

Global Connections:

Connecting Southeast Asia and the world

September 2023

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Introduction

Southeast Asia, with a growing, young and digitally connected population, is emerging as an important growth engine in the global economy. The 10 countries that make up the Association of Southeast Asian Nations (ASEAN) are home to a combined population of 660 million people and the world's fifth-largest economy. While growth is cooling elsewhere, ASEAN is on track to expand by 4.6% in 2023¹.

In line with ASEAN's increasing importance, we have expanded our survey of international businesses to explore how firms in nine major markets are approaching the region. This year's survey covers more than 3,500 companies with a commercial interest in at least one ASEAN market, with an equal number of respondents based in: mainland China, India, the United Kingdom, France, Germany, the United States, Australia, Hong Kong, and Gulf Cooperation Council (GCC) countries².

Our research reveals high levels of expected growth among international firms operating in Southeast Asia, a strong appetite for M&A activity and a widespread belief in the growth potential of ASEAN markets. (Figures 1–3)

The survey shows that human capital is a key factor in the appeal of ASEAN markets to international firms. The region's skilled workforce and its competitive wages are two of the three most attractive attributes for international businesses; at the same time, issues in deploying talent rank among the biggest barriers to digitisation and sustainability efforts.

The survey also found that businesses from countries closer to Southeast Asia have a more advanced presence in ASEAN and a greater degree of ambition when it comes to regional expansion than their peers from Europe and the United States, reflecting the opportunity for businesses from further afield to increase their focus on Southeast Asia.

International companies reporting M&A achievements in ASEAN

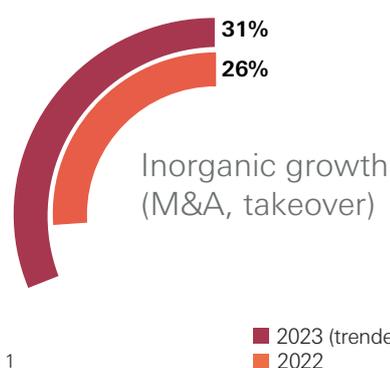


Figure 1

International expansion plans in ASEAN

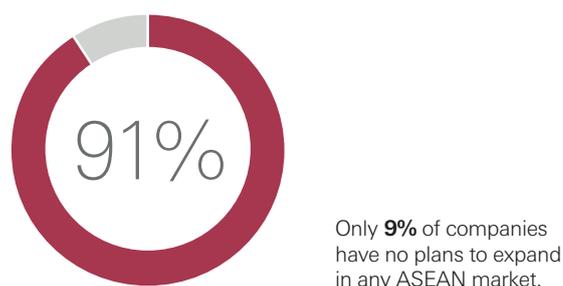


Figure 2

Inorganic growth ambitions in 2023 and 2024

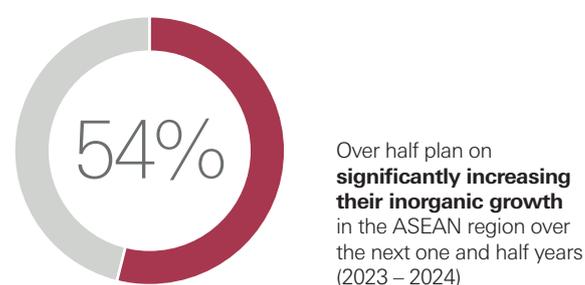


Figure 3

1 <https://www.oecd.org/dev/asia-pacific/economic-outlook/Overview-Economic-Outlook-Southeast-Asia-China-India.pdf>

2 UAE, KSA, Bahrain, Qatar, Oman, Kuwait

Key Themes

Growth ambitions

Organic growth

International companies operating in Southeast Asia are increasingly confident about their prospects for continued growth in the region. (Figure 4) On average, the companies we surveyed are expecting to see 23.2% annual organic growth in ASEAN markets in 2023, up from 20.1% in last year's survey.

