The Sino-American Conflict and ASEAN:
Surviving, Transforming, Succeeding
Conference Highlights

Thursday, 29 August 2019
Mandarin Oriental, Singapore
The Sino-American Conflict and ASEAN: Surviving, Transforming, Succeeding

Over the course of 2019, the trade war between the United States and China has intensified. Although negotiators from both countries are continuing to work towards a trade deal, there are growing concerns that the trade frictions are merely a symptom of increasing strategic competition between the two superpowers.

To help business leaders and policymakers understand the implications of the Sino-American tensions and how Asia is responding, the Singapore Institute of International Affairs (SIIA) held our 12th ASEAN and Asia Forum (AAF) based on the theme, “The Sino-American Conflict and ASEAN: Surviving, Transforming, Succeeding”.

The 12th AAF took place on Thursday, 29 August 2019, at the Mandarin Oriental, Singapore. The forum brought together over 200 senior corporate leaders, diplomats, academics, and members of the media.

The forum featured views from Mr Chan Chun Sing, Minister for Trade and Industry, Singapore, Dr Ong Kian Ming, Deputy Minister for International Trade and Industry, Malaysia, and experts from around the region.

Panellists at the 12th AAF agreed that the Association of Southeast Asian Nations (ASEAN) and other Asian economies need to continue moving forward with regional integration amidst the Sino-American tensions. This includes concluding the Regional Comprehensive Economic Partnership (RCEP) trade agreement, investing in infrastructure, and harnessing the digital economy.
“The external environment is increasingly volatile as geopolitical and trade tensions rise,” said Mr Chan Chun Sing, Singapore’s Minister for Trade and Industry, when he delivered his keynote address at the 12th AAF. The trade war between the United States and China has affected global growth and business confidence. Even if the two sides are able to reach an agreement on tariffs, the stage has been set for increased tensions and competition between the superpowers.

“The strategic lines of communications for China and the US intersect in Southeast Asia,” Mr Chan added. “If we position ourselves well, we will be the connector, appreciated by all. If we do not position ourselves well, we may soon come under pressure from all sides.”
The Probability of a Sino-American Deal

“I feel there will be a deal, ultimately, whether it is a face-saving deal or a more substantial deal,” said H.E. Ambassador Curtis Chin, Senior Asia Fellow at the Milken Institute and the former US Ambassador to the Asian Development Bank, commenting on the likely outcome of US-China trade talks.

Ambassador Chin expressed optimism that the US and China will be able to establish a more balanced relationship, going forward. “For me, this conflict isn’t necessarily a bad thing – if it leads to China and the United States rebalancing that relationship. The reality was that how things were evolving could not be sustained.”

H.E. Ambassador Curtis Chin
Senior Asia Fellow, Milken Institute; and former US Ambassador to the Asian Development Bank

However, Professor Shen Dingli from the Institute of International Studies at Fudan University was more pessimistic. Prof Shen suggested that China might wish to wait out the trade war, and instead deal with President Donald Trump’s eventual successor. “We have vast domestic consumption, almost 6 trillion USD a year. That would be enough of us to compensate for the inability to increase our exports to the US. China can stimulate its domestic consumption and investment, [and] wait for the next US President.”

Professor Shen Dingli
Institute of International Studies, Fudan University

“What is occurring at the moment is trade diversion and change in supply chains,” said Mr Kazumasa Kusaka, Chairman and CEO of the Japan Economic Foundation, and a former Japanese Vice Minister of Economy, Trade and Industry. Mr Kusaka pointed out that even home-grown Chinese companies are shifting some of their manufacturing out of China due to American import restrictions.

Mr Kusaka was speaking at the first panel session of the forum, “The Hatakeyama Dialogue: Navigating the Trade War – Regional Implications of the Sino-American Tensions”, held in honour of Mr Noboru Hatakeyama, another former Japanese Vice Minister of Trade, in recognition of his contributions to ASEAN-Japan relations and regional economic integration.
Responses from ASEAN and Asia

The trade war has created both opportunities and challenges for ASEAN. While the manufacturing sectors in some ASEAN countries have benefited from companies shifting production out of China, other economies have taken a hit.

“ASEAN must maintain and strengthen its centrality,” Mr Chan said. “We will need to redouble our integration efforts to be a viable and attractive partner amidst a fragmenting world.”

“The greater the uncertainties, the greater the opportunities for ASEAN to distinguish ourselves. But that is provided we can band together, tackle the tough integration issues and leverage new growth areas to make us an attractive proposition for partners beyond ASEAN,” Mr Chan added.

In order to facilitate economic integration within ASEAN, Mr Chan stressed that the grouping must muster the political will to address non-tariff barriers. As part of this effort, ASEAN countries need to align their standards and regulations through mutual recognition initiatives, in areas such as food, medicine, and Intellectual Property.

