



## ASEAN AND SINGAPORE: A REGIONALLY CONNECTED RECOVERY

If ASEAN were one economy, it would be the sixth-largest in the world, and one of the fastest growing.<sup>51</sup> The regional intergovernmental organization and trading bloc comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. As was the case in the 2008-09 recession, ASEAN is projected to make another impressive recovery going into 2021, with real GDP forecasted to rise by six per cent.<sup>52</sup> The resumption of growth is in one part fueled by the economic recovery spending and rollout of vaccines by member nations, and in another by their regional integration, coordination and sectoral strengths. In November, ASEAN put forward the ASEAN Comprehensive Recovery Framework (ACRF), which focuses on accelerating digital transformation and achieving sustainability.<sup>53</sup>

For its part, Canada has been eyeing a free trade agreement with ASEAN for years, having published a joint-feasibility study to assess the possibility.<sup>54</sup> Furthermore, as ASEAN deepens its engagement with Australia, China, Japan, South Korea and New Zealand through RCEP's recent entry into force, seizing opportunities will be of particular importance for securing competitive advantages in the region.

Canada's current outbound investment flow to ASEAN is led by Vietnam, the Philippines and Singapore, respectively, accounting for over 65 per cent of investment into the bloc. But in the digital, clean energy and R&D sectors, Singapore dominates in all categories. This section thus focuses on opportunities and risks in Singapore's recovery plan and how the city-state can be used as a bridge to ASEAN's market.

### **Singapore's Budget 2021: "Emerging Together Stronger"**

The 2021 "Emerging Together Stronger" budget announced over C\$95B in stimulus and support spending. Half of the budget is allocated to social development and special transfer expenditures, primarily focused on supporting businesses, workers and jobseekers during the crisis.<sup>55</sup> Another 26 per cent is earmarked for economic development, with the focus on moving from "containment to restructuring" to equip "businesses and workers with deep and future-ready capabilities."<sup>56</sup> In this aspect, the government is seeking

to support transformation by “helping [businesses] digitalize, adopt new technology, innovate, collaborate and gain access to global markets.”<sup>57</sup> Finally, Budget 2021 unveiled Singapore’s Green Plan 2030. Accordingly, Budget 2021 includes a variety of measures around the digital, clean energy and R&D sectors.

Budget 2021 leverages a variety of “capital tools to co-fund transformation,” with the primary focus on digital transformation.<sup>58</sup> The new Emerging Technology Programme co-funds the costs of trials and adoption of next-frontier technologies like 5G, AI and trust technologies.<sup>59</sup> With COVID-19 having accelerated the digitization wave worldwide, the programme is designed to speed up the commercialization of digital innovation, proactively setting Singaporean businesses up to seize up on global investment opportunities as they arise.<sup>60</sup> This is just one of many programs aiming to speed digital transformation through either co-funding or connecting businesses with strategic advice from consultancies, such as the new CTO-as-Service program for SMEs and the Digital Leaders programme. With digitization as a top priority, opportunity is ripe for Canadian companies looking to tap into the market.

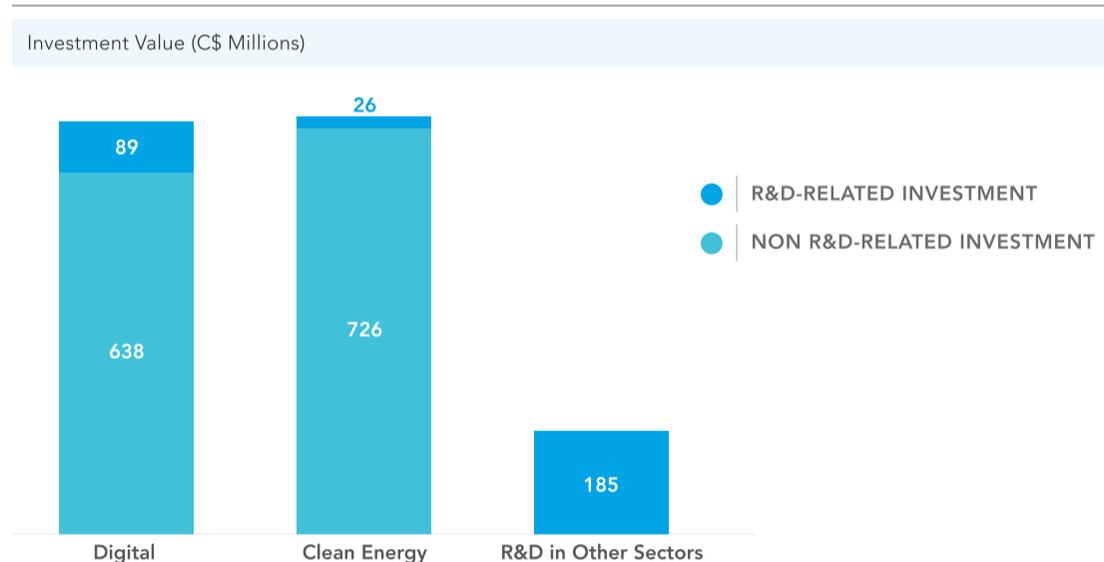
Digitization is likewise emphasized as a priority area within the government’s new innovation and R&D measures, which aim to establish Singapore as “Asia’s Silicone Valley.”<sup>61</sup> Singapore’s Open Innovation Platform, established in 2018, matches “problem solvers” (innovative companies) with “problem owners” (sector agencies and Trade Associations and Chambers), co-funding the prototyping and deployment of solutions.<sup>62</sup> Another big-ticket-item is the enhancement of the Global Innovation Alliance (GIA). GIA connects businesses with global innovation hubs for co-innovation and market expansion. The programme co-funds the costs up to 70 per cent and Budget 2021 promises to expand the network of overseas partners, which could unlock opportunities for engagement with Canadian firms.

