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**REMARKS BY DR TONY TAN KENG YAM, DEPUTY CHAIRMAN AND EXECUTIVE DIRECTOR, GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION AT THE APEC CEO SUMMIT PANEL DISCUSSION ON “THE ROLE OF SOVEREIGN WEALTH FUNDS IN RE-BUILDING THE GLOBAL ECONOMY” ON 14<sup>TH</sup> NOVEMBER 2009 AT 2.30PM**

1. Let me first thank you Mr Heng and the organizers for inviting me to speak this afternoon.
2. Before addressing the question of how SWFs can help with the rebuilding of the global economy, it would be useful to set the context by discussing the outlook for the global economy.
3. I will then discuss how SWFs can play a constructive role in the recovery process.
4. I begin with the short-term economic outlook. We appear to have avoided a global depression and are now in a global recovery. The global recovery will likely extend into 2010 and be stronger in countries which are unleveraged particularly in Asia and parts of Latin America. In the short-term, the bounce could surprise on the upside.
5. Beyond this short-term recovery, however, my sense is that the global economic and financial environment has changed in at least 3 significant ways which will increase uncertainty and potential for volatility.
6. First, economic activity in major over-leveraged developed countries, especially consumption in the US and the UK, will likely not recover as robustly as in normal recessions. It could take several years for these economies to fully recover from the crisis, and they will emerge with much higher and more worrying public debt levels.
7. Second, economic growth will be distributed unevenly with key emerging economies outperforming their developed counterparts. On the positive side, an emerging middle class in the developing world will demand new products and services. But EM performance will also differ. Economies with larger domestic markets and more market oriented and consistent policies such as China, Brazil, and India, will be better placed to grow than others. And there will be challenges: over time the rise of EM especially China, India, and Russia could, together with competition for limited natural resources, lead to higher geopolitical risks.
8. Third, I expect higher stagnation risk in the medium-term to be followed by higher inflation risk after that. Over the next 1-3 years, weak growth and excess capacity will be strongly disinflationary. However, beyond that, over the next 5-10 years, policy errors or political pressure could lead central banks to accommodate higher inflation. In addition, robust EM growth could put huge pressure on natural resources and the environment.

9. All of this is happening in the context of ageing populations especially in the developed countries which would dampen growth, savings, and put pressure on public finances which have deteriorated severely as a result of the crisis.
10. In short, over the next decade it looks like economic, political, and market risks are going to be higher than the last 20 years before this crisis.
11. What does this mean for SWFs? I see three important roles for SWFs.
12. First, SWFs are investors who have a long-term horizon and in the wake of the consolidation of the global financial system will become important suppliers of global capital.
13. Second, SWFs are stakeholders with a strong interest in ensuring the global economy and financial system recovers and grows in a vigorous and sustainable manner. SWF can thus provide credible insights and analysis of developments in financial markets and economies, particularly on issues concerning the restructuring of the global financial architecture.
14. Third, SWFs want to be responsible market participants and are not out to make quick returns by cutting corners or seeking to contravene legal and regulatory regulations.
15. Let me elaborate. As a reputable investor, GIC interacts regularly with policymakers and regulators. These include those in the developed world such as the US Administration and Fed and those in the developing world such as central bankers in Asia. We hope that these views can help to shape policies that lead to better outcomes. From time to time, GIC has also shared our views with a broader audience as our contribution to wider understanding of the economic and financial issues which affect the world economy. Since the future economic environment is likely to be riskier, there is likely to be a premium on good analysis and advice, including from SWFs.
16. The future environment will also to put a premium on investors who are able to look beyond quarterly or even shorter-term performance and remain committed over a longer horizon. This contributes significantly to sound global markets and financial stability. The continued rise of emerging markets will need massive capital and investments in infrastructure. This will create tremendous opportunities for SWFs. Even the problems of an ageing population and climate change require substantial investments, some of which could be financed by SWFs.
17. But SWFs do not just provide capital. For instance, GIC via our private equity investments, partners with experts who provide managerial and other skills to companies. This could be in distressed assets, restructuring, and workouts situations or in emerging markets where companies are growing but talent is thin.
18. Finally, it is in GIC's long term interests to uphold the highest ethical and professional standards to ensure that capital markets function well. This is particularly important as the crisis has damaged the reputation of the financial industry – banks, hedge funds, investment managers, and investment banks.
19. Here I would like to emphasize the importance of keeping global capital markets open. If governments closed their capital markets to SWFs, recipient countries will face higher capital costs while SWFs will see their opportunity set decrease.
20. To conclude, SWFs can play a constructive role in the global recovery as they are long-term, commercially oriented suppliers of capital. But to do so effectively, capital markets will need to be open.

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