

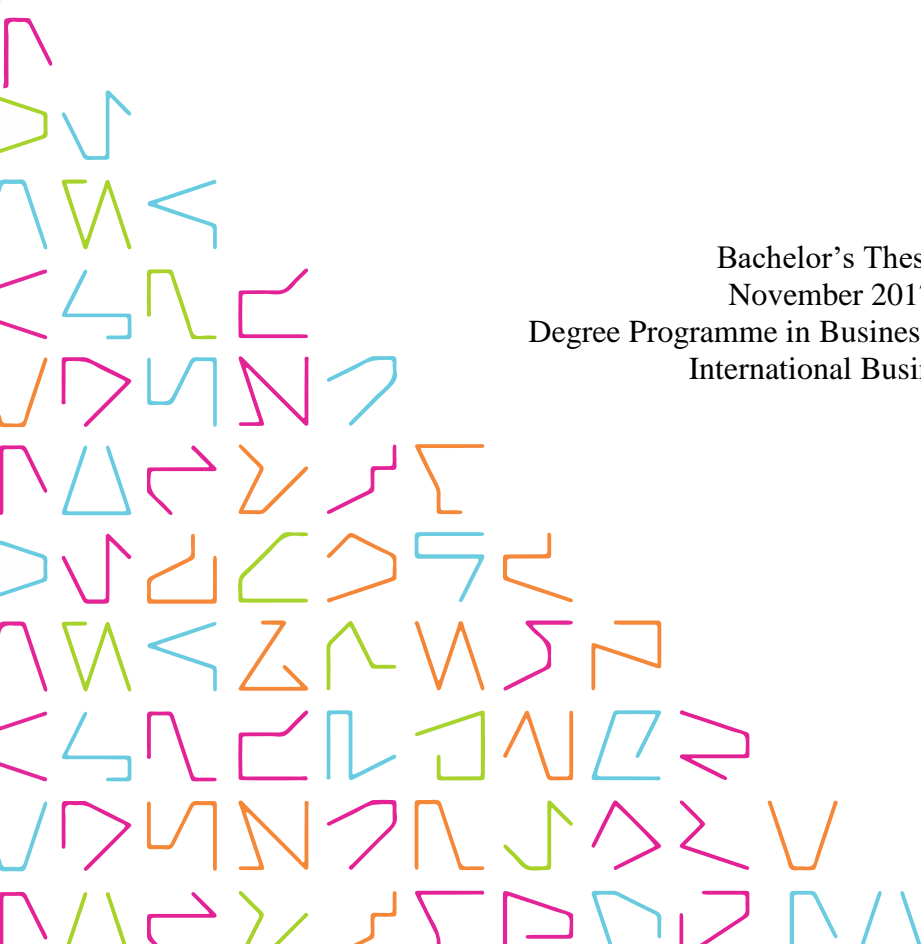


TAMPEREEN
AMMATTIKORKEAKOULU

CHOOSING THE RIGHT ENTRY MODE TO PRACTICE SUPPLY OF SPARE PARTS IN SINGAPORE

Mira Saari

Bachelor's Thesis
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Degree Programme in Business Administration
International Business



ABSTRACT

Tampereen ammattikorkeakoulu
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International Business

SAARI, MIRA:

Choosing the Right Entry Mode to Practice Supply of Spare Parts in Singapore

Bachelor's thesis, 44 pages, appendices 4 pages
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The objective of this bachelor's thesis was to find the right entry mode for a company that is aiming to expand its supply of spare parts business to Singapore. At present, the company has an agreement with a logistics company which is in charge of importing the spare parts to Singapore and forwarding them from the country. The logistics company is also taking care of activity of spare parts storage in Singapore. The problem with the company expanding to Singapore is the issue of collecting Goods and Services Tax (GST) back, as the company is losing all the GST to the logistics company.

The aim of this thesis was to examine different foreign direct investment opportunities to expand to abroad, and also their features, advantages and disadvantages. The thesis covers the issues related to the business environment of Singapore by using the PESTEL analysis, and also the deeper insight into the corporate taxation and value added tax of Singapore. At the end, the thesis focuses on Major Exporter Scheme, which gives the possibility to avoid paying value added tax in certain circumstances. The chapter also covers the characteristics, requirements and application process of Major Exporter Scheme.

Foreign Direct Investment (FDI) was the entry mode that the author ended up with. The reason behind this decision was its characteristics, which was apt to respond to the problems mentioned in the previous chapters. Favourable business environment of Singapore and openness towards foreign investors were the key drivers for choosing foreign direct investment as an entry mode. Choosing the right FDI strategy was challenging because of the narrow differences between the strategies. That is why more specific examination was vital to find the right solution.

At the last part of the thesis, different characteristics of FDIs were reflected and mirrored to company's objectives and needs. Final results of the conclusion were unanimous as the previous solution given by the commissioner provided the most logical solution beside the FDI alternatives. The previous outcome of the commissioner suggested that Global Spares Supply unit would use KONE Singapore subsidiary. This solution would be the best in reaching the objectives of avoiding to pay value added tax, without significant investment costs.

Key words: Singapore, entry mode, major exporter scheme

TIIVISTELMÄ

Tampereen ammattikorkeakoulu
Liiketalouden koulutus
Kansainvälinen liiketoiminta

SAARI, MIRA:

Oikean operaatiomuodon valitseminen varaosajakeluliiketoiminnan harjoittamiseen Singaporessa

Opinnäytetyö, 44, joista liitteitä 4 sivua
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Opinnäytetyön aiheena oli oikean operaatiomuodon valitseminen yritykselle, joka on ai-keissa laajentaa varaosajakeluliiketoimintaansa Singaporeen. Tällä hetkellä yrityksellä on sopimus logistiikkayrityksen kanssa, joka hoitaa varaosien tuomista Singaporeen ja edel-leen viemistä Singaporesta eteenpäin sekä varastointia Singaporessa. Yrityksen ongel-mana on kuitenkin tuotteista maksettavan arvonlisäveron periminen takaisin. Tällä het-kellä palautettavan arvonlisäveron kerää varaosien jakelusta vastaava logistiikkayritys. Opinnäytetyön tarkoituksena oli selvittää eri operaatiomuotomahdollisuudet laajennetta-essa toimintaa ulkomaille, sekä niiden ominaisuudet, edut ja haitat. Opinnäytetyössä tu-tustuttiin myös Singaporen liiketoimintaympäristöön hyödyntäen PESTEL-analyysia, sekä syvennyttiin Singaporen yritys- ja arvonlisäveroon. Lopuksi keskityttiin Singaporen Major Exporter Scheme -lupaan, joka mahdollistaa Singaporessa toimiville arvonlisäve-rovelvollisiksi hakeutuneille yrityksille vapautuksia arvonlisäveron maksamisesta tie-tyissä olosuhteissa. Luvussa käytiin läpi luvan ominaisuuksia, vaatimuksia sekä hakupros-essia.

Oikean operaatiomuodon valinnassa päädyttiin ulkomaaninvestointeihin, joita ovat yh-teisyriitys, yrityskauppa ja fuusio sekä greenfield-strategia. Syy ulkomaaninvestointeihin päätymiseen oli näiden luonne, sillä ne olivat omiaan rakentamaan vastauksia edellisessä kappaleessa mainittuihin ongelmiin. Singaporen suotuisa liiketoimintaympäristö ja avoi-muus ulkomaaninvestointeja kohtaan olivat avainsyitä, miksi operaatiomuodoksi valikoi-tuivat ulkomaaninvestoinnit. Singaporen liiketoimintaympäristön kannalta oikean ulko-maaninvestoinnin valitseminen oli hankalaa, sillä merkittäviä eroja niiden välillä ei ollut. Tämän vuoksi syvempi tarkastelu oli paikallaan, jotta oikea ratkaisu saataisiin aikaiseksi.

Opinnäytetyön viimeisessä osiossa pohdittiin eri ulkomaaninvestointien piirteitä ja niitä peilattiin yrityksen tavoitteisiin ja tarpeisiin. Pohdinnassa päädyttiin lopputulokseen, että on hyvä käyttää yrityksen aiempaa lopputulosta, sillä se tarjosi loogisimman ratkaisun olemassa olevien ulkomaaninvestointivaihtoehtojen lisäksi. Yrityksen aiemmassa loppu-tuloksessa oli ehdotettu Global Spares Supply -yksikön käyttävän KONE Singapore -ty-täryhtiötä. Tämä ratkaisu saavuttaisi parhaiten tavoitteen arvonlisäveron vapautuksesta, ilman merkittäviä investointikustannuksia.

