

TRADE AND INVESTMENT BETWEEN GBA AND ASEAN AND THE ROLES OF HONG KONG



In collaboration with:





Trade and Investment Between GBA and ASEAN And the Roles of Hong Kong

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Executive Summary





Executive Summary

The Association of Southeast Asian Nations (ASEAN) is made up of 10 Southeast Asian economies, namely Indonesia, Thailand, Malaysia, the Philippines, Singapore, Brunei, Vietnam, Laos, Cambodia and Myanmar. The huge population and the increasingly favourable business environment in the region have proven to be a magnet to foreign investment.

Before the *Covid-19* outbreak, foreign direct investment (FDI) in ASEAN during the period 2010-2019 grew at an average annual rate of about 6%. Meanwhile, China's share of ASEAN's trading and investment activities continued to climb, with both parties becoming each other's largest trading partner. As the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) moves towards high-end development and enterprises within the area seek to expand outwards, the ASEAN market is increasingly becoming a preferred trading partner and investment destination.

HKTDC Research, in collaboration with *United Overseas Bank Hong Kong (UOB Hong Kong)*, conducted an online questionnaire survey and in-depth interviews in mid-2021 with GBA-based enterprises to gather their views on trading with and investing in ASEAN, as well as the opportunities, difficulties and challenges facing them in that market. The survey aimed to gain an understanding of the role played by Hong Kong in facilitating trade and investment between the GBA and ASEAN, as well as GBA-based enterprises' demand for Hong Kong services.

The survey targeted GBA-headquartered enterprises which are either currently engaged in trade, investment or business operations in ASEAN or have not yet entered the ASEAN market but plan to expand into that market in the next three years. The survey covered five major industry sectors, namely (1) consumer goods, (2) industrial goods, (3) business, professional and financial services (BPFS), (4) real estate, hospitality and construction (RHC),

and (5) technology, media and telecoms (TMT). See Appendix for background information on the survey and respondent profile.

Majority of respondents plan ASEAN expansion

The pace of development in the 10 ASEAN member countries is not the same and each has its own characteristics and positioning, so GBA-based enterprises' business distribution in ASEAN differs in accordance with the characteristics of various industries. For instance, the consumer goods sector tends to be attracted by the increasingly mature consumer market in Malaysia, while the industrial products sector prefers the Thai market, and professional services mainly concentrate in Singapore.

However, an overview of the surveyed enterprises' current business footprints and their expected changes in the next three years shows that the trading and investment activities of GBA-based enterprises in ASEAN are mostly concentrated in Singapore, Malaysia, Vietnam and Thailand. Among the respondents who have already made an entry into the ASEAN market, over half have business operations in these four countries.

On a rating scale of 1 to 10, the average scores of respondents' likelihood of further expanding their business in these countries in the next three years ranged from 6.56 to 6.89, indicating that in the near future these countries will remain the most popular trading partners and investment destinations for GBA-based enterprises. While the popularity scores of the Philippines, Indonesia and Cambodia are about the same, Laos, Myanmar and Brunei have yet to gain favour with GBA-based businesses.



ASEAN as market and production base

ASEAN is a huge market with a combined population of 660 million in 2020, accounting for 8.5% of the world population. The presence of a young population, rapid economic development in recent years and the emergence of the middle class has made ASEAN a market with enormous potential for GBA-based businesses. As such, over 80% of respondents are conducting sales in the ASEAN countries where they have business operations, with the exception of Cambodia and Myanmar.

29.1% of respondents pointed out that cost-effective operation in ASEAN is an advantage, while 28.3% are attracted by its huge market for goods and services. Given that ASEAN is both an attractive market and a competitive location for production facilities, GBA-based enterprises can capitalise on its favourable business environment to expand markets and provide goods and services meeting local demands.

However, not many GBA-based enterprises currently use ASEAN as their production or sourcing base, probably due to the poor infrastructure in the region. Nearly one-third of the respondents (31.2%) pointed out that the infrastructure in ASEAN is poor or inadequate. Yet, 28.2% of them agreed that the availability of abundant resources in ASEAN is advantageous to production.

When infrastructure in the region starts to improve, the likelihood of GBA-based businesses setting up production or sourcing bases there will rise. In fact, over 10% of the surveyed enterprises indicated that they would engage in production or sourcing in Vietnam and Thailand in the next three years, an increase over the current 7.2% and 4.6% respectively.

Hong Kong plays bridging role

As the penetration rate of GBA-based businesses in the ASEAN market is bound to rise markedly, it will strengthen the positioning and development of ASEAN as a market, production or sourcing base, and regional office location for these industry players. In the course of building a multinational industry chain, finance is an important link, especially where fund raising, cross-border payment and global capital management are concerned.

At present, ASEAN only plays a minor role as the financing centre for GBA-based businesses. Hong Kong, with its close connections with foreign markets and its world-class financial and professional services, can serve as the bridge linking the GBA and ASEAN in their trading and investment activities. When respondents to the survey were asked to rate the importance of Hong Kong in facilitating their current trading and investment activities in ASEAN on a scale of 1 to 10, the average score given was 7.33. The larger the size of the enterprise, the more importance is given to the role of Hong Kong as GBA-based enterprises' platform for investing in ASEAN.

On Hong Kong's connectivity with other GBA cities, GBA-based enterprises are very satisfied with the city's logistics network in the region, with over half of the respondents (50.2%) giving a score of between 8 and 10. The respondents are also satisfied with the availability of a transparent regulatory regime (average score 7.23) and a great variety of financial products and banking services (7.18) in Hong Kong. However, it is worth noting that the ratings given by mainland GBA enterprises to each item of Hong Kong's strengths are higher than those given by their Hong Kong counterparts. This shows that Hong Kong's southbound connectivity seems to be stronger than its northbound connectivity.



As regards Hong Kong's connectivity with ASEAN countries, the cross-border flow of resources between Hong Kong and ASEAN is also impressive, with the flow of products and flow of human resources scoring 7.23 and 7.16 respectively. Moreover, the respondents also approved of Hong Kong's extensive business networks in ASEAN and the minimal exchange and capital controls between the SAR and ASEAN, scoring 7.18 and 7.17 respectively. All these are drivers helping GBA-based enterprises expand into the ASEAN market.

Hong Kong's connectivity post-pandemic

Hit by the *Covid-19* pandemic, in the last two years countries all over the world have been implementing strict border control measures, which have dampened trading and investment activities. While the degree of economic recovery in the post-*Covid-19* period has yet to be seen, it can be expected that as enterprises resume their stalled expansion plans, cross-border trading and investment activities are bound to resurge. Hence, the services provided by Hong Kong will be in demand to support the huge trade and investment flows post-pandemic.

On GBA-based enterprises' trading and investment activities in ASEAN, 45.4% of respondents indicated that they often or sometimes use Hong Kong's meetings, incentives, conferences and exhibitions (MICE) services, with 16.3% of them saying that they would use these services even more often in the next three years. Trailing MICE services are logistics and supply chain management (39%) and financial services (37.7%). With an extensive network of professional services in place, Hong Kong can help GBA-based enterprises reconnect with buyers and business partners in ASEAN.

Looking to the future, it is the hope of the respondents that Hong Kong can provide a one-stop business centre and integrate information on services available in the SAR for the overseas expansion of GBA-based businesses so that they can better understand the functions of the Hong Kong platform. It can be expected that Hong Kong, by further strengthening the connectivity with other GBA cities and ASEAN countries, will play a greater role in facilitating bilateral trade and investment flows between the GBA and ASEAN.



The Growing China-ASEAN Economic Ties



The Growing China-ASEAN Economic Ties

ASEAN is the world's third-most populous economy, after China and India, with a combined population of 660 million in 2020 – 8.5% of the world's total. The median age of the population in the ASEAN region is 30.3 years, according to the *World Population Prospects* published by the *United Nations*, much lower than that of mainland China (38.4 years) and Hong Kong (44.8 years). In view of the enormous consumption power generated by this huge young population, the *World Economic Forum* predicted that in the next 10 years, ASEAN will add 140 million consumers to the global market, its GDP per capita will grow at an average annual rate of 4%, and its position as the fifth-largest economy will climb to fourth by 2030.

Apart from market demand, the business environment of the 10 ASEAN member countries has also improved markedly, winning investor favour. Its ease of doing business ranking has been on the rise, according to the *World Bank's Doing Business* report. Among its member states, Singapore has maintained its

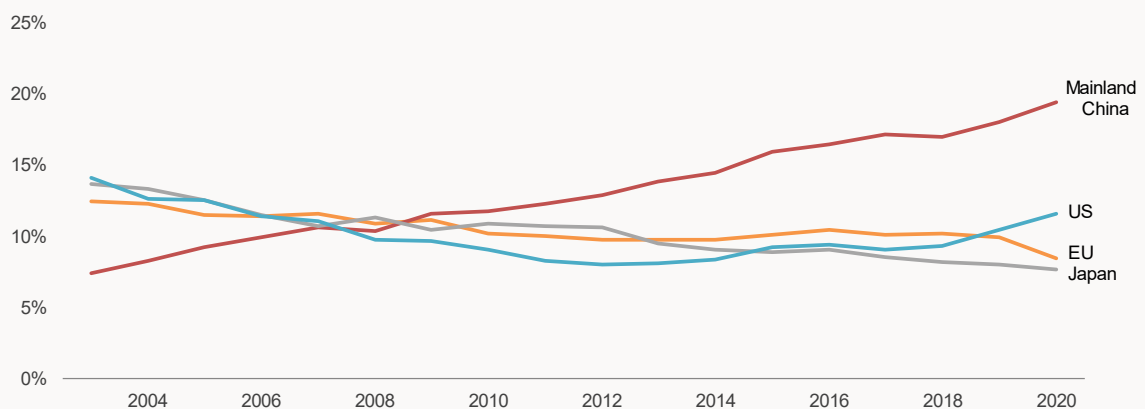
ranking in the top three, Malaysia rose to 12th in 2020 from 23rd in 2010, while Indonesia and the Philippines climbed significantly to 73rd and 95th, respectively, from 122nd and 144th.

An improved business environment naturally attracts trade and investment. From 2010 to 2019, before the *Covid-19* outbreak, the compound annual growth rate (CAGR) of ASEAN's total trade was about 4%, while FDI flowing to the region increased about 6% a year on average, with individual countries achieving outstanding performances.

For instance, on the trade front, double-digit growth was recorded by Cambodia (CAGR 16.7%), Vietnam (14.2%), Laos (13.4%) and Myanmar (13.3%). On the investment front, the Philippines registered the highest growth in absorbing FDI, with an CAGR of 23.5%, followed by Cambodia (18.7%), Laos (9.5%) and Vietnam (8.1%).

ASEAN's Major Trading Partners

% share of ASEAN's total trade value



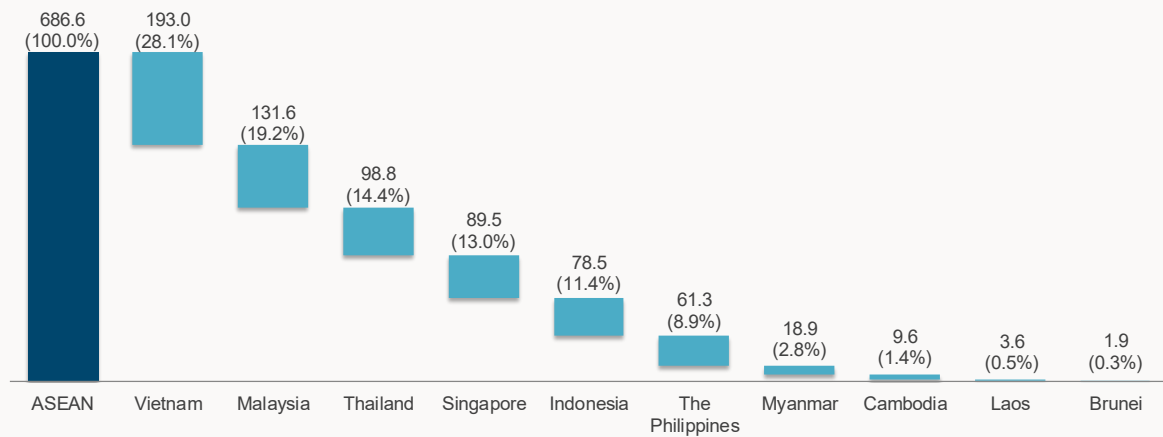
Note: The UK left the EU on 31 January 2020.

Source: ASEANstats



Trade between Mainland China and ASEAN in 2020

Total trade value (US\$ billion) and % share



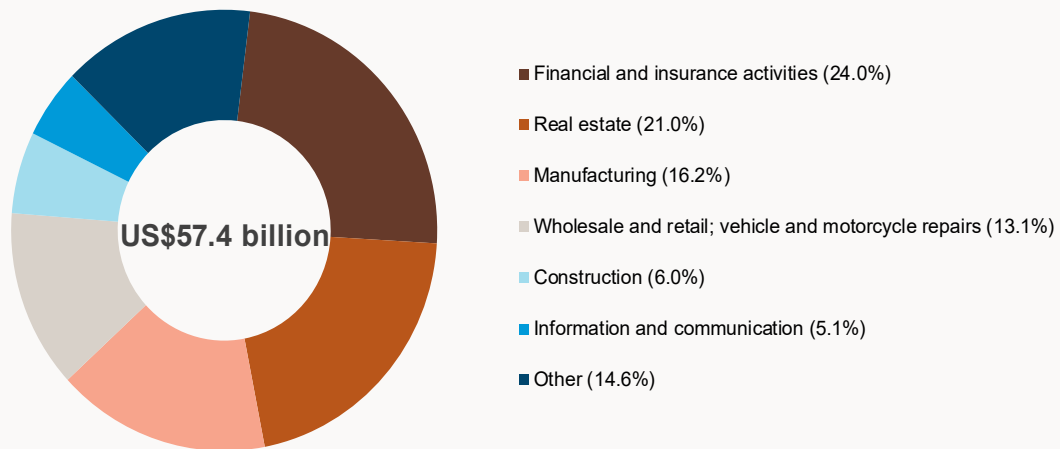
Source: China Customs

China and the ASEAN region are geographically close, and in recent years, as their economies flourished, a long-term steady bilateral trade relationship has been built. Following the signing of the *Framework Agreement on Comprehensive Economic Co-operation Between ASEAN and the People's Republic of China* in 2002, the *ASEAN-China Free Trade Area* was rolled out in 2010. It is the first of its kind that China has negotiated with foreign countries. Under these initiatives, bilateral trade has expanded rapidly as tariffs have been lowered and investment markets liberalised between the two parties.

Since 2009, mainland China has overtaken the US and Europe to become ASEAN's largest trading partner. According to the *ASEAN Secretariat*, the total value of trade in goods between China and ASEAN in 2020 reached US\$516.9 billion, accounting for about a quarter (24.7%) of ASEAN's foreign trade, up from 15.3% in 2009. In 2019, ASEAN overtook the European Union of 27 member states (EU-27) for the first time to become China's largest trading partner, accounting for 14.7% of the mainland's total trade in 2020. Among the 10 ASEAN countries, Vietnam's trade with China has been on the rise in recent years, with its share in China-ASEAN trade climbing from 10.3% in 2010, to 19.4% in 2015, and to 28.1% in 2020. Trailing Vietnam are Malaysia (19.2%), Thailand (14.4%) and Singapore (13%), with China's trade with these four countries accounting for 74.7% of the total between China and ASEAN.



Mainland China's Outward Foreign Direct Investment Flow to ASEAN, 2016-2020



Source: ASEANstats

As trading activities between China and ASEAN increase, mainland investments are being attracted to the ASEAN market. According to the *Statistical Bulletin of China's Outward Foreign Direct Investment*, at the end of 2015, of the top 20 countries in China's outward FDI stock, four were ASEAN members. This number rose to six by the end of 2020 – Singapore (5th position), Indonesia (8th), Malaysia (16th), Laos (17th), Thailand (19th) and Vietnam (20th).

China has gradually become one of the leading investors in the ASEAN region in recent years. According to the *ASEAN Secretariat*, in 2020 mainland China's FDI flow to the region amounted to US\$7.62 billion, accounting for 6.7% of the total FDI absorbed by ASEAN (not including intra-ASEAN investment), and

ranking the fourth-largest FDI source after the US, Hong Kong and Japan. Of the total amount of investment made by China in ASEAN in the past five years, 24% flowed to financial and insurance activities, 21% to real estate, followed by the manufacturing industry (16.2%), wholesale and retail trade (13.1%), and construction (6%).

Guangdong province, situated in southern China, plays an important role in trade between the country and ASEAN. According to China's customs figures, the total trade value between Guangdong and ASEAN reached US\$157.05 billion in 2020 with exports registering US\$78.26 billion, accounting for 22.9% of China's total trade with ASEAN, and about one-fifth of China's exports to the region, making ASEAN Guangdong's largest trading partner.



As the GBA moves towards high-end development and enterprises within the area eagerly seek to expand outwards, ASEAN is an ideal trading partner and investment destination. In 2019, *HKTDC Research*, with the help of the *Department of Commerce of Guangdong Province*, carried out a questionnaire survey with mainland enterprises. According to the findings, 76% of respondents indicated they would consider “going out” in the coming one to three years. Of these, 66% said they were interested in identifying business opportunities in Southeast Asia, including the 10 ASEAN countries. In view of the interest shown by GBA enterprises in expanding into the ASEAN market, Hong Kong – as the most internationalised city in the region with years of experience in establishing connections with foreign markets – is in the best position to serve as the platform between the GBA and ASEAN – facilitating GBA enterprises to “go out”.

In terms of trade, the mainland has been Hong Kong’s largest trading partner since 1985. As trade between China and ASEAN increased, of the goods originating from the mainland and re-exported through Hong Kong, the share of those destined for ASEAN rose gradually from less than 8% before 2014 to 9.6% in 2020, amounting to US\$25.2 billion. Of these re-exports, nearly 60% were capital goods, 30% were raw materials and semi-manufactures, and the remaining 10% were consumer goods and foodstuffs.

To ASEAN, Hong Kong is the window to mainland China. In recent years, goods of ASEAN origin re-exported through Hong Kong have continued to expand, growing at an average annual rate of about 6% in the past 10 years. Of these re-exports, 80% were destined for the mainland, the value of which rose from US\$22.28 billion in 2010 to US\$39.56 billion in 2020. More than 60% of these goods were raw

materials and semi-manufactures, 30% were capital goods, and the remaining 10% were consumer goods and foodstuffs.

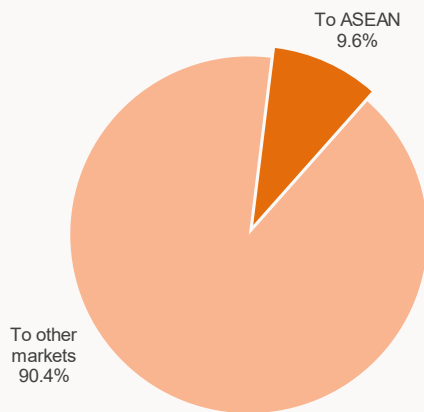
Judging from the continued growth in the volume of goods re-exported through Hong Kong to and from the mainland and ASEAN as well as the shares of raw materials, semi-manufactures and capital goods in these re-exports, it can be seen that the supply chain has been extended from the mainland to ASEAN countries and that the role of Hong Kong as an entrepot between the two places is gaining increasing importance.

Hong Kong, as a leading business hub in Asia, gathers together traders and investors from both mainland China and ASEAN. According to Hong Kong’s *Census and Statistics Department*, as of 2021, mainland enterprises have set up 252 regional headquarters, 377 regional offices and 1,451 local offices in the SAR, accounting for almost a quarter of the business operations in Hong Kong with parent companies located outside the city. The number of regional headquarters, regional offices and local offices set up by ASEAN enterprises in Hong Kong rose from 328 in 2003 to 633 in 2021.

