

# Asia-US Corridor Outlook 2023

Forging New Possibilities



HSBC

Opening up a world of opportunity

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# Series foreword

This report – part of a series of four reports on global trade corridors from HSBC – looks into the mutual trade potentials between two of the world's most dynamic economic powerhouses, the United States and Asia.

Data from the International Trade Centre (ITC) point to a \$371 billion opportunity for the US into Asia's key growth economies – China, India and the ten-member Association of Southeast Asian Nations, ASEAN (Asia-3) – and export potential of \$1 trillion from those Asian markets into the US. ASEAN may not operate as a group like the European Union but as a trade bloc, its \$3.66 trillion collective GDP in 2022 makes it the fifth largest economy in the world behind the US, China, Japan and Germany<sup>1</sup>. ASEAN is also growing faster than any other major Asia-based groupings.

The report considers the global macroeconomic picture and the forecasts for GDP, trade and FDI inflows growth for both the US and the Asia-3, pointing to a broadly optimistic outlook for both. The Asia-3 economies are particularly strong exporters to the US, while the US remains the world's number 1 economy in terms of FDI inflows.

The trade data highlighted in the report look at growth in each of the leading industry sectors for imports in both US and Asia. It also considers how trade could be enhanced by expanding the use of free trade agreements and the potential for this following the launching of the Indo-Pacific Economic Framework in 2022.

For US corporates and investors looking to Asia, the report considers the factors driving economic and consumption growth in the continent, and in particular the trends and opportunities presented by the digital economy within ASEAN, such as:

▶ **E-commerce:** Continued widespread adoption of e-commerce services, but a usage gap exists between urban and suburban areas, especially in online groceries

▶ **Online Media:** Growth has slowed to single-digit figures and digital ads seem to have a more promising longer-term outlook

▶ **Healthcare:** Growth forecasts are promising, driven by more widespread supply and take-up outside of urban areas

▶ **Education:** Several challenges for edtech in ASEAN, e.g. reduced average spend, lower uptake of online courses, and issues in scaling

The report also looks at the Asian economies most likely to attract investors in the long run, and those markets investors may wish to target as demographic plays, and considers the export potential for Asian corporates and investors looking to the US, and the leading sectors in this area for each of the major economies under consideration. It looks in particular at the common attributes shared by successful Asian business leaders and how these attributes would place any such business leaders in a good position to succeed in the US.

Also considered in the report is the crucial role played by the semiconductor industry in the US-Asia trade corridor and the implications for the high concentration of the industry in the hands of just a few companies.

Finally, the report considers sector opportunities in the new economy that the Indo-Pacific Economic Framework promotes, such as the digital economy, clean energy, better supply chains and fair economic practices.



# Executive summary

The outlook for trade and investments along the US-Asia corridor remains encouraging, notwithstanding an uncertain global economic picture. Global trade volume growth was lower than expected in the fourth quarter of 2022 (2.7% actual vs 3.5% forecast)<sup>2</sup>, and there is still a considerable degree of risk, such as growing debt levels, continued geopolitical conflict and the potential for further monetary tightening. As a result, the outlook for world merchandise trade is subdued for 2023 but brighter for 2024.

The US-Asia corridor holds particular promise. The US remains the world's number 1 destination for FDI inflows. While direct investment from ASEAN, China and India into the US is relatively low, it did peak at a ten-year high of \$74.3 billion in 2022, which is a positive sign for growth. In the other direction, US direct investment into ASEAN, China and India also reached a ten-year high, of \$537.6 billion in 2022, with growth at a high 8.8% compared to 4.7% in 2021.

In trade, some of the world's top exporting nations are in Asia. Four of the leading five exporters into the US market, for example, are East Asian (China, Japan, South Korea and Taiwan), while nine of the 10 biggest supplying markets are from East Asia or ASEAN. At the same time, the US was the largest source of FDI for trade and investment in ASEAN as of 2022.<sup>3</sup>

Data show that trade flows are growing faster from Asia to the US, with US imports from Asia growing 33% across 2013-2022 while Asian imports from the US grew a relatively modest 5%. Still, strong GDP growth forecasts for Asia's key growth economies indicate substantial potential, while US forecasts are also promising, suggesting good prospects in both directions of the US-Asia corridor.

Overall, the outlook for the Asia-US corridor remains promising, with abundant opportunities to strengthen trade ties such as ASEAN's consumption boom. These and other opportunities form the basis of the analysis in sections two and three of this report.

Data from ITC show a \$371 billion export opportunity for the US to the key

growth Asian economies – the Asia-3 markets of China, India and ASEAN. The digital economy within the countries of ASEAN presents particular opportunities for US investors, with gross merchandise value in this sector in the region valued at almost \$200 billion in 2022 and forecast to rise to \$330 billion by 2025.

There remain a number of challenges to market entry into ASEAN for US corporates, however, such as highly diversified economies, the lack of a common currency, and a lack of open borders. Potential US investors will need to familiarise themselves with such issues and to tailor their strategies to fit the different economies.

In the other direction, ITC data show export potential of \$1 trillion from Asia-3 supplying markets to the US. The US will continue to require the wide variety of manufactured goods and resources from Asia to meet its domestic consumption needs and to power its own economic growth.

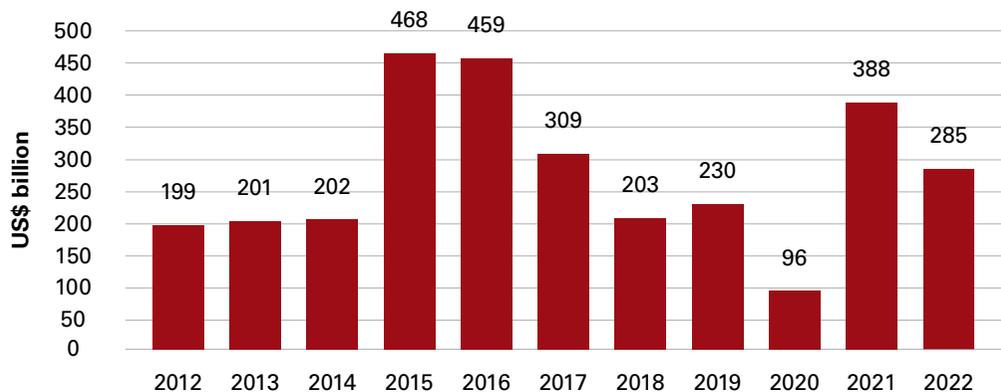
China will provide most of this potential supply, valued around \$635 billion, with ASEAN expected to meet around \$288 billion of export potential.

**“ US imports from Asia grew 33% from 2013-2022 ”**

# Summary infographics

1. GDP forecasts and FDI inflows suggest good prospects in both directions of the Asia-US corridor

## US remains the largest FDI destination globally



Source: World Investment Report 2023

2. Trade frameworks and agreements: Very few US - Asian nations agreements, but IPEF (Indo-Pacific Economic Framework) may be a gamechanger in time



Source: Ustr.gov

3. Major Asian economies present a \$371 billion opportunity for US exporters based on export potential data

# \$371 bln

Export Potential: US to Asia-3 countries				
Market (\$ mln)				
Exporter	China	India	ASEAN	TOTALS
US	205,000	42,000	123,830	370,830

Source: Analysis based on ITC Trade Map

4. The US presents a \$1 trillion opportunity for exporters from Asia-3 economies, based on export potential data

# \$1 trillion

Trade potential of Asia-3 markets to US

Export Potential: Asia-3 countries to US	
Exporter	Into US Market (\$ mln)
China	635,000
India	84,000
ASEAN	287,000
<b>TOTALS</b>	<b>1,006,850</b>

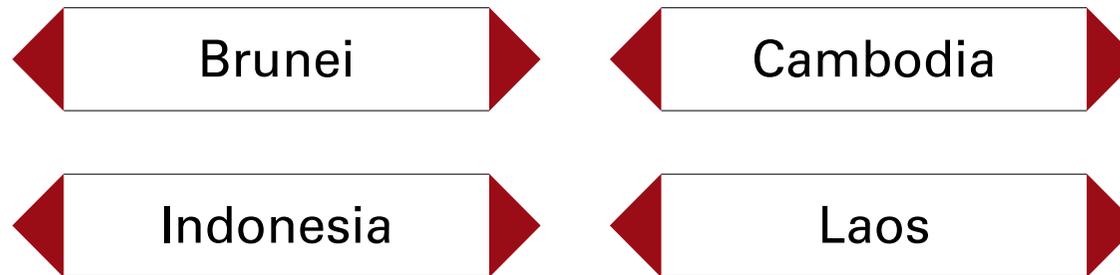
Source: ITC Export Potential Map1

# What are the Asia-3 economies?

Asia-3 is a grouping used in this report as shorthand for the key growth economies of Asia: China, India and the ten-member Association of Southeast Asian Nations (ASEAN) comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.



## ASEAN economies



**The Asia-US Corridor  
is built on extensive  
existing trade**



## Global Macroeconomic Context

Actual global trade volume growth of 2.7% in 2022<sup>5</sup> was less than the 3.5% forecast by the WTO in October 2022, due to a downturn in the fourth quarter. Several risk factors remain, such as food insecurity, increasing debt levels, and ongoing geopolitical issues. Consequently, the outlook for world merchandise trade volume is restrained, with projected global growth of 1.7% in 2023 and 3.2% in 2024.<sup>6</sup>

Despite the outlook for the global economy, the Asia-US Corridor's prospects remain encouraging. For instance, the US is the world's top FDI destination, receiving \$4.9 trillion in 2021.<sup>7</sup> Moreover, East Asia and ASEAN are particularly important trading partners for the US.

### Four of the top five supplying markets to US are East Asian economies

China, Japan, South Korea and Taiwan are four of the five top supplying markets to US, while nine out of the top ten supplying markets to the US are from East Asia or ASEAN (India is the exception).<sup>8</sup>

### Japan was the highest single source of FDI to the US in 2022, providing \$711 billion.<sup>9</sup> Conversely, the US was the largest source of FDI for trade and investment in ASEAN as of 2022<sup>10</sup>.

For trade along the Asia-US corridor, data shows the direction of flows is growing faster from the continent of Asia to the US. US imports from Asia grew 33% over the 10-year period 2013-2022. However, Asian imports from the US grew considerably slower, by 5% over the same period, showing bilateral trade flows are increasing more in the Asia-to-US direction.

### GDP forecasts and FDI inflows suggest good prospects in both directions of the Asia-US corridor

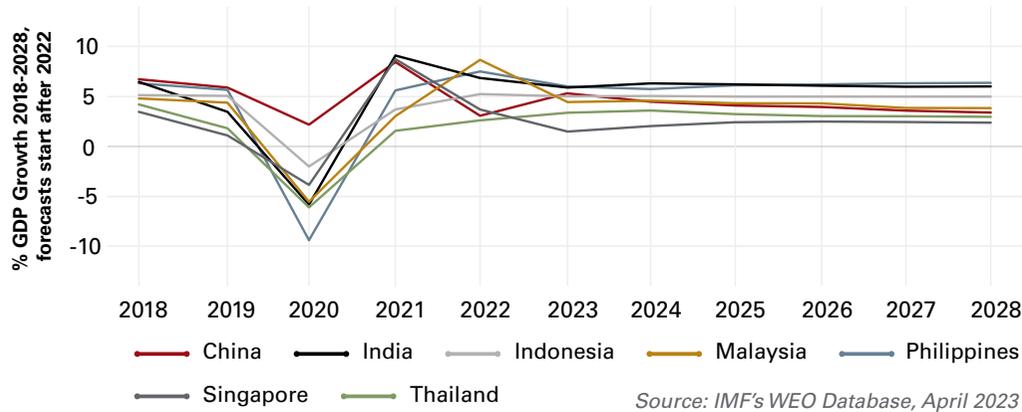
GDP growth forecasts over the period 2023-28 for the key growth economies of Asia-3 – China, India and ASEAN – indicate substantial potential. Moreover, the US's forecast growth rate over the same period, while marginally lower than pre-Covid levels, is promising as well and suggests reasonable prospects in both directions of the Asia-US corridor.

