HSBC Navigator: SEA in Focus

HSBC | Opening up a world of opportunity

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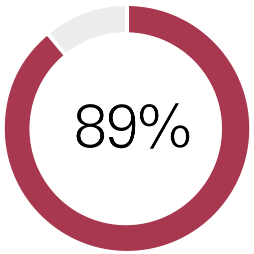
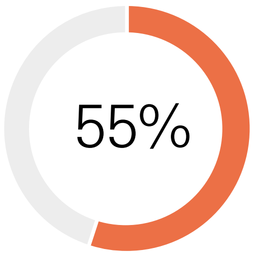
Introduction

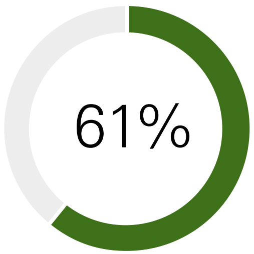
Emerging from the global pandemic, the economies of Southeast Asia (SEA) are primed for growth. Our survey of more than 1,500 companies from six of the world's largest economies[1] – all of which have operations in Southeast Asia – demonstrates the high confidence and surging ambitions of international businesses:



plan to expand into new markets within Southeast Asia over the next two years.



plan to 'significantly' increase their inorganic growth[2] in the region over the same period.



believe that their organic growth[3] in the region will increase by 20% or more over the next 12 months.

Digitisation and sustainability are central to the corporate agenda, a fact reinforced by the investment plans of these companies. Over the next 12 months:

- 49% intend to invest 5-10% of their operating profit into digitising their operations in the region, with another 26% intending to invest more than 10%.
- 47% intend to invest 5-10% of their operating profit into increasing the sustainability of their operations, with another 21% intending to invest more than 10%.

For these companies, the main barrier to increasing the sustainability of their operations in Southeast Asia is one of finding the talent with the right skillset – an issue identified by nearly 1 in 3 (32%). Meanwhile, cybersecurity is the top area these companies would like their banking partner to provide support on – also identified by roughly 1 in 3 (34%).

Finally, it is interesting to note that given Southeast Asia has been a bastion of free trade for many years and includes integral players in two large multilateral trade deals (RCEP and CPTPP), roughly 4 in 9 of the companies surveyed either are not aware of or do not intend to use these free trade agreements. Should awareness not be built, this could turn into a missed opportunity in harnessing the cohesive benefits of doing business in the region.

1 The companies who participated in our survey came from China, France, Germany, India, the UK and the US
2 Inorganic growth is mergers, acquisitions and takeovers
3 Organic growth refers to sales and exports

Key Themes

Growth expectations
International businesses have strong expectations of continued growth in Southeast Asia. 61% of the surveyed companies expect organic growth of 20% or more over the next 12 months, and only 9% expect no change or reduction. Confidence is especially high among Indian firms, with 80% expecting organic growth of 20% or more in the same period. US firms (68%) and Chinese firms (66%) are also bullish (Figure 2).

When it comes to inorganic growth, 55% of these companies plan to 'significantly' increase M&A activity in the region in 2022-2023 (Figure 1). This sentiment is particularly strong among companies from the world's two largest economies: 64% of US firms and 61% Chinese firms (Figure 3).

Finally, when it comes to entering supply-chain partnerships or joint ventures with Southeast Asian companies, 53% of the surveyed companies plan to do so in 2022-2023. Again, the sentiment is particularly strong for US firms (63%) and Chinese firms (61%).

Current and new markets
Of the 1,500 companies surveyed, half have operations in Singapore – little surprise as the city-state is the business hub of Southeast Asia. Meanwhile, 37% have operations in Thailand, 32% in Malaysia, 32% in Indonesia, 28% in the Philippines and 26% in Vietnam.

When asked about which Southeast Asian markets to enter over the next two years:

- 23% cited Thailand
- 21% cited the Philippines, with particular focus from US firms (29%) and Chinese firms (28%)
- 20% cited Indonesia and 19% cited Malaysia, with particular focus from Indian firms (25% for both markets)

Based on the survey findings, Chinese firms and Indian firms are more likely to grow their operations in Southeast Asia over the next two years, likely due to their proximity to the region.

Figure 1. When and how are companies planning to achieve growth in the region:

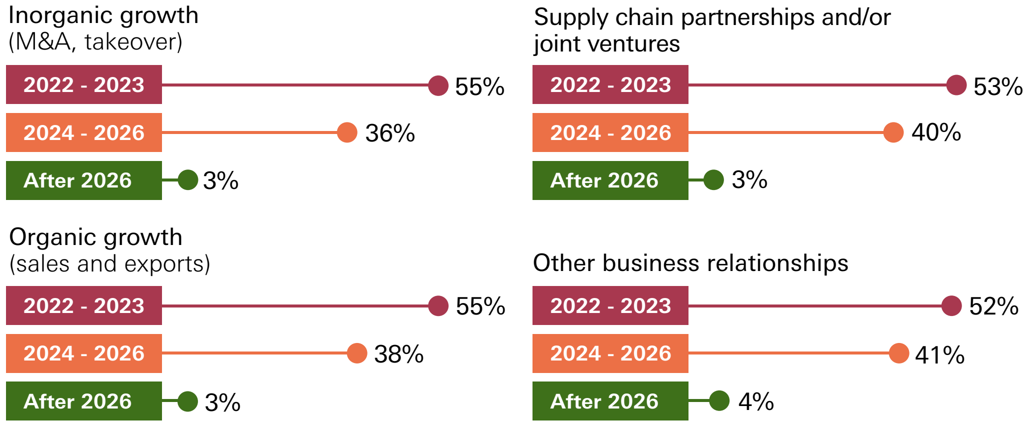


Figure 2.
Expecting organic growth of 20% or more

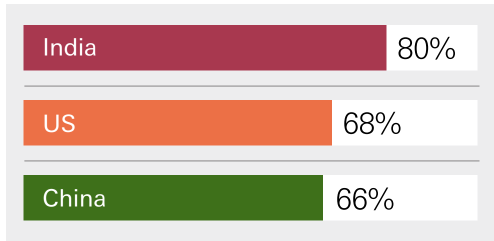
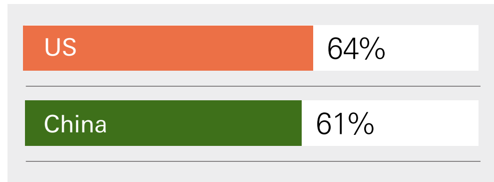


