Europe offers opportunities for far-sighted Asean firms

Tony Cripps, CEO HSBC Singapore, and Chris Davies, CEO International, Europe

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Brexit, trade pact uncertainty, and political changes have led many Asean businesses to take a ‘wait and see’ approach to further European investment over the past year.

While understandable, the old adage of “where there is volatility, there is opportunity” holds true across several sectors and countries within the European Union (EU).

Indeed, the number of Merger and Acquisition deals in the EU in the first half of 2017 was 70 percent higher than the same period last year, according to Bloomberg.

Within that, Europe’s commercial and industrial real estate is becoming particularly attractive for Singapore-based real estate and investment trusts.

City Developments Limited Hospitality Trusts, for example, recently purchased the Pullman Hotel and its office and retail components in Munich, citing the economic recovery in the region as reason for the acquisition.

Elsewhere, Frasers Property International entered into a conditional agreement to acquire an 87 percent stake in Amsterdam-based Geneba Properties, in a deal which gave them access to a portfolio of long lease logistics and light industrial properties in Germany and the Netherlands.

Asian investors are also leading the charge in the student accommodation sector.

Mapletree Investments – another Singapore-based real estate developer and manager – made its first foray into student accommodation in 2016 when it acquired 25 properties in the United Kingdom (UK).

Relatedly, Singapore’s sovereign wealth fund and real estate investor, GIC, fuelled a record US$16.2 billion of student-housing acquisitions, with an additional US$3.3 billion of deals in the first quarter of 2017.

China has been a major investor in Europe particularly in technology, advanced manufacturing, real estate and services, and its focus continues unabated.

According the Mercator Institute for China Studies, Chinese investments in the EU increased 77 percent in 2016, with Germany alone accounting for a third.

The Belt and Road Initiative (BRI) will underpin Chinese investor interest in Europe going forward.

Several countries, through tax and other business-friendly incentives, are seeking to position themselves as China’s gateway to Europe.
Poland is a prime example, and the recent state visit by President Xi Jinping attests to the importance of that relationship.

A few years ago, the idea of a direct train connection between China and Poland would have seemed improbable. Today, trains ply between Chengdu and Łódź, carrying goods between the capital of Sichuan province and Poland’s third largest city.

Whilst rail is still more expensive, the cost is off-set by the reduction in inventory and warehousing costs associated with the shorter trade cycle, which is why major electronics companies like HP, Dell, Acer and Sony are beginning to deliver goods by rail to Europe. Similarly, Volvo announced in May 2017 that it would begin to transport cars via rail cutting 66 percent travel time.

Whilst still minuscule compared to traditional shipping options, rail is beginning to ramp up.

European railway cargo carrier, DB Cargo, is reporting that more than 40,000 containers were transported between China and Germany in 2016, a record, and with expectations for this to grow to 100,000 by 2020.

The further widening of trade modes between China and Europe has implications for China's substantial supply chain across Asean over time, which will inevitably need to adapt its production and trade arrangements to accommodate the changing and faster supply-chain dynamics of rail.

In the short-term, trade between China and the EU – and Asean as a result – is beginning to bounce.

During the first five months of 2017, trade between China and Europe jumped 16 percent from the same period last year with exports of electronics rising. Given, Singapore, Vietnam, Thailand and Malaysia are all large players in China's electronics supply chain, they are seeing corresponding spikes in their exports to China and to Europe directly.

Opportunities in Europe also extend to the finance sector. As the UK and the EU deliberate over a hard or soft Brexit, several continental European countries are beginning to position themselves as a treasury hub.

The UK has always been a key entry point to Europe for Asean firms; however, there have been reports on Germany, France, Ireland, the Netherlands, amongst others, seeking to build in-country banking capabilities and infrastructure for corporates looking for a base for their European treasury centres.

This is all geared towards providing foreign corporates with a viable path for commercial continuity and for new entrants to feel confident in embarking on their European expansions plans.

While many of Europe's challenges will not be immediately fixed, they do not obscure the region's fundamental strengths. During the past decade, Asean exports to the EU grew by more than 40 percent. And whilst the template for doing business in Europe has been shifting, clearly, activity and opportunities remain for far-sighted Asean corporates interested in taking a longer-term view.

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