

Ravi Menon: Stepping up the Chongqing-Singapore connection

Keynote address by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the Singapore-China (Chongqing) Financial Conference, Singapore, 4 September 2017.

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Vice Mayor Liu Guiping, distinguished guests, ladies and gentlemen, good morning.

More than 2000 years ago, the Silk Road connected, by land and sea, the major economies of the time, enriching the lives of many people along its routes.

- ♦ And now 2000 years later, Chongqing, one of China's "super-cities", is part of the effort to revive this great heritage.

Chongqing is strategically placed.

- ♦ It is a pivotal node on the One Belt, One Road, connecting the growing economies of South and Southeast Asia with the rest of China
- ♦ It is also an important city along the Yangtze River Economic Belt and a key player in the overall development of the Western Region.
- ♦ In short, Chongqing is a cornerstone of regional connectivity.

Singapore is proud to be a partner to Chongqing in this historic project, through the Chongqing Connectivity Initiative, or CCI.

- ♦ And so, I am happy today to welcome you to the second Singapore-China (Chongqing) Financial Conference, to take stock of the progress we have made together and to set new goals for the future.

China and Singapore – a vibrant economic relationship

The backdrop to CCI is, of course, the larger China-Singapore economic relationship – one of the strongest in Asia.

- ♦ China is Singapore's largest trading partner. Singapore is China's fourth largest trading partner in ASEAN.
 - ♦ Between 2000 and 2016, China-Singapore trade has increased seven times, to more than USD 80 billion.
- ♦ Singapore is the largest foreign direct investor in China.
 - ♦ Since 2010, Singapore's direct investment into China has grown by an average 13.4% each year.

Chinese financial institutions have significantly increased their presence in Singapore in recent years.

- ♦ Bank of China and ICBC have expanded considerably in Singapore over the past 4 years.
 - ♦ They have set up in Singapore their regional centres– for commodities, trade financing, RMB trading, private banking, and debt capital markets.

Other Chinese banks have established in Singapore their first international operations.

- ♦ Earlier this year, the Shanghai Pudong Development Bank opened in Singapore its first overseas branch outside of China and Hong Kong.

- ♦ China Construction Bank opened its infrastructure services and private banking centres in Singapore.
- ♦ China Merchants Bank established in Singapore its only international private banking centre outside of China and Hong Kong.

This vibrant economic connection between our two countries rests on the bedrock of a strong bilateral relationship that has grown and matured over the years.

- ♦ When President Xi Jinping and Prime Minister Lee Hsien Loong met in Hamburg in July this year on the side of the G20 meeting, they reaffirmed our close ties and discussed how China and Singapore could strengthen cross-border collaboration.
- ♦ In the past few months, various leaders of our two countries have met, always with the same purpose: to broaden relations, build connectivity, boost mutual prosperity.

Progress of the chongqing connectivity initiative

Against this strong economic relationship between our two countries, the Chongqing Connectivity Initiative (CCI) has made remarkable progress.

- ♦ Trade between Chongqing and Singapore has been growing at a healthy annual average of 5.2% in the last five years.
- ♦ Annual direct investment between our two cities has more than doubled during this period, from RMB 7.4 billion to RMB 22.2 billion (US\$1.2 billion to US\$3.2 billion).

The financial co-operation pillar of the CCI has helped Chongqing corporates to raise offshore financing from Singapore's financial centre.

- ♦ As of end-2016, 39 cross-border financing deals amounting to RMB 22 billion have been completed.
- ♦ The average financing cost for these deals in 2016 was about 4.86%, a good 70 basis points lower than the average interest rate for one- to three-year RMB loans in Chongqing.
 - ♦ The savings in financing costs amounted to RMB 152 million.

Chongqing companies have expanded into Asia, with the support of Singapore financial institutions.

- ♦ The China Chongqing International Economic and Technical Cooperation Group (CICET), is the first Chongqing state-owned enterprise to set up in Singapore.
- ♦ United Overseas Bank (China) supported this significant move.

Collaboration through the CCI is starting to unlock financing channels for small and medium-sized enterprises in Chongqing.

- ♦ OCBC Bank Limited and Chongqing Rural Commercial Bank are working on innovative solutions to provide cross-border funding to small and medium-sized enterprises in Chongqing.
- ♦ One of our panel sessions later will be discussing this topic in greater depth.

The CCI has become the major artery that connects Singapore to Chongqing financially. But more than that, it has the potential to help make Chongqing the beating heart of the Western Region.

Let me suggest four areas of financial collaboration in the next phase of CCI.

- ♦ first, unlocking private sector financing for infrastructure projects;
- ♦ second, expanding the role of capital markets in financing growth;
- ♦ third, developing risk management solutions to support investment; and
- ♦ fourth, strengthening financial capabilities and mutual learning.

Unlocking private sector financing for infrastructure projects

First, private sector financing for infrastructure projects, especially in the context of the Belt and Road Initiative. The CCI can serve as a key priority demonstration project to operationalise the Belt and Road Initiative.

The Belt and Road Initiative is breath-taking in its strategic vision.

At one level, it is about promoting economic growth in the countries of Asia through infrastructure development.

