Atlantic Partners Asia: The Impact of COVID-19 and Geopolitics on Asia’s Financial Centres

Impact of the Coronavirus

COVID-19 has changed the world as we know it. It has shaken to the core how we perceive every aspect of our professional and social fabric, in the way we work, play, travel and interact. It has single-handedly destroyed economies, livelihoods and entire industry sectors while crippling healthcare and social support infrastructure globally. Despite varying opinions and approaches to containment and treatment strategies, the one thing that is universally accepted is that this will take a very long time to recover from economically, and that there will be a permanent impact on many things we took for granted.

While initially viewed as an “Asian” problem, the explosion of the coronavirus onto the global arena in such a rapid and ruthless manner has shocked global markets. As a result, we have also seen an increasing – and worrying – politicisation of the crisis, with “strongman” leaders around the world using it as an opportunity to bolster their power and voter base by going back to first principles. Chest beating and rhetoric has become mainstream, causing concern and disruption worldwide in a time that we should be coming together, not splitting apart.

From a business perspective, COVID-19 has also shown the world that a change in investment principles may help us to avoid or significantly reduce the impact of such crises in the future. The focus on biosecurity around food sources, security of supply and traceability of each item of food has become even more important in light of the virus, and appears to almost be an evolution in parallel to the earlier focus on things like renewable energy. Governments and private sector investors in tandem are therefore increasing allocations in technologies and processes that will protect and secure their nation’s future growth trajectory.

Around the Indo-Pacific region, countries have accelerated their thinking to focus on what we really need in 20 to 30 years’ time – historically this was always a question of core infrastructure needs, which remain critical, but COVID-19 has shown it is also a matter of feeding the population, keeping them healthy, and managing the changing climate. This translates to billions (and perhaps trillions) of dollars allocated to food security, agri-tech and industrial innovation while maintaining a strong commitment to ESG principles, with sustainability, bio-security and traceability being core to the conversation.

China – where to from here?

In recent times, and even before COVID-19, we have seen China starting to move away from pursuing the Belt-and-Road Initiative (BRI) as a purely Chinese play. This has been evident in projects APA is involved in such as Port City in Sri Lanka, as well as various infrastructure projects in Myanmar, Cambodia and Laos where cheap bilateral funding coming from China has largely run dry over the past year. Furthermore, Chinese project sponsors have begun to look beyond their borders for both financing and construction partners to make the projects more international and inclusive of other partners on both EPC and financing, thus more in line with – and acceptable to – global markets and investors.

The recent situation has only entrenched this to some extent whereby it appears China has other more pressing priorities, such as coming to an acceptable agreement with the US on the trade war, and fighting both the health and financial aspects of the COVID-19 including cushioning the impact on its economy.

This has led a number of these countries to seek alternative funding solutions for infrastructure development from global markets, by way of capital markets, limited-recourse project financing, and standalone private investment from global and regional funds.
The Rise of the Lion

The other elephant in the room will be what happens with Hong Kong. The backlash to China’s strategy regarding Hong Kong and quest for support from both the people and businesses there, has caused considerable discomfort for non-Chinese businesses in the territory. It is not unforeseeable that any further escalation of the situation will result in a mass departure of regional headquarters from the city, if not already underway. The thing is, these businesses have to go somewhere, and many of them are already co-located in another safer, stable democracy that is poised to experience record economic growth in the years to come – Singapore.

Asia is and will be the economic engine of the world for the foreseeable future, and having a strong regional representation will remain of utmost importance to many global corporations and financial institutions. They will naturally look for all of the features of a city that represent many of their values and morals from home, while being intrinsically linked into the regional economy and having considerable financial, political and international firepower to stand on its own two feet and set an example for other countries.

We are seeing Singapore increasingly become the domicile of choice in Asia, for both financial and social reasons. It has a dynamic and diversified economy, is one of the world’s biggest investors and has a robust domestic investment and start-up ecosystem, and is arguably the food capital of the world. Singapore also maintains almost no crime, a very high quality of life and one of the world’s highest GDPs per capita – all crucial considerations for stability and prosperity. While no city would celebrate success due to another’s demise, the recent actions in Hong Kong can only be described as an “own goal”. Hong Kong should be celebrated for its uniqueness and as a gateway between China and the world, not integrated into a unitary system.