Asia-Pacific firms have a more developed track record of growth in ASEAN and higher growth expectations in the region than those from Europe. Over three in five firms in Hong Kong (68%), Australia (67%), mainland China (67%), India (61%) and GCC (51%) have achieved organic growth to date. In comparison, less than half of European and US firms – France (48%), UK (45%), US (45%), and Germany (42%) – have achieved this in the ASEAN region.

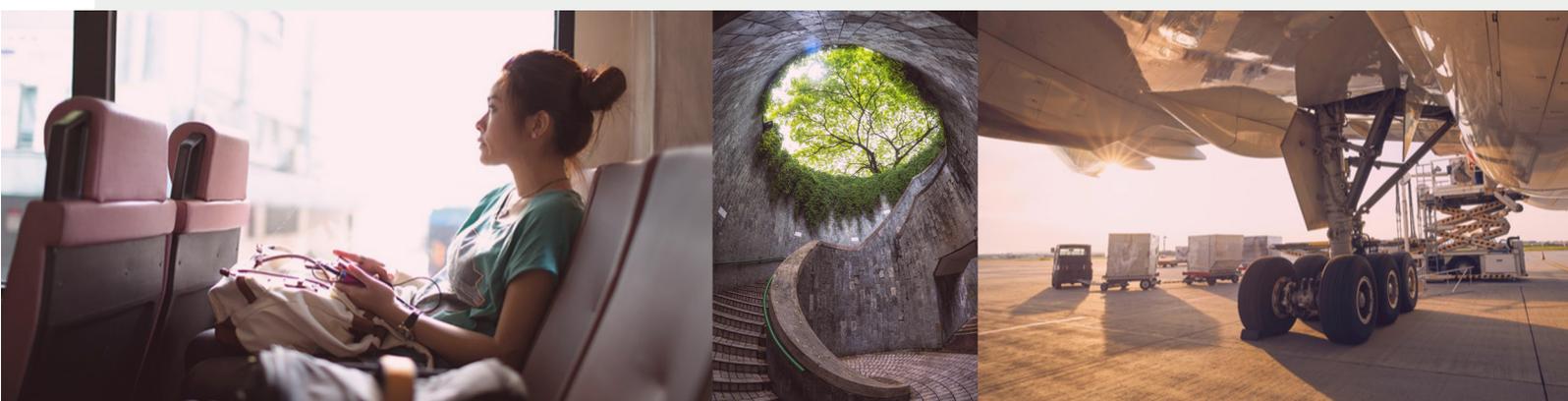
US and GCC companies are particularly optimistic. On average, they expect to achieve organic growth of 26.7%, and 24% respectively over 2023. French companies, by contrast, expect growth of only 19.9% in the ASEAN region, followed by 20.6% growth for German companies and 22.2% for those in the UK.

Organic growth expectations for international businesses in ASEAN



71% expect an **annual organic increase of 20%** or more over the next 12 months, up from 61% in last year's survey

Figure 4



Key Themes

M&A activity

Inorganic growth, through mergers and acquisitions (M&A), offers a quick route to scaling up operations in ASEAN. The emphasis placed on M&A by the multinationals in our survey indicates the strength of their growth ambitions for the years ahead.

Nearly a quarter (24%) of respondents are planning to 'significantly increase' inorganic growth in 2023. Looking further ahead, three in 10 (30%) expect to significantly increase M&A in 2024. (Figure 5)

Companies based in Asia-Pacific countries are much more likely to be planning acquisitions. Between them, an average of 18% of UK, French, and German companies have plans for inorganic growth in ASEAN countries in 2023. By contrast, 35% of mainland Chinese companies and 31% of those from Hong Kong have M&A plans, as do 29% of those in India, 27% of US firms, and 26% of those in Australia.

