

Hong Kong vs. Singapore: Which is Best for Business?

Our whitepaper shows why there is no clear winner in this regional rivalry.

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FIDUCIA 德信
Management Consultants





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Why Hong Kong vs. Singapore?

2020 has been a test of adaptability for international companies and their Asian operations. Thrown out of gear by the covid pandemic and political tensions – both global and local – many are having to rethink aspects of their Asia setup that they previously took for granted. Not just how they do business but also where?

Home to 60% of the world's population and some of the largest and fastest-growing economies, Asia is rightly seen by growth-seeking companies as the place to be. At the same time, the region's national boundaries and economic and cultural diversity beg the question of where to locate, and in which form.

This publication looks at two of Asia's preferred business hubs, weighing them up against each other at a time when uncertainty about Hong Kong's future runs high. Engaged as Fiducia is with the "fragrant harbour", its changing role and reputation as a regional hub cannot be denied. But they should not be exaggerated either.

As a service provider with Hong Kong roots, we and a large part of our client base have a strong presence here, which gives us both the insight and responsibility to bring clarity to the city's puzzling outlook and examine close alternatives.

Is it time for your business to phase out of Hong Kong? Is Singapore a better choice as a regional hub? For a deep-dive into your company's specific situation we will be happy to advise you. In the meantime, this publication presents industry trends and "Mittelstand" voices that will help to guide and give weight to your decision.

Stefan Kracht

A Word of Advice

Recommendations for decision-makers

The region's business landscape is in flux. Supply chains are being re-shaped, emerging markets are gaining ground, and the pace of innovation is speeding up, all while the coronavirus pandemic and geopolitical tensions keep changing the script.

In this context, re-evaluating your footprint in Asia is vital to stay ahead of competitors - even when it doesn't seem urgent.

1 Block out the noise

In periods of uncertainty, filtering out information that is not relevant or reliable is critical. We encourage executives to participate in our high-level knowledge-sharing events and rely on professional sources of information.

2 “Wait and see” proactively

“Wait and see” is a sensible stance to take towards Hong Kong's political uncertainty, geopolitical tensions, and other external factors beyond our control. But this approach should involve monitoring the situation and analysing potential courses of action in a structured and proactive way – through market and competitor analyses, and open conversations with key stakeholders.

3 “Don't waste a crisis”

The global economy is expected to shrink by 5.2%¹ this year - the deepest recession since the Second World War. The IMF forecasts ASEAN-5 and the Euro Zone to shrink by 2% and 10% respectively, while China's GDP should grow 1%. Even for businesses that have made it through 2020 unscathed, 2021 is bound to be challenging. Use this as an opportunity to rethink your business in Asia and drive bold and overdue changes, getting ready to outperform competitors once things speed up.

Who is this Whitepaper for?

An analysis with a "Mittelstand" focus

There's a host of elements to factor in when comparing two cities as business locations. Here, we'll focus on criteria that are of interest for our typical clients: mid-sized companies in industrial and commercial sectors.

This publication is our answer to the frequent questions we get from clients who are scouting for the best hub in Asia, rethinking their existing footprint, or interested in current market trends and what competitors are doing.

If you are in the middle of a decision-making process, our team can provide the type of in-depth analysis and tailored support you may need. For four decades, clients have relied on our independent third-party advice and support on the ground. Especially in periods of turbulence, our 120 consultants - located in Hong Kong, Beijing, Shanghai, Shenzhen and Singapore - step in to smooth transitions and bridge communication between subsidiaries and headquarters.

How we can help you:

- **Multi-country location analysis**
- **Functional & risk assessments**
- **Operational efficiency & transformation**
- **Cross-border tax advisory**
- **Competitor benchmarking & analysis**
- **Executive search and team design across Asia**
- **Staff relocations and package re-negotiation support**
- **Exit/Phasing out strategy**

Contents

1. Industry Insights	7
1.a. Sourcing	
1.b. Manufacturing & Med-tech	
1.c. Shipping & Logistics	
1.d. Financial Services	
1.e. Technology	
1.f. Consumer Brands	
2. Business Landscape	15
2.a. Taxes	
2.b. Regional Coverage	
2.c. Political Stability	
2.d. Talent	
2.e. Costs	
3. Expat Life & Work	29
4. Ten Takeaways	32

Industry Insights

Industry Insights

Which city is more appealing for specific industries?

In uncertain times, it's tempting to look for black and white answers. The growing wave of headlines mourning "the death of Hong Kong as a business hub" is a reflection of that. Often, oversimplified analyses take what's happening in one industry as a sign of a large-scale shift.

Reality is always more complex than that. Though there are a few sectors where either Hong Kong or Singapore have a strong lead, in most industries there is no clear winner. The insights in this section are a reminder that decision-making always boils down to industry-specific factors and company-specific motivations.

Sourcing

Hong Kong's closeness to mainland China, its legacy as a trading hub, and its rich pool of specialised talent give it a hard-to-match advantage for sourcing functions. Nevertheless, the accelerating supply chain shift towards SEA and India is pushing some to consider a second, usually smaller, purchasing operation in the Lion City or other countries in SEA. Will Hong Kong remain the dominant sourcing hub? Industry leaders weigh in on this and share their own strategies.

“ Trade is the DNA of Hong Kong ”



Peter Hauser, MD
Eurogroup Far East

About Eurogroup Far East: A buying office owned by leading Swiss retailer Coop, sourcing food, non-food, and near-food items across Asia.

Regional setup: Active in Asia for 30 years. The regional HQ in Hong Kong manages the group's Asia-wide sourcing activities. Other office locations in Asia include Shanghai, Delhi, and Ho Chi Minh.

“Trade is the DNA of Hong Kong. This is where you find people who know how to talk to manufacturers and customers, who understand negotiation, trade, and a broad range of products.”

You can certainly find quality outside of China in specific business areas. We see excellent developments in Vietnam, Sri Lanka and India for clothes, furniture, boutique, decoration items and specific food products. But for electronics, for high quality stainless steel and many more product ranges you still need China. So it's difficult to handle an extensive range of items from somewhere else than Hong Kong. It needs mentioning too, that China remains a highly competitive sourcing market.

That said, as a company operating in this region, it is a must to think about option B. China +2 (India and Vietnam) is our strategy at the moment. But I don't see the necessity to move in the short or even mid-term - we are still strongly committed to Hong Kong and believe things can turn out positive. Our purpose here is to do business, not politics, but politics might interfere at a certain stage, and that stage is when you start to lose good people. That's when you might reconsider.”

“ Both hubs are strategic for us ”



Christian Giereth, CFO
Sourceability

About Sourceability: Specialises in the distribution and trading of electronic components globally. Brought to market the first leading global e-commerce marketplace for electronic components, sourcengine.com.

Regional setup: Two logistic hubs - one in Hong Kong, one in Singapore. Other office locations include Shanghai, Shenzhen, and India.

"From an industry perspective, Hong Kong is still the gateway to China. A lot of manufacturing companies for electronic components are in mainland China, but Hong Kong is still where many of the distributors are sitting, where products get consolidated and shipped to global customers. Being so close to Shenzhen, THE hub for the electronics industry and supply chain, is [also] definitely a great advantage. We have a Hong Kong office and a Shenzhen office where the main sales force for the Chinese market sits. It's very easy to travel between both locations and our staff frequently do so.

Singapore is the home for several of the regional HQs of our international clients. The regional hubs and decision-makers of many large OEMs and EMSs are sitting here. Sourceability does a lot of R&D, software development and intellectual property [...] and Singapore offers very interesting programmes and incentives in these areas.

