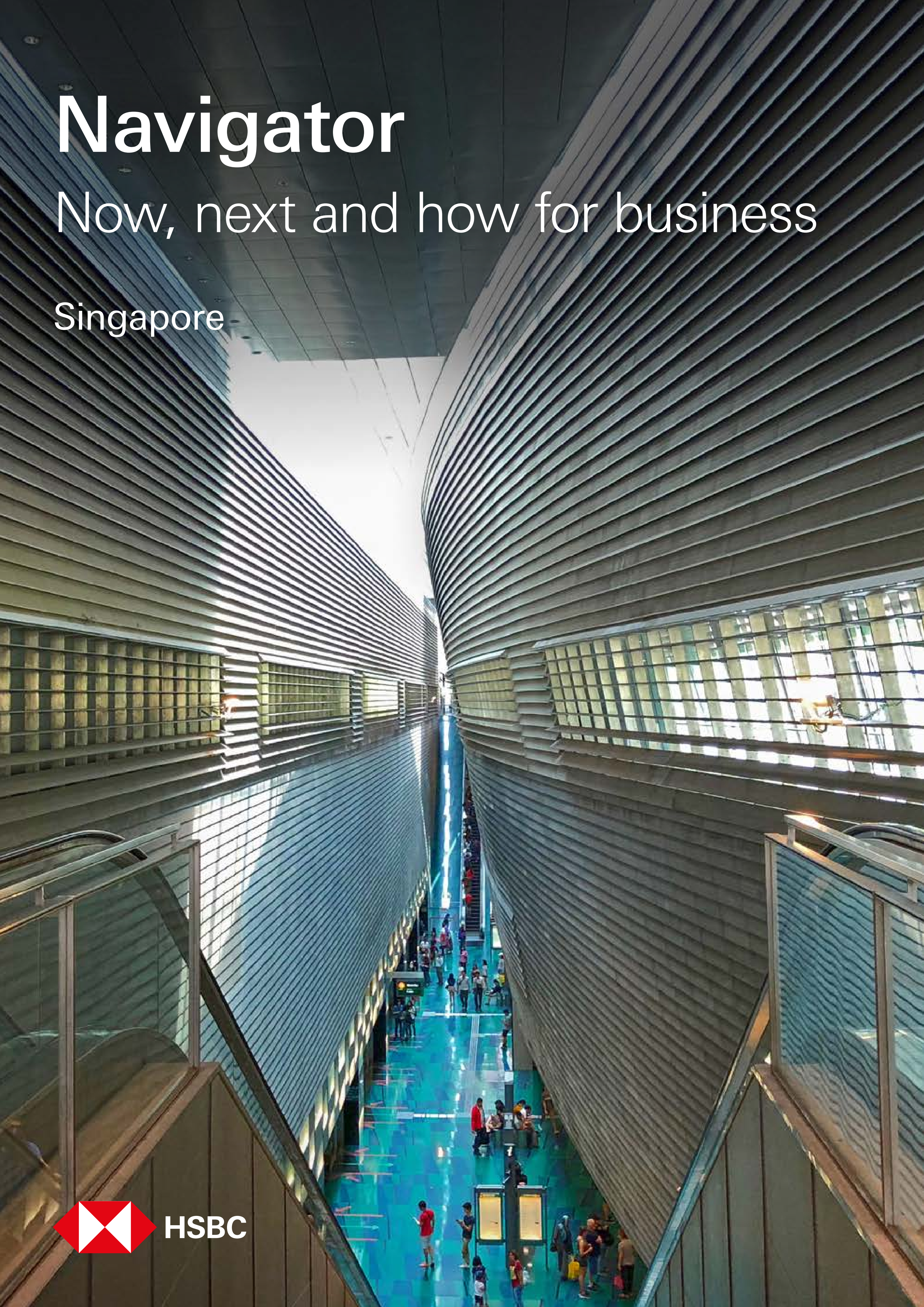
Navigator

Now, next and how for business

Singapore



HSBC

Singapore

Firms focus on the positives, supported by activist policy

Despite economic data suggesting the trade outlook is weakening as we head into 2019, Singaporean firms remain very positive about their trade prospects. The government's vigorous efforts to push trade liberalisation in the region are providing a powerful offset to increased US-China tensions, which would impact key service sectors in Singapore. Firms are also planning for future growth, again supported by the government's ambitious reform and investment plans.

