

ASEAN-in-Practice Episode 11 Transcript

Denis: Good day and welcome to the 11th episode of the ASEAN-in-Practice podcast series. I'm your host Denis Hew, Senior Research Fellow at the Centre on Asia and Globalisation, at the Lee Kuan Yew School of Public Policy, National University of Singapore. We are recording this episode at a time of economic and strategic uncertainty for Southeast Asia.

In 2025, ASEAN operated in a far less forgiving global environment, concerns of slower economic growth, and tighter financial conditions. We also had President Trump's Liberation Day reciprocal tariffs, which raised tariffs significantly higher for many ASEAN member states. And of course, we've got the intense US-China economic geo-political rivalry.

All these things have led to a lot of concerns of downside risks for the economic growth for this region. Against this backdrop in 2025, clearly for Malaysia who was the ASEAN Chair, it has not been a very easy year for them. At the same time, Malaysia's chairmanship focused less on grand initiatives and more on kind of managing these kinds of risks. Keeping ASEAN economically relevant, institutionally functional and diplomatically central-neutral in this fragmenting global economy. And ASEAN didn't do too well either, I mean some of the forecast numbers for the ASEAN region in 2025 was roughly about 4.3 to 4.4%. Pretty decent solid performance, particularly economies like Indonesia and Malaysia, Singapore, and Vietnam. Certainly, compared to other regions or other parts of the world, ASEAN seems to have weathered the storm relatively better. Malaysia also delivered quite a dense set of outcomes from the adoption of the ASEAN Vision 2045. They also oversaw the accession of Timor-Leste as ASEAN's 11th member. It also convened a summit between ASEAN and the Gulf Cooperation Council (GCC), and as well as China. As we move to this year 2026, the questions become even more pressing of all these concerns and uncertainties.

The Philippines takes over the chairmanship this year. This is also the first year of the ASEAN Vision 2045, it's new vision and also the ASEAN Economic Community (AEC) strategic plan for 2025 to 2030, which starts implementation this year. The Philippines' year also coincides with the 50th anniversary of the ASEAN Treaty of Amity and Cooperation or TAC for short, which sets out ASEAN diplomatic norms, including non-interference in domestic affairs, a

To help us make sense of all these shifts from Kuala Lumpur to Manila, particularly through a macroeconomic and political economy lens, I am

delighted to have my good friend, Manu Bhaskaran, for this show. Manu Bhaskaran is a partner at the Centennial Group and founding CEO of Centennial Asia Advisors. He's one of the regions most respected economists with four decades of experience analysing Asian political economy and macroeconomic trends for governments, investors, and multilateral institutions.

Manu, thank you for joining us. Let's start off from where you sit as a macroeconomist, how did the turbulent global backdrop in 2025 shaped the kind of the economic and policy space for ASEAN and how they operate in that kind of space? Did it really fundamentally narrow what ASEAN leaders could realistically achieve?

Manu: Right. Well first of all Denis, thank you very much for having me and giving me a chance to express my views. On the macroeconomic front, it is quite true that early in the year, given the threat of a trade war and so on, economists and other forecasters were quite pessimistic. The outturn in the end was actually pretty good.

Singapore had blow-out growth, given its status as a fairly mature economy. Malaysia did extraordinarily well. So did Indonesia. Certainly, Vietnam did very well as well, and that is mainly because the AI [artificial intelligence] Capex [capital expenditure] boom really benefited all the electronics and related component exporters of the region—the spillover effects there.

Secondly, the trade impact I think will come with a lag. Don't forget that it took a while before the so-called reciprocal trade agreements were actually agreed to and the actual tariffs imposed it was really by September that the damage began to be felt. So I think there'll be a lag effect that will be seen this year and not last year as initially expected.

I think that's why generally the region was quite resilient. In terms of policy space, central banks in the region were cutting rates in the last couple of years. Clearly, the difficult global environment did not constrain monetary policy as much as feared. Fiscal policy is a bit more constrained given the debt situation and the need to keep fiscal deficits in check.

And nevertheless, I think overall the policy space was good in terms of cyclical management. But the real challenge I think, as you alluded to, was really the structural shifts occurring in trade, geopolitics, technology, and so on. I think those require longer term structural policy changes, including reforms that might be difficult to undertake.

Denis: how do you think Malaysia fared as chair of ASEAN? I mean, we talked about some of their deliverables. We talked about convening power too, right? He [Malaysia PM Anwar Ibrahim] managed to bring President Donald Trump over for the ASEAN-US meetings and of course he [US President Donald Trump] had some bilateral trade deals while he was in Kuala Lumpur. Then of course he [Malaysia PM Anwar Ibrahim] presided over that GCC-China-ASEAN meeting, which is a way to diversify markets not to just be dependent on US and China. I mean it's a fine balance, right? In a way Malaysia was diplomatic. Trying to stay, on behalf of ASEAN, was trying to stay neutral and not take sides between US and China. So what do you think, what's your views on that?

