

US-China Rivalry & the New Geopolitics in ASEAN



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In Focus:

China is expanding her naval defense forces and perimeters in the South China Sea.

ASEAN has becoming increasingly complementary with China.

Aging demographics will slowly shift China's ideological centre away from nationalism and conservatism.

ASEAN is at the strategic crossroad between the Indian and Pacific Ocean and it's at the epicentre of US-China geopolitical rivalry. China's economic relationship with ASEAN has become largely complementary since 2010. ASEAN is now the largest trading partner of China, overtaking the US and the EU. While President Xi and his proteges are likely to dominate the People Standing Committee in 2022 to 2027, he is facing criticism for his Maoist style. Over the long term, there could be greater pressure towards a softer form of authoritarianism. Shared **Dr. Tan Kong Yam**, on a wider perspective of the US-China rivalry from the geopolitical, and not just the economic, angle.

China's GDP is Concentrated in the Coastal Provinces



Source: National Bureau of Statistics, China

China's stripe of coastal provinces constitute over half of its GDP and its navy is weak relative to the US. China has been reclaiming islands in the South China Sea and installing missiles there to establish its forward defense. This has increased tensions with ASEAN. The extension of the defense perimeter towards the first island chain is also crucial for China in case there is military conflict in Taiwan.



Source: Andrew S. Erickson, "Maritime Numbers Game: Understanding and Responding to China's Three Sea Forces," Indo-Pacific Defense Forum Magazine 43:4, Dec 2018

China's opening and rapid growth has squeezed ASEAN's industrialization in its early stage of development as it has sucked away FDI as well as overtaken ASEAN in its exports to the OECD markets. But China has moved towards the middle-income group, penning the space for ASEAN countries such as Indonesia and the CLMV to attract investments and grow their exports.

China and ASEAN: From competition to complementarity since 2010



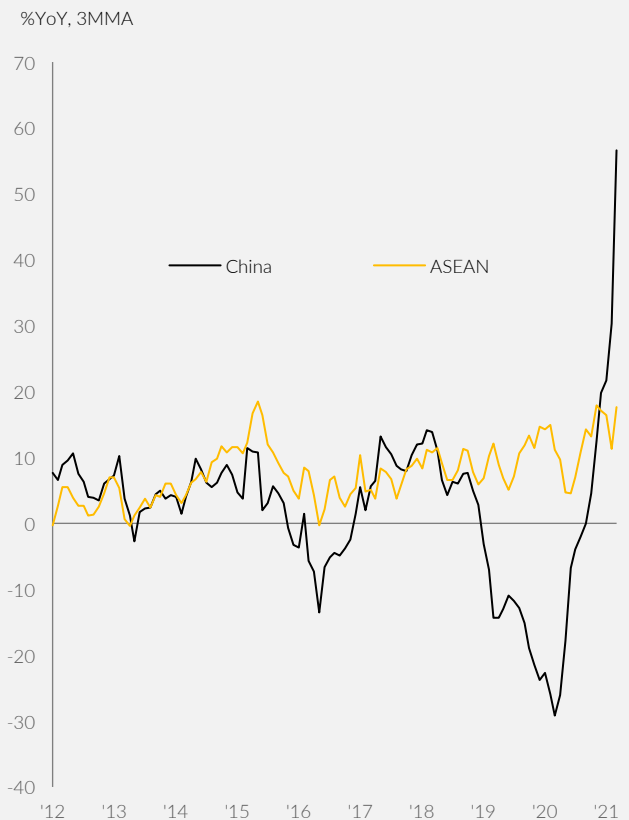
Source: The Economist

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Rising US imports from ASEAN vs. China



Source: CEIC

With rising wages, the US-China trade and tech war, as well as China's rapid industrial upgrading, ASEAN has become increasingly complementary with China. In 2020, for the first time since China's reforms, ASEAN became its largest trading partner, while the EU is second, followed by the US. China is increasingly focused on cultivating the ASEAN and EU markets to counterbalance the pressure from the US.

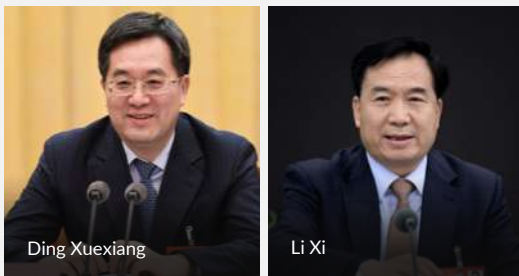
What is the likely composition of China's Politburo Standing Committee for 2022-27?

Dr. Tan expects about 5 to 6 of President Xi's key proteges to be promoted to the Politburo Standing Committee in 2022. They include Chen Miner, Li Qiang, Ding Xuexiang and Lixi. This will greatly strengthen Xi's position in the party.

