

OPENING REMARKS BY
2ND MINISTER (TRADE & INDUSTRY) S ISWARAN
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Introduction

1. Good morning. I am very pleased to be here with you this morning at the inaugural Singapore Conference. I would like to thank John Hamre, Ernie Bower and the team at CSIS for hosting this Conference. I would also like to thank all of you for joining us today. Your presence is testament to the strong and enduring friendship between Singapore and the United States.

Despite an uncertain economic outlook, the US' fundamental strengths and the ongoing efforts will help you emerge stronger.

2. We meet today against the backdrop of continued, significant and persistent uncertainty in the global economic environment. Having barely recovered from the 2008 financial crisis, the global economic recovery is now weighed down by the Eurozone crisis. The IMF's latest projection put global GDP growth for 2012 at 3.3%, down from the 3.8% last year¹.

3. The United States is witnessing a fledging recovery. The US economy is projected to grow at 2.2% this year, up from 1.8% in 2011. Unemployment, as you are well aware, has eased from the high of 10% in Oct 2009 to 8.3% in January this year². However, questions remain over the sustainability and durability of these trends.

4. In Singapore, we remain confident that the US will not only recover from the current downturn, but also emerge stronger, as you have many times before. It is a confidence premised on

¹ Source: International Monetary Fund, World Economic Outlook Update.

² Source: U.S. Bureau of Labour Statistics. February 2, 2012.

America's fundamental strengths. The US remains the world's biggest economy, and is home to the most entrepreneurial organisations in the world. Your pre-eminence as a global centre for research and development, coupled with the entrepreneurial spirit of your people, continues to incubate new ideas and inventions that in turn, bring new goods and services to the market. The relative youthfulness of your population and your ability to attract and retain the best talent from around the world. Finally, and I would suggest, most importantly, your fundamental belief in the free market and fair competition stands you in excellent stead to take advantage of the opportunities all over the world, even during challenging times like these.

Singapore and the US face similar challenges.

5. Notwithstanding these profound strengths, strengthening your domestic economy will not be easy. Creating jobs and revitalising manufacturing, as well as other sectors of the economy is going to be challenging, especially in an increasingly globalised and competitive environment is a daunting challenge – and one that is universal.

6. Singapore is no stranger to this challenge. Our small population and relatively high wages mean that we have to be ever-vigilant for new market opportunities, and we are acutely aware that we need to compete on the basis of value, and not costs.

7. The average monthly wage in manufacturing in Singapore is approximately US\$2,800 (S\$3955), almost ten times the average monthly income of a manufacturing worker in China (US\$290 or 2016 yuan per month³). Consequently, our

³ Source: International Labor Organisation Department of Statistics. Data as of 2008.

companies face strong competitive pressures, especially in the manufacturing sector, to relocate to low-cost venues in our region in order to ensure competitiveness.

8. In response, we have had to progressively move up the value chain. This means training and re-training our workers to increase their productivity; promoting innovation and R&D at the level of the enterprise; and a general restructuring of our economy towards higher value-added industries and activities.

9. This strategy is intellectually easy to grasp and articulate, but hard to execute.

10. In President Obama's State of the Union address, he highlighted the need and his proposal for job creation and the training of skilled workers. This has been echoed by the President's Council for Jobs and Competitiveness.

11. These challenges and policy recommendations resonates with Singapore as well. The obvious and substantial asymmetry in the size of our economies makes these challenges exponentially tougher for the US. Yet, we believe that our common challenge can also undergird a broad and deep collaboration between the United States and Singapore in the global economic arena.

The US and Singapore face an increasingly competitive global economic environment.

12. In today's hyper-linked and hyper-competitive global economy, companies aggressively seek out every vestige of competitive advantage. It is unusual for goods to be entirely produced in one location; distributed manufacturing is the norm as companies try to optimise their manufacturing operations and streamline their supply chains by exploiting the competitive advantage of different locations.

13. The global marketplace has shrunk, the time to market minimised, and product cycles have intensified. This is the reality that our companies face.

14. How do we thrive in such a world? We must play to our strengths by building a high quality workforce that creates high quality products and delivers high quality services.

US should leverage on Asia's growth to fuel your recovery.

15. We must ensure that our companies' products and services gain untrammelled access to markets around the world. Singapore has always striven to do so. In a way we have no choice. Our raison d'être is to be useful to the world. Autarky has never been an option for us.

16. Even with the biggest economy in the world, 95 percent of global consumers still live outside the United States. As such, expansion into new markets will help US companies grow and create jobs. The National Export Initiative, which aims to double US exports over five years to help support two million jobs, is a clear rallying call towards this direction.

