16 months later, a positive prognosis

GIC's Tony Tan has high hopes for Asia, but downside risks remain

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AS THE economic data improves, the chorus of optimists has been growing and the addition of one more voice would hardly make headlines.

Unless, that is, you are a key decision-maker at one of the world's largest money-managing firms, have been known to express rather contrarian bearish views and, most of all, been proven prophetic.

Dr Tony Tan, deputy chairman and executive director of the Government of Singapore Investment Corp (GIC), yesterday evinced the view that the limping global economy had likely turned the corner, though it still battles headwinds.

And the changing landscape was offering a golden chance for Asian financial institutions and markets to step into the gap left by their wounded Western counterparts.

“The worst seems to be behind us in Asia. Asian economies are now expected to see continued improvement through 2010,” he said in a speech at the Economic Society of Singapore's annual dinner attended by industry professionals and corporate chiefs.

His prognosis was markedly different in July 2007. Then, Dr Tan had famously warned of “dark clouds on the horizon” for the “Goldilocks” global economy then (neither too hot nor too cold but just right).

A month later, financial markets nosedived, as the United States subprime mortgage problems rippled abroad.

In April 2008, Dr Tan opined that the world could be facing a downturn “longer, deeper and wider than any recession” in the “last 30 years”. Some analysts had found him too pessimistic; it has since become clear this is the worst slump in 50 years.

Yet, Dr Tan now sees light because massive government measures are working through the system and confidence is returning — while Asia finds itself handing a significant opportunity.

The playing field in the banking scene has been left “unusually open for Asian financial institutions and markets, particularly for the next three to five years. And we are already seeing this happening in Singapore”, he said.

16 months on ...

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This is because those in the West, hampered by capital constraints and re-regulation, are unlikely to be able to intermediate the massive capital demand needed to finance Asian growth.

In fact, it remains unclear if the US and other developed economies will see sustained growth in 2010 and beyond, given the de-leveraging arising from this “Great Crisis”, he said.

But to take advantage of this opportunity, “Asian banks and capital markets will need to develop quickly to step into the breach”, he said.

Regulators and officials in Asia's financial sector “need to cooperate as never before with each other and with financial institutions to develop regional capital markets”.

Having aired the potential upside and signs of stabilisation, Dr Tan noted that downside risks remained “high”.

The greatest risk to Asia's outlook, he said, is a global economic and financial environment that does not stabilise and recover by next year.

Other dangers include sustained deflation, a failure of policies in the developed world and a resurgence of protectionism.

ECONOMIC STRATEGY

‘S’pore must sell ideas’

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FOR a country with nearly 5 million people, there’s no running away from depending on experts for economic growth. But what Singapore sells overseas should not only be the traditional goods and services — it should also look into selling the next big thing: Ideas.

Dr Tony Tan, national czar for research, yesterday offered his take on how Singapore's economy can continue thriving in the post-financial crisis world, where the weakened consumer from developed markets will not be able to support Asia's largely export-reliant countries.

“In addition to new markets and new products and services, the brightest potential for increasing our exports could be in the area of new ideas,” Dr Tan said, taking a leaf from the “New Growth Theory” crafted in the 1980s by Mr Paul Romer, currently senior fellow in the Stanford Institute for Economic Policy Research.

“Ideas are the result of technological progress intermixed with a sufficient number of bright creative talent, but working under a consistent framework of rules, including intellectual property rules, to produce economically valuable innovations.”

Dr Tan, the deputy chairman of the Government of Singapore Investment Corp, was responding to questions during the Economic Society of Singapore's annual dinner.

Members of the audience had zoomed in on one of Dr Tan’s theses in his speech: That the drop in Western spending will cause Asian countries with large populations — such as China and India — to rebalance their growth models towards drawing more on consumption and investment at home. How can tiny Singapore go down that path?

Such an issue is currently under the microscope of the Economic Strategies Committee. Dr Tan, on his part, had a ready answer: That’s where the concept of an “economy of ideas” comes in.

For instance, he said, while television set makers can sell only a limited number to households, the innovative content provider could enjoy unlimited demand.

“If we can develop such a platform in Singapore, we can continue to thrive even though the world economic environment is less robust and there is increasing competition from our neighbours and newly emerging economies.”

How to get there? “For an economy of ideas to thrive in Singapore, we need to encourage entrepreneurship, innovation, research and development and higher education for as many people as possible, but in employable disciplines and without lowering standards,” said Dr Tan.

Otherwise, “if we try and compete with other countries in the production of manufactured goods or the delivery of standard services, eventually we will lose because we’re a high-cost economy”.

Educate and employ Singaporeans in the “new growth theory”.