New networks of capital

How growing investment links between Asia and the Middle East have the potential to reshape global capital flows

Future Trends 2024

HSBC | Opening up a world of opportunity

About this report

Bringing together data on capital flows between Asia and the Middle East with insights and analysis from independent specialists and our own experts, this report offers new perspectives on one of the world's fastest-growing and most exciting investment corridors.

Our aim is to trace the growth of investment links between key economies in both regions, helping institutional investors and multinational corporations capture the opportunities created by new networks of capital connecting Asia and the Middle East – and to explore how these links could change the dynamics of global capital flows over time.

We focus on three key markets from each region: China, India and Singapore in Asia; and Qatar, Saudi Arabia and the United Arab Emirates in the Middle East. These economies have been selected to provide a representative sample of the economic and demographic diversity within the two regions, as well as the varied sectoral and investment opportunities that are emerging as economic and governmental ties become stronger. They also play an important role in global capital flows and are home to capital markets that are increasingly accessible to international investors.

This report traces the growth of investment links between key economies in both regions, aiming to help institutional investors and multinational corporations capture the opportunities created by new networks of capital connecting Asia and the Middle East.

In addition to the HSBC executives who contributed to this report, we would like to thank **Bilahari Kausikan**, former Permanent Secretary at Singapore's Ministry of Foreign Affairs and Chairman of the Middle East Institute at National University of Singapore; **Louis Kuijs**, Chief Economist, Asia Pacific, at S&P Global Ratings; **Nasser Saidi**, Founder and President of Nasser Saidi & Associates and former Chief Economist and Head of External Relations at the DIFC Authority, and **Ben Simpfendorfer**, Partner and Asia Pacific Lead at Oliver Wyman Forum. We are grateful to each of them for their valuable perspectives on this topic.

Contents

Foreword

Just the beginning

We're in the early stages of a profound long-term shift in how global savings are recycled into investments – and Asia and the Middle East are central to this transformation.

Over the past 40 to 50 years, Asian and Gulf trade surpluses have made possible one of the greatest wealth creation events in history. Asia Pacific, the Middle East and Africa now account for 30% of global financial assets, with a total of USD83.6 trillion, according to BCG. While North America remains home to the largest share of financial assets at USD126.5 trillion, Asia is growing faster; excluding Japan, financial assets in Asia Pacific are projected to grow at 8% a year from 2023 to 2028 and at a rate of 9% in the Middle East and Africa – both above the global trend of 6%.[1] As of April 2024, there were 1,000 billionaires in Asia Pacific, compared to 813 in the US.[2]

The two regions' public wealth is also vast. Asia Pacific and the Middle East have nine of the world's 10 biggest sovereign wealth funds – and eight of the 20 biggest pension funds.[3 4] Yet a significant proportion of these regions' wealth continues to be invested in other parts of the world. That's partly because investors have global horizons and value diversification. It's also a legacy of several aspects of today's financial architecture, which we explore in this report.

However, new networks of capital are emerging, driven by a recognition that greater direct investment between the two regions can accelerate the delivery of economic goals. Stock exchanges in Asia and the Middle East are exploring strategic partnerships, businesses are setting up joint ventures and investors are opening offices. Investment flows between the two regions are rising fast, although from a low base.

There will be challenges along the way. Closer ties between capital markets will take time, and require an equal commitment to liberalisation on both sides. We believe this is just the beginning, though. Over the years ahead, these new networks of capital should ensure that more Asian and Middle Eastern wealth is invested in these regions – and flows between them. Increasingly large, liquid and open regional capital markets should also attract greater global investment to some of the world's most dynamic economies.

We know that many of our clients from Asia and the Middle East are already pursuing opportunities in this corridor. Our aim with this report is to shed new light on those opportunities for corporates and investors, as well to provide expert insight into how they are likely to evolve.

HSBC has been connecting Asia and the Middle East for over 130 years and supporting our clients' growth ambitions is at the heart of our strategy today. Our presence in 9 markets in the Middle East and 17 in Asia, as well as our full spectrum of advisory, capital and global market solutions, transaction banking, and financing services are here to help our clients succeed as they seek growth in this corridor. We hope you find this report useful and look forward to working with you across Asia and the Middle East.

Julian Wentzel
Head of Global Banking, Middle East, North Africa and Türkiye (MENAT), HSBC

Christina Ma
Head of Global Banking, Asia Pacific, HSBC

1 Global Wealth Report 2024, BCG, July 2024
2 World's Billionaires List 2024, Forbes, 2 April 2024
3 Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets, SWFI
4 World's top pension funds see the largest assets fall in 20 years, WTW, 11 September 2023

Executive summary

Six key shifts

Intra-regional financial infrastructure

Now

- Significant amounts of public and private wealth in Asia and the Middle East are invested outside the two regions.

In the future

- **A significantly increased proportion of public and private wealth from Asia and the Middle East is invested within and between the two regions.**
- **Enhanced regulatory frameworks and collaborations between regional stock exchanges will create additional investment and capital-raising opportunities.**
- **Growing local savings pools will deepen liquidity in domestic and regional markets, helping to attract more global investment.**

Regional capital markets

Now

- Scale and liquidity has been limited until recently.
- Historic restrictions on foreign ownership are currently being deregulated.

In the future

- **New listings – including cross-listings – will increase the scale and liquidity of local capital markets.**
- **Concluding this liberalisation will improve foreign investor access and facilitate greater direct investment between the two regions.**

Index weightings

Now

- Asia and the Middle East are a small component of global equity and bond indices, which influence capital allocations to the regions. Saudi Arabia, Qatar and the UAE together account for 0.64% of the MSCI ACWI Investable Markets Index, the benchmark for USD4.6 trillion of investments. Mainland China, Hong Kong, Singapore and India have a total share of 5.16%.[5]

In the future

- **Larger, more liquid and more open capital markets in the two regions will lead to bigger weightings in global indices.**
- **The rise of regional asset managers will increase allocations to domestic and regional markets, and could lead to demand for new indices that challenge current definitions of "emerging" and "developed" markets.**

Asset management

Now

- The domestic asset management sector in Asia and the Middle East is relatively under-developed. Only six of the world's 50 biggest asset managers are from Asia Pacific, and none from the Middle East.[6]
- The lack of large-scale asset managers from these regions inevitably limits investment in their markets.