Figure 3.
Planning to 'significantly' increase M&A activity by the end of 2023



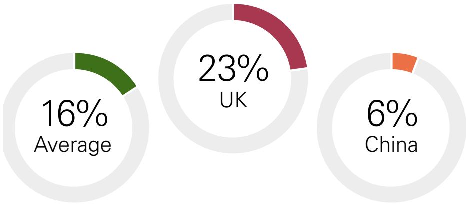
Bastion of free trade

Southeast Asia sits at the crossroads of two of the largest Free Trade Agreements (FTAs) in the world: RCEP (Regional Comprehensive Economic Partnership), which all of Southeast Asia is part of, and CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which Malaysia, Singapore and Vietnam are part of. That said, the knowledge of and interest in these Free Trade Agreements vary among our respondents. 16% of the surveyed companies are not aware of RCEP, while another 16% are not aware of CPTPP (Figure 4).

UK respondents are particularly unlikely to have heard of CPTPP, with 23% saying they are not aware (comparable to their French and German counterparts) even though the UK has formally applied to join. This lack of knowledge is especially apparent when compared to Chinese companies. Like the UK, China has applied to join the agreement; even though not yet a member, only 6% of Chinese companies have not heard of it.

Over half of the French and German corporates participating in this survey are not aware of or do not intend to use the EU-Singapore Free Trade Agreement. An even greater share in both countries are similarly unaware of or uninterested in the EU-Vietnam Free Trade Agreement; only 42% of French companies and 38% of German companies intend on using it to increase their trade with the region.

Figure 4. **Percentage of companies not aware of CPTPP**



Opportunities and challenges

Southeast Asia's potential is well known and can be summed up with three Ds:

Demographics: a growing population, a growing workforce and a growing consumer class

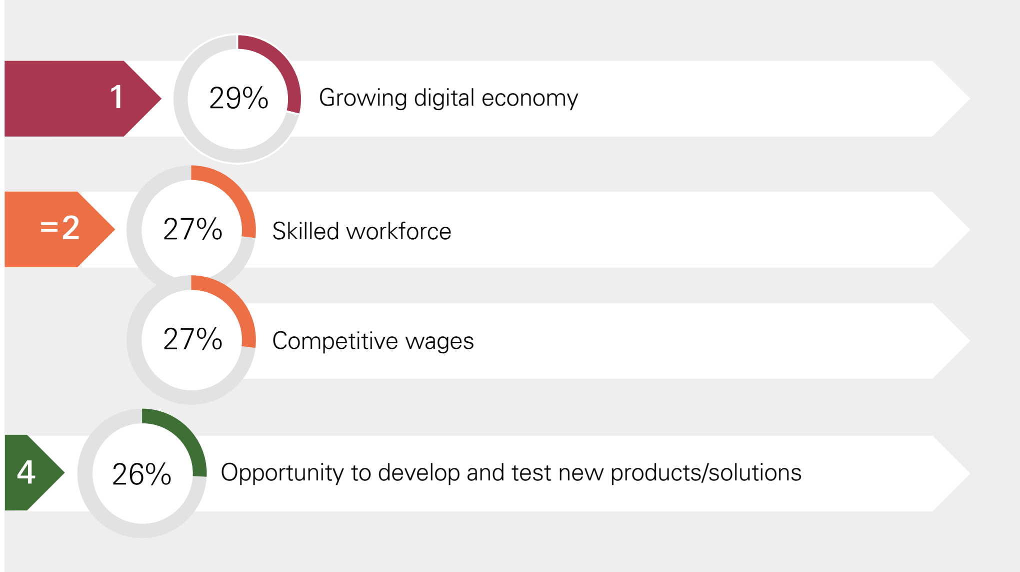
Digitisation: home to a fast-growing population of digital natives, and rapid digital innovation by companies

Dynamism: the entrepreneurialism of Southeast Asians has produced a vibrant startup scene that rivals any other in the world

For the 1,500 companies we spoke to, the attractions of Southeast Asia are many. 29% cite a growing digital economy, notably most likely to be selected by US, Indian, and German companies as the factor making expansion in the region attractive to them. A skilled workforce and competitive wages (both at 27%) score high as does the opportunity to develop and test new products/solutions (26%) (Figure 5). Chinese companies are most attracted by the overall optimistic outlook for Southeast Asian economies (40%). That said, there are headwinds facing the region and the international businesses that want to succeed in it. Financial stability – which includes currency volatility, inflation, interest rates – is identified by around 1 in 3 (32%) as the leading challenge to conducting business. Supply-chain challenges relating to the pandemic are similarly important, with 31% of respondents highlighting this. 30% flag issues around adapting to fast-changing regulations and policies in the market; a further 30% state that finding the right talent is particularly challenging.

Regulatory-related challenges are seen as particularly difficult by Chinese companies. A higher percentage of Chinese respondents (45%) feel that new regulations and rules on carbon reduction could impact their business than any other category, as opposed to an average of 29% of respondents overall. Chinese companies are also especially likely to state that the challenge of adapting to fast-changing regulations and policies in the market is particularly challenging, with 44% selecting this. Meanwhile, Indian (40%) and US firms (34%) see finding the right talent for their Southeast Asian operations as the largest barrier.

Figure 5.
What makes Southeast Asia **particularly attractive for business expansion?**



The growth of digital technology is central to the promise of Southeast Asia, a fact well recognised by international companies.

