FOREIGN POLICY ASSOCIATION
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Financial Services Dinner
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Featuring:

Andre Esteves, Chief Executive Officer, BTG Pactual

Joseph R. Ficalora, President and Chief Executive Officer, New York Community Bancorp, Inc.

The Hon. Daniel Sullivan, Consul General of Canada

Dr. Tony Ten Keng Yam, Deputy Chairman & Executive Director, Government of Singapore Investment Corporation

MR. TONY TEN KENG YAM: —with determined and farsighted leadership, there is no reason why America cannot surmount these problems as it has done in the past. And as observed by Mr. Winston Churchill, and I quote his words, "You can always count on Americans to do the right thing after they have tried everything else."

MS. MARGARET BRENNAN: I'm never going to forget standing and hearing the roar of people really in Tagarear [phonetic] Square so excited about what they were able to do. But with empowerment, there comes a lot of pressure to deliver on those promises. So I think in many ways we're just starting to see the beginning—the beginning of this tectonic shift so many have characterized as.

So many of you I'm sure before you came here this evening also heard from President Obama and his address to say the entire world is watching Libya right now. We certainly saw in the financial markets, most notably the oil markets they are. And well, we aren't doing anything as a country right now, we're leaving it up to diplomats at the moment. I do want to emphasize that there's a great impact right now to all the rules, diplomats and those dispensed in the financial sector play in keeping the kind of stability that we take for granted in commerce.

We've learned emerging market growth isn't necessarily a smooth trajectory. We've learned dislocations and disparity of wealth can be dangerous. And we4 learned that stability is a great enabler to the jobs we carry out day to day. So tonight we're really embracing one aspect of the financial services industry that informs so much more right now in the global dialogue, and that is finance is the first industry to truly be global; and we're going to embrace that tonight.

So our first two honorees this evening, Mr. Andre Esteves, the CEO of BTG Pactual. He's regarded as the most powerful investment banker in Latin America and Brazil's youngest self-made billionaire.

Also, Mr. Joseph Ficalora, Chairman, President and CEO of New York Community Bancorp, who, based on his banks, solid earning capacity was able to refuse tarp funding back in 2008 for the city's largest thrift.

So, I want to get us straight to this great lineup of honorees and welcome here to the podium the head of BBVA USA Wholesale Banking and Asset Management Group, that's Mr. Sandy Salgato. He's going to introduce our first honoree this evening. So I could ask you to come up here and wind your way through.

[Applause]

MS. BRENNAN: And if I could just offer a suggestion. These little side pathways are probably the best way up here. So over by table 14 or over by table 29 and around, as you try to snake your way through here. Hi Sandy, how are you.

MR. SANDY SALGADO: How are you this evening. Thank you.

[Foreign language spoken]. It gives me great pride to be here this evening in the company of global leaders with such interesting and diverse backgrounds. I would like to thank the foreign policy association for extending me this invitation to such an important occasion.

Tonight, we honor the accomplishments of true leaders. Among that group is a man who has been called Brazil's hottest deal maker and the person to keep an eye on as Brazil attracts an ever growing number of investors and foreign businesses. I'm speaking, of course, of Mr. Andre Esteves.

Andre began his career with the well-known Brazilian investment bank Pactual, quickly rising through its ranks and partner, managing partner and chairman. All of this before he was 40 years old. In 2009, Andre, his career came full circle after BTG [phonetic] completed the purchase of Pactual from UBS and established BTG Pactual as a full service investment banking institution headquartered in Brazil.

Today, Andre and his partners are well underway to achieve their vision of creating the premiere investment bank in Brazil. In fact, in December of 2010, BTG Pactual raised 1.8 billion dollars in new capital from a consortium of prestigious international investors including leading solvent wealth fund such as CIC, JIC and the Abu Dhabi investment counsel. This important capital raising demonstrated BTG Pactual's preeminent market position in Brazil and the global focus on Latin American as an investment opportunity. With offices in Brazil, Hong Kong, London and New York, BTG Pactual is positioned for growth and unrivaled success. Please join me in welcoming to the stage Mr. Andre Esteves, Chief Executive Officer of PTG Pactual in 2011 Foreign Policy Association Honoree.

[Applause]

MR. ANDRE ESTEVES: Thank you Sandy for the nice words. Thank you all for the presence and thank you Foreign Policy Association for this honor of being here tonight.

Our colleagues of Foreign Policy Association asked me to talk a little bit about Brazil and what's happening there. In this moment the economy is pretty hot. Brazil is in fashion. The market is not so hot at this moment but how we are seeing things from a structural point of view.

And I'll be very brief. I'm very optimist with what's happening in our country right now. It's a structural change, and what's happening now is a consequence of a combination of two things; the achievement of political consensus and the consolidation of - - stabilization. These very important forces that trigger process of development or a process of transformation in Brazil. But it is similar to what happened to last 50 or 60 years ago.

The whole story of Brazil, it's not about commodities even though that, yes we're a very natural resource rich country. But the whole story of Brazil is about the transformation of the country into a middle class country, that's what's happening. Which is very beneficial for us. And some of you will say well but stabilization happened 15 years ago or political stability already happened a number of years ago. But it's a little bit different than that. It's a consolidation of economic strong situation. We have basically all the right fundamentals in place and combine always could be better but it's in good shape. And this just happened in the last ten years when we have really alternate power in the country when we had all these deep crisis, not only the less, the second half of the night is crises but also it was a very tough three years in the country - - did well.

And in terms of political consensus, we are talking about simple things about not spending more than we earn. Keeping inflation under control is a social issue more than anything else. These are simple things, but having that to all the relevant political spectrum is an achievement. And that's what's happening now.

