

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 business 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 pitted against each other in the realm of financial services, ostensibly because of their close proximity on international rankings, especially on the Global Financial Centres Index listing the most competitive financial centres in the world, where Singapore overtook Hong Kong in 2022.

Foreign media coverage of this Singapore versus Hong Kong narrative is sometimes laced with a tinge 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 associated with efficient public administration and low levels of corruption.

Their historical similarities as former British colonial outposts situated strategically along key trading routes and their small populations with limited natural resources also sometimes lead to

lazy shorthands.

While the comparison can make for catchy clickbait, astute 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 originates and intermediates two-thirds of China's inward foreign direct investment, outward direct investment and other financial investments.

Nowhere is it clearer that Hong Kong's standing as a financial centre relies on China's continued success than in the Stock Exchange of Hong Kong, where mainland Chinese companies represent 77 per cent of the market capitalisation of listed companies.

This number is expected to grow with plans to expand Hong Kong's mutual market access Stock Connect programme, which will strengthen its position as a key offshore fund-raising hub for Chinese companies, particularly those delisting from the United States. At the same time, it aims to lure international companies attracted by the prospect of Chinese retail investment dollars.

Overall, Hong Kong's traditional strengths in banking and finance are complemented by its



well-capitalised stock market and sizeable wealth management sector, both of which have been bolstered by strong inward flows of Chinese capital.

SINGAPORE'S FOCUS ON SOUTH-EAST ASIA

Singapore, however, plays a different game. While the Republic is the world's second-largest offshore RMB centre for deposits and trade finance, trailing behind only Hong Kong, its political and geographical distance from China also means a much lower level of access to, and reliance on, Chinese financial markets.

While international news outlets 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 rates of 5.4 per cent in 2024.

The Asean region is also expected to become the world's largest single market by 2030, as barriers to inter- and intra-regional trade are lowered and US-China competition leads to both countries ramping up trade with the region.

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 transition projects and climate

change solutions around the region.

This drive to become a green finance hub to meet South-east Asia's growing capital needs is most evident in Singapore's efforts to establish carbon credit marketplace 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 another 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 fintech and green finance, in pursuit of larger national strategic interests in becoming a Smart Nation and accomplishing its 2030 Green Plan.

DIVERGENT APPROACHES TO CRYPTOCURRENCY

Singapore's fintech sector, home to more than 1,000 fintech companies and having attracted a record US\$3.9 billion (S\$5.3 billion) of fintech investments in 2021, is particularly notable for its vastly different approach compared with Hong Kong's.

While Hong Kong has strengthened its efforts to become a cryptocurrency hub by allowing and encouraging retail investors to trade in digital tokens, Singapore has taken the opposite direction by tightening rules for retail trade in cryptocurrency, following the collapse of crypto fund Three Arrows.

There is a coincidental division of labour here. Hong Kong's desire to establish itself as a cryptocurrency hub can be complemented by Singapore's efforts to morph into a broader Web3 hub. Singapore can foster the development of Web3 technologies such as blockchain, some of which will provide the supporting infrastructure for cryptocurrency developments and retail trade in Hong Kong and elsewhere.

LOOK BEYOND EXCITING HEADLINES

In all, while zero-sum narratives around Singapore and Hong Kong make exciting headlines, the reality is much more sanguine. More than competing financial centres, Hong Kong and Singapore are in reality complementary hubs that serve different parts of an increasingly diverse global economy.

This is something the authorities on both sides take in their stride. In a March public lecture at the Lee Kuan Yew School of Public Policy, Hong Kong Financial Secretary Paul Chan said that while Hong Kong-Singapore rivalry is a hot topic that "always gets to be on the front page of the media", the reality is that both cities will need to cooperate to achieve their long-term economic interests.

Similarly, Consul-General of Singapore to Hong Kong Ong Siew Gay said in a commentary published in the *South China Morning Post* in 2022 that narratives pitting both cities against each other tend to overlook the positive sum gains to be reaped from cooperation.

There is an old Chinese saying that one mountain cannot accommodate two tigers. Hong Kong and Singapore may be "tiger economies", but we occupy different mountains in an increasingly vibrant and diverse regional landscape. As Mr Ong surmises, Asia can easily accommodate two business hubs.

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