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Singapore-Based SMEs Target ASEAN Neighbours

Investment Climate and Customer Demand Cited as Key Factors

**77% of companies indicate they plan to expand*

***Among these companies, 77% identified ASEAN as the target region*

****Indonesia and Malaysia are priority markets to enter, followed by Vietnam and Thailand*

A HSBC-commissioned report by the Singapore Business Federation shows that over three quarters of companies here have plans to expand. The survey sought to gain deeper insights on Singapore-based companies' interest in ASEAN. 1036 companies responded to the survey conducted from November 2017 to March 2018.

According to the World Bank, ASEAN's economy is expected to grow by 6.2% this year as compared to global GDP growth of 3.7%. ASEAN is also poised to maintain this growth momentum, averaging 5.2% annual growth over the next five years¹.

The desire to be part of this regional growth is reflected in the survey results. Of the companies polled, 77% indicated that they have plans to expand their businesses beyond Singapore. Among these companies, 77% indicated that they were very keen to expand into ASEAN. The growth potential and opportunities for new market access are the biggest motivating factors for expanding into ASEAN.

Indonesia is a clear favourite destination for internationally oriented Singapore-based companies expecting to expand. Of the surveyed companies, 81% said they already had operations in Indonesia (the highest except for Malaysia at 87%) and 37% expect to further expand there in the next two years (compared to 36% for Malaysia).

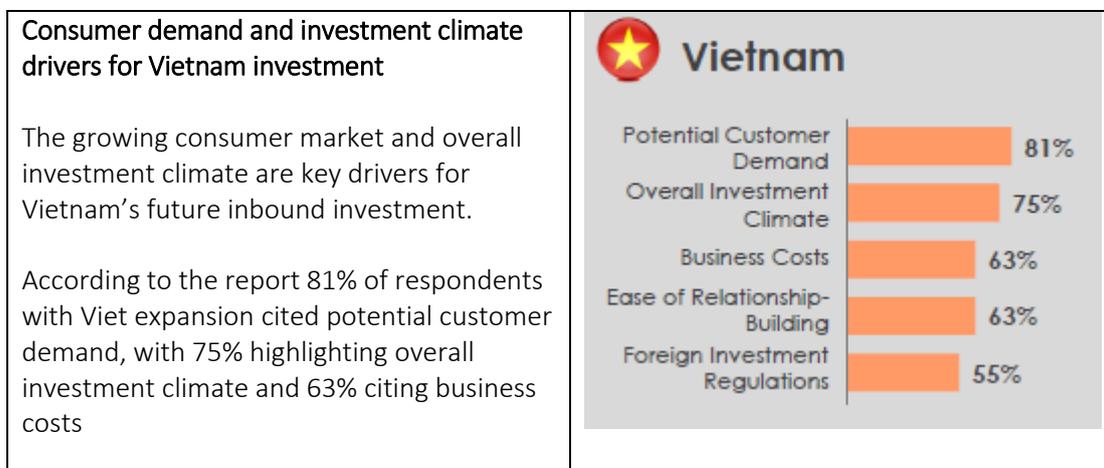
Consumer and business ease the drivers for Indonesian investment

The growing consumer market and overall investment climate are key drivers for Indonesia's future inbound investment.

According to the report 82% of respondents with Indonesian expansion cited potential customer demand, with 66% highlighting overall investment climate and 60% citing the ease of building relationships.

