

Global Connections:

Connecting Southeast Asia and Australia

September 2023

Australia

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 the world's fifth-largest economy. ASEAN GDP is 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.

Australian businesses are well established in ASEAN with deep connections across multiple markets. Southeast Asia is Australia's second-largest two-way trading partner after China and hopes to continue and grow their trade and investment in the region¹. This sentiment is reflected in this year's HSBC Global Connections survey; more than two-thirds of Australian companies (69%) reported having developed supply chains in the region and have a track record of organic growth (67%). Almost half (46%) have completed M&A or takeovers in ASEAN, significantly more than the average in our survey (34%) (Figure 1).

Australian businesses with a track record of M&A in ASEAN

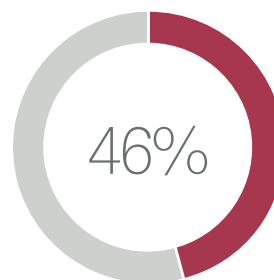


Figure 1

¹ <https://www.abc.net.au/news/2023-09-06/albanese-attends-2023-asean-summit/102818640>



Australia

Opportunities and attractions

Australian companies are highly confident of continued growth in the ASEAN region. On average, they expect to see a 22.8% increase in their ASEAN organic growth over the next 12 months. High expectations are also placed on their inorganic growth efforts. Over half (55%) expect to significantly increase their inorganic growth in the ASEAN region by 2024.

Australian companies are particularly likely to have current operations in Indonesia; 39% report a current presence here, compared to 32% of the global sample. Singapore is the top market for Australian firms, with 45% reporting current operations there and nearly a third (32%) planning to prioritise growth there over the next two years.

29% of Australian companies report plans to expand into the Philippines over the next two years, ahead of 28% for Indonesia and 27% for Malaysia.

The affordability and quality of ASEAN's human capital are key attractions for Australian firms operating within the region. Almost three in 10 (29%) say competitive wages and a skilled workforce (28%) make ASEAN attractive for business expansion, pointing to the region's importance in Australian supply chains, as well as the availability of a strong professional services sector to support growth. However, consumer opportunities are also important: over a quarter (27%) are also attracted by the size of the ASEAN market, its growing digital economy (26%) and positive demographics (26%) (Figure 2).

The size of the market opportunity is a particular factor for Australian companies operating in Indonesia (30%). In the Philippines – the top target for Australian firms looking to enter a new market – the growing middle class ranks as the market's number one allure, with 34% noting this.

Australia's participation in free trade agreements is a significant factor. 72% are looking to take advantage of the Regional Comprehensive Economic Partnership (RCEP), while 68% are looking to use the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to increase trade with ASEAN. The majority of respondents, however, are looking for more information about the treaties, with 70% interested in finding out more about CPTPP and 64% about RCEP.

Challenges

Australian firms were most likely to cite 'financial stability' and the lag in ESG credentials in ASEAN markets compared to other markets as key challenges for them. 35% of respondents respectively selected each.

Other major concerns focus on issues of human capital. 33% said they had faced challenges with

Top 5 reasons why ASEAN is attractive to Australian businesses



Figure 2

Australia

Digitisation

Companies from Australia were most likely to regard the ASEAN region as having strength in e-commerce, with 32% of companies identifying it as leading here. A further 3 in 10 respectively believed it to lead in digital payments and artificial intelligence (Figure 3). Australian firms look toward Cloud computing (32%), digital payments (32%) and artificial intelligence and machine learning (31%) as they believe this will be most transformative for their company. They hope that the adoption of these technologies will help tackle security challenges (41%), drive R&D (40%) and mitigate labour issues (39%).

Australian businesses are especially confident about the impact of technology in Singapore, where 45% expect technology to drive a significant improvement in economic growth in the next decade.

On average, Australian firms plan to spend 8.4% of their operating profit towards digitising their business in ASEAN over the next 12 months.

The biggest barriers to digitisation that these companies identified were personnel related. 4 in 10 pointed to the 'lack of trained staff to drive implementation' and the high cost of training new staff to make up for this gap in skills.

Sustainability considerations

Equality in the workforce ranks as the most important sustainability challenge for Australian businesses in ASEAN, with 38% working to improve equality on salary. Supporting local communities and improving energy efficiency are also seen as extremely important (both at 37%).

Australian firms aim to address these and improve their sustainability over the next 12 months by reviewing the sustainability credentials of their suppliers (42%), working with more local partners (42%), and promoting nature-positive supply chains (40%)

48% believe their business would benefit from greater incentivisation of sustainable practices in the ASEAN region.

The main ASEAN sustainability barriers noted by Australian firms are talent related. 34% of Australian respondents feel they lack the necessary understanding or expertise within their own business; a further 32% say they face difficulties in hiring people with the right sustainability expertise.

Top 5 technologies where Australian businesses see ASEAN as a leader

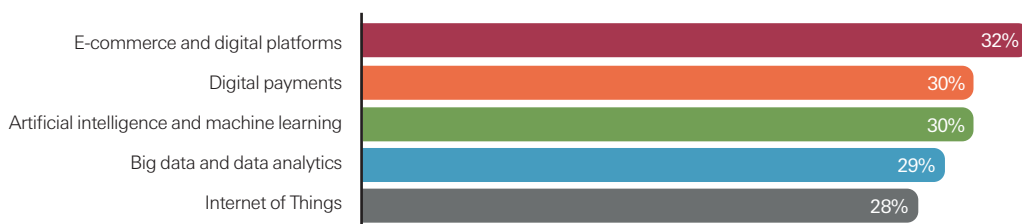


Figure 3

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 international companies are accelerating their efforts to expand within and enter other markets, most notably the Philippines 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 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 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 have been rounded and as a consequence may not add up to 100%.



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