economies is also very different," he said. "It is domestic demand and structural change in Asia that is driving growth. But while Asia drives its own growth economically, unfortunately financial markets are still driven by global fund flows, and what we are seeing is a repositioning back to developed markets".

"At the end of the day, what's probably more important for Asian markets is what's going on in China; the impact it has on Asian economies as well as what's happening domestically," Wong said.

TIMOTHY WONG



DAVID CARBON

But with the world's second largest economy expanding at its slowest pace in more than a decade, the rest of the region looks likely to slow down as well. In part, this is policy driven as the Chinese government embarks on an ambitious plan to undertake structural reforms.

"China today is 30 times bigger than it was in 1978, and trying to have structural change today will be 30 times more difficult," Carbon said. "For the long-run perspective, the risk is that structural change turns out to be a lot harder than one would think, and the short-term risk comes from the possibility that consumption does not pick up the slack from the drop in investment and exports. But if you no longer have the state-owned enterprises responding like they used to, then you're not going to have that quick switch mechanism".

This is why Joanne Goh, Regional Equity Strategist, DBS Bank decided to downgrade China from overweight to neutral status.

"China is definitely too cheap to ignore in the longer term, but in the medium term, we think that the structural reforms will probably pose some pains to some of the corporates in China," Goh emphasised. "Let's put it this way: with Chinese banks trading at below 1x price to book

China today is 30 times bigger than it was in 1978, and trying to have structural change today will be 30 times more difficult value and Indonesian banks trading at 2-3x price to book value, which would we buy now?"

Justifying her upgrade for Indonesia to overweight, Goh explained, "We think Indonesian banks are a good bet right now given the fuel price reforms and the upcoming hike in interest rates. On the contrary, Chinese banks will still see a lot of reforms coming through".

"Probably what happened two weeks ago will give a snapshot of what is going to happen to the Chinese financial industry in the next six months, which is why we see there is quite a lot of uncertainty with China right now," Goh added.

What is the impact of Fed tapering on Asian currencies?

"Rising bond yields [due to prospects of QE tapering] do not necessarily mean that the dollar will continue heading up," argued Philip Wee, Senior Currency Strategist, DBS Bank.

Wee added that Asian currencies have literally 'been in the range' following the EU crisis. The big difference, he pointed out, was that back then, when the currencies were under pressure, it was export-led because Europe was bringing the outlook down for China and Asia.

"This time round, the volatility is hitting the Southeast Asian currencies much harder and the reason is that low interest rate environments in Thailand, Indonesia and the Philippines have done very well in terms of being the darlings of the investment community in the region," Wee explained. "This is where concerns about reversal come in, but this also highlights that we are at the top of the range".

He noted that while these are indeed volatile times, central banks are trying to calm the situation and remain committed to fostering the recovery.

"Markets are now reading into what they want in terms of central bank policy, which is why the Fed officials have come out more actively to do damage control".

PHILIP WEE

JOANNE GOH

PROFESSOR JOHN WONG

CHINA IN TRANSITION

Leading experts on China share their thoughts on China's new economic transition with Timothy Wong, Regional Head of Group Research, DBS Bank.

China's new five-year plan emphasises the need for more inclusive growth across its diverse sectors and importance of quality of life for its billion-plus population. The ambitious plan articulates a new flavour of economics – dubbed 'Likonomics' after the country's new premier, Li Keqiang – which values growth quality over growth quantity and puts stock in the personal achievement of the individual, not just mass economic mobilisation. Can the country's leaders meet the goals of this more nuanced strategy of economic sophistication and inclusive growth? What will a slower pace of economic growth mean for China and its trading partners?

Why is China in transition?

"China's GDP is 120-times larger than it was when Deng Xiaoping started the reforms… No economy of that size has experienced such high growth over such a long period of time," said Professor John Wong, Professorial Fellow and Academic Adviser to the East Asian Institute, National University of Singapore.

The economy is now shifting to "lower growth by China's standards, but still very high by regional and global standards".

China has a large and diverse economy with strong internal dynamics to sustain high growth for a longer period of time. Prof Wong expects China's transition to slower growth will be a smooth one from an internal political perspective as the new plan plays to concerns about inclusive growth. And given the Chinese economy's history of overshooting government expectations, there's a strong chance growth could even hit 8% this year. A more critical question now, however, is how the rest of the world adjusts to slower Chinese economic growth.

TIMOTHY WONG

"We cannot continue to rely of China's double digit growth as an engine for the region…We have to accept this and adjust our expectations," he said.

What is the task at hand?

Chris Leung, Senior Economist for Greater China, DBS Bank (Hong Kong) said fixing China's banking sector will likely top the reform agenda in the near-term, well ahead of any major new infrastructure stimulus programmes. Unlike previous five-year plans, which focused on major urbanisation initiatives, China's regulators will want to see a more disciplined financial sector before municipal governments seek to tap the banks to fund big public works projects.

"I believe they will push for interest rate liberalisation in the second half of this year together with the introduction of the deposit insurance system," Leung said.

"As a result of this, interest rates in China have actually increased despite the weakening economy". He expects Chinese economic growth to be in the 7-7.5% range this year.

This is because lending behaviour has become very cautious after the central bank's actions to rein in rampant financing and corruption.

"This slowdown is by no means by accident; it's all intended. The only thing they cannot control is on the export side," he said.

As such, investors should expect the unexpected over the next 24 months as China seeks to aggressively push through microeconomic reforms, especially in the banking sector.

"We'll see things that we've never seen before".

Can it be done?

The biggest challenge for China in recalibrating its growth comes in managing its own domestic politics in the face of slowing demand for the traditional sorts of blue-collar jobs that have helped build China in recent decades.

"China ranks among the most unequal societies today – in the ranks of Brazil, Argentina and other societies," Professor Dali L Yang, Founding Faculty Director, University of Chicago Center in Beijing said. When its initial reform programme commenced around 1980, it was one of the world's most egalitarian societies.

New policies will seek to address some of the social programmes that have either been neglected or poorly executed in the recent period of rapid industrialisation.

While the Chinese government's slight tilt to the left means greater investment in social welfare, it will also create impetus for new environmental initiatives (especially in relation to China's poor air quality), which in turn will create opportunities for new green industries.

What must China do to move ahead with its next stage of development?

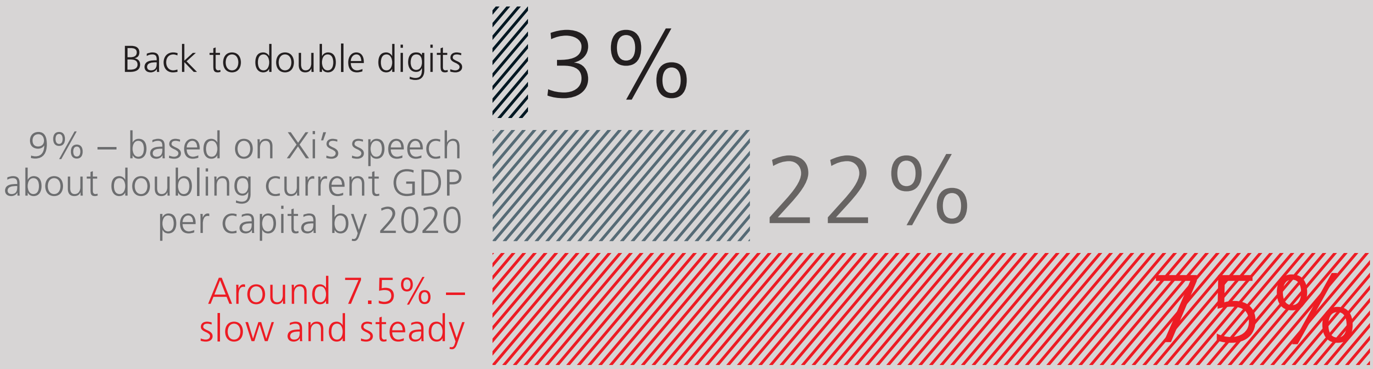
Prof Wong said China's most pressing concerns relate to the government-engineered credit squeeze, a move designed to rein in lending.

"There is some slight risk that if this credit squeeze continues, it could lead to some bankruptcies," he said. At some point, the leadership will need to loosen the credit lines again.

Weaning the economy of state-sponsored investment is also essential to help China's economy mature. Prof Yang said the government needs to more assertively encourage private sector growth and reform the banking system's current bias towards state-backed entities.

AUDIENCE POLL

How much GDP growth would you like to see in China this year?



CHRIS LEUNG

China will have to increase its investment in human capital and put more emphasis on intellectual property

