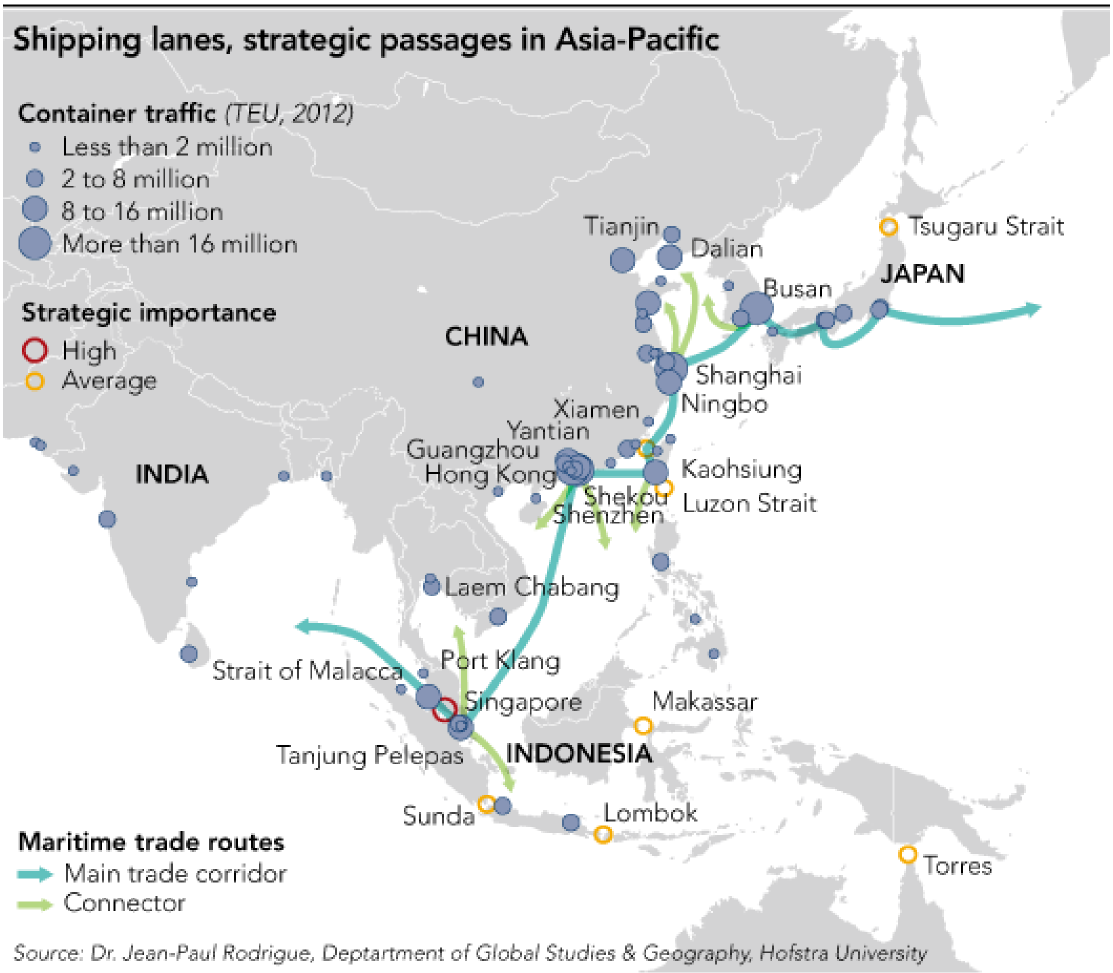
INVEST IN SOUTHEAST ASIA

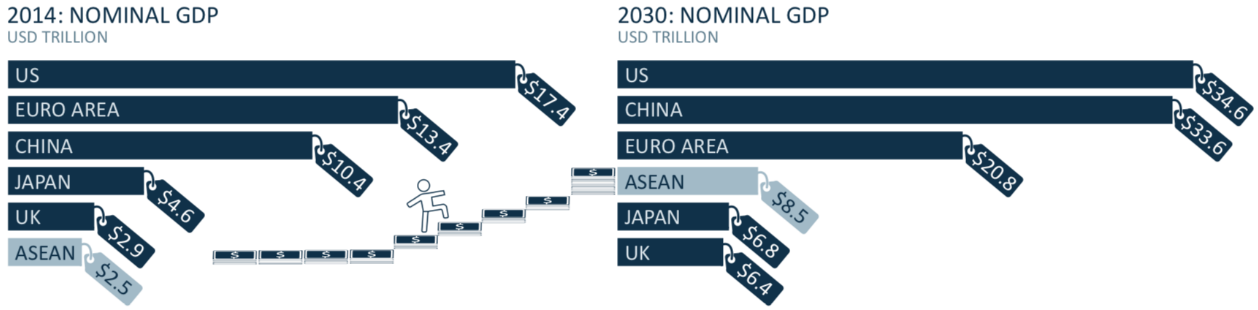
Much of the world's investment discourse pivots towards China and India when it comes to Asia, often overlooking the potential of Southeast Asia. As one of the fastest growing regions in the world, the Association of Southeast Asian Nation (ASEAN), made up of Brunei Darussalam, Myanmar, Cambodia, Laos, Indonesia, Philippines, Thailand, Vietnam, Malaysia, and Singapore boasts a consumer market of more than 600 million people with a combined GDP of US$2.9 trillion.

The centrality of ASEAN to the world is undeniable and not simply by virtue of the fact that 60% of the world's population resides in the Asia-Pacific region. ASEAN occupies a critical geographic position straddling the sea lanes between the Indian Ocean in the west and the Pacific Ocean in the east, one of the most important shipping waterways in the world. Large shares of global trade are bound for passage through its route, with nearly 100,000 vessels passing through it each year, accounting for about one-quarter of the world's traded goods. $5.3 trillion in trade passes through the contested waters of the South China Sea annually which by extension relies on the Straits of Malacca, further evidencing ASEAN's geo-strategic importance to the world.



CAPITALISING ON ASEAN'S GROWTH

While ASEAN's economy is currently ranked seventh largest in the world, this is projected to eclipse Japan's to be the fourth largest by 2030, after the European Union, United States and China.



Source: UOB Global Economics and Market Research

Growth is expected to arise from several key drivers, including the growth of its middle-income class and increasing urbanisation rates. The Asian Development Bank (ADB) predicts that the size of the middle class in Southeast Asia will rise from 29% of the population in 2010 to 65% by 2030. In addition, ASEAN's urbanisation rate in 2010 was 44.5%, comparable to 48.1% achieved by middle income nations. As standards of living improve, increases in domestic spending are likely to occur as the region's consumers demand for greater variation in goods and services. Investors who can ride on this wave of demand will be put in good stead to capitalise on ASEAN's growth.

