

ASEAN in Practice Episode 19 Transcript

Denis: Good day, and welcome to the latest episode of ASEAN in Practice. My name is Denis Hew, Senior Research Fellow at the Center on Asia and Globalisation, Lee Kuan Yew School of Public Policy, National University of Singapore. In today's episode, we examine Southeast Asia's economic outlook amid growing global uncertainty.

The region remains one of the most dynamic parts of the world economy, supported by domestic demand, investment, digitisation, and deeper economic integration within the region and also with global supply chains. But the external environment is becoming more challenging. Slower growth in major markets, shifts in US trade and tariff policies, intensifying US-China competition, volatile financial conditions, and uncertainty over energy and commodity prices could all weigh on regional growth. The impact seems to vary across ASEAN economies. Some may benefit from supply chain diversification and new investments, particularly in the tech sector, while others remain vulnerable to weaker external demand, high debt, and infrastructure constraints.

So how resilient are Southeast Asian economies to these risks? Can the region continue to benefit from supply chain diversification? And what can governments and ASEAN policymakers collectively do to sustain growth and strengthen economic resilience?

To help us unpack all these issues, I'm delighted to welcome Denise Cheok. She is Head of Southeast Asia Economics at Moody's Analytics. In Moody's, Denise is responsible for forecasting and analyzing Southeast Asian economies. Her work examines regional and country-level economic developments, including economic growth, inflation, monetary policy, and global developments in Southeast Asia. Denise regularly contributes to Moody's economic outlook and analysis of developments across Southeast Asia and the wider Asia-Pacific region. Her commentary has covered issues such as monetary policy, currency movements, trade performance, and the differing growth prospects of regional economies. Denise, welcome to the show.

Denise: Hi Denis, thanks for having me. Nice to see you after so many years.

Denis: Yeah, nice to see you too. So maybe let me start with giving you a kind of a double-barrelled question. Maybe to begin, many of our listeners tend to associate Moody's with credit ratings, but I think you work in a different part of Moody's. So, maybe you can explain to us what you do, and also as your role as Head of Southeast Asia Economics.

Denise: Yeah. Thanks, Denis. So yeah, I'm with Moody's Analytics, so this is separate from the credit rating agency. We do research on economic forecasts. We look at risk models and so on, but we don't issue credit ratings. So, we are two separate entities. We're on a more on the macro side.

For the work that I do, I mainly do forecast analysis. I concentrate on Singapore and Malaysia more directly, so I'm more involved in that forecast, but I also keep an eye on the broader ASEAN region. We do look at your top-line variables, so GDP, inflation, monetary policy, but we also look at more long-term trends, right? So, things like labour market, the geopolitical and trade trends that are affecting exports and FDI.

Denis: Okay, so maybe let's look at regional outlook for the region. There are some recent economic data that has been coming out and it seems to me that there is widening divergence across Southeast Asia. Some Southeast Asian countries are doing really well. I think even Singapore, right? They seem to have done better than expected in their quarterly forecast numbers. It looks like Vietnam, Singapore, and Malaysia, they all seem to be in a way over-performing. But there are others who are facing some greater headwinds. Are these cyclical differences or are there structural factors in play here?

Denise: Yeah, it's quite interesting because I think the divergence has been getting a bit wider in the last couple of years, right? And I think the way to explain that really is like the AI boom. It depends on how pitched a country or economy is to the AI boom, right? For your Singapore, Malaysia, Vietnam, where you're seeing a lot of exports of chips, so not just your high-end Taiwan Semiconductor Manufacturing Company (TSMC) chips but also the lower-end, chips that are involved in consumer electronics, these economies are doing very well. There are a lot of investment inflow as well, as we know, going to Vietnam and Malaysia in terms for the data centers. So, they are also benefiting in terms of that, right? Whereas for your other parts of ASEAN, maybe Thailand, Philippines, and Indonesia, they are not so much into AI. Indonesia is more into the commodity side. They don't really see that kind of benefit. And so, I think that itself is causing a lot of the divergence that we are seeing recently.

Denis: So, this AI boom seems to be benefiting some of the Southeast Asian countries. Is this a short-term thing? I have been always asking that question. Is this a short term or is this something that's a bit longer term?

Denise: We have been thinking that as well, because for us, we have been starting to forecast this. We have been seeing this in the forecast for the last year, right? This AI boom, where we are forecasting export numbers, GDP numbers, and quarter after quarter, we are missing - not only us, but also the market has been missing - the GDP forecast, right? Just because this has been stronger than expected for the past year already or a year and a half. So, it seems that this is here to stay, right? I think in the beginning we were saying that oh, maybe this will last one year, and then it will taper off. But it looks like this is more of a long-term productivity thing, where this trend seems to be staying here for now.

