



AmCham-ERIA Survey

The Impact of COVID-19 on Foreign Firms in ASEAN

INTRODUCTION

The Covid-19 pandemic has disrupted the operations of businesses across the ASEAN region. The impact of this disruption will be both short and long-term.

AmCham Indonesia and the Economic Research Institute for ASEAN and East Asia (ERIA) created a rapid survey in April to understand the evolving needs of US companies in the region. Five months later, the two institutions joined forces again to create the survey described in this report, a more in-depth investigation of how foreign companies in ASEAN have responded and what plans they have in place moving forward. 24 chambers and business organizations representing foreign companies were involved in the implementation of this survey.

Key findings of the survey include:

- almost all firms experienced a negative impact due to the pandemic, with impacts on output, revenue, and/or sales across all countries of operation
- measures taken in response to this included the introduction of remote working, hiring freezes and reductions in the number of employees
- most companies anticipate that the pandemic will continue to have an impact until at least Q2 2021
- certain innovations such as increased video conferencing and working from home are expected to become permanent

AmCham Indonesia and ERIA are grateful for the support of Implementing Partners in gathering the data for this survey.



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The Survey Respondents: SIZES, SECTORS, LOCATIONS

264 firms with operations in ASEAN responded to 26 questions about the impact of Covid-19 on their business operations.

The respondents range from multinationals with over 1,000 employees to foreign-owned firms based in ASEAN with fewer than 50 employees. Almost half the respondents have more than 1,000 employees globally while a quarter of respondents have less than 50.

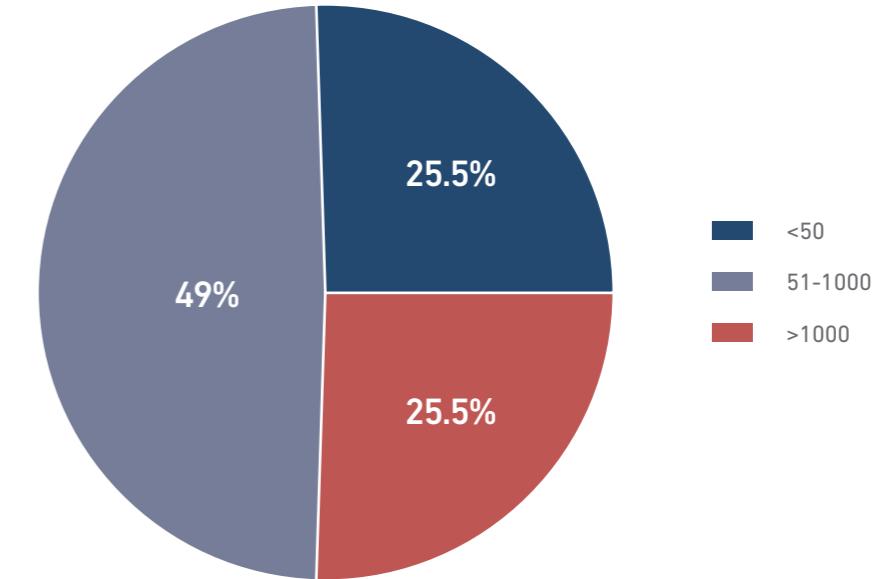
198 of the respondents are operating in just one sector, while 48 companies operate in 2 to 4 sectors and only 7 companies operate in more than 5 sectors. The largest number of firms (17%) operate in the service sector, followed by ICT (8%) and Tourism and Hospitality (8%).

The respondents are predominantly domiciled in ASEAN, with a significant number also citing the US as their home base. Countries of operation most frequently include Singapore, Malaysia, and Thailand.

Almost three quarters of respondents began operating in ASEAN before 2010.

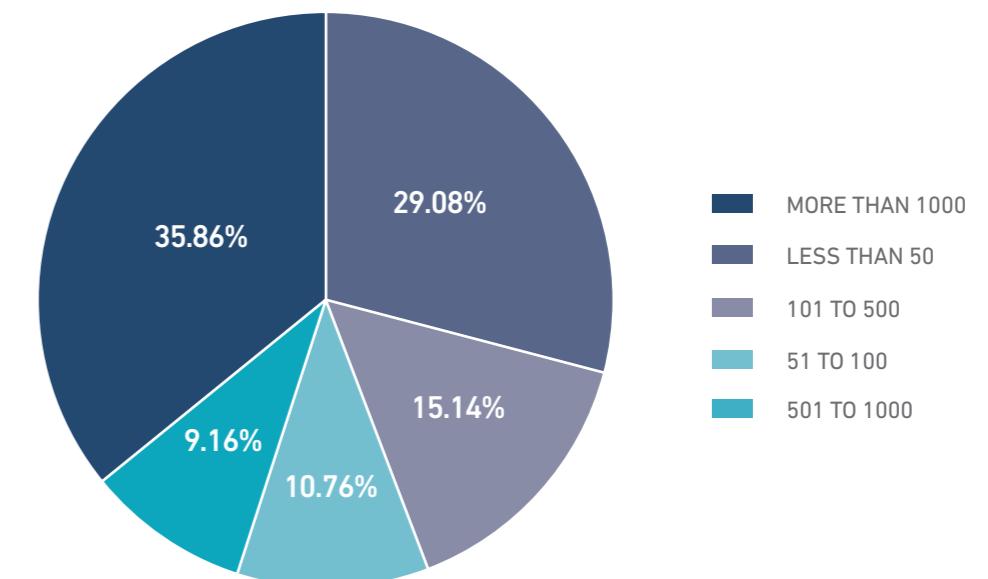
Almost half the respondents have more than 1,000 employees globally while a quarter of respondents have less than 50.

How many employees does your company have?



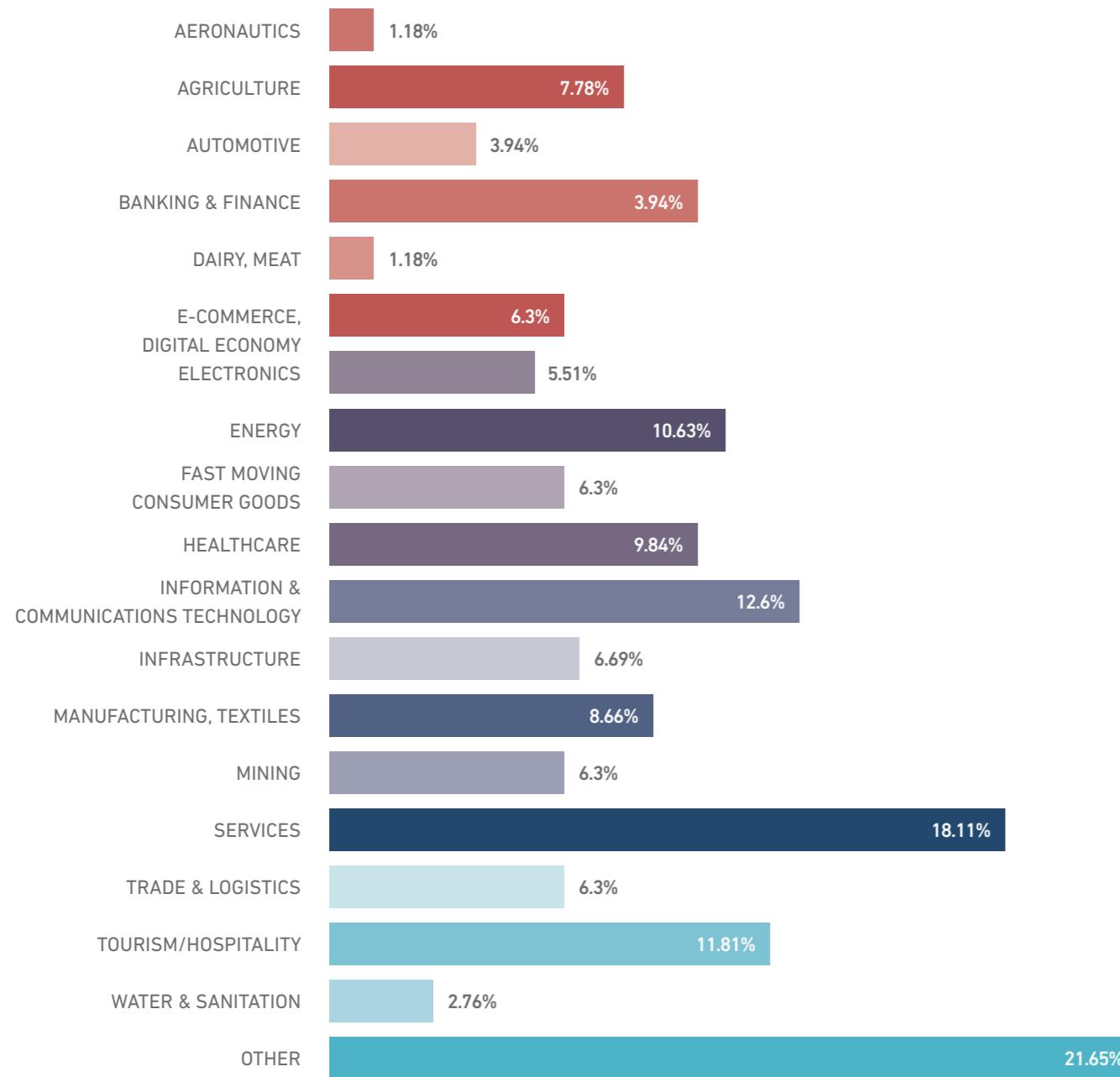
90 of the largest companies have over 1,000 employees in ASEAN.

How many employees does your company have in ASEAN?



Predominant sectors of those surveyed include Services, Information and Communications Technology, Tourism & Hospitality, Energy.

