Age of ambition: High growth and rapid change for China's Southeast Asian firms

HSBC | Opening up a world of opportunity

Contents

Introduction: The age of ambition

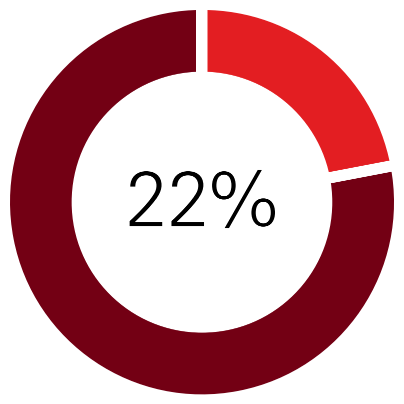
Our survey revealed China's international companies to be undergoing a period of ambition and growth in Southeast Asia. In the wake of the pandemic, the economies of the region are making a rapid recovery and returning to positive economic growth. As the socioeconomic profiles of Southeast Asian societies continue to evolve, Chinese companies see strong opportunities both in catering to the rising consumer needs of the growing Southeast Asian middle classes, and in servicing their own supply chain needs for the domestic Chinese market.

The Chinese companies involved in our survey are making plans to deepen their investments in their current Southeast Asian markets and making plans to expand into new ones. They are expecting high economic growth and are investing heavily in the technology and digitisation required to give them a commercial edge. At the same time, our survey reveals Chinese companies as committed to sustainable and responsible growth, with Chinese executives reporting high investment in sustainability budgets and initiatives.

For Chinese companies, the fundamentals of Southeast Asian economies - large markets, economic resilience, increasing consumption, good infrastructure, and a cheap workforce - remain highly attractive. Nevertheless, as the midterm impact of pandemic lockdowns continues to be felt, and with the deepening global economic consequences of geopolitical confrontation, China's international businesses must ensure they continue to adapt to a changing world.

Figure 1.

Chinese companies expect their company to see a 22% growth in their Southeast Asia-derived export and sales revenue over the next 12 months.



Key findings include the following:

Growth: Growth expectations are high. Chinese respondents to our survey expected their company to see a 22% growth in their Southeast Asia-derived export (Figure 1) and sales revenue over the following 12 months.

Expansion: Our survey found that Chinese firms were very likely to be planning to expand into new Southeast Asian markets. A quarter or more Chinese companies stated they are looking to expand in the Philippines, Brunei, Cambodia, and Myanmar. In addition, across five (Philippines, Brunei, Cambodia, Myanmar, and Laos) of the ten Southeast Asian markets assessed by our respondents, Chinese executives were the most likely to state their businesses were planning new expansion there.

Technology: Recognising the importance of technology, nearly 1 in 3 Chinese companies reported that they were planning to invest 10% or more of their operating profit into technology and the digitisation of their Southeast Asia business over the next 12 months (Figure 2); nearly 57% said they planned to invest between 5% and 10%.

Sustainability: Chinese companies are planning large sustainability investments. Nearly 3 in 10 (29%) Chinese companies said they were planning on investing more than 10% of their operating profit over the next year into increasing the sustainability of their business (Figure 2); nearly half planned to invest between 5% and 10%.

Figure 2.

1 in 3 Chinese companies plan to invest 10% of their operating profit towards digitisation of their SEA business over the next 12 months

3 in 10 Chinese companies plan to invest more than 10% of their operating profit into increasing the sustainability of their business over the next 12 months

Southeast Asia (SEA) - a zone of opportunity for Chinese businesses

Over the 19th and early 20th century, generations of Chinese migrants and entrepreneurs recognised mistake the commercial opportunities to be had in the developing economies of Southeast Asia, and went on to found businesses, cities, and industries across the region. In today's era of globalisation and rapid economic growth, the executives of contemporary Chinese companies are also embracing the enormous opportunities to be had in Southeast Asian commerce. Our survey data makes clear that Chinese companies are highly attracted to the region, highly confident of their continued growth therein, and deepening their investments within their target markets.

Chinese executives were highly likely to report an optimistic outlook for the economy of the Southeast Asia region. Some 40% of those participating in our study said that this made the area an attractive one in which to expand their business; by contrast, only 22% of executives from other regions reported this to be an attractive feature of the region. An optimistic assessment of regional economies seems to have been associated with perceptions of Southeast Asia's success at pandemic management - the Chinese executives of our survey were particularly attracted by Southeast Asia's 'proven economic resilience in response to the pandemic', with 34% saying this was an attractive feature of the region (Figure 3).

Southeast Asia has strong structural advantages to Chinese businesses, and this is reflected in what Chinese companies reported as attractive qualities to the region. The role of Southeast Asia countries in offering 'sizeable markets to scale quickly' was cited by 32% of Chinese respondents; a further 32% said they were attracted to these markets due to 'easier trading thanks to free trade agreements'.

Figure 3.
What makes SEA attractive to Chinese businesses?

These points of attraction highlight the importance of Southeast Asian free trade agreements (FTAs) as a feature of contemporary economic diplomacy. Today, Chinese companies operating in Southeast Asia now benefit both from the free trade agreements that provide their companies with greater access to regional markets; they also benefit from economic dynamism promoted within these markets by intra-regional trade.

Signed in 2020 and implemented in 2022, the Regional Comprehensive Economic Partnership (RCEP) includes 15 Asian Pacific countries and will ultimately eliminate tariffs on over 90% of the goods traded within the bloc. Chinese companies are expected to gain particular benefits from this tariff reduction[1]. Among other free trade agreements, the RCEP builds upon the ASEAN-China Free Trade Area (ACFTA). Implemented in 2005, this FTA reduced tariffs on more than 7,000 product categories to zero between 2005-2010[2]. Initially only between China and 7 ASEAN countries, the agreement was expanded in 2015 to include Cambodia, Laos, Myanmar and Vietnam.

More broadly, Chinese companies operating in the area benefit from the economic dynamism promoted by a high volume to local free trade agreements. As reported by the ASEAN Secretariat, as of April 2021 the ASEAN Member States had signed 221 treaties with investment provisions (TIPs) under the free trade agreement framework and 287 bilateral investment treaties (BITs) with non-ASEAN Member States. Between 2011 and April 2021, the number of TIPs signed by ASEAN Member States rose by 36% and BITs with non-ASEAN countries by 10%. In 2018–2020, ASEAN Member States concluded 10 bilateral TIPs[3].