So I'm very optimistic. But, of course, we have some challenge. And some of you asked me about the challenge tonight. And people talk a lot about being infrastructure challenged. And if they are really - - for growth in the future, yes they are. But they are above anything else. They are opportunists. So you should look at all the huge infrastructure demands in Brazil as a private sector opportunity. We have problems here and there. We have a very tough and busy schedule for infrastructure investments before the Olympics and the World Cup.

That will happen in our country in the next eight years. But this is opportunity at the end of the day.

The real bottleneck in our economy is something different. It's education. And for those that have investments there and look at our economy closer, this is the points to pay attention. In order to do a good infrastructure project, you have—we have a couple billion dollars and maybe a couple of years who can do almost everything or a lot of things. But to create 200,000 new engineers, you need more than a couple billion dollars in a couple of years. It's a longer cycle and Brazil still demands a lot from that. We need more quality, we need more quantity. And the good news is that our government and especially our private sector leaders know about that.

So, I think this is a summary of where we are. And to conclude think independent of having a not good year in stock markets or maybe some volubility in the markets. But I think the structural transformation is in place and it's a fantastic place to investment and to do business. Thank you very much for the opportunity.

[Applause]

MR. SALGADO: Andre, we need to practice for the Olympics, so I'm going to hand you a medal.

MR. ESTEVES: Okay, very good. Thank you very much.

MR. SALGADO: Thank you very much.

[Applause]

MS. BRENNAN: Congratulations to you Andre. Our next presenter, and I'm going to welcome up here to the podium, is the current president and CEO of Atlantic Bank, a division of honoree Joe Ficalora's New York Community Bank, but also is credited being the driving force to the stabilization and success at Apple Bank during his 28 year tenure. I'm speaking of Mr. Spiros Voutsinas. He's here. I'm going to ask you to come up and introduce our honoree. And again, the side, either 14 or 29 are your best paths up here to the stage to join me.

I think it's a good thing that we're all having to snake through here. It shows what great turnout we have tonight.

MR. SPIROS VOUTSINAS: It was difficult to find my way around, but I did. Thank you very much. Thank you, how are you. My name is Spiros Voutsinas and I'm affiliated with New York Community Bank. And I am honored and am very privileged that I am here tonight to introduce Joe Ficalora, the President and CEO of New York Community Bank.

And I would say that I'm very, very privileged for it. I would like also to welcome my friends. There are a lot of them in presence tonight. I know

I've known Joe for a number of years and I am one of his greatest admirers. I think

Joe is not the only one that I enjoy, I think a lot of people do and for many, many good reasons. Joe had the option, the wisdom to manage the New York Community Bank through a very difficult time; the Financial Crises of 2008, as we all know. And he avoided the traps or the mistakes and the pitfalls that almost caused the demise of the banking industry in the United States.

Joe was the president of his small little bank in Queens, New York going back to late '80s and early '90s. And he took the little bank who with less than a billion dollars bank, and he grew it into a—with seven branches, he grew it into a major bank institution, very profitable. The so-called New York Community Bank which is with assets and exceeding $40 million and 272 branches serving five states in the United States. We are very familiar with what happened in the year 2010 when the United States Government rescued a banking system through the TAR [phonetic] program.

Joe Ficalora thought that - - the New York Community was a strong bank and did not need any financial assistance from anybody, and, therefore, decided to go against it. I think the New York Community Bank today has never suspended, never reduced its dividend through the crises period and also, the year on today's stock of the New York Community Bank is one of the highest in the industry in the banking industry.

Joe always used to say, and I think that he's modest. His modest voice to him has severaled his value and he did quite well. I mean we weathered the crises quite well and I think that he never accepted any subsidy from anybody on the outside and I think that the bank is doing—it's one of the best banks in New York.

Now, Joe Ficalora always looked back into, you know, when he took the New York Community Bank public in November. I think it's November 1993. Mostly they have the prudent sufficiently to invest into the bank and they stayed with it through the dividend reinvestment. The investment today will be 3800%. In other words, what I'm saying is that somebody invested at that time $1,000. Today they will receive $38,000 for which is a high quantity substantial return on anybody's funds. Yes.

I consider Joe Ficalora to be one of the top bankers in the United States. I think he's focused on his bank and he's determined to see his bank continue on the road of ever greater profitability going forward. He's however having—that's my personal feeling—he's one of the good human beings. His professional attributes much, his personal generosity. I am honored tonight that I'm going to—that the Foreign Policy Association is honoring Joe with the medal of the—the business medal of the 2011. And I would say he's well deserved and I'm very proud I'm here to introduce Joe Ficalora to you.

[Applause]

MR. VOUTSINAS: Thank you. Joe? Thank you very much, thank you. Thank you, that's good. I'm honored and proud to you Joe and I think that you have done the best thing and you're a good partner and I think you have done well for your bank and the people that are working for you. Thank you very much. I'm very proud of you sir.

MR. JOE FICALORA: Thank you so much.

MR. VOUTSINAS: Thank you.

MR. FICALORA: Thanks.

[Applause]

MR. FICALORA: - - I'm sorry.

MR. VOUTSINAS: Okay. Thank you.

MR. FICALORA: I guess since I have the medal, I can spare you the speech.

[Laughter]

MR. FICALORA: But I want to really thank Jerry for the very kind words and certainly the association for giving me the opportunity to speak with you this evening. And I want to at this opportunity thank the Board of Directors of the bank which has evolved through ten acquisitions and the executive officers of the bank, who are a composite of those ten acquisitions.

