Navigator

Now, next and how for business

Singapore

HSBC

Together we thrive

Overview

Stalling optimism

With subdued global trade and a weakening domestic economy[1], businesses are feeling cautious. Just 65% of Singaporean businesses expect their sales to grow in the next 12 months, considerably below the global and Asia-Pacific (APAC) averages of 79% and 77% respectively.

Singapore's subdued outlook is at odds with the rest of Southeast Asia, with 81% of firms in the Association of Southeast Asian Nations (ASEAN) projecting growth in the next year. This makes ASEAN amongst the most bullish trade blocs in the world (the global average is 79%). Short-term business optimism may be down, but Singaporean businesses should be alive to opportunities in new markets.

Among companies trading internationally, the outlook for international trade over the next year is better than their overall sales growth (73% projecting international growth versus 65% projecting overall sales growth).

State of play

Look to new horizons to overcome challenging trading environment

While nearly two-thirds (65%) of Singaporean businesses expect some sales growth over the next year, over a five-year view, that number rises to almost three-quarters (74%).

Firms who think their business will shrink are expecting increased competition (54%), disruption of their supply chain (52%), rising tariffs (51%) and an unfavourable political environment (50%) to have an impact.

To counter threats or prevent business shrinkage, about a quarter of the companies mention improving quality of products or services (27%), expanding into new markets (27%) and investing in the skillsets of their employees (24%) among their top three strategies.

What you need to know

1. 65% of businesses expect to grow in the next year – well below the global average of 79%.
2. Companies trading internationally are more optimistic, with 73% projecting international growth.
3. 47% of companies expect their businesses to change totally or substantially in the next five years.

What your business can do

- Expand your horizons. A quarter of firms are looking at new markets to overcome threats.
- Assess your workforce. Of all Singaporean firms surveyed, 24% are investing in upskilling. Interestingly, 42% of Singaporean businesses citing a pessimistic outlook said they are worried about limited skillsets.
- Optimise supply chains. To do so in the next three years, Singaporean businesses plan to increase their use of digital technology (30%), enter new markets (28%) and source lower cost suppliers (22%).

[1] HSBC Global Research: Ready to do more, Singapore monetary policy, 14 October 2019

Trade outlook

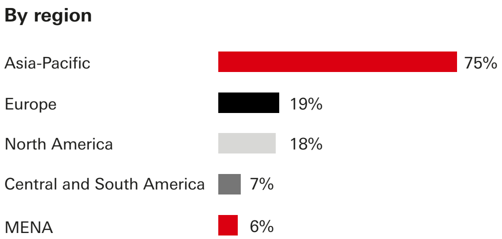
Singaporean firms focus on intra-regional prospects

Trade relationships are shifting in Singapore. China and Malaysia remain Singapore's top trading partners but have reduced in importance over the last year according to our survey (China: 47% to 37% and Malaysia: 29% to 21%). Outside of APAC, trade is also declining with Europe (26% to 20%) and dealings with North America have nearly halved (26% to 15%).

There is a sense from the data that Singaporean businesses are holding back. For example, China is the single largest market where Singaporean firms have reduced trading in the last two years (12%). However, China remains an important growth market, with 31% of firms looking at possibilities there for the next three to five years.

In Southeast Asia, Indonesia climbs up to become the second most important growth market (16%) in the next three to five years, ahead of Malaysia in third position (15%).

Future trading expansion markets in the next three to five years



What you need to know

1. 84% of Singaporean businesses see markets across APAC as among their top three trading partners.
2. Trade with former key partners has been falling, including China (47% to 37%), Malaysia (29% to 21%), the UK (10% to 6%), Germany (12% to 5%) and the US (25% to 13%).
3. Singaporean firms see trade as a force for good – they believe that over the next five years, international business will drive innovation, improve efficiency and provide new business opportunities.

What your business can do

The time to act is now. External headwinds should not be a distraction and will cut the winners from the losers.

Look to closer shores. ASEAN is one of the fastest growing regions in the world and Singapore’s established business framework is the perfect hub from which businesses can expand.

