

Navigator

Now, next and how for business

ASEAN



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Companies prepare for the digital age

Despite evidence that growth has slowed recently, firms across the ASEAN bloc remain more positive about the outlook for trade than any other trade bloc and higher than the global average (Fig. 1). Investment in digital capabilities and a focus on productivity and skills development are supporting competitiveness and enhancing long-term growth prospects. Despite this, the ASEAN bloc has the highest proportion of corporates who expect protectionism to rise, and who see regulations as positive for their business.

What is happening now

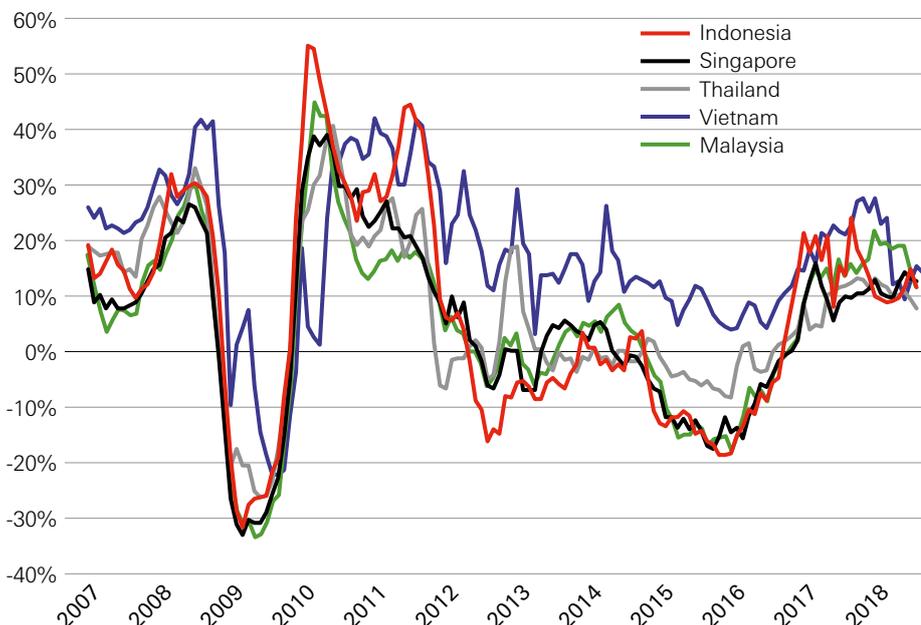
Firms remain optimistic in the face of softening external demand

Economic activity in the ASEAN bloc remained robust in the first half of 2018, supported by continued export growth. Although ASEAN currencies have weakened this year against the US dollar, the moves have been relatively moderate compared to the sell-off in other emerging market currencies, reflecting ASEAN countries' relatively solid external and macroeconomic fundamentals.

However, growth momentum is likely to ease in coming months reflecting cooling Chinese demand and increased global trade protectionism. Indeed, the latest Nikkei ASEAN Purchasing Managers' Index showed growth in manufacturing output slowed to its weakest rate for six months in September. Notably, the survey indicated a decline in export sales for a second consecutive month.

Fig. 2: ASEAN: Merchandise exports

3-month total, % year (US\$ nominal values)



Source: Oxford Economics/Haver Analytics

Fig. 1: Respondents with a positive view on prospects for foreign trade – comparison across trading blocs