GDP growth forecasts for the six years starting 2023 for Asia-3 demonstrate considerable potential, with annual growth projections of 5.2% in 2023 to 3.4% in 2028 for China and hovering around 6% for India. ASEAN's ten economies are forecast to grow 4.2% on average in 2023 to 4.5% in 2028. Singapore is forecast to grow between 1.5% and 2.5% over the six-year period while at the top end, Cambodia, the Philippines and Vietnam are averaging around 6.3%.<sup>11</sup> The US's average annual GDP growth rate forecast over the same period 2023-2028 is lower than the Asia-3 economies at 1.9%. Still, this remains the highest among its closest peer group, the G7 advanced economies.

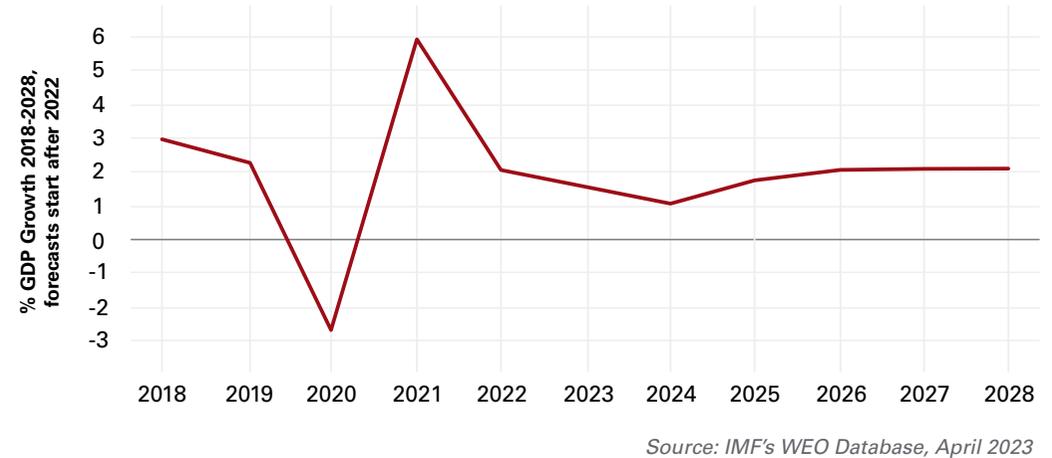


# GDP growth forecasts are positive for both Asia and the US

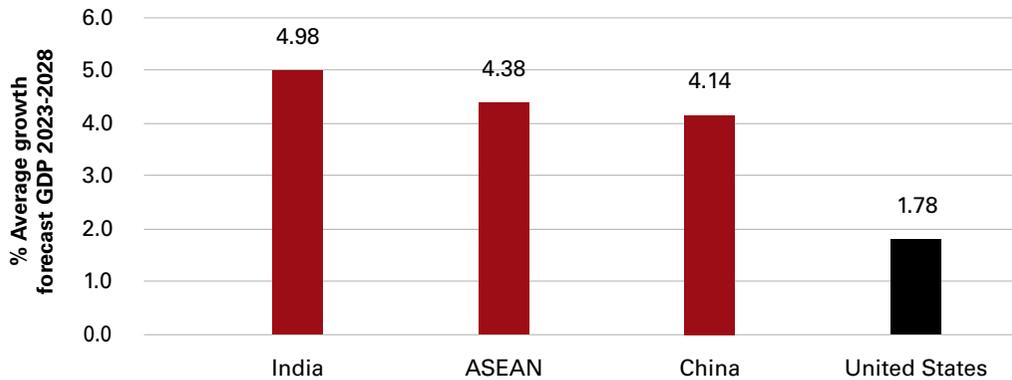
**GDP Growth: China, India and key ASEAN-5 economies are forecast to return to their pre-Covid growth trajectories**



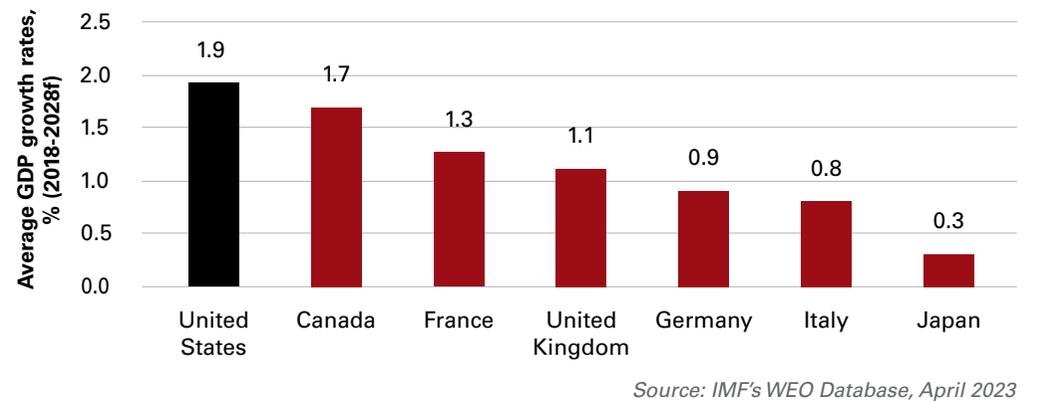
**GDP Growth: While marginally lower, the US is also forecast to return to pre-Covid levels, but will do so less quickly than key Asian growth economies**



**GDP Growth: Asia-3 economies are forecast to expand faster than US from 2023-2028**

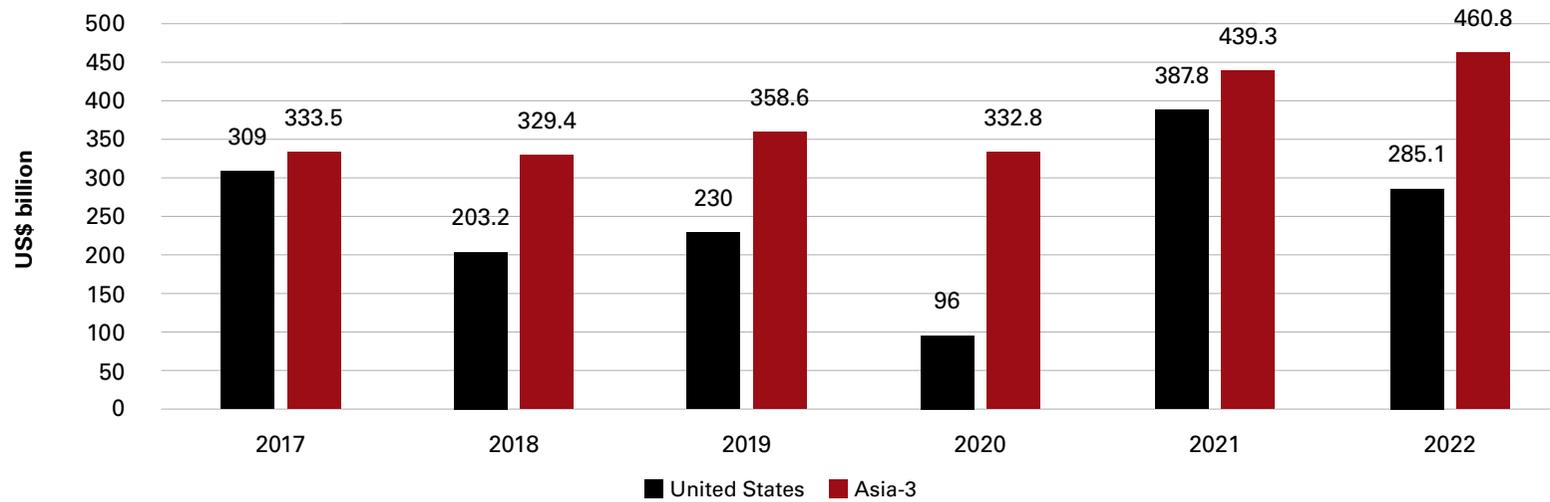


**US's average GDP growth rate (2018-2028f): forecast to be the highest among G7 nations**



FDI inflows for Asia and the US are both promising. For the Asia-3 economies, inflows increased over the 2017-2022 period, from \$333.5 billion in 2017 to \$460.8 billion in 2022. Although FDI inflows into the US were uneven over the same period, the US remains a highly attractive destination for investors, and is the largest single FDI destination globally. The GDP and FDI data and insights together demonstrate that the Asia-US Corridor is built on solid economic foundations and existing trade on both ends of the corridor, making it an especially important driver of global growth and highly attractive to investors.

**FDI: Asia-3 inflows rose consistently 2017-2022, US uneven but still largest destination globally**



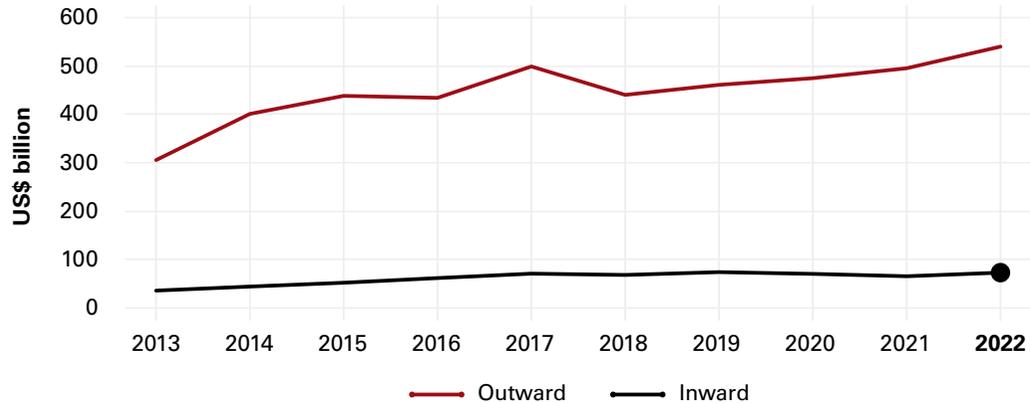
Source: World Investment Report 2023



## ASEAN an important direct investment destination for the United States

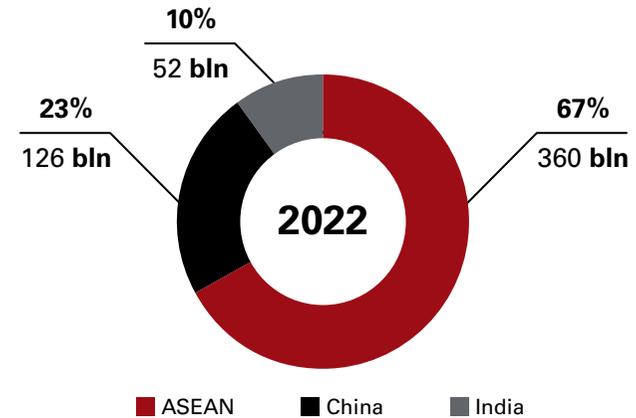
\$537.6 billion worth of outward US direct investment reached ASEAN, China and India in 2022, representing an 8.8% growth over 2021. ASEAN received the bulk of the investments: 67% went to ASEAN compared to 23% to China and 9.6% to India. Asia-3 inward direct investment into the US is far lower than US direct investment into the grouping. In 2022, ASEAN invested \$41.85 billion in the US, China \$28.7 billion and India \$3.7 billion, according to US official data.

