

CONSUMPTION, INVESTMENT, INTEGRATION AND DIGITALISATION LEAD GROWTH IN ASIA

Piyush Gupta, Chief Executive Officer and Director of DBS Group, talks about the Asia growth story and the future of banking, in this interview with Havovi Joshi.

What are some of the secular drivers of growth in Asia today?

I believe there are four key drivers of Asia's growth, of which the first is consumption. From 1980 to around 2000, export-oriented manufacturing catering to the Western markets was what drove growth among the Asian Tigers. So Asia became the factory of the world. But in the last 20 years, Asia has changed rapidly from being the factory of the world to being the marketplace of the world. And this is on account of the massive consumer drive coming through fundamental

demographics. Asia has, and continues to have, the youngest population in the world—and this population has been consuming in ways we haven't seen before. So this demographic shift and the consumption that comes along with it is one big driver of growth. There is also more wealth being created in Asia than in any other part of the world, and that too leads to growth and increased consumption.

The second big driver of growth has been the investments in Asia. If you think about the 1950s, what capitalised Europe after World War II was the Marshall Plan and the

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pumping of money by the United States. While Asia has not seen the equivalent of a World War in recent times, the reality is that Asian countries have hit their stride in terms of the investment thrust. China is already ahead of the game. And when you look at other countries like Indonesia, India, the Philippines, and Vietnam, there's a massive investment requirement, which the Asian Development Bank estimates to be US\$1.7 trillion per year over the next several years. Some of this has been driven by a shift of the rural populations to urban areas; but investments in other infrastructure such as airports, ports, bridges, and metro lines will continue to drive Asia's growth for a period of time.

The third driver is this idea of integrating Asia. Notwithstanding that Asia does not have the equivalent of a European common market, Asia's people-to-people integration is proceeding at a rapid pace. If you look at intra-Asia trade, it continues to grow. Even in the last year or two, when global trade has stagnated, intra-Asia trade has expanded. In fact, despite the tariffs that the U.S. has imposed on China, Asia's exports to the U.S. continue to rise. That is because intra-Asia trade takes place between China and other countries like Vietnam, Thailand and Malaysia, and then goes into America. And trade alone is not expanding, there is also capital flow. About two decades back, the Asian bond markets were underdeveloped and most of Asian savings were routed through the U.S.; we did not have a system intermediation capability of our own. But today, a large part of Asian capital circulates in Asia. In fact, even for global capital, much of the decision-making now happens in Singapore and Hong Kong.

And the fourth driver is the digitalisation of Asia. The young populations are digital natives by and large, and the take-up of applications in Asia for digital solutions and digital use cases has been extraordinarily quick, relative to the Western world. We see it with Ant Financial and WeChat, or the payment systems and e-commerce in China, but it has now also spread to India, Indonesia, the Philippines, and other markets. I think that digital transformation will continue to be a big driver. Robots and robotics, for instance,

are used more in the factories and supply chains of Asia than any other part of the world.

What would you say are the key challenges that Asia's economy faces today?

The first is geopolitics. Asia's growth took place in an incredible environment of geopolitical stability for well over 50 years. But this is changing. The tensions between the U.S. and China are going to push countries to take sides, but it appears they will be a lot more careful and cautious, and try to play both sides. And that's a challenge which we haven't seen in a long time, so it's something that has to be thought through carefully and cleverly.

A second big challenge, also in the relatively short term, is the challenge of innovation. I said earlier that Asia is digital, and that is true. It does apply technology very well. But Asia's focus on fundamental innovation, or simply creation, has been somewhat weak, and needs to be sharpened to keep that momentum going.

The third challenge is of soft infrastructure, which has to do with governance systems. While a number of Asian countries are improving on their governance practices, be it through legislation or bureaucracy, it seems to be one foot forward, and one foot back. This soft infrastructure needs to be built quite quickly to keep pace with the growth of the economy.

I see a couple of other challenges in the longer term. One is the challenge of inequality of wealth, which has been increasing in Asia. Hong Kong has one of the highest Gini coefficients in the world, but even in a country like India, the Gini coefficient is around 0.35, trending towards the inequality alert line of 0.40. So income inequality and the resulting social tension it creates is a challenge. And this is exacerbated by unemployment, which is one of the caveats to Asian demographics. Digitalisation means jobs are not easily available. The jobs that are there are being held onto by older people who are living longer and need the job for longer, yet again creating a degree of tension. Finally, a big issue for countries in Asia, probably in the longer term, has to do with climate change, particularly in the context of rising seawater levels and increasing pollution. So while China and India are battling pollution, Indonesia is trying to change the location of its capital, and Singapore is planning to build dykes and reclaim more islands.

Each one of the challenges I've talked about can be showstoppers, game changers. So, when I say that Asia has

got a lot of positive drivers, by no means am I suggesting that its growth trajectory is guaranteed, or unidirectional. It still requires a number of appropriate policies to be formulated and a lot of shared work between the private and public sectors to realise some of the goals set.

What are some of the key developments in the banking industry that you see taking place in the future?