So the bank today is extraordinarily well position to do better in the period in front of us than we have done in the period behind us. And the reason I say that is because the business model of the bank was set bank in 1993, when, in fact, we came off the last credit cycle turn. Because our particular business model actually does better during an adverse credit cycle because the difference between us and other bank in the best of times is we lose zero and other banks lose 45 basis points. The difference between us and other banks in the worst of times is we lose 40 basis points and they lose 4,000 or 8,000 or 9,000 basis points. So the greatest opportunity to create value is point in time differential. And we expect the differential between us and those that we compete with to widen as this cycle evolves.

So I'll take a moment and talk about where we are and why I have concerns about the period in front of us. There's no escaping the fact that the greatest risk that we in the United States or all of us in the world face is uncertainty and volatility. And that uncertainty and volatility may not sound like very much, but when you're dealing with a fragile economic environment, that compounds in ways that can very meaningfully start fires that become out of control. And, therefore, we should not, you know, assume that the moment where things that are happening today or overnight represents tomorrow. All it represents is a moment. The more important issues are those that are fundamentally underneath what is obvious.

And what we have today is an environment wherein there is material change inevitable in the valuations of the fundamental source of spendable money.

Dollars that can be spent in the world, in the United States, in a particular economy, are going to vary dramatically from what was to what will be. And whenever there is meaningful change, there is risk of breakage. The change that is in front of us presents serious risk that those things that we take for granted will not sustain themselves in a period of adversity. Now, of course, whenever there's adversity, there's opportunity. And many of us understand that in adversity sometimes you can have the greatest possible returns. That is our business model by the way. We do plan to operate through the cycle.

So our bank actually does best by lending more under more favorable terms during credit cycle turns. So, for example, in the New York market, when multifamily homes, those loans we're taking down Bowery [phonetic], American, Greater, Dollar. Banks that had been doing multifamily lending throughout this market, we were, in fact, the bank that was lending to the very people who are buying properties that had been in those portfolios for 20 or 25 cents on the dollar. So our principle asset is an asset that actual is cyclical. Meaning that the people who actually win during a downturn, they sell high and buy low.

I think we all can appreciate the benefit that that can represent. They sell high and buy low. So, for example, one of our principle parties had the first five buildings purchased by his grandfather 30 odd years ago, five-story walkups. But his portfolio today in the New York market is over a billion dollars in real estate. Major change. How can that possibly happen? It happens because people lend way too many dollars in positive credit cycles and create opportunities for people to buy at the discounts solid cash flows in negative cycles.

In negative cycles, many of the lenders that were damaged when the breakage occurred are not in the market. So the terms under which loans are created can be more favorable in a negative cycle. The absence of excess creates again additional opportunity. The people who are over lending, and certainly we've come through a period during which most of the loans that were made were not made by banks. Sixty odd percent of the loans that were made were made by non-regulated entities. Unregulated brokers packaged the first aggregators large dollar volumes of excess lending. Meaning the dollars that were put on the table far exceeded the expectation or the reasonable basis for which they could be repaid. But since the aggregator and the broker were not taking any risk, they were being paid on volume, there was a significant profit motivation to do this. The lender, which may have been a bank, but most likely not a bank, the lender for the structured debt might actually be a college, a university, a hospital, a pension fund; somebody who purchased what they thought to be triple A paper, with the expectation that they would be repaid.

This is a nation of laws. This is a place in which you can reasonably expect that if you participate in a well-established system the rules of the game are such that you will be repaid. Unfortunately, the rules were not in place and, in many ways, the rule makers knew this. The unfortunate reality is that we all in this room are faced with the burden of paying for the mistake. That mistake is large. The consequence in tax is going to be huge. The consequence in risk is going to be huge. The reality is that we're only in the beginning stages of an adjustment period. The reason to believe that we're going to have significantly better quarters ahead is overwhelmed by the reasons to believe that there is more difficulty on the horizon rather than positive solution on the horizon. Of course, many of the fundamental reasons why we have difficulty aren't being addressed and they're not being solved.

Now, so you can eat your dinner. I'll say something a little more positive. The reality is—and not everybody is going to agree with this—but I contend, and many that I know that feel the same, I contend that very smart people establish ongoing business accounting rules. And I think everybody in the room has heard of depreciation. You know, you depreciate an asset over a reasonable period of time. You know, you're a business You buy a building. You depreciate it over 50 years. It's discernible to a 10th grader how much that asset is worth on your balance sheet whether the market is up or the market is down; that is visibility, stability. That is good for an ongoing business to have discernible values that are defined over periods of time despite external consequences which do not change the use, for example, of the building. So if, in fact, we merely restored ongoing business accounting, therefore, did away with market-to-market accounting, did away with the proposal that was made in September by the - - that everybody stepped away from. You can't lend money on a 90-day basis. You can't have pensions in the United States of America based on the current ways in which they're talking about assessing the liability. The only way pensions work is if the liability is spread over time. If you have to remark the assets in short order, you're not spreading the liability over time.

So there are fundamental reasons why the changes which have been put in place by a few people who think they're smarter than all the people that proceeded them. Those fundamental changes are wrong. And if, in fact, we go back to ongoing business accounting, not only would that be a stabilizing effect, but think of this, you would have hundreds of billions of dollars restored to the capitalization of the banking sector. Using a multiple of ten, which is a reasonable multiple on capital, the lender's 300 billion becomes three trillion, 400 billion becomes 4 trillion. You want to stimulate the economy? You put huge amounts of money back into the capital of the financial markets and instead of lessening the amount of loans being made, you'd increase dramatically the amount of loans being made. And more importantly, you wouldn't be burdening our children. It doesn't take tax dollars to do this. The eraser that took it away with bad accounting, merely restores it back to the capital that was taken away on a pro-cyclical, exaggerated basis on terms that had nothing to do with the original contract.