Another critical driver of growth will likely be ASEAN's youth. Unlike maturing Asian emerging markets such as China, most ASEAN nations are comprised of young demographics with a median age of 28.5 years in 2015. Having a young and growing population creates a powerful window of opportunity for a country and its investors due to the promising demographic dividend. While growth in markets such as China are expected to slow, ASEAN nations have all the more potential as its working-age population grows in numbers. Indonesia exemplifies an ASEAN country that has capitalised on its demographic transition through rigorous institutional development and a shift to an export-oriented manufacturing sector. This has resulted in GDP growth from 6% to 8% almost every year over the past two decades since enacting its market reforms[1]. Assuming that ASEAN successfully capitalises on its young demographic, not only will the region's spending rise, savings are likely to increase hence boosting the region's capacity to invest. Vast untapped opportunities await investors and businesses who can establish strong footholds in the various ASEAN markets.

[1] Doing Business in ASEAN 2nd Edition (UOB, RSM, Rajah & Tann Asia) Pg 29

ASEAN'S TRACK TO ECONOMIC INTEGRATION

Naturally, as with investing in any other emerging market, there will be a number of risks that potential investors might face. In ASEAN's case, the region's diversity and the fragmented nature of its markets may pose as obstacles to investors and businesses. Not to mention, the development gaps within and between the countries, such as disparities in income, law, tax systems, financial systems, capital and exchange controls further heighten the challenge that investors face.

