

Navigator

Now, next and how
for business

Malaysia



Malaysia

Firms look for a silver lining in the clouds of protectionism

Malaysian firms are generally very optimistic about the global economic environment. Although Malaysia's trade openness does leave it vulnerable to any fallout from the US-China trade frictions, firms also believe that this conflict could present opportunities for them to capture market share.

What is happening now

Sentiment strong, despite a more challenging outlook

Malaysia's economy continues to benefit from broad-based economic growth. That said, the underlying pace of GDP growth is likely to moderate in the second half of 2018 as investment eases and government spending becomes slightly more restrictive. The export environment is also likely to become more challenging as we head into 2019, amid cooling Chinese import demand and increased global trade protectionism. But the easing in exports and investment is likely to be partly offset by ongoing strength in the household sector.

The HSBC Navigator survey shows that nearly nine out of ten (89%) respondents in Malaysia are positive on the outlook for international trade, significantly higher than the global average (78%). This follows the general boost to confidence following the election victory of Dr Mahathir's political party in May. At the company level, a similar proportion of respondents (91%) are confident that their company will succeed in the current international trading environment, with consumer confidence being a key factor behind their positive outlook (39%). Reflecting the general dynamism evident in intra-Asian trade flows, China, Singapore and Indonesia most frequently cited by respondents as markets where they were looking to expand (Fig. 1).

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Identify how directly and indirectly exposed your sales and downstream supply chains are to US and Chinese tariffs.
- ◆ Look at ways digitalisation can boost productivity and improve competitiveness.

Policy Developments

Nearly half of all firms see opportunities from US-China trade conflict

More than four out of five (81%) of Malaysian respondents consider that foreign governments are becoming more protective of their domestic firms. This is significantly above the global average of 63% and represents an 8 percentage point increase in the share from our last survey (conducted in late 2017). Nonetheless, firms do not appear to view rising global trade protectionism as having severe adverse implications for their business prospects, at least to date. Only 25% of respondents viewed the US-China trade frictions as a hindrance to their businesses; in fact, nearly half (48%) viewed these trade frictions as being helpful, suggesting firms see some opportunities arising from possible changes to regional supply chain patterns.

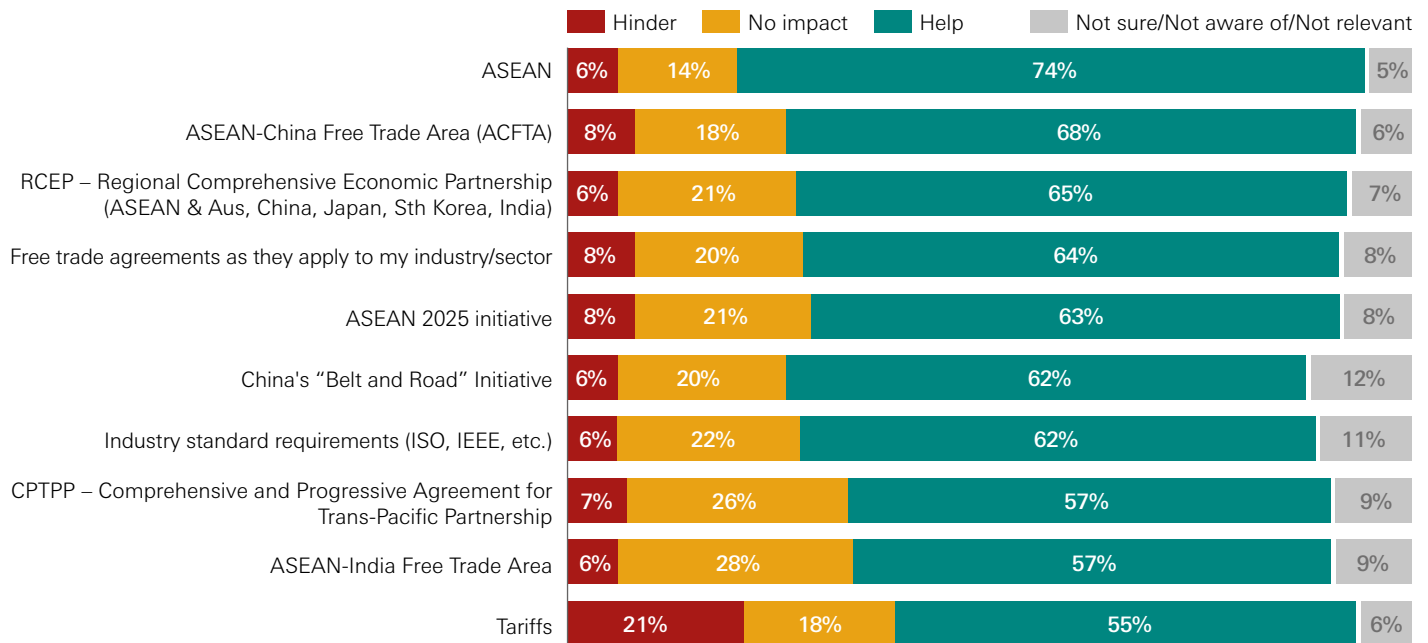
Views regarding the impact of regulation were more divergent. While just over a third (34%) of firms see regulation as an extra cost burden, a similar proportion perceived regulation as a positive for competitiveness.

