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Key Takeaways from ZICO Law M&A Roundtable

Risks and uncertainties arising from events such as the Trade War and Brexit continue to grip the world with a mix of foreboding and hope. These were among the topics discussed at the **ZICO Law M&A Roundtable** in Singapore, held in conjunction with the Singapore Inter-Pacific Bar Association (IPBA) Conference in April 2019.

Co-chaired by ZICO Law and Allen & Overy, the Roundtable brought together leading practitioners from within the ZICO Law and ZICO network as well as from firms such as Yulchon LLC, and King & Wood Mallesons. There was global representation at the event, from jurisdictions in ASEAN, to Canada, Germany, Taiwan, New Zealand, and Russia. Practitioners shared their views on local elections, as well as how macro and geopolitical issues of the season, such as China's Belt & Road Initiative (BRI), Brexit and the US-China trade war have affected each country. Participants also gave insights on the regulatory developments, developments in M&A and capital markets, as well as challenges and opportunities in their respective jurisdictions.

Here are some of the key takeaways.

Malaysia experienced a change in government in 2018, after a historic victory by the Pakatan Harapan coalition over the Barisan National coalition that had been in power for 60 years. Post-elections, the new government's priorities are to pare down huge national debts, and look for ways to stimulate the economy. It has revisited Chinese contracts entered into by the previous administration. The East Coast Rail Link (ECRL) project involving the China Communications Construction Company was suspended in July 2018 pending renegotiations. The suspension was lifted in April 2019 after revisions to construction costs were agreed to. This has signaled that while the government is prepared to honour its contracts, it will be more circumspect. It is also open to other players from Korea and Japan.

Malaysia's sovereign wealth fund, Khazanah Nasional Bhd, is also in the process of selling and divesting non-strategic assets to help reduce Malaysia's debt and improve the financial position. As a result, foreign investors may potentially own larger controlling stakes in some sectors. From the private M&A angle, market valuations seem to have compressed significantly. While there is still significant interest from within and outside Malaysia to buy assets, there is a gap in expectations between buyers and sellers on pricing and valuation.

In **Singapore**, a main driver of the economy has been the BRI. There has been an increase of Chinese investments in small and medium enterprises and as well as a surge in M&A with start-up companies. Another trend observed is that increasingly, investors are going directly to the other ASEAN jurisdictions, which reduces M&A activity in Singapore to a certain degree. Some banks are downsizing its investment banking services, and focusing on private wealth management. As part of its efforts to reform the equity markets, the Monetary Authority of Singapore recently launched the Grant for Equity Market Singapore ("GEMS") which is a SGD75 million grant that enterprises are able to tap into for help with fund raising through Singapore's equity market.

In **Indonesia**, there are large infrastructure developments, such as the toll roads in Java and Sumatra, which will on completion lead to better connectivity and bigger markets. Foreign direct investment flows have been mainly from Singapore, Japan, South Korea, and China. Fintech is booming in Indonesia as it has a large population wanting more access to banks and financial services. There is significant interest from Chinese investors to tap into the Indonesian fintech and e-commerce market.

In **Cambodia**, the Chinese and Japanese have invested heavily into manufacturing, seaports and agriculture. Cambodia is part of the Mekong River Subregion which also includes Myanmar, Laos, Thailand, Vietnam and China (Yunnan and Guangxi). The Mekong River Subregion is critical to strengthening of ties between China and ASEAN due to its strategic geographical location and close relations with China.

In **Myanmar**, the government has made significant efforts over the past few years to make the country a more attractive destination for foreign investments. This includes the passing of new investments laws. While it is still protective of some sectors, there have been liberalisation in the form of reduction of the negative list. The Rohingya crisis in Myanmar's Rakhine state drew criticism internationally, and from Western-influenced companies. This has led the Myanmar to lean more towards the East – and investments and interest from China, Japan, Singapore, and Thailand have been significant. There is a lot of focus on infrastructure projects. As a result of the BRI, building works have started on a Special Economic Zone and facilities with deep sea port infrastructure in the Bay of Bengal that will connect directly to Yunnan, China. On a dimmer note, it was observed that some Chinese investments have been controversial. The Myitsone dam project, a China-backed hydropower project was suspended due to protests from residents over concerns of adverse environmental impact and that most of the electricity would be exported to China.

BRI is a key driving force for investments in **Laos**. Chinese-backed expressway and highway projects are currently being undertaken in line with the government's policy of making the country a "land-linked country" that connects countries in Mekong River Sub region. Key sectors such as renewable energy and hydropower are strong, and special economic zones have also attracted investments. There are some concerns though with whether such initiatives would increase the debt burden for Laos and whether locals have the relevant skills and know-how to execute such projects. In terms of M&A work in Laos, it is still in its infancy, but there is potential for further growth. Foreign players may be interested to invest in local companies that hold licences issued by the government.

Vietnam's growth has been positive. It has also benefited from the "China plus one" strategy adopted by Chinese companies looking to diversify their operations and reduce costs by adding another location in Asia. One trend seen is where Chinese manufacturers move their operations to Vietnam. The ratification by Vietnam of the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) is also viewed as a positive move to further boost economic gains for Vietnam. While there are issues such as an ongoing border dispute with China, as well as local dissent among Vietnamese that are protective of their land, China is still a prominent investor in many sectors in Vietnam, such as mining. Investment laws in Vietnam also continue to improve the business environment to increase investor confidence.

In **Thailand**, there have been major M&A transactions between Chinese and Thai companies in relation to local real estate projects. Foreign investments are still positive, with significant development in infrastructure projects.

Currently, major investors into **Philippines** are US and Japan. While the Philippines has witnessed an increase in Chinese businesses entering the market, it remains to be seen if this will translate into actual investments and hard infrastructure. One area that has been particularly active for Chinese businesses is offshore gaming or online casino gaming, which is extremely popular with the Chinese. Philippines is also competing with India in the area of business process outsourcing and shared services. Potential areas for M&A activity in the Philippines include the financial, insurance, real estate sectors. Foreigners can also invest up to 100% in power generation companies, except renewable energy, where foreign equity is limited to 40%. Venture capital and private equity deals involving family-owned cash rich companies are also on the rise lately.

Overall, it was an insightful sharing event. The overarching takeaway from the event is that few select countries can take advantage of the Trade War, while others enjoy investments due to BRI. For the rest, both regulators and businesses have to innovate and adapt to stay ahead. ZICO Law would like to thank all participants that attended this event.

If you have any questions or require any additional information, please contact Tan Wooi Hong or the Zaid Ibrahim & Co. partner you usually deal with.

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