Asiasanat: Singapore, operaatiomuoto, major exporter scheme

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1 INTRODUCTION

1.1 Background of the study

The author of this study was working as a summer trainee in a global company that was the commissioner of this thesis. The commissioner wanted to know the most efficient way to practice importing of spare parts to Singapore and re-exporting the spare parts from Singapore as a legal company there. The situation for the company now is that it has an arrangement with a logistics company, which forwards and takes care of the goods in Singapore on behalf of the company. The problem is that when the company is not importing the goods by itself, it will not get back the Value Added Tax, thus the forwarder collects it.

In this study, the author is exploring different entry modes to help find the best solution that is most suitable for the company. This study also reviews Singapore's characteristics from the business point of view. Because most of the spare parts imported to Singapore by the commissioner are re-exported for example to Australia, Malaysia or Hong Kong, the author is exploring Singapore's Major Exporter Scheme, which eases the trading and cash flow of businesses, when importing and exporting in Singapore.

The commissioner has studied the same topic earlier and came to a conclusion that the best way to enter Singapore is to use the commissioner's parent company's other subsidiary in Singapore, instead of a separate subsidiary. The commissioner wanted to know if the author comes to the same conclusion, or finds something new.

1.2 Company introduction

The commissioner of this thesis was KONE Industrial Oy, Global Spares Supply unit (GSS). Kone Industrial Oy is a subsidiary of KONE Oyj (later KONE). KONE is a leading operator in elevator and escalator industry. The company was founded in 1910 in Finland. In over hundred years KONE has grown into a successful international company offering jobs to 52,000 employees and serving more than 400,000 customers worldwide.

KONE manufactures elevators, escalators and automatic building doors and also offers maintenance and modernization services. (KONE Annual Review 2016, 2.)

KONE is divided into two different business lines, service business and new equipment business. KONE is also divided into five geographical areas, Central & North Europe, South Europe, Middle East & Africa, Greater China, Asia Pacific and the Americas. (Our organisation, n.d.) KONE's headquarter lies in Helsinki, but it has R&D and production sites all over the world and it operates in over 60 countries. (Appendix 1.) It has also a subsidiary in Singapore. (Company presentation, n.d.)

Like mentioned in the last chapter, KONE has two different business lines. New equipment business consists of selling and installing for instance a new elevator into a new location. It has comprised the largest share of the sales at least for the last six years. Next largest shares are those of maintenance and modernization, which are part of the service business. (Key figures 2016.) The drivers of the growth of this business are urbanization, the growth of GDP and construction market growth. In the new equipment business, there are just a few globally working and just some locally working original equipment manufacturers. These are the reasons why its share of sales is bigger than the one of the service business, which has several globally and locally working original equipment manufacturers in the markets. Anyhow the growing awareness of safety and the new legislation deriving from it as well as the aging of the installed equipment drives the growth of KONE's maintenance and modernization. (Elevator and escalator markets, n.d.)

2 FOREIGN MARKET ENTRY MODES

When a firm has made the decision to enter foreign markets, the next thing to do is to choose the most reasonable mode of entry for the firm (figure 1). In John Dunning's eclectic theory three factors are mentioned that should be taken into consideration when deciding the entry mode. These three factors are *ownership advantage*, *location advantage* and *internalization advantage*. (Griffin & Pustay 2015, 360.)

Ownership advantages are known as tangible and intangible resources, which are firm's unique competitive advantage. These resources must be superior to beat domestic country's advantages of operating in the home market. The resource may be a brand, ownership of proprietary technology etc. The nature of the ownership advantage determines the best possible entry mode for the firm. For example, if the firm has a well-known brand, franchising or licensing might be the best way to enter foreign markets. (Griffin & Pustay 2015, 200, 360.)

Location advantage consists of factors that make the production in the host country more favourable than in the home country. If after benchmarking the economic and noneconomic features between the home market and the foreign markets, a firm's conclusion is that the production is better to be kept in the home country, the firm usually chooses exporting as its entry strategy. If the conclusion is the other way around, and it is more profitable to start production in the host country, a firm may choose for example a Greenfield strategy or contract manufacturing as its foreign direct investment (FDI). There are several factors that have an influence on the location advantage. These factors are cost, political, and culture related, and it is important for firms to take everything into account, when making the decision. (Griffin & Pustay 2015, 360-361.)

Internalization advantage means evaluating the benefits of controlling the foreign business activity or hiring local company to provide the service. Crucial feature for this decision are the costs resulting from the negotiating, monitoring and enforcing the agreement with a local company. If these costs are high, firms usually choose to use FDI as the entry mode. In case of low costs, contractual entry modes are more favourable. It is important to evaluate the relations concerning the ownership, working and control over manufacturing before deciding the best entry mode for the firm. For example, if the firm

has some proprietary technology, the best solution to avoid the local firm from misusing it, would be FDI. (Griffin & Pustay 2015, 200, 362.)

There are also other factors, like need for control, resource availability and global strategy of the firm. To ensure the best solution for the foreign market entry, a firm should take all the factors into consideration. (Griffin & Pustay 2015, 363.)

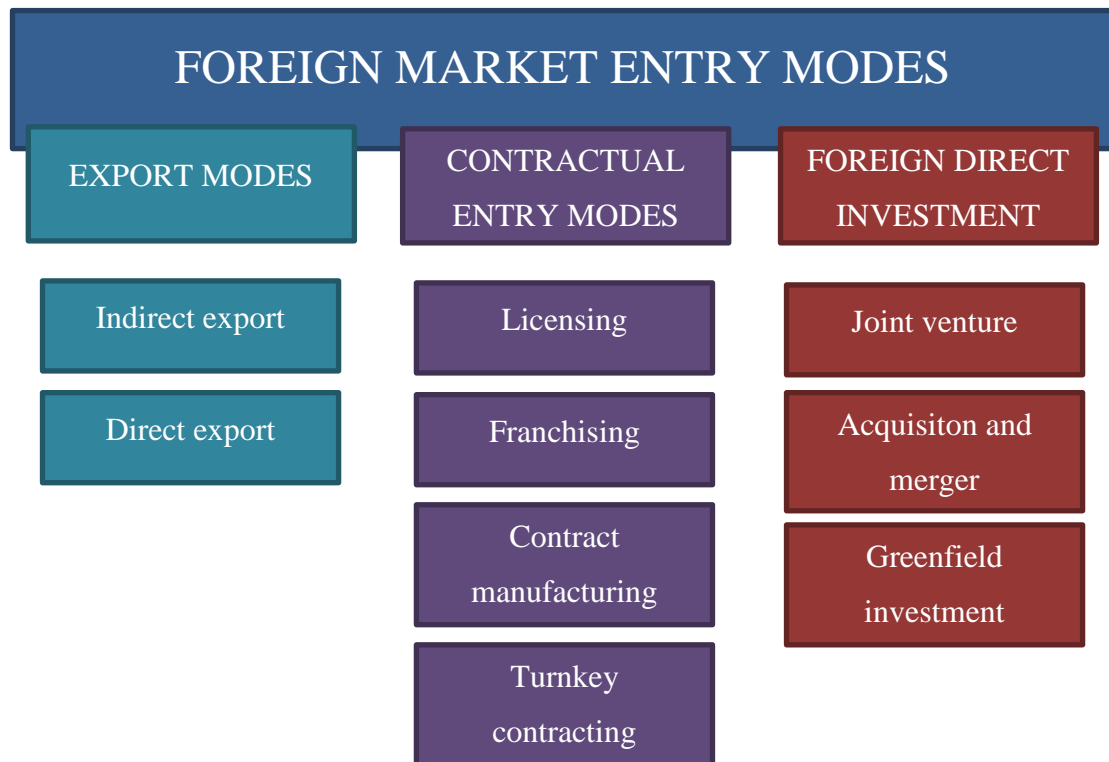


FIGURE 1. Foreign market entry modes

2.1 Export modes

The most common and simplest way of entering foreign markets is exporting (Griffin & Pustay 2015, 364). It is called exporting when a firm is producing products in one country, usually in the firm's home country, to distribute and sell the products to customers in another country (Cavusgil, Riesenberger & Knight 2016, 376).

Exporting is divided into two different groups. First group is merchandise exports, or in UK *visible trade*, which includes all tangible goods such as raw materials, machinery or clothing. The second group is called services exports, or in UK *invisible trade*. This group

includes intangible goods or services such as banking or even education. (Griffin & Pustay 2014, 32.) Exporting is vital to most of the firms and to countries as well, for example China benefits from export earnings by providing major revenues to its economy from it (Cavusgil, Riesenberger & Knight 2016, 376).

Firms often choose exporting as their primary foreign market entry strategy because of its limited risk, expenses, and limited knowledge of foreign markets and transactions. Often the firm has the manufacturing only in its home country and leaves marketing, distribution, and customer service activities to an independent distributor in the target market. (Cavusgil, Riesenberger & Knight 2016, 376.)