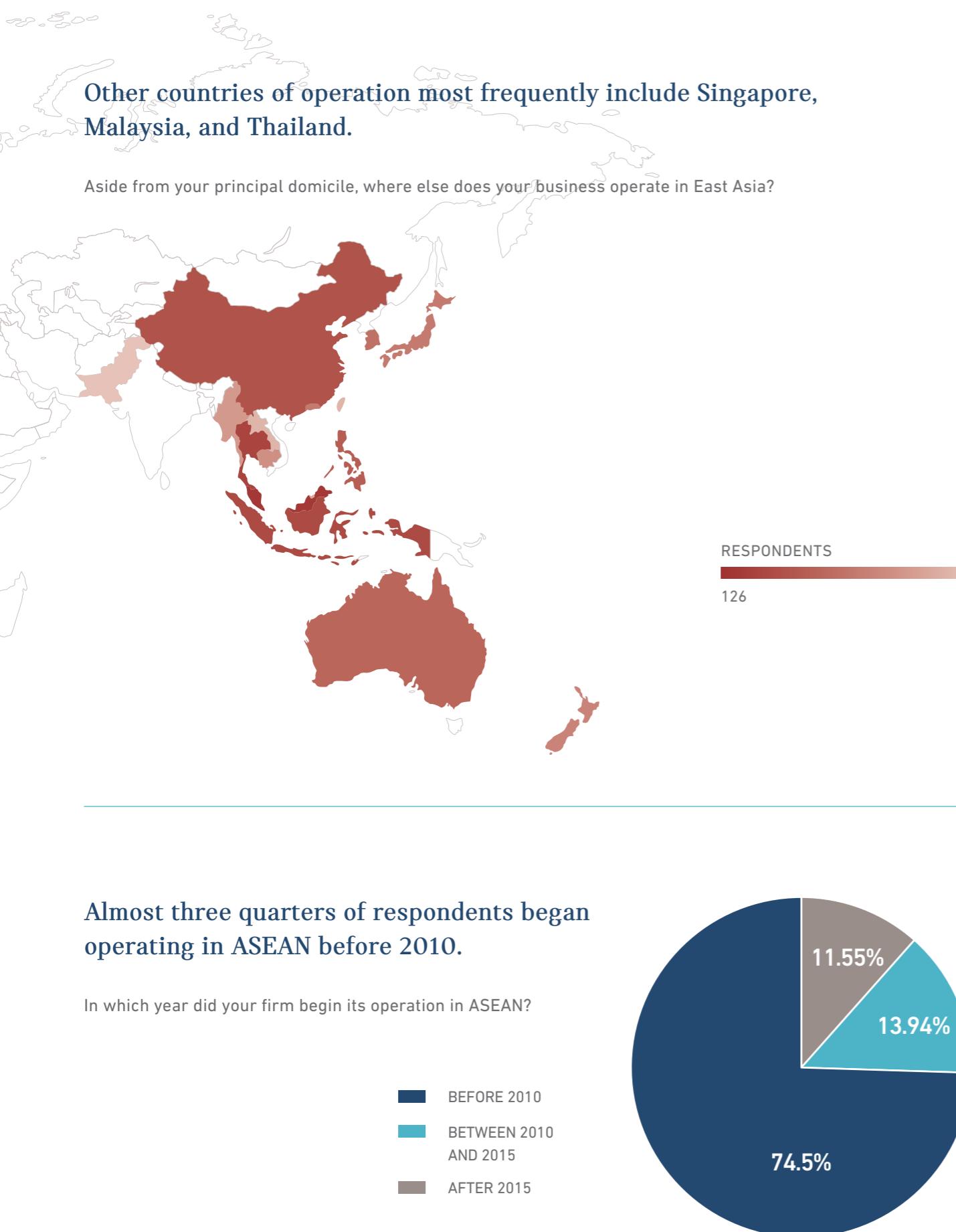
What sector(s) is your company involved in?



The majority of companies have Indonesia as their principal domicile, followed by the Philippines and the United States.

This survey is intended for foreign investors throughout ASEAN. Which country/region does your firm consider as its principal domicile?





Most Firms Were Negatively Impacted by the Pandemic

Almost all firms have been negatively impacted in some way by Covid-19, with 88.5% reporting adverse impacts to varying degrees of severity. On average, companies find that the pandemic had a 'moderately adverse' impact on their business.

Overall, the Dairy and Meat sector was hit the hardest with 100% reporting some degree of negative impact ('slightly', 'moderately' or 'significantly' adverse). This is followed by Electronics and Healthcare. The Trade and Logistics sector is the least negatively impacted (50%) with 28% of firms experiencing some positive impact.

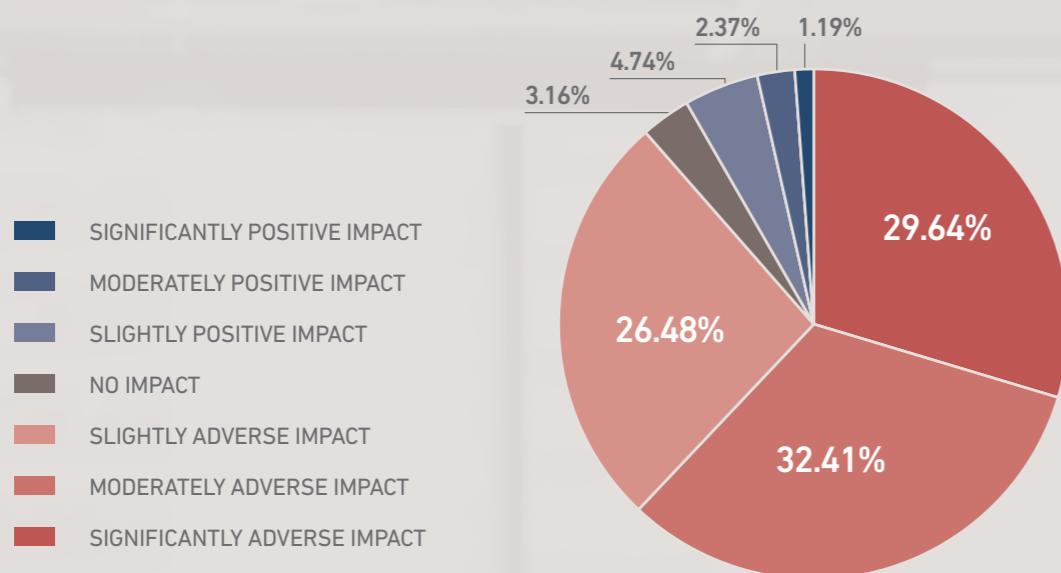
Only 21 companies (<10%) report a positive impact, with most selecting 'slightly' positive rather than 'moderately' or 'significantly'. Most of these companies are specialized, only having operations in one sector.

Just three firms report 'significantly' positive impacts, and these are in very different sectors – ICT, Manufacturing/Textiles, and Other: Health and Wellness. 33% of Aeronautics firms report a positive impact, although the sample size (4 respondents) is small. 28% of Banking and Finance respondents, as well as 28% of respondents from the Trade and Logistics sector, report a positive impact.

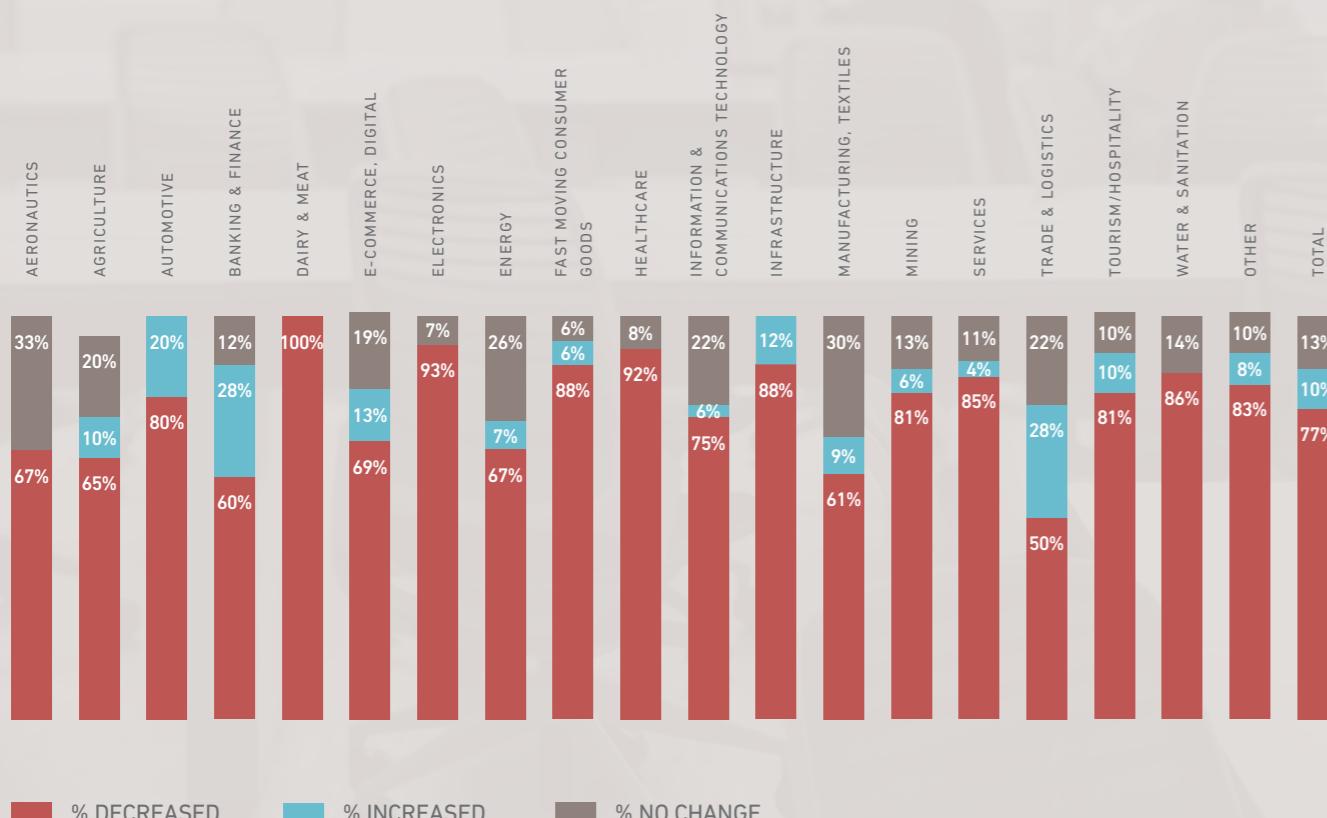
Companies with more employees were slightly more negatively impacted than smaller companies. Those with a workforce of 51-500, and based in ASEAN, were least affected, although the difference between global companies and companies that only operate in ASEAN was only 2%. Companies formed after 2010 fared a little bit better than older organizations.

