

# Navigator

Now, next and how for business

Indonesia



Together we thrive

# Overview

## An economy on the rise

Indonesia has been a fast-growing emerging economy for the last decade or so, with growth of around 5% every year since 2015. Next year is likely to see a similar story, as prudent macroeconomic policy continues to strengthen both domestic consumption and investment inflows<sup>1</sup>. Global headwinds may temper ambitions somewhat, but the immediate future looks bright.

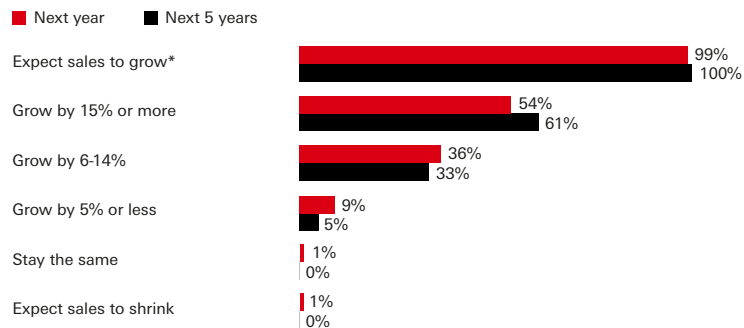
# State of play

## Overwhelming optimism

Indonesian businesses remain bullish about the future trade outlook. Companies are far more confident than their global or Asian counterparts, with more than half (54%) of Indonesian companies considered high-growth firms (meaning they expect sales to grow by 15% or more in the next year) and that confidence is growing. Nine in 10 (90%) firms are more optimistic about growth than they were a year ago. The only countries that come close to that level of optimism are Bangladesh at 74% and India at 72%.

Sustainability, the quality of suppliers and raw materials, and skills in the workforce are all top drivers of this growth. Firms are also expanding, with opportunities in new markets and the introduction of new products and services identified as factors driving sales.

### Expectations for future business growth



\*This is the sum of grow by 5% or less, 6-14%, 15% or more.



## What you need to know



54% of Indonesian firms are high-growth, expecting sales to grow 15% or more in the next year, and that figure climbs to 61% over five years.



Key drivers of growth in Indonesia include increased sustainability (cited by 45%, compared to 26% globally) and the quality and availability of suppliers and raw materials (43% versus 27%).



Almost all businesses (97%) expect positive prospects for international trade and nearly half (45%) are feeling very positive.

## What your business can do



Consider how you can use digital technology. Nearly half of Indonesian firms expect to increase its use in their supply chains in the next three years.



Prepare for change. 60% of Indonesian companies expect their business to change substantially in the next five years, far ahead of the global average (35%).



Analyse your supply chain. 36% of firms are doing business in new markets.



# Trade outlook

## Focus on regional partners

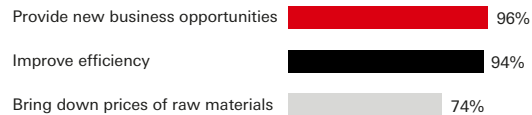
Although there is evidence that Indonesian firms are looking more closely at trade with Europe and North America, Asia-Pacific (APAC) is by far the most important market. Just 17% say Europe is a top trading partner, 23% cite North America, while at 80% the overwhelming majority name APAC. Within the Asian region, 27% of businesses list China and Singapore as important trading partners, with Japan (26%) and Malaysia (24%) also ranking highly.

Indonesian businesses trading internationally believe markets in APAC offer favourable partnerships (65%) and a culture of innovation (51%). In the next five years, APAC will remain the most important growth region (cited by 71%), but Europe will increase in importance (35%).

Indonesian businesses also view trade as a force for good. Over the next five years, they believe international trade will provide new business opportunities, drive innovation, raise incomes, improve efficiency and support employment.

### Benefits of international trade

#### Direct business benefit



#### Wider societal benefits



#### Employee benefits



#### Customer / consumer benefits



## What you need to know



APAC is important for 80% of Indonesian firms trading internationally in the next year and will be for 71% in the next five years.



Global businesses see proven customer demand (39%) followed by access to suppliers (34%) and the chance to forge favourable partnerships (33%) to be the main attractions when expanding into Indonesia.



Singapore (22%), Japan (22%) and Malaysia (21%) are the top three future growth markets in Asia identified by Indonesian companies.

## What your business can do



Invest in new technologies. 23% of global companies find Indonesia less appealing as a trade partner due to a lack of available technology.



Continue to expand international trade. Nine in 10 Indonesian firms feel trade can raise incomes, drive innovation and improve efficiency.

