

The Securitization of Trade Policy and ASEAN's Supply Chains

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The Birth of Global Supply Chains in ASEAN

- Although ASEAN-Japan economic relations is multi-faceted, the growth and spread of GVCs/GSCs in ASEAN has come to define it in many ways
- ASEAN's GSCs would not have been possible without technological breakthroughs that enabled 'slicing of the value chain' – necessary condition
- ASEAN's GSCs developed in response to US-Japan trade tensions resulting in the Plaza Accord and *endaka*.
- Loss of competitiveness at home, cheap assets overseas (strong Y), & opportunity to report bilateral surplus elsewhere
- In addition, policy reforms supported GSC growth and spread - unilateral liberalization rather than FTAs (Baldwin, Vezina)

GSCs are continuously restructuring

- There have been changes to GSCs in ASEAN since the initial investments by Japanese MNCs
- By their very nature, GSCs are dynamic beasts, continuously evolving - restructuring and relocating is their lifeblood.
- A small change in cost competitiveness can result in entry or exit of L-intensive segments of GSCs .
- Recent restructuring started before the trade war, COVID-19, or GFC, with rising wages and tightening of environmental rules in China.

The Future of Global Supply Chains in ASEAN

- ASEAN's GSCs are now China-centered and likely to remain so
- The escalation in US-China tensions is a major disruptor
- Attempts to drag ASEAN into this great power competition through mechanisms like IPEF is a concern.
- The rise in protectionism and anti-globalisation sentiment is having real effects
- Economic nationalism translating into export controls and subsidies to increase self-reliance in the name of resilience
- Reshoring, near-shoring and friend-shoring: short-term gains for some but potentially larger long-term losses for all

A Tale of Two Trade Wars: 1. External



A Tale of Two Trade Wars: 2. Internal



The Internal Trade War: Commerce vs USTR

- US trade policy now driven by Commerce not USTR - political and national security focus.
- Unlike USTR, whose mission is to promote trade and investment through liberalization, Commerce is focused on the defense and promotion of US companies and the protection of US technologies
- But private sector itself has raised concerns
- Nvidia, Intel and Qualcomm, world's largest chip makers have pushed back against US export controls due to concerns over restricted access to the Chinese market, which forms a significant share of revenue

Addressing International Distortions

- The CHIPS Act and ban on superchips to Chinese firms affects EVs and AVs produced in China (All AVs are EVs b/c of more stable power source).
- This will reverberate throughout ASEAN supply chains, because they are China-centered.
- ASEAN could benefit from friend shoring if it had access to IRA subsidies – only FTA partners, or limited FTA on critical minerals – PH, IND trying
- Currently, IRA distortions indirectly hurt Indonesia and other non-FTA countries by diverting trade.
- Even Germany and EU countries involved in EVs negatively affected by IRA subsidies.

Addressing International Distortions

- IPEF – long-awaited US attempt to re-engage economically with the region after pulling out of TPP.
- But any supply chain agreement without China is greatly devalued, for ASEAN.
- Any supply chain agreement that aims to isolate China could be highly disruptive and costly.
- ASEAN's China-centered supply chains cannot be easily reversed or reconfigured.
- The trade war is having direct and indirect effects, including negatively affecting the green transition

Thank you for listening!

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