Battle of the Asian tigers? HK and S’pore shouldn’t buy into the myth

They may draw comparisons as strong financial centres, but both are powered by vastly different strategies and enabling conditions.

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Are Hong Kong and Singapore really two bulls locked in a battle for dominance? There is a longstanding narrative that the two cities are embroiled in a “winner takes all” competition to be the leading financial hub of the region. This narrative has seen renewed interest in recent months. The Financial Times in February played up the idea that both were engaged in a post-Covid-19 “battle of Asia hubs”, looking at real estate prices, air traffic data and other indicators. More recently, in May, The Economist declared Singapore the winner in this “old rivalry”. The two Asia-Pacific cities are most often pitched against each other in the realm of financial services, ostensibly because of their close proximity on international finance maps, especially as the Global Financial Centres Index and the World Bank financial centres in the world, where Singapore overtook Hong Kong in 2022. Foreign media coverage of this Singapore versus Hong Kong narrative is sometimes laden with a sense of envy. After all, both cities have achieved strong economic success through a combination of good governance and strategic policy planning, and have long been considered global financial hubs.

Their historical similarities as former British colonies and having small populations with limited natural resources also sometimes lead to easy shorthand. While the comparison can make for catchy clickbait, some observers would be wise to avoid such simplistic comparisons. The reality is that Hong Kong and Singapore serve completely different regions, each with its own set of challenges and opportunities, enabled by the phenomenal rise of China and the rapid growth of South-east Asia, respectively.

The Hong Kong Link to China

For Hong Kong, the rise of China, now the world’s second-largest economy, has given it immense opportunities. As the largest offshore renminbi (RMB) hub in the world, Hong Kong originated and intermediates two-thirds of China’s total foreign direct investment, outward direct investment and other financial investments. Nowhere is clearer than Hong Kong’s standing as a financial centre in China’s continued rise. The Exchange of Hong Kong, where mainland Chinese companies represent 77 per cent of the market capitalization of listed companies, has been a key driver of this success.

This number is expected to grow with plans to expand Hong Kong’s mutual market access South Connect programme, which will strengthen its position as a key offshore fund-raising hub for Chinese companies, particularly those defective from the United States. At the same time, it also allows two international exchanges to benefit from the flow of Chinese retail investment dollars. Overall, Hong Kong’s traditional strengths in banking and finance are complemented by its well-capitalised stock market and sizable wealth management sector, both of which have been bolstered by strong inflows of Chinese capital.

Singapore’s Focus on South-east Asia

Singapore, however, plays a different game. While the Singapore is the world’s second-largest offshore RMB centre for deposits and trade finance, sitting behind only Hong Kong, its political and geographical distance from China means it is a much less central player in regional trade and, hence, Chinese financial entities. While international news markets have tended to play up the recent push by Chinese family offices into Singapore and its burgeoning wealth management sector, Singapore’s strategy has been to firmly establish itself as the key financial centre for South-east Asia, an increasingly diverse economic region that is expected to achieve average gross domestic product growth of 5.4 per cent in 2024.

The Asian region is also expected to become the world’s largest single market by 2030, as business-to-business and intra-regional trade is forecast to rise at an average rate of 4.6 per cent in 2024. As the only major financial hub in South-east Asia, Singapore plays an important role in intermediating capital flows across the region, a role that will become even more important given Singapore’s ambitions to be a green finance hub for South-east Asia to channel green capital towards the development of clean-energy projects and climate change solutions around the region.

This drive to become a green finance hub in South-east Asia’s growing capital needs is in line with efforts to establish carbon credit marketplaces Climate Impact X, a sovereign green bond, and the Singapore Green Finance Centre. In contrast, green finance is not a priority in Hong Kong’s financial sector strategy. This reflects a key difference between the financial industry mix of the two cities, a fact that zero-sum narratives tend to overlook.

More importantly, Singapore has in recent years transformed itself into a hub for finance and green finance, in pursuit of larger national strategic interests in becoming a Smart Nation and accomplishing its 2030 Green Plan.