The optimism and confidence Chinese executives place in Southeast Asia is reflected in their bullish estimates for continued corporate growth. On average, Chinese respondents to our survey expected their company to see a 22% growth in their Southeast Asia-derived export and sales revenue over the following 12 months. By contrast, European firms expected on average a revenue growth of only 17%.

1 Nicita, Alessandro, An Assessment of the Regional Comprehensive Economic Partnership (RCEP) Tariff Concessions, December 2021, UNCTAD

2 ASEAN's Free Trade Agreements: An Overview, Jan 2021, Dezan Shira and Associates

3 Asean Investment Report 2020-21: Investing in Industry 4.0, ASEAN Secretariatt

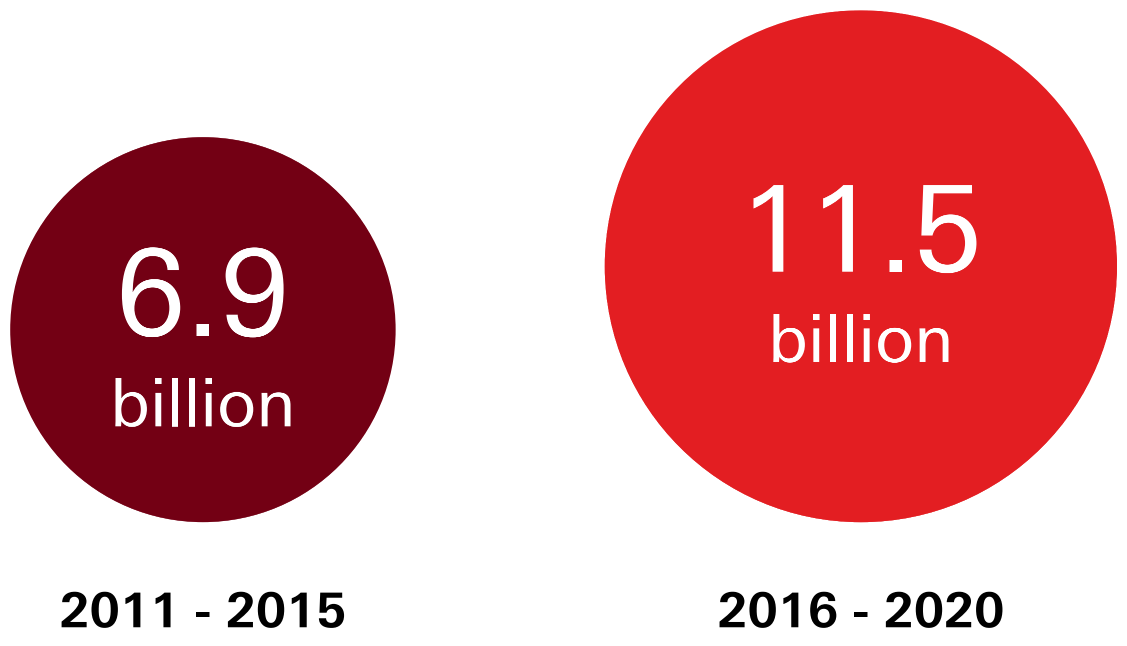
Chinese firms were very likely to be planning to expand into new Southeast Asian markets. A quarter or more Chinese companies stated they are looking to expand in the Philippines, Brunei, Cambodia, and Myanmar. Across five (Philippines, Brunei, Cambodia, Myanmar, and Laos) of the ten Southeast Asian national markets assessed by our respondents, Chinese executives were the most likely to state they were planning new expansion there. In three of the five remaining countries (Indonesia, Malaysia, Vietnam), Chinese companies were the second most likely to be planning an entry into the market.

The effect of expansion plans held by Chinese companies in Southeast Asia is reflected in the burgeoning investments they place in the region - in the decade up to 2021, Chinese foreign direct investment (FDI) to Southeast Asia grew by 65%. In doing so, it went from an annual average of $6.9 billion in 2011–2015 to an annual average of $11.5 billion in 2016–2020[4] (Figure 4). As a result, China's share in the total FDI in Southeast Asia rose from 6.2% to 7.9%.

There is, however, still room to grow; in 2019, Southeast Asia still accounted for only 5% of the global total outwards FDI of China, up from 4.5% in 2010[5]. In this context, our finding that 62% of Chinese executives stated that they felt Southeast Asia to be a more attractive trading bloc than the EU may reflect the natural preference for Southeast Asian markets among companies with pre-existing exposure to the region.

Figure 4.

Annual average of Chinese FDI into SEA (USD)



4 Asean Investment Report 2020-21: Investing in Industry 4.0, ASEAN Secretariat

5 Asean Investment Report 2020-21: Investing in Industry 4.0, ASEAN Secretariat

Exports are driving Chinese activity, but firms are also building SEA supply chains

The production of industrial and consumer goods for export is a central feature of China's economy, and this is reflected in the responses to our survey. 72% of participating Chinese executives stated that their company had achieved organic growth in the region to date; by contrast, only 47% companies from the other origin markets could report the same. 81% of Chinese companies involved in manufacturing said they had achieved organic growth.