Companies looking to significantly increase inorganic growth in ASEAN in 2023 and 2024

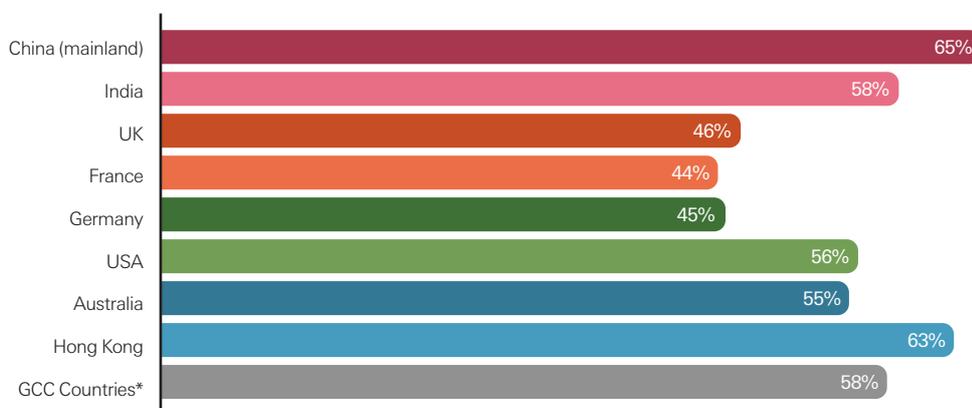


Figure 5

* UAE, KSA, Bahrain, Qatar, Oman or Kuwait

Key Themes

Current markets and expansion plans

Singapore, Malaysia, and Thailand remain the preferred route to growth for companies with existing operations in ASEAN – as was the case in last year’s survey.

36% of companies who already operate in Singapore expect to prioritise growth there over the next two years, followed by 27% of those with Malaysian operations, and 24% of those with operations in Thailand. Notably, companies from all outbound markets except Germany are planning to prioritise growth in Singapore. Among German firms, 29% are prioritising growth in their Thailand operations compared with the 25% of German firms expecting to prioritise growth in Singapore.

Malaysia is the leading major destination for companies seeking to enter a new ASEAN market. A quarter of firms without a Malaysian presence plan to expand there over the next two years, a key market for mainland China (27%), the US (26%), the UK and France (both 23%). Indonesia, meanwhile, is the top new market for firms from Hong Kong (34%), India (30%), GCC (23%), and Germany (21%). The Philippines is also a leading target, with 21% of companies saying they plan to enter the market. In particular, it was a key market for Australian companies, with 29% focusing on this country over the next two years. (Figure 6)

Top 3 ASEAN markets to expand into over the next 2 years

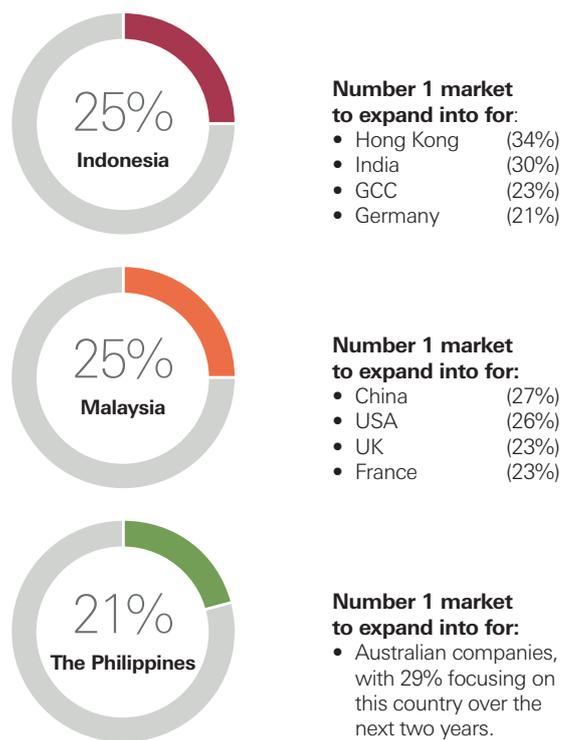


Figure 6



Key Themes

The power of free trade

At a time of elevated geopolitical tensions, tariff-free trade is becoming an important factor in ASEAN's appeal.

Overall, one in five companies cite the benefits of free trade agreements as a factor attracting them to the ASEAN region.

