Be Resilient

Your Strategy for Business Growth

ASEAN SME Transformation Study 2022

UOB accenture dun & bradstreet

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01
Executive summary

After more than two years of business disruption due to the global pandemic, small and medium-sized enterprises (SMEs) across the ASEAN region continue to navigate significant uncertainty, but with signs of recovery.

For SMEs in ASEAN, recent years have held mixed fortunes for business, with COVID-19 recovery efforts advancing at different rates across the region. Whilst businesses looked expectantly towards 2022 as a year of renewal, markets were plunged into fresh upheaval with the recent Ukraine conflict. Regional SMEs now find themselves facing significant geopolitical uncertainty, elevated inflation and ongoing supply chain and workforce disruptions.

As these pressures converge, businesses across the region need to constantly adapt to remain competitive. To help ASEAN SMEs gain insight into the strategies taken by their peers, UOB, Accenture and Dun & Bradstreet (D&B) have collaborated on the ASEAN SME Transformation Study. The insights, concluded in Q1 2022, capture the sentiments of 1,500 SMEs across five key ASEAN markets – Singapore, Indonesia, Malaysia, Thailand and Vietnam.

This report explores how ASEAN SMEs are pivoting their strategy and operations to thrive in an uncertain business environment, as well as how they are accelerating digitalisation and sustainability efforts to build more agile and resilient businesses. It also examines the role that regional partners – including banks, governments and technology providers, have to play in supporting SMEs. The types of support required by SMEs span direct financial assistance, advisory services, innovative digital solutions and other support schemes.

SMEs are the backbone of economies across ASEAN, supporting the livelihoods of communities and individuals in the region. We hope that this report will offer valuable insight for the region's enterprises as they continue building business growth.


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02

Results from the ASEAN SME Transformation Survey 2022

This sections explores the perspectives, concerns and strategies that SMEs have for the years ahead, based on the findings from the ASEAN SME Transformation Survey.

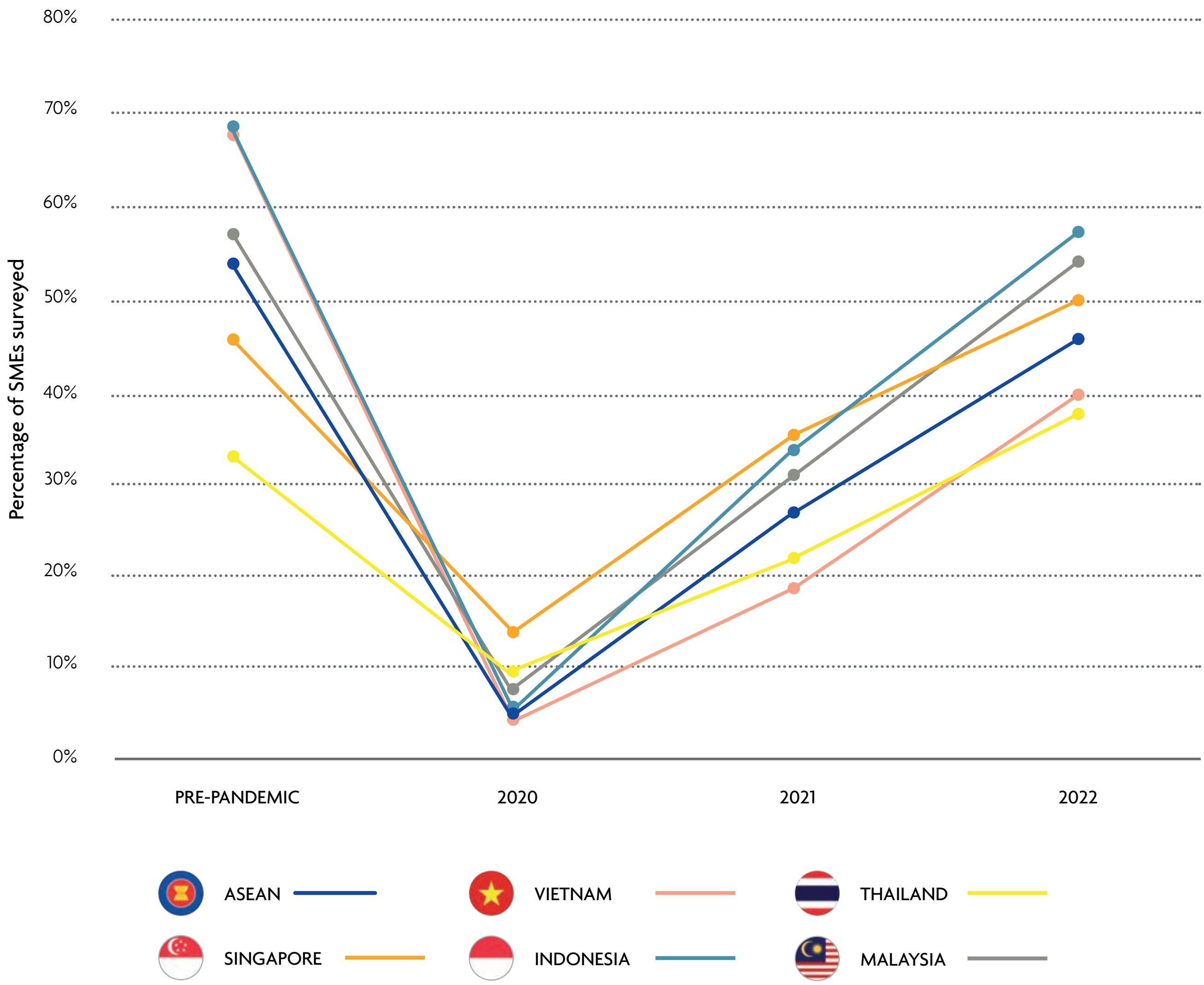
This survey was concluded in Q1 2022 with 1,500 SMEs from Singapore, Malaysia, Indonesia, Thailand and Vietnam. There was an equal representation from each country. This online quantitative research included the views of senior executives from businesses with annual revenues of US$300,000 to US$20 million.

The survey delves into SMEs' business strategies and operations, as well as their responses to megatrends such as digitalisation and sustainability, set against the backdrop of the pandemic and other ensuing challenges such as the recent Ukraine conflict and its resulting impact on business. It also outlines SMEs' needs and expectations from their key strategic partners, namely their banks, as well as ecosystem partners such as technology providers and government agencies.

2.1 Business sentiments and needs

As the pandemic draws on and regional governments introduce reopening measures cautiously, business optimism is steadily returning to pre-pandemic levels, with one in two SMEs expecting an increase in revenue from 2022.

Figure 1: Expectations of revenue increase among SMEs

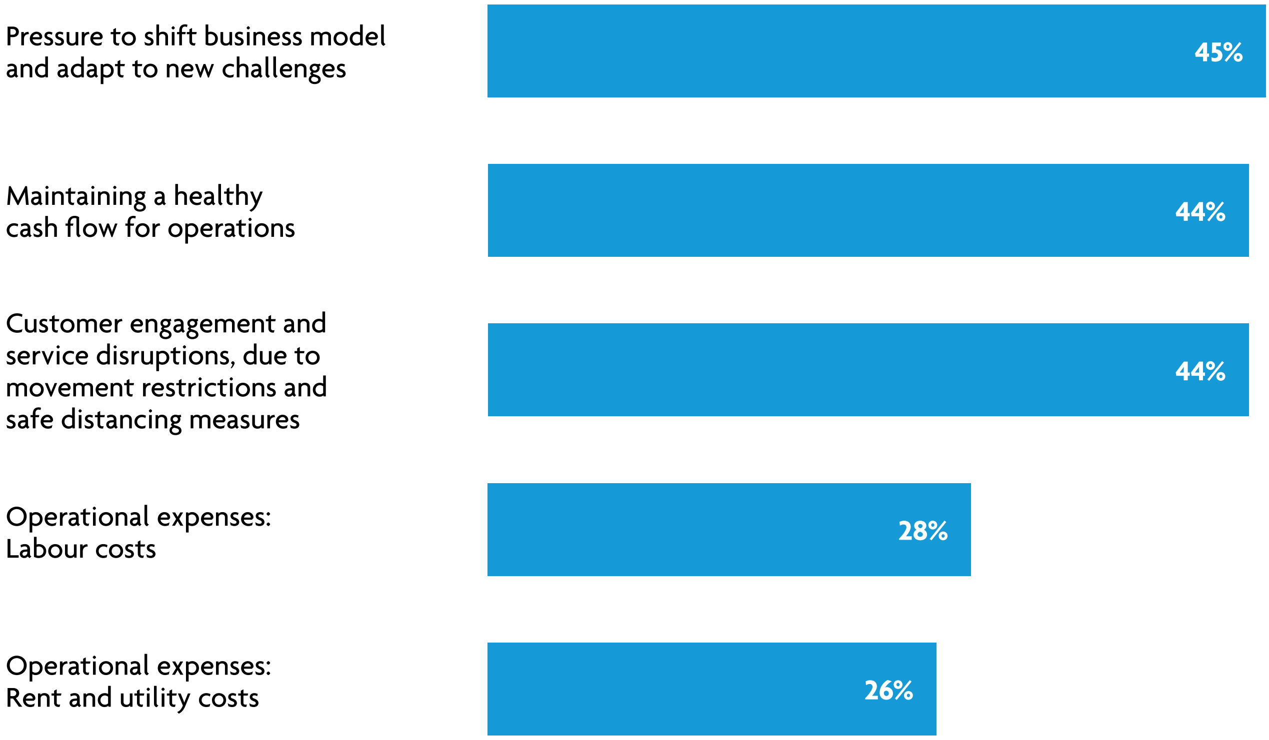


From the survey, a majority (55 per cent) of businesses expressed optimism about their business recovery outlook despite challenges posed by recent geopolitical and macroeconomic developments. Additionally, participants from across all markets have increased their business investments, which suggests rising confidence in future sales.

While there is renewed ambition towards business recovery, a significant proportion of SMEs (45 per cent) in the region remain concerned about the need to transform their business models (Figure 2), particularly in the areas of digitalisation and sustainability. This theme came across more strongly in Thailand (50 per cent) and Vietnam (50 per cent).

Amidst the economic headwinds from the Ukraine conflict, repeat pandemic waves across Asia, supply chain challenges and high inflation, there is increased volatility and therefore risk, to SMEs. Their businesses are particularly vulnerable to risk exposures in capital flows, trade and commodity markets worldwide. In such an environment, agility is key for enterprises to respond to these changes, therefore building business resilience for the long term.

Figure 2: SMEs' immediate business concerns



Beyond exploring SMEs' general business sentiments, the following sections also explore broader digitalisation and sustainability trends, which are expected to be key areas of growth for companies in the forthcoming years.

2.2 Digitalisation and technology

Customer engagement through digital transformation

The pandemic has brought about new perspectives on customer engagement for SMEs, given considerable shifts in consumer behaviour as a result of lockdowns and restrictions on movement. 44 per cent of SMEs surveyed acknowledged this notable shift in consumer preferences and have singled out customer engagement as a pressing concern. Many of those surveyed expressed that they are enhancing the digital customer experience through digital transformation, to retain existing customers as well as attract new ones.

SMEs in the food and beverage (F&B) industry (55 per cent) are particularly concerned about customer engagement. In addition to drawing existing customers back for in-person dining experiences, brick-and-mortar F&B businesses continue serving new customers that were acquired through delivery platforms during the pandemic.

Likewise, half of the SMEs in the F&B industry (50 per cent) cite a resilient business model as an important concern, compared with all other businesses surveyed (45 per cent). F&B companies have been looking to new formats and segments to keep driving growth amidst ongoing uncertainty. For instance, there has been a rise in popularity of shared cloud kitchens, centralised commercial kitchens built to produce food specifically for delivery, which offer cost optimisation and new opportunities for smaller and younger industry entrants.

SMEs are also focusing on innovative technology (59 per cent), convenience (58 per cent) and user-friendliness (56 per cent) as key enablers to improve customer engagement (Figure 3).

