

Navigator

Now, next and how for business

Indonesia

Indonesia

Indonesian firms upbeat despite external headwinds

Despite global trade tensions and recent exchange-rate volatility, the latest HSBC Navigator survey shows Indonesian firms are upbeat about near-term trade prospects. Regional trade and domestic economic performance have been resilient so far this year, which may explain why Indonesian firms are relatively more optimistic than their global counterparts.

What is happening now

Indonesian firms more confident on trade than their global peers

Indonesia's economy continued to expand at a sub-potential pace in the first half of 2018, reflecting subdued growth in consumer spending and subdued private investment. Export growth has been reasonably firm, albeit having moderated from the elevated levels reached in the second half of last year. For now, exporters are still enjoying a supportive trade environment, particularly in Asia. But this environment is likely to become more challenging as cooling Chinese demand coincides with escalating global protectionism.

For now, Indonesian firms remain optimistic about the trade outlook, with almost nine out of ten survey respondents (88%) having a positive view on the international trade environment. Healthy global economic growth (29% of respondents) and a more competitive currency (26%) were the factors most commonly cited as reasons for this optimism. These trends have lifted the proportion of Indonesian firms that are confident their company will succeed in the current global trading environment (87%) above the global average of 81%.

Growing intra-Asian trade may have contributed to Indonesian firms' positive sentiment. In terms of destination markets where exporters are aiming to expand, Malaysia was most frequently mentioned by respondents, followed by Singapore and Japan (Fig. 1).

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Ensure your business is taking full advantage of the opportunities from increasing Asian economic integration and relevant free trade agreements.
- ◆ Make contingency plans in case trade tensions result in US tariffs being imposed on multiple Asian countries.

Policy Developments

Indonesian firms alert to growing protectionism

The feeling that the governments of key trade partners are becoming more protective of domestic firms has grown, with 71% of Indonesian respondents expressing this view, an increase of 16 percentage points compared to the last HSBC Navigator survey (conducted in late 2017). This result is also 8 percentage points higher than the global average, suggesting Indonesian firms are particularly concerned at the implications of escalating US-China trade tensions, reflecting China’s role as a key trading partner for Indonesia.

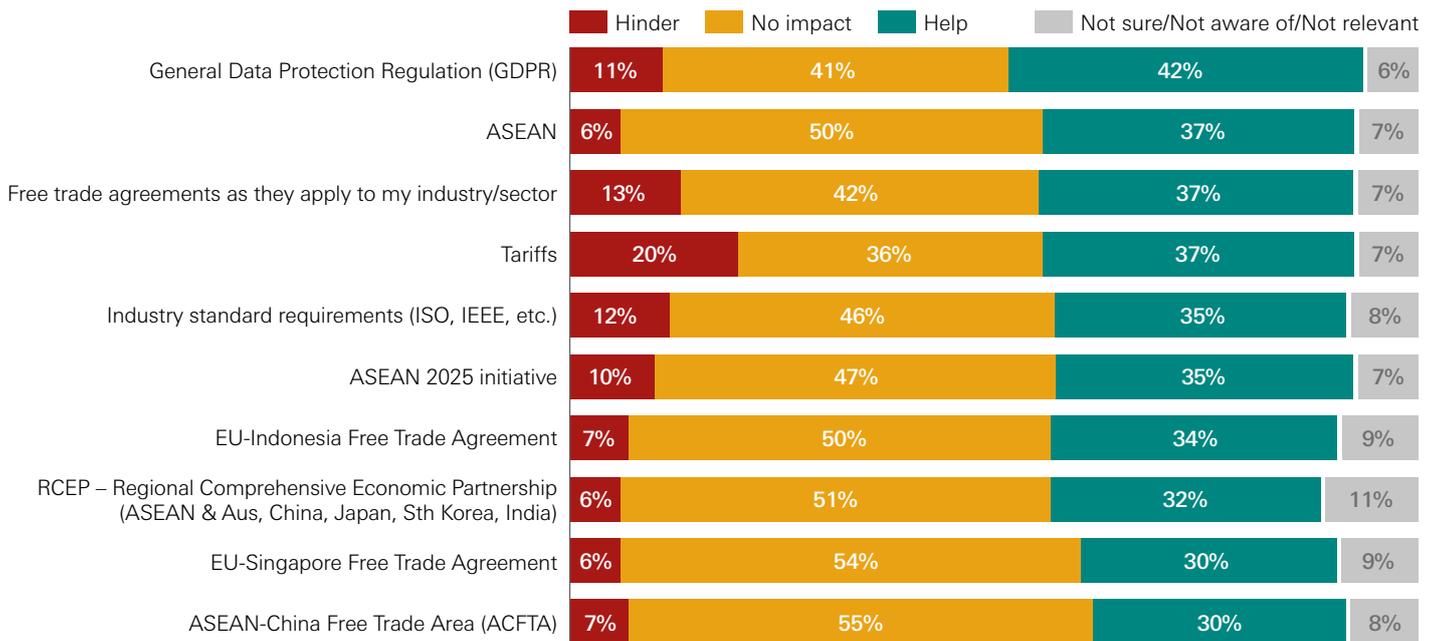
On the regulatory front, views amongst respondents in Indonesia are more diverse. While 45% of businesses see regulations as increasing their cost burden, almost a third (31%) perceive regulations as positive for competitiveness.

