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Flagship cooperation projects between China and Singapore

On Nov 7 2015, during Chinese President Mr. Xi Jinping's recent state visit to Singapore, China and Singapore governments both agreed that the third Singapore-China government-led project will be based in Chongqing city of China. The bilateral project will be on the theme of "modern connectivity and modern services". The initiatives planned for the project include an integrated logistics center comprising an aviation and port logistics hub; a China-Singapore modern services demonstration zone where Singapore firms can provide legal and accounting services among others; and a smart city featuring a special administrative zone for cloud computing and big data sectors. It follows in the footsteps of the first flagship joint project in China-Singapore Suzhou Industrial Park (hereinafter "SIP") and the second project in Singapore-Sino Tianjin Eco-City (hereinafter "SSTEC"). We will be introducing the highlights of flagship cooperation projects between China and Singapore in this report.

I Background

SIP was launched in 1994 to develop a model industrial township within the city of Suzhou in China's Jiangsu province. As the first flagship joint project between China and Singapore governments, a key feature of the SIP involves the transfer of Singapore's "software" – industrial development model and public-administration experience – to China. SIP covers a total area of 288 square km, among which 80 square km area belongs to China-Singapore cooperative zone. As the eastern new township of Suzhou city, SIP would be built into a modern new township and CBD of Suzhou.

In June 2014, PBOC Nanjing branch announced "Management measures on cross border RMB innovative pilot business in SIP"¹ (hereinafter "SIP measures"), which would allow eligible companies and individuals in SIP to conduct cross-border RMB transactions with Singapore on a pilot basis. The SIP measures allowed banks in Singapore to conduct cross-border RMB lending to companies in SIP, equity investment funds in SIP to make direct investment in companies in Singapore, companies in SIP to issue RMB bonds in Singapore and other ASEAN countries, and individuals in SIP to conduct RMB remittance between China and Singapore for the settlement of current account transactions and direct investment in companies in Singapore.

Similar development measures have been implemented in SSTEC. Being the 2nd flagship cooperation project between the governments of China and Singapore, SSTEC was launched in 2007, aiming to become the world's biggest sustainable city and to showcase both countries' state of the art sustainable development models. It is designed to be practical, replicable and scalable. Developed from scratch on 30 square km of non-arable and water-scarce land, the project entails building a township with eco-friendly features such as 100% green buildings, renewable energy and green transport. Targeted for completion between 2018 and 2023, the SSTEC saw the completion of an eight-square-kilometer start-up area comprising housing, an eco-business park as well as essential facilities such as schools and shops in 2013.

¹ <http://nanjing.pbc.gov.cn/nanjing/117542/117557/117517/2503305/index.html>

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In July 2014, PBOC Tianjin branch announced “Management measures on cross border RMB innovative pilot business in SSTECS”² (hereinafter “SSTECS measures”) with its detailed guidelines³, following in the footsteps of the SIP measures. The SSTECS measures also promulgated that companies that will be permitted to conduct cross border RMB transactions with Singapore need to register in the SSTECS, while banks involved include registered local banks and branches of Chinese commercial banks in Singapore.

On Oct 13 2015, new initiatives to further promote RMB internationalization through Singapore were agreed at the 12th meeting of China-Singapore Joint Council for Bilateral Cooperation (JCBC) co-chaired by Chinese Vice Premier Zhang Gaoli and Singaporean Deputy Prime Minister Teo Chee Hean. The Monetary Authority of Singapore (MAS) announced that existing cross border RMB initiatives SIP and SSTECS will be broadened to the cities of Suzhou and Tianjin, which will give more financing options to Suzhou and Tianjin corporates as well as provide financial institutions and investors in Singapore additional avenues to deploy their growing RMB liquidity in Singapore.

II Highlights of the circulars

1. Cross border RMB lending business

Banks in Singapore can conduct cross-border RMB lending to qualified companies in SIP and SSTECS. The borrowed RMB funds will be managed by balance by respective local PBOC branch. Company shall cooperate with a local domestic bank and submit relevant documents for bank’s verification to conduct the cross border RMB lending business. Also, company shall open a designated RMB deposit account for the proceeds with the interest on such accounts being paid in accordance with the benchmark deposit rate published by the PBOC. The RMB fund shall not be used in securities investment, financial derivatives, non-self use real estate, purchasing wealth management products or entrusted loan for non-group company of the borrower.

