

# Sino-US tensions – the silver lining for Asean and Singapore

Singapore can do more with its regional connections as interest in South-east Asian economies grows

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Many anticipate a Sino-American “war” and, while the proximate issues are in trade, there is a broader range of contention on issues relating to technology, unfair competition, democracy and the regional and global order. The effects will be felt not only by the two great powers, but also all across the world. Singapore is already feeling the negative impact.

As an open economy that thrives on free trade, Singapore is hit earlier and harder than others.

Data from Enterprise Singapore shows a sharp decline in non-oil exports, with worse to come. Growth forecasts have been revised downwards, close to zero. Prime Minister Lee Hsien Loong has pointed out that the deteriorating relations between the United States and China are a “definite minus for Singapore”.

Singapore’s political leaders are correct to call the Republic to brace itself for more bad news ahead. But while Sino-American tensions are a deep storm cloud, there can be a potential silver lining for the region and also, if steps are taken, for Singapore.

## BENEFITING FROM CHINA PLUS ONE

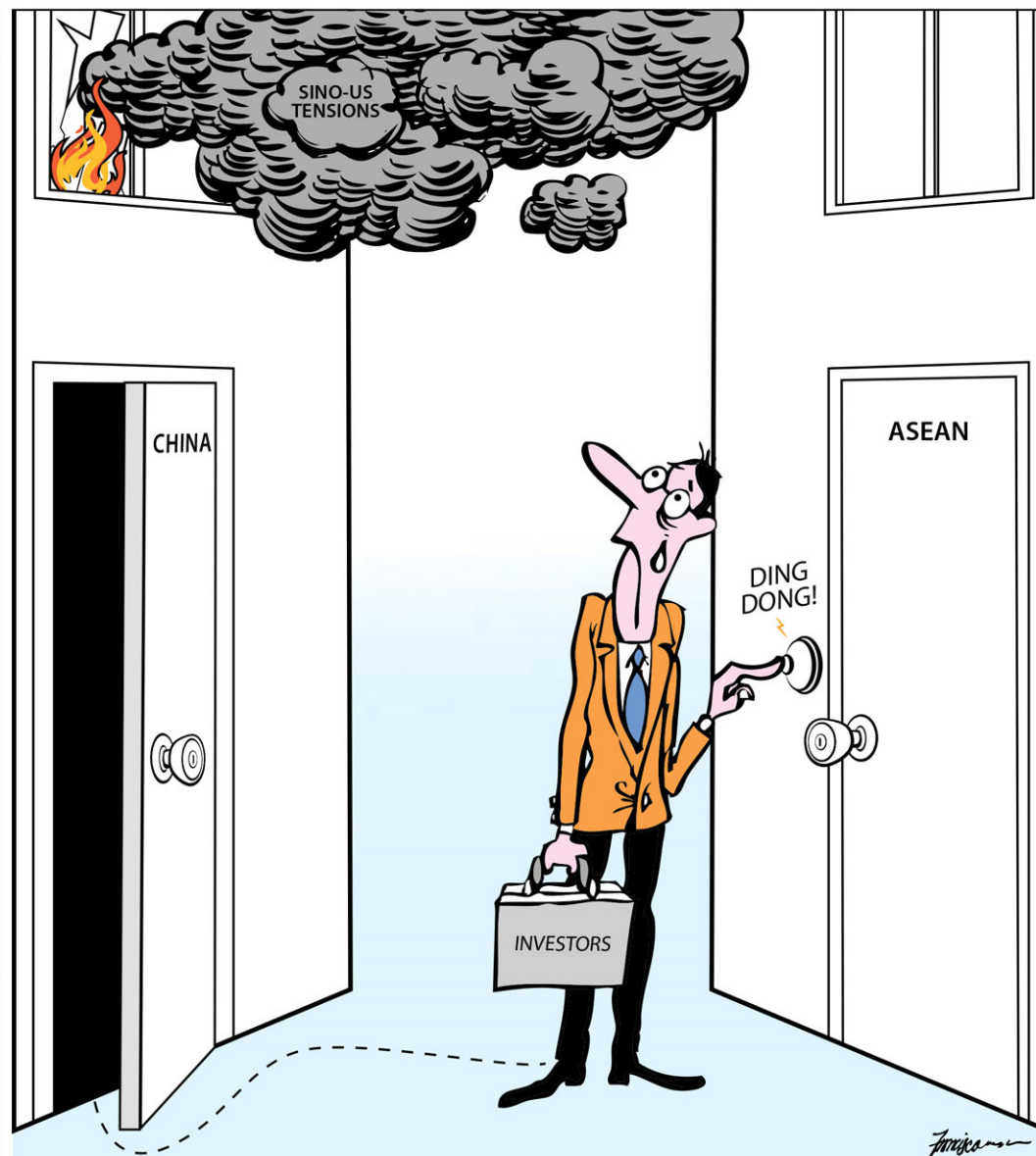
While global trade woes will hit all countries, many analysts anticipate some countries could gain, relatively.

