Singapore's Financial Services Sector :

The Road Ahead

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by

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Executive Summary

The history of Singapore's financial sector can be traced back to as early as in 1958 when ABN Amro became the first foreign bank to set up its operation on the island. While banking activities remained largely concentrated within the European and Chinese communities, these funds were principally used for financing trade and building its infrastructure and construction projects. This purpose was being fulfilled well into the 1970s as Singapore set to attract foreign investors to inject the much needed funds into building its manufacturing base. While Singapore and much of Asia were still manufacturing economies in the 1970s, the more developed economies like London and New York were already gaining a head start in nurturing their financial services sector.

By the late 1980s, Singapore had become a robust city state, playing host to some of the world's biggest organizations and multinational corporations. Its manufacturing and commerce sectors were reaching their peaks and along with it, financial services grew to become a substantial portion of the country's GDP. By then, it was evident that the financial sector was no longer merely a supporting arm but a key industry of the nation, contributing significantly to the economy and having a life of its own. Yet, as compared to the major economic powerhouses such as U.K., U.S. and Japan, Singapore stood miserably in terms of sophistication in technology and human talent. However, there was a huge risk involved in developing Singapore's financial sector as it meant allocating resources away from other sectors into one whose future was so uncertain.

The plan to promote Singapore as a financial sector was executed nevertheless, but under the heavy handed and well-organized direction of the Monetary Authority of Singapore (MAS). Hong Kong was also developing its financial sector at the same time

but under a laissez faire system, thus leaving no exemplary economy for Singapore to follow. Throughout the years, Singapore's banking and financial sector grew from providing basic and standard services, to sophisticated, technology-driven, innovative offerings. As a result, the financial services sector developed simultaneously with the growth of the Asian Currency Unit (ACU), the Asian Dollar Bond (ADB) market and the Singapore Dollar Corporate Bond (SDCB) market.

Having attained the status as a significant financial center in the 21st century, it is of utmost importance that Singapore chooses the right path to undertake henceforth to ensure its continued success. The organization of this paper is as follows - Part (I) will discuss the trends of globalization in the worldwide financial community and its effects on Singapore; Part (II) will provide an assessment of the strength of Singapore's financial services; Part (III) will analyze the role which the country should undertake henceforth both as a regional and international player; and lastly, Part (IV) will give the conclusions.

Part I: Trend of Globalization in Singapore's Financial Services Industry

Like most East Asian economies, Singapore is too small to affect worldwide trends. Although a small player in the global network, it is an important financial center in the Asian region. Common effects of globalization (comprising increased advanced technology standards, merging legal frameworks, global security, multilateral competition for resources and the conflicting needs of offering customized services and products of international standards) remain the critical issues to be resolved by Singapore to ensure the continued relevance of the tiny market to the world.

To address these issues, Singapore has adhered to the international calling of opening up its local financial markets by embarking on a series of liberalization measures in the late 1990s. The bold move to free up its financial services sector had been led by the current Monetary Authority of Singapore (MAS) Chairman and Deputy Prime Minister Lee Hsien Loong. Despite the Asian financial crisis, Singapore made major changes to its banking sector, stock and debt market, fund management industry and even to its insurance industry (Lee, 2000). Particularly note worthy is the increased liberalization of the Singapore dollar since August 1998. For decades, Singapore has been restricting the use of its currency by imposing various kinds of restrictions. Broadly speaking, MAS pursued a policy of non-internationalization of the dollar by controlling bank lending in Singapore dollars and trading of dollar-denominated instruments and derivatives. Such restrictive measures had impeded its financial sector from realizing the full potential as bankers and traders could not freely offer innovative services and products to clients. As a result, an illiquid domestic bond and securities market remains up till today.

The local banking sector also suffered from under-creativity as a consequence of the well-insulated environment they were in until Citibank, Standard Chartered and other international players slowly permeated the domestic market, forcing local banks to merge and start focusing on quality and innovation. However, the entry of more foreign banks into Singapore does not imply that its financial market has been totally liberalized. Local entities are still given preferential treatment in certain areas. One example involves the treatment of foreign banks holding restricted licenses which can only accept deposits that are S$250,000 and above. This effectively seals off the average Singaporean's option of

opening a savings account with such foreign banks. As a result, the bulk of the domestic funds (non-bank clients) are deposited in local banks. Another example of the unleveled playing field in the banking sector is the discrimination against foreign Qualifying Full Banks (QFBs) which was created in October 1999. QFBs were given to foreign banks to allow them to open more ATMs and branches. Technically, foreign banks with QFB licenses should be permitted to operate like fully licensed local banks. However, the six foreign banks that were awarded QFB licenses in recent years were constraint by the number of ATMs and branches they could operate. By tying their hands, it disarms their ability to compete in the equity market as some 95% of applications for IPOs are done using the ATM (Institute of International Economics, 2001).

Partially liberalizing the financial sector is just one consequence of globalization. However, there seems to be another trend that affects countries worldwide: the development of a few mega international financial centers, with a concentration of smaller, specialized ones offering complementary services in its physical proximity (Lee, 2001). There are currently two exemplary clusters: one in Europe and the other in the U.S.. In the former, London plays the role of Europe's mega financial center, offering a full range of financial services while Zurich offers specialized services in private banking and Frankfurt, in derivatives trading. A similar concentration can be found in the U.S. where New York is the center, complemented by Boston in asset management and Chicago in futures trading. In Asia, Tokyo has the potential of becoming the main center, supported by Hong Kong and Singapore.

