# Hong Kong and Singapore: a tale of two cities

By Lawrence Au

**Singapore is profiting from Hong Kong's travails but faces some challenges**

Hong Kong's Covid policy and US-China tensions have seen firms and talent move to Singapore, presenting new challenges to the city state.

Hong Kong has long been the location of choice for multinational companies, including financial firms, as their regional headquarters in Asia. Data from the Census and Statistics Department (C&SD) show that more than 9,000 multinational companies were operating in the city last year, including 1,457 regional headquarters and 2,483 regional offices.

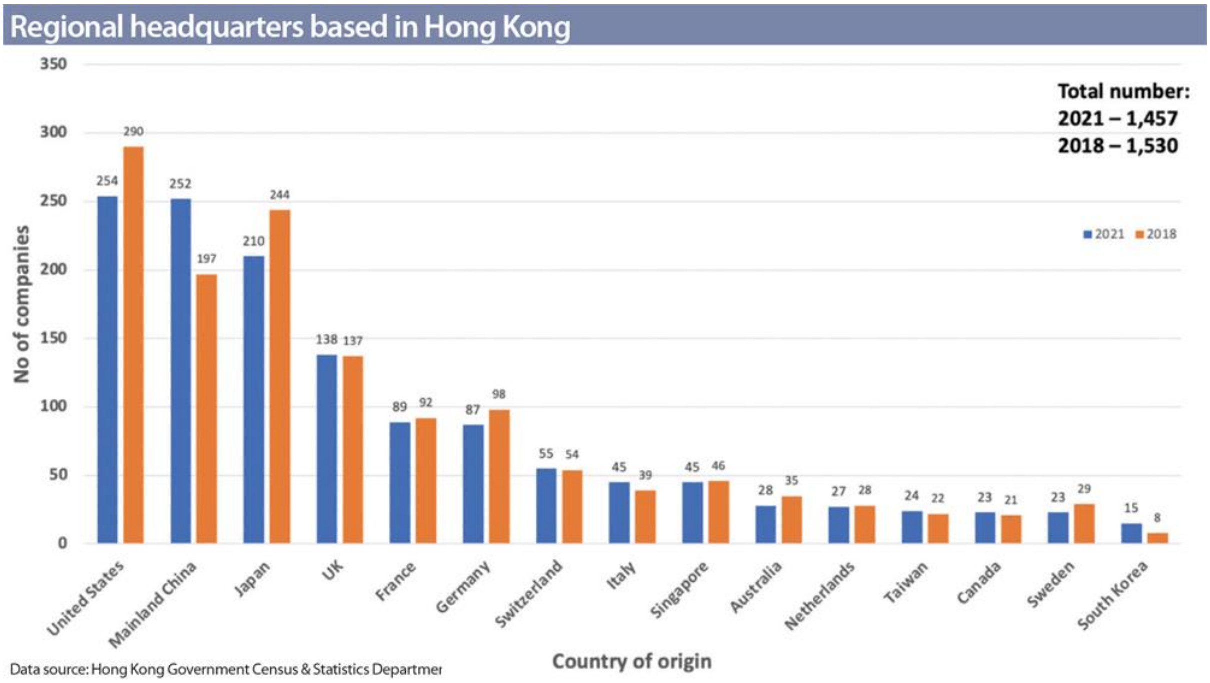
But more than 113,000 Hong Kong residents, or 1.6% of its population, have left the city between mid-2021 and mid-2022, according to C&SD figures released in August. Many of us have attended farewell gatherings of relatives, friends, and colleagues. Some are pursuing life in a new country, and others are relocating to Singapore so that they can travel without Covid restrictions.

The American Chamber of Commerce in Hong Kong's annual Business Sentiment Survey published in January this year found that 5% of global/regional headquarters had definite plans to move out of the city and half were unsure. And 80% of respondents picked Singapore as the biggest competitive destination to the city, given its strategic location and pro-business approach, even though Hong Kong remains a strong global hub.

According to figures published on the Singapore Economic Development Board's website, around 7,000 multinational companies have based their operations there and "nearly half of Asia regional headquarters call the city state home". It did not provide a breakdown.

The Southeast Asian city state has many of the same advantages that have long lured international businesses to Hong Kong. To be sure, it doesn't have China as the hinterland offering enormous business potential. But its political stability and neutrality are viewed favourably by many international companies, especially amid intensifying geopolitical tensions in the region.