2.1.1 Indirect export

When a firm is selling its own products to a domestic company, who then exports the same products either modified or in the original form, it is called indirect export. It is counted as indirect export as well, if a firm is selling its products to a local subsidiary of a foreign firm, who is transporting the goods to the foreign country. In most cases, the indirect exporting is not a conscious act, but in some cases, it may be a part of firm's internationalization strategy. For example, firms may gain brand awareness by indirect export and then later start to export directly (Griffin & Pustay 2015, 365).

Advantages	Disadvantages
<ul style="list-style-type: none"> • Gaining customer awareness without using extra resources • Enables gradual market entry 	<ul style="list-style-type: none"> • Profits from the exports are limited • Learning about customers or competitors is not happening • Importers are in a big role

2.1.2 Direct export

When a firm is selling products to an end-customer or distributor that is located outside the home country, it is called direct export. When a firm chooses to export its goods directly, it must choose the products it is going to sell, the foreign markets it is going to

entry and the ways in which the products are going to be distributed to those markets. All this requires specific knowledge about the target market and expertise on operating internationally. Later the gained expertise often leads firms to explore other, more challenging foreign market entry opportunities. (Griffin & Pustay 2015, 365-366.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Reduced cost and risk for entering foreign market • Gives good basis to move forward to FDI • Flexible; entering and withdrawing is easy 	<ul style="list-style-type: none"> • Resources must be put into gaining of knowledge and expertise • Exposure to tariffs and other trade barriers

2.2 Contractual entry modes

Contractual entry modes are cross-border relationships between the focal and a foreign firm, which are guided by a distinct contract. The contract gives the focal firm decent amount of control over the foreign partner. In the contract it is stated how much control the focal firm has on decisions about the operations. Compared to FDI, contractual entry mode gives a focal firm considerably less control over the foreign operations. These contracts consist of exchange of intangible resources like know-how, intellectual property and production processes. Sometimes the focal firm may support the foreign partner also with tangible resources, like equipment and products. (Cavusgil, Riesenberger & Knight 2016, 441.)

Contractual agreements are often firm's first entry strategy to foreign markets because of the flexibility they offer. After a while, when the firm has gained more knowledge, it may switch to a more advanced entry strategy. Some firms may also combine contractual agreements with FDI and export strategies. This gives the firm opportunity to adapt the strategies to be suitable for every customer, country and product. It is clear, that the same strategy is not always good for everything and everyone. (Cavusgil, Riesenberger & Knight 2016, 441.)

Compared to FDI, contractual entry strategies are less risky and less delicate to volatility. Contractual agreement also generates predictable earnings for both parties. Entering foreign market by a contract agreement gives a firm an opportunity to blend into the market, and it reduces the criticism that foreign firms may encounter when coming into a local market. (Cavusgil, Riesenberger & Knight 2016, 441.)

2.2.1 Licensing

Licensing is an agreement between a licensor and a licensee. Licensor is the owner of the intellectual property, and licensee is the user of the property. In a licencing agreement the licensor gives the licensee intellectual property or supporting products, and in some cases a combination of both. (Cavusgil, Riesenberger & Knight 2016, 442.) Intellectual property consists of trademarks, design, patents, innovations, trade secrets and know-how. They are, therefore, creations of the mind. Intellectual property rights give the creator an exclusive right to the usage of the creation that is considered as intellectual property. (What are intellectual property rights? n.d.) Supporting products are for example raw materials and components. In exchange for the intellectual property rights, the licensee gives the licensor a compensation, which is usually an advance payment plus royalty as a percentage of gross sales. Compensation may also be a one-time payment, products and know-how. (Cavusgil, Riesenberger & Knight 2016, 442.)

Two most used licencing agreements are trademark and copyright licensing and know-how licencing. Trademark and copyright licencing agreement includes the right to use the licensor's names, characters and logos for a named period. (Cavusgil, Riesenberger & Knight 2016, 443.) Good example of this kind of licencing is Disney's licenced merchandise, like Winnie the Pooh, Mickey Mouse, Toy Story and Frozen, just to mention a few. Each of these were selling for more than 1 billion US\$ in 2015. (Utku 2016.) Know-how licencing is more about gaining technological or management expertise. This licencing agreement is used when the licence to a firm's patent is not enough, and more knowledge about the manufacturing is needed, for instance. (Cavusgil, Riesenberger & Knight 2016, 444.) These agreements contain valuable knowledge that has been kept secret because of its economic value. Therefore, these agreements contain also a bigger risk, and that is why the agreement should be done carefully with a trustworthy licensee. (What is a "patent and know-how licence"... 2017.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Low capital commitment and risk • Opportunity to enter markets with high entry barriers • Fast market entry • Gaining of information about the local market performance of the product 	<ul style="list-style-type: none"> • Licensee may turn into a competitor • Trade secrets may leak • Learning of markets is limited • Not suitable to complex products and services

2.2.2 Franchising

Franchising has similarities to licencing, but instead of giving the rights to the trademark or know-how to another firm, it is about giving the rights of the whole business system to an entrepreneur, the franchisee. The rules of a franchising contract are always defined case-by-case, but in most cases the franchisee obtains the whole business method. (Cavusgil, Riesenberger & Knight 2016, 447.) This means that the franchisor offers assistance in organizing, training and merchandising, provides marketing production, and managing methods, as well as gives the licensed privilege to do business using the franchisor's business idea to the franchisee (Franchising, n.d.). In return, the franchisee pays the franchisor the agreed upon compensation, which is usually a royalty as a percentage of the revenues. It is also not unusual that the franchisee must use certain products or equipment, which are specified by the franchisor, to keep up the targeted quality and similarity with other franchisees. (Cavusgil, Riesenberger & Knight 2016, 447.)

Franchising agreements stand usually several years and are quite standardized, especially if the business is franchised internationally into many countries. Sometimes it is hard to keep the standardized features, because of the differences in tastes and cultures in different countries. For these cases, some firms may choose to have a master franchise arrangement. In this arrangement, the franchisee becomes a sub-franchisor to a certain territory, for example to one country. (Cavusgil, Riesenberger & Knight 2016, 448.) This saves the main franchisor from a lot of trouble and expenses, when using a franchisee who knows the business environment better. Master franchise is more like a partnership

compared to a regular franchise agreement. In a master franchise agreement both parties benefit of each other's knowledge. (Goldberg, n.d.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Low risk and capital commitment • Fast market entry and expansion • Easy adaptation to local markets • Efficient brand name promotion • Franchisees are motivated, because profits are tied to their own actions 	<ul style="list-style-type: none"> • Revenues may not be good enough • Limited control, hard to supervise the performance of franchisees • Bad franchisees may damage the image of the chain

2.2.3 Contract manufacturing

Contract manufacturing is used when a firm outsources all or most of its manufacturing to other firms (Griffin & Pustay 2015, 376). Firm's reasons for using this entry mode are usually either benefitting of low-cost production in multiple countries or this being the only option to enter the market, because of the government limitations or other local conditions. Contract manufacturing gives firms a possibility to focus more to other operations, like marketing and R&D and leave the production to the local firm. (Katsiolouides & Hadjidakis 2007, 251.)

There are two ways of using contract manufacturing. The first way is to sign a contract with the local manufacturer, who produces the products as per the focal firm's specifications. The firm does not invest in plant facilities and the products are marketed by the firm's own sales organisation. The other way is to subcontract the production to independent companies of foreign countries. In this kind of an arrangement, the focal firm lends capital to the subcontractor. If the firm is the subcontractor's only or biggest customer, the firm has created a new company in another country, which in turn delivers foreign exchange and employment for the host country. Sometimes contract manufacturing is called *foreign direct investment without investment*, because of its similarities with FDI. (Ball, Geringer, Minor & McNett 2010, 451.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Lower fixed costs • Minimum resources to manufacturing • Lower political and economic risk • A firm may create more value to other things 	<ul style="list-style-type: none"> • Quality may be poor • Some undisclosed knowledge and technique may end-up to contractee • Environment, labor and fair-trade issues may have negative impact on image

2.2.4 Turnkey contracting

Turnkey contracting is an arrangement where the focal firm agrees to fully plan, design, finance, organize, manage and execute a project abroad. After everything is done and local workers are trained for their job, the firm hands out the project to a foreign customer. Turnkey projects are usually complex and time-consuming projects which could take years to complete, such as nuclear plants or airports. The contractor firms are mostly working in construction, engineering and architectural sectors. The customers in most cases are national governments. (Griffin & Pustay 2015, 376-378.)

