Singapore as a Hub

A model for New Zealand businesses entering ASEAN markets

Southeast Asia
Centre of Asia-Pacific Excellence

Executive Summary

The 'hub' export model, where a business establishes a foothold in one country to facilitate further expansion in the region, can alleviate many of the challenges of entering multiple Southeast Asian markets (commonly known as ASEAN – The Association of Southeast Asian nations, which consists of 10 countries). For many years, companies have used Singapore as a stepping stone to access other markets in the region, because of its central geographic location, ease of doing business, stable regulatory environment, and use of English to conduct business.

We have chosen the agritech sector to demonstrate how businesses can use Singapore as a hub in Southeast Asia. The sector compliments New Zealand's primary industries, is a high-value export, and aligns with global technology and sustainability trends. Furthermore, the New Zealand government has earmarked agritech as a key growth sector that requires further development.

We recommend that firms wishing to implement the Singapore as a hub model:

— set up a subsidiary in Singapore and seek R&D partnerships through that subsidiary;

— test products created through the Singapore subsidiary for the Southeast Asian market using specialised, low-cost but high-tech manufacturing in Malaysia; and

— then expand into other countries in the region.

This hub model will enable New Zealand companies to lower the risks of market entry in Southeast Asia and generate more sustainable and substantial revenue.

Background

Market Opportunities in Southeast Asia

The Association of Southeast Asian Nations (ASEAN) region represents a huge economic opportunity for New Zealand. In 2018, ASEAN had a combined population of 650 million and a combined GDP of US$2.95 trillion. The region has a projected annual growth rate of over 5.5% per year, and as a block, ASEAN is forecast to overtake the EU and Japan to become the fourth largest economy in the world by 2050.[1] The population is also increasingly middle-class (estimated to reach 334 million by 2030) and urban (expected to be 70% of the population by 2050).[2]

ASEAN intends to harness digital transformation and Industry 4.0 to boost their economic growth and value on a global stage. Research and development in agritech, energy, healthcare, manufacturing, security and sustainability in the region are key exploration and growth areas. ASEAN's interest in agritech is of particular importance and value to New Zealand, as New Zealand has particular strength in primary industries and interest in extending its agritech involvements.

Challenges Entering ASEAN Markets

New Zealand companies face a range of challenges to market entry in the Southeast Asian region that could be alleviated through a hub model. First, ASEAN nations are extremely diverse. They range in their stage of development, which makes a single market entry strategy difficult. For example, Myanmar and Singapore rank 171st and 2nd respectively in the World Bank's ease of doing business index, while Singapore's GDP per capita (US$75,631) is over 40 times Myanmar's (US$1,875).[3] The region is also ethnically, religiously and linguistically diverse, which can make building sustainable local partnerships complex.

Corruption is another major challenge facing New Zealand businesses looking to operate in ASEAN. This situation does not appear to be improving, with a recent report by Transparency International showing that most citizens in the region believed the issue had worsened over the last 12 months.[4] Corruption is a direct deterrent to foreign investment, because it increases the cost and difficulty of doing business.

Ultimately, these costs of doing business are passed on to the consumer, which in turn affects the profitability and viability of the business. If businesses engage in corrupt practices, they may be caught and prosecuted. On the other hand, if they don't cooperate, they may be completely shut out of the market. Dean Brettschneider, owner of artisan bakery and food store Baker & Cook, told us, "It is a constant battle for businesses such as mine to 'keep their hands clean' when operating in the region."

A third challenge that many foreign investors face in entering multiple ASEAN markets is regulatory uncertainty, which may stem from political changes, centralisation and decentralisation of various governing departments, and overlap or inconsistencies in regulations. Countries such as Indonesia have a history of contradicting and constantly changing legislation. This is problematic for businesses because sudden rule changes can affect sourcing of raw materials, or even prevent the sale of products completely.

Another challenge that New Zealand businesses may face in ASEAN is the inconsistency in regulation and enforcement of Intellectual Property (IP) protection. Many developing countries in the region lack business-related legislation, which means the risk of IP infringement is high. Currently no IP frameworks cover the entire region, so laws are often inconsistent or conflicting across countries. IP protection is crucial for businesses to ensure they get a return on their investment in R&D, innovation and value-creation.

A final challenge facing New Zealand tech-based businesses looking to enter ASEAN markets is the lack of connected capital, which is the gap between seed and venture investment. This hole prevents businesses from reaching the scale and maturity needed to export, especially into a sophisticated market like Singapore.

Singapore as a Hub

Why Singapore?

Singapore, even as a standalone market, is appealing for New Zealand businesses because of its global competitiveness and ease of doing business (ranked second in the world for both in 2018). Singapore also has a low operational risk and a highly skilled workforce, and the main language for business is English.

