



To the point!

Cross-Asset- and Strategy-Research

# A postcard from Singapore



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## Why Singapore wins the old rivalry with Hong Kong

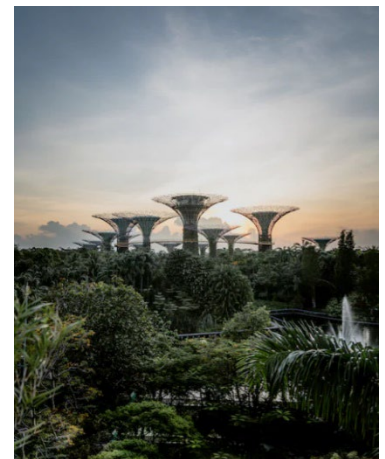
Today I am writing to you from Singapore. LBBW held its annual APAC Capital Markets Day there this week. For me, this was the first visit to the Southeast Asian financial metropolis since the outbreak of the pandemic. Reason enough to look around a bit more thoroughly and ask around. What I'm seeing and hearing is pretty encouraging overall.

### Singapore sets itself apart from Hong Kong

Encouraging, at any rate, for those who, despite all the geopolitical tensions, continue to build on free trade and the international division of labor. In most relevant studies on competitiveness and openness, Singapore occupies a place on the podium. For example, the IMD [World Competitiveness Ranking](#) the Heritage Foundation's [Index of Economic Freedom](#) or assessments of regulatory quality and effective government policies by the [World Bank](#).

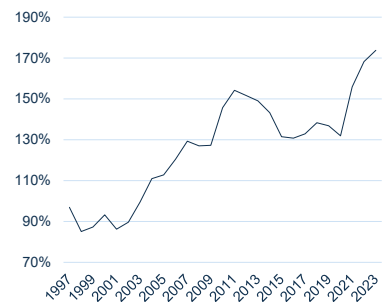
For a long time, Singapore and Hong Kong were two rival global financial centers jostling for top spot. In recent times, however, Singapore has pulled away from its Chinese competitor. In 1997, the British handed over Hong Kong to China. Hong Kong was to be allowed to continue its economic and social success model for 50 years as a separate territory under the "one country, two systems" concept.

At that time, Hong Kong was slightly more prosperous than Singapore. In the meantime, however, Singapore has clearly taken the lead (see figure). At the same time, Singapore's population has grown much more dynamically (+4.8% from 2013 to 2023) than Hong Kong's (+1.3%).



Gardens by the Bay (Photo: Isaac Matthew on Unsplash)

### Singapore: Per capita income relative to Hong Kong



Source: IMF, LBBW Research

Singapore has taken a seemingly unassailable lead after the outbreak of the pandemic. The more draconian lockdowns in Hong Kong may have played a role here. Despite being more measured, Singapore's anti-Covid measures appear to have been more effective than those of Hong Kong: Singapore's estimated [excess mortality](#) was half that of Hong Kong.

### China's stricter control poses a challenge for Hong Kong

This draws my attention to what increasingly distinguishes the two financial centers: the quality of governance. The 2020 security laws enforced by China in Hong Kong have significantly and irreversibly curtailed civic freedoms. This inexorable lurch towards ever tighter control appears to be in contradiction with Beijing's 1997 self-commitments regarding the territory's autonomy.

Between 2011 and 2021 [trust in their government](#) has continued to decline among Hong Kong citizens, from an already relatively low level. In Singapore, on the other hand, confidence continued to rise. And that, although it was already very high at the beginning. While civil rights are increasingly restricted in Hong Kong, there are cautious tendencies toward more freedoms in Singapore, which itself remains a managed democracy.

### What does all this mean for Southeast Asia?

Both city-states are symbolic, as it were, of the larger regions in which they are embedded. Like Hong Kong, China is characterized by adverse demographics and increasingly rigid governance, as well as (mostly) subtle containment of market forces. This will progressively hamper also China's economic momentum.

By contrast, the demographically more dynamic ASEAN alliance, with Singapore as its beacon, is likely to increasingly become the new Asian growth. Asia is more than just China!

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## Lesson from Hong Kong: Less freedom means less growth

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## Southeast Asia as a new growth pole

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