In the future

- **Policies and incentives will support the development of domestic asset management industries in Asia and the Middle East, leading to the creation of domestic champions and local joint ventures by global asset managers.**
- **The growth of local wealth pools will encourage more global asset managers to enter these markets.**

Private markets

Now

- Private markets in Asia and the Middle East account for relatively small percentages of global AUM – out of proportion to the regions' economic stature and wealth.
- Fragmented markets within the two regions and wide range of legal and regulatory regimes are key factors in this disparity.

In the future

- **Private markets offer an opportunity for investors in Asia and the Middle East to bypass existing public markets infrastructure and commit capital directly to companies in the other region.**

Local currencies

Now

- Most trade and investment flows are denominated in US dollars.
- US interest rate expectations and US dollar movements, which may not be linked to regional macroeconomic conditions, can have unexpected effects on investment returns and the cost of capital.

In the future

- **Direct and private market investments between the two regions may increasingly be denominated in regional currencies, especially the Renminbi, mitigating the risks connected with transactions in non-regional currencies.**
- **Expect a focus on diversification to include currencies.**

5 ACWI IMI's Complete Geographic Breakdown, MSCI, 31 December 2023

6 Top 100 Asset Manager Managers by Managed AUM, SWFI

Three key opportunities

Capital flows between Asia and the Middle East are growing rapidly in both directions, catalysing opportunities for investors and corporates.

Intra-regional financial infrastructure is deepening liquidity and opening up new investment channels

Growing savings and wealth pools in Asia and the Middle East are improving liquidity in local capital markets. Enhanced connectivity between the two regions also provides a strong foundation for further growth in investment flows. The Saudi and UAE stock exchanges and their Asian counterparts have signed nine MOUs since 2018, while exchange-traded funds (ETFs) have launched in Hong Kong and Saudi Arabia, each tracking shares on the opposite side of the corridor. Asian investors have also become major buyers of sovereign and corporate bonds from the Gulf.

See page 06

Rising investment activity supports corporate growth ambitions

Direct investment between Asia and the Middle East is growing rapidly, driven by stronger government-to-government links and policy initiatives. This creates opportunities for companies to access cross-border capital through strategic partnerships and equity investments. Asian markets are among the top targets for outbound M&A from Qatar, Saudi Arabia and the United Arab Emirates[7], with a particular focus on the industrial, consumer and technology sectors. The UAE-India corridor is especially active. M&A activity in the other direction is likely to increase in the years ahead as the market matures, including in the infrastructure sector.

See page 10

Infrastructure and the energy transition are long-term themes

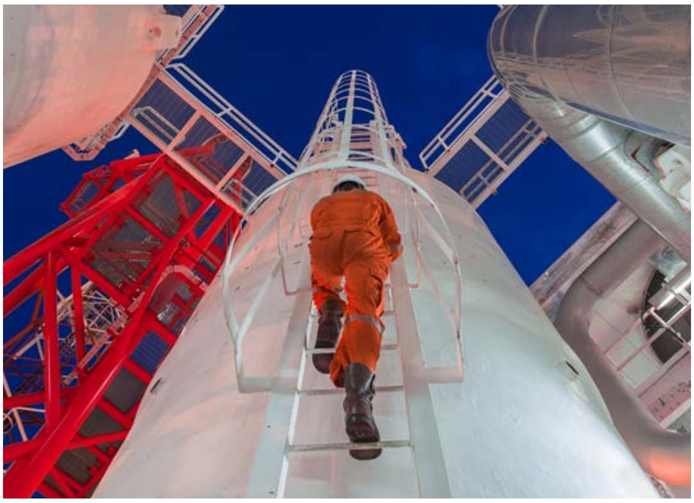
The oil and gas industry has dominated Gulf economies since the 1950s, but the imperative to diversify beyond it is quickly becoming a new source of capital flows. Clean energy infrastructure has the potential to be a USD466 billion opportunity in Saudi Arabia and the UAE alone. Renewables and other energy transition assets (e.g. electrified transport and green hydrogen) and social projects in both the Middle East and Asia require access to expertise, capacity and advanced technology, as well as international capital. These demands can drive new liquidity into the corridor.

See page 12

7 The UAE comprises seven emirates, including Abu Dhabi, the capital, and Dubai

Investment flows

The story so far



"Investment will follow increasingly strong trade links, which are part of a broader shift of global supply chains"

Julian Wentzel
Head of Global Banking, Middle East, North Africa and Türkiye (MENAT), HSBC

In today's global financial architecture, the majority of the wealth being created by rapid economic development in Asia and the Middle East is invested elsewhere in the world. The world's biggest and most liquid capital markets are in developed economies. Global benchmark indices therefore favour these markets, perpetuating the flow of global capital towards them. Saudi Arabia, Qatar and the UAE together currently account for only 0.64% of the MSCI AWCI Investable Markets Index, the benchmark for USD4.6 trillion of equity investments. Meanwhile, mainland China, Hong Kong, Singapore and India have a total share of 5.16%.[8]

Only six of the world's 50 biggest asset managers are from Asia, and none from the Middle East.[9] Private markets are not much more effective at facilitating the transfer of capital within these two regions or between them. For example, Asia Pacific accounts for about 6% of global private credit AUM[10] and 27% of private equity assets[11], compared to about half of global GDP on a purchasing power parity basis.

This architecture is beginning to change. Recent moves to open up local capital markets in Asia and the Middle East have attracted the attention of global investors. BlackRock, one of the leading global asset managers, in April announced a major new joint venture for a multi-asset investment management platform in Saudi Arabia.[12] The inclusion of Indian government bonds in JP Morgan's emerging market indices is expected to bring in billions of dollars of institutional capital over the next few years.[13] As wealth pools deepen at both ends of the Asia-Middle East corridor, governments are pursuing bold initiatives to attract intra-regional investments that will reduce their exposure to external financial shocks and support their rising status in the global financial system.

"Capital flows between the regions are still in their infancy, but it's inevitable that investment will follow increasingly strong trade links, which are part of a broader shift of global supply chains," says Julian Wentzel, Head of Global Banking for the Middle East, North Africa and Türkiye (MENAT), HSBC.

However, building closer connectivity between regional markets through initiatives such as cross-listings will require comprehensive alignment between markets.