- ♦ The Asian Development Bank estimates that developing Asian countries will need to invest US\$1.7 trillion annually in infrastructure until 2030 to maintain their growth momentum.

But at a deeper level, the Belt and Road Initiative is about bringing together the countries of Asia through greater connectivity – deeper links of transport and communications, stronger flows of trade and investment, greater movement of people and ideas.

- ♦ The Belt and Road's potential scope for connectivity is perhaps unmatched in human history.

As an international financial centre in the heart of Asia, Singapore can play a useful role in financing and advancing Belt and Road projects, particularly in Southeast Asia.

- ♦ Chinese banks in Singapore have committed more than RMB 500 billion (USD 73.4 billion) in financing Singaporean companies involved in Belt and Road projects, including the issuance of project bonds.
- ♦ China Construction Bank Singapore branch issued RMB 1 billion (USD 145 million) of Belt and Road Initiative bonds in August last year.
- ♦ And in May this year, Bank of China Singapore branch issued Belt and Road Initiative bonds worth RMB 4 billion (USD 600 million).

Expanding the role of capital markets in financing growth

Second, the CCI has embarked on a demonstrative project to expand the role of our capital markets.

- ♦ This complements the role of banks in financing growth and development.
- ♦ Specifically, we should facilitate the participation of institutional investors in development projects. Why?

China has many public-private partnership (PPP) projects, where the state and companies involved own and operate infrastructure assets.

- ♦ In Chongqing itself, RMB 800 billion worth of PPP projects are expected to be in the pipeline between 2015 and 2020.

But infrastructure assets are illiquid by nature. The capital invested is locked up and not available for use in other development projects.

- ♦ If we can securitise these PPP assets, we can help free up capital and diversify funding sources.
- ♦ We can make these securitised assets available to long term investors such as insurance companies and sovereign wealth funds, or even retail investors through a listing.

As the largest hub in Asia ex-Japan for Real Estate Investment Trusts and Business Trusts, Singapore is well-placed to partner China to help securitise or list Chinese assets into the Singapore market.

- ♦ Singapore investors are familiar with China's industrial real estate assets.
- ♦ Singapore's financial institutions also have a long history of experience with China-based assets and infrastructure assets.
 - ♦ Nine of the 32 REITS listed on the Singapore Exchange¹ invest in Mainland China properties.

There are several advantages a listing in Singapore can bring.

- ♦ First, Singapore has a more diversified pool of investors compared to the local markets in the Western Region. This helps to ensure adequate liquidity for the securities.
- ♦ Second, the REITs listed in Singapore tend to fetch higher yields than those listed in other developed markets.
- ♦ Third, the Singapore market has a reputation for high quality assets and strong governance. This will help raise the profile of REITs listed in Singapore.

I am pleased to note that currently, we have an ongoing demonstrative project where Shanghai Pudong Development Bank is looking to securitise a portion of its client's assets as a REIT in Singapore. This innovation could inspire similar deals under the CCI.

Developing risk management solutions to support investment

Third, we can work together to develop risk management solutions to support CCI investments. Infrastructure projects are often exposed to large risks like natural catastrophes.

- ♦ Just last year, Chongqing experienced disruptions due to floods and heavy rain.
- ♦ More recently, in June 2017, Sichuan Province's Mao County experienced a tragic landslide.
- ♦ About 12% of the Western Region's GDP in 2016 was contributed by agriculture, this is no small number. When natural catastrophes occur, crops, homes and public infrastructure are destroyed or damaged.

Financial markets can play an important role in mitigating such risks.

- ♦ An innovative example of this is an orange index product developed by the Changshou District Government here in Chongqing just four months ago.
- ♦ This product compensates farmers if the price of the blood orange index is lower than the price stated in the sales contract.

In Singapore too, we are developing mechanisms to assess, manage, and transfer disaster risks. Allow me to share one example which utilises state-of-the-art data aggregation.

- ♦ Asia Risk Transfer Solutions (ARTS), a Singapore start up, has developed a risk analytics platform for pricing and managing index based insurance products.
- ♦ ARTS' crop platform in India has reduced the time taken for underwriters to calculate agriculture insurance premiums, from days to a matter of hours.

- ♦ ARTS is now exploring a similar pilot in China, working with local government and private agencies, as well as local and international insurers.

Strengthening financial capabilities and mutual learning

Fourth, there is scope for Chongqing and Singapore to expand on financial training cooperation and learn from one another through “people to people connectivity”.

Let me highlight two encouraging examples of ongoing training cooperation under the CCI.

- ♦ The China Insurance Regulatory Commission is working with the Singapore College of Insurance to conduct training to about 300 management personnel of Chongqing insurers.
- ♦ UOB Singapore will be conducting training for financial institutions and corporates in Chongqing on a variety of topics, including foreign exchange risk management.

Conclusion

Let me conclude.

During these last two years, the CCI has been the springboard for many collaborations between Chongqing and Singapore. But we are only at the beginning of our journey.

This forum is a good platform to generate ideas for Chinese and Singapore companies to collaborate on, whether it is to meet the demands of funding, manage risks, or share expertise and knowledge.

I wish you fruitful discussions. Thank you.

¹ In addition to these 32 REITs, there are another six stapled REIT-Business Trust securities listed on the Singapore Exchange.