It is also critical for ASEAN to forge strong external partnerships beyond Southeast Asia, such as through multilateral Free Trade Agreements (FTAs) like the Regional Comprehensive Economic Partnership (RCEP). The RCEP brings together the ten ASEAN members as well as China, Japan, India, South Korea, Australia, and New Zealand.

“Asian dynamism has always saved the world trade system when faced with challenges,” agreed Mr Kusaka. “Facing the risk of economic slowdown triggered by US-China friction, we are urged to work for an early agreement of RCEP, and Japan is in the role to lead it.” Japan was instrumental in reviving the Trans-Pacific Partnership (TPP) in its current 11-nation incarnation after the withdrawal of the US.

Navigating the Sino-American Tensions

“It does seem from a lot of signs that the issues are deep, broad, and long term,” remarked Associate Professor Simon Tay, Chairman of the SIIA. The SIIA released a Special Report on the trade war in conjunction with the 12th AAF, assessing the immediate impact of the tariffs and the long term implications. The Special Report forecasts a protracted period of Sino-American frictions, potentially persisting beyond the Trump administration.

“It’s not just about the trade numbers, it’s about technology, about broader competition, about companies, about strategic advantage, about the military elements,” Prof Tay explained. Therefore, ASEAN countries will need to work together with Japan and others in the region to ensure that Asia continues to prosper.
Investing in ASEAN’s Future:
Supply Chains, Infrastructure, and Digitisation

Both the US and China are important economic partners of ASEAN. But with the two powers embroiled in a protracted trade conflict, ASEAN countries need to consider how to respond strategically.

“ASEAN should take advantage of the US-China conflict to deepen our regional supply chain and to increase intra-ASEAN trade,” said Dr Ong Kian Ming, Malaysia’s Deputy Minister for International Trade and Industry. “There can be no better time than now for ASEAN countries to develop a sophisticated regional supply chain that can respond quickly and efficiently to major markets.”

Dr Ong was speaking on the second panel of the 12th AAF, on the theme, “Between the BRI and Indo-Pacific – How is ASEAN Responding?”

Foreign Direct Investment (FDI) is often seen as a zero-sum game where only one recipient country benefits, at the expense of its neighbours. However, Dr Ong believes that this is “short-sighted” and “too narrow a perspective to take”. He highlighted Dyson’s recent decision to move its headquarters to Singapore and build its electric car in the city-state as a “win-win” for the entire region, proving that investments in one country can have positive spill-over effects (Note: Dyson announced on 10 October 2019 that it plans to shut down its electric car project due to concerns about commercial viability). While Dyson has a manufacturing base in Singapore, the assembly stages of some products would also take place in neighbouring manufacturing hubs in Malaysia and the Philippines.
“ASEAN has no choice but to stay together and get stronger,” said Dr Lili Yan Ing, the Lead Advisor on International Trade to Indonesia’s Minister of Trade. “We should improve the manufacturing sectors and domestic consumption, to improve our economies of scale.”

Aside from strengthening its development into a single production base, ASEAN is also growing into a major market for end consumers, with a population of almost 650 million people and with a total GDP of more than US$2.7 trillion, a significant market in and of itself. But the region needs investment in infrastructure in order to maintain its growth momentum.

**Strengthening ASEAN’s Connectivity**

In 2017, the Asian Development Bank estimated that Asia requires US$1.5 trillion to US$1.7 trillion of infrastructure investment annually through to 2030. Current investment is only about a third of that figure. But Mr Jasper Wong, Head of Construction and Infrastructure, Sector Solutions Group, United Overseas Bank (UOB), said that financial institutions are ready to lend financing support. The problem is that many infrastructure projects have not been adequately assessed to ensure their viability.

“Infrastructure by itself is really a white elephant,” said Mr Wong. “When we look at projects, we cannot just look at it from a standalone basis. The planning, the viability, has to cut across all sectors in terms of trade, connectivity and collaboration. Only then will it make sense.”

The need to structure infrastructure projects properly has also taken on a political dimension amid Sino-American tensions, with the US and its allies questioning the transparency and bankability of projects under China’s Belt and Road Initiative (BRI). For its part, Beijing has acknowledged these concerns. At the Second Belt and Road Forum for International Cooperation in April 2019, China emphasised the need for fiscal and environmental sustainability in the BRI.

Dr Ong said there has been a “shift in the thinking of the Chinese government”, and cited the East Coast Rail Link (ECRL) in Malaysia as an example of how “a project can be renegotiated on a win-win perspective to ensure financial sustainability”. The cost of the rail link was reduced by nearly one third with only a slight reduction in overall length, while favourable terms such as greater involvement from domestic workers were introduced.
“[There’s] more openness [from] the Chinese, accepting ASEAN’s connectivity plan, I think this is a very good sign,” said Dr Panitan Wattanayagorn, a former security advisor to Thailand’s Deputy Prime Minister, and Associate Professor of International Relations at Chulalongkorn University.