Figure 3: Customer engagement capabilities that SMEs plan to improve on

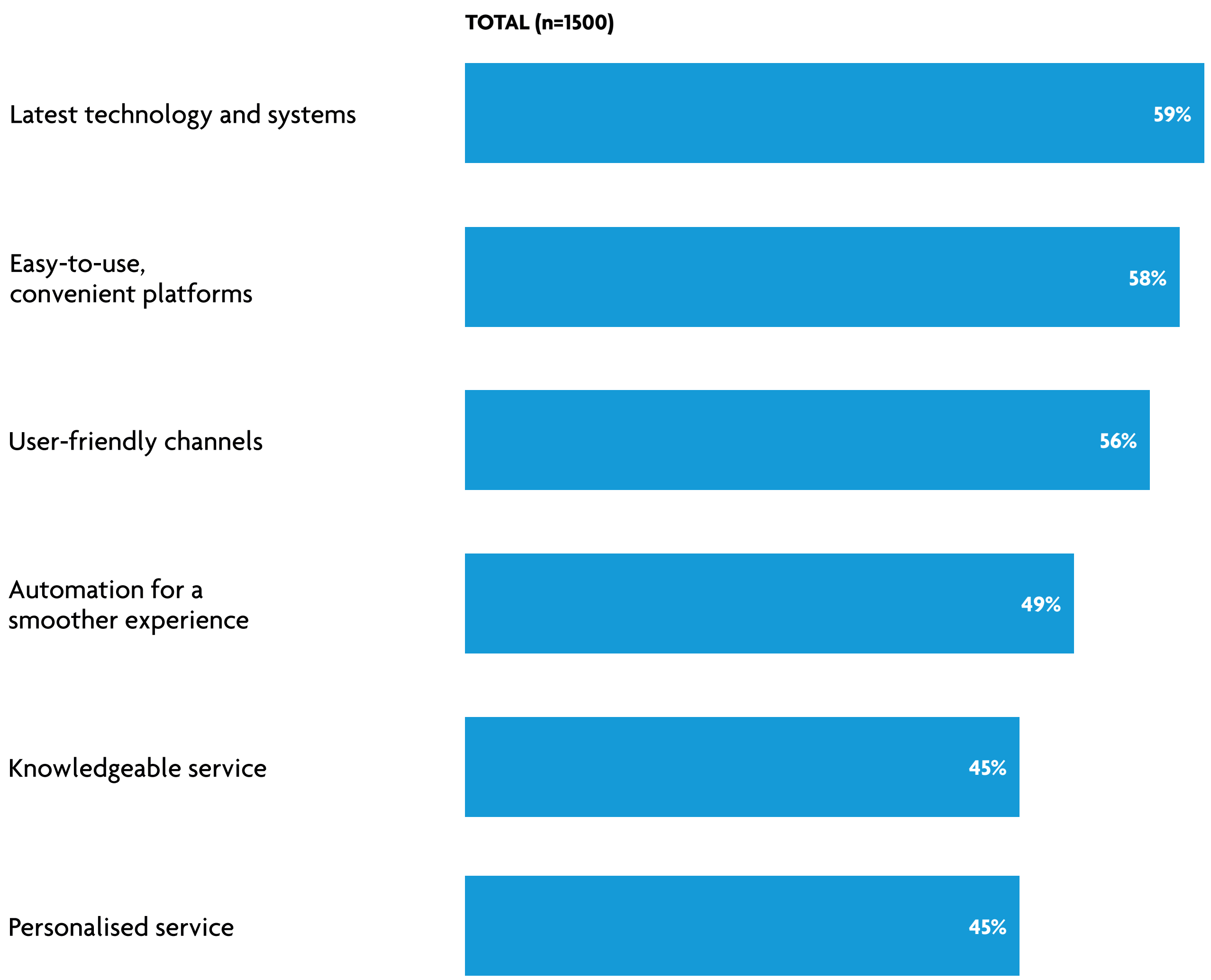
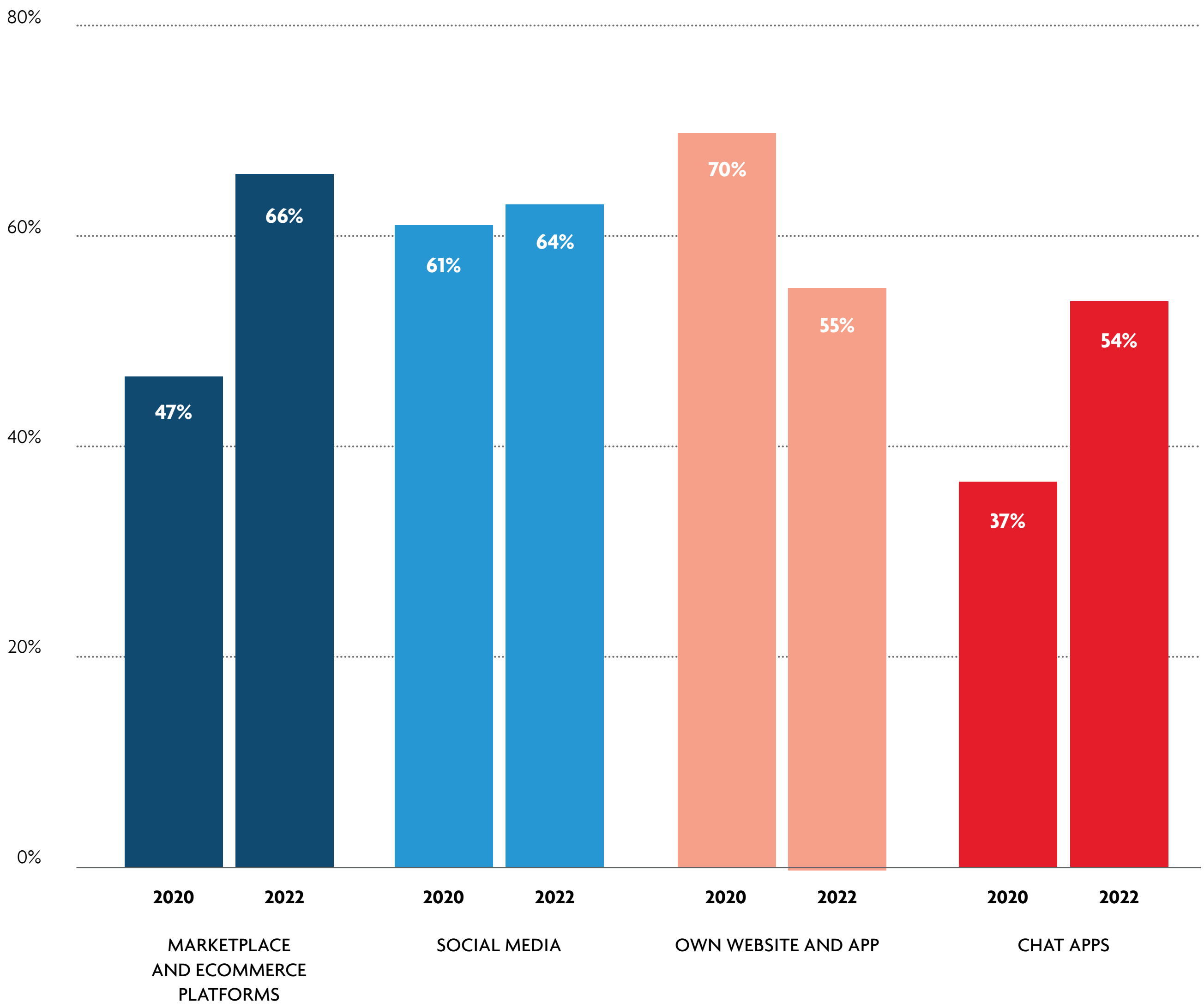


Figure 4: SMEs' choice of digital sales channels

Which digital channels do you use to sell your products/services?

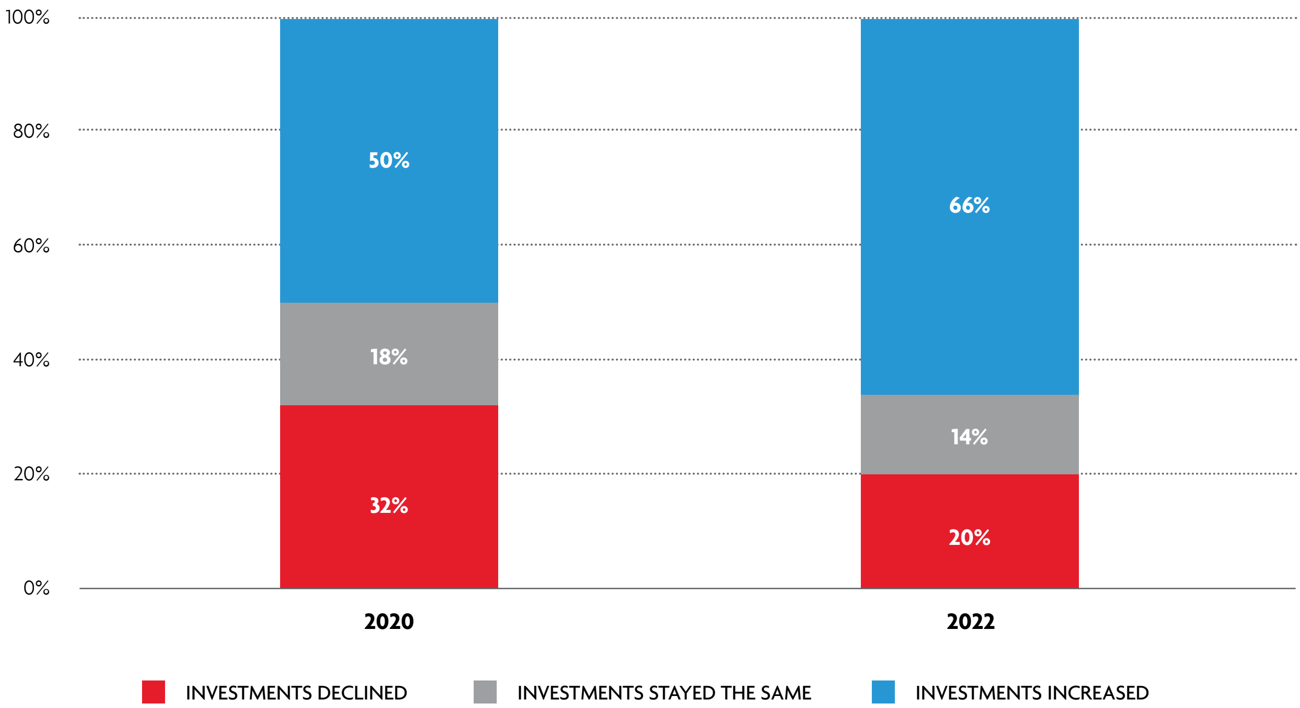


In addition, three in five businesses say they will continue digitalising their companies and tapping digital economy opportunities, such as selling through digital platforms, to gain a competitive advantage. The digital marketplace has diluted traditional brick-and-mortar sales channels and stand-alone SME websites and applications. For a fee, previously time-consuming tasks are now streamlined for business sellers and made easier for them on online marketplace platforms, from transaction processing and customer service responses to site maintenance and returns handling. Another plus point for businesses looking to digitalise is the access that they can have to a wider online audience searching for other brands and products.

Investing in technology remains a key priority

With increased emphasis on digitalisation and technology for businesses, most SMEs also expect to invest more in this area. Based on the survey, 66 per cent of respondents indicated that their technology spend had increased through 2021 (Figure 5).

Figure 5: Technology spend in 2022 versus 2020



These technology investments can be divided into four main areas:

DIGITAL MARKETING AND SOCIAL MEDIA

Online marketing channels to promote brands to connect with potential customers using various forms of digital communication

TECHNOLOGY AND NETWORK MANAGEMENT

Services to administer and manage all network devices

OPERATIONAL PROCESSES

Application/system function running process to carry out continuous and efficient tasks

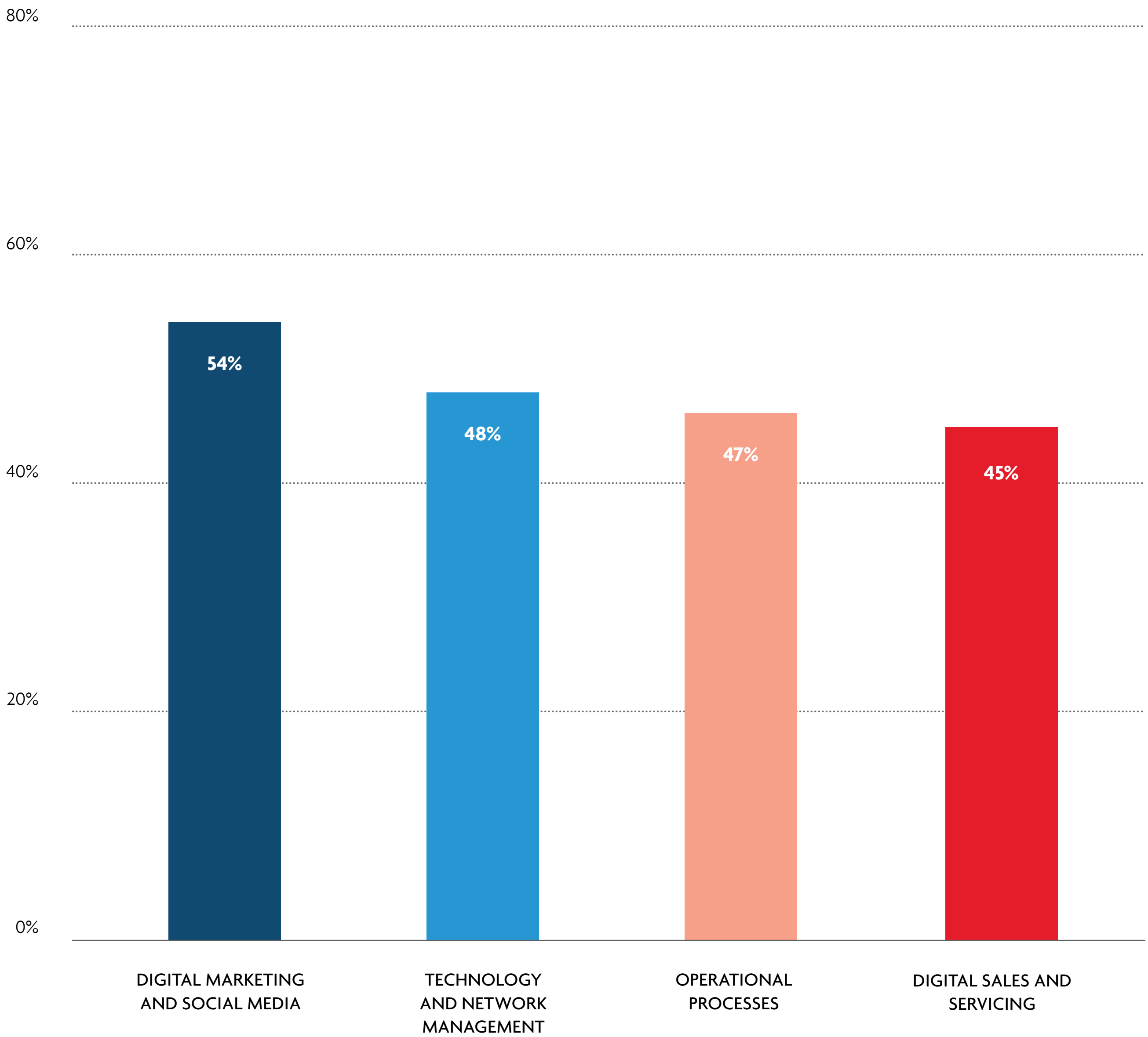
DIGITAL SALES AND SERVICING

Online channels for sales and servicing

In their response, SMEs' emphasis on technology investments were evenly distributed across the value chain, from customer acquisition to sales and operations. On operations, respondents cited that digital tools would help them manage operational costs during this period of high inflation (Figure 6). This demonstrates that more SMEs are realising that not only does technology benefits business by enabling digital sales and services, and also streamlines operations for better efficiency, therefore saving costs.

Figure 6: Breakdown of technology-related investments

Areas of business where technology investment will be spent



With the increased expenditure on technology, 78 per cent of SMEs are looking to drive business efficiency with a focus on increasing their cash flow (Figure 7).

Figure 7: Preferred ways of managing cash flow

Scale of 1 (not important) to 5 (very important)

% RATING 4 AND 5	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
Improve business efficiency	78%	65%	79%	84%	81%	81%
Seek deferment in loan repayments through COVID-19 relief schemes initiated by the government or financial institutions	77%	67%	73%	80%	81%	81%
Obtain financing from COVID-19 relief schemes initiated by the government or financial institutions to increase working capital	76%	68%	74%	79%	81%	78%
Apply for government assistance in rental waivers and property tax rebates	75%	68%	70%	79%	80%	79%
Raise employee productivity	75%	70%	73%	75%	79%	78%

2.3 Sustainability

Beyond digitalisation and technology initiatives, sustainability has emerged as a megatrend that is shaping the way SMEs think about their businesses. Environmental, social and governance (ESG) priorities are a growing strategic priority amongst both large corporates and SMEs in the region. Two out of three SMEs (65 per cent) indicate that sustainability is currently an area of importance and concern.