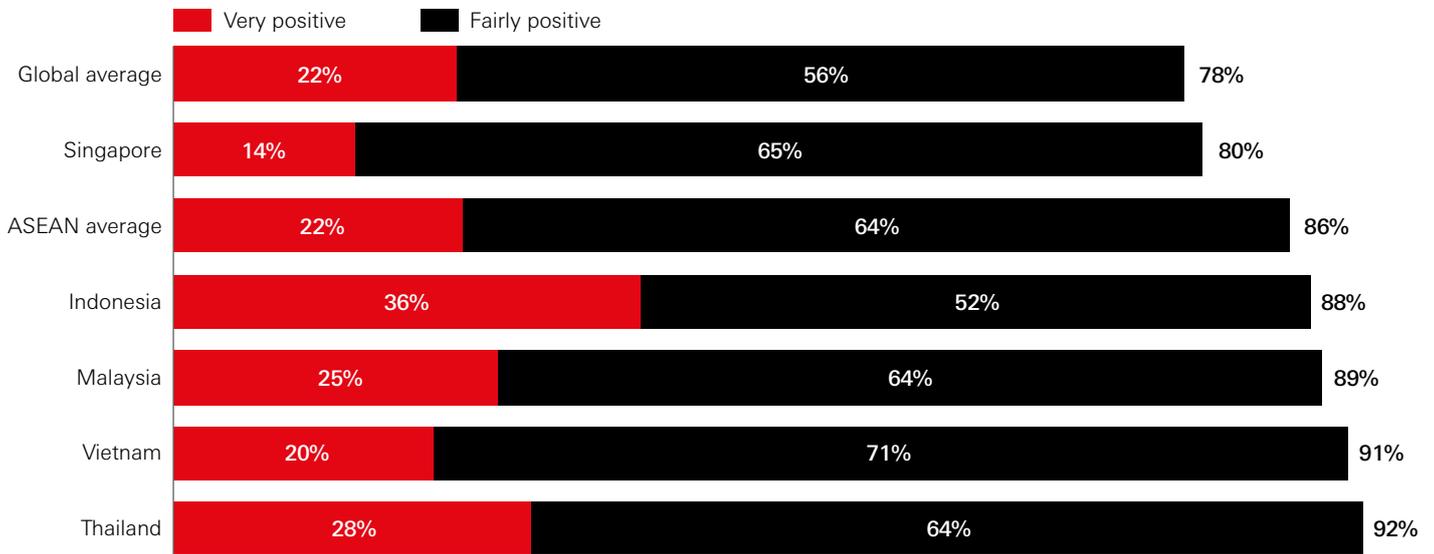
| Trade Blocs | |
|-------------------|-------|
| ASEAN | 86% ▲ |
| RCEP | 81% ▲ |
| EU (including UK) | 78% |
| CPTPP | 76% |
| NAFTA | 70% |

How your business can respond

- ◆ Have you engaged your key suppliers to understand how they, and their supply chains, are affected by US-China tariffs?
- ◆ Engage with domestic government to help shape policy reforms that will help business to prosper in your country.
- ◆ How are you increasing capacity to accommodate a potential ramp-up in demand as part of any supply chain diversion resulting from international trade tensions.

Despite economic headwinds, the HSBC Navigator survey shows that respondents within the ASEAN bloc remain upbeat on the global trading environment, with the vast majority (86%) reporting a positive view on the outlook (Fig. 1 and 3). Their key reasons for optimism: consumer confidence and global economic growth. Meanwhile, companies with a negative outlook were most likely to cite the US-China trade dispute amongst their key concerns.

Fig. 3: Firms with a positive outlook on the global trading environment



Source: TNS Kantar

Policy Developments

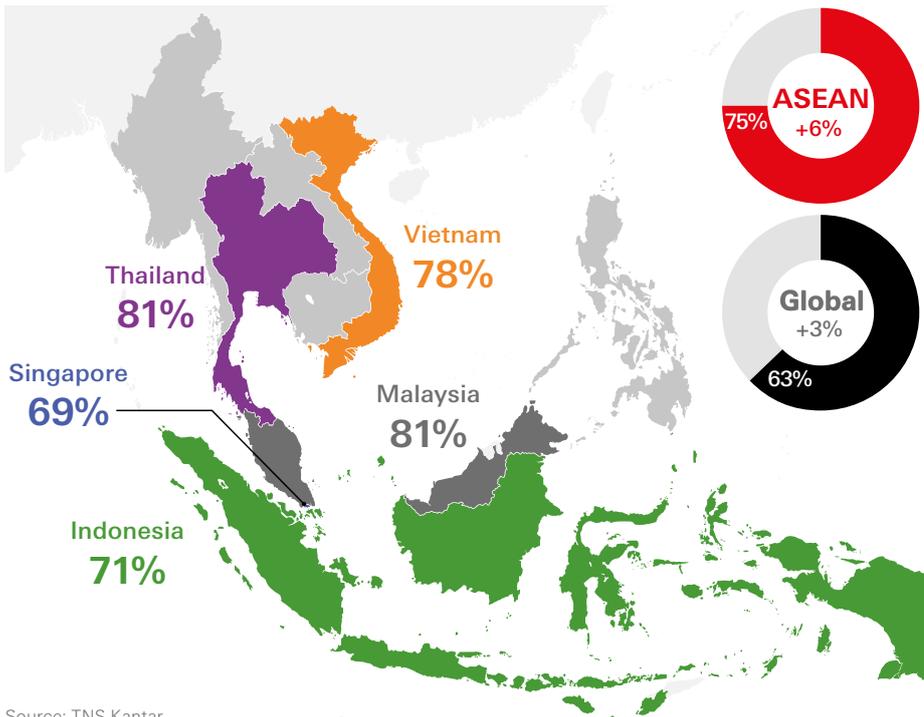
The threat posed by global protectionism may be underappreciated