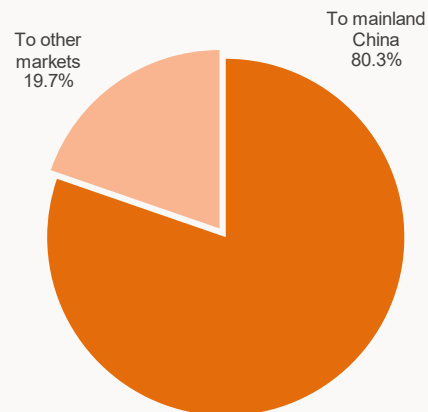
At the same time, Hong Kong also serves as mainland China’s investment platform. About two-thirds of the mainland’s inward and outward investments are made through the city, with certain mainland enterprises establishing a foothold in the SAR to facilitate their investment overseas. Hong Kong’s investment in ASEAN rose from US\$24.2 billion in 2010 to US\$68.7 billion in 2019, growth of more than 180%. In 2020, Hong Kong became ASEAN’s second-largest source of investment, accounting for 10.5% of the total FDI absorbed by the region – excluding intra-ASEAN investment – second only to the US.



**Destinations of Mainland China-origin Goods
Re-exported through Hong Kong in 2020**



**Destinations of ASEAN-origin Goods
Re-exported through Hong Kong in 2020**



Source: Census and Statistics Department, HKSAR Government

The economy of the ASEAN region has been growing steadily in recent years, with its overall GDP rising about 5% on average annually during the period 2010-2019. Its demographic dividend, emerging middle class and improving business environment has made it an ideal investment destination. Moreover, both mainland China and ASEAN have been eagerly establishing economic and trade ties with their trading partners, signing the *Regional Comprehensive Economic Partnership (RCEP)* agreement with Australia, Japan, South Korea and New Zealand in November 2020 to promote the development of the production supply chain in the region. The great efforts devoted by all member states to removing trade

barriers and expanding market access is bound to inject new vigour into the trading and investment activities in the region, including those between China and ASEAN.

Under the development plan for the GBA, Hong Kong is actively strengthening connections with mainland GBA cities. The *ASEAN-Hong Kong, China Free Trade Agreement*, which came into effect fully in February 2021, facilitates trade and investment between Hong Kong and ASEAN. As the economic and trade relations between China and ASEAN become closer, Hong Kong can give full play to its advantages and serve as the platform promoting trade and investment flow between the two places.



The GBA Enterprises Targetting the ASEAN Market



GBA Enterprises Targetting the ASEAN Market

HKTDC Research, in collaboration with *UOB Hong Kong*, conducted a questionnaire survey and in-depth interviews with enterprises in the GBA in the third quarter of 2021 to gather their views and opinions on trading with and investing in the ASEAN, as well as the opportunities, difficulties and challenges facing them in that market. The survey aimed at gaining an understanding of the role played by Hong Kong in promoting trade and investment between the GBA and ASEAN, as well as to identify GBA enterprises' demand for Hong Kong services.

ASEAN as target market

ASEAN comprises 10 Southeast Asian economies, each of which has its own characteristics and positioning. The present survey was conducted to gather the views of GBA enterprises on the markets of various ASEAN member countries. Survey respondents were asked to describe the current distribution of their business in the ASEAN market and any expected changes over the next three years. According to the survey, there are four ASEAN countries in which more than half of the GBA enterprises which have already entered the ASEAN market are operating - Singapore (cited by 58.8% of the respondents),

Vietnam (56.1%), Malaysia (55.9%) and Thailand (52.3%). Other ASEAN members with a sizable presence of GBA companies are Indonesia (33.5%) and the Philippines (30.5%); while the GBA presence in Cambodia (17.8%), Myanmar (12.5%), Laos (10.6%) and Brunei (8.9%) is rather small. Over 80% of the surveyed enterprises have not yet started any business activities in the latter four ASEAN countries.

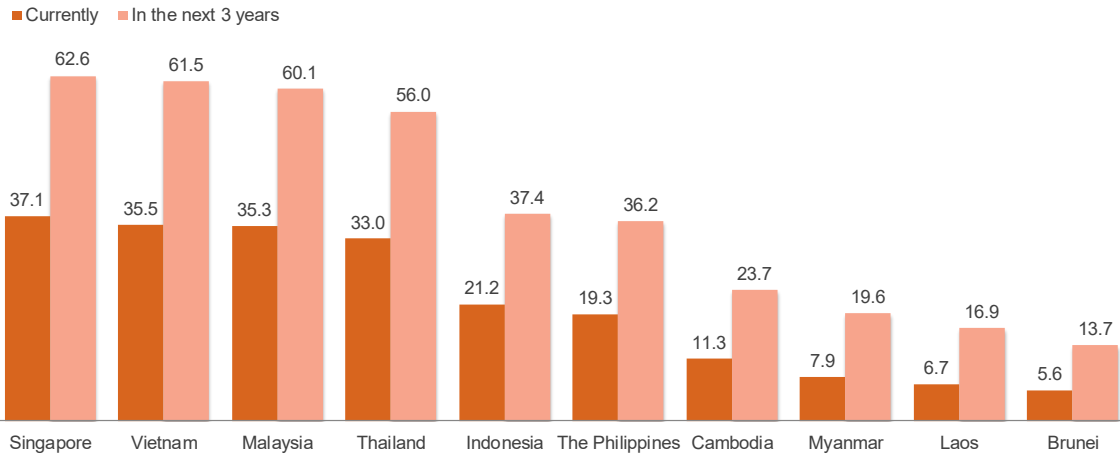
The survey found that ASEAN is currently an important sales market for GBA enterprises. Over 80% of respondents are selling to the ASEAN countries where they have business operations, with the exceptions of Cambodia and Myanmar. However, ASEAN has yet to develop into a production or sourcing base. 30.8% of the GBA enterprises which have entered Myanmar are engaged in production or sourcing activities, followed by Vietnam (20.2%), Indonesia (20.1%) and Cambodia (18.9%). Among enterprises which have established a presence in ASEAN, just a small proportion of them have set up regional offices there, with Singapore (6.7%) and Malaysia (6.3%) being the most favoured locations. At present, ASEAN only plays a minor role as a financing or R&D centre for GBA enterprises.



The penetration rate of GBA-based businesses in the ASEAN market is bound to rise markedly

Penetration rate of GBA-based businesses in the ASEAN market

% of respondents, n=657



Consumer Goods

Industrial Goods

BPFS

RHC

TMT

	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years
Singapore	31.5%	55.0%	39.6%	65.8%	36.5%	62.8%	37.9%	62.8%	39.4%	65.5%
Vietnam	31.5%	55.9%	41.4%	64.9%	33.1%	61.5%	35.2%	59.3%	36.6%	65.5%
Malaysia	38.7%	64.9%	32.4%	63.1%	31.8%	56.1%	33.8%	56.6%	40.1%	62.0%
Thailand	27.0%	46.8%	43.2%	72.1%	32.4%	53.4%	30.3%	55.2%	33.1%	54.2%
Indonesia	17.1%	27.9%	22.5%	41.4%	23.6%	44.6%	20.7%	35.9%	21.1%	35.9%
The Philippines	20.7%	31.5%	21.6%	41.4%	15.5%	33.1%	16.6%	37.9%	23.2%	37.3%
Cambodia	13.5%	23.4%	9.9%	23.4%	8.1%	26.4%	9.7%	24.1%	15.5%	21.1%
Myanmar	9.9%	18.0%	5.4%	23.4%	7.4%	22.3%	5.5%	18.6%	11.3%	16.2%
Laos	6.3%	14.4%	3.6%	20.7%	6.1%	16.9%	8.3%	19.3%	8.5%	13.4%
Brunei	6.3%	13.5%	6.3%	17.1%	4.1%	14.9%	6.9%	13.1%	4.9%	10.6%

Source: HKTDC survey



Respondents were asked to indicate the likelihood of them expanding into or further expanding trade, investment or business operations in various ASEAN countries over the next three years. Respondents were asked to rate this on a 10-point scale, with 1 representing 'very unlikely' and 10 representing 'very likely'. The findings showed that Singapore (with an average rating of 6.89), Malaysia (6.86), Vietnam (6.76) and Thailand (6.56) are the most popular trade and investment destinations for GBA enterprises in the short term, with nearly half of respondents giving them a rating of 8 to 10. In other words, it is likely that they would expand into or further expand business in these countries in the next three years. The next most popular are the Philippines (5.77), Indonesia (5.70) and Cambodia (5.27). Laos (4.98), Myanmar (4.93) and Brunei (4.63) are currently the least preferred trade and investment destinations for GBA enterprises.

As far as business operations are concerned, GBA enterprises are still most interested in selling to the ASEAN market. Over half of the surveyed enterprises said they expect to launch sales in Singapore, Malaysia and Vietnam in the next three years. More than 10% of the respondents indicated that they expect to carry out production or sourcing activities in Vietnam

and Thailand over the next three years, compared to 7.2% and 4.6% respectively at present.

The sector that is the most eager to expand further in the ASEAN market is industrial goods, with the likelihood of investing in ASEAN scoring an average rating of 6.56 among enterprises in this sector, and the likelihood of investing in Malaysia, Thailand, Singapore and Vietnam in particular scoring more than 7. The next keenest sectors were real estate, hospitality and construction (6.21) and business, professional and financial services (5.71), while consumer goods (5.45) and technology, media and telecoms (5.33) were not so enthusiastic.

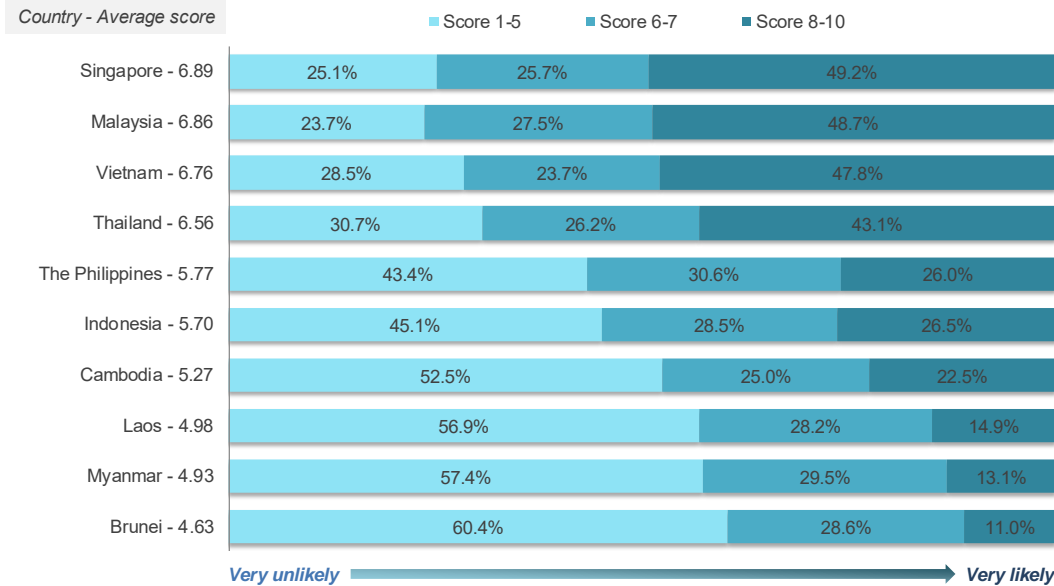
According to the survey, the business distribution of GBA enterprises in the ASEAN market is unlikely to undergo too many changes in the next three years, with trade and investment activities still very much concentrated in Singapore, Vietnam, Malaysia and Thailand. However, it is estimated that the market penetration rate of GBA enterprises in ASEAN will grow markedly. Enterprises wanting to invest in ASEAN can also pay more attention to developments in Indonesia and the Philippines.



Singapore, Malaysia, Vietnam and Thailand are the most popular ASEAN trading partners and the lead investment destinations for GBA-based enterprises

Likelihood of (further) expanding trade, investment / business operations into ASEAN in next 3 years

Rating of likelihood (scale of 1-10), n=657



	Consumer Goods	Industrial Goods	BPFS	RHC	TMT
Singapore	6.54	7.27	6.95	7.10	6.60
Malaysia	6.78	7.59	6.59	6.92	6.56
Vietnam	6.43	7.20	6.55	6.99	6.68
Thailand	6.20	7.29	6.28	6.79	6.32
The Philippines	5.45	6.52	5.51	6.06	5.39
Indonesia	5.12	6.67	5.72	6.03	5.06
Cambodia	4.91	5.81	5.25	6.02	4.39
Laos	4.46	5.87	4.88	5.59	4.17
Myanmar	4.36	5.70	5.03	5.35	4.25
Brunei	4.23	5.68	4.31	5.24	3.85
ASEAN	5.45	6.56	5.71	6.21	5.33

Note: Respondents were asked to rate each ASEAN country on a scale of 1-10 with regard to their likelihood of expanding their business there, with 1 representing 'very unlikely' and 10 representing 'very likely'.

Source: HKTDC survey



Over the next 3 years, close to 60% of all GBA-based enterprises surveyed plan to expand (or further expand) into ASEAN

	As Regional Office		As Market		As Production or Sourcing Base		As Financing Centre		As R&D Centre	
	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years	Currently	In the next 3 years
Singapore	4.3%	10.4%	32.3%	55.4%	2.6%	7.6%	0.8%	2.3%	0.8%	2.0%
Malaysia	4.0%	6.2%	30.1%	53.0%	4.6%	6.4%	0.2%	0.2%	0.2%	0.9%
Vietnam	1.8%	6.2%	28.9%	51.1%	7.2%	14.5%	0.2%	0.6%	0.2%	0.8%
Thailand	2.6%	7.0%	27.9%	48.6%	4.6%	10.4%	0.5%	0.3%	0.5%	0.9%
The Philippines	1.7%	3.8%	16.6%	30.7%	2.3%	6.2%	0.6%	0.6%	0.0%	0.3%
Indonesia	2.4%	3.8%	17.0%	29.2%	4.3%	8.1%	0.2%	0.5%	0.2%	0.8%
Cambodia	1.2%	2.4%	8.5%	19.2%	2.1%	5.0%	0.2%	0.3%	0.0%	0.3%
Laos	0.8%	1.7%	5.5%	13.4%	0.8%	3.0%	0.2%	0.3%	0.0%	0.0%
Myanmar	0.5%	1.1%	5.5%	15.1%	2.4%	4.3%	0.2%	0.3%	0.2%	0.6%
Brunei	0.5%	1.8%	4.9%	11.4%	0.5%	1.5%	0.0%	0.2%	0.0%	0.5%

Source: HKTDC survey



Huge market demand

The survey also gauged the views of GBA enterprises on the attractiveness of ASEAN as a trading partner or investment destination, with the aim of providing useful information to industry players looking to enter the ASEAN market. It found that many enterprises are attracted to ASEAN by its favourable business environment. The respondents said that the cost-effectiveness of operations in ASEAN was an important advantage, with 29.1% of them viewing this as one of the top three attractions of the ASEAN market, while 28.2% cited abundant resources as a crucial attraction. 28.3% of the respondents pointed to the importance of ASEAN being a huge market for goods and services, with 11.3% of them rating this as ASEAN's top attraction. These responses reflect that GBA enterprises entered the ASEAN market not only because its business environment is conducive to production, but also because ASEAN has a huge demand for goods and services. GBA enterprises could take advantage of ASEAN's ideal business environment to develop the market and supply products and services meeting local demands.

When looking at the different attitudes displayed by Hong Kong and mainland GBA enterprises in the survey, it was found that Hong Kong companies tended to attach more importance to the huge size of the ASEAN market, with 35.7% of them marking this as one of ASEAN's top three attractions. Only 26.3% of their mainland GBA counterparts held the same view. Meanwhile, mainland GBA enterprises tend to pay more attention to trade relations between China and ASEAN (with 25.5% of them citing this factor) than Hong Kong enterprises do. Perhaps because Hong Kong adopts a free trade policy, only 18.9% of the Hong Kong companies held the same view as their mainland GBA counterparts on this issue.

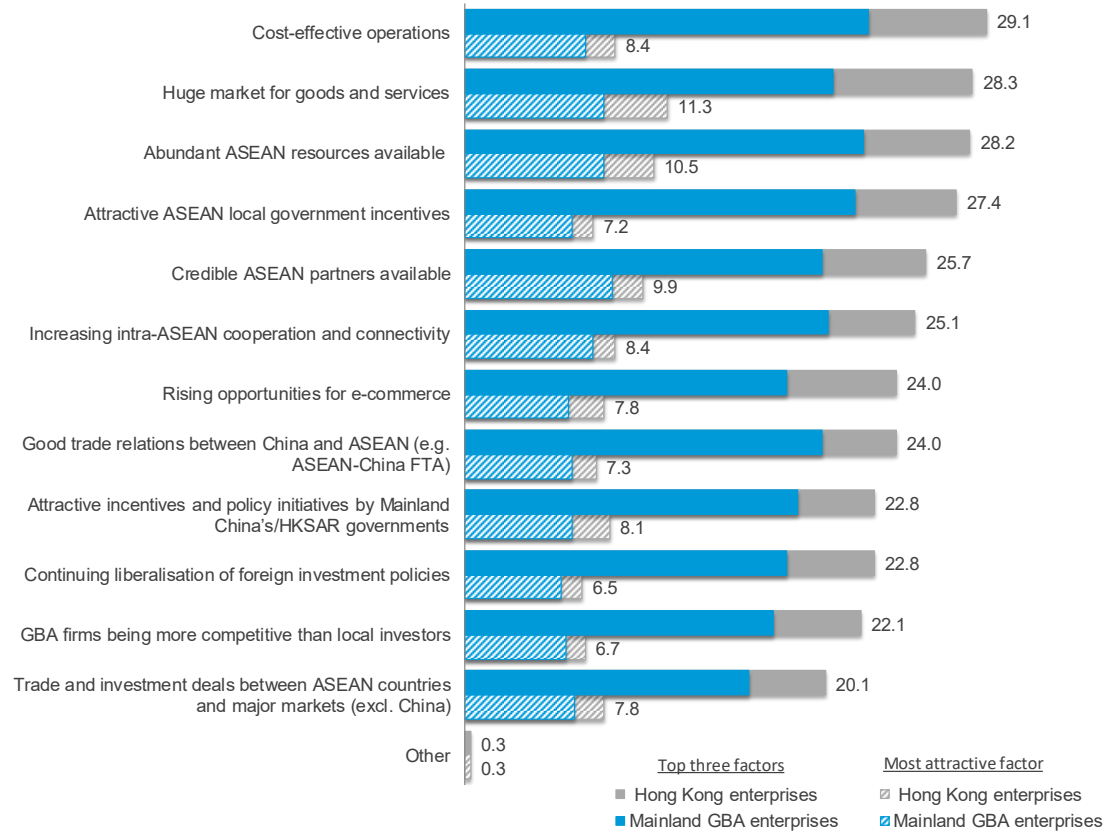
Other attractions of the ASEAN market include the presence of attractive local government incentives in ASEAN countries (cited by 27.4% of respondents), the availability of credible local partners (25.7%), and increasing intra-ASEAN co-operation and connectivity (25.1%). Since GBA enterprises mainly see ASEAN as a sales market, it is unsurprising that the trade and investment agreements between ASEAN countries and other major markets do not seem to be very important to them, with only 20.1% citing it as a factor.



For GBA-based enterprises, the ASEAN bloc is seen as both an attractive market and the location of competitive production facilities

Attractiveness of ASEAN bloc members as trading partners / investment destinations

% of respondents, No. of respondents = 657



	Consumer Goods	Industrial Goods	BPFS	RHC	TMT
Credible ASEAN partners available	32.4%	25.2%	23.0%	25.5%	23.9%
Cost-effective operations	26.1%	36.9%	24.3%	29.7%	29.6%
Huge market for goods and services	29.7%	20.7%	32.4%	25.5%	31.7%
Abundant ASEAN resources available	27.9%	29.7%	24.3%	31.0%	28.2%

Note: Figures shaded in grey indicate the factors most frequently cited by respondents in a particular industry.

Source: HKTDC survey



When asked about the difficulties and challenges encountered in trading with, investing or operating in ASEAN, 31.2% of respondents cited poor and inadequate infrastructure, followed by difficulties in finding the right local partners (29.8%) and the rising cost of doing business (29.7%). Another 28.2% cited intense local competition as a challenge, with 10.5% rating this as the greatest challenge in doing business in ASEAN.