On average, companies experienced a ‘moderately adverse’ impact.

How significantly has covid-19 already impacted your firm?



IMPACT BY SECTOR



Impacts on Output/ Revenue/Sales

Three quarters of respondents have experienced a reduction in output/revenue/sales, across all countries of operation. The responses show less variation between countries than between sectors.

Overall 75% of respondents say that business revenue has reduced, while 10% say it has increased (close to 16% found that no significant change had occurred). This is quite consistent across countries.

By far the greatest factor contributing to the negative impact is demand, with 78% of the respondents citing it as the main reason for decreased output/revenue/sales.

This finding supports research conducted by ERIA's Chief Economist, Professor Fukunari Kimura, who has stated that "although the coronavirus disease (COVID-19) started by causing both supply and demand shocks, the demand shock will be dominant in the exit from the emergency. A deep and long recession is expected throughout the world." (Kimura 2020)

In addition to demand shock, several respondents identify lock-down and travel restrictions as the main cause of the difficulties. This affected firms in

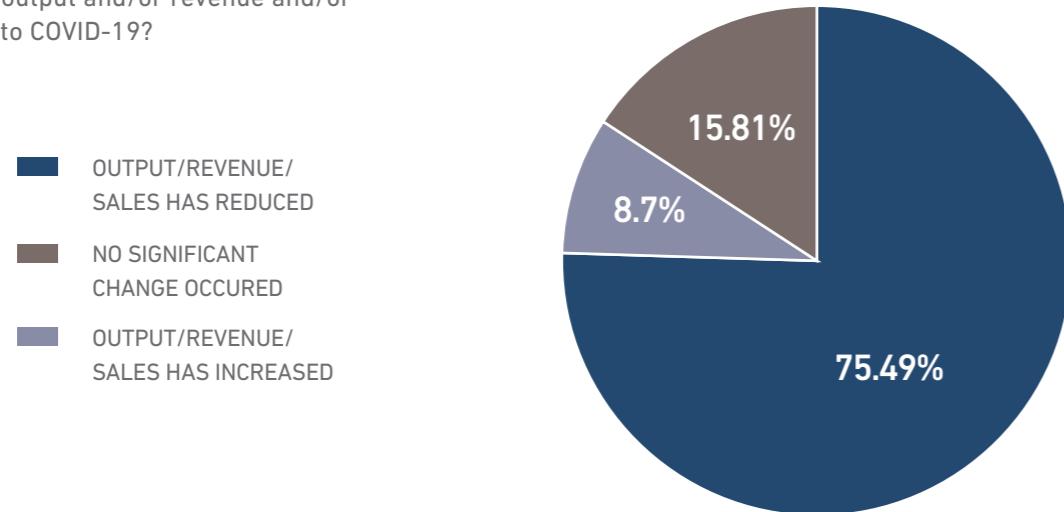
various ways, ranging from the inability to send staff to project sites to the inability to acquire key goods (for instance, laptops for staff to work at home). Others note significant slowdowns with customs and border crossings: "We are an export-oriented business. The export documentation service was slow during the Covid period. If customs can digitalize the operation, we should be better in future."

Supply chain disruptions are a significant concern, with 72.65% of respondents experiencing some degree of disruption. Of these, most report difficulties obtaining imported inputs. Close to 15% of respondents report no significant change in supply chain operations.

For those who experienced an increase in output/revenue/sales (8.7%), some are providing products directly related to the needs of the pandemic, such as Covid-19 tests and PPE. One respondent cites increased volatility improving trading, while another explains that they got a new supply channel.

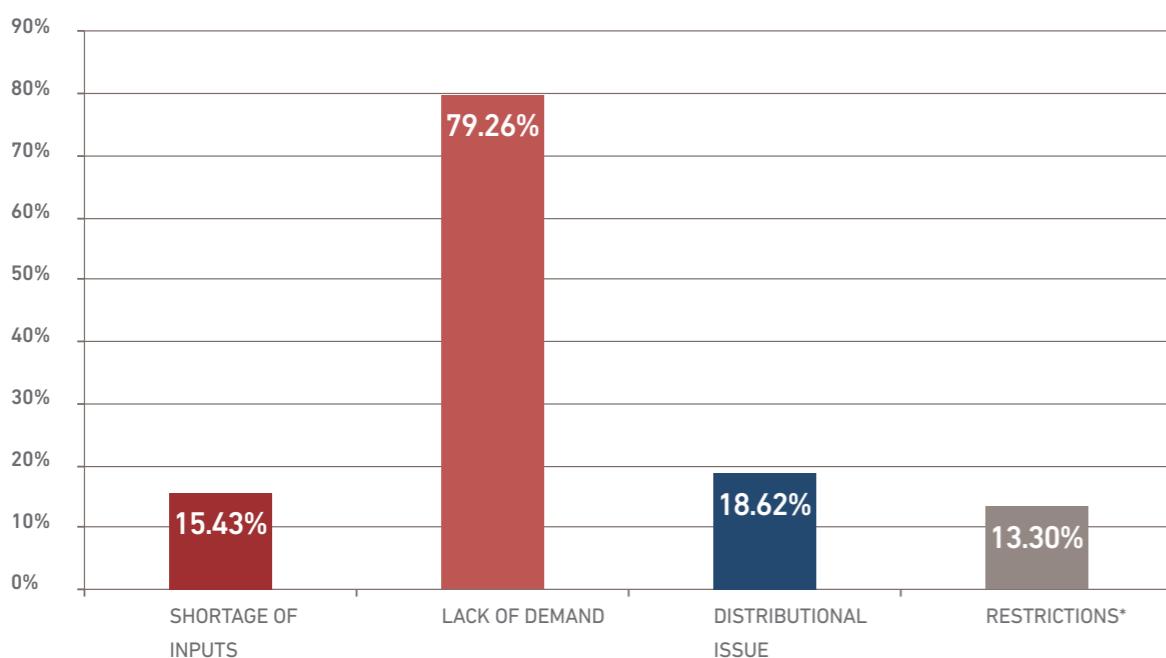
Most firms experienced a significant change in output/revenue/sales.

Has your firm experienced a significant change in output and/or revenue and/or sales due to COVID-19?



Lack of demand had the greatest impact on output/revenue/sales.