There is a variant of turnkey project, called *Build-Operate-Transfer Arrangements* (BOT). It differs from the turnkey project in one major way; instead of handing out the finished facility, the contractor operates it a couple of years and then hands it to the customer. This way the contractor earns profit from the operation without having any financial risk. (Cavusgil, Knight & Riesenberger 2017, 452.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Cost effective • Full control of the project • Predictable and secure income 	<ul style="list-style-type: none"> • The whole risk will fall to the contractor • Possible misunderstandings with the customer

2.3 Foreign Direct Investment

Foreign direct investment (FDI) is a foreign-located and administratively controlled foreign market entry strategy (Katsioloudes & Hadjidakis 2007, 253). There are many forms of FDI, like purchasing an existing facility in a foreign country, investing in a completely new plant or property and having joint venture with a foreign firm (Griffin & Pustay 2015, 195-196). FDI is riskier compared to other entry strategies, because of its need of significant resource investments abroad. It is the most complex, but also most advanced foreign market entry strategy of all. (Cavusgil, Knight & Riesenberger 2017, 410.)

If a firm prefers ownership and control of assets in a foreign country, it chooses FDI as its entry strategy. This gives the firm more control over the international businesses and a possibility for greater profits. Control is especially important when a firm aims for strategic synergies among its subsidiaries, or if the control is necessary to get the best possible performance out of the operations. (Griffin & Pustay 2015, 378.)

When there is a possibility of higher profits, there is also usually a possibility of higher risks. Firms encounter more and bigger risks when using FDI. These risks concern governmental policies, exchange rates, host-countries' bans and restrictions, politics and regular operating-related challenges in a foreign country. (Griffin & Pustay 2015, 378.)

The following figure (figure 2) describes the key features of FDI. (Cavusgil, Knight & Riesenberger 2017, 414-415.)

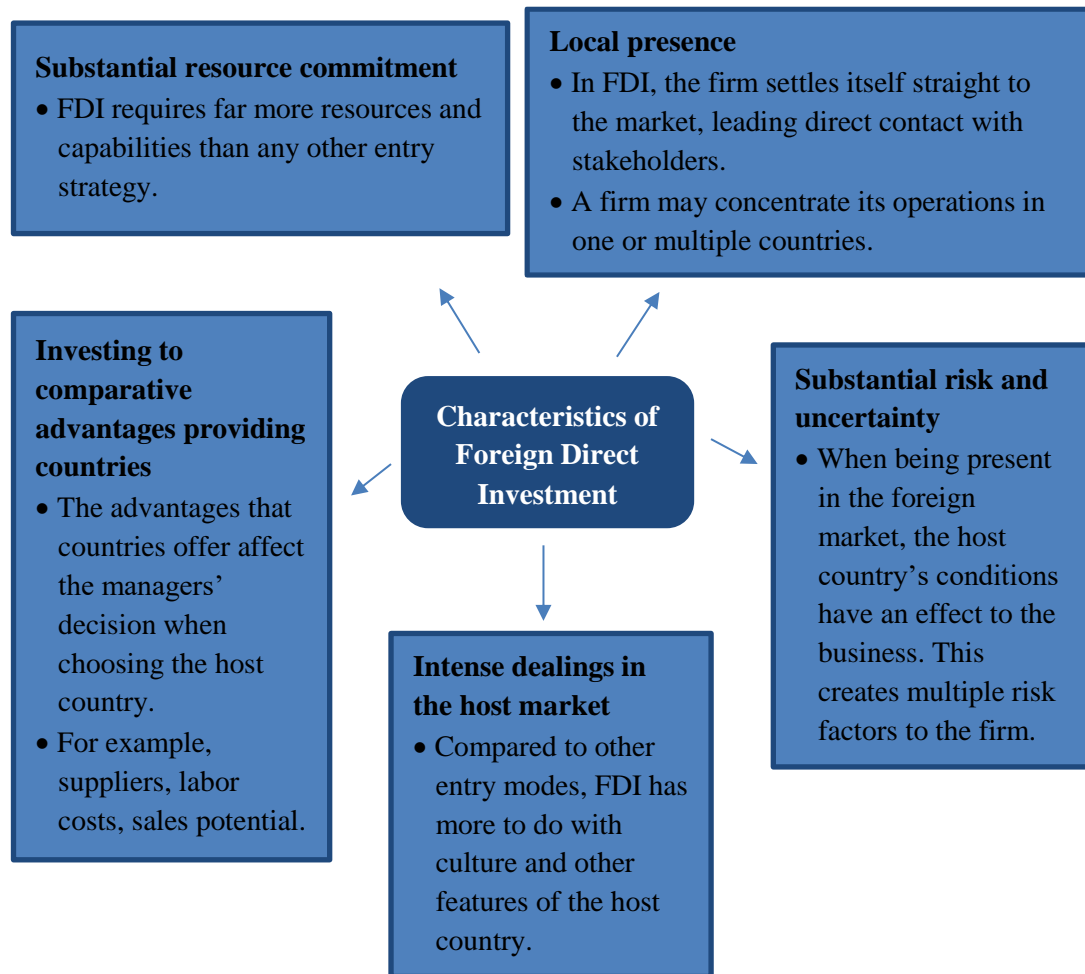


FIGURE 2. Characteristics of Foreign Direct Investment

FDI has grown significantly in the past 30 years. Gross amount of the FDI comes from the developed countries and goes also to the developed countries (Griffin & Pustay 2015, 195-196). Most countries welcome FDI, and many governments legislate the laws and regulations in a way that would attract as many firms as possible to have FDI in their country. The reason for the favouring of FDI is that they usually bring wanted technology to the host country. Even though most of the FDI go to the developed countries, it is more crucial for less-developed countries to have FDI, because they help the economy grow and give support to local R&D programs. (Katsioloudes & Hadjidakis 2007, 253.)

2.3.1 Joint venture

Joint venture (JV) is created when a separate business entity is established by two or more existing firms to serve their common goal. JV is one form of strategic alliances, but it differs from the others on the basis of having its own managers and board of directors. There are three ways to manage it;

1. Jointly shared management with each one's own key personnel, who is in charge of the reporting to parent firms.
2. One firm has primary responsibility.
3. Entirely separate team hired to run the JV. (Griffin & Pustay 2015, 380, 388.)

Joint ventures are formed because it is easier for the founding firms to reach their targets together than alone, by benefitting of each other's strengths (Griffin & Pustay 2015, 389). For example, joint venture between Sony Corporation, the Japanese electronics company, and L.M. Ericsson, the Swedish telecommunications manufacturer, in 2001 was made to achieve the rank of number 1 mobile phone manufacturer. Sony Ericsson mobile phone joint venture lasted for 10 years, ending in 2011, when Sony bought the Ericsson's share of the business. These two companies joined together to benefit from Sony's brand and Ericsson's technology. (Singh 2017.) When a joint venture is successful, it results in very beneficial things like inter-partner learning, resource sharing, cost savings and broader product and service range (Cavusgil, Knight & Riesenberger 2017, 419). Joint ventures are mostly used for alliances that are expected to be long-term (Griffin & Pustay 2015, 389).

Advantages	Disadvantages
<ul style="list-style-type: none"> • Fast entry to markets • Shared risk • Shared knowledge • Split of costs • Competitive advantage 	<ul style="list-style-type: none"> • Trade secrets may leak • Split of earnings • Loss of autonomy • Partner may lose its interest • Possible adaptation difficulties

2.3.2 Acquisition and merger

When a company buys another existing company or facility, it is called an acquisition. For example, a Finnish company buys a German company and this way gains the latter's networks, brand etc., and this way extends its markets to Germany efficiently and becomes an international operator. (Cavusgil, Knight & Riesenberger 2017, 419.)

There is a special type of acquisition that is called a merger. In merger two firms join together to form a larger firm. Mergers may result in many similar positive outcomes as joint ventures do. Especially cross-border mergers are helpful if there are significant differences in culture, competition policy, operating methods and corporate values in the target country. (Cavusgil, Knight & Riesenberger 2017, 419.)

Mergers and acquisitions are quite common methods in international business. Business insider has named 7 biggest mergers of all time, measured in US dollars. The top three was; 1. Vodafone's merger with Mannesmann, worth \$180 billion. 2. Time Warner's merger with America Online worth \$165 billion. 3. Verizon Wireless and Verizon Communications merger worth \$129 billion. The mergers are not usually this big, though. Big mergers like these can also be risky; the numbers 1 and 2 both caused large write-offs to the businesses. (Campbell, 2017.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • Gain of existing assets, suppliers and customers • Immediate revenue 	<ul style="list-style-type: none"> • Requires mergers and acquisitions specialists from many countries • Gain of acquired firm's "problems" • Spent a substantial sum of money in a short time

2.3.3 Greenfield investment

The Greenfield strategy or greenfield investment appears when a firm, instead of buying an existing facility, buys empty land and builds a new facility there. The facility is

normally used for manufacturing, marketing or administrative needs. (Cavusgil, Knight & Riesenberger 2017, 419.) The idea is that a firm starts a new operation from a scratch, like the name “greenfield” implies (Griffin & Pustay 2015, 378).