"A large, liquid dual listing would be the real test of the depth of capital flows, but that will require a high degree of equivalence in market standards" says Wentzel. "While we are moving in that direction, it will naturally take time to harmonise standards in areas like disclosure and listing rules on both sides of this corridor."

8 ACWI IMI's Complete Geographic Breakdown, MSCI, 31 December 2023
9 Top 100 Asset Manager Managers by Managed AUM, SWFI
10 Private credit can help fill Asia's growing financing gap, Nikkei Asia, 19 February 2024
11 Asia-Pacific Private Equity Report 2024, Bain & Company, 24 March 2024
12 BlackRock signs agreement with PIF to accelerate growth of capital markets in Saudi Arabia by launching a Riyadh-based multi-asset investment management platform, PIF, 30 April 2024
13 The financial bridge between China and the rest of the world, HSBC, 23 October 2023
14 The Gulf Cooperation Council comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

New corridors emerge

Economic, geopolitical and domestic policy dynamics are driving rapid growth in the networks of capital that make up the Asia-Middle East corridor. Geopolitical dislocation creates uncertainty, but also opportunities says Bilahari Kausikan, former Permanent Secretary at Singapore's Ministry of Foreign Affairs, pointing out that in the context of higher trade and investment barriers between the West and China, increased connectivity between the GCC and other Asian countries would beneficial for both regions as they seek to diversify relations to mitigate the risks of major power rivalry. There will be "an acceleration of the trend of bilateral investment between the GCC and Asia," he says. "This will accelerate the strategic partnership more generally."

Drive to diversify

Economic diversification is a top priority for GCC countries. While the oil and gas industry remains critical to Saudi Arabia, the UAE and Qatar, their governments are pursuing transformational agendas to deliver sustainable growth models that are less dependent on hydrocarbon revenues and create high quality employment opportunities that meet the expectations of young, educated populations, as well as expanding fiscal revenues.

This drive to diversify is also prompting regional sovereign investors to invest abroad, seeking sustainable, long-term returns and strategic partners that can support the emergence of domestic industries with their technology and know-how. At the same time, inbound investment benefits from wide-ranging reforms that have created national ecosystems that are more open to all forms of investment, with changes in areas such as foreign equity and company ownership, corporate governance and property rights. These economic reforms are a key pillar of strategic initiatives such as Saudi Arabia's Vision 2030, the Qatari National Vision 2030 and We the UAE 2031.

Foreign ownership rights in selected markets[14]

	Companies	Listed equities	Real estate
Qatar	**Up to 100%**	**100%** of QSE listed companies	Permitted in designated locations
Saudi Arabia	**Up to 100%**, with restrictions in some sectors	**49%** aggregate foreign ownership of Tadawul-listed companies (except for strategic investors)	Restricted to own use, and subject to ministry approval
UAE	**100%**	**100%**	Permitted in designated locations

Source: Invest Qatar, Invest Saudi, National Center for Archives & Records, UAE Ministry of Investment

Rising wealth and investment

Intra-regional financial infrastructure is deepening liquidity and opening up new investment channels

"Deepening connectivity between Asia and the Middle East will only increase their relevance to global portfolios. Over the next 10 years total FDI flows between the two regions are projected to exceed USD270 billion, almost doubling the flows in the previous decade."

Monish Tahilramani
Head of Markets & Securities Services, APAC, HSBC

1

The growth of wealth assets in the Middle East and Africa is driving the development of local and regional asset management industries. Global financial wealth is forecast to grow by USD24 trillion from 2022 to 2027, expanding at a rate of 6% a year. These two regions are leading global growth: wealth assets in the Middle East & Africa are growing at 8.2%, while Asia Pacific is not far behind at 7.4%.[15]

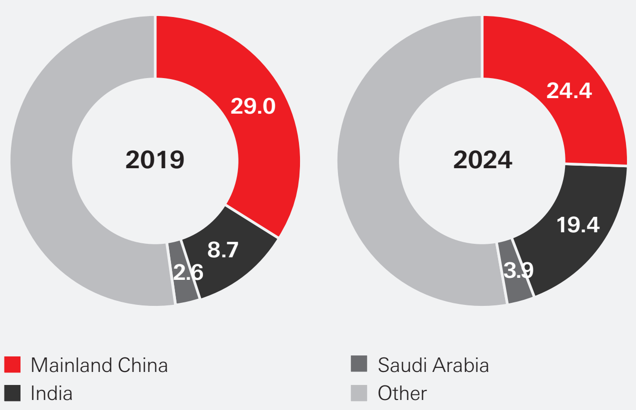
Domestic asset managers are channelling this wealth into local capital markets. In India, for example, the collective strength of mass retail is a key factor in the growth of the equity market. Technology has allowed millions of new investors to start trading shares on their mobile phones, and mutual funds are pooling these investments – including amounts as small as 500 rupees (around USD7) a month.

Assets in India's mutual fund industry have risen more than sixfold in the past 10 years, surpassing INR57 trillion (USD629 billion) in April 2024.[16] This has created a deep, liquid and more resilient capital market, in turn leading to new investment opportunities. India was a bright spot for IPOs in 2023, with the number of new listings surging by 56% and more companies going public than in any other jurisdiction.[17]

It is a similar story in Saudi Arabia, where stock market liberalisation has helped unleash a rush of IPOs. New listings reportedly raised over USD2 billion in the first half of 2024, and the biggest deal of the year – for hospital operator Fakeeh Care Group – was set to double that total in May after the public offering sold out in less than an hour.[18] HSBC acted as sole financial adviser and joint bookrunner on that deal.

MSCI EM Weightings change

%



Source: MSCI

Equity investment flows

The GCC's ambition to attract global capital to finance economic diversification has led to increased openness to foreign investment in the region, which has been met with interest in China, says Candy Ho, Managing Director for Greater China, Markets and Securities Services, HSBC. "The Middle East is seen as open for business, with the potential for Asian investors to participate in the fast growth of local economies."