So if, in fact, the right people stand up and say that we're going to restore ongoing business accounting, there would be a meaningful, positive effect to the economy. Not just the U.S. economy, the world economy. Because unfortunately many of the relevant places in the world that actually do follow accounting rules, are following rules very similar to the U.S. rules. Unfortunately, not everybody follows the accounting rules. So it's kind of like some of us play with rules that keep us at a particular level, and others play with no rules. When you have that, you have imbalance. So the uncertainties of the future period are very meaningful. Unless we address those uncertainties in a very positive way, we're very vulnerable to the events we do not control. Such as, the possibility that the flow of oil may change or any number of other things, a very volatile environment is in front of us. We need as much stability as we can create. Smart people establish, for example, rules that created a reasonable way to look at an ongoing business. More important today than at any other time, we need the stability of restoration of ongoing business accounting. Now I know you didn't come here for that purpose, but I wanted to share this with you. And I'm not even going to take questions. So, whoever's next, maybe the main course. Thank you.

[Applause]

MS. BRENNAN: Our next honoree is the Honorable Daniel Sullivan, who became Consul General of Canada in New York in 2006. Following a 38-year career at Scotia Bank, which culminated in his role as Deputy Chairman of Scotia Capital, as well as a four-year tenure as director of the Toronto Stock Exchange. I'd also like to ask up here to the podium a very special person to introduce Mr. Sullivan. Someone who is seemingly contrary in market beds have catapulted him to hedge fund stardom. The man literally credited with executing the best trade ever. And I'm quoting that, I'm not quoting it myself. I'm speaking, of course, of Mr. John Paulson. And if I haven't embarrassed you, I'd like you to come up here to the podium and ask you to start us off.

[Applause]

MR. JOHN PAULSON: Thank you, Margaret. It's a real pleasure for me to present this award to the Honorable Daniel Sullivan in recognition of his contribution to Canadian/U.S. relations. After the U.S., Canadian investments represent the largest portion of our portfolio. And I've been fortunate to meet with Dan on numerous occasions here in New York. Dan Sullivan was appointed Consul General of Canada in New York by Prime Minister Harper in October, 2006, following a distinguished career in the financial services industry. Dan served as Deputy Chairman of Scotia Capital, the corporate and investment banking division of Scotia Bank, where he enjoyed a successful 38-year career. He was also Chairman and Director of the Toronto Stock Exchange and is a former Chairman of the Investment Dealers Association of Canada. Dan is also a board member of the Ontario Teacher's Pension Plan and has served as Director of numerous public companies including Allied Properties, ATT Canada, Cadillac Fairview Corporation, Camco, Monarch Development and Schneiders Corporation. He also served on advisories boards for Canada Post Corporation and the Canada Deposit Insurance Corporation.

As Consul General of Canada in New York City, Dan's performance as a banker turned diplomat has been extraordinary. His work with many organizations including the Foreign Policy Association has been impressive in every sense of the word. He came to the city with the right background. He made legions of friends for Canada. Indeed, as they say, he's been the right person at the right time at the right place. Dan, for your outstanding contribution to bilateral relations between our two countries, it gives me great pleasure to present you tonight with the Foreign Policy Association medal.

[Applause]

HON. DANIEL SULLIVAN: Thank you very much, John. Thank you for doing this. I appreciate it. Thank you. Good evening. Thank you, John for that very generous introduction. I really think that they've accidently reversed the roles tonight. I think John Paulson should be up here receiving this award. But I'd like to thank the Foreign Policy Association for giving me this award. I'm truly honored and congratulate Noel Lateef for another very successful evening.

[Applause]

HON. SULLIVAN: Noel deserves it. I'd also like to congratulate my fellow recipients tonight; Andre and Joseph and Tony Tan Keng, congratulations, gentlemen.

In speaking to you tonight, I feel a little bit like Elizabeth Taylor's seventh husband on his wedding night and I know what I have to do, but I don't know how to make it interesting.

[Laughter and applause]

HON. SULLIVAN: It's probably no surprise that I'm going to make some comments on Canada. Being New Yorkers, not a lot of New Yorkers know much about Canada. And Canada is often identified by entrepreneurs and hockey players and cold weather, but seldom about its accomplishments such as the Blackberry, which is a Canadian invention.

I've been Consul General here in New York for Canada and living the U.S./Canadian relationship now for four years. And I've been astonished at the extraordinary depth and breadth and uniqueness of this relationship. On a day-to-day basis, the focus of the U.S. Canada relationship is very much on trade and energy and North American security. But the relationship is really built on geography. It's built on a long history of being friendly neighbors, mutual respect, trust, common values, shared goals and foreign policy objectives and many similarities. And the relationship goes well beyond economics. You know, it's about friends and family, vacationing, cultures, sports, entertainers, academics and certainly creating a better world order. I think if some of you note, Canadian troops are shoulder to shoulder with American troops in the most dangerous area of Afghanistan.

Now, in my view, the United States and Canada has the best bilateral relationship of any two countries in the world. And I think it's absolutely unique. Now this relationship is strong because it goes beyond Washington and Ottawa. It really stretches from the Atlantic to the Pacific, and encompasses regional governments on both sides of the borders. Regional MOU's like dealing with cleaning up the Great Lakes. It's about governors and premiers and mayors on both sides of the border, and even minor sports teams. So, that's really what this relationship is all about. It's the day-to-day kind of interaction that takes place between the two countries.

