

China-US Economic Rivalry: Implications for Southeast Asia

Page 2-3

13th RSIS-WTO Parliamentary Workshop 2023

Page 4

Enacting the Security Community: ASEAN's Never-Ending Story

Page 5

Multilateral Matters: News Roundup

Selected Publications

Page 6

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Caught in the Major Power Rivalry: Can ASEAN Survive?



The geopolitical rivalry between major powers in the Indo-Pacific poses existential challenges to ASEAN. At the same time, it also creates strategic opportunities for ASEAN to attract more trade and investments. Of particular concern is whether the intensifying geopolitical tussle between the US and China will eventually force ASEAN member states to take sides. Image by kjpargeter on Freepik.

FEATURED COMMENTARY

China-US Economic Rivalry: Implications for Southeast Asia

By Jacque Gao



US and China are pursuing economic de-risking against each other for national security reasons. This provides an opportunity for ASEAN to benefit from the relocation of manufacturing companies, investment inflows and attraction of talent which can significantly boost ASEAN's economic security. Photo taken by Cryptocurrency News on Flickr.

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 Manufac-

turing 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

Continued on Page 3

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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13th RSIS-WTO Parliamentarian Workshop



Dr Said El Hachimi, Senior Counsellor, Head Parliamentary & IGO Partnerships and Outreach, delivers the Welcome Remarks on behalf of Dr Ngozi Okonjo-Iweala, Director General of the World Trade Organisation (WTO).

The S. Rajaratnam School of International Studies (RSIS) together with the World Trade Organization (WTO) and Temasek Foundation co-organised the 13th Annual RSIS-WTO Parliamentarian Workshop at the Singapore Marriott Tang Plaza Hotel on 15th-17th May 2023.

In session 1, speakers lauded the success of the 12th Ministerial Conference (MC-12) that included breakthroughs in fisheries subsidies. Negotiations on fisheries subsidies have been ongoing for the past two decades. The agreement on limiting illegal fishing activities can contribute towards effective ocean protection. Fisheries subsidies were further discussed in Session 4 whereby speakers urged member countries to strengthen support towards the WTO's initiatives in facilitating the pace of subsequent negotiations.

Session 3 focused on the WTO's pressing challenges. The intensifying geopo-

litical tensions between major powers resulting in reshoring efforts have eroded the multilateral trading system. Another challenge concerns with digital economy governance. The panellists argued that the lack of global digital trade rules is pushing countries towards negotiating and signing regional trade deals.

Session 5 explored avenues for WTO reforms to ensure its relevance in the 21st century. The legal doctrine of "Stare Decisis," which honours binding historical precedents and their applications for similar subsequent cases, was proposed as a remedy for trade dispute settlements at the WTO.

Digitalisation has elevated cross-border trade to an unprecedented scale. The speakers in Session 6 highlighted some pressing challenges such as cybersecurity and intellectual property issues that arise from rapid digitalisation. They encouraged lawmakers to make or amend rules to ease cross-border digital trade flows

and improve digital literacy skills to reap the benefits of the digital economy.

Session 7 discussed how to build a resilient global supply chain that could withstand future crises and crisis-related pressures. To achieve this, governments can foster greater synergies between transport hubs and increase states' support for micro, small, medium enterprises (MSMEs), so that the latter can contribute more meaningfully within the global supply chains.

The private sector's perspectives were also shared during the workshop. In Session 8, the speakers voiced their concerns about the domestic hurdles that international businesses are facing. They emphasised the need for governments to closely consult with MSMEs to further shape digital regulations to minimise business-related transaction costs as well as make the benefits of the digital economy more inclusive. To broaden business opportunities, governments

are encouraged to enhance sustainability regulations to optimise productivity and reduce energy consumption costs.

Session 9 conducted an extensive debate on the regional trade agreements (RTAs) versus the WTO. The panellists warned of the mutually exclusive view on this debate. Instead, they emphasised a positive symbiosis between these two frameworks in advancing international trade and preparing countries for the fast-changing world economy.

The last session focused on how small and developing countries enhance their leadership at the WTO. The panellists praised the roles played by small states in broadening trade cooperation at the Organization. They also explored new ways to measure the multi-dimensional vulnerabilities of states to better understand and address the challenges facing small and developing nations in a more nuanced way. ■

Enacting the Security Community: ASEAN's Never-Ending Story



Dr Stéphanie Martel, Assistant Professor at Queen's University, Canada, talks about the role of discourse in shaping the ASEAN Security Community.

On 6 June 2023, the Centre for Multilateralism Studies (CMS) hosted a seminar titled "Enacting the Security Community. ASEAN's Never-ending Story." Dr Stéphanie Martel, Assistant Professor from the Department of Political Studies at Queen's University, Canada, presented research from her new book which examined discourses of the ASEAN Security Community.

Dr Martel observed that existing studies on ASEAN stem mainly from mainstream international relations approaches such as realism and constructivism. Other methods, particularly the practice turn and discourse analysis, have been rarer. Dr Martel argued that language allows political actors to make sense of reality, shapes identities, and influences their behaviours on the international stage. Discourse analysis helped in uncovering multifarious and interwoven aspects of "meanings-in-use" in the ASEAN Security Community.

According to Dr Martel, ASEAN elites, non-state actors, and others engaged in contested discourse, played an instrumental role in realising the security community. To her, the ASEAN conception of "security community" constitutes a constellation of discourses, making it polysemic and highly contentious in nature.

Dr Martel analysed the ASEAN Security Community in three aspects. The first is the notion of "non-traditional security" which focused on ASEAN's collective responses towards challenges such as climate change, drug trafficking, and maritime piracy.

The second part tackled traditional security, which largely entailed how ASEAN seeks to preserve its centrality between major powers amid intensifying geopolitical competition for regional supremacy.

The third conception is ASEAN's "people-centred security" which

tended to focus on human development aspects such as women empowerment, poverty, and human rights.

Despite all three dimensions of the ASEAN Security Community having overlapping qualities, Dr Martel contended that these dimensions may also contradict one another depending on contexts. Yet, rather than being a weakness, this omnidirectionality served as a strategic asset, giving ASEAN flexibility in dealing with evolving threats in the region.

The seminar concluded with a Q&A session as Dr Martel engaged in a lively discussion with the audiences on the blind spots and implications of utilising an interpretive-based approach in analysing the ASEAN Security Community as well as the possibilities of whether ASEAN can harmonise these three aspects into a consistent framework of its security community. ■

Multilateral Matters: News Roundup

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For all the talk of hedging, Southeast Asian nations have long worried about China's ambition to dominate the region.

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Multilateralism in Uncertain Times

The Forum Network | 16 May 2023 | [Full Report](#)

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Southeast Asian skepticism toward the foursome is softening.

Can IPEF Protect Corporate Supply Chains?

The Diplomat | 12 June 2023 | [Full Report](#)

An IPEF agreement notwithstanding, companies in the Indo-Pacific will still be at risk of disruptions to their supply networks.

Reclaiming ASEAN's comprehensive and cooperative security

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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.

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