Compared with 2022, more businesses say they are planning to take advantage of trade partnerships. Overall, 67% of international companies intend to make use of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), up from 55% in 2022. Similarly, 66% intend to use the Regional Comprehensive Economic Partnership (RCEP), compared to 53% in 2022. Awareness of both treaties has increased: in 2022, 16% of respondents were unaware of CPTPP and RCEP respectively. In 2023, though, companies saying they were not aware of these frameworks had fallen to 11% and 10% respectively. The CPTPP was agreed by 11 countries in 2018 and has now been ratified by all initial signatories, the final of those being Brunei in July 2023. (Figure 7)

Asia-Pacific countries are significantly more likely than those in Europe to report intended use of these treaties. Some 81% of Chinese mainland firms, 80% of Indian firms, and 74% of GCC firms intend to use CPTPP, compared with only 55% of those in Germany, 59% of UK firms, and 61% of companies from France. Nevertheless, European respondents' awareness is growing when compared to last year's survey, when only 47% of French companies, 44% of German companies and 48% of UK businesses said they would use the CPTPP.

The RCEP agreement came into force in January 2022 and expands tariff-free trade between ASEAN, Australia, China, South Korea, Japan and New Zealand. Companies in Asia Pacific see it as especially beneficial. Our research found that 80% of Chinese mainland companies and 74% of Australian companies said they would use it, compared with 52% of those from Germany, 57% of those from UK, and 60% of French companies. Again, European companies are more interested in RCEP than they were last year, when only 42% of French businesses, 42% of German firms and 46% of UK firms said they would make use of the treaty.

French companies are also especially interested in making use of the EU-Vietnam partnership, with 60% reporting plans to do so.

Plans to use free trade agreements to expand trade with ASEAN

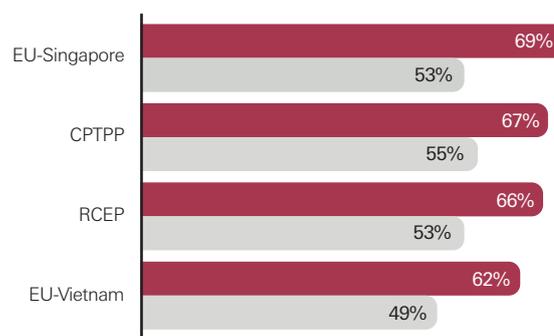


Figure 7

CPTPP – The Comprehensive and Progressive Agreement for Trans-Pacific Partnership

Signatories: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, UK and Vietnam

RCEP – Regional Comprehensive Economic Partnership

Australia, Brunei, Cambodia, China, India, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

Key Themes

The value of human capital

Human capital attracts and challenges foreign companies

International companies operating in Southeast Asia consistently cite the region's skilled workforce and competitive wage prices as making it attractive for business expansion. ASEAN's skilled workforce was the region's most attractive market feature in 2023, up from second in 2022.

In 2023, 25% of international firms said competitive wages were an attraction for expansion in ASEAN, down slightly from 27% in 2022.

While ASEAN's able and affordable workforce is clearly attractive to global manufacturers, our research also highlights the challenges facing overseas employers: personnel issues also ranked among the top three challenges in both 2022 and 2023. This year, 28% of respondents stated that they were challenged in deploying talent; 28% also admitted they were challenged by the cultural difference they encountered. (Figure 8)

Top 5 challenges in conducting business in the ASEAN region



Figure 8



Key Themes

Digital connectivity and the consumer opportunity

The digital connectivity of ASEAN markets is also an attractive factor to international businesses. In 2023, 26% of business decision-makers said the growing digital economy drew them to these markets, making it the second most popular feature of the region noted by respondents this year. This was considered the most attractive element of the ASEAN region in 2022, cited by 29% of companies. (Figure 9)

The growth of ASEAN's digitally-connected consumer markets presents an opportunity for international firms to expand their export revenues. For German firms, the size of the ASEAN market ranks as the top pull factor, with 27% pointing to this. For Hong Kong companies, the optimistic outlook for the ASEAN economy is key for 36% of respondents. US businesses, meanwhile, point to the proven economic resilience in the region, with 29% of companies seeing this as a driver for expansion.

