

ASEAN ECONOMIC COMMUNITY 2015: FROM 10 TO ONE (PART 1)

Is Your Business Ready?



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t the 25th ASEAN Summit on November 2014¹, Singapore Prime Minister Lee Hsien Loong had said that “an ASEAN that is economically integrated, strong and united can better attract investments, create jobs, manage regional challenges, as well as be an effective platform to engage larger powers”. This is indeed

true considering that ASEAN comprises 10 independent member countries, each individually too small to take full advantage of global opportunities and to withstand volatilities and shocks arising from both within and outside the region. With China and India having become economic powerhouses and the rise of other countries, the business landscape has become even more competitive.

¹ 25th ASEAN Summit, Nay Pyi Taw, Myanmar, 11 to 13 November 2014





ASEAN ECONOMIC COMMUNITY

LAOS

VIETNAM

PHILIPPINES

CAMBODIA

MALAYSIA

BRUNEI DARUSSALAM

INDONESIA

FOCUS

ASEAN ECONOMIC COMMUNITY

WHAT IS AEC?

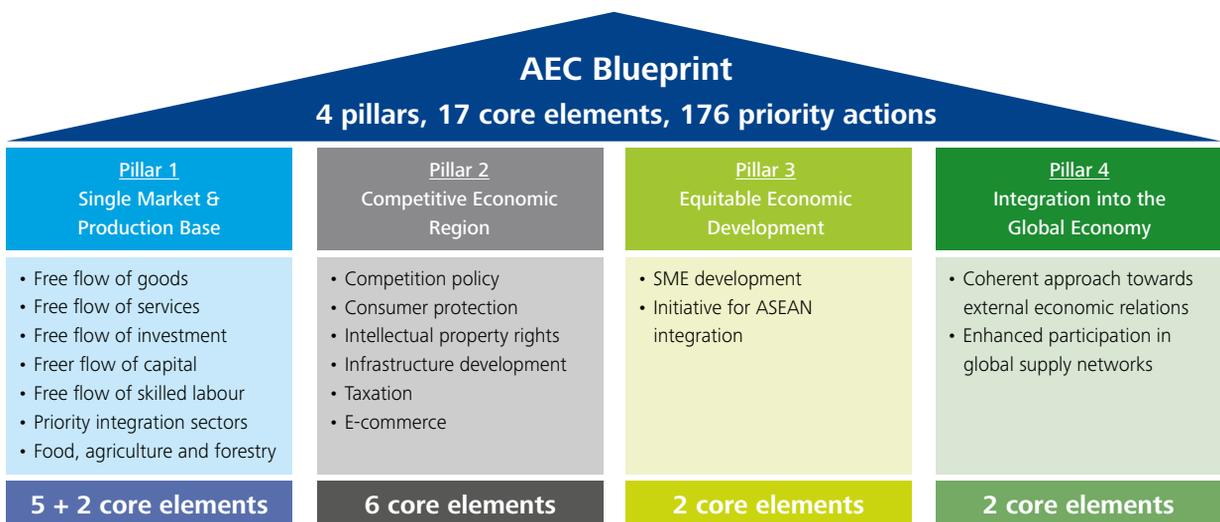
Set to be formed by the end of 2015, the ASEAN Economic Community (AEC) aims to transform ASEAN into a competitive regional market with free flow of goods, services, investment, skilled labour and freer flow of capital through the implementation of measures under four AEC pillars:

- (i) A single market and production base;
- (ii) A highly-competitive economic region;
- (iii) A region of equitable economic development, and
- (iv) A region fully integrated into the global economy.

As a single market with a population of more than 600 million, AEC is a sizeable force to be reckoned with on the global trading platform. This would be achieved through simplified customs procedures, harmonisation of standards and gradual elimination of tariff and non-tariff barriers, among others, to produce a more efficient and predictable trading environment in ASEAN. Figure 1 is an illustration of the AEC Blueprint.



Figure 1 AEC Blueprint



SOURCE: THE ABC OF AEC: TO 2015 AND BEYOND, DELOITTE SOUTHEAST ASIA

PHOTOS SHUTTERSTOCK



WHAT DOES IT MEAN FOR BUSINESSES?

Based on the 2014/2015 *National Business Survey* by the Singapore Business Federation, eight of the top 10 countries which businesses are looking to when venturing overseas were ASEAN countries.