Dr Panitan was referring to the Master Plan on ASEAN Connectivity 2025, which outlines ASEAN’s own infrastructure priorities. “[The] masterplan is a very good example of Thailand connecting [Cambodia, Laos, Myanmar, Vietnam] and the BRI,” he added, noting that Thailand is very keen to work with its neighbouring countries. “I think there is great opportunity.”

The Need for Digital Transformation

“The trade war has, in my view, accelerated the necessity to transform through digital,” said Ms Pimchanok Vonkorpon, the Director-General of the Trade Policy and Strategy Office in Thailand’s Ministry of Commerce. Singapore focused on the digital economy during its ASEAN chairmanship, and Thailand has also prioritised digitisation as the ASEAN chair for 2019.

In order to avoid being a victim of the trade war, Ms Pimchanok suggested that ASEAN enhance its intra-regional trade flows through the promotion of e-commerce and the platform economy, as well as services liberalisation to support sectors such as agriculture and manufacturing.

“The industrial economy that we’re familiar with, and geopolitical institutions, are built on supply chains that exist now,” said Mr Kiren Kumar, Assistant Managing Director, Economic Development Board (EDB), and Digital Industry Singapore. Economic models must therefore shift in response to the needs of the future.

Mr Kumar noted said there are “Three Ts” that ASEAN needs to address collectively: Talent, including dealing with job dislocation and improving human capital; Trade, rethinking what FTAs mean in a digital economy; and Trust, as countries must cooperate to facilitate seamless cross-border data flows and jointly deal with emerging issues such as artificial intelligence (AI).
Private companies across all sectors also recognise the urgency of digital transformation for ASEAN. "When we talk about digitisation and transformation, it’s not the future, it's now," said Ms Shyn Yee Ho-Strangas, Director for Global Product Management at Brand Expedia. She stressed that companies like Expedia are willing and able to work with different players to build the region’s digital economy. "Public-private partnerships are crucial to harness the Internet economy, particularly for ASEAN."

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Ms Shyn Yee Ho-Strangas  
Director, Global Product Management,  
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 Enterprises need to digitise processes and transactions, and harness the power of data into real insights," added Mr Vijay Motwani, Chief Operating Officer of SAP South East Asia. A study by Bain estimates that digital integration could increase ASEAN’s GDP by US$1 trillion by 2025. However, SAP’s research suggests that 40 per cent of ASEAN SMEs are struggling to adopt digital technologies. "For ASEAN to transform digitally, we need to transform the current and future workforce."

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The Digital Economy: Bridging Common Interests

Ms Pimchanok acknowledged that the ASEAN countries each have different development priorities. For example, Indonesia is emphasising physical infrastructure and connectivity, while Thailand is hoping to grow its biotech industry. But the push to adopt digital processes cuts across a wide range of sectors. "I believe that the digital economy is something that can combine our interests together," she said. "ASEAN is in the process [of] making it work."

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Highlights:
The 12th ASEAN & Asia Forum

Profile of Participants

Participants by Sector

Total percentage does not add up to 100% due to rounding

Finance and Services: 37%
Government and Embassies: 14%
Manufacturing, Technology, and Logistics: 19%
Associations, Chambers, and Trade Offices: 8%
Academic, Think Tank, and NGO: 8%
Others: 13%

Media Highlights

1. "Asean must enhance connectivity to stay relevant: Chan Chun Sing", Channel NewsAsia, 29 Aug 2019, Asia Now
2. "Live Interview with panellist, Dr Lili Yan Ing", Channel NewsAsia, 29 Aug 2019, Asia Now
5. "陈振声：让世界各地保持互通 能提升亚细安重要性", Lianhe Zaobao, 30 Aug 2019, Page 8
About the Singapore Institute of International Affairs

Established in 1962, the Singapore Institute of International Affairs (SIIA) is a non-profit and independent think tank committed to producing policy analysis, fostering in-depth dialogues and bridging gaps between policymakers, private sector decision-makers and experts to shape public policy and social responses. Centred around ASEAN focused themes, the institute aims to deliver policy analysis in international affairs and on issues driving environmental sustainability. The SIIA has been consistently ranked as one of the leading think tanks in Southeast Asia and the Pacific, in the Global Go-To Think Tank Index by the University of Pennsylvania. Since 2017, the SIIA was ranked the No. 1 independent think tank in Asia. It was also recognised as one of the top 50 think tanks globally, excluding the United States of America.

About the ASEAN and Asia Forum (AAF)

The AAF is the SIIA’s flagship event. It is ASEAN’s platform for participants to better understand the region’s political, economic, and strategic challenges, as well as their implications for businesses. The annual Forum draws more than 200 high-level corporate leaders and policymakers each year, and encourages open dialogue and networking among regional stakeholders.