Digitisation
The growth of digital technology is central to the promise of Southeast Asia, a fact well recognised by international companies. When asked what sector they considered to be the fastest growing in the region, 4 in 10 of the executives we surveyed pointed to IT.

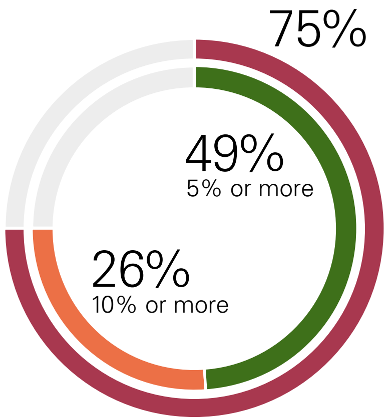
Almost half of respondent companies (49%) state that they intend on investing 5-10% of their operating profit into technology and digitisation in Southeast Asia over the next 12 months – a clear sign that they recognise the importance of enhancing digital capacities. Over a quarter (26%) expect this investment to be over 10%, underlining the high importance placed on these systems (Figure 6).

As companies and individuals grow more reliant on digital systems, it becomes ever more important to ensure they are secure. This is reflected in corporate attitudes: when asked what part of their organisation's digitisation ambitions they would like their banks to support them on, more than 1 in 3 (34%) cited cybersecurity. Digital payments and ecommerce/digital platforms are next, with 32% and 31% pointing to these respectively.

Indeed, cybersecurity is the top concern cited by all countries except China and the United States. 48% of Chinese companies state their desire for bank support in big data analytics, while 34% of US companies cited support in ecommerce.

Figure 6.
Investing in technology and digitisation:

75% intend on investing 5% or more of their operating profit over the next 12 months



Sustainability

Southeast Asia is among the world's most at-risk regions when it comes to the impact of climate change. In economic terms, the ADB estimates that if left unchecked, climate change could shave 11% off Southeast Asia's GDP by the end of the century.

There is a clear regional commitment to enact positive change. All 10 ASEAN (Association of Southeast Asian Nations) states are signatories to the Paris accord, and ASEAN has committed to make 23% of its primary energy renewable by 2025.[4]

In the face of ongoing challenges, international companies operating in Southeast Asia are striving to improve their sustainability. 37% state that they intend on using partners that are more local to their business; 36% planned on investing in/supporting their local communities (Figure 7).

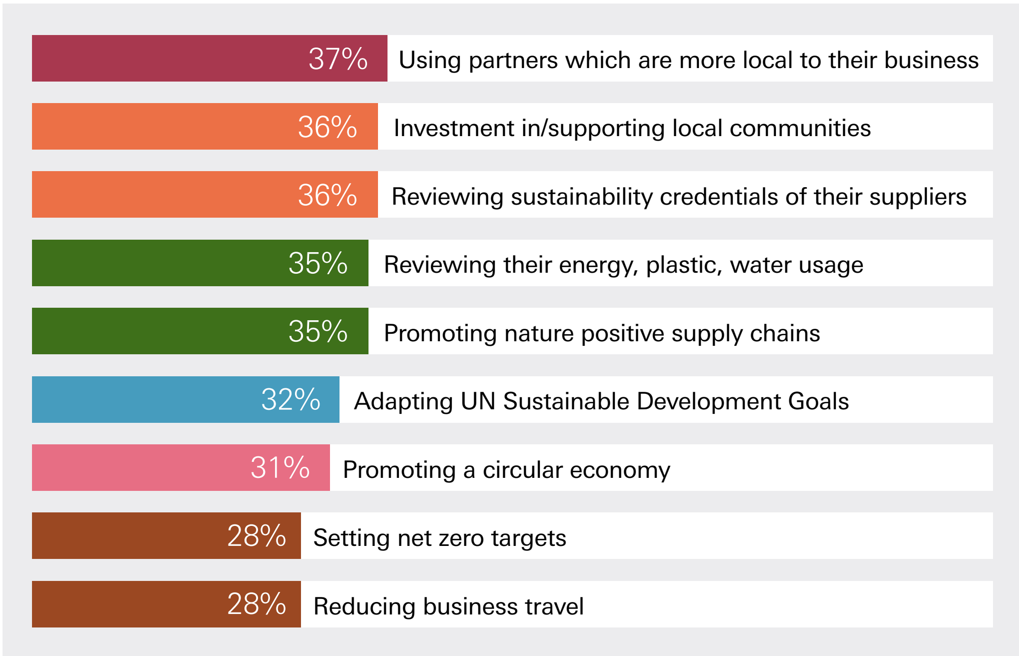
In addition, companies must increasingly be aware of reputational and regulatory risks arising as a result of their supply chains. It is therefore not surprising that 36% of international businesses say they intend on reviewing the sustainability credentials of their suppliers during this time.

Nearly half (47%) of the international companies operating in Southeast Asia state they would invest between 5% and 10% of their operating profits into increasing the sustainability of their business over the next 12 months.

The single largest barrier that international companies identify to make their Southeast Asian operations more sustainable is that of talent – nearly 1 in 3 (32%) point to the challenge of hiring employees with sustainability expertise.

In the face of ongoing challenges, international companies operating in Southeast Asia are striving to improve their sustainability.

Figure 7.
How international companies are planning to make their Southeast Asian operations more sustainable:



4 The sustainability gap in Southeast Asia: Ambitions vs Reality, Accenture, November 2021

Indonesia

General positioning

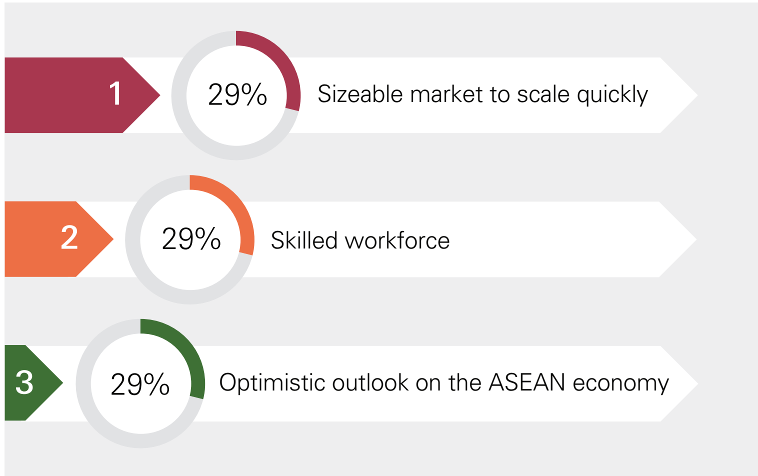
1 in 5 international companies planning new expansion in the Southeast Asian region stated that they planned to enter the Indonesian market. Among those with pre-existing investments in Indonesia, a further 1 in 5 were planning on prioritising their growth there.

