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## A tale of two cities – why western capital flows eastward

Financial and economic industry experts agree unanimously that Asia's booming economies, strong banking confidentiality laws and pro-business incentives are driving capital flows eastwards. And it appears that two key, distinct factors have emerged to explain the trend.

### **Emerging markets**

Firstly, the biggest economic growth rates lie in Asia. In China, annual economic growth is running at up to 9%, and there's a long queue of hungry investors looking for a foothold there. Likewise, Dubai's growth in recent years has been staggering. And India is becoming a major economic power.

Aidan Healy, managing director of Singapore-based corporate consulting company Healy Consultants says that China, Dubai and India are the new frontiers of opportunity, but that although regulations and bureaucracy are easing, much still needs to be addressed.

'The business cultures and legal frameworks are hugely different in emerging markets. And in some cases company formation is still a cumbersome procedure which requires expert knowledge,' he explains.

This is clearly to Singapore and Hong Kong's advantage. Hong Kong is a natural gateway into China, while Singapore is busy promoting itself as the regional hub of choice.

Both countries consistently rank as the world's freest economies. In its 2006 Index of Economic Freedom, drawn up by the US thinktank, The Heritage Foundation, Hong Kong and Singapore were first and second respectively. The 2006 report heaps praise on the two Asian country's policies on inward foreign investment. 'Singapore's investment laws are clear and fair, and they pose few problems for business. Foreign and domestic businesses are treated equally, there are no production or local content requirements, and nearly all sectors are open to 100 percent foreign ownership,' it explains.

According to the city-state's Economic Development Board (EDB), the government agency tasked with attracting businesses to Singapore, the country ranks highly in miscellaneous global surveys. Accounting firm KPMG had it as the most competitive place for business in its Competitive Alternatives Study 2006. The Global Competitiveness Index (GCI) 2005-2006, meanwhile, ranked Singapore as Asia's most competitive economy, and the fifth-most competitive economy in the world. And in the World Bank report 'Doing Business in 2005', Singapore's economy was ranked third behind New Zealand and the US in terms of ease of doing business.

Referring to Hong Kong, the Heritage report says: 'The Special Administrative Region (SAR) of Hong Kong remains a model of economic freedom. It is a free port with no barriers to trade; has simple procedures for starting enterprises, free entry of foreign capital and repatriation of earnings, and transparency; and operates under the rule of law.'

Turnover on the Hong Kong stock exchange has increased as more mainland Chinese enterprises look to raise capital by issuing new shares. As of December 31, 2005 the total amount of funds raised in Hong

Kong reportedly stood at US\$38.6 billion, making it the world's 4th largest fund raising centre after New York, London and Toronto. Bankers and stockbrokers say they expect further increases in fund raising by mainland enterprises this year.

'Everyone wants to be in Asia at the moment. Its fashionable, and profitable,' Healy says.

## Swiss rollover

There's another key factor in all this, too. Not long ago, Switzerland was the world's quintessential private banking centre. And although in some eyes it still is – after all, its banks still hold an estimated 30% of global offshore assets - its mantle is rapidly being taken by the likes of Singapore and Hong Kong.

This oriental shift comes as little surprise to many. Particularly when the European Union (EU) and OECD (Organisation for Economic Cooperation and Development), seeking to clamp down on tax evasion and money laundering, apply ever more pressure on Swiss, and other European banks, to disclose information about their account holders. This pressure came to a head in July last year, when Swiss banks were forced to withhold a percentage of the interest earned on personal savings accounts held by EU nationals living outside Switzerland. This Swiss rollover provided the governments of Singapore and Hong Kong with an opportunity, one which they were quick to seize upon.

In Singapore, whose overall asset management business (including private banking) is now worth more than US\$350 billion and growing, banking privacy is paramount, and trust laws attractive. Officials in Singapore are quick to point out that a rush of foreign private banking depositors is predominantly down to the country's solid legal system, corruption-free environment and transparent financial systems.

'I'm not surprised by the increased capital flows to Asia from Europe, says Healy. 'And the proof is that Asia's booming at the moment – we've noticed a huge increase in demand for company incorporation and corporate and personal bank accounts in Singapore and Hong Kong, and China is also on the doorstep' says Healy, formerly with Credit Suisse in Singapore.

Banking officials clearly agree with the positive sentiment. A chairman of one Swiss bank says a recently-opened Singapore office for the bank represented 'a platform of growth in Asia'. Another banking executive believes 'Singapore will be the fastest growing offshore banking centre in the next five years'.

The statistics seem to support these bullish assessments. According to a report in the Wall Street Journal in April this year, the number of private banks operating in Singapore increased to 35 in 2006 from just 20 in 2000. International majors such as Credit Suisse and UBS are expanding services in Singapore to cater to growing demand for private banking from wealthy Europeans and Asians. Credit Suisse's Singapore operation is now its second-biggest in the world, after Zurich.

But in a world consumed by image, do Singapore and Hong Kong fit the tax-haven stereotype?

Officials in both countries are typically keen to distance the country from the same brush which has tarred offshore havens such as the British Virgin Islands (BVI), Cayman Islands and Panama. An official from the Monetary Authority of Singapore says the country continues to cooperate with foreign authorities investigating money laundering and terrorist financing. 'Our banking and financial system is open and transparent, and our rules are strictly enforced,' he stresses.

# HEALY CONSULTANTS

Healy also believes that international investors and entrepreneurs prefer the positive image presented by Singapore and Hong Kong, compared to the tax haven image of western offshore jurisdictions. 'The bottom line is this: Singapore and Hong Kong are built on internationally-respected economic models and legal frameworks,' says Healy. 'The image they present is unrivalled in tax-free jurisdictions,' he adds. 'A Singapore company is probably the best entity in the world right now – tax-free, looks good to customers and suppliers, and has absolutely no stigma attached to it,' he explains. 'Both countries have also signed double-tax treaties with more than 50 countries, have laid down investment guarantees, and banks offer highly competitive corporate financing, generally without seeking equity,' he adds.

As well as the obvious business benefits of setting up in Singapore and Hong Kong, there's a human angle to the tale, too.

The 2006 Quality of Living Survey, produced by Mercer Human Resource Consulting in April this year, ranked Singapore as the most livable city in Asia, and 34th in the world. Hong Kong comes in at 68th in the world, while China's first-ranked city comes in at 103rd in the world.

'Singapore really is the focal point of corporate and financial activity in Asia, and should remain so for the foreseeable future,' Healy concludes.