Select the factors which caused output/revenue/sales to reduce



* LOCKDOWNS, RESTRICTIONS ON TRAVEL, AND OTHER GENERAL GOVERNMENT RESTRICTIONS

AERONAUTICS 100%

AGRICULTURE 10% 10% 45% 5%

AUTOMOTIVE 10% 40% 10%

BANKING & FINANCE 16% 44% 8%

DAIRY, MEAT 67%

E-COMMERCE, DIGITAL ECONOMY 13% 6% 63%

ELECTRONICS 21% 43% 21%

ENERGY 11% 11% 48%

FAST MOVING CONSUMER GOODS 13% 13% 50%

HEALTHCARE 24% 12% 36% 12%

INFORMATION & COMMUNICATIONS TECHNOLOGY 6% 13% 56% 6%

INFRASTRUCTURE 24% 18% 35% 6%

MANUFACTURING, TEXTILES 9% 9% 57% 4%

MINING 6% 6% 31% 6%

SERVICES 11% 13% 48% 11%

TRADE & LOGISTICS 11% 6% 67% 6%

TOURISM/HOSPITALITY 13% 10% 68% 3%

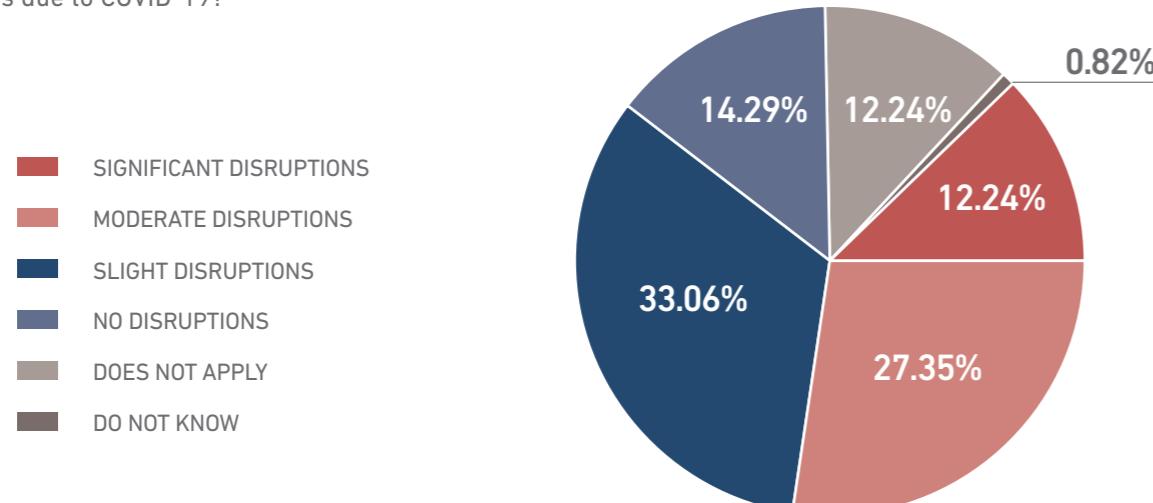
WATER & SANITATION 43%

RESTRICTIONS LACK OF DEMAND

DISTRIBUTIONAL ISSUE SHORTAGE OF INPUTS

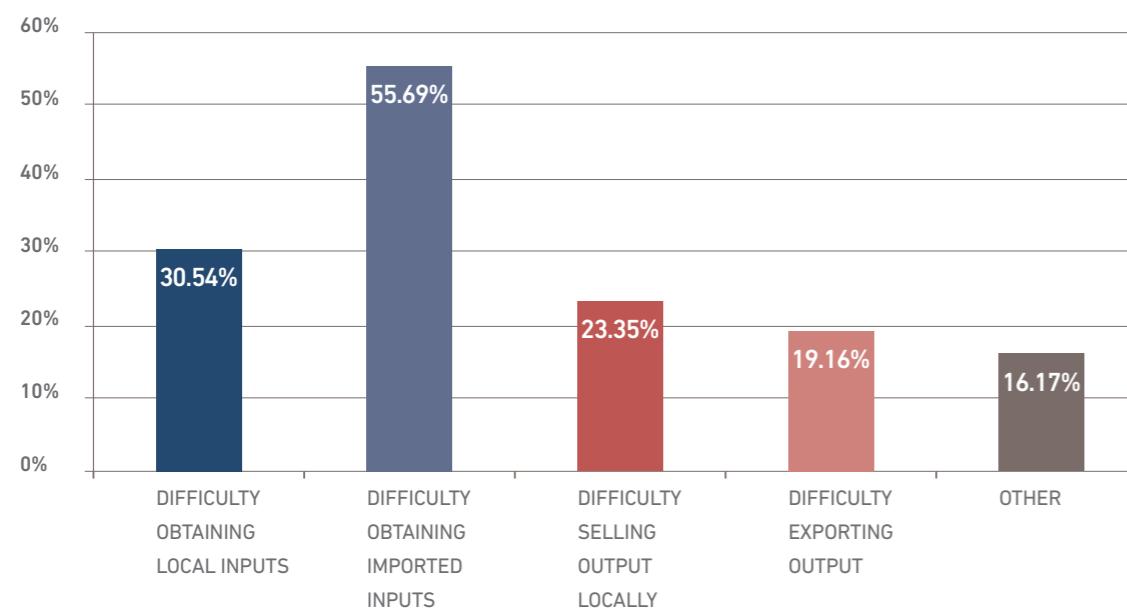
Most firms experienced slight or moderate supply chain disruptions.

Has your firm experienced supply chain disruptions due to COVID-19?



Most supply chain difficulties involved obtaining imported inputs.

If your firm has experienced supply chain disruptions, which of the following applies?



Strategies in Response to the Pandemic

In line with global trends, many firms have shifted to a work-from-home policy (80%). 40% have implemented hiring freezes. 27% of respondents have reduced the number of employees.

Respondents were also asked whether there would be an impact on their operational locations due to the pandemic. More than half (57%) are not considering reducing overseas operations/production. The majority (73%) are not considering reshoring to their country of domicile.

The majority of those with operations in China are not considering relocating – of those who are, Vietnam is the most frequently cited alternative. For those that are planning to relocate, this supports the hypothesis of hedging against relying on China as a location of investment. One potential lesson learned from the pandemic is that MNEs may wish to reduce their over-reliance on China by widening their value chains to countries other than China, or the strategy commonly known as 'China Plus Two or Three' (ERIA 2020).

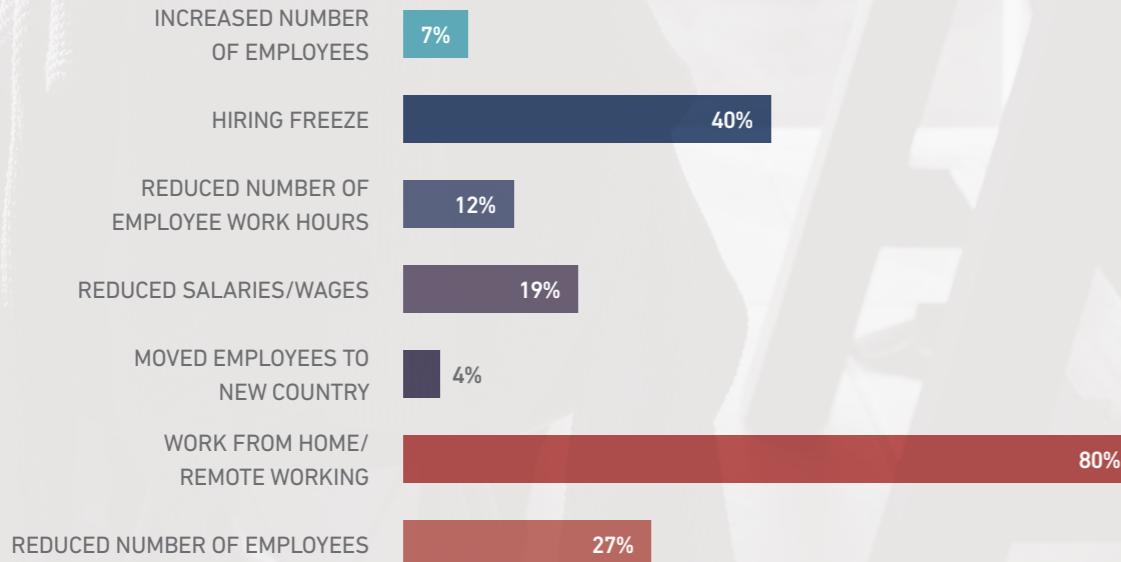
The pandemic has also prompted swifter adoption of new technologies. 46% of respondents are planning to make new investments in 4IR technology, and 64% of these stated that this decision was influenced by Covid-19. This supports the idea that crisis leads to the adoption of more advanced technology. The behaviour reflected by the survey is not uncommon. Evidence from other crises has shown the existence of this behaviour; for example, the International Federation of Robotics (2019) reported that automotive firms after the 2008/2009 recession increased the pace of robotics installations amongst automotive manufacturers and parts suppliers.



66
In line with global
trends, many firms
have shifted to a work-
from-home policy **99**

Remote working is the most commonly adopted organizational response.

Strategies adopted as a result of pandemic



Strategies adopted as a result of pandemic by sector

AERONAUTICS

INCREASED NUMBER OF EMPLOYEES	0%
HIRING FREEZE	67%
REDUCED NUMBER OF EMPLOYEE WORK HOURS	33%
REDUCED SALARY/WAGES	33%
MOVED EMPLOYEES TO NEW COUNTRY	0%
WORK FROM HOME/REMOTE WORKING	100%
REDUCED NUMBER OF EMPLOYEES	33%

AGRICULTURE

INCREASED NUMBER OF EMPLOYEES	5%
HIRING FREEZE	35%
REDUCED NUMBER OF EMPLOYEE WORK HOURS	15%
REDUCED SALARY/WAGES	20%
MOVED EMPLOYEES TO NEW COUNTRY	5%
WORK FROM HOME/REMOTE WORKING	75%
REDUCED NUMBER OF EMPLOYEES	30%

AUTOMOTIVE

INCREASED NUMBER OF EMPLOYEES	0%
HIRING FREEZE	40%
REDUCED NUMBER OF EMPLOYEE WORK HOURS	0%
REDUCED SALARY/WAGES	20%
MOVED EMPLOYEES TO NEW COUNTRY	0%
WORK FROM HOME/REMOTE WORKING	80%
REDUCED NUMBER OF EMPLOYEES	30%

BANKING & FINANCE

INCREASED NUMBER OF EMPLOYEES	8%
HIRING FREEZE	29%
REDUCED NUMBER OF EMPLOYEE WORK HOURS	13%
REDUCED SALARY/WAGES	13%
MOVED EMPLOYEES TO NEW COUNTRY	13%
WORK FROM HOME/REMOTE WORKING	88%
REDUCED NUMBER OF EMPLOYEES	21%

DAIRY & MEAT

INCREASED NUMBER OF EMPLOYEES
0%HIRING FREEZE
67%REDUCED NUMBER OF EMPLOYEE WORK HOURS
0%REDUCED SALARY/WAGES
33%MOVED EMPLOYEES TO NEW COUNTRY
0%WORK FROM HOME/REMOTE WORKING
67%REDUCED NUMBER OF EMPLOYEES
33%INCREASED NUMBER OF EMPLOYEES
0%HIRING FREEZE
38%REDUCED NUMBER OF EMPLOYEE WORK HOURS
0%REDUCED SALARY/WAGES
13%MOVED EMPLOYEES TO NEW COUNTRY
6%WORK FROM HOME/REMOTE WORKING
88%REDUCED NUMBER OF EMPLOYEES
25%

ENERGY

INCREASED NUMBER OF EMPLOYEES
15%HIRING FREEZE
44%REDUCED NUMBER OF EMPLOYEE WORK HOURS
15%REDUCED SALARY/WAGES
15%MOVED EMPLOYEES TO NEW COUNTRY
4%WORK FROM HOME/REMOTE WORKING
74%REDUCED NUMBER OF EMPLOYEES
22%

FAST MOVING CONSUMER GOODS

INCREASED NUMBER OF EMPLOYEES
0%HIRING FREEZE
60%REDUCED NUMBER OF EMPLOYEE WORK HOURS
33%REDUCED SALARY/WAGES
27%MOVED EMPLOYEES TO NEW COUNTRY
0%WORK FROM HOME/REMOTE WORKING
87%REDUCED NUMBER OF EMPLOYEES
40%

ELECTRONICS

INCREASED NUMBER OF EMPLOYEES
8%HIRING FREEZE
42%REDUCED NUMBER OF EMPLOYEE WORK HOURS
0%REDUCED SALARY/WAGES
16%MOVED EMPLOYEES TO NEW COUNTRY
8%WORK FROM HOME/REMOTE WORKING
83%REDUCED NUMBER OF EMPLOYEES
33%

HEALTHCARE

INCREASED NUMBER OF EMPLOYEES
8%HIRING FREEZE
44%REDUCED NUMBER OF EMPLOYEE WORK HOURS
12%REDUCED SALARY/WAGES
20%MOVED EMPLOYEES TO NEW COUNTRY
8%WORK FROM HOME/REMOTE WORKING
72%REDUCED NUMBER OF EMPLOYEES
32%