I would say that about 90 percent of the global banking value output is typically defined by three key activities: a savings proposition, a lending proposition, and moving money around. Are those requirements likely to be there in the medium to long term? The answer is yes. So while innovations like distributed ledgers and cryptocurrencies could change the way it happens, these three functions will still remain. But who are the participants in this ecosystem that will perform these functions? Here, I see a mix of institutions that are traditionally called banks that have the capabilities and the capacity to be able to transform and leverage these new technologies and tools, along with other players like Amazon, Google, or Alibaba, which will also be capable players in this overall ecosystem. So the nature of the players might change, and whether you put the word ‘bank’ behind everybody’s name or not, the substance of what will get done will still be the same.

Looking ahead, in my opinion, the biggest game changer of all is going to be the deployment of big data and artificial intelligence (AI). We could argue that it’s not new and people have been working with data for some time. But I think that earlier we weren’t as perceptive of what data can do and the outcomes we can get by applying machine learning and AI to that data. This is going to be completely revolutionary as we go forward. The second is distributed ledger technology, which will continue to play a role and have an impact. I think it will not be easy for large-scale public blockchain to gain traction because of the need for ubiquity to achieve exponential growth. But what you’re already seeing are private or ‘walled garden’ blockchains, and these will also result in a material shift in the way things are done. Finally, I think the nature of money and currency will evolve. It’s not going to happen in a hurry because of state and national monetary policy requirements, the need for financial system stability, and so on—but it could happen and there could be a lot more digital money like crypto-money.

In the short term, with the rapid growth in 5G and the Internet of Things, banks will have to talk to machines, and

accept instructions from machines. That’s quite possible. Take the example of a refrigerator that has sensors through which it can figure out if your milk supply is low and it can place an order to deliver a new carton of milk. Now, when the order is placed at the supermarket, an instruction will also be sent to the bank to pay for the milk. This means that the banks have got to be equipped to accept this instruction from the fridge, and such situations are going to change the whole payments paradigm.

You believe in the power of technology to improve banking and society. But what do you think about job displacement? Will the greater adoption of technology accelerate the income divide in Asia and globally?

I think job displacement is the key bit. There are clearly several kinds of jobs which are already being automated. In the blue collar space, robotics is taking away hundreds of thousands of jobs, and in the white collar space, increasingly, computers are taking over a lot of what an employee used to do. With natural language processing, this becomes easier. The way to address this is for governments to be really focused on re-skilling and helping people transition to new types of jobs. It’s not entirely clear to me whether enough new jobs will come up, but I’m an optimist. I think the capacity of the human mind to invent new jobs is real. DBS Bank, for instance, has already reduced over 1,000 jobs, but added headcount by creating jobs in new areas. So it can be done, but it is really critical for governments to boost the case for this, otherwise you will have large pockets of job-displaced and disenfranchised people, which becomes a social problem.

As for technology accelerating the income divide problem, it could happen. Today, the top 10 companies in the world have a combined market cap of more than US\$6 trillion; while there may be some people who bought the stock, on the whole, fewer employees have really benefited from it, because each of these companies has far fewer employees than traditional companies. So there is a question that technology today creates a winner-takes-all environment, in which case

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you would wind up with some people getting extraordinarily wealthy, while a lot of people are not. Nation states are going to have to work on a thoughtful redistribution policy. Some of this will happen, and you will see higher taxes being imposed and a greater role of the state in facilitating income distribution, but even civil society and the private sector will have to put in a lot more thought into addressing this challenge.

As a leader, how do you think managers and the youth entering the workforce today can prepare for and possibly overcome an increasingly volatile, uncertain and complex world?

I believe that the world is changing so rapidly that it is hard to forecast the future. It’s very tough to say what is going to happen five years from now and you will probably miss half of it. On the other hand, the first thing you need to do is determine three things—what you think could happen; what to create competency around; and what to prepare for. So I would first advise everybody, including young people, to think, read, and talk enough, to develop some thoughtful viewpoints.

The second piece of advice I have, which is linked to having developed viewpoints, is that you have to build horizontal skills. In the past, you could say with a high degree of certainty, “This is where the world will go and I want to develop these skills.” But today, the skill sets will keep changing, so you have to start really focusing on developing horizontal skills. Chief among these to me are adaptability, resilience, and curiosity. They are skill sets that allow you to fall and stand back up nimbly and quickly. They also allow you to connect the dots. And this is what will be needed—to be able to adapt in real time to changes, respond quickly, and pivot to view opportunities that come along.

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A lot of people think the future is only about science—technology, engineering, mathematics, biotechnology and so on. However, I believe that, now more than ever, a liberal arts education is extremely important, because some of the biggest challenges mankind will face in the next decade or two will have nothing to do with technology. They will have to do with philosophy, psychology, and the social sciences. They’ll come from having to answer the following questions: What do we use AI for? What is it that we do not want a computer to do? What data should we share and not share? None of these questions will be answered using only science. So, undoubtedly, that’s why you need both tech and social skills, and the ability to bring them all together. Those horizontal skills, and the adaptability and resiliency to respond to an ever-changing volatile, uncertain and complex world, are the most important things to focus on today.

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