OPINION

SGX and its role in Singapore's rise as an international financial centre

Singapore has earned its place among the top financial centres of the world despite not having a particularly large or active stock market. This could change if it succeeds in its ambition of becoming more than just a global asset management centre, and captures a larger portion of the value being created by the region's knowledge economy.

The latest Global Financial Centres Index (GFCI) released in March ranks Singapore third among international financial centres. London and New York were in first and second place respectively. Hong Kong was ranked fourth and Tokyo fifth. Last year, stocks listed on the Singapore Exchange had a total market capitalisation of only US$640 billion, according to the World Federation of Exchanges. That is far behind exchanges in some of the biggest economies in Asia. For instance, Japan had a market cap of nearly US$5 trillion. The Shanghai and Shenzhen exchanges had market caps of more than US$4 trillion and US$3.2 trillion respectively. Hong Kong had a market cap of nearly US$3.2 trillion and Australia had a market cap of almost US$1.3 trillion.

To make matters worse, in 2016, close to $16 billion of market capitalisation on the local exchange was erased because of the delisting of a few prominent companies. And, the pace of new listings has been less than inspiring. According to a PwC report, some $454 million was raised through IPOs in the first half of 2017. In 2016, $2.3 billion was raised from 16 IPOs on the SGX, the bulk of which came from the listing of three real estate investment trusts. Meanwhile, turnover in the local stock market has declined since the start of the decade. Total securities market turnover in 2016 was $271.91 billion, some 32% less than the corresponding figure of $401.95 billion for 2010.

Despite the shortcomings of the local stock market, Singapore has made it to the ranks of the best of global financial centres through foresight and careful planning. Notably, the objectives set by the Ministry of Trade and Industry in 2002 in a report entitled "Positioning Singapore as a pre-eminent financial centre in Asia" have been met:

- Singapore is home to more than 1,200 financial institutions covering a wide range of products and services;
- Singapore has become one of the global leaders in asset management and private banking, with $2.6 trillion in assets under management according to the 2015 MAS Asset Management Survey, right behind Switzerland ($2.9 trillion);
- The listed real estate sector has gone from strength to strength with a combined market cap of $71.6 billion for 31 S-REITs as at March this year. It is the second-largest in Asia;
- More than 160 private equity and venture capital managers are based in the Lion City;
- Singapore is a key insurance marketplace in Asia, by hosting a large number of international general insurance and reinsurance groups; and
- The infrastructure has been successfully built. For example, the new CBD at Marina Bay boasts buildings designed to accommodate the financial sector's most tech-savvy players.

| BY PATRICK LECOMTE |

All these achievements are impressive and a tribute to Singapore's ability to aim high and deliver, and even exceed expectations. But can it remain a pre-eminent financial centre in the future?

Going by the GFCI, Singapore's standing as an international financial centre has a lot to do with its stellar reputation. The city state had the best reputation ranking of all international financial centres worldwide. In areas of competitiveness other than reputation, however, Hong Kong ranks ahead of Singapore. Hong Kong ranks third — behind London and New York — on business environment, human capital, infrastructure, and financial sector development.

In terms of industry sectors — which consist of banking, investment management, insurance, professional services, and government and regulatory — Hong Kong beats Singapore in all but two categories: professional services; and government and regulatory. Interestingly, the most dynamic sector for Singapore was insurance, where it was ranked third. But Hong Kong was still ahead at No 2.

Analysed for its ability to improve in the future, Singapore ranks as a "weakly dynamic centre". Of all the "dynamic centres" in Asia-Pacific (including Kuala Lumpur, Melbourne and Seoul), Singapore has the smallest margin for improvement on factors such as global competitiveness, cost of living, quality of roads, foreign direct investment and cybersecurity. In that respect, Singapore is highly comparable to established financial centres such as Geneva. This should be no surprise, as the two cities are focused on private banking and asset management.

Importance of capital markets

Yet, there is a significant risk of Singapore's being perceived as a stagnant financial centre. To avoid this, the authorities have been trying to steer the country into exciting new fields. For starters, the Monetary Authority of Singapore has been actively engaged in turning Singapore into a smart financial centre as part of the Smart Nation initiative. But is being smart the solution to being a relevant financial centre for the 21st century? Can efficiency brought about by financial technology ever replace the role of active and liquid capital markets?

In a speech to the Hong Kong Policy Research Institute in October 1999, at the peak of the internet craze, Lee Kuan Yew suggested that Singapore and Hong Kong would benefit by joining forces to create an Asian version of New York's Nasdaq. He explained: "A growing number of Asian high-tech start-ups are now seek funding, which can be met by the exchanges. Some Asian exchanges have responded quickly to meet these needs by setting up small market capitalisation, or 'high-growth', boards. Unfortunately, individually, these boards lack critical mass when compared to Nasdaq. The Singapore and Hong Kong exchanges can link up trading in these boards to create greater liquidity and appeal to cross-border and regional investors. A common capability that integrates liquidity pools provides benefits for issuers, investors and Asian capital markets."