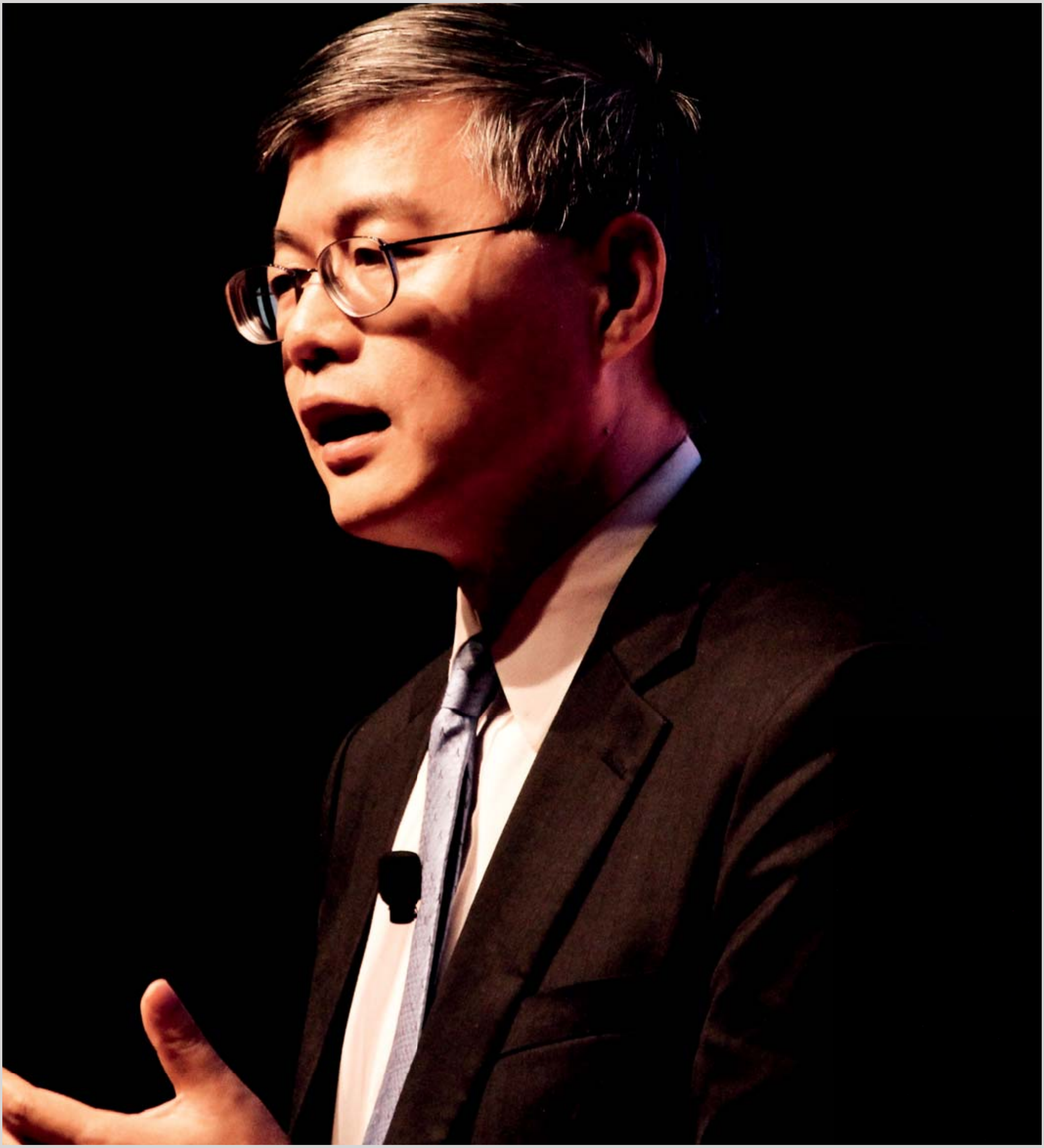
"In 2008, with the stimulus package, a lot of money went into the state sector again and there was some crowding out of the private sector by the state sector," he said.

For China to add more value to its economy, there needs to be some key paradigm shifts on both the policy and grassroots entrepreneurial level. Leung believes there needs to be some reforms of China's one-child policy on a gradual basis, which would stimulate household consumption over time.

"China will have to increase its investment in human capital and put more emphasis on intellectual property," he said.

"As the exchange rate appreciates and as the competitive advantage of labour-intensive industries fades away, they will need human capital".

PROFESSOR DALI L YANG



CEO ROUNDTABLE*

We took the opportunity of the conference to bring industry leaders and our distinguished guest speakers together to share their insights on the pertinent issues facing Asia today.

CHINA IN TRANSITION

China is an economy in flux. The "Made in China" label brought rapid growth and a change in the mindset of its people. The move to a capitalist-based market enterprise system saw average GDP growth at around 9.5% per year from 1978 to 2010. They called it a miracle, and deemed it unprecedented. China rose to become the second largest economy in the world.

Today, that China is no more. Manufacturing and investment, while still forming large chunks of the economy, cannot remain the crutch it is. The leadership, led by Xi Jinping, acknowledges that. The China that is to come will have to be one based on domestic demand, an internationally traded currency, a liberal banking system with curbs on shadow banking, and where some may be left behind.

These transitional challenges come at a time when Beijing is faced with little wriggle room to deal with pressing social challenges like rising property prices and an increasing number of unemployable graduates. The upheaval will be painful.

Is the growth path clear, and clearly defined? What challenges does it face? Is the leadership committed to changing how China does business?

The reform commitment

Reform in China is not just a thought, but a necessity, one participant noted. Four of the seven on the Politburo Standing

Committee (PSC), the Communist Party's top decision-making body, are sons of the founding members of the party. As such, they believe they have the mandate to modify the system entrusted to them.

A panellist said that no matter how painful it is at present, these reforms will result in China becoming the biggest economy in the world in about a decade. The PSC's interest is vested, and they have no intention to stop this transformation.

One participant pointed out that these reforms are unprecedented, and expressed the concern that they don't have the experience dealing with it. On this point, another countered that these seven leaders, including Xi and Premier Li Keqiang, have all managed a province the size of France or a large ministry, and they are therefore as prepared as anyone could be in China to meet this challenge.

Will the top seven be challenged? Probably not. What many do not realise is that President Xi is more in charge than his predecessor, Hu Jintao. Xi heads the Central Military Commission, which controls the world's largest standing military force – the People's Liberation Army, one of the China experts said.

The changing environment

The past 30 years have been characterised by investment. The three pillars of support – demographics, reform and a favourable international environment hungry for Chinese participation. These have reached their limits, one person said.

Chinese workers are no longer cheap. There are more graduates, and migrant workers are increasingly harder to find. A fresh graduate makes about 200 yuan less than a migrant worker, one of the panellists said. The education and socio-economic status levels may have improved, but they now come with the additional problem of matching jobs with skill sets. And therein lies another problem – some graduates feel the jobs available are "beneath" them.

So what happens next? Internal reform, one participant argued. How it happens and the sequence it occurs in is another.

What is happening at a local government level also is a concern, a panellist said. Some local governments are struggling, but there is a lot of inter-province competition – what one has, I have to have too. They are trying to outdo each other with no regard for what's best, he added.

There is no quick fix, and some of China's key trading partners may be affected. One victim may be commodity-driven currencies like the Australian dollar, while adjustments in the supply chain should take place too. This person also noted that some smaller players, like the ASEAN economies, may need to move up the value chain to counter the impact of a slower growing Chinese economy.

Fixing finances

Last month's credit squeeze spooked markets. But how real was it? Does China really have a problem, a participant asked.

One responded that China is a net lender and its citizens are net savers, so he believed the People's Bank of China (PBoC) was trying to mop up liquidity. The central bank itself is a large holder of government securities, and controls the liquidity aspect in a pure retail-based banking system.

What happened in June was "window dressing". June and December are tax months, and whatever happened, the PBoC remained in control, and they did not panic, he said. The central bank is biased toward tightening, it is just a matter of how tight, another said.

The leaders want reform to take place on these two fronts – yuan internationalisation and interest rate reform.

Part of the process needs to be a reduction in leverage, and the government in its deliberate attempts to do so, may be prepared to let some smaller financial institutions fail as part of this painful – but necessary – step. ▶

CEO ROUNDTABLE

JAPAN AND ABENOMICS

Abenomics – a term given to a suite of measures introduced by Japanese Prime Minister Shinzo Abe following his election win in December 2012. His aim is to revive Japan's once powerful economy on a three-pronged approach: massive fiscal stimulus, aggressive monetary easing from the Bank of Japan and structural reform to attract more private investment.

What has happened is a yen, Asia's safe-haven play, weakening from 80 to around 100 to the US dollar this year. While this has made it better for exports, the stock market too has been a beneficiary. The Nikkei 225 has risen close to 40% in 2013, but public debt is at around 240% of GDP. The government has also set a 2% inflation target for a nation mired in a long-term deflationary spiral while introducing a series of tax reforms.

Japanese leaders have attempted such an approach before. None have succeeded in introducing such Godzilla-sized measures, and many go through the Kantei like a revolving door. Abe is Japan's seventh leader in six years, and was himself premier before in 2007.

Is Abenomics different? Can this administration stir an economy back to life? What other challenges face an ageing and disheartened population?

Changing mindsets

There is a change in Japan's outlook towards Abenomics. Reform, in a similar fashion, has been attempted at least three times in the past 20 years. He's come to office at the right time, said one participant. Fed up with policies of the past, citizens are ready to give Abenomics a go, he said.

What's also different is that this is a different sort of stimulus. Previously, stimulus was there to sustain an economy, not transform it or stir it to life via increased productivity, one person said. Money is being spent in more productive sectors, and conditions are being created for more productive growth.

What is clear is that the government believes it cannot keep injecting money into the system. But citizens are buying the reform, a panellist noted.

The reaction

Markets have responded positively, and that is one key difference, representing a clear break from the past. If they failed to buy into the policy direction, both the Nikkei and the Topix would have gone the other way, a participant noted.

The other: the government has the Bank of Japan on its side. Abe clearly has BoJ governor Haruhiko Kuroda in tune with his policy direction. The BoJ announced stimulus totalling around US$1.4 trillion in April, what Abe wants. Further proof: A likely win for Abe's ruling Liberal Democratic Party at the upcoming upper house elections. This removes political gridlock, and gives Abe a clear mandate on economic policy.

The challenges

Japan does not have a whole lot of time to get it right. The government, in cahoots with the BoJ, cannot keep pumping in money forever, a panellist said. Debt is rising, and there is no guarantee citizens will buy the new tax policies.

It also has to deal with an ageing – and falling – population, and the ever-present challenge of how to involve half its population – women – into its male-dominated workforce. Unlike other developed economies facing labour issues, Japan cannot simply go out and import a workforce; its society is built differently, a participant said.

In conclusion, one panellist said Abe needs to do three things with regards to labour: make it easier for women to climb the corporate ladder and work, increase the birth rate, and find ways to make use of an ageing populace and their huge nest egg squirrelled away.

CEO ROUNDTABLE

MYANMAR'S TRANSFORMATION

The democratic and economic transformation in Myanmar stands out in a year marked by violence and political upheaval across the globe. Unlike the Arab Spring, the protests that shaped leadership changes in ASEAN neighbours Philippines, Thailand and Indonesia, and even the fall of communism in Europe, Myanmar's path has been crafted from the top down – at its highest office. It is also more than economic.

Ruled by a junta since the military overthrew a democratically elected government in 1962 till 2011, their reign was pockmarked by human rights abuses. That was what Myanmar was known for. Western nations shunned it. It became an international pariah and was a hot button issue for its neighbours and backers, namely China.

Then, it all changed. Democratic icon Aung San Suu Kyi was released after spending 15 of 21 years under house arrest since her National League for Democracy won elections in 1990. The media was freed of its shackles. Prisoners were set free. The government apologised.

With a new-found zest for change, reformist President Thein Sein, himself an ex-general, has introduced far-reaching anti-corruption, tax, and investment laws, among others. These reforms have led to the resumption of trade ties between Myanmar and western nations. Almost immediately, foreign direct investment leapt 667% to US$20 billion from 2010. More than half of its foreign debt has been written off because of the reform measures, and by 2030, its economy is set to quadruple from the current US$85 billion per year.

Is Myanmar different? Is it different from previous socialist transformations? Is this the right time to invest?

