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Can Singapore companies be globally competitive?

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The United States has Apple. China has Alibaba. Japan has Toyota. Korea has Samsung.

Why doesn't Singapore have a company or brand that is equally recognisable, globally?

The current tax regime encourages our business culture to lean towards the acquisition or sale of successful brands, rather than development.

A company that acquires a brand qualifies for tax amortisation, but a company which has developed its own brand does not.

This culture is evident in the list of strong, homegrown brands that are no longer owned by Singapore companies, such as Tiger Beer and Raffles Hotel.

Over the years, Singapore has extended financial benefits, such as tax concessions to attract foreign multinational corporations (MNCs), while the MNCs have brought in fixed capital investments and jobs. There is, however, a limit to the incentives that can be dangled in front of foreign MNCs, which are always on the lookout for lower operating costs in competing economies like China, Cambodia and Sri Lanka. It is therefore in Singapore's interest to have a strong core of homegrown companies headquartered here.

The recent economic outlook for Singapore has been subdued. Unlike previous downturns which were followed by rapid recovery, there is now a fear that Singapore might be bracing for a protracted period of flat or stagnant growth.

Expanding overseas can help Singapore businesses diversify risks and lower the cost of products/services. Internationalising could also create career opportunities for Singaporeans taking on overseas leadership roles.

While this goes against the anti-globalisation rhetoric that rallied Trump supporters in the United States and conservative groups in the West, the Singapore economy has to look outward for growth.

We present four areas in which the Singapore government can do more to help companies.

Branding
Often, we see Singapore businesses falling short on strong brand recognition. Having a recognisable brand can help differentiate businesses from foreign competitors, cultivate brand equity, encourage customer loyalty, attract better talent, and ultimately boost revenue growth – even make it easier for other Singapore businesses to penetrate foreign markets.

A new tax incentive to provide tax amortisation based on the market value of internally developed brands that have ventured overseas could help. Such an incentive would recognise the significant time, resources, effort and risks involved in developing a brand. A "claw-back" provision (similar to those provided in the Income Tax Act in respect to capital allowance) might significantly help to discourage businesses from selling.

Umbrella scheme
The government already has several schemes, such as the Market Readiness Assistance grant, the Global Company Partnership plan, the Double Tax Deduction for Internationalisation, and the International Growth Scheme, which offer a range of support and resources from information to manpower development and tax concessions for overseas expansion. There are also grants for brand strategy development and intellectual property management, administered through IE Singapore.

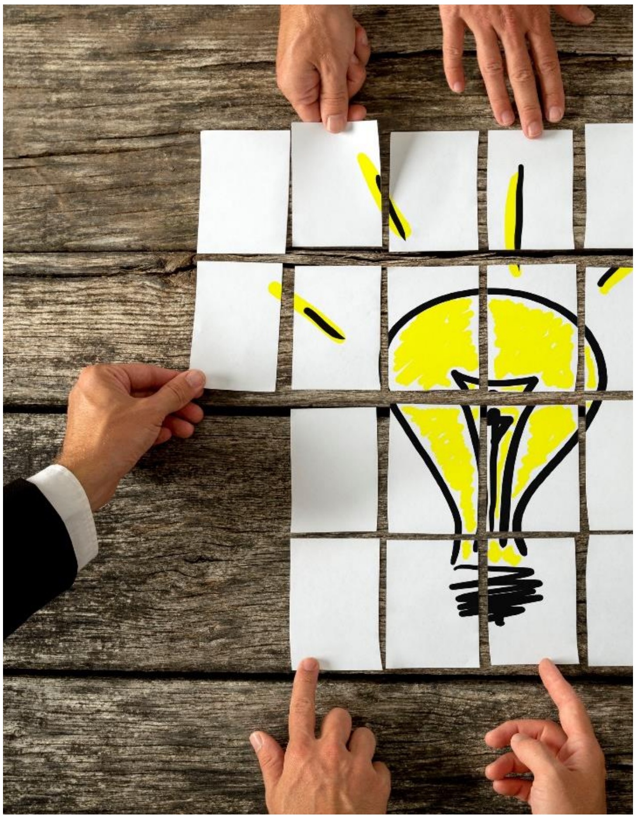
While each of these schemes serves a unique purpose, consolidating, simplifying and enhancing them under a single umbrella scheme will help make internationalisation our next success story.

We propose a "Business and Brand Internationalisation" scheme to streamline and offer a creative, integrative pathways for internationalisation, in parallel with the government's push for productivity and innovation. Additional measures could be introduced under this umbrella scheme to further incentivise local brands to venture overseas and support local businesses to explore new markets.

More support for SMEs
Larger grants for small and medium-sized enterprises (SMEs) that are venturing abroad will help them defray costs such as those relating to feasibility studies on foreign markets. For example, the Market Readiness Assistance grant could be doubled from the current cap of $20,000 per fiscal year. The next step in providing support can be an "International Expansion Acceleration Programme" that funds consulting firms or trade associations to take SMEs overseas and/or find suitable international business partners for them.

And finally, a list of accredited consultants, in each overseas country, who can help SMEs assess foreign markets and regulations (e.g., corporate law, accounting and tax) will provide the necessary fillip to companies looking to internationalise.

Singapore has a wide network of 20 FTAs with 31 trading partners, including China, India, Japan, Korea, US, Australia, and ASEAN. However, many SMEs are still underutilising these FTAs, as they are either unfamiliar or do not fully understand the benefits. One way to address this is to introduce a specific grant of up to S$20,000 to help SMEs learn how to apply the FTAs to lower their costs.



Improving tax treaties

Singapore also has a wide network of comprehensive tax treaties for the avoidance of double taxation with 81 other countries, some of which were concluded more than 20 years ago, such as with neighbouring countries Indonesia and the Philippines.

Singapore should seek to revise existing tax treaties that could bring it more up to date with the current business context.

Despite the withdrawal of the US from the Trans-Pacific Partnership, it would be in Singapore's interest to forge a bilateral tax treaty with the US for the avoidance of double taxation, with a view to encourage cross border trade, especially given the prevailing high domestic tax rate in the US.

Internationalisation is a long-term play, and Singapore businesses are uniquely positioned to succeed. Local businesses have outperformed expectations in the past, but a new period of profit constraints will test their strength. With the appropriate support structure backing them, Singapore businesses that pivot to greater innovation and remain savvy in their risk taking will find themselves stronger and more competitive in the years to come.

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.

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