singapore: a time to invest

Today, only a rough 11% of the world's private equity and venture capital money rolls into Asia. If we consider that most of this equity is taken up in large deals over the privatisation or buyout of State Owned Companies (SOC), Government Linked Companies (GLC) and later stage buyouts, the amount of money that finds its way to early stage technology oriented investments becomes close to irrelevant. Whereas venture capital has historically focused on technology ventures, the industry's lack of interest for technology in Asia appears surprising considering the extremely high level of sophistication Asian technology has achieved, and can only be explained by the still early nature of venture capital in this part of the world. In fact, venture capital in Asia never achieved the explosive results of the US, and gained significant momentum just before the US dotcom bubble nearly froze the industry's activity across the planet. Only today venture capital is regaining its confidence, and is starting once again — though still timidly, and only towards large deals — to look to Asia. In this new scenario, Singapore is well positioned to become the preferred pan-Asian hub for highly sophisticated industries such as venture capital. Singapore offers an infrastructure that matches or exceeds those found in Europe and the US, such as an efficient legal system, established corporate governance and practices, a transparent fiscal system, and a stable political environment. Furthermore, with a GDP per capita higher than many European countries (including Italy for example), Singapore thrives on a society founded on responsibility and professionalism.

China, India and South East Asia

Singapore is obviously the vibrant pulse of South East Asia's economy. Aside from being the most progressive local economy and a powerhouse for the entire region, Singapore can play a crucial role as its two large neighbours to the East and West engage themselves in an expanding global economy. Whether or not Singapore will become a 'bridge' between India and China (as many sceptics doubt), it is destined to remain and will continue to be the most vital platform for communication and interaction between China, India and the global markets for two simple reasons. On the one hand it is unrealistic to expect India to develop an infrastructure within the next decade comparable to the international standards China has achieved. On the other hand, it is just as unrealistic to expect China's legal and financial systems and practices to conform to the rest of the world within the same time frame. Therefore those looking towards Asia will continue to turn to Singapore as an entry to these large diverse markets. Today, Singapore can provide European and American venture capital access not only to South East Asian markets, but to Indian and Chinese markets as well, by offering an infrastructure and a legal system often lacking in either one of the two giants.

Incentives

To encourage the establishment of funds and fund management firms, Singapore has devised extremely simple and effective tax incentives such as 'Section 13 H of the Income Tax Act' for approved private equity and venture capital funds, and the 'Pioneer Service Incentive of the Economic Expansion Incentive Act' for fund management companies. It is important to note that while these incentives allow VCs to enjoy extraordinary tax-related benefits, Singapore remains a highly complex productive society with an extremely diversified economy. To reinforce their productive nature, these incentives require their beneficiary to bring added value to the local economy, both in form of investments and employment. In this respect it is an error to associate (as often happens) Singapore's formula to that of "tax havens".

A unique blend of entrepreneurs

Asia, and Singapore in particular offers unique deal flow opportunities to the global VC community. The combination of highly educated professionals and a fast growing entrepreneurial ecosystem with access to an advanced infrastructure and high technology encourages a local deal flow with extraordinary qualities difficult to find elsewhere in the world. When we further associate the local talents with the lack of venture spending, it is not uncommon to discover technology companies that reach break-even and steady growth with burn rates unfeasible in the US or in Europe. These companies conserve an entrepreneurial spirit lost elsewhere in the days of easy money. In Asia, break-even and positive cash flow continue to be guiding factors for start-up companies. The emergence of China is absorbing an ever-growing interest from global Private Equity. Nevertheless, the disproportionate focus on China as compared to the rest of Asia (in 2003 US$ 53.5 BN of FDI flowed into China compared to US$ 4.7 BN in India), has created even more attractive deals closer to home. Surprisingly, it is not impossible to find Singaporean technology start-ups at valuations that prove competitive even when compared to their Chinese counterparts.

Finally another trend to look for in the near future is the rapid growth of South East Asia's local stock exchanges. Irreverent of the post bubble losses of secondary boards elsewhere (particularly in Europe: Neuer Market, Nasdaq Europe, etc…), these local exchanges are steadily growing. Whether or not they become exit vehicles for global and regional venture capitalists, they are well poised to become direct competitors of mid-stage VCs in a constantly growing regional pool of deal-flow.

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