Basing on the above, it would appear that a clustering trend is an antithesis of globalization. However, this is not so as the trend does not just end there; clusters that

form in almost every major continent in the world are linked via the nodes (main financial centers). That is to say, each node possesses important data on the complementary units around them and this information is then shared by the entire world via the internet. This is possible because of the employment of sophisticated technology and real-time data transmission that links the world's important financial centers together. The roles played by a cluster's node and its complementary units differ and hence cooperation and synchronization are essential elements for its success. Comparatively, Asia's cluster is not as well defined as that of Europe and the U.S.. In fact, Japan's ailing financial sector may soon lose its appeal to investors. The rise of China and its attractive domestic market may well dictate a change in the regional and international financial landscape. Moreover, most Asian nations are separated by water and its vast area may require more regional segregations than any other continent in the world. Singapore, being in the Southeast Asian region may be geographically too far from Japan, or even China, to act as an efficient complementary unit. Hence, the Asian financial landscape is yet to be determined and it is in this era of change that Singapore should reexamine its position both as a regional and international player.

This paper therefore aims to provide an insight into the competitiveness of Singapore's financial services sector and analyze the appropriate role it should undertake, as either an Asian unit or a Southeast Asian node or unit.

Part II: Assessing Singapore's Financial Services Sector

First Tier-Factors

To assess the competitiveness of Singapore's financial services sector, a two-tier test will be applied. The first tier, which is the basic level, can be divided into two categories:

capital resource and human resource. The capital resource category can be further sub-divided into two parts: the quality of basic infrastructure in the country and the level of technology standards. The first tier thus includes the characteristics deemed necessary for any country to be ***part of*** an internationalized network. However, we will take one step further by comparing how Singapore has been faring in these areas vis-à-vis international[1], regional[2] players. A higher score will increase Singapore's potential of becoming a prominent player in financial services whereas the opposite would be true if it scored poorly.

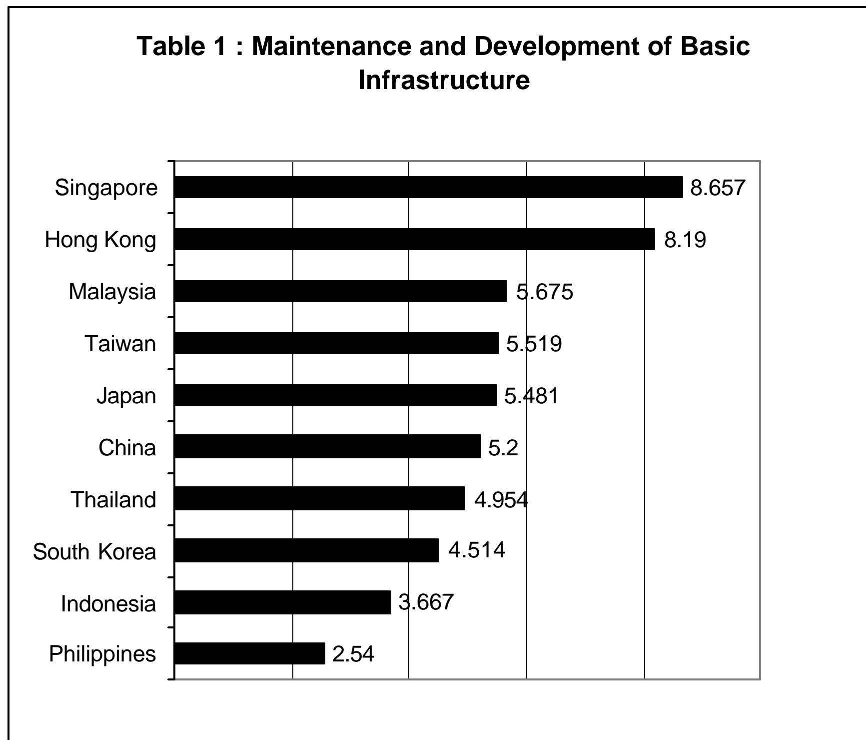
Capital Resources

Quality of Basic Infrastructure in Communication

In the financial market, it is crucial that investors and bankers can rely on uninterrupted communication services as it is a matter of seconds where one can becomes a winner or a loser. In this aspect, Singapore's basic infrastructure maintenance and development has been consistently ranked top in the world by the World Competitiveness Report (2001), which cites its adequate planning and infrastructure. In the regional ranking (See **Table 1**), Singapore (1st) and Hong Kong (2nd) lead the polls, with almost double the amount spent on infrastructure compared to Thailand (7th) and South Korea (8th). According to the World Competitiveness Report (2001), some developing nations are ranked ahead of developed ones under this category. This is probably due to the fact that infrastructure resource in developing countries are still in the building up process whereas developed nations have already reached saturation points and thus, face lesser needs for financing

[1] International players would include 49 countries that were studied upon by The International Institute for Management Development (IMD) in The World Competitiveness Yearbook (2001)
[2] Regional players include East and Southeast Asian nations, namely – Japan, Hong Kong, China, Taiwan, South Korea, Malaysia, Indonesia and Thailand where statistics are concerned.

infrastructure projects. However, Singapore, which is a developed nation pumps in a large amount of funds to maintain and continuously improve its infrastructure, signaling its pro-business intentions.