As illustrated by Fig. 2, Malaysian firms are generally optimistic that regional policy initiatives will help their business, particularly ASEAN (74% of respondents) and the ASEAN 2025 Initiative (63% of respondents). Relevant free trade agreements were also viewed favourably by the majority (64%) of respondents. And while the new government is undertaking a major review of Chinese infrastructure projects, around 62% of respondents believe that China's Belt and Road Initiative will be positive for business.

How your business can respond

- ◆ Firms should be ready to react to any foreign policy shifts that may impinge on their business by ensuring diverse and flexible supply chains.
- ◆ Firms should be ready to capitalise on the CPTPP and other potential new trade deals to develop or consolidate trade relationships.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Firms look to improve competitiveness as they seek long-term growth

Faced with an increasingly competitive global trade landscape, the most common company strategies being pursued by companies in Malaysia are a focus on productivity and skill development, as well as improving long-term performance (Fig. 3). For less mature firms, survey results suggest the key focus is building market share.

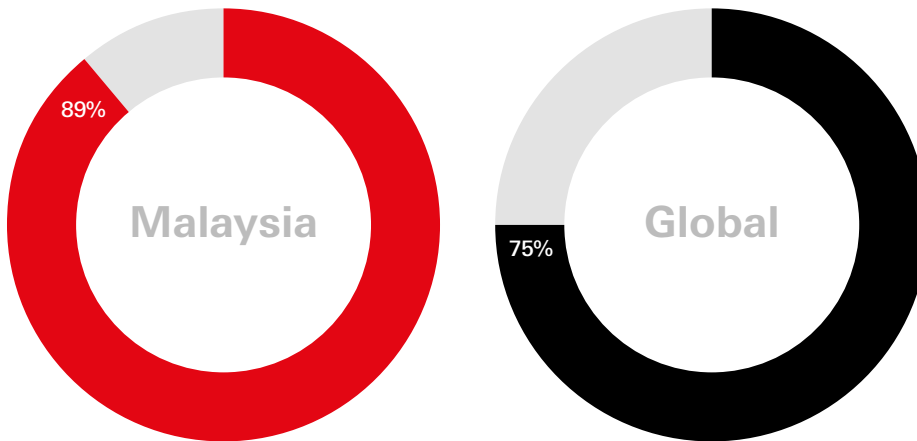
Almost nine out of ten Malaysian firms surveyed utilise data to optimise performance (Fig. 4), well above the global average of 75%. The use of transactional (sales) datasets was most common (used by 59% of firms), followed by operational data. Firms plan to continue to invest in digital innovation to target new customers (51%) with 46% of firms seeing this investment as enhancing their competitive edge.