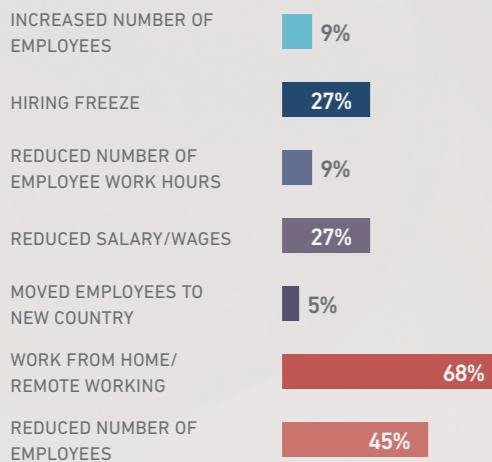
INFORMATION & COMMUNICATIONS TECHNOLOGY

INCREASED NUMBER OF EMPLOYEES
6%HIRING FREEZE
45%REDUCED NUMBER OF EMPLOYEE WORK HOURS
16%REDUCED SALARY/WAGES
10%MOVED EMPLOYEES TO NEW COUNTRY
0%WORK FROM HOME/REMOTE WORKING
87%REDUCED NUMBER OF EMPLOYEES
19%

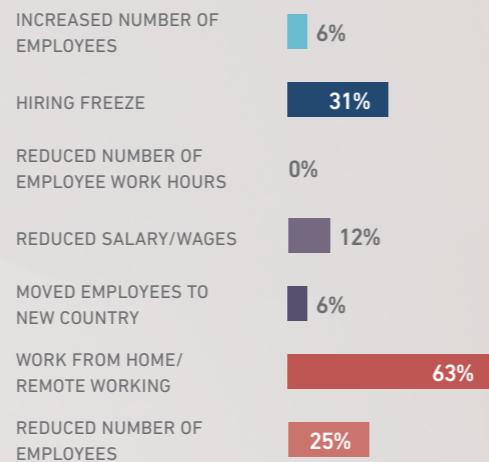
INFRASTRUCTURE

INCREASED NUMBER OF EMPLOYEES
18%HIRING FREEZE
29%REDUCED NUMBER OF EMPLOYEE WORK HOURS
6%REDUCED SALARY/WAGES
12%MOVED EMPLOYEES TO NEW COUNTRY
6%WORK FROM HOME/REMOTE WORKING
71%REDUCED NUMBER OF EMPLOYEES
18%

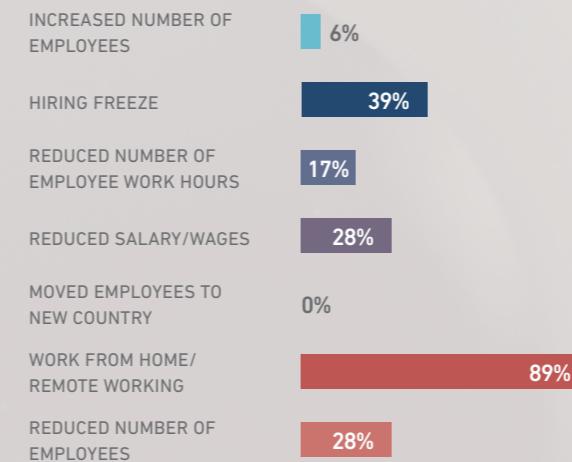
MANUFACTURING, TEXTILES



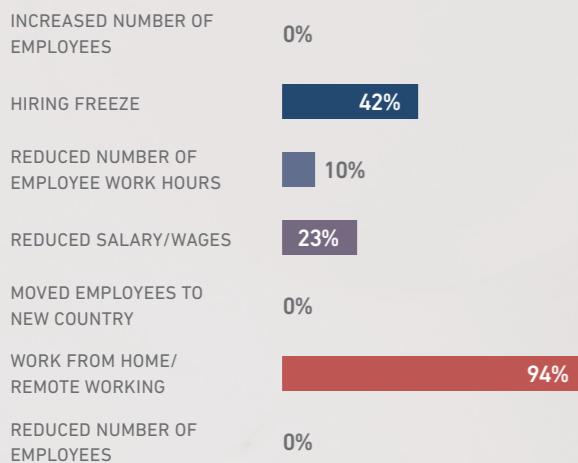
MINING



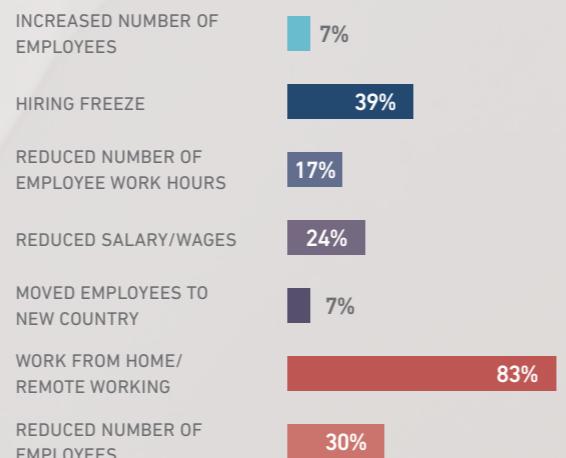
TRADE & LOGISTIC



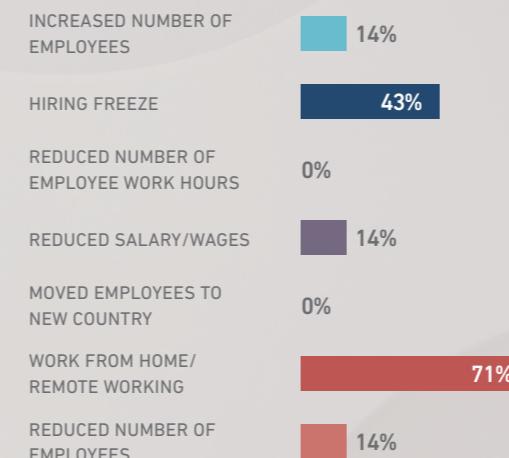
TOURISM/HOSPITALITY



SERVICES



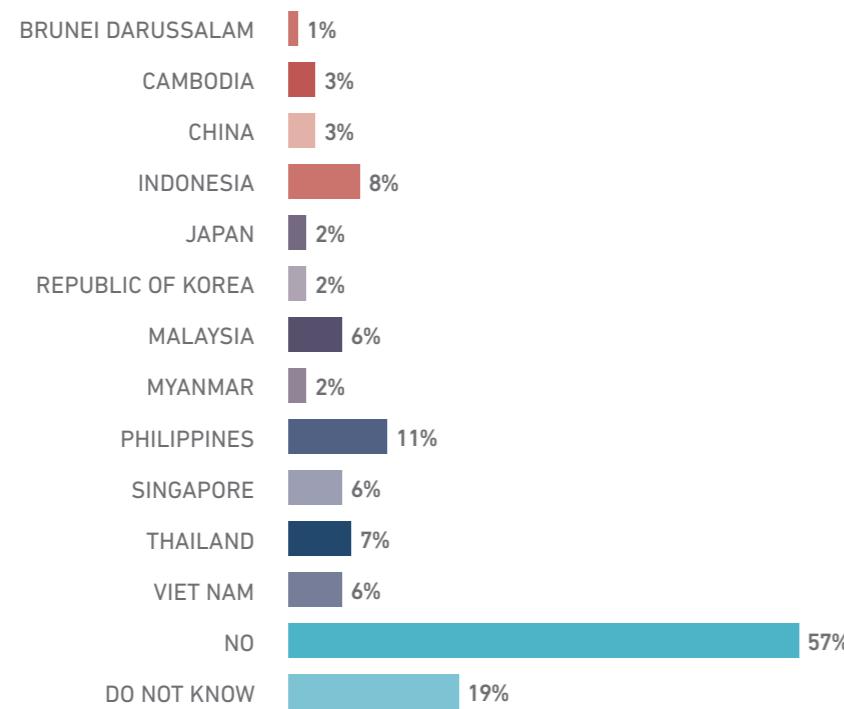
WATER & SANITATION



66 Companies need to revisit their value proposition during and after the Covid-19 pandemic as there are ongoing shifts and some expected prolonged changes in the customers' behaviour and buying patterns.

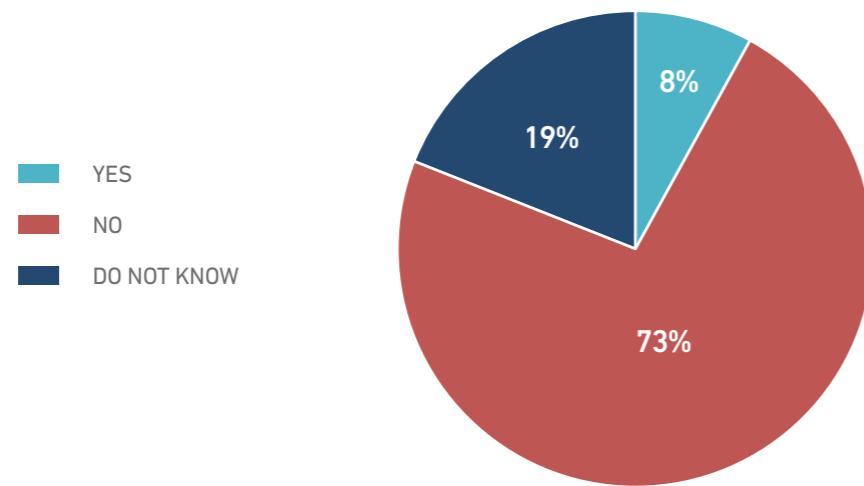
Most companies are not considering reducing operations or production.

Countries where firms are considering reducing operations/productions



Almost three-quarters of firms are not planning to reshore operations.

