# Gan Kim Yong: How private markets can underwrite Asia's growth story

Keynote speech by Mr Gan Kim Yong, Deputy Prime Minister and Minister for Trade and Industry, and Chairman of the Monetary Authority of Singapore, at the SuperReturn Asia Conference, Singapore, 25 September 2024.

* * *

Distinguished guests,

Ladies and gentlemen,

Good morning to all of you.

I am happy to join all of you here at the SuperReturn Asia conference.

a. Since its debut in Singapore in 2022, SuperReturn Asia has served as a valuable platform for private equity and venture capital professionals to network and discuss investment trends, strategies and opportunities.

b. The strong turnout today reflects the value of the event to our investors and fund managers.

One of the predominant themes across regional and global conferences is that of geopolitical tensions, especially between the US and China.

a. As they are the two largest economies of the world, accounting for about 40% of global GDP,

b. Their strategic rivalry has caused significant impact beyond both countries, especially on trade and investment.

## Asia – A Region of Opportunities

Despite such geo-economic tension, Asia – and in particular, ASEAN – remains a glowing, bright spot.

a. Against the backdrop of a 10% decline in global Foreign Direct Investment (FDI) flows, FDI flows to ASEAN held strong, and reached a high of US$230 billion in 2023.

b. FDI in financial activities was the highest contributor of inflows to ASEAN last year, increasing by 52% to US$92 billion. This was followed by US$51 billion of manufacturing investments, and US$21 billion of investments in professional, scientific and R&D activities.

c. The US was the single largest contributor, accounting for about one-third of the

FDI flows. China was third, accounting for 8% of the flows, following an increase of 20%.

d. The renewable energy supply chain was a major recipient of FDI in ASEAN.

i. Between 2020 and 2023, renewable energy-related industries attracted an average of more than US$27 billion of investments annually, about 25% of all announced greenfield investment activities.

ii. These include critical minerals, extraction and processing, renewables manufacturing, and renewable power generation.

e. Looking ahead, there is good reason to be optimistic about ASEAN, and Asia.

i. Riding on a young and growing population, ASEAN is poised to become the fourth largest economy in the world.

ii. And including China and India, Asia is expected to account for 40 – 50% of global GDP by 2030.

Private capital has the opportunity to write the next chapter of Asia's growth story, and contribute towards uplifting the lives of generations to come.

a. Over the past five years, private markets have experienced robust growth, with assets under management (AUM) expanding significantly across various asset classes.

i. According to McKinsey's Global Private Markets Review 2024, private markets' AUM totalled US$13.1 trillion as of mid-2023, after growing at nearly 20% per annum since 2018.

b. Despite potential headwinds and uncertainties, S&P Global projects that private markets will reach more than US$18 trillion by 2027, propelled by the strong growth of private credit, real assets and secondary markets.

i. However, when broken down by region, we see that more than half of private markets' AUM remains invested in North America, while Europe and Asia-Pacific are at just about 20% each.

c. With the anticipated growth of private markets in Asia, there is room for us to diversify and allocate a higher proportion of the AUM in private markets into Asia.

Let me share three ways to do this.

a. First, we can channel more private capital to support the growth of enterprises in our region.

i. Micro, Small and Medium Enterprises (or MSMEs) play a critical role in the economies of ASEAN member countries.

1. More than 90% of all enterprises in ASEAN are SMEs.

2. They contribute about 50% of ASEAN's combined GDP

3. And employ about 85% of the total workforce.

ii. However, many of them face challenges in raising capital.

1. In particular, because many of them have less well-established bank relationships compared to multinationals, they face tighter covenant enforcement and tougher credit requirements.

iii. In this regard, private capital can play a catalytic role in unlocking the growth potential of MSMEs, such as through providing the following services -

1. Growth capital funds or venture debt, to help MSMEs expand into new growth markets;

2. Expertise in business management, regional expansion, and innovation that MSMEs typically lack; and

3. Working capital to manage short-term cashflow challenges, without diluting equity unnecessarily, especially for business owners looking to retain control over their companies.

iv. Let me highlight two such examples.

1. First, Durapower.

a. Durapower is an innovator of lithium-ion cell technology, offering closed-loop, end-to-end energy storage solutions for electric mobility and renewable energy applications.

b. They have a presence in more than 20 countries, and they are expanding into Southeast Asia, China, and Europe.

c. Private capital can play a role in supporting their growth in markets across the globe, and build a diversified manufacturing base.

2. Next, Commonwealth Capital.

a. They are a leading industry player in Singapore's food sector with significant operations along the value chain from food services to logistics.

b. As part of their growth plans, they are looking to expand their logistics business into specialist pharma logistics, and acquiring cold chain logistics players in the region to capture overseas growth opportunities.

c. Private capital can play a role in supporting the growth of Commonwealth Capital, by supplementing bank financing in their capital investments.

b. Second, beyond supporting the MSMEs, private capital can play a role in driving the region's green and transition finance needs.

i. Asia accounts for half of global emissions, and there is immense pressure for this to continue growing.

1. Energy demand in Asia is growing by about 3% annually, the highest of any region around the world.

2. It is also expected to account for 90% of the world's future growth in energy demand.

ii. We therefore need to facilitate Asia's carbon transition, and do so urgently.

1. This includes investing in renewable energy production, such as in hydropower, solar or low-carbon ammonia or hydrogen.

2. This also includes enhancing grid connectivity and the capacity for transmission and storage, so that we can allow for cross-border electricity trading and facilitate the establishment of the ASEAN Power Grid.