This has been an ongoing trend for several years now. Over the past four years, the total number of regional headquarters based in Hong Kong fell 73, or almost 5%, according to C&SD statistics. Although regional headquarters of Mainland companies increased to 252 from 197 during the same period, they have only filled part of the gap left by others. There were 36 US and 34 Japanese regional headquarters that left, the two largest exiting groups.




**Worn out by Covid rules**

While most multinationals are staying in Hong Kong because the city is still the best place to do business with China, many of them are downsizing and moving non-China related jobs to Singapore. Apart from the geopolitical factor, differing Covid-19 policies are triggering these moves.

Although Singapore pursued its own zero-Covid policy through much of the pandemic, it has been gradually reopening since August 2021. And as of April this year, fully vaccinated travellers from around the world, including those from the US and Europe, can enter Singapore without pre-departure testing and quarantines.

Hong Kong is out of step with most developed economies in closely following China's zero-Covid policy. Weeks of lockdown in Shanghai and the many disturbing stories circulating on social media have exacerbated negative sentiment.

Many expatriate staff are worn out by the Covid rules in Hong Kong and tell their companies that they have had enough. They are asking to relocate to Singapore so that they can travel around freely to do their jobs, especially those who are not covering China.

The financial sector is badly impacted. Some firms are offering options for their staff to relocate to other cities in order to retain talent, in a scene reminiscent of before the 1997 handover. But they don't discuss this in public.

"Most industries including the fund industry have been battered by the Covid travel policy. The longer we are stuck in this restrictive mode, the more we are reducing our relevance and competitiveness internationally," the Hong Kong Investment Funds Association warned the government at a press briefing on August 1. "To maintain our status as an international financial centre, we need to be true to the label, and be international. The ability to travel unfettered internationally is a basic pre-requisite of an international financial centre."

On August 8, Hong Kong's administration, led by new Chief Executive John Lee, announced that the previous seven-day hotel quarantine has been cut to three days, plus four days of home medical surveillance. It's a welcome move, but short of dumping all quarantine requirements, most industries are not optimistic it will be enough to reconnect the city to the world, retain talent and maintain its competitiveness.

**Single family offices**

Apart from banks, insurers, asset managers and other financial services providers, Singapore has also attracted single family offices, which grew five-fold from 2017 to 2018.

As of end-2020, there were 400 single family offices in the city state. And the Monetary Authority of Singapore, the central bank and financial regulator, approved more than 100 applications in the first four months of this year alone.

Singapore has traditionally been home to family offices that were mostly from Southeast Asian countries, but it's now also attracting well-known ones from Europe, China, Hong Kong and the US. Some of them are setting up shop in the region for the first time, while others are choosing to have a second Asia office in Singapore in addition to Hong Kong in an effort to diversify risks as well as to capitalise on the advantages offered by both locations.

Apart from employment opportunities, this is developing an ecosystem for managing private wealth. UBS, HSBC, Citi, Deutsche Bank and Julius Baer have all ramped up their teams in Singapore focused on family offices.

French asset manager Amundi has launched outsourced chief investment officer services for family offices. And global custodian Northern Trust has set up a dedicated Global Family and Private Investment Offices team to deliver "customised asset servicing, investment, technology, fiduciary, banking, and advisory solutions to its clients", according to its press release in June.