Finally, with Green Plan 2030, Singapore has joined the ranks of many other Asia Pacific economies aiming for a “green recovery”.<sup>63</sup> The first goal under the Energy Reset pillar of the plan is to phase out internal combustion vehicles and switch to cleaner energy vehicles by 2040.<sup>64</sup> Toward this end, the government has earmarked C\$28 million over the next five years and introduced a host of

incentives to encourage the transition.<sup>65</sup> The Energy Reset also aims to increase the use of solar energy fivefold by 2030.<sup>66</sup> To achieve its solar targets, the plan intends to tap into clean energy sources from ASEAN and globally by upping electricity imports.<sup>67</sup> Lastly, the government has announced \$19B of public sector green bonds, which it projects will catalyze “green issuers, capital, and investors to (its) financial centre.”<sup>68</sup>

An overarching principle of the budget, particularly around the business measures, is internationalization. A Double Tax Deduction for Internationalization allows Singaporean businesses a 200 per cent tax deduction on market expansion and investment development expenses, of up to C\$142,000 (S\$150,000). Furthermore, Heng announced in his budget speech that Singapore would continue to work with ASEAN partners on sustainability and digitization through the ASEAN Smart Cities Network and the Southeast Asia Manufacturing Alliance, with the goal of the latter being to “promote a network of industrial parks to manufacturers who are looking to invest in Singapore and the region.”<sup>69</sup>

FIGURE 7  
Canada's Digital, Clean Energy and R&D-related Investment in Singapore, 2003-2020



Source: APF Canada Investment Monitor and fDi Markets (accessed April 2021)

Since 2003, Singapore has been the eighth-largest recipient of Canadian outbound FDI in the Asia Pacific, with C\$6.9B invested through 109 deals. Among ASEAN economies, Singapore is the third-largest recipient of Canadian FDI, following Vietnam and the Philippines. But turning to the digital, clean energy and R&D sectors, Singapore ranks first in outbound investment value

among all ASEAN economies. These sectors together represent 24 per cent of Canada's FDI investments into Singapore. Budget 2021 presents opportunities to further strengthen investment relations with Singapore in these high-growth sectors.

Collectively, Canadian companies have invested C\$727M into Singapore's digital sectors through 37 deals since 2003. In 2020, APF Canada's Investment Monitor recorded its largest ever Canadian investment in Singapore's digital sector. Ontario Teacher's Pension Plan (OTPP) made a C\$300M greenfield investment in Princeton Digital Group, one of Asia's leading data centre companies. In the clean energy sector, there have only been three outbound deals recorded since 2003, but these represent C\$752M in value. The largest deal was once again made by OTPP in 2020 through a C\$545M greenfield investment in Equis Development Pte Ltd (EDL). EDL develops and operates renewable energy infrastructure in Australia, Japan and South Korea.<sup>70</sup> Ben Chan, OTPP regional managing director for the Asia-Pacific, said, "We see data centres as a compelling investment opportunity given their essential role in the rapid digitalization and growth of data occurring in Asia and around the world."<sup>71</sup>

APF Canada also identified seven R&D outbound investments, totalling C\$300M. A recent notable deal was Hydro Quebec's C\$46M investment in the opening of a laboratory focused on developing new nanomaterials and nanotechnologies for electric vehicles. This supports Green Plan 2030's target of transitioning to cleaner energy in transportation. The lab was opened jointly with the Agency for Science, Technology and Research (A\*STAR), another government initiative that has been enhanced under Budget 2021. Through the A\*STAR Partner Centre at Suzhou Industrial Park, companies can draw on the expertise and advanced facilities of A\*STAR before getting their products ready for entry into the Chinese market.<sup>72</sup> This program could provide a launching pad for other Canadian companies looking to do the same.

For its part, the Canadian government has taken notice of the potential and has set up the Southeast Asia Cleantech Canadian Technology Accelerator. The program offers Canadian companies potential investment, partnerships and guidance to enter the markets of Singapore, Vietnam, Malaysia and the Philippines.<sup>73</sup> Further, with Canada's entry into CPTPP alongside Singapore,

Canadian companies investing in Singapore will enjoy competitive advantages against non-members. While CPTPP includes four of 10 ASEAN members (Singapore, Brunei, Malaysia and Vietnam), investing into Singapore can provide Canadian companies with export access to the whole of ASEAN.

### **Soft Barriers to Investment**

Singapore enjoys a strong international business reputation, ranking second among 190 economies for ease of doing business by the World Bank.<sup>74</sup>

However, investors should be aware of potential barriers to investment as well. On the human capital front, the government has introduced measures to partially subsidize the cost of recruiting Singaporean workers, to reduce the ratio of Singaporean to foreign workers.<sup>75</sup> Another potential barrier is that of competition with monopolies of government-related enterprises in sectors such as financial services, professional services, media, and telecommunications.<sup>76</sup> Furthermore, in terms of regional reach, companies looking to set up headquarters in Singapore with the goal of establishing subsidiaries in ASEAN nations may face a degree of regional uncertainty in their investments due to ongoing political turmoil in Thailand and Myanmar.