China has so far borne the brunt of the US administration’s protectionist trade policy, but these actions will also have an indirect impact on the ASEAN bloc given the region’s high level of exports to China and dependency on exports. Moreover, the US has shown that it is willing to threaten higher tariffs across multiple countries with which it has bilateral trade deficits, which raises the risk that the US could also impose higher import tariffs on other Asian economies.

The United States Trade Representative (USTR) has already announced that it is reviewing the eligibility of Indonesia in the Generalized System of Preferences (GSP) based on “concerns” about compliance with the program. Additionally the large US trade deficit with Vietnam – more than double the size of the US deficit with Canada in 2017 – suggests that it could also draw attention from the US administration. At the other end of the spectrum, Singapore appears least at risk of direct US actions, reflecting its low tariff regime and the US trade surplus with the economy.

Not surprisingly, three-quarters (75%) of respondents to the HSBC Navigator survey in the ASEAN bloc (Fig. 4) believe that governments are becoming more protectionist, which is higher than the global average (63%). Views regarding the impact of regulations were more nuanced though, with 34% of firms seeing them as adding to the cost of doing business, but 36% viewing regulations as helping their competitiveness. Figure 5 also compares this among other trading blocs.

Fig. 4: Respondents in ASEAN that believe foreign governments are becoming more protective of their domestic businesses