Enterprises which have not yet entered the ASEAN market were most concerned about the conditions of local infrastructure (34.7%), followed by rising cost of doing business (31.4%) and intense local competition (30.2%). Enterprises which are already operating in the ASEAN market said that their main challenges included difficulties in finding the right local partners (30.1%), poor and inadequate infrastructure (29.2%) and non-transparent regulatory regimes (28.9%). While larger-scale enterprises were concerned about ASEAN's regulatory regimes, with 31.6% of those with business revenue exceeding US\$10 million citing this as one of the top three challenges, only 26.7% of smaller-scale enterprises held the same opinion.

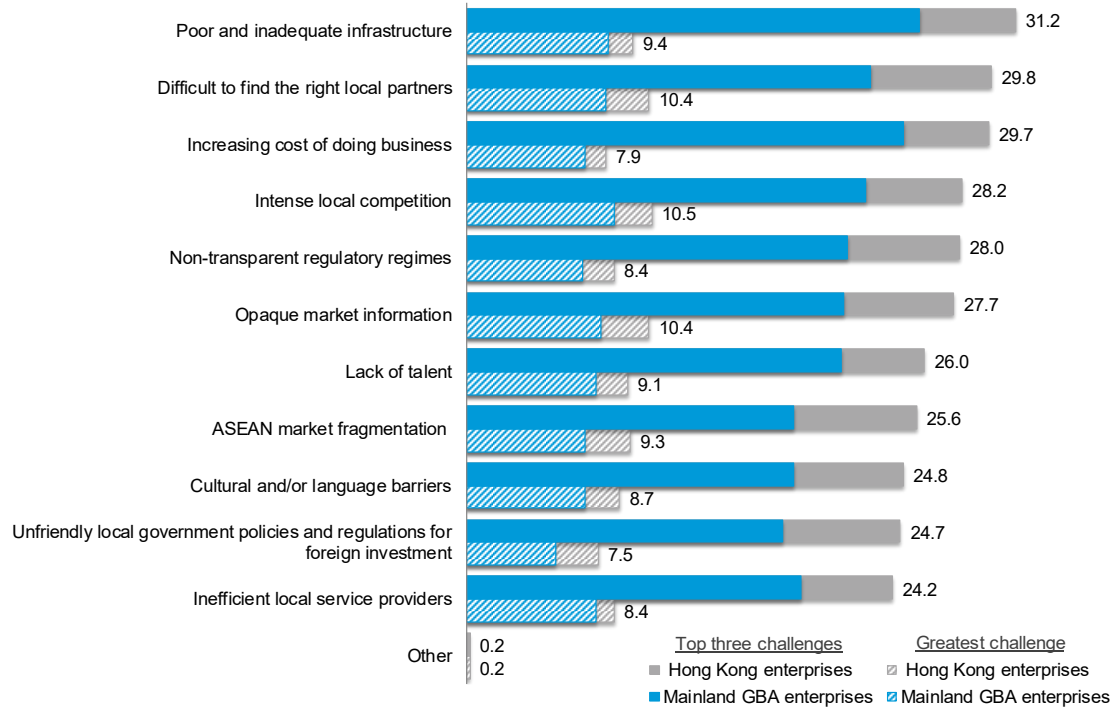
Hong Kong companies are more concerned about market fragmentation in ASEAN than their mainland GBA counterparts are, with 32.2% of them ranking this as one of the top three challenges in doing business in ASEAN. However, Ambrose Lee, Chief Strategy Officer and Head of Capital Markets/Corporate Finance of a Hong Kong-based large gen-set system integration provider, *VPower Group Holdings Limited*, pointed out that Hong Kong companies work flexibly, and are capable of providing high value-added and customised solutions. The fragmented and diverse markets in the ASEAN region also bring opportunities for local enterprises. By contrast, since China is a vast country and an enormous market, mainland GBA enterprises are more used to serving a diversified market. Hence, only 23.7% of the mainland GBA enterprises found this a big challenge. However, mainland GBA enterprises are concerned than those in Hong Kong about the rising cost of doing business in ASEAN, with 31.7% citing it as a main challenge, as opposed to 22.4% of their Hong Kong counterparts.



Hong Kong enterprises find market fragmentation in ASEAN a challenge, while mainland-based GBA enterprises find the rising cost of doing business an even greater challenge

Major difficulties and challenges of doing business with ASEAN bloc members

% of respondents, No. of respondents = 657



	Consumer Goods	Industrial Goods	BPFS	RHC	TMT
Non-transparent regulatory regimes	32.4%	25.2%	25.7%	33.1%	23.9%
Increasing cost of doing business	27.9%	33.3%	25.7%	28.3%	33.8%
Poor and inadequate infrastructure	24.3%	32.4%	34.5%	33.1%	30.3%

Note: Figures shaded in grey indicate the factors most frequently cited by respondents in a particular industry.

Source: HKTDC survey



In conclusion, while ASEAN has different attractions for different industry sectors, the difficulties and challenges encountered by the various industry sectors in doing business in the region are more or less the same.



Since the **consumer goods** sector serves end-users directly, it must have good knowledge about local market characteristics, sales channels and consumer buying behaviour. As such, this sector relies heavily on local partners. Compared with other industry sectors, a markedly higher proportion of respondents in this sector (32.4%) said the availability of credible local partners in ASEAN was one of the top three attractions of doing business in that market. However, some respondents pointed out that it was not easy to find the right local partners, with 15.3% of them naming this as the greatest challenge in doing business in ASEAN while another 15.3% cited the low efficiency of local service suppliers.



Industrial goods manufacturing is a cost-intensive industry requiring large production inputs. Because of this, this sector is clearly more interested than others in the cost of doing business in ASEAN. 36.9% of respondents reckoned that cost-effectiveness was an advantage of operating in ASEAN, with 12.6% of them citing this as ASEAN's greatest attraction. However, the respondents were concerned about the rising cost of doing business (33.3% citing this factor) and poor and inadequate infrastructure (32.4%).



Compared with other industry sectors, the requirements of **business, professional and financial services** for factors of production other than talent are lower, and as such they attach more importance to the local market conditions. 32.4% of respondents pointed out that ASEAN offers a huge market for goods and services, with 14.2% of them citing this as the greatest attraction of this market. Attractive local government incentives in ASEAN countries (cited by 31.1%) are also a great attraction for this sector. However, many were concerned about the poor and inadequate infrastructure (34.5%) and intense local competition (32.4%) in ASEAN.



Compared with other industry sectors, the **real estate, hospitality and construction** sector is obviously more interested in the availability of resources in ASEAN, including those involving land and tourism. 31.0% of respondents reckoned that ASEAN has abundant resources, with 15.2% of them naming this as the greatest attraction of the ASEAN market. However, many were concerned about the poor and inadequate infrastructure (33.1%) and non-transparent regulatory regimes (33.1%) in ASEAN.



The **technology, media and telecoms** sector is similar in nature to the commercial, professional and financial services sector, and it is similarly interested in the local market conditions. 31.7% of respondents rated ASEAN's huge market for goods and services as the region's most attractive feature. Compared with other industry sectors, the technology, media and telecoms sector tends to attach more importance to increasing intra-ASEAN co-operation and connectivity, with 28.2% of respondents citing this as one of the top three attractions of the ASEAN market. However, this sector was concerned about the rising cost of doing business (33.8%) and difficulties in finding the right local partners (32.4%).



From Production to Sale: Tapping the Southeast Asian Market

*Interview with Chung Yuk Ming,
Director of L.K. Machinery International Ltd
(Member of L.K. Technology Holdings Limited)*



As China-US trade friction intensified in recent years, some manufacturers have, at the request of their clients, moved their production facilities out of mainland China and set up factories in Vietnam instead, indirectly accelerating the development of ASEAN countries.



During the 1980s when Hong Kong underwent economic transformation, the local manufacturing industry moved out of the city *en masse*. As its clients relocated their factories to mainland China, Hong Kong industrial equipment manufacturer *L.K. Machinery International Ltd* set up its first manufactory in Shenzhen in 1991. The group has since built a production chain on the mainland and established nine production bases and R&D centres in the southern, eastern and northern regions. In recent years, as China-US trade friction intensified, the Southeast Asian market emerged rapidly. Chung Yuk Ming, Director of *L.K. Machinery*, shared the experiences and strategies of the group in expanding into the Southeast Asian market.

Poor agent performance

Established in 1979, *L.K. Machinery* specialises in the design, manufacture and sale of die-casting machines, plastic injection moulding machines and CNC machining centres. The machinery produced by the group is sold to all parts of the world, with more than 70% of its clients coming from mainland China and the remainder from Europe, the Americas, Southeast Asia and India. According to Chung, the group supplies machines, equipment and solutions to different manufacturing industries requiring plastic and alloy parts and components. *L.K. Machinery's* target customers include the automobile industry, as well as home electrical appliances and fashion accessories manufacturers. Outlining how the market has blossomed, he said: "We have been selling to Southeast Asia for more than 20 years. At first the number of manufacturers in the region was small, but in recent years the market there began to flourish thanks to industrial relocation. At present, Southeast Asia makes up about 2% of the group's total sales, mainly in Vietnam, Indonesia, Malaysia and Thailand."



▲ L.K. Machinery's production plant in Zhongshan.

In sharing *L.K. Machinery's* experience in growing its business in Vietnam, Chung said: "In the past, the group conducted sales in Southeast Asia through agents. Until recent years, as more and more mainland clients set up factories in Vietnam, the group opened a sales office there." He pointed out that compared with the operations of a local office, the services provided by agents were not comprehensive enough. Besides, as the agents normally handled a vast range of products at the same time, little attention was paid to the best interests of the group. Moreover, when the agents collected payment on behalf of *L.K. Machinery*, they usually encountered difficulties and efficiency was rather low. But still, the cost of using agency services was relatively low. That was why the group used to entrust the agents to handle after-sale services for general clients before the group set up its representative office, whereas for important clients, staff from the mainland were sent to the market to perform duties such as inspection and maintenance.

Chung remarked that given Southeast Asia's favourable geographical location, it was not absolutely necessary to open a sales office there at the early stage. However, as business in the region gradually increased, after weighing cost against benefit, setting up an office there had the advantages of providing clients with better quality services and helping

the group better understand local market demand and the business environment. He added that the office in Vietnam was mainly responsible for conducting sales as well as offering customer services such as equipment evaluation and maintenance. *L.K. Machinery* has dispatched its mainland staff to man the office and build a local team. Staff posted to overseas markets would normally have rich experiences and good knowledge of the group's products. As this sales office is mainly responsible for providing customer services, the technical requirements of the local staff are not high. The main service recipients are mainland clients and overseas Chinese operating factories there, so the language barrier is not a problem as office staff and clients can communicate in Mandarin. Chung added: "Of course, time is needed to adapt to local customs, but this is inevitable. Up to now, we have not come across any problems that cannot be solved."

Production base considerations

However, Chung pointed out that to invest in production bases in Southeast Asia is something very different and which requires more thorough consideration. To Hong Kong companies, establishing a factory in Vietnam is more complicated than in mainland China because there are such issues as the local legal system, taxation and labour regulations to



resolve in addition to the problem of labour shortage. In spite of that, *L.K. Machinery* adopts an open but prudent attitude towards setting up factories in Southeast Asia. The group is paying close attention to the market conditions there, particularly heavy industries, such as the growth of the automobile industry as well as the economic growth rate and political situation.

Chung added that as China-US trade friction intensified in recent years, some manufacturers have, at the request of their clients, moved their production facilities out of mainland China and set up factories in Vietnam instead, indirectly accelerating the development of ASEAN countries. In order to stay close to its clients, *L.K. Machinery* plans to open a branch company in Vietnam and establish a service centre in Indonesia. Should this plan progress well, the group's next move will be to build processing plants in Southeast Asia in order to provide more comprehensive services to local clients.

L.K. Machinery runs thirteen major production bases and R&D centres across the globe, nine of which are located in southern, eastern and northern China and are responsible for R&D, sourcing, sales and other services. The group's products are manufactured on the mainland and exported to overseas markets via Shenzhen. Explaining why the company has no plans to relocate its production bases despite rising operating costs in mainland China in recent years, Chung said: "China is the world's factory with the largest production capacity as a single country. The idea of moving the production chain out of China imminently is simply impracticable."

Professional services support

The distribution of *L.K. Machinery's* business operations shows that although its Hong Kong headquarters is not large in scale, it serves as

the group's "command centre", as Chung put it. The Hong Kong headquarters is responsible for handling financial matters, acting as company secretary, and formulating development strategies. Its functions and roles are well supported by the sound professional services network in the city. Recalling the group's experiences in setting up the sales office in Vietnam, Chung said the group was able to access business information about the local market with the help of Hong Kong's bankers, accountants and lawyers as well as the local consulates. Such information included procedures of company establishment, capital requirements, tax system, etc, which provided the group with basic knowledge about this target market. He specifically commended the banking services available in Hong Kong, which are very comprehensive in scope, meeting every imaginable need of the group.

Chung is positive about the development prospects of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), with *L.K. Machinery's* production bases in Shenzhen and Zhongshan providing R&D, manufacturing, sales and supporting services under one roof. In his opinion, Hong Kong, as a key city in the GBA, stands to benefit from the highly efficient cross-border resources flows between the SAR and other GBA cities. In view of the fact that the GBA is the country's key development region, *L.K. Machinery* plans to advance smart production processes and automation in order to raise equipment efficiency and lower production cost. The group will also launch new products to meet market demand and consider setting up its third stronghold on the mainland in one of the GBA cities, after Zhongshan and Shenzhen.



Producing in Multiple Countries Effectively Reduces Costs for Marine Science Firm

*Interview with Freeman So,
Chief Financial Officer and Secretary of
Green Future Food Hydrocolloid Marine Science Co Ltd*



Greenfresh's headquarters in Hong Kong is mainly responsible for supporting the group's trade and financing activities. In addition to IPO financing, Greenfresh also raises funds for its business activities through bank loans.



Southeast Asia is rich in natural resources and its tropical climate is well suited to agriculture. Hong Kong-based *Green Future Food Hydrocolloid Marine Science Co Ltd (Greenfresh)* imports seaweed from Indonesia to produce food hydrocolloids, commonly used in food production and processing. *Covid-19* has blocked retail channels for some end products featuring hydrocolloids, leading to a temporary drop in market demand for hydrocolloids. However, the pandemic has also given *Greenfresh* a chance to acquire production facilities in Indonesia and build a transnational production line across Fujian province and Surabaya in Indonesia.

Greenfresh's Chief Financial Officer and Secretary Freeman So explained the company's decision, saying: "Southeast Asian countries have actively invested in human resources and greatly improved their business environment in recent years. When the pandemic eases, *Greenfresh* hopes to accelerate its ventures into Southeast Asian markets and further enhance the capacity of its production lines in Indonesia."

Diversified investment strategy

Seaweed and food hydrocolloids extracted from seaweed or plant and other natural sources are mainly used in the production and processing of food, such as candy, jelly, bread, milk and meat products to give food a richer texture and a higher moisture content that prolongs its best before date.

Greenfresh's hydrocolloid products use seaweed as a raw material, more than 90% of which is imported from Indonesia, where it grows in nearshore waters. So said: "Indonesia is an island country. Its excellent water quality is most suitable for seaweed growth. Local fishermen and farmers alternate between fishing and seaweed farming as the market demands, thus giving *Greenfresh* had been importing seaweed from Indonesia for processing in Fujian for the past 10 years, but as production cost continued to rise, the company began to adopt a multiple foothold strategy and completed its acquisition of semi-refined carrageenan production facilities in Indonesia in



April this year. For one thing, the average labour costs in agricultural regions of Indonesia are cheaper than in China's coastal cities. The proximity of processing plants to raw material cultivation sites also helps save on transportation time and costs.

So said: "In setting up our production lines in Indonesia, we mainly hope to lower production cost and increase the competitiveness of our products. We also hope to better prepare ourselves for the vast Southeast Asian markets. We sell about 45% of our products in the domestic market and export more than 50% of our products to Europe, the Americas and other Asian countries. Our main clients are big food processing companies and purchasers.

"Currently per-capita income is relatively low in Southeast Asian markets and people there do not consume a lot of processed food at present. Sales in these markets account for less than 10% of our total sales."

Despite the current lack of demand in the region, So is optimistic about the potential of Southeast Asian markets. Explaining his reasons, he said: "Hydrocolloids are mainly used in food and the huge population in Southeast Asia is indicative of the demand for food. Based on the experience of the Hong Kong and mainland food market, the more urbanised the consumer market, the greater is the demand for processed food. We expect to see a substantial increase in the consumption of processed food in Southeast Asia in future."

Investor-friendly Indonesia

So said *Greenfresh* initially planned to build a processing plant in Indonesia, but the land bought for the project was repossessed by the Indonesian government for toll road construction. Coincidentally, a local factory found it extremely challenging to expand its client base due to the *Covid-19* outbreak and hoped to collaborate with a leading industry player to scale up its business as quickly as possible and achieve win-win results. Considering the worsening pandemic situation

and the time needed to apply for permission to buy land again for the factory, *Greenfresh* changed its strategy by purchasing the present seaweed processing facilities, helping to bring in new technologies and clients and achieving cost-effective production capacity in the shortest possible time.

Although not able to travel to Indonesia for the acquisition due to the lockdown, So had no doubt as to the wisdom of the initiative, saying: "*Greenfresh* had the good fortune of having access to a team of familiar lawyers after years of doing business in Indonesia, who assisted us in handling the relevant legal due diligence and ensuring compliance with all the legal requirements and *Hong Kong Stock Exchange* regulations. *Greenfresh* also sent a technical team to evaluate the acquisition target's asset quality, capacity and how advanced its production lines were.

"As we mainly communicate by remote means because of the pandemic, being on the same page is very important. Had we not had lawyers we had previously worked with in the other country we probably would have had to spend more time and would have communicated less effectively. Any teething problems may also have delayed the acquisition process."

Looking back over the deal, So is convinced that the Indonesian government adopted an open and positive attitude towards the foreign investment, saying: "*Greenfresh* is an R&D-driven manufacturing business. We will look to employ a significant number of local people, bringing benefits to the domestic economy. As a socially responsible company, we place great emphasis on compliance with local legal requirements in running the business, including updating the tax authorities of our tax liability on a regular basis. With the help of our team of local lawyers, we had no problem communicating with the Indonesian government overall."



Hong Kong: Financing support

According to So, *Greenfresh*'s headquarters in Hong Kong is mainly responsible for supporting the group's trade and financing activities. Expanding upon this, he said: "In addition to IPO financing, *Greenfresh* also raises funds for its business activities through bank loans. Initially, we hope to increase the loyalty of Indonesia suppliers by making relatively prompt payments for seaweed purchases. We do, however, recognise that, it takes time to collect payments in production and marketing. Credit financing allows us to buy raw materials with loans and give our mainland production lines sufficient time for production and processing within the repayment period."

In So's opinion, Hong Kong banks offer flexible and low-interest credit financing plans to businesses. Outlining this in more detail, he said: "The average lending rate is 2-3% in Hong Kong, 5-6% on the mainland, but more than 10% in Indonesia. In the purchase of the production lines in Indonesia, Hong Kong banks were very proactive and provided *Greenfresh* with a suitable financing plan based on the strategic intention and projected returns of the acquisition."

Greenfresh hopes that Hong Kong can play a bigger role in marketing to European and American customers in future. At present, its sales director and most of its account managers are based at its sales centre in Xiamen, which is only a 45-minute drive from its production base in Zhangzhou.

Expanding upon the company's structure, he said: "We chose Xiamen as our sales centre at that time because we hoped to facilitate communication with the production lines and arrange delivery and quality inspection. It was also closer to banks, accountants, lawyers and other professional service providers. Given the advance of technology, however, remote management is now more of a possibility.

"Hong Kong people are conversant in foreign languages and know the European and American markets well. We hope to expand our Hong Kong sales team to provide a better service to our European and American clients in the territory."