**US direct investment into Asia-3 reached 10-year high in 2022**



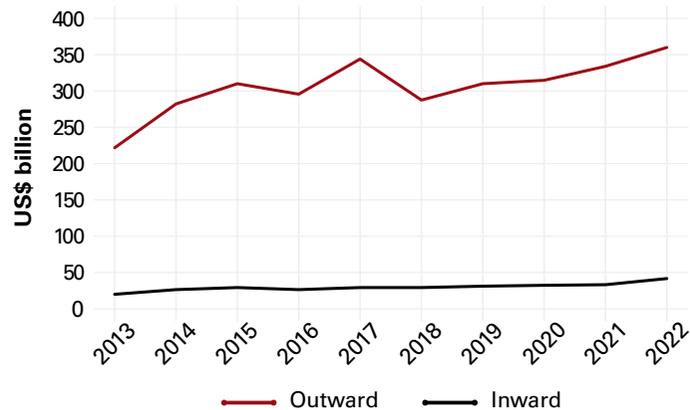
Source: Bureau of Economic Analysis, US Department of

**Among Asia-3, ASEAN was the main destination for US direct investments in 2022**



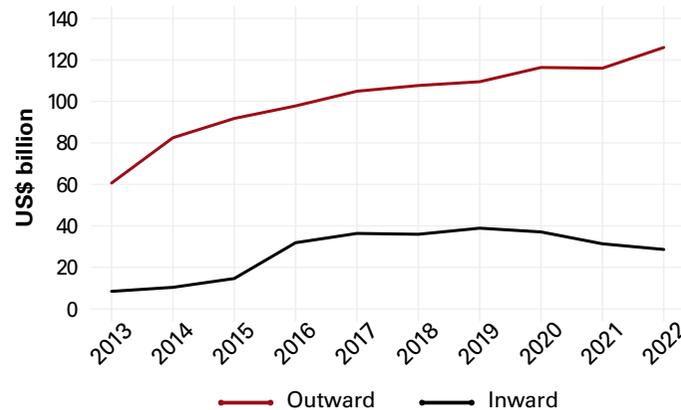
Source: Bureau of Economic Analysis, US Department of

**US outward direct investment: Over \$350 billion worth of direct investments went to ASEAN in 2022**



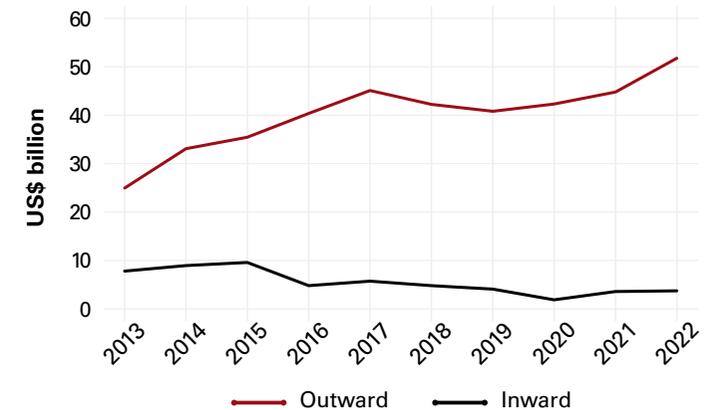
Source: Bureau of Economic Analysis, US Department of

**US direct investment into China did not wane even as inward investments from China into US dipped 2020-2022**



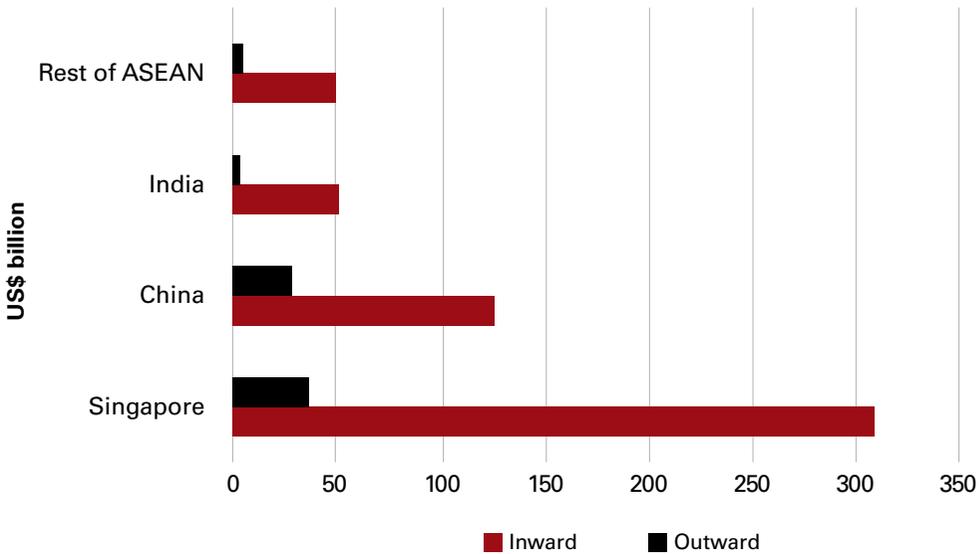
Source: Bureau of Economic Analysis, US Department of

**US outward Direct Investment into India has been steadily increasing as inward investment from India into US recovers post-Covid**



Source: Bureau of Economic Analysis, US Department of

### Singapore top destination for US direct investment among Asia-3 In 2022, US direct investment into Singapore crossed the \$300 billion mark



Source: Bureau of Economic Analysis, US Department of Commerce

### Singapore the most important partner for US direct investments within Asia-3

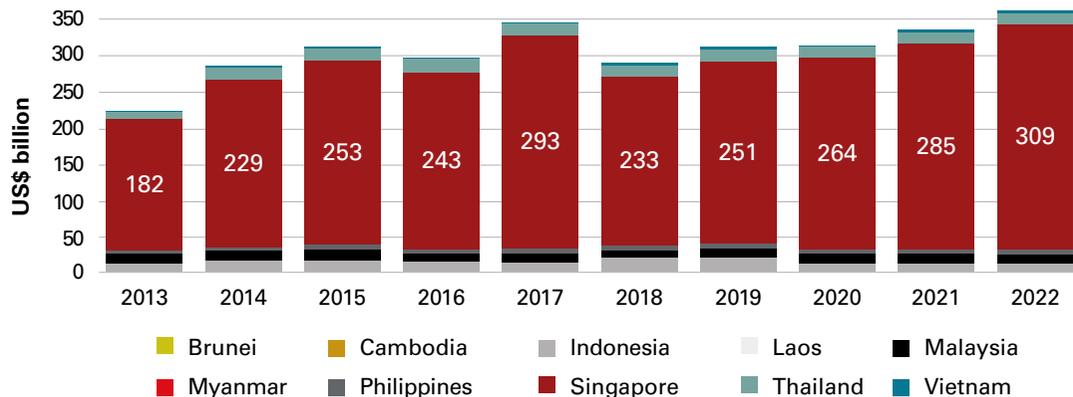
US direct investment into Singapore reached \$309.4 billion in 2022, up 8.7% from 2021. The city-state is not just US direct investment's biggest destination among Asia-3 but it is also important for the US with regards its overall Asia-

#### Five sectors made up around 90% of US direct investments in Singapore in 2022:

1	<b>Holding companies (non-bank)</b>	<b>\$187.3 billion</b>	(60.5% of total US direct investment in Singapore)
2	<b>Wholesale trade</b>	<b>\$32.45 billion</b>	(10.5%)
3	<b>Finance (except depository institutions) and insurance</b>	<b>\$31.2 billion</b>	(10%)
4	<b>Computers and electronic</b>	<b>\$17.8 billion</b>	(5.7%)
5	<b>Other Industries</b>	<b>\$17.5 billion</b>	(5.6%)

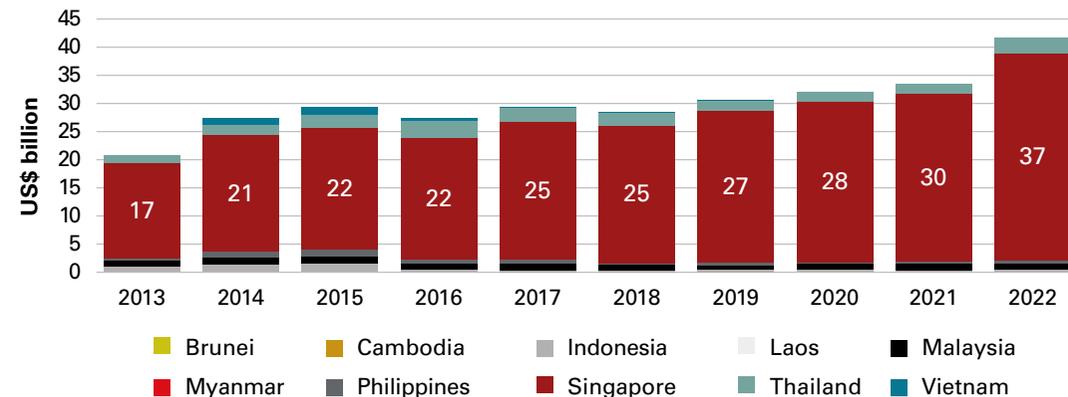
Source: Bureau of Economic Analysis, US Department of Commerce

### Among ASEAN member states, Singapore is the top destination for US Direct Investment, receiving an average of 83% per year of US Direct investment ASEAN



Source: Bureau of Economic Analysis, US Department of Commerce

### Singapore is the leading ASEAN direct investor in the US, contributing an average of 83% per year among ASEAN member states



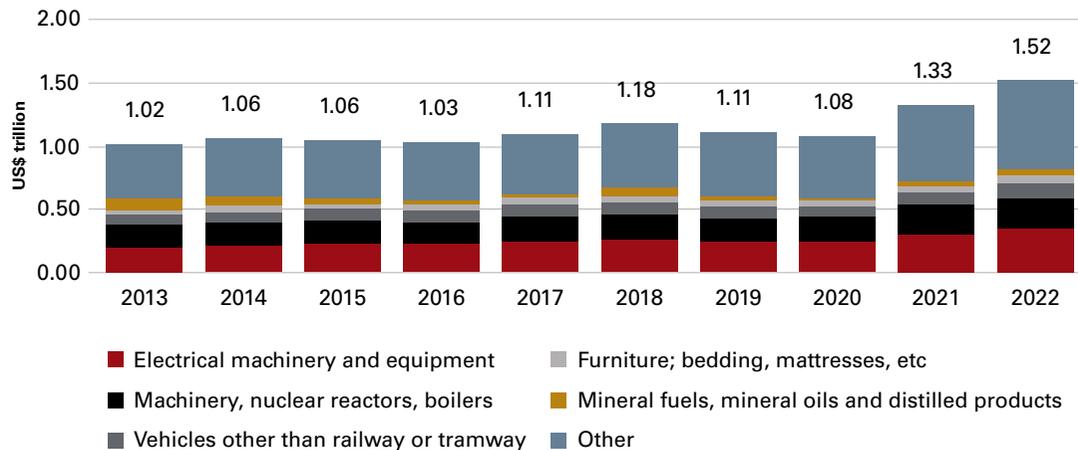
Source: Bureau of Economic Analysis, US Department of Commerce

## Strong trade foundations also exist

Trade data show considerable flows between the continent of Asia and the US. US imports from Asia have remained mostly steady, though recent data suggest imports are growing again post-pandemic. US imports from Asia rose from \$1.02 trillion in 2013 to \$1.52 trillion in 2022. Conversely, Asian imports from the US have also remained steady, but are significantly less than US imports from Asia. Asian imports from the US rose from \$0.53 trillion in 2013 to \$0.63 trillion in 2022. Although these datapoints suggest the US depends more on Asia than vice versa, it is important not to read too much into that, since the trade flows are significant in both directions, and the US is still an important trading partner for Asia.

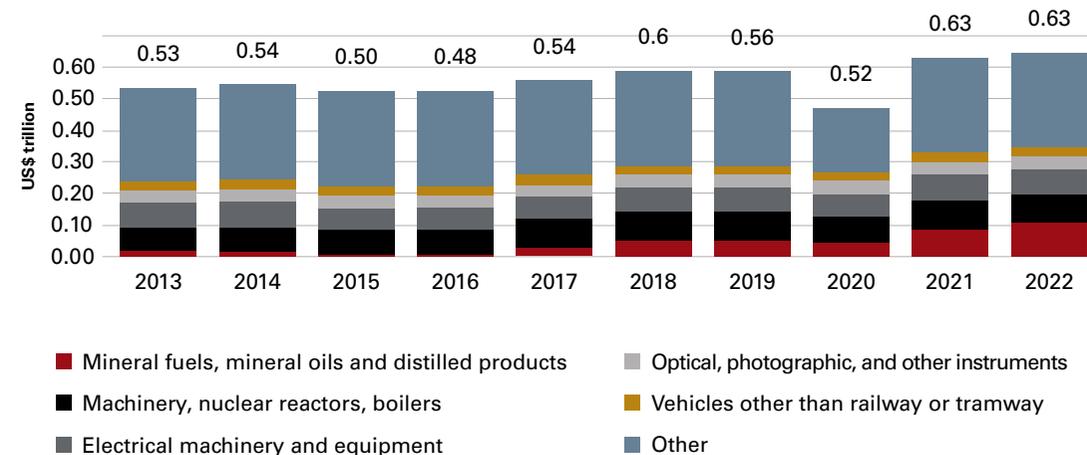
The top five product categories made up 54% of US imports from Asia in 2022. These were: electrical machinery and equipment; machinery, nuclear reactors, and boilers; vehicles other than railway or tramway; furniture, bedding, mattresses, etc; and mineral fuels, mineral oils, and distilled products. The Top 5 Asian import categories made up 54% of Asian imports from the US in 2022. They were: mineral fuels, mineral oils, and distilled products; machinery, nuclear reactors, and boilers; electrical machinery and equipment; optical and other instruments and apparatus; and oil seeds and oleaginous fruits, miscellaneous grains, straw and fodder, etc.