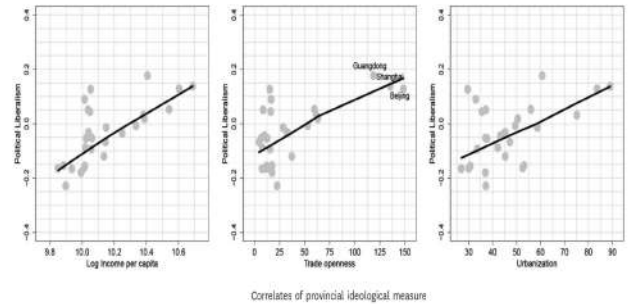
It is likely that the present Vice Premier Hu Chunhua, who belongs to the Hu Jintao faction, could be promoted to the Committee and become the Premier. This is because the other factions (Hu Jintao and Jiang Zemin) will throw their support behind Hu Chunhua.

China's changing demographics will shift the ideological centre of gravity. A major survey of about 170,000 people conducted by Beijing University a few years ago show that the younger generation are more liberal, and reformist compared to the older generation who are more nationalistic and conservative, like President Xi and his key allies. It is likely that over time, China's ideological centre of gravity will become less nationalistic and conservative with urbanization, education and aging demographics.

The new leaders of of China's Politburo Standing Committee?



Will the liberal wave catch up with China?



Source: Pan and Xu (2017)

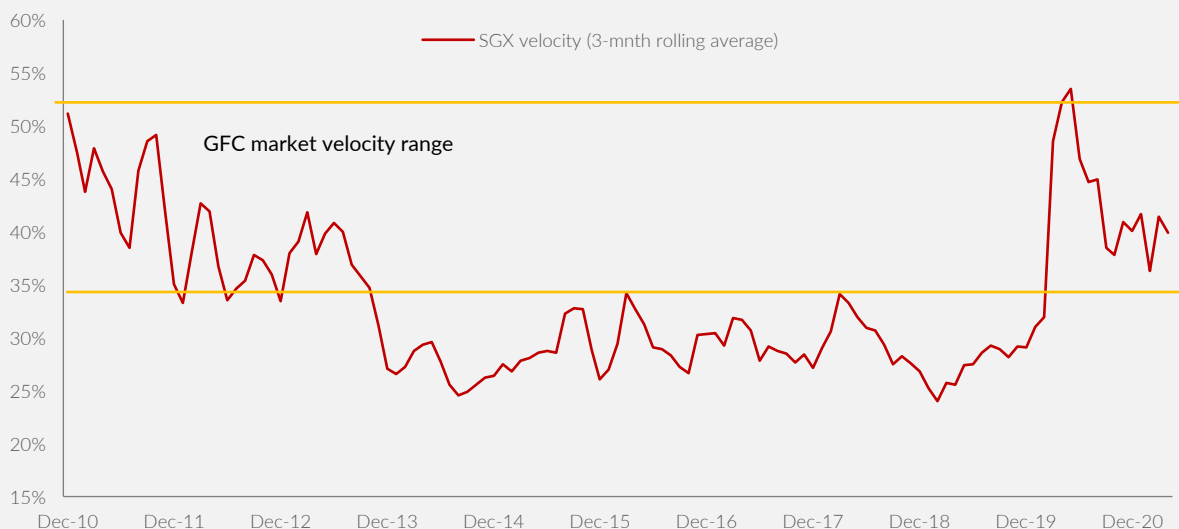
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 Semiconductors will increasingly become the epicenter of the US-China rivalry as historically, the tech dominant country has the strongest economy and the strongest military.
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Source: Reuters, People's Daily, HK01, Duowei News, AFP/Mark Ralston

Singapore

Recovering & Transforming

Singapore Market Velocity



Source: SGX

Singapore's market turnover velocity (the value of stocks traded relative to the market cap) has reached levels last seen during the Global Financial Crisis (GFC). This new boost coincided with the start of the Covid-19 pandemic.

Several parallels exist between then and now: the global economy was facing significant uncertainty, while governments and central banks launched aggressive stimulus schemes.

Singapore's own actions to minimize the fallout accorded it a safe-haven status. Subsequent to the GFC, market velocity saw a tumble and flat-lined for 7-8 years as interest and liquidity shifted to higher growth markets in ASEAN and North Asia.

Singapore's current handling of the Covid-19 pandemic (it is ranked #2 on the Bloomberg COVID Resilience Index) and strong stimulus measure (20% of 2020 GDP) has reaffirmed its safe-haven status.

However, we believe the current boost to market activity is not just a derivative of flows to safety. It is structural. Higher retail investor participation in line with global trends is a contributor. With high levels of liquidity and traditional investments such as property impacted by cooling measures, equities are regaining interest with this group.

Separately, Singapore's growth stocks have outperformed its value counterparts by 66% YTD. Rising inflation fears, relaxing COVID restrictions and the MAS forecasting upbeat growth, we believe a rotation towards value stocks should gather pace. This should further support market momentum.