What is happening now

Export-dependent economy to face trade headwinds

After a solid start to the year, we expect economic growth to slow in H2 as manufacturing activity, which was the key driver behind growth in the first half of 2018, loses steam. This partly reflects base effects from a particularly strong H1 (i.e. activity settling at the new level), but more fundamentally the manufacturing sector also faces headwinds from cooling Chinese import demand and increased global trade protectionism. Both drags to growth are likely to intensify as we head into 2019.

Despite potentially challenging business conditions, Singaporean respondents to the HSBC Navigator survey remain upbeat. Four out of five (80%) Singaporean businesses believe that the outlook for international trade is positive, slightly higher than the global average (77%). Exporters still identified Singapore's traditional trade partners (China, US, and Malaysia) as those offering the best growth opportunities (Fig. 1). For the minority of companies with a negative perception about the future, over a quarter (28%) saw tariffs as the biggest drag. Overall, 82% of Singaporean companies are confident that they will succeed in the current economic environment, very close to the global average of 81%.

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

- Given heightened US-China trade tensions, look for inter-regional growth opportunities.
- Explore how technologies can improve the agility of your firm to respond to global supply challenges.

Policy Developments

Regional trade driving business confidence

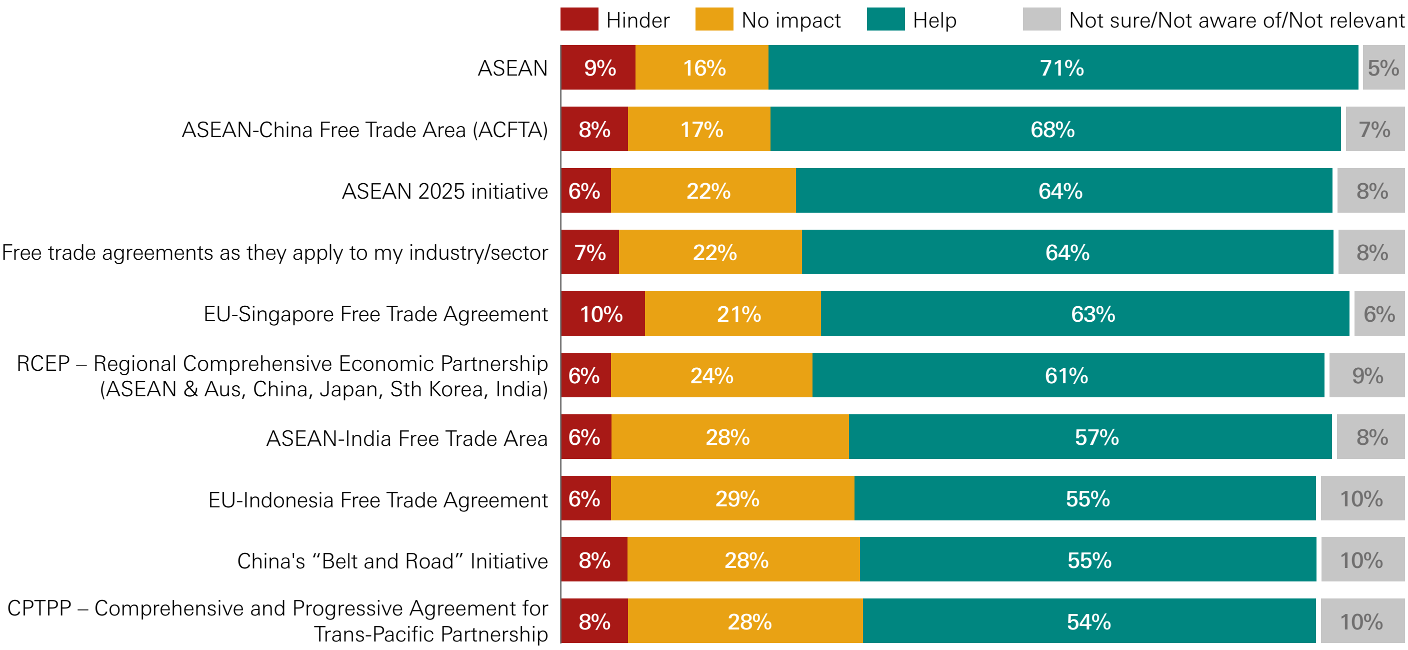
More than two-thirds (69%) of Singaporean businesses surveyed feel that foreign governments of key trading partners are becoming more protective of domestic firms. Despite being marginally higher than the global average of 63%, Singapore's result is broadly unchanged from our last survey, conducted in late 2017. As a small, open economy acting as a key trade hub, it is perhaps surprising that trade fears in Singapore are not significantly higher than the global average, but this may stem from the ongoing engagement by the Singaporean government to spur regional trade liberalisation. The government is currently in negotiations to upgrade the FTAs with both China and India, as well as having signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and European-Singapore FTA (EUSFTA) earlier this year. On the regulatory front, 40% of firms see regulation as an extra cost burden with more than a quarter (28%) also seeing it as to opening physical offices in those markets. On the other hand, just under a third perceived regulation as a positive for competitiveness.