Fig. 3: Top 3 actions for future company direction



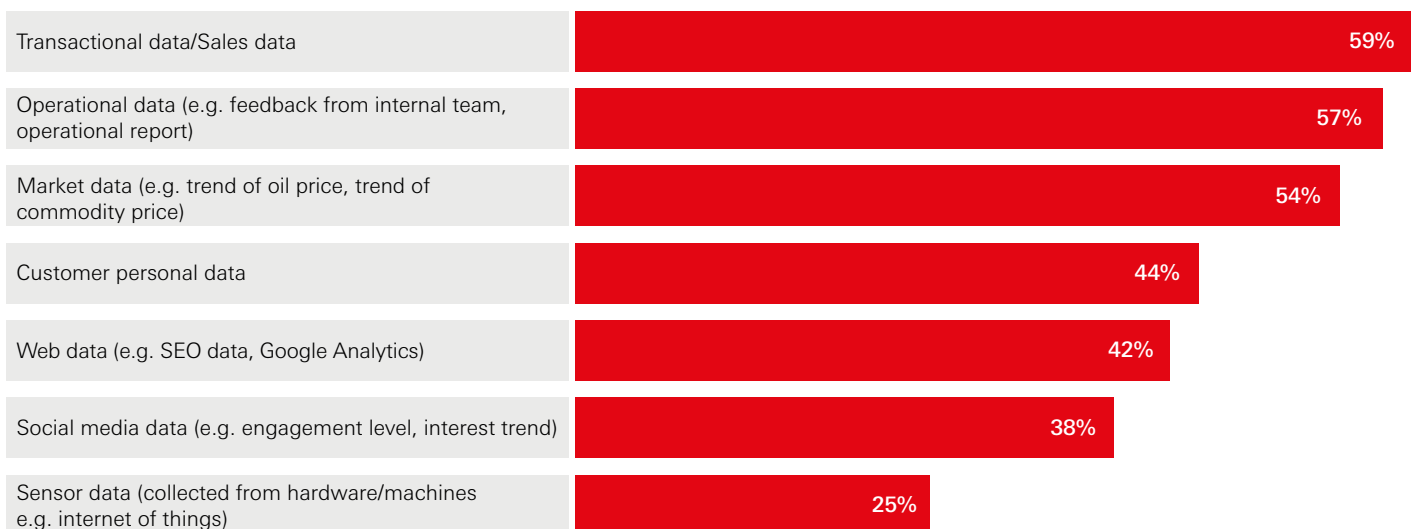
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

In terms of opportunities arising from digitisation, the Internet of Things, smart manufacturing/industry 4.0 and more efficient manufacturing are viewed as the most significant. That said, 31% of firms saw increased regulation on data compliance as a key challenge. Although 63% of firms report that they have already complied with data regulatory requirements, just over a quarter (26%) are still getting ready to fulfil these requirements.

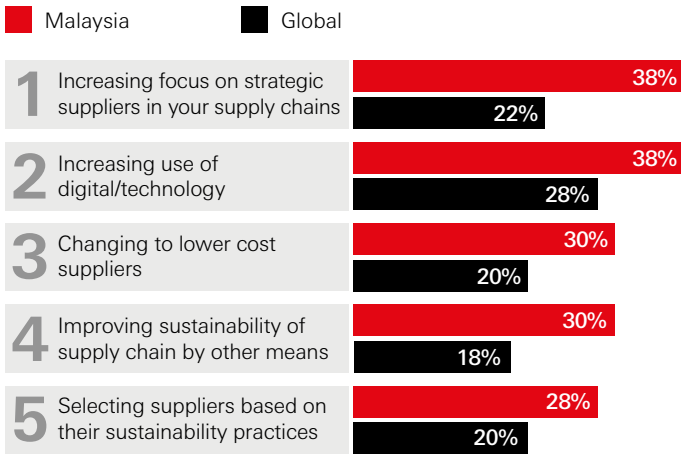
Supply chains under review to reduce costs and risks

Nine out of ten respondents in Malaysia state that they monitor their supply chain for environmental and ethical standards, although around two-thirds (66% services, 63% goods) monitor half or less of it. Ensuring environmental and ethical sustainability features highly among Malaysian firms, with 72% of goods firms and 68% of services companies claiming that this cause is important to them and that they are either on par or ahead of their peers in their focus on sustainability.

A little over a third of firms surveyed in the goods sector said that increasing their use of digital technology was one of the top changes planned for their supply chains (Fig. 5). Businesses in this sector were also looking at their strategic suppliers and examining where they can save costs by moving to lower cost suppliers. Indeed, firms reported that their top objectives in making changes to their supply chains were to push for cost reductions and increase company profits/revenues.

