

SPEECH BY MR ANDREW TAN AT CHINA BUSINESS SUMMIT 2023
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Navigating Uncertainties, Seizing Opportunities, Forging New Partnerships

Distinguished guests, ladies and gentlemen,

Kia Ora!

Isn't it great to be back in person for these meetings following the lock downs of the last two years?

To think that we could experience a pandemic of such a scale that would bring everything from travel, office meetings to supply chains to a grinding halt was almost unthinkable a few years ago.

But it did happen. And it may still happen again.

It is no longer what Nassim Nicolas Taleb would term “black swan” events - that is, highly improbable events with highly disruptive impacts.

In fact, Taleb was not saying we should predict these black swan events but that we should make ourselves more robust and resilient to them.

And this is the focus of my remarks today, how do we navigate the uncertainties, seize opportunities, and forge new partnerships.

Global Economy at Crossroads

But first let me qualify that I am not affiliated with any organization and am merely expressing my personal views having been involved in developments in our part of the region for a large part of my professional life across different roles.

As we all know, the global economy is at a major crossroads.

The pandemic had a disproportionate impact on countries across the world, from the human lives lost, to the economic fallout from lockdowns and other restrictions, as well as across industry sectors, with travel and tourism most severely affected.

And no other country than New Zealand, like Singapore, where tourism is an important sector, knows how painful this can be.

Recovery remains fragile, particularly in the wake of the protracted conflict in Russia-Ukraine, and rising geopolitical tensions between US and China, as well as broader macro-economic uncertainties.

Just as the pandemic put the spotlight on the lack of vaccines and medical equipment as well as supply chain bottlenecks, the ongoing conflicts and tensions have cast the spotlight on food, energy security and commodities.

The IMF is now forecasting a 3% growth for the world economy over the next few years, the lowest medium-term forecast for the last 30 years.

Even as policy makers are grappling with the real macroeconomic demand and supply aftershocks, the other elephant in the room is climate change, the effects of which are already being felt across the world, from floods to droughts, and other extreme weather patterns.

These challenges are inter-related. Without growth, jobs and investments, no economy can sustain itself, much less deal with the seismic shifts underway.

The stakes are therefore high for everyone.

Can Central Banks rein in inflation, at one of its highest levels since the 1980s, without killing off the nascent economic recovery?

Can economies recover their mojo amidst the intensifying geostrategic rivalry between the world's largest superpowers and rise of middle powers?

How do businesses decide where, what, how to invest, including where to base themselves - and not to mention, source their raw materials, conduct their R&D and sell their products in an increasingly fragmented world?

And last, at a time when firm actions are required, can governments, industry & businesses even achieve their net zero targets and slow down the rate of global warming?

How will countries manage the difficult tradeoffs when addressing all these challenges, which are not only complex but closely intertwined?

And just as important, can leaders at all levels muster the political will and galvanize their electorates to make tough but necessary decisions when jobs, employment and social security are all at stake?

These are all tough questions which countries cannot solve on their own, particularly if you suffer from what I call, the tyranny of geography, lack of natural resources and deficit of talent.

Secular Tailwinds vs Headwinds

Indeed, the headlines can sometimes be alarming. Some say we are in a new Cold War. Others say a new Iron Curtain has descended upon us, with trade flows being restricted.

The reality is that the world today is very different from the aftermath of the Second World War.

According to the WTO, world trade values today have increased by almost 400 times from 1950 levels, slowing down only in the recent decade.

We are now more connected than ever – physically and virtually – and unravelling these intricate interlinkages and interdependencies will take time, effort and immense resources.

The world has benefited from the liberalization of trade over the last few decades. Unfortunately, it has also widened the gap within and between countries.

The heightened insecurity amongst nations arising from their perceived and/or real inability to compete amidst widening income gaps is feeding into the geopolitical arena where we now see almost every country bringing trade, foreign policy and national security into sharper focus.

We also see elements of this in the ongoing strategic and some might even argue ideological competition between US and China as each seeks to reduce their reliance on one another in critical technologies and raw materials. It is not clear to what lengths each side will go, but the efforts may broaden as they unravel new interdependencies.

As we speak, markets are trying to adjust to the new normal.

Businesses are already hedging themselves, by reducing their concentration risks and/or seeking to diversify their supply chains to other parts of the world, be it reshoring, near shoring or friendshoring.

The latest terminology is not decoupling, nor de-risking, but “diversity” of supply.

All eyes are on Asia, which lies at the epicenter of all these developments. This is what makes it an exciting era for all of us.

Transformation of Live, Work & Play

One of my fun jobs when I was with Temasek International was scenario planning, which took us from the realm of probability to the realm of plausibility.