According to the Asian Development Bank Institute², through structural economic reforms and regional integration, members of ASEAN have the potential to reach the average quality of life enjoyed today in advanced economies by 2030 – with an average projected growth of 6.4% a year over two decades ending 2030, and nominal GDP expected to hit US\$6.6 trillion also by that time. ASEAN has consistently been Singapore's most important market and largest trading partner, accounting for 26.4% of Singapore's total trade with the world in 2013.³

² ASEAN Development Bank Institute, *ASEAN 2030: Towards a Borderless Economic Community*, 2014

³ CIMB ASEAN Research Institute; www.cariasean.org/asean/economy-profiles/singapore-economy-profile/

⁴ The ABRAAJ Group, *ASEAN - Geographic Focus and Sector Opportunities*, 2012

AEC poses an attractive proposition for Singapore businesses for several reasons. First, AEC aims to create a single market of more than 600 million people. This is 100 times larger than the Singapore market base. Based on estimates, 65% of ASEAN's population is expected to be of middle-class status by 2030, while the urbanised population is expected to grow to 50% by 2025.⁴ With such rapid growth of the middle class and urban population, ASEAN will also become an increasingly key final demand market for Singapore.

Second, AEC aims to create a more simplified business environment which leads to reduced costs of doing business. Currently, before the full establishment of AEC, Singapore businesses face complicated domestic laws and regulations, which may have impeded or deterred them from venturing into ASEAN. This in turn limits the growth potential of Singapore businesses. With the upcoming AEC,



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trade and customs requirements will be further simplified and harmonised. This is expected to reduce transaction costs, which will be a significant relief for businesses seeking regional expansion. Singapore businesses will also have greater ease of operation in a more harmonised landscape and greater access to larger markets while enjoying the same incentives as local businesses.

In addition, the ASEAN Framework Agreement on Services will allow businesses to enjoy a progressive reduction of barriers to services trade (for example, lowering of foreign equity limits) on a wide range of services sectors.

Third, the reduction and abolition of tariff barriers will increase the flow of goods and services and transform the region into a seamless production base for international manufacturers. Businesses then have options to set up production bases in any member country to capitalise on lower costs, which further reduces the cost of doing business. ASEAN has also concluded Mutual Recognition Arrangements (MRAs) in eight professions – engineering, nursing, surveying, architecture, dentistry, medicine, accountancy and tourism – which facilitate the movement of ASEAN professionals in these areas.

Fourth, the development of an integrated investment network would promote intra-ASEAN investments under the ASEAN Comprehensive Investment Agreement, which provides greater stability and predictability, as well as give protection to Singapore investors who constitute the biggest contributors to intra-ASEAN investments.

The expanded business opportunities can enable Singapore businesses to reap the benefits of economies of scale, thus improving profit margins. Furthermore, Singapore businesses can expect more doors to open for new investment opportunities.

AEC: COPING WITH INCREASED COMPETITION

As the transformation from ASEAN to AEC calls for a complex and dynamic process of economic integration of 10 diverse economies, some sectors for integration have seen more progress than others. Domestically-focused SMEs may also experience greater competition when AEC comes into full force.

⁵ Boston Consulting Group, *Winning in ASEAN: How companies are preparing for economic integration*, October 2014



According to a report⁵ by the Boston Consulting Group, about 80% of those polled believed that AEC posed good business opportunity and will stimulate overall growth in ASEAN. However, the same percentage also said they expected SMEs to lose out in the ASEAN integration.

Given that the Singapore economy is already highly liberalised, Singapore companies would need to adopt a pan-Southeast Asian perspective that recognises the benefits of increased integration, and how these benefits will outweigh the challenges brought about by increased competition. Businesses will also need to raise their game by upgrading their organisations, acquiring new capabilities and building

capacities to compete and expand their regional footprints. By entering different markets across Southeast Asia, Singapore companies would be able to take advantage of the regional trade and investment flows, particularly in production and distribution.

OTHER CHALLENGES

For investments to be successful in ASEAN, Singapore businesses will need to gain a wider understanding of the social, accounting and legal differences across the 10 different ASEAN countries. For instance, unlike Singapore, English is not a commonly-used language in some of the ASEAN countries.

All ASEAN countries have aligned their financial reporting standards to




“Benefits are already flowing to ASEAN businesses and consumers, from significant tariff liberalisation, progress in trade facilitation measures such as self-certification, simplification of customs procedures, and the Mutual Recognition Arrangements on the movement of skilled professionals in the region. ASEAN has also put in place legal structures on competition, consumer protection and intellectual property, contributing to an improved environment for business.” ~Ministers’ Statement, 21st ASEAN Economic Ministers’ Retreat, 1 March 2015

some extent with the International Financial Reporting Standards (IFRS). However, it is noted that some ASEAN countries, like Thailand and Vietnam, have adopted earlier versions of IFRS while others such as the Philippines and Singapore have issued national standards that are based on IFRS, with certain adaptations. In the context of the AEC establishment and its broader harmonisation agenda, these variations are not helpful. Therefore, as Singapore businesses gain access to a new single market of more than 600 million people, companies must prepare to embrace the differences as well as equip themselves with valuable market intelligence about the huge consumer base in order to drive sales beyond their traditional markets.

