

EXPLORING NEW FRONTIERS

Asean offers enormous commercial opportunities but also poses a range of political risks for business and investors **BY CHIU WU HONG**

WITH a population of more than 600 million people and a collective gross domestic product (GDP) growing at about 5 per cent per year, Asean is an emerging economic powerhouse. The region has largely young demographics, which provides a strong foundation for economic growth.

Against this backdrop, an increasing number of local companies are seeking to establish operations within Asean to tap into its growth potential. At the same time, they are facing growing economic and political uncertainty in many traditional overseas markets, such as in Europe and China.

According to *Politics, Power and Change: What's next for Asean*, a recent KPMG paper co-authored with the Eurasia Group, Asean offers enormous commercial opportunities but also poses a range of political risks for business and investors. For businesses to effectively manage their global value chain, companies require an understanding of the wide array of domestic and regional political risks in Asean.

While companies cannot control most political risk in the countries where they work, they can take steps to limit their exposure to these risks and minimise potential interruptions to their businesses. For example, business owners should identify and prepare for possible scenarios and develop risk management strategies to support business decisions.

Other considerations include the ability to understand and adhere to the differing regulatory requirements, unforeseen hidden and additional costs (ie manpower, currency exchange etc) and the intensity of competition in the foreign market.

A key issue for business in Asean and those seeking to enter the Asean

region is rising US protectionism. This risk is greatest for export-dependent Singapore as well as for Malaysia and Vietnam, who are also members of the Trans Pacific Partnership (TPP), from which US has withdrawn.

Another concern is the growing role of religion in influencing political processes and outcomes in countries such as Indonesia and Malaysia. This could influence legal processes and will have an impact on regulations affecting the food and beverage, entertainment, tourism and e-commerce sectors in particular.

As an island city-state, Singapore has no choice but to rely on its connections to other countries for continued economic growth, and thus, this direction should not come as a surprise.

Singapore is adjusting to these new global realities, and internationalisation is featured strongly in the Committee on the Future Economy (CFE) and Singapore Budget reports released earlier this year. Examples of such measures found in Budget 2017 include the Global Innovation Alliance, which is intended to give Singapore students and professionals more international exposure and knowledge of other markets.

The introduction of the SME Go Digital Initiative aims to digitalise local enterprises so that they may compete more effectively with larger companies. Further assistance measures are also provided by various economic agencies. An example is IE Singapore's upcoming Non-Recourse Financing, which is an enhancement to the Internationalisation Finance Scheme. This scheme is targeted at local enterprises undertaking mid-sized overseas infrastructure projects. Such loans are secured only by project assets and its cash flow, limiting the impact on a borrower in the event of a default.

Thus, commercial lenders may be less prepared to provide financing for such loans, unless personal guarantees or recourse to the company's assets are provided. The Non-Recourse Financing enhancement will help local enterprises to obtain the funds needed.

In addition, IE Singapore also offers a wide range of

assistance that applies to all types of companies regardless of size and readiness. These available initiatives and assistance schemes mean that local enterprises are already well positioned to develop internationally. This is simply because they have a better financial and regulatory support environment at home than the vast majority of their regional competitors.

Singapore is also ranked first and third out of 136 countries in government capability and enterprise capability, according to KPMG's Change Readiness Index, which is a further testament to the ability of our country and businesses to thrive in the evolving political and economic climate.

While the challenges posed by globalisation are very real, the forces that are driving globalisation are going to push on, and the technological changes that have been set in motion are irreversible. Thus, local companies might have some choice in how they participate, but deciding to opt out is not an option.

With this in mind, I believe that the better option to protectionism is for local enterprises to embrace globalisation, and the opportunities that it presents. One such opportunity is the opening up of national frontiers, which provides companies that previously operated locally to consider new foreign market opportunities. This means new opportunities for survival and growth.

Singapore has developed a vibrant, strong, outward-looking economy that has shown itself capable of surviving the storms that have swept the nations around it. By continuing to pursue new markets, Singapore is able to capitalise on our unique position. We need to stay the course, as it means ensuring our continued prosperity, and our relevance in a world that is ever changing. ■

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