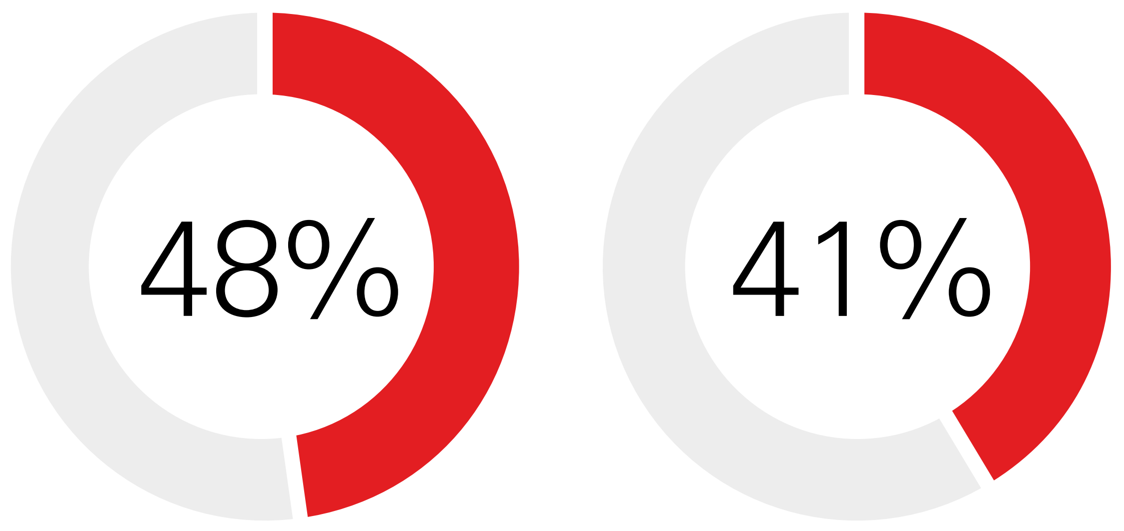
Chinese exports to Southeast Asia are driven by the rapid economic growth the region is currently experiencing. Some 32% of Chinese companies said they were attracted to the region by dint of its growing middle class, who present an important new market for consumption. Given these trends, it is unsurprising that Chinese firms were very likely to identify Consumer Staples and Consumer Discretionary as the fastest growing sectors in the region, with 48% and 41% selecting these respectively (Figure 5).

Alongside its status as a pre-eminent exporter, China also represents a gigantic internal market. As such, many Chinese firms see Southeast Asia as a central part of their supply chains. Of the international companies in our survey, Chinese firms were the most likely to say that they had developed their Southeast Asian supply chain over the previous year. 65% of Chinese companies reported this, compared to only 50% of companies in the five other countries we surveyed.

Chinese companies were the most likely to say that they were planning to 'significantly increase' their supply chain partnerships over 2022, with 34% of companies from the country reporting this planned activity. The geographical proximity and well-established nature of Southeast Asian supply chains are clearly an attractive feature for Chinese businesses - 45% of Chinese companies also said they found 'supply chain ease' to be the single most attractive feature of Southeast Asia as a location to test new technologies and products (Figure 6).

Figure 5.

Fastest growing sectors in SEA according to Chinese businesses

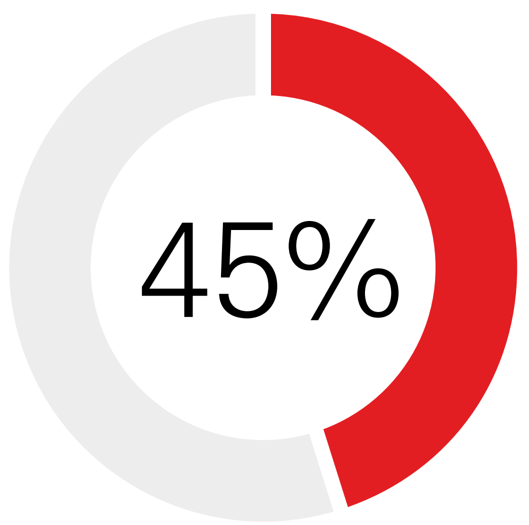


Consumer Staples

Consumer Discretionary

Figure 6.

Percentage of China companies that view 'supply chain ease' as the most attractive feature of SEA to test tech & products



Geography and culture matter

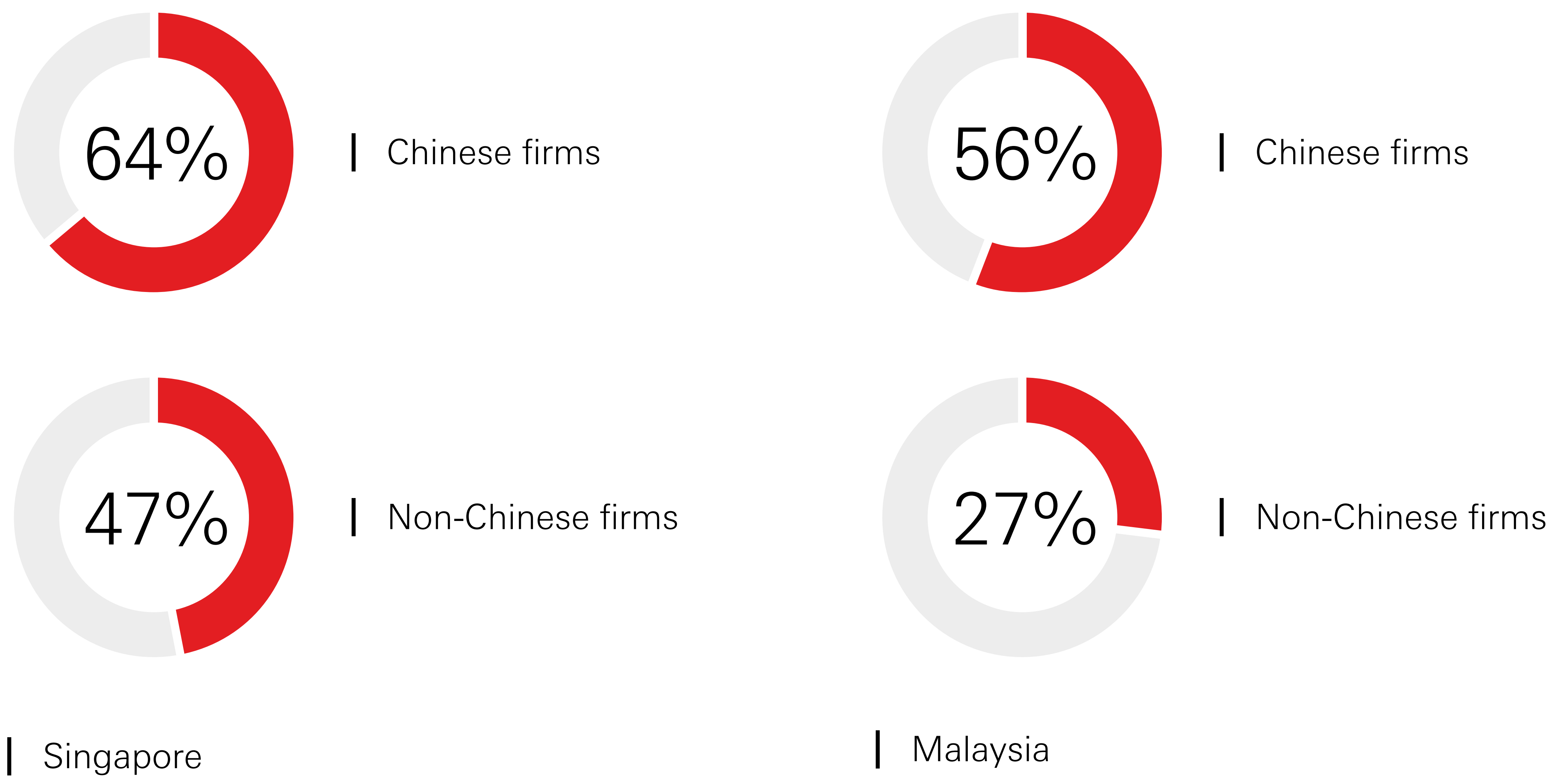
Chinese investment and engagement with Southeast Asian countries was readily apparent in our data. In 6 out of the 10 Southeast Asian markets considered by the executives who joined our survey, Chinese companies were those most likely to state that they already had operations there, and the second most likely to have operations there. They occupied this leading position in Vietnam, Thailand, Malaysia, Laos, Cambodia, and Brunei. In the remaining four Southeast Asian economies, they were the second most likely to already have operations there.

