

Navigator

Now, next and how for business

Global



Together we thrive

Overview

Confidence persists despite uncertainty

In a year of less than ideal economic and geopolitical headlines, businesses are showing their resilience. They're weathering the prevailing headwinds and turning challenges into opportunities. In the face of US-China trade tensions, growing protectionism and geopolitical changes, and the potential impact of Brexit, companies are positive about their future. Globally, nearly half of businesses register as more optimistic than they were a year ago and 79% expect sales to grow over the next 12 months.

The positive outlook shown by businesses perhaps can be attributed to a number of factors. While economies are growing at a slower pace, most are still growing. Additionally, agile companies are taking advantage of the shifting trade landscape to grab market share and expand into new markets.

Another trend that emerged from our survey shows firms increasingly recognising the role of global trade as a force for good, both for their businesses and for society. Global trade benefits include the ability to spur innovation, help raise incomes and support policies for inclusion.

Results indicate that the sustainable practices now demanded by end-consumers and regulatory standards are helping to improve operational efficiency and grow sales. Companies are also taking a more active role in delivering on sustainability. Almost two-thirds of businesses think they have a role to play in the UN's Sustainable Development Goals (SDG), with one quarter of businesses noting they have a significant role to play.

State of play

Tech, new market access and productivity

In August and September 2019, we surveyed over 9,100 companies across 35 countries and territories to find out where businesses see themselves today and in the coming years. In the same month, the European powerhouse economy of Germany slipped back into negative growth and, with Brexit looming, Britain reported the first fall in quarterly GDP since 2012. The US-China trade tensions are raising fears about the next worldwide recession. As we write, India is facing a steep economic slowdown and forecasts for economies that should be powering South American markets, like Argentina and Brazil, are hitting new lows.



Despite this uncertainty over the global economic environment, for the third year in a row, the business outlook has improved and companies are optimistic that 2020 will be another year of growth. More than half (56%) of the firms surveyed are expecting sales growth of more than 5% in the next year and 40% believe that growth will reach 10% or more. Instead of having a constricting effect, uncertainty seems to be one of the factors energising businesses to take action. As a result, some businesses are finding new opportunities and new markets, embracing new technology, mitigating risks and cutting costs.

One particular group – those exceptional firms that are expecting high sales growth of 15% or more over the next year – are notably positive about international trade prospects compared with the global average (97% versus 81%). Breaking into new markets is cited as a top strategy for these agile, resilient firms. Businesses are relying on new markets to provide them with the opportunity to grow and to overcome threats seen in current markets.

There is some regional and sectoral variation, but the business outlook is positive across the board. In Europe, where the impact of Brexit is a consideration, 78% of companies remain confident that they will grow their sales, but the continent has the lowest proportion of firms (30%) expecting growth of more than 10%.

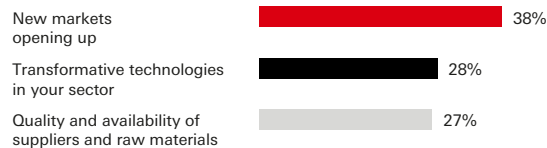
It's clear that those businesses that feel in control of their own destiny, able to expand into new markets and influence growth with investment in people and technologies, are much more confident than those facing tangible external risks. Of the 12% of companies that expect their businesses to shrink next year, the single largest threat they identify is an uncertain political environment, which is strongly felt in South America, Asia-Pacific (APAC) and the Middle East and North Africa (MENA).

Key contributors to expectations of sales growth over the next year

Internal factors



External factors



What you need to know



Nearly half (47%) of companies surveyed are more optimistic about growth than a year ago and about a fifth (22%) – the high-growth firms – are extremely optimistic, expecting growth in excess of 15% in the next 12 months.



Firms trading internationally are more confident at 80% than those who conduct business exclusively domestically (77%).



The top factors driving business growth are new markets opening up (38%) and investment in technologies (32%).

What your business can do



Respond to threats with a proactive approach. 30% of firms told us they are doing this by improving the quality of products/services, 29% are expanding into new markets and 26% are investing in innovation to overcome challenges.



Just over one in five businesses identified investing in the customer experience and investing in new skills in the workforce as one of their top three strategies for the future.

Trade outlook

Trade as a force for good

With protectionist policies multiplying around the globe, one trend among business leaders was striking: trade is seen as a strong positive force, with a recognition that it's good for businesses while at the same time providing wider benefits to society. Roughly eight in 10 companies view international trade as beneficial. 80% say that it drives innovation, 79% think it provides new business opportunities and 78% believe it improves efficiency. Additionally, more than two-thirds of companies see the wider benefits of international trade as supporting employment (73%), raising incomes (70%) and driving inclusion (68%). 67% of business leaders also include fostering peace and stability as a benefit, while 66% include combating climate change.