Almost two thirds (64%) of firms think that free-trade agreements will have a positive impact on their business over the next three years (Fig. 2); more than two thirds of respondents see ASEAN and the ASEAN-China Free Trade Agreement as helpful to their business. Singaporean exports to Asia accounted for around 70% of total exports in 2017 and we expect the region to remain the key growth market for businesses. Opinions are mixed on the US-China dispute, with 35% of firms thinking that it will be helpful (possibly offering a chance to take market share from affected economies) but 31% of firms believe it will be harmful (likely those supplying with intermediate goods, or those providing services to support global trade flows). Most businesses do not see Brexit as having an impact on their business.

How your business can respond

- Explore how new aspects of FTAs with India, China and the EU open opportunities for your firm.
- Review exposure of sales and downstream supply chains to US and Chinese tariffs and develop contingency plans.

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?

Productivity and digitalisation seen as key factors to boost market share

"Growing market share" was the key focus most frequently identified by Singapore companies (Fig. 3). Firms also intend to focus on productivity and skills development as well as increase digitalisation. These actions are consistent with the increased emphasis of the Singapore government to boost productivity and longer term economic growth given the challenges of an ageing population. The government is encouraging firms to invest in labour saving technology through programs such as Industry Transformation Maps, the SME Go Digital program and re-skilling programmes.

Almost three-quarters (74%) of Singapore firms surveyed utilise data to optimise performance, on par with the global average (Fig. 4). The use of operational data was most common (used by 58% of firms), followed by market (56%) and transactional (sales) data (52%). In terms of opportunities arising from digitisation, the Internet of Things, AI/machine learning and more efficient manufacturing are viewed as the most significant with targeting new customers (46%) the key objective behind investing in digital technology. While increased regulation on data compliance (32%), customer demand for transparency and privacy (33%) were identified as key challenges. That said, the majority of firms appear well placed to meet these regulatory requirements. More than 48% of firms survey said they already complied with the applicable data protection regulations and 23% said they had more stringent control and monitory practices in place than was required.

