

opinion

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Back to basics, but with a twist

By Anna Marrs, CEO of Standard Chartered Bank's ASEAN and South Asia region and CEO of Commercial and Private Banking globally

For about three decades, much of ASEAN has experienced strong growth driven by exports, demographics and growing middle-class wealth. But as we enter a new year, only one thing is certain: forecasting is difficult. Despite the volatility and uncertainty ahead, the economic “basics” of population growth and urbanisation that have driven ASEAN economic growth in recent years remain the big trends in 2017. For companies looking for growth, perhaps it is most critical in uncertain times like these to go back to the basics, but with a twist.

Eye on ASEAN; but look South

Targeting ASEAN is a logical and practical move for businesses. The region has a population of around 626 million people and is the third largest combined market in Asia. The 10-nation region is expected to remain resilient, with emerging Southeast Asia economies growing at approximately 5-7%¹.

Instead of focusing on ASEAN, businesses can look at the expanded region of ASEAN and South Asia, which offers an access to almost one-third of the world's population. According to the World Bank², around one million people enter South Asia's workforce every month. By 2030, ASEAN and South Asia will be home to more than one-fourth of the world's working adults.

South Asia and Southeast Asia's trade has also grown from US\$4 billion in 1990 to US\$90 billion in 2013, according to the Asian Development Bank³. In the same period, Southeast Asia's share of South Asian trade only rose slightly from 11% to 12%, while South Asia's share of Southeast Asian trade doubled from 2% to 4%. This modest trend suggests that there's room for growth.

Make new friends, but keep the old

Companies in ASEAN tend to do more business with other East Asian or Southeast Asian countries and shy away from South Asian markets because of their lack of familiarity, experience and contacts.

¹ Global Focus – Economic Outlook 2017 – Welcome to the jungle, Standard Chartered

² South Asia Economic Focus, World Bank

³ Connecting South Asia and Southeast Asia, Asian Development Bank and Asian Development Bank Institute

We should explore new openings when they present themselves.

For a start, with Indian Prime Minister Narendra Modi introducing pro-business reforms and Sri Lankan President Maithripala Sirisena implementing policies to make it easier for companies to operate, South Asia is becoming increasingly business friendly.

Additionally, the region provides businesses in ASEAN and global manufacturers an alternative market as they manage rising costs. South Asia's minimum wages are amongst the lowest globally. For a minimum monthly salary of about US\$150 in India, and around US\$70 in Bangladesh, Nepal and Sri Lanka, businesses get access to a largely English-speaking and literate labour force.

The expected investment flows to South Asia and Southeast Asia also present new prospects as China plans to revive an ancient trading route in the "One Belt, One Road" initiative that stretches from Asia to Europe. Increased fund flows from China could help both regions adapt to potentially increased trade protectionism, a situation that even the rising US dollar may not be able to counter.

As businesses in ASEAN face slowing exports and rising production costs, including South Asia in a business strategy will generate longer-term benefits.

Collaborate and connect to win

Increased business exchanges will call for greater connectivity led by physical and financing infrastructure. According to Asian Development Bank (ADB), an estimated investment of US\$73.1 billion is needed for projects specific to Southeast Asia and South Asia connectivity. For the wider Asia, ADB forecasts that US\$8 trillion is needed in the decade to leading up to 2020 to plug its infrastructure deficit.

Similarly, there are opportunities for public-private collaboration in the area of financing to encourage businesses and entrepreneurs to "look South". Government support to strengthen and integrate financial markets, and efforts to ease restrictions to funds flow are needed.

2017 promises to be an unpredictable year. But businesses can thrive through exploiting the strong opportunities in ASEAN and South Asia despite the many uncertainties. The growth created by more than 2.4 billion people working to improve their lives is too strong to be held back. Capturing this growth will require agility, new connections and, for many companies, finding opportunities geographically closer to home.

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