Now, the two countries don't always agree, but we can resolve our differences and we're determined to maintain the strong partnership that does exist. This relationship is deeply integrated. It's complex. It's hugely interrelated and very interdependent.

The United States and Canada—just going to talk a little bit about the economics—enjoys the largest, most integrated economic relationship in the world. It's by far and away the largest trading relationship of any two countries. Seventy percent of Canadian exports go to the United States. Now, on the other side of the coin, Canada is the United States' largest export market. Canada buys four times more goods from the United States than China does, and more goods than the 27 EU countries combined. Canada is the largest export market for 34 of the 50 states. So you can see the importance of Canada in terms of an export market for the U.S.

Now, it's interesting to note that one-third of the Canada/U.S. trade is what we call intracompany; same company on both sides of the border. Another one-third is established supply chains. This is where parts are made on one side of the border and then moved into a finished product on the other side of the border. And I say this because really what it comes down to is Canada and the United States make things together. We have these supply chains that are very important. And it's very different than the old notion of trade where you actually trade finished products. What we're doing is very much part of a North American supply chain. And this creates opportunities for both countries. Virtually all of Canada's major cities are within 100 miles of the U.S. border. So, we're very much a part of the U.S. production grid.

It's really the efficiencies of the North American supply chain that allow business and workers to compete effectively with Asia and Europe. And I'll say a little more about this in a few minutes. But, we're not only neighbors, we're really economic partners, and that's very important.

And no discussion of the Canadian/U.S relationship would be complete without just mentioning the energy relationship. I think, as many of you know, Canada is a country that's very rich in natural resources. We're the United States' largest and most reliable, I have to say, supplier of foreign energy, whether it be oil, natural gas, uranium, hydroelectricity; and we have been for about the last 20 years. The U.S. imports 60% of its oil. And most Americans don't realize that Canada is the largest foreign supplier of oil to the United States. We supply more oil than Saudi Arabia and Iraq combined. So, Canada is a very important energy supplier. And we supply about 13% of all the energy that's consumed in the United States. And I should mention that Canada has the second largest reserves of oil in the world next to Saudi Arabia. And from the U.S. perspective, Canada is really quite strategic in assuring energy security and reducing the U.S.' dependence on the Middle East and Venezuela.

So, we're very much partners in a North American economy. Certainly North American integration has contributed to the creation of opportunities for both countries in terms of developing global markets. And with the emergence of powerful, competitive economic trading blocks like Asia and Europe, Canada and the United States must take policy action that is going to make North American more a efficient, competitive and economic unit. We're going to have to deepen and broaden the trading relationship that we have and improve the integration.

NAFDA [phonetic] has certainly been a home run for both countries. It's been remarkably successful. I think it's laid a very strong foundation for the economic growth of both countries. I think what we may need is to take NAFDA to another level and reenergize the U.S./Canadian economic relationship and build on the synergies and the competitive advantages that both countries have. I think another thing that has to be done is regulatory overburden has to be reduced. It unnecessarily restricts trade and I think it has to be dealt with if we're going to be competitive.

Perhaps we have to focus on parameter security and make our northern border more friendly to the flow of goods and people. I' certainly very encouraged by a meeting two weeks ago by President Obama and Prime Minister Harper. And they agreed on a new initiative that is called "Beyond the border, a shared vision for parameter security and competiveness." This is really a framework that will be put in place to reduce the thickening of the border and make the border more efficient, but not reduce the security at the border. I think this is a initiative and I think it's going to certainly help both countries and our North American economy.

One of the other things is I think we have to discard this very ridiculous notion of protectionism. It caused us dislocation. It caused us terrible disruption in terms of long-established supply chains. I think it reduced North American competitiveness. It increases costs. And it has unintended consequences, one of which I think is job losses. So, it's very important that we deal with this. As a course, I meet with quite a few Congressmen and I find many have said to me that buy American, for example, is good politics. They recognize as bad economics. And I think they're baying on from that standpoint.

I think also perhaps the United States has to follow Canada's lead in entering into more free trade agreements with Latin American countries. And I think we really have to start building America's economy, and hopefully that's something that will get done. The U.S. economic partnership is, in my mind, has been a remarkable success. And I think we can look for even more successful future with it through enlightened government policy. And hopefully this will be the case, and I think the recent initiative between Prime Minister Harper and President Obama is certainly a step in the right direction.

I think I'm running out of time. But before I stop, this is a financial services dinner, and I just wanted to make a few comments about the Canadian financial system and how well it did during the financial crises. Canada is very proud of its banking system. And we're very proud, not only what the Canadian banks are doing in

Canada, but with also the Canadian banks are doing in the United States and internationally. I think, as many of you know, that Canada was the only G7 country that didn't have to bail out its banks. Its banks that had triple A credit ratings kept their credit ratings. And the world economic forum is called the Canadian Banking System the strongest in the world.

I get asked regularly, you know, why did the Canadian Banking system and the Canadian mortgage market not collapse as it did in a number of other countries. And I'll very quickly take you through a few reasons. We have the same factors and circumstances that led to the financial crises and other countries like excess equity, low interests rates, easy credit, credit rating systems that didn't necessarily work, greed and poorly designed compensation systems, securitization financial engineer. Canada had all those. But we avoided the crises for a couple of reasons.