Both hubs are strategic for us. Besides logistics, we have finance, sales, and purchase functions in both."

“ Why Hong Kong plus mainland China? ”



Max Kronberg, Founder & CEO
KW-Commerce

About KW-Commerce: A "grown-up start-up" headquartered in Berlin, selling a range of consumer electronics accessories and home and living products through online marketplaces.

Regional setup: A management hub in Hong Kong plus an operational hub in Dongguan for warehousing, merchandising, QC, order management and graphics.

"Our first setup in China was in Dongguan. Then, in March 2019, we opened our Hong Kong office as a management hub for Asia, providing merchandising for our brands, quality management, and sales functions for ex-EU markets.

At present we have 30 people in Hong Kong. The city has been through many challenges over the last year, starting with the protests, which didn't really affect our business. But despite everything, we are still very positive for the future. We still see Hong Kong as our sourcing hub, and plan to continue expanding and growing our headcount here.

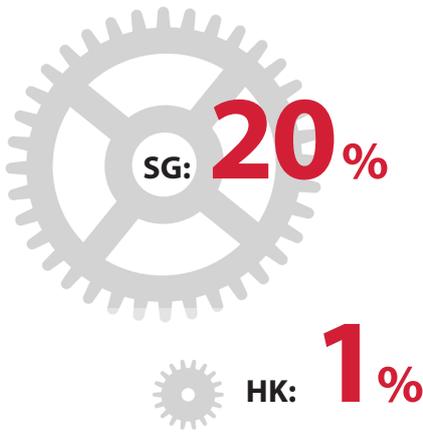
We're often asked: Why choose Hong Kong after already being in mainland China? The main reason is that the talent pool for merchandising and support functions is much larger in Hong Kong. And, because of cultural reasons and a more international mindset, it is easier for our German and Hong Kong teams to cooperate closely, which is something we need.

The ease of doing business and tax advantages also mean that, even if costs are higher in Hong Kong, if we look at the after-tax earnings, the higher costs are almost compensated."

Manufacturing & Med-tech

Manufacturing accounts for less than 1% of Hong Kong's GDP. The city is home to the offices and corporate holdings of several international industrial players, but production and R&D functions are located across the border.

Manufacturing share of GDP:



In Singapore, manufacturing accounts for 20% of GDP. Multinational chemical, electronic, med-tech and other technology-intensive manufacturing companies have plants and R&D centres in Singapore's industrial parks. This carries advantages for non-production functions too: a local cluster of potential clients and partners, sector-specific government incentives, relevant talent, and a wider availability of suitable land and facilities.

On the other hand, Hong Kong's proximity to mainland China, especially South China, where many foreign manufacturing groups have a presence, is still a strong reason to have a presence there.

Industrial and med-tech companies tend to have a network of hubs in APAC, each handling specific functions and catering to different sub-regional markets, depending on where their production sites, customers and distributors are.

This already diversified footprint makes industrial players' front and back-office functions quite nimble. Companies looking to reduce their Hong Kong exposure can gradually shift specific roles to other existing subsidiaries without the need for a costly new setup or structural overhaul. Is this already happening? Is Singapore a better alternative? Three industry leaders share their perspectives.

“ A shift away from Hong Kong in our industry ”



Jan-Grigor Schubert, President
Zama Group

About Zama: A German-owned manufacturer of carburetors, oil pumps and other high precision engine parts with 3,000 employees globally.

Regional setup: Production facilities in mainland China and the Philippines, an R&D center in Japan, and an administrative, financial, and logistics centre in Hong Kong.

“Hong Kong's main advantages are still there: the free flow of capital and goods, a stable and low CIT rate, and a very nice labour market - especially for commercial, financial functions and engineers. Its main disadvantages, expensive rents and expat packages, are still there too.”

What has changed is that tax rates are getting similar in neighbouring countries including mainland China when using government incentives, or even lower in the Philippines. Currently, high potential local staff is also very willing to permanently relocate. Based on that, companies are no longer bound to have a presence in Hong Kong for the reason of tapping into its talent pool.

However, the main reason causing a shift away from Hong Kong in our industry is less tangible: there is a growing uneasiness among expatriate managers of foreign companies and their frequent high-level visitors. They stopped seeing the high operation costs through rose-coloured glasses and are therefore less willing to protect the company's presence in Hong Kong against cost arguments.”

“ The Singaporean govt actively promotes SMEs ”



Joerg Sturhan, Area Sales Director
Bizerba

About Bizerba: A 150-year old family-owned German machinery maker specialised in weighing technologies, employing 4,100 people worldwide.

Regional setup: Three APAC hubs: mainland China, India and Singapore, which overlooks sales and services in SEA, Australia, New Zealand, and partially Taiwan, Korea and Japan.

“The Singaporean government actively promotes SMEs through everything from tax deduction schemes up to cash payouts depending on the nature of investment and sustainability. Through the now-phased-out Productivity and Innovation Credit, companies from various industries could apply for funding support of up to 40% when buying high-end equipment to modernise their production. You’ll find similar funding programs today for staff training, IT investments, and so on.”

The government really wants their people to conquer the region. If you go to a trade fair in Thailand, guess who has the largest pavilion? The Singapore pavilion offers really attractive terms to exhibitors, even offering to deduct flight and logistics costs from your taxable income.

Singapore’s reputation as multi-racially tolerant is also an advantage. If you dispatch people from Singapore to the SEA region, they tend to be better accepted as bosses compared to other Asian nationalities.

But operational costs are very high here. Bangkok, Ho Chi Minh City, Kuala Lumpur will all be increasingly attractive options because of their lower costs and nearly equally good infrastructure - internet, office space, talent, airport. As the Minister for Trade & Industry, Mr. Chan Chun Sing, said “What Singapore can do today is what our neighbors can do tomorrow.” So I do think we must have a sustainable business development plan for “after” Singapore. For now, finding talent here is still easier and the ease of doing business is much higher.”

“ No plan in adapting our structure in Hong Kong ”



Andrea Lorenz, GM Operations and
Administration Greater China & SEA,
Richard Wolf

About Richard Wolf: A leading manufacturer of technologies for endoscopic diagnosis and therapy with more than 1,500 employees globally, founded in Germany in 1906.

Regional setup: Richard Wolf’s presence in Asia includes a Hong Kong subsidiary established in 2012, a Service Centre in Shanghai since 2015, and a Singapore subsidiary for SEA established in 2017.

“Our Hong Kong subsidiary acts as a trading office and interface between our German headquarters and mainland China. Our team of five is supported by Fiducia, who takes care of our Shipping and Finance activities. Our Sales and Service Teams are located in our WFOE in Shanghai.”

Southeast Asia is one of the priority markets for our global organisation. We therefore decided to open our 15th subsidiary [globally] in Singapore, answering strong global demand for our high-performance endoscopic technology services. With a team of four full-time employees, we support our eight distributors in Southeast Asia in all sales and marketing activities.

In my opinion, both Hong Kong and Singapore are quite similar in the development of the med-tech industry. They both rely heavily on imports to satisfy their medical equipment needs.

Hong Kong has always been a trend leader, especially to its neighbour Mainland China. It is often seen as a major reference point for market analysis and market activities when it comes to medical technology. Meanwhile, the strength of its own local industry in Singapore has allowed it to become an excellent starting point for fact finding and partner search.

Currently we have no plan in adapting our company structure in Hong Kong and our business in Greater China is still developing fast. However, it is undeniable that the changing political environment in Hong Kong has been brought to our attention. I sincerely hope that Hong Kong continues to be an inclusive, free and open place for business."