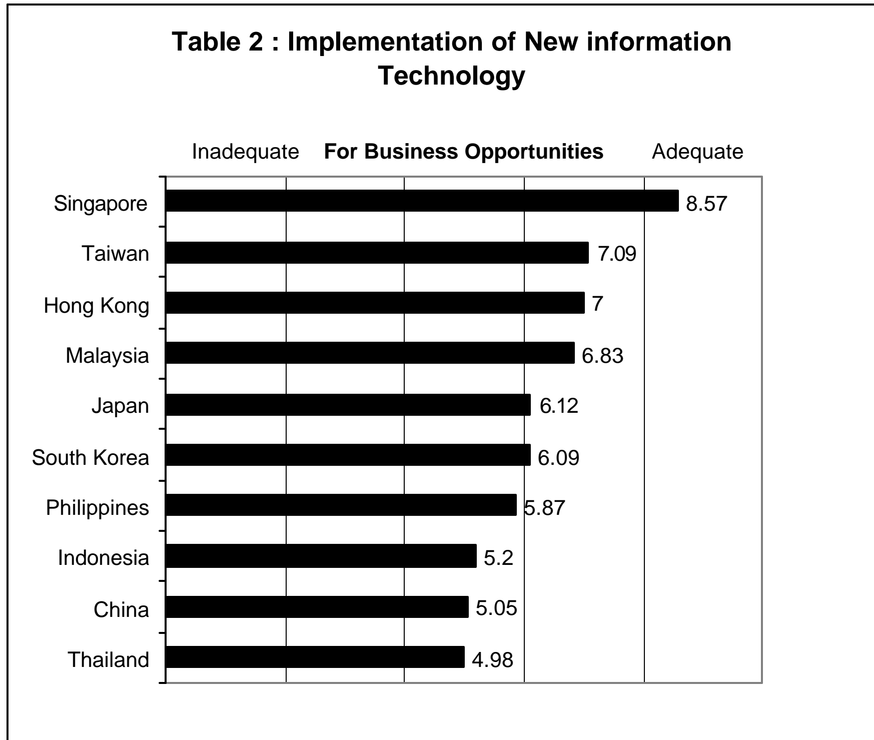


Source: *The World Competitiveness Yearbook* (2001).

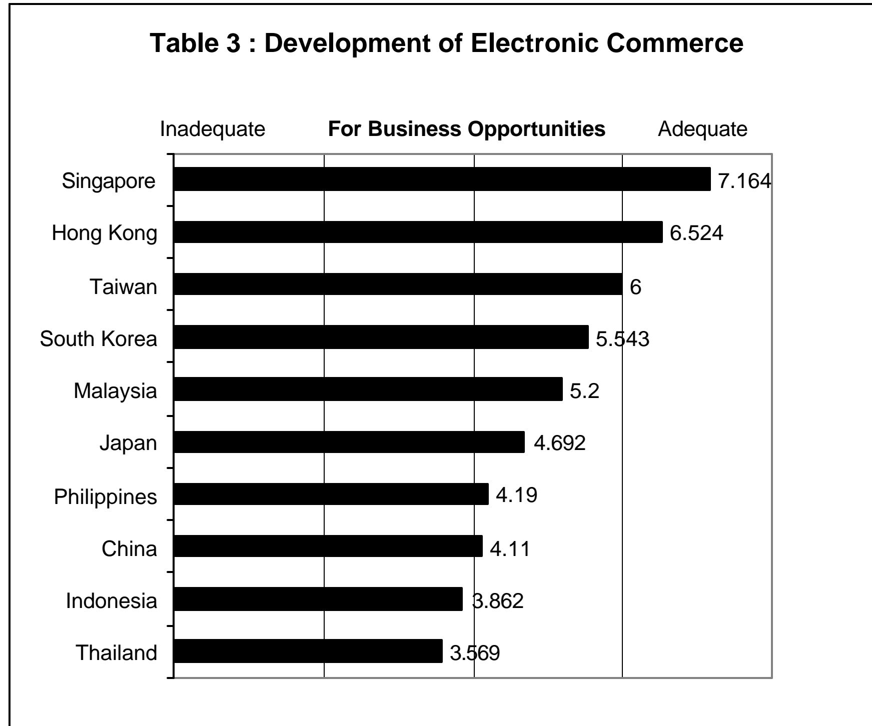
Level of Technology Standards

Before the 1990s, financial services sector was very much a human-related profession. Today, it still remains so but to a lesser extent as self-automated machines and interactive javascript programs dominate the client side. Singapore, though, is not a leader in technological breakthroughs, keeps up with global standards to provide investors with up-to-date modern applications. Singapore was ranked 4th in the world for adequately implementing new information technology that meets business requirements and 5th in its development of electronic commerce (World Competitiveness Report, 2001). In the regional ranking, Singapore ranks first in both areas (Tables 2 and 3), with Hong Kong

and Taiwan following closely behind. However, to become a leading financial center, it is crucial for a country to set new standards, not just simply follow.



Source: *The World Competitiveness Yearbook* (2001).



Source: *The World Competitiveness Yearbook* (2001).

Along with this development is the issue on security over the internet; problems faced by financial markets worldwide today include having their database hacked into and clients' online transaction details being intercepted. For sophisticated investors transacting in millions of dollars, privacy is of utmost importance. If such investors lose faith in Singapore's security standards, it will hamper the inflow of precious capital. This is one area where Singapore must try to work on by designing fool-proof security systems and promote this ability to the world, thus instilling confidence in high net worth investors.