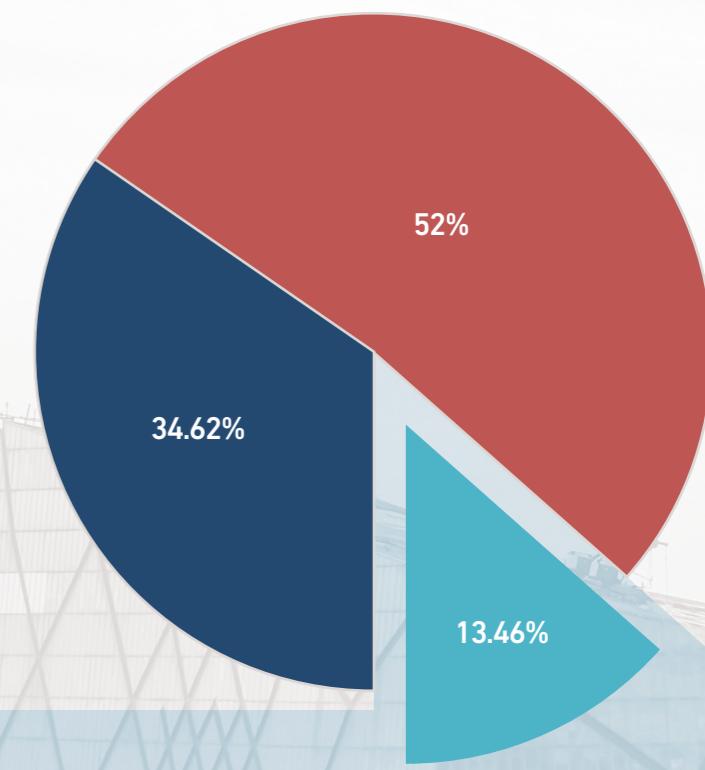
Firms considering reshoring



The majority of those with operations in China are not planning to move.

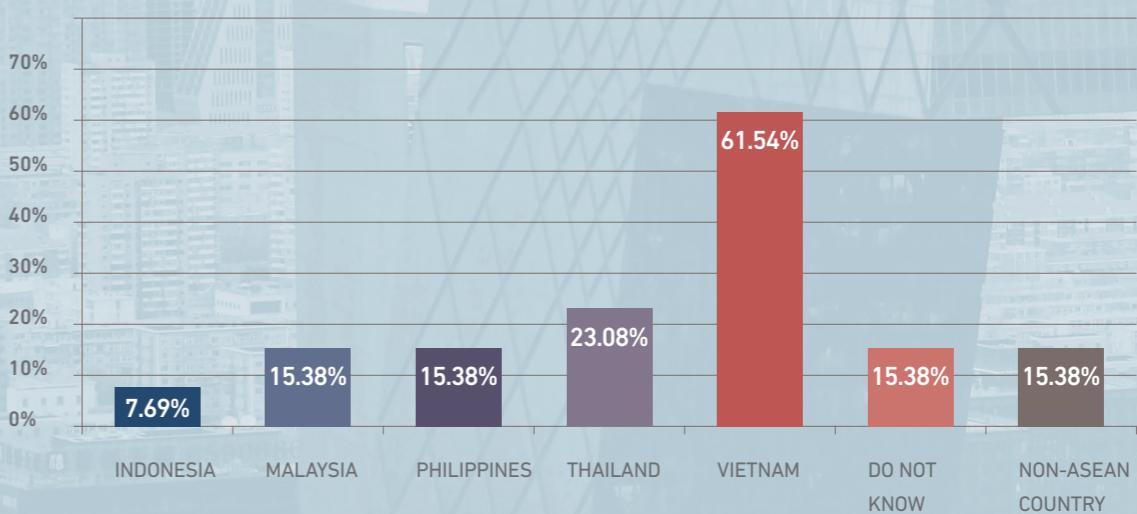
If your firm has operations in China, are you planning on moving operations to another country?

YES
NO
DO NOT KNOW



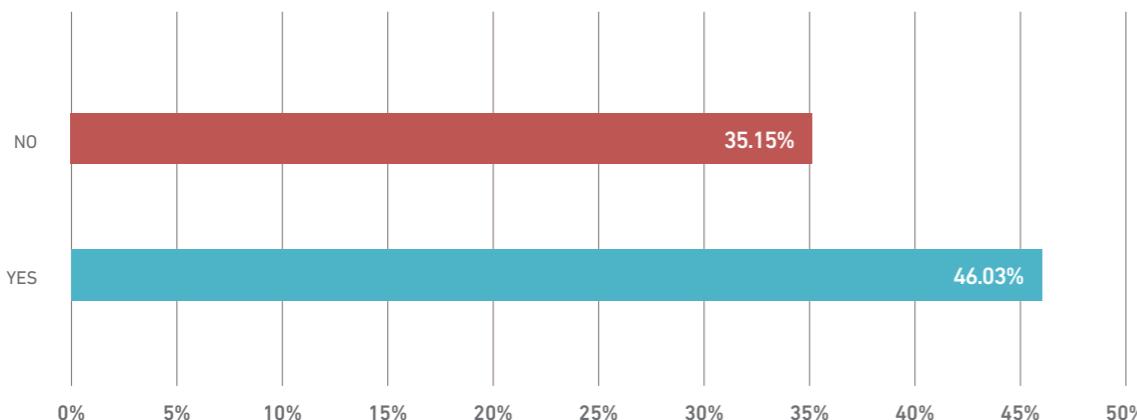
Some firms are considering shifting operations from China to an ASEAN country.

ASEAN countries where firms are considering shifting operations from China



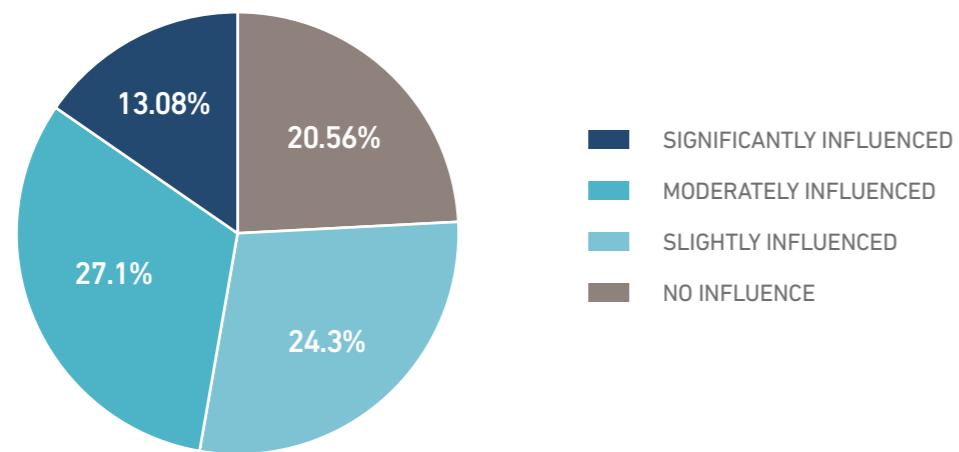
Almost half are planning new investments in 4IR technology.

Is your firm planning to make new investments in fourth industrial revolution technology (robotics, automation, big data, 3D printing, etc)?



Most decisions to invest in new technology were influenced by the pandemic.

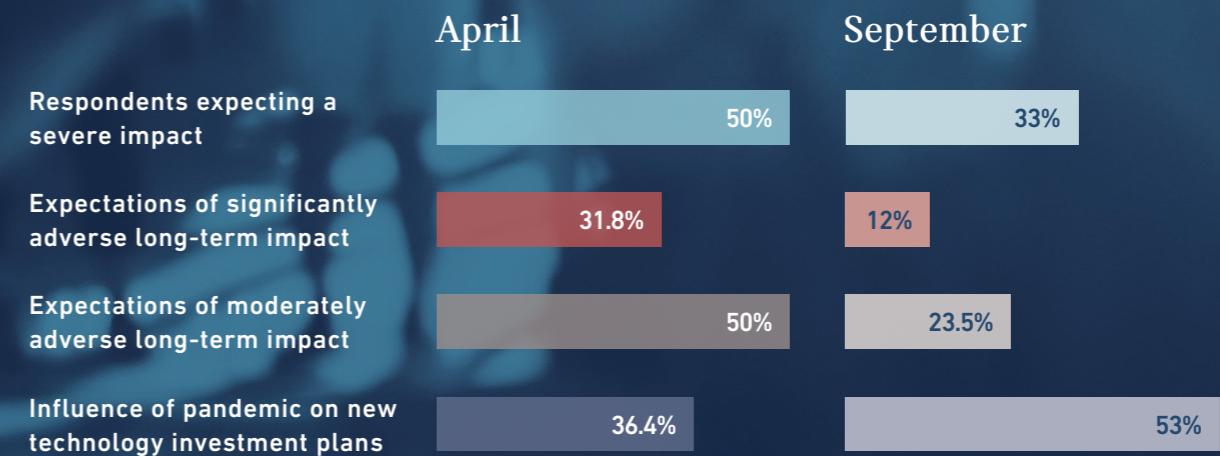
If your firm is planning to make new investments in 4IR technology, to what extent did the economic disruptions due to COVID-19 influence this investment decision?



April-September Changes in Sentiment in Indonesia

Comparing the input from Indonesian respondents in this survey with the results of an earlier survey conducted by AmCham-ERIA in Indonesia in April 2020, the following developments were noted:

- The extent of the impact or perceived impact appears to have decreased to some extent. In April, 50% of respondents reported being 'severely impacted' to a 'significant extent', whereas in the later survey, 33% of firms reported a 'significantly adverse' impact.
- Longer term expectations had a more negative slant in April — 31.8% of respondents believed there would be a 'significant' impact, 50% a 'moderate' impact. In September, when asked about the level of impact over the next two years, 12% anticipated a 'significantly adverse' impact, while 23.5% expected a 'moderately adverse' impact.
- In April, 36.4% of respondents were planning to make new investments in 4IR technology. 27% of these stated that they were 'moderately' or 'significantly' influenced by the pandemic. In September these figures had increased, with 53% planning to invest, and 47% of them acknowledging that they had been 'moderately' or 'significantly' influenced by the pandemic.
- The later survey showed a recognition that the 'next normal' may still be quite a distance away. In April, 36.4% of firms were optimistic that business activities would return to normal in 6 months, whereas in the later survey 67% did not expect activities to stabilize until the second quarter of 2021 or later



Current Sentiment and Future Impact

Half the respondents have a similar level of concern about the impact of Covid-19 as they did a month prior to the survey – 34.35% are more concerned than they were a month previously.

Most respondents believe that it will take until Q2 2021 or later for business activities to stabilize.