Shipping & Logistics

Both Asian Tigers first became important international trading hubs in the 19th century under British rule and owe at least the beginnings of their prosperity to their bustling ports.

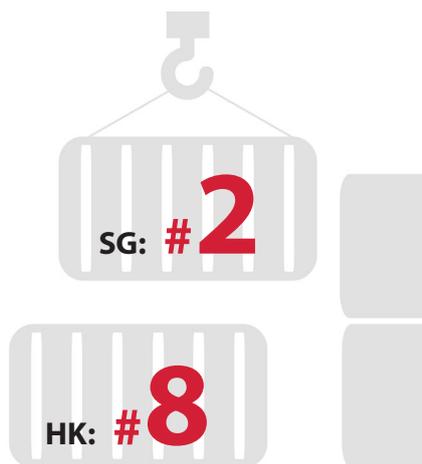
Singapore's port trailed behind in the 1990s and early 2000s, when Hong Kong's "fragrant harbour" became the gateway for goods entering and leaving a booming China. As recently as 2004, Hong Kong was the busiest container port in the world.

Overtaken by mainland China's huge and modern ports - which have also reduced the need for transshipment in Hong Kong - and by the ports of Singapore and Busan, Hong Kong's port is now the 8th busiest. It handles half the container volume as Singapore, and fills roughly half as many vessels as it did in 2004.

Not surprisingly, there has been a visible shift of investment and operations towards Singapore among logistics companies, making it a more competitive ecosystem for manufacturing heavyweights to locate their distribution and supply chain management hubs.

Hong Kong's threatened special trading status with the US, and growing interest in SEA's manufacturing and consumer potential, are bound to keep Singapore well ahead as a global logistics hub.

**World's busiest container ports 2020
(by shipment volume):**



Finance

One crown that Hong Kong holds onto is being Asia's premier financial hub. Political unrest and uncertainty threaten to change this, and competing financial centres in the region have been quick to roll out their red carpets for institutions and professionals having second thoughts. Tokyo is discussing streamlined visa and license approvals, while Busan in South Korea is offering tax incentives and free rent to financial firms.

But Singapore - with its similar tax rates, light-touch regulation, and large expat community - is seen as the only real alternative. Its newly launched legal structure, the Variable Capital Company (VCC) is comparable to the tax-efficient investment vehicles of the Cayman Islands and Luxembourg, and is already succeeding at luring in family offices, hedge funds and private equity firms.

For larger financial institutions, making a move or opening up a "plan B" operation is not as easy, though many are bulking up their private wealth management units in Singapore as more high-net worth individuals move their money there.

But, can Singapore aspire to eclipse Hong Kong as a financial hub when Hong Kong remains the investment gateway for the world's second largest economy, and has a stock market that's ten times its size (by market cap)? Equity trading is a key element of a vibrant financial centre, and Hong Kong's market has proven to be extremely resilient to recent headwinds.

Hong Kong's share of mainland China's FDI flows:



Technology

Singapore has cemented its position as Asia's epicentre for global tech companies. It is home to 59% of the Asian regional headquarters of tech MNCs¹ - including Google, Facebook, and Netflix.

Ability to innovate (Bloomberg Innovation Index 2020 Ranking):



Its neutrality amid US-China tensions, growing interest in SEA's smartphone-savvy population, and concerns about the data implications of Hong Kong's National Security Law are all adding to Singapore's appeal as a location for tech players. The same goes for data centres, a fast-growing market and one where Singapore is already the leader in APAC, followed by Hong Kong.

Among startups, Singapore's lead over Hong Kong is slightly less pronounced, but its larger and glitzier tech scene – a magnet for top talent – and more holistic government support make it a competitive choice. Though securing private funding should be equally easy in both uber-wealthy cities, startups find it harder to access early stage capital in Hong Kong, where VC firms and angel investors seem to be more conservative.

Creation of a dedicated government body for innovation:



That said, Hong Kong's startup scene still has a lot going for it. Its larger financial sector gives it an edge for fintech startups, while being close to Shenzhen – arguably the world's internet-of-things (IoT) capital – makes it an ideal location for smart product makers. Hong Kong's best bet to spark innovation and rejuvenate its economy is to find ways of leveraging this proximity to the Greater Bay Area. The planned Hong Kong-Shenzhen Innovation and Technology Park, Hong Kong's third tech incubator, to be built close to the border with Shenzhen, could be a step in the right direction.

Cyberport and Science Park, Hong Kong's existing government-subsidised tech hubs, have helped to lower the burden of extortionate rents, but getting Hong Kong's technology scene to be at the level of Singapore's will require deeper structural changes.



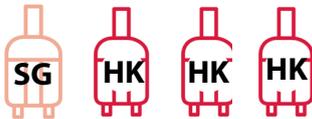
Startups, in particular tech companies, are looking to Singapore for its vibrant startup scene that receives robust governmental support. This includes grants such as Startup SG Founder (which provides a platform for matching mentors to startups) and Startup SG Tech (which aims to provide early-stage funding for the commercialisation of proprietary technology). The incentives are not available to just Singapore investors and entrepreneurs; foreign companies may be able to avail themselves of various benefits.” - Alexander Lee, Partner at Dentons Rodyk

Consumer Brands

Singapore's retail sales were only **60%** of Hong Kong's in 2019:



Hong Kong received **3x** as many tourists in 2019



1 in 4 retail stores are expected to close in Hong Kong in 2020



Across categories - from luxury to sports apparel, from footwear to cosmetics - consumer brands have been shifting their centre of gravity from the mature markets of the US and Europe towards fast-growing Asia - especially China. Over the last decade, China accounted for almost 40% of growth in the global fashion industry across segments, and 70% if you look at luxury fashion alone.¹

Hong Kong acted as an entry point for early movers into China's huge and complex market. Nowadays, the sales function and retail footprint has largely moved to the mainland, but many - especially MNCs - keep one of their APAC hubs in Hong Kong performing strategic, purchasing, production, distribution, and/or merchandising functions. Among mid-sized brands that entered the market later on and still rely heavily on distributors, Hong Kong is used as a regional management base - usually with a small but senior team.

Hong Kong's larger local market has also positioned the city as a more important fashion and luxury hub compared to Singapore. Even in 2019, as Hong Kong was rocked by protests, Singapore recorded retail sales that were 60% of Hong Kong's, and welcomed only one-third as many tourists.

But the SAR's deepening recession, uncertain outlook, and stubbornly high overhead costs are motivating companies to scale down their retail footprint. The Hong Kong Retail Management Association (HKRMA) expects one in four retail stores to close by the end of the year, with big brands such as Gap, Topshop and J Crew closing shop in Hong Kong entirely. Whether the same factors will motivate companies to rethink their Hong Kong-based business functions too remains to be seen.

Key industry trends are set to benefit Singapore in the coming decade. Its more mature digital and tech scene matches retail's growing focus on online channels, while the fast-paced shift of textile and footwear production towards SEA will keep adding points to Singapore's appeal as a purchasing/production hub. SEA's growing middle class, and its large, young, and smartphone-savvy population, pose an increasingly attractive growth opportunity for brands that are ready to branch out in Asia. Most, however, will keep placing their bigger bets on China.

Business Landscape



Business Landscape

Which city make it easier, or harder, for businesses to thrive?

It's easy to see why Hong Kong and Singapore are considered close contenders for the title of Asia's preferred business hub. Both rank among the world's most market-driven, business-friendly jurisdictions and offer low corporate taxes. They're strategically located at the heart of Asia, act as key trade nodes, and are expat magnets thanks to their "Asia light" allure (and attractive packages). They even share historical parallels, as formerly British-ruled port cities turned "Asian Tigers" in the late 20th century. But for all their similarities, each city possesses and leverages a unique set of competitive advantages.