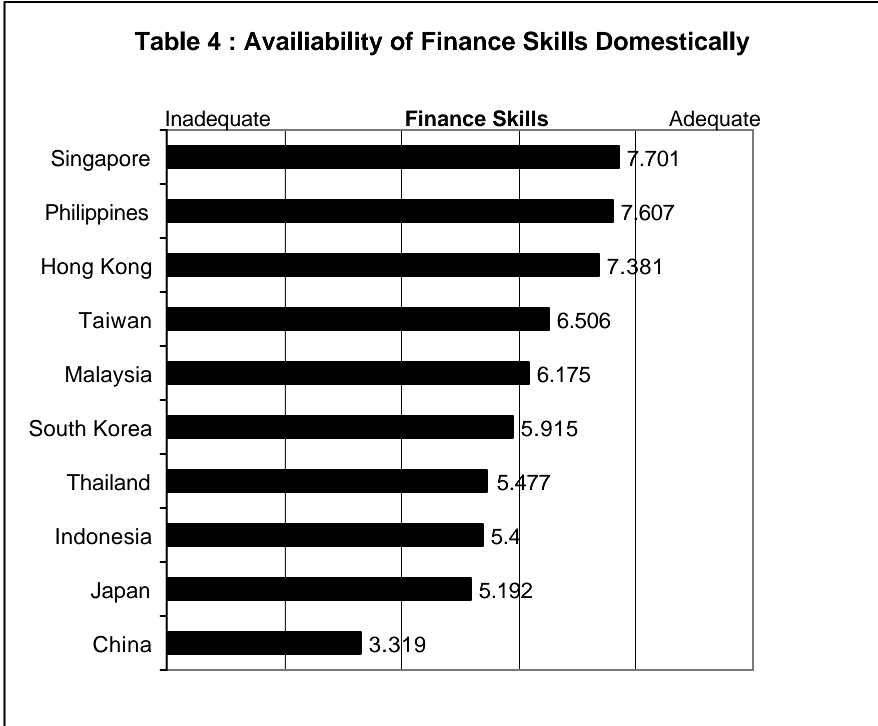
Human Resources

Availability of Local Pool of Trained Finance Professionals

A financial center must have enough trained finance professionals within the country to sustain domestic activities without relying exclusively on foreign talents. This is because

if it does not have a critical mass of local talents in providing financial services, in technical terms it simply shows that it does not have a competitive advantage in it. Foreign talents tend to be footloose and may not have a genuine interest for the host country.

Every year in Singapore, over 3,000 fresh university and polytechnic graduates trained in finance enter the workforce. As a result, Singapore is ranked above the U.S., U.K. and Japan in terms of availability of finance skills domestically (World Competitiveness Report (2001)) and ahead of Hong Kong regionally (Table 4). Yet, expatriates employed as managers in finance and banking constitute 36.2% and in insurance, 12.5% (Low, 2001). Looking at these statistics, one might question whether Singapore has been producing and trained the right kind of professionals in this field. Indeed, a deeper analysis shows that domestic managers are less competent than international managers. By world standards, Singapore financial managers were considered much less competent than international managers, as it ranks almost at the 50th percentile at the 23rd position (World Competitiveness Report (2001)). In the region, its managers were ranked after those from Hong Kong and the Philippines (Table 5). This feature is further supported by the fact that majority of its foreign talents hold senior managerial positions in both local and foreign banks (Low, 2001). Intuitively, this reflects Singapore's limited capability in producing world-class finance-trained professionals and its inevitable reliance on foreign talents.



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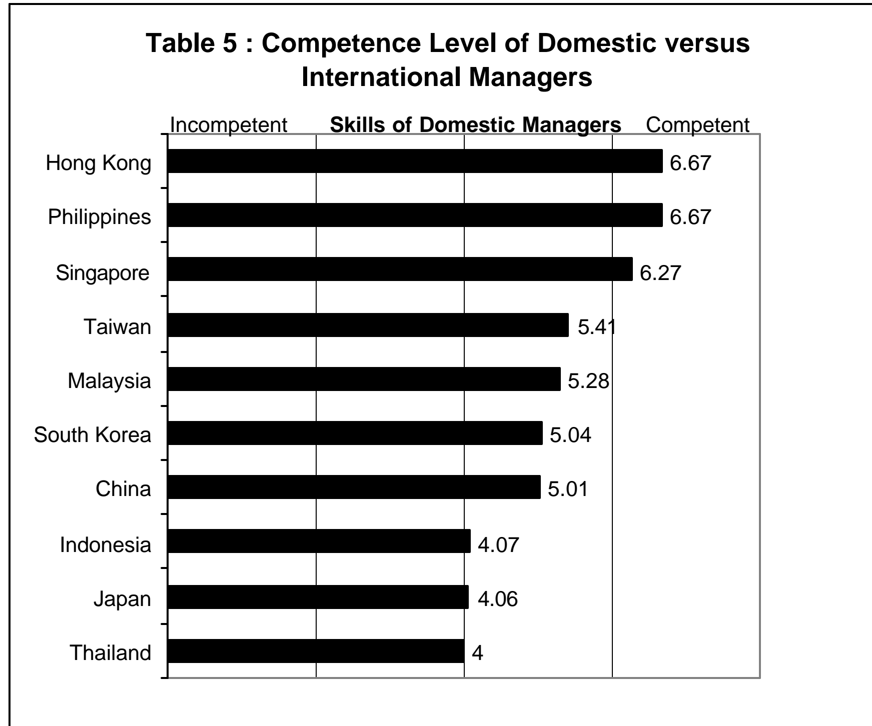


Source: *The World Competitiveness Yearbook* (2001)

Second-tier Factors

First-tier factors can be easily and artificially created by other players given the right policies and resources. It is only a matter of time before other emerging economies such as Malaysia and Thailand catch up with Singapore's standards, thus eroding the island-state's competitiveness. Hence, second-tier factors, or advanced factors, are essential for a country to become a ***key player in a financial cluster***, either as a node or a complementary unit. Second-tier factors include regulatory regime and inherent characteristics. Under regulatory regime, we will examine transparency in information dissemination and accessibility of the local market. Inherent characteristics are the features of the economy that cannot be changed using artificial means. In Singapore's

case, the limited size of its domestic market is an inherent characteristic which can impede the long-term growth of its financial services sector.