Across the world, countries tend to have the deepest economic ties with their immediate neighbours. China is no different. Sharing a land border with Vietnam, Laos, and Myanmar, and with comparatively short maritime routes to the Philippines, Malaysia, Singapore, and Indonesia, Chinese companies are well-placed to engage with the Southeast Asian market.

Chinese companies are not an undifferentiated group. One notable area of distinction among them is their current growth rate. The high-growth companies who participated in our survey presented a different profile to those with lower growth. To highlight this distinction, we have created the categories of 'leaders' - firms expecting a 30% or more annual increase in their organic growth over the next 12 months - and 'laggards', those firms expecting less than 30% annual organic growth. Their varying responses are also explored in the next section.

Figure 7.

Chinese vs non-Chinese firms with presence in Singapore and Malaysia



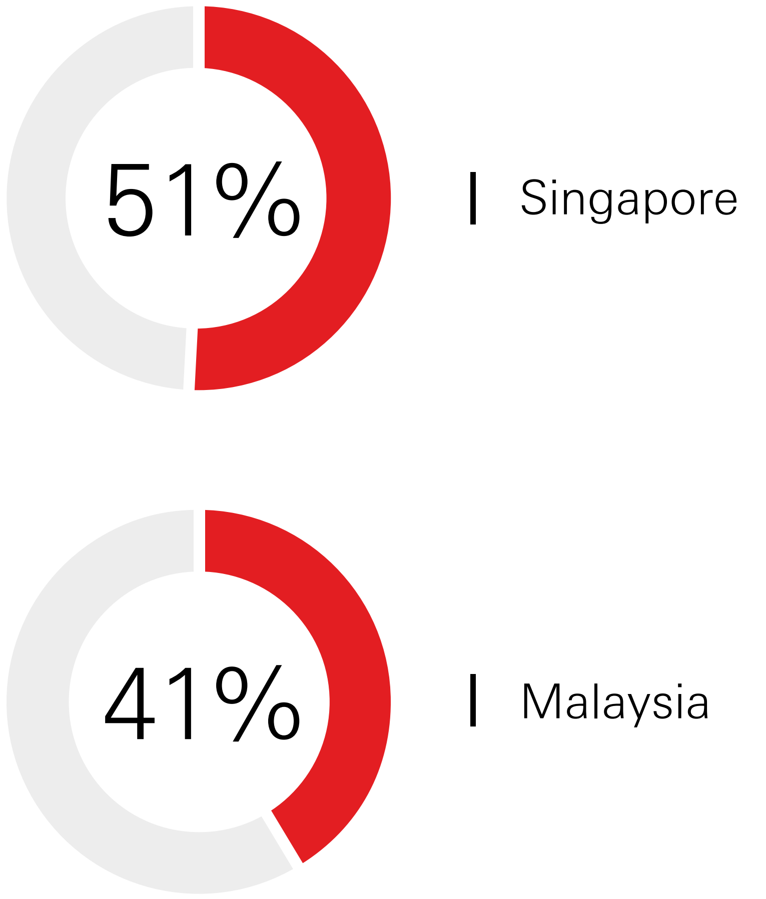
Current - Malaysia and Singapore
Culture also plays a role. It is noteworthy that Singapore and Malaysia - both of which have deep histories of Chinese immigration and cultural influence - were the two countries that Chinese companies were most likely to say they already had operations in. Some 64% said they currently have operations in Singapore; 56% reported having them in Malaysia. In both countries they were much more likely than other international firms to have operations there - only 47% of the non-Chinese firms in our study had invested in Singapore, and only 27% of them reported engagement in Malaysia (Figure 7).

Among the Chinese companies participating in Southeast Asian markets, 75% of the Chinese firms expecting 30% or more growth over the next 12 months already had operations in Singapore. These business leaders led laggard companies by a large margin; only 59% of those expecting less than 30% organic growth currently had operations there. This distinction was less pronounced in Malaysia - 66% of the fastest growing Chinese firms reported already having operations there, as did 54% of laggards.

Expansion of current - Malaysia and Singapore
Singapore and Malaysia were also the two countries regarding which Chinese companies were most likely to be considering expanding their current operations over the next two years - over 51% of Chinese companies with Singaporean operation intended on prioritising growth there and 41% of those with Malaysian operations (Figure 8).

Among those planning an expansion of their current investments in Singapore, there was a notably large gap between 'leaders' and 'laggards' - some 66% of Chinese 'leaders' were planning on further expansion there over the next 2 years, compared to only 45% of 'laggards'.

