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COMPETING GLOBAL CITIES: BIG CHANGES AFOOT, WHAT IMPACT ON SINGAPORE?

The past year has been a tumultuous one. The COVID pandemic has shaken up the world economy. Its impact on tourism, business travel and in-person conventions and conferences is likely to permanently scar the world's aviation and business hubs such as Singapore and Hong Kong. In addition, disruptive political changes such as Brexit's impact on London and Hong Kong's travails could undermine these global centres. And as the competition for the global hub business has been heating up as well, some ambitious governments are taking aggressive steps to outpace or even displace their rivals.

At one level, these convulsions seem to imply difficult times for London, Hong Kong and Dubai – and by extension, possible upside for Singapore. However, global cities are extraordinarily resilient creatures and do not simply fade away when the going gets tough. They tend to fight back and the end-result could be little change in the ranking of global cities but heck of a lot more competition.

How bad could the long term COVID impact be?

Global cities thrive on bringing people from all over the world together to transact business deals with other partners, or to conduct inhouse corporate consultations, or to hold large conventions and conferences. The business districts, financial markets, hotels, airports, ports and convention centres of these great cities need the flows of people, goods, services and capital to keep them functioning. When one or more of these flows are disrupted, global cities suffer.

So, the stringent restrictions on travel and on large gatherings of people induced by the pandemic have damaged a critical dimension of global cities' activities. The damage could well persist in the in the longer term, as the experience during the pandemic has made businesses realise that online platforms such as Zoom are effective enough that many activities that previously involved travel can be done virtually. Thus, there is bound to be some permanent damage to these aspects of the global city's business proposition.

This factor will hurt all global cities. However, some cities may do relatively better than others. An influential determinant of the competitiveness of global cities is the stability and security they offer – that is one reason why talent, capital and business activity concentrate in such global cities. It can be argued that Singapore comes out of the crisis as a global city that offers a lot more of this stability and security. After all, it rolled out containment measures that successfully brought the pandemic under control faster than others. And it limited the economic damage by deploying financial firepower on a scale that few others could match. With the painful experience of the pandemic fresh in people's minds and business leaders and talented folks more conscious today of risks, a reputation for boring stability will be even more of an asset.

Political shifts appear to hurt London or Hong Kong

Singapore's rivals have also been hurt by political changes. The United Kingdom's departure from the European Union ("Brexit") has left London's financial centre exposed as the withdrawal agreement did not cover financial services adequately. Some activity has already moved out of London as a result. Recently the CEO of a large Japanese financial conglomerate said he was looking to relocate wholesale banking activity out of London following Brexit. More than 7,000 jobs and about USD1.6 trillion of assets have been reported to have been moved out of London to other European rivals. In February, it was reported that Amsterdam had ousted London as Europe's principal share trading centre. Amsterdam had also managed to win over some of the derivatives market activity that London used to dominate. While it is true that the bulk of existing financial services activity has remained in London, the fear is that global corporations and financial institutions making the next decision on where to locate new businesses or launch new initiatives may choose some other city over London because Brexit has weakened London's attractiveness.

Politics has also been unkind to Hong Kong. The sometimes violent protests that rocked the city in 2019 shook confidence in Hong Kong among global firms. But, now that China has responded to those protests by imposing an iron hand on the city's once autonomous political system, things may have gotten worse. There are several damaging consequences:

- First, more Westerners and Japanese now see Hong Kong as just another Chinese city rather than one possessing unique characteristics that made it an unbeatable combination of the best of the West and East. Following China's arrest of some Australian and Canadian citizens on various charges, there is also a fear that a foreigner located in Hong Kong will not be as safe from Chinese security action as once thought. The talent that global cities need to remain competitive may not flow to Hong Kong as smoothly as before – and skilled expatriates currently in Hong Kong may want to relocate. The city already suffers a shortage of IT professionals, a shortage that could well worsen as skilled Hong Kong professionals are wooed away by new immigration rules in places like Canada and the UK.

- Second, many businesses locate in Hong Kong because its legal system is held in high regard. But now, with foreign judges decamping from Hong Kong and talk that China wants to replace the senior judges there, there will be concerns over the rule of law and activities which prize that factor might also seek to move out. Indeed, recent media reports revealed that large global corporations are seriously assessing whether they should exclude Hong Kong from legal contracts because they fear China's stern grip on the city might weaken the rule of law there.