Overall, awareness around trade-related policies appears to be high amongst respondents, with the vast majority of companies seeing them as relevant for their business (Fig. 2). In line with the location of Indonesia’s largest export markets, slightly more businesses view ASEAN as helpful (37%) compared to a forthcoming EU-Indonesia FTA (34%). On the other hand, half of respondents thought that these initiatives would have no impact on their business.

How your business can respond

- ◆ Examine how exposed your sales and supply chains are to US and Chinese tariffs.
- ◆ Has your firm assessed if datasets related to social media, market data and the “Internet of Things” could enhance performance?

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Tepid domestic growth may be prompting firms to look abroad

Growing market share was identified as the primary strategic focus for shaping company direction by 43% of Indonesian firms (Fig. 3). Increasing emphasis on international markets also registered as a key focus (for 29% of companies), particularly among larger corporates. This may reflect broadly stable economic growth in Indonesia and increasing opportunities in fast-growing regional markets.

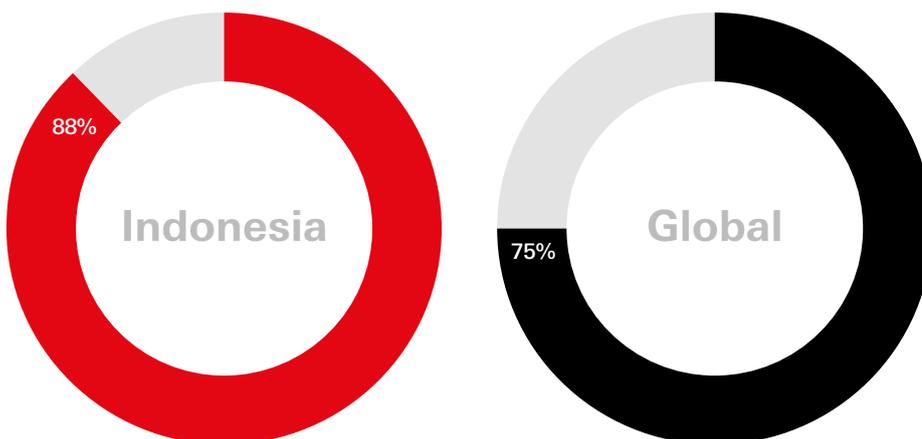
Indonesian businesses appear to have firmly embraced data to achieve their business objectives. Almost nine in ten Indonesian business (88%) report using data to optimise performance, 13 percentage points above the global average (Fig. 4). This is broadly true across newer, as well as more established companies. Furthermore, businesses' perception of the benefits of digital innovation in terms of improving efficiency, sales and customer satisfaction are also well above their respective global benchmarks. That said, compliance with applicable data protection regulations is still an issue for some companies, with just over a quarter of firms (26%) still only getting ready to comply.

