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THOUGHT LEADERSHIP BRIEF

Hong Kong's Intermediary Role on Funding the BRI: How Does it Fare Against Singapore?

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KEY POINTS

- Given the scale and the cross-border nature of the Belt and Road Initiative (BRI), it is clear that major offshore centers should play a role in funding and Hong Kong is supposed to be well placed to have a central role in intermediating overseas capital for the related projects.
- The reality, though, is that offshore centers do not seem to be very relevant in financing the BRI projects. Within that context, Hong Kong and Singapore have the lion's share among major offshore financial centers.
- When analyzing the direct financing for the BRI countries after excluding money lent to Mainland Chinese banks or corporates without a clear destination or usage in the BRI, we find that the role of both Hong Kong and Singapore in intermediating BRI projects remains limited. When comparing the two, Hong Kong does not appear to outperform Singapore in any financial avenues of syndicated loans, offshore bond issuance, equity financing and asset management.
- We argue that Hong Kong has a long way to go to play a leading role in the financing of the BRI, an issue becoming more urgent in the aftermath of the COVID-19-19 pandemic.
- The summary focuses on one of the financial markets covered in the paper, namely syndicated loans. For bond and equity markets as well as institutional investment, please refer to the full paper (published as HKUST IEMS Working Paper No.77).

ISSUE

China's Belt and Road Initiative (BRI) focuses on infrastructure development and investments to enhance regional and global connectivity between China and the world. Given the cross-border nature of the BRI and the estimated USD 5 trillion needed to accomplish its goals, it's clear that major offshore centers should play a role in intermediating savings for BRI projects. In Asia, Hong Kong and Singapore are the most obvious choices to do so given their proximity and relationship with Mainland China.

Hong Kong is well placed to finance infrastructure projects under the BRI as it boasts a large number of foreign banks that can intermediate foreign savings (Garcia-Herrero, 2017). It would also benefit from its pole position in the offshore RMB market (Chan, 2015) given that Chinese authorities have long tried to accelerate the use of the RMB as a financing vehicle for BRI projects. Furthermore, Hong Kong's stock market with the most IPOs globally in 2019 would serve as an optimal platform to provide equity financing to companies operating in BRI countries (HKGCC, 2019). Hong Kong should also leverage its Greater Bay Area (GBA) position to make BRI financing more appealing for investors (KPMG, 2018).

However, Hong Kong has not achieved its potential to be a financial hub for BRI projects due to strict listing rules (Cheung and Hong, 2019). Companies in infrastructure are largely regarded as "risky" by the Securities and Futures Commission of Hong Kong unless several criteria are met. These include the need for a large shareholder by a state-owned enterprise in Mainland China, a sovereign wealth fund and a substantial listed company or globally active institutional investor. In this brief, we look at the intermediary role of Hong Kong in financing cross-border BRI projects and compare it with Singapore, a similar offshore financial center and competitor.

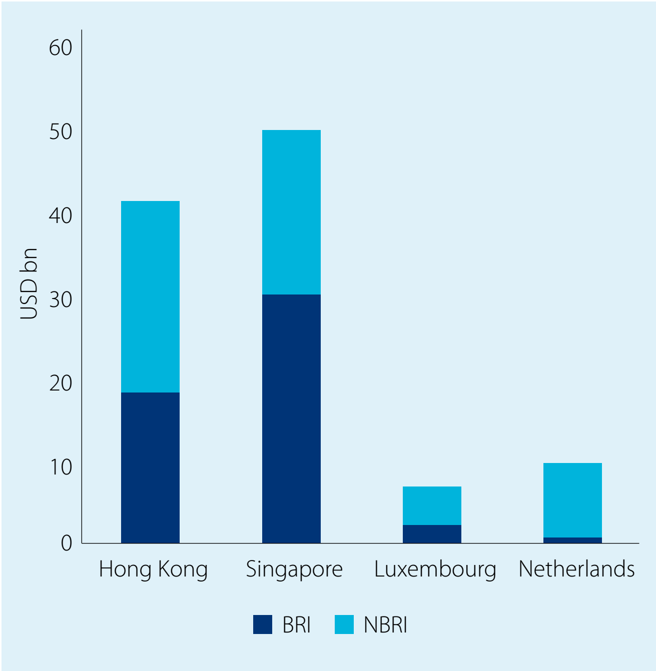
ASSESSMENT

Hong Kong's financial sector has become increasingly dominated by Mainland Chinese banks and corporates in both lending and borrowing. This trend makes it difficult to know whether money is being moved back to the onshore market or being spent on the BRI. Therefore, we only include direct financing in this analysis at a cost of underestimating Hong Kong's overall role in financing the BRI. We have also opted for a narrow definition of BRI projects due to difficulties in tracing liquidity and because onshore liquidity cannot be directly compared to offshore markets in Hong Kong and Singapore. To this end, we focus on four avenues for the financing of international projects: syndicated loans, offshore bond issuance, equity financing and asset management, and look at how much attention is paid to BRI geographies for each of these channels in Hong Kong and Singapore.