Rising environmental awareness

As the market is increasingly concerned about environmental protection, So was keen to highlight the fact that *Greenfresh* had started expanding and improving its sewage treatment facilities several years back, saying: "In the past, many of our smaller-scale production lines were forced to suspend operations or even shut down due to environmental protection issues. For this reason, in recent years our clients have been more concerned about the environmental compliance of our production lines in order to ensure supply chain sustainability."

Indeed, growing environmental awareness on the mainland has led to increasingly stringent environmental protection requirements from local government authorities. By comparison, environmental protection requirements are more basic in Indonesia, with its government giving manufacturers more time to satisfy environmental requirements.

Greenfresh is actively trying to gain a better understanding of Hong Kong's ESG (environmental, social and governance) requirements and its board of directors has already set the relevant environmental performance targets. Acknowledging the importance of this, So said: "Facing increasingly strict environmental protection regulations, *Greenfresh* will strive to further raise its environmental protection level and ensure a stable supply chain for its clients, while enhancing the group's competitiveness through sustainable developments over the long-term."



Smart ‘Track and Trace’ Boosts Cross-Border Trade

*Interview with Yu Xiang,
Director of Universa Scientific & Technical Information
Management (Shenzhen) Co Ltd*



In operating cross-border business, there are bound to be risks involving legal, financial, policy, credit and intellectual property issues. Through collaborating with different trade associations and business partners in Hong Kong, Universa can acquire a lot of information and experience.



The surge in cross-border e-commerce during the *Covid-19* outbreak significantly increased the quantity of parcels for delivery – exerting significant pressure on customs operations. *Universa Scientific & Technical Information Management (Shenzhen) Co*, established in Shenzhen in 2016, specialises in using the internet, IoT (internet of things) and blockchain technologies to provide smart ‘track and trace’ services that facilitate customs clearance and effect counterfeit checks on products. They also connect manufacturers, trade service providers, governments and regulatory and law enforcement departments, and assist clients in digitalising their businesses swiftly, enhancing the overall efficiency of cross-border trade. Yu Xiang, Director of *Universa*, said the availability of reliable business partners and extensive market information in Hong Kong has helped the company expand into overseas markets.

Enhancing customs clearance

Universa uses such technologies as blockchain and combined credit key system (CCKS) to provide unique identification labels for goods. These labels, which are difficult to forge, enable users to access information about the goods in question, raising the efficiency of customs clearance. Yu said: “The problem with cross-border e-commerce goods supervision is that if Customs conducts stringent inspection, it could hold up the goods for a long time, which would have a negative impact on the quality of the service and business of e-commerce operators. But if Customs relaxes control, then fake and counterfeit products can dodge inspection and clear customs without being found out.”

In view of this, the customs unit stationed at the *Shenzhen Post Office* is currently carrying out a cross-border e-commerce pilot project jointly with *Universa*. This involves using the company’s storage certification technology to video-record the packaging procedures of e-commerce operators, and its ‘track and trace’ system, which involves affixing counterfeit-proof product authentication and traceability labels on packaging.



When the goods go through customs clearance, customs officers conduct remote inspection by viewing the video without having to open the packaging. Goods affixed with *Universa's* labels are entitled to fast-track customs clearance. Once the pilot project is completed, the company hopes to extend this service to customs offices throughout Shenzhen as well as across the country, applying it to customs clearance and inspection procedures for goods traded according to both traditional and cross-border e-commerce formats.

"Apart from exports, there are also some overseas clients who wish to sell foreign goods and brands to the mainland," said Yu. "We are now in the process of building a customs clearance channel for imported goods so that foreign brands entering the mainland market can undergo fast-track customs clearance too. We have already come up with a solution and are ready to start physical test."

Fake-proof Thai products

Another important feature of smart 'track and trace' is the authentication of consumer goods, which allows consumers to easily identify whether a product is genuine or not. Sharing *Universa's* experiences in facilitating imports of Thai products into China, Yu said: "In China, the initial market response to the *Thai T-Mark* (i.e. the *Thai Trust Mark*, issued by the *Ministry of Commerce* in Thailand to high-quality Thai goods and services) is only so-so because there are quite a lot of fake, counterfeit and inferior goods from that country. As a result, this has dealt a severe blow to Thai businesses. Yet, our technology has proven to be the right solution for them. By using the technology of *Universa*, Thai companies can affix a QR code on *T-Mark* goods and all the consumers have to do is scan the QR code with their mobile phone and they can then tell whether the product is genuine or fake."

Universa also offers bespoke services that greatly shorten the time required by Thai brands to enter the mainland market. "To enter the mainland market under the traditional trade

mode, a number of licences are required and the application procedures normally take between six months and two years. By using the counterfeit-proof technology of *Universa*, Thailand's *T-Mark* brands, however, can make a fast entry into the mainland market under the cross-border e-commerce mode. We also provide them with a range of services such as brand promotion, presence on e-commerce websites, and business operations."

Hong Kong as a business expansion base

Looking to the future, the vision of *Universa* is to help industry players enhance customs clearance efficiency and attract overseas companies and brands to enter the mainland market. In this regard, the company is set to further expand into markets across ASEAN, Europe and America. Moreover, starting from 2022, it will establish a foothold in Hong Kong and Southeast Asia to co-operate with local business associations and trading entities. It is also the hope of *Universa* that Hong Kong products can make their way into the mainland market more effectively by utilising the company's fast-track customs clearance solution, thereby helping more industries in Hong Kong connect with the mainland market.

In order to tap overseas markets, *Universa* is currently making preparations for opening an office in Hong Kong. Yu said he believes the company can find the right business partners in Hong Kong to help raise the efficiency of *Universa* in developing overseas markets. "In operating cross-border business, there are bound to be risks involving legal, financial, policy, credit and intellectual property issues," he said "Through collaborating with different trade associations and business partners in Hong Kong, *Universa* can acquire a lot of information and experience. All in all, we find the business environment in Hong Kong favourable. Hong Kong meets international standards in many aspects, including personnel training, business practices, and legal awareness. This makes Hong Kong an ideal location for businesses to set up a base for conducting international trade."



GBA-ASEAN: Bridging the Gap



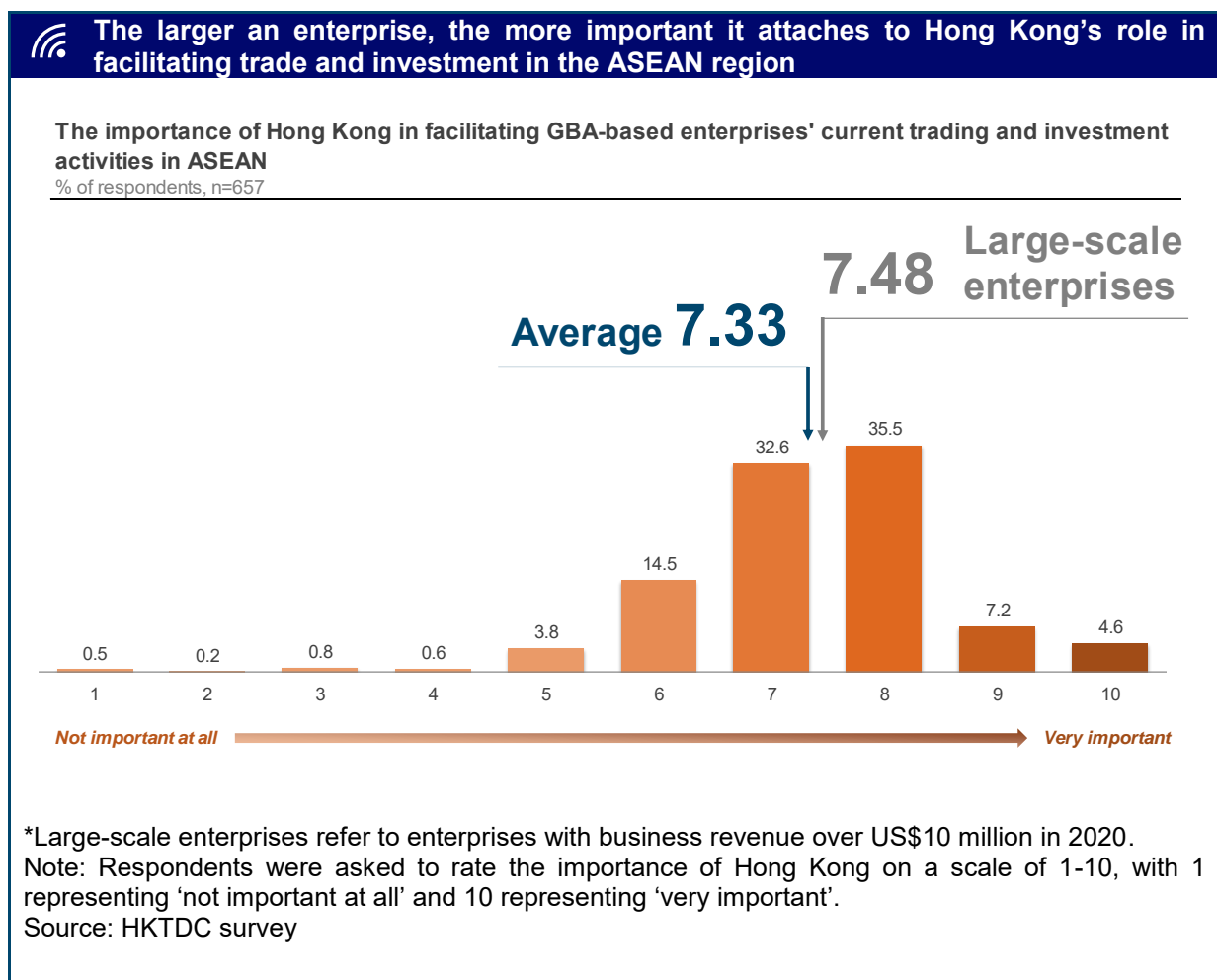


GBA-ASEAN: Bridging the Gap

Hong Kong is the most popular offshore service platform for mainland enterprises seeking to “go out”, according to the findings of a questionnaire survey conducted earlier by *HKTDC Research* with mainland enterprises. In respect of trade and investment between the GBA and the ASEAN region, respondents were asked to rate, on a scale of 1 to 10, the importance of Hong Kong in facilitating their current trading and investment activities in ASEAN. The average was 7.33, with nearly half (47.2%) giving a score of 8 to 10.

Overall, the larger the enterprise, the greater the importance it attached to the role played by Hong Kong as the platform facilitating the investment of GBA-based enterprises in ASEAN. Enterprises with business revenue of more than US\$10 million rated the importance of Hong Kong at 7.48, while those with business revenue of US\$10 million or below gave a score of 7.24. The score given by enterprises employing over 100 staff was 7.41, and that given by those employing 100 staff or less was 7.29.

Two strengths of Hong Kong were evaluated: (1) Hong Kong’s connectivity with the GBA and ASEAN; (2) Hong Kong’s role as a business hub. The findings are shown below.





Hong Kong's connectivity

Respondents to the survey were asked to rate (1) Hong Kong's connectivity with other GBA cities; and (2) Hong Kong's connectivity with ASEAN countries, on a scale of 1 to 10, with 1 representing 'very weak' and 10 representing 'very strong'. All factors were grouped under three main categories, namely business environment, financial infrastructure, and cross-border flow of resources.

Connectivity with other GBA cities

GBA-based enterprises in general found Hong Kong's business environment favourable (especially its transparent regulatory regime), securing an average score of 7.23, with 48.1% of respondents giving a score of 8 to 10. Respondents found there is good availability of services providers in Hong Kong serving GBA-based firms (7.16) and also good availability of talents understanding the GBA market (7.14).

With regard to Hong Kong's financial infrastructure, the scores given by GBA-based enterprises to each factor were more or less the same. The respondents in general agreed that Hong Kong has in place a good variety of financial products and banking services (7.18), with 45.8% of them giving a score of 8 to 10. They were also impressed by the convenient capital flow between Hong Kong and other GBA cities (7.16), the sufficient cross-border financial infrastructure in the city (7.14), and the ease of raising funds in Hong Kong for GBA-based firms (7.12).

Where cross-border flow of resources is concerned, the respondents agreed that Hong Kong has a comprehensive logistics network and connections with other GBA cities. The average score given to this was 7.31, the highest among all factors. Securing the second-highest score was the efficient flow of products between Hong Kong and other GBA cities (7.28). Compared with products flow, the score given by respondents to the efficient flow of human resources between Hong Kong and other GBA cities was slightly lower (7.14).

Overall, mainland GBA enterprises were more satisfied than Hong Kong enterprises with the city's connectivity with other GBA cities. The scores given by mainland GBA enterprises to various items of Hong Kong's strengths were higher than those given by their Hong Kong counterparts. This shows that Hong Kong's "southward" connectivity is stronger than that of its "northward".

Connectivity with ASEAN countries

On Hong Kong's connectivity with ASEAN countries, the respondents reckoned that Hong Kong has a wide business network in ASEAN (7.18), with 45.2% of them giving a score of 8 to 10. The respondents pointed out that GBA-based enterprises operating in the ASEAN region found that Hong Kong has good availability of services providers (7.16), good information about the ASEAN market (7.14), good availability of talents understanding the ASEAN market (7.10), and that Hong Kong's business practices and norms are similar to those of the ASEAN market (7.10).

With regard to financial infrastructure, the minimal exchange and capital controls between Hong Kong and ASEAN (7.17) facilitates the trading and investment activities of GBA-based enterprises in ASEAN through Hong Kong. Moreover, Hong Kong offers comprehensive financial solutions for trade and investments (7.13) and sufficient cross-border financial infrastructure (7.09).

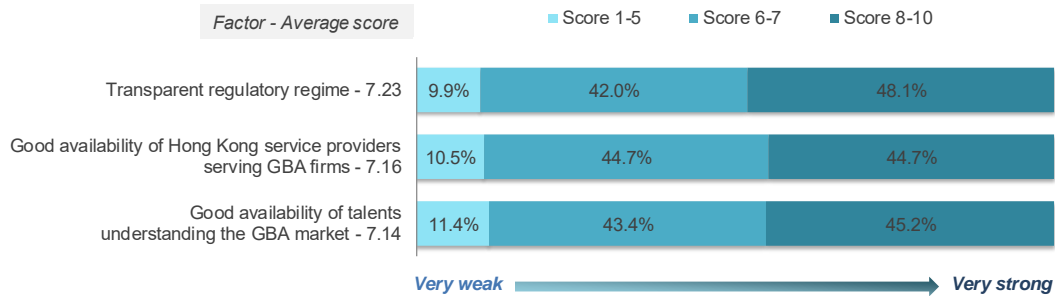
Where cross-border flow of resources is concerned, the respondents agreed there is an efficient flow of products between Hong Kong and ASEAN, giving it an average score of 7.23, the highest among all other factors. Compared with products flow, the score given by the respondents to the efficient flow of human resources between Hong Kong and ASEAN was slightly lower (7.16). They agreed that Hong Kong has a comprehensive logistics network and connections with ASEAN countries (7.13).



↔ Hong Kong's connectivity with other GBA cities

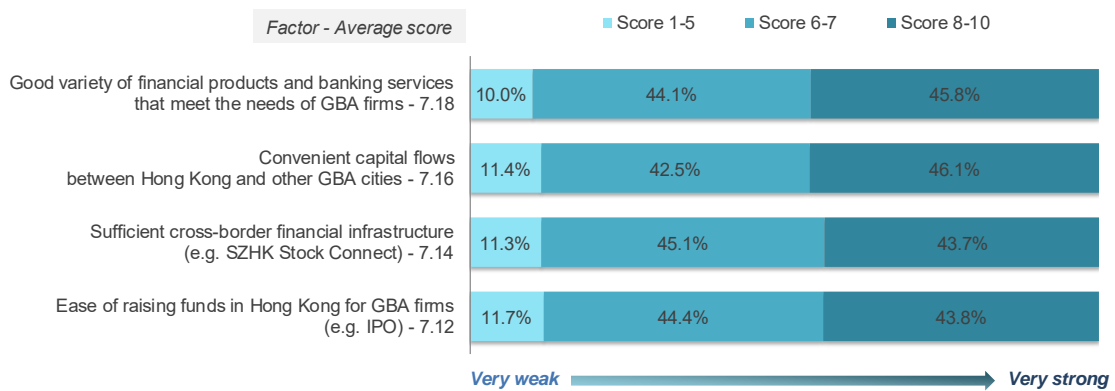
Business environment

Satisfaction rating (scale of 1-10) and average score, n=657



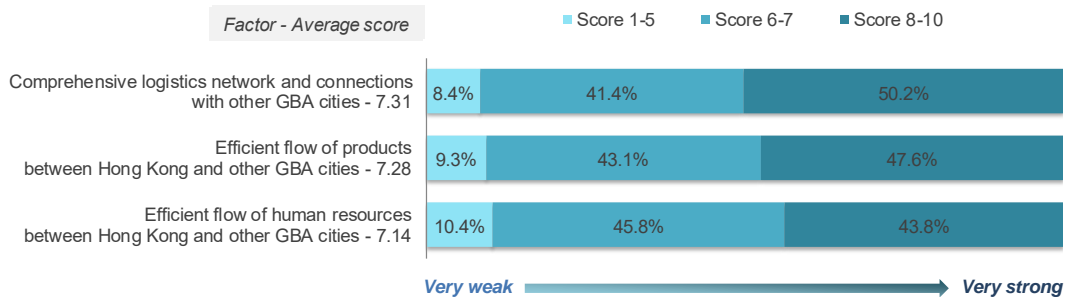
Financial infrastructure

Satisfaction rating (scale of 1-10) and average score, n=657



Cross-border flow of resources

Satisfaction rating (scale of 1-10) and average score, n=657



Note: Respondents were asked to rate each aspect on a scale of 1-10, with 1 representing 'very weak' and 10 representing 'very strong'.

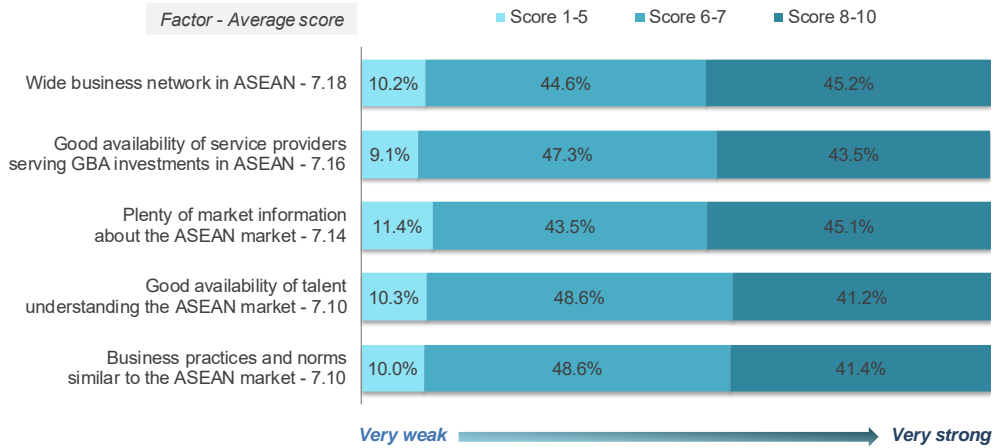
Source: HKTDC survey



←→ **Hong Kong's connectivity with ASEAN countries**

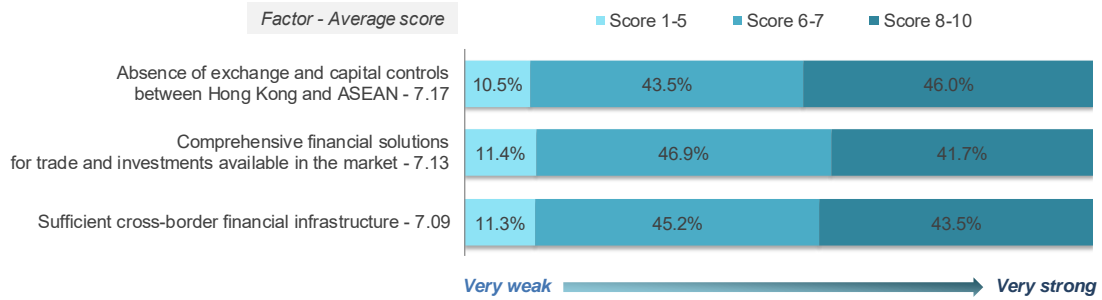
Business environment

Satisfaction rating (scale of 1-10) and average score, n=657



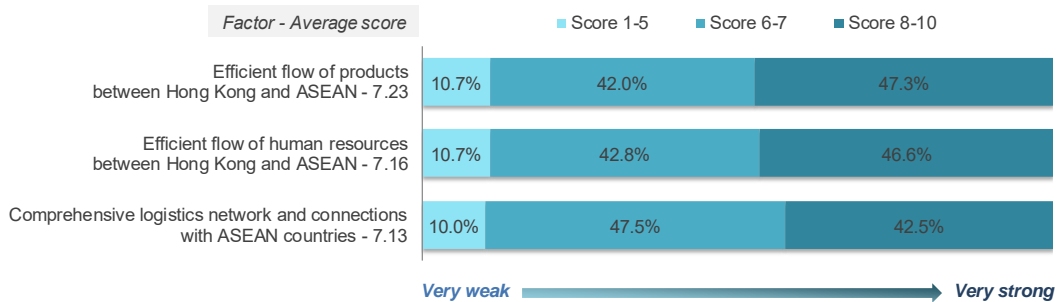
Financial infrastructure

Satisfaction rating (scale of 1-10) and average score, n=657



Cross-border flow of resources

Satisfaction rating (scale of 1-10) and average score, n=657



Note: Respondents were asked to rate each aspect on a scale of 1-10, with 1 representing 'very weak' and 10 representing 'very strong'.

