What the US-China detente means for Asean businesses

Firms in the region must now compete with reshoring destinations such as India, while contending with Chinese companies diverting exports here. **By Goh Puay Guan**

THE recent one-year pause in US-China trade tensions, with the US reverting its tariffs to more manageable levels and China lifting its rare earth export bans, led to a sigh of relief across the globe.

Stock markets in the US were inching up in anticipation of the truce announced on Oct 30 after US President Donald Trump and his Chinese counterpart Xi Jinping met in South Korea. It seemed that the world economy had once again averted a large-scale jolt to the trading system.

Yet the pause – as it implies – is to buy time before next year's review as both sides cannot afford the immediate fallout. China will continue its race to grow new markets, develop its own semiconductors and artificial intelligence (AI) capabilities, while the US will rush to identify new partnerships and investments in rare earths.

Both seek to improve their negotiating position in the next round, while other countries and companies continue factoring in geoeconomic considerations.

The new landscape for South-east Asia

The overall trend towards diversification and trade re-orientation continues.

While headline numbers of changing tariffs and regulations grab attention, the broader tariff and regulatory structures are accelerating the re-orientation of supply chains.

This diversification had already started during the Covid-19 disruption, and disruptive impacts in the last few years have made resilience, rather than cost optimisation, imperative. Companies will likely continue their China+1 strategy, of which Asean countries will be among the key beneficiaries.

This is especially so with the new US agreements with various Asean countries recently, capping tariffs on Cambodia, Malaysia and Thailand at 19 per cent, and Vietnam at 20 per cent.

Low-cost outsourcing cannot be Asean's only value proposition

Asean cannot rely solely on low-cost outsourcing for export-led growth.

Increasing levels of industrial policies for sectors deemed strategic – such as semiconductors, pharmaceuticals, food and AI (which has implications for data sharing and data centres) – mean that there is a push to onshore these industries using various incentives and regulations.

Countries such as India, which are attracting a large share of the reshoring from China, also benefit from a large domestic market that can absorb the output produced in local factories.

Singapore firms are well-placed to tap Asean's growing economic integration, says the writer. PHOTO: BT FILE

For US companies dealing with products not deemed strategic, having a production or distribution base that is nearshore, such as Mexico, can reduce delays from supply chain disruption and cut buffer inventory needs, making such locations attractive.

Asean must articulate a value proposition beyond being low-cost. It is also a destination market with an emerging and growing middle class as well as rising wealth. The region also boasts, on average, a young and growing population, and a market that is increasingly integrated through various ongoing initiatives to promote trade, digital and financial connectivity.

Singapore businesses are well-placed to tap this growing economic integration. They can anchor key and regional HQ functions while tapping regional growth and supply chains accessible within a three-hour flight.

Businesses must gain economies of scale

As China diversifies away from the US, a reduction in Chinese exports to America has already led to more being diverted to Asean and other developing regions.

Many small and medium-sized enterprises (SMEs) in Asean do not have the economies of scale, skilled manpower or the technological capability to compete against efficient Chinese manufacturers, which have access to an efficient supply chain ecosystem of suppliers and are heavily invested in automation.

Given China's advantages, even a tariff differential of more than 20 percentage points between China and Asean may not be insurmountable.

To compete, SMEs may need to work more closely together – pooling resources and capabilities, or even pursuing mergers and acquisitions to create larger, more competitive companies. Historically, this has been difficult due to issues over control, local competition and disagreements over valuation. However, given the extent of competition, collaboration will become necessary and urgent.

> In the world of inter-connected supply chains and data flows, firms can extend their boundaries and reach through digital trade, information visibility and financial services.

Flexible supply chains and manufacturing

Yet, scale alone is not enough to navigate a volatile global environment. Adaptability is just as crucial.

In recent years, the concept of micro-factories, which are advanced manufacturing facilities that are small and customisable, have also grown more prevalent. The region needs to conceive of networks of manufacturing sites that allow us to allocate production and sourcing flexibly, in response to changing supply chain environments.

The reshaping of global supply chains will take years, if not decades. Cross-border trade does not always involve physical infrastructure investment. In the world of interconnected supply chains and data flows, firms can extend their boundaries and reach through digital trade, information visibility and financial services.

Singapore: A key node in physical, digital and financial trade

Singapore businesses will also need to consider their own diversification strategies. Many SMEs that are service providers or component providers to larger multinational corporations will need to monitor their customers closely and be prepared to follow them into new markets.

In recent years, Singapore trade associations have launched initiatives to explore new investment destinations throughout Asia and the world.

Nearer to home, the Johor-Singapore Special Economic Zone is gaining momentum, and the Sijori growth triangle – comprising Singapore, Johor and the Riau Islands – first proposed in the 1990s, is having a resurgence.

Such synergistic collaborations are part of a move to anchor HQ activities in Singapore while tapping regional locations for a lower cost structure in manufacturing.

Burgeoning digital trade is an area where Singapore and its businesses can excel. Beyond the upcoming Asean Digital Economy Framework Agreement, Singapore also has digital trade agreements with Australia, Chile, New Zealand, South Korea and the UK, as well as the European Union and the European Free Trade Association.

These agreements cover areas such as e-commerce, trade information, professional services and financial payments. Similarly, trade and supply chains will also require robust payment flows, facilitated by Singapore's role as a trusted financial hub.

Ultimately, as the global environment continues to change, the challenge for companies in Singapore and across the region remains – to scale up, to digitalise and integrate into regional and global information flows, and to be adaptive in allocating sourcing and manufacturing capacity.

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