



# Shanghai vs HongKong vs Singapore

## A Comparison of the Investment Environment in Three of Asia's Major Business Hubs

By **Matthias Pfister**

One of the main questions which affects companies planning to do business in the Far East, regardless of their type of industry, is the search for the ideal location for their Asian head office. When it comes to making decisions, Shanghai, Hong Kong and Singapore are often among the final candidates.

There are many parameters for comparing these three cities. Recent political and economic developments could be one way to find differences, cultural and historical aspects could be another. Proximity to production bases, business partners or markets is, of course, another highly important factor. But in order to get a sound idea of the distinctions that have an impact on day-to-day operations, it makes sense to take a closer look at the ease of conducting business in each city and examine some of the main areas that will have an impact on foreign companies' choice of Asia headquarters.

### Shanghai Tries to Outpace

According to the World Bank's *Doing Business 2009* study, Singapore appears for the third consecutive year as the most attractive city in which to establish an office. With a mere four days needed for setting up, it is about half the time needed for Hong Kong and just a fraction of the duration necessary in Shanghai. Dealing with licences is more cumbersome in Shanghai, while a daughter company in Shanghai requires a minimum capital injection (amount varies by type of company). Hong Kong and Singapore, however, do not have any minimum capital requirements.

Daughter companies need to abide by the given corporate compliance regulations of head offices in their respective home countries. A useful tool for measuring the level of corporate compliance is provided by the *Corruption Perception Index*, published annually by Transparency International, which analyses nepotism and corruption in each country. Singapore repeats its front rank here. Due to the strong influence of Hong Kong's anti-corruption organisation – the Independent Commission Against Corruption (ICAC) which was created in the 1970s – Hong Kong has a similar position at the front of the field. Both locations are role models for the region; Mainland China, though, is found at the lower end of the scale.

In the wake of the announced stimulus packages of the Chinese government, Shanghai is trying to outpace its opponents by granting additional subsidies and rewards according to the Provisions on Encouraging the Relocation of Regional Headquarters in Shanghai by Transnational Corporations, which was promulgated in December 2008. These range from one-off payments of RMB 5 million for setting up an office, to office rent subsidies, and rewards for senior management if preconditions are met. In its late January exceptional budget address, Singapore responded with a corporate tax cut of one per cent to 17 per cent which might influence new investors' decisions. Hong Kong and Singapore both have a clear advantage over Shanghai in that they allow for flexible conversion of currencies and have no restrictions on the repatriation of profits, whereas China's Renminbi continues to be non-convertible and restrictions hinder sending funds out of the country.



### Office Space Remains Crucial Factor

While all three locations have seen a steady growth in rent prices over the past years, reflecting the booming economies of this region, currently rents are falling in the three cities as the economic crisis dampens demand for space. Shanghai's recent skyscraper boom combined with the fact that multinational companies have aggressively cut costs and relocated their non-core operations to outlying business locations, has had tremendous influence on the vacancy ratio of A-grade commercial buildings. At only five per cent at the beginning of 2008, this vacancy rate soared to 15.4 per cent by the end of 2008, giving tenants greater negotiation leverage. The average monthly rent towards the end of 2008 was still about EUR 12 per square metre, but given the over 750,000 square metres of A-grade space that are planned for construction in 2009, rent prices are expected to drop further by 10-15 per cent.

Singapore and Hong Kong are underlining this trend: While A-grade office space dove over 20 per cent from EUR 43 to EUR 34 per square metre, per month in Singapore in the last quarter of 2008, tenants in Hong Kong's Central district – a prime location for office buildings – have to dig deeper in their pockets for an average EUR 60 per square metre. After 20 consecutive quarters of increasing rent prices, Hong Kong eventually saw the beginning of a rental down-cycle. Nevertheless, renting an office in Singapore or Hong Kong still comes at a premium, as office rent can be between three to six times the rent of Shanghai.

### Bureaucratic Hurdles Complicate the Choice

Tax rates differ across the three destinations as does the amount of time necessary to comply with administrative burdens: Singapore and Hong Kong make do with less than half a dozen tax payments; Shanghai requires nine. While the time spent for tax reporting in Shanghai is still more than six times as high, China has made great efforts in past years by cutting the number of payments down to a quarter from the previously necessary 35. Tax-wise Hong Kong remains the most attractive location, but Singapore has become more competitive with its recently announced tax cut – the second cut within three years – reducing the maximum corporate income tax rate to 17 per cent in order to narrow the gap with Hong Kong, currently at 16.5 per

