Media Coverage

China firms' going global gives Singapore major hub role

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2016 was the year that Chinese companies truly went global. Collectively, they announced over USD225 billion of acquisitions abroad in 2016 - more than double the total announced in 2015.

While a large part of Chinese foreign direct investment - whether they are acquisitions or other types of investment – will be infrastructure focused, that will not be the only sector that benefits.

In recent years, China's focus has shifted from buying what the country needs to what it wants; from basic resources to assets such as brands and technology that cater to the demands of an affluent consumer society.[1]

This is all part of the evolution of China's overseas direct investment (ODI). Investment in the Belt and Road region is showing a similar trend. In 2015, the five countries - Singapore, Russia, Indonesia, the UAE and Turkey – collectively accounted for about 90 per cent of China's total ODI in the Belt and Road region, with Singapore alone taking up more than half (representing an amount equivalent to at least US$6.4 billion), and investment going into financial services, manufacturing, wholesale and retail services.

At the same time, the profile of those doing the buying has changed - Chinese private sector companies are now overtaking state-owned enterprises (SOEs) as the major outbound investors. According to China's Ministry of Commerce, non-SOE enterprises accounted for 65 per cent of total ODI for the first 9 months of 2016.

Case in point: in 2016, the Alibaba Group paid a whopping USD1 billion for a controlling stake in online retailer Lazada Group, in order to tap into the region's lucrative consumer market. Lazada followed suit in November with the acquisition of Singapore-based online grocer, Redmart.

A major driver of China's going out strategy is to internationalise its currency, the Renminbi. As one of the largest recipients of China's investment and the third largest offshore clearing centre, Singapore has a big role to play in this.

Increased regional capital expenditure spend is expected to have a significant element of Renminbi investment, resulting in its increased use as a trade, transaction and cash management currency. In addition, Singapore is expected to remain the preferred location for regional treasury centres of both Chinese and international institutions directly participating in the Belt and Road strategy in Southeast Asia, resulting in increased capital and project finance through Singapore.

Singapore's position as a Renminbi hub has been validated through the extension of the Renminbi cross-border lending scheme through the Chongqing Connectivity Initiative, the renewing and enhancing of its bilateral currency swap arrangement, and the doubling of the Renminbi Qualified Foreign Institutional Investor scheme quota to 100 billion Renminbi.

Singapore corporates have demonstrated foresight as early adopters of the currency. While the Renminbi's volatility may have triggered concerns in the near term, its susceptibility to market forces is actually indicative of its journey towards a mature global currency. In fact, the recent *HSBC RMB Internationalisation Study* showed that Renminbi usage by corporates in Singapore has almost doubled in a year to 26 percent, from 15 percent in 2015.

The internationalisation of the Renminbi has come a long way - the finish line is almost within sight - but more confidence measures need to take place before it establishes itself as a full-fledged reserve currency.

That said, Singapore’s connectivity with the Renminbi is a two-way street and usage will be bolstered by Singapore’s investment into China as well.

The launch of the Shenzhen-Hong Kong Stock Connect (SZHKSC), and the recent announcement to introduce a bond trading link dubbed “Bond Connect” are both examples of developments that have ignited considerable interest among HSBC’s Singapore-based clients; they are also another reminder of China’s commitment to opening its capital markets and the opportunities that come with it.

SZHKSC introduces foreign investors to not only the world’s 5th largest marketplace at over USD 3 trillion in market capitalisation, but also to a diversified selection of small, private companies that are the mainstay of China’s “new economy”, that account for over 50% of the companies listed on the exchange.

Finally, the recent inclusions of Chinese onshore bonds in fixed income emerging market and regional government bond indices by significant industry players are promising, and may pave the way for the eventual inclusion of Chinese stocks and bonds in global indices.

These are certainly developments to watch out for in the future - the impact for investors everywhere, including those in Singapore, would be significant.

As China continues to balance between reform, development and stability, it may have to increase its focus on certain types of capital flows for the benefit of the broader economy in the short term.

However, China’s significant progress in financial reforms, capital account opening and the internationalising of the Renminbi shows Beijing’s commitment in this direction.

In the long run, this bodes well for Singapore and the ASEAN region. As one of the largest recipients of China’s investment and a major financial hub, Singapore is definitely a key enabler and beneficiary with a major role to play.

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