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**Editorial Team**

Aédán Mordecai  
Phidel Vineles



*PM Signs Article 50 Letter, Courtesy of Flickr account of Number 10: Credit Jay Allen, and used under a creative commons licence*

# WHAT CAN ASEAN EXPECT FROM A RED, WHITE AND BLUE BREXIT?

## FEATURED COMMENTARY

**Brexit's Impending Impact: Assessing ASEAN's Exposure**

By Aédán Mordecai and Phidel Vineles



Singaporean Port, High Traffic, Courtesy of Flickr account of Tan Travelogue and used under a creative commons licence

*This week, the UK government will finally start the process for Britain's withdrawal from the EU. The rest of the world is assessing how exposed other countries are to the almost inevitable economic fallout that will follow Brexit. How will ASEAN be affected, given the region's globally-connected export content?*

### Commentary

AS THE United Kingdom formally starts its exit from the European Union, a clearer picture is emerging of how Brexit might unfold. The new Prime Minister Theresa May has pushed her Brexit bill through parliament and is poised to invoke Article 50 today, 29 March 2017. She also went some way to resolving the often repeated question of whether the UK will pursue a 'hard' or

'soft' Brexit, by indicating that Britain will not be looking to remain in the single market, with control over immigration winning that particular battle.

The British economy has largely done better than expected since last June's referendum, with growth accelerating at the end of last year and growing by 1.8% overall in 2016. The fall in the pound sterling has given a boost to exporters while raising costs for the many products imported, pushing up inflation quickly. Nonetheless most economic actors are considering their options before they commit to the UK economy; they are either hesitant to invest or are looking to potentially move their operations out of the country. As the UK is a significant member of the world economy, all eyes are on the fate of Britain,

as well as the rest of Europe, while assessing the potential impact of Brexit on other regions of the world.

### ASEAN's exposure to the UK and Europe

ASEAN, for one, is not immune to the Brexit fallout, given its economic exposure to both the EU and the UK economies. The common method to assess the degree of exposure is to measure the volume and flow of exports going to the EU from ASEAN and the foreign direct investment (FDI) heading in the opposite direction.

According to the Asian Development Bank (ADB) and International Trade Centre (ITC Trademap), Vietnam and Thailand were the largest exporters from ASEAN to the UK, which amounted to

USD4.8 billion and USD3.6 billion, respectively in 2014. Overall, however, the Economic Research Institute for ASEAN and East Asia (ERIA) estimated that the UK only accounted for 1.5 percent of ASEAN exports in 2015.

ASEAN is significantly more exposed to the EU as a whole, particularly via trade channels, compared to the UK. The EU is ASEAN's second largest trading partner, which accounted for around 13 percent of ASEAN trade in 2014. The European Commission states that the largest exporters to the EU in ASEAN were Vietnam, which amounted to more than EUR33 billion, and Malaysia (EUR22.2 billion). With regards to foreign direct investment going into ASEAN, 16.7% of

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FDI comes from the EU totaling more than USD19 billion, with one third of that coming from the UK.

### Beyond Exports and FDI: The Global Value Chain

Analysing exports and FDI alone, however, provides an inadequate picture of ASEAN's exposure to Brexit. While it is true that ASEAN is an export-oriented region and will continue to be for the foreseeable future, there is an increasing reliance on 'importing to export' with imports making up a portion of the final export product. Production has become more fragmented in the age of globalisation, with products less and less likely to be manufactured wholly in one country, by one firm alone.

The result is that much more of global trade is not in finished products but also in components and parts (intermediate goods). The World Bank estimated that 20 per cent of global trade was in intermediate goods in 2015. ASEAN is no exception to the growing level of production networks that span multiple nations with high levels of trade of unfinished products coming in and out of the region. The

Global Value Chain (GVC) participation rate was at 56 per cent for East and Southeast Asia in 2010 according to the United Nations Conference on Trade and Development (UNCTAD). This illustrates the degree of fragmentation within the region. In the case of ASEAN, 28.4 per cent of its total exports' value was produced from outside the region in 2011 according to statistics collected by the OECD and the World Trade Organisation (WTO), with the EU being a major contributor to the region's 'foreign value added' content of exports. In fact, a total of 16.3 per cent of foreign value added embodied in ASEAN exports originated from the EU.

The share of EU value added within exports is particularly high in Singapore, Brunei, and Malaysia. Digging further into the trade data of ASEAN member states highlights how crucial the share of EU value added in ASEAN exports is to some key industries. Malaysia's most important export industry – electronics – owes almost 10 per cent of its total gross export value to the EU. Elsewhere, ASEAN's largest automobile exporter, Thailand, has the EU con-



tributing 6.4 per cent to the industry's total exports, while 4.4 per cent of Vietnam's important textile export industry originates from the bloc.