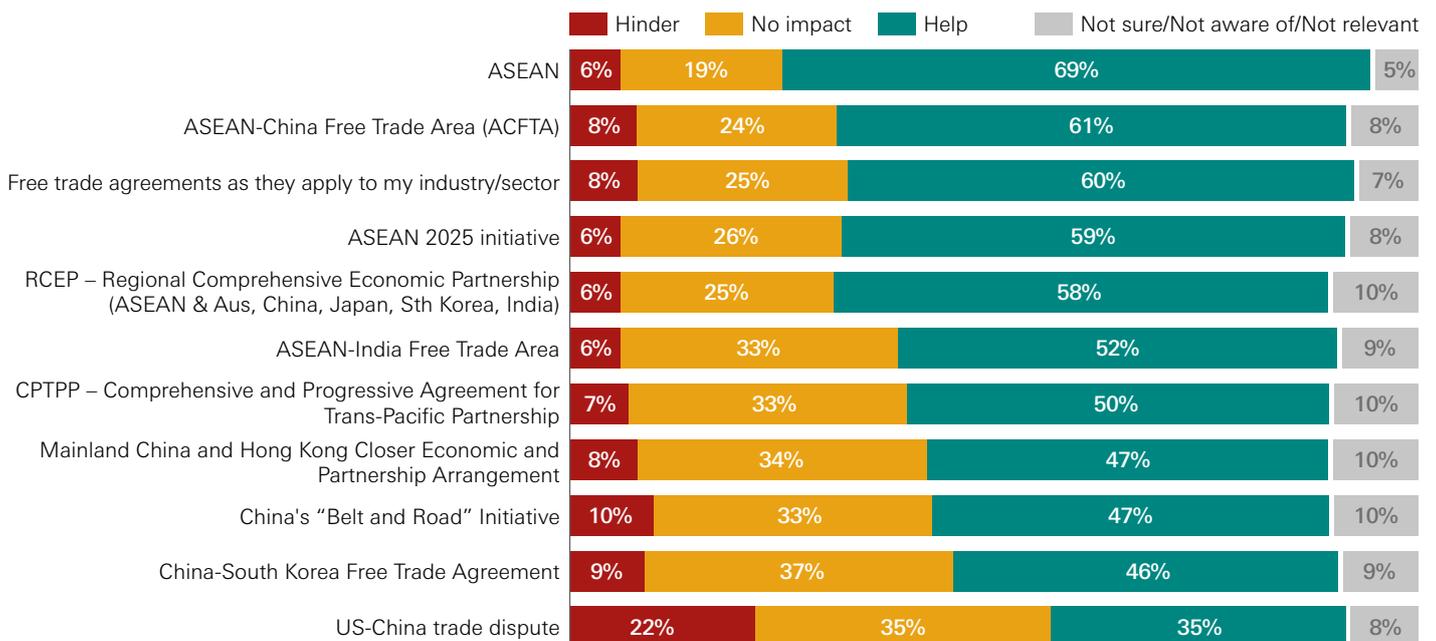
Source: TNS Kantar

Fig. 5: Respondents that believe foreign governments are becoming more protective of their domestic businesses – comparison across trading blocs

| Trade Blocs | Percentage |
|-------------------|------------|
| ASEAN | 75% ▲ |
| NAFTA | 69% ▲ |
| RCEP | 69% ▲ |
| CPTPP | 63% |
| EU (including UK) | 54% ▼ |

Focussing on the impact of global policy developments, it was notable that the survey results showed less than a quarter (22%) of ASEAN businesses expect the US-China trade dispute to hinder their business prospects in the next three years, compared to 31% globally (Fig. 6). While this may reflect perceived opportunities to capture market share, it may also suggest that businesses have not fully examined the potential direct and indirect impacts of the dispute on their supply chains.

Fig. 6: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

A majority of respondents (60%) viewed relevant free-trade agreements as having a positive impact on their business. In line with this view, ASEAN itself was viewed favourably by 69% of firms, while current and prospective ASEAN free-trade agreements with third-party countries also ranked highly.

What is happening next for business strategy

Companies are making use of data to optimise performance

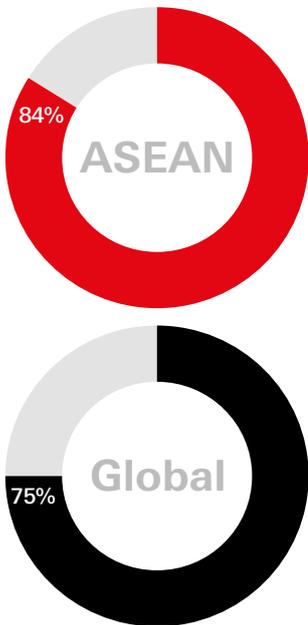
In the near future, growing market share is identified as the key focus (38%) of shaping company direction in the ASEAN bloc (Fig. 7). Firms also intend to focus on productivity and skills development, as well as increasing emphasis on long-term performance.

At the country level, it was notable that a high proportion of respondents in Thailand (41%) reported an emphasis on increasing digitisation, a share that was well above the average for both ASEAN (24%) and globally (20%). This likely reflects both increased demand within Thailand for better connectivity and applications, as well as the emphasis by the government on supporting the development of technology through initiatives such as Thailand 4.0.

Businesses around the world are increasingly aware that all aspects of performance – from supply chain efficiency, to overall technology innovation - can be improved through use of data and analytics. This is particularly evident in the ASEAN bloc (Fig. 8), with 84% of survey respondents reporting the use of data to optimise their business – higher than the global average of 75%. Sales data is the most commonly used (60%), followed by operational data (57%) and market data (51%). The Internet of Things was most frequently identified amongst digital innovations as offering opportunities, with 70% of respondents viewing these technological developments favourably (compared to 56% globally).

