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FIRMS TURN 'HOME' AS PROTECTIONISM BITES

Vietnam's low-wage workforce, a rising number of trade agreements, and its improved business climate will likely continue to attract substantial FDI inflows

Vietnam is well positioned to enjoy high growth in trade and investment beyond the near-term

Businesses are concerned about the cost of rising protectionism, yet are optimistic about their international business prospects, according to a new report from HSBC, *'Navigator: Now, next and how for business.'*

Firms are focused on growth when of the 6,000 firms surveyed globally, more than three in four (77%) businesses are optimistic about their international business prospects, and expect the volume of trade to increase over the next 12 months. The number for Vietnam is 90% which is significant higher than the world's average.

Reasons behind this confidence include an increase in demand for their products from consumers and businesses (33%), favourable economic conditions (31%) and the greater use of technology (22%) in driving growth. For Vietnam, the data is 40% and 42% for demand from consumers and favourable economic conditions while the country is not in the top ten markets who cite greater use of technology as the third driver of growth.

Asia Pacific is projected to be the strongest area for growth across the world in the next three to five years and Europe to be the second most important.

Relevant to the growth projection, 62% of the companies expect an increase in need for trade finance. 88% of the respondents in Vietnam agree with this and 86% expect an increase in accessibility to trade finance. Three major challenges the businesses cite to meet trade finance needs are high transaction cost (52% for Vietnamese companies), exchange rate volatility (44% for Vietnamese companies) and political environment. Thanks to political stability, Vietnam is not in the top ten markets who say political environment is the third challenge.

Three in five (61%) companies surveyed think governments are becoming more protective of their domestic economies. This sentiment is strongest among companies in MENA (70%), and Asia-Pacific (68%). In Vietnam, almost three quarters (67%) of businesses agree that governments are becoming more protective of their domestic businesses.

To cope with the challenge, the majority of firms are looking to regional partners to develop trade opportunities, with almost three quarters (74%) of overseas trade in Europe and Asia-Pacific being conducted within their 'home' region. This trend is set to continue with regional ties being prioritised in firms' expansion plans for the next three to five years.

Vietnam focuses on key major trading partners in Asia, and US being the key partner outside of Asia. Focussing on the impact of government policies, those designed to strengthen regional ties such as China's 'Belt and Road Initiative' (40%) and ASEAN's 2025 strategy (37%) were cited most frequently as having a positive impact on international business. Companies in Vietnam see ASEAN 2025 (74%) and CPTPP (63%) the top two government policies that have positive impact on their business. For the recently signed CPTPP, 50% of survey participants in Vietnam cite it is relevant to their business.

Noel Quinn, Chief Executive, Global Commercial Banking, HSBC, said: *"Overall, companies are showing remarkable agility in navigating the changing trade policy landscape. They are getting on*

with adapting business plans, and relationships, to participate in shifting supply chains. Strategies include increasing regional trade, establishing joint ventures or local subsidiaries in more markets, and capitalising on trends in consumer demands and digital technologies.

“An increase in protectionist sentiment hasn’t hampered the optimism of firms globally, but is causing concern about the cost of doing cross-border trade and international business.

“By taking time to understand the emerging drivers and impediments to trade, business leaders can identify risks and opportunities, and make informed decisions for future growth.”

Pham Hong Hai, Chief Executive Officer of HSBC Vietnam, said: *“Vietnam has been resilient through challenging periods and remains among the fastest-growing countries in Southeast Asia. Companies in Vietnam maintain that favourable economic environment and increasing demand for their products are the top growth factors for cross-border trade. A low-wage workforce, an improving business climate and the implementation of trade deals such as the EVFTA and CPTPP are also seen as strengths and will further encourage foreign investment into the country.*

With all these strong momentum, Vietnam is well positioned to enjoy high growth in trade and investment. Apart from supporting pro-trade government initiatives such as RCEP and ASEAN Vision 2025, understanding the implications of trade initiatives such as CPTPP, business leaders should seek ways to move up the value chain, adopt digital technology, collaborate with both local and foreign businesses and reduce reliance on low-wage workforce to be able to seize benefits from this trend in a very sustainable way.”

Economic analysis supports the strength of business confidence, pointing to a 7% growth for trade values in 2018 (goods and services combined). Forecasts by Oxford Economics on behalf of HSBC show the economic indicators underpinning this estimate include an upturn in both investment and consumer demand, a weaker US dollar and recovery in the Eurozone.

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Note to editors:

HSBC Navigator: Now, next and how for business

HSBC Navigator is the most comprehensive report of global trade and business confidence. It combines an economic forecast of medium to long-term bilateral trade for exports/imports of goods and services across 25 markets (by Oxford Economics), and a global survey gauging business sentiment and expectations on trade activity and business growth (by Kantar TNS).

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

We can also supply additional data and insight on the following topics:

- 1. Trade in Services:** The share of services in world trade has been increasing and this growth is set to continue. Three in five (61%) businesses are optimistic about the growth of their services business in the short-term and say that expanding into new markets (32%) and service areas (24%) as well as using e-commerce (24%) will drive this growth. The bundling of goods and services is also progressing, and this distinction could blur even further.
- 2. Trade policy – The business view:** Firms are potentially missing out on key opportunities by focusing on growth and trade policies in their region, and lacking awareness when it comes to the broader global trade policy environment. China’s Belt and Road, and ASEAN 2025 are the two policies getting the greatest vote of confidence from business leaders.

3. **The economic trade forecast:** The economic trends below the headlines on global trade reveal an optimistic outlook for growth. Global trade growth rebounded last year - with the volume of trade in goods growing 1.4 times faster than global GDP. This momentum is projected to continue, with growth of 7% by value in 2018 (1.2 x GDP by volume) for both goods and services. Governments should take advantage of the global economy's current sweet spot to pursue policies that will promote trade.

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HSBC Bank (Vietnam) Ltd.

HSBC has been in Vietnam for more than 140 years – the bank first opened an office in Saigon (now Ho Chi Minh City) in 1870. HSBC was the first foreign bank to launch its locally incorporated entity on 1 January 2009 as HSBC Bank (Vietnam) Ltd. The bank's current network includes two branches and five transaction offices in Ho Chi Minh City, one branch and four transaction offices in Hanoi, and two full-service branches in Binh Duong and Da Nang. HSBC is one of the largest foreign banks in the country in terms of investment capital, product range, and customer base.

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