

How China is chasing business to Singapore

By Evelyn Cheng | CNBC – Wed, Sep 3, 2014 2:34 AM SGT

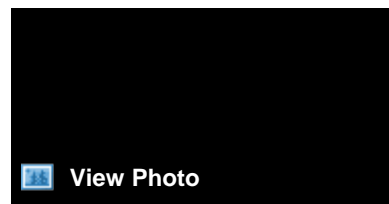
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Symbol	Price	Change
MRK	59.98	-0.030
IBM	160.51	-2.48
JPM	60.68	-1.7700
GM	31.97	-0.84
ADM	51.27	-1.77

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Hong Kong is a global financial center and the business gateway to **China**, but as pressure to conform with Beijing's wishes **grows in Hong Kong**, multinational firms are seeing more stability in **Singapore** and expanding their outlook to the broader Pan-Asian market.

"Looking ahead, I think that Singapore has a distinct advantage," John West, head of research firm the Asian Century Institute, told CNBC. "Hong Kong is becoming increasingly a part of China, with the Chinese government interfering more and more, which will compromise the quality of governance. There is **growing popular discontent**."

China's decision on Sunday to limit free elections on the island has spurred greater unrest in Hong Kong as locals resist growing central power over the former British colony's democratic systems. Although the changes will not shake Hong Kong's status as a financial center, unease over the political situation has been at the back of people's minds since Beijing took control in 1997, said Chris Archibold, international director in Singapore for commercial real estate firm Jones Lang LaSalle.

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Companies are saying, "I don't know about Hong Kong, but I'm certain about Singapore," Archibold said. "I don't think Hong Kong has changed as a destination, but Singapore has caught up a lot."

Consistently ranked as top places in the world to do business and offering an English-speaking environment with highly developed infrastructure, Hong Kong and Singapore have served as Western business bases in Asia for many years. Multinational companies such as Unilever (**Euronext Amsterdam: UNA-NL**), DHL (**XETRA:DPW-DE**), Merck (**MRK**) and IBM (**IBM**) have had regional operations in Singapore for decades. On the other hand, financial firms such as JPMorgan Chase (**JPM**) have their Asia Pacific headquarters in Hong Kong.

Big firms move their HQ to Singapore

Recently, however, several big companies have moved their regional headquarters to Singapore from China, signifying a shift in market strategy.

In recent years "we've seen a trend of large companies moving their Asia Pacific headquarters from China to Singapore," said Damian Chan, international director for Americas from Singapore's Economic Development Board (EDB), who added that companies are not abandoning China but increasingly looking at Asia beyond its largest economy. "I think when companies look at Asia, they need a China-plus-one, a China-plus-two strategy."

Ten years after moving its Asia Pacific headquarters from Singapore to Shanghai, General Motors (**GM**) relocated the office back to Singapore on Aug. 5 of this year.

Tensions between Beijing and Hong Kong played "absolutely no role" in the move, but GM said the decision was part of an effort to expand out of the Chinese market by finding a location with good access to other Southeast Asian nations and offering strong local talent. GM will keep its office in Shanghai to oversee operations in China.

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"I think Singapore gives us the ability to look out into the region," Matt Hobbs, vice president of government relations and public policy at GM International, told CNBC.

"We take a much longer view than any political cycle," he said. "Singapore had more of the other things than short-term political considerations."

Other companies are making the same move. Food-processing firm ADM (**ADM**) announced in June the move of its Asia Pacific headquarters to Singapore from Shanghai, while retaining the office in China. An August article from Jones Lang LaSalle noted that L'Oreal (**Euronext Paris: OR-FR**) moved many of its Asian operations to Singapore from Shanghai, and added that insurance firm Aon (**AON**) is building its Asia Pacific hub in the city-state.

Analysts said that Singapore's quality of life, including a relatively pollution-free environment and attractive education options, are appealing for senior management who are often relocated with their families to Asia.

In addition to those aspects, EDB's Chan cited Singapore's intellectual property protections, which he said compete with Japan for the highest ranked in the world.

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China has run into U.S. accusations that it doesn't do enough to protect intellectual property, and Western technology firms have accused China of stealing intellectual secrets through their China-based subsidiaries.

Chan also noted that a Towers Watson Asia headquarters study found the city-state hosts 40.8 percent of Asia Pacific headquarters among 319 global Fortune 500 companies. In contrast, Hong Kong hosts 34 percent, and the remainder of China 15.8 percent.

In terms of wealth, in 2012 Singapore had a per capita GDP of \$54,000 compared with Hong Kong's \$37,000, according to the latest World Bank report.

As Hong Kong strengthens its connection to the economic powerhouse of mainland China, the island is likely to benefit in some way from the relationship, said Damien Duhamel, whose advisory firm has analyzed Asia's most innovative cities.

"I don't see Hong Kong becoming more Chinese as an (obstacle) to its future growth," he said. Singapore "has yet to have success in China. It does not play its China access card because it does not have a China access card."

Even with a stock exchange in Shanghai, mainland Chinese firms have preferred to list on Hong Kong's stock exchange and open offices there, Venant Chiang, analyst at Jefferies Hong Kong, said. A trial program between Shanghai's and Hong Kong's exchanges is also [planned to launch in October](#).

"We don't know what extent (of) new demand we will realize here," he said. "But I believe with more liquidity from the mainland here, that will help our capital market."

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On a cultural level, urban studies theorists such as Richard Florida see Singapore and Hong Kong as equally strong in their ability to attract talent—the factor he believes is key to the future. And financially, he believes Hong Kong has the edge.

"My gut feeling is that Hong Kong has the advantage," he said. "Global financial centers are extremely hard to displace. Hong Kong is a very well-established financial center."

For global firms, shifting focus to the pan-Asia scene may solidify China's rise as an independent market—the same way people think of established regions of North America and Europe. The unfolding tale of Singapore and Hong Kong could be an indicator of a new market order.

"People do lump the two cities together and think of them as the same thing, but maybe looking forward they'll be more and more different," West said.

-By *CNBC's Evelyn Cheng*

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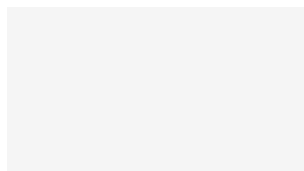
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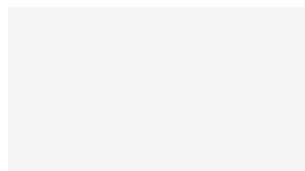
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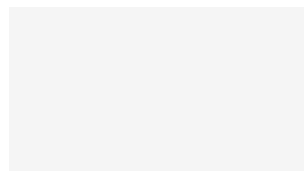
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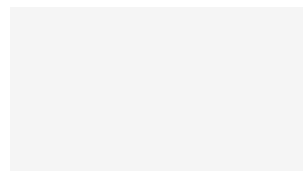
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