### What Does this Mean for ASEAN?

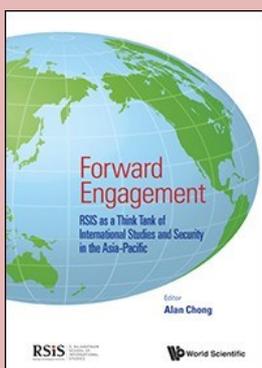
There are two main takeaways from this analysis of ASEAN's exposure to Brexit. Firstly, and as already widely known, ASEAN has most to worry from an economic slump spreading from Britain and causing significant damage to the rest of the EU. A slowdown in the EU would negatively affect the demand for ASEAN's exports much more than a consequent economic downturn limited to only the UK.

The data also brings to light an aspect of vulnerability that has not been seriously considered, which is the potential disruption in the

production networks that ASEAN export industries rely on. The complex fragmented nature of global trade and ASEAN's movement up the value chain means assessing the region's exposure to external shocks is becoming an increasingly inter-connected and comprehensive exercise. It is therefore necessary to go beyond the standard examination of gross exports and FDI when assessing the potential fallout from Brexit on ASEAN, or Southeast Asia. It is equally crucial to consider the importance of foreign value added content when analysing ASEAN's exposure to the impending impact of Brexit. ■

*Aédán Mordecai and Phidel Vineles are Senior Analysts with the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies.*

## Forward Engagement: RSIS as a Think Tank of International Studies and Security in the Asia-Pacific



As part of the 20th anniversary of RSIS, a book titled "Forward Engagement: RSIS as a Think Tank of International Studies and Security in the Asia-Pacific" was published which aims to extend the reach of the views of RSIS researchers on issues about diplomacy,

security, non-traditional security, and multilateralism.

The editor of the book is RSIS Associate Professor and CMS Senior Researcher Alan Chong. The book describes RSIS as Singapore's 'frontline' think tank on Asia-Pacific security, counter-terrorism, inter-

religious dialogue and non-traditional security threats. RSIS was lauded for maintaining its position as a 'policy relevant' think tank that additionally evolved into a centre for postgraduate studies in security matters and international affairs. ■

## RSIS Seminar Series on Multilateralism Studies: The Future of Asia-Pacific Trade under Trump



From left to right Assistant Professor Lee Su-Hyun, Assistant Professor Lee Chia-yi, and Professor Ralf Emmers all of CMS

On 7 February 2017, the Centre for Multilateralism Studies (CMS) organised RSIS Conference on Multilateralism Studies about “Trump Era and the Trade Architecture in the Asia Pacific.” A distinguished panel of experts from Singapore and overseas discussed their views about challenges in global trade and their impacts on the Asia-Pacific region, with a focus on the uncertainties brought by the Trump administration.

In the opening address, Ambassador Ong Keng Yong, Executive Deputy Chairman of S. Rajaratnam School of International Studies (RSIS), Nanyang Technological

University (NTU), explained that the dilemma for the Asia-Pacific as we are all part of a global economy where U.S. is the centre. He also discussed how the ASEAN Economic Community (AEC) has successfully helped its member states to have more connected and diversified trade in the region.

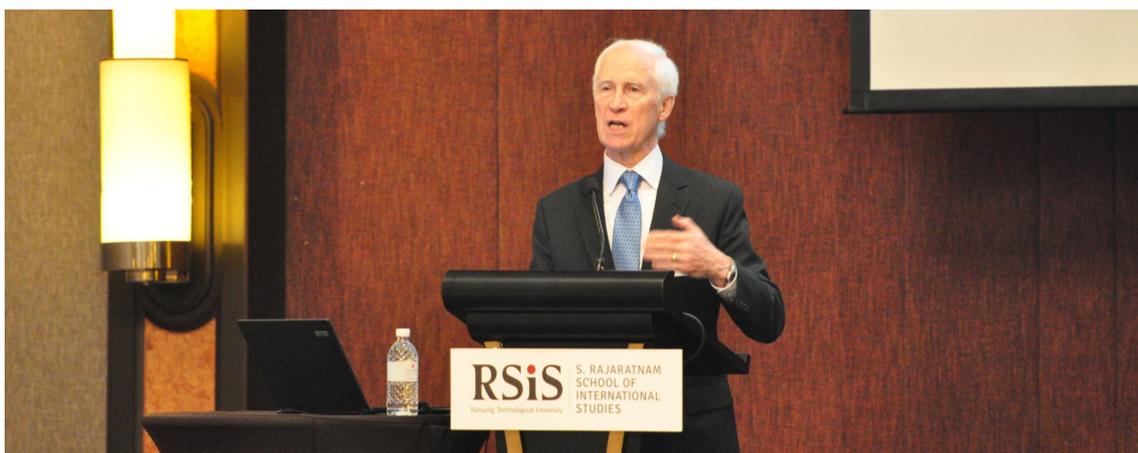
Experts at the programme shared various views about Trump’s trade policy. Dr Chia-yi Lee, Assistant Professor of RSIS, explained that it is unlikely that the U.S. under Trump administration will impose a 45% tariff rate on Chinese goods because it might provoke China to