Opportunities/attractions
On average, global businesses were most attracted to Indonesia due to the scale of its market, its skilled workforce, and optimistic economic outlook, with nearly 3 in 10 (29%) of international executives stating that each of these factors made expansion into Indonesia particularly attractive (Figure 8).

Perceptions on what made Indonesian expansion especially attractive to international businesses varied with country of origin. For Chinese companies, Indonesia's ESG, sustainability, and net zero ambitions were the most attractive feature of the market, closely followed by its sheer scale; 44% and 43% of Chinese companies respectively selected these as particularly attractive for business expansion.

Indian companies were most likely to flag the supportive government and regulatory environment as a particularly attractive feature, with over 4 in 10 (41%) doing so; by contrast, the British and the German companies were most likely to select Indonesia's skilled workforce as a particularly attractive feature to the country.

Figure 8.
What makes Indonesia particularly attractive for business expansion?



Challenges
Overall, international companies in Indonesia were most likely to consider that adapting to fast-changing regulations and policies in the market represented a particular challenge when operating in the Indonesian market, with 35% stating this. In particular, Indian and German companies rated this as one of their top challenges.

Financial volatility was also a major concern, particularly for US businesses; 42% stated that they consider this a particular challenge in Indonesia, making this the issue they were most likely to identify.

Sustainability considerations
International companies with Indonesia operations are making rapid investments into sustainability. Over a quarter expected to invest over 10% of their operating profit onto increasing the sustainability of their operations (27%); 46% expected it to be between 5% and 10%.

While international businesses are taking positive steps, these are not without challenges. 32% of international companies found that the business impact rules and regulation on carbon reduction represented a particular challenge to their operations in Indonesia. Chinese companies operating in Indonesia were especially concerned with the impact of these carbon reduction regulations, with 56% selecting this as particularly challenging; a further 49% noted concerns around financial stability.

Companies with operations in Indonesia found that improving energy efficiency would be the most important area of sustainability action to address, with some 44% selecting this. Improving energy efficiency was closely followed by reduction of packaging material and waste, which was selected by 43% of companies with Indonesian investments.

The primary barriers to improving sustainability found by international firms in Indonesia was the ability to hire employees with sustainability expertise; followed by a lack of government support and an inability to control supply chain patterns (both selected by 37%).

The primary barriers to improving sustainability found by international firms in Indonesia was the ability to hire employees with sustainability expertise.

Conclusion

As the largest market in Southeast Asia, Indonesia presents international businesses with unique opportunities for growth. With economic growth expected to increase to 5.9% by end of 2023[5], the country offers an enticing prospect to international corporations seeking to service Indonesia's increasingly affluent population. Blessed with many miles of coastline, its islands heavily forested, Indonesia is also highly vulnerable to sea level rises and deforestation. The challenge of effecting sustainable growth is therefore of great importance here - and it is a challenge that international corporations are doing their part to meet.

5 Bracing for Impact, Asian Economics Quarterly, HSBC Research, April 2022

Malaysia

General positioning

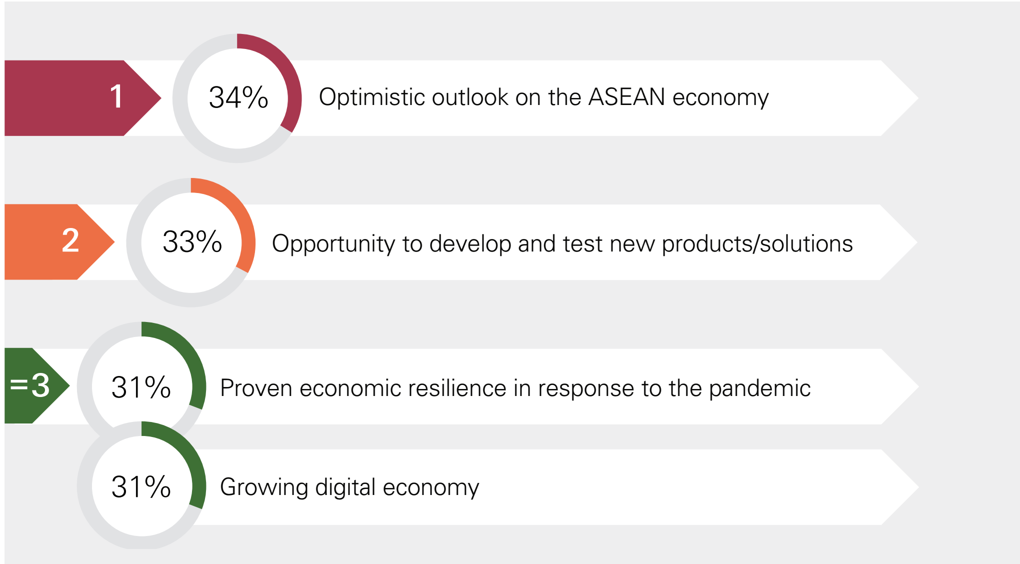
Compared to other Southeast Asian countries, there is strong Chinese interest in the Malaysian market. Among the 6 inbound markets in our study, Chinese companies were almost twice as likely to be planning an expansion of their Malaysian operations – 41% versus an average of 22%. Nearly 3 in 10 (29%) Indian companies and nearly 1 in 4 (24%) US companies looked to prioritise growth in Malaysia in the next 2 years.