**US imports from Asia have remained mostly steady, though recent data suggest imports are growing again post-pandemic**



Source: ITC Trade Map

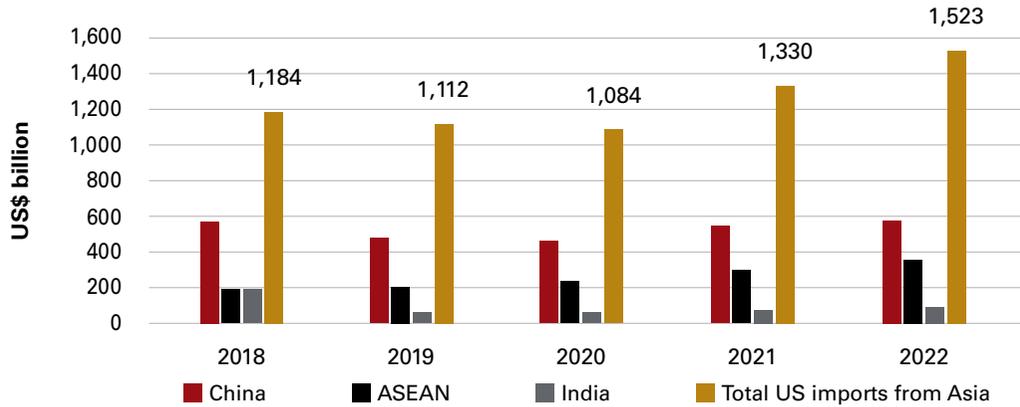
**Asian imports from the US have remained steady, but are significantly lower than US imports from Asia**



Source: ITC Trade Map

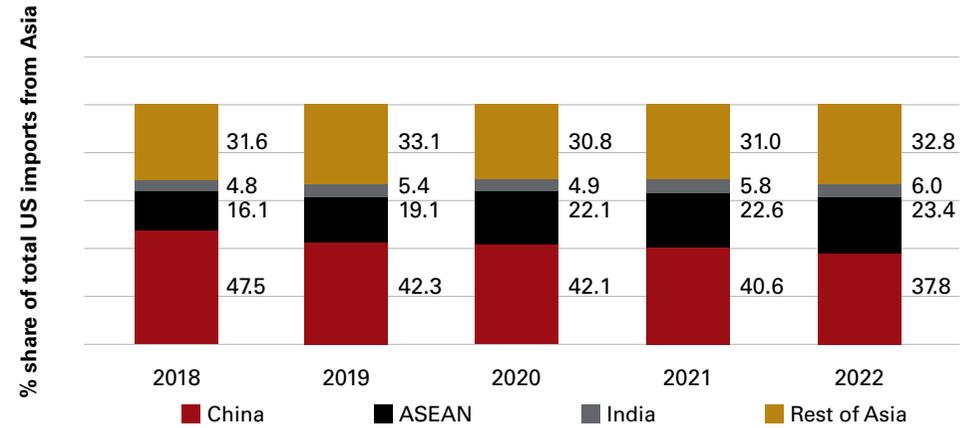
A substantial proportion of US imports from Asia arrived from the Asia-3 economies, largely China and ASEAN, although the Chinese share has fallen off considerably from 47.5% in 2018 to 37.8% in 2022. Bilateral trade has been affected by US-China trade tensions since 2018 that led to tariffs in 2019 on selected goods imposed by both sides. At the same time, the US was importing more goods from ASEAN to partly substitute for China products. US-China relations improved after a truce in 2020 but relations took another turn in early 2023. The rate of growth of China's exports to the US has not bounced back to pre-2019 levels but nonetheless growth has been registered, while US imports from ASEAN moderated down in 2022.

**US imports from China, ASEAN & India grew from 2018 to 2022**



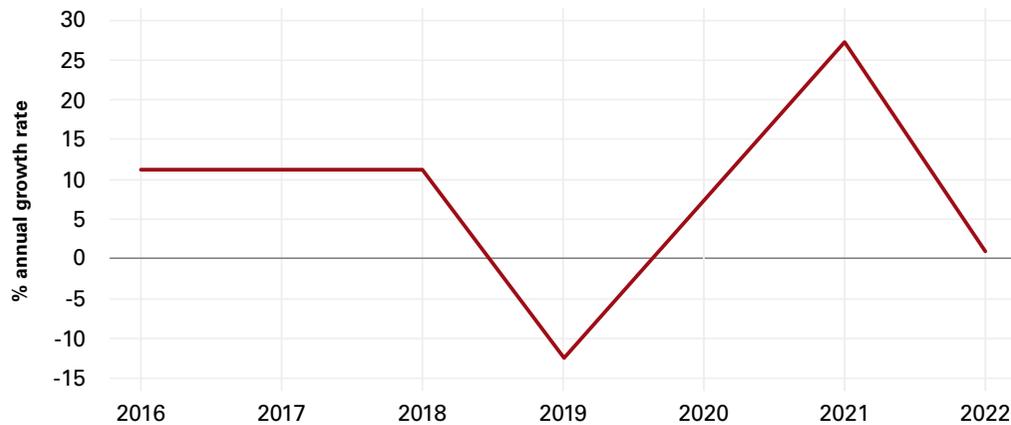
Source: ITC Trade Map

**China, ASEAN & India share of US imports from Asia a 67% in 2022, China's share fell while ASEAN's grew**



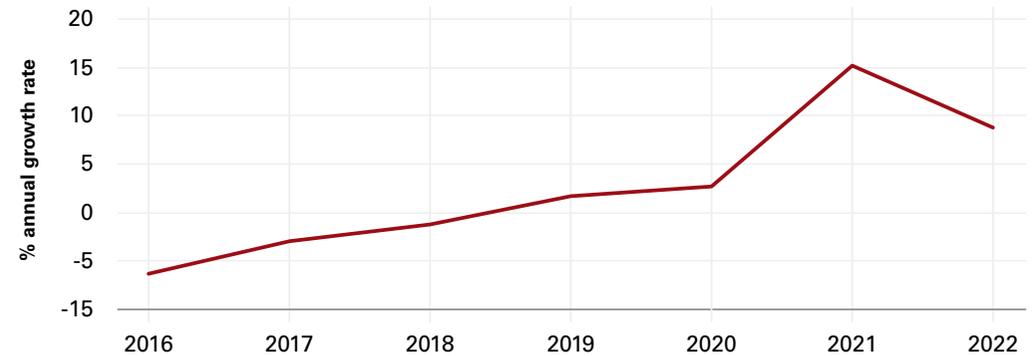
Source: ITC Trade Map

**The rate of growth of China's exports to the US has not bounced back to pre-2019 levels**



Source: ITC Trade Map

**US imports from Asia: ASEAN gains from US-China trade tensions**

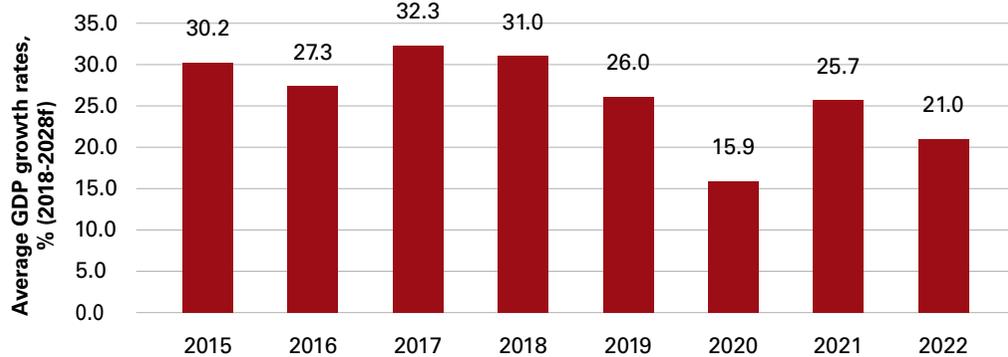


Source: ITC Trade Map

## Tapping into Hong Kong SAR's growth opportunities

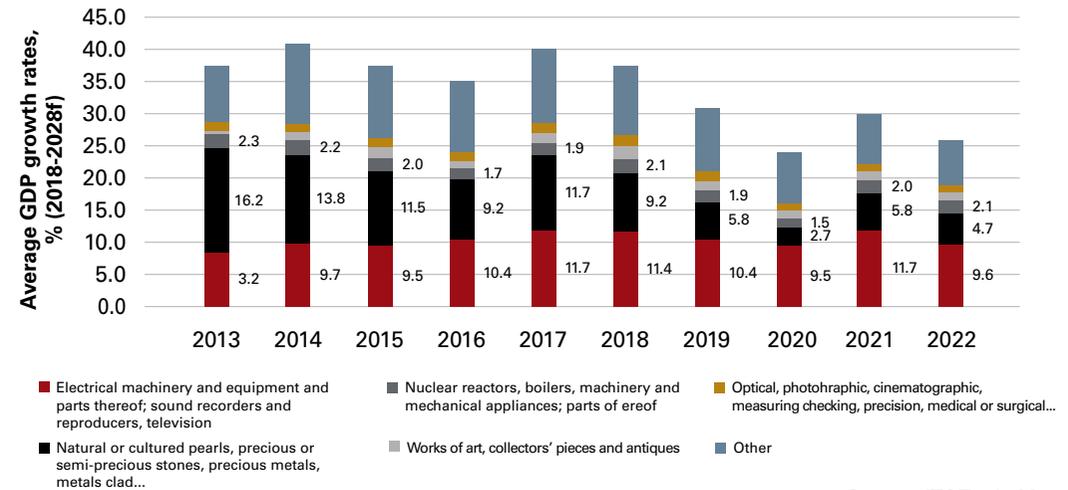
The US has historically had a healthy trade surplus with Hong Kong SAR. However, bilateral trade has come under pressure since the US-Sino trade tariffs of 2019. Trade has proven resilient and bounced back since 2020. Looking ahead, Hong Kong SAR's economy is chasing higher growth prospects than the United States through 2028. Part of that growth is linked to Hong Kong's SAR proximity and relationship to the Chinese mainland, for example through the SAR's inclusion in the Greater Bay Area (GBA).

### US still enjoying trade surplus with Hong Kong SAR



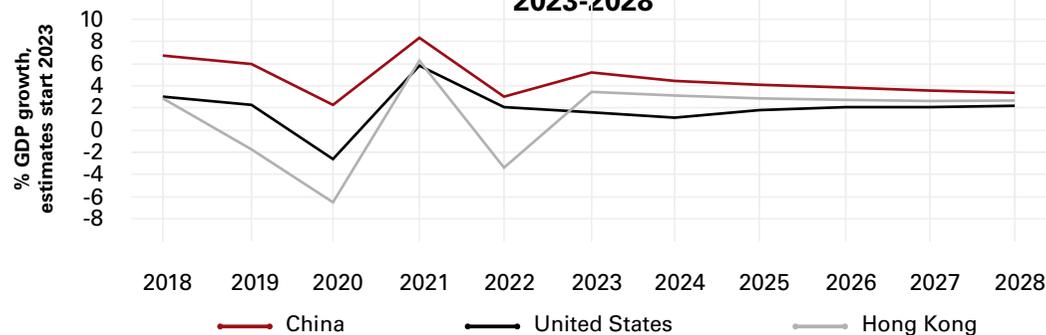
Source: ITC Trade Map

### US exports to Hong Kong SAR remain resilient



Source: ITC Trade Map

### Hong Kong SAR GDP growth forecast higher than the US's 2023-2028



Source: IMF's WEO Database, April 2023

## Greater Bay Area (GBA) Context, Stats & Opportunities

Hong Kong SAR is a key piece of the Chinese government's Greater Bay Area (GBA) plans. The Special Administrative Region is the most open and international among the member regions and municipalities of the GBA and is hence positioned as the financial, transportation and trade gateway to mainland China via the GBA.