We looked at all the secular global trends and asked ourselves broadly how would the Future of Live, Work and Play pan out? Where would be the interesting areas to invest in? And how can we play in those parts that are truly transformative?

While the responses to these questions may vary across sectors, industries, and geographies, most of us will agree on some common elements:

1. Wholesale transformation of many industries with the onset of automation, robotics, MI/AI and big data/sensors. For example, we have seen how the automobile industry has been disrupted by electric vehicles, with many countries now having a timeframe to eventually phase out the internal combustion engines. Likewise, the financial industry is being disrupted by Fintech.
2. Greater economic empowerment through the digital economy, especially in Emerging Markets. Mobile technology alongside applications that you can download giving you access to a wide variety of services, from taxi rides, online purchases, food delivery, digital banking to insurance. Beyond simply e-commerce, digitalization has been a boon especially for the many smallholders or microbusinesses in emerging economies as they leverage on the latest array of technologies from blockchain to sensors to manage their operations more efficiently and effectively. For example, in India, a wide array of apps allows farmers to better manage their crop yields, irrigation, check market prices and sell their produce.
3. Our living environment will also change dramatically. The future of our built environment will be driven by cleaner forms of energy, more intelligent systems that manage everything from traffic to lighting, and the use of greener construction materials. Likewise, making cities more climate resilient. There are few countries or cities that can really attempt these at scale. Singapore is one of them. In China, many cities are already well ahead in this space, having the benefit of greenfield sites to experiment with.

4. And if we can envisage a world where we can create digital twins of almost anything – in Singapore, we are working on a digital twin of our Next Generation Mega Port in Tuas – why not also the digital human? Before we get carried away by this, we are not referring to Star Trek William Shatner (aka Captain Kirk)'s desire to have a digital reincarnation of himself with the use of AI but more in terms of harnessing big data and AI for digital health, drug discovery, clinical trials and gene editing tools like CRISPR, etc taking healthcare as we know it to its next frontier.

Bigger Cities, Greater Integration and Connectivity Driving Asia's Growth

All the above trends are converging in Asia for several reasons.

First, Asia is still growing, with likes of China at 5-6% and India at 7%, Malaysia and Indonesia at 4-5% and Vietnam at 6-7%, alongside a rising middle class driving consumption as seen in the uptake of e-commerce. The IMF expects Asia and the Pacific to contribute about 70% of global growth this year alone. And this growth is attracting investors from all over.

Second, rapid urbanization. When I set up the Centre for Liveable Cities in Singapore in 2008, less than half the world was urbanized. Today, more than half the world's population lives in cities, which is projected to increase to two-thirds in 2050. Many of these large urban concentrations will be in Asia. Feeding, housing, powering and moving the people in these cities will be immense.

Third, growing connectivity in the region arising from new physical and digital infrastructural investments in the region, with investments coming from China, India, Japan, Korea and Singapore, alongside international financial organisations and large infrastructure funds. This includes the growing number of data centres.

I recalled when I was in New Delhi for a UN Habitat Summit in 2008/9 and listened to a speech by the former and late Indian Minister for Urban Development, Jaipul Reddy, where he said "...the moment anyone in India has reached a certain station in life, they want to own a nice car and so on". This was one reason why Tata's experiment with the Nano, arguably the cheapest car in the world with all good intentions, did not take off. It was simply perceived as a low-end car.

Reddy's remarks reflect not just of the aspirations of the Indian middle class but middle classes throughout all Asia. I was just in Ho Chi Minh City last month and similar aspirations were voiced by the many young Vietnamese I spoke to.

They want a well-paying job that will allow them to buy a nice home, car or motorbike, and holiday overseas.

I also sit on the newly-formed Board of Agoda, an online travel platform that is a subsidiary of Booking Holdings, one of the world's largest online travel platforms. The rebound in leisure travel across the world, including Asia, starting last year has brought in higher revenues than pre-COVID for the group.

The rise of Asia's middle class driving new consumption patterns is also reflected in the trade data. According to ADB, intra-regional trade made up close to 60% of Asia & the Pacific's total trade in 2020, the highest since 1990.

This explains why all the global shipping lines I know are expanding their services in the region, including riding on the e-commerce wave by integrating their services with inland logistics and warehouse acquisitions.

Finally, we can expect the digital economy to grow even larger, albeit with more realistic valuations for the many technology companies in the region. Based on the latest Bain, Google and Temasek New e-Conomy Report 2022, SE Asia's digital economy covering e-commerce, transport & food, online travel, online media & financial services is expected to exceed US\$300 billion in Gross Merchandise Value by 2025 and reach US\$1 trillion by 2030.