Opportunities/attractions
Foreign companies are attracted to Malaysia on account of its optimistic economic outlook, and for the opportunity the Malaysian market provides to develop and test new products and solutions. A third of our respondents (34 and 33% respectively) pointed to each of these market features as attracting them to expand their Malaysian operations (Figure 9).

More broadly, we can expect strong and continued growth in Chinese investment in the region. Chinese companies were especially attracted by the opportunity to test new products there - some 42% of Chinese companies pointed to this as an advantage to the market.

43% US companies operating in Malaysia point to the easier trading afforded by free trade agreements as a particularly attractive feature of the market. On average, 30% of the companies surveyed cite ease of supply chain as a particularly compelling reason for business expansion.

Figure 9.
What makes Malaysia particularly attractive for business expansion?



As Southeast Asia's solar PV manufacturing hub, sustainability and renewable energy in particular is a clear potential driver of economic growth for Malaysia.

Challenges
Rapid regulatory changes (37%) and differing cultural norms (36%) were the top challenges seen by international companies operating in Malaysia. With nearly one in four respondents thus pointing to each of these two areas of concern, it is clear these are important local challenges to heed.

Sustainability considerations
As Southeast Asia's solar PV manufacturing hub, sustainability and renewable energy in particular is a clear potential driver of economic growth for Malaysia. It is clear that government authorities are taking steps to improve Malaysia's environmental position. Sabah state's environmental certification scheme for palm oil producer has been hailed for its 'pioneering' approach[6], and at the federal level, 2021 saw the adoption of Malaysia's 2020 Forestry Policy.[7]

Despite this, a number of foreign companies identified Malaysia's ESG positioning as leaving room for improvement. 34% of companies identified Malaysia as lagging behind other regions in terms of ESG credentials. A further 34% felt there was a lack of support for sustainability initiatives.

International firms with operations in Malaysia were most likely to regard the ability to hire employees with sustainability expertise and their ability to control supply chain partners as the biggest barriers they face to becoming more sustainable, with 39% selecting each of these problems.

Conclusion

Malaysia is viewed positively by international companies, with nearly 2 in 10 planning to expand there in the next two years – with particular focus from Indian firms (25%) and Chinese firms (22%). With expected GDP growth of 5.5% in 2022[8], Malaysia is clearly an attractive market – though it remains to be seen how supply chain disruptions stemming from the war in Ukraine will impact Malaysia and other Southeast Asian markets in the months ahead. Meanwhile, digital innovations continue apace.

In a further boost to the digital economy, recent months have seen the confirmation of Malaysia's 5G rollout plan and the awarding of five digital bank licenses by the Malaysian central bank. The country will be well-placed to develop these advantages. As one of the top three nations on the 2021 Global Innovation Index, Malaysia will continue to attract international businesses seeking to make use of the new opportunities opened up by the digital economy.

6 This Borneo state is bringing about a green palm oil revolution, here's how, World Economic Forum, February 2022
7 Where are Southeast Asian countries in their sustainability journeys? Accenture, May 2021
8 Bracing for Impact, Asian Economics Quarterly, HSBC Research, April 2022

Philippines

General positioning

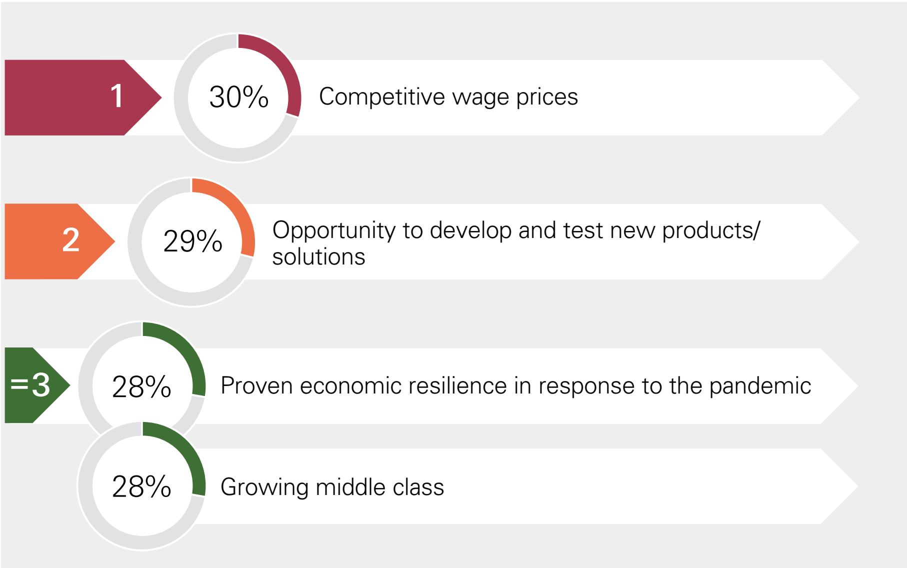
The Philippines are seen as a strong market for future growth. 1 in 5 companies (21%) planned to expand here, in the next 2 years, making the Philippines a close second as the most preferred destination for investment.

On average, 1 in 4 of international companies we surveyed currently have operations in this market; US and Chinese firms lead by a small margin, at 35% and 32% respectively.

Among companies with current operations in the Philippines, those from the USA are the most likely to be planning further expansion here in the next 2 years, with over a quarter (28%) stating they were doing so.

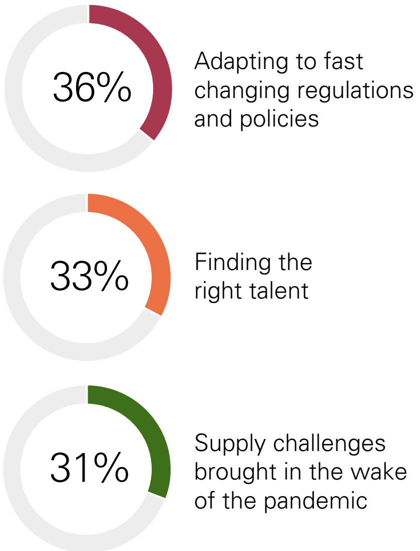
Opportunities/attractions
International businesses are particularly attracted to the Philippines on the basis of its competitive wage prices; 1 in 3 selected this as attractive, making it the most selected feature in the market. The Philippines was also highly rated as a market in which to develop and test new product/solutions, with 29% of international companies selecting this (Figure 10).

