

Trading Port to Financial Hub: An Analysis of MNCs Role in Singapore's

Financial Growth

Introduction

Since its independence, Singapore has transformed itself from a small trading economy to one of the world's leading financial centres, with multinational corporations (MNCs) playing a significant role in this development process. The establishment and expansion of international banks, investment firms and private equity companies have brought foreign capital, expertise and global financial networks into Singapore, strengthening the country's position as a regional hub for finance and banking. The International Monetary Fund (IMF) notes that the presence of major financial firms has been a major contributor to the development of Singapore as an internationally connected banking hub (IMF 2019 Report). On the other hand, the local authorities such as the Monetary Authority of Singapore (MAS) supported the growth of a stable and well regulated financial arena. Private equity has also grown as international firms have increasingly used Singapore as a base for accessing investment opportunities in the ASEAN and Asia Pacific region. Therefore, MNCs have not simply participated in Singapore's finance sector; they have helped shape its growth as a major international hub for finance.

Key Industries

Banking

MNCs have progressively contributed to the development and internationalization of Singapore's banking sector by bringing in foreign capital and financial expertise through specialised visa programs such as the ONE Pass (Ministry of Manpower, Govt. of Singapore). This has further connected the island nation on a

more global scale, making it popular as a “worldwide” market (HSBC) and a magnet for regional banking. The International Monetary Fund (IMF) found that Singapore’s banking system is highly developed and internationally connected, with foreign banks accounting for approximately half of the country’s financial assets (IMF 2019 Report). The influence of MNC banks is particularly evident in the presence of foreign banking groups such as HSBC, Citibank, and Standard Chartered, which were designated as domestically important banking groups along with Singapore's local banks such as DBS. These international banks provide corporate lending and wealth management services, connecting Singapore to the world.

Figure 1 (IMF 2019 Report)

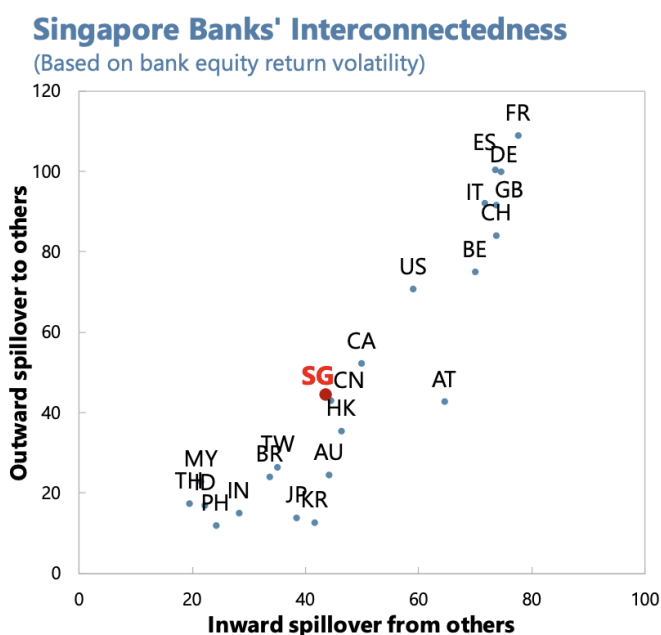
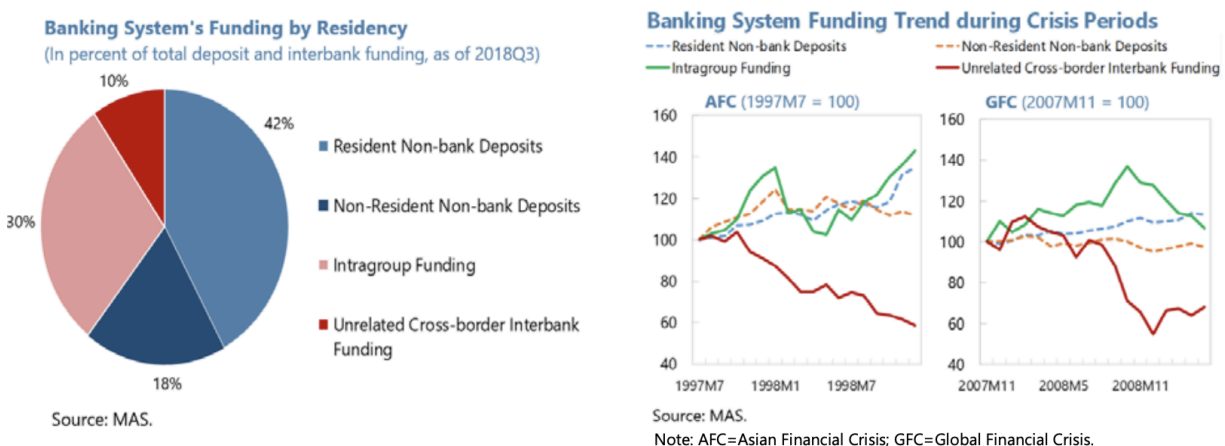


Figure 1 depicts IMF’s analysis of the interconnectedness of Singapore’s banking sector. As shown in the graph, Singapore records substantial levels of both inward and outward financial spillover in comparison with its Asian neighbors, indicating that its banking system is strongly connected with those in other countries. This interrelation reflects Singapore’s role as a regional hub, which MNCs helped create. Additionally, in its 2019 report, the IMF revealed that “the financial system is broadly resilient”. Which suggests Singapore’s inviting economic policy holds scope for substantial investment and the presence of

foreign financial institutions within the banking system, which is capable of withstanding financial shocks such as the Asian Financial Shock as one such example (101 SG).