For SMEs, their customers' expectations, beliefs and perceptions are key in driving the growing emphasis on sustainability. SMEs across Singapore, Malaysia and Vietnam ranked this as their leading motivator to adopt sustainability objectives in business. In Indonesia and Thailand, green financing opportunities are the main factor for SMEs' increased focus on sustainability.

While enterprises across the region are paying more attention to sustainability, a significant proportion of SMEs (35 per cent) remain in experimentation mode, where they introduce only limited changes across their businesses. In terms of specific sustainability-led initiatives, SMEs across all markets are most focused on developing new business models, products and services (57 per cent), followed by improving energy, water and resource efficiency (52 per cent) (Figure 8).

Figure 8: SMEs' current focus areas for sustainability

KEY FOCUS	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
Improving energy, water and resource efficiency	52%	43%	51%	58%	47%	60%
Developing new business models, products and services	57%	43%	54%	62%	65%	62%
Obtaining sustainability-related certifications	40%	34%	40%	36%	41%	49%
Reporting and measurement	34%	31%	34%	27%	38%	38%
Inclusive hiring	34%	31%	39%	31%	39%	29%
Community development	38%	30%	43%	37%	36%	45%

Enterprises are realising that the journey to sustainability comes with considerable challenges that they must overcome to effectively meet ESG objectives. High initial costs (60 per cent), such as investment in new talent, training, research and technology, represent the most significant challenge for SMEs across all markets in adopting sustainable practices. Other obstacles include a lack of dedicated resources and time (51 per cent), as well as a lack of expertise and know-how (48 per cent) (Figure 9).

Figure 9: Challenges faced in implementing sustainability objectives on a wider scale

KEY CHALLENGES	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
High initial costs	60%	51%	57%	66%	58%	66%
Lack of dedicated resources and/or time	51%	46%	55%	41%	50%	66%
Lack of expertise and know-how	48%	41%	52%	43%	55%	51%
Unconducive regulatory environment	45%	33%	43%	52%	54%	43%

2.4 Growth and expansion goals

As expected, for 77 per cent of SMEs, their domicile country remains the most important market across the board. For the 63 per cent of enterprises that have expanded overseas, sales from regional or global markets outside of the domestic market constituted less than a third of their revenue, signifying yet greater potential outside of domicile markets.

74 per cent of SMEs expressed a growing appetite for going overseas to tap fresh opportunities in the wider ASEAN region. Thailand, Indonesia and the Philippines stand out as the top three countries into which SMEs are looking to venture to in the next three years, to capture new growth opportunities.

Indonesia	Philippines	Thailand
33%	39%	40%

Increasingly, SMEs are also considering markets beyond ASEAN. 43 per cent of survey respondents revealed a strong interest in moving into select global markets, especially to North Asia (e.g. China, Japan, South Korea), as these markets offer additional growth and distribution opportunities for them.

Despite the positive outlook on venturing overseas, it is important to note that SMEs do face significant challenges when it comes to cross-border growth. Some of the top obstacles cited include competition from incumbent players and limited brand recognition (55 per cent), regulatory restrictions on foreign entrants (48 per cent) and foreign exchange fluctuations (48 per cent).

2.5 Workforce and employment

Given the ever-changing business environment, a growing proportion of SMEs are investing in employee skills development (51 per cent versus 38 per cent pre-pandemic[1]). A majority of SMEs (64 per cent) have identified reskilling and redeploying their workforce as their top measure to build a resilient workforce and adapt their business models. TThree in five SMEs are looking to reskill and upskill their employees by enrolling them on digital immersion programmes organised by ecosystem partners, in order to build adaptability to changes (Figure 10).

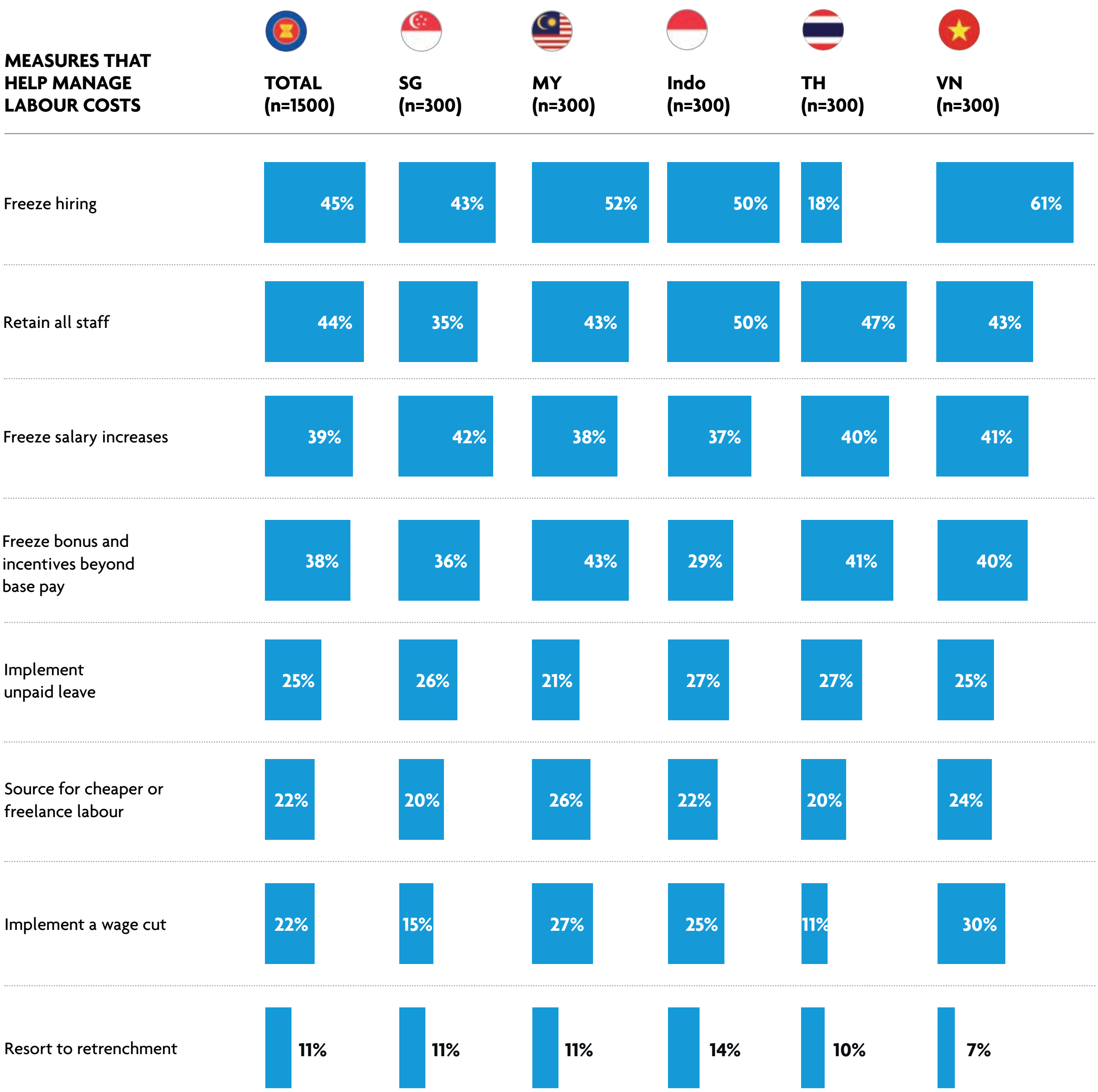
Figure 10: Measures taken by SMEs to equip their workforce

MEASURES TAKEN	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
Reskill and redeploy workforce	64%	57%	67%	65%	59%	74%
Enrolling employees for digital immersion programmes through ecosystem partners	60%	47%	60%	59%	63%	71%
Implementing new training programmes that build digital skillsets	58%	52%	57%	55%	63%	62%

[1] Download the ASEAN SME Transformation Study 2020 here: https://forms.uob.com.sg/eservices/business/aseansme2020.html

When it comes to managing labour costs, SMEs have adopted various practices, from pausing recruitment and bonuses to implementing wage cuts. Amongst regional SMEs, hiring freezes were the preferred option for managing costs (45 per cent), with the exception of respondents from Thailand who largely hoped to continue retaining staff regardless. Hiring freezes are seen as a measure that minimises business costs while preserving overall company morale. In anticipation of economic recovery across the region and therefore increased demand spikes, rehiring and training employees might mean increased cost spikes and labour shortage for SMEs. As such, laying off employees ranks as the least preferred business practice amongst SMEs with only 11 per cent indicating preference for this option (Figure 11).

Figure 11: Preferred measures to manage workforce-related costs



2.6 Support desired from financial, governmental and ecosystem partners

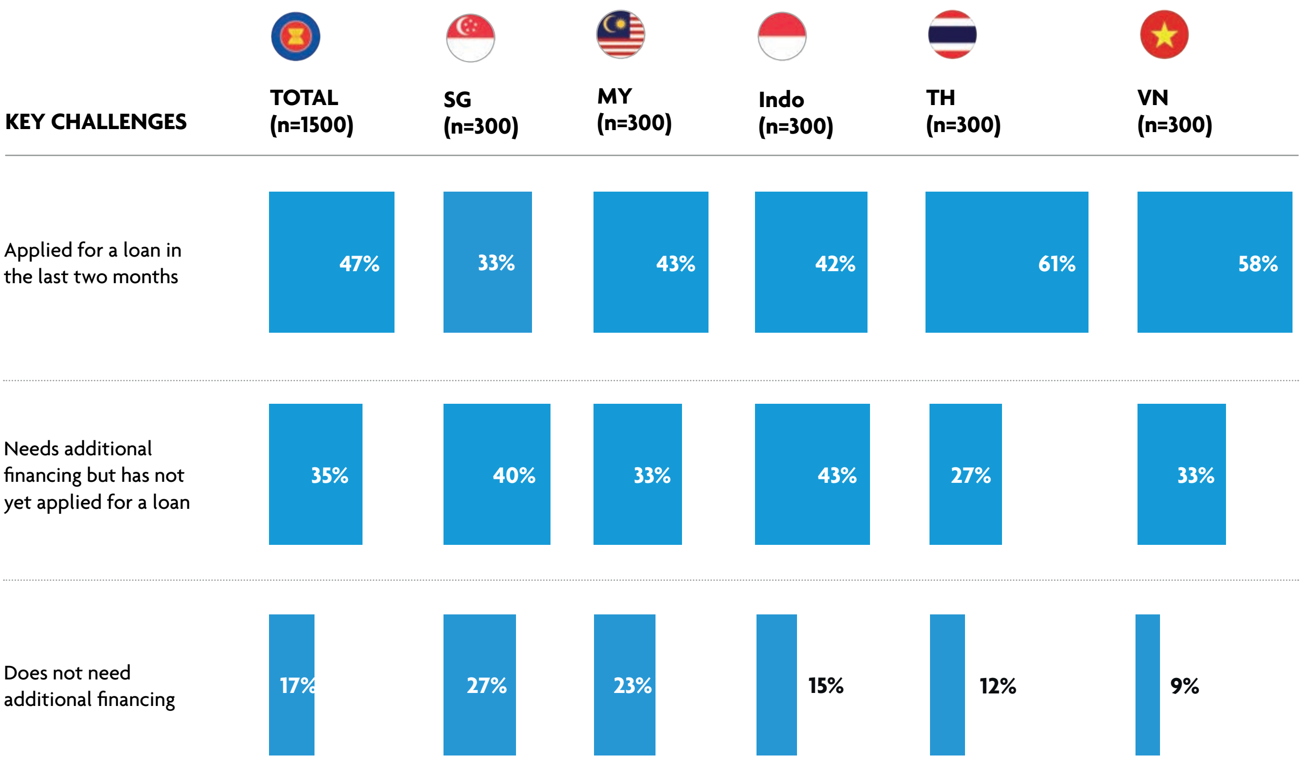
What SMEs look for in their financial institution partners

As businesses continue to contend with uncertainty in the wake of the global pandemic and ongoing geopolitical tensions, support from financial institutions will be vital as SMEs journey through recovery phases.

Cash flow remains a key concern for many SMEs (44 per cent), with more than half of businesses (54 per cent) indicating that their existing cash flow can sustain their operations for less than six months. In light of this, four out of five SMEs, have noted that they require more financing from their banks to cope with the protracted effects of the pandemic. This is especially so for SMEs in Thailand (88 per cent) and Vietnam (91 per cent).

Nearly half of enterprises (47 per cent) reported applying for loans in the last two months. These loan applications were made primarily for the purposes of raising additional capital for business continuity, improving liquidity given delayed payments and obtaining preferential terms for outstanding loans (Figure 12). We observe that SMEs also reported requesting loans for similar purposes in our 2020 survey.

Figure 12: SMEs' indication of additional financing needs through the pandemic period



83 per cent of SMEs indicated that they are very satisfied with the support provided by their banks in terms of financial assistance and relief measures. This is an increase from our 2020 survey, where 78 per cent of SMEs reported satisfaction with the support provided by their bank. It affirms that financial institutions continue to play an integral role in helping SMEs resume phased recovery.

With the financial strain that COVID-19 has put on their businesses, ASEAN SMEs find that enhanced lending options are among the most valuable forms of support that their banks can offer. Over half of SMEs (56 per cent) value lower interest rates on loans to ease their cash flow concerns. A reduced borrowing cost can go a long way to ease the financial burden of taking out new loans or paying off debt. In addition, 42 per cent of SMEs would also welcome collateral-free loans to support business transformation initiatives, such as digitalisation programmes. (Figure 13).