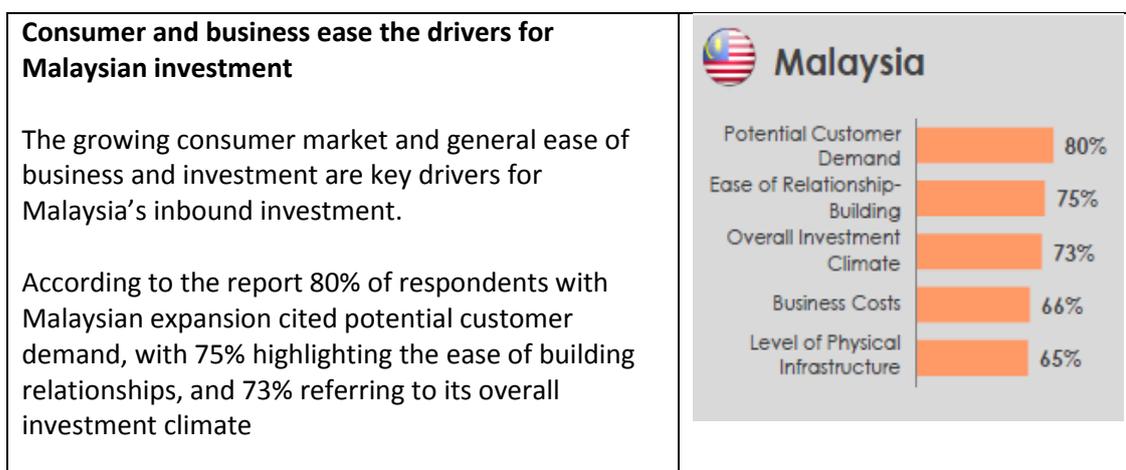


They are followed by Vietnam and Thailand. Increased trade and investment activity from Singapore is good news for Vietnam given Singapore is already one of Vietnam’s largest source of investment. In 2016, Singapore was the third largest source of FDI into Vietnam, accounting for 10 percent at US\$2.41 billion. In 2017, Singapore invested more than S\$41billion into Vietnam, slightly behind that of Korea and Japan according to the Vietnam Trade Promotion Agency.ⁱⁱ

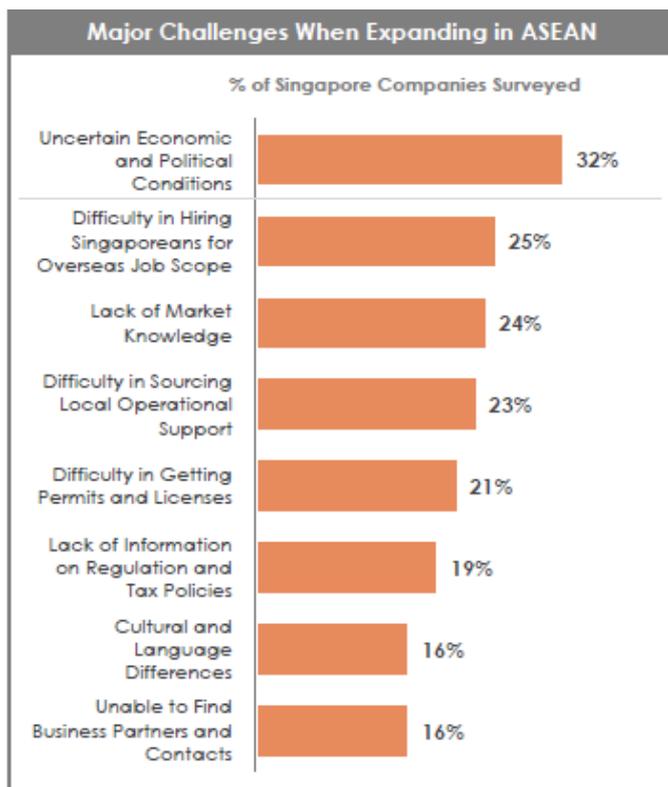


Specifically for Indonesia, Vietnam and Thailand, favourable and transparent foreign investment regulations are ranked first in terms of attractive attributes.

Over in Malaysia, the availability of skilled labour ranked as most attractive. Between 2021 and 2030, almost two-thirds of expected export growth in Malaysia will be driven by manufacturing, machinery and transport, and chemicals. This compares with a 42% contribution from these sectors to export growth expected in 2015-2020.ⁱⁱⁱ



Barriers to Entry



Notwithstanding the very strong interest in ASEAN expansion, companies expressed concerns over some of the obstacles they faced when venturing into the region, including uncertain economic and political conditions in ASEAN, the lack of knowledge on market opportunities and customer requirements, and difficulty in getting permits and licences as potential barriers to expanding into the region.

And despite the general positive sentiment towards the ASEAN Economic Community (AEC)/ ASEAN regional economic integration and the perceived benefits of the ASEAN Free Trade Agreements (FTAs), the lack of

accessible, clear information about these initiatives is a major obstacle in terms of companies benefiting from these agreements.

“The growing consumer base is already well recognised by Singapore corporates, the report shows that many businesses are looking to double down on the region’s consumer and demographic dividend,” said Alan Turner, head of commercial banking, HSBC Singapore.

“Businesses are not just excited about the opportunities in ASEAN, but are actively executing expansion plans. HSBC has a huge well of experience in overseas markets and an unbeatable network to support growing businesses. The biggest risk we see is actually that of unfulfilled potential,” said Mr Turner added.

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ⁱ Singapore Businesses in ASEAN, summary report pg 1.

ⁱⁱ http://en.vietrade.gov.vn/index.php?option=com_content&view=article&id=2615:singapore-vietnams-major-trade-and-investment-partner-&catid=20:news&Itemid=287

ⁱⁱⁱ HSBC Global Connections Trade Forecast, November 2015