Manu: You know if you take a step back, Malaysia is one of those countries in ASEAN with very high state capacity in diplomacy and related areas, and generally they do a very competent job as ASEAN chair.

Each time they undertake the position, you know good things tend to happen. So I think Prime Minister Anwar was backed by a very good system and a long history of skillful diplomacy. I think that helped. Having said that, I think this is not an easy period for any country. As you rightly pointed out, the need to balance between US and China, both of which can make that case pretty robustly to their partners. It took quite a bit of skill and effort on the part of Malaysia to keep things on track. I think the progress is evident in those agreements that you mentioned, ASEAN Trade in Goods Agreement (ATIGA) and all that being done. The convening power of Malaysia is absolutely correct. And I think that is something that probably only Malaysia and maybe Indonesia as well could actually pull off within ASEAN, and that is going to be very important for ASEAN in the longer term. It could be the case that, okay, an agreement between GCC and the Regional Comprehensive Economic Partnership (RCEP) may take a while to actually materialise, but I think that's the direction in which the world is moving.

Third party countries, who are not within the camps of the United States or China, need to diversify, need to build their own trade networks and their own alliances. And we are now in the period where we are searching, touching, and feeling our way towards a new configuration. I think Malaysia's ASEAN Chairmanship helped us move in that direction. It'll take a while before the actual shape of the new order emerges, but this is part of the effort.

Denis: Thanks, Manu. You know if you look at Malaysia's economic growth prospects too, it did very well. Like Singapore's growth numbers in 2025 were pretty good and I think we've seen reports rising foreign investments and from

data centers to semiconductors. So as we move to this year, how do you see Malaysia's economic outlook?

Manu: Right. So I think let's just distinguish the structural from the cyclical, right? I think clearly last year's growth for Singapore and Malaysia was maybe exaggerated by the AI Capex boom in the United States and elsewhere. That led to outsized growth in the stuff that these two economies specialise in, semiconductors and related areas, right? So, there's a strong cyclical and potentially only one-off because we really don't know whether the AI Capex boom is sustainable or not. The benign view in markets, priced into stock prices and so on, is that it will continue but I think there are grounds to question that.

So, there is a big risk factor there, I think we should be conscious of. Having said that, I think there are also structural elements to Malaysia's performance. I think over the last few years, Malaysia has been gradually rectifying some of the issues that foreign investors, for instance, had found troubling. I mean there's a whole series of reforms and so on. I think there's been a period of stability, political stability, after a period of uncertainty. During that period of stability, I think we came out with another five-year plan, an energy transition plan, an industrial masterplan, and more recently a national education reform plan. These things go down well for investors. It tells you of a system. Maybe it's not perfect, maybe there are drawbacks and so on, but it is a system that is adjusting and adapting to the new world. That gives foreign investors, confidence. So, I think there are structural elements to this.

I think you can see the foreign investment flows particularly into the Penang-Kulim corridor and the Iskandar Malaysia corridor. These are, I think, structural in nature. The fact is that these are two areas with agglomeration effects that are proving to be very valuable for Malaysia. You just look at the northern corridor where virtually every single major semiconductor company of the world is investing sizable amounts of money into that corridor. People don't do that unless the fundamentals are pretty solid. Similarly in the southern part of Malaysia, where Iskandar and its synergistic links with Singapore, it's not just data centers. It'll be a lot of other things as well. So, I think Malaysia is in a better position than it has been in in many years.

Denis: You mentioned the southern region - Iskandar, the Johor-Singapore Economic Zone, seems to be taking off. Hopefully this time it's going to work.

Manu: We really hope so, yes.

Denis: We've heard different kinds of growth triangles and different kinds of at the sub-regional level. What's your view? Do you think this is going to take off?

Manu: I think politically, the relationship between Singapore and Malaysia today is probably the best it's ever been. It has been a pretty turbulent relationship from time to time. There are issues that are left over from history that we have to deal with and which, no doubt will pop up every now and then and cause a bit of trouble. But I think there's clear determination at the central government level in Malaysia and Singapore, at the state level government in Johor in the Malaysian side. Because I think the case is now really quite compelling and given how turbulent and potentially hostile the global trade environment is, this is a time when neighbors really need to get together. If you combine Singapore and Malaysia's GDP. You get, I think, the 19th largest economy in the world. The combination would be at the top table of global economics. We would have a seat there. So the synergies I think are clear. Singapore is land constrained, labor constrained, and carbon constrained. Yet the structural factors that the government and businesses have put together in Singapore over the last 10 years is really compelling now in terms of its potential. But it can't do that without, I think, some kind of deal with its neighbours, with its hinterland, and Malaysia is the most important one.