Figure 13: Support preferred by SMEs, from their banks

TYPES OF SUPPORT	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
Lower interest rates	56%	56%	57%	52%	56%	60%
Proactively offer loan (e.g. bridging loans, working capital loans) to help with cashflow concerns	47%	44%	49%	47%	42%	54%
Offering collateral-free loans for business transformation (eg: digital adoption)	42%	35%	44%	48%	39%	46%
Waive off transaction fees	40%	42%	41%	42%	39%	37%
Defer principal or both principal and interest repayments	39%	37%	36%	42%	43%	36%
Help in sourcing for alternative funding if the bank is unable to finance specific needs	38%	39%	37%	42%	40%	31%
Assist in applying for government grants and schemes	37%	46%	35%	27%	41%	36%

Figure 14: Factors influencing choice of banking partner

Scale of 1 (not important) to 5 (very important)

% RATING 4 AND 5	TOTAL (n=1500)	SG (n=300)	MY (n=300)	Indo (n=300)	TH (n=300)	VN (n=300)
Confidence in banks' cybersecurity systems	84%	73%	84%	89%	88%	87%
Speedy processing time for transactions	83%	74%	82%	87%	86%	86%
Competitive pricing and fees	81%	71%	80%	84%	85%	85%
Comprehensive features on online and mobile banking platform	80%	68%	79%	86%	86%	83%
Strong reputation for business banking	78%	70%	77%	87%	78%	75%
Quality of customer service, and dedicated relationship manager with relevant expertise and proactive support	77%	66%	76%	78%	84%	78%
Good presence in the overseas markets we are operating in and targeting to expand into	76%	64%	74%	82%	86%	75%
Range of SME products and services (including bundled products for specific industry types)	76%	65%	73%	77%	80%	82%
Access to digital solutions at discounted rates	75%	61%	77%	77%	85%	76%
Availability of digital expertise	75%	65%	71%	76%	84%	80%
Provision of insights on industry trends and developments for local and target markets	74%	63%	76%	78%	79%	75%
Strong network of partners within an ecosystem offering business-relevant bundled services	74%	61%	72%	75%	83%	79%
Range of value-added services	74%	63%	70%	72%	84%	79%
Locations of bank branches and ATMs	70%	58%	70%	77%	75%	69%

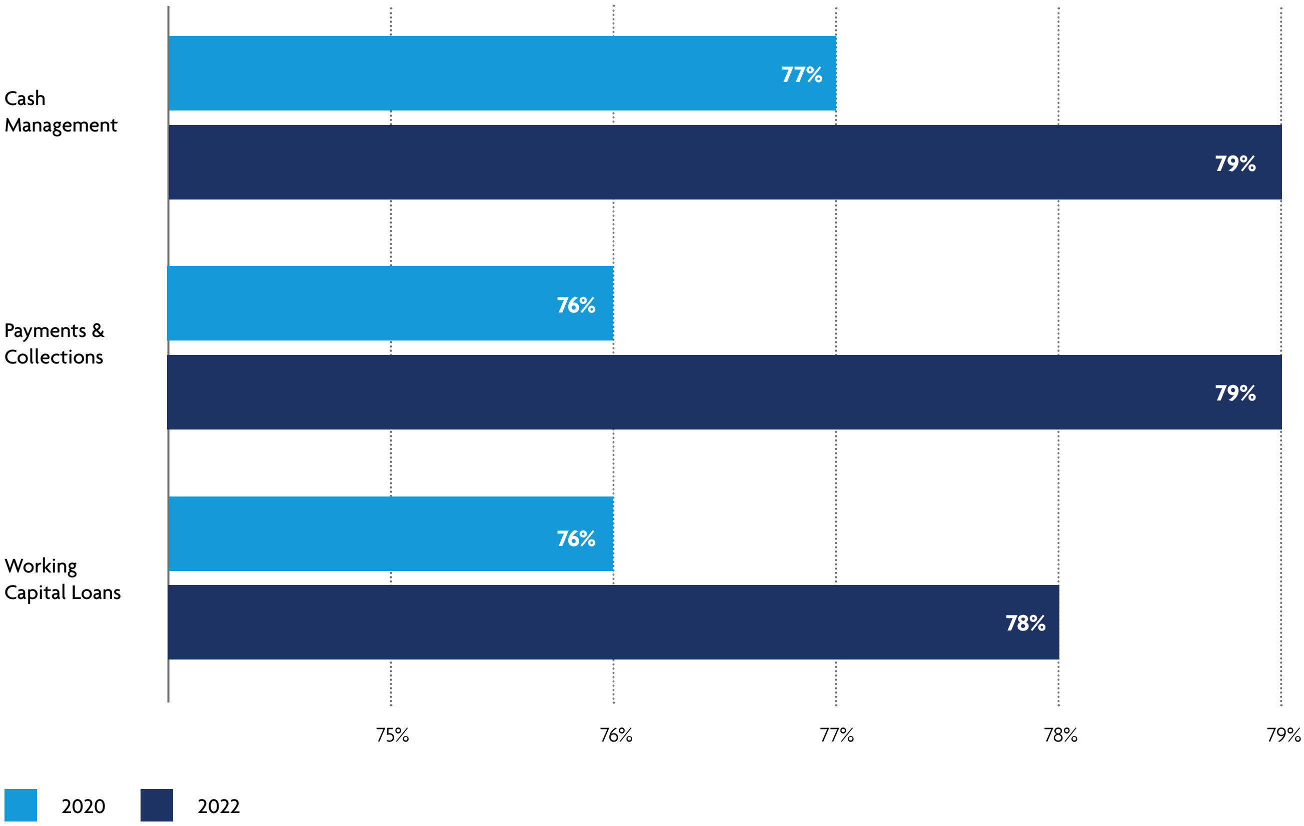
When it comes to choosing a banking partner, the top three factors that influence SMEs' selection are:

- level of confidence in banks' cybersecurity systems (84 per cent);
- fast processing time for transactions (83 per cent); and
- competitive fees and pricing (81 per cent) (Figure 14).

Considering the notable increase in the frequency, scale and sophistication of cyber-attacks over the past year, it is not surprising that security has become a top concern for SMEs as any compromise in their business information would be significantly disruptive.

ASEAN SMEs still consider cash management (79 per cent), payments and collections (79 per cent) and working capital loans (78 per cent), to be the most important services offered by banks (Figure 15).

Figure 15: Top services that SMEs seek from banks



The digitalisation trend, accelerated by the pandemic, continues to impact the way that SMEs in the ASEAN region interact with their banks. Overall, 84 per cent of respondents stated self-service as their preferred mode of interaction, followed by interaction through email (75 per cent).

What SMEs look for in other ecosystem partners

Regardless of what enterprises are looking for, be it banking services or insights on industry trends, the digital channel has become the leading mode of interaction for SMEs across the region. It has therefore become more pressing for SMEs' ecosystem partners, including banks and technology providers, to make use of data and analytics to shape increasingly personalised experiences for business users.

Beyond financial services, SMEs continue to see tangible benefits from value-added services provided by banks, especially in Thailand and Vietnam. In particular, a majority of SMEs (63 per cent) are seeking digital solutions to support online sales and marketing.

One of the ways banks are already doing so is by collaborating with e-commerce solutions providers to help SMEs create online revenue streams. For instance, through UOB's BizSmart partnership with Exabytes, the bank is able to help its customers who do not have any digital experience build customised e-commerce websites in just 15 minutes, therefore helping them build increased online presence and distribution channels.

The primary form of assistance that SMEs value from banks is the integration of technology solutions; for example, point-of-sale systems, inventory management, customer relationship management (CRM) modules and customer analytics, into a banking product or service (78 per cent).

Figure 16: Top services that SMEs seek from ecosystem partners

75%
Provision of digital solutions to help businesses improve operations and grow,

75%
Guidance on adopting technology,

72%
Network of ecosystem partners, e.g., industry bodies, co-working spaces, alternative financing providers,

68%
Seminars on how to grow the business,

Government support desired

From time to time, SMEs may also look to government schemes and subsidies that help them realise their business ambitions and alleviate the burden of significant investments requiring cash outlay.

Government financing schemes have taken the top spot on the list of SMEs' favoured funding sources. 74 per cent of survey respondents highlighted government funding schemes as their preferred source of funding – up from 34 per cent in our 2020 survey. This can be attributed in part to the increased availability of government support schemes during the pandemic, which has built a level of awareness amongst SMEs.

Amongst ASEAN SMEs, government support measures in business financing are deemed most helpful in aiding businesses' daily operations and working capital needs. Specifically, respondents consider active support in the creation of digital infrastructures for SME banking (77 per cent) and funding for the adoption of digital technologies (77 per cent) as the most useful forms of government support initiatives.

At the same time, SMEs are also keen to receive more diverse forms of support from their governments. Respondents across all markets agreed that offering a wider variety of non-financial support schemes, such as mentorship and peer support networks (56 per cent), is the preferred way for the government to be a better partner to businesses.

As COVID-19 has accelerated digitalisation efforts across industries and increased the digital savviness of the average citizen, SMEs expect government initiatives to evolve and support them through these changes. Governments across the region have taken notice, responding with an array of stimulus packages and assistance schemes to support ongoing recovery from the pandemic. There has also been a notable increase in support schemes and incentives targeted at accelerating digitalisation and sustainability adoption among businesses as means of driving further recovery and growth.

48 per cent of survey respondents ranked the establishing of shared national-level advisory portals as the top second government support initiative that they hoped could be enhanced. These portals would ideally carry information about different government support initiatives and advice on accessing these schemes, in real-time. Ecosystem partners, including financial services providers, have an opportunity to design new services to help SMEs navigate this digital landscape; for example, by alerting organisations to new and targeted government schemes and helping them to manage the application process.

03
Growth strategies and SMEs’ needs

From the survey findings, it is evident that SMEs prioritise digitalisation and technology, sustainability and overseas expansion as their key opportunities for growth. This section examines how SMEs can look beyond their their own resources and tap their partners’ available resources and capabilities in achieving their business goals.

3.1 Business support

As SMEs renew their ambitions through the recovery phase, banks and industry partners will have to continue supporting enterprises across the region, building resilient business models that allow SMEs to pivot for growth and adapt to major business headwinds.

Across the key growth areas identified through this survey – digitalisation, sustainability and connecting business to overseas expansion – we see that many SMEs have already embarked on significant digital transformation, while more remains to be done in other areas. Particularly in the area of sustainability, as Section 2 has shown, SMEs will require closer support when it comes to embracing sustainability objectives as part of their business strategy.

Sustainability is no longer a buzzword, and is becoming an integral part of company strategy, enabling businesses to remain commercially relevant. Recognising this shift, banking partners such as UOB are expanding their offerings to simplify sustainable financing for SMEs. Section 3.3 provides deeper insights into the benefits of embracing sustainability in business and shows how strategic partners can support SMEs.

3.2 Digitalisation and technology

Digital payments and finance

The pandemic has underscored the vulnerabilities of traditional digital payment channels. Companies that relied on their employees to manually manage payments, collections and reconciliation were given little choice but to transition to new digital systems in the last two years.

As a result, consumers now have higher expectations when it comes to digital payment and service channels. Such expectations have increased the pressure on businesses to adapt. SMEs must adopt digital solutions, such as payment platforms, that will enable them to weather the next major business challenge.

From an industry standpoint, this will help drive business efficiencies and grow the wider payments ecosystem. In addition, with governments looking towards intra-regional digital payment systems, the shift will contribute to ASEAN's thriving e-commerce sector and drive an increase in cross-border business.

Digitalisation of supply chains

The digitalisation of supply chains enables companies to meet customer expectations in terms of speed and efficiency.

SMEs are increasingly focusing their investments on digital tools and technology to make their supply chains more flexible and, therefore, more resilient. This includes capturing more data to improve the end-to-end visibility of demand and supply, as well as inventory levels, which is especially critical during periods of increased supply chain disruption.

More SMEs are implementing digital performance-management systems, which provide actionable insights that support faster and more accurate decision-making. Examples include end-to-end supply chain systems with advanced analytics for ad-hoc planning and real-time business forecasting.

SMEs also need to remain flexible and agile in order to react to changing demand and supply situations. Strategies include maintaining a "core team" with a "flex team" to ramp up and down easily while balancing cost and safety. It is ideal for SMEs to invest in technology and digital tools to enable remote work and virtual workspaces, and leverage supplier collaborations to strengthen ties throughout the supply chain and improve access to goods and services.

As business volatility continues for a protracted period, SMEs must build greater resilience in their supply chains. SMEs should keep themselves informed on supply chain enhancements and change trends during the pandemic, and develop new capabilities with the longer term in mind.

Many companies have also moved their sources of supply closer to their key markets to minimise risk and safeguard their flow of supplies. Intra-regionalisation and near-shoring have become preferred approaches for many businesses in the recent years, to improve the resilience of supply chains.

Hybrid engagement of customers

Survey respondents highlighted the adoption of digital marketing strategies, improvement of customer service, customer experience and continued digitalisation as their top business priorities. The pandemic has pushed SMEs to become more adept at digital customer engagement, and the next step is to deliver an integrated physical and digital experience to the customer.

Lead generation through digital means

SMEs can also consider increasing digital communication via social media, chatbots and live streaming channels. It is also important for SMEs to adapt their marketing outreach to channels where customers spend most of their time. This includes product placements and digital banner ads on social media platforms such as Facebook and collaboration platforms such as Zoom.

Redesigning physical locations to become experience centres

As economies reopen, there is a fresh appetite for in-person experiences. Some businesses are leveraging augmented reality (AR) and virtual reality (VR) technology to increase customers' interest in their products. Other businesses have incorporated customised experiences, such as appointment-based shopping.

Increasing customer stickiness

SMEs should not overlook customer loyalty and trust, as these can provide a useful engine for growth. Existing customers serve as a valuable marketing channel through their word-of-mouth referrals and social media posts. Companies should continuously nurture relationships with both existing and new customers to build long-term trust and loyalty.

3.3 Sustainability

The pandemic has severely disrupted global consumption, driving demand and supply shifts that have prompted SMEs to adapt their go-to-market strategies and business models.

The past two years have seen a meteoric rise in home-based businesses and delivery-only models, while other companies have pivoted to serve new customer segments and markets. For instance, beauty companies and even distilleries have started manufacturing hand sanitisers for the mass market, while hotels have transformed into quarantine facilities or turned rooms into offices for remote work.

While businesses have focused on continuity and recovery, a new interest area has emerged during the pandemic: environmental, social and governance (ESG) and sustainability initiatives.

Being sustainable allows companies to gain access to new markets, remain competitive and increase their profit margins. For SMEs pursuing growth, there is also rising urgency to embrace ESG initiatives due to regulatory standards, as well as shareholder and client expectations.

Further, in line with the global climate change agenda and net zero goals, listed companies and large enterprises are under pressure by governments and regulators to commence Task Force on Climate-related Financial Disclosures (TCFD) reporting, which includes accounting for carbon emissions by suppliers and customers. Sustainable sourcing policies are already in place for many of these companies.

In order to decarbonise, companies need to be independently verified in order to qualify for sustainable financing. This is where strategic partners, or banks like UOB, can support SMEs with sustainability frameworks and solutions. By tapping resources offered by their banks, SMEs can access comprehensive solutions and collaboration networks, so as to mitigate costs and progress along the learning curve.

Through this survey, SMEs have indicated that the top two measures for them to advance their sustainability strategy include access to incentives, grants or funding support from governmental and industry bodies in order to build capabilities and deploy sustainable products/services (52 per cent), as well as access to sustainable financing (45 per cent). Ecosystem partners, both banks and the government, can support businesses as they forge ahead in their sustainability journey.