However, in an attempt to bolster its investment climate, ASEAN has made significant breakthroughs in correcting these issues. The formation of the ASEAN Economic Community (AEC) marked extraordinary progress by ASEAN in terms of further integrating the economies of member states. The single market provided by the AEC maps a route for an uninhibited flow of goods, services, investment, skilled labour and freer flow of capital between all member countries. The success of the AEC Blueprint 2015 (adopted in 2007) in developing regional frameworks, promoting connectivity and narrowing the development gap was evident wherein following its implementation, ASEAN's combined GDP nearly doubled from US$1.33 trillion in 2007 to over US$2.5 trillion in 2014.

Concrete action has been taken by ASEAN to promote the realisation of the AEC. Several projects that have been launched include the ASEAN Investment Website which highlights the viability of the region as an investment location, the ASEAN Comprehensive Investment Agreement (ACIA) forum, and the publication of the Annual ASEAN Investment Report, among others.[2] Several initiatives related to enhancing trade include the ASEAN Single Window which will allow traders to submit trade-related documents in one pace through electronic exchange among ASEAN countries; ASEAN Self-Certification System which will allow exporters to declare and self-certify the ASAEAN product content in their products; and ASEAN Customs Modernisation.[3]

In an attempt to pave its way toward financial integration, ASEAN is constructing long-term infrastructures for developing ASEAN capital market which will enhance market access, linkages, and liquidity. It is also working towards capital account liberalisation through the removal of capital controls and restrictions, including the elimination of restrictions on current account transactions, FDIs, and portfolio flows.[4] Singapore for example, has been at the forefront of championing cross-country stock market linkages. The link between SGX and Bursa Malaysia by the end of 2018 will offer seamless access to 1,600 public-listed firms. Singapore and Malaysian share investors can look forward to greater convenience and lower costs when trading in each other's stock exchange.

Seeking to improve the physical connectivity of the region, ASEAN has embarked on a number of ambitious projects such as the ASEAN Highway Network, Singapore-Kunming Railway Link, and the ASEAN Power Grid. Other ASEAN initiatives are geared towards, among others, the protection of intellectual property rights, consumer protection, tourism

[2] http://investasean.asean.org/index.php/page/view/asean-economic-community
[3] http://investasean.asean.org/index.php/page/view/asean-economic-community
[4] http://investasean.asean.org/index.php/page/view/asean-economic-community

promotion, public-private dialogues and partnerships, and narrowing the development gaps in the region.[5]

PHOTO: ASEAN HIGHWAY ROUTE MAP

Source: ASEAN Logistics Network Map Study, JETRO 2008

ASEAN has laid out comprehensive reforms that it has and will continue to embark on. The promotion of a higher level of connectivity, transparency, predictability as well as harmonised trade and investment laws shows beyond doubt that the region is determined to foster a conducive investment climate for investors. Investors can expect easier access to data and information, allowing greater predictability for business planning as well as improved logistics and improved efficiency and competitiveness of service suppliers within the region.

Indeed, given the recent spectacle regarding the Kuala Lumpur-Singapore High Speed Rail Project as well as the lack of ASEAN consensus on the South China Sea dispute, investors might be hesitant in investing in ASEAN. The operational barriers to doing business and geopolitical instability in the region certainly do not reflect the best on the region. Yet, a look at the the BMI Country Risk Index reveals that more than half of the ASEAN nations attain a score above the global average in the majority of the indicators. This is a positive sign for investors given the relatively low operational risks involved in venturing into ASEAN.