Amongst high-growth firms, this sentiment is even stronger, with 96% of this group seeing trade as a force for good.

Firms also have a bright outlook for their international trade prospects. Across the globe, 81% feel positive about their international trade possibilities.

Although companies are keen to look outside their borders for trading partners, by and large, they aren't looking too far. In the next three to five years, intra-regional trade is expected to strengthen, particularly for firms in Europe and North America. Even in South America, the focus is shifting so that now less than half of business is with its neighbours in the north, with companies instead trading intra-regionally within South America.

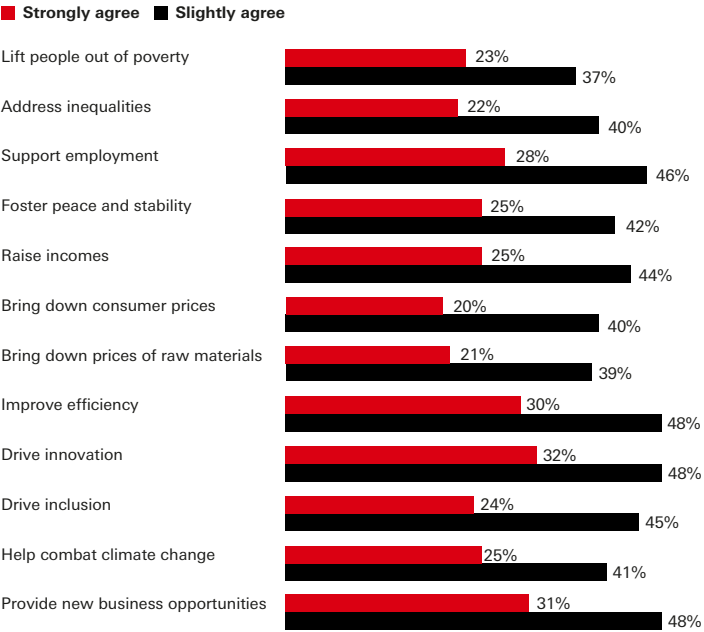
There's also evidence of shifting allegiances and expanding possibilities for international trade, often reflecting wider geopolitical issues. North America's trade with Asia-Pacific (APAC) has reduced from 30% to 24% and trade with Europe has dipped from 49% to 42%.

The top five most attractive markets for international trade are still fairly predictable – the US, Germany, China, Canada and France.



For those firms that are planning changes to their supply chains, 28% of them say it's because they're planning to expand into new markets, a 5% increase on last year. And it's not a story of swapping one market for another – 45% of companies engaged in international trade have not stopped trading with any market in the last two years and just over half say they have no intention of stopping or reducing in the next two years either.

Trade as a force for good



What you need to know

- 1 When it comes to the most attractive markets for businesses trading internationally, the US, Germany, China, Canada and France rank as the most popular.
- 2 Firms recognise global trade as a force for good, both within their businesses and within society. Benefits include driving innovation, improving efficiency, supporting employment and raising incomes.
- 3 Companies are increasingly interested in international trade. The proportion of businesses that want to remain exclusively domestic has gone down to less than one in 10.

What your business can do

-  Choose trading partners strategically. Consider looking beyond obvious markets to areas where you can offer superior products/services or where you can gain a first mover advantage.
-  See whether doing business in new markets, increasing the use of digital/technology (both 28%) or increasing focus on strategic suppliers (20%) mean you need to make changes.
-  Look to your near neighbours for potential trading partners. Across 2018 and 2019, the majority of businesses still tend to trade intra-regionally and take advantage of favourable regional trade pacts.