How sustainable financing can be simplified for SMEs, in three ways:

1. **Frameworks made simpler:** UOB's frameworks provide a one-stop approach to sustainable financing. SMEs can access dedicated resources and specialists brought together by the bank, offering a range of support services such as assessing companies' needs, advising companies on the qualification criteria for sustainable financing and how they should prepare for reporting outcomes.

2. **Customised green financing solutions:** SMEs play a part in the broader value chains of large corporates, often as supplier-spokes to multinational corporations. UOB is able to cater to a range of needs, from end-to-end, and connect SMEs to dedicated partners and service providers for seamless consultation and support.

3. **Capacity-building:** Beyond financing solutions, UOB can provide SMEs with industry insights, sustainability tools, such as solar energy calculators, and know-how through regular events involving industry partners. The bank can also point SMEs to the right external agencies to help them qualify for grants and subsidies.

3.4 Growth and expansion goals

Nurturing entrepreneurship

Entrepreneurship across the ASEAN region has increased due to demographic changes, as well as growing digital penetration and access. According to the 2021 e-Conomy SEA report by Google, Temasek and Bain & Company, as many as 40 million people from Singapore, Malaysia, Indonesia, the Philippines, Thailand and Vietnam went online for the first time in 2020. Accompanying this is a growing mass-affluent class of 350 million middle-income consumers. Within this group, there are an estimated 136 million digitally savvy and premium product-oriented consumers that will drive demand.

On the supply side, the transition to remote operations has removed physical limitations for many businesses, making it easier to scale and add new services. It has also spurred greater flexibility in work schedules, enabling businesses to take orders 24/7 and entrepreneurs to run multiple businesses.

Accompanying this, there has been a significant increase in home-based businesses since the pandemic, as more customers sourced products locally and looked for new trends to try online.

More women are also embracing entrepreneurship. As the awareness of diversity grows and working models become more flexible, women can now better balance their home commitments and work responsibilities. This has given rise to a fresh emphasis on advancing financial inclusion for women. Female-owned SMEs that traditionally face barriers securing financing now also have access to more micro-financing options.

A vibrant ecosystem for entrepreneurs

Growth in capital funding for SMEs

Increased fundraising deals in Southeast Asia have helped to boost innovation and available capital among SMEs. Southeast Asia's start-up scene outperformed other emerging markets in 2020 by raising US$8.2 billion. In the first quarter of 2021, start-ups raised a record US$6 billion of venture capital.

Enabling access to alternative funding for companies across all lifecycle stages

Corporates are also increasingly aware of the importance of SMEs in the economy and are acting as enablers to improve their capabilities. For instance, through UOB's strategic alliances, the bank provides access to alternative investments, funding, tech and innovation to SMEs.

Funding and investment channels include ***The FinLab*** (UOB's innovation accelerator), ***OurCrowd*** (UOB's joint venture partner and a global venture investing platform), ***Innoven Capital*** (a joint venture between UOB and Temasek Holdings), and ***UOB Venture Management*** (a wholly owned subsidiary of UOB that provides financing to privately-held companies in Southeast Asia and Greater China through direct equity investment).

Expanding overseas

For SMEs that wish to expand their business operations overseas, they can tap their banks' global footprint and strong regional presence in venturing into regional markets.

For instance, UOB's 500 offices can help SMEs open doors to new business opportunities within and to ASEAN. Through its Global Business Development (GBD) and Foreign Direct Investment (FDI) advisory units, UOB can assist SMEs in ASEAN and those from around the world with entering new markets across the region, and assist them with structuring their cross-border financing or onshore and offshore needs.

3.5 Workforce and employment

The adoption of digital technologies requires new skills, while employees are increasingly attuned to new ways of working. These two trends call for new talent and organisational strategies. With support from ecosystem partners, SMEs are looking to:

Upskill and reskill existing employees

With the acceleration of digitalisation through the last two years of the pandemic, the need for upskilling and reskilling employees to work with new technologies has only increased.
Compared with the fast-growth markets of Thailand and Indonesia, mature markets such as Singapore have to tackle the additional complexity of an ageing population. SME owners need to grapple with issues such as passing down the business to the next generation of owners and leaders.

According to the ASEAN Digital Generation Report, 51 to 76 per cent of micro, small and medium enterprises (MSMEs) want to digitalise their work and finance even more. However, 43 per cent of IT executives across the ASEAN markets feel that they lack the necessary talent to build digital solutions.

Acquire and retain new talent

Candidates are demanding more from potential employers, and SMEs must adapt hiring strategies to attract the right talent in their industry and build a workforce of skilled employees.

It is no longer sufficient for organisations to rely simply on traditional recruitment channels to reach prospective employees. They must leverage digital technology and new media to reach candidates in creative ways. This includes running webinars and virtual career fairs through partnerships with career discovery platforms, advertising via social media career pages on LinkedIn, Facebook and Instagram, as well as expanding internal referral programs.

Hiring is just one part of the picture. Managing and retaining talent is now taking centre stage as enterprises move from surviving the pandemic and shift back into growth mode. As business picks up, SMEs should focus on tailoring the employee experience to foster engagement and inclusion for all employees. It will also be important to free up human resources (HR) teams from routine administration to focus on shaping more effective hiring and retention strategies.

3.6 Available support from financial, governmental and ecosystem partners across the region

With more government stimulus and schemes being made available, SMEs have the essential support required to adapt their businesses for new markets, products and services. Across the region, governments have unveiled a series of COVID-19 stimulus packages and government assistance schemes to support business recovery from the pandemic. Measures include tax incentives and credits, skills development support schemes, digitalisation enablement programmes and cash support schemes, as well as insurance and loan relief packages.

There has been a corresponding increase in government support schemes and incentives targeted at accelerating ESG and sustainability adoption amongst SMEs as a new area of growth. Through relief packages and new initiatives, governments are seizing the opportunity to rebuild the economy, but with sustainability objectives for business.

In the region, the ASEAN Green Bonds Standards offer guidance on the application of green bond principles. Singapore, Malaysia and Thailand also have schemes in place to reimburse the cost of external reviews for issuers of such bonds.

Below overview highlights some of the available schemes in the region:

Singapore

Business continuity	• **Enterprise Singapore (ESG) loans schemes** – SMEs can take up the Temporary Bridging Loan Programme and SME Working Capital Loans administered by Enterprise Singapore (ESG) to help with their immediate cash flow needs, at loan quantums of up to S$1 million and S$500,000, respectively. • **Small Business Recovery Grant** – This grant aims to support workers and businesses in harder-hit sectors through a S$500 million job and business support package. Eligible firms are in the midst of being notified from June 2022. • **Business Loan** – UOB offers a range of loans targeted for different business needs.
Digitalisation and technological innovation	• **Productivity Solutions Grant** – This grant supports companies keen on adopting IT solutions and equipment to enhance business processes, with up to 70 per cent of funding support. • **SMEs Go Digital** – This scheme aims to help SMEs digitalise their business to enhance operational efficiency and seize opportunities in the digital economy; it includes support such as advisory through CTO-as-a-Service and access to pre-approved market-proven solutions. • **UOB BizSmart** – An integrated business management solution that spans HR and accounting, point of sales, digital marketing, logistics and more, which help SMEs drive their business operations efficiently. • **The FinLab** – UOB's innovation accelerator that nurtures start-ups and SMEs who are ready to catalyse business growth and transformation through digitalisation
Internationalisation	• **Market Readiness Assistance (MRA) Grant** – Companies looking to market products and services overseas can defray up to 70 per cent of third-party costs through the MRA grant. • **PACT Programme** – SMEs can collaborate with other businesses to build capabilities, innovate and pursue global opportunities under this programme, which funds up to 70 per cent of qualifying activities.

Enhancing internal capabilities

- **Energy Efficiency Fund** – This fund encourages companies with industrial facilities to adopt energy-efficient processes through the co-funding of resource-efficient facility designs and energy assessments, as well as energy-efficient equipment and technologies.
- **Productivity Innovation Project Scheme** – This scheme helps companies to improve their operational efficiency by re-engineering existing work processes and adopting labour-efficient technologies.
- **Capability Transfer Programme** – This programme helps companies to engage foreign specialists to transfer capabilities to local workers or send local workers for training abroad, with funding support and work pass facilitation.
- **Enhanced Training Support for SMEs** – This scheme encourages SMEs to send employees for training and skills upgrading by offsetting up to 90 per cent of fees for courses, supported by SkillsFuture Singapore.
- **SkillsFuture Enterprise Credit Scheme** – The government will expand the eligibility criteria of the SkillsFuture Enterprise Credit scheme to better support small and micro-enterprises. A total of S$100 million will be set aside to support the National Trades Union Congress (NTUC) in scaling up Company Training Committees (CTCs).
- **Lean Enterprise Development Scheme** – This scheme helps SMEs to become more resource-lean and to build a better-quality workforce by providing training and support.

Malaysia

Business continuity	• **Prihatin Special Grant Assistance** – This one-off financial assistance is granted to 500,000 SMEs as part of the country's 5th economic stimulus package to ease financial burden. • **Penjanakerjaya 3.0** – This programme provides financial hiring incentives to enterprises for job creation. • **Syarikat Jaminan Pembiayaan Perniagaan Bhd** – The government guarantee scheme limit to support SMEs will be increased to MYR20 billion. • **Soft Loan for SMEs** – This scheme provides financing assistance to SMEs in supporting their working capital for business projects and the purchase of equipment.
Digitalisation and technological innovation	• **Digital Skills Training Directory** – Launched by the Malaysia Digital Economy Corporation (MDEC), this serves as a one-stop guide to digital reskilling an upskilling across various industries and tech domains • **SMEs Digitalization Grant** – The Malaysian Government is offering a matching grant worth RM500 million over 5 years to encourage SMEs in the digitalization of their business operations such as adoption of Electronic Point of Sales (e-POS) systems and investing in HR payroll ecosystems/customer relationship management systems. • **UOB SmartBusiness** – An integrated business management solution that spans HR and accounting, point of sales and more, which help SMEs manage their business operations efficiently.
Internationalisation	• **SMEs Go Global Programme** – An initiative to encourage internationalization of local SMEs by providing reimbursements of up to 50% of total project costs for export-ready companies or companies looking to venture into new markets.
Enhancing internal capabilities	• **JomPAY** – An accessible bills payment ecosystem for consumers, banks and bills, where customers from 42 banks in Malaysia can pay their bills anywhere and anytime

Indonesia

Business continuity	• **Credit for Business (Kredit Usaha Rakyat)** – This programme provides credit, working capital and investment financing schemes for SMEs across different stages of growth and cooperatives. • **The Agency for Revolving Fund Management for Cooperatives and Small and Medium Enterprises (Lembaga Pengelola Dana Bergulir, LPDB)** – This initiative provides financing to Indonesian SMEs through conventional and sharia loan instruments to support their growth. • **Program for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA)** – The Indonesian government has collaborated with the International Finance Centre to provide financial assistance to SMEs in the poorest areas of Indonesia. • **Business loan** – UOB offers a range of loans targeted for different business need.
Digitalisation and technological innovation	• **The Ministry of Cooperative and SME Startup Incubator Program** – This programme promotes entrepreneurship in Indonesia by providing start-ups with business opportunities. • **1001 Digital Startup Movement** – This is a continuation of the "1000 Startups" programme that was initiated in 2016. It is a coordinated effort by multiple public and private sector stakeholders to boost domestic entrepreneurship. • **IDX Incubator by the Indonesia Stock Exchange** – This incubator aims to help technology-based start-ups grow and build stronger links between start-ups and investors. • **UOB BizSmart** – An integrated business management solution that spans accounting, e-invoice, digital transaction and more, which help SMEs manage their business operations efficiently.
Internationalisation	• **State-Owned Enterprise-led Business Aggregator Programme** – This programme provides support and advisory services for SMEs seeking to export their products and services. It also helps SMEs to overcome regulatory hurdles that they may face in doing so.
Enhancing internal capabilities	• **Ministry of Manpower and Transmigration** – The ministry operates SME productivity centres, which conduct training to help SMEs upgrade their business productivity.

Thailand

Business continuity	• **SME Transformation Loan for Thailand 4.0** – This scheme offers funding of up to THB15 million for 3,000 businesses, including companies facing financial pressure, start-ups pursuing innovation and technology service providers supporting Thailand's Industry 4.0 drive. SMEs applying for a loan of less than THB5 million will only need to make fixed interest payments for the first three years without collateral, with the Thai Credit Guarantee Corporation acting as guarantor. • **Relief assistance for SME** - As part of the Bank of Thailand's Loan Rehabilitation programme, UOB Thailand is offering its SME customers a two per cent interest rate, valid for the first two years. SMEs will be also provided an interest waiver for the first six months so that SMEs can access greater liquidity for their business operations. SMEs can send their loan application to the Bank for submission to the BOT before 9 April 2023.
Digitalisation and technological innovation	• **Digital Manpower Fund for SME 4.0** – This scheme by the Digital Economy Promotion Agency (DEPA) aims to improve SMEs' workforce capabilities by providing training in digital transformation and e-commerce. • **Digital Transformation Fund for SME 4.0** – Also administered by DEPA, this scheme aims to provide SMEs with funding support in the form of subsidies and transformation vouchers for the implementation of technology solutions. • **UOB BizSmart** – An integrated business management solution that spans HR and accounting, point of sales and more, which help SMEs manage their business operations efficiently. • **The FinLab** – UOB's innovation accelerator that nurtures startups and SMEs who are ready to catalyse business growth and transformation through digitalisation.
Enhancing internal capabilities	• **Infrastructure for SME 4.0** – This scheme aims to provide SMEs with workspaces that are conducive to their growth, such as new incubation spaces and co-working offices, as well as design and creative centres. • **Nurturing citizen 4.0** – This scheme identifies available experts, specialists and researchers in the field of science and technology and matches them with companies embarking on innovation efforts.
Internationalisation	• **OSMEP Strategic Plan 2017-2022** – This scheme aims to enhance Thailand's MSME's capacity to grow according to business life cycle. Promoting MSME's clusters and internationalisation which promoted about 6,000 MSMEs at an international level.