This strategy is usually used when the differences in cultural factors are significant between the firm’s home and host countries. Starting from a scratch gives a firm an opportunity to create its own national way of doing things in the new country. Workers do not need to be forced to do things as they are done in the focal firm’s country, but they can find a compromise in how to operate. (Griffin & Pustay 2015, 379.) The host-country governments usually prefer Greenfield investments over acquisition and merger, because they create new jobs, transfer new know-how to locals and improve the global marketplace linkages. Governments often offer incentives to companies to encourage them to choose the Greenfield strategy. (Cavusgil, Knight & Riesenberger 2017, 419-420.)

Advantages	Disadvantages
<ul style="list-style-type: none"> • A firm can select the place that serves its needs best. • Starting with a clean slate; own rules and ways to act, no old burden • Firm can grow and use investments on its own phase 	<ul style="list-style-type: none"> • Wanted land may be expensive or unavailable • Constructing is time-consuming • Local and national regulations • It takes time to gain revenue

3 SINGAPORE

Singapore is a small city state in Southeast Asia. It has a population of 5.3 million, with 75% of it being Chinese. Singapore's nation is multi-racial, and it has four official languages, English, Malay, Mandarin and Tamil. The currency is Singapore dollar. Singapore is a multi-party nation, but The People's Action Party (PAP) has dominated the politics since the independence in 1965. (Singapore country profile 2017.)

Because of its strategic location next to major sea lanes, it has gained a trade-driven economy and it has become one of the best trade centres in Asia. Singapore is known as one of the best countries to do business, because of its open and business-friendly economy. This is proven in numerous indexes, like Index of Economic freedom by Heritage Foundation. (A brief Introduction to... 2017; Singapore 2017, 14.)

3.1 Doing business in Singapore

In the last chapter, the index of economic freedom, in which Singapore was ranked at the second place in 2017, was mentioned. Hong Kong was ranked in first place and third went to New Zealand; Finland was in place 24. (Country rankings 2017.) Economic freedom is defined as freedom for every human to control their own labour and property, freedom to work, produce, consume and invest as they want to. Economic freedom is also about governments allowing goods, labour and capital to move freely. This brings countries and their citizens a greater prosperity, healthier societies, democracy, cleaner environments and diminished rates of poverty. Economic freedom is measured by accounting for tax burden, business freedom, trade freedom, investment freedom, property rights and government integrity, just to mention a few. (About the Index 2017.) It is not a coincidence that Singapore is ranked at number 2 in this index.

Thus, Singapore is an optimal environment for businesses to operate and to try out their capabilities in a global environment. Economic freedom itself cannot be the only indicator in measuring the business environment, though, because it will not give the full picture, so to speak. Therefore it is essential to go deeper into the whole business environment of Singapore, which is examined in the next section through PESTEL analysis.

3.2 PESTEL analysis

PESTEL analysis is a tool to examine the entire environment in which a business is operating or planning to operate in and the macro-environmental factors that may affect the organisation. PESTEL surveys the environment from six different angles: political, economic, social, technological, environmental and legal. (What is PESTEL... 2017.) Next sections will cover these factors in Singapore from the perspective of companies that are business-related to the country.

3.2.1 Political

The country has a strong rule of law and a stable government, which is said to be one of the most efficient in Asia (A brief introduction to... 2017). Singapore has continued to follow the consistent government policies, like growing the economy through innovation and optimized skills. This is possible partly because of the fact that Singapore has been ruled by the same party, PAP, for already 52 years now. PAP is facing hard times trying to keep the balance between popular concerns, like immigration, household debt and housing problems. (Singapore Country Risk Report 2017, 1-2.) There are still problems with freedom of speech and media. The government has also used laws to restrict the critique against PAP (Singapore 2017, 16).

Singapore's openness for FDIs can be seen for instance from generally low tax rates, tax exemption and tax incentives, which are discussed more later on. It has a corruption-free environment and a stable political system with a highly developed and prosperous free-market economy and it has a per capita GDP higher than many other developed countries have. (Singapore Country Review 2017, 153, 193.) Another incentive for FDIs is the bureaucracy of Singapore, which is low. The World Bank states in its Doing Business 2017 rank that it takes approximately 164 days to get a full resolution to a legal dispute in Singapore, when the regional average is 560 days. (Singapore Country Risk Report 2017, 14.)

Even though Singapore is a country of multiple nationalities, the racial tensions have started to increase. This can affect negatively the businesses of the country and Singapore's international reputation. Immigration has always been an issue in Singapore,

because of its significant effect on infrastructure. The globally growing anti-migrant ideologies have not made the situation any better. (Singapore 2017, 17.)

The government has good relationship with the main trade union, National Trade Unions Congress, and labour unrest is rare. Though lately the increase of foreign workers has influenced the stability of that relationship. (Singapore Country Risk Report 2017, 14.)

3.2.2 Economic

Singapore is heavily dependent on foreign workforce and the government has set policies that tighten the access of foreign workers and raise the taxation on employers who hire foreigners in service and construction fields. In return government has also set incentives for foreign firms to hire and train local workers instead. (Singapore Country Risk Report 2017, 2; Singapore 2017, 18.)

Singapore's business-friendliness shows also in employment laws that are one of the world's most flexible ones. The conditions of employment are not detailed in constitution and there is no mandatory minimum wage. There are two types of contracts, part-time and fixed-term, and those must follow minimum employment rights. There is no difference in costs or facility between the contract types. In dismissal, employers do not have to notify the employee before. The notice period for job termination is four weeks, but for the severance pay there is no mandatory period. (Singapore Country Risk Report 2017, 26.)

Singapore's monetary policies are stable and visionary. The Singapore dollar is permitted to flow in terms of undisclosed policy band, by the Monetary Authority of Singapore (MAS). The trading partners in the currency basket are periodically checked to adjust the changes in trade patterns. To achieve the price stability, management of the trade-weighted exchange-rate index is practiced by MAS. The floating currency allows Singapore to appreciate or depreciate the exchange rate of Singapore dollar depending on economic situation. (Singapore Country Risk Report 2017, 24.)

Singapore's macroeconomic policies are based on the government's attempts to manage the small city state's limited resources and inflation, and sometimes those policies may weaken business investments and consumer demand. Policies implied may not be at

sufficient level of speed to meet government's aims in being a knowledge-based economy. Government's economic transition towards a knowledge-based economy may be problematic as skill mismatches in the labour market may emerge when the economy goes from lower-skilled jobs to knowledge-based jobs. The citizens of Singapore might face massive troubles of longer-term employment if training programs are not implemented successfully. (Singapore Country Risk Report 2017, 5, 7-8.)

The government aims to foster entrepreneurialism and innovation by maximizing productivity, competitiveness and maintaining strong macroeconomic policies. Sadly, the private sector has not been as successfully implementing the government policy as it should have been, possibly damaging the future productivity. More superior incentives must be found, otherwise employer demands will not be satisfied. (Singapore Country Risk Report 2017, 8.)

3.2.3 Social

The education is strongly supported in Singapore, as one fifth of the country's annual budget goes into it. Students have an option to choose to study in private schools at secondary and pre-university levels. In the public secondary school, there are several paths that students may choose from, based on their strengths and goals. (Singapore 2017, 21.) Improvements of the educational system have paid off, as Singapore has had the highest scores in mathematics and science in the study of Organisation of Economic Co-operation and Development. One of Singapore's four universities was also listed as number one in the Times Higher Education World University rankings 2015-2016. (The Ease of Doing... 2017.) Estimated 36,000 students graduate from universities every year in Singapore and become a part of a workforce that is rated as most skilled among Asia-Pacific region (Singapore Country Risk Report 2017, 23).

Singapore is facing the same problem as many Western nations in declining birth rate and aging population. It has the second highest percentage in Asia of people of age 65 and above. (Singapore 2017, 21.) When the aging generation is retiring, the lack of labour force is increasing. At the same time Singapore's workforce is moving abroad and the restrictions towards foreign workforce are in effect. These factors inevitably have an im-

pact on the long-term growth, and this is why the government is planning to place regulations on skilled workers' visas and encouraging industries to create labour-saving innovations. (Singapore Country Risk Report 2017, 9.)

