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THE TRILLION-DOLLAR OPPORTUNITY: CHINESE INVESTMENT IN ASEAN

A COMPREHENSIVE REVIEW ON MANAGING RISKS AND SEIZING OPPORTUNITIES ALONG THE BELT AND ROAD

China's Belt and Road Initiative (BRI) turns five this year. With maturity, comes expectations, and, as with all global economic programmes, expectations beget more expectations. In other words, the BRI is now entering a new phase and Southeast Asia will be front-and-centre of China's signature globalisation programme.

Whilst the BRI is considered as a long-term objective, few can argue that the state-backed programme will evolve into one of the defining geopolitical moves of our time. The numbers alone point to an unprecedented opportunity: two-thirds of the world's population potentially touched; projections of US$4trn in investment forecast; approximately 2,000-plus infrastructure projects on the cards.

Measured on all metrics, the size, scope and yes, expectations of BRI are high. With geopolitical and economic tensions ripe globally, the world is watching and ASEAN will be one of the main theatres.

The role of the BRI within the Association of South East Asia Nations (ASEAN) provides a window into how China's masterplan will evolve. Location-wise, many obstacles are removed in terms of logistics. Politically, the Chinese government has also signed numerous Memoranda of Understanding (MOUs) and trade agreements with ASEAN markets, paving way for new BRI projects.

ASEAN and China have long-standing commercial and cultural links, underscoring the implications of the BRI to the South East Asia bloc. Supply chains between the regional economies are firmly established, investment corridors continue to open and from China's

point of view, the ASEAN region has a strong track record as a testing ground for international expansion.

Since the launch of the China-backed programme, ASEAN has been a major recipient of outbound capital flow. Singapore alone accounted for around half of China's total overseas direct investment in the BRI zone in 2015. Elsewhere, Indonesia, Vietnam and Malaysia have appealed to Chinese investors and more outbound capital is already earmarked to arrive.

Given this backdrop, the BRI has been welcomed in ASEAN, in the first phase at least. The big question remains though, what happens next? More investment will be high on the agenda for both sides of the transaction. Identification of specific sectors for investment wil also be a priority.

There are several reasons that support this mutual desire. Firstly, ASEAN's pressing need for infrastructure, specifically, projects that support commercial links are likely to fall into the BRI sphere. High-speed railways linking southern China, Laos and Thailand, represent one avenue and more will emerge.

Oil and Energy is another such sector. ASEAN region has a gap between ample supply of resources and limited extraction capacity, which needs capital to unlock potential. China has both the capital and the know-how to unlock the full potential of ASEAN's natural resources sector. They also bring a technology edge that can be exported for extraction purposes and improve efficiencies to ASEAN's natural resources sector.

Technology, Media and Telecoms (TMT) and the burgeoning e-commerce sector are also attractive to Chinese investors in the BRI universe. Again, there are several important factors driving interest in these sectors. China brings world-class expertise to the table and a maturing domestic market. ASEAN represents greenspace for many of China TMT leaders and e-commerce platforms. For many, new markets are required to support their continued rapid expansion and the BRI is the highway they will look to travel on.

Viewed holistically, BRI-driven forays into the ASEAN market have the potential to make both Chinese and ASEAN companies more internationally competitive. Stronger economic links are also talking points in the broader regional connectivity conversation. As for the demographic factor, creation of new trade and infrastructure networks will benefit entire populations in the region.

These are all positive arguments working in favour of the BRI and its longer-term success. However, there is a flipside to China's economic masterplan. In certain pockets of ASEAN, concerns have been brewing.

This is not surprising. To say that further BRI penetration in ASEAN will be complete smooth sailing is clearly inaccurate. Chinese policymakers recognise this just as much as many of their ASEAN counterparts, potentially undermining future BRI-linked investments in some areas. Local opposition frequently raises its head in some of the ASEAN markets. Expansion plans are often scuttled by issues including permits, labour and taxation.

As a result, Chinese firms riding the BRI wave into ASEAN are realising one-size fits all is not a sustainable strategy. There are wide disparities between markets. Regulations vary from market-to-market and are prone to unexpected and unexplained change.

Clearly, navigating the diversity of ASEAN requires Chinese firms to develop an awareness of unique local standards and practices. Taxation, accounting and employment in different ASEAN countries vary substantially and compliance with the local standards is essential for any BRI investment or project to succeed.

While economic headwinds or policy adjustments may temporarily slow the pace of Chinese investment into ASEAN, they are unlikely to derail from the long-term growth plan. Aside from the Chinese government's backing, international recognition of the initiative is also rising, which is positive for all participants.