**Challenges**

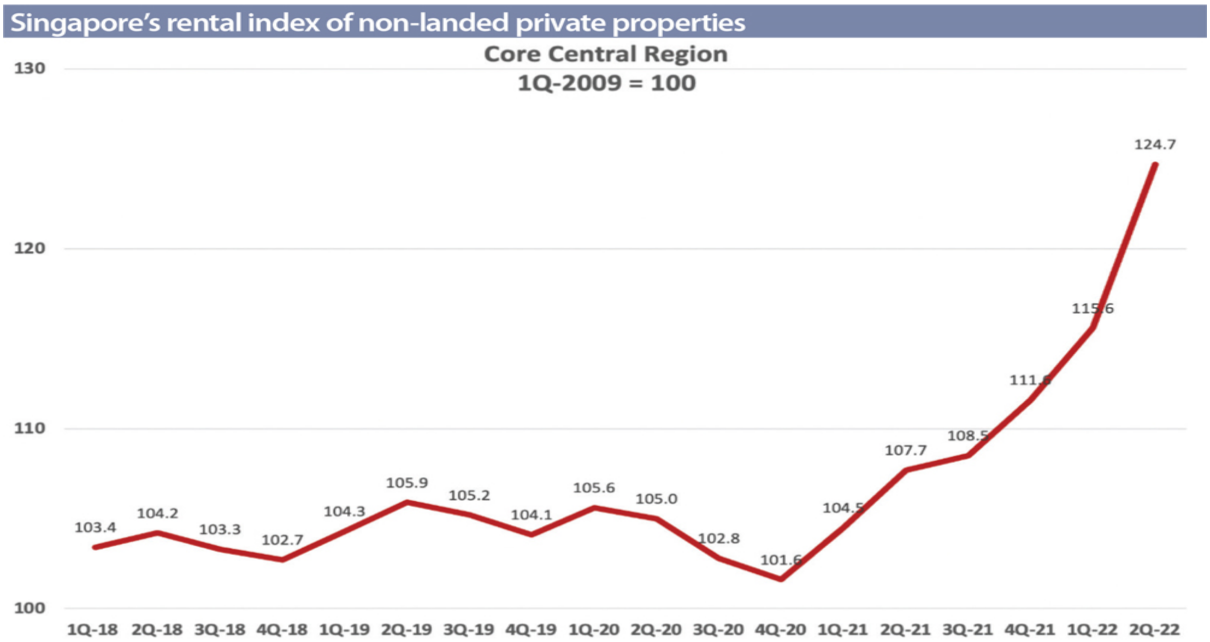
But the influx of foreign companies and talent presents new challenges for Singapore. For one, it's fuelled a red-hot rental market and intense competition for places at leading private schools.

Home rentals in Singapore have risen to a seven-year high. Demand outstrips supply because housing construction has been hit by delays due to a shortage of foreign labour and disruption in the supply chain for construction materials.

According to data from the Urban Redevelopment Authority of Singapore, the rental price index of non-landed private residential properties at District 9, 10, 11 and Sentosa, the most popular areas for expatriates, jumped 22.7% in the 18 months from end-2020 to end-June 2022.

The vacancy rate for the private residential market shrank to 5.4% from 7% over that period. Apart from expatriates, more locals are renting in order to have a larger space to work from home.

The situation on the ground appears to be much worse than the data suggests. According to local news reports, many tenants have to pay 25%-40% more to renew their leases, with a queue of potential tenants waiting to take their units. The hot rental streak is expected to continue for many months until construction catches up with demand.

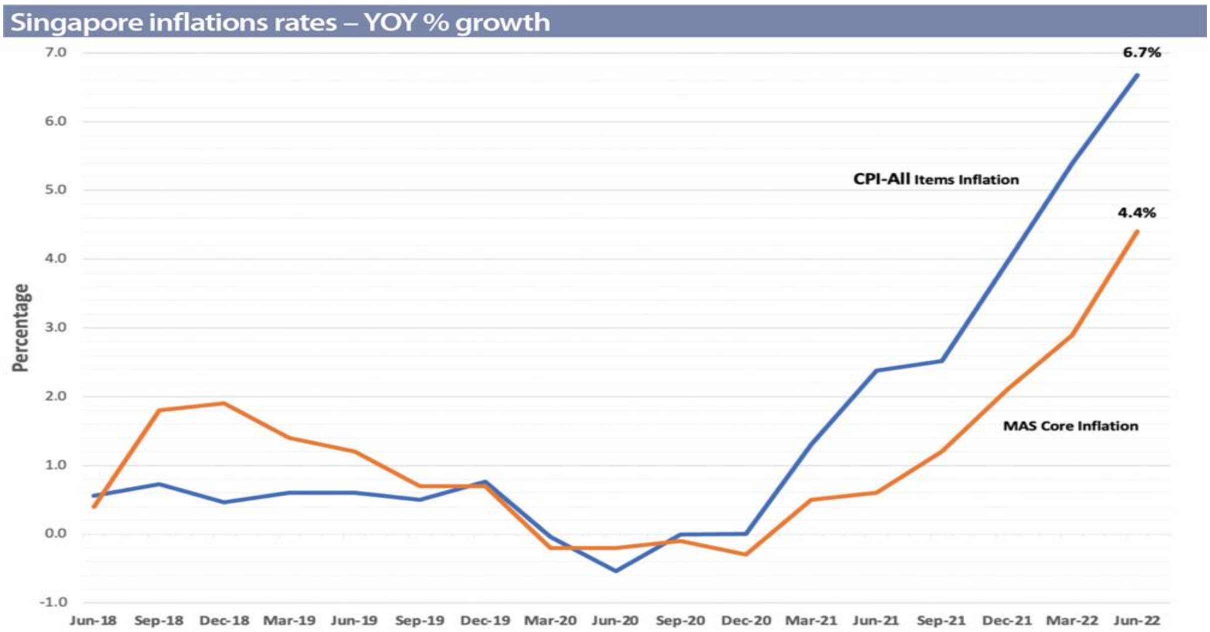



Source: Urban Redevelopment Authority of Singapore
*Core Central Region comprises Postal Districts 9, 10, 11, Downtown Core Planning Area and Sentosa.

