



REMARKS BY DR TONY TAN KENG YAM, DEPUTY CHAIRMAN AND EXECUTIVE DIRECTOR, GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION AT THE FOREIGN POLICY ASSOCIATION DINNER IN NEW YORK CITY HELD ON 23 FEBRUARY 2011

1. I would first like to express my appreciation to the Foreign Policy Association for honouring me with your medal and Mr Noel Lateef and his staff for the cordial reception. In honouring me, you also honour my colleagues in the Government of Singapore Investment Corporation (GIC) with whom I have worked for many years. We thank you for the award and for the significant distinction.

2. I would like to take the opportunity this evening to share a few thoughts on the global economic outlook and particularly on how GIC views economic prospects in the United States which is a major region for GIC's investments.

The Global Economic Outlook

3. The last few years have been very difficult for the US and global economy. In 2008 and 2009, the world was on the brink of a global depression. Last year, the global economy stabilized and recovered modestly. This year, US growth may reach 4%, a substantial improvement over what was expected even two months ago.

4. The improving outlook for the US reflects healthier household and financial sector balance sheets which have been repaired over time, as well as strong fiscal and monetary stimulus. In particular, after the fiscal stimulus package passed by Congress and signed by President Obama into law in December, and the second round of quantitative easing by the Fed, economists are becoming more confident that a self-sustaining recovery in consumer and business spending is beginning to take hold in the United States.

5. In addition, financial conditions have become more supportive with banks increasingly willing to lend. The improving economic backdrop and supportive policies will likely boost equity markets and other risk assets, which in turn will increase consumer and business confidence and speed up balance sheet improvements. All of these will be helpful for a more vigorous economic recovery.

6. The outlook for Europe is more mixed. Some economies are doing well – Germany particularly and also Northern Europe. Other peripheral countries are likely to experience continued economic contractions. Overall, the spectre of sovereign insolvency looms as a threat to the European recovery and, indeed, to the European Monetary Union itself. The major challenge for the Eurozone is to deal with the sovereign debt crisis which has engulfed Greece, Ireland, and could well include Portugal and Spain.

7. However, European policymakers, including those in core countries like Germany, have reiterated, on many occasions, their commitment to the integrity of

the European Monetary Union. European leaders will do what is necessary to preserve the European Union for both economic and political reasons. Political expediency, however, means that policymakers are likely to be more reactive than pro-active, and thus markets may experience more volatility. Still, economic growth in Europe, dominated by Germany, could average around 2% this year, with exports remaining healthy and domestic demand benefitting from a low cost of capital.

8. The growth outlook for Asia remains bright, even as countries grapple with inflation, emerging asset price bubbles, and large capital inflows. Economic growth in Asia will remain strong although there is a risk that a strong US recovery could lead to upside surprises resulting in more severe inflation and asset price problems.

9. China and India could see economic growth in the region of 7% to 9% but both countries have to ensure that inflation and rising asset prices do not get out of hand.

10. China, in particular, will have to skilfully withdraw the huge monetary and fiscal stimulus enacted during the Global Financial Crisis without upsetting the on-going leadership transition. For example, China will have to deal with an expected rise in non-performing loans from the rapid expansion in credit.

11. Fortunately, low leverage in the financial system, relatively healthy balance sheets and strong growth make it easier for the Chinese to deal with such issues as long as they are able to engineer a soft-landing over the next two years.

12. At the same time, some progress is being made to rebalance the economy towards greater domestic consumption, improve income distribution between coastal and inland regions, and between urban and rural households.

13. The challenge for India is complicated by the ruling party's need to continue public spending and subsidies, despite the chronic public finance deficits, so that it can renew its legitimacy to carry out further necessary reforms. This has led to the occasional backtracking in economic policies as the Congress Party tries to consolidate its power in key local elections.

14. Asian countries that are part of the global manufacturing chain, including Korea, Taiwan, and Japan will benefit if global growth remains strong. As a commodity producer, Indonesia will also do well. In addition, its large size and improving policy and business environment means that domestic demand will remain a major contributor to growth.

15. So overall, the global economic outlook for 2011 looks better than the last few years. The US looks like it will finally experience robust, above trend growth. Europe, notwithstanding its debt overhang, could grow although more modestly. Asia and other important emerging economies will grow strongly but will begin to slow down to a more sustainable growth path.

Economic and Political Problems

16. There are five economic and political problems which could derail this relatively rosy outlook. First, US unemployment is likely to remain high even though if there are signs that the labour market is improving. It could be several years before the US unemployment rate returns to a more normal level.

17. In the short-term, a period of stronger job creation is needed for the recovery to be sustainable. Over the medium-term, high unemployment has serious social and political consequences. It could lead, for example, to insular or protectionist policies.

18. Second, the US housing sector remains weak and could be a risk to sustainable growth. The size of the foreclosure pipeline and the supply overhang in certain markets are of concern. A fall in housing prices of more than 15% could cause consumer confidence to collapse with adverse consequences on growth.

19. Third, inflation is becoming a risk for many developing economies especially those in Asia and Latin America. These economies experienced strong recoveries in 2010 but fiscal and monetary policies have remained accommodative. Policymakers have been reluctant to tighten too soon lest the recovery in the US proves short-lived. This, however, increases the risk that policymakers will be behind the curve especially if US growth were to be strong. The recent rise in food and commodity prices adds to this risk.

20. Inflation is not an immediate threat in the US but it may become an issue in the coming years, given the extremely loose monetary policy and the bias to remain accommodative until employment is clearly on the mend. With the amount of money that is being pumped into the US economy and the very large budget deficits, there is a risk that investors could eventually lose confidence in the US assets and the dollar.