Denis: So, we probably will continue to see this divergence for some time. Let's talk about China because China is a very important engine of growth for the region. If you look at some of the Chinese economic data that has been coming out, it still seems to show continued

weakness in their domestic demand although exports remain very strong, right? From Southeast Asia's perspective, what matters more? A weaker Chinese domestic demand for ASEAN goods and services or that growing competitive pressure from Chinese exports and investments that are redirected towards not just Southeast Asia but also to other regions?

Denise: I think for China, it is very much a two-speed economy right now, right? The domestic sector is incredibly weak, and the property sector has not really recovered much since it collapsed. So, a lot of the growth is really spurred towards the export side of things. And ASEAN, I think, is getting a lot of the exports, in terms of Electric Vehicles (EVs) and in terms of the consumer electronics. You see that coming in certain cases. I think in Thailand, it has been affecting their export sector because you have increased competition from cheaper Chinese exports coming in. So, I think the concern there is not so much the lack of demand, but more of the export push that is affecting the rest of the world, right?

Again, this is not just in ASEAN but as well as the EU. China's trade surplus has been ballooning the past year, and I think that is more of the concern. A lot of the exports now from ASEAN we see are actually going to the US, and again, this is all linked to the AI trade, right? So, we are getting intermediate exports coming in from China, but the final consumer product is really going to the US. I think that is the driver of growth for ASEAN for now but not so much the China demand.

Denis: Yes. But I guess the growing concern is also rising trade protectionism that is occurring. And of course, from US trade policies increasingly, from last year, we had all these reciprocal tariffs. But this year, since it has been thrown out by the [US] Supreme Court, they have imposed various kinds of legal instruments, right? For example, the [Section] 301 investigations, which are related to forced labour or domestic regulatory standards. So, do you think it represents a kind of a new form of trade risk for Southeast Asia? In a way, I have talked about it in my work too, that it is a kind of weaponisation of trade policy, right? And how could this sort of compliance with different US, China, and European requirements, make it a bit more complicated in terms of supply chain diversification in the region?

Denise: It is a lot, right? I think we've been following this trade story since April of last year, since Liberation Day. And since then, it's been up and now the International Emergency Economic Powers Act (IEEPA) tariffs were struck down in February, and then it came back in terms of [Section] 122, and then now it's [Section] 301. And then there are also all these very old trade policies coming back into play, right? That is giving, I think, not just us as forecasters, but also the economies themselves, a lot of concern. I think for ASEAN, there has been some benefit in the sense that because the tariffs on China, the effective tariff rate of Chinese exports, were relatively higher back then. So, we saw some rerouting through ASEAN, right? This is not in terms of illegal transshipment, but in the sense that companies are relocating here just because of the tariff rate, because to take advantage of the supply chain, and so on. But I think with the recent announcement, they are now starting to target,

like, transshipment, right? Whatever that means. They just released that paper, last week or earlier this last week. We see them broadening the target, right? They are not just into exports from China themselves, but now they are also moving on to where are Chinese exports rerouting to.

And I think the sort of earlier beneficiaries of this trade policy, so we saw Vietnam and Malaysia benefit from this back in the first trade war, right? But I think we are seeing them coming under fire this round because the administration is not very happy with this rerouting. I think it is a bit tricky because now if you are seen to push out Chinese exports, you are seen as a transshipment hub, and that puts you under fire as well. It is that fine balance to walk, right? You want to protect your own export share, but at the same time, you do not want to be seen as facilitating something illegal. So, I think it's quite a tricky line to balance currently.

Denis: Yeah. I think that we have been doing a lot of work on economic security and also trade fragmentation, and in many ways, ASEAN is caught in between. They have to make these difficult choices. The old model where the US has the final exports from China, we would continue to have our industrial linkages. I think that needs to be re-looked, right? So, from your own work, do you find that, particularly in the private sector, do they have to make very difficult choices when it comes to their supply chains, configurations, and things like that?

Denise: Yeah, it's difficult because we spoke to one firm. Their supplier is from China, and this is their long-term supplier. They've been working with this Chinese firm for the past 30-40 years and so on. So, they were saying, they stuck with this supplier throughout COVID and, they were just basically very loyal to each other. Throughout COVID, both of them worked together to overcome supply chain disruptions, and the relationship continues until now. But they said that, now because of all these tariffs and all this US policy, they are facing pressure to find another supplier, but they are finding it hard just because this is 40 years' worth of relationship, right? To be able to rebuild this relationship with a new supplier, let's say in Southeast Asia, they said, this would take them decades to rebuild. So, it is not exactly, you cannot do this like and next week I change supplier, right? And then they can match me exactly. These are like long-term relationships that they built over decades. It is not just in terms of logistics, so I think a lot of small firms are also facing this kind of dilemma, right? Do they abandon their long-term supplier? And if you do that, is there certainty that you will find a new one that can match what, exactly what you need?

