

# How Australian investors should navigate Asia's fintech race

Speed has always been important when investing offshore. But for Asian rivals, this has become paramount in the winner-takes-all battle to dominate markets.

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It appears that the [adoption of technology](#) not only increases efficiencies, it also stokes competition. That's what is being seen across Asia as the new arms race accelerates, in attempts to dominate digital, computer and [financial trading](#) systemic architectures.

Last week the Monetary Authority of Singapore (MAS) announced a subsidy package for British-domiciled XTX Markets Limited to set up and provide foreign exchange market-making services out of Singapore. This incentive is thought to be part of the \$225 million (\$236 million) plan to fund technology and innovation in the financial industry based on the small south-east Asian island.

In efforts to attract big-volume players such as hedge funds and high-frequency traders, the Singaporean government needs to persuade companies to build their expensive systems and data centres in Singapore. Foreign exchange market making, such that XTX Markets facilitates, is imperative to such ambitions.

Even though increased competition in services often benefits investors, Australian ultra high net worth regional investors remain wary of this recent spate of incentivisations by regional competing markets – such as those found in Taiwan, Hong Kong, Tokyo and Shenzhen. This is because they got burned the last time technology arms races ramped up across regional Asian trading centres in late 2002 and until Christmas of 2004. Once realistic market conditions set in, it was the end clients (many of whom were domiciled in Australia, and specifically Sydney) who ultimately paid the largest costs of these expensive trading systems.

Australian financial services franchises that relied on the tech boom then withdrew, moving instead back to Europe, North America or Japan.

Singapore's initiative matches those in continental China, where in March the government unveiled a long-awaited blueprint establishing a high-tech megalopolis on its southern coastline, rivalling California's Silicon Valley.

The "Greater Bay Area" – which includes Hong Kong, Macau and nine mainland cities – aims to turn the littoral zone into a leading global innovation hub, boosting infrastructure connectivity and strengthening Hong Kong's role as an international centre of finance, shipping, trade and the offshore yuan business.

Since its reform in the 1970s, [the Guangdong-Hong Kong-Macau \(GHM\) region](#) has been the key channel for foreign investments to enter China, and it is now an avenue for mainland enterprises to become more global.

GHM occupies 1 per cent of China's land mass but accommodates 5 per cent of the population and contributes 12 per cent of GDP. Its aggregate GDP reached \$US1.35 trillion in 2016, which would be ranked No. 12 globally if we were to consider it as a country.

## Growing force

GHM has surpassed overseas bay areas such as San Francisco, New York and Tokyo in land area and population size, leads domestic regions in population density and productivity and is also the home to numerous successful and world-renowned Chinese companies including [Tencent](#), Huawei, Pingan, Vanke, BYD and Gree.

Now it has been assigned national importance to form a world-class bay area, taking the driver's seat for growth of the "new China" economy.

But since the relatively recent and symbolic [passing of Lee Kuan Yew](#), Singapore and Beijing have become less comrades and more competitors. In fintech, this rivalry has led to innovation and scandal.

Shaving milliseconds off trading flows matters. For Australian global investors, "latency" and speed are a primary consideration when investing offshore.

But for Asian rivals, these matters have become even more paramount in the winner-takes-all battle to dominate foreign exchange market making, hedge fund deal flow and even relatively boring but material international corporate conglomerate currency transacting.

These developments in Asia have an immediate effect on the Australian onshore financial services sector value chain, as evidenced during the trading "flash crashes" in Hong Kong and Tokyo throughout 2015 until late last year.

Dimitrios Salamapasis, of Swinburne University of Technology, says: "The integration of tech-enabled applications across the financial services sector value chain is leading to transformative changes, while pressure on incumbent business models generates snowball effects. There now needs to be new mechanisms of regulatory and technology governance, along with revisiting the foundations of financial norms and global business narratives, here in Australia and regionally."

For Australian offshore traders and investors, positioning themselves to plug into growing Asian wealth and dealflow is savvy. Attempts to build out the efficiency of those ecosystems can bring benefits and help close the gaps with other trading hubs. However, after the Huawei scandal and other technology-linked concerns, Australian investors need to remain more vigilant than ever.

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