Syndicated loans

When comparing to other major offshore centers in Europe, such as the Netherlands and Luxembourg, it is clear that Hong Kong and Singapore have a key advantage over their European counterparts in cross-border syndicated loans both to BRI and non-BRI countries. Singapore has absolute advantage in both the value and number of deals when compared to Hong Kong, of which non-BRI accounts for more than 67% of total deals.

Figure 1. Value of Syndicated Loans into BRI and Non-BRI Regions, 2011-2019

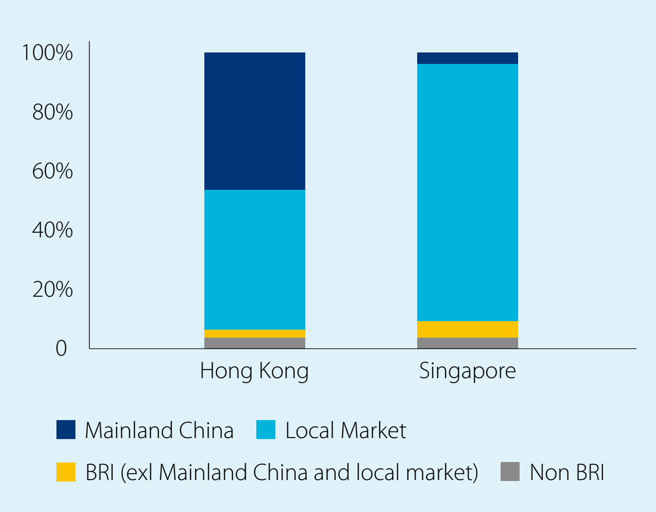


We see similarities but also fundamental differences in BRI financing between Hong Kong and Singapore. Syndicated loans in Hong Kong increased after 2015. However, the boom is not very related to BRI projects, at least not in the direct financing towards BRI countries . This draws deep contrasts with the previous period between 2011 and 2015, when cross-border syndicated loans in Hong Kong were dominated by BRI regions such as Thailand, Macau and South Korea even though they were very low in value. In 2016, cross-border syndicated loans increased for the BRI but consisted of high value single deals. For example, a sudden increase in 2015 is due to MGM China Holdings Ltd. which accounts for 45% of that year's total. Two large deals in 2016 by Berli Jucker PCL and Inari S.a.r.l together account for 77% of the total value.

In Singapore, we see a surge in the number of loans from 25 in 2014 to over 100 in 2015. This can be explained by an increase in syndicated loans for ASEAN markets, which are historically closer to Singapore than Hong Kong in terms of economic and financial ties.

While the different markets along the BRI regions may seem huge, very few syndicated loans from Hong Kong and Singapore are directed towards these markets. It should be noted that Hong Kong includes subsidiaries from Mainland Chinese companies, which are classified as Hong Kong based. In the case of Singapore, most syndicated loans stay in Singapore. We find that when we exclude local financing, Hong Kong and Singapore are not yet reaching their full potential and remain either domestic as far as bank lending is concerned, or concentrated on transactions with Mainland China.

Figure 2. Composition of Syndicated Loans



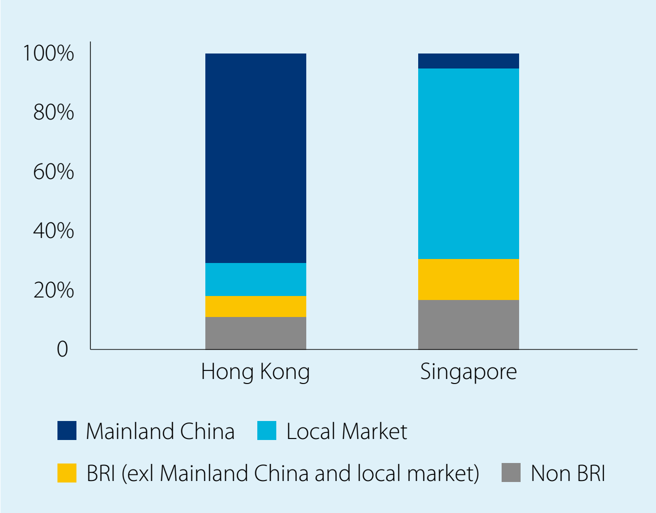
When looking at the sectoral composition of these loans we find that lending for the consumer and financial sectors dominate Hong Kong and Singapore syndicated loan markets. We also find higher currency diversification in Hong Kong than in Singapore, the majority of loans are in the USD, the EUR and the HKD, implying that the RMB is not yet a popular option.