And firstly, Canadian bank regulation had higher capital requirements, lower leverage limits and a much higher standard in terms of definition of capital. Also, and this is perhaps a bit of luck, Canadian investment bank activities were done within the commercial banks for the most part, so the investment banks were subject to the same kind of leverage restriction as the commercial banks. The second difference, Canada had a regulatory system that was well coordinated, lots of collaboration between the regulators, fewer regulators and they met regularly to assess the system risk. A third reason has to do with bank supervision, which I'll come back to in just a second. But that's been a hallmark of Canadian regulation. And the fourth reason deals with the residential mortgage market, rules and practices we had, which is quite different than the U.S. Canadian banks originate a large proportion of the residential mortgages. They tend to keep these mortgages on their balance sheets, so they're concerned about the credit quality and did the proper kind of assessment of these mortgages.

Another factor in the marketplace is that mortgages in Canada are not tax deductible. So there is no overconsumption on housing. People didn't take excessive risk in the way that they leverage their home ownership. And, you know, there was an incentive to pay down their mortgage. So I think that's an important difference. Also, mortgages in Canada are recourse mortgages, unless many of the states in the U.S. So, borrowers have little incentive to walk from their mortgages and default because in Canada if they walk they're still personally liable for their mortgage. Also in Canada, you can only lever your home up to 80%, so you need 20% real equity unless you have insurance. And lastly, Canadian banking practices I would have to say were more disciplined. We had few high ratio loans and subprimes and adjustable rate loans, but that type of financing was discouraged.

Now, it's interesting to note that while the Canadian mortgage lending rules and practices are more conservative, home ownership in the U.S. and Canada in 2007 was virtually the same at 67%. Now what that shows is you have two very different home financing systems; one more risky than the other, but they produce the same rate of homeownership. Another interesting fact is in Canada the mortgage market is much more private sector. The Canadian government didn't push imprudent lending practices through policy driven initiatives or government agencies which, you know, to a large extent encourage in a high-risk mortgage lending.

Given all the turmoil in the financial service industry over the last, rules and regulations are important. And I think we all recognized the importance of them. However, rules have two problems. First, rules often fix yesterday's problem. You know, they lag the market. Industry innovation often gets ahead of rules. And secondly, rules have unintended consequences that only become clear over time. And I think you have a false sense of security. So, for these reasons, in my mind, rules have to be backed up with really good supervision. And that was the case in Canada.

An institution will never have enough capital regardless of what the capital requirements are if there is a material flaw in the risk management system of that institution. So, in my mind, supervision really does matter. And it's really the task of figuring out whether there can be a breakdown in the risk management system of an institution, whether the culture of that institution and its appetite for risk is going to create dangers that could lead to insolvency. You have to understand what's going on in the institution. Rules, in my mind, simply don't go far enough.

Now, I am pleased to see that the U.S. financial reform includes some of the elements that I've just mentioned. I get a sense that the U.S. and financial reform is on the right track, and I think undoubtedly will allow the system to be a lot more resilient and underpin the economic recovery.

So, just to summarize what I've said, I think that certainly the conservative culture in Canada has paid off through this difficult period. And I think with the absence of pro-homeownership rules that are advocated by governments, I think it's been a blessing for Canada.

Now, in closing, I just wish to say that the financial service industry is a wonderful industry and I was very pleased to be a part of it. When things are good in the industry, they're very good and when things are not so good in the industry, they're still good. Thank you.

[Applause]

MS. BRENNAN: Congratulations to you. And for our final keynote of the evening, I'd like to, of course, begin honoring Dr. Tony Ten Keng Yam, whose career has spanned from the Ministry of Education to his current role as Deputy Chairman & Executive Director of one of the largest sovereign wealth funds in the world with assets of other $300 billion. I would also like to welcome to the stage a man that has built successful financial businesses himself on three continents and is currently chairman of Barkley's America. I'm talking about Mr. Archie Cox, who we well know here at the Foreign Policy Association as Chairman of this organization as well, and will present the FPA medal.

[Applause]

MR. ARCHIBALD COX: Thank you. Thank you Margaret. A kind introduction. Good evening and let me extend my thanks to everybody for joining us tonight and making this evening such a success. We greatly appreciate it.

My real pleasure and purpose tonight is to introduce Dr. Tony Ten Keng Yam, the Deputy Chairman and the Executive Director of the Government of Singapore Investment Corporation, a not insignificant institution as you've just heard. A sovereign wealth fund first established in 1981, just over 30 years ago. It's investment portfolio was also global. You've heard how big it is without 40% or so of its assets invested in the Americas and the balance in Asia and Europe.

As if Dr. Ten doesn't have enough to do at GSIC, he also serves as Chairman of the National Research Foundation, which advises Singapore's cabinet and promotes research. He's Deputy Chairman of the Research Innovation and Enterprise Counsel at Strategic Coordination Body. As for his past, Dr. Ten has served as Master Finance and concurrently is the Minister of Trade and Industry, as Administer of Education, as Deputy Prime Minister and Minister for Defense and as Deputy Prime Minister and Coordinating Minister for Security and Defense. As if that's not enough, before serving in these different posts, he served as Chairman and CEO of Overseas Chinese Banking Corporation, OCBC as it's known. What a distinguished career.

I cannot think of a more fitting person to honor tonight and it is my great pleasure as Chairman to present Dr. Ten with the Foreign Policy Association medal for his outstanding leadership and service in both the public and private sector.

[Applause]

MR. COX: I should also say it's not easy to win one's way up here.

MR. TONY TEN KENG YAM: Thank you very much.

MR. COX: Thank you.

MR. YAM: Thank you. Mr. Archibald Cox, Chairman of the Foreign Policy Association, Mr. Noel Lateef, President and CEO of the Foreign Policy Association, distinguished guests, ladies and gentlemen. I would first like to express my deep appreciation to the Foreign Policy Association for honoring me with your medal and also to Mr. Cox for his kind words and Mr. Noel Lateef and his staff for the very cordial reception honored to me and my colleagues. In honoring me, you also honor my colleagues in the Government of Singapore Investment Corporation (GIC) with whom I have worked for many years. We thank you for the award and for the significant distinction.