#### The Big Three

Incorporation and Investment Environment in:	Hong Kong	Shanghai	Singapore
Duration of incorporation (days)	11	40	4
Incorporation procedure steps	5	14	4
Capital requirements for incorporation of a Limited Company	No minimum	Yes (depending on company type)	No minimum
Currency convertibility / profit repatriation	Yes / Yes	No / No	Yes / Yes
Ranking: Corruption perception index	12	72*	4
Office rent per sq.m / month for A-grade office** (EUR)	60	10	34
<b>Tax and Duties</b>			
Amount of yearly tax payments	4	9	5
Preparation and filing (hours required)	80	504	84
Corporate income tax	16.5%	25%	17% (from 2009/2010 onwards)
Individual income tax (max. tax rate)	15%	45%	20% (20% rebate in 2009)
Double taxation agreement with Germany	No	Yes	Yes
<b>Business Travel</b>			
Cost** (EUR) / time (min) / distance (km) from airport to city centre	8 / 24 / 34	15 / 60 / 46	8 / 27 / 20
Standard hotel room per day** (EUR)	180	152	151

Sources: Fiducia, World Bank Study "Doing Business 2009"; Transparency International; Colliers International.

\* China data serves as proxy for Shanghai

\*\* Original currencies converted to EUR, exchange rates by <a href="http://www.xe.com">http://www.xe.com</a>

## Investment

cent. The Chinese State Administration of Taxation calls for 25 per cent; Shanghai also has the highest personal income tax compared to Hong Kong's 15 per cent and Singapore's 20 per cent. A one-time 20 per cent rebate on personal income tax for 2009 is being granted in Singapore to bolster domestic consumption.

It is clear that significant differences do exist between the three locations. Hong Kong and Singapore emerge

as preferable when it comes to the incorporation and maintenance of a company. Whether a company intends to sell, buy or manufacture (or a combination of the three), it should be noted that each investment situation requires an individual analysis. In some cases, it may be best to separate business functions across locations according to individual advantages, so a Hong Kong vs. Shanghai may in reality become a Hong Kong plus Shanghai. ■

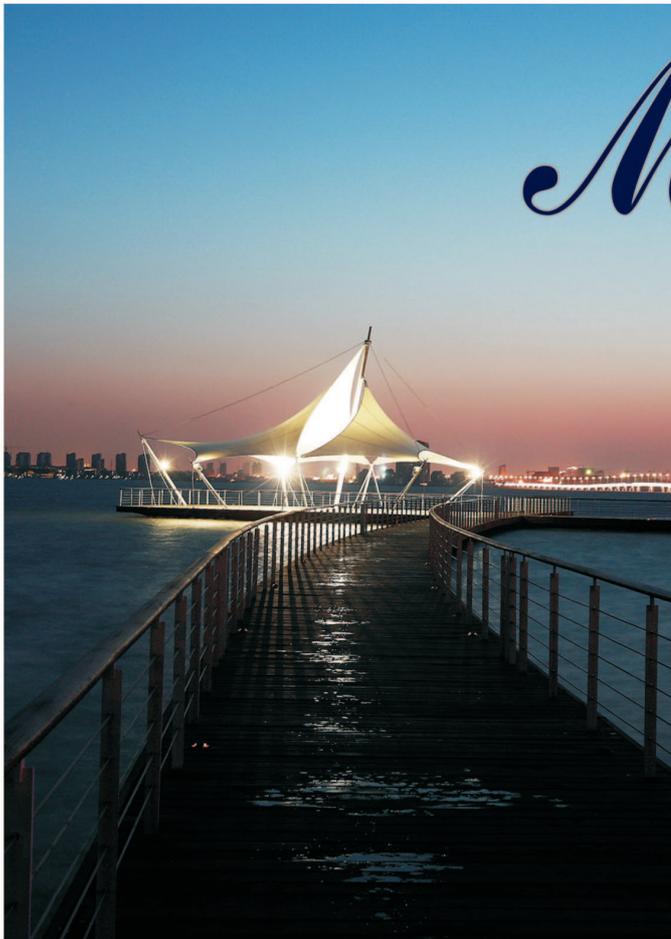
### Profile

Fiducia Management Consultants was established in 1982 as a multidisciplinary company focusing on China and Hong Kong. Fiducia provides a wide range of services to assist international companies in implementing, expanding or optimising their business activities in China and Hong Kong. With four offices strategically located in Beijing, Hong Kong, Shanghai and Shenzhen and a multinational team of 100 dedicated consultants, Fiducia combines international expertise and local know-how. We have extensive project experience in exploring market opportunities for foreign companies, advising suitable business models and assisting to realise our clients' China investment plans. Fiducia also assists foreign companies in company formation, accounting and taxation issues as well as executive search in China. Matthias Pfister is Business Development Executive at Fiducia Management Consultants in Shanghai and works preliminary in the fields of corporate set-up, accounting and executive search.



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