Ease of doing business, global rankings

	Hong Kong	Singapore
Ease of doing business ¹	#1	#2
Economic freedom ²	#1	#2
Least corrupt territories ³	#16	#4
Time to open a business (days) ⁴	2	2

TAXES

Low taxes are part of the corporate charm of both locations. Their headline corporate income tax (CIT) rates, 16.5% and 17% respectively, are well below the world average of 24%.

Comparatively, Singapore has a much broader range of incentives available, including a three-year partial tax exemption scheme for startups (SUTA) and concessionary CIT rates for global and regional headquarters that make a large enough contribution to the local economy. Via the International Headquarter Award (IHQ) and the Regional Headquarter Award (RHQ), companies that meet certain investment, spending, and staffing criteria can enjoy CIT rates of 5%/10% and 15% respectively. Eligibility requirements are substantial, making these incentives usually more relevant for large MNCs.

Also to Singapore's advantage, Hong Kong has implemented only half as many double-taxation avoidance agreements (DTAs) and, notably, none with Germany. Singapore has also signed three times as many free trade agreements (FTAs), including recently the world's largest trade pact - the Regional Comprehensive

^{1,4} World Bank, 2020. Total ranked: 190

² Fraser Institute, 2020. Total ranked: 162

³ Transparency International's Corruption Perceptions Index, 2019. Total ranked: 180 (least to most corrupt)

Economic Partnership (RCEP) - signed in November 2020 together with China, Australia, New Zealand, Japan, Korea, and the other ASEAN members.

While Hong Kong lacks Singapore's extensive menu of targeted incentives and bilateral/multilateral agreements, its two-tiered CIT rates – in fact, its tax system as a whole – is remarkable precisely for its simplicity. A zero tax on offshore income gives it an edge over Singapore as a location for holding companies. Using Hong Kong as a group's regional holding company, with a lean local setup supported by a local service provider, is a structure that continues to grow in popularity despite Hong Kong's recent headwinds.



Based on our files, there are around 200 Austrian companies invested in Hong Kong. Of these, only 60 or so have employees and major operations here. Increasingly, Austrian companies use their Hong Kong entity for accounting or invoicing purposes, and rely on professional service providers instead of having large physical operations here” – Franz Roessler, Austrian Trade Commissioner for Hong Kong and Macau, ADVANTAGE AUSTRIA

Tax comparison

	Hong Kong	Singapore
Headline CIT	16.5% ¹	17%
VAT / Goods & services tax	-	7%
Tax on foreign-sourced income	0%	17% ²
Withholding tax on: ³		
- dividends	0%	0%
- interest	0%	0%/15%
- royalties	2.475% / 4.95%	0%/10%
DTAs in force	44	88
FTAs in force	8	24
Transfer pricing documentation	Mandatory	Mandatory

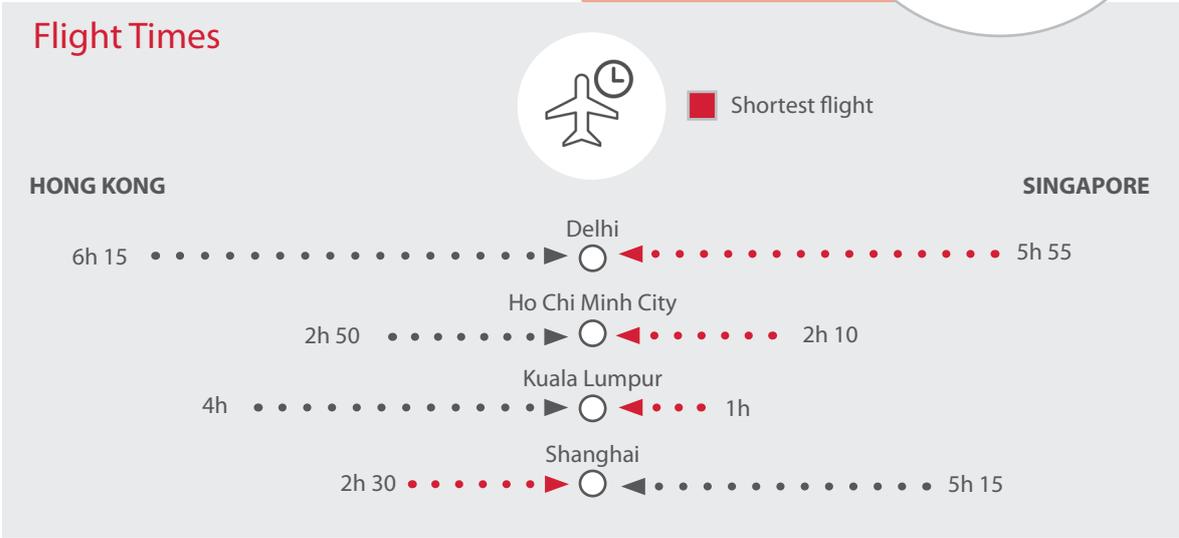
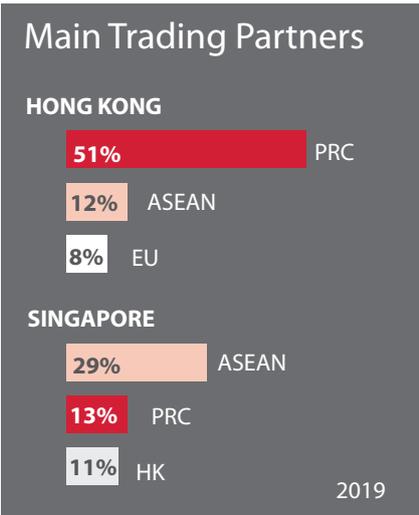
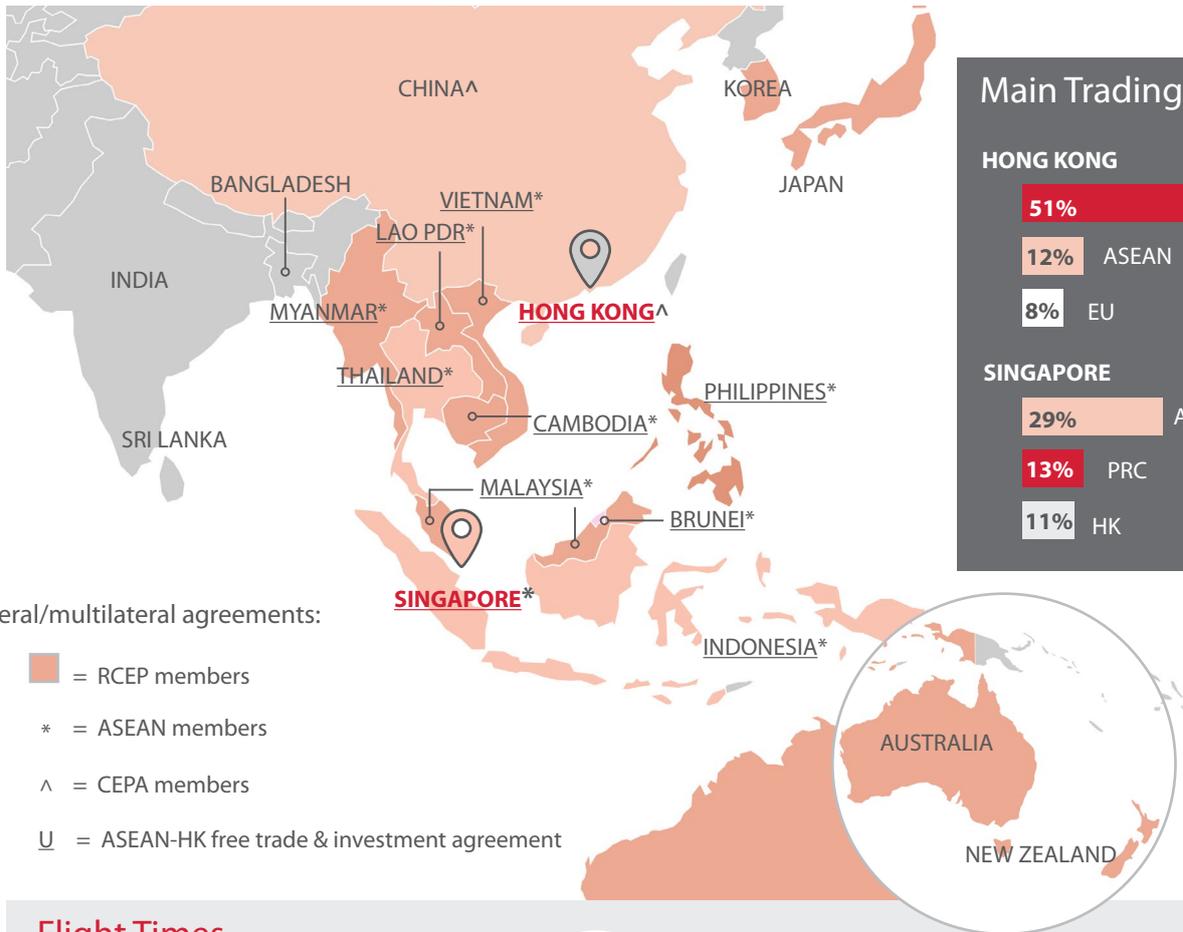
REGIONAL COVERAGE