Vietnam

Business continuity	• **SMEs Development Fund** – This fund offers SMEs up to 80 per cent funding to embark on their business development projects. The total amount of funding must not exceed 15 per cent of the fund's charter capital. • **Credit Guarantee Fund by the Ministry of Planning and Investment** – SMEs and micro-businesses can engage a network of consultants for business growth as well as to receive subsidies. • **SME Law** – SMEs will be taxed at a lower rate than corporates and will enjoy other non-tax incentives such as lower land use and rental fees, as well as improved access to credit. • **Priority Lending to SMEs** – This initiative lowers short-term lending rates for SMEs by 1 to 1.5 per cent annually to make financing more affordable. • **Business loan** – UOB offers a range of loans targeted for different business need.
Digitalisation and technological innovation	• **Investments in ICT** – There are initiatives in place in the venture capital funding space to spur the development of new technologies among SMEs. • **UOB BizSmart** – An integrated business management solution that spans accounting, e-invoice, digital transaction and more, which help SMEs manage their business operations efficiently.
Internationalisation	• **USAID Improving Private Sector Competitiveness Project** – This scheme aims to encourage a broad-based, inclusive economic growth through improved business practices ranging across innovation and technological adoption, policy reform and increased market access.
Deepening internal capabilities	• **Softer Loans for SMEs** – Vietnam's SMEs Development Fund aims to help enhance operational effectiveness, increase profits and create more jobs. The fund has helps cushion pandemic-hit businesses by offering lowered lending rates. • **Funding Societies** – This scheme aims to serve SMEs in various sectors by offering products such as trade financing, accounts receivable (AR) and accounts payable (AP) financing.


UOB
UOB

04
UOB's Outlook for ASEAN

In the months ahead, growth is expected to remain suppressed with key asset classes being sold off aggressively across the board as global central banks and investors alike play catch up with further unwelcome steep rise in inflation. Overall, with respect to the macro-economy, there are widespread and elevated concerns about recession or stagflation amidst further rises in inflation.

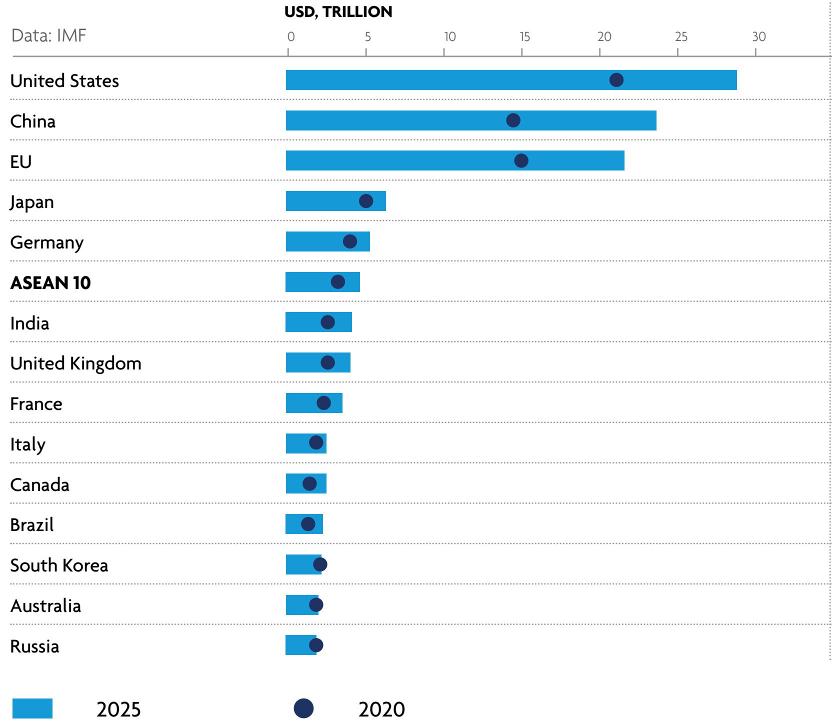
Regional economies such as Indonesia, Philippines and Thailand are likely to face hikes in the coming months, but the pace of these hikes is unlikely to match that of the US Federal Reserve. For the Monetary Authority of Singapore (MAS), which was one of the few early movers among its Asian peers in monetary policy tightening, there may be risks of another off-cycle move on top of the change that took place earlier in Q1 2022, in anticipation of core inflation trending on the upside.

Despite these factors, the ASEAN region's long-term growth potential looks cautiously optimistic. The size of the region's economies grew 35 per cent year-on-year to reach US$184 billion in 2021, and this growth outlook remains strong.

Foreign direct investment (FDI) continues to be a key driver of economic expansion, but the COVID-19 pandemic has changed some businesses' priorities. For example, strengthening supply chain resilience has become a key focus for many companies. While certain businesses previously served Southeast Asia from North Asia, the pandemic has prompted them to explore establishing alternative distribution points in Southeast Asia to serve the growing market here. Both the pandemic and geopolitical tensions have also accelerated companies' plans to strengthen manufacturing capacity in locations like Vietnam, Malaysia and Indonesia in order to diversify their supply chains.

Figure 17: Economic growth and FDI inward flows in ASEAN are expected to remain positive

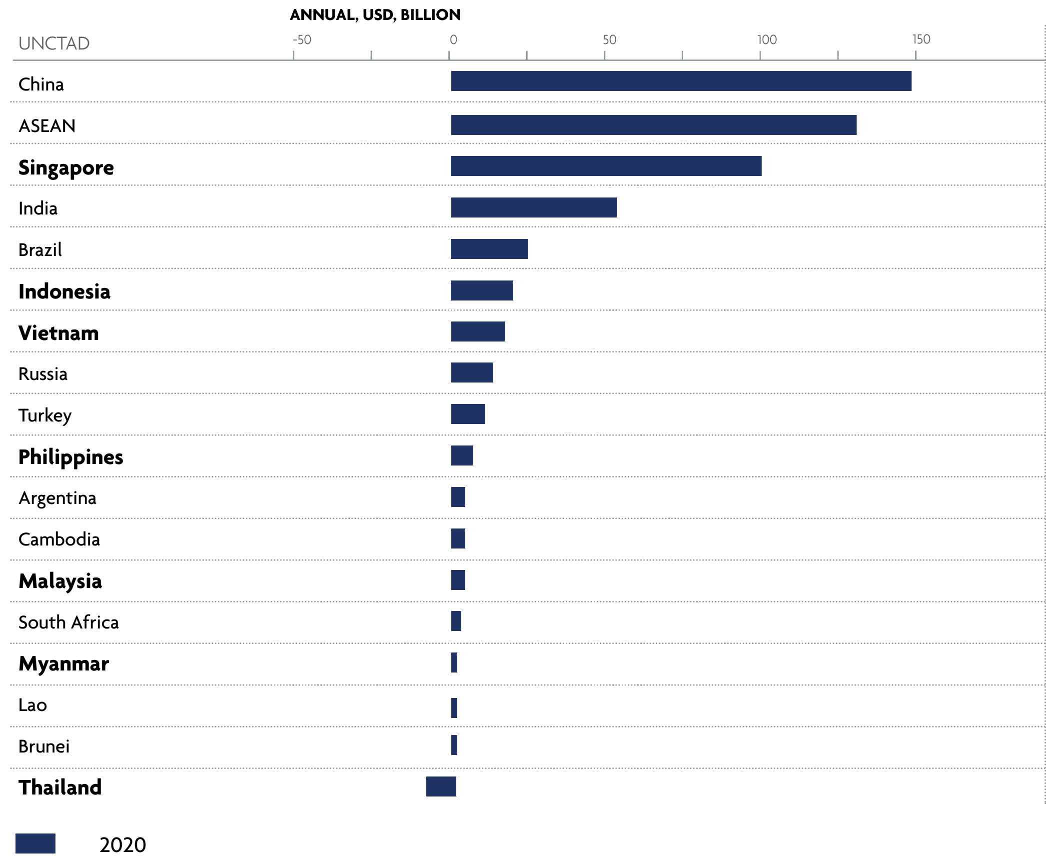
World's Largest Economies By Size Nominal GDP in USD



Data: IMF

	2025	% CHG P.A. 2010-2025
United States	28 trillion	4.2
China	23 trillion	9.4
EU	21 trillion	2.5
Japan	6.2 trillion	0.5
Germany	5.2 trillion	2.9
ASEAN 10	4.6 trillion	6.0
India	4.1 trillion	6.0
United Kingdom	4 trillion	3.2
France	3.5 trillion	2.0
Italy	2.5 trillion	1.1
Canada	2.5 trillion	3.0
Brazil	2.3 trillion	0.1
South Korea	2.2 trillion	4.5
Australia	2 trillion	2 trillion
Russia	1.9 trillion	1.9 trillion

Foreign Direct Investment (FDI), Inward Flows



UNCTAD

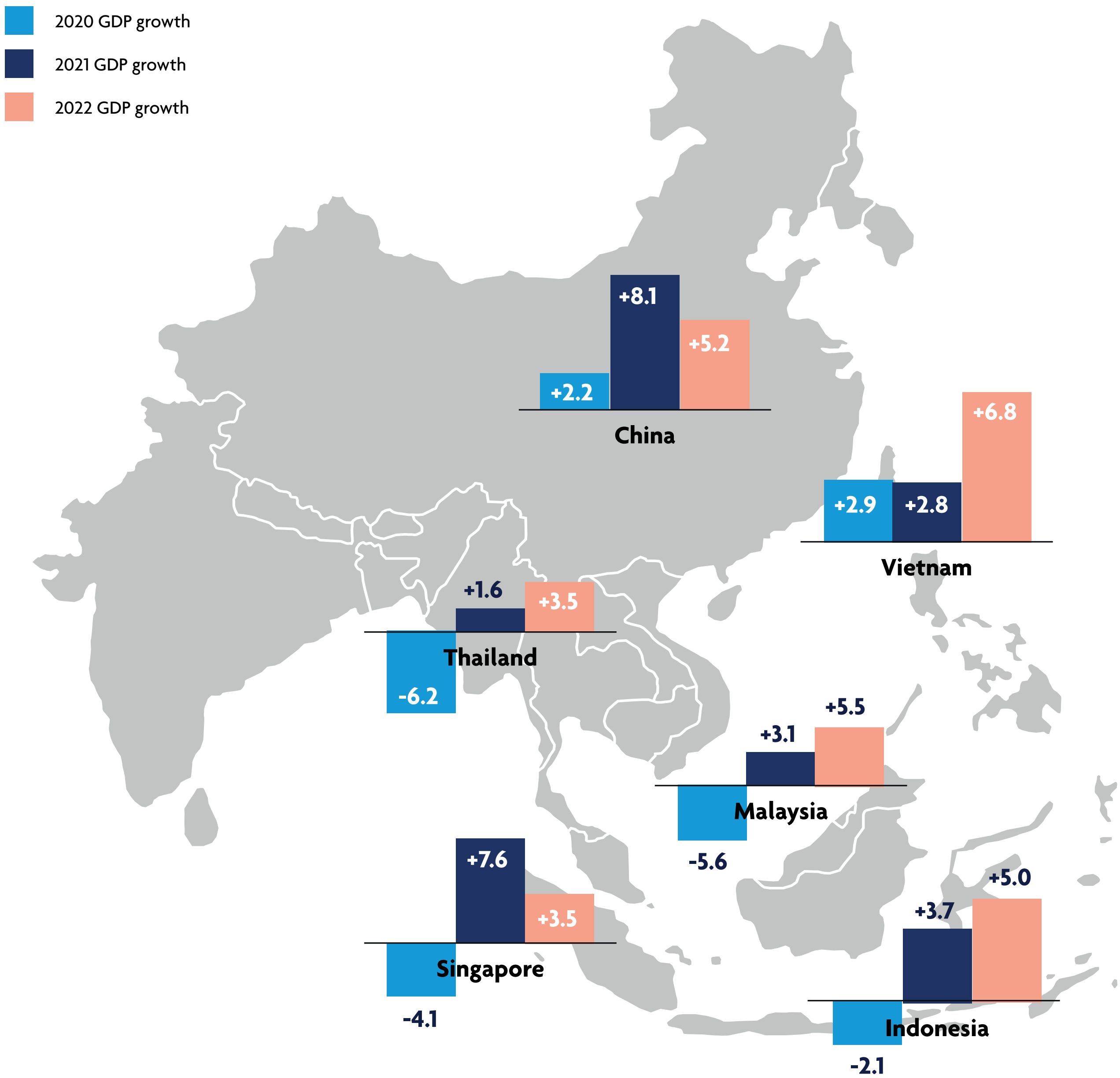
	2020
China	149 billion
ASEAN	136 billion
Singapore	90.6 billion
India	64.1 billion
Brazil	24.8 billion
Indonesia	18.6 billion
Vietnam	15.8 billion
Russia	9.68 billion
Turkey	7.88 billion
Philippines	6.54 billion
Argentina	4.12 billion
Cambodia	3.62 billion
Malaysia	3.48 billion
South Africa	3.11 billion
Myanmar	1.83 billion
Lao	968 million
Brunei	577 million
Thailand	-6.1 billion

Source: Macrobond, UOB Global Economics & Market Research

Services industries have ushered in renewed vigour since the pandemic first hit in March 2020. Cross-border restrictions have eased across a number of ASEAN countries since early 2022, on the back of increased vaccination rates, which allow governments to manage COVID-19 more effectively.

Increased tourist arrivals and domestic consumer spending in response to the easing measures and resumption of normalcy will complement the manufacturing sector, which was the primary driver of economic recovery for most regional economies in 2020-2021.