Unfortunately, SGX's pan-Asian vision has fallen victim to regional protectionism. One major setback was the rejection by Australian regulators of the proposed merger of SGX and **ASX** in 2011. In recent years, ASX has been successful in attracting Chinese and US technology companies to list. Another trend that has worked against SGX is the growth of the private equity and venture capital sector, which is providing many promising young companies with the financing they need.

Venue for innovation

What can Singapore and SGX do to forge ahead? In essence, Singapore should aim to be less like Geneva and more like San Francisco, the booming US city that embodies the intricate link between finance and technology entrepreneurship in the Bay Area. According to the latest GFCI, San Francisco now ranks second among financial centres in the US, behind New York but ahead of Chicago.

Setting up world-class infrastructure and attracting foreign capital came naturally to Singapore, and could continue to serve it well. *Forbes* estimates that there are more than 2,000 billionaires in Asia with a collective net worth of US$7.7 trillion ($32.9 trillion). Certainly, there is nothing wrong with being a Geneva of Asia, though the Swiss experience shows that focusing on private wealth management and private banking comes attached with risks, such as money laundering and scandals.

However, Singapore's ambition to become a Smart Nation is really about changing leagues. It is about becoming a place for innovation and entrepreneurs. And, while neither San Francisco nor Geneva have a stock market, SGX could carve an interesting future for itself by becoming part of the innovation ecosystem being developed in Singapore.

SGX will never compete with the exchanges of its bigger neighbours for primary listings, and the small size of the Singapore economy means it will never benefit from a proliferation of sizeable local companies. Yet, Singapore has the reputation, infrastructure and wherewithal to be daring. Its unique position in Asia should be leveraged to take calculated risks to become a gateway to the region's most innovative companies.

Last month, SGX took a bold step in that direction by announcing that secondary listings of companies with dual-class shares from 22 "developed" foreign markets would be possible. Concerns had previously been raised about risks to investor protection posed by companies with dual-class shares. Yet, eventually allowing the listing of companies with dual-class shares could be important to position Singapore as the go-to listing exchange for unicorn start-ups in the region.

SGX might not have played a big role so far in Singapore's rise as an international financial centre in the vein of Geneva, but it might come into its own if Singapore succeeds in transforming itself into the San Francisco of Southeast Asia. E

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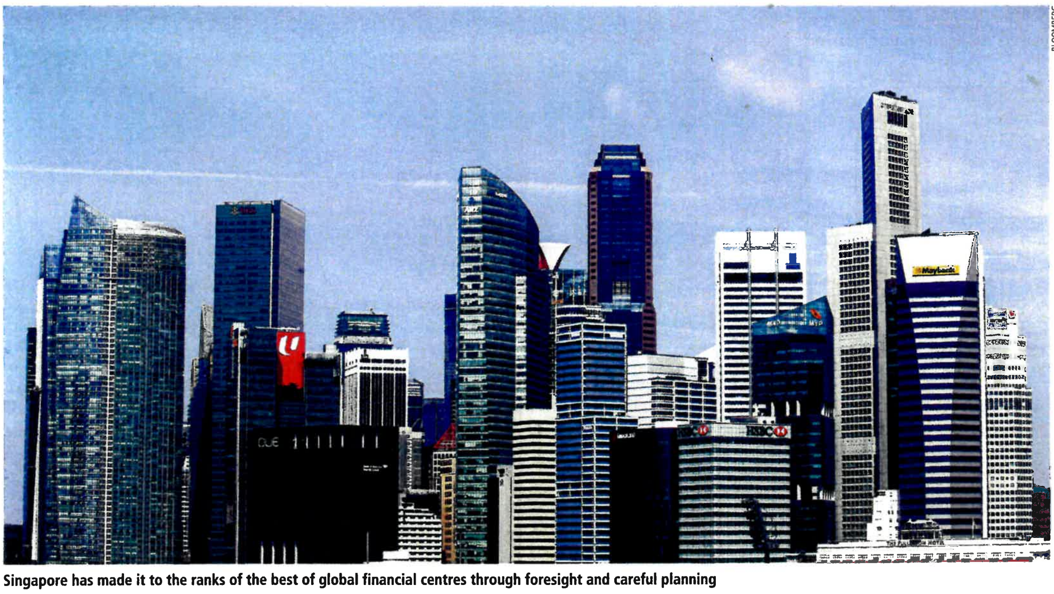

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