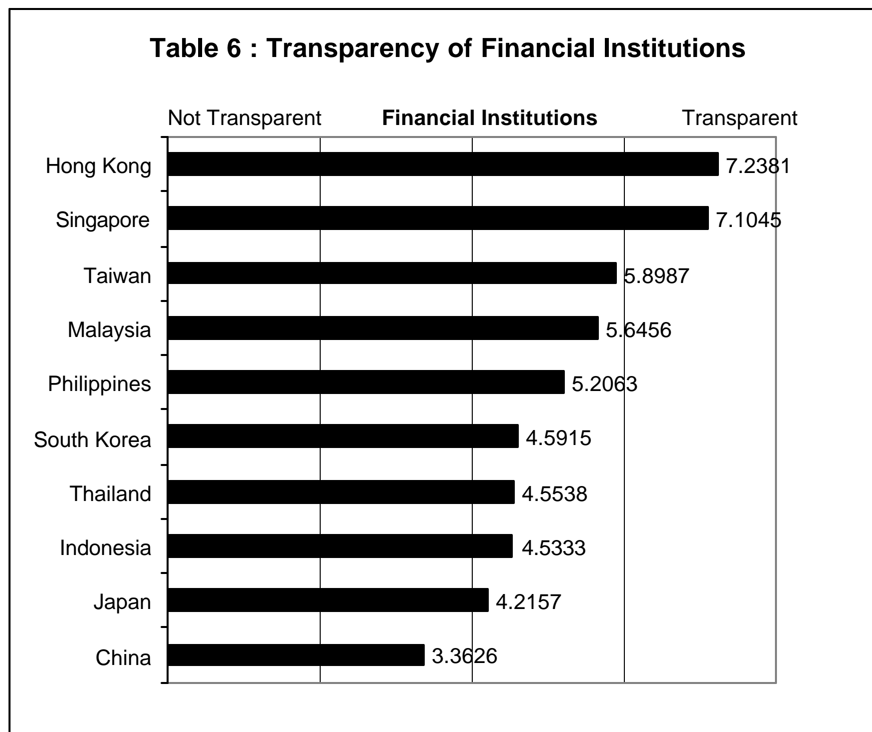
Regulatory Regime

Transparency in Financial Institutions

It has often been argued that the 1997 Asian financial crisis was partly caused by the lack of transparency in Asian financial institutions which resulted in imprudent bank lending, cronyism gone uncheck and finally, the collapse of the asset bubble (Brownbridge and Kirkpatrick, 1999). As a result, the crisis has led the International Monetary Fund (IMF) to force the borrowing countries such as Indonesia to reform their financial sector by incorporating more transparency and corporate governance into their systems.

Although Singapore managed the crisis relatively unscathed, it should not overlook the fact that more can be done to improve its information dissemination system. By regional standards, Singapore ranks second to Hong Kong in terms of providing adequate information on the activities of its financial institutions to the public (Table 6). However, by world standards, both countries fair poorly with Singapore at the 14th and Hong Kong at the 12th position (World Competitiveness Report (2001)). This may seem at odd with the fact that corruption is almost non-existent both economies. In fact, Singapore is the least corrupted country in Asia and the 5th least corrupted in the world according to the World Economic Forum (Singapore Investment Climate Report (2001)). There is usually a high correlation between the integrity of a country's government and the transparency of its financial institutions. However, such an assumption may not fit into Singapore's case. Corruption is not a problem in Singapore for two reasons. One is that anti-corrupt measures are well embedded in its legal systems. Second, its senior and

middle ranking managers and civil servants are well-paid. However, there are many issues that are not transparent, nor clearly-defined, in laws governing Singapore's financial markets and these are not driven by incentives to corrupt. A popular way of describing the situation in Hong Kong and Singapore would be: "What is not expressly prohibited in Hong Kong is permitted, but what is not expressly permitted in Singapore is prohibited". Hence, it is simply the overly restricted way of governing that makes its financial markets and institutions less transparent as compared to Hong Kong's. This makes it more difficult for foreign players who might be unfamiliar with the market to comprehend some issues that may be vastly different from what they expect by international standards.



Source: *The World Competitiveness Yearbook* (2001).

Accessibility of the Local Market: Fair Play for All?

For a small financial center like Singapore to survive in a highly competitive world, it must keep up with the global standards to attract adequate participants. Hence, for it to do so and become a truly internationalized financial economy, Singapore must create a level playing field for all players and allow equal opportunities for both foreign and local investors. From an investor's perspective, an economy that is not bias towards local entities would definitely be more desirable.

