Media Coverage

Even with Brexit vote, UK-Asia trade could grow in both directions

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Full consequences of Brexit will take months or even years to emerge as Britain negotiates the terms of its departure. In the meantime, what is clear is that business and trade must carry on.

And nowhere is this commercial imperative more apparent than in Asia – it was evident at the International Festival for Business in Liverpool, aimed at driving business connectivity between UK and Asia, where some 30,000 delegates from nearly 100 countries turned up over the second half of June and early July for one of the world's biggest business events.

Though the festival was truly global, some of the biggest delegations were from Asia. A reported 45 companies came from Bangladesh alone, along with senior executives from India and Japan: a total of 15 Chinese cities sent representatives too.

It is easy to understand why ASEAN businesses, including those in Singapore, are keen to drive this corridor further.

Singapore accounts for half of UK exports to ASEAN, worth $11.1 billion in 2014, although some will be re-exported elsewhere. It is one of the UK's largest trading partners in Asia and one of the few countries with which the UK has a trade surplus.

Top exports from UK to Singapore include machinery and transport equipment, business services, and financial and insurance services. At the same time, the UK is the largest EU investor into Singapore (on par with the Netherlands).

It's the fifth largest total source of foreign direct investment (FDI) into Singapore with investments worth over $59.4 billion at the end of 2014. Half of Singapore's FDI into the EU goes to the UK, including some significant investments in infrastructure.

On a broader scale, the UK is already a major purchaser of manufactured goods from Asia.

China is set to overtake Germany to become the biggest single source of UK imports by 2030, according to the HSBC Global Connections Trade Forecast. Imports to the UK from Vietnam, Bangladesh and India could also grow at a rate of about 8 per cent each year in the decade to 2030, the report says.

With a Brexit vote from the UK's EU referendum, the sterling's free fall against most currencies in the near term is expected to hurt Asian exporters with strong exposure to UK markets, or with earnings denominated in pounds. But that is broadly manageable unless Brexit drags down demand across the EU as well, which would result in Asian exporters feeling a bigger squeeze.

As well as exporting to the UK, Asian organisations are investing in the country.

They have bought stakes in sectors ranging from consumer brands and restaurant chains to energy. In 2015, more than half of China's international mergers and acquisitions targeted Europe, including the UK, compared with just one-tenth in 2010.

Working in partnership with UK firms may present particular opportunities for Asian companies aiming to move into higher-value products. The UK's strengths in science and technology, for example, support innovative businesses in fast-growing sectors such as software, technology and materials.

But the relationship has the potential to grow in both directions.

While economic growth in the UK's traditional trading partners such as the US and Europe remains relatively modest, Asia's share of global exports is set to rise to 46 per cent by 2050 from about 33 per cent today, according to HSBC forecasts. What's more, Asia has reached a point in its economic transformation which presents opportunities in areas of UK expertise.

With urbanisation set to continue, ASEAN will see its number of households in the consumer class double by 2025, with consumer spending set to hit USD2.3 trillion by 2020. British producers of everything from food to handbags are hoping that the strength of their brands, coupled with a reputation for quality, can help them appeal to this growing consumer base.

Inbound investment to ASEAN is also expected to heighten through the formation of ASEAN Economic Community (AEC) which HSBC expects to lift GDP growth of the region by 5% by 2030.

At the same time, the growing sophistication of many Asian economies, such as Singapore for example, has the potential to boost demand for services.

The financial and professional services sector currently makes up about a quarter of Singapore's GDP, and there is a substantial UK presence in this sector – with opportunities in fields such as foreign exchange, wealth management and consulting services.

Trade in services has, in fact, been a bright spot for global trade over recent years despite subdued conditions overall. The top six countries in ASEAN – Singapore, Malaysia, Indonesia, Thailand and Vietnam and Philippines – have 50% or more of their GDP coming from services, with Singapore having the highest concentration at 65%. Despite its domestic importance, the services share of intra-regional trade only hit 20% in 2015. There is plenty of scope for the AEC to help drive that proportion higher.

The UK is a world leader in sectors such as design and architecture, law and accountancy, gaming and music. Technology has made it easier than ever for these services to cross borders and many British businesses hope to capitalise on this.

In the short term, tough global trading conditions could affect the development of UK-Asia links. Equally, businesses from many other nations are ready to compete with UK firms for their share of growing Asian markets. On some measures, they have made a quicker start: the value of German goods exported to China is about three times higher than the UK's, for example.

Whatever the challenges, the International Festival for Business shows that many companies in Asia and the UK recognise the potential benefits of closer ties. For banks such as HSBC, it is an opportunity to build on a long history of connecting customers to opportunities around the world.