Fig. 3: Top 3 actions for future company direction

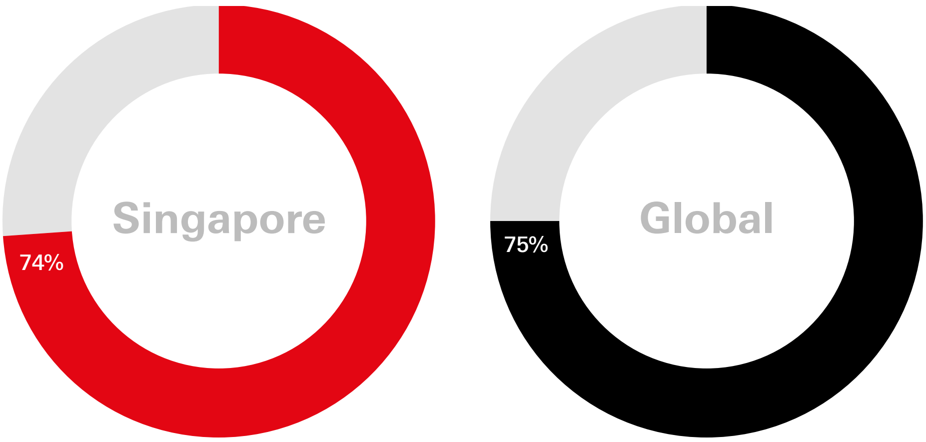
1 Growing market share

2 Increasing emphasis on productivity/skills development

3 Increasing emphasis on digitisation

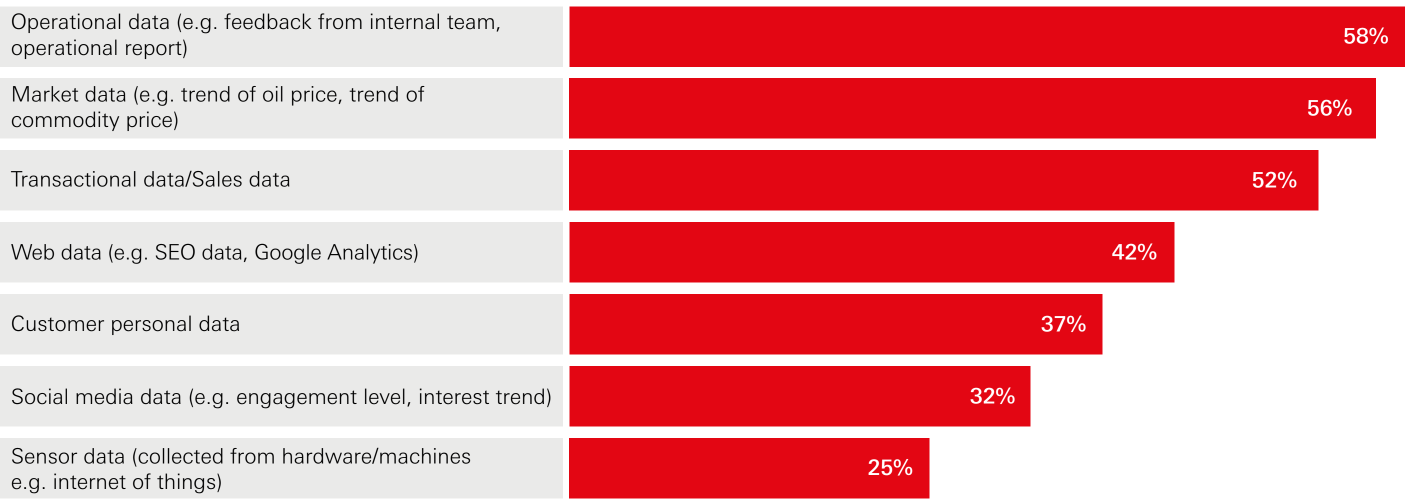
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



