Chinese firms ramp up investments in Singapore, a strategic location in both ASEAN and the Belt and Road network

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Singapore's container port is pictured against the city skyline on April 24 last year. China has been Singapore's largest trading partner since 2013. AFP

City-state a magnet for FDI

It might be argued that Singapore rolls out the red carpet better than many countries, particularly when it comes to attracting foreign direct investment (FDI).

Perhaps the prime example is Singapore's relationship with China, which has become the top foreign direct investor in Singapore.

China has been Singapore's largest trading partner since 2013, with bilateral trade in goods exceeding S$137 billion ($103 billion) last year, according to statistics from the city-state's Ministry for Trade and Industry.

Also, the *China Going Global Investment Index 2017* report published by The Economist Intelligence Unit (EIU) in December revealed that Singapore has become the most attractive destination for Chinese overseas direct investment, eclipsing the United States which traditionally held that spot.

From property to gasoline filling stations, finance, food and beverage, and even bicycles, the Chinese have entered the city-state in a big way.

For instance, in September, oil giant Sinopec successfully bid to operate a filling station in Singapore's neighborhood of Bukit Timah, after its earlier winning bid in February for a site in Yishun. It is expected that fuel retail operations will start in 2018.

Speaking to *The Straits Times* newspaper, oil consultant Ong Eng Tong said: "Most of the oil majors would like to divest their petrol stations. First, it is not their priority, and second, (it is due to) the coming of electric vehicles in the not-too-distant future.

"For China, I believe that they are keen to show their flag in Singapore. They are also more cash rich."

Another reason Chinese companies are attracted to Singapore is its strategic position within the Association of Southeast Asian Nations (ASEAN). This was pointed out by Li Wenlong, a senior economist with the ASEAN+3 Macroeconomic Research Office, when he spoke at the recent SMU China Forum, hosted by the Singapore Management University.

"China uses Singapore as a first investment location, before moving on to other parts of ASEAN. This is because it has conditions such as fair laws, a strong position as a financial hub and high standard of living," Li said.

Indeed, a stable political and economic climate is the top reason why the Chinese invest in a country, according to a report by the UOB FDI Advisory Unit. Other reasons include a favorable tax and regulatory environment, large and growing customer demand, government incentives and strong local business processes.

Singapore meets most of these criteria, which is why it ranks in the top four destinations in Southeast Asia that Chinese enterprises want to expand into. The other three are Malaysia, Thailand and Indonesia.

This has become even more pertinent since the launch of the Belt and Road Initiative, the China-led plan for a trade and infrastructure network that boosts connectivity along the ancient Silk Road routes. Singapore has been a big supporter of the project, and about one-third of all Belt and Road-related investments to date have been made in the city-state.

Further evidence that China is keen to engage with Southeast Asia at large are multilateral initiatives such as the China-ASEAN Expo and the proposed Regional Comprehensive Economic Partnership.

Equally compelling is the setting up of the ASEAN Economic Community in late 2015, which is intended to support the free flow of goods and labor within the region to encourage cross-border investment flows and reduce trading costs.

Chinese investors' presence in Singapore is not hard to observe. Ofo bikes are ubiquitous. The Beijing-based bicycle-sharing company entered Singapore in 2017 and its striking yellow two-wheelers can be seen all over the island.

To encourage Chinese investment in Singapore, organizations have been set up specifically for this purpose. Among them are the China Enterprise Association (Singapore), Business China and the Singapore Chinese Chamber of Commerce & Industry.

In August, the China Enterprise Association jointly announced the launch of BRI Connect with the Singapore Business Federation, which will help connect businesses who are interested in the Belt and Road Initiative.

Teo Siong Seng, chairman of the Singapore Business Federation, said at the launch: "Even though Singapore's developed infrastructure would not need additional (Belt and Road) investments, Singapore's openness, strategic location at the crossroads of East-West trade, and familiarity with cross-cultural communication, make it an ideal base for companies seeking to tap potential (Belt and Road) projects in the region."

According to the EIU report, Chinese overseas direct investment to Belt and Road countries in 2017 fell after bumper years in 2015 and 2016 — down 13.7 percent as of September — due primarily to stepped-up regulatory oversight.

However, the report said this fall is likely to be temporary, with no change in the motivation to tap new markets and acquire brands and technology.

It is not surprising that investment flows in the opposite direction — from Singapore to China — are also strong. Since 1997, China has been Singapore's top investment destination, with cumulative direct investment amounting to S$118.9 billon as of November last year.

At an inter-governmental level, the Chongqing Connectivity Initiative launched two years ago is the poster child of this relationship. As its name suggests, the initiative is devised to strengthen links between Singapore and the western region of China. This will be done through the areas of transport, logistics, aviation, finance, and info-communication technology.

But the Singapore government is not just going west. It is also looking at opportunities in the eastern part of China.

Myriad ideas for collaboration were discussed in November at the 11th Singapore-Jiangsu Cooperation Council meeting, in Suzhou, East China's Jiangsu province. The event was co-chaired by Heng Swee Keat, Singapore's finance minister, and Jiangsu Governor Wu Zhenglong.

Flows and opportunities were identified in such areas as professional services, innovation and urban renewal — all of this in East China's biggest economy, where GDP reached 7.6 trillion yuan ($1.15 trillion) in 2016 at 7.8 percent growth.

On Nov 24, Heng was in Beijing to launch the Global Innovation Alliance (GIA) (Beijing) initiative at the International Enterprise Singapore-CapitaLand Tech & Innovation Summit 2017.

Speaking at the event, Heng said: "The GIA seeks to strengthen linkages between Singapore students and enterprises with leading innovation hubs around the world.

"This is achieved through a network of alliances and partnerships to create more opportunities for tertiary students, entrepreneurs and business leaders to gain overseas experience, as well as connect and collaborate with overseas partners."

Out of these connections, many great ideas and new businesses can emerge, Heng said. "Startups and entrepreneurs can link up with resources here, such as accelerators, incubators, co-working spaces, venture capitalists, and investment funds," he said.

"Large companies are able to actively bring on board new technologies and innovative solutions from around the world through our partners' networks."

According to the report by the UOB FDI Advisory Unit, trade and investment flows between China and Southeast Asia are targeted to reach $1 trillion and $150 billion, respectively, by 2020.

"These business flows will be driven by Chinese enterprises who embody the spirit of enterprise by proactively widening their business reach across the region," the report said.

Given Singapore's efforts already, it is likely the country will be vying for a bigger slice of those pies.