Of course, there are still many short to medium-term challenges in the region to overcome - monetary and fiscal policies are likely to remain tight as regional governments seek to keep inflation and public debt in check. Several countries either just had or will be heading into elections amidst a new generation of voters who desire change. And the region has to navigate the increasingly complex relationship between US and China.

Longer term, the biggest challenge in SE Asia is growth versus climate change efforts. So economic development must come in tandem with long term planning for social uplifting and just transition.

Implications for Businesses

So what are the implications for businesses as you plan your go-to market strategy?

First, rapid urbanization in the region has opened up new opportunities no longer confined to the first-tier cities, but now the second and third tier cities from China, India to SE Asia. You will find new addressable markets that require the basics,

i.e food, energy, water and essential services as healthcare, housing and education.

Next, anyone travelling in the region in the last few years will immediately note how much easier it is to get around than in the past. New roads, bridges, harbours and public transit systems are being built. New industrial and economic zones are being set up. All this infrastructure will need to be built, operated, maintained and upgraded.

Second, the scale of digitalization will widen and deepen. Here is where physical connectivity meets the digital.

In e-commerce, market places like Shopee, Lazada and Tokopedia already take up the lion's share of regional e-commerce, but we will see moves from B2C to B2B2C that will connect regional suppliers with small to medium-sized businesses that will allow communities in outlying areas access to a wider array of goods and services.

We see startups across the region seeking to integrate supply and demand services for microbusinesses. Likewise, integration of last mile delivery in logistics.

Meanwhile, existing super-apps like Gojek and Grab in Southeast Asia for food delivery and ride-hailing are under pressure to be profitable even as they branch out to adjacent sectors as digibanking, online purchases and even telemedicine.

Third, on the sustainability front, many if not all the countries in region are also seeking to decarbonize their industries, including hard-to-abate sectors as air and sea transport, steel, cement and petrochemicals especially given the nature of their economies.

Southeast Asia also holds much of the world's nature-based solutions like carbon sinks alongside opportunities for tech-based solutions looking for deployment e.g carbon capture & storage. Countries like Indonesia also possess rich mineral resources e.g Nickel for the production of EV batteries.

Fourth, while still important, public markets are now giving way to private markets in financing assets and the growth of new businesses. And equally interestingly, a greater willingness by private equity firms to deploy long term or patient capital in emerging sectors as climate tech, energy transition and impact investment.

Fifth, investors are looking for alternative production bases as part of their overall hedging strategy, particularly in manufacturing. Countries as Vietnam and India

have already benefitted from this shift. In the case of Vietnam, even as it benefits from being an alternative manufacturing base to China, the interlinkages between China and Vietnam are in fact strengthening the relationship, and much of the intermediate inputs from China now forms a key part of Vietnam's exports.

So even as we speak of reducing existing interdependencies, new ones may arise, not just in Vietnam but across other parts of the region. For example, the digital community in the region in areas as software programming/development now spans across several countries from Singapore, Vietnam to Indonesia, alongside China and India.

It also compels likes of Singapore to rethink its role in the regional digital ecosystem. Besides putting digital-first in all we do, can we also champion digital governance, particularly with the onset of AI? Can we also champion interoperability of payment systems across the region? Likewise, can we promote cybersecurity solutions?

How NZ, Singapore and our Major Trading Partners can Work Together

Ladies & gentlemen,

Asia is at the cusp of a profound transformation amidst growing geopolitical and economic uncertainty.

You have to be in the region to experience this newfound optimism and confidence notwithstanding the current uncertainties.

However, the region's growth hinges on peace and stability which it has enjoyed for the last few decades. The peaceful rise of both China and India will be key just as their relations with the rest of the world, which have no wish to frame everything through the lens of US-China competition.

The growing interdependence amongst regional economies, as manifest by ASEAN's renewed vigor in promoting regional integration, also shapes the outlook of the region towards the ongoing superpower conflict and explains why many have avoided being drawn into choosing sides or seeking binary outcomes.

The view from SE Asia reflects the hopes and aspirations of a younger generation with less of a historical baggage who sense new opportunities like never before. They wish to avoid any conflict, whether over the South China Sea, Taiwan or Korean Peninsula.

As small countries with close ties with all the protagonists, I believe New Zealand and Singapore can be the bridge to better understanding and cooperation amongst all the major powers.

What we lack in size, we can make up in terms of our ability to create new opportunities and spaces for all parties to work peacefully together.

To the extent that we can foster constructive engagement and healthy competition, we should encourage this.

