

A new production line is expected to cover its upfront costs and generate returns that justify choosing that location over alternatives. As tariff advantages narrow, dependable suppliers and lower production costs carry greater weight. To compete for that newer production, South-east Asia needs stronger supplier networks closer to home.

PHOTO: AFP



# Making South-east Asia's trade war windfall last

The US-China trade truce is a cue to turn short-term supply chain gains into something more durable.

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The Trump-Xi summit in Washington in September brought a welcome attempt to ease the trade war between the world's two largest economies.

Both sides put forward lists of non-sensitive goods for possible tariff reductions, covering about US\$30 billion (S\$38 billion) in annual bilateral trade.

The proposals, while not specifying tariff rates or implementation dates, build on the US-China Board of Trade, established in May to give officials a regular channel to discuss trade in non-sensitive goods.

South-east Asia should welcome such efforts towards a steadier relationship between the two great powers.

But it should not mistake a temporary truce for permanent stability.

The real question is whether the

factories lured to the region during the trade war can help build an industrial base that remains competitive as tariff advantages fade.

Since 2018, higher US tariffs on Chinese goods have encouraged multinationals to add production in South-east Asia while retaining their Chinese operations, a strategy known as "China plus one".

Electronics company Ricoh reported in 2019 that it was moving some US-bound production from China to Thailand to reduce tariff risk.

Sharp announced plans for a Vietnamese plant that year. Chinese manufacturers have also expanded in the region.

Manufacturing accounted for 20% of foreign direct investment (FDI) into ASEAN in 2024, up from 9% in 2023. Total FDI across all sectors reached a record US\$243.9 billion in 2025, though the trade war does not explain all these inflows.

Keeping an existing plant running and choosing where to invest next are fundamentally different decisions.

Lower US duties on the selected Chinese goods would narrow the tariff advantage enjoyed by competing South-east Asian exports. But the factories already operating in the region are likely to stay as long as revenues cover marginal costs.

With the plants built and workers trained, production may remain worthwhile if sales cover operating costs and moving elsewhere would be expensive.

India illustrates the point. The Peterson Institute for International Economics found that the country supplied nearly 60% of US smartphone imports from March to June, despite losing its tariff advantage over China for these products in February.

Winning foreign investment is one thing. But securing the next wave of capital requires deeper supplier networks and lower domestic operating costs.

A new production line must be expected to cover its upfront costs and generate returns that justify choosing that location over alternatives. As tariff advantages narrow, dependable suppliers and lower production costs carry

greater weight in that choice.

To compete for that newer production, South-east Asia needs stronger supplier networks closer to home.

Here lies the region's opportunity: helping domestic suppliers win orders from those factories and develop their capabilities. Manufacturers would then have genuine commercial reasons to source from the region long after tariff advantages fade.

In Singapore, targeted matchmaking by development agencies helped local precision-engineering and coating firms meet the rigorous standards of aerospace and medical multinationals, shortening lead times and cutting reliance on overseas inputs.

Applied Total Control Treatment worked with Pratt & Whitney Component Solutions to develop metal-coating capabilities for aircraft maintenance and repairs. The partnership helped Pratt & Whitney Component Solutions shorten turnaround times and reduce reliance on overseas suppliers.

Fong's Engineering and Manufacturing began specialising in medical devices after the Economic Development Board (EDB) connected it with Stryker,

which needed a supplier to produce precision components in Singapore.

## ANCHORING FOREIGN CAPITAL

A stronger supplier base can also make the region more attractive to manufacturers by lowering transport costs and allowing manufacturers to resolve production faults or adjust orders quickly. Yet building this network requires overcoming a classic catch-22.

Domestic suppliers cannot justify investing in advanced machinery or training without committed buyers, while multinationals want proof that the suppliers can meet quality and delivery standards before placing an order.

Training can improve a supplier's capabilities to some extent without persuading a buyer to place an order. Upgrading programmes that help firms improve production processes and quality control should be designed with multinational buyers and linked to opportunities for trial orders, allowing suppliers to demonstrate their quality and reliability before buyers commit to larger contracts.

Vietnam's programme with Samsung offers evidence of progress among local firms. Its Ministry of Industry and Trade has partnered with the company to advise local suppliers since 2015. By the end of 2024, more than 400 firms had been assessed and advised, and the ministry reports that 63 had become direct or indirect suppliers to Samsung.

Building on those gains means helping firms secure repeat orders and serve other manufacturers. A broader customer base would

make them less exposed to any one factory's decision to leave.

At the FutureChina Global Forum on Sept 25, Singapore's Deputy Prime Minister Gan Kim Yong made the case for upgrading local firms across ASEAN, warning that "more trade and investment, by themselves, will not be enough". Local enterprises must also be helped to "move up the value chain", he added.

None of this is new. Singapore's EDB launched the Local Industry Upgrading Programme with the same aim in 1986. Participating multinationals helped local suppliers improve efficiency and develop technical capabilities.

The programme was later incorporated into the broader Partnerships for Capability Transformation scheme, which supports supplier development and joint innovation.

Deeper regional integration could give local suppliers a larger market. Orders from factories across South-east Asia would let a component maker spread the cost of specialised equipment over a larger volume of production.

ASEAN has pursued that ambition for decades, though progress beyond cutting tariffs has been painfully slow.

The ASEAN Free Trade Area agreement of 1992 sought to ease trade among members. Most tariffs on qualifying goods traded within ASEAN have since been removed. Delays at the border can still erode the advantage of buying from a nearby supplier.

Simpler customs procedures would cut the time and expense of moving goods across borders.

Reuters reported in April 2025 that clearance for Apple's US-bound iPhones at Chennai airport was cut from 30 hours to six hours after the company lobbied Indian authorities.

Similar improvements within ASEAN would help suppliers move components more quickly to factories in neighbouring countries.

The upgraded ASEAN Trade in Goods Agreement includes provisions to streamline customs procedures and expand the electronic exchange of trade documents. ASEAN aims to bring it into force by the end of 2026, ahead of the original mid-2027 timeline.

Singapore will chair ASEAN in 2027, and Prime Minister Lawrence Wong has said it will use the role to "make ASEAN a more effective single market". Singapore should use its chairmanship to press for those customs provisions to be implemented consistently across ASEAN, so suppliers experience fewer delays at the border.

Calmer US-China relations are worth more to South-east Asia than the orders the trade war diverted to the region. The less the region's appeal depends on bargains struck between Washington and Beijing, the more of its future it will control.

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