

28 May 2019

**ASEAN needs a stronger sales pitch to realise its supply chain potential: HSBC**

South-east Asia, and particularly Vietnam, can only expect to see a wide-scale divergence of supply chains coming its way when there are improvements in production technology & capacity, and regional integration, according to HSBC.

The comments follow widespread commentary about supply chains shifting to South-east Asia because of the region's growing economies and consumer markets, especially with trade tensions and rising production costs affecting other markets.

The shift has been happening but to fully capture a large-scale move, there are more things to do for ASEAN and Vietnam.

Said CEO of HSBC Vietnam, Pham Hong Hai: "The changes in global trade are causing businesses to re-visit their supply chain investment and capacity strategies, but we are yet to see this convert into wide-scale shifts to South-east Asia, South Asia or other parts of the world. The changes cannot happen overnight. Businesses that consider shifting supply chains have to ask themselves many questions about local capacity available, skilled employees and consideration of building new facilities or start partnerships with existing local players."

Rather than see a wide-scale shift to ASEAN, due to trade tensions, multinationals are diverging in their supply chain strategies with a mixture of localization, offshoring and re-shoring activity emerging.

Recent examples include:

- With China moving up the technological curve, its lower-value production is shifting to lower-cost markets. For example, Guizhou Tyres – based in China – has expanded plans for its previously announced tyre plant in Vietnam increasing the budget investment to nearly \$500 million.<sup>1</sup>
- Samsung has shifted more of their electronic equipment production to Vietnam as now the Korean conglomerate assembles about half of its phones in the country.<sup>2</sup>
- Elsewhere, there are instances of western companies, such as Intel, Whirlpool and Caterpillar<sup>3</sup> re-shoring to be closer to home markets and higher-end technology.
- Across Europe, firms like British manufacturer, Dyson<sup>4</sup>, are forging ahead with South-east Asian investment to cater for the local consumer market whilst retaining existing production facilities for exports elsewhere.

Hai continued: "Shifts in supply chains have been a multi-year phenomenon due to structural changes in production technology, labour costs and emerging consumer markets. Over the past decade, ASEAN and Vietnam have been perceived as a strong production option for multinationals given its role within existing supply chains, growing consumer base, and strong trade and investment ties<sup>5</sup>."

"Countries where existing infrastructure and production networks are already in place such as Vietnam are likely to be the main beneficiaries of a shift in production capacity. Businesses from China, Europe and the US want to see ASEAN and Vietnam further position itself as a viable alternative for lower-end production. However, to convert its much-touted supply chain

<sup>1</sup> <https://www.tyremagazine.com/latest-news/posts/2019/february/guizhou-tyres-invests-500-million-in-new-tyre-site-in-vietnam/>

<sup>2</sup> HSBC Research – Retooling Asia supply chains Feb 2019

<sup>3</sup> <https://www.usatoday.com/story/money/business/2018/06/28/manufacturers-bringing-most-jobs-back-to-america/36438051/>

<sup>4</sup> <https://asia.nikkei.com/Business/Business-trends/Dyson-s-HQ-move-boosts-Singapore-ambitions-to-be-Asian-hub>

<sup>5</sup> <https://www.about.hsbc.com.sg/news-and-media/are-asean-corporates-downplaying-the-trade-tension-risk>

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potential, the country needs to build more visibility and credibility amongst international firms, particularly in their ability to handle and deliver production orders.”

The hot buttons that will matter for both large and small firms include how ASEAN and Vietnam can deliver competitive production costs, and how technology and innovation are being introduced to improve productivity. It will also come down to the relationship factor and whether businesses feel confident that orders will be serviced on time and on budget.

At a government level, this will require educating international firms about the regulatory frameworks, tax incentives, and free trade zones, along with demonstrating the improvements in ports and rail and other transport infrastructure.

It will also require ASEAN governments to demonstrate a pathway to longer-term initiatives to remove the non-tariff barriers around the flow of goods across ASEAN, the development of skilled labour; and the protection of IP, cybersecurity, and movement of commercial data across borders.

Areas of specific focus to improve intra-ASEAN trade flow include:

- Improvement in ASEAN's transport infrastructure including roads, rail and ports
- Policies that raise the level of technological adoption
- Increasing skilled labour and the flow of skilled labour
- Increase the minimum threshold for goods that would require a Certificate of Origin
- Establishing automation of customs clearance across all ASEAN member states
- Introduce simplified and expedited clearances for low-value shipments
- Introduce electronic system for the payment of cross-border duties and taxes
- Harmonising of goods standards across sectors amongst ASEAN members to avoid country-specific standards.<sup>6</sup>
- Policies that encourage the cross-border sharing of commercial data
- Link up each of the ASEAN countries' payment systems to make payments convenient, affordable, fast, seamless and secure<sup>7</sup>.

Reducing supply chain barriers of this nature could increase South-east Asia's gross domestic product by 9.3 per cent and exports by 12.1 per cent, according to the World Economic Forum.<sup>8</sup>

Hai concluded: "While trade relations between ASEAN including Vietnam and the world's major economies, like US and China, have generally been positive and steadily growing, there is a lot of ground still to cover within ASEAN's backyard to further improve the intra-regional flow of trade and investment. Agility and responsiveness to these challenges by ASEAN governments and corporates will determine whether the region's supply chain potential can be realised amongst international firms who are re-examining their options."

*Ends/more*

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### **Note to editors:**

#### **ASEAN trade and investment**

- ASEAN is the US's fourth largest trading partner, nearly 4,700 American companies are in the region, and it's the top destination for US foreign direct investment in Asia<sup>9</sup>. A recent American Chamber of Commerce report finding that 80 per cent of US firms, that

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<sup>6</sup> EU-ASEAN Business Advisory Council's Trade Facilitation paper 2018

<sup>7</sup> <https://www.straitstimes.com/opinion/why-asean-should-push-for-seamless-payment-across-borders>

<sup>8</sup> WEF (2013): "Enabling Trade, Valuing Growth Opportunities"

<sup>9</sup> <https://www.pacificcouncil.org/newsroom/examining-state-us-asean-relations>

are already in South-east Asia, are looking to increase investment in South-east Asia over the next five years<sup>10</sup>.

- The EU is ASEAN's 2<sup>nd</sup> largest trading partner and largest source of FDI<sup>11</sup>
- China continues to be ASEAN's largest trading partner (15% of its total trade) and ASEAN is China's third largest trading partner<sup>12</sup> Chinese FDI into ASEAN was US\$8.2 billion in 2015 -4<sup>th</sup> largest.<sup>13</sup>

### **The Hongkong and Shanghai Banking Corporation Limited**

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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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<sup>10</sup> <https://www.uschamber.com/press-release/rising-demand-and-economic-growth-outlook-drive-continued-us-business-optimism-asean>

<sup>11</sup> EU-ASEAN Business Advisory Council "Business Investment study" 2018

<sup>12</sup> Source: State Council Information Office of China

<sup>13</sup> ASEAN/MOFCOM joint media statement