Denis: Yeah. You raised operational production costs, which eventually will be passed on possibly to the end consumer. Let us talk about inflation as well because earlier in the year we thought that there was going to be some easing of inflation, right? And then of course the war broke out in the Middle East, and so we have got concerns of higher commodity prices, energy prices.

But there seems to be some, and correct me if I'm wrong, some divergence in monetary policies among all the central banks in the region, right? And, again, they need to find that balance. They are worried about inflation, but too much tightening of monetary policy could also affect domestic demand, right? So, what are you seeing among the central banks in the region?

Denise: I think the good thing is that a lot of us were comparing the current oil shock with back in 2022. I think there was a lot of concern that this is another 2022. But I guess the good thing is the situation is quite different right now in the sense that inflation is still largely contained just because the demand conditions are different, right? Back then, we were coming off COVID. The Chinese economy was rearing up. Everyone was buying things because the lockdown has ended. But things are quite different right now. We are more in a benign demand situation. The oil market was so very over-supplied when we came to this shock, right?

The Organization of the Petroleum Exporting Countries (OPEC) was producing way above target, and that helped to cushion things. So, in that sense, the pressure for central banks to hike is not actually as high as it was back then, right? But nonetheless, I think we do see a couple of central banks hiking quite aggressively. So, we have Bank Indonesia with a couple of 50-point basis, 50 basis points hikes. BSP [Bank Sentral ng Pilipinas] also hiked quite aggressively, and I think that's not really inflation linked, but more FX (foreign exchange) linked. So, I think there is a lot of concern over depreciation of the currency. The central banks are reacting more to FX rather than the inflation numbers themselves.

Denis: Do you see some sort of two-speed recovery process also happening, like China and in some Southeast Asian countries? You have got an AI boom. You are seeing an increase in exports of tech products or tech related products, but household demand continues to be weak in some countries. And of course, if you are worried about inflation, then they are not going to spend so much as well. So, do you see that kind of two-speed process happening in Southeast Asia?

Denise: Definitely. I think the concern is that there are a lot of over-reliance on exports, right? So, like the China picture where the growth now is completely export driven. The domestic situation in certain countries is quite concerning. We see this in Philippines, Indonesia, Thailand.

I think in Indonesia, the GDP number is hovering around 5%, but in recent quarters, a lot of it is really government consumption, right? Not so much from the households. I think the worry is that once this AI boom pulls back, what is left? You do need your household sector to be able to right that stability the exports once gave you previously. So, I think that is definitely a concern. And over-tightening of financial conditions is something that we are looking at, but I think we are not quite there right now.

Denis: I think you follow ASEAN integration too, right? So, we've got all these various ASEAN agreements, trade and goods agreements. You have got the ASEAN Economic Community initiative. You have got all these free trade [agreements], Regional Comprehensive Economic Partnership (RCEP). So, you seem to have been making a lot of progress in terms of trade and investment integration. But I think you are familiar that implementation is a challenge. We also need to address behind-the-border measures and so forth.

And also, infrastructure has been uneven, right? Different countries have different levels of economic development, infrastructure development. So which reforms would make, you think, the greatest practical difference to regional growth in Southeast Asia?

Denise: For Southeast Asia, I think currently, when you do see investment come in, they do it for very country-specific reasons, right? So, if you are investing in Vietnam, you are doing that because of the local labour force. You are doing that because of the local legal infrastructure or the kind of resources that you have there. You are not doing it largely because it is situated in ASEAN, right?

So, I think a lot of it is really smoothening the process across borders, right? We saw that in the JB [Johor]-Singapore Special Economic Zone (SEZ), that was set up to facilitate cross-border investment as well as labour market flows. But even that is facing its own roadblocks. We are talking to some firms where they are saying that they are having problems like bringing laptops from Singapore to Malaysia because they want to set up their office in Malaysia. So even two countries as close as Singapore and Malaysia are already facing issues, what more regional integration. I think there is a lot of hope and optimism surrounding it [Johor-Singapore SEZ] from the government side. When we talk to the governments, they say oh yeah, this will definitely increase investment. This will bring in a lot of cross-border facilitation. The resources in Johor are very cheap, right? So, you can do that. But then you have the HQ in Singapore. Then, when we talk to the firms, it is a different picture. They are facing problems with visas. What if you have a Malaysian PR, but then you want to work in Singapore, how does that work? If you want to bring your tech equipment across the borders, are you going to get taxed if you exceed the de minimis threshold, right? That kind of nitty-gritty, I think, is still facing firms.