*

The CEO Roundtable was conducted under the Chatham House rules of non-attribution to encourage a more candid and lively exchange of views.

The difference

One question raised was whether Myanmar is any different from China in the 1980s and Vietnam in the 1990s. Myanmar's transformation began politically and socially, not economically, unlike China and Vietnam, said one speaker.

The reformist leader Thein Sein, is also cut from a different cloth. He holds closely to his Buddhist beliefs, much like opposition leader Aung San Suu Kyi. This faith gives Myanmar the chance to forge its own path and not go through the "cookie cutter" route example of China and Vietnam, the speaker added.

Because the country has embarked on social and political freedom first, Myanmar's 60 million people have more of a voice than in the other nations. That represents another crucial difference down its transformational path.

Investing

Since the floodgates have opened, many have rushed in. Is this the right time to be going into Myanmar, one asked, or should companies wait until more rules and regulations are in place?

There is government reform, but it has been fluid and sporadic. Guidelines have yet to be enacted.

There are obvious needs: telecommunications and banking.

The internet penetration rate hovers around 1% while there are around 5.5 million mobile phone users in the nation of more than 60 million. For financials, local banks operate like "glorified pawnshops", one person said.

So the government is attempting to separate the central bank from the finance ministry. There are around 20 local banks and over 30 foreign banks with representative offices, but foreign banks are likely to have to forge joint ventures if they want to enter an unsophisticated and untested market.

The understanding is that few foreign banks will be granted licences. Several Thai banks, at least one Singapore and a Malaysian bank are understood to be interested, one panellist said.

An ungrateful nation?

One question raised was whether Myanmar chose to bite the hand that fed it while it was in economic wilderness. Are they deliberately choosing to sideline Chinese companies as it builds infrastructure and welcomes investment?

China was the sole supporter of the junta before the reform era. Chinese contractors had the bulk of the contracts. They came, made money, but failed to invest, one panellist said.

This was a "strategical error" and has led to the perception of it being sidelined now. These companies had a 10-year headstart on everyone and they failed to take advantage, one participant said.

Some foreign companies have rushed blindly into Myanmar, seeking a pot of gold at the end of the rainbow, a commentator said. Companies need to do what they know best. Invest as early as you can, but tread carefully, one participant said.

THE ROAD FORWARD – WILL ABENOMICS WORK?

The jury is still out on Abenomics and whether it can revive Japan's struggling economy. Sim S Lim, Country Head, DBS Bank and a panel experts on Japan from the government, private and education sectors assess Abenomics and the road ahead for Japan.

AMBASSADOR YOICHI SUZUKI

After suffering two decades of subpar economic growth and chalking up five recessions, Japan has not proven to be an exemplary model of economic dynamism. Asia's second largest economy is struggling with continual problems such as a rapidly ageing population along with slow GDP growth unable to absorb the increase in unemployment.

In an effort to resuscitate the economy, Japan's Prime Minister Shinzo Abe rolled out ambitious plans to restore growth, winning praise from both domestic and international observers.

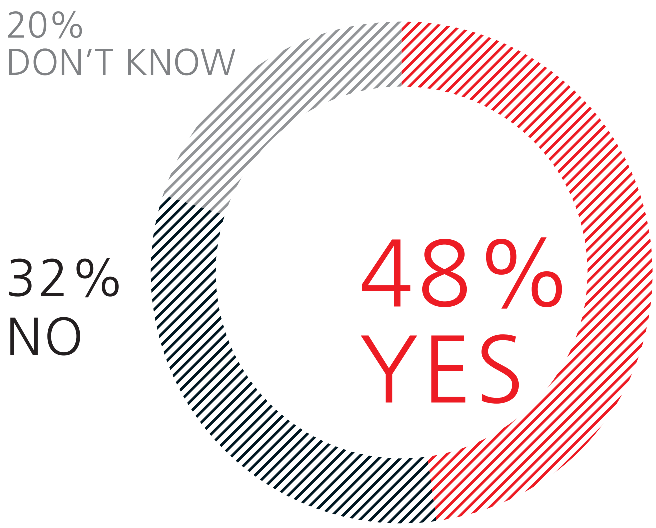
Yoichi Suzuki, Japan's Ambassador to Singapore opened the dialogue by reaffirming his support for Abenomics. "Abenomics is working well so far but the question is: will it be sustainable?"

Abenomics revolves around a system of three policies dubbed as 'arrows': monetary easing, fiscal stimulus and structural reforms. Since its implementation, the yen has depreciated and Japan's economy has grown 2.5% in the first quarter, outpacing that of the United States. A barrage of deregulation initiatives, extreme monetary easing and a 10.3 trillion yen stimulus package sent the Nikkei up 25% this year.

"The design of Abenomics was to sustain economic growth to 2% for one year," said Suzuki. "When the Bank of Japan announced quantitative easing of bold monetary policy, the reaction from the media was that it was not going to be sustainable – it was only going to increase the public debt of the government, which is already twice the size of the GDP. But as you have witnessed, it brought complete results. The stock and currency markets reacted, so Abenomics substantially achieved its desired objective".

AUDIENCE POLL

Do you think Abenomics will work?



SIM S LIM

Abenomics is not a magic wand or pill

DR LAM PENG ER

However, Suzuki cautioned that the policy may not be a lasting measure and needed to have more impact beyond the first two arrows.

He also added that existing mindsets of both consumers and investors would need to be adjusted. "When the prices go down, people are not [necessarily] going to spend, consume or invest, so we have to change that mindset in order to invigorate the Japanese economy".

But Hiroki Tsujimura, Nikkei Asset Management's Chief Investment Officer for Japan has been watching the Japanese market and its political situation for several years, and is convinced that Abenomics will work.

"From an investment point of view, the key factor to the success of Abenomics is whether Japan can overcome deflation, or not. Change in expectations – from a deflationary to an inflationary one – is the most important thing here because without it, the Japanese economy and market will never change".

"As you know, Abenomics has three arrows, but monetary policy is the most important in overcoming deflation," Tsujimura said. "The government has given us a clear and strong message: The central bank should do whatever is necessary to overcome deflation. And to do that, the Bank of Japan entered a new phase of monetary easing both in terms of qualitative and quantitative measures".

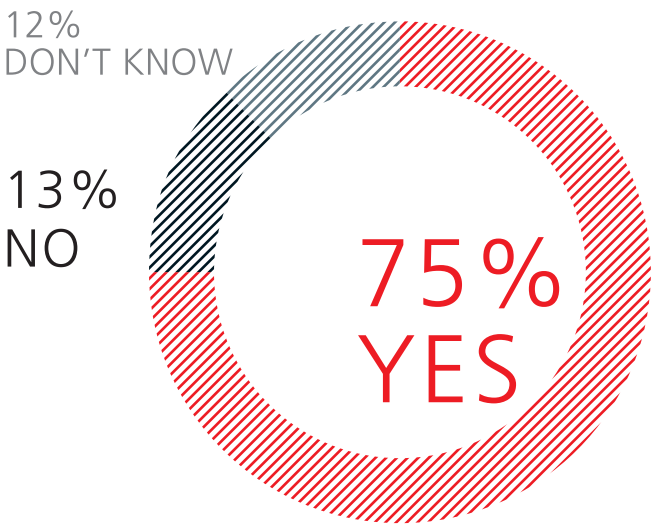
Tsujimura also emphasised the central bank's strong commitment to achieve the price stability target of 2% within two years. But critics have described Abenomics as a sugar rush, leaving observers doubtful about its long-term ability to cure Japan's financial ills. The *Financial Times* described Abe's policy cocktail as insufficient because Japan's growth challenge is structural at root, resulting from demographic change and a misallocation of investment.

"Abenomics is not a magic wand or pill," said Dr Lam Peng Er, Senior Research Fellow at the National University of Singapore's East Asian Institute. On the major impediments facing Japan, he said that demographically, Japan is an outlier in the world – the ageing and shrinking Japanese population is a huge brake on growth.

However, "If Abenomics does not work, then what's the alternative? I cannot think of any alternative to Abenomics right now," Dr Lam added.

AUDIENCE POLL

After listening to the panellists, do you think Abenomics will work?