The inclusion of Saudi Arabia in the MSCI Emerging Markets Index in 2019 created new demand from index-tracking global investors, and the weighting of Saudi-listed shares in the index has grown from 2.6% to 3.9%, as at May 2024, part of an increasingly significant Middle Eastern bloc.[19] HSBC Global Research expects the weighting of GCC markets in the FTSE Emerging Market index to increase from 6.5% to over 10% in the next 2-3 years.[20]

The increasing presence of GCC markets and India in global indices offers another opportunity for investors in the Asia-Middle East corridor. In India's case, its weighting in the MSCI Emerging Markets index reached a new high of 20% in June 2024.[21] "Middle Eastern investors are more focused on India now than they were before – it is clearly a market that has seen a lot of activity this year with broad-based investor attention," says Dyutish Chaudhuri, Managing Director, Equity Capital Markets Syndicate, APAC, HSBC.

In 2023, Asia's first ETF tracking the FTSE Saudi Arabia Index was listed on the Hong Kong stock exchange. Then in June 2024, the China Securities Regulatory Commission allowed two new funds that that mirror the Hong Kong ETF to list on the mainland. Four months later, two exchange-traded funds tracking Hong Kong and mainland China firms debuted in Saudi Arabia.[22] Alongside these channels, nine memoranda of understanding (MOUs) have been signed between Saudi and UAE exchanges and bourses in Singapore, China and India since 2018. (See table on p.8.)

Investors on both sides of the Middle East-Asia corridor will likely benefit from further developments that make it easier to access cross-regional opportunities. "The MOUs that have been signed at the stock exchange level are laying the groundwork for multiple potential opportunities," says Russell Jacobsen, Head of China Access and Strategic Development, Equities Product, HSBC. Following the success of the Hong Kong-listed Saudi ETF, more Middle East-focused products are likely to follow, particularly after the first ETF became accessible to investors from the vast mainland China market through feeder funds listed in Shanghai and Shenzhen.[23]

"Over the next 10 years total FDI flows between the two regions are projected to exceed USD270 billion, almost doubling the flows in the previous decade[24]," said Monish Tahilramani, Head of Markets & Securities Services for Asia Pacific at HSBC. "Deepening

15 **Global wealth and asset management 2023 report,** Oliver Wyman
16 **India's mutual fund assets top record 57 trillion rupees in April, data shows,** Reuters, 9 May 2024
17 **Coming of age: A strong year for India's capital markets,** White & Case, 11 April 2024
18 **Biggest Saudi IPO of the Year Sells Out in Under an Hour,** Bloomberg, 2 May 2024
19 **Saudi Arabia inclusion and emerging markets,** MSCI, 28 March 2019
20 **HSBC GCC London Conference Takeaways, HSBC Global Research,** June 2023
21 **India's Changed — and Changing — Equity Markets,** MSCI, 5 July 2024
22 **ETFs Tracking Hong Kong, China Shares Debut in Saudi Arabia,** Bloomberg, 31 October 2024
23 **China Investors Can Now Trade Saudi Stocks on Two ETFs,** Bloomberg, 16 July 2024
24 **Asia-Middle East Corridor, HSBC Global Research,** 2 May 2024

connectivity between Asia and the Middle East will only increase their relevance to global portfolios."

During a boom in the Middle East IPO market over the past three years, 120 companies have raised a total of more than USD40 billion and added to the investment options available to global investors. Saudi Arabia has led this trend: its 37 out of 48 regional IPOs in 2023 accounted for a third of the USD10.7 billion that was raised, mostly in the energy and logistics sectors.[25] In the UAE, the continued growth of the Dubai Financial Market and Abu Dhabi Securities Exchange is also attracting new listings, including the debut of grocery chain Spinney's in May 2024. That trend has continued in 2024: nine of the 10 IPOs in the Middle East in the first quarter were in Saudi Arabia, including three on the main exchange, Tadawul. As of June 13, six companies have listed on Saudi Arabia's main market in 2024.

"The expansion of local liquidity pools is drawing international investors to capital markets across the Gulf," says Nabeel Albloushi, Head of Markets & Securities Services for MENAT at HSBC. "The recent run of IPOs reflects the region's increasing ability to attract global capital, catalysed by domestic demand."

With foreign investors only permitted to participate in Tadawul IPOs since 2017, most of the demand remains local. But Asian involvement is now visible as investors with both global and emerging market remits have taken a closer interest amid a drop-off in IPO in other markets.

Asian investors accounted for more than 17% of qualified foreign investor activity on the Saudi Exchange's main market in the first quarter.[26] In total, foreign investors held SAR380 billion (USD101 billion) of main market shares at the end of May, accounting for 3.72% of all issued capital and 10.25% of free floating stock.[27]

Bonds and sukuk

Debt markets in the Middle East are less developed than in Asia, but they are also growing rapidly. Despite global interest rate volatility, issuance of bonds and sukuk in the GCC increased 20% in 2023 to USD95 billion, with USD67 billion of that total issued in US dollars.[28] Asian debt issuers sold about USD380 billion of international bonds in 2023[29] and have diversified into local currency markets in light of higher US dollar yields, adding to the depth and breadth of options available for fixed income investors.[30]

The growing maturity of the bond markets at both ends of the corridor validates Asia and the Middle East as funding and investment destinations. The dynamic can open opportunities for investors on either side of the corridor who are looking for alternatives to Western markets. Asian investors have become keen buyers of Middle Eastern sovereign and corporate debt.

Asian investors regularly account for more than 20% of allocations on major international debt sales from the Gulf. This proportion has remained constant despite a steady increase in volume since 2016, including the first sale by Saudi Arabia's PIF in 2022. This absolute increase, alongside a rise in debt denominated in Asian currencies and the private placement market, shows a clear growth trend. "Asian investors are increasingly expanding outside the region as they look for opportunities, and the Middle East is very much top of the agenda," says Carla Goudge, Head of Debt Syndicate, Asia-Pacific, HSBC.