ASEAN will be on the radar, not just because of its proximity to China, but through the intentions of BRI participants to use the region as a pilot and test-ground for non-ASEAN expansion. Given this background, ASEAN will remain a destination of choice for Chinese investors. Economically, it provides robust growth prospects; demographically, it presents the kind of upside potential Chinese companies have become accustomed to in their own market; and politically, it supports better regional relationships.

Laurence He, Director, Global Business Development for TMF Group, sat down with China Money Network recently to reflect on the changes he has observed in this market, and where he sees attractive investment opportunities for global investors.

CMN: What major trends have you seen in BRI investments lately?

Laurence: China's non-financial outbound direct investment (ODI) saw steady growth in the first half of 2018. Domestic investors made US$57.2bn of non-financial ODI in 3,600 overseas enterprises over 151 countries in the first six months. The investment was up 18.7% from the same period last year. ODI in countries along the Belt and Road rose 12% from a year earlier to US$7.4bn dollars during the first half. The structure of outbound investment continued to improve, with investment mainly going into leasing and business services, manufacturing, mining and retail and wholesale sectors. No new projects were reported in sectors such as property development, sports and entertainment. By the end of June, China had built 113 overseas economic and trade cooperation zones in 46 countries, with a total investment of US$34.9bn and attracting more than 4,500 companies. The cooperation zones created total tax revenue of US$2.9bn and 287,000 jobs in the host countries.

CMN: What are the most common mistakes Chinese companies make when venturing into Southeast Asian countries?

Laurence: Chinese investors are focusing mostly on core businesses, but they lack a clear understanding of compliance requirements when they expand their business to overseas countries. The main concern of Chinese investors is the speed they can expand into the new markets, however, compliance always takes time and throws up road blocks. Some investors moving aggressively into new markets risk breaching local compliance regulations in their haste to market, potentially putting the entire new venture at risk. They are likely to be fined or even having business licences refused or revoked when the authority discovers these companies do not comply with the regulations. The best way to achieve speedy expansion is to engage a professional corporate services provider like TMF Group, with the local expertise to ensure that aggressive approach does not compromise compliance with local regulations.

CMN: What are the unique compliance challenges facing Chinese companies in the ASEAN countries?

Laurence: The compliance requirements vary among ASEAN countries. These challenges are something that legal counsel, finance and HR professionals facing every day when expanding the businesses into new countries. With regard to entity incorporation, there are requirements to have resident Directors in some countries, such as Singapore and Indonesia. Investors usually do not have resident Directors in the new markets so the challenge is to look for a local person accountable and qualified to act as the Director of the local entity. Also, many banks may require the Directors to have an interview at bank counters to open bank accounts. However many investors may have difficulty to fly in to conduct the bank interviews so the process to open bank accounts is always tedious. Not to mention, the KYC requirements are stringent and differ from bank to bank. The accounting rules are also different among ASEAN countries with Vietnam, India, Philippines, and Indonesia ranked as the most complex jurisdictions for investors to follow the accounting rules.

CMN: What advice would you give to Chinese companies operating or planning to operate in ASEAN?

Laurence: Before investing in ASEAN countries, it is important to engage a tax advisor to design an investment structure so that the withholding tax will be reduced when remitting dividends to shareholders residing in the home country. Singapore is a jurisdiction many Chinese investors prefer to set up their investment entities before investing further to the neighbouring countries such as Malaysia, India, Indonesia and Philippines. Lawyers should always be involved to review business plans and provide legal advices to minimise the business risks. When it comes to operations, it is probably best to engage a global corporate services provider, such as TMF Group, to assist with entity incorporation and administrate the entity in terms of corporate secretary, bookkeeping, tax compliance and HR payroll so that the investors can focus on core businesses to optimise the new opportunities.

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TMF Group helps its clients operate internationally and 'belong' wherever they are in the world. We do this by making sure they are properly set up to do business in any country and compliant with local and international regulations. Our work includes helping companies of all sizes with business services such as HR and payroll, accounting and tax, corporate secretarial, global governance and administration services for structured finance, private equity and real estate investments.

Operating in over 80 jurisdictions we provide our 15,000 clients with on-the-ground compliance and administration services so they can venture further. We keep things running seamlessly, giving them the peace of mind to focus on the bigger picture.

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About China Money Network

CHINA MONEY NETWORK (CMN) is a leading artificial intelligence-based bilingual platform that tracks China's special situation market, smart investments and technology innovations. Millions of investors rely on CMN as the most trusted source of local media intelligence and data on China's rising business and technology power.

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