Figure 10.
What makes Philippines particularly attractive for business expansion?



Of the environmental issues they saw before them, improving energy efficiency and tackling climate change were identified as the top sustainability concerns.

Figure 11.
Challenges faced by international companies operating in the Philippines



Challenges
The problem of adapting to fast changing regulations and policies was most likely to be seen as a 'particular challenge' by international companies operating in the Philippines, with 36% of respondents selecting this. A further third (33%) highlighted the issue of finding the right talent, while 31% highlighted the supply challenges brought in the wake of the pandemic (Figure 11).

Chinese companies were particularly concerned with sustainability related issues; 48% felt that the Philippines lagged behind other countries in ESG (environmental, social, and governance) credentials, and a further 48% worried that new carbon reduction regulations there could impact their business.

Sustainability considerations
Over a quarter of international firms with operations in the Philippines were planning to allocate 10% or more of their operating profit to sustainability in the next 12 months – an impressive figure.

Of the environmental issues they saw before them, improving energy efficiency and tackling climate change were identified as the top sustainability concerns, with 43% and 42% of companies selecting these respectively.

The main barriers they identified were lack of government support, and issues hiring staff with sustainability expertise; both of these were selected by 35% of respondents with Philippine operations.

Conclusion

With an expected YoY GDP growth rate of 5.7 and 5.3% respectively for 2022 and 2023[9], the economy of the Philippines is expanding rapidly. Known for its competitive price of labour, the Philippines will continue to attract investment in the years ahead, with US companies playing a leading role. Presuming neither geopolitics nor a resurgent COVID-19 health crisis serve as a source of disruption, the future is bright for this market.

9 Bracing for Impact, Asian Economics Quarterly, HSBC Research, April 2022

Singapore

General positioning

Given its strong credentials as a world-class financial centre, Singapore is used by many international businesses as a hub for their regional ambitions. It is therefore no surprise that Singapore is the clear leading jurisdiction for engagement in Southeast Asia among our respondent companies, 50% of which have operations there using the Republic as a base for expansion to other markets. 39% of those with operations in Singapore also stated that they would be looking to prioritise further growth there over the next 2 years.

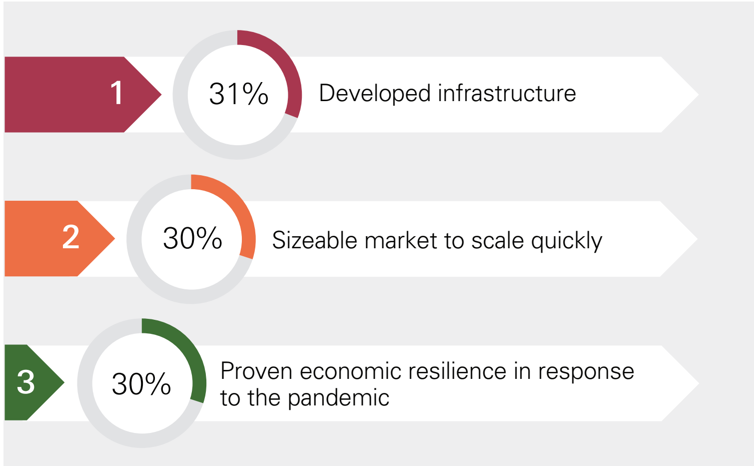
Singapore was the Southeast Asian market most likely to be seen as a good place to test new technologies and products, with 88% saying that they were 'likely' to do so in this market. 49% went so far as to say they were 'very likely'.

We asked our respondents to consider the relative strength of 10 Southeast Asian countries across 13 areas of digital technology. In each category, Singapore was deemed the clear leader. The executives we surveyed were most likely to pick Singapore as the leading market for each technology, and were typically twice as likely (or more) to pick Singapore as they did the next most favourable market.

International businesses placed their highest confidence in Singapore's leadership within IOT (Internet of Things), with some 35% stating they considered it the leader in this sector. Malaysia and Thailand were the second most likely to be considered as IOT leaders at 10% each.

A perception of Singaporean leadership existed at comparable margins for the key strategic technologies of 'Artificial Intelligence & Machine Learning'. 29% felt Singapore was the leading country for AI, ahead of Thailand or Indonesia.

Figure 12.
What makes Singapore particularly attractive for business expansion?



Singapore was widely perceived by international businesses as having demonstrated effective management of the COVID-19 pandemic. Some 42% of respondents stated their belief in Singapore's effective endemic management - a clear lead over the 27% who selected Thailand, the next most likely country to be considered as demonstrating an effective response (Figure 12).

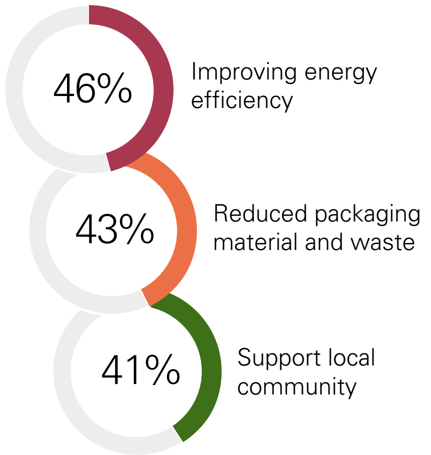
Singapore was the Southeast Asian market most likely to be seen as a good place to test new technologies and products.

Opportunities/attractions
Singapore's well-developed infrastructure was highly rated by international companies; 31% stated that it makes Singapore an attractive place for further expansion. Given Singapore's position for tech leadership in Southeast Asia, it is no surprise that just under 3 in 10 (29%) were also attracted by the growth of its digital economy.