Evolving macroeconomic landscape

Financial stability tops list of concerns as supply chain issues ease

Financial stability, including currency volatility, inflation, and interest rates, remains the leading business challenge identified by international companies operating in the region. 32% of respondents reported this as an issue in 2023, the same proportion as last year.

An important difference between 2023 and 2022 is the relative decline of supply chain issues, a change brought about in large part by the end of pandemic-era restrictions. In 2022, 31% of international businesses reported supply chain issues to be a particular challenge for them in the region, making that last year's second most prominent business challenge. In 2023, only 24% said that this had been an issue.

Top 5 reasons why ASEAN is attractive for business expansion

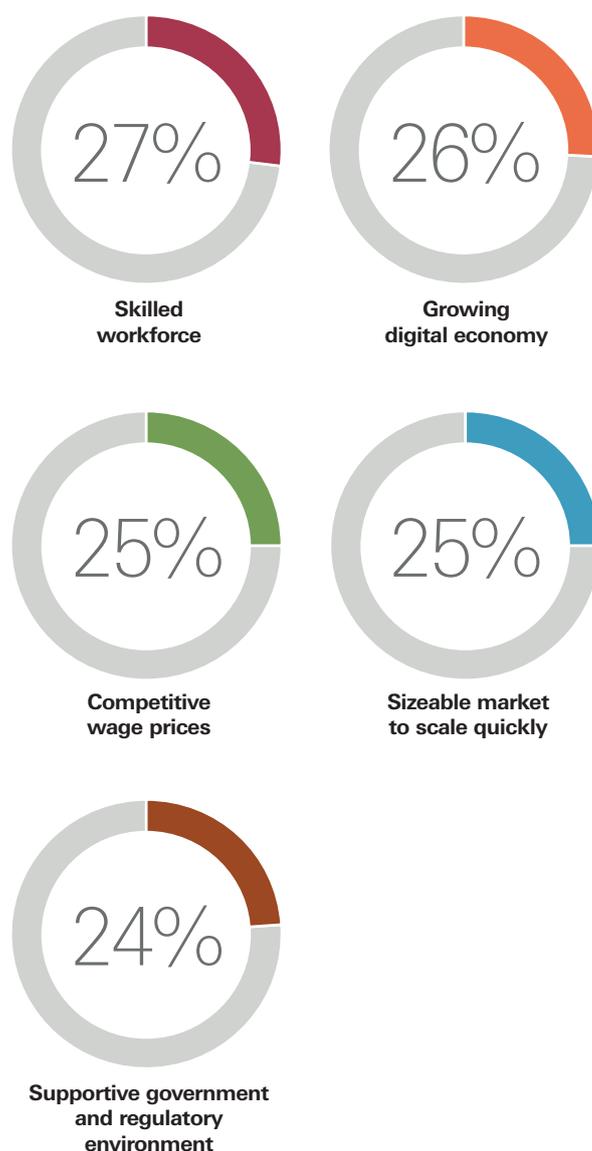


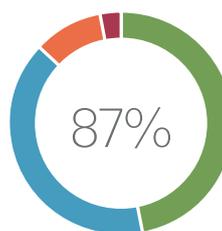
Figure 9

Key Themes

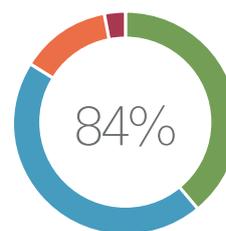
Consolidation and centralisation

Faced with this dynamic, diverse and evolving business landscape, our survey reveals that many companies are considering centralising and consolidating their operations within the region. 84% of respondents believe businesses similar to their own are starting to centralise their ASEAN operations into one country. In pursuit of this kind of centralisation, 76% have considered pulling out of some markets, or are currently doing so. In light of these issues, businesses are looking towards greater collaboration with governments to address the operational challenges they face. Some 87% of respondents believe ASEAN governments can help companies overcome the challenges of conducting business in their respective countries. (Figure 10)

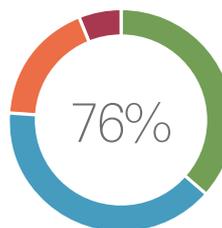
How strongly do you agree or disagree with the following statements with regard to the challenges of conducting business across the ASEAN region?