3.2.4 Technological

The information and communications technology (ICT) industry contributes massively to the economy of Singapore by increasing productivity and revolutionizing processes. It is one of the key drivers for the country, for instance, in sectors such as education, healthcare, manufacturing, tourism and finance. Infocomm Development Authority of Singapore (IDA) regulates the ICT industry in Singapore. Singapore is far-sighted as it is looking to implement its Smart Nation policy. The aim of this policy is to serve the citizens of Singapore through technology. Platform is there to enable people to engage more with government and businesses. (Export Markets, Singapore n.d.)

According to World Economic Forum (WEF), Singapore is one of the seven economies that are leading on the frontline of the next industrial revolution. Singapore topped the ranks especially in the area of providing the prolific business environment. Government of Singapore is praised of high level of technology usage (Singapore among top... 2016.) ICT industry is strongly subsidized as government of Singapore launched its 120 million Singapore Dollars package in 2016 to support the ICT labour. The funds are being directed to high demand areas: software development, data analytics, cybersecurity, and network and infrastructure. (Export Markets, Singapore n.d.)

3.2.5 Environmental

There is not an explicit guidance on environmental matters in the constitution of Singapore, or any framework in the law about environmental protection and management. There are two general environmental legislation categories; those dealing primarily with waste and emissions regulations concerning industries, vehicles, households and hospitals, called *pollution control laws*, and those involving natural parks and wildlife protection, called *nature conservation laws*. This is probably due to Singapore's small size and urbanization, which removes the concerns about mining, forestry and agriculture. (Singapore Country Risk Report 2017, 26.)

Although there is no strict environment legislation in Singapore, it does not mean that environmental matters are completely forgotten or ignored in governmental policies. Singapore is currently running a waste management strategy that aims to reduce emissions through three important steps: reduce, reuse and recycle. The strategy covers wastewater treating, flue gas cleaning and solid waste collecting. There is also a “polluter pays” principle added to residential and industrial areas for wastewater treating. Household recycling is also encouraged by setting up recycling bins to estates. (Singapore 2017, 28.) The government is also planning to establish mandatory energy audits for both businesses and households, and to develop renewable energy and water management expertise (Singapore Country Risk Report 2017, 2).

Because of Singapore’s high economic dependence on carbon fuels, climate change is one of the main environmental challenges that the country is facing. This is why the Singapore government has created a strategy to prevent climate change. This strategy has four branches, namely adapting to climate change, reducing carbon emissions, raising awareness of the climate change and building competency. Singapore’s vehicular pollution is rising, but the air quality in Singapore can be still considered good. (Singapore 2017, 29.)

3.2.6 Legal

Singapore is a small country with no natural resources, so it has focused on export driven growth strategy through numerous free trade agreements and over 80 double taxation agreements with countries, to ease trading and cross-border businesses. Because of this export-dependent economy and numerous trade agreements, Singapore is one of the most active trading states in the world. Singapore is also part of the ASEAN Free Trade Area (AFTA). (Singapore Country Risk Report 2017, 4, 22.) AFTA is the Free Trade Area of ASEAN, comprising six Asian countries: Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. In addition to these, four smaller players such as Brunei, Laos, Myanmar and Cambodia support the AFTA. AFTA is perfect for international businesses, especially in Singapore. The country has created a regional Asian hub where support services such as management, finance etc. will be given to subsidiaries across the ASEAN area (Understanding ASEAN’s Free Trade Agreements 2014.)

The government is trying to make it as easy as possible to invest in Singapore. Singapore has extremely protected contractual and property rights. The effectiveness and competence of Singapore's judiciary are probably some of the key reasons why it is so attractive for a FDI destination. As Singapore is lacking its own natural resources, it has found it profitable to support FDIs with granting capital, jobs and international know-how. (Singapore Country Risk Report 2017, 12.)

From 1965 when Singapore got its independence, consistent policy of luring foreign investments has been the top goals of the country. Thus, leading to a situation where the risk of expropriation is relatively low. Cooperation between foreign investors and the government is smoothly organized, with investors' interests being the priority issue. Singapore offers strong protection for investors' property and contractual rights, nationalizing foreign investors' property will be possible under the law of Singapore. (Singapore Country Risk Report 2017, 12.)

3.3 Corporate taxation in Singapore

Singapore is seen as a friendly country to do business in, which is evident in the corporate taxation. Singapore has one of the lowest tax rates in the world and it runs a single-tier corporate income tax system instead of double taxation. (Singapore Corporate Tax Guide, n.d.) In double taxation, the taxes of the income are paid twice, first at the corporate level and then on a personal level, when, for instance, dividends are paid to shareholders. Double taxation occurs also when a tax of the income must be paid in two different countries. (Double Taxation, n.d.) In single-tier income tax system the tax paid by a company is the only tax. In Singapore, there is no tax for capital gains. (Singapore Corporate Tax Guide, n.d.)

A headline tax rate of Singapore has been in descent since 1997. Since 2010 the headline corporate tax rate has stayed in 17%. Headline tax rate is usually higher than the effective rate. The reason for the low tax is to make Singapore an attractive investment destination for corporations and to gain economic growth. For a company whose taxable income is up to 100,000 SGD, the tax rate is 0% in the first three years and after that 8,5%. If the taxable income is up to 300,000 SGD, the company is taxed with 8,5%.

When the taxable income is over 300,000 SGD and up to 2,000,000 SGD, the tax rate is 17%. (Singapore Corporate Tax Guide, n.d.) A company is considered to be a Singapore resident company if the management of its business is operated in Singapore. For a resident and non-resident company, the basis of a taxation is almost the same, but there are a few benefits for resident companies. These include tax exemption scheme for new starting companies, tax exemption of foreign-sourced dividends and service income as well as foreign branch profits, and benefits of Singapore's Avoidance of Double Taxation Agreements treaty. (Tax Residence Status of a Company 2017.)

3.4 Goods and Services Tax in Singapore

The Goods and Services Tax is known as Value Added Tax (VAT) in several other countries. The Inland Revenue Authority of Singapore (IRAS) administers, assesses, collects and enforces payment of GST. It was implemented in 1994 to lower personal and corporate income tax rates, while still maintaining a steady revenue base for the government. GST is collected from all GST registered companies, who are required to collect the GST from the customers who buy a company's goods or services. GST must be paid to a Singapore tax department quarterly via GST tax filing. Company is not automatically GST-registered, as it must apply for it through IRAS to become one before it can charge and collect the GST. (Singapore Goods & Service Tax Guide, n.d.)

Firms must register for GST if the turnover in the last 12 months has been more than 1 million SGD, or if a firm is doing business in Singapore and can expect the turnover to exceed 1 million SGD in the next 12 months. When the 1 million revenue limit is exceeded, a firm must apply for IRAS' GST registration within 30 days, or it will be faced with penalties. Companies can also register to GST voluntarily if they have plans to do business with taxable supplies in Singapore or they have already started doing so. If a firm is voluntarily registered, it must stay registered for 2 years and follow the GST regulations. (Singapore Goods & Service Tax Guide, n.d.)

If 90% of the firm's total taxable supplies are zero-rated and the firm's input tax is greater than its output tax, a firm may apply for an exemption from the registration, even if the firm's taxable turnover exceeds the 1 million SGD limit. (Singapore Goods & Services Tax Guide, n.d.)

4 MAJOR EXPORTER SCHEME

Major Exporter Scheme (MES) eases the cash flow of businesses in exporting and importing of goods. MES is administered by the Inland Revenue Authority of Singapore (IRAS). The scheme is used mainly among businesses who re-export their goods from Singapore to some other countries in significant numbers. (Major Exporter Scheme 2017.)

When operating without the MES, businesses must pay the Goods and Services Tax of the goods that are imported to Singapore. Importers can afterwards acquire the refund of their GST returns from IRAS. The main reason for granting MES is to prevent the cash flow problems that are caused by GST. When operating with MES, businesses do not have to pay GST of the supplies that are non-dutiable, thus MES saves firms from the trouble of granting the GST returns afterwards and is solving the cash flows. (Major Exporter Scheme, updated 2017.) Anyway, if MES business supplies the goods locally in Singapore, it must charge and account GST normally (GST: Major Exporter Scheme 2017, 2).

As a MES business, a firm must fulfil the reporting requirements. It must declare the value of goods imported using MES status for goods which belong to a firm or firm's principal which is not GST-registered and does not belong in Singapore as well as goods re-imported under section 33B (appendix 2). The same applies for goods imported into and removed from a Zero-GST warehouse and for goods supplied. For goods that are for local sales, GST must be standard-rated. A firm must correct possible errors that are made in importing of goods. The reported goods must be supported by valid permits and relevant supporting documents, like commercial invoices and shipping documents. (GST: Major Exporter Scheme 2017, 11-12.)

