

Challenges and opportunities for Asia's capital markets

Moderator's remarks at SFC Regional Securities Regulatory Leadership Symposium

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28 February 2024

Good afternoon, everyone. In the first panel, we will look at the big picture, and talk about economic and capital market developments, both global and regional.

As we speak here today, the world continues to face turbulence. Many have been talking about the sea change of a century for the global economy. Higher-for-longer interest rates, mounting geopolitical tensions and rising unilateralism have long become par for the course. Global trade fragmentation is causing supply-chain disruptions, diversification and shoring of all sorts — “onshoring”, “reshoring”, “backshoring”, “nearshoring”, “friendshoring”, and you name them. Here in Asia, there are both risks and opportunities amid this once-in-a-century change — we are very much at the epicentre of global economic and political volatilities.

The macro backdrop may be challenging, but the Asian growth story is still fully in play following decades of robust development. More fundamentally, the bulk of Asian nations has young demographics with an expanding working-class population, which supports consumption and investment growth. Asian economies have weathered the shocks from the pandemic and interest rate hikes quite well. Interest rates in the region did not go down to zero previously and, in most cases, were raised and lowered earlier than its US counterpart. This is evident in our swift post-COVID economic rebound.

Against the backdrop of strong economic fundamentals, Asian capital markets have come of age, propelled by capital and wealth creation. The rising middle class and technology boom help channel domestic savings into investments, which drives fast-growth, high-value-add industries and also boosts stock market performance. Liquidity and increased foreign and domestic private investments are driving corporate earnings higher, despite higher interest rates and inflationary pressure. And stock markets in turn support the real economy. This is the virtuous circle at play across this region.

Asia's more mature markets are topping regional and global league tables, while the developing ones are showing a lot of promise. Let us put this perspective in numbers:

- In terms of gross domestic product, three of the world's top-five economies are in Asia, including China, Japan and India.
- Asian equity markets entered 2024 on a high note. China, Japan, India and Hong Kong occupy four out of the top five positions in the global league table by market cap, following stellar performance of 20% or more in Japan and India's stock indices last year.

- In terms of IPO fundraising, stock exchanges in Shanghai, Shenzhen, India, Hong Kong, Tokyo, Indonesia and Korea raised a combined US\$70 billion a year, or 60% of last year's global total.
- Local currency bond issuance in ASEAN plus three during the first three quarters of 2023 amounted to some US\$8.6 trillion, exceeding issuance in the US (US\$6.2 trillion).
- In 2023, the Asia-Pacific region remained the dominant source of global capital, with Singapore, Hong Kong and Japan among the top five and accounting for nearly 40% of total cross-border capital flows.
- In addition, the IMF forecasts Asia to contribute about two-thirds of global growth in both 2023 and 2024.

So, you see what I am getting at: regional economies and financial markets are powering growth in global capital markets, channelling savings into investments within the region and to Europe and the US.

The opportunities are there but challenges as well. The world has shifted from unipolarity to multipolarity, especially in terms of economic power. Asia for one is vast and interconnected, involving the interests of diverse players. It is made for multipolarity, and has practised multipolarity for decades, as some say that the region is too big and diverse for hegemony. The multipolar world thesis is driving investment flows to many parts of Asia.

Clearly, Asia must be partnered with, not sidelined. Meaningful collaboration amongst Asian markets will play an important role, particularly in meeting a number of shared priorities to make the region's financial markets bigger, stronger and more resilient. These include:

- Broadening, deepening and further liberalising capital markets;
- Strengthening financial regulation to safeguard the financial resilience and investors' interest;
- Diversifying the investor base and promoting intra-region and cross-border investments;
- Embracing financial innovation; and
- Mobilising transition finance to meet net zero targets.

Collectively, Asian markets can become beneficiaries in a world of more managed globalisation, technological revolution, and sustainable development, and we can take centre stage amid global uncertainties.

This panel focuses on the rise of Asia's capital market, the why and the how, what comes next for the region's capital markets. So let us kick off the discussion.