For Malaysia's side I think it's quite clear. It needs every help you can get in order to rev up growth and to ensure that you get the kind of growth that delivers benefits to the bottom 30- 40% of the population. It needs more formal sector employment, needs better jobs, and better salaries. And I think the synergies with Singapore will deliver those. I believe the policy makers appreciate that. So I'm hopeful.

Denis: Me too. Okay, let's talk about Philippines' chairmanship this year. I think their theme is "Navigating Our Future Together". Sounds very bold and ambitious, particularly given the fact that ASEAN's cohesiveness is being tested, you know, with bilateral trade deals and it sort of divides ASEAN rather than unites them. But I think there's a lot of talk about emphasising on digital economies, semiconductors, and lots of very ambitious initiatives. But you have 12 months to try to do this, right? What can Philippines achieve actually this year?

Manu: Hopefully, at least the [ASEAN] Digital Economic Framework Agreement (DEFA). We are hoping, I mean, the negotiations have been going on. Hopefully that will be brought to a fruition. There will probably be a need for compromises because there's some fundamental issues, I understand that stand in the way of a final agreement.

But the Philippines is one of the older members of ASEAN. Great, long experience in the traditions of diplomacy. So one hopes that this is one thing that can be delivered. Some of the other challenges, Myanmar and trying to organise a collective trade negotiating response to the trade challenges.

I think honestly, those will be very difficult and it would be unfair to expect the Philippines, as you said, in one year, 12 months, to tackle these long-standing issues. So let's hope that there'll be progress on DEFA. There's some hope that the Code of Conduct with China would be completed. Personally, I'm not holding my breath on that because I think that's another very difficult issue there. So I think we should be realistic in our expectations. But I do hope that the Philippines as [ASEAN] Chair will make a strong effort to try and bring together ASEAN into some kind of more collective approach. I think what we are seeing is last year's individual nation by nation, transactional agreements with the United States did not deliver the best outcomes for each individual country in ASEAN. There is strength in numbers. I think increasingly, if you look at how Canada's responding, Europe, South Korea has its issues with the United States, India, obviously. I think the lesson is there that a robust response to the US works better. But you can't get a robust response in ASEAN unless you all collectively operate together.

Denis: You know, Philippines economy, we both have been very keen and interested in how the Philippines is doing. And actually, it's for a long time, I think a lot of economists have talked about this, one of the fastest growing ASEAN member states other than Vietnam. So how do you see this year for the Philippines?

Manu: We've had a, a bit of a political kerfuffle with the corruption scandals, and that has distracted [the Philippine] government and it's also affected the launching of infrastructure programs and so on, which were a key driver of growth.

So I think in the near term there might be a bit of a hit to growth from slower disbursements in terms of fiscal spending infrastructure. Clearly that problem also has an impact on business confidence. Structurally, though, I would still feel, and I have felt for a while, that the Philippines is underappreciated in terms of its potential growth. If they can continue to build on the infrastructure program that should lead to improvements in the logistics and competitiveness. Tourism is, you know, a heavily under-exploited sector. So, there are a number of areas where, you know, small changes in policy can have outsized impact. Philippines now I think is offering visa free travel for certain of certain countries that will certainly help. That has helped Malaysia and Thailand but

you know, to me it's a low hanging fruit that the Philippines has not really done what it can to exploit.

Denis: So, let's look at the region as whole, ASEAN. Looking ahead for this year. What sort of concerns or challenges do you think that ASEAN will face and have an impact on its growth? For example, maybe we'll see a continuation of Trump's tariffs this year. Supply chain...maybe further supply chain disruptions. We don't know, right? So how do you see the outlook for this? For the region?

Manu: Yeah. Denis, you've hit the nail in the head. I think trade is a big thing. We often think of trade as having a one big shock, which is Mr. Trump's tariffs. But actually there are two big trade shocks.

One is, of course the, the tariffs. As I said earlier, the lagged ill-effects of those tariffs will hit home this year. It's difficult to work it out because we don't have any real precedent to guide us, but it will be negative.