Protectionism and geopolitics

Businesses show their resilience

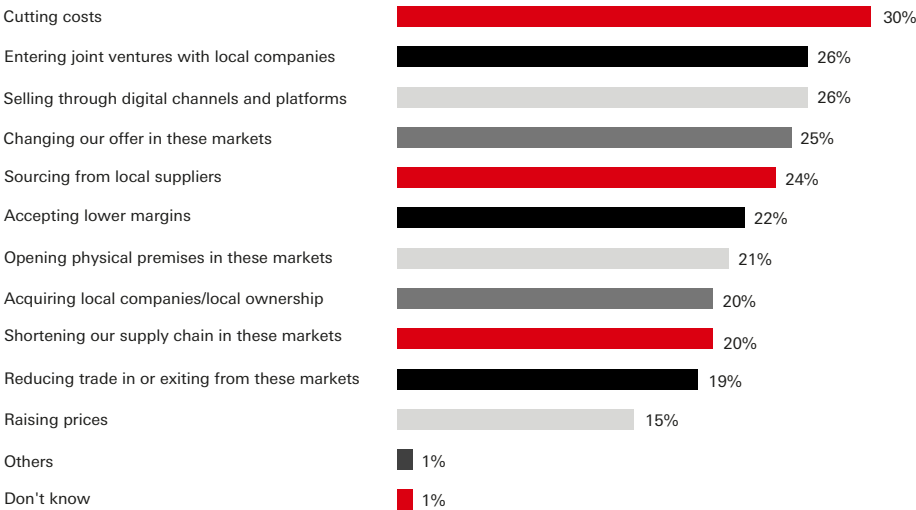
Protectionism continues to be a factor for businesses. Almost two-thirds (65%) of firms think that governments are becoming more protective of their domestic markets, a proportion that has increased by 2% in each of the last two years.

However, many firms aren't letting this trend dampen their optimism. There are likely a variety of reasons for this. Businesses are showing a remarkable ability to be flexible and innovate in the face of uncertainty. As a result, companies may be projecting growth on the back of strategies they are enacting to overcome threats. Additionally, although growth is happening at a slower pace, most economies are still growing and the slowdown does not appear to have passed into the services sector or consumer spending.

Unsurprisingly, a greater proportion of firms operating domestically-only (64%) believe they have more to gain than lose from protectionism. This compares with 52% of firms trading across borders who feel the same way. It is likely that those trading internationally ultimately feel the gain at home more than the losses abroad.

The majority of companies also feel the impact of geopolitical risks, at a global average of 64%. That figure rises sharply in certain regions, up to 76% in North America and 77% in MENA.

Ways in which businesses are coping with protectionism



What you need to know



Globally, almost 65% of businesses feel that protectionism is on the rise.



Companies identify some of the greatest negative impacts of protectionism as being tariffs adding to the cost of doing business (27%), regulatory standards making it difficult to do business (23%) and the imposition of changes on their supply chain (23%).

What your business can do



Explore different ways to shield your business against protectionist policies. Cutting costs (30%) and accepting lower margins (22%) are the most widely employed strategies for businesses in the report.



Work more closely with local partners. Companies hedging against protectionism are also seeking out joint ventures, sourcing in-country suppliers and opening new offices or acquiring local firms.



In mitigating geopolitical and protectionist risks, businesses are reassessing their business models and frequently focusing in on digital channels and platforms.

The sustainable future

Sustainability is seen as key to business success

Businesses now see sustainability as fundamental to their success, and 21% cite it as being essential to their long-term survival. Firms feel the pressure from competitors, governments and customers to grow their sustainability credentials in the next five years.

Sustainability is a big priority for all businesses and even more so for the high-growth firms. Most high-growth businesses are actively making changes to be more sustainable, drive growth and have a positive impact on communities and economies. 20% of high-growth firms are making changes in their supply chains to become more sustainable and 81% believe they have a role to play in combating climate change.

In light of this shift in attitudes, businesses are also looking at environmental, social and governance (ESG) metrics when shaping business strategies. In particular, in terms of ESG, companies are focusing on product safety and quality, energy usage and environmental factors, and executive salary and compensation.

Almost two-thirds of companies believe they have a role to play in delivering the UN's SDGs – and a quarter feel that it's a significant one. Firms today feel they can make a direct contribution to improving health and wellbeing, industry innovation and infrastructure, decent work and economic growth, and affordable and clean energy.

While there is a clear ambition for firms to become more sustainable, they also identify barriers in doing so over the next five years, particularly the lack of extra finance (which 35% list as a challenge) and the availability of people to put time and effort into sustainability at the cost of other work (31%). Companies also report feeling frustrated by a lack of consistency in the measurement of ESG principles and the framework that's being set by different governments and regulators.

Motivations for implementing sustainable practices



What you need to know

1

In the next five years, businesses will invest more in technology, innovation and infrastructure (33%) and promote employee health, wellbeing and safety (31%).

2

Businesses are feeling the pressure to become more sustainable in the next five years from competitors (36%), customers (34%) and governments (32%).

3

Many firms are also responding to the drive towards sustainability because it's improving efficiency, helping businesses meet regulatory standards, providing competitive advantage and driving sales.

What your business can do



Have a business case for how sustainability should be a priority for your business. Win buy-in by showing how sustainable practices improve efficiencies, help meet regulatory standards, gain a competitive advantage and grow sales.