Fig. 3: Top 3 actions for future company direction



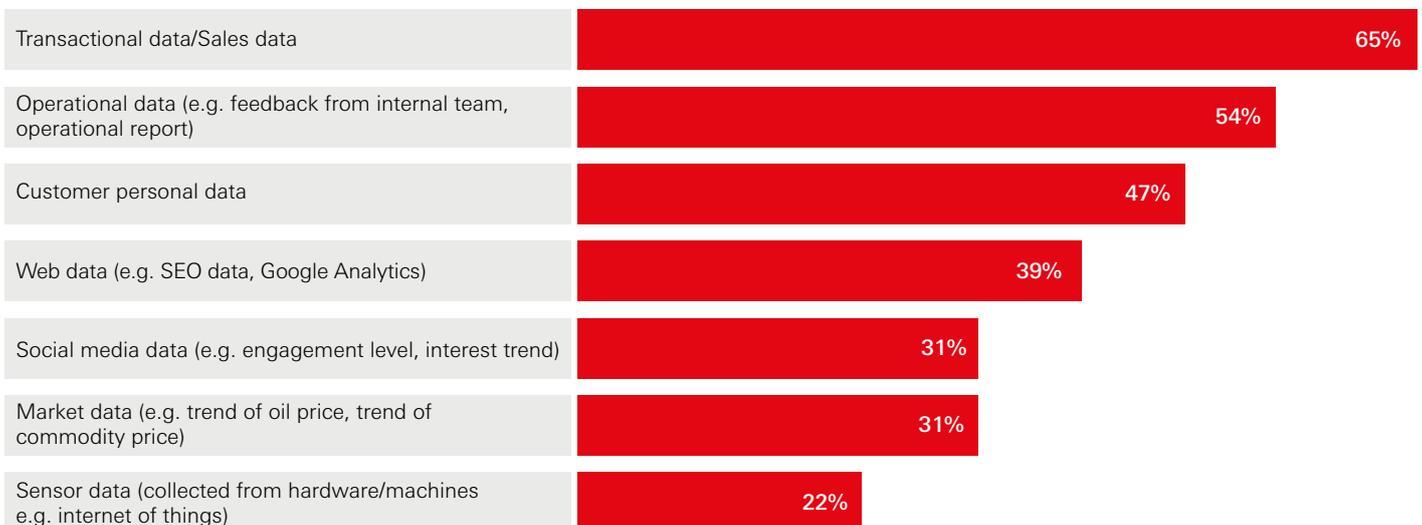
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



