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## **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 conducted in Autumn 2018 – a global survey involving more than 8,500 businesses in 34 markets. Within South-East Asia, more than 1,000 views were sought across five 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 Vietnam CEO, Pham Hong Hai, said "ASEAN corporates are bullish on their commercial prospects while staying alert to rising protectionism. On the positive side, we can see the trade tension may prompt an acceleration production to lower-cost ASEAN countries. Countries with existing production capacity like the Philippines and Vietnam will benefit from this trend and from trade diversion."

### **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 automotives.

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.<sup>1</sup>

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<sup>1</sup> HSBC Global Research: Retooling Asia's supply chains, October 2015

Other members of the bloc like Singapore, the Philippines and Vietnam also produce a variety of electronic components<sup>2</sup>, while Vietnam and Indonesia have become increasingly competitive in light manufacturing and textile exports.<sup>3</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.<sup>4</sup>

According to Mr. Hai, "Vietnam has strong commercial ties with both China and the US. While some local industries, like textiles and garments, may benefit through a demand shift from China, other industries, like machinery and steel, may see a tapering".

### **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%)

Hai continued: "Despite some economies' gain, a trade tension can be a lose-lose situation and ASEAN corporates should prepare for all scenarios. For those who consider to shift their supply chain, they need to assess a lot of factors including local capacity of the receivers. Amongst all, technology will be a common thread for consideration and will be key to increasing competitiveness and appeal."

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#### **Notes for 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)

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<sup>2</sup> HSBC Global Research: Retooling Asia's supply chains

<sup>3</sup> HSBC Global Research: ASEAN Perspectives, Trade Wars: much pain, some gain

<sup>4</sup> [ASEAN Stats](#)

For more information visit: [www.hsbc.com/about-hsbc/structure-and-network/commercial-banking](http://www.hsbc.com/about-hsbc/structure-and-network/commercial-banking).

**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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