Singapore's proximity to SEA and India, and Hong Kong's closeness to mainland China, are top factors for businesses to choose one over the other. More decisive than the hours saved on flights to neighbouring cities are the deeply engrained commercial and cultural ties that each location gives companies access to.

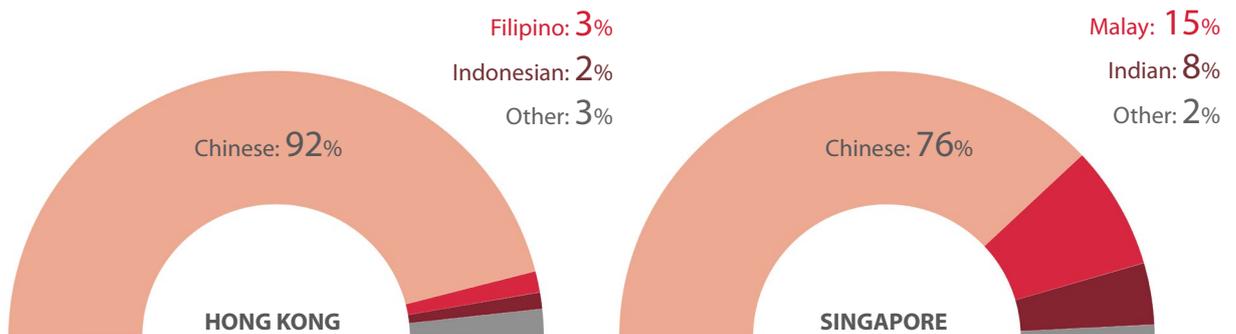
¹ 8.25% for the first HK\$2m

² Exemptions available

³ For details on which rates apply in specific situations, contact our tax advisors at contact@fiducia-china.com



Population: Ethnic Background¹



¹ Figures rounded to nearest 1%

Sources: Hong Kong Trade & Industry Department, Singapore Department of Statistics, Hong Kong Census & Statistics Department

Hong Kong for China

Having the world's industrial powerhouse and second largest consumer market as its backyard remains Hong Kong's main advantage over Singapore - and it's a weighty one.

It gives Hong Kong-based sourcing and purchasing offices easy access to the country's massive and mature supply chains. For companies with suppliers or own production sites in South China, having teams in Hong Kong and across the border remains a popular choice.

For those selling into China – the largest single market in APAC for most of our clients – setting up directly on the mainland has gotten easier and more necessary than ten years ago. Nevertheless, Hong Kong's tax advantages, free flow of capital, and talent profile are three oft-cited reasons why "via Hong Kong" or "plus Hong Kong" setups have kept their ground. Of 4,031 regional headquarters and offices in Hong Kong, 73% oversee their company's operations in the mainland.

73%

of regional headquarters and offices in Hong Kong oversee business in mainland China.

Throughout the last decade, links between Hong Kong and the mainland have been continuously strengthened in the areas of trade and investment (via the Closer Economic Partnership Agreement, CEPA), infrastructure (via the Hong Kong-Zhuhai-Macao Bridge and the Express Rail Link to Shenzhen and Guangzhou), and various cross-border banking and financial arrangements. Going forward, deeper integration to facilitate the cross-border movement of people within the Greater Bay Area (GBA) for working and living – one of the goals contemplated by the official GBA blueprint - could help keep "mainland + Hong Kong" setups relevant.



"Hong Kong's continued trading potential depends largely on China: will China remain the ideal manufacturing location? The "pivot towards SEA" is gaining momentum in some cases, but it is paced and certainly not a large-scale shift. In a recent location project for a client, for example, we compared two Greater Bay Area cities vs. Ho Chi Minh City. Ultimately, the client saw China as a strategic market with an established supply chain and we found the China sites to yield a higher ROI." - Marshall Chen, Partner, Fiducia Strategy Advisory

Singapore for ASEAN

Firms focusing on the SEA market will undoubtedly benefit from Singapore's position as a gateway to SEA and, increasingly, a bridge to India.

Growing interest in emerging Asia is bound to keep adding to Singapore's allure. With 650 million inhabitants, ASEAN is already the world's third most populous market. Over the next decade, domestic consumption is expected to double as 140 million new consumers start spending.¹ On the industrial front, the accelerating search for "China + 1" supply chains will add to ASEAN's appeal too: while China's working-age population is expected to fall by 30 million by 2030, ASEAN will add 40 million to its workforce over the same period², guaranteeing more competitive labour costs.

Singapore's ethnic and cultural diversity make it easier to find candidates with the right language skills and market know-how to engage with clients, partners or suppliers in SEA and India. There is an installed base of businesses and

service providers geared towards these markets, in the same way as finding China-specialised talent and partners is easier in Hong Kong.

Of course, to say that Singapore is the best gateway to SEA and Hong Kong the ideal window to China is an oversimplification. Company-specific factors often prevail. In fact, one fourth of regional headquarters and offices in Hong Kong oversee operations in Singapore, while a large portion of our clients operating in mainland China have key decision-makers sitting in Singapore.

Hong Kong or Singapore for Asia?

While Hong Kong's regional role has become increasingly China-centric, Singapore has established itself as the dominant choice for international companies' Asia or APAC-wide headquarters (often ex-China). This is especially true among MNCs who qualify for Singapore's concessionary CIT rates via the IHA and RHA. More recently, its geopolitical neutrality is giving global companies another strong reason to centralise regional operations there.