17. In that regard, the Asia of today clearly presents the most compelling prospects for renewed economic engagement and trade growth. Over the last two decades, US' trade with Asia has doubled from US\$0.4 trillion to US\$0.8 trillion. Looking at it nominally, these can be impressive statistics.

18. However, this could be a case of the glass being half empty or half full. In the same period, intra-Asian trade has more than tripled from US\$0.8 trillion in 1990 to US\$2.5 trillion in 2010. More significantly, intra-Asian trade has grown in terms of its share of global trade - from 42% in 1990 to 53% in 2011. This speaks of the potential of trading with Asia. This could also be a salutary tale of missed opportunities for the US to do more

even as other countries, particularly in Asia, seize these opportunities and move ahead.

19. And the prospects of opportunities in the future are even more compelling. The IMF estimates that roughly 87 percent of global growth over the next five years will take place outside of the United States - and most of this growth will take place in Asia. As such, it is not about whether the US will engage Asia, but how deeply.

20. There are three key drivers for this growth in Asia.

- (i) The rise of the middle class. Demographically, Asia's middle class is projected to grow to 1.7 billion people by 2020, more than 5 times the US' current population.
- (ii) Higher disposable incomes. According to a study done by PricewaterhouseCoopers, Asia will account for more than 80% of the growth in global middle class spending, which is forecast to rise from US\$21 trillion in 2009 to US\$56 trillion by 2030.
- (iii) Rapid Urbanisation. Asia is urbanising at an unprecedented rate. By 2025, 16 out of 27 megacities in the world are expected to be in Asia. China alone will have 131 cities with more than 1 million people. Within South East Asia, there will be more than twenty such cities. By 2050, more than two-thirds of the population in Asia Pacific will be urban dwellers. What does this mean? This will create a surge of demand for infrastructure - roads, water, electricity, railway and port services.

21. In tandem with these trends, Asia's consumer demand for goods and services will surge. I would like to highlight a few sectors with significant growth potential and of great relevance to the US.

- i. Energy: Asia is a net importer of energy. Asia's demand for energy will increase by 23%⁴ over the next decade. In terms of supply, countries in Asia are also keenly aware of the need to diversify their energy supply. Presently, four Asian countries (Japan, China, India and Australia) are already among the top ten solar installation markets in the world. By the middle of the decade, the region is expected to contribute about 30 per cent of the global solar market.
- ii. Infrastructure: Global water demand will outstrip supply by 40% by 2030. This problem is particularly acute in Asia, where massive infrastructure investments will be necessary to bring up supply. The global water market hit US\$500 billion in 2011 and will grow dramatically over the next two decades. Some analysts predict a US\$1 trillion market by 2020, and Asia could comprise 50% of the entire market by 2035. In Singapore as well as in Asia, we are keenly aware of this trend.
- iii. Aerospace: Asia will account for 29% of global aircraft deliveries by 2026, and 32% of global air traffic in 2028. This will create huge downstream potential in areas like demand for airplane components and services like aircraft maintenance, repair and overhaul (MRO) in the region.
- iv. Healthcare: Asia faces an aging trend. This means Asia's demand for healthcare services and pharmaceutical products will increase, particularly products tailored to the Asian markets. That is why there are strong opportunities to conduct clinical trials in the region.

22. These examples are just the tip of the iceberg. However, what is common to all these examples is that these require a high level of technical skills and have a heavy intellectual property content. Most importantly, these sectors play to the

⁴ Source: International Energy Agency, World Energy Outlook 2011

strengths of the US. Hence, the US has a clear competitive advantage in meeting these growing needs. There is an enormous opportunity in these sectors, Singapore and the US can work together to capture these markets of tomorrow.

23. Many US companies already appreciate the value of this synergy. They recognise the benefits of Singapore's pan-Asian vantage. They are also aware that Singapore's strategic location and connectivity are critical to support their large scale regional strategies.

24. Singapore's strong intellectual property rights regime has also facilitated growing R&D collaborations between our countries. For example, the Singapore-MIT Alliance for Research and Technology (SMART) Centre was established in 2007 to get researchers from MIT to work with their counterparts in Singapore universities and research institutes. The Centre currently involves several hundred researchers from both countries, and they are working on problems ranging from infectious diseases to environmental sensing and modelling. These are areas with significant relevance and potential long-term payoffs.

25. I believe there is even greater scope for both countries to leverage on each others' strength and continue to work together to tap on the vast market opportunities in Asia.

Singapore is a natural ally to maintain an open and fair trading system.

26. As Asia grows, so too has the momentum for economic integration. There has been a wave of FTAs spreading across the region. Before 2000, there were only four major trade agreements among APEC economies⁵. The US was party to two of them—the Canada-U.S. Free Trade Area, and the North

⁵ Source: International Labor Organisation Department of Statistics. Data as of 2008.