Protectionism and geopolitics

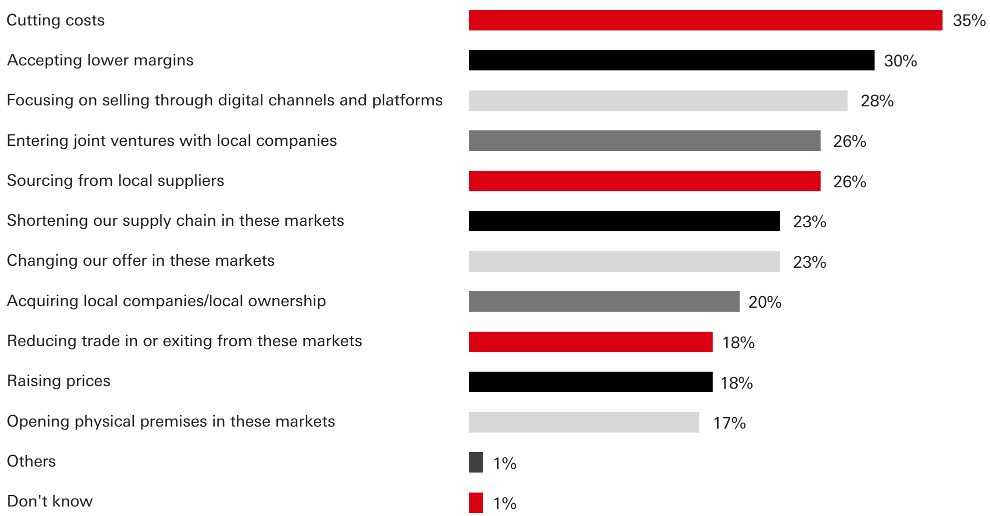
A challenging trading environment

Businesses in Singapore are comparatively more concerned about protectionist policies than the global average. 76% of Singaporean businesses feel that protectionism is increasing in their key markets (compared to 65% globally) and only 37% feel they gain more than they lose, compared to a global average of 57%. A further 31% of firms feel that gains and losses are balanced and 30% feel they lose more than they are gaining.

Similarly, the adverse impact of geopolitics is stronger for Singaporean firms at 71% than for companies worldwide at 64% and the APAC average of 61%.

These external headwinds are leading Singaporean businesses to batten down the hatches. Defensive strategies against protectionism include cutting costs (35%) and accepting lower margins (30%) and a quarter of companies are hedging against geopolitical risk by deferring investments.

Ways in which businesses are coping with protectionism



What you need to know

1. 76% of businesses in Singapore think that governments are becoming more protective of their domestic markets, compared to 65% globally.

2. Only 37% of firms who feel protectionism is increasing believe that they have made net gains and 30% feel they have been negatively impacted.

3. The adverse impacts of both geopolitics and protectionism are more acutely felt by Singaporean businesses than the rest of APAC or worldwide.

What your business can do

Use active as well as defensive strategies to address challenges. 29% of businesses plan to develop local partnerships or joint ventures in response to geopolitical risk, alongside deferring investments (26%).

Move more business online. This is seen as a key strategy to address both geopolitical and protectionist risk.

Secure your supply chain. 30% of companies have felt the impact of protectionism in changes to their supply chain.