Source: HKTDC survey



Overall, for GBA-based enterprises trading, investing or operating in ASEAN, Hong Kong's connectivity with other GBA cities is stronger than its connectivity with ASEAN countries. With regard to the three main categories mentioned above, the strength of Hong Kong's cross-border flow of resources is the most outstanding, whereas the strengths of its business environment and financial infrastructure are about the same.

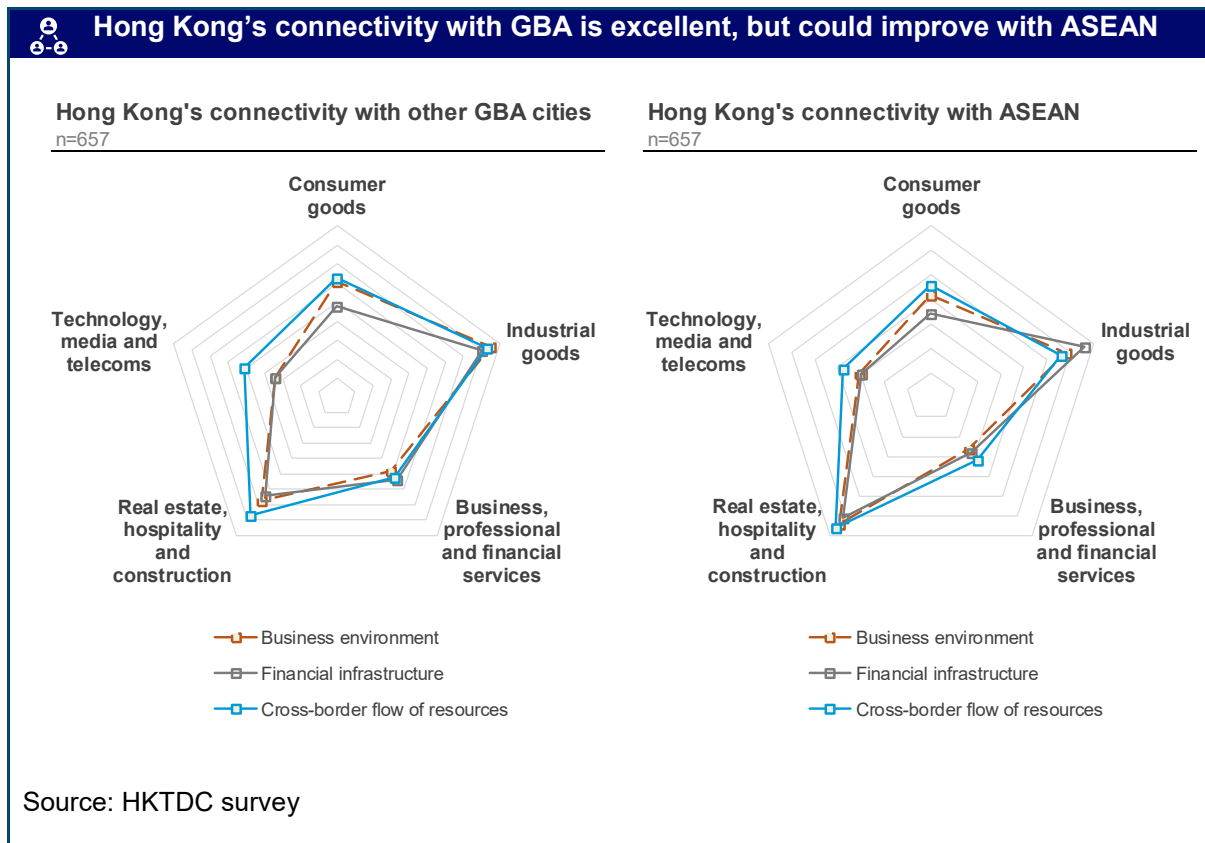
In respect of business environment, the respondents agreed that Hong Kong has in place good availability of services providers (44.7%) and talents (45.2%) serving GBA-based enterprises, giving both factors a score of 8 to 10. By comparison, the percentages of respondents agreeing that Hong Kong has in place good availability of services providers (43.5%) and talents (41.3%) serving their investments in ASEAN were lower.

As for financial infrastructure, the respondents agreed that there is sufficient cross-border financial infrastructure between Hong Kong and other GBA cities, giving an average score of 7.14, slightly higher than that given to cross-border financial infrastructure between Hong Kong and ASEAN (7.09).

On cross-border flow of resources, Hong Kong is apparently strong at the outward flow of products. The scores given by the respondents to the flow of resources between Hong Kong and other GBA cities and that between Hong Kong and ASEAN were 7.31 and 7.23, respectively, both being the highest among all factors. Comparing the flow of products and the flow of human resources, the score given by GBA-based enterprises to Hong Kong's cross-border flow of human resources was lower. Since this questionnaire survey was conducted during the *Covid-19* pandemic, the results reflect that the various border-control measures taken in response may have made quite an impact on Hong Kong's cross-border flow of human resources.

With regard to the strength of Hong Kong's connectivity, the scores to various factors given by enterprises currently operating in the ASEAN region were slightly higher than those given by enterprises that have not yet entered the ASEAN market. The greatest difference in opinion between these two groups of enterprises was found in the capital flow between Hong Kong and other GBA cities, with enterprises currently operating in ASEAN giving an average score of 7.26, 0.26 points higher than that given by those yet to enter the ASEAN market.

Moreover, the larger the enterprise, the more satisfied it was with Hong Kong's connectivity with other GBA cities and with ASEAN. The only exception was Hong Kong's business network in ASEAN, with enterprises with business revenue of US\$10 million or below giving an average score of 7.24, 0.2 points higher than the score given by enterprises with business revenue of more than US\$10 million. This reflects that smaller enterprises may rely more on Hong Kong's business network to find overseas buyers and business partners.



Hong Kong's role as a business hub

As Hong Kong is a leading business hub in Asia, this survey hoped to find out whether the services it provides can meet the needs of GBA-based enterprises in trading with, and investing in, ASEAN countries. According to the survey findings, the Hong Kong services most often used by GBA-based enterprises are MICE (i.e. meetings, incentives, conferences and exhibitions), with 45.4% of respondents saying they often or sometimes used these services, followed by sales and marketing services (41.4%). Several respondents mentioned the importance of brand-building in business expansion.

The fact that Hong Kong and mainland brands are not well-known in overseas markets has made it difficult for them to attract new clients. GBA-based enterprises could make use of Hong Kong's MICE services as well as sales and marketing services to promote business overseas and build up the confidence of ASEAN consumers in their brands. Among the many services, raising funds through Hong Kong and dispute resolution in Hong Kong were seldom used by GBA-based enterprises, with 32.3% and 29.7% of them saying they have never used these respective services, and just 9.1% and 7.6% indicating they would use these services more often in the next three years.



MICE services

Hong Kong's MICE services are very important to GBA-based enterprises, with 60.1% of Hong Kong enterprises and 41.2% of mainland GBA enterprises saying they often or sometimes used them. For enterprises that were already operating in ASEAN (45.3%) and those that have not yet entered ASEAN but planned to expand into that market in the next three years (45.5%), MICE were the most often used services among all other services. As to expected changes in the usage of services in the next three years, 16.3% of the respondents indicated they would use these services more often, the highest growth among all other services. It also reflected that after the pandemic has eased off, GBA-based enterprises would need Hong Kong to reconnect more with buyers and business partners from ASEAN.

Sales and marketing services

The second-most often used services were sales and marketing, with 61.5% of Hong Kong enterprises and 35.8% of mainland GBA enterprises saying they often or sometimes used such services. Enterprises that have not yet entered the ASEAN market tended to use Hong Kong's sales and marketing services more often (43.4%), 3.2 percentage points higher than those that were already operating in ASEAN. As to expected changes in using such services in the next three years, 12.5% of the respondents remarked that they would use these services more often, while just 4.6% said they would use them less often.

Logistics and supply chain

The approval of GBA-based enterprises of Hong Kong's cross-border flow of resources has boosted demand in the region for logistics and supply chain management services. Some 55.9% of Hong Kong enterprises and 34.2% of mainland GBA enterprises indicated that they often or sometimes used these services. The frequencies of using these services by enterprises already operating in ASEAN (38.8%) and those that have not yet entered the ASEAN market (39.3%) were more or less the same. This shows that Hong Kong's logistics and supply chain management services can meet the needs of different enterprises. Some 13.5% of the respondents said they would use these services more often in the next three years, a growth rate second only to MICE services.

Financial services

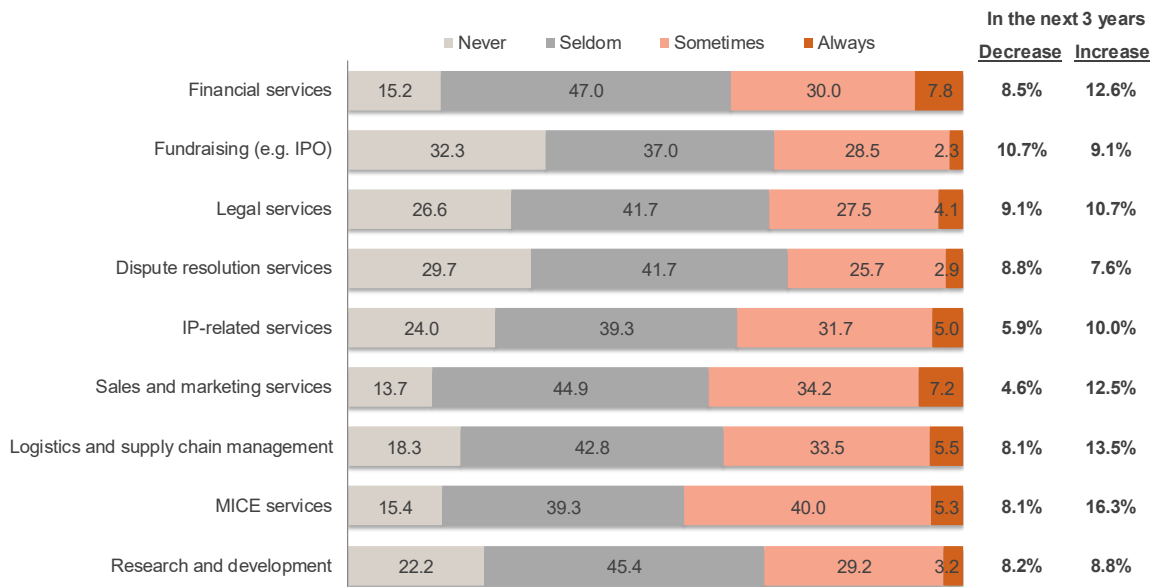
Where financial services are concerned, 56.6% of Hong Kong enterprises and 32.5% of mainland GBA enterprises indicated that they often or sometimes used these services. However, the frequency of using its fundraising service is lower than that of using general financial services, with just 38.5% of Hong Kong enterprises and 28.6% of mainland GBA enterprises saying they often or sometimes used this service. The frequency of using Hong Kong's fundraising service by enterprises that were already operating in ASEAN (34%) was 8.8 percentage points higher than that by enterprises that have not yet entered the ASEAN market. With regard to expected changes in using financial services in the next three years, 12.6% of the respondents said they would use Hong Kong's financial services more often, while 9.1% said they would use its fundraising service more often.



GBA enterprises should increase their use of Hong Kong services to better connect with overseas markets after the pandemic

GBA enterprises' frequency of, and expected changes in, using Hong Kong services to facilitate trade and investment activities in ASEAN

% of respondents, n=657



Service Category	GBA enterprises currently trading with or investing in ASEAN			GBA enterprises planning to enter ASEAN market in next 3 years		
	Decrease	No change	Increase	Decrease	No change	Increase
Financial services	10.1%	80.5%	9.4%	5.8%	76.0%	18.2%
Fundraising (e.g. IPO)	12.3%	79.3%	8.4%	7.9%	81.8%	10.3%
Legal services	10.1%	79.5%	10.4%	7.4%	81.4%	11.2%
Dispute resolution services	9.4%	84.6%	6.0%	7.9%	81.8%	10.3%
IP-related services	7.0%	84.1%	8.9%	4.1%	83.9%	12.0%
Sales and marketing services	4.3%	84.6%	11.1%	5.0%	80.2%	14.9%
Logistics and supply chain management	9.6%	79.3%	11.1%	5.4%	76.9%	17.8%
MICE services	9.9%	75.4%	14.7%	5.0%	76.0%	19.0%
Research and development	9.9%	83.4%	6.7%	5.4%	82.2%	12.4%

Source: HKTDC survey



Respondents were asked to rate the strengths of Hong Kong services in terms of variety, quality and price performance on a scale of 1-10, with 1 representing 'least satisfied' and 10 representing 'most satisfied'. The results showed that the respondents were most satisfied with the quality of Hong Kong services, followed by variety and price performance. Larger enterprises were more satisfied with the overall strengths of Hong Kong services. Among the many services, GBA-based enterprises were particularly satisfied with business and professional services, the quality of which secured an average score of 7.42, followed closely by financial services (7.38) and e-commerce (7.25).

For financial services, variety and price performance took the lead by scoring 7.31 and 7.21, respectively. It was found during the survey's in-depth interviews that the majority of respondents have more or less used Hong Kong's financial services in the course of expanding into overseas markets.

Song Yang, Vice President of *Pongo (Shenzhen) Technology Co Ltd*, a company in Shenzhen providing content marketing services to mainland brands, commended Hong Kong for its highly efficient trading activities and low foreign exchange risks, and said the company uses the cross-border clearing services available in Hong Kong to conduct transactions with foreign business partners. Meanwhile, *Guangdong Haid Group*, an enterprise in Guangzhou manufacturing feedstuffs and agricultural and animal husbandry products, uses Hong Kong as its corporate treasury centre to handle the funds and financing of the group.

However, the respondents' rating of Hong Kong's services relating to innovation and technology was less favourable. Service quality scored an average of just 7.05 while service variety and price performance scored 6.9 and 6.86, respectively, slightly lower than other services.

✓ GBA enterprises value Hong Kong services highly

GBA enterprises' ratings of Hong Kong services

Average satisfaction rating (scale of 1-10), n=657



Note: Respondents were asked to rate each aspect on a scale of 1-10, with 1 representing 'least satisfied' and 10 representing 'most satisfied'.
Source: HKTDC survey



A Hong Kong Consumer Brand's Organic Expansion into the ASEAN Market

*Interview with Eva Tsang,
Executive Director of Opal Cosmetics Group Limited*



Connections built up through Opal Group's Hong Kong operations over the years help the business to keep abreast of the latest industry trends. We now hope to market the "Hong Kong brand" to the world.



The rapidly growing markets of Southeast Asia have been attracting keen interest from major brands looking to gain a foothold. *Opal Cosmetics Group Limited*, a Hong Kong manufacturer of personal care and beauty products, has expanded its operation from producing its own branded goods to providing one-stop OEM solutions and services. Opal has been in business for 27 years, with operations in Hong Kong and research and development and production based on the mainland, turning out goods for export to 27 countries and territories. As a leading company in the industry, it is gradually shifting its focus to Southeast Asia, exploring the possibilities of introducing its brand to the international arena.

Potential market

Opal has been selling into Southeast Asia for more than 15 years. According to Executive Director Eva Tsang, the Group did not make a deliberate move to tap into the Southeast Asian market at the beginning. Expanding on this, she says: "As a popular tourist destination, Hong Kong attracts many visitors who buy our products and take them back to their hometowns. As a result, *Opal* products became known in the region." The spending power of Southeast Asia has been catching up with that of first-tier mainland cities as the region's middle class grows in size. The rapid growth of e-commerce together with the increased spending have made it a hotly contested market for many multinational companies, including *Opal*.

The population of Southeast Asia is huge in size and skews relatively young – a demographic *Opal* particularly targets. Explaining this strategy, Tsang says: "In the past, established brands were noted for their quality. Modern society, however, is awash with material goods, and consumers are keener than ever to pursue youth brands and innovative products."



In view of this, *Opal* has been focusing its efforts on innovation and has registered 83 patents so far.

It is relatively easy for companies in Asia and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) to sell into the Southeast Asian market. As the climate and lifestyle in ASEAN are similar to Hong Kong, selling to this market does not call for any substantial modification to the company's personal care products already available in Hong Kong and on the mainland market. By contrast, export to the US and UK would involve major changes. For example, *Opal's* popular bodywash products may have to be replaced by bubble bath bombs and scented soaps for bathtub use. The operational model for the ASEAN market therefore saves *Opal* the massive input of resources required for setting up new production lines.

With regard to external development, Tsang emphasised that brand building must come first when it comes to fostering trust in the brand among local consumers. When a brand has built up its influence and reputation, it becomes easier to open up new markets. When *Opal* entered the Southeast Asian market, it hired local marketing and design companies to manage promotion, and then set up flagship stores on local e-commerce platforms.

Cultural differences

The cultural differences between Hong Kong and the Southeast Asian countries have, however, presented challenges to *Opal*. With specific regard to the issue of Halal compliance. Tsang said: "Take Indonesia as an example. Exporting products to the market requires Halal certification. Halal and non-Halal products are displayed separately in supermarkets. Most shoppers will not even approach non-Halal shelves, so non-Halal products can hardly sell well in local outlets."

Outlining the complex process involved with securing Halal certification, Tsang said: "Many elements of the production process require special attention. All parts of the production

plant must fully meet the requirements before Halal certification is granted. Once acquired, though, the certification will cover different regions. For example, the Halal certification acquired by *Opal* in Malaysia is also applicable to Indonesia."

Detailing the impact of *Covid-19* on the company's operations, Tsang said: "We launched a three-year business plan for entering the Southeast Asian market in 2019. Although the plan was subsequently put on hold, we have pressed on with full force in making all necessary preparations for its resumption once the pandemic eases. This has seen us completing the registrations of 35 trademarks and more than 200 sub-trademarks in a number of countries, including Indonesia, Malaysia, Singapore and Thailand."

Legal support

Drawing on experience of more than a decade in the Southeast Asian region, Tsang believes that businesses looking to enter the market should seek more local advice. Outlining the benefits, she said: "Local regulations sometimes lack clarity, with different countries having different laws and requirements. For instance, some ASEAN countries require foreign companies to hire a certain percentage of staff from the local workforce. Trademark ownership after registration is also different to that of Hong Kong. We have also hired some Malaysians with relevant experience to help with our application for Halal certification. Overall, including locals in the team is highly recommended as we rely heavily on the information they provide."