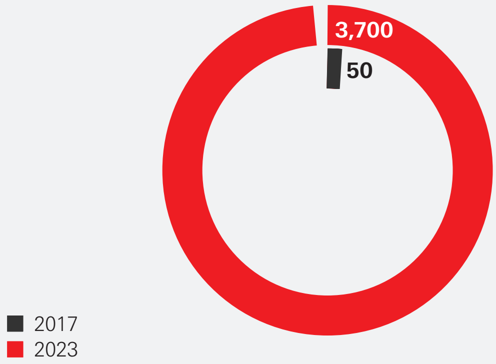
Agreements signed between stock exchanges in Asia and Middle East

		UAE	
	Saudi Arabia	**Dubai**	**Abu Dhabi**
Mainland China	**2023** Shenzhen Stock Exchange and Saudi Tadawul MOU **2023** Shanghai Stock Exchange and Saudi Tadawul	**2023** Shanghai Stock Exchange Dubai Financial Market	**2023** Shenzhen Stock Exchange Abu Dhabi Securities Exchange (ADX)
Hong Kong	**2023** HKEX and Saudi Tadawul Group		
India	**2019** National Stock Exchange (NSE) Saudi Stock Exchange (Tadawul)	**2018** Dubai Mercantile Exchange (DME) Bombay Stock Exchange (BSE)	**2018** Bombay Stock Exchange (BSE) Abu Dhabi Securities Exchange (ADX)
Singapore	**2023** Saudi Tadawul and Singapore Exchange MOU		

Source: Saudi Tadawul Group, ADX, BSE, DFM

25 MENA IPO Eye: Q4 2023 and year-end report, EY, 5 February 2024
26 Asian investors give Saudi Arabia's stock exchange a vote of confidence with rising activity, says Tadawul CEO, SCMP, 14 May 2024
27 Monthly Ownership and Trading Activity, Saudi Exchange, 30 May 2024
28 GCC Bonds and Sukuk Primary Market Analysis, Kuwait Financial Centre "Markaz", January 2024
29 Developments and Trends report, ICMA, 26 March 2024
30 Navigating Asia's credit market, HSBC, 25 August 2023

Number of qualified foreign investors in Saudi Arabia



Source: Saudi Capital Market Authority

Interest in acquisition-related financings is also gathering pace as investors become more comfortable taking higher equity stakes in Asian or Middle Eastern targets.

Challenges to cross-border investment remain, from capital controls in China and India to the comparatively limited – but increasing – liquidity in GCC markets. Saudi Arabia limits the aggregate ownership by Qualified Foreign Investors (QFIs) of a listed company to 49%. But alternative access routes exist, such as through synthetic products, and there is significant potential for many of these restrictions to be eased over time. Saudi Arabia has repeatedly lowered the qualification threshold for QFIs, for example.

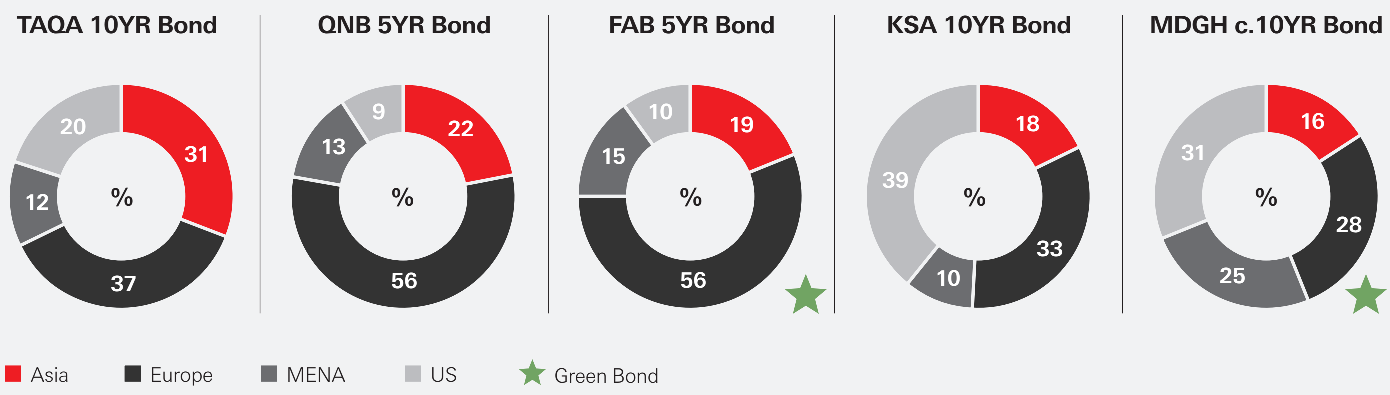
GCC sovereign wealth funds continue to commit to Asia, looking for long-term investments in large markets. They invest across asset classes, including public equities, fixed income and private markets. A growing number have also been opening new offices in Asia – putting Singapore, Beijing, Hong Kong and India's GIFT City among a select group of locations globally.

Middle Eastern family offices are likewise seeking greater liquidity and diversification in Asian markets. Singapore, home to 59% of family offices in Asia, is developing as a key regional hub for these investors, but those with a strong focus on opportunities in mainland China have also been drawn to Hong Kong. There are already signs of these family office investment flows becoming more complex. Asian investors in Middle Eastern credit are seeking exposure to higher-yielding, less well-known names, while GCC investors are deploying more capital with alternative asset managers in Asia.

There is less demand for Asian debt in the Middle East, but regional investors are noticeable participants in Asian sukuk issuances. Late in 2023, up to 30% of the USD3.8 billion of demand for the Philippines' first sukuk came from Middle East investors, while Gulf and Malaysian investors took a combined 29% of a USD2 billion Indonesian sukuk around the same time.[31]

Connectivity in the loan markets is also building. HSBC has helped raise over USD2 billion from Asia-based lenders in syndicated financings for Middle Eastern borrowers since 2023. On the other hand, HSBC has also accessed over USD1 billion of liquidity for Asian borrowers from Middle Eastern banks in the same period. Both figures are significantly up on 2021 and 2022.

Top Asian investor positions in recent sovereign and corporate issuances



Source: HSBC DCM Data; Bloomberg as of 28 Feb 2024

31 Philippines sells maiden sukuk, IFR, 1 Dec 2023

Capital landscape

Rising investment activity supports corporate growth ambitions

2

"Companies in Asia and the Middle East are not just trading with each other – they are investing. We see this in the rising interest among our clients in strategic investments, joint ventures and acquisitions."