Businesses have traditionally seen Singapore as the most suitable hub in Southeast Asia because of its large port, low tariffs and its convenient location at the centre of the region. Singapore is a 2-hour flight away from 600 million people, and its airport connects it to 380 cities in 90 countries with approximately 7,000 flights per week.[5]

Additionally, New Zealand and Singapore recently signed the Agreement Between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP) Upgrade, which extends Singapore's first-ever bilateral free-trade agreement signed in 2001. This demonstrates the length and depth of the trading relationship between Singapore and New Zealand. The ANZSCEP Upgrade strengthens this relationship with additional data protection, faster customs access and streamlined administrative processes that lower transaction time and cost. It adapts trade law to recognise the growth of digital technologies and increase regulatory cooperation.

Forty New Zealand companies have a hub in Singapore, as their entry point to Southeast Asia,[6] and over half of the 7,000 multinational companies with operations in Singapore use the city-state as their regional headquarters.

Singapore as a Hub: Zespri as an Example

Food and beverage companies have in particular tended to use Singapore as their springboard into Southeast Asia. For example, Zespri, the world's largest manufacturer and marketer of kiwifruit, opened a new sales and marketing hub in Singapore in 2015 to manage the kiwifruit industry's strong export growth. They chose Singapore for its location and global connectedness, which helped Zespri achieve its international growth strategy.

Zespri identified three main advantages of Singapore as a hub:

1. Asian IT and finance facilities in Singapore, which New Zealand currently lacks;
2. its central location, which allows market managers to quickly transit to New Zealand and throughout the region; and
3. the demand for kiwifruit in the region, valued at NZ$1 billion.

Southeast Asia is one of the fastest growing regions for a lot of New Zealand agricultural produce. Through their hub in Singapore, Zespri was able to better understand the region's market demographics and local culture and to build strong relationships with overseas retailers. Zespri says that their Singapore hub was one of the main reasons for their success in the region.

Global Appeal

The Singapore as a hub model is becoming more widely used by some of the UK's largest companies, and large private equity groups such as NorthStar and Venstar are using Singapore as a hub to channel investment into the region.[7] Fintech companies like Funding Societies, a SME digital financing platform, are also using Singapore as a hub for investment and technology in their sector.[8]

All of these examples show that Singapore has the strategic position and ambition to become a successful hub that facilitates the right expertise, large channels of investment, and streamlined regulation to facilitate business success. Singapore also has a growing desire to become a hub for agritech, which presents significant opportunities for New Zealand businesses with expertise and investment in the sector.

The Singapore as a Hub Model

Phase 1: Establish a Singapore Subsidiary

Singapore's clear regulatory system and ease of doing business means that New Zealand firms using it as a hub could choose from many different business models. However, establishing a subsidiary company has the benefit of limiting liability and legal exposure for New Zealand companies if their Singapore base fails. Additionally, subsidiaries benefit from access to the ASEAN Free Trade Zone and substantial tax breaks.

In addition, subsidiaries in Singapore can have their parent company located anywhere in the world, and can repatriate all profits and capital out of Singapore. Many other countries within the ASEAN region have strict controls around foreign investment that would limit such activity. This model therefore enables the parent company to remain New Zealand-owned and thus benefit from the networks and resources of NZ Inc.

Phase 2: Leverage Malaysian Specialised Manufacturing

Although the next step for businesses may differ according to sector, we believe that after a New Zealand business establishes a subsidiary hub in Singapore, the next step for many firms will be to access the increasingly high-tech but still low-cost specialised manufacturing in Malaysia. Manufacturing is Malaysia's fourth largest industry and constituted 23% of GDP in 2017.[9] The sector is expected to continue to grow, with an increase in demand for more specialised manufacturing.

Malaysia is also becoming a more sophisticated manufacturing base, with increasing R&D and government incentives encouraging value-added, technologically advanced product manufacturing such as agricultural machinery. The Malaysian government's goal is to help existing manufacturers improve competitiveness and productivity through continual innovation, expansion, upgrading and diversification.

Malaysia is ranked twelfth in The World Bank's 'ease of doing business' index, but entering Malaysia directly may be risky for New Zealand firms. Malaysia does not have a wide range of R&D opportunities like Singapore, and Transparency International ranks it 51 out of 180 in the world for its political climate and corruption.

Establishing a hub in Singapore would lower the risks for New Zealand companies wanting to manufacture in Malaysia, because Singapore and Malaysia have a long-standing relationship with robust bilateral trade, investment, and tourism ties that make it relatively easy for Singapore-based firms to enter the market. Moreover, New Zealand businesses with a Singapore base will be able to more easily find a suitable partner in Malaysia because of the country's proximity. Many Malaysian companies also have a representative in Singapore. Trusted local partners will help New Zealand businesses avoid many of the challenges around regulations, cultural norms, and corruption.