Looking ahead two years, almost three quarters of the respondents anticipate that they will still be feeling negative impacts from the pandemic, with 36% anticipating 'moderately' to 'significantly' adverse impacts. However, in comparison with the current impact, most feel that their situation will be better in the future.

12% of respondents anticipate a significant adverse impact, while 60% anticipate a moderate or slight adverse impact on their businesses over the coming two years. 6% predict that there will be no impact on their business operations.

57% expect innovations to result from the pandemic. Expected areas of innovation are automation, robotics, digitalization, e-commerce, and online events. This again underlines that the effects of the pandemic are consistent with the typical response after a crisis in terms of technology adoption (ERIA 2020).

Changes that are anticipated to become permanent after the Covid-19 pandemic include video conferences, working from home, and decreased travel.

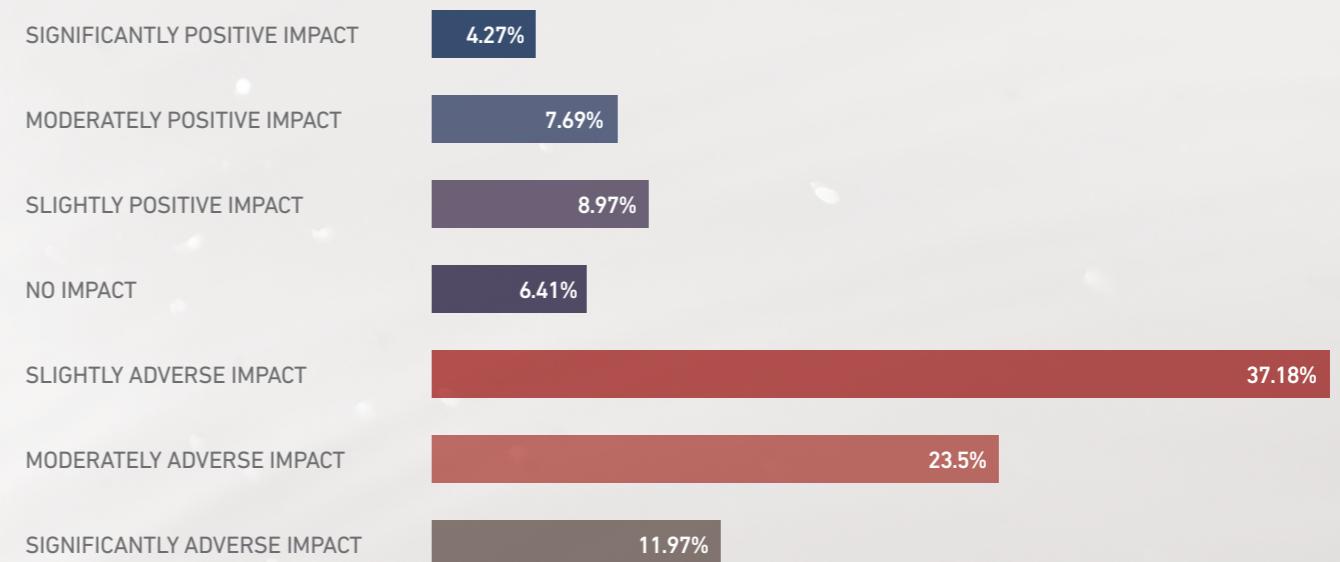
The increase in the use of e-commerce and in the number of professionals working from home could create more implications for services sector in the future. It could be seen as initial step towards greater trade of services across borders in the future, as it provides more opportunities for suppliers in developing countries by dividing tasks and providing them online (Kimura et al. 2020).

Other comments on anticipated areas of innovation and change include:

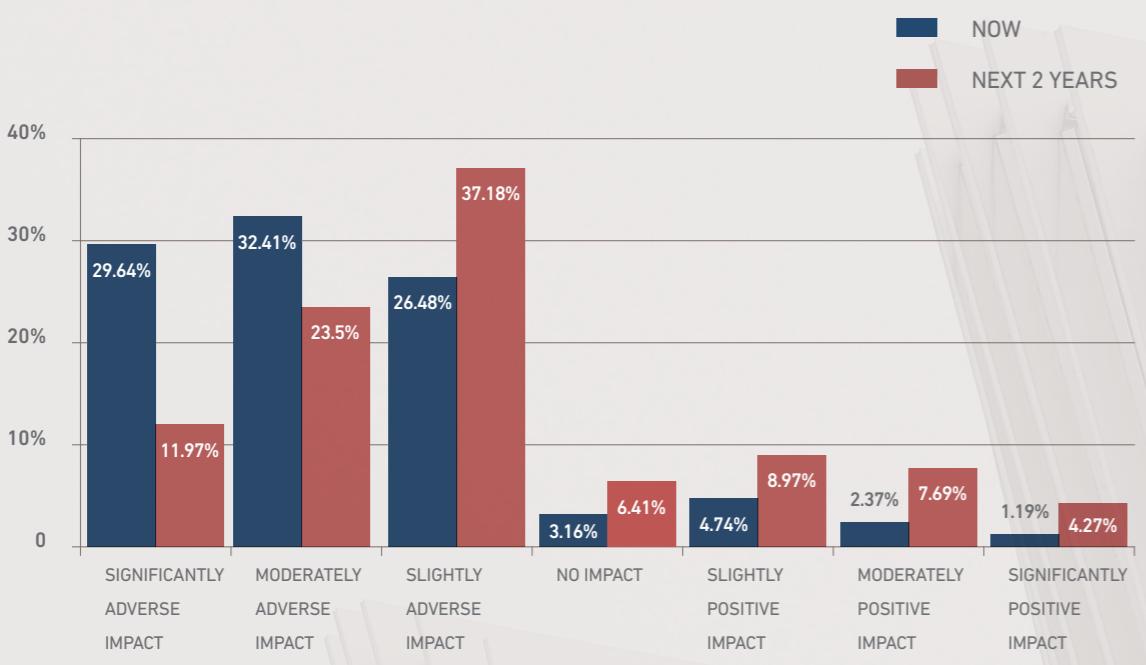
- Broader educational methods of engagement"
- "Telehealth has and will continue to gain prominence. Also remote monitoring in the clinical research industry."
- "A more collaborative approach among local & global scientific researchers, health organizations, health authorities."
- "Innovation in crisis management."
- "A more direct approach to sell to the customer instead of through the distributorship model."
- "More reliance on outsourcing and a broader geographical selection for sourcing products."
- "Communications technology, testing protocols, and diagnostics."
- "We no longer need the office footprint that we had pre-pandemic. We have already cut 20% of floor space and will cut more as leases come due."

Most foresee adverse impacts within the next two years.

In the next 2 years what level of impact do you expect?

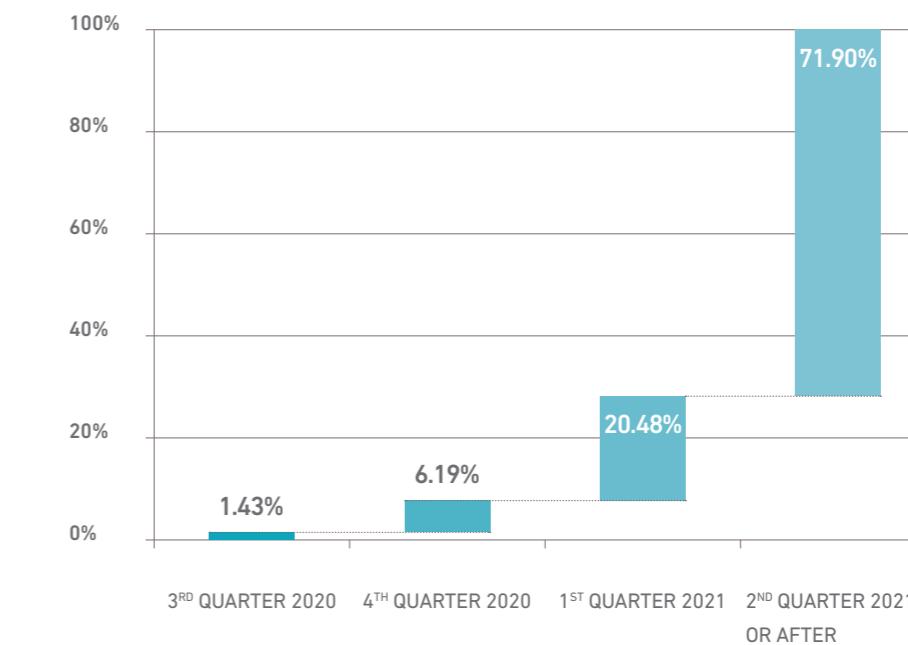


CURRENT SENTIMENT AND FUTURE IMPACT



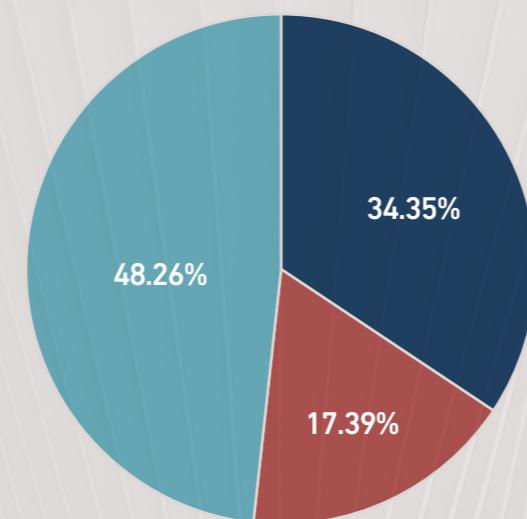
CURRENT SENTIMENT AND FUTURE IMPACT

Most believe it will take at least a year for business to stabilize.
How long do you expect before business activities stabilize in the 'new normal'?