Christina Ma
Head of Global Banking, Asia Pacific, HSBC

Direct Investment

The combined direct investment positions of India and China in Qatar, Saudi Arabia and the UAE increased by 145% from USD10.9 billion to USD26.6 billion from 2018 to 2022, based on the latest data from the International Monetary Fund's Coordinated Direct Investment Survey. This far outstripped a 39% rise in their aggregate global outward investment positions over the same period.[32]

Across the Asia-to-Middle East corridor, the most notable trends in the IMF data are the more than sixfold increase of China's position in Saudi Arabia, mostly due to large purchases of Saudi bonds from 2020, and cumulative investments from both China and India in the UAE more than doubling. In the case of China, while energy remains the key driver of investment, renewables add a new and expanding sub-sector to that theme. In July 2024, three Chinese clean energy companies signed joint ventures with Saudi Arabia's Renewable Energy Localization Company to manufacture and assemble components for solar and wind power in the Kingdom.[33]

Total direct investment from the three Middle Eastern markets into Asia is also growing, albeit from a low base. UAE investment into India was the biggest contributor, reaching USD4.6 billion in 2022. M&A activity tells a similar story. In the decade to 2023, deals in Asia as a whole represented 20% of the USD217 billion of total cross-border M&A activity from UAE and Qatar, and 25% of transactions coming out of Saudi Arabia.[34]

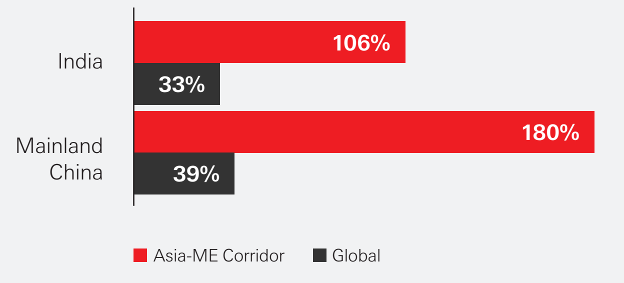
A steady stream of investments from the UAE made India the third-largest destination for UAE outbound M&A, behind only the US and the UK. Of the Gulf's USD19.2 billion of recorded acquisitions in India during this period, technology (USD6.39 billion, 33%) and consumer (USD5.33 billion, 28%) were the most significant sectors. These were exceeded only by investments into China's industrials and chemicals sector.[35]

In the time since this dataset ended, there is every sign that direct investment flows in both directions are gaining momentum as relations between the regions evolve and mature, with a preference for equity.

In the corridor to the Middle East, this trend is borne out by 21 reported greenfield investments announced by Chinese companies in Saudi Arabia in the first nine months of 2023, totalling an estimated USD16.2 billion and already a record number of deals for a single year.[36]

"Companies in Asia and the Middle East are not just trading with each other – they are investing," says Christina Ma, Head of Global Banking, Asia Pacific, HSBC. "We see this in the rising interest among our clients in strategic investments, joint ventures and acquisitions."

Growth in direct investment position 2018-2022



Source: IMF CDIS. Figures combine investments in Qatar, Saudi Arabia and UAE

Asian acquisitions as a proportion of all outbound M&A, 2014-2023

Source: White & Case M&A Explorer

32 Coordinated Direct Investment Survey, IMF, 9 January 2024
Note: Data on Singapore's outward direct investment in the three Gulf economies is not available through the IMF data. Singapore does not provide reporting to the survey on its outward direct investment,and the recipient Gulf economies do not report inward direct investment positions.

33 PIF strengthens renewable energy localization in Saudi Arabia with three new joint ventures, PIF, July 2024

34 M&A Explorer, White & Case

35 Record Chinese investment aids Saudi diversification, FDI Intelligence

36 Record Chinese investment aids Saudi diversification, FDI Intelligence

Themes for the future

Infrastructure and the energy transition are long-term themes

3

"The attention goes to the giga-projects. But we should not forget about the imminent and tangible opportunities in more traditional sectors or the ancillary opportunities around the mega projects."

Justo Alejandro Algaba
Head of Infrastructure Finance, MENAT, HSBC

Infrastructure

Economic diversification strategies in the GCC are creating vast opportunities for infrastructure development. Regional governments are directing unprecedented investment towards urban development, transport infrastructure, utilities, tourism, real estate, manufacturing and logistics.

Saudi Arabia leads in spending commitments and is set to deliver up to USD175 billion a year to greenfield industrial and giga-projects between 2025 and 2028.[37] In real estate, it plans to build 660,000 new homes, 289,000 hotel rooms, six million square metres of office space and 5.3 million square metres of retail space.[38]

The involvement of Asian companies and contractors in infrastructure and urban development projects is further strengthening financial connectivity between Asia and the Middle East. GCC project owners have contracted Chinese, Singaporean and Indian businesses to work on a number of megaprojects, drawing on their expertise in different areas of design, construction and operation.

Selected major infrastructure projects in Saudi Arabia

National Renewable Energy Program

58.7 gigawatts

target for raising renewable energy capacity by 2030 will require huge investments in solar and wind energy

- The biggest renewable energy project under development in Saudi Arabia is the 2.6GW Al Shuaibah solar farm, backed by Saudi Aramco, Badeel and ACWA Power
- Qualified bidders for a fifth round of projects totalling 3.7GW were announced in February 2024[39]

Red Sea Project

28,000 sq km

luxury tourism project on the northwestern coast

- Infrastructure development for the USD24 billion project includes a now-open new international airport, 50 hotels and 1,000 residential properties
- Due to be completed 2030-35

Qiddiya

48 million

visitors a year expected at the sports, culture and entertainment hub just outside Riyadh

- Locations within the USD9.8 billion project include the Six Flags theme park and multiple sports and esports venues
- Due to be completed 2030

Riyadh Metro

USD22.5 billion

first phase is due to be completed in 2024, and second phase has been launched

- Initially comprises 175km of track and 84 stations across six metro lines
- The network is part of a comprehensive public transport plan for the capital

King Salman International Airport

57 sq km

site with six runways and capacity for 120m passengers by 2030

- Scope to expand to 185m travellers and 3.5m tonnes of cargo by 2050
- Features 12 sq km of retail, logistics and leisure facilities, and is expected to contribute USD 7.18 billion annually to the national economy

Jeddah Metro

161 km

of track over four lines and 81 stations

- Approved in 2014 and scheduled to open in 2025
- Plans for the metro to be augmented by a tram line and an extensive bus network

Saudi Landbridge

USD7 billion

rail project. Work is due to begin in early 2024

- Includes the upgrade or construction of 1,500km of track across six sections, including a 950-km Riyadh-Jeddah link
- Will also feature the creation of multiple logistics hubs

37 Saudi Arabia Seen Spending $175 Billion a Year on Building Boom, Bloomberg, 4 October 2023
38 Emaar shows "serious" interest in building 4000-unit housing project in Saudi Arabia, Construction Week, 1 October 2023
39 SPPC Announces Qualified Bidders for the 5th Round of Renewable Energy Projects with a Total Capacity of 3700 MW, SPB, 12 February 2024

Sources: PIF, Qiddiya, Red Sea Global, RCRC, Jeddah Transport, International Railway Journal, Zawya.com

Public-private partnerships
The scale of infrastructure projects in the region opens up new opportunities for Asian corporates and investors in a number of areas – from trade and Engineering, Procurement and Construction (EPC) contracting, to public-private partnerships (PPP) and real estate financing.

