

Making Globalisation Work for You



This article was first published in the SME Magazine Nov/Dec issue.

Slower economic growth and low commodity prices are the new normal for Singapore businesses, something that is accurately reflected in the current mantra “lower for longer”. But the recent trend of Singaporean companies diversifying, exporting and expanding overseas has less to do with local economic expectations than you might think. Instead, it has to do with a cadre of Singaporean entrepreneurs that is ready to spread its wings – even if they don’t know it yet.

Singapore has done extraordinarily well when it comes to weathering economic downturns. For instance, when the Asian Financial Crisis spread to Singapore in 1998, it attacked the hard-won wealth of Singaporeans and produced a miserable negative -2.2% growth rate that year. The government reacted by using what have become time-honoured traditions during the past 50 years: cut costs to restore competitiveness through lower government fees, lighten CPF burden on businesses, and reduce wages across the government sector. And it worked.

These same tools were used in the 2001 dot-com bust, in addition to diversifying the economy by reducing our reliance on electronics and expanding into other areas such as petrochemicals and pharmaceuticals. The same methodologies were employed once more in 2008, but with a greater emphasis on tourism and services. When the economy became shaky in 2009, yet again, the government created the S\$20.5 billion ‘Resilience Package’, which boasts of support to all industries.

What about today? Well, in addition to employing the same methods as the past, the government is also focusing its resources to encourage and assist local enterprises in embarking on the next stage of business growth - global expansion. According to Minister for Trade and Industry Lim Hng Kiang, “companies need to venture into new and diverse markets, expand their international footprint and gain economies of scale.”

This is largely due to fundamental changes in the local business environment since the start of this century.

Singapore is now the third richest country per citizen in the world. By 2020, the International Monetary Fund expects it to surpass Luxemburg, to take the second position. Further, in terms of skills, education, language and international exposure, Singapore truly is a country that is second to few in the world. For instance, in terms of education, the National University of Singapore was ranked 24th in the latest Times Higher Education World University Rankings in September – first place for any institution outside of the UK, US, Switzerland and Canada. It came in 12th in the 2016 QS World University Rankings by subject: Business & Management Studies, the first outside of the UK, US, Italy and France.

Singapore came in fourth globally in the 2015 Organisation for Economic Co-operation and Development rankings for basic educational skills in under-15-year-olds. It was 12th in the 2015 EF English Proficiency Index – the first country outside of Europe to be placed. In terms of its excellent business environment, it is ranked first in the Ease of Doing Business rankings by the World Bank Group, and 29th for Internet connectivity per person (just behind Korea).

And the list goes on. All of the above mean that Singaporean entrepreneurs are *already* well positioned to develop internationally, simply because they have better business models, better staff, better technology and a better financial and regulatory support environment at home than the vast majority of their regional competitors on the global stage.

The business case for global expansion lies in the ability to balance slower growth in Singapore with higher growth rates in emerging markets, which also comes with higher risks. But it also rests in the fact that Singaporean businesses possess a great potential to expand internationally and an edge over their regional competitors, due to the sure footing they have at home. Scale and diversification require a solid base, and Singaporean businesses have that in spades.

This is not to underestimate the utility and necessity of government assistance.

In February 2015, new and enhanced tax incentives and more focused grant schemes were introduced for local entrepreneurs, particularly in the fields of 'internationalisation' and mergers and acquisitions abroad (M&As). Three schemes worth S\$240 million would be administered by trade agency IE Singapore, which in addition to others, boast of a



broadened scope to cover salaries incurred for Singaporeans posted overseas under the Double Tax Deduction for Internationalisation scheme, as well as assistance to help larger firms expand overseas via a new tax incentive, the International Growth Scheme.

In addition, the Government also backed major new trade associations local enterprises can join, with additional funding of S\$10 million to support business collaboration and global expansion. The new 'TACs', as they are known, now cover Aerospace, Restaurants, Construction, Manufacturing, Food and Beverage, Precision Engineering and Vehicle Trading.

Indeed, IE Singapore offers a plethora of ways in which it can partner with Singaporean companies to go global, jointly undertake critical economic activities, and in turn, benefit Singapore. Relying on government help is, however, far from all that is required to make internationalization work. You have to start from the ground, up. The process should look something like this:

- **Market Analysis:** A serious market analysis is crucial for any venture abroad. This should include research into who your buyers will be – understanding what they actually want, as well as a look at how you will market your products to them, and finally, who your direct competitors are.
- **Business Plan:** Unforeseen costs can destroy the best-laid plans, so a fully researched business plan is also essential. Find out in as much detail as possible, information about wages, wage structures, labour regulations as well as government fees, office rent, office operating costs, manufacturing costs, logistics costs, flights, and accommodation, just as a starting point.



Contact us

Chiu Wu Hong

Head of Tax

T: +65 6213 2569

E: wchiu@kpmg.com.sg

KPMG

16 Raffles Quay

#22-00 Hong Leong Building

Singapore 048581

T: +65 6213 3388

F: +65 6227 1297

E: tax@kpmg.com.sg

Find out more about our services at kpmg.com.sg

Asia Tax Firm of the Year; Asia International Tax Firm; Asia Indirect Tax Firm; Asia Global Executive Mobility Firm and National Firm for Transfer Pricing in Singapore – ITR Asia Tax Awards 2016.

Ranked Tier 1 Firm for Tax Advisory - International Tax Review 2016.

For more details of our Tax services, please click [here](#).

- **Due Diligence:** Once you are comfortable that the market you are looking at has promise, start working on due diligence on potential partners: with short, medium and long-term views on how relationships might evolve.
- **Finding The Right Manager:** If you want to go it alone, then finding someone on the ground who knows the market, knows your customers, and above all fully understands the requirements of your whole business is absolutely vital. This person might be local to the country you are going in to, or someone with solid knowledge of the area from home. Personal contacts are a good start, but specialised recruitment consultants can also bring in people you would not have considered normally.
- **Training Talent:** It may be necessary for you to send your best talents overseas. Keep an eye on promising recruits at home, and if you think they might be good for an overseas posting. Train them up in the specific skill sets they will need to thrive overseas.

Companies that successfully seek out these new pathways to expansion, take advantage of government incentives, and develop a solid footing abroad will be the new leaders of the future – taking Singapore's enterprises into the next era of growth.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

About Tax Alert

KPMG's Tax Alerts highlight the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may impact your company. As certain issues discussed herein are time sensitive it is advisable to make plans accordingly.

"Tax Alert" is issued exclusively for the information of clients and staff of KPMG Services Pte. Ltd. and should not be used or relied upon as a substitute for detailed advice or a basis for formulating business decisions.

kpmg.com.sg/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Services Pte. Ltd. (Registration No: 200003956G), a Singapore incorporated company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Singapore.