

Global Connections: Connecting Southeast Asia and the UK

September 2023

UK

Southeast Asia, with a growing, young, and digitally connected population, is emerging as an important growth engine for the global economy. The 10 countries that make up the Association of South East Asian Nations (ASEAN) are home to a combined population of 660 million people and an economy on track to expand by 4.6% in 2023, according to the OECD.

The region is also benefiting from a shift in global supply chains, as multinational companies look to diversify their networks.

HSBC's Global Connections survey of international businesses explores how firms in nine major markets are approaching this dynamic and diverse 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) countries.

The results of the research reflect the depth of trading connections between UK businesses and ASEAN. Almost half of the businesses in our survey (49%) have developed supply chains in the region, and 45% have achieved organic growth to date. UK firms are most likely to have operations in Singapore (36%) and Thailand (32%).

UK businesses plan to significantly increase their inorganic growth within the ASEAN region by 2024

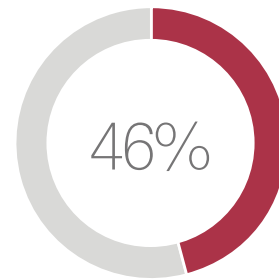


Figure 1



UK

Growth expectations and focus markets

Growth ambitions

UK firms are expecting strong growth from their ASEAN operations. Over two in five (43%) expect their organic growth in the region to increase by 30% or more over the next 12 months, the most of any European market. UK companies are also slightly more optimistic about inorganic growth – their ability to expand through M&A or takeovers – than their European peers: 46% of UK firms plan to significantly increase their inorganic growth within the ASEAN region by 2024, ahead of 44% of French firms and 45% of German firms (Figure 1).

Focus markets

Over the next two years, UK companies are most likely to prioritise growth in their Singaporean (25%), Thai (23%) and Philippine (18%) operations, in line with their existing footprint.

Malaysia, where the end of a period of political transition in 2022 has allowed the government to embark on a series of pro-business reforms, is the country of choice for UK companies seeking to enter new markets. 23% are planning to expand into Malaysia over the next two years, ahead of 20% for Indonesia and 20% targeting Cambodia.



Perceptions of ASEAN markets

Attractive factors

UK companies are particularly drawn to ASEAN markets by the capabilities of the region’s labour market. With a young, diverse and digitally connected population, ASEAN provides access to a wide range of talent to suit the needs of international businesses, from basic manufacturing in the region’s less-developed economies to advanced goods and value-added services in middle-income countries and high-value professional services in Singapore. Nearly a quarter (24%) of UK businesses say a skilled workforce makes the region attractive for business expansion, followed by 22% who value the region’s supportive governments and regulatory environments. One in five (21%) are attracted by the opportunity to develop and test new products or solutions, and this is especially the case in the Philippines (30%), Singapore (30%) and Malaysia (30%) (Figure 2).

ASEAN’s diversity is reflected in the appeal of individual countries. 30% of UK businesses say they value Thailand for its geographic location, pointing to its role as a regional hub in industrial value chains, while 35% are drawn to Indonesia – ASEAN’s biggest economy – by the positive economic outlook for the region.

The UK’s participation in free trade agreements is an important factor. The UK signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in July 2023 and is working towards ratification of the treaty. More than half (57%) of the UK businesses in this year’s survey say they are planning to take advantage of the agreement to increase trade with ASEAN, which has increased from 48% since 2022.

Challenges

Volatile financial conditions rank as the number one challenge facing UK businesses in ASEAN. Over a quarter (26%) cite concerns over financial stability – including inflation, interest rates and currencies – pointing to the impact of recent financial shocks and shifts in global monetary policy. Local factors also pose issues for UK businesses: a further 25% say their business is struggling to adapt to fast-changing regulations, understanding local regulations and dealing with cultural differences. ASEAN is a diverse region, and international businesses need to navigate multiple languages, regulatory regimes and ways of doing business.