Among our client base of mid-sized companies, China generally represents 70%-80% of revenue and profits in Asia, so a common regional setup includes:

- a Greater China HQ (+ subsidiaries) in mainland China
- a Greater China holding and/or business hub in Hong Kong
- an Asia ex-China HQ in Singapore

POLITICAL STABILITY

Singapore

Singapore is one of the most politically stable countries in Asia. Since becoming independent from Malaysia in 1965, it became the prosperous and internationally relevant economy it is now under the virtually unchallenged rule of the People's Action Party (PAP), created by Lee Kwan Yew.

In the 2020 elections, the opposition performed better than ever in the country's recent history, winning 10 out of the parliament's 93 seats. The result has been attributed to a generational voter shift and to the economic side-effects of the covid pandemic. Whether this mood for change is temporary, foreshadows future tensions, or signals a positive transition towards diversity remains to be seen. But the business community seems to see it as a non-issue.

Although Singapore is a multi-party nation with exceptionally low corruption, its style of government goes against some of the Western ideals of democracy. The city-state ranks 151st out of 180 countries in the World Press Freedom Index by Reporters Without Borders. Freedom House, which rates countries' civil liberties and political rights, gives Singapore a 50 out of 100 score (slightly below Hong Kong's).

Yet, foreign companies and expats in Singapore are rarely bothered. In fact, much more so than in Hong Kong, people and businesses express satisfaction with the government, which they perceive as sensible, pragmatic, and responsive to their needs. As Jean-Noel Coster, Head of Investment Services at Camelot Trust (Singapore) explains, "Singapore is very strict compared to what we know in

Press freedom ranking (out of 180)

151st

Civil liberties and political rights score (out of 100):

50

***Inbound investment promotion agency's
operating budget 2019-20 (US\$):***



Europe. But these rules, this guarantee of stability, is what lets people live so safely. It's the same for companies and executives. You can focus on growing your business without wondering: what will happen next?"

Business leaders often cite the proactive and flexible support of the Singapore Economic Development Board (EDB) as a decisive factor behind their choice of location. EDB is the government agency tasked with attracting investment and helping overseas companies thrive in Singapore. Its role is broader than that of Hong Kong's equivalent, InvestHK. As an example, EDB administers some of Singapore's grants and tax incentives, often negotiating such support closely with businesses in a case-by-case basis.

Singapore's more responsive and hands-on style of government is also reflected in its approach to housing. Though both cities rank among the world's most expensive housing markets, the Singaporean government has made affordable housing and home ownership a priority. 79% of people live in public housing (mostly owned), compared to just 45% in Hong Kong (mostly rented).

On the global stage, Singapore's autonomy gives it the important advantage of relative neutrality on geopolitical matters. At a time when not choosing sides between the US and China is becoming difficult, Singapore is managing to strike a balance, which gives companies based there some much-needed breathing room. Highly scrutinized companies from both sides, including ByteDance, which pulled out its popular Tik Tok app from Hong Kong right after the National Security Law (NSL) was introduced.

Hong Kong

The unique relationship with mainland China that has long been Hong Kong's main competitive strength has, in the last two years, revealed cracks, making business leaders wonder whether long-term stability can be taken for granted.

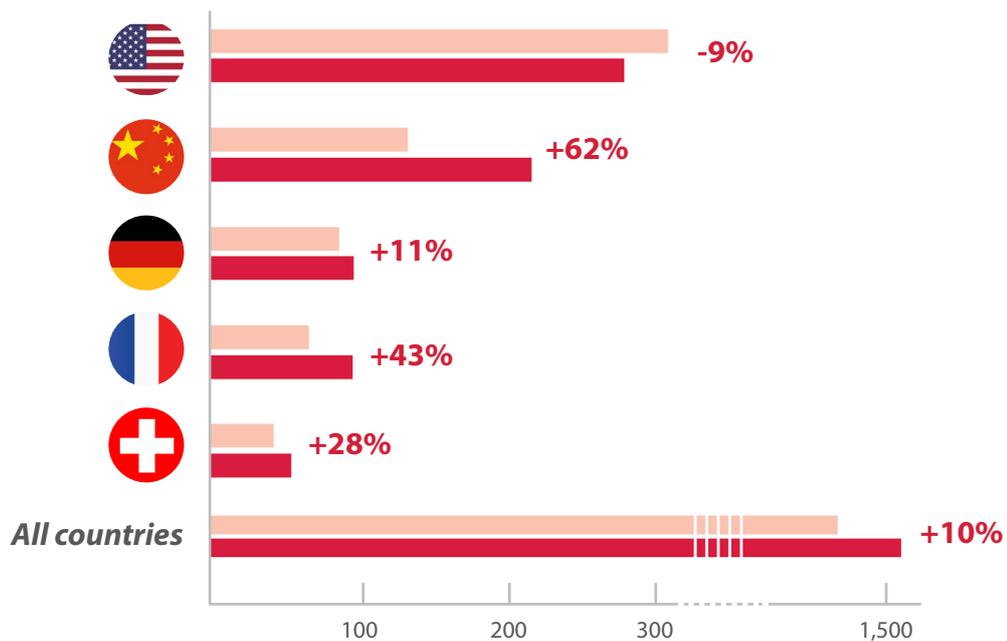
Since 1997, when Hong Kong became a Special Administrative Region (SAR) of the PRC, the complex "one country, two systems" agreement between them has carried some question marks for foreign observers - especially about what will happen after 2047 once the arrangement expires. Will Hong Kong keep its independent judiciary and Basic Law (the mini constitution that backs its special civil and economic freedoms)?

At first, the opportunities in booming China were too big and the status quo too strong to think so far ahead. Business people were confident that, since it's also in China's interest to have a strong and autonomous Hong Kong, stability was guaranteed.

This sense of security faded somewhat when the meteoric growth of China's megacities started to eclipse Hong Kong's relative importance. Its economy's size compared to mainland China's GDP went from 20% in the 1990s to less than 3% in 2019.

Around 2018, the escalation of Sino-US tensions further dented confidence in Hong Kong by showing that its links to China make it susceptible to geopolitics. This partly explains why, over the last five years, the number of American-owned headquarters in Hong Kong has dropped, while European-owned headquarters continued to flourish.

Number of RHQs in Hong Kong by country of parent company, 2015-2019



But the political turmoil rocking Hong Kong since March 2019 has been the biggest blow yet to business confidence in Hong Kong. Intermittently for over a year, protests disrupted business operations, inbound tourism, and daily life. By the end of 2019, the city had slipped into recession and saw its first annual drop in GDP since 2009 – not the best shape to be in before a global pandemic.

This unrest resurfaced questions about Hong Kong’s long-term political stability. While the passing of the NSL in June 2020 has helped restore order on the streets, it has also sparked questions about its lasting implications. These elements of the new law have been the most controversial:

- Offenses are broadly defined, leaving vast room for interpretation
- Important cases could be processed in mainland China courts and/or behind closed doors
- The law covers companies, foreigners and is extraterritorial, meaning a person could be held accountable for what they said/did abroad
- The police can require information from suspects and their employers
- Beijing-controlled security agencies have been set up in the city

Within our network, these are the main worries being voiced:

- Will the threat (real or perceived) to civil liberties such as privacy and free speech cause talent drain?
- Will we see incremental changes to the policies governing data, privacy, and internet freedom?
- Will we see a gradual erosion of Hong Kong’s rule of law?
- Will uncertainty itself scare off businesses, damaging the city’s dynamism irreparably?

It is still too early to know the extent of the NSL and its impact on foreign businesses. As of now, the companies seriously re-thinking their Hong Kong presence

or taking action are those in sectors where data protection or censorship play a critical role (e.g. tech and media) or where relocating is easy. Most industrial and commercial companies are adopting a "wait and see" approach.