Figure 8.
Markets that Chinese companies with existing operations were most likely considering expanding next two years



Singapore/Malaysia - new product testing

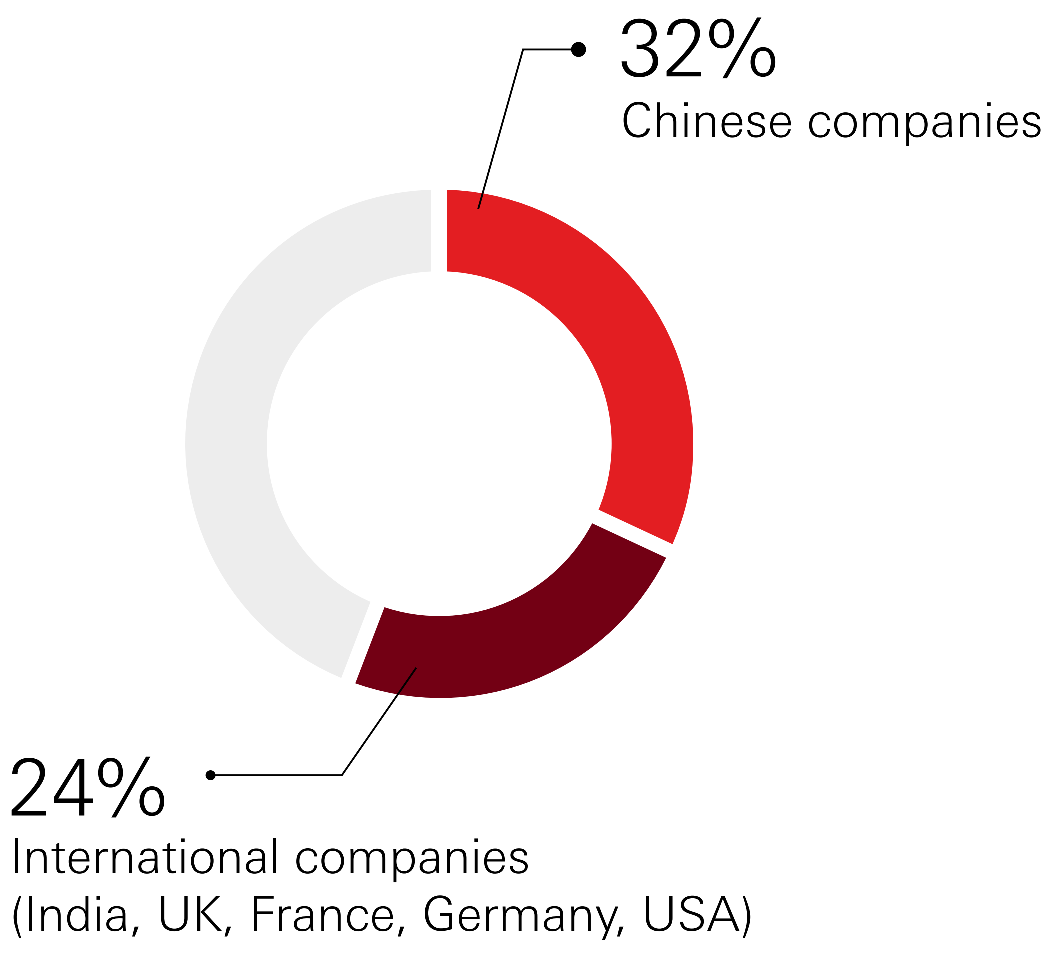
In a further indicator of their engagement with these markets, Singapore and Malaysia were the countries Chinese executives were most likely to report themselves as 'very likely' to test new products in - 56% reported that they were very likely to test new technologies or products in Singapore, with 54% also saying this about Malaysia.

Thailand

Aside from Malaysia and Singapore, Chinese companies were also very likely to have investments in and are planning further growth to Thailand. 44% of Chinese firms participating in our study already have Thai operations, compared to 36% of international businesses; 32% of those with current investments planned to prioritise more growth there in the next two years, compared with 24% of firms from other countries (Figure 9).

Figure 9.

Companies with current operations in Thailand planning for more growth over the next two years

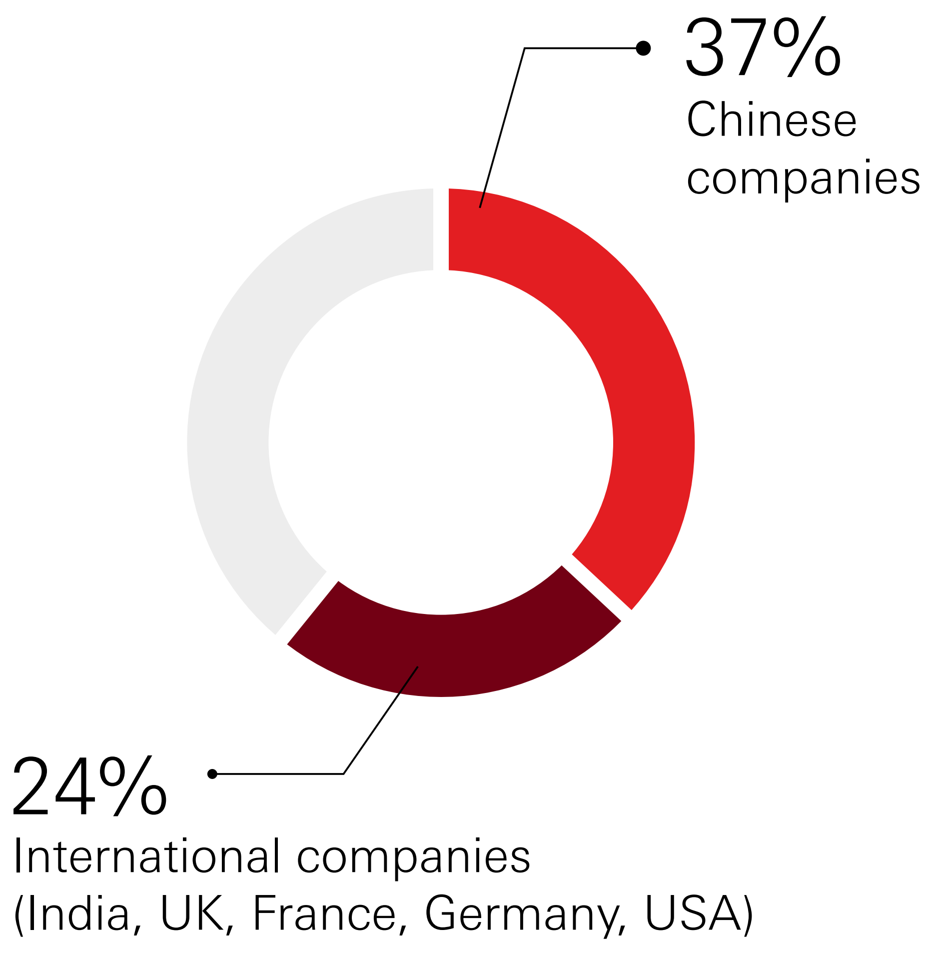


Vietnam

There was a large gap between the reported likelihood of currently having operations in Vietnam between Chinese companies and the other international markets we surveyed. 37% of Chinese firms already have investments in Vietnam compared to only 24% of those from other countries (Figure 10). They were also much more likely to be planning to prioritise further growth there over the next two years; over a quarter of Chinese firms reported such plans, compared to 16% of other international firms.

