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, a HSBC senior executive opined today.

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

Pham Hong Hai, CEO of HSBC Vietnam 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 South-east Asia - from China, US and Korea - materialises, but increasing the ease in which goods and services flow across ASEAN will make the transition more widespread.

Vietnam stands on top of the list of markets that could benefit from trade diversion coming from trade tension between the US and China, building on the country’s increasing competitiveness in manufacturing. According to HSBC Global Research Q12019, if an Asian economy captures 1% of Chinese exports to US or 1% of FDI into China, its GDP would increases significantly – and Vietnam is on top of the list with a potential increase of 1.2%. This is the advantage that Vietnam could leverage to further boost the trade flow across ASEAN.

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 exports²
- The ASEAN Single Window - which digitizes intra-ASEAN trade documents - which was launched across Indonesia, Malaysia, 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 South-east Asia and enabling the freer movement of professionals across the region.

Attracting more inbound investment

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¹ https://www.bangkokpost.com/business/news/1586378/trade-department-pushes-12-priorities-for-asean-chair
³ http://asw.asean.org/
Foreign Direct Investment (FDI) into South-east 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.\(^4\)

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.

For Vietnam, having great fundamentals of a strong and open economy, Vietnam remains an attractive investment destination for international businesses. According to the Ministry of Planning and Investment, total foreign investment into Vietnam in 2018 reached USD35.46 billion with total disbursed capital increasing 9.1% to USD19.1 billion, marking 2018 the six consecutive record year attracting foreign investment in Vietnam.

A further way to bolster South-east Asia’s investment appeal will be through free trade agreements (FTA) including
- Bringing new members into the recently-launched Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
- 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.\(^5\)

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

**Driving a sustainable ASEAN**
Perhaps the biggest challenge for ASEAN will come in the form of natural events rather than man-made ones as South-east 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 South-east Asia placing massive strains on resources such as food, health, and infrastructure.\(^6\) This would be a matter for Vietnam as this number for the country would be 15 million, accounting for 16% of the country’s population, over that timeframe, according to the UN’s latest projections.\(^6\)

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

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\(^4\) HSBC Global Research: ASEAN Perspectives, 28 August 2018

\(^5\) Master Plan on ASEAN Connectivity 2025, p.48.

• To start converting the ASEAN Smart Cities Network – launched in April 2018 – from a concept programme into specific projects across the 26 pilot cities.

• Working with China, US, Europe and Japan - who have all earmarked South-east Asia for their respective sustainable development programmes - to push for ‘bankable’ and transparent infrastructure projects that will generate commercial demand and, therefore, sustainable debt.

Pham Hong Hai concluded: “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. Vietnam has achieved great advantages of the fastest growing economy and a pro-growth Government and the country should continue the momentum to further integrate into the region and gain most benefits from globalisation opportunities.”

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Media enquiries to:

Uyen Mai 028 35203273 uyenmai@hsbc.com.vn

Note to editors

HSBC Holdings plc
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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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7 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

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