Top 5 reasons why ASEAN is attractive to UK businesses

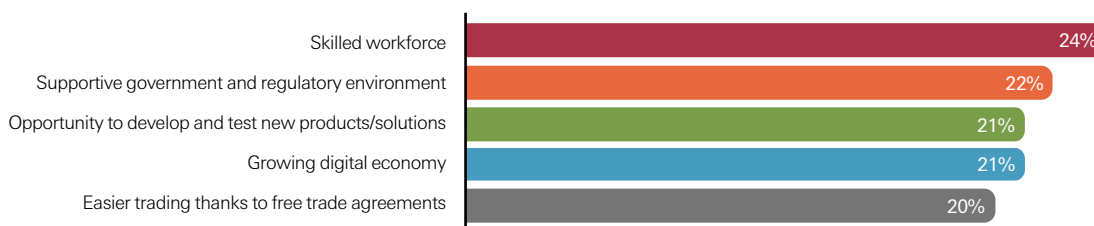


Figure 2

Digitisation

Perceptions

Asked to consider the technological fields within which the ASEAN region occupies a leading role, 28% of UK companies say the region leads in 5G (Figure 3). Meanwhile, recent advances in generative AI have clearly caught the attention of international businesses: AI and machine learning ranks top as the technology most likely to be transformative for UK businesses, as is the case for seven of the nine markets in our survey. 32% expect technology will transform their workforce in the coming decade, indicating the potential for significant disruption in ASEAN, where capable workers are currently the region’s number one appeal to UK-based firms.

UK firms expect technology to have a positive impact on ASEAN’s more advanced economies, with 39% predicting technology to drive a substantial increase in growth in Singapore over the next decade, ahead of 30% for Thailand.

Barriers

While ASEAN boasts a booming digital economy and high levels of smartphone penetration, the implementation of digital transformation projects depends on workers with a defined set of skills. A lack of trained personnel to implement these projects and the high costs of training are most likely to be identified by UK firms as challenges to their ASEAN digital transformation efforts, with 32% saying this for each challenge respectively.

Sustainability

Priorities and perceptions

Social issues are an important area of focus for UK companies in ASEAN. 31% of decision makers cite a need to address human rights issues, while climate change and salary equality are priorities for 29% respectively. In the near term, UK businesses are most likely to be concerned about enhancing due diligence in their supply chains, pointing to the implications of European moves to hold companies accountable for the social and environmental impact of their supply chains. Almost a third (32%) are reviewing their suppliers’ sustainability credentials, making it the top sustainability initiative for UK businesses in ASEAN over the next 12 months.

Barriers

Staffing is seen as the biggest sustainability barrier, with 28% flagging issues in hiring staff with the right sustainability expertise. 26% also report a lack of access to finance as a major barrier to making their ASEAN operations more sustainable. Only 18% say a lack of customer demand is holding back their sustainability efforts in ASEAN, the lowest of any country in this year’s survey.

Top 5 technologies where UK businesses see ASEAN as a leader

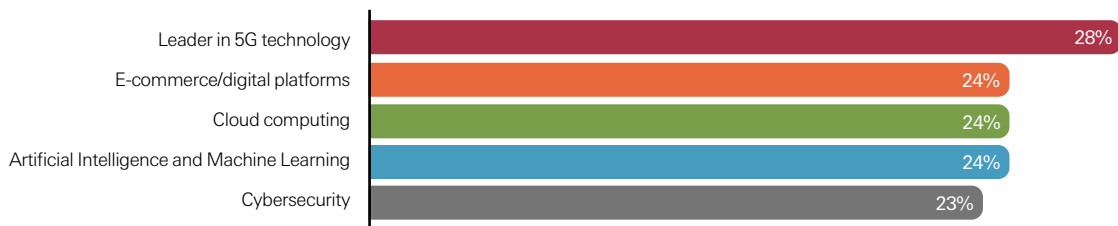


Figure 3

Conclusion

Our Global Connections research 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 accessing the benefits of free trade agreements. Singapore remains the primary centre of multinational activity in the region, but UK 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 shows 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

An online survey conducted from the 25th of July to the 2nd of August 2023 with n=3,509 businesses with turnover from USD5 million giving us a global sum of over USD3 trillion across 9 markets (China, India, UK, France, Germany, USA, Australia, Hong Kong, and GCC countries (UAE, KSA, Bahrain, Qatar, Oman or Kuwait)). Results were weighted by company size to ensure an equal representation of n=390 in each

country and allow for 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 have been rounded and as a consequence may not add up to 100%.





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