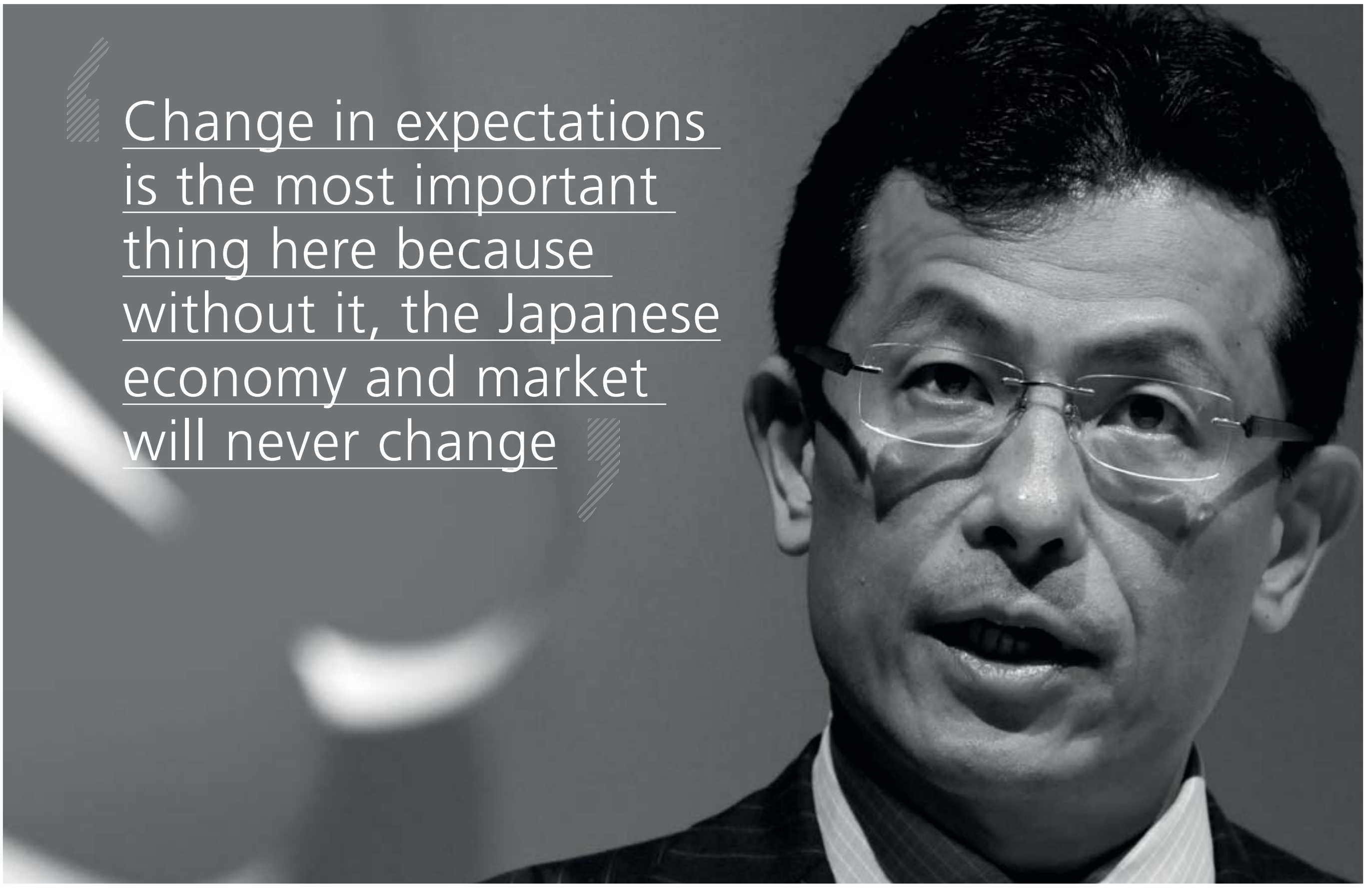


In any event, *The New York Times* observed that Abe had injected Japanese consumers, especially wealthy ones, with a newfound exuberance. At a Tokyo financial district department store recently, US$20,000 watches were flying off the shelves, crediting Abenomics for generating the shoppers' willingness to spend.

The quick payoff thus far might help Abe gain strength ahead of the upper house election scheduled for July 21. Still, survey results on Abe's leadership have been mixed, despite the cabinet maintaining a competitive edge.

"I don't think we should pre-judge. Let's give Abenomics a try," Dr Lam reminded. "It's very unusual to name the macroeconomics of a country after a political leader. Prime Minister Abe is very bold and decisive, and there is a pragmatic side to him. He is doing what it takes to bring Japan out of the two lost decades. Rather than doing nothing or simply dishing out more of the same, Abe is trying something different. There will be implications for the growth and recovery of the country, but I am generally very optimistic about Japan".

Ultimately, Abenomics is not strictly about economics; it is about stimulating and revitalising Japan, Dr Lam said. "Abe wants a beautiful Japan that appreciates tradition, culture and values; a country that can play a larger diplomatic role strategically, regionally and globally against the backdrop of a rising China. Abenomics is not an end in itself, but a means to an end of a Japan that is strong and respected in the world".



HIROKI TSUJIMURA

MYANMAR: ASIA'S HOTTEST FRONTIER

Despite some challenges, experts believe that Myanmar is on the right track for economic growth. Abundant opportunities await first-mover foreign investors.

Today is the right time to invest in Myanmar, said Serge Pun, Chairman of YOMA Strategic Holdings, at the DBS Asian Insights Conference. Dubbed Asia's last frontier market, the country has become a darling of foreign investors over the last couple of years due to extensive reforms made by a new government set on opening up Myanmar's fledgling economy.

"The risks that everyone is talking about can be mitigated if you approach it the right way. The opportunities are still abundant today and the first-mover advantage is definitely something one should consider," said Pun, addressing investor concerns about the fast-changing political climate, the role of the military and the ethnic conflict within Myanmar's society.

Myanmar is in a state of flux. Change is sweeping across the Southeast Asian country, with 60 million people, in all arenas – social, political and economic. This comes after almost 50 years of military rule in a country that has mostly been isolated from the rest of the world since 1962. Today, the outlook on Myanmar is bright. The World Bank expects the country's GDP to grow by 6.4% during the 2012 to 2013 financial year, compared with 5.5% the previous year.

Several factors have aligned in recent years that are keeping some investors riveted to Myanmar, which has large natural gas resources and huge agricultural potential. Since the military junta was dissolved in March 2011, newly-elected President Thein Sein and his cabinet of ministers have taken swift steps to liberalise the state-controlled economy. Foreigners have been invited to bid for mobile networks, airports and oil and gas exploration projects. The government has also put in place an anti-graft commission to clamp down on corruption.

SERGE PUN

The risks that everyone is talking about can be mitigated if you approach it the right way

These measures have resulted in more countries ending economic and political sanctions against Myanmar, paving the way for the inflow of foreign investment and donor money into the country. Latest data show that some US$800 million from foreign investors was pumped into its economy in the first nine months of 2012, surpassing the US$700 million that was invested in the whole of 2007.

New role and image

There's no doubt that a new Myanmar is arising. "I think that there's no denying that the reforms that are happening in Myanmar are fast-paced," said Moe Thuzar, Fellow and Lead Researcher at the ASEAN Studies Centre of the Institute of Southeast Asian Studies. "It seems like every month there are some new measures or some announcement that are being made. And because of that political opening, there's a wider space for citizens to voice their concerns. That has led to a re-emerging role of Myanmar in the regional and international scene, which I would see as a rite of passage".

In June this year, Myanmar hosted the World Economic Forum. It will also be hosting the Southeast Asian Games in December this year. 2014 will also be a big year. "Myanmar is assuming the ASEAN chair, and there will be a whole slew of high-level meetings not only among the ASEAN states, but the important partners of ASEAN, including the US, China and Japan," added Thuzar. "So all the eyes of the world are on Myanmar".

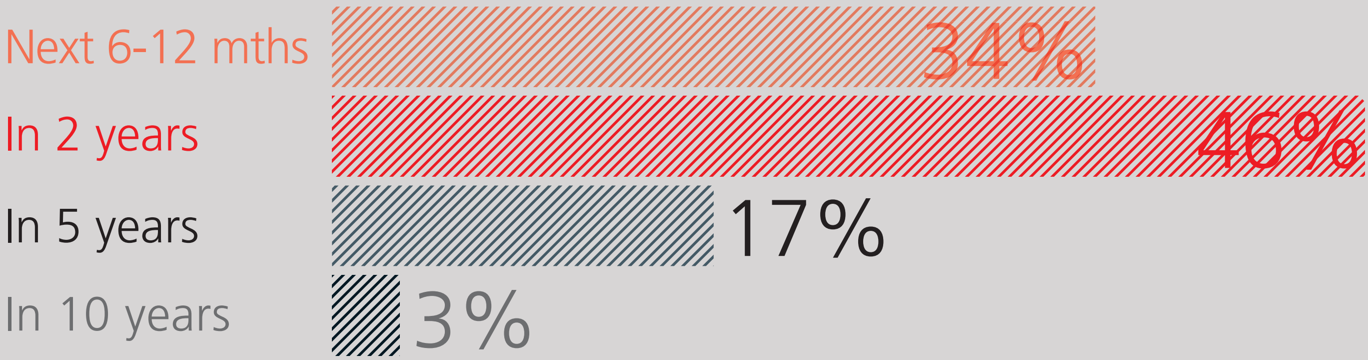
However, the government's swift push to overhaul Myanmar's image has a flipside, Thuzar pointed out. "The fast-paced nature of the reforms may mean that the implementation measures may not be able to catch up yet. Also, my observation is that the reforms have largely an urban bias. So, we also need to see what's going to happen outside those areas".

Hurdles ahead

There are some hurdles ahead too. "The challenges we see are clearly the lack of infrastructure," said Pun. "In particular, the lack of soft infrastructure," he added, making a reference to the quality of human capital that's

AUDIENCE POLL

When is the best time to invest in Myanmar?



There's always this thin red line that you don't know when you are going to cross it

needed in both business and government to fuel the quick pace of growth.

"That's one of the toughest things because it's unlike hard infrastructure, where you can spend money (and there are a lot of donors' money) and in two to three years you will have enough electricity, you would have rails, you would have a lot of things," he explained. "But the soft capacity (infrastructure), you would normally take two generations. You'll have to start with education at the primary level and work your way up to university and professional institutions".

Some investors are also worried about the ongoing issue of ethnic conflicts in Myanmar. Thuzar believes that a realistic expectation is to see how the government manages the problem rather than resolve it completely.

"This is not something that has developed overnight. Myanmar has lived with these ethnic insurgency issues for decades since its independence in 1948," she noted. "So it's been compounded over the years due to mismanagement by the administrations that ruled the country – and it all boils down now to the issue of broken trust. The current transition government is now trying to re-establish that broken trust. And of course the whole negotiation process has its own pace and momentum. For me, it's a matter of how you manage the process so that trust is rebuilt".

Many are also haunted by Myanmar's strong military past. What will the role of the military be as the country marches towards democracy?

"There's always this thin red line that you don't know when you are going to cross it," said Thuzar. "Up till now, the military has been behaving as how the militaries are behaving in other democratic institutions".

She said that the military in Myanmar is focused on defence services and have separated itself from the political stream. "They've made it very clear that they are just not going to step in like they have had in the past. They will only step in as the very last resort".

"But the difference with the military in Myanmar than say the People's Liberation Army in China – is that they have economic interests. The Union of Myanmar Economic Holdings is a military business venture, which of course has its own economic operations," she pointed out.

Foreign investors in good hands

Despite the challenges, the outlook is bright. Pun believes that the government is not only serious, but also earnest, about change. He illustrates with an example from the recent telco bid, which drew interests from all over the world, including SingTel and Pun's own company, YOMA Strategic. In late June, the Myanmar government awarded Norway's Telenor and Qatar's Ooredoo the country's first telecommunication services licences.

"I want to make a point that our government did a fantastic job in adhering to their own rules," said Pun. "As you all may know, at the 11th hour, there was a motion in parliament to delay the announcement of the winner of the bid. While there were compelling reasons that led to the motion and the motion was passed in parliament, the executive branch of the government decided that they would not change the goal post”.

“This is a very courageous and commendable thing because if you changed the goal post at the very last minute, it would have damaged our credibility in the international community”.

He also lauded the transparency of the entire bidding process. “It was very clear that there was a strict rule of fairness that was adhered to,” he said. “There was no margin for flexibility. They even went down to the detail of 150 pages for your submission. If you submitted a bid of 151 pages, you will be disqualified. So it was as strict as that”.