I would like to take the opportunity this evening to share a few thoughts about a global economic outlook and particularly on how GIC views economic prospects in the United States, which is a major region for GIC's investments.

The last few years have been very difficult for the US and the global economy. In

2008 and 2009, the world was on the brink of a global depression. Last year, the global economy stabilized and recovered modestly. This year, U.S. growth may reach 4%, a substantial improvement over what was expected as short as two months ago.

The improving outlook for the U.S. reflects healthier household and financial sector balance sheets which have been repaired over time, as well as strong fiscal and monetary stimulus. In particular, after the fiscal stimulus package passed by Congress and signed by President Obama into law in December last year, and the second round of quantitative easing by the Fed, economists are becoming more confident that a self-sustaining recovery in consumer and business spending is beginning to take hold in the United States.

In addition, financial conditions have become more supportive with banks increasingly willing to lend. The improving economic backdrop and supportive policies will likely boost equity markets and other risk assets, which in turn will increase consumer and business confidence and speed up balance sheet improvements. All of these will be helpful for a more vigorous economic recovery.

The outlook for Europe is more mixed. Some economies in Europe are doing well; Germany particularly and also the countries in Northern Europe. Other peripheral countries are likely to experience continued economic contractions.

Overall, the specter of sovereign insolvency looms as a threat to the European recovery and, indeed, to the European Monetary Union itself. The major challenge for the Eurozone is to deal with the sovereign debt crisis which has engulfed, so far, Greece and Ireland, and could well include Portugal and Spain in the coming months.

However, European policymakers, including those in the core countries like Germany, have reiterated, on many occasions, their commitment to the integrity of the European Monetary Union, and we believe that European leaders will do what is necessary to preserve the European Union for both economic and political reasons. However, political expediency, however, means that policymakers are likely to be more reactive than proactive, and thus, markets may experience more volatility. Still, economic growth in Europe, dominated by Germany, could average around 2% this year, with exports remaining healthy and domestic demand benefitting from a low cost of capital.

The growth outlook for Asia remains bright, even as countries grapple with inflation, emerging asset price bubbles, and large capital inflows. Economic growth in Asia will remain strong, although there is a risk that a strong U.S. recovery could lead to upside surprises resulting in more severe inflation and asset price problems. China and India could see economic growth in the region of 7% to 9%, but both countries have to ensure that inflation and rising asset prices do not get out of hand. China, in particular, will have to skillfully withdraw the huge monetary and fiscal stimulus enacted during the Global Financial Crisis without upsetting the ongoing leadership transition which is now taking place. For example, China will have to deal with an expected rise in nonperforming loans from the rapid expansion in credit. Fortunately, low leverage in the financial system, relatively healthy balance sheets and strong growth make it easier for the Chinese to deal with such issues as long as they are able to engineer a soft landing over the next two years.

At the same time, some progress is being made to rebalance the Chinese economy towards greater domestic consumption, improve income distribution between the coastal and inland regions, and between the urban and rural households.

The challenge for India is complicated by the ruling party's need to continue public spending and subsidies, despite the chronic public finance deficits, so that the government can renew its legitimacy to carry out further necessary reforms. This has led to the occasional backtracking in economic policies as the Congress Party tries to consolidate its power in key local elections.

Asian countries that are part of the global manufacturing chain, including Korea, Taiwan, and Japan will benefit if global growth remains strong. And as a commodity producer, Indonesia will also do well. In addition, Indonesia large size and improving policy and business environment means that domestic demand will remain a major contributor to economic growth.

So overall, the global economic outlook for 2011 looks better than in the last few years. The United States looks like it will finally experience robust, above trend growth. Europe, notwithstanding its debt overhang, could grow although more modestly. Asia and other important emerging economies will grow strongly, but will begin to slow down to a more sustainable growth path.

However, there are a few clouds on the horizon. There are five economic and political problems which could derail this relatively rosy outlook. First, U.S. unemployment is likely to remain high even though and if there are signs that the labor market is improving. And it could be several years before U.S. unemployment rate returns to a more normal level. In the short-term, a period of stronger job creation is needed for the U.S. economic recovery to be sustainable. Over the medium-term, high unemployment has serious social and political consequences. It could lead, for example, to insular or protectionist policies.

Second, the U.S. housing sector remains weak and could be a risk to sustainable growth. The size of the foreclosure pipeline and the supply overhang in certain markets are of concern. A fall in housing prices of more than 15% could cause consumer confidence to collapse with adverse consequences for economic growth.

Third, inflation is becoming a risk for many developing economies especially those in Asia and Latin America. These economies experienced strong recoveries in 2010, but fiscal and monetary policies have remained accommodative. Policymakers have been reluctant to tighten too soon lest the recovery in the U.S. proves to be short-lived. This, however, increases the risk that policymakers will be behind the curve especially if U.S. growth were to be strong. The recent rise in food and commodity prices adds to this risk. Inflation is not an immediate threat to the U.S., but it may become an issue in the coming years, given the extremely loose monetary policy and the bias to remain accommodative until employment is clearly on the mend. With the amount of money that is being pumped into the U.S. economy and very large budget deficits, there is a risk that investors could eventually lose confidence in U.S. assets and the U.S. dollar.