Challenges
Singapore's established regulatory, legal and financial systems are a key draw for international businesses. It is worth noting that whilst Singapore was deemed as one of the most favourable countries out of the 10 Southeast Asian markets surveyed, those operating in the markets found the speed and intelligibility of regulations to be top challenges. 3 in 10 (31%) said their company found it challenging to adapt to fast-changing regulations and policies, and just under 3 in 10 (28%) stated that they had difficulty understanding local regulations.

Regulatory considerations were also relevant in relation to sustainability commitments - 29% of firms worried that the impact of new regulations and rules on carbon reduction could challenge their business.

Figure 13.
Sustainability actions companies operating in Singapore consider most important to be addressed:



Sustainability considerations
Presented with a list of 10 potential sustainability related actions to prioritise over the next 12 months, companies with operations in Singapore were most likely to indicate that they would be focusing on using partners more local to their business, with some 43% of firms indicating they would be doing this. More broadly, improving energy efficiency and the reduction of packaging material and waste were seen as particularly important among companies with Singaporean operations; 46% and 43% selecting these respectively (Figure 13).

Conclusion

Singapore's unique role as the entrepot for international investment and engagement in Southeast Asia continues to give it great prominence in the economic affairs of the region. It remains a favourite base of international companies as they plan their expansion into this part of Asia. Singapore's clear regional leadership in technological innovation gives it an additional competitive edge.

Thailand

General positioning

Thailand is seen by international companies as a strong destination for investment. It was the most popular choice for companies planning expansion into new Southeast Asian markets, with 23% intending to enter Thailand in the next 2 years. It was also the second most preferred Southeast Asian market for expansion after Singapore, for foreign firms who already have operations on ground (37%).

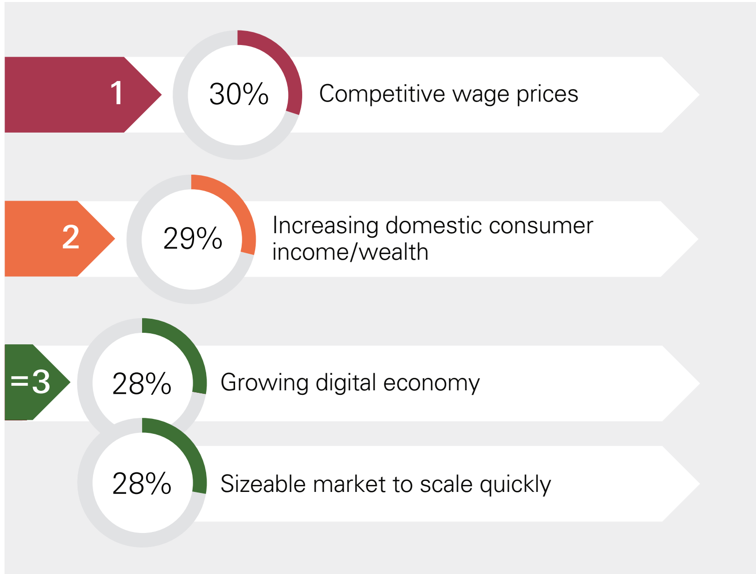
Confidence in Thailand is therefore high. It was rated second only to Singapore across a range of key areas of economic and governmental performance. It was seen to have weathered the storm well; 27% of international companies agreed that Thailand has handled the COVID-19 pandemic effectively, placing it second only to Singapore for the quality of its response (27%). On the technological front, Thailand was seen as having particular strength in biotech, where 17% of respondents stated it was a leading Southeast Asian country, and edge computing, where 14% did so.

Opportunities/attractions
Competitive wage prices, increasing domestic consumer income/wealth, and a growing digital economy were all seen as particularly attractive in encouraging greater investment into Thailand. 1 in 3 international companies with Thai investments mentioned the wage advantage, 29% pointed to increasing domestic wealth, and 28% raised the digital economy (Figure 14).

Challenges
International companies operating in Thailand were most likely to find financial stability, pandemic related supply challenges, and talent resourcing to be particularly challenging; 34%, 33% and 32% of them respectively found these to be of concern.

Chinese companies had particular concern regarding the perception that Thailand lags behind other regions in terms of ESG credentials; 48% of Chinese executives raised this, making it second only to their concerns regarding Thailand's financial stability.

Figure 14.
What makes Thailand particularly attractive for business expansion?



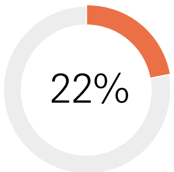
Thailand was the most popular choice for companies planning expansion into new Southeast Asian markets.

Sustainability Considerations
Both state and society in Thailand demonstrate clear belief in ESG principles. Initiatives such as the launch of Thailand's first Sustainability Bond in August 2020 illustrate government commitment to the ESG agenda, while in wider society external research indicates 4 in 5 Thais are more willing to put money behind sustainable brands (Figure 15). With foreign brands dominating Thailand's sustainability space, this is a large opportunity for international businesses.

Nevertheless, international companies are mainly drawn to Thailand by other factors. Thailand's 'ESG, Sustainability, and Net zero ambitions' were seen as the least attractive attribute of the market by our respondents, with only 22% stating that these would make it attractive for their business expansion (Figure 15).

Figure 15.

Thais are more willing to put money behind sustainable brands



Only 22% businesses found Thailand's 'ESG, Sustainability, and Net zero ambitions' to be attractive for their business expansion

Conclusion

International businesses are planning for strong expansion into Thailand, which was seen as the leading destination for expansion by the companies participating in our survey. As Thailand's economically influential tourist trade recovers to its pre-pandemic norm, the spending habits of foreign tourists will also play an important role in facilitating Thailand's short-term prosperity.

