

5 November 2018

## **Are ASEAN corporates downplaying the trade tension risk or spotting the supply chain opportunity?**

*\*\*86% of ASEAN firms bullish on outlook - more than any other trade bloc in the world*

*\*\*75% of ASEAN firms believe protectionism is rising - highest amongst all trade blocs*

*\*\*Technology the top change for ASEAN corporates' supply chains in next 3 years*

Brushing protectionism aside, South-east Asian corporates have the most bullish trade outlook in the world, a global HSBC report has found. Expecting more production to swing ASEAN's way, corporates are pivoting investment into supply chain technology to turn global trade tensions from a headwind into a tailwind.

The findings come from HSBC Navigator – a global survey involving 8,500 businesses in 34 markets. Within South-East Asia, more than a 1000 views were sought across the five largest ASEAN markets (Singapore, Malaysia, Thailand, Indonesia and Vietnam).

### **ASEAN bullish business outlook despite seeing increase in protectionism**

ASEAN is one of the most bullish regions for trade and commercial activity. This is despite having the highest proportion of corporates who expect protectionism to rise.

According to the report

- 86% of ASEAN firms are positive about their company's prospects in foreign trade – more than any other trade bloc and higher than global average of 77%.
- 75% of ASEAN businesses believe that governments are becoming more protectionist in their key export markets – the highest reported of all trade blocs and much greater than the global average of 63%.

Commenting on the report, HSBC Malaysia Chief Executive Officer, Stuart Milne, said: "ASEAN corporates are overwhelmingly bullish on their commercial prospects and fully expect protectionism to rise. This seems counter-intuitive at first glance and it certainly raises the question of whether they are underestimating the trade risks that come with rising protectionism or are shrewdly seeing opportunity amongst the trade disruption. Either way, supply chain diversion is coming ASEAN's way and corporates need to be ready."

## **ASEAN supply chains a potential winner from trade tensions – but don't expect large scale shift overnight**

HSBC Navigator highlights that China and US have so far been the focus of protectionist trade policies, but that there may be an indirect impact on the ASEAN bloc given the region's high level of exports to both countries.

At the same time, the report finds that tariffs also open up opportunities for ASEAN markets in areas like electronics, textiles and automotive.

ASEAN countries like Thailand and Malaysia already have existing production networks in electronics, especially in hard disk drive (HDD) assembly. Thailand exports about the same amount of finished storage units to the US as China does, which would make it relatively easy to shift assembly there, especially since Chinese shipment of HDDs to the US are now subject to at least 10% of US tariff.

Other members of the bloc like Singapore, the Philippines and Vietnam also produce a variety of electronic components<sup>1</sup>, while Vietnam and Indonesia have become increasing competitive in light manufacturing and textile exports.<sup>2</sup>

In textiles, Malaysia, Thailand, Indonesia, Philippines and Vietnam's exports of apparel and textile products nearly triple from USD 24.4 billion in 2001 to USD 71.8 billion in 2014. In 2016, its textiles exports were 42 billion. The next ASEAN country, Indonesia exported 16 billion worth of goods.

In automotive, Frost & Sullivan says that ASEAN will become the 6th biggest automotive market globally by 2018<sup>3</sup>. The automotive sector in Thailand is one of the key sectors in the Thai economy, continuing to grow at around 8.1 percent of GDP<sup>4</sup>

Stuart added: "Moving production to low-cost countries in ASEAN is nothing new and a shift in production to the region would be a continuation of what's already happening. The trade tensions may prompt an acceleration of this trend in the short-term which will positively affect countries with existing production capacity like the Philippines and Vietnam. But shifting supply chains on a large scale is not something that can happen overnight. If trade tensions linger, Thailand, Malaysia, and Vietnam are likely to see selective gains from export diversion."

## **Technology ramp up needed for supply chains – ASEAN corporates are focused**

With increased production on the cards for ASEAN's supply chains, technology will be a key element in managing any ramp up in capacity. It seems that this is a focus for many ASEAN corporates.

According to HSBC Navigator, 37% of survey respondents in ASEAN are focused on increasing the use of digital and technology within their business (versus 28% globally). Moreover, increasing use of technology is the top change planned to supply chains in the next 3 years amongst ASEAN respondents (34%) which is higher than the global average (27%)

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<sup>1</sup> Retooling Asia's supply chains, HSBC Global Research

<sup>2</sup> ASEAN Perspectives, Trade Wars: much pain, some gain, HSBC Global Research

<sup>3</sup> <http://investasean.asean.org/index.php/page/view/automotive>

<sup>4</sup> "Thai the knot," GoAuto News Market Insight Report, August 5, 2009, No. 494, pg. 18

Milne continued: "Whilst we're hopeful of a resolution to US/China trade protectionism, ASEAN corporates should prepare for trade tensions to remain over the medium term. Management teams that are considering shifting supply chains to ASEAN have to ask themselves many questions: 'Is there local capacity, how are these plants receiving raw materials, do they have people capacity, should they build new plants – are they even allowed to?' Amongst this, technology will be a common thread for consideration and will be key to increasing competitiveness and appeal."

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**Note to editors:**

**HSBC Navigator: Now, next and how for business**

HSBC's Navigator report comprises a global survey gauging business sentiment and expectations on trade activity and business growth from 8,650 decision-makers in 34 markets. Research was conducted by Kantar TNS for HSBC between August and September 2018. HSBC's Navigator helps businesses capitalise on new opportunities and make informed decisions for the future by understanding the outlook for international trade.

The full report can be accessed here: [www.business.hsbc.com/trade-navigator](http://www.business.hsbc.com/trade-navigator)

**About HSBC Malaysia**

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