However, with the knowledge that fair play is the key to staying competitive, Singapore's financial liberalization policies are still lagging behind many other nations. According to the World Competitiveness Yearbook (2001), Singapore ranked poorly among the 49 countries in areas that concerned liberalization policies. For instance, in terms of foreign financial institutions gaining fair access to the local market, Singapore ranked 42nd, just seven positions away from the bottom. Conversely, while Singapore investors had relatively fair access to overseas markets (16th), it was the reverse for foreign investors entering the local capital markets (32nd). In addition, Singapore's legal framework was viewed as giving unfair treatment to foreign companies. Lastly, foreigners faced limitations when acquiring control of domestic companies, making Singapore (23rd) rank far behind Hong Kong (4th) in this aspect.

Inherent Characteristics

Small Domestic Market

The second-tier factors include the inherent features of the Singapore economy that cannot be changed by any means. An example in Singapore's case is its small domestic market that may act as an impediment to its functioning as an important financial center.

Many critics may counter-argue that size does not matter when it comes to financial activities as long as the country has enough wealth. However, what is often overlooked is that domestic size is crucial in creating depth in the financial market, particularly the equity market. This is evident from Table 7 which shows that nations with large populations typically experience higher volatility in their stock markets[3]. Also, a certain population threshold (especially the working class) must be maintained so that savings can be accumulated and funds can be re-channelled through financial intermediaries. This is one possible reason why a large number of banks and financial institutions are eager to establish their presence in China despite the fact that they are currently making losses and that GDP per capita in that country is still relatively low. They simply believe that as China ascends from developing to developed nation status, the purchasing power of its 1.3 billion people will be able to sustain a profitable domestic activity. This is in contrast to Singapore's limited domestic capacity which may have reached saturation in the number of suppliers of financial services it can take. This is further worsened by the fact that foreign entities are restricted from participating freely in many areas, thus further limiting the number of participants in the country and narrowing the growth opportunities in the financial services industry.

[3] Higher volatility in the stock market does not necessarily mean that the stock market is more efficient but in this context, we say that it has more depth because there are more players.

Source: *The World Competitiveness Yearbook* (2001).

Overall Result on Singapore's Competitiveness

In terms of basic capital and human resource development and availability, Singapore seems to have achieved the same standards as major players such as the U.S., U.K. and Japan. In some cases, its standards are even higher. However, given the rising costs of doing business in the country, especially in labour cost which constitutes a large proportion of costs in financial services, it is possible that Singapore might lose its competitiveness to some countries in the region. Another area of concern with regards to labour would be the incompetence of local finance managers by international standards. The only way to justify rising costs of Singaporean workers would be to ensure higher quality and efficiency and this certainly translates to a review into its education system.

As for issues regarding regulatory transparency and accessibility to local markets, Singapore has scored poorly in both. Indeed, while the country does not view globalization apprehensively, some of the policies imposed by its regulators seem to provide a different signal to the market.

Although local authorities justify the slow pace which they take in liberalizing the financial sector with reasons such as the need to ensure a fine balance between internationalizing and stabilizing the domestic market, it should also realize the dangers of responding too slowly to global changes for a small country like Singapore. In fact, for every extra day they take, time is wasted as other emerging markets are advancing at a faster rate. This might seriously erode Singapore's advantage of having an early head start in the region.

More fundamentally, Singapore faces an unalterable constraint in its limited domestic market. Therefore, before local financial services providers lose all innovation and drive to compete, the MAS should lift restrictions on foreign entities that are counter-productive to the growth of the sector and encourage a healthy competition amongst local and foreign participants alike.

According to a study done by the Department of Statistics (Singapore), local firms outperformed foreign firms in the financial services sector in terms of ROE (Table 8) while the opposite was true in the manufacturing sector. However, this may not be an accurate reflection of the competitiveness of the foreign providers of financial services in Singapore as they face a number of restrictions in the domestic market. Moreover, 2000 had been a bad year for Singapore's external financial activities and it is from this market that foreign financial institutions derive most of their income. On the other hand, the

domestic market, which is dominated by local financial institutions, was less affected. Hence, this may have cushioned losses for local players while foreign banks suffered a fall in profitability. In contrast, there are generally no restrictions on foreign firms in Singapore's manufacturing sector. The fact that they were doing better than the local counterparts might simply reflect their superior performance. Hence, it is possible that if foreign players had been given equal access to local financial markets, local banks may lose their competitive edge to them. Although this may seem detrimental to local banks, it would definitely aid in nurturing a more vibrant and mature financial economy that is ruled by fair competition.

Table 8: ROE in Singapore's Corporate Sector (%)

	Locally-Controlled Companies		**Foreign-Controlled Companies**	
	1999	2000	1999	2000
Total	10.7	**11.4**	11.4	**14.9**
Financial Services	13.1	**13.2**	5	**8.5**
Non-Financial Services	8.7	**9.6**	15.2	**18.7**

Source: Department of Statistics (Singapore)

Part III: The Appropriate Role for Singapore

After assessing Singapore's strengths and weaknesses in its financial services industry, we now turn to assess the best course it should undertake in the regional and global arena.

In Asia, there are two possible roles that Singapore can undertake – one, to be a complementary unit to Tokyo or two, to form a Southeast Asian cluster and become its node.

Singapore as a Complementary Unit in the Asian Cluster

In recent years, Singapore has become a leading asset management center in the Asia-Pacific region. Efforts have been stepped up to encourage asset management activities to be based in the country especially after the 1997 Asian financial crisis. By the end of

2001, total funds managed out of Singapore amounted to some S$307 billion (Monetary Authority of Singapore, 2002) which is on par with that of Hong Kong.