- Third, the wealthy move their capital to places like Hong Kong because they have confidence that their money is safe from intrusive surveillance. If the perception grew that the Chinese government could now secure information on the wealthy, that would scare capital away.

These risks are real. A recent survey by the American Chamber in Hong Kong found that the rapid deterioration of US-China relations remained a grave concern for business executives. 61% of respondents said they believed the city's business environment had been unstable and deteriorated in 2020.

Ambitious upstarts are getting more aggressive

The global city business can be a cut-throat one given the rich pickings to be made from being the dominant business hub of a region or of the world. For decades, Dubai made a killing out of being the pre-eminent business and financial hub of the Middle East. Its astute leadership made brave bets on building a port, airport, financial centre and busines hub, and so successfully transformed a sleepy desert market town into a global heart of commerce.

Now it faces a dire challenge. Saudi Arabia's Crown Prince Mohammed bin Salman has told global corporations seeking to do business with the oil-rich state that if they did not locate their regional operations in Saudi Arabia, they would be denied government contracts. Saudi Arabia is the region's largest economy and virtually all the major global firms seek lucrative contracts from the government. Saudi officials have made it clear that they will not accept token offices being located for show in the kingdom – these firms would have to demonstrate that the offices they set up in Saudi Arabia were doing substantive regional work. Dubai will be the main loser from the likely relocation of business headquarters to Saudi Arabia.

Saudi Arabia is not the only country seeking to have lucrative regional operations located on their home turf. India is another example. It is promoting a new township, the Gujarat International Finance Tec, otherwise known as GIFT and has tried to force activity in Indian-linked derivatives to move out of Singapore back to India. Although GIFT is struggling to attract business and the Indian exchanges eventually came to a compromise with Singapore on derivatives, the original intention to capture the value being generated out of Indian financial assets remains and there could well be more such gambits in future.

But it is not all bad news for the incumbents

Clearly, global cities such as London, Hong Kong and Dubai face some headwinds. But that is not the entire picture. Incumbent regional and global centres are not easily displaced. They are venues where a critical mass of businesses which are intricately connected to each other operate. It is not easy for one or a few companies to relocate to another aspiring hub because they will lose that easy access to clients, suppliers of professional services and networks of good business intelligence, access that is vital to their business success. That is one reason why there has been no general exodus yet out of London.

Another reason for staying power among global city incumbents is that these cities' political and business leaders and are usually astute enough to find ways to build on existing strengths so as to cement their advantages even as competitors snap at their heels. Hong Kong has capitalised on its already globally-scaled equity market to win even more business, for instance. Recently, Hong Kong secured the USD5.4bn listing of the Chinese video app

Kuaishou, which turned out to be the world's biggest tech initial public offering since Uber in 2019. Hong Kong has also won over more Chinese business – mainland Chinese investors' share of daily turnover in Hong Kong has doubled to about 30% this year. Indeed, Hong Kong now has built such a critical mass as a stock exchange that no other Asian centre can even hope to match it. The city's stock exchange boasts average daily turnover in the first two months of this year of around USD25bn – that is four times those on London's exchange and light years ahead of Singapore.

In the same vein, Dubai is also taking steps to defend its position. Perhaps in anticipation of the Saudi move, it had announced bold reforms that would enhance its attractiveness in ways which the Saudis would struggle to match. Foreigners will now be able to own 100 per cent of onshore businesses and can also secure long-term residency if they possess highly prized skills.

Conclusion: the bottom line for Singapore

Developments in recent years have weakened Singapore's main rivals to some extent and given it an opportunity to take market share in the global hub business from them. However, this is a tough business and rivals like London, Hong Kong and Dubai have shown a flair for innovation and bold gambles. Singapore is positioned to do better in some areas such as global or regional business operations, wealth management and legal arbitration, for example, where the rule of law is key. It may also improve its performance in areas where attracting talent is important – such as in activities which require IT professionals. But in other areas such as equity market-linked activities it may not do so well.

Prepared by Manu Bhaskaran
CEO, Centennial Asia Advisors