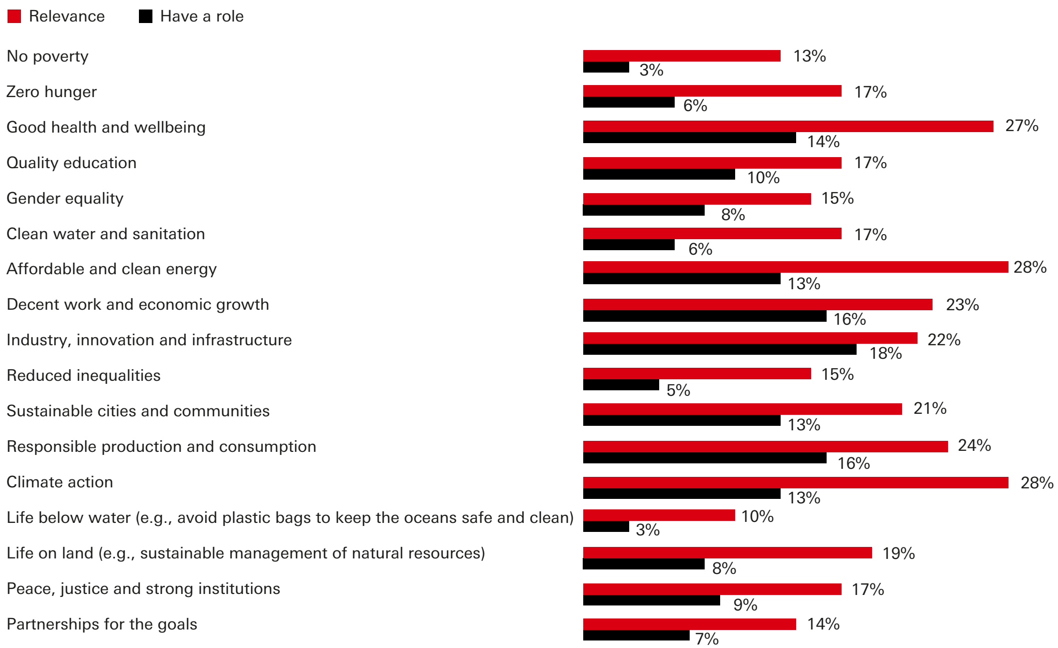
The sustainable future

The push is coming from government, but sales could grow

Sustainability offers a potential route to growth for Singaporean businesses. The top motivations for implementing sustainability initiatives are improving operational efficiency (33%) and gaining a competitive edge (29%), which in turn will help to grow sales (29%). However, firms in Singapore are also feeling strong pressure from governments (40%) and regulators (36%) to embrace sustainability in the next five years – a much higher level than globally (governments 32% and regulators 27%).

At the same time, looking ahead to 2025, companies are looking to governments and regulators for more consistent sustainability metrics. Firms say they are struggling to find the time and funding needed to advance their sustainability agendas.

Relevance and role in delivering the UN's Sustainable Development Goals



What you need to know

1. 64% of Singaporean companies believe they have a role to play in delivering the UN's Sustainable Development Goals.

2. Energy usage, executive compensation, and product safety and quality are all important environmental, social and governance (ESG) metrics.

3. 39% of firms expect to boost investment in technology, innovation and infrastructure to improve sustainable production.

What your business can do

Figure out your ESG metrics. Although international standards don't yet exist, customers, competitors and governments all want to measure your performance.

Allocate budget and resources in your business plan to ensure that sustainability becomes meaningfully integrated.

Consider your place in the supply chain. Demand for sustainable suppliers is increasing globally.

Breakthrough tech

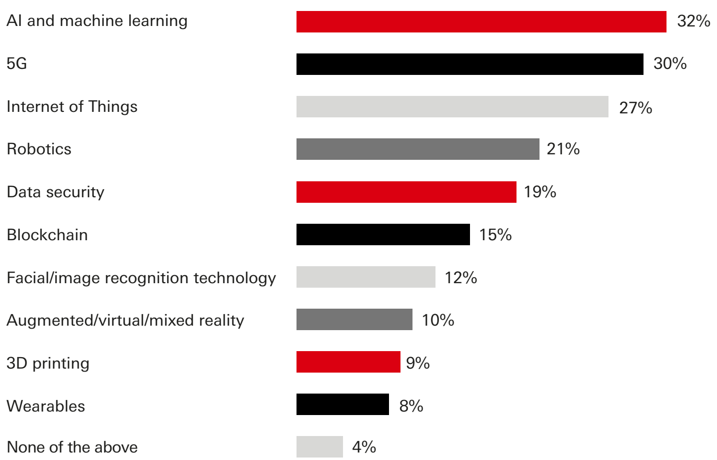
Tech leadership is shaping Singaporean business strategies

As Singapore is a pioneer of smart city strategies, it comes as no surprise that companies there see artificial intelligence (AI), 5G technology and the Internet of Things (IoT) as the technologies that will have the biggest impact on their business in future.

All three technologies are expected to improve productivity and reduce costs although specific benefits are anticipated from each: AI in enhancing customer experience; 5G technology in improving sustainability and speed to market; and IoT in improving supply chain management and speed to market as well.

Businesses in Singapore view China and the US as the most advanced technology hubs in the world, with little between them. The US leads in AI, cited by 50%, but China is just a couple of points behind at 48%. China is ahead in 5G at 52% versus the US at 36% and in IoT, it's China 39% and the US 38%.

Technologies businesses think will be important over the next five years



What you need to know

1. Half of all firms in Singapore believe China is the leader in AI and 5G technology.
2. 42% of Singapore businesses expecting AI to impact their business believe it will improve customer experience.
3. 5G is expected to play a role in improving sustainability by a third of the businesses who rate it as important.

What your business can do

- Challenge the senior leadership team to identify how technological innovation can drive competitiveness and cost reduction.
- Explore how revised company policies and training could help your business reap the rewards of staff wellbeing.
- Apply the right technologies to your business in the right places. For example, AI can improve customer experience and IoT is important for supply chain management.

About HSBC Navigator Singapore

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Singapore. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 3 & 6: all companies. n=200

Page 4: companies who think governments are becoming more protective. n=153

Page 5: companies who feel their business has a role to play in achieving UN SDG. n=129

For enquiries please contact:

Kate Woodyatt

HSBC Global Communications

katewoodyatt@hsbc.com

Or go to www.business.hsbc.com/trade-navigator

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