Fourth and relatedly, excessive global liquidity could fuel asset price bubbles and plant the seeds of a sharp boom/bust cycle. Real estate values in many countries in Asia have already hit or surpassed their historical peaks. Equity markets have pulled back somewhat, but remain elevated. Even in the U.S., a strong recovery this year, for example, a 20 to 30% rise in the S&P, would increase the probability of a more painful adjustment down the road.

Finally, geopolitical and global policy risk is higher, and perhaps more unpredictable than it has been for some time. In the Middle East, the ouster of President Mubarak in Egypt was unexpected. Demonstrations have emerged elsewhere in the Arab world.

The momentum of popular uprising could continue for some time, raising the risk of political disruption in oil rich states or states that control key shipping routes like Algeria, Bahrain, Libya and Yemen. The risk premium in oil prices and volatility in oil markets could thus continue to be high. More generally, with economies growing at different speeds, and continued imbalances among countries, policymakers will need to work hard and cooperate closely to avoid conflicts over trade, monetary policies, exchange rates and capital flows.

Let me now turn to the medium-term outlook. A major change in the post-crisis environment is the increasing importance of the large emerging economies, anchored by Brazil, Russia, India, and China; widely known collectively as the BRICs.

The Global Financial Crisis seems to have given impetus to those who forecast that the West will decline with the rise of China and other emerging markets. This is an extreme view. Some rebalancing in economic power will happen; and indeed is a good thing. But the U.S. will remain the global power, and more important, a leader in terms of ideas, technology and the depth and liquidity of its financial markets. With these strengths, America is likely to remain the single most important source of global prosperity for many years to come.

And these are not just words. More than a third of GIC's investments are in the U.S. GIC has offices across the U.S. which employ more than 100 investment professions. Despite the shift in economic power and GIC's desire to take advantage of opportunities in the emerging world, the U.S. will continue to be a prime destination for GIC's investments for many years to come. Of course, the U.S. faces some daunting medium to longer-term challenges.

First, there is America's growing public indebtedness. Government debt is burgeoning and persistent current account deficits have led to growing indebtedness to foreigners. The recent recession and the rising costs of health care and entitlement programs such as Social Security, along with the rising cost of servicing national debt, will claim large shares of future revenue. Aging and deteriorating infrastructure in the U.S. require large investment outlays, which would put further pressure on government finances.

While a Greek-like debt crisis is unlikely to happen in the U.S., the cost of servicing such debts could have negative consequences for the long-term health of the U.S. economy. Longer-term fiscal sustainability will require difficult reforms of entitlements. These are complex issues and a quick fix is unlikely. Solving these problems will require bipartisan cooperation. However, with determined and farsighted leadership, there is no reason why America cannot surmount these problems as it has done in the past. And as observed by Mr. Winston Churchill, and I quote his words, "You can always count on Americans to do the right thing after they have tried everything else."

[Laughter]

Second, America needs a well-educated labor force, but its education system, particularly K-12 and the bulk of the primary and secondary schools, are not training students for the new knowledge economy. This is not to say that the U.S. is not able to compete. The U.S. spends twice as much on higher education as compared to the major OECD countries. American universities top world-ranking tables. Americans publish more scientific papers and win more Nobel prizes. The U.S. system sets the global standard, but there are parts of the U.S. education system that lag badly behind the rest of the world.

Finally, I worry that the U.S. is becoming increasingly insular in outlook. With its current levels of immigration, the U.S. is one of the few developed countries that may avoid demographic decline and keep its share of the world population, but this could change if xenophobia, concerns over jobs, or reactions to terrorism closes its borders. Against these challenges are America's deep and enduring strengths: openness, innovativeness and entrepreneurship.

If the U.S. remains open, immigration would be one of its strengths. In contrast to other developed countries, immigration will dampen and slow down the expected aging of populations and keep the U.S. as the third most populous country in the world decades from now. Equally important are the benefits of immigration for America's soft power. Attracted by the upward mobility of American immigrants, people want to come to the U.S. America has the great advantage of being able to attract the brightest and the most energetic young people from around the world and give them the opportunity to thrive in America's open and vibrant economy and society.

The U.S. remains an innovative and competitive economy. The World Economic Forum has ranked the U.S. fourth (after Switzerland, Sweden, and Singapore) in global economic competitiveness. The U.S. economy leads in many new growth sectors, such as information technology, biotechnology, and nanotechnology. And the U.S. also has seen significant innovation in what might be called “old world” sectors like agriculture and manufacturing. The U.S openness to globalization, if it continues, will also drive productivity improvements.

And the results are impressive. The U.S. is still a leader in research and development spending among the large countries, while American inventors registered more patents than the rest of the world combined. U.S. venture capital firms invest 70% of their money in domestic startups. A 2010 survey by the Global Entrepreneurship Monitor ranked the U.S. ahead of other countries in opportunities for entrepreneurship because the U.S. has a favorable business culture, the most mature venture capital industry, close relations between universities and industry, and an open immigration policy.

Innovation has also driven American companies abroad to take advantage of the growth in emerging market economies. In doing so, America's openness, innovative and entrepreneurial zeal have again been enduring sources of strength.

In summary, the economic outlook for 2011 looks better than in recent years. Problems and challenges remain both in the short as well as the longer-term, but I believe that America has enduring strengths which will revitalize the U.S. economy and throw up many opportunities for profitable investments.

Ladies and gentlemen, the U.S. remains a prime destination for GIC's investments. With the U.S. open and receptive attitude to foreign investments, GIC will continue to invest in America. Thank you very much.

[Applause]

MS. BRENNAN: Congratulations to all our honorees. Thanks to all of you. Thank you to Noel Lateef of the FPA and all the staff for putting on this evening. Thank you.

[Applause]