When asked on the advice he would offer investors interested in Myanmar, Pun urged prudence. “What to invest? Everything is good,” Pun said. “What I do find strange sometimes, sitting in Myanmar, and receiving a lot of delegates from overseas, is that there are a lot of people who want to come and invest in areas in which they are actually not an expert in. They are there only just to make some money. And that doesn’t go down very well with me. I think you should go there and do what you are good at. And then there will be a very great percentage of success if you do that”.

there’s no denying that the reforms that are happening in Myanmar are fast-paced

MOE THUZAR

Q&A

QUESTIONS FROM THE FLOOR

Q: Which sectors will see the most growth over the next five years in Myanmar?

Serge Pun: I will be speculating as much as you will be as to which sectors will see the most growth. I think the easy answer is infrastructure. Investments in infrastructure will see the most growth. Because that's apparently the sector that needs the most investment and the infrastructure sector is also a big-ticket item. When you talk about an infrastructure project, you're talking about multiples of millions of dollars.

Q: Do you see Aung San Suu Kyi as the leader of the country and will that be good for the economy?

Moe Thuzar: Well if you talk about Aung San Suu Kyi as a leader, I guess she is already a leader in her own right. She is the leader of the opposition and she is quite a leading light in parliament. But for someone like Aung San Suu Kyi to have a shot at being a president or vice-president candidate in 2015, there are quite a few hurdles. The constitution, for one, does not provide for that to happen. The constitution will need to change, and there are several steps and requirements needed when one does that. The parliament has set up a commission to look at certain changes of the constitution, albeit for a different matter than the presidential and vice-presidential candidacy criteria.

So I guess in the current environment and atmosphere in Myanmar, anything is possible. In terms of popular support, off the cuff, you can say that Aung San Suu Kyi does have popular support. The current trend you will see on the streets of Myanmar is that people are supporting President Thein Sein's move for reforms. Personally, they do have affection for Thein Sein. So that provides for interesting dynamics.

Q: Is politics still the biggest challenge to economics in Myanmar?

Serge Pun: Politics is always the biggest challenge to any economic development, in my opinion. No country can only exist in economics. Politics always dictates. So, of course it will be the biggest challenge.

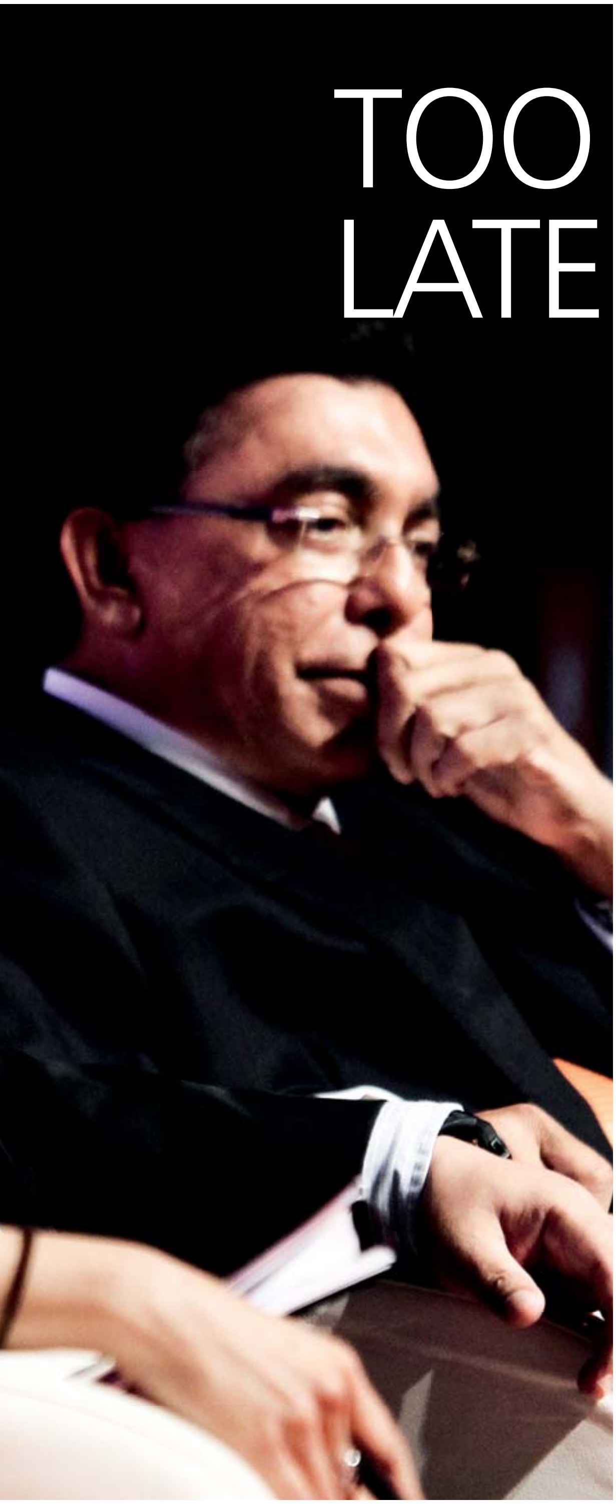
I do want to say that in response to that last question: Will Aung San Suu Kyi be good for the economy? I would say yes. It would be good for the economy. There's a lot more to discuss, but the bottomline answer is yes. Will it be a challenge? It would be a challenge.

At the moment, from the way we are observing and experiencing the political landscape in Myanmar, I think the challenges are all surmountable and actually the challenges are all on the positive side.

A very distinct example was seen during the World Economic Forum. During those two days, it was quite an impressive phenomenon to observe that all the ministers in the cabinet were there two full days without protocol, and they were participating in discussions on an individual basis and on panel. Our vice-president was going in and out of panels and group discussions.

And most interestingly, you have the president or the most important minister in his cabinet, sitting on the same panel with opposition leader Aung San Suu Kyi discussing issues in the most friendly manner. It's a phenomenon that does not normally exist in some other countries, where opposition leaders would just want to get at each other's throats and strangle each other. But there, they were actually having a very friendly discussion. This is all very positive.

TAN SU SHAN • NOR HISHAM MOHD YUSOF • KUMAR THARMALINGAM



TOO LATE TO JOIN THE ISKANDAR PARTY?

Some say the Iskandar party has only just begun, especially with talks of a cross-border rapid transit in the pipeline. Tan Su Shan, Group Head of Consumer Banking & Wealth Management, DBS Bank talks to representatives from the governing body and property developers about Iskandar Malaysia as an investment destination.

In 2006, when Iskandar Malaysia was unveiled, many did not know what to make of the ambitious master plan. Pioneer investors then committed to spend RM11 billion on the new development three times the size of Singapore. Fast forward to 2013, Iskandar Malaysia has now become a buzzword for many investors in Singapore, making it the biggest foreign investor in the area. Latest data show that as of the first quarter of this year, Iskandar Malaysia has attracted RM111.4 billion in cumulative committed investments.

In the past year, the excitement over Iskandar Malaysia has been fuelled by catalytic developments such the LegoLand Theme Park, the Coastal Highway and the Johor Premium Outlets. The buy-in from the Singapore government together with heavyweight investors such as CapitaLand and Singapore tycoon Peter Lim have also added more cheer to the party.

Sharing his insights on Iskandar Malaysia at the DBS Asian Insights Conference, Nor Hisham Mohd Yusof said: "Our vision has always been to have a strong and self-sustaining metropolis of international standing".

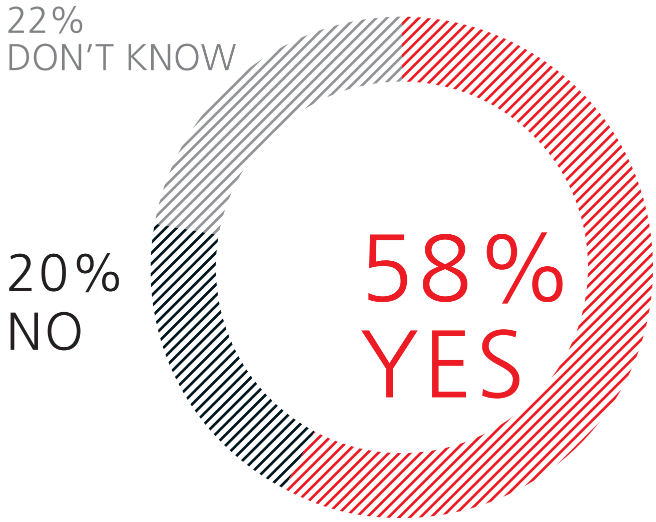
"By 2025, we are looking at doubling our per capita GDP from RM14,790 in 2005 to RM31,000," added the Head of Corporate Development & Finance at the Iskandar Regional Development Authority.

Addressing the key investor concern of safety and security in Iskandar Malaysia, Hisham said: "We acknowledge that there is an issue there. In the last five years, we've been working very hard at improving the security situation". He added that new initiatives, including a stronger police presence and the placement of more CCTVs, have made the area safer than it was five years ago. "One of the key initiatives has been community policing. We have placed the police together with the communities. That means the police are actually living within the communities".

Apart from the clamp down on crime, Hisham said the warming relationship between Singapore and Malaysia has strengthened the investment climate in Iskandar Malaysia. Today, with the Malaysia Automated Clearance System, Singaporeans can now cross the causeway with much ease as custom forms are no longer needed. Also, in February this year, Singapore and Malaysia launched the Khazanah-Temasek Wellness Centre in Medini, he noted.

AUDIENCE POLL

Do you believe Iskandar will succeed?



"In terms of investments, Singapore is still the biggest investor. But there has also been interest from Spain, Japan and the Netherlands," he said. Visible projects such as LegoLand and EduCity, as well as the booming residential property sector, have contributed to Iskandar Malaysia's success. Upcoming projects, including Pinewood Studios, Fast Track Motor City, Gleneagles Medini and the LegoLand Water Park will only add to the excitement, he added.

"These are just some of the ones that have come out in the press lately. There are quite a few others that I can't disclose at this point in time," he said. "Moving forward, there's a very strong case for Iskandar. It's got a very strong business plan and the key thing here is the strong support from both the governments in Malaysia and Singapore".

Also speaking at the panel discussion, Sunway Group Executive Director Kumar Tharmalingam agreed that support from both the governments has been key. "Sunway is a very conservative group – it does not take investment decisions lightly. When we realised that in the second wave of Iskandar's progress, both the governments have come together to raise the profile of the hinterland of Singapore, Sunway decided to get in too," he said, adding that Sunway owns about 1,800 acres of land in Iskandar Malaysia.