PPPs have become a core part of infrastructure development in the Gulf. In a boost for Asian investors, regulatory changes in recent years in Saudi Arabia, the UAE and Qatar have created a strong framework for their use across many sectors – with healthcare and education already fast-growing areas with further growth potential. By 2023, the Saudi National Center for Privatisation and PPP (NCP) had approved a pipeline of 200 projects across 17 sectors, with 300 more under consideration.[40]

While the largest Saudi projects often capture the headlines, infrastructure development across the Gulf is generating a wealth of wider opportunities. "The attention goes to the giga-projects," says Justo Alejandro Algaba, Head of Infrastructure Finance, MENAT, at HSBC. "But we should not forget about the imminent and tangible opportunities in more traditional sectors or the ancillary opportunities, the clusters of projects that develop around the mega projects." These include developments – from roads and bridges to accommodation for contractors – that can themselves be multibillion dollar works.

The financing needs of these projects mean that developers will likely have to look beyond traditional funding sources. Project bond issuance is expected to grow as several streams of financing demand converge: new projects will begin, existing assets need to be refinanced, and efficiency-driven overhauls of current infrastructure will continue.

In Asia, the Asian Development Bank estimates that developing countries in the region will need to invest USD1.7 trillion in infrastructure annually between 2023 and 2030.[41] This capital requirement creates natural opportunities for Middle Eastern investors with a long-term horizon.

In India, for example, plans such as the National Infrastructure Pipeline and the National Monetisation Pipeline have pushed for greater international capital investment into infrastructure. Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) provide a way into infrastructure investment, with a shift in the profile of funding in recent years.[42] Meanwhile, foreign investors are able to access most sectors through PPP – with the potential for more opening up, such as the Department of Space indicating in 2023 that it may accept foreign investment.[43]

Energy transition
Ambitious energy transition plans will drive demand for capital across Asia and the Gulf. In GCC countries, the development of renewables infrastructure, transport electrification and new green technologies requires transformational levels of investment. Saudi Arabia plans to spend USD266 billion on clean energy by 2030[44], while the UAE could spend up to USD200 billion[45] over the same period.

In these markets, a huge push is underway to step up wind and solar power generation. Today, the UAE is the regional leader in renewables, accounting for more than 60% of renewable capacity in the GCC and a little less than 70% of investments in renewables. Saudi Arabia is also a significant opportunity for foreign investors, accounting for more than half of energy consumption in the GCC and tendering several multi-gigawatt projects.[46]

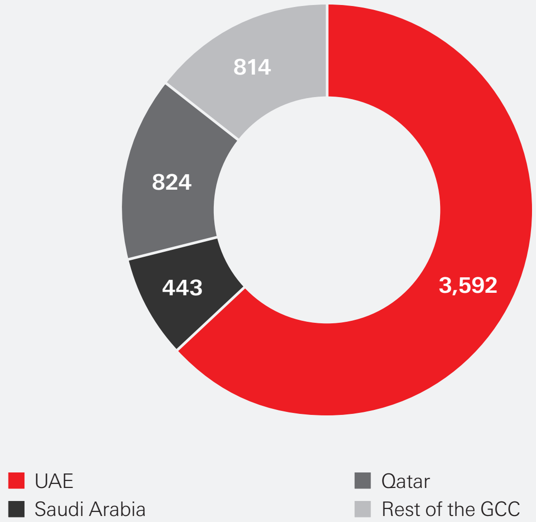
"The majority of the Gulf's activities in Asia has long been oil and gas companies looking to develop downstream refineries there," said Gregoire Bouzereau, Head of Infrastructure Finance, Asia Pacific, HSBC. "But what's new to the mix is renewable energy companies from the region bidding for, and winning, large power projects in Asia."

The deployment of renewables infrastructure alongside the Gulf's hydrocarbons industries creates openings for Asian contractors, exporters and investors – particularly in China. In 2023, Saudi Arabia represented 19% of China's green energy engagement.[47] Qatar's first industrial-scale solar power plant, commissioned in 2022, was built by PowerChina.[48]

Meanwhile, China's competitiveness in solar technologies and the GCC's shift towards renewable energy creates a natural synergy and significant commercial opportunities. It also generates the potential for localisation of production in the GCC, in line with regional diversification strategies. Increasing solar panel

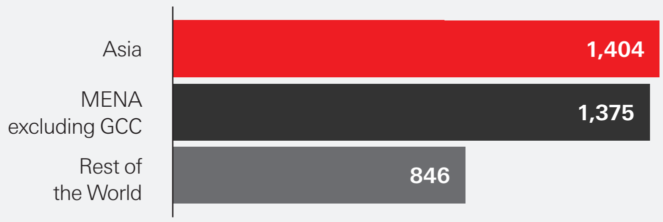
40 Saudi public-private partnerships worth billions, AGBI, 14 April 2023
41 Innovative Financing Key to Private Sector Participation in ASEAN+3 Infrastructure Development, ADB, 2 May 2023
42 White & Case / Mergermarket
43 India eases entry for foreign direct investment in space sector, Reuters, 22 February 2024
44 Saudi Arabia to invest SAR 1 trln in clean energy, Argaam, 31 January 2023
45 UAE Energy Strategy 2050, UAE
46 Renewable energy markets, IRENA, December 2023
47 China Belt and Road Initiative (BRI) Investment Report 2023, Fanhai International School of Finance (FISF), Fudan University, 5 February 2024

Renewable energy generation capacity by GCC country
Megawatts, 2022



Source: International Renewable Energy Agency

International investments in renewables from GCC countries 2016-2020
USD millions