Besides working with local people, Tsang often takes legal advice from her team of Hong Kong lawyers. Hong Kong has globally renowned law firms and its lawyers have helped her solve many legal problems. Intellectual property issues, for instance, are handled by legal specialists in Hong Kong or on the mainland, with the support of Southeast Asian lawyers to help with local government applications.



Other connections built up through *Opal Group's* Hong Kong operations over the years help the business to keep abreast of the latest industry trends. According to Tsang, industry players in Hong Kong have been actively building up industry networks, creating a diversity of trade associations. The *Cosmetics and Perfumery Association of Hong Kong*, the *Association of HKS Marketing Promoters* and others all provide platforms for regular exchanges between industry players and brands.

As yet, *Opal* has not set up a physical presence in Southeast Asia, with its logistics, warehousing and distribution needs all mainly entrusted to local partners. In choosing these partners, *Opal* prefers local companies set up by Hong Kong enterprises to ensure smooth communication between both parties. Detailing this thinking behind this, she says: "Hong Kong has a more mature talent development system, and people trained in Hong Kong are biliterate or trilingual and can be more flexible when conducting business."

Overall, Tsang expressed great satisfaction with the services provided by banks in Hong Kong, saying: "As we are exporting goods to 27 countries and territories, our receipts and payments naturally involve many different currencies. Thanks to the banks in Hong Kong, we can always exchange the respective currencies for US dollars promptly and conveniently. The banking sector here also has a great deal of experience in cross-border fund transfers, which helps to put our minds at ease."

The Hong Kong brand

"Market operational models are changing continuously, and the current trend puts an emphasis on brand building," said Tsang. Explaining how this applied to the cosmetics sector, she continued: "Japanese cosmetics are most associated with 'young girls' and 'natural nude looks', whereas Korea has created an 'instant makeup' trend. To date, Hong Kong cosmetic products do not have any similarly strong associations. Lacking an established reputation, this will make it difficult for its brands to impress new markets."

While the local industry needs to work harder on this, such a phenomenon is not unique to the cosmetics sector, but relates to the whole of Hong Kong in terms of brand and image. Tsang, therefore, hopes that the Hong Kong government, the city's business associations and other organisations will assist the industry in gaining wider exposure, while providing market information and organising overseas commercial activities, with a view to supporting the industry in its bid to market the "Hong Kong brand" to the world.

Noting that the *Regional Comprehensive Economic Partnership (RCEP)* agreement was signed last year and that the *Hong Kong-ASEAN Free Trade Agreement* came into full force earlier this year, she looks forward to these two treaties boosting China-ASEAN ties, a development that would add impetus to *Opal's* expansion plans within the Southeast Asian market. With regard to the GBA, she also hopes to capitalise on the features of different GBA cities and draw on their local talents to lay a solid foundation for the long-term development of the *Opal Group*.



Shenzhen Content Marketers Take Mainland Companies Global

*Interview with Song Yang,
Vice President of Pongo (Shenzhen) Technology Co Ltd*



In the face of hurdles encountered in cross-border settlement, Hong Kong offers us a range of options in financial services, allowing the company to adjust our financial strategies flexibly.

By so doing, we can achieve a balance in remittance frequency and in tax matters, thus minimising our loss.



Southeast Asia's robust consumer market is a magnet for overseas brands. Established in April 2020, *Pongo (Shenzhen) Technology Co Ltd (Pongoshare)* specialises in one-stop content marketing services, helping emerging mainland brands to tap overseas markets. Its business is closely related to the development of e-commerce. At present, the start-up's activity covers Hong Kong, Southeast Asia, Europe and North America.

In an interview with *HKTDC Research*, the company's Vice President, Song Yang, shared his views on this fast-changing sector and the opportunities it creates. He pointed out that in view of rapid ASEAN development in recent years, *Pongoshare* has set up localised specialist teams to grow its business in the ASEAN market. He added that the full range of financial products offered by Hong Kong can meet the company's demand for cross-border settlement services.

First overseas target

Pongoshare operates an online service platform connecting mainland brands with online influencers overseas. By offering content marketing services on overseas social media websites, the company helps mainland brands build a name rapidly in overseas markets, enhance brand value and increase sales. Currently, over half of the company's clients are manufacturers-turned-brand owners, while some other clients are bigger brands or those already with a presence in overseas markets that need further brand building.

ASEAN is a major market for *Pongoshare*, whose business spans Singapore, Indonesia, Thailand, Malaysia, Vietnam and the Philippines. Currently, the company's three specialist teams in Singapore, Indonesia and Thailand take charge of business expansion in Southeast Asia. Song explained the company's selection of office location, saying: "Singapore has



▲ *Pongoshare* connects mainland brands with online influencers overseas. By offering content marketing services on overseas social media websites, the company helps mainland brands build a name rapidly in overseas markets.

in place sound infrastructure facilities and legal and management systems. We are also operating overseas logistics warehouses there to pave the way for future business expansion in Southeast Asia.”

Song reckoned that as ASEAN has grown rapidly in recent years, business opportunities abound in the region, saying: “Compared with other overseas markets, ASEAN is undoubtedly the most suitable for mainland enterprises in terms of the growth potential of e-commerce, policy continuity, receptiveness to mainland brands, and cultural affinity. At present most mainland brands seeking business expansion overseas make Southeast Asia their first stop before moving into more mature markets such as Europe and North America.

“However, certain countries in ASEAN, in particular Indonesia, are constantly adjusting their e-commerce policies in order to support the local industry. In response, *Pongoshare* adjusts our business model to keep pace with

these policy changes, thus the impact on the company’s business growth has been limited so far.”

Localised operations

Elaborating on the key to developing the ASEAN market, Song said localisation is the buzzword: “As the core business of *Pongoshare* is content marketing, we tackle competition from local cross-border e-commerce operators in ASEAN countries by setting up specialist teams comprising local staff who know their consumer markets well. When we set up our Indonesian team, we first recruited Indonesian staff in Shenzhen and trained them before dispatching them back to their home country to build a local team.

“In other words, the whole team is made up of local staff right from the management to the working level. Besides, since the labour cost in Southeast Asia is lower than that on the mainland, this can help alleviate the pressure on operating costs.”



In Song's opinion local staff not only have a good understanding of the Chinese mainland market, including the development of the internet economy and e-commerce economy, but are also familiar with the current Southeast Asian market. The staff training programme provided by *Pongoshare* is designed to meet the development needs of the company. He said: "While some competitors also adopt a localisation strategy, they do not know the China market well enough. This might result in ineffective communication between the teams in different countries."

As trade and commerce between China and ASEAN continues to grow, Song projected that there will be strong demand for personnel who know both the Chinese mainland and Southeast Asian markets well. However, *Covid-19* has disrupted people flow across different countries and hampered the progress of *Pongoshare's* localisation drive in Southeast Asia. In view of the fact that both the education and internationalisation levels in Hong Kong are much higher than those in the mainland, Song hoped that the company will be able to recruit the right international talent through Hong Kong in the days to come.

Preferred financial platform

Pongoshare's business network spreads across several countries and as such the company has great demand for cross-border settlement. Song explained, saying: "The online influencers co-operating with us come from various countries around the world. The time and frequency of account settlement for each one of them is not quite the same. In particular, in B2C (business-to-consumer) business, the single transaction handling fee is much higher than the settlement fee. This, coupled with exchange rate fluctuations, can often result in foreign exchange loss."

In view of this, *Pongoshare* uses its Hong Kong offshoot to centralise financial management. Song pointed out that the company currently works with a number of banks in Hong Kong which can not only handle both B2C and B2B transactions, but can also offer fast and highly

efficient settlement service. He said: "In the face of hurdles encountered in cross-border settlement, Hong Kong offers us a range of options in financial services, allowing the company to adjust our financial strategies flexibly. By so doing, we can achieve a balance in remittance frequency and in tax matters, thus minimising our loss."

As *Pongoshare* is headquartered in Shenzhen with a high concentration of clients in the Greater Bay Area (GBA), when the company chooses its bankers, special emphasis is placed on their branch networks in the GBA, where they can provide a host of financial services in the region ranging from salary settlement, to wealth management to offshore payments and receipts.

Song had high praise for Hong Kong banks for their proactive support. He cited an example, saying: "Currently as our company is still in its early stage of development, we tend to attach more importance to cash flow and would not consider investing in products hedging against exchange rate risk for the time being. But some banks have already approached us and made some recommendations. We will certainly give this idea serious thoughts after we have completed our next round of financing."

Building stronger ties

Song also named legal services as a Hong Kong advantage. He said: "Since our business partners are in overseas countries, our company faces certain legal risks. Basically, we use Hong Kong law firms to handle legal matters in these markets for us. They are well-versed in the legal system in mainland China as well as having good knowledge about the legal systems, legal proceedings and the laws and regulations of Southeast Asian countries."

Hong Kong's trade and logistics sectors can also play a positive role in developing the Southeast Asian market. Song noted that when his company's business partners export goods to Southeast Asia, they mostly use Hong Kong as the transit centre for transshipping the goods to Singapore. He said: "Compared with the



export of goods directly from the mainland to Singapore, exporting via Hong Kong is preferred because its logistics and port services are more efficient and can actually save time and cost. Moreover, exhibitions in Hong Kong, such as the *Hong Kong Electronics Fair* organised by the *HKTDC*, provide an international platform for mainland brands to showcase their products and promote business.”

Song pointed out that quite a large number of mainland brands wishing to develop overseas markets have established a foothold in Hong Kong. As such, in the next five to 10 years, *Pongoshare* would certainly strengthen its ties with Hong Kong. He said: “We plan to use the VIE (Variable Interest Entity) structure to go public in Hong Kong, thereby shifting our business focus to Hong Kong.”

The e-commerce surge

As the *Covid-19* pandemic rages on in Southeast Asia, it has affected *Pongoshare's* business, such as delays in customs clearance of upstream logistics. However, in the long run, Song reckoned that the company's development stands to benefit from the pandemic. He said: “In the past, mainland brands mainly relied on agents in Southeast Asia to carry out preparatory work for overseas market development. But now, due to the pandemic, clients have started to seek online solutions.”

The pandemic has accelerated the growth of the internet and e-commerce in Southeast Asia's consumer market. First, since retail shops are closed at times, consumers have turned to online shopping. Second, Southeast Asian consumers seem to have adapted to online shopping within a short time. Song said: “Data shows that local online users are young people and the time they spend on online shopping is increasing day by day.” Looking to the future, Song is optimistic about the growth of e-commerce in Southeast Asia.



ASEAN Financial Services Embrace Digital Transformation

*Interview with Matthew Chen,
CEO of Sunline Holding (HK) Ltd*



We are a Shenzhen-based fintech company, and Hong Kong is undoubtedly our first choice for setting up our regional headquarters or capital centre for Southeast Asian countries.



Inclusive financing

Sunline Tech is one of the biggest fintech companies on the mainland. It has hundreds of clients, nearly 80% of which are banks. The remaining 20% include insurance and securities companies as well as financial and asset management institutions. It began venturing into ASEAN countries a few years ago and now has a business presence in seven countries, with subsidiaries in Malaysia, Thailand, Indonesia, the Philippines and Singapore. It has a joint venture business in Indonesia and has staff based in Vietnam.

In Chen's view, the large populations and underdeveloped banking services of ASEAN countries give *Sunline Tech* vast room for development. He explained: "For example, Indonesia is the most populous country in Southeast Asia. It has many small islands and people living on these islands have no access to banking services. Many people in Indonesia do not even have bank accounts. There is a great potential demand for financial services and fintech can help achieve inclusive financing in that country. We used our experience in developing internet finance



in mainland China over the past 10 and more years to open up the Southeast Asian market. We have developed nearly 20 banking clients in Southeast Asia in the past three years and have been rated as one of the leading fintech companies in the Asia-Pacific region by many international market research companies.”

Knowing the market

Sharing his years of experience in opening up the ASEAN market, Chen said: “Each ASEAN country has its own characteristics. Religious belief, cultural life and customs vary from country to country. It is necessary to fully understand these and do as the Romans do when in Rome. Singapore has the most mature financial industry, followed by Malaysia and Indonesia.” *Sunline Tech*’s employees in Southeast Asia today mainly come from Malaysia. Labour costs in Malaysia are lower than in Singapore. In addition, Malaysia has a large population of Chinese who can speak many languages, including English, Cantonese and Malay.

Chen has a profound understanding of the challenges involved in opening up the ASEAN markets. “We are a market leader on the mainland but are not well-known overseas, which makes it difficult for us to attract new clients. We also have difficulty recruiting fintech talent in these countries. Enterprises may find it advisable to approach overseas markets by seeking local partners, forming joint ventures or through acquisitions. Financial and tax matters pose another difficulty. Policies differ from one ASEAN country to another. Enterprises need to have a thorough understanding of local laws and restrictions when handling profits in different countries.”

Hong Kong as regional headquarters

Sunline Tech first ventured overseas in 2015 with Hong Kong as its first stop. At that time, it bought a Hong Kong company which had been dealing in forex trading software for more than 20 years. About 12 banks in Hong Kong used its software to support their forex trading. It set up *Sunline Holding (HK) Ltd* in Hong Kong after

this acquisition and gradually put all overseas and Hong Kong subsidiaries under the Hong Kong holding company.

Chen said he hoped the implementation of the current GBA policy incentives would strengthen Hong Kong’s role as the group’s regional headquarters. “Our present focus is on the development of a capital management centre for both forex management and cash management, especially the handling of exchange rate fluctuations and risks of different currencies. We are a Shenzhen-based fintech company, and Hong Kong is undoubtedly our first choice for setting up our regional headquarters or capital centre for Southeast Asian countries.” He made special reference to the services of *InvestHK* of the HKSAR government. “We have talked with *InvestHK* and other government agencies and they have recommended many other relevant organisations to us. Hong Kong’s vast commercial network is of great help in opening up overseas markets.”

On the other hand, Hong Kong is also the ideal place for *Sunline Tech*’s IPO listing of overseas business. “Hong Kong has an active capital market and many mainland fintech companies are hoping to get listed in Hong Kong. We plan to combine our overseas business for main board listing in Hong Kong and we are working in this direction.”

Empowering digital transformation

Chen said *Sunline Tech* is capitalising on the *Covid-19* pandemic to further expand its business. “Cash transactions are still common in many Southeast Asian countries. The pandemic has made the banking sector aware of the pressing nature of digital transformation and the need to tap the pool of potential clients. Cross-border trade between ASEAN countries also needs to go online. As this change involves payments, transfers and wealth management products, financial systems need to undergo transformation. *Sunline Tech* has seized this opportunity to assist banks in bringing their offline business online. Thanks to these and



other factors, our sales have increased during the pandemic.”

In future, *Sunline Tech* will continue to expand its Southeast Asian markets and take the opportunity offered by the Belt and Road Initiative to open up markets in the countries involved. “We are focusing our energies on Asia at present but we will continue to expand to

other regions in the future, and we hope to break into Africa through the Middle East. We have already established initial ties with local partners in several Middle Eastern countries. We hope to gain access to North Africa, South Africa and even the entire African continent through the United Arab Emirates and Saudi Arabia before looking to the Latin American markets.”



Enhancing Hong Kong's Super-Connector Role





Enhancing Hong Kong's Super-Connector Role

Hong Kong's connectivity with other GBA cities and that with ASEAN countries each has its own strengths, according to the survey findings. However, the two must connect effectively before Hong Kong can give full play to its role as the platform between the GBA and ASEAN facilitating two-way trade and investment flow.

When asked about the difficulties and challenges encountered when trading, investing or operating in the ASEAN region through Hong Kong, 34.1% of the respondents named "difficult to find the right talents understanding both the GBA and ASEAN markets" as one of the top three challenges, followed by "insufficient government support in attracting GBA investments" (32.4%). Some respondents were concerned about the increasing cost of doing business in Hong Kong (32.1%), with 13.4% of them ranking this as the greatest challenge.

Survey findings showed that enterprises that have not yet entered the ASEAN region were less knowledgeable about the local market and had a greater need for factors of production that could support their business both in the GBA and ASEAN. Among these enterprises, 36.4% said it was difficult to find the right talents understanding both the GBA and ASEAN markets, while 33.5% said it was hard to find the right service providers serving both markets.

But just 32.8% and 28% of enterprises currently operating in ASEAN held the same views, respectively. As respondents pointed out earlier that Hong Kong can offer sufficient service providers and talents for GBA-based enterprises and that Hong Kong has in place good availability of talents understanding the ASEAN market, this reflected that currently the channels for these Hong Kong service providers and talents to contact enterprises planning to expand into overseas markets have yet to be strengthened. Besides, among those enterprises that have already entered the ASEAN market, 35.2% reckoned the support given by the Hong Kong government to attract GBA investments is insufficient, 7.5 percentage points higher than that of enterprises that have not yet entered the ASEAN market.

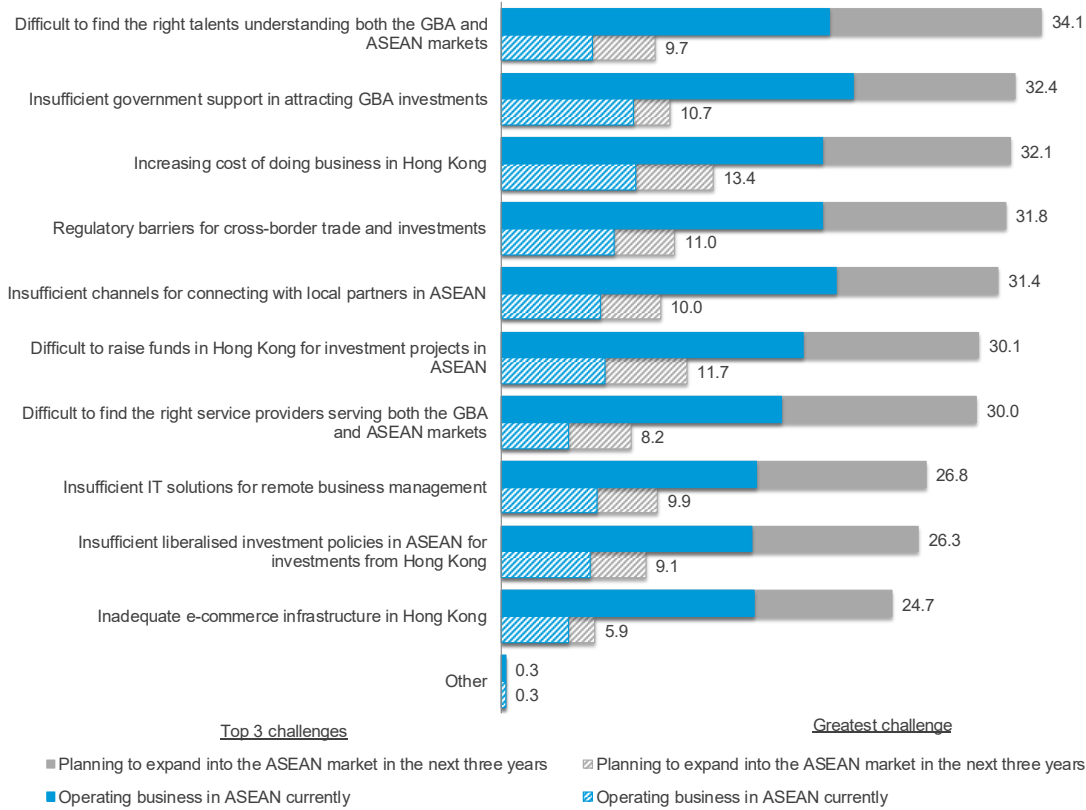
Comparing Hong Kong and mainland GBA enterprises, Hong Kong enterprises attached more importance to increasing cost of doing business in the city because their core business is in the SAR. Some 36.4% of them ranked increasing cost as one of the top three challenges, while just 30.9% of mainland GBA enterprises held the same view. While mainland GBA enterprises had greater need for talents understanding both the GBA and ASEAN markets (35%), just 30.8% of Hong Kong enterprises held the same view.