Vietnam

General positioning

Vietnam is clearly seen as an attractive destination for investment. In 2020, Vietnam received more FDI than any other Southeast Asian markets barring Singapore and Indonesia; it also received more than major economies such as France and South Korea.[10]

Over a quarter of our survey participants already had operations in Vietnam (26%). While proximity to China naturally facilitates Sino-Vietnamese business relations, US-Vietnamese commercial and strategic ties have also strengthened in recent years in the face of geopolitical tensions.[11] As such, while 37% of Chinese companies in our survey stated that they already had operations here, it is unsurprising that the second most likely home market of international businesses with operations in Vietnam is the USA. 29% of the US firms participating in this study have Vietnamese operations. Vietnam is seen as an important destination for further growth. Some 17% of our respondents stated that their business was intending on expanding into this market over the next 2 years.

Opportunities/attractions

On average, international companies found Vietnam's skilled workforce to be the most attractive feature of the market, with 3 in 10 stating this attracted them. An optimistic economic outlook, competitive wage prices, and the resilience demonstrated by Vietnam during the pandemic were all also seen as attractive by companies in assessing their business expansion; over a quarter of respondents (27%) mentioned these (Figure 16).

Different countries perceived Vietnam's advantages in different ways. Indian companies were approximately twice as likely to find its developed infrastructure as attractive to their international expansion. The difference was especially stark between Indian and UK firms; where 39% of Indian companies stated they were attracted by Vietnam's infrastructure, only 5% of UK firms did. UK firms were much more likely to be attracted by Vietnam's skilled workforce - 29% said they found this particularly attractive.

Indian, Chinese and US companies were similarly enthusiastic about Vietnam's supportive government and regulatory environment. 49% of Indians companies mentioned this, making it the single most attractive factor for companies from the country; 33% of US companies, and 30% of Chinese companies also selected this. By contrast, only 15% of UK firms, and 8% of those from Germany considered this an attractive feature of Vietnam.

Enthused by Vietnam's regulatory environment, US companies were very attracted by the opportunity Vietnam affords to test and develop new products/solutions, with 36% stating they found this attractive.

German companies were most likely to be attracted by the supply chain ease and social and political stability of Vietnam, with a quarter of German respondents selecting both as positive features of the market. The French were particularly attracted by the optimistic outlook of the economy, with 30% selecting this.

Figure 16.
What makes Vietnam particularly attractive for business expansion?

10 https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?most_recent_value_desc=true
9 The Unlikely, Indispensable US-Vietnam Partnership, Centre for Strategic and International Studies, 06 July 21

Challenges

The disruptive impact of the COVID-19 pandemic, and the challenges of adapting to contemporary sustainability requirements were the top issues faced by international businesses with operations in Vietnam.

Vietnam's hard line COVID-19 containment policies that were in place at the time the survey was conducted is reflected in the fact that 1 in 3 international companies reported pandemic related supply challenges as being particularly acute for their business.

Cultural issues were also a major concern. 31% pointed to these as a particular challenge of doing business in Vietnam; interestingly, and despite their geographic proximity, Chinese companies were over twice as likely to raise this as an issue compared to those in the UK.

Sustainability considerations

Vietnam has been striding forward in recognition and application of the sustainability agenda. In October 2021, it approved the National Strategy on Green Growth. Aimed at encouraging green growth and facilitating the transition to a net zero economy, this measure is an important step forward.[12]

Vietnam is a regional leader in its progress towards achieving the 17 UN Sustainable Development Goals (SDG). Ranked 51st of 162 countries by the SDG Index, it is thus rated as having greater success than all other Southeast Asian countries barring Thailand.[13]

Sustainability is a many-faceted concept. Among the international companies participating in our survey, 45% of those with Vietnamese operations stated that the most important sustainability actions they could take were improving energy efficiency; a further 42% underlined the importance of supporting local communities.

Some 31% of respondent companies operating in Vietnam worried that new regulations and rules on carbon reduction could impact them. It is therefore unsurprising that in order to achieve their sustainability goals, 3 in 10 international firms with Vietnamese operations pointed to a need for further improvement in their internal sustainability expertise; naturally, therefore, 36% flagged the difficulty of hiring employees who possessed the correct sustainability credentials and knowledge. Provided adequate training, it is clear these barriers can be swiftly removed.

12 Vietnam catches up with global ESG trends, IFLR, April 2022

13 Sustainable Development Report 2021, based on Sachs et al. (2021): The Decade of Action for the Sustainable Development Goals. Sustainable Development Report 2021. Cambridge: Cambridge University Press.

Vietnam has been striding forward in recognition and application of the sustainability agenda.

Conclusion

Vietnam's GDP growth is expected to make an impressive recovery over the course of 2022. HSBC research forecasts GDP growth rising to 6.2%[14] following a 2021 low of 2.6%.[15] Playing an important role in this story – and in the greening of the economy that sustainable growth requires - will be international companies attracted by the many benefits this market has to offer. As Vietnam continues to play a balancing act in the geopolitical dynamics of its region, its economic growth will nevertheless continue apace.

14 Bracing for Impact, Asian Economics Quarterly, HSBC Research, April 2022

15 Vietnam's economic growth is expected to accelerate to 5.5% in 2022 and greening its trade would offer new opportunities, Press Release, World Bank, 13th January 2022

Overall Conclusion

Despite the shadows cast by the global pandemic and other market uncertainties, international companies view the coming years as a period of great promise for Southeast Asia. A market of more than 600 million people, increasingly affluent and increasingly educated, with a startup scene that rivals any other in the world, Southeast Asia is indeed brimming with potential. To convert these opportunities, businesses need to invest to improve their sustainability and better harness the power of technology – not to mention better understand the intricacies and benefits free trade agreements have to offer in the region.

Methodology for the Report:

Survey with n=1,596 businesses with turnover of $5M USD or more from 6 markets globally including China, India, UK, France, Germany, USA, conducted 11-15 March 2022. Survey respondents were key decision-makers from companies already doing business in Southeast Asia or those considering doing so. Please note percentages have been rounded and as a consequence may not add up to 100%.

Note: There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding. Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.

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