Media Coverage

Singapore in prime position to be China's partner

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The Republic's role as recipient, partner and enabler of China's Belt and Road initiative will extend beyond the Singapore-Malaysia high-speed rail link.

At a time when many fear the rise of protectionism, China continues to look to build relationships in South East Asia.

The final communique at the September G20 summit in Beijing set out a roadmap for reviving global economic growth: citing fiscal and monetary coordination, structural reform and the need for improvement in multilateral trade and investment as being very important.

China's Belt and Road Initiative (BRI) will certainly assist in bring focus to some of these ambitions.

BRI is an ambitious and multi-faceted strategy to improve physical infrastructure and financial and policy conditions between China and 60 other countries spanning Asia, the Middle East, Africa and Europe with an aim to enhancing trade and investment.

The countries involved together account for 29% of global GDP and 63% of the world's population.

Singapore's infrastructure needs, openness to foreign investment and proven track record in getting projects off the ground mean that there is significant foreign interest in getting involved in Singapore's infrastructural development plans.

Some of that foreign interest will come from China who, in 2014, directly invested $US116 billion overseas, with Singapore being among the largest beneficiaries. And the pipeline remains strong.

In the 2015/2016 budget, the Singapore government committed to doubling its infrastructure spending over the next five years to SGD$30 billion in 2020.

The key focus for investment will include developing the Cross-Island, Jurong and Thompson MRT lines, the North South Expressway; Changi runway and terminal expansions; and the consolidation of port facilities at Tuas and of course our share of the High Speed Railway infrastructure.

Chinese companies will certainly want to be involved in these projects, but doors will also open for local companies to be brought on as sub-contractors.

Beyond the immediate construction work, there are significant downstream opportunities for Singapore business services companies in engineering, construction, architecture and logistics, and while many of HSBC's clients are already plugged into these opportunities, government bodies such as the Singapore Economic Development Board are setting up platforms for local firms to explore business opportunities with larger Chinese companies.

Over the past decade, Asean economies have continued to grow making maximum use of existing infrastructure; however, generally it would be true to say that a point has been reached where structural constraints within region cannot be ignored.

China can bring its considerable technical expertise in infrastructure development to Asean, and in turn, the region can provide a ready market for China to export knowledge, experience and knowhow, in addition to perhaps lowering project costs in the region.

We can see this happening as we speak. According to a United Nations 2014 World Investment Report, more than USD50bn in infrastructure projects, involving Chinese companies, are expected to be completed in Asean between 2013 and 2017.

But who will pay?

HSBC research estimates that USD2.1 trillion of infrastructure is required across the Asean 6 countries but current spending trends will cover only US910 million.

To address the apparent funding gaps, governments in the region are beginning to cooperate with the private sector to make their infrastructure projects more appealing to foreign investors.

Indonesia is one example. Since coming into power last July, Indonesian President Joko Widodo has announced a five-year US$455 billion plan to upgrade the country's power plants, ports and land transport facilities.

Last year, Jakarta committed to an infrastructure budget of US$22 billion, up by more than 50% year-on-year.

The need for cooperation between the public and private sectors in Malaysia is growing, too.

Under its 10-year Economic Transformation programme, Kuala Lumpur is aiming to attract some US$444 billion in investments involving the private sector including their share of cost for developing the High Speed Railway linking the Malaysian capital with Singapore.

And there are a growing number of institutional investors interested in a full range of products who are looking at investing directly in the Asean infrastructure space through private placements and convertible bond offerings.

In this regard, Singapore is perfectly placed to be a regional connector of capital supply and demand.

Its experience in public and private placements, deeper capital markets and project finance means it can connect international investors with projects in the region and makes it a crucial financial centre for end-to-end financing support. This applies equally to long term project finance and shorter term heavy equipment needs.

The Singapore Stock Exchange is also actively involved in encouraging Chinese companies to become more involved in Singapore through IPO listings, the issuance of Fixed Income bonds, undertaking mergers & acquisitions, establishing cross-border fund management services and other capital markets services.

Beyond capital raising needs, the maturity of Singapore’s financial services industry and availability of innovative foreign exchange, trade finance, treasury and risk management solutions are unsurpassed in the region and make it the obvious locale for international companies seeking to tap into BRI projects within Asean.

Singapore has also built a vibrant and connected ecosystem of business services that can support regional infrastructure sector activity providing expertise in design, engineering, marketing, legal and regulation – a prime reason why World Bank chose to locate its Global Infrastructure Facility here.

Clearly, it is early days and BRI’s full impact will not be fully known for years or even decades to come. But the intent is serious and the evidence of its initial impact is already there to see.

Singapore’s infrastructure needs, its open economy, financing expertise and political willingness to embrace BRI place it in a prime position to be a key partner to China.

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