21. Fourth and relatedly, excessive global liquidity could fuel asset price bubbles and plant the seeds of a sharp boom/bust cycle. Real estate values in many countries in Asia have already hit or surpassed their historical peaks. Equity markets have pulled back somewhat but remain elevated. Even in the US, a strong recovery this year, say a 20-30% rise in the S&P, would increase the probability of a more painful adjustment down the road.

22. Finally, geopolitical and global policy risk is higher, and perhaps more unpredictable, than it has been for some time. In the Middle East, the ouster of President Mubarak in Egypt was unexpected. Demonstrations have emerged elsewhere in the Arab world.

23. The momentum of popular uprising could continue for some time, raising the risk of political disruption in oil rich states or states that control key shipping routes like Algeria, Bahrain, Libya and Yemen. The risk premium in oil prices and volatility in oil markets could thus continue to be high.

24. More generally, with economies growing at different speeds, and continued imbalances among countries, policymakers will need to work hard and co-operate closely to avoid conflict over trade, monetary policies, exchange rates and capital flows.

Medium-Term Challenges for the US

25. Let me now turn to the medium-term outlook. A major change in the post-crisis environment is the increasing importance of the emerging economies, anchored by Brazil, Russia, India, and China; widely known as the BRICs.

26. The Global Financial Crisis seems to have given impetus to those who forecast that the West will decline with the rise of China and other emerging markets. This is an extreme view. Some rebalancing in economic power will happen; and

indeed is a good thing. But the US will remain a global power, and more importantly a leader in terms of ideas, technology and the depth and liquidity of its financial markets. With these strengths, America is likely to remain the single most important source of global prosperity for many years to come.

27. These are not just words. More than a third of GIC's investments are in the US. GIC has offices across the US employing more than a hundred professionals. Despite the shift in economic power, and GIC's desire to take advantage of opportunities in the emerging world, the US will continue to be a prime destination for GIC's investments for years to come.

28. Of course, the US faces some daunting medium to longer-term challenges.

29. First, there is America's growing public indebtedness. Government debt is burgeoning and persistent current account deficits have led to growing indebtedness to foreigners.

30. The recent recession and the rising costs of health care and entitlement programs such as Social Security, along with the rising cost of servicing the debt, will claim large shares of future revenue.

31. Aging and deteriorating infrastructure require large investment outlays, which would put further pressure on government finances. While a Greek-like debt crisis is unlikely to happen in the US, the cost of servicing such debts could have negative consequences for the long-term health of the US economy. Longer-term fiscal sustainability will require difficult reforms of entitlements. These are complex issues and a quick fix is unlikely. Solving these problems will require bipartisan cooperation.

32. However, with determined and farsighted leadership, there is no reason why America cannot surmount these problems as it has done in the past.

33. Second, America needs a well-educated labour force but its education system, particularly K-12 and the bulk of the primary and secondary schools, are not training students for the new knowledge economy. This is not to say that the US is not able to compete: the US spends twice as much on higher education than the major OECD countries, American universities top world-ranking tables, Americans publish more scientific papers and win more Nobel prizes.

34. The US system sets the global standard, but there are parts of the US education system that lag badly behind the rest of the world.

35. Finally, I worry that the US is becoming increasingly insular. With its current levels of immigration, the US is one of the few developed countries that may avoid demographic decline and keep its share of the world population, but this could change if xenophobia, concerns over jobs, or reactions to terrorism closes its borders. Against these challenges are America's deep and enduring strengths: openness, innovativeness and entrepreneurship.

36. If the US remains open, immigration would be one of its strengths. In contrast to other developed countries, immigration will dampen the expected aging of populations and keep the US as the third most populous country in the world decades from now. Equally important are the benefits of immigration for America's soft power. Attracted by the upward mobility of American immigrants, people want to come to the US. America has the great advantage of being able to attract the

brightest and most energetic young people from around the world and give them the opportunity to thrive in America's open and vibrant economy and society.

37. The US remains an innovative and competitive economy. The World Economic Forum has ranked the US fourth (after Switzerland, Sweden, and Singapore) in global economic competitiveness. The US economy leads in many new growth sectors, such as information technology, biotechnology, and nanotechnology. The US also has seen significant innovation in "old world" sectors like agriculture and manufacturing. Its openness to globalization, if it continues, will also drive productivity improvements.

38. The results are impressive. The US is still a leader in R&D spending among the large countries, while American inventors registered more patents than the rest of the world combined. US venture capital firms invest 70 percent of their money in domestic start-ups. A 2010 survey by the Global Entrepreneurship Monitor ranked the US ahead of other countries in opportunities for entrepreneurship because it has a favourable business culture, the most mature venture capital industry, close relations between universities and industry, and an open immigration policy.

39. Innovation has also driven American companies abroad to take advantage of the growth in emerging market economies. In doing so, America's openness, innovative and entrepreneurial zeal have again been enduring sources of strength.

Conclusion

40. In summary, the economic outlook for 2011 looks better than in recent years.

41. Problems and challenges remain both in the short as well as over the longer-term but I believe that America has enduring strengths which will revitalise the US economy and throw up many opportunities for profitable investments.

42. The US remains a prime destination for GIC's investments. With the US open and receptive attitude to foreign investments, GIC will continue to invest in America.

For more information, please contact:

Ms Jennifer Lewis
Head, Corporate Affairs & Communications
Tel: (65) 6889 8383
H/P: (65) 9826 6198
E-mail: jenniferlewis@gic.com.sg