Hong Kong and Singapore have long been regarded as fierce rivals. However, as George W. Russell discovers, they present different roles and attractions to Institute members and other business people, sometimes in a complementary relationship.

Illustrations by Matt Burchell
Nearly two decades ago, the Hong Kong Institute of CPAs (then known as the Hong Kong Society of Accountants) expressed public concern that Hong Kong was losing out to Singapore as a major international finance centre.

Today, similar worries have been raised again as a more competitive and dynamic Singapore vies for business with a Hong Kong that has been buffeted by skyrocketing property prices, ageing demographics and the effects of an economic rebalancing in China.

“Hong Kong is too dominated by its China focus, which now overwhelms what used to be a ‘world’ or ‘regional’ view,” says Graham Soutar, an Institute member who is Chief Executive Officer of private equity firm LN Investments and divides his time between both cities.

At the same time, Soutar describes Hong Kong as “broader, more sophisticated and more transparent than Singapore,” echoing a common view that both cities have their own attractions and can complement as well as compete with each other.

Indeed, last month, Hong Kong Exchanges and Clearing and the Singapore Exchange signed a memorandum of understanding in which the two stock markets agreed to cooperate in developing Chinese-currency products as well as on technology and regulation.

Such cooperation is rare, but some finance professionals believe the two cities should establish a less competitive relationship, given that both have relatively small domestic economies and are considered gateways to larger hinterlands.

“I feel that Hong Kong and Singapore can complement each other,” says David Leung, an Institute member and Group Financial Controller of iFAST Corporation, which provides back-office functions to the financial industry.

“Hong Kong can be the financial centre to China and North Asia while Singapore can be the financial centre for the Association of Southeast Asian Nations markets and South Asia,” he says.

Accountants were less sanguine back in 1995 when the Hong Kong Society of Accountants sounded an alarm over tax rates, warning that the Hong Kong system, though simple, was falling behind. Tim Lui, then Chairman of the Taxation Committee, said the government should respond to tax incentives offered by Singapore if Hong Kong was to preserve its position.

Companies were fleeing, the HKSA added, citing the departures in the mid-1990s of the regional headquarters of Deutsche Morgan Grenfell, Standard Chartered Bank, American Express, Cathay Pacific Airways, World-Wide Shipping
and IMC Holdings. Meanwhile, more than HK$100 billion in corporate assets had left Hong Kong in the previous 12 months, with most of it bound for Singapore through swap deposits.

The debate continued in the Legislative Council the following year, with Law Cheung-kwok of the Association for Democracy and People’s Livelihood warning that Singapore and Shanghai represented threats to Hong Kong’s status. Law, addressing LegCo, lamented news that a Hong Kong company had relisted in Singapore, while a fund manager’s regional headquarters had also relocated to the Lion City.

Hong Kong remained a vital international and regional financial centre in the years since, but recently the spectre of a revitalized Singapore has loomed large again. Indeed, the Institute, in its latest Hong Kong budget proposals, has made several comparisons with Singapore’s tax regime. (See Singapore throws down tax policy challenges on page 36.)

Moreover, Hong Kong has faced recent criticism over perceptions that it is increasingly polluted, that English-language skills are declining and that – at least for expatriate employees – its education system is crowded and inadequate.

**Tight competition**

Recent surveys, including those commissioned by accounting firms, have not been encouraging. Hong Kong scored well behind Singapore in the Grant Thornton Global Dynamism Index 2013, which rated 60 leading economies. The survey defines dynamism as changes in an economy over the previous 12 months that are likely to lead to a faster future rate of growth.

Based on 22 indicators in five key areas – business operating environment, economy and growth, science and technology, labour and human capital, and financing environment – Singapore was ranked fourth overall, with Hong Kong quite a way behind at number 16.

Another survey released last year, the World Economic Forum Global Competitiveness Report, showed Hong Kong in ninth spot overall while Singapore came second in terms of relative business environments.

In 2012, a PricewaterhouseCoopers survey, Cities of Opportunity, placed Singapore as Asia’s leading metropolitan centre measured on economic factors, quality of life, technology and cost of doing business, displacing Hong Kong, which was ranked fourth globally.

In the Grant Thornton study, Hong Kong performed best in business operating environment and worst in labour and innovation. “We are underperforming in science and technology and our rankings in labour and human capital, and economy and growth are truly alarming,” laments Daniel Lin, Managing Partner at Grant Thornton Hong Kong and an Institute member.

Lin is concerned that – as in the 1990s before the handover to Chinese sovereignty – some Hong Kong professionals are voting with their feet. “We are also seeing a slight emerging trend of emigration,” he notes.