Figure 10.

Companies with current operations in Vietnam

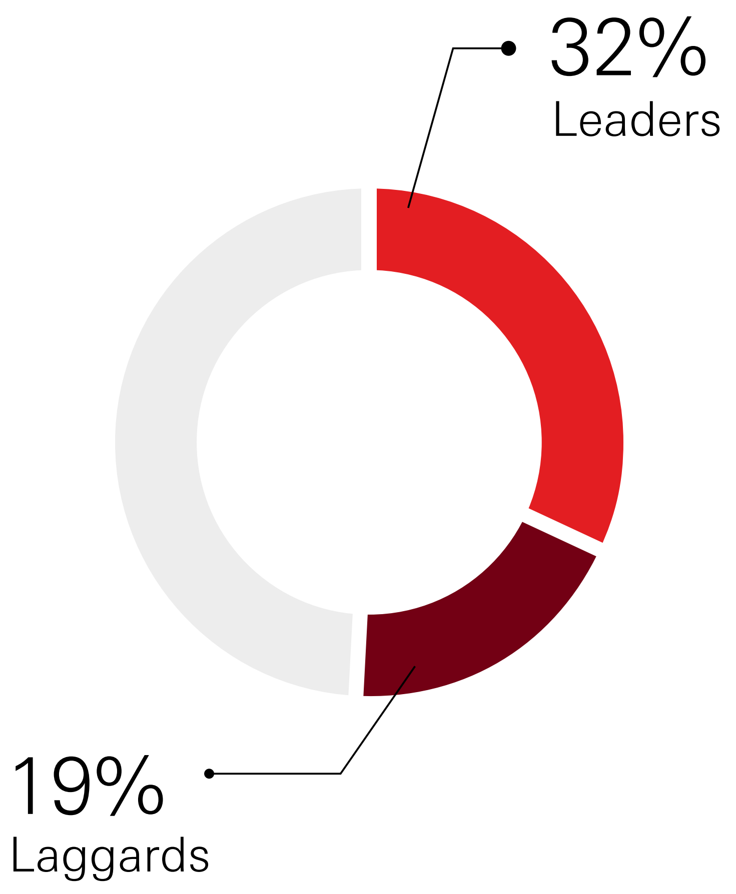


Indonesia

Analysis of our data suggests Chinese engagement with Indonesia is deepening, and is led by the Chinese firms within our 'leaders' category. Although a comparatively modest 34% of international Chinese firms noted already having operations in Indonesia, this is starkly divided between the 'leader' and 'laggard' categories; 48% of leaders are already in the country, compared with 28% of laggards. A further 32% of Chinese 'leaders' currently in Indonesia planned on further expansion in the country over the next two years, compared to 19% of laggards (Figure 11).

Figure 11.

Chinese companies currently in Indonesia planning for further expansion



Market entry

As the economies of Southeast Asia grow, many Chinese firms are considering entering new markets. Appetite varied between markets. Although the Chinese presence in Singapore is large and deepening, few firms without previous investments showed inclination to enter Singapore - only 9% of Chinese leaders spoke of intending entering Singapore in the next two years, indicating the extent to which such businesses have already grasped opportunities in the country. This compares to 22% of laggards; having seen the business value of a Singaporean presence, these firms are now attempting to keep up.

Myanmar, Cambodia, and Brunei each stand to gain significant Chinese investments, with a quarter of Chinese executives respectively reporting plans by their company to enter one of these markets. In each of these, 'leading' companies were more likely to be making expansion plans. For example, 35% of Chinese leaders reported plans to enter Myanmar, compared to 20% of laggards.

The country most likely to be the subject of market entry plans by Chinese companies was the Philippines, with 28% of the Chinese companies in our survey having plans to expand there. Notably, the leader vs laggard distinction here was comparatively minor - 32% of leaders and 26% of laggards reported Philippines expansion plans.

Tech

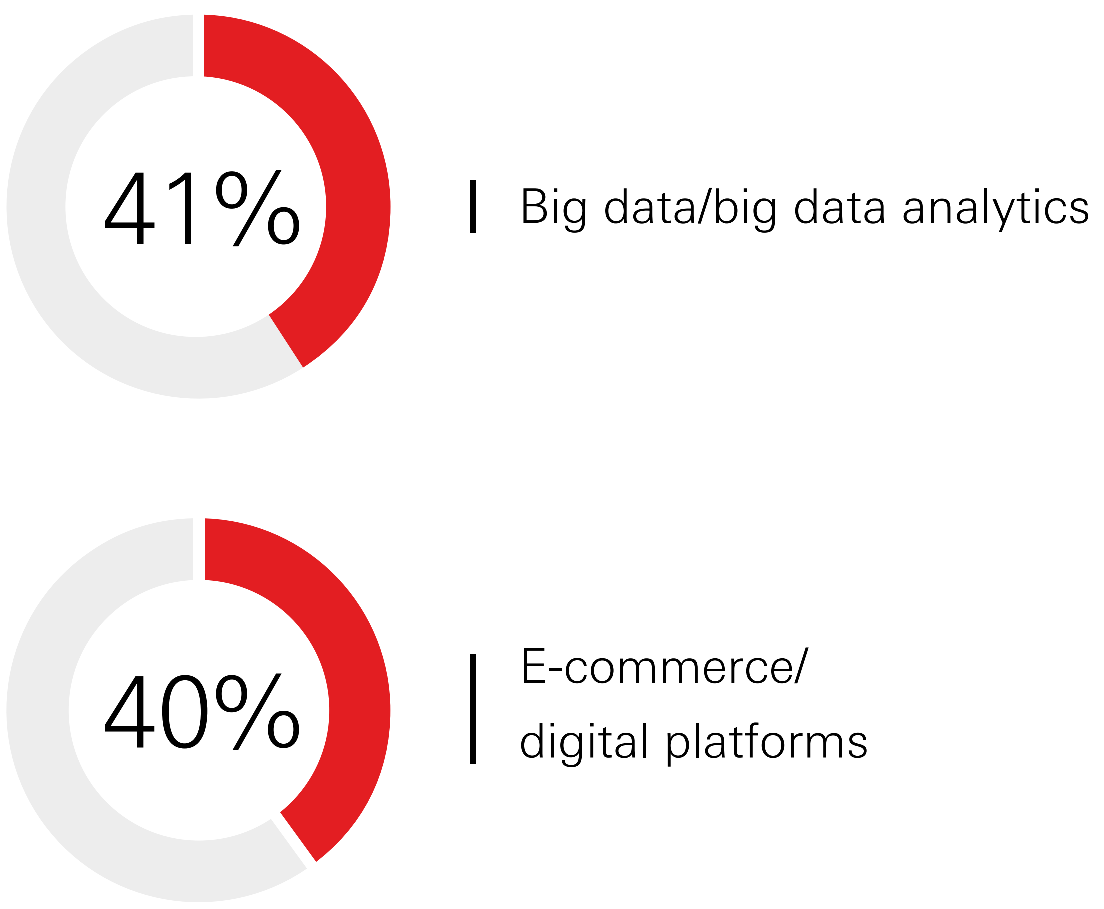
Technological innovation is a clear priority of Chinese firms in Southeast Asia, and they are particularly interested in the region's data analytics and e-commerce capacities. Nearly 1 in 3 Chinese companies reported that they were planning to invest 10% or more of their operating profit into technology and the digitisation of their Southeast Asian business over the next 12 months; nearly 6 in 10 said they planned to invest between 5% and 10%.