### Context

The Greater Bay Area (GBA) was earmarked by the Chinese government for special development in 2017. The GBA comprises the two Special Administrative Regions of Hong Kong and Macau, and nine municipalities in southern China: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing.

### Stats

**56,000**-square kilometre area

**86** million population

GDP of around **\$2** trillion. If the GBA were an economy it would be the world's ninth largest, roughly the size of Canada's.

### Opportunities

Hong Kong SAR positions itself as the GBA's gateway international financial, transportation and trade centre. The key sectors that present opportunities for US corporates and investors are:

**Innovation & Technology**

**Destination for talent**

**Infrastructure**

**Financial services**

**International legal and dispute resolution**

Export opportunities: ITC identified the following as the top sectors for US exporters looking to Hong Kong SAR

Top Sectors	Export Gap	Top Sectors	Export Gap	Top Sectors	Export Gap	Top Sectors	Export Gap
1.  Jewellery & precious metal articles	\$2,200 mln	3.  Aircraft, spacecraft & parts	\$994 mln	5.  Meat (except poultry)	\$775 mln	7.  Miscellaneous manufactured products	\$615 mln
2.  Precious metals	\$2,100 mln	4.  Optical products, watches, & medical instruments	\$830 mln	6.  Beauty products & perfumes	\$647 mln	8.  Electronic equipment	\$487 mln

**Trade frameworks and agreements: Several involving the US and Asian nations are in place but need further development – Indo-Pacific Economic Framework may help increase Corridor trade, but it is too early to tell**

Currently, of the 20 Free Trade Agreements (FTAs) that the US has with other countries, only one is with an Asian nation: Singapore, and none of the US's top trading partners has similar FTAs with the US apart from Japan, which has a limited FTA in place specifically for free trade in critical minerals.<sup>12</sup> This suggests more work needs to be done on this front, especially with the Asia-3 economies of China, India and ASEAN. Although frosty Sino-US relations are likely to inhibit trade links between the world's two major economies, the situation with the other Asia-3 economies may change with the advent of the IPEF launched in 2022. The IPEF will likely benefit from key drivers such as the US's preference for substituting Chinese goods with those from ASEAN and elsewhere in Asia,<sup>13</sup> and US policies that are advantageous to growing trade with Asia (ex-China), such as reindustrialising and friendshoring<sup>13</sup>.

## Context & Key Stats

Context: In May 2022, the US launched the IPEF with 13 Asia-Pacific nations: Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand and Vietnam. It is too early to tell whether this will materialise into something more tangible and it is unlikely to impact trade flows in the near to medium term.

**Key Stats<sup>14</sup>** | **14** nations involved | **40%** of global GDP | **28%** of global goods and services trade

Overall, the outlook for the Asia-US corridor remains promising, with abundant opportunities to strengthen trade ties such as ASEAN's consumption boom. These and other opportunities form the basis of the analysis in the next two sections of this report.



A woman with dark hair, wearing a brown coat, is shown in profile, looking upwards towards a tall, modern skyscraper. The scene is set in a city with other buildings visible in the background. The sky is a clear, light blue. A large red triangle is overlaid on the left side of the image, pointing towards the center.

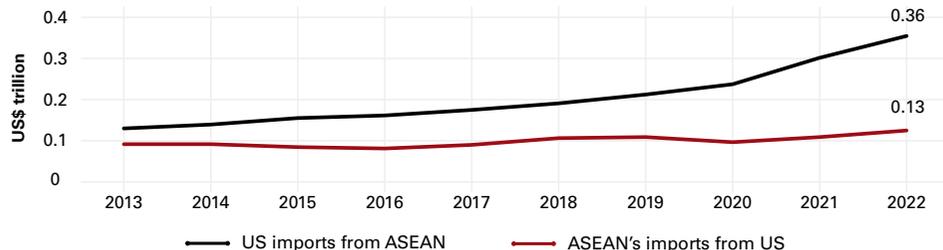
# Ways for US corporates to thrive in Asian markets

## Overview & Trends: Tapping into opportunities presented by consumption boom in ASEAN and other rising Asian economies

GDP growth in ASEAN exceeds that of much of the rest of the world. The region's GDP grew 30% from 2011 to 2021, compared with global growth of 23% over the same period.<sup>15</sup> Consumption in the region will be driven by a GDP that is projected to reach \$4.5 trillion by 2030 and a population forecast to reach 723 million,<sup>16</sup> while one in six households entering the world's consuming class will be in an ASEAN country. Other factors fuelling ASEAN's boom are urbanisation, developed ecosystems for digital trends, high-value-added services, export trade, and the rise of regional Tier 2 cities. Although various definitions exist for city tiering, the commonly accepted ones are by GDP and/or population – in China, Tier 2 cities are those which generate \$68 billion to \$299 billion in GDP and/or have populations of 3-15 million people.<sup>14</sup> Within ASEAN, five key markets are driving growth: Malaysia, Indonesia, Singapore, Thailand and Vietnam ("ASEAN-5"). As of 2021, the ASEAN-5 countries accounted for 84% of ASEAN GDP and 72% of ASEAN's population.<sup>18</sup>

With these strong fundamentals, it is not surprising that US dependence on ASEAN imports increased significantly over the ten-year period 2013-2022, from \$0.13 trillion in 2013 to \$0.36 trillion in 2022. Meanwhile, ASEAN imports from the US remained steady but are notably lower, growing slightly from \$0.09 trillion in 2013 to \$0.13 trillion in 2022. One explanation for this could be that ASEAN is diversifying its trading partners to avoid overdependence on the US, e.g. by trading more with China and other nations. Still, ASEAN remains the US's fourth-largest goods trading partner, and ASEAN is also currently a \$3 trillion economy, which bodes well for future growth along the Asia-US Corridor.<sup>19</sup>

### US imports from ASEAN have increased notably from 10 years ago, while ASEAN imports from US have remained steady but are considerably lower



Source: ITCTrade Map



# Opportunities for direct investment: Singapore, Thailand, Malaysia and Indonesia are key US targets in ASEAN

## Top 3 target sectors in Singapore, Thailand, Malaysia and Indonesia for US direct investments in 2022

### Singapore

1	<b>Holding companies</b> (non-bank)	<b>\$187.3 billion</b>
2	<b>Wholesale trade</b>	<b>\$32.45 billion</b>
3	<b>Finance</b> (except depository institutions) and insurance	<b>\$31.2 billion</b>

Source: Bureau of Economic Analysis, US Department of

### Thailand

1	<b>Manufacturing</b> Chemicals	<b>\$2.9 billion</b>
2	<b>Manufacturing</b> Other manufacturing	<b>\$2.8 billion</b>
3	<b>Depository institutions</b>	<b>\$1.4 billion</b>

Source: Bureau of Economic Analysis, US Department of

### Malaysia

1	<b>Wholesale trade</b>	<b>\$2.4 billion</b>
2	<b>Holding companies</b> (non-bank)	<b>\$2.1 billion</b>
3	<b>Manufacturing</b> Computers and electronic products	<b>\$1.8 billion</b>

Source: Bureau of Economic Analysis, US Department of

### Indonesia

1	<b>Mining</b>	<b>\$8.6 billion</b>
2	<b>Manufacturing</b> Chemicals	<b>\$836 billion</b>
3	<b>Holding companies</b> (non-bank)	<b>\$496 billion</b>

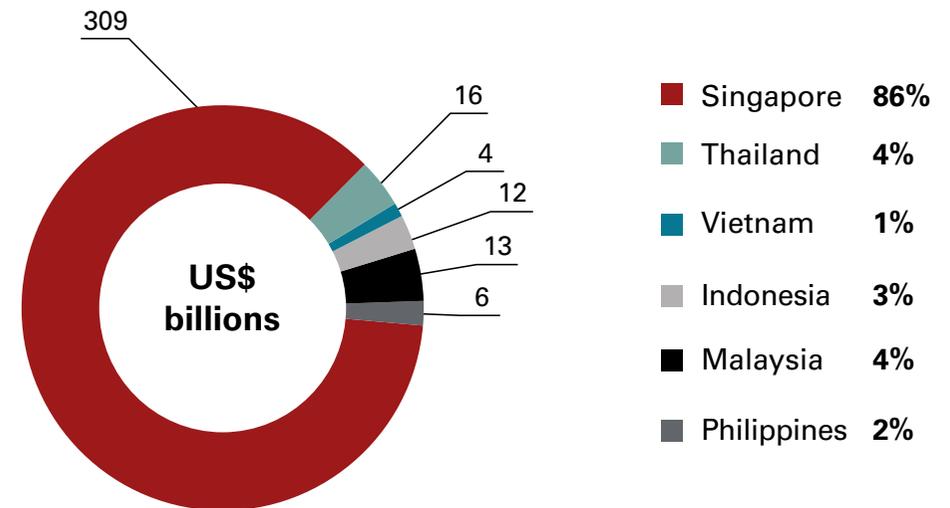
Source: Bureau of Economic Analysis, US Department of

US direct investments in ASEAN are targeted and leverage each country's competitive advantages. For example, in Singapore, US investors go straight for holding companies (\$187.3 billion in 2022) and in Indonesia, mining (\$8.6 billion) is of prime importance. Thailand's manufacturing prowess tipped it over Malaysia and Indonesia for US investors in 2022.

There is still plenty of room for growth in ASEAN for US investors looking to manufacturing across the sub-sectors of food, chemicals, primary and fabricated metals, machinery, computers and electronics, Electrical equipment, appliances, and components, transportation equipment and other manufacturing.

Outside of these four ASEAN economies, the potential in the digital economy opens up investment opportunities in other Southeast Asian markets, as the following pages will show.

## In 2022, Singapore Thailand, Malaysia and Indonesia were the top ASEAN destinations for US direct investment (in US\$ billions)



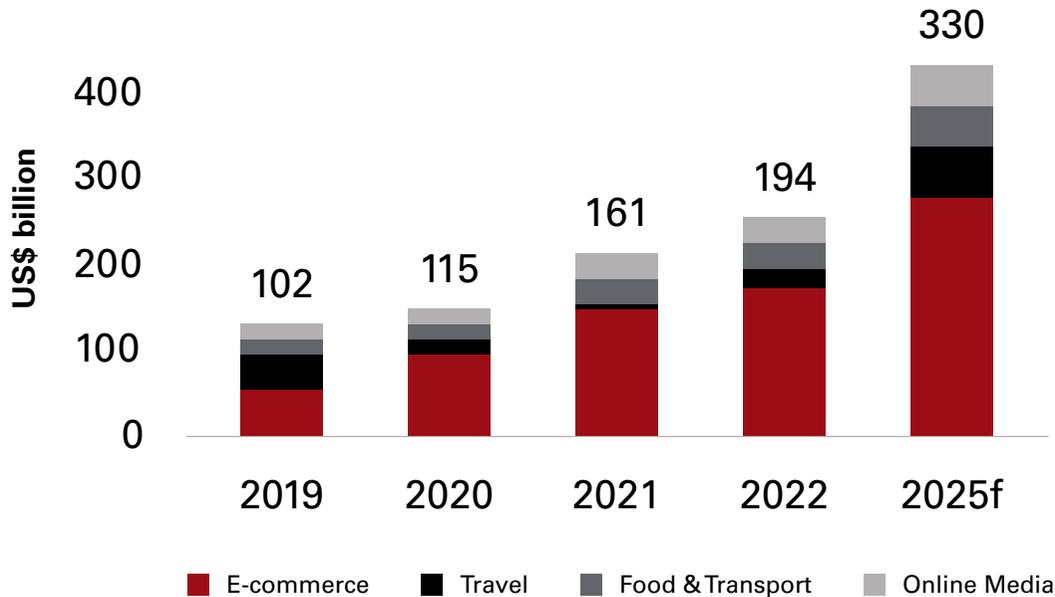
## ASEAN's digital economy presents numerous opportunities for US investors

ASEAN's digital economy was valued at almost \$200 billion in 2022 in terms of gross merchandise value (GMV) and this is forecast to rise to \$330 billion by 2025, having already doubled across the three years to 2022. Four high-growth sectors power ASEAN's digital economy, or 'e-economy': e-commerce; travel; food and transport; and online media.