“The pollution, the high cost of living, the lack of recreational space for families are all common reasons families decide to leave the

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<thead>
<tr>
<th>Factor</th>
<th>Hong Kong</th>
<th>Singapore</th>
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<tbody>
<tr>
<td>Population, 2012 estimate</td>
<td>7.15 million</td>
<td>5.31 million</td>
</tr>
<tr>
<td>Area (sq km)</td>
<td>1,104</td>
<td>710</td>
</tr>
<tr>
<td>Density (people per sq km)</td>
<td>6,476</td>
<td>7,479</td>
</tr>
<tr>
<td>GDP, 2012</td>
<td>US$263.3 billion</td>
<td>US$274.7 billion</td>
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<tr>
<td>GDP per capita, 2012</td>
<td>US$36,795</td>
<td>US$51,709</td>
</tr>
<tr>
<td>Ease of doing business ranking</td>
<td>2nd</td>
<td>1st</td>
</tr>
<tr>
<td>Competitiveness ranking</td>
<td>7th</td>
<td>2nd</td>
</tr>
<tr>
<td>Labour productivity index, 2011</td>
<td>54.3</td>
<td>56.6</td>
</tr>
<tr>
<td>Corruption perception index ranking</td>
<td>equal 15th</td>
<td>5th</td>
</tr>
<tr>
<td>Air passengers, 2012</td>
<td>56.467 million</td>
<td>51.2 million</td>
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<tr>
<td>Port container throughput, 2012</td>
<td>23.1 million TEU</td>
<td>31.6 million TEU</td>
</tr>
<tr>
<td>People per CPA</td>
<td>201</td>
<td>196</td>
</tr>
<tr>
<td>People per police officer</td>
<td>255</td>
<td>139</td>
</tr>
<tr>
<td>No of prisoners</td>
<td>7,634 (Sep 2013)</td>
<td>10,028 (Dec 2011)</td>
</tr>
<tr>
<td>Life expectancy, years, 2011</td>
<td>83.42</td>
<td>81.89</td>
</tr>
<tr>
<td>Suicides per 100,000 people, 2012</td>
<td>12.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Football (soccer) rank</td>
<td>140</td>
<td>150</td>
</tr>
</tbody>
</table>

Sources: Economist Intelligence Unit, FIFA, Hong Kong Correctional Services, Hong Kong Institute of CPAs, Hong Kong Police Force, Institute of Singapore Chartered Accountants, Singapore Police Force, Singapore Prison Service, Transparency International, World Bank, World Economic Forum, World Health Organization
city,” Lin adds. “The government should give some serious thought into the matter [of emigration].”

Singapore offers a similar professional environment for accountants as Hong Kong. Singapore Financial Reporting Standards are based on International Financial Reporting Standards. “The differences in accounting standards are not significant,” says Leung at iFAST.

There are differences in terms of effective dates, transitional or exemption provisions, and additional interpretations and guidance to suit local business and economic needs. “One notable difference relates to the timing and manner of revenue recognition for certain regulated development of private residential properties in Singapore that are sold prior to completion,” says David Chew, Executive Director at EY in Singapore, and an Institute member who is now based in Shanghai after stints in Hong Kong and Singapore.

Some Institute members say Singapore offers more in terms of work-life balance. “I think it’s a better working environment than Hong Kong, with shorter real working hours, and more flexibility,” says Kent Kwok, who lives in Singapore as Senior Manager, Business Development and Administration, at SaSa Cosmetic Co.

Of course, it is not just lifestyle that lures Hong Kong CPAs to Singapore. “The country’s dynamic economy and strong foundation in the English language attracted me to the Lion City,” says Steven Mok, an Institute member who is now an auditor with BDO Singapore.

Common objectives
Despite the differences drawn between Hong Kong and Singapore, the two economies have much in common. Both places are maritime economies: strategically located ports with heavy investment in trans-shipment and re-export.

Both jurisdictions stress their open markets and strong legal systems. “Both are world-class financial centres with transparent market access, a clear legal framework, tax friendly regimes, excellent infrastructure and no foreign exchange controls,” points out Chew.

As a comparison of key economic data shows (see table on page 34), both are similar in terms of population density, gross domestic product, the general ease of doing business and labour productivity.

Both territories have similar levels of income inequality. “We actually have the second-highest income inequality among all the economically developed countries, after Hong Kong,” notes Roy Ngerng, a prominent Singapore social activist. “There is a large pool of lower income earners, and a group of superrich who are amassing the wealth.”

Many social factors, such as life expectancy and the suicide rate, are also on a par. Both places could do better at sport: for example, Hong Kong and Singapore hover near the bottom of international football rankings, behind countries and territories with much smaller populations.

There are significant differences too: while about 94 percent of Hong Kong’s population is ethnically Chinese, Singapore is more diverse: about 77 percent of people there are of Chinese descent and it has significant Indian and Malay populations.

