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## **Southeast Asia: hiding in plain sight**

*Emerging-market jitters notwithstanding, there are compelling reasons to be optimistic about the economic prospects of this part of the world*

Ask many American, European or Canadian businesses or investors about “Asian business opportunities,” and they are likely to think “China,” and perhaps “India.” Southeast Asia – home to countries including Malaysia, Indonesia, Singapore and the Philippines – is likely to be an afterthought.

That is a pity. As we kick-start 2019, probably more than at any other time in the recent past — this fast-growing region is worth a serious look as a location to manufacture in, source from, and sell to. That’s despite the downturn in global emerging markets over the past few months.

Sheer size is part of the story, and it’s often not fully recognised by observers outside Asia.

Taken together, the 10 members of the Association of Southeast Asian Nations (ASEAN) form an economic powerhouse whose combined GDP of nearly USD 2.8 trillion in 2017 topped that of the UK, France or India in US dollar terms.<sup>1</sup> Put another way: If ASEAN were a single economy, it would rank sixth globally, after only the US, China, Japan, Germany and the Eurozone.<sup>2</sup>

Or take population. ASEAN’s 650 million people outnumber the population of the US by 2:1, that of the UK by almost 10:1. By 2030, their numbers will have swelled by another 80 million – or roughly the equivalent of the population of Turkey.<sup>3</sup> But it’s what’s going on beneath those headline numbers that is turning Southeast Asia into a bright spot on the global economic stage.

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1 World Bank and ASEAN data: <https://data.aseanstats.org/indicator/AST.STC.TBL.5> and [http://www.aseanstats.org/wp-content/uploads/2017/08/ASEAN\\_economic\\_progress.pdf](http://www.aseanstats.org/wp-content/uploads/2017/08/ASEAN_economic_progress.pdf);  
[https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year\\_high\\_desc=false](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year_high_desc=false)

2 Ditto

3 Per World Bank 2017 data: <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=VN>, and United Nations World Urbanization Prospects 2018 <https://esa.un.org/unpd/wup/>, <https://esa.un.org/unpd/wup/Download/>

“Today’s emerging-market jitters obscure, for now, how far the region has come since the 1997-1998 Asian Financial Crisis, or even the “Taper Tantrum” of 2013,” said Matthew Lobner, Head of International and Head of Strategy & Planning, Asia-Pacific, HSBC. “Its constituent economies, broadly speaking, are now more resilient to external financial shocks. Foreign exchange reserves have risen. External debt levels have come down. Current account balances have improved<sup>4</sup>.”

The region’s manufacturing capabilities, meanwhile, play an integral role in global trade and supply chains – and, like in China, businesses are going high-tech. Look across the region, and you will find factories that produce anything from high-end fabrics to hard drives and semiconductors.

“What’s more, many companies, both established and start-ups, now have the experience and clout to serve international markets and attract sizeable investments from abroad. Witness how Malaysia, Singapore and Indonesia have spawned start-ups like on-demand workforce portal GoGet.my, e-commerce portal Lazada, and ride-hailing-to-payments companies Grab and Go-Jek, which are rapidly becoming ubiquitous on streets and smartphones across much of the region<sup>5</sup>,” added Matthew Lobner.

On the consumption front, urbanisation and improving infrastructure have put millions within reach of higher-paying jobs and better education, healthcare and financial services opportunities. For many Malaysians, Filipinos or Thais, a flight to Hong Kong, London or even San Francisco is no longer a financial impossibility. A new car or a life insurance policy? For the first time, it’s something to consider.

No wonder that a survey by the EU-ASEAN Business Council last year found 99 percent of European businesses in the region expect to maintain or expand their trade and investment there over the next five years.<sup>6</sup> Meanwhile, HSBC’s recent Navigator survey of companies around the world found respondents in Southeast Asia to be the most upbeat on the global trading environment.<sup>7</sup> The HSBC Navigator survey also shows that nearly nine out of ten respondents in Malaysia are positive on the outlook for international trade, significantly higher than the global average and almost equal numbers with a positive outlook on Malaysia.<sup>8</sup>

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4 HSBC Global Research: ASEAN Perspectives, 20 Years On, July 2017

5; <https://ventures.grab.com/what.html>; <https://www.lazada.com/>; <https://www.go-jek.com/about/>. See also <https://asia.nikkei.com/Spotlight/Cover-Story/Go-Jek-sparks-an-Indonesian-banking-revolution> and <https://www.ft.com/content/d08d77d2-83df-11e8-a29d-73e3d454535d>

6 <https://www.eu-asean.eu/single-post/2018/08/27/EU-ABC-Publishes-2018-Business-Sentiment-Survey-Press-Release>. Full report:

[https://docs.wixstatic.com/ugd/63371b\\_a8124d48d53747039e143e04d187d2d1.pdf](https://docs.wixstatic.com/ugd/63371b_a8124d48d53747039e143e04d187d2d1.pdf)

7 HSBC Navigator report, Nov 2018: <https://www.business.hsbc.com/trade-navigator/asean>

8 HSBC Navigator report, Nov 2018: <https://www.business.hsbc.com/trade-navigator/asean>

True, doing business in this sprawling and breath-takingly diverse region is not without challenges. Swings in commodity prices and global investor sentiment still have the capacity to hurt individual economies to different degrees. And while tariffs on goods traded between ASEAN members have effectively been eliminated, and global trade tensions may actually see production and supply chains move towards the region, that does not mean that policy makers and companies can afford to stand still. More needs to be done to remove obstacles to the flow in services and labour, lower cross-border financial transaction costs, and erode non-tariff barriers, for example, and continued investment in education and productivity growth is key. <sup>9</sup>

Then there are the momentous changes that will come with technological advances (robotics, 3-D printing, A.I., the Internet of Things) <sup>10</sup> and climate change (to which much of Southeast Asia is particularly vulnerable). <sup>11</sup> Addressing these will require national policymakers increasingly to think and act beyond election cycles and domestic political dynamics.

At the end of the day, ASEAN is not the EU: integration does not aim to reach into the realms of politics. <sup>12</sup>

Nevertheless, the direction of travel is clear and is unlikely be derailed by global trade tensions and periodic emerging-market nervousness. The coming years are set to bring more economic and financial cohesion and intra-regional trade. Domestic and intra-Asian infrastructure initiatives will improve physical connectivity. And consumption and innovation will pick up speed as urbanisation and increasing internet and smartphone penetration transform the way 650 million people shop, bank and exchange information. Anyone who is even remotely interested in Asia needs to have this part of the continent firmly on their radar – or risk missing out on one of the world’s most dynamic growth stories.

“Clearly, Asia is where the growth is. But that growth won’t just come unsolicited. Businesses need to seek it out, and to understand the changing nature of Asia and the implications of doing business with it because opportunity in Asia is a two-way street. The world wants to seize opportunity in Asia, but Asia also wants to engage more with the wider world,” said Stuart Milne, Chief Executive Officer of HSBC Malaysia.

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9 <https://www.adb.org/news/op-ed/assessing-asean-s-economic-performance-jayant-menon>; [http://www.brinknews.com/asia/asean-integration-a-work-in-progress/?utm\\_source=BRINK+Subscribers&utm\\_campaign=01b04c797c-EMAIL\\_CAMPAIGN\\_2018\\_07\\_09\\_07\\_50&utm\\_medium=email&utm\\_term=0\\_c3639d7c98-01b04c797c-110245621](http://www.brinknews.com/asia/asean-integration-a-work-in-progress/?utm_source=BRINK+Subscribers&utm_campaign=01b04c797c-EMAIL_CAMPAIGN_2018_07_09_07_50&utm_medium=email&utm_term=0_c3639d7c98-01b04c797c-110245621); and <http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1234>  
<https://www.gtap.agecon.purdue.edu/resources/download/8863.pdf>. See also HSBC Global Research: What it comes down to, 9 November 2018

10 <https://www.adb.org/sites/default/files/publication/411666/ado2018-themechapter.pdf>

11 <https://www.adb.org/news/features/what-does-climate-change-mean-asia-s-future-infrastructure>;

<https://www.adb.org/news/unabated-climate-change-would-reverse-hard-earned-development-gains-asia-new-report>

12 HSBC Global Research: The ASEAN Economic Community (AEC), November 2015

“On 28 January 2019, HSBC will be organising a forum titled ‘HSBC Asian Business Forum: Capitalising on the waves of change’ which will provide participants with insights on the impact of the recent global developments on Asia and the ASEAN region as a whole, how to capitalise on the growing trade opportunities in Asia, along with an outlook of what 2019 holds for the Asian economies.”

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**About HSBC Malaysia**

HSBC's presence in Malaysia dates back to 1884 when the Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group) established its first office in the country, on the island of Penang, with permission to issue currency notes. HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited. In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, HSBC Amanah Malaysia Berhad. Today, HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Bank Malaysia offers a comprehensive range of banking and financial services including Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Islamic financial solutions. HSBC Bank Malaysia has also led innovation in Malaysia by introducing Malaysia's first ATM and Electronic Touch Banking in the early 1980s. Today, HSBC Bank Malaysia has launched innovative solutions such as HSBCnet for secure banking for businesses, Trade Transaction Tracker and Facial Recognition.

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