4.1 Requirements for Major Exporter Scheme

To get the MES, a firm must fulfil the following requirements:

- a) One's business must be GST-registered.
- b) One must import goods by its own business.

- c) For a 12-month period, 50% of one's total supplies must account for zero-rated supplies, or one's zero-rated supplies must worth more than \$10 million.
- d) One must have good internal controls and accounting records.

Good internal records are qualified as follows:

- a. the procedures on the identification and capturing of accounting and recording of accounting information from one's inventory and financial records into one's GST reporting system must be decent and documented.
- b. the documents and records of the value of imports, exports and total supplies must be original and proper, as stated in appendix 3.
- c. good compliance records with Singapore customs.
- e) One must maintain good compliance records with GST, Income Tax, Property Tax and Singapore Customs.
- f) One must be able to comply with other conditions the Comptroller of GST may impose.

Export of goods and international services are included in the zero-rated supplies. The total supplies include the summation of standard-rated supplies, zero-rated supplies and exempt supplies. The period for calculating the value of supply may be either the immediate past financial year or any 12 continuous calendar months within the past 18 calendar months. (GST: Major Exporter Scheme 2017, 4-5, 13.)

Along with the qualifications above, the Comptroller of GST may impose a warranty in the form of a letter of guarantee. The qualifications need to be maintained always when being MES business. If anything, that may change a firm's qualification for MES, happens, the Comptroller of GST must be informed immediately. Even if a firm fulfils all the required qualifications, the Comptroller of GST may reject the firm's application to protect revenue. (GST: Major Exporter Scheme 2017, 5.)

One may use its MES status when one of the following ones comes true:

- a) Importing one's own goods in purpose of getting profit out of it.
- b) Importing goods that belong to one's overseas principal, who is not GST-registered and does not belong in Singapore. The goods are meant for supply in Singapore or for re-export.
- c) Import goods to a principal overseas, who is not GST-registered and do not belong in Singapore. One will re-export the goods later. (GST: Major Exporter Scheme 2017, 2.)

One is treated as belonging to Singapore if he:

- a. has a business or fixed establishment only in Singapore. Fixed establishment is other than business establishment, that has both the technical and human resources to provide and receive services on a permanent basis
- b. has no business or fixed establishment in any country, but is legally constituted in Singapore
- c. has business or fixed establishment in Singapore and outside of Singapore, but the establishment, which is the most involved in the supply of value-added activities, is the one located in Singapore. (Claiming of GST... 2016, 2.)
- d) One removes its own goods or goods belonging to a principal, who is not GST-registered and does not belong in Singapore from the Zero-GST warehouse. (GST: Major Exporter Scheme 2017, 2)

If a firm misuses its MES status, it may lose the status or experience penalties. There are several ways to abuse the MES, including followings:

- a) One importing goods, or removing goods from a Zero-GST warehouse on behalf of persons who are not one's permissible overseas principals or customers.
- b) One importing personal items that belong to one's personnel.
- c) One importing goods or removing goods from a Zero-GST warehouse that are owned by a local-supplier, except for re-imports under section 33B (appendix 2). This applies even if the goods would later be supplied to one.
- d) One importing goods or removing goods from a Zero-GST warehouse that belong to one's related company or business partners.
- e) One importing for local sales investment precious metals (gold, silver and platinum) or goods and materials which are used for refining into these metals.
- f) One importing goods or removing goods from a Zero-GST warehouse on behalf of your overseas principal, except for re-imports under section 33B (appendix 2).

Also, MES status is not transferable. For instance, if a business is transferred to another taxable person, the new owner has to apply for MES on his own name. (GST: Major Exporter Scheme 2017, s.3)

4.2 Applying for Major Exporter Scheme

When applying for MES, a firm must submit a filled and signed MES application form, which can be found on the website of Inland Revenue Authority of Singapore. A firm must perform either a self-view using the Assisted Self-help kit (ASK), which is explained later; or commit to participate in the Assisted Compliance Assurance Programme (ACAP), which is a compliance initiative for businesses who as a part of good corporate governance voluntary set up robust GST control framework; Assisted Compliance Assurance Programme 2017) or perform a post ACAP review (PAR) and submit a PAR declaration form. (Major Exporter Scheme 2017.)

The outcome of the application will be announced within a month of leaving the application. If a firm gains MES status, it will be valid until IRAS demands a review of its competence for MES status. This usually happens three years after the approval. (Major Exporter Scheme 2017.) A firm must activate its customs account with Singapore Customs and subscribe for TradeNet. TradeNet is Singapore's national single window for trade declarations, and it brings together more than 35 border agencies. (TradeNet 2015.) If a firm chooses not to subscribe for TradeNet, and chooses to work with freight forwarding companies, it must appoint authorized declaring agent to clear the goods on the firm's behalf from the Singapore Customs. It is in the firm's responsibility to maintain the authorized declaring agent list, which can have maximum 20 agents at a time. (GST: Major Exporter Scheme 2017,6-8.)

When a firm's MES status is due and the firm continues to fulfil the qualifications of MES, it will receive a renewal invitation and an application form for renewal. The renewal application and certified ASK must be submitted within the due date. IRAS informs the firm of the outcome. If the firm is qualified to continue with the MES status, it is valid for the next five years if the firm continues to satisfy the qualifying conditions. (Major Exporter Scheme 2017.)

4.3 Assisted Self-help Kit (ASK)

Assisted Self-help Kit is made for businesses to help them self-assess their GST submissions and discover possible past GST errors early. ASK has three key aspects;

1. to have good GST practices to properly handle the GST reporting of transactions;
2. to ensure the GST records are correct before submission by using the Pre-Filing Checklist;
3. to perform annual review of past GST returns, to find errors and avoid penalties

These three aspects are divided into three sections. Businesses may choose to use all of them or just one or two. The first section is for businesses which are planning to register for GST, or are newly registered. It helps a firm to arrange internal processes to ensure overall GST competence. The second section is for businesses who are filing their first GST return, or for a GST-registered business that is having a new business arrangement or a change in GST personnel. This section is the previously mentioned Pre-Filing Checklist, which helps to perform quality checks of GST records before the submission. The third section is for all GST-registered businesses, to perform the annual review, which is needed when applying for MES. Thus, ASK is mandatory when a firm is applying or renewing its MES status. (Assisted Self-help Kit 2017.)

5 DISCUSSION

When starting the thesis, the first topic that the author felt that needed to be covered before anything else, was the foreign market entry modes. Studying those would bring the vital information of all the possibilities there are for firms aiming at expanding businesses to a foreign country. After learning about different forms of entry strategies, it was clear, that in this case, foreign direct investment is the only suitable way for KONE Industrial Oy to expand its Global Spares Supply unit's operations to Singapore.

KONE Industrial Oy started to seek for alternative options for the logistics company, which is now importing goods on behalf of GSS, to get GST returns from the exports. In order to get the returns, GSS must import the goods by itself. If the situation would be as described, the Major Exporter Scheme is vital because by having it, no GST is needed to pay at all, which prevents the cash flow problems.

After concluding this far, the next step was to decide which FDI would suit GSS' needs. Singapore's business-friendly environment and openness for foreign investors are apt to choose any FDI as an entry mode. In the Singapore's business environment point of view, there is no significant difference between which FDI to choose. This is why the characteristics of the FDIs need to be benchmarked before choosing the right one.

Joint venture (JV) should be used when two firms have the same goal and they can benefit from each other's strengths. The author sees that advantages of JV is not the issue GSS mainly targets. Greenfield investment is the definition of buying an empty land and building a new facility there. Greenfield would be profitable because of Singapore's low level of bureaucracy and easiness in starting a business. However, the question is: does GSS get any added value for this kind of an entry strategy?

Acquisition is a process in which a company buys another existing company. Acquisition might not be necessary as the aim for GSS is to optimize the cash flow with Major Exporter Scheme. Special type of acquisition is called a merger which is a process where two companies join together to create a larger firm, this means that the operations and funds of two companies come together. This entry strategy does not need as big

investments as other FDIs and some kind of a variation of this strategy could also be suitable in this case.

The Global Spares Supply unit of KONE Industrial Oy could use KONE Singapore subsidiary. This has similarities to the commissioner's earlier conclusion. KONE Singapore would only take care of the supply of spare parts, when the managing of operations would still happen from the headquarters in Finland. At present, GSS is obligated to pay monthly fixed payments to the logistics company operating in Singapore. Without knowing deeply about KONE Industrial's strategy for the future, this would seem to be the most logical alternative. The reasons for this solution is that the need for investment is not massive and KONE Industrial Oy is not seeking for other advantages than using MES to get rid of paying Goods and Services Tax.

Only future will tell which solution KONE Industrial Oy decides to end up with. One thing is for sure – all the ingredients are there to build the success for years to come.

