

Is Asean truly a winner in globalisation 2.0?

The evolving landscape is more complex than meets the eye.

BY BANH THI HANG, JESSLENE LEE AND LIU JINGTING

"THE floor is slippery, so watch your steps," said George Yeo in his opening speech at the Asia Competitiveness Institute's (ACI) annual research conference on Mar 8. While the former minister for foreign affairs was warning about the slick floor, he alluded as well to rising geopolitical uncertainties. Yeo is the founding patron of ACI.

A new era of escalating geopolitical tensions and trade disputes, highlighted by Sino-US trade tensions and technological rivalry, has transformed the world economy and led to a supply-chain reset.

Countries are increasingly engaging in de-risking strategies, such as re-shoring, near-shoring, or friend-shoring, to ameliorate vulnerabilities in their supply chains.

De-risking has resulted in the diversification of trade and investment, which is in turn reshaping global supply chains. Apple, in a strategic move to reduce reliance on China – which produces over 95 per cent of its products – plans to manufacture a quarter of its iPhones in India within the next two to three years.

Closer to home, as chipmakers seek to spread supply-chain risks, Singapore has emerged as a production hub for speciality chips. US-based contract chipmaker GlobalFoundries' US\$4 billion expansion of its fabrication facility in Singapore officially opened last year.

The supply-chain reconfiguration has presented opportunities – and risks – for economies, especially in South-east Asia. Asean countries are now widely perceived as the destination of choice for global companies.

Yet, is Asean truly the winner in the ongoing reset of the global production network? What are the ways forward for the region in this new era?

The evolving landscape is more complex than meets the eye. Despite the political discourse advocating for reducing reliance on Chinese supply chains and the global scramble for semiconductor supremacy, trade ties have not only persisted but appear to have deepened.

Notably, some G7 countries have seen a rise in their imports of intermediates from China. Even between China and Taiwan, trade relations seem to have grown stronger, especially in the semiconductor industry.

These developments underscore the enduring competitiveness of Chinese manufacturing and the difficulty of finding alternative sources that match its scale, efficiency, and cost-effectiveness in a short period of time.

The upshot is that Asean is emerging as a key beneficiary of the global shift towards de-risking.

ACI research finds that Asean has experienced a remarkable surge in high-tech foreign direct investment (FDI) from the US, with Vietnam, Malaysia, and Singapore attracting the bulk of this investment.

This influx of capital has not only bolstered the region's economic profile but also shifted the bloc's production and export towards more advanced manufactured goods with high technology intensity. Vietnam, for one, has seen its export of ma-



The recent supply-chain reconfiguration has presented opportunities – and risks – for economies, especially in South-east Asia. PHOTO: PIXABAY

chinery and electrical products double from US\$100 billion in 2018 to US\$200 billion in 2021.

Alongside deepening ties with the US, Asean is also experiencing a significant uptick in its imports and inward FDI from China. China's share of Asean-6's total high-tech imports has steadily increased from less than 35 per cent in 2018 to over 40 per cent in 2021. China's high-tech FDI in Asean-6 also quadrupled between 2018 and 2023.

Despite these gains, Asean's intermediate exports, from critical minerals to semiconductors, remain vulnerable to the fallout. Given China's size and proximity, most of these Asean exports are bound for China, placing them at risk when Chinese exports of final products are hit by de-risking.

Singapore, which exports to China half of its US\$40 billion worth of processors and memories, saw a 16 per cent drop in these exports at the height of the US-China trade war. Similarly, Asean's exports of critical minerals used in electric vehicle (EV) production, heavily concentrated in China, face significant risks if de-risking shifts global EV demand away from China.

De-risking is thus a double-edged sword of economic opportunity and vulnerability for Asean.

The way ahead

The increasingly fragmented world economy has prompted the quest for new avenues of growth and integration. Sustainability and rise of the digital economy are two major transformations that offer rising opportunities for investment and trade.

As countries strive to meet their energy transition goals, investments in clean energy projects become more favourable. Still, geopolitics continues to shape sustainable investment decisions. ACI research shows that venture investments in clean tech are increasingly occurring among geopolitically-aligned countries, akin to "friend-shoring".

The good news is Asean countries are particularly well-connected in the global investment network, attracting and making investments in countries belonging to different geopolitical blocs. This is especially true for Singapore, which serves as a hub channelling capital flows into and out of the region.

To mitigate the risks of global fragmentation, intra-Asean integration is key, particularly through a more connected digital economy. The region has seen significant digital investment in finance and e-commerce, alongside a surge in digital payments and online spending accelerated by the Covid pandemic.

Digital transformation will also enable Asean countries to harness the job creation effects of e-commerce. The benefits will trickle down and generate employment even for other services industries due to sectoral linkages.

The ongoing negotiations for the Asean Digital Economy Framework Agreement (DEFA), focusing on areas such as facilitating digital trade, cross-border e-commerce, and promoting digital payments, are set to further push the region's integration and reap the benefits of a booming digital economy.

An integrated Asean will also help strengthen the region's voice in the world's geo-economic arena.

Speaking at the recent ACI research conference, Kok Ping Soon, CEO of Singapore Business Federation, argued that Asean can play a more active role advancing common interests on the multilateral stage. Leaning into its economic heft as the fifth-largest economy in the world, Asean can influence global economic discourse and "show the way for how freer trade and investment rules can better help improve the livelihood of people and tackle global issues", he said.

The writers are researchers from the Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy, National University of Singapore