The higher tariffs and other measures imposed on China are leading more than a few investors to look to shift out of China, or at least to set up new manufacturing and supply chains parallel to those centred on China, in the event that costs and constraints increase.

Many of the alternative locations are in Asean.

A flurry of interest surrounds Vietnam, with companies such as Lenovo Group, the personal computer maker, and GoerTek, which assembles Apple’s AirPods, planning to set up plants in the country. According to Vietnam’s Ministry of Planning and Investment, disbursement for foreign direct investment projects from January to June are up nearly 8 per cent compared with the same period last year.

Reports also point to trade and investment flowing over into Thailand, parts of Malaysia



and, perhaps to a lesser degree, Myanmar. In some cases, these shifts aim to lessen a China risk factor should Sino-American tit-for-tat measures escalate. But these Asean destinations are attractive in their own right.

A vibrant workforce and lower labour costs are competitive advantages that some in Asean enjoy. Thailand and parts of Malaysia, especially around Penang, have experience and expertise in electronic manufacturing clusters.

To a noticeable extent, this shift to Asean countries began even before the Sino-American tensions were visible.

For many Japanese companies, their investments in Asean resurged after their own experience in tensions with China, following public protests and threats to cut rare earth supplies in 2010.

Japanese companies talked about a “China plus one” strategy and their investments in Asean have

surpassed those heading into China in each year since 2013.

The authorities in South Korea and Taiwan have made it part of their government policy to deepen engagement and investment southwards. For other investors too, including those from the US and the European Union, the current trade war has only accelerated the move towards Asean.

Asean’s overall movement towards closer economic integration also helps to attract foreign investors.

## LIMITS AND RESPONSES

There are instances, however, where the trend to move towards Asean is limited by conditions in the country itself.

For Indonesia, the presidential election in April – and initial disputes about its outcome – was one reason potential investors stayed on the sidelines. Now that Mr Joko Widodo has secured a second term as president, that

hurdle has been cleared. It remains to be seen, however, whether his administration will push for reform and more openness to foreign investment and international trade.

In some sectors, Indonesia too is experiencing some limits in supplying workers of sufficient quality and number. The next two to three years will be a critical time to see if Indonesia can catch and sustain the interest of international investors.

Singapore too faces limits in responding to the new circumstances of the Sino-American dispute.

Ancillary services, including finance, have helped to keep Singapore attractive as a hub. So too will upgrades to the Republic’s infrastructure and connectivity.

Regionalising is critical and can be successful but will not directly solve the domestic challenges. Many multinationals and foreign investors already use Singapore as a hub but more can be done to both

anchor them and support their regional operations.

The master plan, and especially the efforts to build air and seaport hubs, shows how the Government intends to continue investing heavily in Singapore’s future even as regional integration grows apace. New agreements signed this year between Singapore and China under the Belt and Road Initiative will provide a launch pad for linking up South-east Asia.

That connection to the region is more than about logistics. Looking at the numbers for foreign direct investment going from Singapore and into neighbouring Asean economies, Singapore remains one of the leading sources of capital flows into Vietnam, Indonesia, Malaysia, Thailand and Myanmar.

By working more closely with its neighbours – not only in terms of amount of investment but also by means of collaboration, enhancing human resource capabilities and helping to improve efficiencies, Singapore can enhance its present strategies and move towards a deeper regionalisation.

## RESILIENCE AND TRANSFORMATION

Great power tensions will have a dampening effect on the global economy but the good news is that countries within Asean are positioned to enjoy a silver lining. If Sino-American tensions continue in the longer term, Asean and Singapore may well require bolder transformation of policies. The Singapore Institute of International Affairs will hold its annual Asean & Asia Forum next Thursday to examine not only how Singapore survives the global tumult, but also how it transforms and succeeds.

There is political stability for governments in the region to push for economic reform. Just as important, many neighbouring countries are seeking to improve and position themselves for growth, often in tandem with efforts towards economic integration like the Asean Economic Community and the wider Regional Comprehensive Economic Partnership.

In these circumstances, they may be especially open to working with Singapore and other international partners. While there are risks, there are good reasons for Singapore to continue to deepen its outward engagement and investment, to benefit the region and its own economy.

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