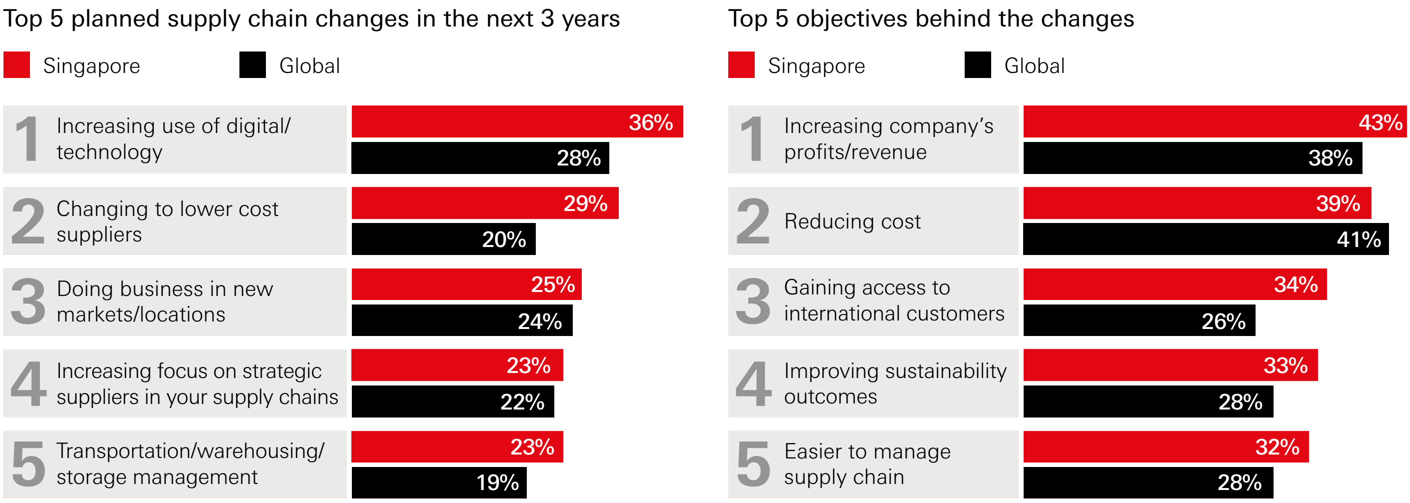
Source: TNS Kantar

Increased use of technology to reduce costs and increase competitiveness

Almost all businesses (goods 91%, services 80%) monitor their supply chain for environmental and ethical standards to some extent. However, only one third (32%) of manufacturing firms and even fewer service businesses (12%) monitor fifty percent or more.

A little over a third of firms surveyed in the goods sector said that increasing their use of digital technology was the top change planned for supply chains (Fig. 5). Changing to lower cost suppliers and doing business in new markets were the next most-cited changes as businesses push for cost reductions to improve increased company profits/ revenues whilst increasing competitiveness to gain access to international customers.

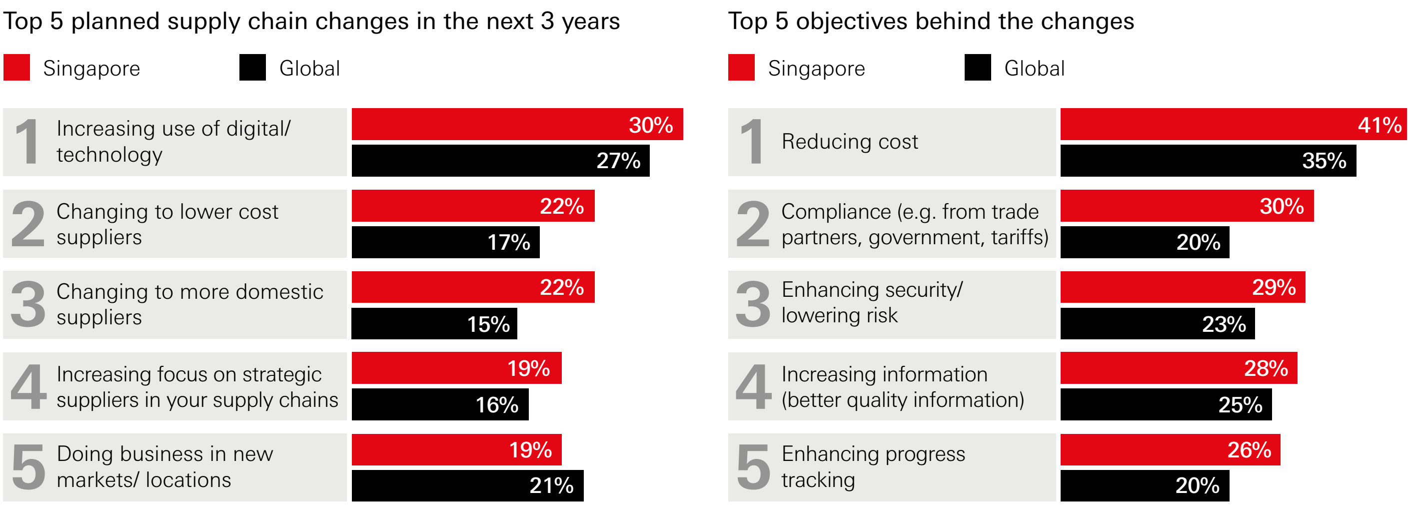
Fig. 5: Supply chain changes for goods



Source: TNS Kantar

Among services firms, increasing digital/technology is the top planned change in the supply chain in the next three years (Fig. 6). Firms are also looking to change to lower cost supplies and 22% are planning to turn to the domestic market. Similar to manufacturing firms, reducing costs is a key factor behind the planned changes. That said, around 30% of services firms are also making these changes to be compliant with trade partners as well as enhance security and lower risk.

Fig. 6: Supply chain changes for services



Source: TNS Kantar

About HSBC Navigator Singapore

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, with 200 businesses surveyed in Singapore. 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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