

MIGRATION OF FUNDS FROM WEST TO EAST

The global recession has created financial market turmoil, which has led to severely depreciated real estate and financial assets, with huge values being wiped off stock markets on a consistent basis since 2008. According to the Asian Development Bank (ADB), the financial crisis wiped \$50 trillion off the value of financial assets during 2008. Approximately 20% of those losses were in developing Asia, which is equivalent to one year's GDP.

The success and rapid expansion of Asian nations over recent years has meant Asian developing economies have been impacted more than other parts of the developing world by the global nature of the recession. However, the strength of many Asian economies and the lessons learnt from the 1997 financial crisis position Asia as a region that could emerge from the recession before western nations. Financial and economic industry experts agree that Asia's stronger economies, banking confidentiality laws and pro-business incentives are driving capital flows eastward. The combination of severe economic downturn and the increased scrutiny being placed on the traditional 'tax havens' of the world are providing an advantage to the strong markets within Asia. Two key, distinct factors are evident in this shift.

Emerging markets

Some of the biggest economic growth rates lie in Asia. China, which has recently become the world's 3rd largest economy, has had annual economic growth averaging 9% for many years. Of the G-20 nations, India has the second highest GDP growth rate (following China).

Aidan Healy, managing director of Singapore-based Healy Consultants, agrees that Asian markets including China, India, Singapore and Hong Kong are the frontiers of opportunity, but while regulations and bureaucracy are easing, much still needs to be addressed. "The business cultures and legal frameworks are hugely different in emerging markets. In some cases company formation is still a cumbersome procedure which requires expert knowledge," he explains. These factors clearly work 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 economies consistently rank as the world's freest. In its 2009 Index of Economic Freedom, US-based The Heritage Foundation places Hong Kong and Singapore as first and second in terms of economic freedom. Hong Kong has a record of openness to global trade and investment. While Singapore has a relatively small economy, it's openness to international business and investment has made it one of the world's most competitive economies.

The report praises the two city-states' policies on inward foreign investment. "Singapore is a world leader in most facets of economic freedom. Regulations are straightforward, virtually all commercial operations are performed with transparency and speed, and corruption is almost nonexistent," it explains.

According to Singapore's Economic Development Board, the government agency tasked with attracting overseas businesses, the country ranks highly in miscellaneous global surveys.

The World Economic Forums' Global Competitiveness Report 2008-2009 ranked Singapore as the fifth-most competitive economy in the world and the most competitive in Asia. In another global report, the World Bank's Doing Business 2008 Survey, Singapore is listed as the world's easiest place to do business. Factors considered in the survey include company registration procedures, time, cost and minimum capital required for company incorporation.

Referring to Hong Kong, the Heritage report says, "The small island is one of the world's leading financial centers, and regulation of banking and financial services is transparent and efficient." Both Hong Kong and Singapore have extremely competitive tax systems. Whether considering personal or corporate implications, the tax burden is low in both markets.

Singapore company formation and Hong Kong company formation appeal to investors and entrepreneurs looking for a reputable tax-efficient corporate vehicle to conduct international business.

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

'Tax haven' stigma

Another key factor in the capital shift has been the increased attention from Governments directed at the practice of using tax havens to evade tax obligations. Not long ago, Switzerland was the world's quintessential private banking center. 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 over by the likes of Singapore and Hong Kong.

What caused this eastward transition? A major factor is this clampdown on tax evasion and money laundering by the European Union and Organization for Economic Cooperation and Development, which have been applying ever more pressure on traditional tax havens, to disclose information about their account holders. The importance of this issue is illustrated by the fact it was part of the agenda during the G-20 summit in April.

The OECD has praised Singapore and Hong Kong for recent concessions on tax evasion. Singapore will endorse the OECD standard to assist with effective exchange of information. Hong Kong will also make amendments to its tax laws.

Following the OECD standards for exchange of financial information should not be the end of banking privacy nor should it have a negative impact on Singapore or Hong Kong's reputation as an efficient jurisdiction for company incorporation. Avoiding the tax-haven stigma is critical to maintain the appeal of Singapore and Hong Kong to both multinational corporations (MNCs), and small to medium enterprise (SMEs).

"I'm not surprised by the increased capital flows to Asia from Europe," Healy says. "The proof is that Asia has been booming - we've noticed a huge increase in demand for company incorporation, corporate and personal bank accounts in Singapore and Hong Kong, and China is also on the doorstep."

Banking officials clearly agree with the positive sentiment. A chairman of one Swiss bank has said a Singapore office for the bank represented "a platform of growth in Asia". Another banking executive believes "Singapore will be the fastest-growing offshore banking center over the next five years".

Healy also believes that international investors and entrepreneurs prefer the positive image presented by Singapore and Hong Kong 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 unrivaled in tax-free jurisdictions," he adds. "A Singapore company is ... tax-free, looks good to customers and suppliers, and has absolutely no stigma attached to it."

"Both countries have also signed [double-taxation] treaties with more than 50 countries, have laid down investment guarantees, and [their] banks offer highly competitive corporate financing, generally without seeking equity," he says.

As well as the business benefits of setting up a company in Singapore and Hong Kong, there's a human angle to the tale. The 2008 Quality of Living Survey, produced by Mercer Human Resource Consulting in April, ranked Singapore as the most livable city in Asia, and 32nd out of the 215 international cities covered in the survey. Hong Kong comes in at 70th in the world, while China's Beijing comes in at 116th in the world. Singapore is the region leader in personal safety.

"Singapore really is the focal point of corporate and financial activity in Asia, and should remain so for the foreseeable future," Healy concludes. Healy Consultants is an experienced corporate services consultancy. Headquartered in Singapore, the firm provides advice to a broad range of the international clients on all aspects of Asia business setup. Currently, popular engagement requests are for services related to:

- Tax efficient financial structures
- Singapore company formation
- Hong Kong company formation
- International tax planning
- International banking
- Business turnaround services
- Global recession opportunities

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