Source: International Renewable Energy Agency

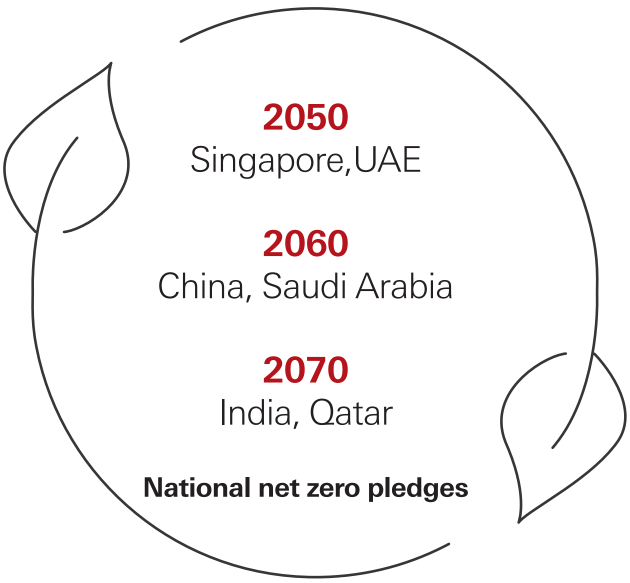
production in India should lead to similar opportunities. The GCC sovereign wealth funds will remain capital exporters to Asia, seeking strategic equity investments in Asia that allow access to the capabilities and advanced technologies that support economic diversification at home.

"For money going along the Middle East to Asia corridor, they are gaining a lot of exposure to the energy transition segment. It is definitely one of the places where there is a lot of innovation – be it solar or EVs. The energy transition and sustainability are themes which are new but are here to stay", says Osman Raie, Head of Sovereign Wealth Funds Cross Asset Institutional Sales & Regional Head of Sustainability for HSBC MENAT.

Significant private sector investment will also be required to meet ambitious targets in transport electrification. Chinese electric car brand Nio signed a technology-licensing agreement in 2024 with Abu Dhabi-based EV startup Forseven.[49] Saudi Arabia has signed several agreements to manufacture EVs in the Kingdom, including a USD5.6 billion deal with established Chinese car maker Human Horizons in 2023. But there is also significant potential for private sector tie-ups, such as the JV between Chinese start-up Enovate and Saudi investor Sumou.[50]

> The energy transition and sustainability are themes which are new but are here to stay."

Osman Raie
Head of Sovereign Wealth Funds Cross Asset Institutional Sales & Regional Head of Sustainability MENAT, HSBC



48 Qatar's Largest PV Power Station, SASAC, 15 November 2022
49 Chinese EV maker Nio announces tech licensing deal with Forseven, Reuters, 26 February 2024
50 Chinese EV start-up Enovate to build plant in Saudi Arabia, SCMP, 13 December 2022

Conclusion

Looking ahead: the early stages of new networks of capital

> Growing investment flows between Asia and the Middle East are a natural consequence of deepening economic connectivity between these two dynamic regions. It's early days, but we see the direction of travel and are excited about the long-term potential of this trend."

Christina Ma
Head of Global Banking, Asia Pacific, HSBC

New networks of capital are emerging that will challenge the existing global financial infrastructure, reflecting the growing importance of Asia and the Middle East in a more complex, multipolar world.

These are the early stages of a profound shift in capital flows and financial infrastructure that will ultimately result in a significant proportion of wealth from Asia and the Middle East being intermediated and invested within and between those two regions. This will attract a greater share of global institutional flows as they become global funding and investment markets on a par – in time – with the US, Europe and Japan.

"Growing investment flows between Asia and the Middle East are a natural consequence of deepening economic connectivity between these two dynamic regions," says Christina Ma, Head of Global Banking, Asia Pacific, HSBC. "It's early days, but we see the direction of travel and are excited about the long-term potential of this trend."

Our study shows that capital flows between Asia and the Middle East are already rising rapidly from a low base and that financial infrastructure is emerging to enable greater intra-regional investment. The impetus for these changes will come from closer government-to-government links, economic diversification agendas, the energy transition and innovation.

The second half of the 20th century onwards has been characterised by Asian and Middle Eastern trade surpluses being recycled through Western markets, asset managers and currencies, reducing the cost of capital in the West and benefiting developed economies. The decades ahead will be defined by much greater re-circulation of capital within and between Asia and the Middle East, reducing the cost of capital in these regions, accelerating investment in economic development, boosting regional capital markets and attracting greater global investment.

Accessing new opportunities

	Equities	Bonds	Infrastructure	M&A and private investments
Asia ⋙ Middle East				
	• Direct access to listed securities allows investors to gain exposure to growing Gulf economies • New access products, such as a Hong Kong-listed ETF tracking Saudi Arabian shares • Dual listings between Asia and Gulf stock exchanges will enhance investment opportunities and boost liquidity	• Expansion of sovereign debt programmes creates liquid and tradable yield curves • Strong credit ratings reflect financial strength and stability, with four GCC countries rated investment-grade • Middle East bonds provide attractive relative value compared to other investment grade credits	• Pipeline of major projects provides opportunities for EPC contractors and sponsors via public-private partnerships • Renewable energy and smart city projects will require extensive imports of technology and equipment. • Refinancing of new infrastructure assets may create opportunities for debt investors, e.g. in project bonds	• Major Asian investors can be an additional source of capital for expansion and growth initiatives • Expanding public debt and equity markets provide new options for capital raising • Strategic investments in manufacturing and logistics can establish a springboard to other global markets
Middle East ⋙ Asia				
	• Asia's established equity markets provide exposure to regional growth and strong liquidity • New access products, such as Saudi-listed ETFs tracking Hong Kong and mainland China shares • Listed infrastructure trusts and REITs combine stable cashflows and market liquidity • IPO and follow-on equity offerings can accommodate big-ticket investments	• Asia's diverse debt markets offer a range of opportunities to suit different risk appetites • Local currency debt provides an alternative for investors seeking diversification • Islamic investors can diversify through sukuk from Asian issuers	• Asian infrastructure developers are receptive to strategic equity investments, especially in clean energy	• Strategic partnerships in Asia can boost access to capacity and equipment for local development • Equity investments and joint ventures facilitate the transfer of technology from Asia, especially in clean energy • Investments in Asian markets provide opportunities to grow at scale

HSBC