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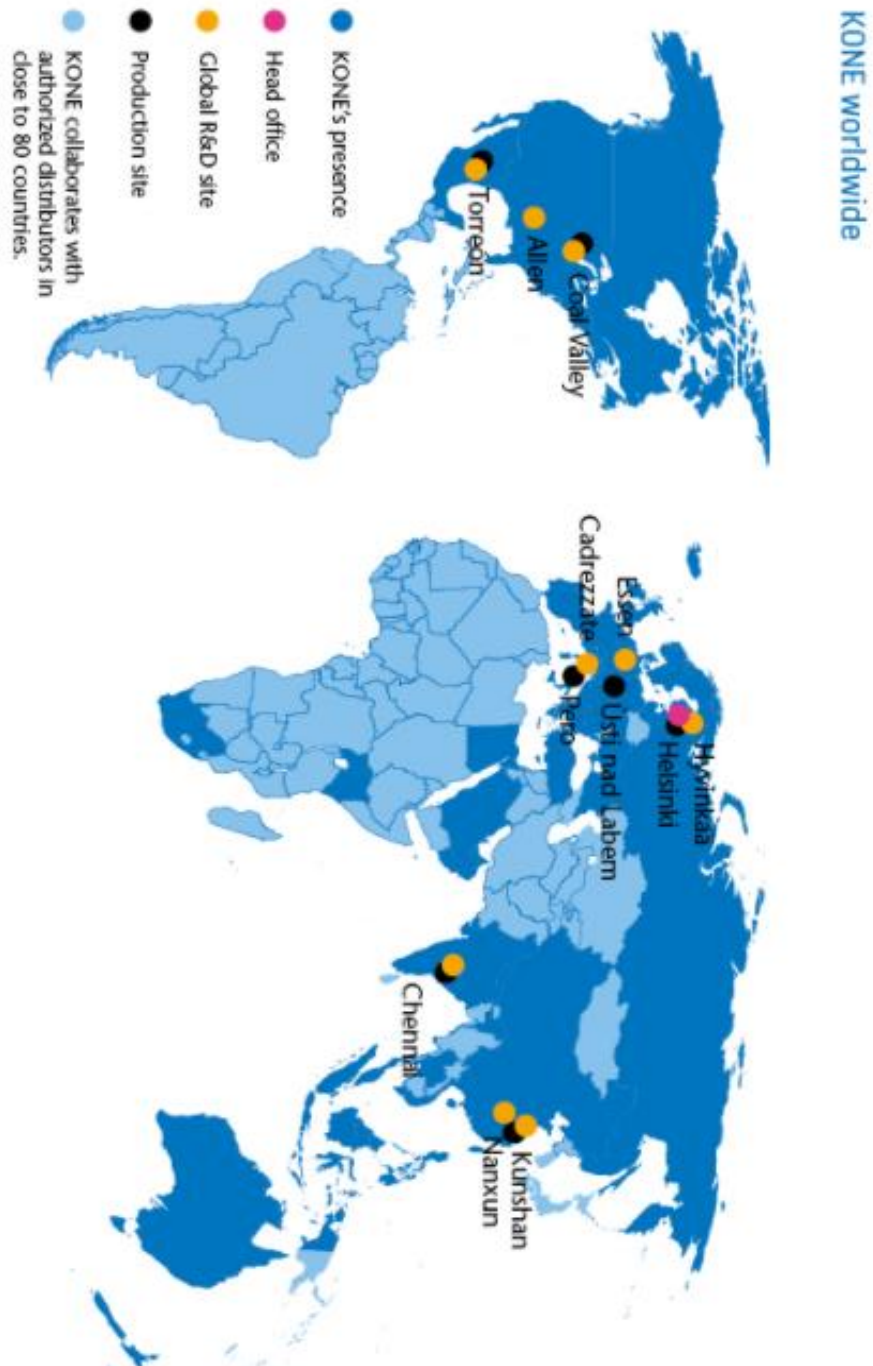
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APPENDICES

Appendix 1. Global operations' map of KONE Oyj



(KONE Factsheet n.d.)

Appendix 2. Goods and Services Tax Act. Section 33B Claiming of input tax on import of processed goods.

Claiming of input tax on import of processed goods

33B.

(1) The Minister may by regulations make provision for a taxable person to claim any tax paid or payable by the taxable person on the importation of goods as input tax under section 19 (as if the whole of the input tax were allowable under section 20), where the importation occurs in the following circumstances:

a) the taxable person makes a supply to his customer who is —

a. a person who belongs in Singapore; or

b. a taxable person who does not belong in Singapore;

b) the supply comprises the application of any process to, or the carrying out of any process on, goods which the taxable person's customer consigns to the taxable person in Singapore;

c) in connection with the supply, the taxable person removes the goods to a country outside Singapore for a process to be applied to or carried out on the goods; and

d) the taxable person then imports the goods back into Singapore after the process in paragraph (c) has been applied to or carried out on the goods.

(2) Regulations made under subsection (1) may —

a) prescribe the conditions (including conditions subsequent) to which a claim for the deduction of an amount of tax pursuant to that subsection is subject; and

b) require the taxable person to repay to the Comptroller, if any such condition is not satisfied, the amount of tax allowed to the taxable person in such form and manner, and in such time, as may be prescribed.

(3) The Comptroller may, for the protection of revenue, impose conditions or restrictions in relation to any claim referred to in subsection (1).

(4) In this section, “process”, in relation to goods, includes (but is not limited to) any treatment.

(5) For the purposes of this section, the customer is treated as belonging in Singapore if the customer —

a) has in Singapore a business establishment or some other fixed establishment and no such establishment elsewhere;

b) has no such establishment in any country but his usual place of residence is in Singapore; or

c) has such establishments both in Singapore and elsewhere and among which the establishment of the customer that is most directly concerned with the supply referred to in subsection (1) being made to him, is in Singapore.

(6) For the purposes of subsection (5) —

a) a customer carrying on a business through a branch or an agency in any country is to be treated as having a business establishment there; and

b) “usual place of residence”, in relation to a body corporate, means the place where it is incorporated or otherwise legally constituted. (Goods and Services Tax Act 2015.)

Appendix 3. Comptroller's requirements on internal controls, accounting and compliance records

1 (2)

Inward handling / Receipt of goods

- a) Goods Received Notes (GRN) – to document the date, quantity and description of goods received
- b) Duly acknowledged Delivery Orders (DOs) – to support the GRN
- c) Copies of import/ME/MC permits, transshipment permits etc.
- d) Copies of shipping documents such as air waybill or bill of lading
- e) Copies of commercial invoices accompanying the goods, if available
- f) Copies of insurance documents accompanying the goods, if available
- g) Copies of correspondences from your overseas principals
- h) Any other similar documents to document the date, movement, quantity and description of the goods received into its warehouse

The identity of the overseas principal(s)/supplier(s) as well as the value and description of the goods must be readily identifiable/ verifiable.

Storage/Custody of goods

- a) The relevant warehouse records/ reports showing clearly the person(s) handing over and person(s) receiving the goods at each stage of their storage into the warehouse
- b) The warehouse storage records/ reports showing the warehouse location where the goods are stored

Outward handling / Removal of goods

- a) Purchase Orders (POs) issued by your customer(s)
- b) Delivery Orders (DOs) issued by you
- c) Copies of export permits, transshipment permits etc.
- d) Copies of shipping documents such as air waybill or bill of lading
- e) Copies of commercial invoices accompanying the goods, if available
- f) Copies of insurance documents accompanying the goods, if available
- g) Written instructions from your customer(s) to deliver the goods locally or to export the goods

(continues)

2 (2)

h) Any other similar documents to document the date, movement, quantity and description of the goods removed from your warehouse

The identity of the overseas or local customer(s) as well as the value and description of the goods must be readily identifiable / verifiable.

Stock-taking / Inventory audit of goods

a) You must maintain sufficient evidence to indicate that a full and comprehensive internal and/or external stock-take / inventory audit has been performed.

Discrepancy reporting of goods

a) You must maintain reconciliation reports pertaining to discrepancies of the goods at the point of their:

- a) Receipt into the warehouse (if any);
- b) Removal from the warehouse (if any); and
- c) After a stock-take/ inventory audit is conducted

Invoicing for the goods supplied

a) If you invoice your customer for the goods, you must maintain the following documents as evidence of the supply of the goods:

- a) Tax invoices issued for all local supplies of goods
- b) Invoices issued for all sales which are exported (i.e. the supporting export documents must be maintained as proof of exports of goods)
- c) Evidence of payment received from the customer (if any)

You must produce all such records upon request by IRAS. (GST: Major Exporter Scheme 2017, 13-14.)