Denis: So that is the question, right? Whether all these arrangements and agreements that ASEAN makes, whether it's really working, right? And that is why it is good to hear from the ground, right? Particularly from businesses, whether despite all these agreements and whether it is to support investments and/or trade, mutual recognition of different kinds of professionals. So, whether it is actually working, right? Are you getting that sense that on the one hand, at the high end, you are getting all these arrangements, all these sorts of economic agreements, but on the ground, it is a bit slow in terms of getting things moving actually?

Denise: I guess to be fair, it is still new, right? It is still in the nascent stage. You do have these kinds of issues coming up. But I guess the question is whether this is sustainable long term, whether in the long run, the firms are willing to make the move. Currently, we do not see that right now, right? But because, obviously it just started, but I am not sure if they do manage to pull this off, they do, let us say in five years, this is really a cross-border flow, then maybe that could work. But I guess the question whether this is sustainable more in the long run.

Denis: Related to in the long run, if you look towards the future, we have been doing a lot of work in trying to strengthen regional resilience, for example, including economic resilience. What sort of developments or even possible opportunities and economic drivers you think would help Southeast Asia in terms of its sustainable economic growth and development, say in the next 5-10 years?

Denise: I guess the question is whether you can translate the temporary uptick in growth right now. So now everything is AI related. But can you translate this into more long-term productivity increase? Can you use it to support the middle class? Can you use this to provide jobs for fresh graduates? Because currently we are not. We are seeing that the AI is benefiting only very specific segments, right? Only if you sell chips, only if you sell consumer electronics, you benefit. But let us say if you are doing something else, if you are the man on the street or if you are doing agricultural work, you are not really benefiting from this, right? So, I guess the question is, can you spread out these gains across your country to uplift your domestic sector, your households across the board?

Denis: So, what do you think are some of the potential growth drivers? Is it say, digital trade, digital economy, or maybe some of the green economy supply chains that everyone is talking about? I think the region needs to look at sort of new economic drivers, right? What do you think are some of the potentials there?

Denise: I think the old manufacturing model is outdated already. You cannot use that playbook. That is what they used back then, but I do not think that it is applicable now. I think that green energy, more climate-friendly technology is definitely something that is up and coming, especially with the last two oil shocks that we saw. We have had two oil shocks in the past four years. A lot of countries, a lot of firms are definitely looking towards renewables.

For ASEAN, we know that the uptick is a lot slower than what we have elsewhere, right? Compared to the EU, compared to the US, the use of renewables here is not very high. So, I think there is definitely a gap there to look towards.

Denis: What sort of economic forecasts and what sort of economic indicators should governments and businesses should be tracking as they move?

Denise: Everyone asks us this, right? Because they want to know what is going to cause a [economic] recession. Is it the yield curve inversion?

Denis: There's also K, right? There's a K-curve.

Denise: Yes. K-shape economy.

Denis: Are you guys optimistic about the economic outlook over the next couple of years, or are you a bit more cautious?

Denise: I think it is honestly, forecasting the last couple of years since COVID has been very difficult because you do not know what is going to come next.

Our forecast from January looks very different now because we got hit by a war, right? I guess the issue with this is that a lot of the traditional indicators that we used to rely on are not giving us the signal right now. So, things like, if the U-curve inverts, that will give you a recession in the next six months. But that did not happen because the U-curve inverted and we did not really see a recession, right? We are looking as well. I think the main concern we have is a sharp pullback of the AI boom, right? So, this could happen in a number of ways. Either the financial condition overtightens or whether it is something export related that affects the chips, right?

So, let us say if for now we know that chips are exempted from the tariffs, but if maybe they decide to hit chips with tariffs, then you could see that happen. Is it geopolitical related? I think the concern really is on AI boom. Basically, everything surrounding it, whether it is equities or whether it is the real economy, and what could possibly hit that sector.

Denis: Yeah, I think there is basically growing fragmentation, not just in the trade space, right? It looks like even in technology and of course that growing competition in AI between US and China. We get affected here in in Southeast Asia. So, I think that is a challenge.

Denise, thank you so much for sharing your insights on Southeast Asia's economic outlook and the opportunities and risks facing the region. I am trying to be optimistic about the next couple of years, but who knows? We are living in interesting times, right?

To our listeners, thank you for tuning in to this episode of ASEAN in Practice. We look forward to bringing you more conversations with policymakers, scholars, practitioners shaping Southeast Asia and the wider region. Stay tuned. Thank you.

***The podcast episode was recorded on August 19, 2026.**