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World Trade Amidst War, Inflation and Protectionism

China-US Economic Rivalry: Implications for Southeast Asia

By Jacque Gao

SYNOPSIS

The China-US rivalry, which shows no signs of abating, has both economic and political implications for Southeast Asia. This commentary explains the economic and political impact of the rivalry on the countries of Southeast Asia and the choices the region faces in this new age of great power competition.

COMMENTARY

There has always been a certain degree of rivalry between China and the United States. This rivalry was not very explicit until Donald Trump's presidency, which initiated the China-US trade war in 2018. One major US grievance was about the issue of technology transfers.

Since the 1980s, the Chinese government had adopted the "market for technology" policy, which encouraged multinational corporations (MNCs) to form joint ventures with China's state-owned enterprises, which gave them access to China's huge domestic market, in exchange for their advanced technologies.

However, after the launch of the "Made-in-China 2025" policy, which made clear China's ambition to replace the US as the leading manufacturer in high-tech industries such as aerospace, biotechnology, and robotics manufacturing, the US became increasingly concerned about what it regarded as a Chinese policy of forced technology transfers and technology thefts.

There are no signs of the trade war abating under the Joe Biden administration. In fact, it reached a new high when Biden imposed an extensive ban on the sale of advanced chips to China. More importantly, the rivalry has taken on an ideological bent with the US viewing it as a competition between democracy and autocracy, while China views it as a US attempt at resisting a multipolar world order. The rivalry between the two countries has gradually extended beyond the economic sphere into the security and political spheres.

The China-US rivalry has both economic and political implications on Southeast Asia, which need to be examined in the knowledge that the US is the leading security provider in the region while China is the region's leading source of trade and investments.

Relocation of Manufacturing to Southeast Asia

On the economic side, the China-US rivalry, and the uncertainties it creates for the Chinese economy, has been a blessing for Southeast Asia. As a result of the high tariffs imposed by the US on China's exports, and with no signs of the China-US relationship improving, many MNCs are relocating their manufacturing facilities from China to Southeast Asia.

Samsung, for instance, [relocated all its display production](#) from China to Vietnam in 2020, making the latter the world's leading supplier of Samsung display screens. Similarly, Japan's Nintendo relocated a portion of its video game console production from China to Vietnam, while tire maker Sailun Tire shifted its manufacturing line from China to Thailand. A continuing China-US rivalry will induce more MNCs to relocate their production from China to Southeast Asia, which will benefit from increasing Foreign Direct Investment (FDI) inflows and the creation of more manufacturing jobs.

Southeast Asia Benefits from US Microchip Ban

Biden's recent microchip ban on China will lead even more MNCs to relocate from China to Southeast Asia. The US reckoned that by choking off China's access to US-built semiconductor manufacturing equipment, chipmakers would not be able to manufacture high-end chips in China. Furthermore, by choking off China's access to US-built components used in semiconductor manufacturing equipment, semiconductor equipment manufacturers would not be able to produce manufacturing equipment either. Thus, to maintain their access to global supply, these companies have been relocating to Southeast Asia, which already has a significant semiconductor industry, and thus the infrastructure and talent to absorb the inflows of investment.

It is therefore not surprising that during a CNBC [interview](#), the president of Malaysia's Semiconductor Industry Association expressed his optimism about the opportunities that Biden's chip ban had created for Malaysia. Indeed, [Applied Materials, Lam Research, and KLA](#), three leading manufacturers of semiconductor manufacturing equipment, have already increased their production in Singapore and Malaysia. Similarly, both [Intel and Samsung](#) have expanded their semiconductor manufacturing capacity in Vietnam.

FDI inflows into Southeast Asia are not only increasing, but they also have a large

share of high-tech components in them. The China-US rivalry has therefore brought about more high-quality manufacturing jobs to Southeast Asia.

Boom in Portfolio Investments

Besides the increase in FDI inflows, portfolio investment inflows into Southeast Asia also increased recently, particularly to Singapore. The increasing inflow of portfolio investments to Singapore is primarily a result of economic uncertainties in China, as the Chinese government tightens its grip on power amid an uncertain international environment.

Goldman Sachs estimated that [Hong Kong lost US\\$4 billion in deposits to Singapore](#) during the unrest in 2019. Meanwhile, China's ultra-rich are also moving to Singapore to avoid domestic crackdowns, especially after the 20th National Congress of the Chinese Communist Party. For instance, Bao Fan, the Chinese billionaire, was in the process of establishing a family office in Singapore before he vanished. As Singapore overtakes Hong Kong as Asia's leading financial centre, all the benefits associated with being a financial centre, such as rising tax incomes, more high-quality jobs, and a rise in service businesses, will follow.

The downside of increasing "hot money" inflows, however, is high inflation. This is acutely felt in Singapore's property market. Indeed, Singapore's residential real estate prices soared 14 per cent in 2022. Even though most Singaporeans are shielded from this because of the availability of government subsidised public housing, it has become increasingly difficult for them to upgrade to higher-end housing.

Meanwhile, Chinese nationals that do not qualify to buy real estate under Singapore's law, have turned to property rentals instead, contributing to more than a tripling of the yearly rental costs of some high-end properties.

Higher prices are felt in other areas as well. While Singapore's overall inflation in February 2023 was 5.5 per cent, which is already one of the highest in ASEAN, its food inflation reached 8.5 per cent. The higher prices caused by the huge influx of capital, especially from China, not only raise the cost of living, but could also potentially feed xenophobia and damage Singapore's reputation as a racially and religiously harmonious society.

Political Implications of the China-US Rivalry

The core dynamic of the China-US rivalry is a grand strategic competition between a rising power and the reigning hegemon. In this competition, China fears US containment and encirclement, and actively seeks to thwart Washington's political standing in the region.

While China already has substantial influence on several Southeast Asian governments (for example, China has secured exclusive rights to Brunei's enormous oil and gas reserves, and acquired dual-use infrastructures in Cambodia), it actively attempts to increase its advantage through information manipulation and online trolls.

Media studies indicated that China has also attempted to influence Indonesia's

elections by spreading selected information online, censoring material critical of China in the acquired Indonesian news aggregator app Baca Berita and controlling local telecommunication providers through Chinese investments.

As the rivalry between China and the US intensifies, there is expectation of increased level of Chinese influence enterprise, leveraging Chinese economic dominance, in the domestic politics of Southeast Asian countries.

Options for Economic Security of Southeast Asia

Increasingly, the China-US rivalry has become a battle of ideology and many in the US policy and academic community are envisioning building “a community of democracies” to resist China’s expansion of influence in Southeast Asia. For countries in the region, any abrupt turn from neutrality to an alignment with the US would inevitably cause serious damage to their relationship with China.

Notwithstanding this, the democracies of Southeast Asia should gradually reduce their economic dependence on China. In this regard, they could learn from Mongolia’s “third neighbour” policy, which seeks to reduce the country’s economic dependence on both its neighbours, China and Russia, by restricting investments from them while actively seeking investments from other countries. Whether the private-sector investors will respond to such an approach will depend on the relevant policy for FDI, meaning that Southeast Asian governments need to take a comprehensive and long-term stance in their respective domestic rules and legislation.

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