The interest rate, term and purpose of cross border RMB lending offered by banks in Singapore shall be determined through consultations between the lender and borrower in light of generally accepted commercial principles and within reasonable bounds.

2. Equity investment fund for direct investment

Equity investment funds in SIP and SSTECS can conduct direct RMB investment in corporates in Singapore and other ASEAN countries. Eligible equity investment funds shall cooperate with a local domestic bank for the investment fund remittance business, and the bank shall go through the filing-for-record procedures with local PBOC with relevant documents as below:

- (1) Information of the equity investment fund (including but not limited to the founder, fund size, investment directions, etc.);
- (2) Protocols or agreements of the equity investment fund;
- (3) Business license and organization code certificate of the equity investment fund;
- (4) Filing-for-record notice from relevant local authorities;
- (5) Outbound investment documents verified by MOFCOM;
- (6) Other materials required by PBOC

² <http://www.eco-city.gov.cn/eco/html/kjrm/zcwj/20140807/10677.html>

³ <http://www.eco-city.gov.cn/eco/html/kjrm/zcwj/20140807/10682.html>

3. Issuance of RMB bonds

Companies in SIP and SSTECH can issue RMB bonds in Singapore and are encouraged to use the RMB funds overseas. The designated local domestic bank by qualified companies to handle the issuance of RMB bonds shall submit below materials for the filing-for-record procedures with local PBOC:

- (1) Approval documents by relevant authorities;
- (2) Resolution on the issuance of RMB bonds by the Board of Directors or documents that have the same legal effect;
- (3) The bond scale, duration and purpose of the raised funds;
- (4) Issuance plans;
- (5) Financial reports and audit reports of the last three years of the issuer;
- (6) Legal opinions;
- (7) Copy of business license;
- (8) Filing-for-record notice from relevant local authorities;
- (9) Other materials required by PBOC

4. Individual cross border RMB business under current accounts and for direct investment

Individuals in SIP and SSTECH can conduct RMB remittance between China and Singapore for the settlement of current account transactions and direct investment in companies in Singapore. Individuals within SIP and SSTECH are allowed to conduct the cross border RMB settlement business involving cross-border e-commerce business. Domestic banks shall obtain the required license to cooperate with qualified Internet payment service providers for the mentioned business.

Also, individuals within the pilot areas can set up overseas non-financial companies or obtain the ownership, control, management and other rights of existing overseas non-financial companies in the form of newly-set ups, mergers and acquisitions, equity participation, etc. Proceeds generated from direct investment can also be retained for reinvestment overseas.

III Comments

According to MAS, the expansion of existing cross border RMB initiatives also allowed companies in Suzhou and Tianjin to repatriate 100% of the proceeds raised from bonds issued in Singapore. This greater flexibility will provide a stronger incentive for companies in Suzhou and Tianjin to raise RMB funds in Singapore. Also, the recent announced cooperation project in Chongqing planned to extend to Chongqing the same cross-border RMB initiatives that currently exist with respect to Suzhou and Tianjin, together with other financial cooperation moves such as to double Singapore's quota under the RMB Qualified Foreign Institutional Investor (RQFII) from RMB 50 billion to RMB 100 billion. Further, Singapore and China also look forward to enhancing financial connectivity to support projects under the "One Belt and One Road" initiative, in order to facilitate access by Chinese companies to ASEAN markets through Singapore.

Recent years have witnessed China's increasing use of RMB in cross-border trade and various efforts to liberalize capital accounts. These efforts are accompanied by the building of infrastructure necessary to facilitate cross-border trade and investment. With more deepening bilateral relations between China and Singapore, China will continue to strengthen cooperation with other countries and accelerate the RMB internationalization process. More detailed guidelines of the flagship cooperation projects are expected to be announced very soon.

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The interpretation and actual implementation of the development on the flagship cooperation projects between China and Singapore should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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