

# Media Coverage

## Europe has role in Asean infrastructure boom

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*While delays in ratifying the Singapore-EU trade deal are likely, commercial activity through the corridor is growing thanks to Asean's burgeoning infrastructure boom*

2017 marks forty years of European and ASEAN diplomatic relations and it couldn't come at a more interesting time for the region and Singapore particularly.

ASEAN has been a favoured destination for European investment for more than two decades; rising to be its third largest trade partner, behind China and the US, and largest source of foreign direct investment.

Today, the economic and demographic fundamentals that have allured so many European corporates and investors to the region in the past are being set further afield.

Indeed, the 2016 EU-Asean Business Sentiment survey showed 85% of European corporates are planning to increase their regional trade and investment. By contrast, less than half of European companies in China are planning to expand.

The heightened sentiment amongst corporates is in no small part due to the infrastructure boom that is emerging within ASEAN.

For decades, infrastructure has been a point of contention for South-east Asia where hard infrastructure such as roads, railways and ports; and soft infrastructure such as water, sewerage and hospitals, have been in profound need of repair and upgrading.

With the rapid urbanisation of its 600 million strong population, ASEAN's Infrastructure is being stretched to breaking point but despite the urgent need, many projects are still in danger of not seeing the light of day because of funding restraints.

HSBC research estimates that US\$2.1 trillion of infrastructure is required across the six major ASEAN countries but current spending trends will cover only \$910 million.

China's Belt and Road Initiative (BRI) is beginning to bridge some of the funding gap and is creating the impetus for attracting foreign investment from further afield, including Europe.

At its most basic level, BRI is the Chinese government's strategy to invest and build the necessary infrastructure such as roads, rail and ports that will enable a more frictionless flow of trade between itself and more than 60 countries in Asia, the Middle East, Africa and Europe.

PwC predicts that BRI will mobilise as much as \$1 trillion of outbound state financing from the Chinese government and its banks over the next decade.

This 'Going out' policy of Chinese outbound investment has seen more than 300 Chinese-funded enterprises set up shop in 26 economic cooperation zones in eight ASEAN countries investing a total of US\$1.77 billion as of October 2016.

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While it is true that Chinese contractors will be winning project leads from China's lenders, President Xi Jinping declared at the recent BRI Forum in Beijing that China seeks to develop "win-win scenarios" for itself and host countries. He also encouraged Chinese companies to engage in commercial partnerships with local and international firms in the construction of projects across the Belt and Road.

That's where European corporates come in.

An established European corporate brings to the table relationships, know-how and most important of all, a track record.

A good example is Siemens. It has been widely reported that the German conglomerate won a \$1 billion order from Shandong Electric Power Construction 3rd company for the construction of a power plant in Saudi Arabia. Siemens has also publically declared its interest in seeking further partnerships across the Belt and Road in future.

HSBC is also seeing several of its early adopting European corporate clients involved in ASEAN infrastructure projects. German companies again, are coming to the fore specifically in relation to the supply of tunnel drilling machinery, components and maintenance for projects in Singapore. Elsewhere, Dutch and Belgium companies are being deployed for dredging and land reclamation activity linked to port projects.

The prospects for European engineering, construction, maintenance, logistics architecture and business services firms are immense, particularly given that high-speed rail projects in ASEAN countries are about to take off, including in Singapore.

Beyond Singapore's obvious regional hubbing role for large European players, the city state has significant infrastructure activity happening across the island largely thanks to the 2016 government commitment to double infrastructure spending over the next five years to SGD\$30 billion.

The focus on infrastructure, as way to secure Singapore's international connectivity and overall vibrancy, is also consistent with the strategies coming out of the government-led "Committee on the Future Economy".

Despite the size and sheer scale of the work required in ASEAN, it doesn't mean that business will fall into the laps of European corporates.

It's therefore crucial that European firms understand their competitive advantage amongst the individual needs of these different projects, build connections that will enable them to be aware of projects coming online; create partnerships and align themselves with the lead construction firm's tender; and work with trade and investment ministries to better understand the criteria for selection.

One or two successful partnerships with these players will go a long way in building goodwill and a track record thereby gaining an edge in other foreign bids.

Now that's a business strategy worth building.

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