Governments need to help companies overcome the challenges of conducting business in their respective countries.



We are starting to see a trend where other companies like us are centralising their operations in one country



We have considered or are considering pulling out of some countries in order to centralise operations.

- Strongly agree
- Slightly agree
- Slightly disagree
- Strongly disagree

Figure 10



Key Themes

Digitisation

With large markets, skilled workforces and improving infrastructure, ASEAN countries are well-placed to make the most of ongoing technological innovation. 31% of international businesses believe the ASEAN bloc is leading the way in e-commerce and digital platforms, ahead of artificial intelligence (AI) and machine learning, and cybersecurity (both at 29%). Digital payments are also seen as a strength of the region, with 28% of respondents citing ASEAN markets as leading in this technology. (Figure 11)

ASEAN's credentials in these technologies are important to global businesses. 34% of the decision-makers in this survey believe AI will have a transformative impact on their business in the next 10 years. Cybersecurity (30%) and digital payments (29%) are also seen as transformative.

Respondents expect technological advances to affect many aspects of their operations. 39% are especially concerned about cybersecurity issues and 38% believe new technologies will significantly impact their workforce in terms of number of employees and skills. AI-enabled automation has the potential to change the labour requirements of international organisations

dramatically, and this disruption is relevant to ASEAN: as noted above, competitive wages and skilled workers are two of the primary factors attracting multinational corporations to ASEAN markets.

For now, access to trained talent and costs are the key challenges identified for businesses' digital transformation in ASEAN, with 36% of respondents citing a lack of digitally-skilled personnel. Connected with these human resource factors are the costs of implementation and maintenance, both of which were also cited by 36% of companies.

Given the potential upside, however, international businesses are continuing to invest in their technological development. Businesses are expecting to put an average of 8.3% of their operating profit to technology and digitisation over the next 12 months. In 2022, this figure stood at 8.2%.

The decision-makers surveyed for our report are looking to banks to support their digitisation efforts. Three in 10 believe their bank should offer support in cybersecurity (31%), digital payments (30%), and AI and machine learning (29%).

Perceptions of key technologies for businesses in ASEAN

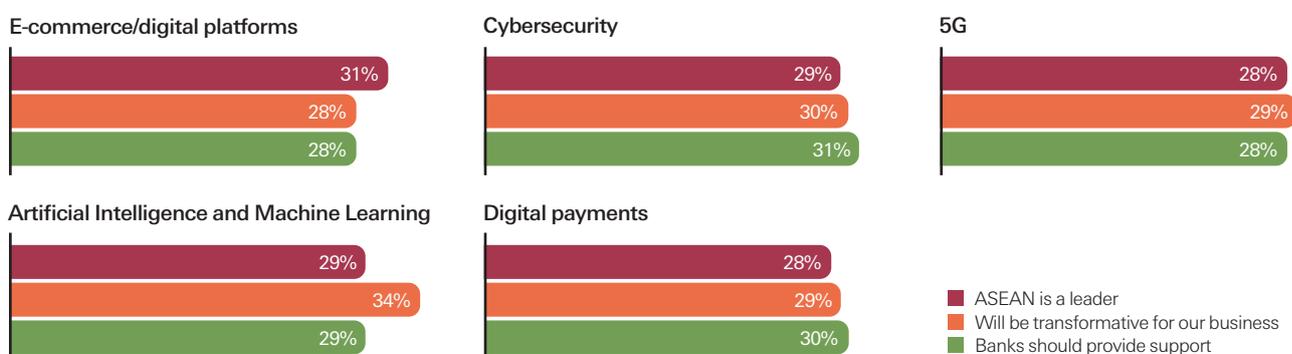


Figure 11

Key Themes

Sustainability

Sustainability ranks among the main challenges faced by international firms. The top priority for international companies is to review the sustainability credentials of their suppliers: 39% are planning to do this over the next 12 months. With supply chains in focus globally, our survey also found evidence that businesses are localising their networks: 38% intend to use more local partners, and 37% said their companies would be prioritising investment in or supporting local communities over the coming 12 months. (Figure 12)