Essentially, Singapore and Hong Kong, can both serve Tokyo which is the node of the Asian financial cluster, in asset management services. This role is likened to Boston's role in the U.S. However, there are many reasons why Singapore should not and cannot undertake such a position especially in the long run.

Location-wise, Singapore is located too far away from the so-called Asian cluster. Countries that can play a key role in this cluster are mostly the Northeast Asian nations, including China, Hong Kong, South Korea, Taiwan and Japan. At present, Singapore may be able to capture a large share of the asset management business because there are few Asian competitors in this field. However, this may not hold true in the future given the possibility for Shanghai or Seoul to imitate this function and erode Singapore's market share. If an asset management specialization unit were to emerge either in China or South Korea, *ceteris paribus*, investors from Japan, Europe and the U.S. are likely to patronize their services over Singapore's if they were to do business in East Asia. Hence, geographical dislocation is clearly a disadvantage to Singapore.

Singapore as a Node for a Southeast Asian Cluster

The next alternative that Singapore can take is to push for a Southeast Asian financial cluster, with the Republic becoming its node. The cluster may potentially include ASEAN members and maybe even India, New Zealand and Australia. However, for simplicity in this analysis, we will assume just ASEAN members here[4].

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[4] ASEAN members in qualitative analysis will include all 10 members. However, due to incomplete data sets, for quantitative analysis, the term ASEAN will only include Indonesia, Malaysia, Thailand, the Philippines and Singapore.

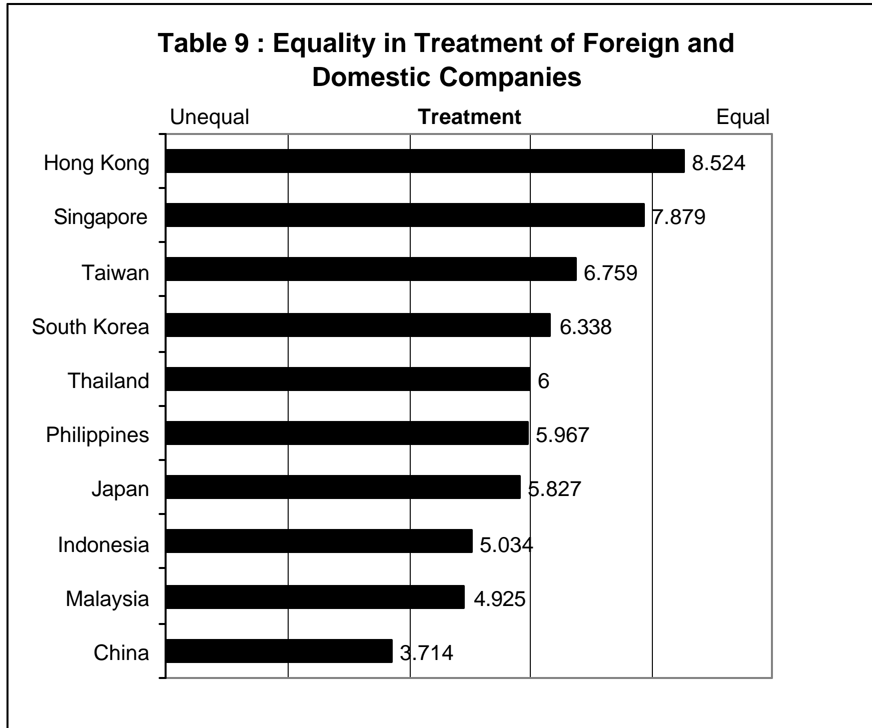
In many respects, forming a Southeast Asian cluster would make more geographical sense to Singapore. It would also be a good way for Southeast Asia as a whole to develop its financial strength especially in the aftermath of the 1997 Asian financial crisis that damaged the financial sector in some ASEAN countries. Singapore can assist its neighbours by imparting prudent financial management techniques and carrying out strategic discussions with country leaders regarding the short and long term architecture of the cluster. Besides, if Singapore is positioning itself as a complementary unit to East Asia, it may be missing out on opportunities closer to home. For Singapore to continue growing, it would have to depend on the growth and cooperation of its neighbours.

However, for this to be achieved, Singapore will have to overcome some difficulties. Firstly, the financial markets of Southeast Asian countries today are all at different stages of development. Up till the onset of the Asian financial crisis in 1997, most of the Southeast Asian economies had relatively open banking and capital markets. However, the aftermath of the crisis saw a reversal of policy initiatives undertaken by some countries such as the imposing of exchange and capital controls to counter the speculative attacks made on their currencies. While some Southeast Asian countries are shutting off its doors to the international market, Singapore has responded in the opposite way by opening up its financial markets and liberalizing the use of its currency. The policy path taken by the former can be considered a step backward in the region's efforts to integrate their financial markets.

