Opinion **Singapore**

Singapore is well-positioned to play both sides of decoupling

The city state has a ringside seat for the shifting investment patterns caused by US-China tensions

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Singapore, perhaps sooner than anyone else, appears to have tacitly accepted deglobalisation as inevitable © Olaf Schuelke/Alamy

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When conversations in Singapore turn to souring geopolitics, there are some who cannot resist pointing out the upside. Of course nobody wants a new cold war, assures one former top official. But if such a situation were unavoidable, and blocs started forming more rigidly and confrontationally around a US-China split, Singapore might be better positioned than anyone to play both sides.

Yet as companies and investors position themselves for what could well be a difficult 2023, little over the past 10 days has resolved the question of whether the November 14 talks between Joe Biden and Xi Jinping set some sort of floor on deteriorating relations, or whether they will continue falling dangerously as many had projected. The cold war lexicon provides easy filler for the gaps created by all this uncertainty.

Lurking behind this ominous shorthand, though, is a more intriguing, Singapore-specific nuance. Even without the risks of a new cold war, the hazards associated with deglobalisation and decoupling merit serious attention from everyone. And Singapore, perhaps sooner than anyone else, appears to have tacitly accepted both as inevitable.

There are several areas where the signs of this acceptance are already showing. The first, according to people close to Singapore's two sovereign funds and other large institutional investors, is an acknowledgment that investment criteria have institutional investors, is an acknowledgment that investment criteria have significantly changed. The relative certainties of the globalisation era are eroding fast, confides one. Everything must now be scrutinised through a geopolitical lens and with an assumption that pure economic logic, in a world where companies are forced to second-guess or hedge against geopolitics, may no longer be paramount in corporate decision-making.

By extension, said one senior fund manager, the investment prospects of individual companies should now be judged by their navigation of distinct spheres. Companies that would once have had to prove broad global growth prospects to make their investment case, they said, can theoretically now reach the same point by demonstrating an ability to grow in either a China sphere or a western one.

Second, the deglobalisation theme, say Singapore-based investment bank heads, is also making its mark on mergers and acquisitions. Singapore's increasingly strong position in Asian dealmaking has given its financial services sector a clearer view of how companies are thinking their way into a more decoupled world. Regional dealmaking, predicted one banker, will focus on building resilience in a decoupled world. Globalisation will fade as the central driver in favour of growth within, but not necessarily across, the new lines being drawn by US-China tensions.

A third signal, described by lawyers, is the influx of Chinese capital and the desire by mainland companies to establish themselves as international, Singapore-based entities.

From the beginning of 2020 to the end of 2021, the number of family offices based in Singapore surged from 400 to 700. Lawyers dealing with the deluge say that more than half of these are from China and predict that the number could be over 1,500 by the end of this year, amid a huge backlog of unprocessed applications.

At the same time, Chinese companies are ascribing Singapore a central role in their preparations for a more polarised business environment with less ready access to global capital. A growing number of those that have already felt the pain of decoupling, or can readily envisage it, have initiated processes to redomicile in Singapore. Some are specifically doing it, say lawyers, because their international strategies have been thwarted by geopolitics. Technology companies, their lawyers add, have been the earliest to make the move. Other sectors will surely follow.

Some of the moves have clearly been accelerated by a desire to escape China's restrictive zero-Covid policies. Others may simply be to do with the protection of family wealth from the uncertainty of existence under Xi. But both the family offices and the redomicilings, say advisers, are symptoms of a growing panic that decoupling is now real, with few options better than Singapore. The wish to make the move there from China, said one lawyer, may have been around for some time; but the need to do so has not been felt until now and it is the decoupling narrative that has caused that change.

Singapore, through luck and judgment, may have made itself the right place at what, for the world at large, is the wrong time.

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