He added that 70% of Sunway Iskandar will be residential and the remaining will be for commercial purposes. "Because we expect to maintain our presence in Iskandar for a considerable length of time, the commercial space will be owned by Sunway and will not be sold," he pointed out. "People who buy into the Sunway residential project will realise that Sunway has a long-term commitment to be a partner in the development. We are not going to build it and go away".

Giving a peek into Sunway Iskandar, Tharmalingam said the group's project will offer exclusive lifestyle homes, both high-rise and low-rise, amidst a green landscape that will have a lot of water features thanks to the Pendas river. "We are also going to have the first man-made blue lagoon by taking seawater and filtering it, and making it safe for swimming," he said, adding that the group's sales gallery will open in December.

Six years on, the outlook on Iskandar Malaysia still looks bright, said Amy Wong, Senior Vice-President at CB Richard Ellis Malaysia. "Supply growth has been picking

KUMAR THARMALINGAM

NOR HISHAM MOHD YUSOF

up since 2011 and is expected to grow in tandem with high construction activity".

Interestingly, she noted that Malaysians are now beginning to be interested in the investment opportunities in Medini and are now making up two-thirds of the purchases in that area. "And this is consistent with what the rest of Iskandar Malaysia is seeing," she added.

High-rise projects have been wildly popular in Iskandar Malaysia. "We have seen some record-breaking prices, most clearly in Nusajaya, Puteri Harbour and JB City Centre. Notably, we heard that Setia Sky 88 broke the glass ceiling to record a sale at RM1,200 psf and word on the ground is that they are launching their second phase at RM1,400 psf".

"In terms of take up rates, it would appear that high-rise residences are selling like hotcakes these days. We recently organised the launch of Afiniti Residences, this is the Khazanah-Temasek JV for Urban Wellness across from LegoLand. The 100-plus units were all sold within a few hours," she said.

The office sector in the property market, however, has been lagging. She notes that no new office supply was injected into the Iskandar office market since 2004. "The Singapore market is nine times larger and the KL market is 16 times larger than it is in Iskandar Malaysia". She said that office space rent is "incredibly low". On the flipside, it looks like there's a lot of upside for office space.

"The low office rents and the close proximity to Singapore may encourage companies to set up offices in Iskandar soon," she said. "I guess what is needed first is just for one major company to make the announcement that they will be moving across the Straits. That would get the ball rolling". Wong also said the expected significant increase in population "should augur well for the retail sector".

"We feel that the heat in Iskandar Malaysia is not imaginary – it is, in fact, due to the completion of catalytic projects, which we now can relate to such as LegoLand, Puteri Harbour and EduCity," Wong said.

"Most importantly, feasibility studies are ongoing for the Malaysia-Singapore high-speed rail and a rapid transit system linking Singapore and Iskandar Malaysia. The rapid transit system should be a major game changer once it's completed," she said.

it would appear that high-rise residences are selling like hotcakes these days

AMY WONG

Q&A

QUESTIONS FROM THE FLOOR

Q: The crime rate in Johor is the biggest hurdle and concern for many investors. Is it safe to invest in Iskandar? Is it safe to live, play and work in Iskandar?

Nor Hisham Mohd Yusof: I have been staying there for six years now and I can say that it is much safer now than it was six years ago. I wouldn't say that crime is totally out – there is nowhere in the world where there's no crime. From the authority's point of view, we've worked very hard to reduce crime. In the past year, the crime rate has decreased by 10%. But even with that, some people may not believe in the statistics, as perception is key. But the measures we have placed, in terms of community police posts, there have been 20 community police posts set up. If you ask residents living near community police posts, we did a survey recently, 95% say they feel much safer now. We are also looking to increase the presence of police in Iskandar Malaysia. While we do acknowledge that there are safety and security issues, we are making progress and we are trying very hard to put the right initiatives in place. And I think the future is brighter.

Q: What are some of the key risks to Iskandar Malaysia?

Kumar Tharmalingam: One of the key risks is that there's been a lot of knee-jerk reaction from the local population and in the local political scene in Johor. Just like Singaporeans complaining about the large numbers of Chinese who don't like to eat curry, Malaysians will also look upon the large numbers of foreigners coming into Iskandar and ask, "Hey, are you guys taking over our country or what?" So, I think this has to be managed. The real risk is: Do we have the skills locally in Malaysia to manage the expectations and warn people ahead: "Hey you guys want development and investment in the country, you want to move up the value chain from middle income group to higher income group, you need foreign talent, you need foreign investment". You need high-income foreign talent, not farm workers and construction workers. I think that's the challenge.

Q: How do you see the investment potential in Iskandar Malaysia, given that property prices are now close to KL prices right now? What is the upside?

Amy Wong: How I wish I had a crystal ball to find those answers. I will tell you where a lot of people are investing their money. People are investing in the residential sector right now because that is where a lot of developers are developing properties. I think why residential properties are being looked at so closely is because the authorities are trying to build a talent base, and to do that you will need houses to live in. So residential properties will probably be what you will look at. Besides that, if you are in business, I would actually strongly suggest that you look into expanding your operations there. Rents are really low compared to what you have here in Singapore.

ASIA LEADERSHIP DIALOGUE

The DBS Asia Leadership Dialogue brings emerging trends and viewpoints from Asia's movers and shakers to the discussion table. In the first of this annual series, Lee Hsien Loong, Prime Minister of Singapore, talks to Piyush Gupta, CEO of DBS Group Holdings and DBS Bank, and shares his insights on the opportunities and challenges in Asia.

PIYUSH GUPTA (PG): Prime Minister, what are your opening thoughts on Asia Pacific and Singapore: Where are we going?

PRIME MINISTER LEE HSIEN LOONG (PM): We are at an inflection point in Singapore. The world is changing, and we have changed. We've come from Third World to First and we're at quite a high level. We have immediate problems which we have to pay attention to: crowding, public transport and housing. I think these we can overcome.

What we need to think about is where we are going in the longer term. There are many new opportunities and there is a lot of competition, a lot of uncertainty. It's a world where many countries are very anxious about

if your politics is wrong, your economics is bound to go wrong

their prospects and people are very worried about their own future and their children's future. And we have to create that future for Singapore where we are confident of ourselves and are able to work together to keep Singapore at the forefront of the region and abreast of the best in the world. And that means upgrading our people, upgrading our businesses, connecting to our region which is prospering around us, and [then] I think we will continue to prosper, and be plugged into the bigger trends in the world. It means we take the rough with the smooth – when there is a global financial crisis, there is nowhere for us to shelter either, but it means that the opportunities are there and we will be moving with it.

PG: Fifty years ago when we launched this journey, we decided to build a country with First World infrastructure and that turned out to be the basis of fairly enduring competitive advantage – so the rule of law, institutions that work, language and so on. From where we are today, if we were to think of the next 10 to 20 years, what are the kinds of competitive advantages you think we need in Singapore? What do we need to build to be able to sustain an economic model that is enduring for the next 10 to 20 years?

PM: It starts with politics because if your politics is wrong, your economics is bound to go wrong and the reason why so many countries cannot get their economics right is because the politics don't work. The benefits don't get spread to the right people, or broadly enough; or their vested interests have to be taken care of; or there is some divide in the society which cannot be bridged and you spend your time fighting over that rather than working together productively.

And I think that we have got to be able to get our fundamentals right. So far, we have been able to do so and if we can continue to get our politics right then our economics can work out.

You've got to get the balance carefully judged so that you will be able to have growth, you will be able to have a broad proportion of Singaporeans benefiting and then you can do many sensible things.

You can educate people well, you can get your infrastructure to be continually upgraded and get your environment to be first-class. And if you go out from the conference room you can see around you what is Singapore: Gardens by the Bay, the Marina Bay Financial Centre, people working, and a beautiful living environment. And I think you may be able to do pieces of this in other cities, but to put it all together into one Marina Bay... I think there's only one Marina Bay in the world.

PG: Attendant with that is the challenge of a higher cost of living and higher inflation, the notion that perhaps Singapore is out-pricing itself. Do you think that's the case?

PM: The cost of living depends on whom you're talking to. If you're talking to the worker, he might say it is too expensive for him to buy the things and the lifestyle which he wants. If you're talking to the employer or to the company, he says, "Well my workers, I have to pay them so much wages, and is it worth it because we can get the same skills and services elsewhere [for less]?" So both of these are problems.

From a person's point of view, I think life has improved, but aspirations have also gone up and hence it is always "money no enough", and that is a concern not just for Singapore. If we look at many countries in the world, people feel like that because aspirations have been going up and it's much easier for that to happen than for real standards of living to rise.

PG: You mentioned large numbers of people [around the world]. It seems to me that one of the biggest challenges for civilisation, for all countries today is the whole issue of income inequality. It underlies the 99%/1% problem in the US, it underlies the Arab Spring, and it underlies the social tension in Turkey and Brazil. And in some ways, it underlies the social tension we see in Singapore in recent times. And the issue seems quite clear – with the growth of market capitalism, there is a greater concentration of wealth at the top end of the pyramid. So Gini coefficients are increasing, and those at the bottom end of the pyramid feel increasingly disenfranchised. How do you think we can balance this growth versus equity conundrum?

PM: I think it is a big challenge. I don't think that if you give up growth, you will have a lot of equity. I mean, if the economy was stagnant, it doesn't mean that everybody is going to be happy and it may be equally unequal. And certainly if you look at some of the Latin American countries, until very recently, they haven't done brilliantly economically and they have been the most unequal societies in the world.

But in Asia, we have been lucky. Economies have grown and prosperity has been broadly shared. I think part of the answer has to be skills and education: that we invest in our people, give them the ability to improve their standards of living.

I cannot make everybody a billionaire, but I can make sure that everybody can earn a good living for themselves and I think that's possible, but it takes effort.

Another part of it has to be investment in our overall infrastructure so that if you live in Singapore, you're benefiting from the system and benefiting from an efficient business environment. You're benefiting from a government that is competent and makes right decisions for Singaporeans and therefore, things work and therefore as a Singaporean, you can get a wage that is higher than if you were working in any other country in Southeast Asia for the same skills – which is the reason why a lot of people want to work in Singapore rather than across the causeway, or in Indonesia or the Philippines because the same skills in Singapore are worth more.

A Singaporean who goes and travels overseas and works in a different environment, well you'll see the difference.

The third thing of course is the policies of the government to help give the less successful Singaporeans a leg up. So everybody who is participating and making the effort gets something out of this effort as long as you are working hard. Whether it is a HDB flat; whether it is a high-quality education, subsidised heavily including university; whether it is a high-quality healthcare system also subsidised quite heavily for the lower end especially. These are things which we can do in Singapore, and we do well and make a difference for our people.