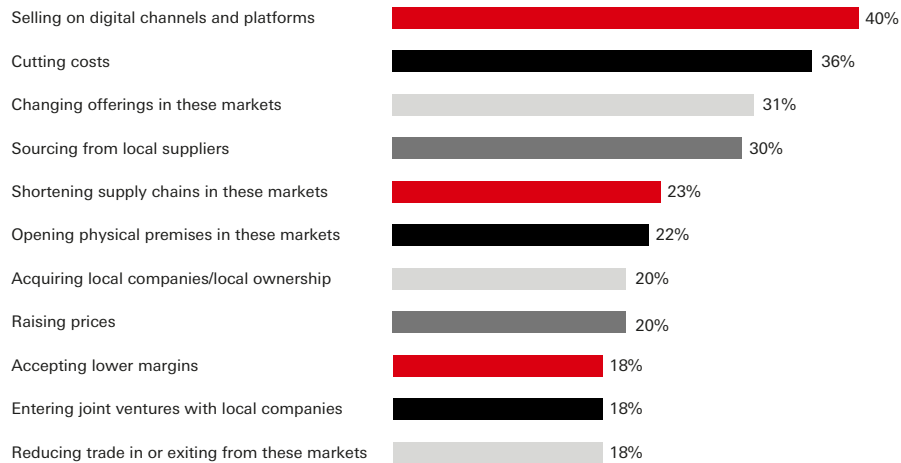
# Protectionism and geopolitics

## Positive protectionism, prudent preparation

Protectionism is being noticed by Indonesian firms. 85% felt this year that protectionist policies were increasing, substantially more than in 2018 (71%) and in 2017 (55%). But the trend is viewed positively. More than two-thirds (68%) feel that they have gained more than they have lost from protective policies.

Indonesian businesses think that protectionism is increasing their competitiveness, with 37% reporting this benefit compared to the global average of 30%. Less favourable is that just over a third (35%) say that tariffs are adding to the cost of doing business and 32% believe regulatory standards are making business more difficult.

### Ways in which businesses are coping with protectionism



### What you need to know



69% of Indonesian firms say they feel the impact of geopolitics.



85% of Indonesian businesses feel protectionism is increasing, but 68% believe they have gained more than lost.



Of Indonesian companies feeling the impacts of protectionism, 35% say tariffs add to the cost of doing business and 32% say regulatory standards are making business more difficult.

### What your business can do



Consider selling more online. 40% of Indonesian firms see this as a way to counteract protectionism and 34% use it as a strategy to combat geopolitical risk.



Assess the strength of your supply chain. Sourcing locally and securing the supply of raw materials and energy are key.



Save for a rainy day. 32% of Indonesian companies are using strong growth to increase their capital reserves as a defence strategy.

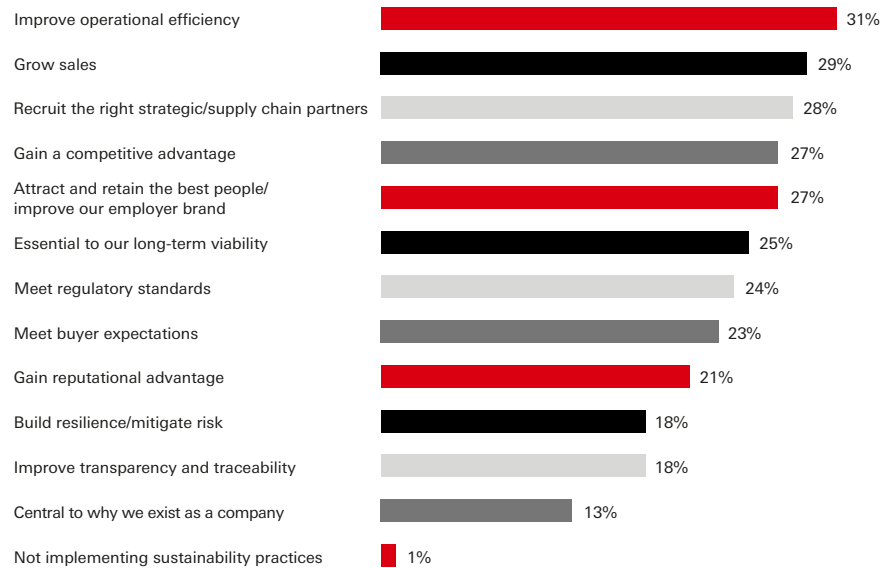
# The sustainable future

## Strong incentives for sustainability

Sustainability is seen as a key component of successful business in Indonesia. Those firms expecting growth of 15% or more in the next year say growing sales is a key motivation for becoming more sustainable. Other top motivations for sustainability are improving operational efficiency and working with the right supply chain partners.

Like many countries in the region, Indonesia is aware that continued strong international trade is contingent on improving its environmental, social and governance (ESG) credentials. This is evident in the metrics that are most relevant to companies, including anti-bribery and corruption, product safety, and quality and labour standards. However Indonesian firms think that more consistent measurement and reporting frameworks could be set out by governments and regulators.