⁵ The ASEAN Free Trade Area, the Canada-U.S. Free Trade area, the North American Free Trade Area, and the Australia-New Zealand Closer Economic Relations accord

American Free Trade Area. Today, there are 39 concluded FTAs among Asia-Pacific countries. The US is party to only four more of these FTAs (Australia, Chile, Peru and Singapore).

27. The US' commitment to rejuvenate this relationship is timely. Many Asian countries see the US' engagement in the region as a benign force of stability which is essential to their continued development. Equally, the US must regard Asia as a key driver of its future growth. Secretary Clinton made this point emphatically when she declared the 21st century to be America's "Pacific Century".

28. The US and Singapore have always shared an abiding commitment to free trade. We both firmly believe in the virtues of a fair, open and rules-based global trading system. That is why our countries have a longstanding partnership in building up the free trade architecture.

29. Our countries have cooperated at the WTO and regional fora like APEC and ASEAN. We have worked together with other like-minded countries on plurilateral initiatives such as the Information Technology Agreement to facilitate trade in IT products.

30. The latest initiative in that series of free trade initiatives is the Trans-Pacific Partnership negotiations. Together with seven other countries, we have the vision of making the TPP a gold-standard, high ambition template for future FTAs in the region.

31. Like the US, we believe the TPP has the potential to become the nucleus of a larger and more inclusive FTA of the Asia-Pacific. However, we need to start somewhere and move towards this goal. The current nine member countries of the TPP already represent over one-quarter (27.3%) of global GDP and 16% of global exports. Another three countries, Canada, Mexico, and Japan, have expressed their interest to join the

Partnership. If they do, the TPP will represent almost 40% (38.7%) of global GDP and more than 25% (26.4%) of global exports. It would be a sizeable market with significant economic heft.

32. The TPP will help smoothen our trade linkages in several ways.

33. Firstly, by lowering tariffs and removing barriers to trade in services, it will improve market access between member countries.

34. Secondly, the adoption of a common set of trading rules will facilitate regional cumulation. To qualify for preferential tariff treatment, goods will no longer be narrowly considered as US-originating or Singapore-originating, but instead, TPP-originating. This is particularly important in view of the diversified nature of manufacturing today, which I had mentioned earlier.

35. Thirdly, as TPP member countries streamline and align regulations, it will make it easier for companies, large and small, to conduct business across borders.

36. The TPP will also allow companies to flexibly locate their facilities and source for inputs across TPP member economies, with intermediate goods flowing freely and efficiently. Greater integration will enhance the economic competitiveness of TPP member countries.

37. That is the ultimate goal of the TPP. The leaders of the TPP nations have set the target of substantively concluding negotiations by this summer. It is, by all accounts, an ambitious target. But, Singapore is committed to work with the US and our other TPP partners to meet it, and we have allocated increased resources to this effort. Ultimately,

pragmatism and flexibility will be key to the success of the process.

38. Our cooperation does not and should not end with the TPP. As like-minded partners, we should continue to work together to push the global free trade agenda.

39. Although work on the Doha Development Agenda has lost some momentum, the WTO, as a global institution must hold fast to its objectives of trade liberalisation. The WTO retains its importance as the guardian of the global trade rules, as well as serving as the platform for international trade dispute settlement.

40. However, beyond that, there is a need to rejuvenate the WTO. To that end, Singapore stands ready to work with the US, along with other like minded countries, to explore and build support for fresh and credible approaches within the multilateral trading system. For example, an ITA-type plurilateral approach comprising a critical mass of the membership is one such approach. This is one way, but it may not be the only way. We could also build on the extensive work that has already been done in the sectoral discussions in other areas.

Conclusion

41. In conclusion, allow me to reiterate my key points. Firstly, the US and Singapore face similar challenges within the context of today's highly interconnected and hyper-competitive global economy. Secondly, Asia presents a clear and sustained opportunity for economic engagement and trade, particularly in sectors where the US, and Singapore, have a significant competitive advantage. As likeminded partners in the global trade arena, the US and Singapore can forge a deep and wide collaboration to enlarge the economic space for our

enterprises. Thirdly, the Tran-Pacific-Partnership offers a compelling opportunity to create a high quality Free Trade Agreement among member countries. It will also serve as a template for other FTAs and as the nucleus of an FTA of the Asia-Pacific.

42. Lastly, and most importantly, Singapore looks forward to working closely with our US partners on this promising and exciting journey. Thank you. I wish you a fruitful conference, and a pleasant day ahead.