The charts below break down growth and projected growth by sector, and the projected increases in deal activity by country.<sup>20,21</sup> Vietnam and Indonesia are the most likely of the region's economies to attract investors in the long run, indicating investor confidence in their potential for growth.

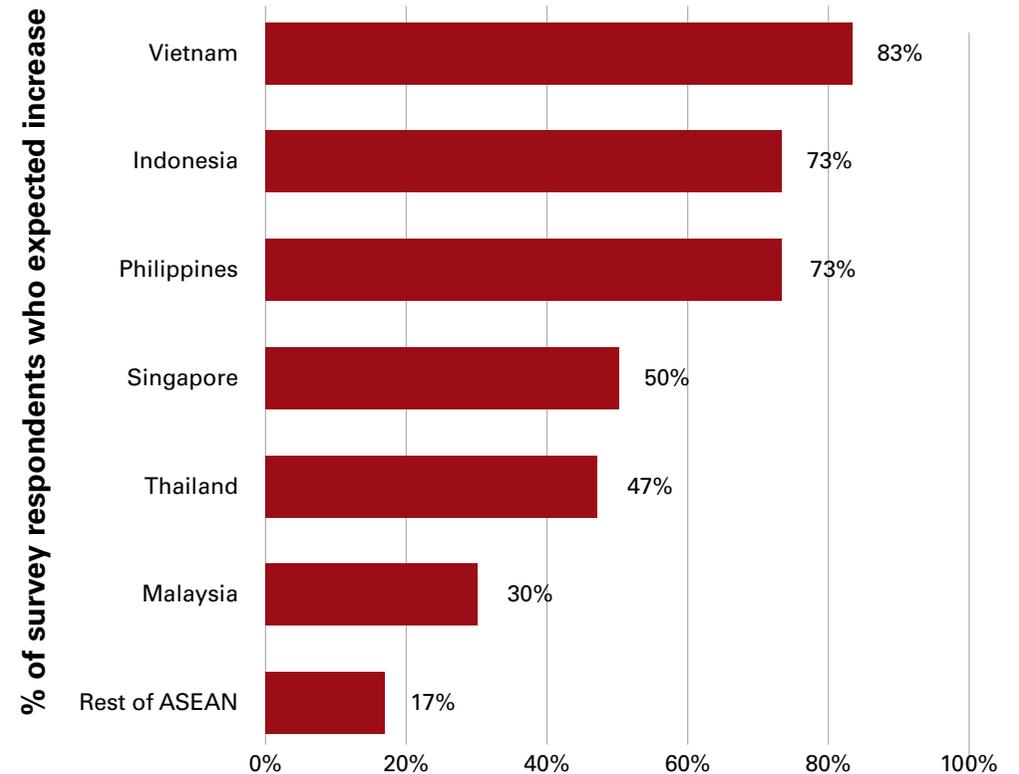
At the same time, there are several challenges to market entry into ASEAN for aspiring US corporates. Examples include the high degree of diversification between ASEAN economies, the absence of a common currency, a lack of open borders, separate regulations for each market and geography. American corporates and investors will need to familiarise themselves with these issues and their impacts and prepare suitable timelines to enter and expand.<sup>22</sup>

ASEAN Digital Economy 2019-2025



Source: Google, Temasek and Bain

Expected increase in deal activity in 2025-2030 vs currently



Source: Google, Temasek and Bain

Regarding other potential sector opportunities in ASEAN for American corporates and investors, young digital natives and affluent urban users are key drivers of ASEAN's digital economy. And although key emerging sectors vary by country, some popular sectors occur across each of the ASEAN-5 markets. These include: e-commerce; travel & tourism; food & transport; online media; healthcare; and education. A 2022 report from Google, Temasek and Bain elaborated on some of the current trends in these sectors:<sup>23</sup>

## Current sector trends in ASEAN's digital economy

### E-commerce

**17% CAGR 2022-2025**  
**Opportunity size (GMV)**  
**by 2025: \$211B**

- ▶ Continued widespread adoption of e-commerce services
- ▶ But a usage gap exists between urban and suburban areas, especially in online groceries



### Travel & Tourism

**37% CAGR 2022-2025**  
**Opportunity size (GMV)**  
**by 2025: \$44B**

- ▶ Domestic travel is recovering well
- ▶ International travel is taking longer to recover, held back by airlines' difficulties in meeting demand and high prices



### Food & Transport

**20% CAGR 2022-2025**  
**Opportunity size (GMV)**  
**by 2025: \$39B**

- ▶ Food delivery growth tripled during the pandemic but now consumers are returning to pre-pandemic eating habits
- ▶ Transport is benefitting from workers returning to offices



### Online Media

**15% CAGR 2022-2025**  
**Opportunity size (GMV)**  
**by 2025: \$36B**

- ▶ Growth has slowed to single-digit figures
- ▶ Digital ads seem to have a more promising longer-term outlook due to social media engagement



### Healthcare

- ▶ Growth forecasts are promising
- ▶ Key drivers include more widespread supply and rural adoption



### Education

- ▶ Several challenges for edtech in ASEAN, e.g. reduced average spend, lower uptake of online courses, and issues in scaling



## Tailoring strategies to fit local ecosystems, and applying Asia-focused key success factors

With the rapid growth of Asian economies, it is crucial for US corporates to tailor their various strategies for these economies, such as market entry, customer, distribution and other strategies. China is a case in point where displaying good 'fit' with the local ecosystem is of paramount importance. Some of the compelling drivers of this need for local-oriented strategy include the Chinese market's size and sophistication, as well as high GDP growth and megatrends such as urbanisation. For example, in China there are 160 cities with populations above 1 million, while China's GDP growth has averaged almost 10% a year for four decades, according to the World Bank. Moreover, rapid urbanisation has seen an astonishing 10 million residents move from rural to urban areas annually.

Additionally, corporates should take note that China is the world's fastest growing and most dynamic e-commerce market. According to Ministry of Commerce data, Chinese consumers spent \$1.93 trillion online in 2022 (13.8 trillion yuan), which was 31% of the broader retail sector in China (\$44 trillion in 2022).<sup>24</sup> Collectively, these datapoints suggest the Chinese market is highly lucrative and emblematic of the attractiveness of Asia's economy to US corporates and investors.

### More growth for China's digital economy<sup>25</sup>



Consequently, several localisation strategies may need to be employed by US corporates to succeed in China and other highly competitive Asian markets. These should seek to benefit from the latest consumer trends in China's market so that their strategies are tailored to the country's present and future consumers. Four trends stand out in the Chinese consumer space: the rise of omni-channel customer journeys; the development of super apps; the importance of live commerce; and the growth of emerging technologies such as augmented and virtual reality (AR and VR), artificial intelligence and livestreaming of content.<sup>26</sup>

Similarly, US corporates should take heed of other Asia-focused key success factors, such as the growth of regional enterprises, supply chain adaptations, the rise of the digital economy, and a growing focus on workforce and ESG aspects.<sup>27</sup>

## Key trade sectors for Asia-3 economies

Looking more broadly at the Asia-3 economies of China, India and ASEAN, the charts below display their leading export and import sectors. Key categories across the countries include: mineral fuels, oils, and distillation products; electrical and electronic equipment; and machinery, nuclear reactors, and boilers.<sup>28</sup>

Top 3 Exports	China	India	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
1	 <b>\$954.78B</b>	 <b>\$98.47B</b>	 <b>\$11.4B</b>	 <b>\$5.8B</b>	 <b>\$45.11B</b>	 <b>\$0.86B</b>	 <b>\$102.9B</b>	 <b>\$4B</b>	 <b>\$43.6B</b>	 <b>\$181B</b>	 <b>\$44.7B</b>	 <b>\$131.4B</b>
2	 <b>\$551.95B</b>	 <b>\$39.27B</b>	 <b>\$2.22B</b>	 <b>\$2.20B</b>	 <b>\$32.83B</b>	 <b>\$0.57B</b>	 <b>\$37.3B</b>	 <b>\$3.6B</b>	 <b>\$7.3B</b>	 <b>\$75B</b>	 <b>\$40B</b>	 <b>\$24.1B</b>
3	 <b>\$150.24B</b>	 <b>\$27.50B</b>	 <b>\$0.25B</b>	 <b>\$1.5B</b>	 <b>\$20.95B</b>	 <b>0.47B</b>	 <b>\$25B</b>	 <b>\$2B</b>	 <b>\$2.4B</b>	 <b>\$65.7B</b>	 <b>\$31.6B</b>	 <b>\$18.2B</b>

Top 3 Imports	China	India	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
1	 <b>\$644.7B</b>	 <b>\$277.2B</b>	 <b>\$6.2B</b>	 <b>\$5.99B</b>	 <b>\$28.84B</b>	 <b>0.69B</b>	 <b>\$71.4B</b>	 <b>\$5.2B</b>	 <b>\$32.5B</b>	 <b>\$154.8B</b>	 <b>\$52.9B</b>	 <b>\$118.1B</b>
2	 <b>\$535.3B</b>	 <b>\$78.2B</b>	 <b>\$0.43B</b>	 <b>\$2.95B</b>	 <b>\$25.85B</b>	 <b>\$0.6B</b>	 <b>\$29.9B</b>	 <b>\$0.9B</b>	 <b>\$25.8B</b>	 <b>\$105.3B</b>	 <b>\$41.2B</b>	 <b>\$24.1B</b>
3	 <b>\$224.7B</b>	 <b>\$69.7B</b>	 <b>\$0.23B</b>	 <b>\$2.4B</b>	 <b>\$22.34B</b>	 <b>\$0.5B</b>	 <b>\$21.7B</b>	 <b>\$0.8B</b>	 <b>\$11.8B</b>	 <b>\$65.5B</b>	 <b>\$29.95B</b>	 <b>\$19.98B</b>

-  Mineral fuels, oils, distillation products
-  Organic chemicals
-  Knitted or crocheted fabrics
-  Machinery, nuclear reactors, boilers
-  Fertilisers
-  Knitted Apparel
-  Electrical, electronic equipment
-  Animal, vegetable fats and oils, cleavage products
-  Non-knitted Apparel
-  Iron and steel
-  Vehicles other than railway, tramway
-  Optical, photographic, cinematographic equipment
-  Electrical machinery and equipment
-  Pearls, precious stones, metals, coins
-  Footwear
-  Plastics
-  Ores slag and ash
-  Man-made staple fibres

Source: UN COMTRADE

## Overall opportunity: \$371 billion export potential for US corporates and investors to Asia-3 economies

Data from ITC suggest a **\$371 billion** opportunity from the export potential of the US to Asia-3 economies, with China the largest market by far.

# \$371 bln

\$371 bln: export potential of US to Asia-3

Export Potential: US to Asia-3 countries				
Market (\$ mln)				
Exporter	China	India	ASEAN	TOTALS
US	205,000	42,000	123,830	370,830

Source: ITC Export Potential Map<sup>29</sup>

## Sector opportunities: Asia-3 and other nations in Asia present strong prospects for US to increase trade with Asia

Within Asia broadly, there are several countries that could also present worthwhile opportunities to increase trade with the US. These include demographic plays such as Pakistan and Bangladesh, which both have sizeable populations and educated, English-speaking workforces, and resource-rich Kazakhstan and Mongolia.

More broadly, data on export potential from the key growth Asian economies – China, India and ASEAN – indicate that these markets provide sizeable opportunities for US corporates and investors. The tables below present the key sector opportunities for the US in the Asia-3 countries based on the largest export gaps as identified by ITC.