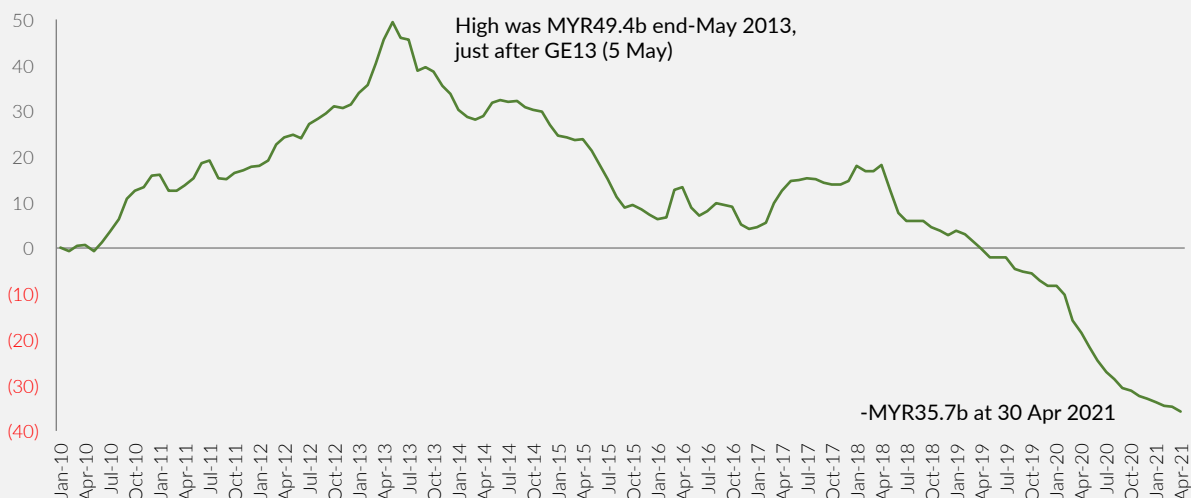
A number of Singapore's government-linked companies and conglomerates, including Capitaland, Singtel, Jardine Group and Keppel, have announced restructuring exercises as a response to changes in operating conditions (partly due to COVID-19) and valuation discounts compared to peers listed elsewhere. More announcement are likely, and we believe this could drive further interest in the market under a 'restructuring' theme.

Finally, the MSCI Singapore is including US-listed SEA – an e-commerce and financials play – as a constituent. Additional technology and new economy inclusions are possible, in our view. This brings the composition of Singapore's indexes closer to its newer economic drivers – infocomm, precision manufacturing, pharma and wealth management etc, – versus the 'old world' corporates in banking, property and telcos that currently take up the larger slice of the index. This could increase Singapore's relevance from an ASEAN regional growth standpoint, which should drive more inbound liquidity – further supporting a higher market velocity.

Malaysia

No Quick Fixes

Cumulative Monthly Foreign Net Buy/Sell, since 2010 (MYR b)



Source: Bursa Malaysia , Maybank Kim Eng

With only some modest, temporary reversals, foreign net selling of Malaysian equities has been unabated since 2013, and the cumulative net sell since 2010 stands at MYR35.7bn as at end-April 2021. Unsurprisingly, foreign shareholding in Bursa Malaysia has also declined steadily, and was at 20.3% as at end-March 2021, similar to the GFC low of 20.3% in 2009 and well below the 25.2% peak in mid-2013, after the 13th General Elections.

Reasons for this continuous downtrend are multiple, the most important of which being as follows:

- Malaysia's sharply reduced weightings in global equity indices as faster-growing, large new emerging markets like China and India muscle in – for e.g. Malaysia's weightage in the MSCI Emerging Markets Index has plummeted from a high of almost 20% in 1994, to 1.76% in 2020
- Trapped domestic liquidity, especially relating to government-linked investment companies (GLICs) like EPF and PNB, which perpetuates high market valuations and has the negative knock-on of weakening corporate governance discipline
- Dominance of poorly-managed government-linked companies (GLCs) with low profitability that accentuate Malaysia's "middle income trap" issues, i.e. being "old economy"-dependent, with correspondingly weak earnings growth prospects

- Accelerated erosion of Malaysia's historical political stability premium since the 1MDB scandal in 2015, and subsequent frequent changes in government and related policy priorities
- Negative sustainability/ESG-related developments across major market sectors such as plantations, oil & gas, power generation and manufacturing

Is a lasting positive reversal in foreign shareholding trend possible?

Not impossible, but there are no quick fixes. The biggest boost, in our view, would come from sharply reducing the dominance of GLCs and GLICs which, by reversing the crowding out of the far more efficient private sector, would improve the market's profitability and governance metrics, as well as valuations, liquidity and free-float.

Incentivising the IPO of "new economy" stocks, not just tech but also sustainability-linked industries like renewable energy and recycling, would also help.

Concerted government and regulatory action to draw a line under Malaysia's current negative ESG headlines and expedite implementation of best-practise sustainability reporting, processes and practices would be a draw for the rapidly-growing pool of sustainability-themed AUM globally.