### Motivations for implementing sustainable practices



### What you need to know



84% of businesses feel they have a role to play in delivering the UN's Sustainable Development Goals, far ahead of the global average (63%).



On the environmental front, companies are focused on green building products and services (27%), energy efficiency (21%) and raw material sourcing (20%).

### What your business can do



Focus on finance. Indonesian firms are planning to invest more in sustainable technology, innovation and infrastructure, but 47% say sourcing funding is a challenge.



Develop a sustainability framework of your own. Many firms are challenged by a lack of knowledge or consistent measurement from regulators.



Manufacturers should focus on traceable supply chains.

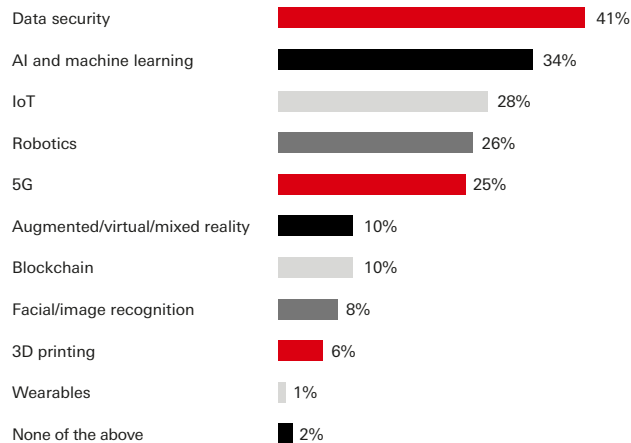
# Breakthrough tech

## Near neighbours rate highly

Indonesian firms believe that data security technologies, artificial intelligence (AI) and the Internet of Things (IoT) are the top technologies that will impact their business in the future – much like their global counterparts. But all three have more significance for companies in Indonesia than globally (41%, 34% and 28% compared to the global averages of 26%, 25% and 22%).

The US is recognised by Indonesian firms as the leading hub for data security, and Japan as the lead hub for AI. Around two fifths (39%) of businesses who said data security was among the top two technologies of the future also recognised Japan as a leader for this expertise.

### Technologies businesses think will be important over the next five years



## What you need to know



Higher productivity is the main benefit Indonesian firms expect from new technologies, with IoT (rated by 67%), and AI and machine learning (rated by 64%) expected to have the strongest impact.



Both data security and AI are expected to help Indonesian firms to become more sustainable.

## What your business can do



Services firms in Indonesia believe 5G is the top future technology and should explore its potential applications.



Goods firms should assess robotics, as it is a top-rated technology for this sector.



Companies pursuing sustainability should look at how future technologies can help enhance their production and better monitor their supply chains.

## About HSBC Navigator Indonesia

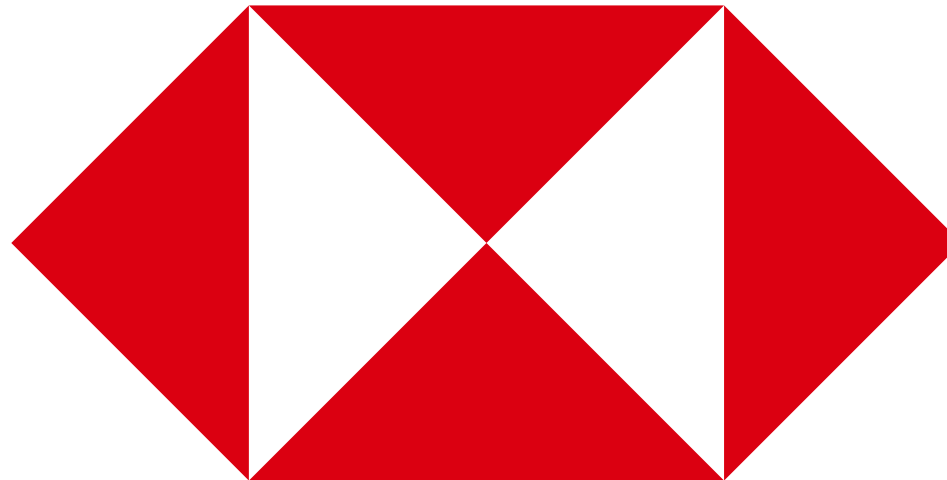
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. 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, with 150 businesses surveyed in Indonesia. 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.

PT Bank HSBC Indonesia telah terdaftar dan diawasi oleh Otoritas Jasa Keuangan.

Data visualisations based on the following:

Page 2, 3, 5 & 6: all companies. n=150

Page 4: companies who think governments are becoming more protective. n=127



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