It will require active diplomacy, identifying new areas of cooperation, and fostering win-win partnerships.

In doing so, we should continue to uphold a rules-based international regime alongside an open and inclusive environment where everyone feels that they have a stake.

Multilateral free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) which came into force last year, the CPTPP meeting New Zealand has just successfully hosted with UK's accession, and the recently concluded EU-New Zealand FTA will help prevent the world from fragmenting into protectionist trading blocs.

New Zealand & Singapore can bring unique perspectives and thought leadership to bear on key issues – from defense, security, economics/trade, to climate change.

Likewise, in new areas such green financing, artificial intelligence and digitalization – all require effective private-public partnerships and international cooperation.

Achieving greater resilience and security in supply chains, energy security and critical technologies – all of which are highly important in themselves – cannot be done alone but only through stronger cooperation.

Finally, we can invest in building up the intangible goodwill, starting with more people-to-people, trade exchanges and cross-sharing of expertise across our business associations, education and research institutions.

Events as this and the important work that the Asia New Zealand Foundation does can take on an even greater global perspective and participation - and showcase what New Zealand has to offer.

Singapore as Springboard to Region

Singapore welcomes more New Zealand businesses to use us as a springboard to the region. As a global hub and gateway to Asia, this is the best time to step up your presence.

Over the decades, we have worked to develop a diversified economy, with Manufacturing and Services as our twin engines, alongside key pillars as banking and finance, plus our continued investments in our aviation and maritime hubs, including a strong defence.

To be future ready, we are gearing up for Industry 4.0 through our various Industry Transformation Maps (ITMs) driving sectoral transformation covering new opportunities, capabilities and workforce reskilling for 23 industries grouped under various clusters from advanced manufacturing, connectivity, human health & potential, urban systems, modern services, lifestyle to resource & environmental sustainability.

And as part of our Singapore Economy 2030 plan, the government is targeting growing exports to at least S\$1 trillion by 2030, from S\$805 billion in 2020, while doubling offshore trade to S\$2.7 trillion in the same period.

The Trade 2030 strategy seeks to grow trading volumes by widening the type of activities that take place in Singapore and other parts of the world. And the Enterprise 2030 strategy will be aimed at fostering a vibrant ecosystem of Singapore enterprises that are globally competitive and possess deep innovative capabilities.

Two major themes will be sustainability and digitalization that will drive the next growth for the Services sector, which comprises 70% of our economy, with Manufacturing comprising the rest, with a focus on Advanced Manufacturing.

Our National Research Foundation will support this economic transformation by investing in new technology areas. Investments in biomedical sciences and medical technology has seen the sector grow to support more than 25,000 jobs or almost 4% of our GDP. Our start-up ecosystem continues to grow, with venture capital funding increasing from S\$500 million in 2011 to about S\$11 billion in 2022.

I note that New Zealand has several strategic reviews underway, and I wish you well in charting your own course ahead.

Conclusion

Ladies & gentlemen,

Keeping options open for future generations is key.

We can't anticipate what the future will be, but we certainly should not foreclose pathways to future cooperation.

As our PM Lee Hsien Loong said last year when he met your prime minister (Apr 22): "The geopolitical uncertainties, supply-chain vulnerabilities and rising protectionism make it *all the more important* for countries to work together to find a path forward and identify win-win opportunities. In this endeavour, Singapore and New Zealand are natural partners."

If we go back in history, New Zealand and Singapore have traditionally enjoyed close ties dating back to the early days of independence, thanks to the strong rapport between our leaders and similar security outlook towards the region..

I recall our former Prime Minister Lee Kuan Yew's exchange with Norman Kirk, NZ's Labour Prime Minister in the 70s as they sat one evening on the lawn of Sri Temasek where Lee asked how New Zealand saw the prospects for stability and growth for Singapore where I quote "(Kirk's) reply was direct and pithy". NZ was "the odd man out" while Singapore was "the odd man in" the region.

But Lee believed both New Zealand and for that matter, Australia's destinies lay in closer ties with Asia, a message he consistently conveyed to both sides. He was not wrong. Today, we see this imperative borne out by events.

We are neither "in" or "out" but very much an integrated part of a diverse and complex region.

Mr Lee concluded the chapter on New Zealand in his Memoirs with one line: "In my experience the New Zealanders can be depended on to honor their undertakings."

And this could well be your biggest intangible asset. Singapore has certainly experienced this firsthand after our independence through your support.

As we navigate the challenging times ahead, let's think in terms of what's possible, rather than what's impassable and of course, nothing can be impossible.

I look forward to a lively and candid discussion. Thank you.