Second big shock, which was evident last year, is the China export surge. A lot of it is driven by a very genuine improvement in China's competitiveness. It's not just subsidies and so on. The Chinese over the years have developed an ecosystem and now new technologies that are translating into extraordinary surge in competitiveness, not just in medium to high value goods, but even boosting its competitiveness in so-called low-end stuff like textiles and garments. That makes for very challenging times for ASEAN countries that are to compete with China in third markets but will also find Chinese producers competing in their own domestic markets. And as you saw last year, Indonesia's largest textile firm was under huge financial pressure from Chinese imports flooding in. I think this is going to intensify this year. I think if you look at the amount of new production capacity in manufacturing coming on stream in China, juxtaposed against very weak domestic demand in China and a clearly undervalued Chinese Yuan, it is inevitable that the surge in exports will continue.

It'll broaden out into other sectors and the damage to ASEAN economies could be significant. Of course, some people would argue that the consumer will benefit, but that's only one side of the picture. If domestic producers feel squeezed out, there will be ill-effects on employment, on bankruptcies of companies and certainly a political backlash.

Denis: So, are you concerned about this? I think you mentioned this excess production capacity coming out of China. We're not just talking about China

today, but we know that domestically the economy is still...domestic demand is still pretty weak. So in a way they're kind of exporting themselves out of this sort of slow growth, but that has implications for ASEAN and for the rest of the world, right?

Manu: Yeah. I think these are very serious consequences, we need some kind of understanding with China. I mean to be fair to China, as I emphasise, this is not because China somehow is cheating as some of its critics in the West would claim.

There is a genuine strengthening of China's export competitiveness. But China is not South Korea or Hong Kong. In the old days when they surged, they were relatively small compared to China. So, the impact they had on specific markets could be absorbed. But China's huge and whatever it does, has outsized impacts on other countries.

That is something I think the Chinese, or Chinese friends and policy makers may under-appreciate. The danger is that as the pressures increase, there will be more protectionist measures within this region and that will have unfortunate effects on the bilateral relationship as well.

Denis: Let's also talk about the reconfiguration of these global supply chains, right? I mean, it's partly because of onshoring pressures from the US but also technology too is changing the way industries are working. I think this emphasises looking at new drivers of economic growth, whether it's in AI or others. So how do you see ASEAN trying to position themselves, particularly when there might be new industries or new drivers out there?

Manu: The UN Trade and Development (UNCTAD) just came out with its preliminary report for 2025 foreign investment flows. The data is still incomplete, but they give a sketchy picture. It's clear that foreign investment flows into some of the ASEAN economies, Thailand, Malaysia, and Vietnam are very strong. I think that reflects the supply chain reconfiguration that you mentioned. I think what we are seeing is that Chinese companies realise that they need to locate production for export to the US and Western markets in a non-Chinese setting that would help them avoid some of these tariffs and the political pushback. So, we see Chinese producers moving out and they find Southeast Asia convenient. It's geographically close, culturally it's easier for them to understand. So, they prefer to operate in this region, and I think that gives us a natural advantage.

At the same time, foreign producers, multinational companies based in China, it's a mixed picture. There are some sectors where foreigners are not going to relocate out to China, right? If you're talking about EVs [electric vehicles] and solar, renewable, and chemicals or general equipment, China is just so dominant that if you're a serious global player, you just have to be in China. But there are a lot of other products where you don't have to be in China and I think in those cases, partly because of tariffs, partly because of geopolitical and other risk considerations, that is going to be relocation out of China. Then the question is, which region, which set of countries are best positioned to benefit. And I would argue that Vietnam, Thailand, Malaysia, clearly are doing well but we are competing. It's a very competitive environment. I mean, Turkey, Morocco, Poland, Hungary, and Mexico are also very competitive. Turkey, quite a lot of us don't appreciate it, but they have direct access to the EU market, to their trade arrangements that they have, customs area agreement, and that makes them very competitive. So, the point I'm making is the potential for ASEAN to benefit from supply chain reconfiguration is there. Some of it is actually happening but it should be happening on a broader scale and would be happening on a broader scale if countries in ASEAN pursued reforms more vigorously and make their ecosystems more welcoming to foreign investors.

Denis: Thanks. One last question. If you had to identify one thing to watch most closely in ASEAN over the next year or so, it could be economic, institutional, geopolitical, what would it be?

Manu: I think it's the supply chain reconfiguration. This is a “once in a generation” opportunity. I mean this kind of thing does not happen every year. If we capture just a slice of the potential relocation of activity that would really drive our manufacturing sectors, our export-oriented sectors significantly, and I think a lot will hinge on how successfully we address that issue.

Denis: Manu, thanks so much for sharing your insights this afternoon. It's been a great pleasure talking to you today. To our listeners, thank you for tuning into this episode of ASEAN in Practice. Stay with us for more conversations with leading thinkers and practitioners shaping the future of Southeast Asia. Thank you.

*The podcast was recorded on January 26, 2026.