I don't think it will make us a society where everybody is absolutely equal and I don't think we want to. In fact we might get ten billionaires moving to Singapore to set up their bases here. My Gini coefficient will get worse, but I think Singapore will be better off because they will bring business and they will bring opportunities, they will open new doors and create new jobs and I think that's the attitude with which we must approach this problem.

PG: There's also the view that pure market-based capitalist policies with the free hand guiding market reforms have seen their heydays in the Reagan/Thatcher era. That has been shown to be flawed in fundamental ways particularly with the global financial crisis over the last few years. There's therefore the view that the process of the greater rule of government, whether through regulatory processes or even actually participating in the economic processes itself, public sector involvement and so on, might be a better model. Some even talk about an Asian model versus a pure Western model. Do you think any of this is germane to us in Singapore and how do you see it?

PM: I think in Singapore we have never been purist. In a lot of areas we have used the efficiency of the free markets and the forces of supply and demand to make sure things work. So whether it's for pricing electricity properly, or incentivising power producers to operate efficiently; whether it's Singapore Airlines, which knows must fly well and efficiently, because otherwise we are going to close it down, unlike many other national airlines. Or whether it's banks like DBS, also owned by us and also operating commercially, and with no special inside track, compared to any other Singapore bank. I think that part of the market has done well.

But at the same time, the government has gone in in a big way. In education, we don't depend on a free market. In housing, we have built 85% of the houses in Singapore through public housing and home ownership programmes, and that is a massive intervention.

In terms of telecommunications, we regulate, but we depend on the market to provide services to operators like SingTel and StarHub. You compete and I set the rules, and I make sure the competition is productive.

I think that's the right approach for us.

The precise point of balance will shift from time to time. And these things go in big waves. You go to one end and you have depended too much on the free market taking care of itself and in excess, you have a financial crisis. You put the government back in the loop, but one day you will shift back. And somewhere in that back and forth you have to find a balance and that balance point will change over time.

PG: There's a view that some of the infrastructure issues we have faced in the country in the last year or two might have been prevented if not left to market forces and run more like government utilities.

PM: Maybe we may also have miscalculated in other ways and we might have overbuilt and you have flats coming out of your ears, [but] empty, and then the government would be asked why we're misallocating resources – we've made that mistake before. Governments are not omniscient and neither are markets always efficient. Human beings are imperfect and so are the systems we build.

PG: Since there are a number of bankers here, I have to ask this question. Singapore is a financial centre: we've come a long way – fourth largest FX centre of the world, rapidly building out a capital market and bonds markets and a commodities hub. How do you think we've progressed and what do you think Singapore needs to do to continue to build itself as a financial centre?

PM: I think we've done very well so far. We started out building in the 1960s, but very cautiously, and made gradual progress. We brought all the players, but the range of activities is still constrained. And then in 1997 and 1998, we decided to move faster. I was in MAS and we liberalised, we built up wealth management and bond markets, fixed incomes, capital markets and investment banking, and I think today we are in a very different position. We have today US$1 trillion worth of Assets under Management or something like that.

I read that we are going to be bigger [as a financial hub] than Switzerland, but I don't think that's true, and I don't want that to be my marketing line. We're quite happy to continue our way quietly in the world, but we have been quite successful and we've also been successful in infrastructure financing. In fact, the World Bank is here and we have an initiative with them doing this and we're also trying to become a renminbi centre for doing business in renminbi. Hong Kong will always be ahead of us there, but I think there's a role for us.

So I think we've got to make a living for ourselves. Our neighbours are going to grow and their financial needs are going to expand and servicing them out of Singapore is going to be a sensible thing for many banks to do.

The global environment of course is changing. We're a financial centre not quite like New York, but neither are we like the Cayman Islands. We're a reputable jurisdiction, we are connected to the other major financial centres of the world, and we play by the global rules.

The global rules are changing. OECD countries and the G8 are focused on offshore financial centres – they want to get their tax money back, they are concerned about the exchange of information. The rules are changing and I think we will be in good standing with the best practices and respectable jurisdictions so long as the rules are fairly applied to all.

PG: PM, my last question on Singapore. If you have to think of a role model country for Singapore to emulate, which would it be? Will we be a Scandinavia Sweden, Finland kind of high productivity egalitarian country or would it be like America, entrepreneurial and technology driven? Is there a role model?

PM: I don't think there's a single role model country. I think if you look at countries, we look to the Swiss for their high

We are not trying to become the EU. We are not going to have a single ASEAN currency. But where we can work together, we will do more, and it will make a difference to our people

standard of living, stability and innovation. I think you can look to the Israelis who have a very vibrant tech sector and are very advanced in terms of their science and technology. The difference is that we are at peace with our neighbours and they have a lot of problems in their neighbourhood and that's where we are different. And we can look at Hong Kong too and how it is able – on the edge of a continent, in a very crowded island – to maintain a highly-competitive economy with people striving to do the best for themselves.

But I think we should also look at other cities because we are not just a country, but also a city. You can look at New York with Mayor Bloomberg, London with [Mayor] Boris Johnson. You look at other American cities like San Francisco where it is connected to the Silicon Valley, how they are able not only to administer the city well, but pull in ideas, energy, enterprise from the country around them – from the whole world – and make a very vibrant centre for their own people, and I think we should learn this from them.

PG: I am going to switch to the ASEAN region. So, how eminent is the reality of a common ASEAN? 2015 is around the corner, but do you really have a lot of optimism for a common bloc coming together?

PM: Well our objective is the ASEAN economic community by 2015. By which we mean 31 December 2015. But we have been making progress and I think we will get a substantial part of the way there. Not every piece will fall into place on time, but many of the pieces will. We have free trade in goods and services; we have got investment guarantee agreements amongst the ASEAN countries.

We've got free trade agreements between ASEAN and partners negotiating the Regional Comprehensive Economic Partnership, which means ASEAN plus six partners – India, Australia, New Zealand, China, Korea and Japan.

So our external links are developing, we are talking about the Initiative for ASEAN Integration where we bring along the less developed ASEAN countries as ASEAN prospers. So I think many of the pieces are moving ahead. But we should also be realistic that ASEAN is not the EU.

We're not trying to be the EU. We hope to be spared some of the difficulties which the EU is experiencing, but we are

moving forward progressively and just trying to deepen our linkages. If you look at it in very rough gross terms, intra-ASEAN trade is only 25% of the trade of the ASEAN countries, and it has been so for decades.

We are plugged into the world, we export to the world. Indonesia exports palm oil and energy to the developed countries. We export manufacturing to developed countries, financial services much more than ASEAN. So we build up our links amongst the ASEAN countries, but at the same time we are also building up our links with China, with Japan and the United States. And I think we accept that.

We are not trying to become the EU, we are not going to have a single ASEAN currency. But where we can work together, we will do more, and it will make a difference to our people.

PG: In this regard, what are the prospects of easier market access in financial services, which as you can imagine we have a vested interest in?

PM: I will not comment on the specific problems in certain countries. But services are harder than goods. Goods you can identify that this is sensitive, the rest you bring the tariffs down, and you do business gradually. Even then, all types of strange rules can come into place, which can hinder trade.

Services, there are many sensitivities, some of them political, some of them to do with the financial and economic structure. And even things which in principle appear sensible, countries facing them shy away. And especially after the global financial crisis, I think there is greater scepticism that we should just open the financial sectors and allow anybody to operate. Because the governments have to pick up the tab if anything happens and so therefore the government has to pay attention to make sure that things don't go wrong. I have learnt this lesson, and so have many other countries. In ASEAN, I think we have made incremental progress. Of course I wish DBS will have great success.

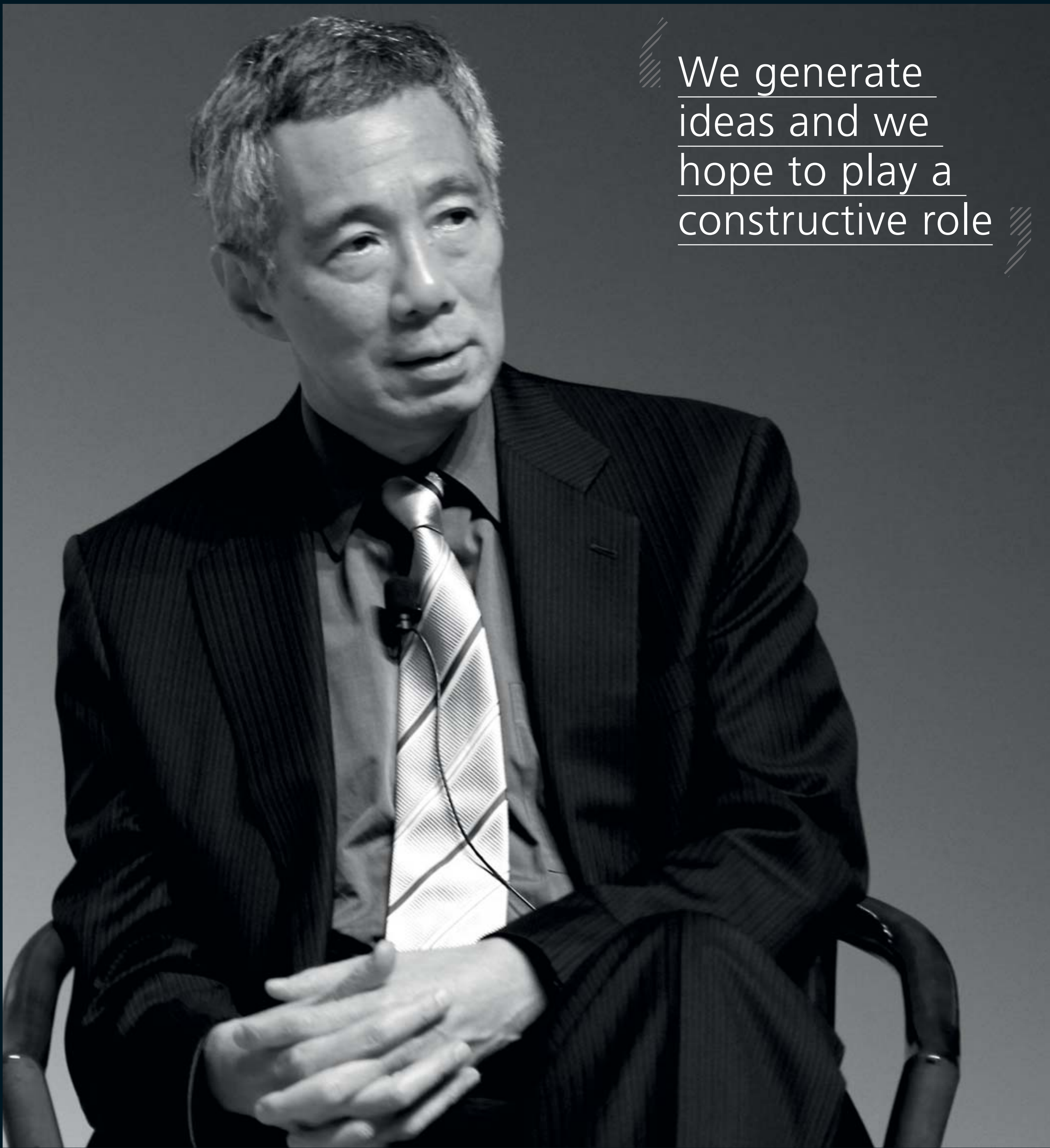
PG: As the most developed country in the ASEAN bloc, what is Singapore's particular role? How can we seek to leverage the ASEAN community more as we go forward?