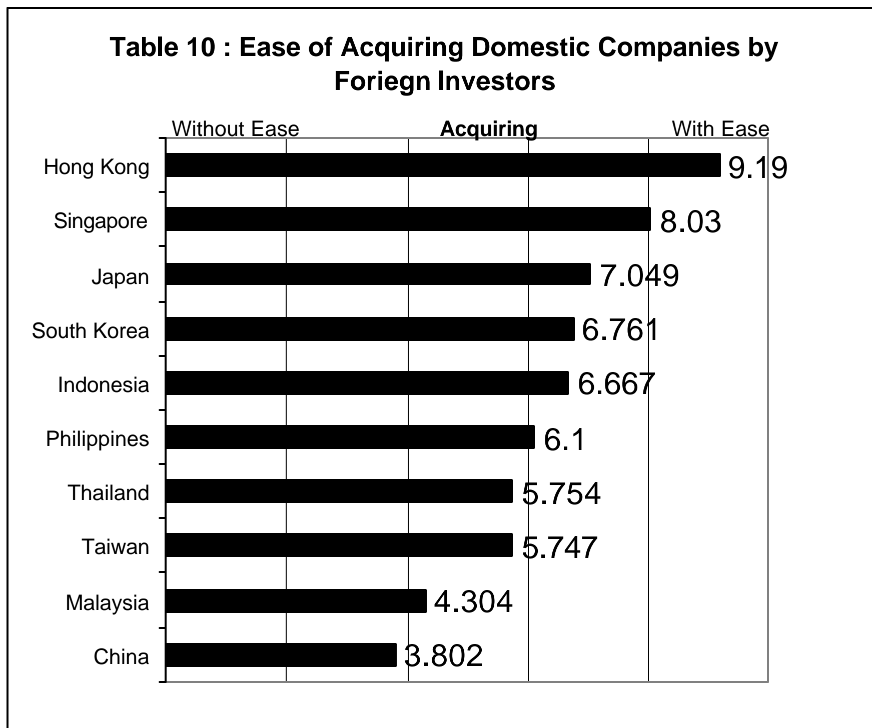
Secondly, almost all of ASEAN members are still manufacturing economies. To be sure, their competitive advantage lies in providing cheap, efficient, low-skilled labour

which is more relevant to the manufacturing sector than to the financial services sector. Hence, a call for financial cooperation may not interest them because the benefits that they can gain from it would not be as much as that derived from trade or production cooperation. For instance, developing their manufacturing industries may provide far more employment opportunities for them than if financial services were to be promoted, since it would probably benefit only a small section of the entire labour force. Similarly, with the lack of skilled finance professionals in most Southeast Asian countries (Table 4) and the equally incompetent managers they produce vis-à-vis international standards (Table 5e), they will have to rely on an even higher percentage of foreign talent than Singapore does. Hence, it is not surprising that these governments might question the need for greater financial cooperation especially since it would not bring much immediate benefits to the country.

The third, and probably the most strongest, reason why a Southeast Asian cluster would be difficult to realize is the protectionist nature of ASEAN governments towards its native companies. For instance, Malaysia practices favourtism towards its *bumiputra* companies, giving them special grants and concessions when doing business. It has been running its financial services sector in this manner for decades and it is deeply embedded in its economic culture. Besides Malaysia, Indonesia, Thailand and the Philippines also have heavily guarded domestic financial markets and are even more biased against foreign companies than in the case of Singapore (Tables 9, 10 and 11).



Source: *The World Competitiveness Yearbook* (2001)



Source: *The World Competitiveness Yearbook* (2001)

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It would probably take a decade or two for ASEAN nations to evolve from a manufacturing to a financial services economy and to open up its financial services sector. Until then, it would appear that the goal of financial cooperation among ASEAN nations will prove to be a difficult task. Currently, addressing the domestic problems will inevitably take precedence in a country's agenda. Regional matters such as cooperation in the finance area may be beyond the capacity of most countries, most notably the newly developing nations such as Vietnam.

The Northeast Asian cluster appears to be stronger than the Southeast Asian cluster. This is because the former has more financially sound economies such as Taiwan and South Korea and it has two members (Japan and Hong Kong) that have already achieved international standards in its financial services industry. In addition, they have

an advantage of physical proximity to a huge untapped market of China that the world is eyeing. On the other hand, Southeast Asia has a low economic base to start with, especially after having been badly hit by the Asian financial crisis. At present, in matters that concern even basic infrastructure and technology standards, by regional ranking, it is the Southeast Asian nations that fill up either the last or second last position. As for issues regarding second-tier factors such as openness of the financial economy, even Singapore, the undisputed leader for the cluster, fairs poorly.

It is doubtful whether a Southeast Asian cluster will be able to compete effectively against the Northeast Asian cluster, let alone the U.S. and the European clusters. It will take us a long time for the Southeast Asian cluster to attain the standard in the U.S. and Europe, if that is achievable. A more likely scenario is the ever-widening gap between the two different standards due to the exponentially accelerating advancement of technology and legal policies in the financial markets.

Part IV: Conclusions

The Singapore financial services sector has come a long way in its efforts to liberalize the financial markets and provide fair competition to the foreign institutions. If Singapore wishes to remain relevant to the world, it has no choice but to adhere to globalization. Given that it has one major inherent weakness – its tiny domestic market - it does not have the luxury to ignore what is going on regionally and globally. Hence, total liberalization of its financial services seems more like a necessity eventually. With regards to the appropriate regional role it should take on, each alternative has its pros and cons. It is recommended that it focuses on Southeast Asia, by pushing for greater

cooperation and ultimately regional integration of financial markets ***in conjunction*** to paying close attention to Northeast Asia and its developments, particularly to changes and opportunities in China. It should do this by providing support and assistance to its neighbours. Southeast Asian countries must also plan strategically and work towards their respective roles as complementary units. However, Singapore must be ready to overcome the numerous barriers to this goal and the first should be, to break the mental stigma that many ASEAN governments harbour about the unimportance of liberalizing their financial services sectors. Singapore should try to make clear to them that although the immediate payoffs from financial liberalization and cooperation may not be realized, the benefits can be large in the long term. It should also make them aware that delaying the development of this vital industry will only widen the technology gap between ASEAN and other developed nations. Hence, an early start will be good for all the ASEAN members.

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