[5] http://investasean.asean.org/index.php/page/view/asean-economic-community

SOUTHEAST ASIA RISK INDEX TABLE

	SHORT TERM		LONG TERM		OPERATIONAL RISK	COUNTRY RISK
	POLITICAL	ECONOMIC	POLITICAL	ECONOMIC		
SINGAPORE	94.8	73.3	81.1	72.6	82.9	81.0
MALAYSIA	75.6	72.5	69.2	73.9	68.3	71.0
PHILIPPINES	63.1	71.3	65.4	71.6	44.1	60.0
INDONESIA	71.5	70.6	63.4	69.0	52.7	63.3
THAILAND	70.2	72.3	58.9	70.3	59.1	65.1
VIETNAM	82.5	67.1	59.7	65.8	53.7	63.9
CAMBODIA	62.1	46.5	58.3	46.7	42.6	49.7
LAOS	80.4	34.4	56.5	40.9	39.2	48.4
MYANMAR	57.9	49.0	42.9	51.5	32.1	44.6
REGIONAL AVERAGE	**73.1**	**61.9**	**61.7**	**62.5**	**52.7**	**60.8**
GLOBAL AVERAGE	**63.3**	**53.1**	**62.2**	**53.7**	**49.8**	**55.3**

Source: BMI (BMI's Country Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business.)

Above Global Average   Below Global Average

INVESTING IN SOUTHEAST ASIA THROUGH SINGAPORE

Each and every Southeast Nation has its own set of pros and cons from am investment standpoint. While there is no single best country in Southeast Asia to invest in, Singapore distinguishes itself, having attained the highest scores in five of six BMI indicators.

The young island nation boasts a strong economy and is reputed worldwide for its integrity, quality, reliability, productivity, rule of law, and enforcement of intellectual property rights. A key regional and global hub for investors and business entrepreneurs, Singapore has been lauded for its pro-business environment as well as its ability to attract sizeable foreign investments. Despite its small size, Singapore is the second busiest transshipment port, partially owing to its strategic geographical location, sitting astride the economic gateway of the east and west - the Malacca straits.

Perhaps the biggest draw for investors would be Singapore’s investment climate, as evidenced by the nation’s consecutive stellar performance in the Ease of Doing Business Ranking by The World Bank. In 2018, Singapore ranked second place, behind New Zealand. Factors such as the nation’s well-developed infrastructure and the government’s openness to foreign investment have influenced this result. To attract businesses ready to invest in Singapore, the government adopts a free trade philosophy, has favourable regulatory and taxation frameworks and constantly diversifies its economy. Moreover, the country has placed a great deal of commitment into developing a strong domestic regulatory framework to protect IP rights. It is currently rated the best place in Asia and 4th in the world for IP rights protection in the Global Competitiveness Report 2017 – 2018 (World Economic Forum). Indeed, a consistently reliable IP environment was what spurred the World Intellectual Property Office (WIPO) in 2009 to set up its first Asian regional office here.

The most cosmopolitan among its ASEAN counterparts, it is unsurprising that Singapore is also ranked best overall destination for expatriates for the third consecutive year (HSBC Expat Explorer Report 2017). The nation is characterised by a stable 1 party in power government as well as one of the lowest corruption and crime rates in the world. Singapore has also been host to major annual defence conferences every year and has pulled of high stakes meetings such as the 2015 summit between Chinese President Xi Jinping and Taiwan’s president at the time, Ma Ying-jiu. More recently, the nation even hosted the unprecedented historic summit between United States President, Donald Trump and North Korean leader Kim Jong Un.

PHOTO: PRESIDENT TRUMP AND NORTH KOREA'S KIM JONG UN SHAKE HANDS AT THEIR HISTORIC SUMMIT IN SINGAPORE ON JUNE 12, 2018

Source: Evan Vucci—AP/Shutterstock

Without a doubt however, a potential setback of operating in Singapore would be the high costs of operation due to its highly skilled labour force and high rental costs. Nevertheless, competitive tax rates and transparency would likely offset the higher costs of operating in the nation. Moreover, the government has taken tough measures including reducing corporate tax rates, lowering employers' Central Provident Fund (CPF) contribution rates and capping office rental rates.