PM: We generate ideas and we hope to play a constructive role, encouraging our ASEAN partners to move in this direction. But they have to see it in their own interests and if it makes sense for them and is politically wearable for them, then it is something that gradually they will do. We cannot dictate the pace, we do not set the agenda, but we can be a constructive player.

PG: Moving our conversation even further to China. So the new administration is settling in. It's still relatively early days, but people seem to sense a lot of resolve with the new team. And people expect a lot of changes to come down the pipe. Some of it is speculative and nothing much has happened yet. What are your insights? Where do you see China on its journey? There's a big belief that China needs to fundamentally restructure its economy, maybe not the sociopolitical side. Do you think that's something that they can do easily?

PM: I think they know they have to do it, I don't think it is going to be easy to do. A couple of years ago, everybody was focused on their trade surplus and figured it is not sustainable. And in fact, in just the size of it, it really cannot carry on like that for a very long time. But if you look at it over the last year or so, in fact their trade surplus has come down significantly, and their growth rate has also come down significantly, and now they've got seven plus percent growth – they used to be some years more than 10% [growth annually]. Some slowdown is unavoidable but the potential for the Chinese economy to continue to grow – and I think expectations amongst their people that life will continue to improve – is high. It needs to make structural changes.

I'm not sure that just summarising it as increasing consumption is the right formulation. Because you can't just tell people, "Go and spend more money", or say, "Here's the cash and go on holiday or buy something",


We generate ideas and we hope to play a constructive role

the relative balance of strength may have shifted some, but America is a very powerful, vibrant economy and society, and I think will be so for a long time to come

because that's not sustainable. And it really doesn't help you to grow. What you need is to meet real needs in the economy – social safety nets, healthcare, housing, efficient services, efficient products and therefore higher standard of living of the population. And that is something which requires major restructuring for the Chinese. They have to then think of agricultural reform, they have to think of urbanisation, people moving off the land into the cities. You have to create jobs for these people, you must find jobs for the graduates because they are producing six, seven million graduates a year and many of them are not finding jobs. Not that there are no jobs, but no jobs that their graduates would like to do. Because now I'm a graduate, I want to be at that level. And it's not so easy to find the jobs at that level for that number of graduates. They have to think what they are going to do with their state-owned enterprises. Big, though not always efficient, but sometimes in a privileged position with vested interests. How to restructure and you can't just say, "I'm selling it off, offer me some bids". So I think there are many structural things which have to do with the economy. And these bump up against vested interests, and if you make these changes there will also be political implications.

Because we are talking about millions of peoples' jobs, [well-] being and job security being touched, altered, and people having to wake up to a different dispensation. "Where do I fit in now? Who looks after me, my family, in my old age?" So I think that they have to move, they know it, but it will not be easy. The new leadership has the chance to make a fresh start. They will take some time to settle in, we will have to wait and see. I do not think they have made big moves yet.

PG: How about on the financial market front? So, capital account opening, and financial sector reforms, clearly with the internationalisation of the renminbi, they have been making some rapid progress in the last couple of years. Do you see a prospect of China really integrating into the global capital markets and flows over the next three to five years?

PM: If I were them, I would be very cautious about doing this, especially after seeing the impact of the global financial crisis and the major flows, which can easily overwhelm them if they do not have these circuit breakers to insulate them from the world. On the one hand they'd like the renminbi to have a high standing internationally. On the other hand I do not think that they would like to see the capital account opened up and foreign investors being able to come in, participate in their capital markets, buy their shares and take speculative positions. Which is what freeing up a capital account means, which is necessary if your currency is going to be a global currency used for settlements, used for trade and playing a strategic role in the global financial system. It is not so easy. Even the Euro

is not able to play that role to the same degree that the US dollar is. So I think that it would take a long time for the Chinese to do it. And I might say that the Japanese have tried very hard to do this with the yen in the 80s and the 90s and they did not succeed. And they are much more open than China is going to be for a very long time.

PG: As China becomes more economically powerful, it starts flexing its muscles in the geopolitical sense as well. How do you see the role of the US revolving in this part of the world? Do we need the US as a counterbalance to China? We've talked about the South China Sea earlier, in that context.

PM: Well we've always believed that the US has an important and constructive role in the region – participating, cooperating with China in a constructive relationship. But they are present because many of the countries in the world, in Asia, appreciate ties with America and want to do business with America, want to be friends with America. At the same time, they want to be friends with China and do business with China. And it's not a zero-sum game; it's not really just a military or security issue. It's a broad engagement, economics, culture, the security issues of course, but also the people-to-people ties. And I think that has not changed. The relative balance of strength may have shifted some, but America is a very powerful, vibrant economy and society, and I think will be so for a long time to come. And I'm not sure that the Chinese man-in-the-street is so conscious of this because they see the rapid changes in China and feel, "Wow, we've stood up". But I think that if they visit America and they talk to American entrepreneurs and see the way the American society works, they will know that this is a country which is not on the way down. It's got vibrancy, it's got problems, but I'm confident that it will overcome these problems and it will continue to play a role in Asia.

PG: Let's talk about Japan and the unsuccessful attempt to have the yen become a global currency. Now with Prime Minister Abe, there is a resurgence of hope and optimism that this time is different. The three arrows in Japan – monetary policy, fiscal policy and structural reform. What's your sense of the situation in Japan and how optimistic are you?

PM: I think Prime Minister Abe has had a very powerful effect on the psychology in Japan. Suddenly there is a prime minister who really wants to do something and is clear about the direction he is going. The policies may not be that earth-shakingly different but the mood and the determination to do something is new. And I've sensed a very strong sense amongst the business people I think, that they want Prime Minister Abe to succeed, and they were very happy with the change. And that itself is a very important factor. The difficulty, of course, is that actually to make the substance change takes time. The third arrow is the most difficult to do and takes the longest time. Even with the best will in the world, if you are going to tackle the Japanese labour market, if you are going to do something about the Japanese agriculture and revitalise it, if you are going to help the Japanese companies to develop into new businesses, not just to be fixed in the old mould, and the old way of doing things, these are structural changes which take five, ten years to show results. And optimism and confidence has to be sustained during this five, ten years, until the results come. So you've got to have progress as you go along. Mr Abe has already taken some bold moves, for example, his idea that Japan will join the Trans-Pacific Partnership discussions, which his predecessors have contemplated but stopped short of deciding. He said, "This I'm going to do". So that is a strong signal, but now we'll have to see what is negotiated in the end – which parts are sacrosanct, untouchable, which parts they are prepared to slaughter the sacred cow, which parts they are prepared to make a good compromise, and we start to move ahead. We all wish them every success because a vibrant Japan is good for Asia.

PG: The last question is about India. So India seems to be stuck, currency depreciating, growth is coming off, and altogether from a political standpoint they seem to be struggling a little bit. At the same time for us in Singapore, India is an opportunity. Frankly for India, Singapore is an opportunity. What do you think the possibilities are for India not in itself, but more importantly for India-Singapore connectivity?

PM: Well we think we have made a lot of progress with India. We were enthusiastic about India I think earlier than other countries. We signed a CECA, Comprehensive Economic Cooperation Agreement, with India before any country. In fact, it was the first substantive comprehensive bilateral agreement like that which India signed with us back in 2005.

And our business with them has grown a lot. Their trade has grown, I think their services have grown, they have lots and lots of flights, lots and lots of people travel, and I think for banks like DBS, India is a significant part of your business.

So the potential is there. It will be even faster if there were fewer of the political impediments on the Indian side, but we accept that. That is the way the business has to be done, that's the way the society is structured.

We hope that those difficulties can be overcome. We have the CECA in 2005 that is already eight years ago. We are in the middle of the second review of this arrangement, and we have not yet been able to close it because there are one or two spikey issues which on the Indian side they find difficult to give way on. So we've said, "Why don't we settle all the rest of the issues and we'll put off this for another day?" and I hope we will be able to do that.

PETER SEAH

CLOSING REMARKS

When I entered banking, the world was indeed a much simpler place. Today, with globalisation and the proliferation of technology, national boundaries are increasingly rendered irrelevant. No longer are we simply masters of our own destinies. As a small open economy, we are as much impacted by developments in Europe and the US as we are by the happenings in Asia. And with business cycles getting shorter, as corporates or individuals, we need to be highly adaptable and responsive to both challenges and opportunities.

Given this increasingly challenging backdrop, we believe it is important that we give you, our clients and friends, insights that matter; insights that can be acted upon. All our distinguished speakers, whether touching on Singapore, China, Japan, Myanmar or Malaysia, have left us deeply enriched with new ideas, perspectives and insights.

Amid all the global uncertainty, the silver lining is that Asia is still a relatively bright spot. We are optimistic that despite the speed bumps ahead, we in Asia will continue to enjoy good growth.

I hope you have found the conference takeaways both pragmatic and insightful. Indeed at DBS, as our clients, we want you to benefit from all the action in Asia, not the reaction.

Given our ambition to be a leading Asian bank, all of us at DBS were very honoured to have been recognised by the industry for the progress we have made these past three years. DBS was named Bank of the Year, Asia, by The Banker in 2012, and Safest Bank in Asia by Global Finance for the fifth consecutive year.

We hope that we'll always be your bank of choice, as you pursue growth in Asia. We are a big believer in building long-term relationships, and are committed to supporting you through good times and bad, and as you grow and prosper in this exciting new Asia.

Peter Seah
Chairman
DBS Group Holdings and DBS Bank

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