Attract top talent with great ESG metrics. In the automotive industry, for example, almost one third of businesses say that sustainability is important for attracting and retaining the best people.



Invest strategically. The biggest focus for businesses is on investing in technology, innovation and infrastructure to improve sustainable production.

Breakthrough tech

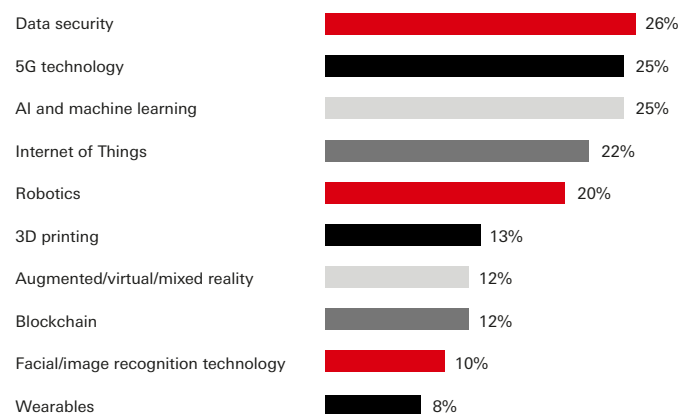
Innovation is the name of the game

There isn't a single industry that hasn't been disrupted by technology, and the message of innovate or risk being left behind has been clearly heard. Businesses are leaning into technological advances and harnessing them as a powerful enabler for business efficiency, sales growth and increased productivity. As they embrace technology, they are also much more aware of cutting-edge innovations and changing trends, and exactly how the next wave of tech will impact their business.

In the next three to five years, businesses expect data security, artificial intelligence (AI), 5G, robotics and the Internet of Things (IoT) to be increasingly important. The order of importance changes from region to region, but only in APAC is data security just trumped by AI (26% versus 31%). Almost everywhere else, protecting business networks with data security technologies is a top priority.

There is a wide range of projected benefits across a variety of technologies for different businesses. Companies expect AI (42%), robotics (31%) and IoT (30%) to improve product and service quality, while AI (48%), robotics (44%) and 5G (36%) are seen as the leading technologies to help improve productivity.

Technologies businesses think will be important over the next five years



What you need to know

1

Data security, AI and 5G are the key innovations that companies think of when considering the future impact of technology on their business.

2

When it comes to the impact of technology on improving product and service quality, AI, robotics and IoT are cited most by companies.

What your business can do



Improve productivity and cut costs. Whether it's AI and robotics in manufacturing or 5G powering the IoT in logistics, technology can help revolutionise business efficiencies.



Stay up-to-date on the latest advances. Specific technologies will be most applicable to certain benefits. For example, facial recognition, AR, IoT and 5G are all expected to enhance the customer experience.

About HSBC Navigator

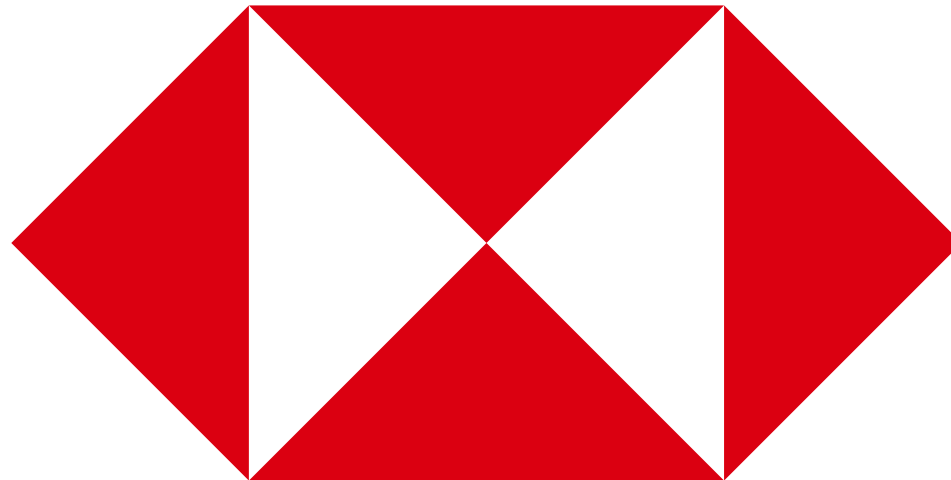
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. 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.

Data visualisations based on the following:

Page 3: respondents who expect their sales to grow in the next year. n=7312

Page 5,7 & 8: all respondents. n=9131

Page 6: respondents who think governments are becoming more protective. n=6088



For enquiries please contact:

Kate Woodyatt

HSBC Global Communications

katewoodyatt@hsbc.com

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

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