Among other reasons for its reputation would be the global connectivity of the nation whereby Singapore-based financial institutions have extensive networks regionally and globally. Being recognised as one of the leading financial institutions of the world, Singapore is the only Asian country rated with "AAA" rating. Apart from that, Singapore provides a full range of financial products and services including banking, insurance, asset management, financing and treasury services. There is also no control on foreign exchange as well as profit remittance or repatriation of capital and profits from Singapore. Hence, the deep and liquid capital market can become an alternative source of financing for businesses.[6] Moreover, Singapore has a well armed judiciary and law on every aspect of investment. An example would be the Double Tax Agreements the nation has with 84 different countries worldwide, including all its ASEAN counterparts. This serves to prevent double taxation of income earned in Singapore and other jurisdictions.

Singapore-based institutions have extensive networks in the individual ASEAN countries and have proven to be trusted partners globally, for entities that want to expand their footprints in Southeast Asia. For example, US e-commerce giant, Amazon, which launched its first service Amazon Prime Now in Singapore in July 2017, a move that not only enables it to break into Singapore's e-commerce sector but also offers it a base from which it can explore other opportunities in Southeast Asia.

[6] https://www.smeportal.sg/content/smeportal/en/stages/plan/2017/why-invest-in-singapore.html

While Singapore has already proven itself befitting as Asia's financial hub, the nation has further plans to position itself as Asia's legal capital. Widely recognised as the leading arbitration hub in Asia, the Singapore International Arbitration Centre (SIAC) is the largest arbitration centre in the world after London and Paris. The respective launches of the Singapore International Mediation Centre (SIMC) in 2014 and Singapore International Commercial Court (SICC) in 2015 were part of a wider plan to position Singapore as Asia's premier dispute resolution hub. Having implemented appropriate international conventions, such as the New York convention, and adopting the UNCITRAL Model Law, Singapore has taken steps to ensure practical support for international arbitrations conducted here, with the result that it is regarded, both legally and commercially, as a preferred forum for resolving trade disputes. The nation has further set its sights on regionalising its laws. Increasing numbers of clients from India are using Singapore for arbitration. China, South Korea, the US and British Virgin Islands are also among a Top 10 ranking of users. More than 40 per cent of the cases have no connection with Singapore, which shows the growing use of Singaporean law to underpin business contracts in Asia.[7]

PHOTO: SINGAPORE INTERNATIONAL ARBITRATION CENNTRE

Source: Litigation Edge Blog

As Singapore takes the helm as ASEAN's chair in 2018, strengthening regional integration and promoting mutual interdependence are among its priorities. Promotion of schemes that will help ASEAN's economies innovate and use technology are also in the works. Singapore has been championing the Regional Comprehensive Economic Partnership (RCEP), an ambitious trade pact in the works that will cover half the world's population if successful. The nation's strong ambition of integrating the 10 ASEAN economies, in addition to the investment environment that it offers makes it an excellent stepping stone into the ASEAN market.

Aloysius Wee – Managing Partner, Aquinas Law Alliance LLP
Teo Hui Yi, Natalie – Executive, ALA Consulting Pte Ltd, an associated company of Aquinas Law Alliance LLP

Afternote:

[7] https://www.ft.com/content/704c5458-e79a-11e5-a09b-1f8b0d268c39

Aquinas Law Alliance LLP is a medium size boutique law firm comprising lawyers from Singapore, Malaysia and China. The firm specialises in cross-border disputes and transactional work with a focus on ASEAN, China and India. It also handles corporate finance, mergers and acquisition, real estate, intellectual property, dispute resolution and private client work.

The firm is also the Singapore founding member of the ASEAN Legal Alliance, an ASEAN-wide network of law firms operating in the 10 ASEAN countries and across Asia. Aquinas Law Alliance is also associated with the Warwick Legal Network comprising of 39 law firms across 55 cities in Europe & America with 535 lawyers giving it a global reach and network.

AQUINAS LAW ALLIANCE

A Singapore Law Firm with a focus on ASEAN, India and China

Member of:

ASEAN Legal Alliance
ASEAN Focus | ASEAN Presence

PraeLegal

WARWICK LEGAL NETWORK