TALENT

Both Hong Kong and Singapore churn out skilled professionals and attract top foreign talent. Together with Tokyo, they are the only other Asian cities ranked top 10 (out of 155) in INSEAD's ranking of the world's most talent competitive cities, based on their ability to foster, attract and retain human capital.

English is an official language in both locations - together with Chinese³ in Hong Kong, and Malay, Tamil and Mandarin in Singapore - but is more widely spoken in Singapore, where it's taught as a first language since primary school and is the most common language spoken at home. In English proficiency tests, Singapore outperforms all other Asian countries by far and many European ones, including Austria, Germany and Switzerland.

Finding Mandarin-speaking talent should be just as easy in Hong Kong and Singapore, as it's spoken by around 50% of the population in both places. Companies dealing with suppliers, clients or colleagues across the border in Guangdong province, however, benefit from the fact that Cantonese is the first language for 97% of the Hong Kong population.

When it comes to industry-specific skills, Hong Kong's long history as a purchasing and trading hub gives it a clear edge in terms of the breadth and depth of its sourcing/purchasing talent. Singapore, the regional hub of choice for global tech giants and a flourishing startup scene - has a richer supply of, and is more attractive for, digital talents.

Most talent competitive cities¹
(out of 155 ranked cities):



SG: #3

HK: #6

English proficiency²
(out of 100 ranked territories):



SG: #5

HK: #55

Attracting Expat Talent

Luring in overseas professionals has traditionally not been a major issue for companies in both locations. But Hong Kong's "triple whammy" has been chipping away at its appeal since 2019: protests made life dangerous, coronavirus made life difficult (especially for parents, as schools remained closed for over six months) and the NSL made life uncertain - not to mention the redundancies brought about by deepening recession.

There's mounting anecdotal evidence of foreign and even local professionals contemplating a move, and expats being less keen on relocating to Hong Kong. Whether we will see a lasting and large-scale exodus remains to be seen - optimists are keen to point out the temporary nature of the exodus Hong Kong saw during the handover in 1997 and during the SARS epidemic in 2003. Underlying trends will become clearer once the coronavirus pandemic subsides.



Compared to Singapore, Hong Kong talent has always had a deeper understanding - and, crucially, better networks - for doing business in China. Questions about a changing curriculum in schools have come up among expat families and occasionally we have been assigned to replace departing leadership with local talents. On the other hand, residential rents - Hong Kong's eternal pain point - are dropping, so expats' life quality might get a real boost." - Thaddaeus Mueller, Partner, Fiducia Executive Search

1 INSEAD Global cities talent competitiveness ranking 2020

2 EF English Proficiency Index 2019

3 No Chinese dialect is officially specified, but Cantonese is the most widely spoken

Work Visas

While Hong Kong fears a possible outflow of expatriate talent, Singapore's concern is almost the direct opposite. A rise in unemployment due to the economic fallout of the pandemic prompted the Singaporean government to tighten criteria for hiring foreign talent, in a bid to protect local workers.

To qualify for an Employment Pass (EP), or work permit for foreign professionals, expats now need to make a minimum of S\$4,500 (US\$3,300) per month - a 15% increase from before - and double that for candidates in their forties. In the financial sector, EP holders need to earn S\$5,000 minimum, while the required salary of S-Pass holders - mid-level skilled staff - has been raised too.

Singapore's regulation of foreign workers has always been more complex than Hong Kong's. The government sets quotas for the maximum share of visa-holding employees a company is allowed to have. There are several types of visas available, each with its set of criteria including skills, salary, education and experience level. Hong Kong, on the other hand, has a single work visa application process under the General Employment Policy with no strictly defined salary level other than being on par with the local market. Unlike in Singapore, a husband or wife holding a dependent visa is allowed to take up work in Hong Kong.



In general, it's still easy to get your key people from abroad employed in Singapore. Depending on your activity and industry, finding talent locally may be challenging, and you always need to have a balance. But we are not worried because Singapore is very pragmatic. If they need to relax rules, they will. If they need to tighten rules, they will. The good thing about Singapore is, because it's not tied to any other country as a backyard, they can adjust their policy and often do. – Sébastien Graviere, Partner at Camelot Trust (Singapore).

Work Culture

During a visit to Hong Kong in 1954, Lee Kuan Yew - Singapore's influential first prime minister - was impressed by the efficiency of local tailors. "I was measured in the morning, fitted in the afternoon, and the suit was delivered that night," he recalled years later in an interview. "Singapore tailors do not work at that speed." This view of Hong Kong's work culture being more fast-paced is still echoed by many. Though data suggests that both cities have equally long working hours (between 44-45 hours per week on average), most executives who have worked in both cities agree that you can enjoy a better work-life balance in Singapore (see section 3).

COSTS

Both cities are among world's most expensive to live and do business in. A closer look reveals slightly higher operating costs in Hong Kong on most measures.

Payroll

Salary differentials between Hong Kong and Singapore are subtle - except for expat packages, which tend to be better in Hong Kong, partly because of the

need to cover expensive housing costs. A fresh graduate earns on average around US\$2,000 per month on both locations (HK\$16,272 in Hong Kong, S\$2,816 in Singapore), based on data from job portal indeed.com.

Average salary ranges in Hong Kong and Singapore¹

Position	Total package value, US\$'000 per year	
	Hong Kong	Singapore
CFO (mid-sized company)	\$155 - 320	\$170 - 260
Regional sales director	\$130 - 205	\$135 - 160
HR director / Head of HR	\$125 - 155	\$135 - 160
IT manager	\$100 - 155	\$65 - 140
Category manager procurement	\$70 - 110	\$50 - 75
Marketing manager	\$60 - 115	\$55 - 90
Executive assistant (for 1 person)	\$50 - 85	\$45 - 75
Category manager sales	\$50 - 75	\$50 - 90
Payroll officer	\$30 - 45	\$35 - 65
Financial accountant (mid-sized company)	\$40 - 45	\$50 - 65

Real Estate

Space is scarce and pricey in both small, densely populated island economies. But while Singapore covers an area just two-thirds the size of Hong Kong, 72% of its land is built on, compared to just 26% in Hong Kong. This partly explains Singapore's lower office and commercial rental rates.

72%

of Singapore's land is developed, while Hong Kong has built on just

26%

Considering prime real estate alone, Hong Kong's office rental costs per square metre are the most expensive in the whole APAC region, topping those of Tokyo, Beijing, Seoul, Osaka and Singapore (in that order). Businesses looking for cheaper rents head towards non-core areas such as the eastern part of Hong Kong Island or the eastern side of Kowloon. In Singapore, its numerous business parks are a popular choice – especially, among our client base, the International Business Park, where the German Center is also located.

The pandemic is putting downward pressure on commercial rents. According to Savills, prime office rental costs are falling faster in Hong Kong, where they dropped 12% between January and June 2020, compared to a 2% fall in Singapore.

Grade A office space, average rents (US\$ psf/month)



Source: Cushman & Wakefield (Q3 2020)

ZOOM-IN: AUSTRIAN MITTELSTAND

Are Austrian companies shifting operations/investment from Hong Kong to Singapore?



In the last two years, the negative news coming out of Hong Kong have been hurting its overall image. But until now, we have only seen a handful of Austrian companies making a “switch” to Singapore. These are companies with hubs in Hong Kong who set up operations in Singapore “just to be on the safe side.” But if we look at individuals, that’s where the trend is more prominent. We are definitely seeing growing interest among Austrian executives to move from Hong Kong to Singapore. But with covid, it’s not an easy time to find a job here.”