Foreign banks tend to lend more to projects in BRI countries than Chinese banks despite strong policy push. This might be driven by the historic importance of BRI geographies for foreign banks operating in Hong Kong, such as HSBC and Standard Chartered. Although syndicated loans make up only a small amount of bank lending, loans to BRI countries intermediated by Hong Kong is lower and fluctuates more than in Singapore.

Bond Issuance

Similar to what we see in syndicated lending, Hong Kong and Singapore's offshore bond markets are dominated by non BRI issuers when excluding Mainland China and local issuers. And Singapore has more direct exposure to BRI countries than Hong Kong. Bond issuance in Hong Kong is growing steadily, but much of the growth remains in non-BRI countries. In contrast, Singapore's BRI bond issuance sees more growth than non-BRI, but has lower value than Hong Kong.

Figure 3. Composition of bond per market (Value of deals, 2011-2019)

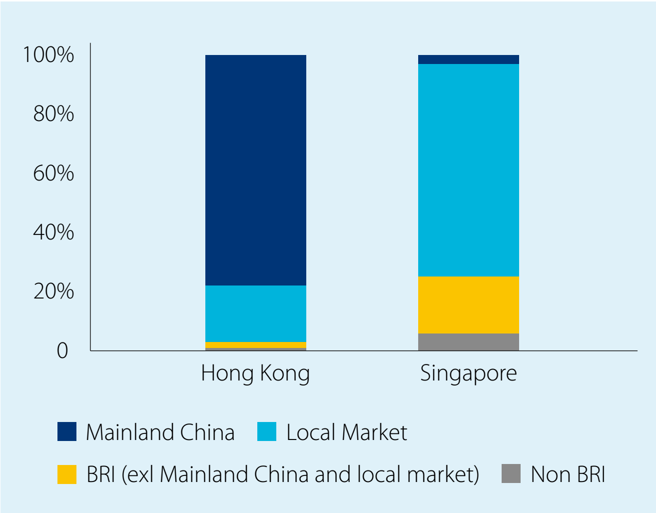


Source: Bloomberg

Equity finance

Equity financing in Hong Kong or Singapore by BRI companies is extremely limited, For Hong Kong, the key players are local and Mainland Chinese companies. As such, the share of issuers in the BRI is higher in Singapore than in Hong Kong stock market, of which the fund channeled towards the BRI has decreased. The peak in BRI equity financing in the Singapore stock market happened in 2011, when Hutchison Port Holdings Trust issued a USD 5.4 billion IPO. If Hong Kong were to be excluded from our sample in Singapore, the equity financing for the BRI would be even more insignificant.

Figure 4. Composition of IPO per market (Value of deals, 2011-2019)



Source: Bloomberg

Asset management

Data for asset management is scarce making it difficult to pinpoint exactly how much is being channeled into BRI projects. However, we find that Asia Pacific makes up most of the fund market, more so in Hong Kong than in Singapore. This is likely due to the inclusion of Mainland China, which was not the case for syndicated loans, bond issuance or equity financing.

RECOMMENDATIONS

Hong Kong is well placed to have a central role to intermediate overseas funds into projects related to the BRI. This is both because of its massive size in terms of assets under management and bank deposits, but also its strong rapports with Mainland Chinese companies. However, we do not find evidence that Hong Kong plays a larger role in intermediating savings than its competitor, Singapore. This is particularly true for syndicated lending and equity financing.

Whilst Hong Kong's role is somewhat more significant compared to Singapore in bond issuance and passive funding through institutional asset management, we find that investment into Asian assets dominates institutional investors strategies. But the scarcity of data makes it difficult to conduct a detailed analysis and draw more specific conclusions.

Given the above, it seems clear that the role of offshore centers in financing BRI projects is still limited when compared to the sheer size of the projects which have been or are being carried out. When comparing Singapore and Hong Kong, the latter does not stand out in any particular way. In that regard, Hong Kong has a long way to go if it wants to play a leading role in cross-border financing of the BRI. This might not have been so urgent in the past as Chinese policy banks were doing most of the financing, but the situation might be starting to change as these banks turn inwards to support China's stabilizing growth in the aftermath of the COVID-19 pandemic.

Reference:
Alicia Garcia-Herrero, Hanrui Li and Gary Ng. *Hong Kong's Intermediary Role on Funding the BRI: How Does it Fare Against Singapore?* HKUST IEMS Working Paper No. 77.
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