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Global headwinds the impetus to fast-track ASEAN integration in 2019: HSBC

The threat of macro-economic headwinds dragging global growth should be the impetus ASEAN needs to push its reform agenda harder in 2019.

As ASEAN's Chair in 2019, Thailand - under the theme of Advancing Sustainable Partnerships - has set a positive tone for the region highlighting several areas of focus.¹

Stuart Milne, CEO, HSBC Malaysia said: "The year is already shaping up as one where the headlines will write themselves: markets second-guessing a return of policy tightening by the Fed, a Brexit deal or no deal, company downgrades from trade tariff uncertainty, and oil prices running roughshod."

"Amongst the bearishness, ASEAN remains one of the most optimistic and open regions in the world and in 2019 the region has the opportunity to further distinguish itself by continuing to drive reform and seek increased openness."

HSBC sees the following areas as key areas of focus for 2019.

Improving intra-regional flows to offset global trade slowdown

ASEAN economies can partly offset any trade downturns if the much-discussed supply chain diversion to Southeast Asia - from China, US and Korea – materialises. HSBC's recent Navigator survey of companies around the world found that tariffs open up opportunities for ASEAN markets, including Malaysia, in areas like electronics and textiles amongst others. Malaysia and Thailand for example already have existing production networks in electronics, especially in hard disk drive (HDD) assembly. In textiles, Malaysia, Thailand, Indonesia, Philippines and Vietnam's exports of apparel and textile products nearly tripled from USD 24.4 billion in 2001 to USD 71.8 billion in 2014. In 2016, its textiles exports were 42 billion.

However, increasing the ease in which goods and services flow across ASEAN will make the transition more widespread.

Important progress has already been made including

- The imminent launch of the ASEAN-wide Self-Certification scheme which allows wing certified exporters to self-certify the origin of their exports.²
- The ASEAN Single Window - which digitizes intra-ASEAN trade documents - which was launched across Malaysia, Indonesia, Thailand, Vietnam and Singapore in early 2018 - means cross-border goods flows has come down from 5-10 days to one.³

But more needs to be done to smooth the flow of goods and services across ASEAN. This includes rolling out the ASEAN Window to all ASEAN countries, standardizing the cost and time of customs clearance across Southeast Asia and enabling the freer movement of professionals across the region.

¹ <https://www.bangkokpost.com/business/news/1586378/trade-department-pushes-12-priorities-for-asean-chair>

² <https://www.businesstimes.com.sg/government-economy/asean-services-providers-exporters-to-gain-from-two-accords-signed-at-asean>

³ <http://asw.asean.org/>

Attracting more inbound investment

Foreign Direct Investment (FDI) into Southeast Asia has improved post-Global Financial Crisis, but more needs to be directed to countries like Thailand, Indonesia or Philippines where supply chains are expected to grow in future.

The levers to attract investment to ASEAN more widely are clear: reasonable production costs, stable institutions, improved technological innovation, lowering tariffs and import barriers for production inputs, and increasing labour skills.

A further way to bolster Southeast Asia's investment appeal will be through free trade agreements (FTA) including

- Concluding new agreements like the Regional Comprehensive Economic Partnership (RCEP) and the ASEAN/Europe FTA.
- Upgrading existing trade pacts with the likes of Hong Kong and China.

Investment in digital economy

Improving digital connectivity, and investment into ASEAN's digital space to support the region's burgeoning consumer base, could be another game-changer – both to shore up the region's supply chain potential and to increase the gravitational pull for multi-nationals and companies.

The Masterplan on ASEAN Connectivity 2025 has stated that between US\$220-650 billion in additional annual economic impact in ASEAN by 2030 could be injected into ASEAN through new technology and the internet economy.⁴

ASEAN members signed the ASEAN Agreement on E-Commerce in November; however, converting this into tangibles will be crucial including

- Developing regional electronic payment infrastructure.
- Enabling the cross-border movement of business.
- Collaboration on cyber security to instil consumer and government confidence.

In Malaysia, the Digital Free Trade Zone (DFTZ) as an example is an initiative that will enable SMEs in the country to capitalize on the convergence of the exponential growth of the internet economy and cross-border trade. DFTZ provides a holistic approach key to SME growth by connecting them to eMarketplaces, government agencies, cross border logistic providers and cross border payment providers.⁵ According to MDEC, DFTZ has shown a positive impact in realising the national objective of increasing SME participation in cross-border e-commerce transactions. Since the implementation of the project, more than 5,000 Malaysian SMEs have registered with and started exporting through the platform.⁶

HSBC specifically continues to leverage on technology and innovation to provide customers with digital products and services that are simple, convenient and secure. In Malaysia, the company recently introduced the HSBCnet Trade Transaction Tracker; an innovative mobile tool that allows businesses to better manage global trade flows.

Driving a sustainable ASEAN

Perhaps the biggest challenge for ASEAN will come in the form of natural events rather than man-made ones as Southeast Asia is one of the most natural disaster-prone regions in the world. This has only been exacerbated by climate change in recent years. Weather aside, urbanization will mean that by 2030 more than 100 million people will migrate to urban areas across Southeast Asia placing massive strains on resources such as food, health, and infrastructure.⁷

Areas of focus to drive a more sustainable ASEAN include:

- Developing regional incentive frameworks and standards (such as subsidies on the legal and banking advisory costs linked to generating green loans and bonds) which

⁴ Master Plan on ASEAN Connectivity 2025, p.48.

⁵ https://www.miti.gov.my/miti/resources/Media%20Release/Fact_Sheet_DFTZ_at_Malaysia_Digital_Economy_2018_SME_Fact_Sheet.pdf

⁶ <https://www.opengovasia.com/malaysias-e-commerce-landscape-expected-to-grow/>

⁷ <https://www.straitstimes.com/opinion/south-east-asia-is-getting-smart-with-urbanisation>

will increase the cost effectiveness and, therefore, attractiveness of these financial instruments for corporates.

- To start converting the ASEAN Smart Cities Network – launched in April 2018 – from a concept programme into specific projects across the 26 pilot cities.⁸
- Working with China, US, Europe and Japan - who have all earmarked Southeast Asia for their respective sustainable development programmes - to push for 'bankable' and transparent infrastructure projects that will generate commercial demand and, therefore, sustainable debt.⁹

Malaysia is increasingly turning its focus towards environmentally friendly Islamic finance, with new product offerings looking to raise capital for sustainable development projects¹⁰. Last year, HSBC Amanah launched the world's first United Nations (UN) Sustainable Development Goals (SDG) sukuk. This is the second SDG issuance from an HSBC entity globally, following HSBC Group's USD1.0 billion SDG Bond in 2017 and is in line with the Group's commitment to provide USD100 billion in sustainable financing and investment by 2025.

Stuart Milne, CEO, HSBC Malaysia: "Clearly, there is no shortage of priorities for ASEAN policymakers this year and continued integration of the region is crucial in the face of 2019's challenging global backdrop. Businesses are crying out for tangible developments that will smoothen intra-regional trade, encourage international investment and create a sustainable future. So achieving more reform, integration and openness in 2019 will help the region both capitalize and shield itself from global events that are likely to play out over the coming years."

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About HSBC Malaysia

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⁸ The ASEAN Smart City Network an initiative agreed by all ASEAN member states in April 2019 involving 26 South-east Asian pilot cities which will look to develop smart, urban planning solutions

⁹ <https://asia.nikkei.com/Politics/International-Relations/Japan-and-EU-to-jointly-fund-3rd-country-infrastructure>

¹⁰ <https://oxfordbusinessgroup.com/news/launch-sustainable-finance-sees-malaysia-go-green>