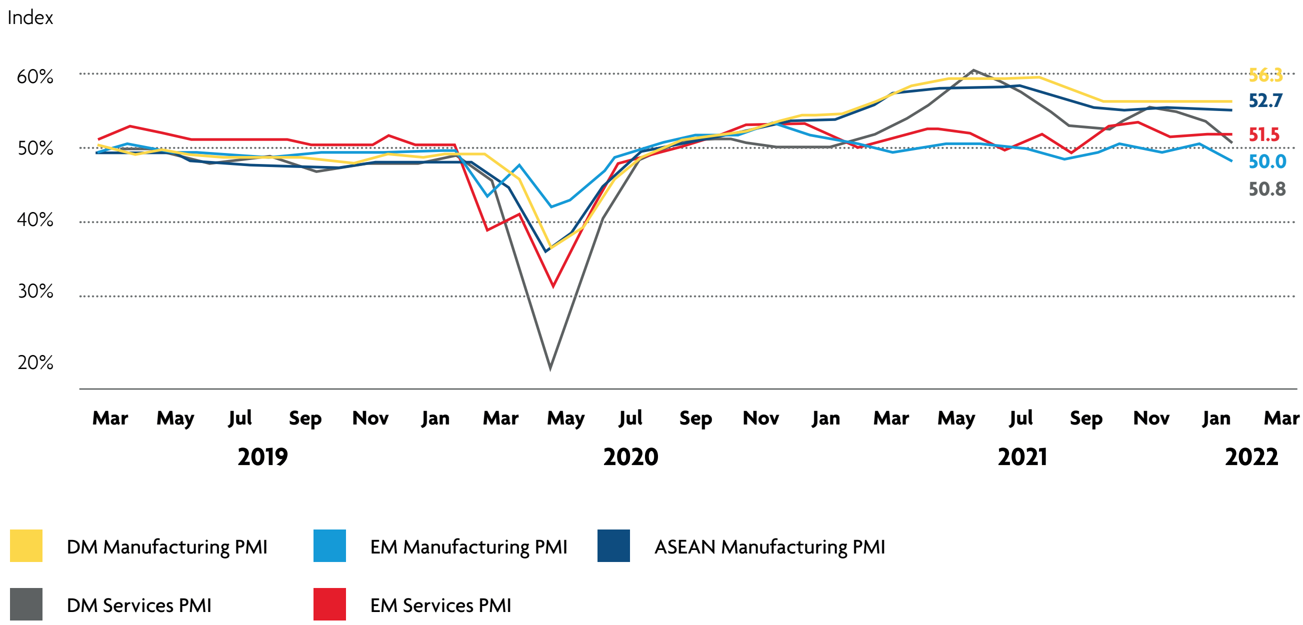
Figure 18: Growth observed in the ASEAN region



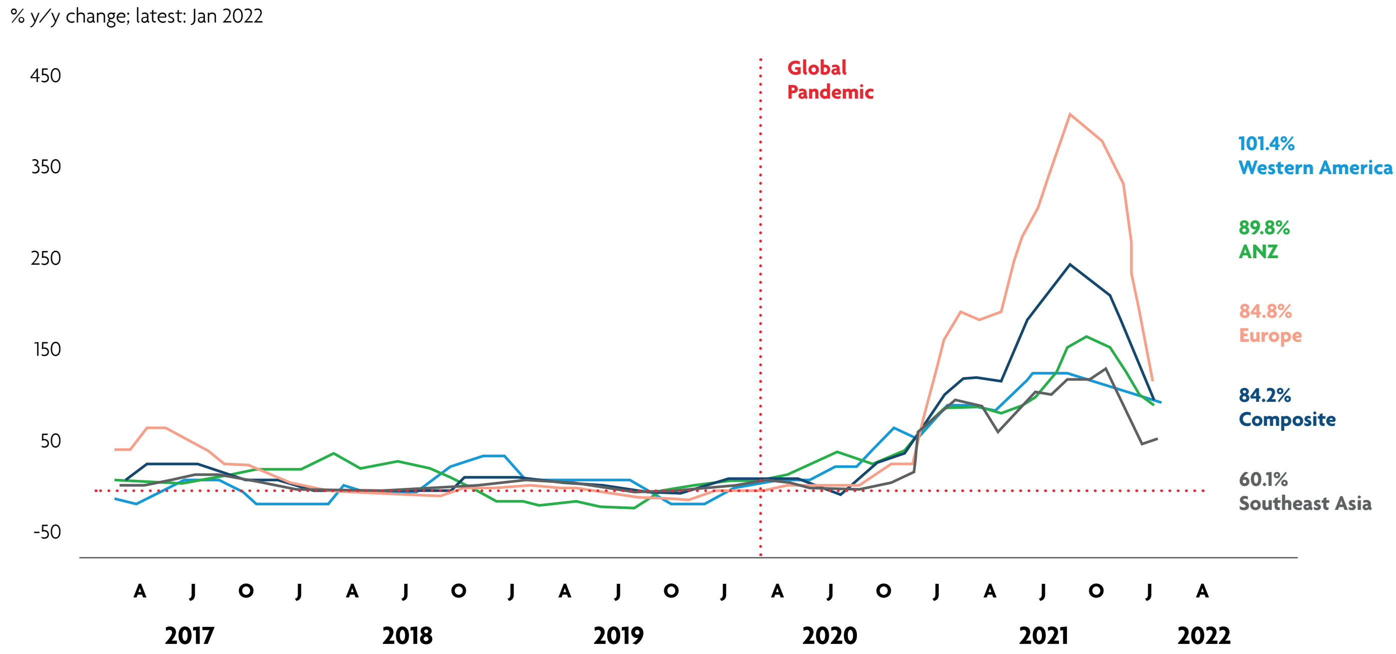
Source: UOB Global Economics & Market Research forecasts

Figure 18 (cont'd): Growth observed in the ASEAN region

Recovery across manufacturing and services sectors
Business Surveys, IHS Markit, SA, Index



But supply chain bottlenecks may impact growth to some extent
China: Container Freight Rates



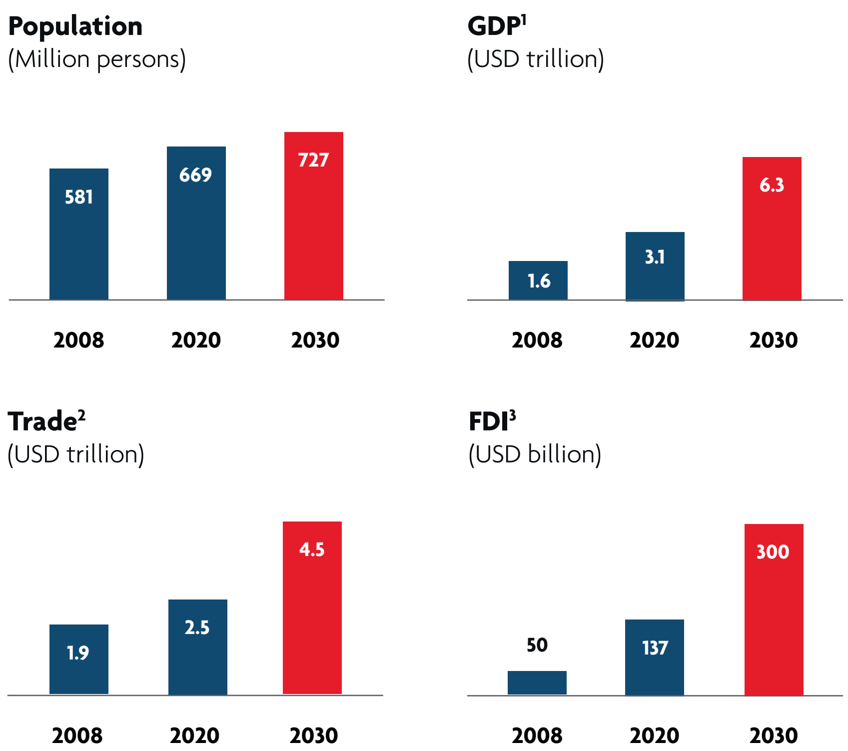
Source: Macrobond, UOB Global Economics & Markets Research

Earlier expectations of moderating growth colliding with higher inflation in 2022 have been undercut by geopolitical headwinds. In our base case of an extended Ukraine conflict, most of the economies under UOB's coverage can expect further upside risks to their generally elevated inflation rates and downward revisions to growth. The extent of this correction will vary among different economies and, overall, growth is expected to remain positive through the rest of 2022.

For the ASEAN region, inflation has been revised higher in most economies due to the commodity price surge, but growth revisions have been more varied due to domestic factors. Overall, businesses will need to pay close attention to the operating environment as central banks raise interest rates or otherwise tighten financial conditions in response to rising inflationary pressures and the US Federal Reserve's aggressive interest rate hikes.

Beyond the pandemic and geopolitical risks faced, the ASEAN region's long-term fundamentals remain strong, and should continue to go from strength to strength. The region's growth engine is driven by multiple connected factors, including strong trade relationships, resilient investment inflows and a young, increasingly affluent, population. Digitalisation and partnerships between businesses and governments or service providers also continue to fuel the region's prospects.

Figure 19: ASEAN's promising long-term potential



- Third largest population globally, after China and India
- Young demographics, with 382 million below 35 years old
- Fifth largest economic bloc globally by GDP[1]
- Fourth largest trading group globally
- Third largest recipient of inward FDI[3] globally

[1] Gross Domestic Product
[2] Comprises exports and imports
[3] Foreign direct investments

Source: Macrobond, UOB Global Economics and Markets Research

Key factors fuelling the ASEAN region's growth

Geographic location: Located at the crossroads of major markets, most notably China and India, the ASEAN region is a vital node in global manufacturing and supply chains. The region benefits from strong cross-border flows through the Belt and Road Initiative (BRI), the Regional Comprehensive Economic Partnership (RCEP) and the region's very own ASEAN Economic Community (AEC).

China connection: China is the ASEAN region's largest trading partner. In 2020, total trade amounted to US$685 billion, nearly a quarter of the region's total trade revenues. In the same year, the ASEAN region became China's top trading partner for the first time. A similar trend is observed for FDI from China into ASEAN. This grew by 23.3 per cent year on year, reaching US$16 billion in 2020. In the same year, more than 6,000 Chinese companies set up presence in ASEAN, according to statistics from China's Ministry of Commerce. Continued close links between ASEAN and China will be a massive growth catalyst in the years to come.

Growing economy: As an economic bloc, ASEAN is currently the world's fifth-largest economy and is expected to become the fourth-largest economy by 2030. While real GDP contracted by 4.4 per cent in 2020 due to the pandemic, the ASEAN region recovered to expand by 4.2 per cent in 2021. Nominal GDP was US$3.1 trillion in 2020 and is estimated to rise to US$4.6 trillion by 2025, and to US$6.6 trillion by 2030.

Positive trade outlook: The ASEAN region is the fourth-largest trading group globally. Trade peaked at US$2.8 trillion in 2019, before declining to US$2.7 trillion in 2020 due to the pandemic. The region's total trade recovered to a new record of US$3.3 trillion in 2021 and is on track to reach US$4.5 trillion by 2030.

Resilient investment inflows: The ASEAN region was the third-largest recipient of inward FDI globally, behind the US and China. Despite the pandemic, the region still attracted US$136 billion of FDI in 2020; this figure is expected to more than double to US$300 billion by 2030. Intra-ASEAN FDI accounted for 17 per cent of FDI in 2020, just behind the US (25 per cent) and ahead of China (14 per cent).

Favourable demographics: As of 2020, the ASEAN region had a population of 669 million people, the third largest in the world after China and India. More than half of the population (57 per cent) are under the age of 35 and that figure is expected to remain above 50 per cent well into 2030. Meanwhile, the number of middle-class households is expected to reach 163 million by 2030. With about half of the region's population residing in urban areas today, there is ample room for the region to see further increases in urbanisation rates, which will lead to higher income and consumption.

Regional Comprehensive Economic Partnership (RCEP): In November 2020, 15 countries from Asia Pacific — the 10 ASEAN member states, together with China, Japan, South Korea, Australia and New Zealand — signed the Regional Comprehensive Economic Partnership (RCEP) trade agreement, the world's largest free trade agreement (FTA).

Against a backdrop of rising trade protectionism and significant disruption to global production and supply chains from the pandemic and geopolitical uncertainties, the RCEP reaffirms members' commitment to trade liberalisation and closer economic cooperation, especially in Asia. Based on existing Free Trade Agreements among its members, the RCEP will cover 30 per cent of the world's gross domestic product (GDP) and population, as well as 27 per cent of the world's total trade (i.e., merchandise exports and imports) value, based on 2019 data.

05
Snapshot view of ASEAN markets

In this section, we take a closer look at the macroeconomic climate of the five markets included in our survey: Singapore, Indonesia, Malaysia, Thailand and Vietnam. We share their growth outlook for the rest of 2022 and beyond, along with the potential opportunities and risks that SMEs in these markets face as they navigate the road ahead.

Singapore

Outlook

Singapore's full-year GDP expansion of 7.6 per cent in 2021 offers a prime example of how an economy can recover despite COVID-19-related drags. Overall economic growth year-to-date was supported by a mix of low-base levels in 2020, as well as a rise in construction, manufacturing and services-related activities.

Overall, we keep our growth outlook for Singapore at 3.5 per cent in 2022, against the Ministry of Trade and Industry (MTI)'s growth outlook of 3 to 5 per cent. Despite the ongoing Ukraine conflict, Singapore has very limited direct exposure to Russia. As highlighted by Foreign Affairs Minister Vivian Balakrishnan, Singapore banks were found to have minimal direct exposure to Russia, while investment firm Temasek cited that its underlying exposures to Russia and Ukraine are "insignificant". Nonetheless, we remain cautious given that any further exacerbation will inject second-order growth risks and higher inflation for the year ahead.

Fast-growth industries/sectors

Construction	Finance	Manufacturing	Services	Transportation	Wholesale
Poor	Good	Excellent	Good	Fair	Good

Source: Dun & Bradstreet

The manufacturing sector accounted for the lion's share of Singapore's economic recovery, expanding by 7.1 per cent year-on-year in the first quarter of 2022, the seventh straight quarter of increase, led by electronics, transport engineering and general manufacturing. Construction (2.1 per cent year-on-year) and services (4.2 per cent year-on-year), sectors that were previously negatively affected by the COVID-19 pandemic, continued to rebound in the first quarter.

Domestic consumption in the second quarter of 2022 was boosted by the easing of dine-in restrictions and further relaxation of COVID-19 rules for travellers, with retail sales improving to 12.1 per cent year-on-year in April (from 8.8 per cent in March).

Domestic retail sales will continue to stay supported in the second half of 2022, in line with the positive economic outlook and tightening labour market. On the external front, the retail sector will benefit as borders reopen, complementing the recovery in domestic activities. Overall, the retail sales industry is expected to grow by 6 per cent in 2022.

Opportunities

The government has pledged S$24 billion to transform businesses and workers over the next three years. The aim is to mitigate external factors and support SMEs in driving quicker adoption of cutting-edge technologies, as well as to encourage stakeholder investments in digital solutions by tapping pre-existing schemes.

This will help facilitate digital connectivity and reliability and ultimately support SMEs in expanding beyond the domestic domain. Some of the pre-COVID-19 schemes include the SMEs Go Digital programme, Start Digital Solutions, Productivity Solutions Grant and the SkillsFuture Enterprise Credit, to name a few.

Risks

There are several well-telegraphed external risks that may be areas to watch out for on Singapore's outlook:

- the ongoing Ukraine conflict and its impact on commodity prices (and the resulting elevated inflation risks and potentially crimping of domestic demand);
- global supply chain disruptions;
- monetary policy tightening stance in advanced economies; and
- COVID-19 risks.

For Singapore's SMEs, the pathway to digital transformation has been lined with several challenges since the start of the pandemic and these continue to persist. SMEs are faced with the daunting tasks of adopting, reforming and adapting to the exponential changes of the growing digital landscape.

One of the biggest factors mitigating growth is cost, as disruptions affecting demand and cash flow alone are enough to dissuade SMEs from progressing with digital transformation efforts. Concurrently, other limitations in early adoption include implementation difficulties, lack of competent workforce and ongoing uncertainty in the wider economic environment.