From US	China		India		Brunei		Cambodia		Indonesia	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
	Oil seeds	19,000	Chemicals	3,200	Machinery, electricity	26	Motor vehicles & parts	39	Machinery, electricity	1,100
	Machinery, electricity	9,000	Machinery, electricity	3,100	Motor vehicles & parts	30	Machinery, electricity	87	Motor vehicles & parts	790
	Mineral resources	8,200	Plastics & rubber	2,200	Chemicals	17	Pharmaceutical components	83	Optical products, watches, & medical instruments	607

Source: ITC Export Potential Map

From US	Laos		Malaysia		Myanmar		Philippines		Singapore	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
	 Machinery, electricity	9.8	 Machinery, electricity	1,700	 Vegetal residues & animal feed	10	 Machinery, electricity	991	 Machinery, electricity	1,000
	 Motor vehicles & parts	4.4	 Electronic equipment	152	 Machinery, electricity	48	 Vegetal residues & animal feed	489	 Aircraft, spacecraft & parts	196
	 Pharmaceutical components	3.5	 Chemicals	1,400	 Pharmaceutical components	50	 Electronic equipment	76	 Optical products, watches, & medical instruments	1,100

Source: ITC Export Potential Map

From US	Thailand		Vietnam	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
	 Machinery, electricity	1,100	 Electronic equipment	481
	 Chemicals	826	 Machinery, electricity	1,400
	 Motor vehicles & parts	518	 Cereals (except wheat & rice)	1,800



**Success routes for Asian corporates in the US market**

## ASEAN shows most interest to directly invest in the US among Asia-3 economies

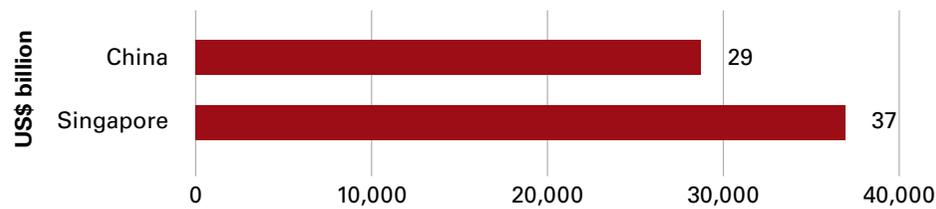
The United States may be the world's largest recipient of FDI but inward direct investment from Asia-3 economies is relatively low at \$74.3 billion in 2022. However, it is worth noting that this figure was a ten-year high in 2022, which is a positive signal for growth.

Among the Asia-3 economies, Singapore is the largest direct investor in the United States (\$36.9 billion), followed by China (\$28.7 billion).

Singapore investors in 2022 were particularly keen on: 1. Real estate, rental and leasing (\$3.4 billion); 2. Wholesale trade (\$2.4 billion); and 3. Depository institutions (\$1.4 billion).

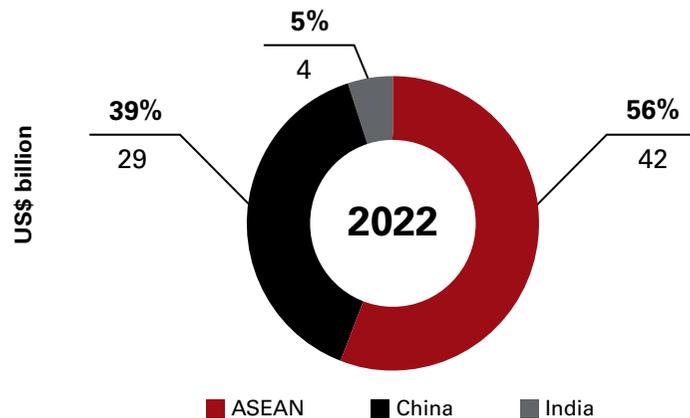
Chinese investors in 2022 put their money in: 1. Other industries (\$13.8 billion); 2. Manufacturing - Transportation equipment (\$2.4 billion); and 3. Real estate, rental and leasing (\$2.3 billion).

### Singapore and China were the biggest direct investors into the US among Asia-3 in 2022



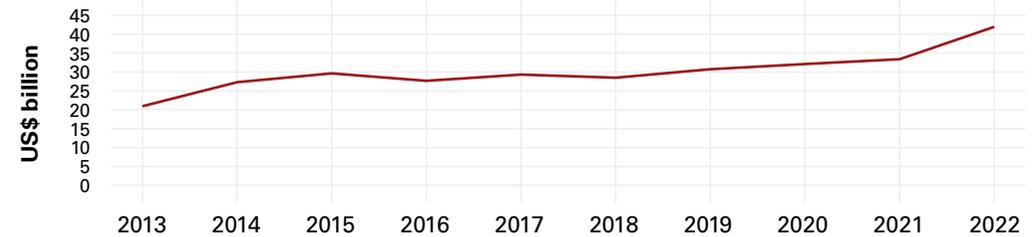
Source: Bureau of Economic Analysis, US Department of Commerce

### Among Asia-3, ASEAN was the main destination for US direct investments in 2022



Source: Bureau of Economic Analysis, US Department of Commerce

### ASEAN direct investment into the US dominated by Singapore, at 88% in 2022



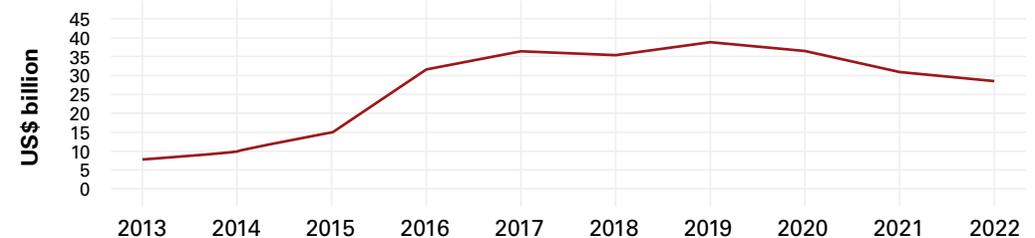
Source: Bureau of Economic Analysis, US Department of Commerce

### India direct investment into the US recovering post - 2020



Source: Bureau of Economic Analysis, US Department of Commerce

### China direct investment into the US tapering



Source: Bureau of Economic Analysis, US Department of Commerce

## Overview & Trends: Tapping sectors in the new economy that are key to US trade frameworks and priorities

Cross-sectoral industry disruption is a hallmark of the new economy. Along with climate change and geopolitical risk, disruption is creating headwinds but also opportunities for the global economy. Against this macroeconomic backdrop, trade alliances involving Asia are seeing various reconfigurations, one of which is the Indo-Pacific Economic Framework (IPEF). As mentioned above, this trading bloc of 14 nations accounts for 40% of global GDP and 28% of global goods and services trade, making IPEF a potential gamechanger.

Broadly, IPEF is focused on four dimensions of the new economy via its four strategic pillars, and highlights opportunities in new economy sectors such as the digital economy and clean energy, as well as key aspects of global economic infrastructure such as supply chains and fair economic practices:



### Connected Economy

#### Overall focus

Digital economy

#### Specific key aspects

Cross-border data flows, data localisation, e-commerce, artificial intelligence

#### Potential solutions

Seize opportunities and address concerns in the digital economy, to help SMEs benefit more from the e-commerce sector



### Resilient Economy

#### Overall focus

Supply chains

#### Specific key aspects

Anticipating and preventing disruptions in supply chains; guarding against price spikes

#### Potential solutions

An early warning system mapping critical mineral supply chains, improving traceability in key sectors



### Clean Economy

#### Overall focus

Clean energy

#### Specific key aspects

Clean energy; decarbonisation; and infrastructure that promotes good-paying jobs

#### Potential solutions

Concrete, high-ambition targets on renewable energy, carbon removal, energy efficiency standards, and new measures to combat methane emissions



### Fair Economy

#### Overall focus

Fair economic practices

#### Specific key aspects

Effective tax, anti-money laundering, and anti-bribery regimes

#### Potential solutions

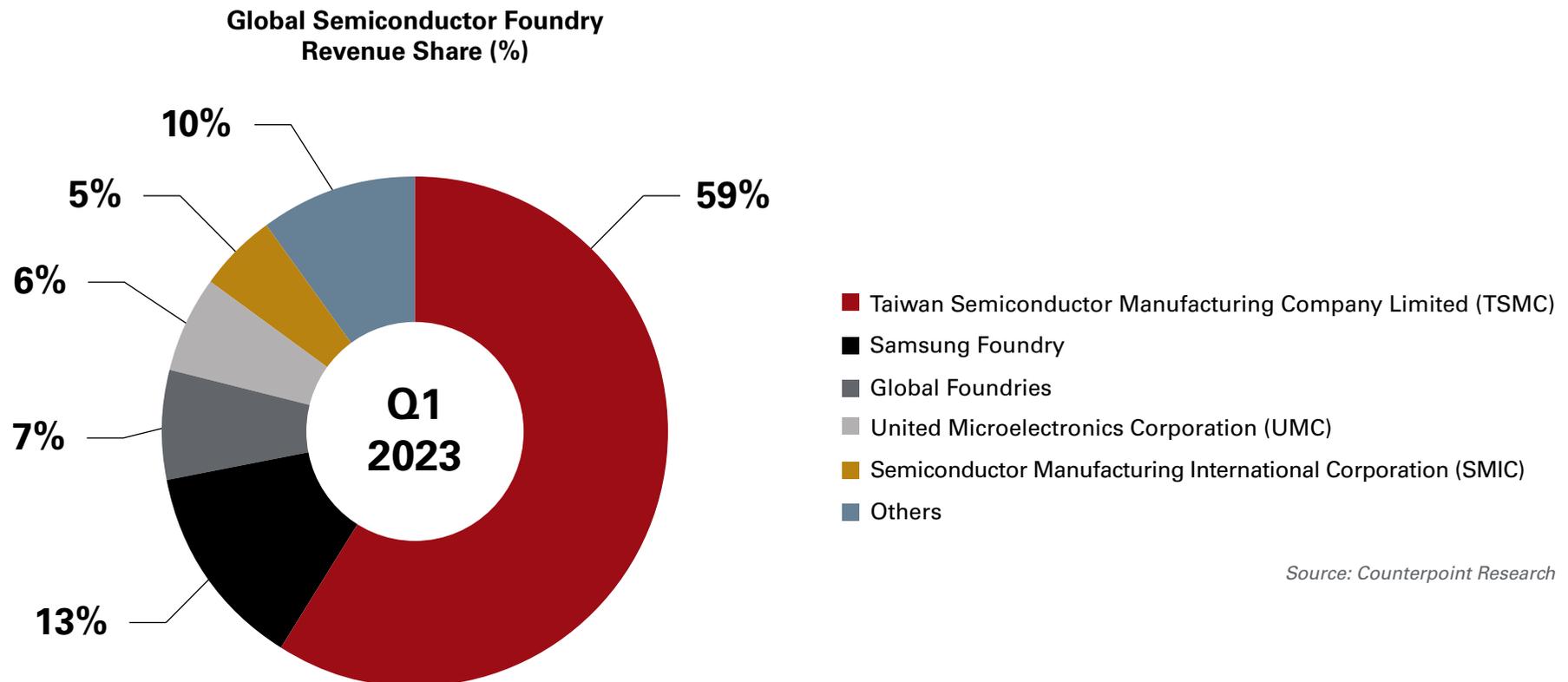
Provisions on the exchange of tax information, criminalisation of bribery in accordance with UN standards, and effective implementation of beneficial ownership recommendations to help crack down on corruption

Source: Based on Ustr.gov<sup>30</sup>

## Semiconductors and their relevance to the Asia-US Corridor

Semiconductors are an industry sector of particularly crucial importance that holds much current and likely future relevance for the Asia-US Corridor. The industry includes the manufacture of devices such as integrated circuits and transistors used in the chips that power many modern electronic devices such as mobiles, laptops and data servers. It is a highly concentrated industry, with five companies capturing 90% of the global market share for semiconductor foundries in Q1 2023: TSMC (Taiwan), Samsung Foundry (South Korea), GlobalFoundries (US), UMC (Taiwan) and SMIC (China).<sup>31</sup> As the doughnut chart below shows, the quarterly revenue share data for the top players in the global semiconductor foundry market for Q1 2023 shows TSMC alone has a 59% of market share.