GOVERNMENT HELP FOR SINGAPORE BUSINESSES

Businesses are not alone in their fight against competition brought on by AEC. As shared by Teo Ser Luck, Minister of State for Trade and Industry, in Parliament in November 2014, “AEC will help unlock growth potential for our SMEs and local enterprises, by creating a larger economic hinterland that can help our businesses overcome the limitations of our small domestic market and resource constraints. IE Singapore and SPRING have a comprehensive and

broad-based suite of assistance schemes that help companies develop capabilities and internationalise”.

Government agencies such as IE Singapore and SPRING have been playing an active role to help SMEs to internationalise. In 2014, IE Singapore helped 28,000 companies to explore overseas opportunities, up 5% from the previous year, with the bulk of them (80%) being SMEs. Building on its earlier efforts to support businesses, Singapore Budget 2015 had also introduced schemes to help local



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companies grow revenues through spurring internationalisation.

In Singapore Budget 2015, Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam had said that various government schemes have been enhanced to help local companies grow revenues through internationalisation (Figure 2). For instance, the Double-Tax Deduction for Internationalisation scheme will be enhanced to cover salaries incurred for Singaporeans posted overseas. The government will also increase support for all SME activities under IE Singapore's grant schemes, from 50% to 70% for three years. These are the Global Company Partnership, and the

Figure 2 Budget 2015 Measures to Encourage Internationalisation

Support companies to internationalise by:

- Increasing the support level for SMEs for activities under IE Singapore's grant schemes from 50% to 70% for three years;
- Enhancing the Double-Tax Deduction for Internationalisation scheme to cover salaries incurred for Singaporeans posted overseas;
- Introducing the Internationalisation Growth Scheme to provide support to meet the needs of larger Singapore companies in their internationalisation efforts.

Help spur Mergers and Acquisitions (M&A) by:

- Increasing the tax allowance for acquisition costs from the current 5% to 25% of the value of acquisition and M&A claimable benefits resulting in at least 20% shareholding in the target company (down from 50% shareholding threshold) – scheme has been extended another five years;
- Extending the scope of IE Singapore's Internationalisation Finance Scheme to support M&A that will aid a company's overseas expansion.

Market Readiness Assistance grants. A new International Growth Scheme will be introduced to encourage more local firms to expand internationally while maintaining their headquarters and key activities in Singapore. These enhancements are expected to cost \$240 million.

ACCOUNTANCY PROFESSION: PREPARING FOR THE IMPENDING INTEGRATION

Accountants play an important role in supporting the growth of the ASEAN economy. As such, the creation of AEC would bring exciting opportunities for the accounting profession. The demand for quality accountancy services is expected to increase with the rise in regional economic activities. For instance, businesses and investors will look to





professional accountants to provide high-quality financial information, and to ensure good governance in both the public and private sectors.

It would be wise for practice firms, especially small and medium-sized ones, to consider expanding into the region by joining an accountancy network or partnering local accountancy firms in other markets. By leveraging each other's expertise and service offerings, firms would be able to deliver greater value-added services and expanded service offerings to clients.

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Services. The MRA was signed by all 10 ASEAN member states in November 2014. To effect the MRA, ISCA is in the process of establishing the necessary infrastructure, including a National Monitoring Committee, to administer the applications for the *ASEAN Chartered Professional Accountant*. The Institute will provide more details on the MRA in the second half of 2015.

READY, SET AND GO

AEC as a single market and production base, which allows for free movement of goods, services, investment and freer flow of capital, is an attractive prospect for businesses. With AEC set to be formed by the end of 2015, there is no better time than now for businesses to understand what AEC is and what it means to them. Singapore businesses

can tap on the various schemes and measures to prepare themselves for regional expansion. They should invest in appropriate capabilities and capacities, and continue to build and strengthen their brands regionally and globally. This way, businesses can capture potential opportunities which will help them remain competitive and even stay ahead of the competition. ISCA

This article is the first of a three-part series highlighting what AEC is, further expanding on its implications from a tax perspective, and the opportunities for members under the ASEAN Mutual Recognition Arrangement for Accountancy Services.

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