Fig. 8: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

Fig. 7: Top 3 actions for future company direction



How your business can respond

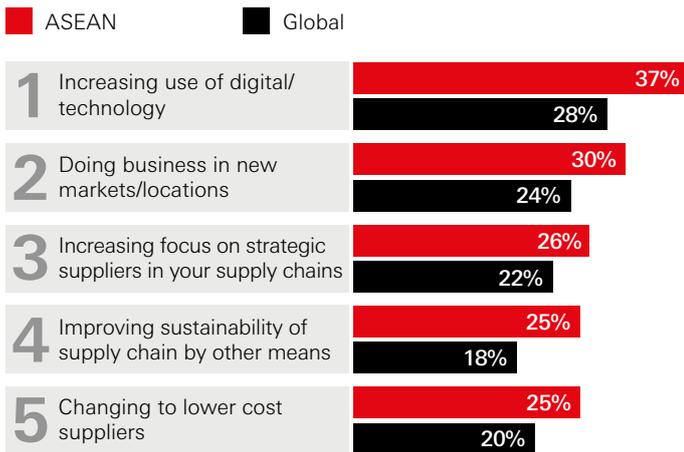
- ◆ Is your business enhancing its digital capabilities to remain competitive and meet customer expectations?
- ◆ Have you considered using data from connected devices, machines and other assets to manage your supply chain in real time?

Technology is being deployed to improve supply chain efficiency

More than one third of ASEAN firms (37% goods, 34% services) say increased use of technology is the top change planned in their supply chain, with doing business in new markets the second (Fig. 9 and Fig. 10), compared to the global averages of 27% and 21% respectively. Increasing profits and cost reduction were the most frequently cited objectives behind these changes. The results demonstrate that both goods and services firms across the region increasingly view technology as central to their business strategies.

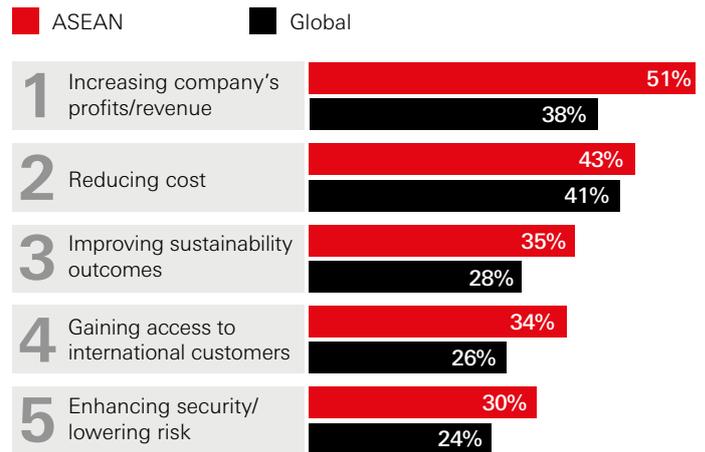
Fig. 9: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

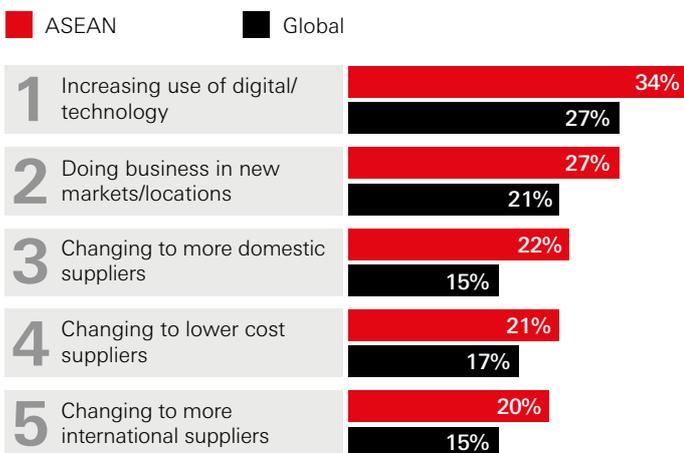
Top 5 objectives behind the changes



It was notable that improving sustainability outcomes was also identified by around a third of ASEAN respondents (35% goods, 27% services) as a planned outcome of company actions – higher than the global average of 28% for goods and in line with the global average of 27% for services. The majority of companies (72%) in the economic bloc believe they are on par or ahead of their competitors in ethical and environmental sustainability.

Fig. 10: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

Top 5 objectives behind the changes



About HSBC Navigator ASEAN

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets, and 1000 from ASEAN markets of Indonesia (200), Malaysia (200), Thailand (200), Vietnam (200) and Singapore (200). Sample sizes for each market were chosen to ensure the statistical accuracy of results.

Global results are based on an average of the 34 markets (using weights based on each market's share of world trade) and ASEAN results reflect a weighted average of the five sample markets in this bloc. The survey was conducted over a six-week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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