Before 1997, Hong Kong’s per-capita GDP was slightly higher than that of Singapore. Now Singapore’s is about 40 percent higher, thanks largely to a stronger currency, faster population growth and economic gains from developing its pharmaceutical, biomedical and leisure industries more strongly than Hong Kong.

“Singapore thus has a greater balance between industries and services, while Hong Kong has lost much in the manufacturing industries,” Li Kui-wai, Associate Professor of the Department of Economics and Finance at City University of Hong Kong, noted in a recent analysis. “Hong Kong needs to restructure in order to revitalize [its] industrial sector for greater employment and exports.”
Future development

How the Hong Kong and Singapore economies progress in the future remains to be seen, but some Institute members see the Lion City pulling ahead. “Over the next one to five years, I think Singapore will continue to grow at a moderate rate, while Hong Kong’s economy may slow down or even decline,” forecasts Kwok at SaSa.

He adds that one of Hong Kong’s integral positives – its closer proximity to the Mainland market – is less of a factor, given competition from cities such as Beijing, Guangzhou, Shenzhen and Shanghai. “This advantage is fading,” Kwok says.

Leung at iFAST agrees, adding that Singapore authorities are more open about setting future policies. “The Singapore government shows more commitment to improve and further develop the economic environment.”

Both cities are keen to develop their Mainland links and the stock exchanges’ cooperation over yuan-denominated financial products can produce mutual benefits.

However, Hong Kong and Singapore face competition from the Mainland itself, given the recently launched China (Shanghai) Pilot Free Trade Zone. “With the establishment of the Shanghai free trade zone, Hong Kong needs to shake up and stay ahead of the competition as Asia’s top destination for doing business,” warns Lin at Grant Thornton.

In addition, Singapore might soon compete on a more level playing field for Mainland listings. In November 2013, the Singapore Exchange announced that it would create a framework in cooperation with the China Securities Regulatory Commission to allow Chinese companies registered in China to list in Singapore, a move that will enable it to compete with Hong Kong.

Despite such developments, Hong Kong is still a major contender when it comes to capital markets, says Chew at EY. “Hong Kong remains strong, driven largely by its geographical proximity to China to serve the booming Chinese initial public offering and debt capital markets,” he says.

Lin at Grant Thornton is confident that Hong Kong can rise to the challenge of competition, given the results of his firm’s survey. He adds that Hong Kong is addressing issues of concern such as labour, citing the Standard Working Hours Committee launched in April 2013. “With increasing public concern over work-life balance, I’m optimistic that we can reach a happy medium in due course,” he says.

Lin also notes that Hong Kong continues to rank highly globally in business terms given its access to global capital and business-friendly taxation system. “Our open trade policies, the newly passed competition law, political stability and sound financial regulatory system contribute to the favourable business operating and financing environments.”

SINGAPORE THROWS DOWN TAX POLICY CHALLENGES

The Hong Kong Institute of CPA’s 2014-2015 budget proposals, developed by the Taxation Faculty Executive Committee, focus on tax policies to attract and facilitate business growth and measures on the revenue side of the budget to help businesses and the community.

The challenges to Hong Kong include rapidly integrating markets and changing business models. These developments have created opportunities to minimize tax burdens, through sophisticated tax planning, where cross-border activities may go untaxed or taxed at low rates.

Some challenges are global, such as the Organisation for Economic Co-operation and Development initiative on base erosion and profit shifting. Others are regional developments, such as new trade zones, but also more competition from established centres such as Singapore.

Some of the Lion City’s reforms have been in direct competition with Hong Kong, such as liberalizing the asset management industry. “Fund management is one area where Hong Kong is particularly strong,” notes David Chew, an Institute member who is an Executive Director at EY in Singapore. “Singapore, in response, is offering incentives for fund managers to relocate to compete in this area.”

Hong Kong’s Financial Services Development Council is proposing tax measures to incentivize the development of the asset management industry, including private equity funds and real estate investment trusts.

The Institute, in its budget submission, agreed that asset management is an important part of the financial services sector and proposed that a tax exemption should be granted, similar to that currently enjoyed by offshore funds, to Hong Kong-resident funds. This provides a more level playing field for onshore and offshore funds. Singapore offers concessions to domestically domiciled funds.

To encourage the development of the innovation and technology sector, the Institute proposes that “super deductions” of 150 percent of actual costs incurred be allowed where research and development is conducted in Hong Kong. Similar deductions are offered in Singapore.

In other issues, the length of time for finalization of tax affairs, particularly loss cases, poses uncertainty for businesses. Several jurisdictions, including Singapore, adopt a shorter period than Hong Kong.

To make the tax system more competitive, the Institute has for some time proposed that a form of group loss relief be introduced in Hong Kong. Singapore, for example, successfully operates such a system.