3. This also includes phasing out Asia's coal-fired power plants, many of which still have a long operational lifespan of at least 30 years.

iii. Private market financing can play a role by directing capital towards ventures that drive decarbonisation, resource efficiency, and responsible infrastructure development.

iv. To catalyse commercial capital for transition and marginally bankable green projects, we have set up a blended finance platform called Financing Asia's Transition Partnership or FAST-P, with a target fund size of US$5 billion.

1. We will contribute concessional capital towards this platform, alongside multilateral development banks, development finance institutions and philanthropies.

2. In turn, this aims to crowd in commercial capital to achieve a lower blended cost of capital, so as to support transition and decarbonisation projects that may otherwise not be able to obtain commercial funding.

3. We hope this will improve the bankability of projects and give confidence to investors to mobilise their private capital into these projects.

4. I invite asset owners and lenders to join us in FAST-P, so that together, we can bridge the financing gap in enabling Asia's climate transition.

5. This will be critical to mitigating the impact of climate change on lives and livelihoods in Asia.

c. Third, private capital can drive the growth of the digital economy in Asia.

i. ASEAN's digital economy is projected to grow from US$300 billion to US$1 trillion by 2030. We are in the midst of negotiating an ASEAN Digital Economy Framework Agreement, which is projected to double this value contribution to US$2 trillion.

ii. From digital payments, to e-commerce, to digital infrastructure, there is huge potential for digital technologies to transform the way people consume information, buy goods and services, and use financial services.

iii. We have seen a good number of promising tech start-ups in Asia, in sectors ranging from aquaculture to logistics to fintech.

1. I had the opportunity recently to meet with the co-founder and CEO of Indonesian start-up company eFishery, Mr Gibran Huzaifah.

a. Since its founding in 2013, eFishery has grown to be the largest digital cooperative chain for fish and shrimp farmers, providing affordable financing and fair market access to over 70,000 farmers across Indonesia.

iv. Start-ups like eFishery will need multiple rounds of fundraising to scale.

1. While venture capital funding in Southeast Asia had taken a hit in the past two years in line with global trends, it is expected that the region's strong bench of start-ups will be able to continue to draw in investors.

2. More fundamentally, within this community, I hope we can find a structural solution to fill the funding gap that start-ups face between series B and C stages.

a. In particular, there is room for private credit to provide non-dilutive financing that can complement equity and debt financing, by providing flexibility through customised deal structures.

3. Ultimately, we need a variety of funding instruments – including seed funds, short-term loans, venture debt and equity financing – to build and sustain the wide range of early- and late-stage companies in the region.

## Singapore – A Hub for Enterprises and Financing

Just as how Changi Airport plays a key role as a hub for regional and global air connectivity, Singapore plays a key role in intermediating capital flows and investment opportunities. We have a strong ecosystem here in Singapore, which can help the private markets community tap on and unlock Asia's potential.

a. First, we will continue to maintain a conducive environment for businesses to set up in Singapore.

    i. Over the years, we have built up a reputation for our regulatory environment, stable and efficient infrastructure, access to financial intermediation and services, and strong rule of law.

    ii. We hope this will not only attract more companies in our region to set up in Singapore, but also encourage private equity managers to promote Singapore as a springboard into the region for their portfolio companies.

        1. One such example is Straive, which the Partners Group had a majority stake in from 2017 to 2021.

        2. Under the ownership of Partners Group, Straive transformed from a provider of content services into a technology-driven content, data and EdTech solutions company.

        3. As part of its transformation, Straive moved its headquarters to Singapore, and now serves over 300 customers in 30 countries worldwide.

b. Second, we will continue to offer various fund structures and investment platforms to reduce costs and improve efficiency for both investors and fund managers.

    i. For example, in 2020, we launched the Variable Capital Company (VCC) structure, a flexible corporate structure for investment funds.

    ii. The VCC has given fund managers greater flexibility, as it allows different investment strategies – such as real estate, private equity, and public and private credit – to be employed in different sub-funds, but overseen by a single board of directors.

    iii. To date, we have more than 1,100 VCCs set up by traditional and private market managers for a variety of use cases and fund strategies.

    iv. The availability of VCCs also facilitates the co-location of fund vehicles with their Singapore-based manager in the same jurisdiction, which provides greater ease of regulatory compliance and access to tax treaties.

c. Third, we will continue to deepen the pool of investors and asset owners based in Singapore.

    i. These range from large institutional investors and sovereign wealth funds, to smaller family offices and high net worth clients.

    ii. We welcome investors from over the world, including those who set up family offices here, to tap on our investment ecosystem.

iii. We are also heartened to see financial institutions enhancing their capabilities in Singapore in order to better seize opportunities here.

1. For example, Blackstone has expanded its Private Equity team in Singapore to support its investments in this region, as they see Singapore as an important centre for institutional and individual capital raising as well as the investment gateway to Southeast Asia.

iv. Singapore also offers a diverse base of professional advisors and service providers to support complex transactions, including secondary deals which are highly intermediated and involve multiple counterparties.

## Conclusion

Let me conclude.

Even as geopolitical tensions between the US and China cloud the investment climate, Asia – and in particular, ASEAN – offers significant potential for growth.

a. In this regard, private capital can play an important role in shaping the future of this region, especially through supporting local enterprises, enabling the carbon and energy transition, and stimulating the growth of the digital economy.

b. Singapore, at the heart of Southeast Asia, offers the ideal platform for private market players to make inroads into the region.

Many investors assess potential investments on ESG, or environmental, social and governance. I encourage this community here today to explore how we can mobilise private capital for EESG, or environmental, economic and social good.

This way, we can not only boast of private capital, but also of progressive, productive and purposeful capital.

With that, I wish you all a fruitful conference and a pleasant stay in Singapore.

Thank you.