Phase 3: Regional Expansion

Each Southeast Asian market holds different challenges for businesses that move into these markets, but using Singapore as a hub can alleviate many of the risks inherent in direct market entry. Both Singapore and Malaysia can be used for market research, and once adjustments are made and the products meet the market's needs, the business can then look to gain traction in other Southeast Asian countries.

Case Study: Agritech

The Ministry of Business, Innovation and Employment (MBIE) defines agritech as the "manufacturing, biotech and digital-based technology companies that are creating novel product, service and value chain solutions for the primary sector (agriculture, horticulture, aquaculture and fishing), with the aim of improving yield, efficiency, profitability, sustainability and quality." The New Zealand government has recognised agritech as an opportunity for exponential growth in its draft Agritech Industry Transformation Plan.

However, while agritech globally has grown 52% annually from 2013-2018, growth in the sector in New Zealand has remained stagnant, valued at NZ$1.5-1.6 billion per year over the same period.[10] Once developed domestically in New Zealand agritech must then be transformed into a scalable, sustainable export that is desirable in a global market that is already expanding and innovating rapidly.

The agritech sector is growing so quickly in part because of climate change and increasing uncertainty within the international rules-based order, which threaten trade certainty and have led to widespread concern over food sovereignty and security. This has the potential to disrupt market access and the ability to supply exports, for countries that are either dependent on food imports (e.g., Singapore) or food exports (e.g., New Zealand).

This global uncertainty in food security is creating demand for technology solutions to enhance food production. For example, to reach their goal of increasing domestic food production in Singapore from 10% to 30% by 2030, the government is opening up land, giving out grants and increasing education opportunities for any company that is willing to innovate within the agriculture sector.

Global agritech investment rose by 40% in 2018, to US$17 billion, and is poised to continue increasing. Shashvant Rai (Senior Investment Manager in a Mumbai Venture Capital firm) said that "the SEA region could produce a $100M or $200M company in the next two to five years with the amount of investment available,"[11] which illustrates the huge opportunity available to New Zealand agritech firms.

An innovative, technology-based approach will also allow New Zealand to stay competitive in global markets that are increasingly aware of and sensitive to environmental impacts. Agritech can help increase primary productivity without sacrificing environmental stewardship. Global population growth is creating large demands on agricultural exporters, and more advanced technologies are needed to meet productivity targets. Furthermore, agriculture accounts for 55% of New Zealand's greenhouse gas emissions.

Global food markets are now demanding lower carbon emissions and reduced environmental degradation. For example, the Agri-Food and Veterinary Authority in Singapore has a $63 million Agriculture Productivity Fund that is used to boost production capabilities by investing in technology that will train farmers about sustainable farming practices and efficiency.

Singapore as an Agritech Hub

Singapore is the best base in Southeast Asia for an agritech hub, because there is a government mandate and private investment appetite for agritech. The Singapore government has created several large grants to support R&D of food production technologies and to incentivise firms to export products that would help boost their food production. Raffles Capital Singapore, amongst many other investment firms, recently launched a SG$1.5 billion-dollar agritech R&D fund, which is greater than New Zealand's total agritech exports last year.[12]

By establishing a subsidiary in Singapore, New Zealand companies can access this capital, as well as similar government investment that is available in New Zealand. In addition, the subsidiary model allows New Zealand agritech firms to capitalise on the 'New Zealand story', which includes our reputation as a world-class agriculture exporter.

Singapore is also an ideal place for agritech businesses to conduct R&D, because of generous government grants under the Singaporean government's research, innovation and enterprise (RIE) 2020 plan, which invests US$19 billion in innovation. For example, the Research and Development Open Calls R&D Scheme co-funds R&D into commercially viable food farming technology with a direct practical application to the local agriculture industry in Singapore.

Because most New Zealand agritech firms are relatively small, they would likely seek R&D partnerships, rather than contract-based R&D, which requires larger investment. In Singapore, there are more reputable partners (e.g., A*STAR) that can negotiate shared IP on a case-by-case basis. As a result, small New Zealand firms may be able to negotiate for the partner to use the IP for research and in non-competitive markets, allowing the firm to own the IP for use in their target markets. Singapore's legislative framework is set up to facilitate R&D, and thus IP protections are effective for firms operating in this way.

This co-investment model allows both parties to meet their objectives and may protect New Zealand businesses as they expand into other parts of the region. Singapore is both respected and trusted by other countries within the region, and New Zealand agritech businesses can capitalise on the extended IP protections often provided. In addition, New Zealand firms that have been using Singapore as a hub are more likely to have trusted local partners, whom they can rely on to utilise informal IP strategies, which are often useful in other Southeast Asian countries.