retaliate by levying higher taxes on U.S. firms and cutting imports of American products. Meanwhile, Dr Zha Daojiong, Professor of Peking University suggested that U.S. should boost the country’s foreign direct investments (FDIs) to address the problems of unemployment and wages stagnation, instead of levying tariffs.

Implications of Trump’s presidency on Asia were also tackled. Dr Pradumna Rana, Associate Professor of RSIS, noted that the U.S. mercantilist trade policies – “buy American and hire American” – could have adverse impacts on ASEAN economies de

pending on their economic openness, however, Asia is more dependent on EU than the U.S. in regards to capital flows.

However, Dr Danny Quah, Professor of Lee Kuan Yew School of Public Policy, National University of Singapore (NUS), said that the implications of Trump administration on Asia are not solely related to trade. It is also necessary for the region to examine the adverse implications of Trump distrust of regionalism and collective approaches on Asia, according to Dr T.J. Pempel, Professor of Political Science at University of California, Berkeley. ■



Professor T. J. Pempel, University of California, Berkeley, gives the luncheon seminar

## Future Events: RSIS-WTO Parliamentarian Workshop

From 15-17 May 2017, CMS will be jointly organizing with the World Trade Organisation (WTO) the eighth annual RSIS-WTO Parliamentarian Workshop at the Pan Pacific Hotel, Singapore.

The annual workshop invites parliamentarians

from across the Asia-Pacific region, as well as for the first time from Central Asia, to gain knowledge on the international trading system and the nuances of trade negotiations in the WTO.

With presentations coming from experts from a variety of backgrounds, from the

private sector, government, academia and the WTO itself, the workshop is a great opportunity to learn from some of the most knowledgeable minds in the world in regard to international trade. There are also opportunities to learn about Singapore's trade facilitation initiatives.

The workshop is supported by Temasek Foundation International in its pursuit of an ever improving trade relationship within the Asia – Pacific. ■

### SELECTED PUBLICATIONS

#### **Brexit's Impending Impact: Assessing ASEAN's Exposure**

Aédán Mordecai & Phidel Marion G. Vineles, *RSIS Commentaries*  
29 March 2017

#### **Participatory Policymaking: The Crafting of Thailand's Medical Hub Policy**

Kaewkamol Pitakdumrongkit, *RSIS Policy Reports*  
24 March 2017

#### **Joint Training Programme on Economic Corridor Development for Competitive and Inclusive Asia**

Pradumna B. Rana, Phidel Marion G. Vineles & Aédán Mordecai, *RSIS Event Reports*  
06 March 2017

#### **TPP12 vs TPP11: Gainers and Losers**

Pradumna B. Rana & Xianbai Ji, *RSIS Commentaries*  
15 February 2017

#### **Frictions on the New Silk Road**

Alan Chong & Wu Shang-Su, *RSIS Commentaries*  
25 January 2017

#### **Modi's Demonetisation Gamble**

Pradumna B. Rana, *RSIS Commentaries*  
13 January 2017

#### **ASEAN Connectivity: Challenge for an Integrated ASEAN Community**

Phidel Marion G. Vineles, *RSIS Commentaries*  
11 January 2017

#### **Earthquakes and Environmental Refugees: Time for 'Green' Engineering**

Alan Chong & Tamara Nair, *RSIS Commentaries*  
03 January 2017

The **Centre for Multilateralism Studies (CMS)** is a research entity within the S. Rajaratnam School of International Studies at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in the Asia Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

**Multilateral Matters** is the quarterly publication of the Centre for Multilateralism Studies (CMS), analysing the most recent developments regarding multilateralism by our team. It covers articles on relevant economic and political issues as well as programmes and latest publications from the research centre. The objective of the newsletter is to promote the research being done by our centre, raising awareness of the many events that we hold on a regular basis.