Publication: CNA Online
Date: 30 June 2022
Headline: Commentary: The gap between Singapore and Hong Kong as financial hubs is narrowing

Commentary: The gap between Singapore and Hong Kong as financial hubs is narrowing

Hong Kongers wave goodbye at the departure gate of the city's airport. (Photo: AFP/File/ISAAC LAWRENCE)

Amid volatile times of the Russian invasion of Ukraine and COVID-19 lockdowns in China, there is a notable wave of Hong Kong emigration.

This might have begun as early as 2020 after the city passed the National Security Law. Hong Kong's population declined by 1.2 per cent in 2020, its first recorded fall in 60 years, losing 93,000 residents. In February and March alone this year, it lost another 129,000 residents.

Hong Kong's long-celebrated status as an Asian financial hub seems to be diminishing too. New visas issued to foreign workers in the financial sector plummeted by 49 per cent between 2018 and 2021. Spooked by strict COVID-19 rules and diminishing political freedom, bankers from Citigroup to JPMorgan are talking about relocating.

While the face of Hong Kong is changing, it seems Singapore would end up benefitting. The exodus is unlikely to lose momentum with rising geopolitical tensions between China and the West.

Could Singapore catch up to or even overtake Hong Kong as an international financial hub in the long term?

Currently, Hong Kong is still a larger and more active market than Singapore given its older history as a business centre. According to the 2022 Global Financial Centres Index, Hong Kong ranks third after New York and London, while Singapore ranks sixth.

Despite all its challenges, Hong Kong also ranks in the top four for business environment, human capital infrastructure and general reputation.

Publication: CNA Online
Date: 30 June 2022
Headline: Commentary: The gap between Singapore and Hong Kong as financial hubs is narrowing

OUTFLOW OF CAPITAL AND TALENT TO SINGAPORE

However, the gap between the two cities is narrowing given the recent outflow of capital and talent from Hong Kong. The Hong Kong dollar was at its weakest level in over three years, driven by traders selling to buy the US dollar to enjoy rising US interest rates.

This prompted the Hong Kong Monetary Authority to intervene in May, when it bought the Hong Kong dollar back from the currency market to keep the currency's tight peg to the US dollar.

As the city cut its growth forecast to a range of 1 per cent to 2 per cent in 2022 – down from the previous 2 per cent to 3.5 per cent – this capital outflow could reinforce itself as the gloom spreads across the market, leading to a downward spiral of the financial hub.

Unlike previous waves of staff relocation that Hong Kong has gone through since the British handover to China in 1997, this time the most experienced executives are flocking elsewhere for business stability and quality of life improvements.

As of March, JPMorgan is moving top executives and key staff from Hong Kong to Shanghai, given restrictions on business travel to mainland China. Citigroup said in February that it will shift senior equities staff and directors to Singapore for their family reasons and client coverage – around the same time Singapore authorities streamlined COVID-19 travel and social restrictions.

More broadly, multinational companies, such as Bank of America and Wells Fargo, were reported to have been reviewing their Hong Kong businesses and looking to relocate employees or operations to Singapore.

As more companies look outside Hong Kong's horizons, Singapore will contend with Hong Kong as the first choice for their Asia headquarters. Especially once a few major firms start to make a fully committed move, there might be a herding effect that will result in laggard firms following suit.

This was likely the case to some extent after Brexit – an EY tracker indicated that the number of financial services firms which moved or planned to move UK operations, staff and assets nearly doubled between March 2017 and March 2021.

SINGAPORE'S GROWING STRENGTH AS A FINANCIAL HUB

Meanwhile, Singapore is strengthening its status as a financial hub as more affluent investors worldwide set up base here.

Billionaire entrepreneurs from James Dyson to Haidilao co-founder Shu Ping have established family offices in Singapore, drawn in by attractive tax rates and a stable regulatory environment. The Monetary Authority of Singapore approved more than 100 applications for family offices in the first four months of this year.

In addition to the capital brought to Singapore by family offices, these investors typically demand sophisticated financial services, creating jobs for wealth managers. The accumulation of financial and human capital goes towards increasing Singapore's competitiveness as a financial hub.

Regional economic development is another tailwind for Singapore. China's zero-COVID policies have triggered manufacturers to shift supply chains to countries like Vietnam, whose exports jumped by 13.4 per cent in the first quarter of 2022 compared to the previous year.

Publication: CNA Online
Date: 30 June 2022
Headline: Commentary: The gap between Singapore and Hong Kong as financial hubs is narrowing

Singapore can potentially facilitate such relocations, given its longstanding business presence across Southeast Asia and familiarity with Chinese processes. Financial institutions can connect clients with investors, legal firms can support the opening of new branches, and consultancies can advise on sourcing regional suppliers and training staff.

MANAGING THE INFLUX OF EMIGRANTS

Until then, Singapore needs to accommodate the inflow of foreign talent while maintaining the social balance and keeping inflation down. The demand for living and working in Singapore can increase quickly but the supply of housing, education, and transportation takes much longer to catch up.

In the short term, there can be bottlenecks in travel from Hong Kong to Singapore, with major airlines offering fewer flights to and out of Hong Kong due to the city’s stringent quarantine rules. Nonetheless, the senior executives are wealthy enough to make the trip.

Their sudden arrival in Singapore, however, heats up high-end markets for private housing and education.

Rentals for private homes in Singapore surged 4.2 per cent in the first quarter of 2022 compared to a rise of 2.6 per cent in the previous quarter, according to the Urban Redevelopment Authority. Spots in international schools are scarce too, with each available slot receiving up to 15 applications from interested families, according to a Financial Times report in March.

Before these shortages ease, the needs of new expats could crowd out that of locals, though this could be somewhat limited given the niche demands.

But with inflation felt everywhere from food to energy prices, locals will be eyeing the attractive white-collar jobs these firms bring with them. It might be challenging for policymakers to curb the demand in the short term without killing it in the long run.

Publication: CNA Online
Date: 30 June 2022
Headline: Commentary: The gap between Singapore and Hong Kong as financial hubs is narrowing

Singapore will raise the minimum qualifying salary for incoming finance professionals from S$5,000 to S$5,500 in September – though it is a bar senior bankers can easily clear. But with more than 9,400 new jobs in finance on offer this year, coupled with a tight labour market, such high-powered immigration to Singapore could be a good problem to have for now.

Hu Jianfeng is an Associate Professor of Finance and a Lee Kong Chian Fellow at Singapore Management University.