

1 November 2018

Businesses Alter Course as Political Headwinds Threaten Global Trade

Businesses are upbeat about their prospects, encouraged by customer demand and favourable economic conditions, but are revising their strategies as protectionism dents the outlook for international trade, according to a new HSBC survey of over 8,500 companies: *'Navigator: Now, next and how for business'*.

More than three quarters (78%) of companies are positive about the trading environment, rising to 86% in ASEAN countries and 82% in the EU, according to the 34-market report. Over a third (35%) expect increasing consumption to be the top driver of their growth in the next year, with almost as many (33%) focusing on the economic environment and 32% on technology to increase efficiencies or develop new products and services.

Yet at the same time, political headwinds are gaining strength as 63% of firms think governments are becoming more protective of their home economies, up 2 percentage points since the first quarter of 2018. For those companies with a negative outlook on their company's prospects, tariffs and the US-China trade dispute are the main reasons for pessimism (31% each). The cost of tariffs is the top concern for US firms with a negative outlook (60%), while in mainland China and Hong Kong the political dispute with the US is the greatest concern (65% and 53% respectively). In Russia (46%), Germany (39%) and Turkey (36%), it is the wider context of geo-political tensions that alarms them most.

Reflecting these uncertainties, many companies are turning their attention to intra-regional rather than inter-regional trading opportunities. When asked about their top targets for future trade growth, the number of European companies citing Asian markets dropped from 30% in the first quarter to 18% now, North American firms citing Asia fell from 43% to 30%, and Asian companies citing North America slipped from 44% to 34%. At the same time, more North American companies plan to trade within their home region in the next three to five years (+5pp to 38%), and more Asia-Pacific companies are looking at China specifically as a future growth market (+4pp to 16%).

Noel Quinn, Chief Executive of Global Commercial Banking at HSBC, said: "Businesses are staying positive, but they're signalling to policymakers that protectionism is a significant concern that's reducing their appetite to grow through international trade. Some are looking closer to home for opportunities, and many are adapting their approach to stay fit for the future. We expect technology, digitisation and data to play an increasingly important strategic role by enabling businesses to develop their products and services, reach new customers and cut costs by improving operational efficiency."

The Navigator survey also shows that more than half of companies (51%) expect that free trade agreements, where they apply to their country and industry, will benefit them over the next three years. FTAs are particularly popular in emerging markets, with 60% of firms saying they will have a positive impact, compared to 45% of firms in developed markets.

This divergence can also be seen in perceptions of the impact of new regulations. While businesses in Ireland (61%), the US (44%), Singapore (40%) and China (37%) worry about regulations increasing the cost of doing business, their peers in countries including Vietnam

(45%), Thailand (43%), India (39%) and the UAE (37%) think regulations will increase their competitiveness.

Looking at growth drivers within their direct control, the top two priorities for companies over the past two years have been to expand into new markets (28%) and into new products or services (25%). Looking ahead two years, their top priority (31%) is to grow market share, closely followed by an emphasis on skills development and productivity enhancements (29%).

Here, technology will have a key role to play. More than one in five (22%) businesses has invested in research and technology over the last two years, three quarters (75%) are looking to data to drive business optimization and more than a quarter (26%) consider technological advancement the top reason for choosing a supplier after cost and quality of their products.

Note to editors:

HSBC Navigator: Now, next and how for business

HSBC's Navigator report comprises a global survey gauging business sentiment and expectations on trade activity and business growth from 8,650 decision-makers in 34 markets. Research was conducted by Kantar TNS for HSBC between August and September 2018.

HSBC's Navigator helps businesses capitalise on new opportunities and make informed decisions for the future by understanding the outlook for international trade.

The full report can be accessed here: www.business.hsbc.com/trade-navigator

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