The importance of the more traditional economies of Europe is and has been waning for some time, and many of the post-WW2 intergovernmental forums have had to evolve over recent years to look further east and be more inclusive of this reality. The wealth, population and global influence has also moved in the same direction, meaning countries such as Singapore now have more relevance on the international stage and will no doubt be afforded more recognition of its global role not only as a champion of the ASEAN region, but as a truly international financial centre and a world city.

The Markets

Despite what is happening around the world, the Asian G3 bond markets are stronger and more resilient than ever, where we have seen US$130 billion of new issuances YTD (compared to US$141 billion for the same period last year and US$129 billion in 2018)\(^1\). Credit spreads and new-issuer premiums are also back to pre-COVID levels with further tightening expected, which makes markets attractive so long as the low interest rate environment continues to subsist, something we expect will remain for some time yet thereby encouraging even more new bond issuances in the coming months.

On the back of an unprecedented amount of liquidity injected by the Fed and growing optimism surrounding the easing of coronavirus lockdowns, markets shrugged off poor economic data and escalating US-China tensions. Equities continued their upward rally, and volatility retreated from record highs. Over the past two months, the Fed has aggressively mobilized both monetary and liquidity policies in a bid to shore up the financial system, and has since snapped up approximately US$1.5tn of Treasuries and another US$600bn of agency mortgage-backed securities as part of its pledge to buy an unlimited quantity of government debt\(^2\).

Contrary to some opinions, we don’t feel that this is creating a bond-bubble, but rather, delivering much needed international financing to emerging economies at a reasonable price, while solving the issue of a lack of yield to institutional investors who are barely meeting hurdle rates. Assuming this does have the desired benefit of lifting emerging economies up, then this promotes the desired effect that bond markets were created for in the first

---

1 Source: UBS Research, Bloomberg as of 28 May 2020
2 Source: UBS
place – for example, countries like Indonesia and Philippines, which are both booming compared to 20 years ago and form part of the backbone of the ASEAN economy today.

**Outlook**

Overall we at APA remain positive, and very bullish and excited on what the medium to long-term future holds for the Indo-Pacific region. Our firm is increasing its investment activities, leading more transactions, opening new offices, hiring more staff and growing new business streams to take advantage of the opportunities that are before us.

Initiatives such as BRI have evolved into a truly global program, intellectually championed by China but with more integrated participation. Infrastructure spending is at an all-time high and funding remains cost-effective in emerging markets, and investment related to climate change, ESG and food security have grown exponentially in importance. These are all critical factors in evolving and learning from difficult world events, be that things like war, or more modern evolutions such as financial crises and the coronavirus, in order to create a stronger and more resilient future.

We still face a lot of uncertainty in the region, from instability in governments, to right-wing extremism, left-wing activism and irrationality in general. These factors have the ability to not only create uncertainty in global markets, which in turn causes economic woes, but also risks exacerbating crises like COVID-19. We will still not know the full impact of the coronavirus for some time, and we have still not fully contained the spread, despite some countries being able to do this better than others. Hence, global panic and pandemonium is still a significant risk despite the common ability among nations to show strong economic resilience, give comfort to their people and investors, and generally assist the world in its recovery – thereby achieving a more positive outcome.

**Arv Sreedhar**  
*Managing Director & Head of Corporate Finance*  
*Atlantic Partners Asia (APA)*

**About Atlantic Partners Asia**

Atlantic Partners Asia is a regulated asset management firm in Hong Kong coupled with a corporate finance and private equity boutique in Singapore. We manage assets on behalf of institutional and sophisticated investors by utilizing Cayman SPC structures, while also advising governments and corporates on their infrastructure development and financing needs.

Our investment focus remains predominantly the Indo-Pacific region, and we back strong management teams and project sponsors who have a strong ESG focus as well as those that have a commitment to the UN’s Sustainable Development Goals. We do so through long-standing relationships with governments, MNCs, financial institutions as well as leading global and domestic players across equity, venture, hedge and sovereign funds.

For more information please contact our team members:

**Arv Sreedhar**  
*Managing Director*  
*Arv@atlanticpartnersasia.com*  
+65 8809 8149

**Lotte Snijders**  
*Vice President Corporate Finance*  
*lotte@atlanticpartnersasia.com*  
+65 8223 1859