Figure 2 (IMF 2019 Report)

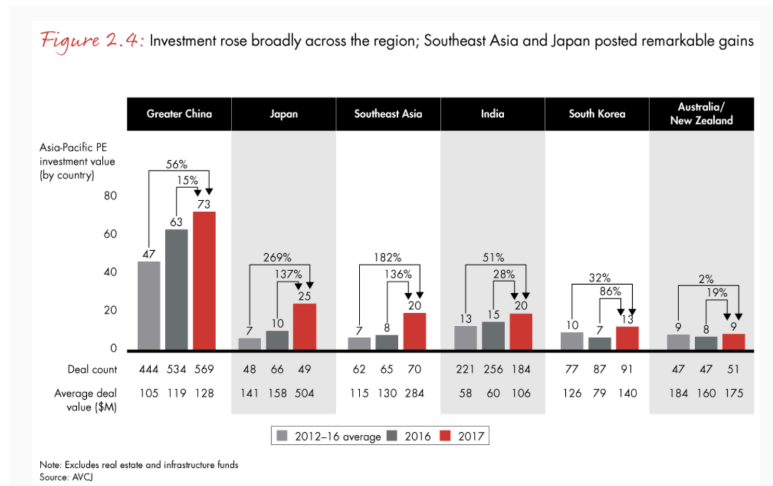


In addition to the interconnectedness of Singapore's banking sector, the diversity of the investor groups in Singapore's banking industry too have enabled the country to excel as a hub for regional and global banking. As shown above in Figure 2, 42% of Singapore's banking-system funding comes from resident non-bank deposits, while 30% comes from intragroup funding and 18% from non-resident non-bank deposits. Most importantly for the role of MNCs, the 30% share of intragroup funding demonstrates the importance of funding between foreign banks and their parent institutions. The IMF explains that this significant reliance on intragroup funding reflects the large presence of foreign banking branches and subsidiaries in Singapore. This shows that Singapore's banking sector is not only connected to international markets through lending but also through international financial stimulation. In view of the aforesaid ideas of interconnectedness and self efficiency, MNC banks have expanded the size of Singapore's banking sector; their international network and services operate within a resilient regulatory environment, and they have helped establish Singapore as a global banking rostrum.

Private Equity

MNCs have also contributed proactively to Singapore's finance sector through the expansion of private equity, bringing in foreign capital and investment expertise into Singapore and the broader ASEAN region. Singapore's Economic Development Board (EDB), drawing on research by Bain & Company, identifies Singapore as Southeast Asia's investment epicenter, highlighting the rapid expansion of investment in private equity across the region. In 2017, private equality deal values increased by 75% to US \$15 billion, marking a notable augmentation after years of relatively stagnant investment (EDB, Bain & Company). This growth was accompanied by an expanding international investor base. Interestingly, the number of active investors completing private equity transactions worth at least USD \$10 million reached 124 in 2017, 45% higher than previous years. These investors included local and international funds and investment institutions, as reported by Bain; the presence of these international firms has allowed Singapore to function not only as a destination for investment but also as a regional base through which MNCs can access opportunities across ASEAN. This is critically important because the integration of ASEAN economies allows companies backed by private equity to expand across national borders and access larger markets, with higher consumer markets. The EDB further notes that deeper ASEAN collaboration encourages companies to expand across borders, keeping Singapore as its nexus, creating opportunities for investors. Furthermore, the impact of private equality extends beyond the capital that is available. After an in-depth reading, Bain's research reveals that successful private equity investors help their client companies improve leadership and commercial strategies to expand across the region. For example, Bain found that companies using commercial acceleration programs achieved more than 20-30% higher median returns on investment (Bain & Company).

Figure 3 (Bain & Company Report 2018)



In 2018, Bain further noted that the ASEAN region experienced significant growth between the years 2016 and 2017, with a growth rate of 136 % as shown in Figure 3. This is a key indicator of the importance of the region as well as its crucial potential in the private equity domain. Therefore, it is evident that the expansion of MNC private equity firms has affected Singapore’s financial sector not only by increasing the flow of foreign investment, but also by introducing international expertise into the ASEAN region by serving as a hub and base for such companies.

Conclusion

Overall, MNCs have played a pivotal role in transforming Singapore’s financial sector from a primarily domestic and regional system into a highly interconnected global financial hub. The expansion of the country’s international banks has connected Singapore to global money and strengthened its position as a regional banking centre. Similarly, investment banking has increased Singapore’s access to international capital markets by connecting businesses and investors across Singapore, ASEAN and the wider globe. The growth of private equity has further increased FDI while bringing international expertise and networks to the region. However, the success of these MNCs has not occurred independently. Singapore’s

stable regulatory system and fiscal environment, particularly the Monetary Authority of Singapore, have created the conditions that allow international firms to operate, expand, and call Singapore home. Together, these factors have enabled Singapore to be recognized as a major financial hub and gateway to the broader ASEAN region.

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