David Bachmann, Austrian Trade Commissioner to Singapore, ADVANTAGE AUSTRIA



“Political turbulence, covid, and the lack of tourism, have forced some businesses in the consumer sector - Austrian jewelry and cosmetics brands, wine distributors, and such - to realign their operations in Hong Kong. Many of these companies are going through a difficult phase globally, so the high cost of maintaining a presence here is hard to justify.

For sourcing operations, more and more companies are considering a second setup in Singapore or elsewhere as a diversification strategy. But the truth is that Asian sourcing is still very much China focused. Building a double structure just to keep an eye open is expensive, so we see many companies thinking about it, analysing for a long time, but not many are actually doing it.

In sales and distribution, the situation is different – companies follow their customer base. So we have seen Austrian companies establish a second set up in Singapore if they want to focus on ASEAN, or if they want to participate in public tenders there (e.g. for the MTR system or airport).”



Franz Roessler, Austrian Trade Commissioner to Hong Kong, ADVANTAGE AUSTRIA



Expatriate Life & Work

Expatriate Life & Work

How do executives experience each city personally and professionally?

Being located in a city that's easy to fall in love with can save a company a lot of HR headaches. We asked executives who have been based in Singapore, Hong Kong or both, to describe what it's like to live and work in each location. These are some of the recurring themes that came up.

Monthly rent for mid-range two-bedroom apartment (US\$)¹:



HK: \$3,700

SG: \$1,900

HOUSING

"It's kind of standard for expats in Singapore to have facilities like a pool, gym, and hangout areas where they live, and that's something I really appreciate."

"For the same rent, you get at least double the space in Singapore as you would in Hong Kong, and triple if you're farther out."

Air pollution (2019 average annual concentration of PM 2.5)²:



HK: 20 µg/m³

SG: 16 µg/m³

Healthy limit: 10 µg/m³

Beijing: 42 µg/m³

LEISURE & ENVIRONMENT

"The natural beaches and the hiking trails in Hong Kong are truly amazing in all four seasons. They provide great escape opportunities to the hustle and bustle in the city."

"The first impression you get when you drive into the city [in Singapore] is that it's so lush, so green and so clean."

"Everyone in Hong Kong thinks Singapore is boring but I don't think so. There's a lot going on. Singapore is just a bigger city so you have to know where to go."

"I think Singapore's F&B scene is better. You have more restaurants with much nicer quality, sourcing their products from Australia. You have working spaces with a cooler environment because, rent being less expensive, it attracts more creative, artistic people."

FAMILY LIFE

"There's no city that's better; it depends on your stage in life. Under 30-32, Hong Kong is still much more dynamic, international, cooler, but also challenging in terms of housing space and work speed. Singapore caters more for people over 32, management level or above."

"Singapore is definitely more child friendly. You have more and better school options, and you just pay a joining fee, no debenture – unlike in Hong Kong. And there are more child-friendly places to go to."

1 Source: Deutsche Bank, 2019, rounded to the nearest hundred

2 Source: Singapore National Environment Agency, Hong Kong EPD. Healthy limit based on WHO guideline

"After the passing of the National Security Law, a perceived trend to self-censor among teachers and schools is making expatriates wonder whether our children get a proper social and political education in Hong Kong's international schools."

CULTURE & COMMUNITY

"[Singapore] is very multicultural - you have influences from India and the whole of SEA, which makes it really interesting to live here. You work with colleagues from all these places and have a lot of food options."

"Singaporeans really like to play by the rules. For example, when you move into the condo where I live, there is a very thick handbook with guidelines for everything. You could say there's a lack of flexibility compared to China, where a lot of things are negotiable. The good thing is, you always know what to expect."

"Singapore is like Hong Kong without the rough edges that make it so exciting."

"Hong Kong is the city with the second largest Austrian community in Asia, after Shanghai. Around 600 Austrians live here - most of them successful people because it's an expensive city, you just can't stay for leisure. So newcomers find it easy to settle in - they have access to a tight-knit, helpful network of Austrians."

HSBC Expat Explorer Ranking Overall:



Quality of life:



Career progression:



WORK PACE & STYLE

"Hong Kong employees work harder, but Singaporeans find better solutions. In Hong Kong, they'll execute exactly what they're asked to. In Singapore, they raise questions."

"In both, the work style is very disciplined and effective. But I have the feeling that people in Singapore socialise a little bit more after work."

"Living conditions in Hong Kong are more difficult, more expensive, so people have to work very hard to have a good life."

"During and also outside office hours, locals [in Singapore] speak English too, so there tends to be more synergy between teams."

VISA RELATED

"When I came to Hong Kong in 2006, I appreciated that I could work right from the beginning as a dependent visa holder. Whilst this is different in Singapore where the application for a work permit is getting more challenging recently."

"Many expats [in Singapore] keep extending their employment pass every 2-3 years because, if they apply for permanent residence, it could mean their sons are obliged to go to the military for two years and undergo training every year."

Ten Takeaways

- 1 "Wait and see":** Most mid-sized companies are adopting a "wait and see" approach to Hong Kong's uncertain outlook, quoting their established base, and the high costs plus unclear benefits of relocating, as main reasons to stay put.
- 2 First movers?:** Those considering to or already shifting investment out of Hong Kong tend to be:
 - Nimble but not small: larger companies have either the budget for a "plan B" setup in a new location, or existing subsidiaries in Asia that can absorb functions/staff
 - Highly sensitive to data and privacy policies: mostly media and technology companies directly affected by Hong Kong's NSL
 - American-owned: since 2015, the number of Hong Kong-based RHQs with American parent companies has fallen, while European RHQs have kept multiplying.
- 3 Different industry, different story:** Trends in one sector are not necessarily signs of a large-scale, cross-industry shift from Hong Kong to Singapore. For instance, movements in the financial services sector this year have to do - among other drivers - with Singapore's new tax-efficient legal structure (the Variable Capital Company) specific for investment funds.
- 4 Expat exodus?:** Growing disenchantment and uncertainty among expats and locals in Hong Kong is raising fears of a talent drain, but it is difficult to confirm a trend amid the coronavirus pandemic, which is having a large but potentially temporary impact on sentiment and the job market.

- 5 A matter of trust:** Beyond political stability, oft-cited factors behind Singapore's robust business confidence include its far-sighted, responsive government policy and the proactive support of agencies - in particular, the Economic Development Board (EDB).
- 6 Opportunities ahead:** Singapore will benefit from its geopolitical neutrality and from the accelerating shift of supply chains and consumer power towards SEA. Hong Kong has the potential to revitalise its economy and catch up on innovation by carving a strategic role for itself within the Greater Bay Area.
- 7 The Lion City leaps ahead:** Singapore has overtaken Hong Kong in shipping and logistics and in technology and innovation, which became a policy focus much earlier than in Hong Kong
- 8 The Fragrant Harbour's bastions:** Hong Kong will keep its position as the preferred sourcing and purchasing hub in the region, and Asia's larger financial centre, in the foreseeable future, despite current challenges.
- 9 China via Hong Kong:** Mainland-plus-Hong Kong setups will remain popular due to the special administrative region's (SAR's) favourable tax regime and free flow of capital and goods. But there is a trend towards having smaller, leaner Hong Kong operations due to cost pressures, with many using Hong Kong primarily as a holding entity.
- 10 Sweet vs. simple:** In terms of taxes, Hong Kong stands out for having a simpler system with zero VAT and no tax on offshore income, while Singapore offers a broad range of targeted grants and incentives, including preferential profit tax rates as low as 5% for regional/global HQs making a heavy enough contribution to the local economy.



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