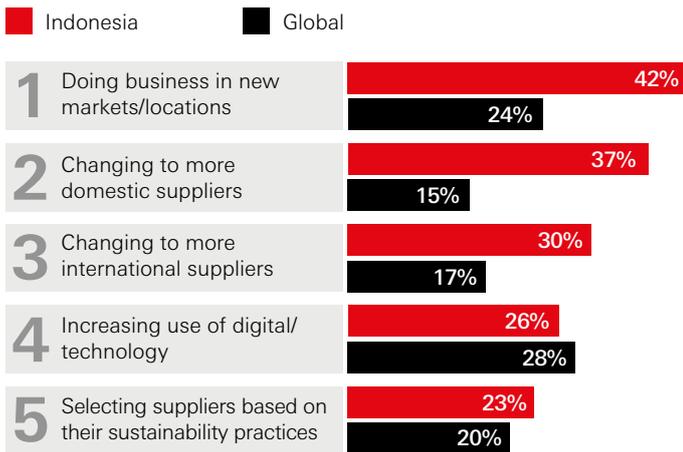
Source: TNS Kantar

Large domestic consumer market especially beneficial for service sector

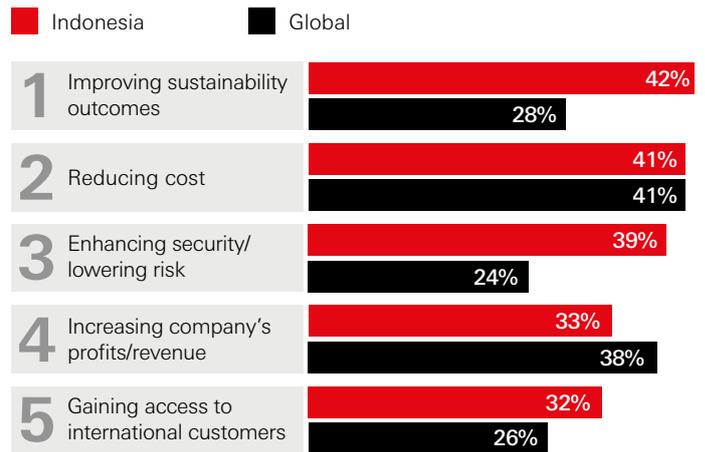
With Indonesia having not seen a pronounced cyclical improvement in the domestic economy, unlike some of its neighbours, 42% of Indonesian goods-producing firms said doing business in new markets was the top change planned for their supply chains (Fig. 5). This is almost double the 24% global average. Cost reduction, enhancing security and achieving more sustainable outcomes were the key motivations behind planned changes to the supply chain for goods.

Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes

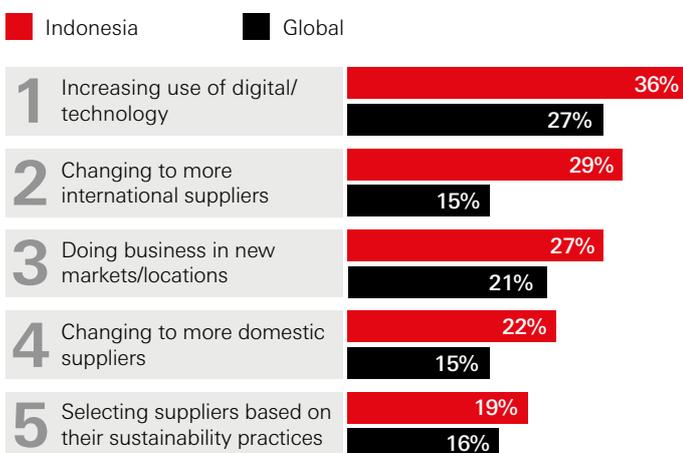


Source: TNS Kantar

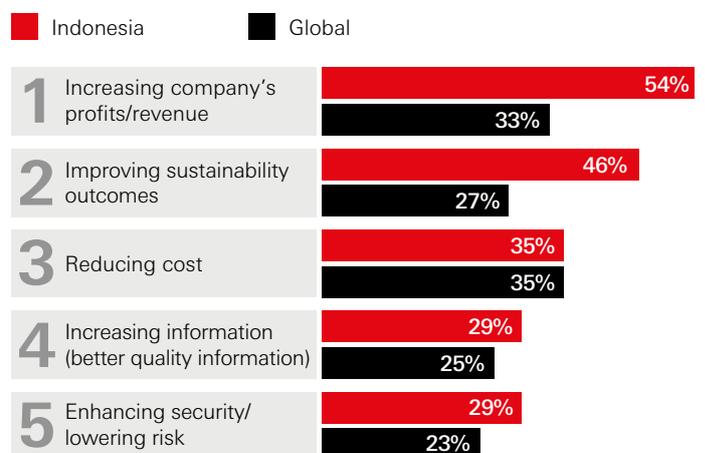
Perhaps reflecting Indonesia's lower share of services in its export mix and its large consumer market, services firms are relatively less focused on expanding business in new markets, with 27% planning to do so (Fig. 6). Instead, increasing the use of technology was the most commonly cited focus for services businesses (36% of respondents). Compared to their global peers, enhancing revenues and profitably was a more important objective underpinning supply chain plans for Indonesian service sector companies - this was the top objective for over half (54%) of services firms, compared to the global average of 33%.

Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes



Source: TNS Kantar

About HSBC Navigator Indonesia

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. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 205 businesses were surveyed in Indonesia. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). 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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Issued by HSBC Bank plc
8 Canada Square
London E14 5HQ
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