Malaysia

Outlook

Economic momentum started off strong with GDP growth of 5.0 per cent year-on-year, or 3.9 per cent quarter-on-quarter seasonally adjusted, in the first quarter of 2022. This is encouraging amidst the effects of the Omicron wave and floods. GDP levels exceeded pre-pandemic levels in the first quarter of 2019 by 5.2 per cent. Key sectors leading the rebound were services, manufacturing and agriculture. Growth was also supported by higher consumption and investment activities as the economy reopened and restrictions were eased.

Fast-growth industries/sectors

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Good	Good	Good	Poor	Fair	Good	Fair

Source: Dun & Bradstreet

Key sectors leading the rebound were services, manufacturing and agriculture. The labour market showed signs of recovery as unemployment rates inched lower and labour participation rates rose to record levels, with worker shortages reported in selected sectors. Exports continued to post robust growth thanks to supportive global demand that lifted manufacturing, agriculture and mining exports.

Though overall investments continued to contract, firms increased spending on machinery and equipment by 14.6 per cent in 2021 (versus -9.6 per cent in 2020). Forward-looking indicators based on loans approved for purchase of fixed assets and working capital rose sharply between November and December 2021, in tandem with the reopening of the economy and improving business sentiment. Net FDI inflows increased almost four times to MYR54.9 billion in 2021 (versus MYR14.6 billion in 2020). These were mainly channelled to the manufacturing and mining sectors, as well as the financial services sub-sector.

Several key infrastructure and construction projects are expected to resume in 2022, such as the East Coast Rail Link, Pan Borneo Highway in Sabah and Sarawak, JB-Singapore Rapid Transit System and the Central Spine Road project, lifting job flows throughout the year and beyond.

Other new job announcements include work in the water and telecommunications sector via Digital Nasional Berhad, a government-owned special-purpose vehicle company aimed at accelerating the deployment of 5G infrastructure and network in Malaysia.

Opportunities

Bank Negara Malaysia signalled a more positive view on Malaysia's economy amid signs of firmer economic growth, which is supported by the easing of restrictions and reopening of international borders. Investment prospects have improved and the labour market has strengthened further. The improvement in economic activity is expected to lift core inflation higher to average 2.0 – 3.0 per cent this year while headline inflation is expected to average 2.2 – 3.2 per cent.

Risks

Price pressures are building with more cost pass-through anticipated in coming months. Food inflation recorded its largest annual increase since 2017 at 4.2 per cent in April. Price control measures have affected food supplies, in particular chicken, that led to a temporary ban on chicken exports and lifting of permits for selected food imports. Higher minimum wages (with effect from May 2022) and labour market improvements should further fan demand-pull inflation.

Indonesia

Outlook

The Indonesian economy grew 5.01 per cent year-on-year in the first quarter of 2022, slightly lower than the reading of 5.02 per cent in the last quarter of 2021, but above our forecast of 4.9 per cent. This marked the second straight quarter of steady economic expansion.

We continue to hold the view that the economic recovery will sustain this year and for GDP to register a growth in our forecast range of 4.6 – 5.0 per cent (midpoint of 4.8 per cent) in 2022 compared to 3.7 per cent in 2021.

Fast-growth industries/sectors

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Good	Fair	Good	Excellent	Fair	Excellent	Poor

Source: Dun & Bradstreet

Household consumption growth increased to 4.3 per cent year-on-year in the first quarter of 2022, as compared to 3.6 per cent year-on-year in the last quarter of 2021, amid the easing of restrictions on movement, increased activities to manage the spread of COVID-19 and its corresponding risks to healthcare systems and a determined transition towards an endemic state that allowed economic growth to remain steady.

Meanwhile, investment spending growth fell from 4.5 per cent year-on-year to 4.1 per cent year-on-year due to the slowdown in China's growth and the conflict between Russia and Ukraine. Export growth remained robust at 16.2 per cent year-on-year in the first quarter of 2022, while imports rose 15 per cent year-on-year during the same period.

Indonesia's current account posted a surplus of US$0.2bn (0.1 per cent of GDP) in the first quarter of 2022, a decline compared to surplus of US$1.5bn (0.5 per cent of GDP) in the last quarter of 2021. There was a higher services account deficit as overseas travel picked up, including pilgrimage-related travel, and lower remittances resulted in a lower current account surplus. The surplus in the trade balance also helped to support the current account surplus and provided stronger external sector resilience.

Opportunities

Indonesia's post-pandemic growth will be focused primarily on increased government spending to bring modern technologies to SMEs as part of the greater plan to digitalise the country. This will help unlock the country's considerable growth potential and meet its sustainable development goals (SDGs). The Communications and Information Ministry has taken an important step in supporting digital talent development programmes through the 2021 Digital Talent Scholarship (DTS).

Faster adoption of digital technologies can deliver considerable benefits across the country as SMEs account for around 60 per cent of Indonesia's GDP. Opportunities from domestic spending are evident from the rebound in transactions due to the pent-up demand, rallying consumption from the online shopping season from November to December 2021.

Higher revenues would enable increased spending on education, infrastructure, health and social safety nets, fostering sustainable and inclusive growth. Additional fiscal resources would also help Indonesia tackle challenges related to climate change and the transition to a greener economy.

Risks

Downside risk remains amid ongoing global uncertainty. The Ukraine conflict has resulted in higher food and energy prices, while weaker economic growth in China is likely to reduce Indonesia's key exports to the country and tighter monetary conditions globally are likely to put pressure on domestic economic growth.

Higher inflation could limit the recovery of domestic consumer spending to a certain extent, though the loosening of COVID-19 restrictions should continue to support domestic demand. For one, higher global commodity prices will likely increase the net export contribution to overall growth, but higher inflationary pressures will limit consumer spending this year.

On balance of all accounts, we revised our 2022 growth forecast lower to 4.8 per cent from 5.0 per cent set out previously.

Thailand

Outlook

Among all the economies in Asia, Thailand was hit especially hard by the pandemic. Overall, Thailand's economy registered a 2.2 per cent year-on-year growth (from 1.8 per cent in the last quarter of 2021), marking the strongest increase since the second quarter of 2021.

Private consumption growth accelerated to 3.9 per cent year-on-year in the first quarter from the previous quarter's 0.4 per cent increase. Investment rebounded, growing 0.8 per cent in the first quarter of 2022, reversing the 0.2 per cent contraction in the last quarter of 2021. Government consumption growth slowed to 4.6 per cent (1.8 per cent in last quarter of 2021). Exports of goods and services increased 12.0 per cent year-on-year, which was below last quarter of 2021's 17.6 per cent and imports growth moderated to 6.7 per cent (16.4 per cent in last quarter of 2021).

The key direct impact of the conflict in Ukraine will come perhaps from the higher inflation pressure currently seen in 2022. Consumer prices rose 5.3 per cent year-on-year in February 2022, the fastest pace since September 2008, on the back of rising food and energy prices, exacerbated by the fact that raw food and energy account for one third of Thailand's CPI basket. As such, we have upgraded our inflation forecast to 6.0 per cent in 2022, from 4.0 per cent previously.

In 2022, we maintain our GDP growth outlook for Thailand at 3.2 per cent. This is against the official range outlook of 3.5 – 4.5 per cent. High-frequency data paint a favourable economic backdrop for Thailand. Nonetheless, we remain cautious over Thailand's growth prognosis. For now, a tourism revival must be present to usher in a resilient growth structure, even though tourism arrivals will likely remain below pre-pandemic levels in 2022.

Fast-growth industries/sectors

Agriculture	Construction	Manufacturing	Mining
Excellent	Excellent	Excellent	Poor
Services	**Transportation**	**Utilities**	**Wholesale**
Fair	Poor	Good	Good

Source: Dun & Bradstreet

Thailand's economy fared better than expected in the first quarter of 2022, as relaxation of COVID-19 restrictions bode well for the tourism industry.

Private consumption growth accelerated to 3.9 per cent year-on-year in the first quarter of 2022, from the previous quarter's 0.4 per cent increase. Investment rebounded, growing 0.8 per cent in the first quarter of 2022, reversing the 0.2 per cent contraction in last quarter of 2021. Government consumption growth slowed to 4.6 per cent (1.8 per cent in last quarter of 2021). Exports of goods and services increased 12.0 per cent year-on-year, which was below the last quarter of 2021's 17.6 per cent and import growth moderated to 6.7 per cent (16.4 per cent in last quarter of 2021).

We expect the pace of economic growth to pick up pace in the latter part of this year, underpinned by higher tourism inflows that will further support the recovery of domestic household spending amid a tight labour market and expansionary fiscal and monetary policies. Runaway inflationary effects from the supply chain disruptions stemming from China's stringent COVID-19 policy pose downside risks on growth. On balance, we expect growth to double its momentum to 3.2 per cent in 2022 versus 1.6 per cent in 2021, before accelerating further to 3.7 per cent in 2023.

Opportunities

Due to the pandemic in 2021, 61.6 per cent of SMEs in Thailand reportedly suffered from a drop in their income. One of the contributing factors could be that businesses were unable to obtain loans from traditional financial institutions, especially those that were still in their debt restructuring phase.

The National Innovation Agency (NIA) has collaborated with the private and public sectors to initiate the "Thailand Startup Ecosystem Report 2021". This initiative serves as a guideline to promote and inspire new business start-ups.

Ongoing government support, such as the Thailand 4.0 national development plan, has improved accessibility towards digitalisation for start-ups. The Thai Cabinet has also approved a US$1.1 billion subsidy program to help SMEs continue to retain their employees and pay their salaries in 2021.

Risks

Thailand's growth dynamics in 2022 remain modest for three reasons. First, GDP growth in 2022 has been largely fuelled by government spending, rather than traditional growth engines such as consumption, net exports and investment.

Second, it remains to be seen if the private sector will be able to play a meaningful role in driving economic recovery in 2022 due to the ongoing COVID-19 risks, rising inflation and supply chain disruptions.

Third, rising debt levels, both private and public, have been a key concern ever since the onset of COVID-19. We note that the country's budget deficit has widened to THB491 billion in the fourth quarter of 2021, up from THB414.5 billion in the same period last year. Similarly, public debt ballooned to THB8.4 trillion in December 2021, almost doubling from its THB4.5 trillion level five years ago (December 2016). From a private perspective, household debt as a percentage of GDP has also skyrocketed to 89.6 per cent as of the third quarter of 2021, up from 79.4 per cent in the fourth quarter of 2016.

Ongoing geopolitical risks surrounding Russia and Ukraine may also strain Thailand's economic recovery. We see several drivers that could affect the country's growth. For one, geopolitical tensions are expected to impact Thailand's tourism market, where Russia is the third-largest tourism revenue receipt generator in 2019. Moreover, while Thailand's direct trade exposure to Russia is limited (0.5 per cent of total trade in 2021), second-order exposure – mainly to Russia's key trading partners such as China, the EU28 and Japan – accounts for 32.1 per cent of exports in the 12 months into January 2022. On this point, Finance Minister Arkhom Termpittayapaisith commented that the ongoing conflict in Ukraine will make it difficult for Thailand to reach its 4.0 per cent growth target in 2022. As such, we keep our growth outlook at 3.5 per cent with downside risks.

Vietnam

Outlook

Vietnam's real GDP grew 5.03 per cent year-on-year in the first quarter of 2022, extending the 5.22 per cent pace in the last quarter of 2021. The 2022 GDP growth forecast for Vietnam is maintained at 6.5 per cent, in line with official projection of 6.0 – 6.5 per cent. This forecast assumes GDP growth in the second quarter of 2022 to pick up its pace to 6 per cent year-on-year and then further to 7.6 per cent in the third quarter of 2022.

This sharp recovery was attributed to the relaxation of measures to contain the spread of COVID-19, which caused an unprecedented decline in activities during the third quarter of 2021. Overall, in 2021, Vietnam's economy expanded by 2.58 per cent, slightly slower compared to the 2.91 per cent growth in 2020.

Fast-growth industries/sectors

Agriculture	Construction	Manufacturing	Mining	Services	Transportation	Wholesale
Excellent	Good	Fair	Poor	Fair	Good	Fair

Source: Dun & Bradstreet

The services sector rebounded after more parts of the economy were reopened with relaxation of mobility and social distancing restrictions. Manufacturing sector continued to take the lead, and most significantly, overall services sector expanded 4.58 per cent year-on-year, from 1.22 per cent in the last quarter of 2021. It was clear that services activities were able to benefit from the lifting of COVID-19 restrictions imposed during the second half of 2021.

Recent data suggest that Vietnam's underlying growth momentum remained intact in 2Q22. Manufacturing sector continued to power on, registering a 9.24 per cent year-on-year gain in May year-to-date, versus 8.28 per cent in April, and the strong performance of 12.59 per cent in May 2021. This performance is also reflected in the purchasing managers' index (PMI), which was in its eighth month of expansion in May.

On the consumer side, lifting of domestic COVID-19 restrictions and resumption of cross-border travel have injected new vigour into the services sector. Overall retail trade accelerated 9.69 per cent year-on-year year-to-date in May, versus 6.54 per cent in April and well ahead of the 3 per cent drop in 2021. This was led by travel services (+34.7 per cent year-to-date in May) and accommodation and catering (15.75 per cent rise). Tourism-dependent sectors such as accommodation and food & beverage are expected to return to growth in the second half of 2022, after nine straight quarters of declines.

Opportunities

As the nation continues to grapple with the fallout from the pandemic, isolation measures have heavily impacted many SMEs in operating their businesses. The sector accounts for 98 per cent of all businesses in Vietnam, and its post-pandemic recovery will be critical to the country's broader economic recovery.

On a more promising note, it was observed that 60 per cent of larger firms within the service sector have responded positively to the new normal by adopting new technologies. SMEs are more likely to tap digital platforms such as e-commerce and social media to enable a far less complicated front-end business approach.

In February 2021, the Asian Development Bank offered a proposed loan of US$200 million to the Vietnam International Commercial Joint Stock Bank (VIB). Half of the total loan amount was dedicated to support SMEs in critical need of financing. The scheme also reaches out to VIB's home loan businesses to aid in improvements and repairs. This will also contribute to the overall improvement of living conditions, predominantly focused on urban areas.

Risks

Inflation in Vietnam has been trending up since to 2.86 per cent in May which is still below the State Bank of Vietnam's (SBV) target of 4 per cent.

Elevated prices of global energy and food, as well as supply chain disruptions, have contributed to the jump in Vietnam's inflation. In particular, transport-related costs have been rising at double digit year-on-year pace in the past 14 months. As Vietnam is able to supply foodstuff domestically, the upside pressure on prices is largely dominated by the transport related components of the consumer price basket, accounting for about three-quarters of the inflation thus far, compared to an average of 50 per cent in 2021.

With the Ukraine conflict stretching beyond 100 days and showing no signs of easing, we expect Vietnam's headline inflation rate at 3.7 per cent in 2022 and rising further to 5 per cent in 2023.

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