Sustainability expertise is a constraint. Echoing one of the main general challenges cited in the report, the single largest sustainability barrier identified by our respondents was their ability to hire employees with sustainability expertise, with 32% saying that this was a problem for them. Some 30% identified a lack of expertise or understanding in the business as a sustainability barrier; and 30% said that employee engagement on sustainability topics poses another challenge. Notably, multinationals appear to have a

strong business case for sustainability initiatives: only one in four international companies see a lack of demand from customers as a barrier.

Sustainability-related initiatives are a major and growing financial priority of international companies in the Southeast Asian region. Over the next 12 months, the senior decision-makers in our survey expect to invest an average of approximately 8% of their operating profits into the sustainability of their businesses, up from 7.5% in 2022.

Financial considerations are cited as a main barrier to becoming more sustainable, reflecting the significant investment many expect to make in this area. That naturally makes sustainable finance an important factor, and four in 10 (41%) of the international firms in our survey have already issued green or sustainable bonds, with the same percentage having used sustainability-focused investment funds.

Sustainability priorities

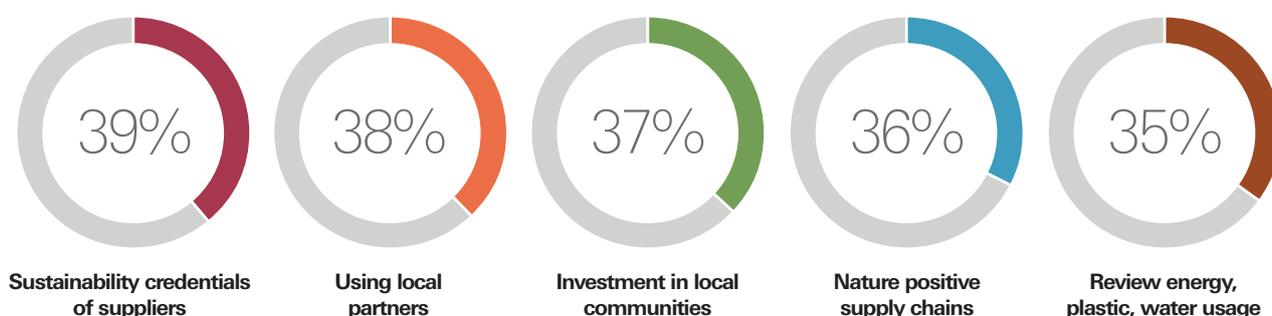


Figure 12

Conclusion

Our survey shows that international businesses are accelerating their growth in the ASEAN region. To do so, they are embracing M&A activity, expanding into new markets, and investing heavily in technological innovation. Singapore remains the primary centre of multinational activity in the region, but companies are accelerating their efforts to expand within and enter other markets, most notably Malaysia and Indonesia.

The emphasis our respondents place on human capital, labour costs and labour relations show that international business perceptions of ASEAN markets remain focussed on its role within production and operational value chains. However, with personal affluence continuing to grow, the region increasingly offers opportunities for consumer-facing businesses.

Methodology

Online survey conducted from 25th July to 2nd August 2023 with n=3,509 businesses with turnover from USD5 million giving us a global sum of over USD3 trillion across 9 markets (mainland China, India, UK, France, Germany, USA, Australia, Hong Kong, and GCC countries (UAE, KSA, Bahrain, Qatar, Oman or Kuwait)). Results were weighted to ensure an equal representation and by company size to ensure

comparability for trended countries. The languages used were English, German, French, Arabic, and Chinese (Simplified). Survey respondents were key decision-makers from companies already doing business in Southeast Asia or those considering doing so. Please note percentages may not add up to 100% where multiple responses were available or due to rounding.



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