As such, the highly concentrated nature of such a crucial industry is a cause for concern among stakeholders along the Asia-US Corridor, especially in the current climate of heightened Sino-US tensions, as economic historian Chris Miller's recent *Chip War: The Fight for the World's Most Critical Technology* discusses in detail.<sup>32</sup> Some possible solutions to this issue include the US's current attempts to broaden its supply chains in this industry, e.g. by sourcing semiconductors from Japan, though the high economic moats involved in this industry will likely limit the impact of such efforts in the near term. Consequently, concerted efforts along the Asia-US Corridor to address this issue are much needed.



## Leadership is key - Asian corporates whose leaders have key success attributes will likely thrive

Recent industry research by BCG suggests that successful Asian corporate leaders share a number of key attributes.<sup>33</sup> Although the US and Asia are different markets, the globalised nature and high levels of interdependence in the world's economy make these attributes especially relevant in today's business environment. These factors have helped leaders of businesses such as Bajaj Finance, Mengniu Dairy Co., Hindustan Unilever and Biocon to consistently deliver impressive shareholder returns and place them in a good position to build similar success in the US, too. Based on BCG's analysis, these key attributes include:

**Long-term perspective:** Successful business leaders keep quarterly results in perspective and look beyond them to the more important goal of succeeding in the medium and long term. Sanjiv Bajaj, Chairman of Bajaj Finance, says: "If there is a short-term opportunity that doesn't get in the way of where you need to be in the end, go ahead and get it. But if it conflicts with where you're headed in the long term, step away."

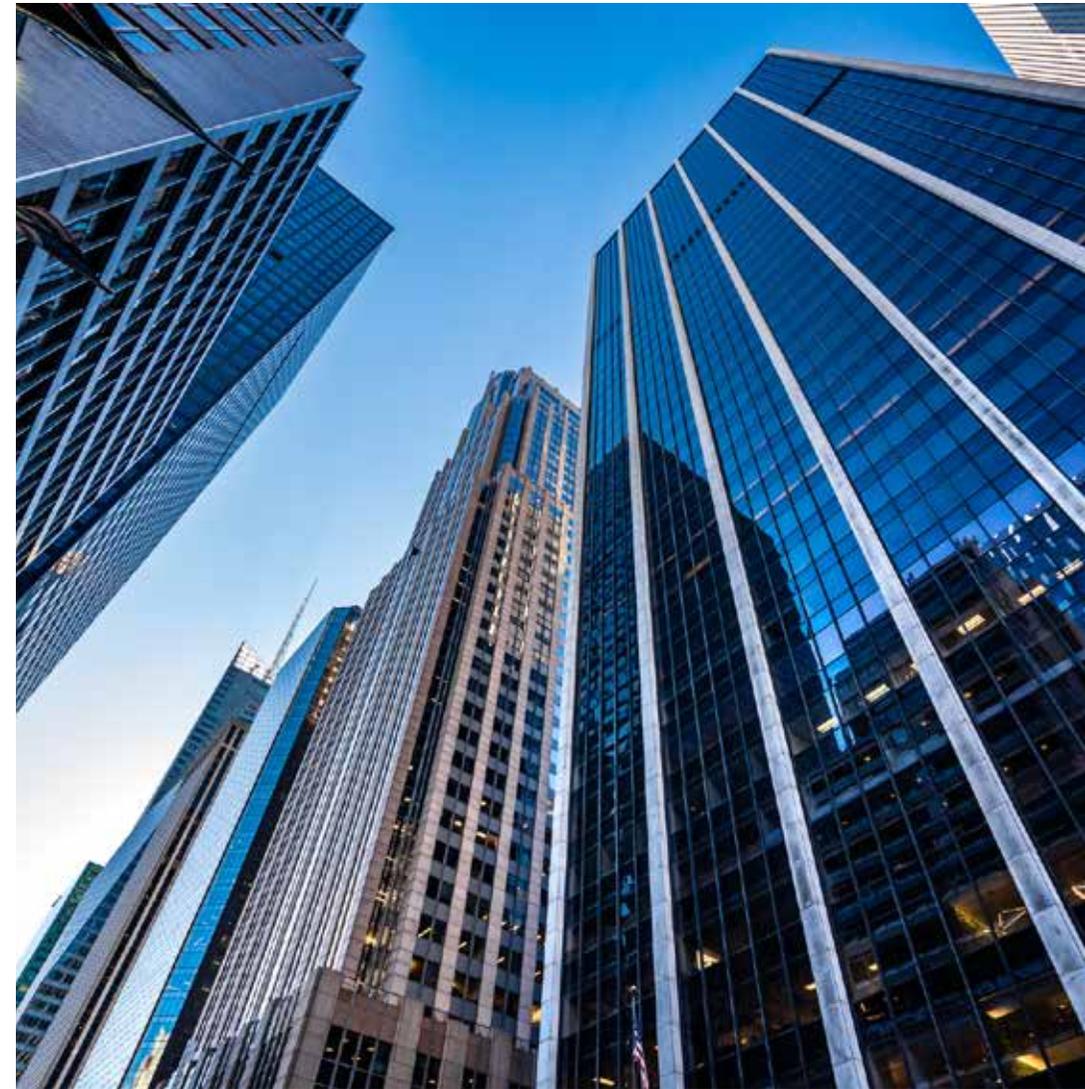
**Institutionalised owner mindset:** Jeffrey Minfang Lu, CEO of China's Mengniu Dairy, dismantled the company's centralised structure and put decision-making in the hands of business units. He also increased the financial incentives for managers in non-executive positions and rethought a profit-sharing system for top management. "The salaries of frontline employees doubled and managerial salaries have tripled," Lu said.

**Strong people orientation:** Jahja Setiaatmadja, President Director of Indonesia's Bank Central Asia, the largest bank in Southeast Asia, says positive encouragement usually works better than criticism, and the most important thing is to "gain the heart of your employees". He also says that in Asia, people will "give their all" if they have trust in and loyalty to a business leader.

**Effective navigation of ecosystems:** Alope Lohia, the Founder of Bangkok-based Indorama Ventures, the world's largest producer of PET polymers, looks to the world for the right talents and pushes his leadership team to get out in front of regulations. "Our commitment to environmental sustainability and social responsibility is significant," said Lohia. "We use this in our differentiation."

**Agility and a drive to survive and thrive:** Miranda Qu, the founder of one of China's unicorns Xiaohongsu, started an overseas shopping guide and is now focused on new consumption and experience scenarios in sectors such as

cosmetics, beauty and travel. Every company undergoes twists and turns, she said. "Iteration has been the source of Xiaohongsu's development in the past, and it will continue to be so in the future. It means that one cannot be content with past achievements. It also means that one has to be open-minded when faced with challenges, be able to constantly switch perspectives between long-term strategy and short-term results, and do the truly right things, which are usually tough to do."



## Key trade sectors for the US

As illustrated by the table below showing the top 3 Exports and Imports for the US, the US will continue to require various manufactured goods and resources from Asia and other regions to meet domestic consumption and to fuel its own economic growth.

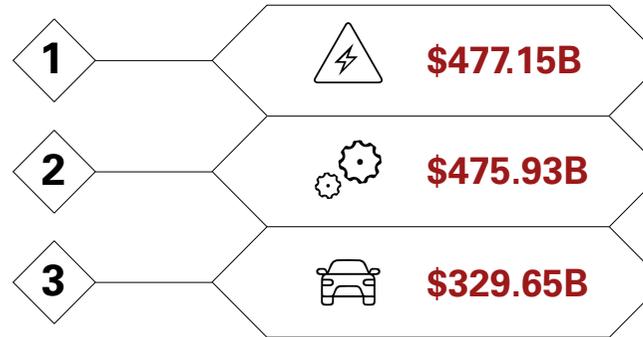
### Top 3 Exports

US



### Top 3 Imports

US



- Mineral fuels, oils, distillation products
- Machinery, nuclear reactors, boilers
- Electrical, electronic equipment
- Vehicles other than railway, tramway

Source: UN COMTRADE

## Overall opportunity: \$1 trillion export potential for Asia-3 corporates and investors to the US economy

Data from ITC indicate there is export potential of **\$1 trillion** from Asia-5 supplying markets to the US. As the table below shows, China will likely provide most of this potential supply, to the tune of \$635 billion, while Japan will potentially meet \$163 billion of export potential.

# \$1 trillion

Export potential of Asia-3 to US

Export Potential: Asia-3 countries to US	
Exporter	Into US Market (\$ mln)
China	635,000
India	84,000
ASEAN	287,500
<b>TOTALS</b>	<b>1,004,000</b>

Source: ITC Export Potential Map<sup>34</sup>

## Sector opportunities: Continuing to meet American demand for manufactured goods and resources

At a more granular level, the export potential should translate into key sector opportunities for corporates and investors from the Asia-3 supplying markets. The tables below present these opportunities in the US market, based on the largest export gaps as identified by ITC.

	From China		From India		From Brunei		From Cambodia		From Indonesia	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
To US	 Electronic equipment	36,000	 Jewellery & precious metal articles	5,900	 Chemicals	8.4	 Apparel	1,500	 Motor vehicles & parts	1,500
	 Miscellaneous manufactured products	24,000	 Motor vehicles & parts	3,300	 Fish & shellfish	0.49	 Footwear	186	 Machinery, electricity	823
	 Machinery, electricity	22,000	 Machinery, electricity	2,600	 Aircraft, spacecraft & parts	0.07	 Bicycles, carriages & parts	108	 Chemicals	632

Source: ITC Export Potential Map

	From Laos		From Malaysia		From Myanmar		From Philippines		From Singapore	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
To US	 Apparel	7.8	 Machinery, electricity	2,800	 Apparel	175	 Electronic equipment	2,000	 Electronic equipment	3,800
	 Machinery, electricity	7.4	 Plastics & rubber	2,100	 Jewellery & precious metal articles	46	 Machinery, electricity	522	 Machinery, electricity	2,900
	 Metals (except ferrous & precious)	5.8	 Electronic equipment	1,700	 Pulses	21	 Pharmaceutical components	353	 Pharmaceutical components	1,000

Source: ITC Export Potential Map

	From Thailand		From Vietnam	
	Top Sectors	Export Gap (US\$ mln)	Top Sectors	Export Gap (US\$ mln)
To US	 Motor vehicles & parts	4,200	 Electronic equipment	14,000
	 Machinery, electricity	2,000	 Footwear	9,000
	 Plastics & rubber	984	 Apparel	7,700

# Conclusion

The US-Asia corridor will remain among the world's most fruitful trade and investment conduits and its prospects still look strong despite the various headwinds such as geopolitical issues, inflation and rising rates. China, India and ASEAN countries supply 67% of the US's imports from Asia while the US is the largest source of FDI for trade and investment in ASEAN. Growth is particularly strong in Asian exports to the US.

This is no reason for complacency, however. Still more opportunities for trade and investment flows along the corridor could be opened up if more work was done on drawing up free trade agreements between the US and its Asian partners. Currently, only Japan of the US's leading trading partners has an FTA with the US and even this is limited to trade in certain minerals. It will be particularly important for relations to improve with the world's second-largest economy, China.

ASEAN is especially promising for US investors and exporters due the trading bloc's growing population and economy and its rapidly developing consumer base. US imports from ASEAN already increased four-fold over the decade to 2022. A particular area to which US investors are in excellent position to tap into is ASEAN's digital economy, which is growing at an exponential rate. It will be of particular importance for US investors to tailor their approaches to the region to suit each, sometimes very different, market in the region.

The US will remain a critically important market for East Asian and ASEAN corporates and investors, particularly for electrical and electronic equipment including semiconductors. Asian industry leaders point to the key attributes needed to benefit from the lucrative US market being taking a long-term perspective, adopting an institutionalised owner mindset, having strong people orientation, effectively navigating ecosystems, and having the agility and drive to survive and thrive.



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