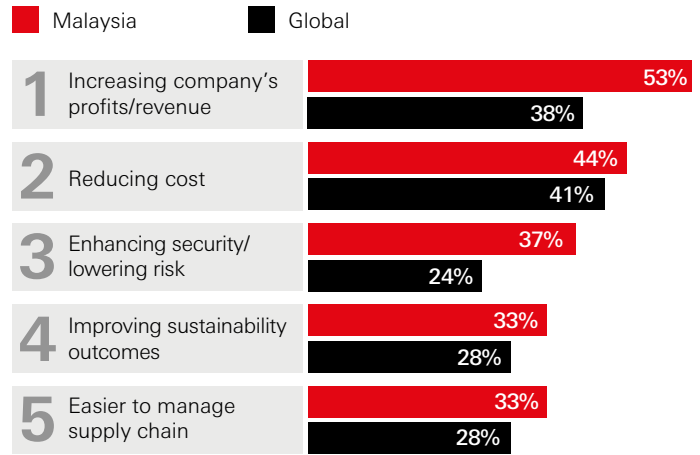
Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

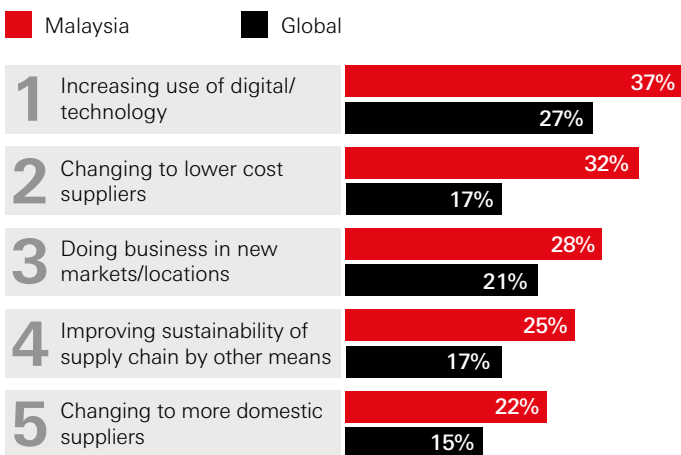
Top 5 objectives behind the changes



Over a third (37%) of Malaysian service firms surveyed said that increasing their use of technology was the top change planned for supply chains (Fig. 6). Changing to lower cost suppliers and doing business in new markets were the next most mentioned changes. Cost reduction was the main objective of planned changes to supply chains (identified by 41% of respondents), with improving revenue and profits also a common goal.

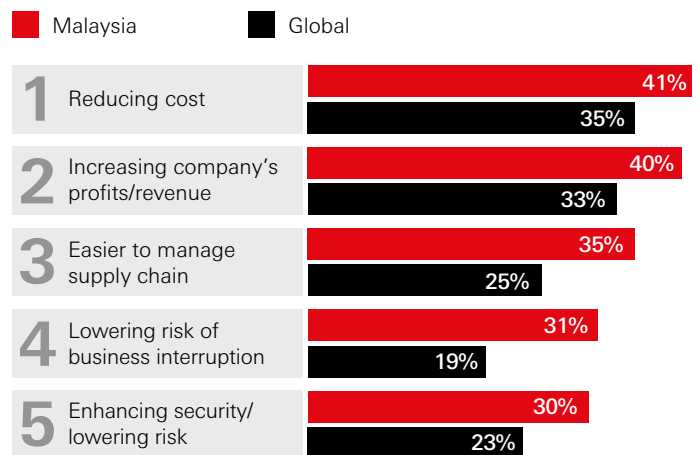
Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

Top 5 objectives behind the changes



About HSBC Navigator Malaysia

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 200 businesses were surveyed in Malaysia. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

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.

For media enquires please contact:
Natasha Plowman
HSBC Global Communications
Natasha.Plowman@hsbc.com

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

All images copyright © HSBC Holdings plc. All reasonable efforts have been made to obtain copyright permissions where required. Any omissions and errors of attribution are unintentional and will, if notified in writing to the publisher, be corrected in future printings.

Photo Credits

Page 1: JGalione, istockphoto.com

Note: Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.

Issued by HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

www.hsbc.com

