

5 November 2020

China prospects undimmed by pandemic, geopolitics: corporates tell HSBC

****Latest survey shows global companies, including those from US, looking to increase supply chain in China****

****Businesses from Malaysia are the most bullish with 93% expecting to increase their supply chains in China****

****Report also shows 88% businesses from Malaysia expect sales in or exports to China to grow in the next two years****

****Business sentiment in stark contrast with deglobalisation commentary****

China remains a highly attractive consumer market and global supply chain hub, despite the ongoing Covid-19 pandemic and geopolitical tensions. In fact, international businesses are looking to increase the proportion of their China-based supply chains, in addition to strengthening their digital propositions to tap into the Chinese consumer market.

These are some of the insights from HSBC's *Navigator: Growing with China* report, a survey of 1,100 companies across 11 key markets across the world including Malaysia that is launched today at the China International Import Expo in Shanghai.

In China, For China

China's pivotal role in global supply chains has proven durable. The survey shows that, contrary to some commentary, many companies are in fact increasing their exposure to the country. Some 75% of companies, including 70% of US companies, said they expect to increase their supply-chain footprint in China over the next two years. The most bullish are companies from Malaysia; recording the highest percentage of 93% expecting to increase the proportion of their supply chains based in mainland China in the next two years. Among the biggest reasons are increasing speed to market and China's growing consumer demand.

Stuart Tait, Regional Head of Commercial Banking for Asia-Pacific at HSBC, said: "China remains a key supply chain hub for international corporates. While other markets have become more competitive in areas such as labour costs, they are yet to reproduce the sophisticated ecosystem that has developed in the mainland. Because China's consumer market is growing by the minute, more international companies are adopting an in-China-for-China strategy whereby they produce goods for Chinese consumers."

First in, first out

China's "first in, first out" economic recovery from the Covid-19 pandemic is also fuelling optimism among companies across the world: Three-quarters (75%) of those surveyed expect sales in or exports to China to grow in the next two years, with

businesses from Malaysia (88%), Mexico (86%), and Singapore (84%) feeling the most bullish. (See Table 1.)

Stuart Milne, Chief Executive Officer, HSBC Malaysia said: “It is very encouraging to see that businesses from Malaysia are more optimistic than companies from other surveyed countries. Malaysia tops the score with 93% expecting to increase their supply chains in China while 88% are bullish on growing sales in or exports to China over the next two years. This upbeat outlook reflects the strong bilateral trade ties shared by the two countries. HSBC’s market-leading expertise in facilitating international trade, coupled with our long history in both China and Malaysia, means that we are ideally positioned to support our customers in this area.”

More than three in four (76%) US companies say they expect sales in or exports to China to grow, on par with the global average despite geopolitical and trade tensions. Tellingly, nearly three in ten (29%) US companies expect growth of more than 20 percent, compared to the global average of 21%.

Tait added: “Much of the optimism and ambition over the Chinese market is down to the mainland’s early recovery from the pandemic and its relatively strong demand compared to other markets. The country’s vast market and its unrivalled manufacturing infrastructure remain compelling reasons not just to maintain business with China, but in many cases to increase it.”

Milne added: “We continue to see positive momentum in terms of the Malaysia-China trade and investment. By the end of 2019, China was Malaysia’s largest trading partner for the 11th consecutive year¹. In fact, trade with China continues to see growth this year, recording a 3% growth during the period of January to September 2020 compared to the same period of 2019² in spite of the current challenging conditions. As the world economy recovers from the impact of Covid-19, HSBC is here to help our customers to take advantage of the opportunities which are available, leveraging our market leading solutions and the scale and strength of our global network.”

While global companies foresee a broad-based recovery across the Chinese economy, they are noticeably more optimistic about the outlook of service industries over the next 24 months. They also note an increasing interest in the quality of products, with more people placing a premium on advanced technology, safety and longevity.

Relying on platforms to succeed in China

Businesses recognise that the pandemic has accelerated the pace of technology adoption and that they need to join the race if they are to compete.

¹ Malaysia External Trade Development Corporation, *Trade Performance for 2019 and December 2019*, 4 February 2020. <http://www.matrade.gov.my/en/malaysian-exporters/services-for-exporters/trade-market-information/trade-statistics/179-malaysian-exporters/trade-performance-2019/5031-trade-performance-december-2019-and-january-december-2019>

² Malaysia External Trade Development Corporation, *Trade Performance for September 2020 and the Period of January-September 2020*, 28 October 2020. <http://www.matrade.gov.my/en/malaysian-exporters/services-for-exporters/trade-market-information/trade-statistics/181-malaysian-exporters/trade-performance-2020/5197-trade-performance-september-2020-and-january-september-2020>

Four in nine (44%) businesses are looking to strengthen their digital presence within China by upgrading their technology / e-commerce platforms. Some 63% of respondents say they intend to both use proprietary platforms and partner with local digital platforms. While an overwhelming number of businesses concentrate their sales in Tier 1 and Tier 2 cities, strengthening digital platforms will enable them to tap into the huge consumption potential of the wider Chinese market.

Table 1
Percentage of companies expecting sales in or exports to mainland China to grow in the next 1-2 years

Global average	75%
Malaysia	88%
Mexico	86%
Singapore	84%
UAE	83%
Hong Kong SAR	78%
US	76%
Canada	73%
Australia	71%
UK	68%
France	67%
Germany	66%

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Note to editors:

HSBC Bank Malaysia Berhad

HSBC's presence in Malaysia dates back to 1884 when the Hongkong and Shanghai Banking Corporation Limited established its first office in the country on the island of Penang, with the 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, founding member of the HSBC Group. In 2007, HSBC Bank Malaysia was the first foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, namely HSBC Amanah Malaysia Berhad. Today, HSBC Malaysia has a network of 67 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Malaysia offers a comprehensive range of banking and financial services including Islamic financial solutions. HSBC Malaysia has also led innovation in Malaysia by introducing Malaysia's first ATM and Electronic Touch Banking in the early 1980s. Today, HSBC Malaysia has launched innovative solutions such as HSBCnet for secure banking for businesses, Trade Transaction Tracker and Facial Recognition on supported mobile phones.

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of \$2,956bn at 30 September 2020, HSBC is one of the world's largest banking and financial services organisations.

About Navigator: Growing with China

HSBC's Navigator: Growing with China surveyed 1,100 businesses with turnover of \$5m USD or more from 11 key markets globally, including: Australia, Canada, France, Germany, Hong Kong SAR, Malaysia, Mexico, Singapore, UAE, UK and US.

Survey respondents were key decision makers from businesses already selling/ exporting to or manufacturing in China or those considering doing so. It explores their current perspective and future ambitions in relation to trading with China.

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