It doesn't help that inflation has climbed to multi-year peaks this year due to both internal and external factors. Singapore's headline annual inflation rate, which includes housing and private transport costs, accelerated to 6.7% in June, the highest level since September 2008. Food, fuel and electricity costs are expected to spike further. Things may get worse as the goods and services tax (GST) is set to increase from 7% to 8% next year, and to 9% in 2024.

Owning a car, which for many expatriates is essential in their home country, is prohibitively expensive in Singapore. To own a car, residents need a certificate of entitlement (COE), which is only valid for ten years. The price of that certificate in the Open Category reached a record high S$114,001 (US$82,395) at the July 20 bidding due to limited supply. And on top of the price of the car, buyers also have to pay 100%-140% in registration fees, 20% excise duty and 7% GST.

Thus, the cost of a basic Tesla Model 3, including the COE, is a whopping S$228,655 ($165,650), 3.4 times higher than in California ($48,490), and triple the cost in Hong Kong ($55,440).




Data source: Monetary Authority of Singapore
*MAS core inflation is the movement in the costs of goods and services excluding food and energy costs which are more volatile.
**CPI-All Item inflation is the movement in the price consumer index comprising of all goods and services including housing and private transport costs.

Companies relocating expatriate staff to Singapore or retaining them there will have to pay higher compensation packages than before, and people moving to Singapore will find it less smooth and easy than it used to be.

According to consulting firm Mercer's 2022 cost of living index, Hong Kong is still the most expensive city for expatriates while Singapore ranks eighth. But the gap is definitely narrowing.

**Hot political issue**

The subject of foreign workers is becoming a politically hot issue in Singapore. A decade ago, discontent over immigration saw the worst ever election result for the ruling People's Action Party, which received only 60.1% of the popular vote, even though that would be considered a landslide victory in Western countries.

At the last election in July 2020, the leading opposition Workers' Party secured its best ever performance by winning ten out of 93 parliamentary seats. Its election manifesto included tightening employment pass approvals and giving firms incentives for hiring citizens.

Government officials have tried time and time again to drive home the importance of attracting global talent as the bedrock of Singapore's economic competitiveness. But according to a survey released in March 2021 by the Institute of Policy Studies, a National University of Singapore think-tank, some 70% of residents want strict limits on the number of foreign workers.

The government is adjusting its policies in response and cracking down on suspected pre-selection of foreigners for jobs or not giving Singaporeans a fair chance. It's not just the blue-collar industries that have come under scrutiny but also banks, asset managers and consulting firms.

A point system for granting employment passes will be implemented in September, including scores on education, skills and pay, as well as how the applicant's nationality contributes to the diversity of the firm. The minimum qualifying salary threshold for executive and mid-level roles, which was increased two years ago, has been raised again.

Foreigners living as dependents also now need a company-sponsored visa to work in Singapore, unlike in Hong Kong where dependents of foreign professionals face no such prohibitions. Moreover, while the government has introduced a two-year visa to attract global technology professionals, the programme is not open to mid-career foreigners who could compete for jobs against locals.

The labour market has become very tight. From a peak of 4.9% in September 2020, the unemployment rate dropped to 3.62% in 2021 and fell further to 2.7% in the second quarter this year.

For now, Singapore is a beneficiary of Hong Kong's woes. The influx of foreign companies and talent is a nice problem to have, but the runaway trends they bring could be a flashpoint in society if they are not handled with the utmost sensitivity. It's going to be a delicate balancing act for Singapore authorities.

*Lawrence Au is the Founder and CEO of The LaunchPad.Biz, a strategic business management consulting practice specialised in advising financial firms to achieve business success in Asia. He is a pioneer and thought-leader in Asia's securities services industry, and was the former Asia Pacific CEO of BNP Paribas Securities Services and Northern Trust and the driving force behind successfully establishing their businesses from the ground up to become a market leader.*

***This article was published in Asia Asset Management's September 2022 magazine under the title "A balancing act".*