Investment in technology was strongly connected with growth expectations. Chinese companies with the 12-month highest growth expectations were most likely to be planning heavy investments into digitisation and technology in Southeast Asia. Among this category of Chinese business leaders, over a quarter (53%) of them reported planning to invest 10% or more of their operating profit into digitisation, with less than a quarter (23%) of laggards stating the same.

Chinese executives were particularly likely to believe that the economies of the ASEAN bloc were playing a leading role in big data/ big data analytics, with 41% of respondents reporting this view. The related category of 'e-commerce/digital platforms' was similarly deemed by them to be a strong feature of the region, with 40% of Chinese companies stating Southeast Asia had a leading role here (Figure 11).

Figure 11.

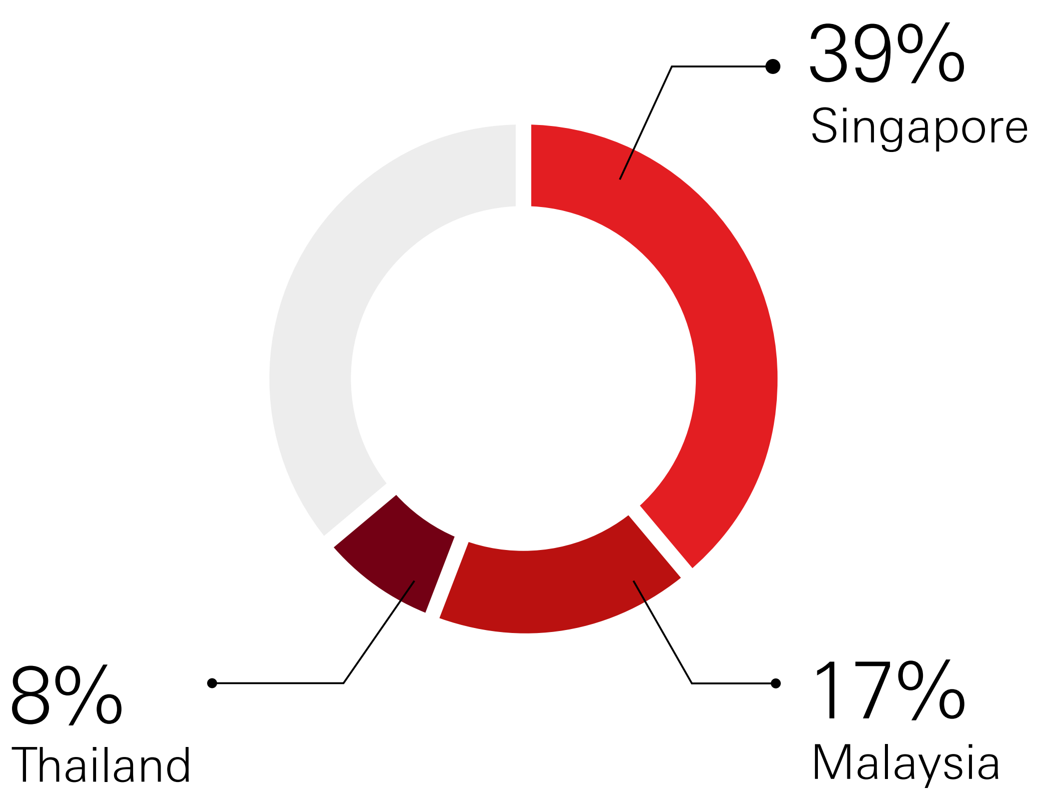
Top technologies Chinese executives feel SEA markets are leading in



In both categories, Chinese executives perceived Singapore, followed by some distance by Malaysia, as occupying the leading places among Southeast Asian economies. 35% of them felt Singapore led in big data and big data analytics; only 17% selected Malaysia, the second most likely choice. The e-commerce and digital platforms category was assessed by Chinese companies in a similar manner - 39% of executives felt that Singapore occupied the strongest position in Southeast Asia, with 17% stating they believed Malaysia to be occupying the leading place in this category. Other countries were not considered to hold any significant leadership position; Thailand was the third most likely to be deemed a leader in ecommerce by Chinese firms, and only 8% selected this (Figure 12).

Figure 12.

Leading markets perceived by Chinese executives for e-commerce and digital platforms



Blockchain was also deemed by Chinese companies to be a strength of the Southeast Asian region, with 39% reporting a belief in this sector's strength. However, further analysis reveals that this sector was also strongly associated with Singapore - while 39% of Chinese firms said they regarded Singapore as a leader here, other countries were not heavily associated with this technology. Indonesia was the second most likely to be selected, with only 11% of Chinese executives saying they believe it to be a blockchain leader.

Nearly half of Chinese companies (48%) felt they would like banks to support them in developing their SEA data analytics capacities. Some 42% felt their banks should support them in their e-commerce digital platforms ambitions.