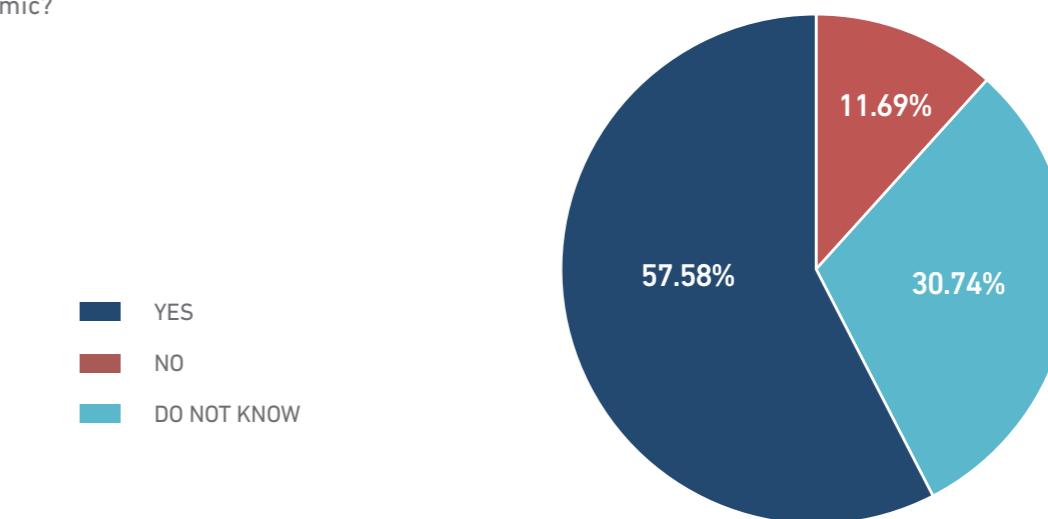
Sustained level of concern about the impact of the crisis.

Are you more or less concerned about the impact of Covid-19 on your business than you were one month ago?



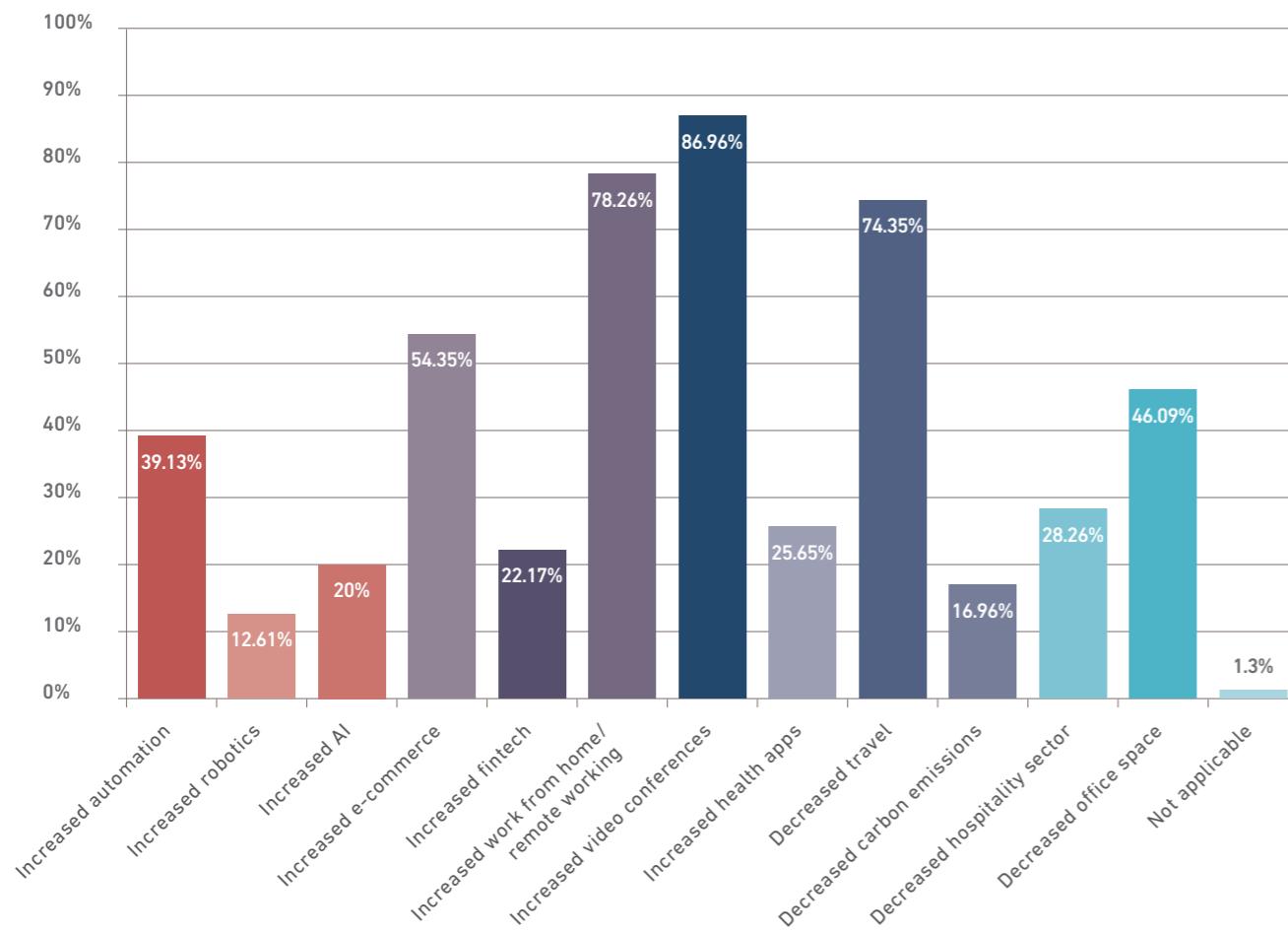
Almost 60% anticipate innovations as a result of the pandemic.

Do you expect innovations to result from the pandemic?



Increased video conferencing and working from home are expected to become permanent.

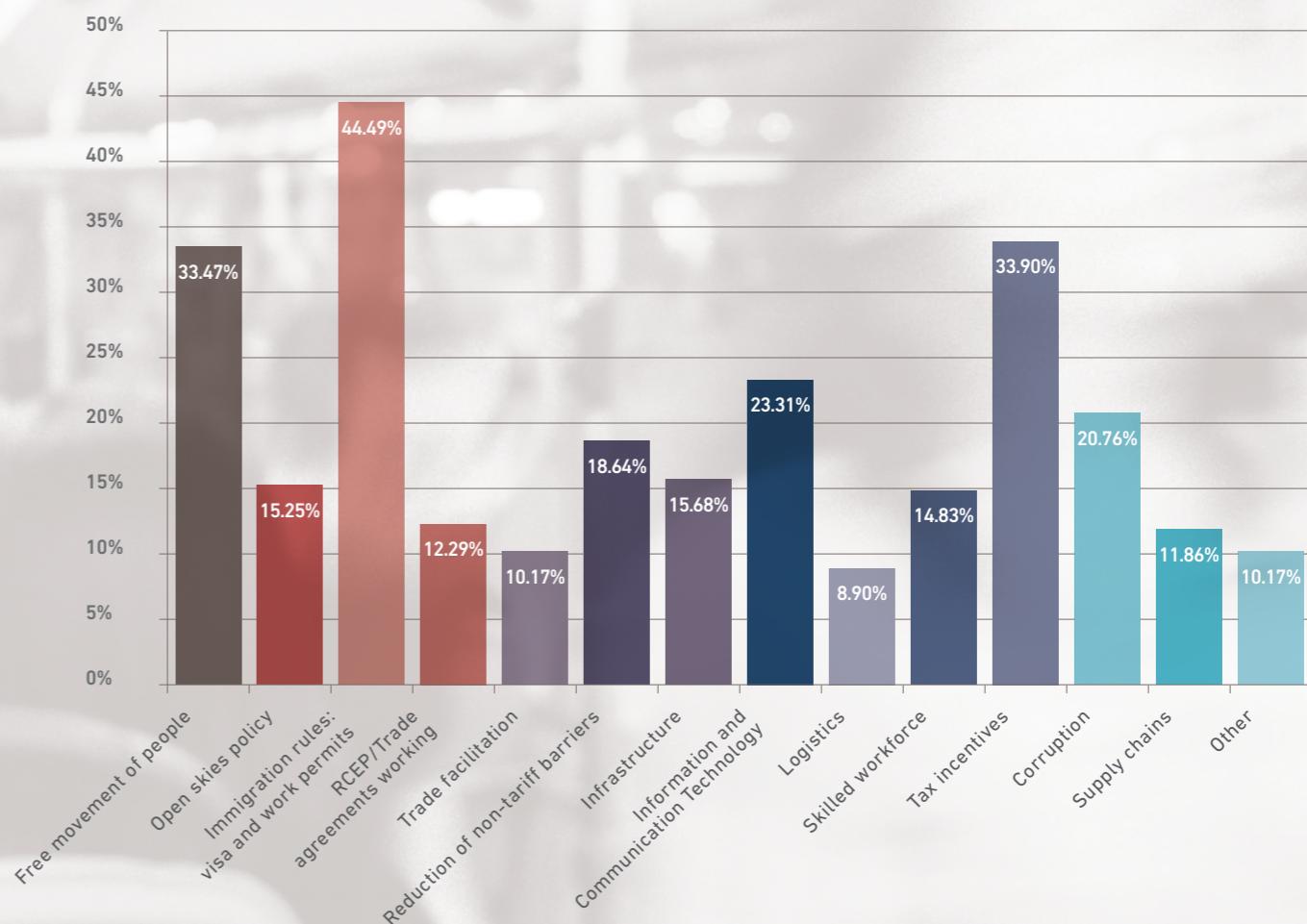
In your sector(s), what changes do you think will become permanent after Covid-19?



66
Expected areas of innovation
are automation, robotics,
digitalization, e-commerce,
and online events. 99

Immigration, free movement, and tax incentives are areas that should be addressed by ASEAN.

To support your business recovery, which issues should be addressed by ASEAN and/or ASEAN Member States? (Select up to 3 most important issues for your business)



Conclusion: Old Keys Don't Open New Doors

It is evident that the experience of the Covid-19 pandemic will have a lasting impact on how business is done in the region



All firms and all countries have been impacted by the unprecedented challenges of the pandemic, and survival has been tied to the readiness to adapt and embrace new practices. Alongside an awareness that the upheaval caused by the pandemic will continue to have an impact for some time are expectations that certain operational changes will remain and that certain systemic changes are needed.

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