Companies yet to enter the ASEAN market have a greater need for the right talents and service providers that can support their businesses in both the GBA and ASEAN markets

Major difficulties and challenges faced by GBA enterprises when trading with, investing or operating in ASEAN through Hong Kong

% of respondents, n=657



	Consumer goods	Industrial goods	BPFS	RHC	TMT
Insufficient government support in attracting GBA investments	37.8%	30.6%	29.1%	34.5%	31.0%
Difficult to find the right talents understanding both the GBA and ASEAN markets	31.5%	36.9%	39.2%	30.3%	32.4%
Increasing cost of doing business in Hong Kong	30.6%	28.8%	29.7%	42.1%	28.2%
Regulatory barriers for cross-border trade and investments	32.4%	31.5%	30.4%	27.6%	37.3%

Note: Figures shaded in grey indicate the factors most frequently cited by respondents in a particular industry.

Source: HKTDC survey



Finally, respondents to the survey were asked to make suggestions about how Hong Kong can further improve its connectivity with other GBA cities and with ASEAN countries. On Hong Kong's connectivity with other GBA cities, the respondents hoped most strongly that Hong Kong could provide a one-stop business centre for GBA-based enterprises (41.6%). Some 15.4% of the respondents even ranked this as the most important aspect for improvement, believing it would help enterprises identify the best available services and talents in Hong Kong. The respondents hoped Hong Kong could promote tax simplification/harmonisation with other GBA cities (38.7%) as well as provide more diversified investment products and services (38.4%).

A greater proportion (42.7%) of Hong Kong enterprises – versus 37.5% of their mainland GBA counterparts -- hoped Hong Kong could enhance its role in promoting tax simplification/harmonisation with other GBA cities. On the other hand, 42.4% of mainland GBA enterprises hoped Hong Kong could provide a one-stop business centre for GBA-

based enterprises, while just 38.5% of their Hong Kong counterparts held the same view.

On Hong Kong's connectivity with ASEAN countries, the respondents hoped most strongly that Hong Kong could compile information on services available in the city for their overseas expansion (40.9%), as well as encourage co-ordination among public bodies/regulators with ASEAN (39.4%). Some 39.1% of the respondents hoped Hong Kong could formulate liberalised trade and investment policies with ASEAN countries, with 16% of them ranking this as the most important aspect that requires further improvement.

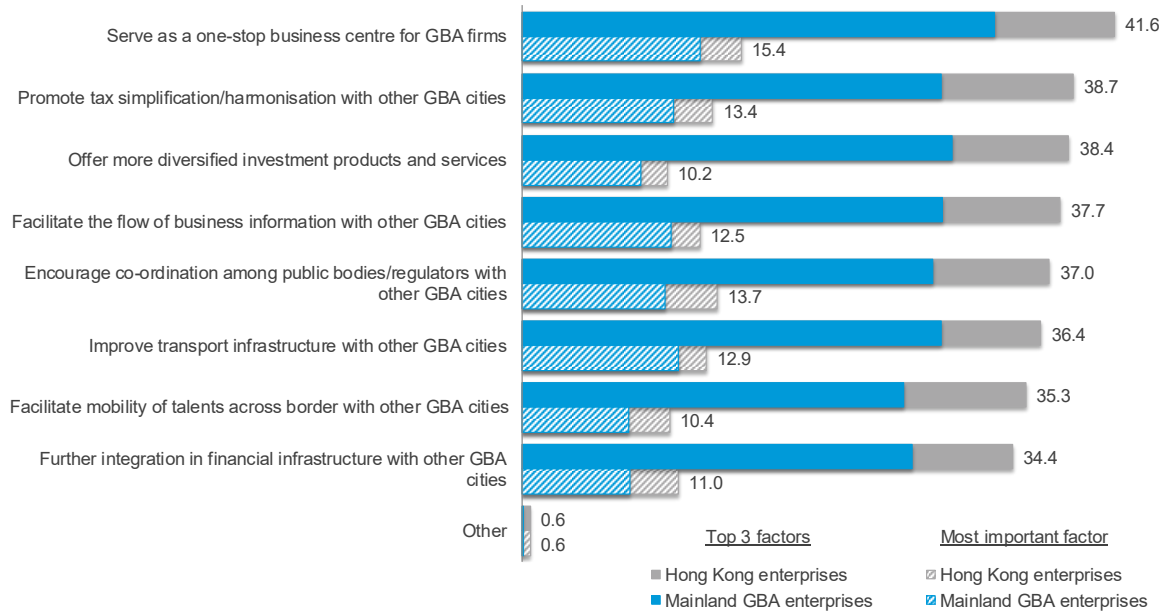
Comparing Hong Kong enterprises with mainland GBA enterprises, Hong Kong enterprises had greater need for information about the ASEAN market (44.1%), 7.9 percentage points higher than their mainland GBA counterparts. Meanwhile, 41.8% of mainland GBA enterprises hoped Hong Kong could compile information on services available for their overseas expansion, but just 37.8% of Hong Kong enterprises held the same view.



Respondents hope Hong Kong can serve as a one-stop business centre for GBA-based enterprises to help them identify the best available talents and services

Improving Hong Kong's connectivity with other GBA cities

% of respondents, n=657



	Hong Kong enterprises	Mainland GBA enterprises	Enterprises currently operating in ASEAN	Enterprises planning to enter ASEAN market in next 3 years
Promote tax simplification/ harmonisation with other GBA cities	42.7%	37.5%	36.4%	42.6%
Serve as a one-stop business centre for GBA firms	38.5%	42.4%	42.2%	40.5%

Note: Figures shaded in grey indicate the factors most frequently cited by respondents in a particular industry.

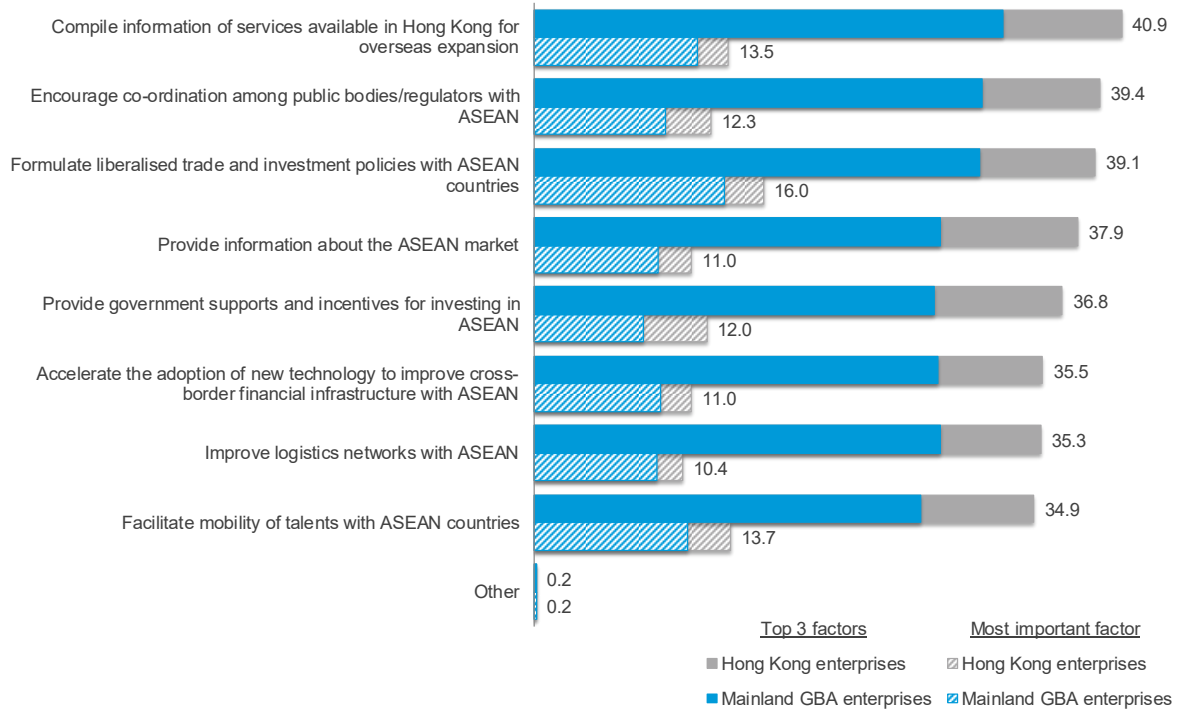
Source: HKTDC survey



Compilation of information on services available in Hong Kong for overseas expansion to help GBA-based enterprises better understand the advantages of the Hong Kong platform

Improving Hong Kong's connectivity with ASEAN countries

% of respondents, n=657



	Hong Kong enterprises	Mainland GBA enterprises	Enterprises currently operating in ASEAN	Enterprises planning to enter ASEAN market in next 3 years
Provide information about the ASEAN market	44.1%	36.2%	35.2%	42.6%
Compile information on services available in Hong Kong for overseas expansion	37.8%	41.8%	41.4%	40.1%
Encourage co-ordination among public bodies/regulators with ASEAN	37.8%	39.9%	41.4%	36.0%

Note: Figures shaded in grey indicate the factors most frequently cited by respondents in a particular industry.
Source: HKTDC survey



International Perspective Bolsters Legal Hub Status

*Interview with Janice Chew,
Principal of JC Legal*



The main advantage that Hong Kong's legal service providers have over their counterparts is their international perspective. Because of the trend towards globalisation, professional service providers must establish close ties with business partners in different countries.



As cross-border business between mainland China and ASEAN grows, Janice Chew, principal of law firm *JC Legal*, has witnessed rising demand for legal services relating to cross-border business. Working as a practising lawyer in Malaysia and Hong Kong for years, Chew has actively tapped this niche market, helping Hong Kong, mainland and Malaysian companies, especially small and medium-sized businesses, develop overseas markets. She believes that, because Hong Kong's legal service providers have an international perspective and a rich experience in handling cross-border legal matters, they are in an advantageous position to act as a platform bridging mainland China and ASEAN.

Targetting ASEAN

Chew has 14 years' experience of practicing law in Malaysia and Hong Kong. Noticing that cross-border business between the two places was on the rise, Chew set up *JC Legal* in Hong Kong in early 2018, to handle both contentious and non-contentious legal matters. Two years later, she set up *JC Corporate* in Malaysia. It specialises in cross-border commercial consultancy services, helping clients to establish companies in Malaysia, Hong Kong and other ASEAN countries, as well as offering services like business compliance, merger and acquisition (M&A), and trademark registration. Her clients come from various sectors, ranging from information technology, construction and fintech to food, logistics and e-commerce. Her companies offer an extensive range of cross-border legal services, including company secretarial services, work visas, licence applications, and listed company announcements. Adding that the services they provide cover even the more unusual circumstances, Chew recalled: "Once a client was involved in a cross-border payment fraud case. We helped the client report the case to the police and apply for court order to obtain the relevant information from the bank."



Chew pointed out that in the last decade or so, many large Chinese state-owned enterprises have established footholds in Singapore, which serve as their headquarters in Southeast Asia. However, there are not many successful cases of Malaysian companies establishing a presence in mainland China. Explaining why this is the case, Chew said: “Malaysian companies are greatly interested in the huge Chinese market, but many of their business attempts have failed due to a lack of market knowledge. While some of these companies subsequently set up operations in Hong Kong in order to gain a better understanding of the mainland market via Hong Kong, a greater number of them tend to seek growth in ASEAN countries such as Singapore, Indonesia, Vietnam and the Philippines, which are closer to them geographically and culturally.”

Currently, Chew’s clients are mainly from the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), many of them Hong Kong companies which want to enter the Malaysian market. The number of these clients surpasses the number of Malaysian companies coming to Hong Kong. Chew noted that in the past few years, she has often received enquiries from Hong Kong companies wanting to find out about the regulatory requirements for establishing factories, opening sales outlets and setting up joint ventures in Malaysia, saying: “Before the outbreak of *Covid-19*, many Hong Kong companies showed interest in setting up back-end office operations in Malaysia, including those in sectors such as information technology and accounting. During the pandemic, as e-commerce developed rapidly in Malaysia, some logistics companies also wanted to expand their business there.”

One of the reasons why Hong Kong companies have been looking towards Malaysia is that labour costs there are relatively low. Another factor is the *BUD Fund (Dedicated Fund on Branding, Upgrading and Domestic Sales)* set up by the Hong Kong government. This offers Hong Kong companies up to 50% of their total approved project cost when developing the ASEAN market. However, hit by the impact of *Covid-19* and the border control measures taken by various countries, Hong Kong

companies have put their plans on hold for the time being.

Bridge with mainland

Chew admits frankly that legal fees in Hong Kong are by no means low. One example of this is the cost of dispute resolution services. To file a lawsuit in Hong Kong, a client must instruct a solicitor and a barrister. Even though Malaysia, like Hong Kong, has modelled its legal system on that of the UK, there is no distinction there between a solicitor and barrister. This means that the legal fees for filing a lawsuit in Hong Kong could be double those in Malaysia. Chew pointed out that this is detrimental to attracting legal business to Hong Kong, saying: “Hardly any Southeast Asian company would file a lawsuit in Hong Kong unless it is a large multinational or it is participating in the capacity of a defendant.”

When it comes to using arbitration services, the most common disputes in Southeast Asia are those involving sub-contracts of construction projects. Chew explained that Southeast Asian companies normally choose Singapore as the place of arbitration, saying: “Both Hong Kong and Singapore are leading arbitration centres in Asia. However, since Singapore is situated in the heart of Southeast Asia, for Southeast Asian companies it is culturally closer. Moreover, in recent years the Singapore government has been proactively developing and promoting its arbitration service as being fast and highly efficient, winning the favour of Southeast Asian businesses.”

However, Chew believes that despite this, Hong Kong is in an advantageous position to act as the bridge between mainland China and ASEAN. Firstly, there are not many law firms in the mainland which can provide clients with information on ASEAN markets, particularly Thailand, Myanmar, Vietnam and Cambodia where the Chinese language is not commonly used. Secondly, the cultural gap between the mainland and ASEAN is quite big. Underlining the importance of this point, Chew said: “Both Hong Kong and Malaysia have adopted a judicial system modelled on the British and American legal systems. Hong Kong lawyers



are well-versed in common law, as well as being familiar with the mainland market.”

In comparing the legal services in Hong Kong, the mainland and Malaysia, Chew remarked that Hong Kong lawyers are more prudent. They provide conservative legal advice, use precedent cases for reference, and analyse risks carefully for clients so as to prevent them from suffering losses. Chew suggested that Hong Kong lawyers should co-operate more with their counterparts in the mainland and Malaysia as this can ensure that their clients are provided with sounder legal advice.

However, the main advantage that Hong Kong’s legal service providers have over their counterparts is, in Chew’s opinion, their international perspective. Hong Kong has attracted a large pool of talent from all over the world and local lawyers can get in touch with clients from various countries. In providing clients with legal services locally, Hong Kong lawyers also have the opportunity of gaining experience in handling cross-border legal matters. Chew added that because of the trend towards globalisation, professional service providers must establish close ties with business partners in different countries in order to provide global one-stop legal services to businesses wishing to expand overseas. Chew believes that in the coming two to three years, as the pandemic eases off, cross-border trade is bound to revive, creating great opportunities for the Hong Kong professional service sector.



Flexible Cross-Border Financial Solutions Help Businesses Explore New Markets

*Interview with Christine Ip,
Greater China CEO of United Overseas Bank Limited*



As the GBA moves up the value chain, businesses are eager to explore new markets. We are set to do our best to serve as the bridge between ASEAN and China, helping businesses seize opportunities arising therefrom.



Established in Singapore in 1935, *United Overseas Bank (UOB)* opened its first overseas branch in Hong Kong in 1965, testifying to the development of trade between ASEAN and China. With the objective of connecting ASEAN with China, the bank offers custom-made cross-border financial solutions to its corporate clients. Christine Ip, CEO – Greater China, *UOB*, pointed out that Hong Kong is an ideal financing platform for enterprises in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) wishing to tap the Southeast Asian market.

Extensive network

UOB was established by Chinese businessmen immigrating to Singapore who wished to serve the population there. Since then, it has set up around 500 offices in 19 countries in the Asia-Pacific, Europe and North America. The bank's network in ASEAN is the most extensive among its peers, with outlets covering eight member countries including Singapore, Malaysia, Thailand, Vietnam, Indonesia, the Philippines, Myanmar and Brunei.

Based on the strong sense of Chinese culture, the bank has in recent years been devoting great efforts to expanding its business in China. To date, *UOB* has opened 13 outlets in mainland China spreading from Beijing, Shenyang, Tianjin, Shanghai, Suzhou, Hangzhou, Chongqing, Chengdu, to Kunming, Xiamen, Shenzhen, Guangzhou and Zhongshan. Ip said: "We attach great importance to developments in China, from the *Belt and Road Initiative* to the GBA plan now."

Ip joined *UOB* in 2011 and recalled that at the time mainland companies entering the Southeast Asian market were mainly state-owned enterprises. She said: "Investors from China were neither knowledgeable about the Southeast Asian market nor too keen on the investment opportunities there. It was not until about five or six years ago when mainland China started to move towards high-end sectors, such as finance, professional services and hotels, and operating cost in the mainland began to rise that medium and low-end manufacturing industries,



such as textiles and electronics, gradually shifted to Southeast Asia in search of new markets.”

According to Ip, when mainland enterprises develop the Southeast Asian market, their major concern is preferential tax policies, land price, labour cost, and personnel supply. She noted that some countries are better suited to the needs of certain sectors, saying: “Since each country or region in Southeast Asia offers different policy concessions to selected industries, the footholds established by mainland enterprises in that market are scattered. Currently Vietnam and Malaysia are popular investment destinations, while Singapore is more attractive for projects such as asset management, financing, and merger and acquisition (M&A).”

One-stop services

To help corporate clients expand cross-border business, *UOB* set up a foreign direct investment (FDI) advisory unit in 2011 and opened 10 FDI centres in Asia spanning Hong Kong, mainland China, Singapore, Thailand, Malaysia, Indonesia, Vietnam, Myanmar, India and Japan.

Ip described *UOB*'s approach in introducing a client to a new market, saying: “In order to offer assistance to clients, our FDI advisory team first gains an understanding of their needs. In doing so, the local customer managers act as ‘tour guides’ and brief clients on the local government business development department and related organisations, as well as introduce them to reliable and creditable lawyers, accountants and other professional service providers.

“After the client has completed all procedures for starting business, the bank would then gain a deeper understanding of its business process and trading mode, such as major transaction currencies, so that a custom-made financial solution can be designed to help the client meet financing and financial needs.”

To illustrate this, Ip cited an example, saying: “Last year during the *Covid-19* outbreak, a

mainland client wanted to start business in Malaysia. However, due to border control measures, the client could not go to Malaysia in person to apply for business licences.

“*UOB*'s FDI advisory team contacted the *Malaysian Investment Development Authority* on behalf of the client and helped handle all processes necessary for starting business. Subsequently, the client managed to successfully start trading according to schedule and the development plan was not delayed by the pandemic.”

Also, in recent years, in the face of geopolitical challenges, Ip has come across many GBA corporate clients who wished to set up a second regional centre outside China. *UOB* helps these clients streamline the necessary processes and ensures that they meet local requirements.

Flexible cross-border solutions

As cross-border business between mainland China and ASEAN continues to grow, the demand by businesses for all kinds of financial solutions, such as trade financing and cross-border payment, is strong. Ip gave an example, saying: “In view of the fact that remittance of renminbi in and out of the mainland is subject to restrictions by the relevant regulations, *UOB* provides global capital management for clients, which can help ensure effective capital circulation. To overcome exchange rate fluctuations in Southeast Asian currencies, the bank offers related structured products and capital arrangements to clients.”

Ip sees Hong Kong and Singapore as vital to her company's business. She said: “Hong Kong and Singapore are two leading financial centres of Asia. The two cities complement each other. *UOB*'s strengths lie in its Hong Kong, mainland and ASEAN teams, which work closely together and are well-versed in the market developments of the region. As such, we can provide clients with a comprehensive range of flexible financial services and products like swap loan solutions.

“Generally speaking, *UOB* would examine a client's long-term investment plan and assess



its goodwill as well as the feasibility of its investment plan and its business prospects. The bank would then, according to the actual needs of the client, allocate a portion of the locally approved loan to support the client's investment plan in overseas markets. Moreover, *UOB* supports multiple currencies which can help clients lower foreign exchange risks."