Regulations and sustainability

Sustainability is a major priority of Chinese firms in the Southeast Asia region. Our research indicates a deepening engagement with sustainability by Chinese companies, and that they are adopting a position of sustainability leadership among international businesses involved in the region.

Illustrating the integration of the region with the Chinese economy as a whole, improving their Southeast Asian supply chain sustainability was a top 12 month focus of Chinese companies. Chinese companies were most likely to report that a 12 month SEA sustainability priority of theirs was 'reviewing sustainability credentials of our suppliers', with 48% selecting this (Figure 13). By comparison, across the other international markets in our survey - France, UK, Germany, USA, and India - only 34% of companies said the same.

Figure 13.

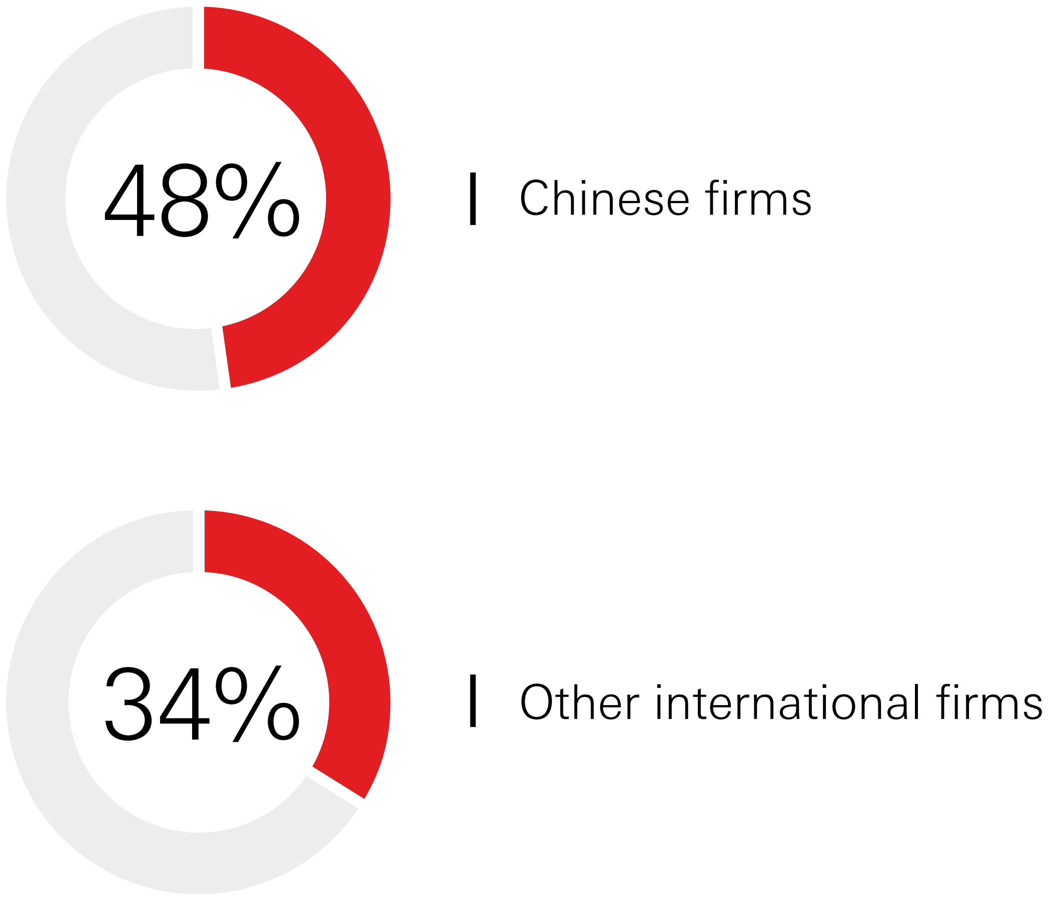
Chinese firms' SEA sustainability priority over the next 12 months

Of the international companies in our survey, Chinese firms were also the most likely to say that 'promoting nature positive supply chains' was a sustainability priority of theirs in Southeast Asia over the next 12 months. 47% of Chinese companies reported plans to do so, as opposed to only 34% of other international firms. Many identified integrating themselves with local companies as of high importance - 48% also planned to use more local SEA partners as part of their sustainability efforts, as opposed to 34% of other international companies (Figure 14).

Given their focus on improving the sustainability of their supply chains, it is unsurprising that Chinese firms were highly likely to identify a perceived lack of control over their supply chain partners as a barrier to improving their sustainability, with some 44% of companies reporting this as a barrier.

Figure 14.

Firms planning to use local SEA sustainability partners



The comparatively new international emphasis on sustainability was underlined by the fact that access to sustainability-related talent was also a major concern of Chinese companies. Nearly half (47%) felt that difficulties in hiring employees with sustainability expertise was a barrier to improving their sustainability performance (Figure 15).

Sustainability barriers notwithstanding, our survey made clear that there is a real depth to the commitment towards positive action among Chinese international businesses in Southeast Asia. Nearly 3 in 10 (29%) Chinese companies said they were planning on investing more than 10% of their operating profit over the next year into increasing the sustainability of their business; nearly half planned to invest between 5% and 10%.

Figure 15.

Chinese companies' top sustainability challenges in SEA

Conclusion

Our data reveals Chinese businesses to be confident of their prospects for growth in Southeast Asia, planning to expand their exposure to markets within the region, and to be playing an active role in the pursuit of environmentally sustainable business practices.

Among the participants in our survey, Chinese executives were in general much more likely to report an outward facing and expansionist mentality when contemplating Southeast Asian economies - theirs is a portrait of rapid growth, rapidly expanding investments, and the embrace of new markets.

Nevertheless, despite this positive survey data, China's international companies may face economic headwinds in the months ahead. As China continues to manage the domestic effects of the pandemic alongside an economic slowdown, companies may face new pressures. Geopolitical changes may also present an evolving set of challenges and opportunities for China's international businesses. Chinese executives must therefore plan for a bright future, but must take care to put in place the processes and contingencies that will enable their organisations to flourish in a changing environment.

Methodology for the Report:
Survey with n=1,596 businesses with turnover of $5M USD or more from 6 markets globally including China, India, UK, France, Germany, USA, conducted 11-15 March 2022. 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%.