Agritech Manufacturing in Malaysia

Malaysia has ample funding, government grants, and expertise for specialised manufacturing of agritech technology. Malaysia has unit trusts and exchange traded funds that focus solely on agriculture and agribusiness manufacturing, such as AmGlobal Agribusiness, Pacific Global Agriculture, Infrastructure and Resources (AIR) and MyETF Thomson Reuters Asia Pacific. DWS Global Agribusiness has started looking for opportunities to invest in more remote sectors of agriculture such as precision farming, vertical farming, aquaculture, and sustainable farming, all of which New Zealand firms specialise in. Alongside funding, Malaysia has also started many accelerator programmes and competitions, which encourage innovation in the agritech sector and provide funding and investment.

Expanding Agritech further into ASEAN

After Malaysia, Indonesia would likely be the next target for expansion for many New Zealand agritech businesses. The country is a huge market with over 80 million Indonesians working in the agriculture industry. Additionally, the Indonesian government introduced a Smart Farming 4.0 initiative in 2018, which has increased demand for agritech.

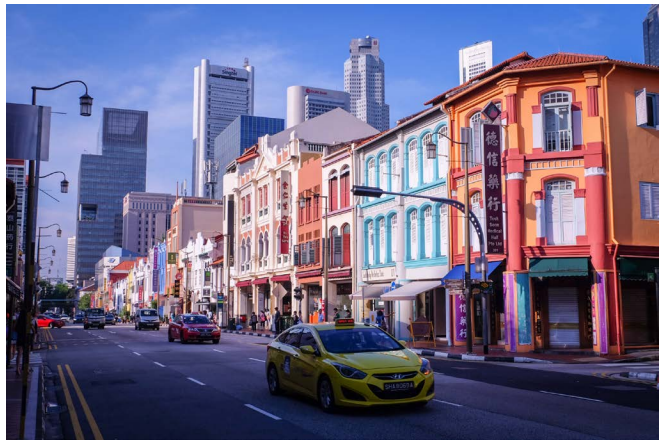
Without the use of a hub model, exporting directly to Indonesia would pose many significant challenges including corruption, regulatory uncertainty, and loosely enforced IP. Just as in Malaysia, the first step for companies will be to create and develop a strong partnership in Indonesia, which again will be far easier from Singapore than from New Zealand. New Zealand agritech businesses may also be able to use the extended IP protections granted through Singapore to help uphold their property rights in Indonesia.

Other countries in the region also offer opportunities for the rapid development of agritech, “with farmers even in underdeveloped members such as Myanmar and Cambodia increasingly adopting the technologies, and a large prevalence in larger nations such as Thailand and Vietnam.”[13] Companies that can innovate and produce agritech products best suited to the specific needs of the region will be in greatest demand.

Conclusions and Recommendations

Traditionally, businesses have used Singapore as a gateway to the Southeast Asian region because it offers a central, connected entry port and a convenient regional office. However, using Singapore as a hub will also help businesses fully leverage the opportunities across the region whilst minimising the impacts of corruption, regulatory instability and lack of IP protections. With increased interest in the partnership between New Zealand and ASEAN countries and increasingly close economic ties, it is an opportune time for New Zealand businesses to establish a presence in this region.

Our hub model is a particularly good fit for the New Zealand agritech sector, because Singapore has investment and infrastructure that will help businesses in the sector grow and access R&D and partnerships not available in New Zealand. However, the model is also relevant for other New Zealand exporters in industries such as education, health care and financial services. The model should be particularly relevant to companies in any sector investing in technology, because of the large investment being made into innovation and Industry 4.0 across the Southeast Asian region.



Recommendations

To capitalise on the opportunities identified in our analysis we recommend that:

1. Traditional New Zealand exporters with a technology interest and start-up technology firms establish a subsidiary in Singapore.
2. Through that subsidiary, firms can use both private and public funding as well as specialised knowledge available only in Singapore for R&D of technology products. When investigating R&D opportunities, companies should carefully research options and partnerships.
3. The subsidiary can then test the product in Singapore using local and regional market research. Companies should be willing and proactive when adjusting the original offering to better suit specific market needs in each country.
4. After establishing themselves in Singapore, businesses can utilise specialised manufacturing opportunities in Malaysia with less risk. Having a hub in Singapore gives businesses IP protections and the benefits of trusted, sustainable local partnerships. Local partnerships should be established at both a business and personal level to increase trust and reciprocity.
5. Companies can use the subsidiary model to then enter one or more other markets in the region, while protecting their New Zealand base and being less vulnerable to challenges. Companies must take care to protect not only assets in New Zealand but also brand image. This model allows traditional firms to engage in the development of new products and technologies through a separate identity, mitigating the potential brand liability to the parent company.

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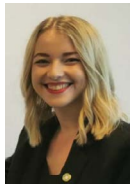

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