In the face of today's rapidly changing environment, *UOB* encourages job rotation allowing its staff to work in different posts so as to keep abreast of market development trends. Ip said: "Whenever new regulations are introduced, the bank analyses their impact on its clients and organises talks to explain the latest developments to clients. In recent years, as there are calls around the world for reducing carbon emissions and promoting sustainable investment, *UOB* has set up a dedicated team responsible for monitoring these developments in order to ensure that its clients meet the new regulations imposed by the relevant regulatory bodies."

Win-win situation

Ip remarked that the challenges faced by clients from mainland China developing the Southeast Asian market are differences in language, religion and lifestyle. In light of this, the support given by *UOB* to its clients is unlike its peers, who merely provide financial services and products. She said: "*UOB* aims to serve as the clients' 'local guide' during the whole process of cross-border business expansion and identify

opportunities together. We offer complimentary advisory service to both mainland enterprises 'going out' and Southeast Asian enterprises entering the Chinese market.

"Of course, we hope these clients still choose our services afterwards, but compared to reaping immediate benefit, we are more eager to establish stable, long-term relationships with clients. As a matter of fact, in the course of helping our clients, we also find unique opportunities. For instance, once a client in Southeast Asia came across operational difficulties and wished to sell his business. We then helped by finding a GBA enterprise to acquire his business, which prevented his bank loan from turning into bad debt. This finally resulted in a win-win situation."

Ip follows GBA development closely, watching out for business opportunities generated by the synergies between the various GBA cities. She is also positive that a number of new policies, such as the *Wealth Management Connect* and the development of Qianhai, will create opportunities. She pointed out that *UOB* has already built a strong network in the GBA, relying on the outlets in Zhongshan, Shenzhen and Guangzhou to serve enterprises within the area. She said: "As the GBA moves up the value chain, businesses are eager to explore new markets. We are set to do our best to serve as the bridge between ASEAN and China, helping businesses seize opportunities arising therefrom."



Hong Kong as a Corporate Treasury and Trade Centre

Interview with Ding Baoli,

Treasury Director of Guangdong Haid Group Co Ltd



As Hong Kong is an open financial market with a full range of services and no foreign exchange control, it offers great advantages to the group as the base for managing and allocating funds to and from various places.



In recent years, while the economy of Southeast Asian countries has been growing in leaps and bounds, agriculture remains the main pillar of the economy across the region. To propel local agriculture further towards modernisation the use of advanced feedstuffs and animal husbandry products is essential. *Guangdong Haid Group Co*, established in Guangzhou in 1998, ventured into the aquatic and livestock feeds market in Vietnam and Malaysia over 10 years ago and has since gradually formed a local supply chain as well as developed into a leading feedstuffs manufacturer and provider in Southeast Asia.

In an interview with *HKTDC Research*, Ding Baoli, Treasury Director of *Guangdong Haid Group*, said that in the face of the complexity involved in operating business on a multinational level, the financial and trade services offered by Hong Kong play an important role in the company's development in overseas markets. He predicted that in the years to come the group will rely more on Hong Kong as its treasury centre and trade centre.

Southeast Asian agriculture generates opportunities

Haid's business scope spans the upstream and downstream of the agriculture and livestock industry chain. This includes the development, production and sales of all kinds of feedstuffs, seedlings and biopharmaceuticals, as well as the distribution of animal husbandry and food products.

Haid holds a leading position in the global feedstuffs industry. At present, about 10% of the group's total revenue comes from overseas markets, such as Southeast Asian countries, South Asia, North Africa and South America. With more than 40 overseas offices, the group distributes its investment according to the scale and characteristics of the agricultural development in each country. Ding explained, saying: "In many Southeast Asian countries, agricultural products are important export commodities. As such, the size of their agriculture and livestock market is huge, offering opportunities for our group to set up production bases there."



In view of the fact that the production and transportation cycles of feedstuffs are short, *Haid* found it necessary to build production lines locally to make products supplied to clients within a radius of several hundred km through the local sales networks. Ding said: “When we tapped into the Southeast Asian market about 10 years ago we acquired a local factory in Vietnam as early as 2011.”

Today, *Haid* has not only grown and built up its brand in Vietnam’s aqua feed market, but has also expanded into the livestock feedstuffs, aquatic seedlings and animal healthcare products markets. Ding said: “Riding on the experience accumulated in Vietnam, we moved into other Southeast Asian countries, setting up feedstuff production bases in Indonesia and Malaysia as well as establishing extensive local sales networks.”

Localisation strategy

In its business expansion in ASEAN, *Haid* has inevitably come across challenges. First and foremost are the strict supervision and low administrative efficiency of local governments. Ding gave an example saying: “When the group invests in building production bases in the region we have to go through such procedures as land purchase, calls for tender for factory construction, application for environmental compliance and water and power supply, as well as daily operations. We have to make frequent communications with the relevant local government departments in order to ensure that the project can proceed smoothly.”

ASEAN countries in general exercise tight control over cross-border capital flow. For example, any capital flow under the trade account must be accompanied by a detailed record of the trade transaction, while any investment-related debit or credit entry under the capital account must be examined and approved by the central bank. Moreover, the difference between Southeast Asian countries and mainland China in terms of business environment and business practices, such as workplace culture and labour laws, has also posed challenges to the group.

However, Ding saw *Haid*’s investment and business operations in ASEAN as smooth on the whole. He said: “By adopting a prudent investment strategy, the group would, in the initial stage of each investment plan, conduct an in-depth study to gain an understanding of the opportunities, investment rules, laws and regulations, tax system and labour policies of the local market. We also pay attention to the land use of the site selected for building the production base.”

In addition, localisation is the cornerstone of *Haid*’s business strategy in overseas markets. The group plans and invests in production bases construction and, upon completion, implements localisation of production, sourcing, sales and operation. Ding said: “In particular, the employment of local staff as core members of the production and sales teams helps us enter the local market and respond to the demands of clients rapidly.”

On the basis of localised operations, the group devotes great efforts to combining its advantages and experiences, with headquarters responsible for co-ordinating R&D, sourcing and financial planning, in a bid to enhance its business competitiveness in the local market.

Hong Kong services support overseas expansion

Haid started business operations in Hong Kong more than 10 years ago. While the group used Hong Kong as a platform for making investment overseas in the early years, it has been relying more on Hong Kong as a corporate treasury centre in recent years. Ding said: “As Hong Kong is an open financial market with a full range of services and no foreign exchange control, it offers great advantages to the group as the base for managing and allocating funds to and from various places. Moreover, as capital flows between Hong Kong and the mainland are becoming increasingly frequent and Hong Kong offers a diversity of financial products such as cross-border capital pools, it can greatly facilitate the group’s capital flows between the two places.”



Starting in 2018, benefiting from the concessionary policies for corporate treasury centres introduced by the Hong Kong government, *Haid* has had its income tax reduced by half upon certification by the *Monetary Authority* as a qualified corporate treasury centre. Ding made particular reference to the exchange rate hedging products available in Hong Kong which help *Haid* guard against exchange rate fluctuations, and allowing the group to centralise foreign exchange risk management through Hong Kong.

With regard to operating funds for overseas business, *Haid* mainly raises funds from two channels: either borrowing in Hong Kong for projects in overseas market, or raise funds directly in the overseas market, depending on the foreign exchange risks and financing costs in the investment destination. Ding said: “Since the Hong Kong dollar is pegged to the US dollar and financing costs in Hong Kong are low, when *Haid* invests in countries where exchange rate is relatively stable or foreign exchange control is more relaxed, the total costs of obtaining US dollar loans in Hong Kong are lower than obtaining loans in those countries. At present, about 30% of our foreign financing takes place in Hong Kong. We expect that this share will rise further in the years to come.”

On the trading front, Hong Kong has extensive networks, a large pool of talent and rich business experience where sourcing, logistics and offshore trade management are concerned. Since the raw materials for producing feedstuffs, such as maize, soybeans and fish powder, mostly come from foreign countries, such as the US, Brazil and Peru, imports currently account

for 30% of *Haid*'s raw materials. In view of this, the company established a global sourcing centre in Hong Kong some years ago to centralise the sourcing of raw materials from around the world in a move to strengthen its bargaining power. Ding said: “By combining our corporate treasury centre and trade centre, the group can use the many methods of financing available in Hong Kong, such as working capital loans and letters of credit, to meet the demand for fast cash flow in raw materials trade.”

Hong Kong's competitiveness

Looking to the future, Ding predicted that in the years to come *Haid* will rely more on Hong Kong as its corporate treasury centre and trade centre, especially on Hong Kong's function as a financing platform. He hoped Hong Kong could forge closer business ties with Southeast Asia, such as signing comprehensive avoidance of double taxation agreements with more ASEAN countries as well as striving to join the *Regional Comprehensive Economic Partnership (RCEP)*, so as to connect further with ASEAN in trade and financial activities which will in turn enhance its competitiveness.

Ding pointed out that Hong Kong stands to benefit immensely from policies in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), saying: “We expect that mainland GBA cities will make further breakthroughs in the cross-border flow of professionals and funds. We're hopeful that Hong Kong can capture the opportunities arising from the GBA, especially in foreign exchange and currency clearing systems, enhance its role and provide better facilitation so that *Haid* can continue to use the SAR to expand our business.”



Hong Kong Power System Integrator Going Green with Aid of Green Finance

Interview with Ambrose Lee,

Chief Strategy Officer and Head of Capital Markets/Corporate Finance of Vpower Group Holdings Limited



Hong Kong's robust and mature financing systems, means that greater efforts can be made by companies like VPower to promote sustainable development and contribute to Hong Kong's carbon neutrality target.



In the face of climate change, the world is focusing its attention on sustainable development and the energy industry. *VPower Group Holdings Limited* is Southeast Asia's largest private gas-fired engine-based DPG (distributed power generation) station owner and operator. The company secured its first sustainability-linked loan this year. Ambrose Lee, Chief Strategy Officer and Head of Capital Markets/Corporate Finance, welcomes Hong Kong's growing interest in sustainable development, and believes local financing can help businesses go green and expand.

From China to Southeast Asia

VPower is engaged in DPG with two main business arms. The first covers design, integration and sale of gen-sets and power generation systems, while the second concentrates on investing in, building and operating DPG stations.

Lee recalled that when it was first established, *VPower* focused on offering power systems integration on the mainland. Some 20 years ago, Hong Kong companies flocked north to set up factories in Guangdong province, pushing the mainland power grids beyond their capacity. *VPower* then started selling gen-sets to factories seeking a stable electricity supply. Later, mid- to high-end customers such as data centres, shipbuilding companies and major shopping malls became the company's targets.

Having accumulated experience, technologies and talent in power systems integration, *VPower* began to invest in and build DPG stations in 2012, venturing first into Indonesia. The company is currently operating power generation projects in China, Indonesia, Myanmar, Sri Lanka, Peru, Brazil and the UK.



In 2020, close to half of *VPower's* turnover came from Southeast Asian countries, while 30% was from China. The company is now Asia's largest and the world's fifth biggest gen-set system integration provider as well as Asia's leading DPG station owner and operator.



▲ *VPower's* power generation systems are designed to be “plug-and-play”, which can be easily deployed to most locations, providing reliable electricity.

Customised power solutions

Lee believes that before moving into a new market, a company must research carefully to gain a thorough understanding of the local business environment, including its laws, tax system, electricity demands and environmental protection laws. When *VPower* entered the emerging markets in the early years, it did so because of their growing demands for electricity and high prospects. On other areas for attention, Lee said: “The cultural factor should be a prime consideration when entering a new market. As an outside company, we must learn about and respect cultural differences. In Indonesia for example we offer religious holidays and opportunities and facilities for Moslem employees to pray.”

Explaining how DPG stations differ from fully-fledged power plants, Lee said: “It takes several years to build a traditional power plant, and a longer-term power purchase agreement is required to offset the capital expenditure. On the other hand, the DPG solution is an engine-based approach, deploying highly mobile ‘plug-and-play’ gen-sets. The entire process, from tendering to construction and power generation,

takes only a few months. After a contract has ended, we can redeploy the gen-sets to other power stations in a short time to avoid leaving them idle.”

Some exporters find the 10 ASEAN countries too scattered and diverse, but Lee sees this as an advantage to *VPower*. He said: “*VPower* commands advanced technologies and extensive experience in DPG, and is well-versed in the functionality of different gen-sets. As such, we are well-positioned to provide customers with high value-added, customised power generation solutions based on the specific humidity, temperature or even extreme climate conditions of different countries.”

Meanwhile, *VPower* has also started DPG projects in the UK. Detailing the company's UK business, Lee said: “Renewable energy is taking up an increasing share of the UK's fuel mix. *VPower* has to design more flexible power generation solutions to help power grids balance supply and demand. In Southeast Asia, our DPG stations provide electricity on an uninterrupted basis. In the UK, however, we have to co-ordinate with the supply of renewable energy like wind power and solar energy, and our DPG stations' daily operating hours have to be adjusted based on changes in the overall demand and supply.” Lee emphasised that *VPower* is capable of tailor-making solutions catering to the special characteristics of different markets and clients.



▲ *VPower's* “combined heat and power system” in Shandong provides clean energy, reducing carbon emissions.



Re-focusing on China

Lee believes that in the next few decades, the world will pursue the target of zero carbon emissions in response to climate change. In recent months, many countries including the UK, Japan, Canada and the US have announced more ambitious goals to reduce emissions. In China, the *14th Five-Year Plan* also sets out the double targets of peaking carbon emissions before 2030 and attaining carbon neutrality before 2060. Moreover, a national carbon emissions trading scheme was launched earlier this year.

In support of this worldwide resolve for green development, *VPower* announced its decarbonisation targets in its 2021 interim report – to phase out pure diesel power projects by 2030 and attain carbon neutrality by 2050. Lee noted that such targets align with global initiatives, requiring *VPower* to devote more resources in developing integrated energy solutions whereby renewable energy and energy-efficient technologies will be used. He cited as an example the company's "combined heat and power system" in Shandong, a waste-to-energy project in which methane collected during the production process is turned into electricity and steam. *VPower* plans to accelerate its expansion on the mainland, riding on the country's great market potential and support for sustainable development.

In October 2019, *VPower's* two wholly-owned subsidiaries were granted an energy transition loan, while the company also secured a sustainability-linked loan earlier this year. Lee pointed out that in the past two years, the Hong Kong government has stepped up efforts to promote sustainable development and green finance, with major banks and financial institutions keen to assist by offering new green financial services and products. This, coupled with Hong Kong's robust and mature financing systems, means that greater efforts can be made by companies like *VPower* to promote sustainable development and contribute to Hong Kong's carbon neutrality target. Lee also expressed the hope that Hong Kong will promote more ESG (environmental, social and governance) talent to help develop the local ESG ecosystem.



Conclusion



Conclusion

As the GBA moves towards high-end development with enterprises within the area eagerly spreading their wings in search of sizable markets and low-cost production bases, it can be expected that GBA's trade with and investment in ASEAN will grow exponentially. However, GBA enterprises engaging in cross-border business face such challenges as cultural differences, changing business environments, and in some sectors, regulatory barriers. Hong Kong, as an important business hub of Asia, has long been the region's leader in networking with the world. Where trade and investment between the GBA and ASEAN is concerned, Hong Kong's favourable business environment, financial infrastructure, and cross-border resource flows are distinct advantages providing a solid foundation for the SAR to serve as an economic and trade platform for these two regions.

Hong Kong's role as a financial and trade hub in supporting GBA enterprises to "go out" is its most prominent strength. The professional service suppliers in Hong Kong not only have an international perspective, but also have close business ties with both the mainland and ASEAN markets, forming an extensive business network. Hong Kong has long adopted free and open trade policies and has built sound cross-border infrastructures and systems in overseas markets which promote the flow of resources across borders. Mainland GBA enterprises can capitalise on Hong Kong to keep abreast of developments in the ASEAN market as well as to obtain comprehensive and flexible cross-border financing solutions to support the expansion of their business. Backed by its strong foundation, Hong Kong can support industry players in tapping into emerging sectors including green finance and sustainable development.

Looking to the future, GBA enterprises must strengthen their connectivity with the outside world. In particular, when cross-border trade and investment activities rebound after the *Covid-19* pandemic has eased off and border control measures have relaxed, industry players must lose no time in reconnecting with overseas buyers and business partners. In this regard, the role played by Hong Kong in promoting trade and investment between the GBA and ASEAN is significant. As such, Hong Kong must be prepared to provide the necessary information and services for GBA enterprises seeking to expand into overseas markets to help them seize post-pandemic opportunities.



Appendix

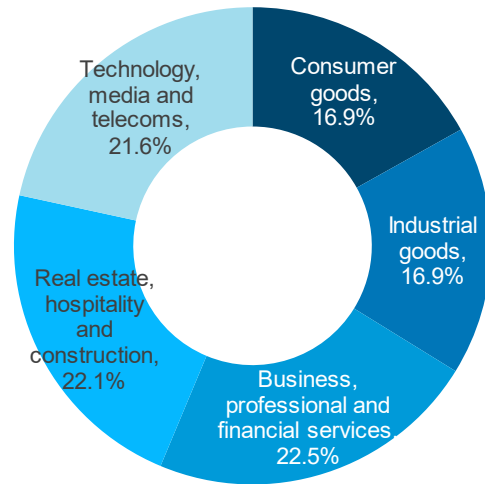




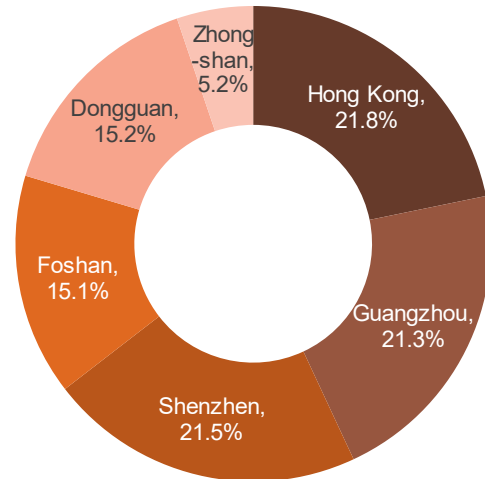
Appendix

HKTDC Research conducted an online questionnaire survey and telephone interviews between July and September 2021 with 657 GBA-headquartered enterprises which are either currently engaged in trade, investment or business operations in ASEAN or have not yet entered the ASEAN market but plan to expand into that market in the next three years. The survey covered five major industry sectors, namely (1) consumer goods, (2) industrial goods, (3) business, professional and financial services, (4) real estate, hospitality and construction, and (5) technology, media and telecoms. As the survey aimed to gain an understanding of the difficulties and challenges facing GBA enterprises doing business in ASEAN as well as identify the role played by Hong Kong in promoting trade and investment between the GBA and ASEAN, in-depth interviews were also carried out with selected enterprises and the findings were used for key case analysis.

▼ Industry



▼ Headquarters location





▼ Profile of questionnaire survey respondents

Industry	Share
Consumer goods	16.9%
Industrial goods	16.9%
Business, professional and financial services	22.5%
Real estate, hospitality and construction	22.1%
Technology, media and telecoms	21.6%

Headquarters location	Share
Hong Kong	21.8%
Guangzhou	21.3%
Shenzhen	21.5%
Foshan	15.1%
Dongguan	15.2%
Zhongshan	5.2%

Business footprint in ASEAN	Share
Doing business in ASEAN currently	63.2%
Plan to expand into the ASEAN market in the next 3 years	36.8%

No. of staff	Share
< 50	40.5%
51 – 100	30.0%
101 – 500	16.1%
501 – 1,000	2.7%
1,001 – 5,000	3.7%
5,001 – 10,000	0.8%
> 10,000	1.4%
No comment	4.9%

Business revenue in 2020 (US\$)	Share
< 1 million	19.2%
1 – 10 million	36.1%
11 – 100 million	21.2%
101 – 200 million	5.0%
201 – 500 million	1.7%
> 500 million	2.0%
No comment	14.9%



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