

Greater China-ASEAN

11 December 2024

Highlights

November is shaping up to be dominated by the outcome of US elections, with tariffs likely to remain a central theme for the Greater China and ASEAN regions in the coming months. In response to the potential economic challenges posed by tariffs, both regions are poised to strengthen their cooperation.

In October 2024, ASEAN and China successfully concluded the negotiations for the ASEAN-China Free Trade Area (ACFTA) 3.0 upgrade. The upgraded agreement aims to modernize and enhance the existing trade framework by deepening commitments in traditional areas while introducing new domains of collaboration, including the digital economy, green economy, supply chain connectivity, competition and consumer protection, and support for micro, small, and medium enterprises (MSMEs).

A cornerstone of ACFTA 3.0 is its digital economy framework, which offers strategic solutions to mitigate the adverse effects of tariffs that have disrupted conventional trade flows and increased supply chain costs. The agreement promotes closer collaboration to bolster supply chain resilience through digitization and connectivity, enabling China and ASEAN countries to manage tariff-induced disruptions more effectively. By streamlining production, inventory, and delivery processes, ACFTA 3.0 enhances the ability of both regions to adapt to evolving global trade dynamics.

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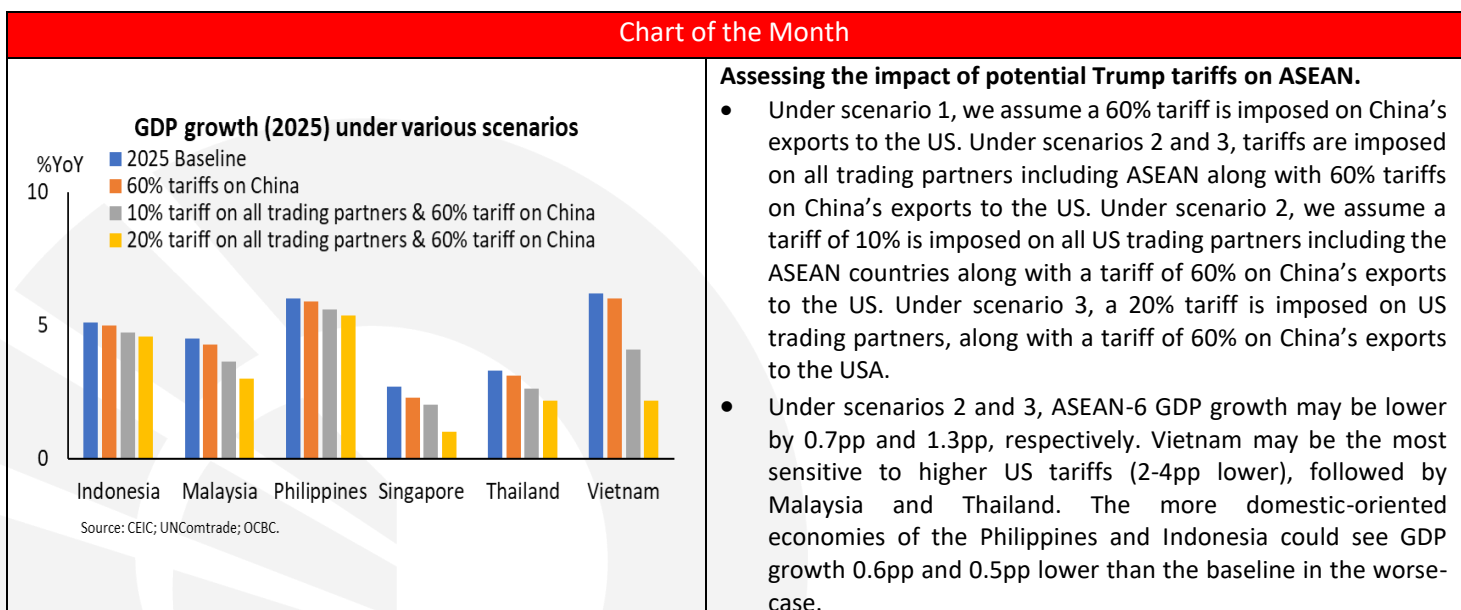
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Chart of the Month



Assessing the impact of potential Trump tariffs on ASEAN.

- Under scenario 1, we assume a 60% tariff is imposed on China's exports to the US. Under scenarios 2 and 3, tariffs are imposed on all trading partners including ASEAN along with 60% tariffs on China's exports to the US. Under scenario 2, we assume a tariff of 10% is imposed on all US trading partners including the ASEAN countries along with a tariff of 60% on China's exports to the US. Under scenario 3, a 20% tariff is imposed on US trading partners, along with a tariff of 60% on China's exports to the USA.
- Under scenarios 2 and 3, ASEAN-6 GDP growth may be lower by 0.7pp and 1.3pp, respectively. Vietnam may be the most sensitive to higher US tariffs (2-4pp lower), followed by Malaysia and Thailand. The more domestic-oriented economies of the Philippines and Indonesia could see GDP growth 0.6pp and 0.5pp lower than the baseline in the worse-case.

China:

When it comes to Trump's trade policies, there are both "knowns" and "unknowns." The "known" is that higher tariffs are a near certainty under his administration. The "unknowns" center around the implementation and strategic objectives of these tariffs. For ASEAN countries, China's reaction to trade war 2.0 matters.

During Trade War 1.0, China adopted a "trading time for space" strategy, offering concessions to mitigate Trump's intentions. However, in Trade War 2.0, with a clear willingness to employ tariffs, this approach may no longer be effective. Instead, China may target Trump's capacity to wage a prolonged trade war, with U.S. inflation emerging as a critical vulnerability. In the near term, targeting U.S. inflation could prove to be an effective countermeasure. We believe China's response could focus on two key areas: expanding domestic demand and reducing subsidies for overseas consumers.

The prevailing market consensus anticipates significant RMB depreciation during an intensified trade war, with some forecasts suggesting USDCNY could reach 8. However, RMB depreciation effectively subsidizes U.S. consumers by offsetting the inflationary effects of tariffs. This dynamic undermines the strategic value of tariffs and reduces China's leverage.

A stable RMB might better serve China's interests in Trade War 2.0 by preserving its ability to export inflation while minimizing domestic economic disruptions. However, exporting inflation would likely create global ripple effects, exacerbating challenges for other economies and heightening market volatility.

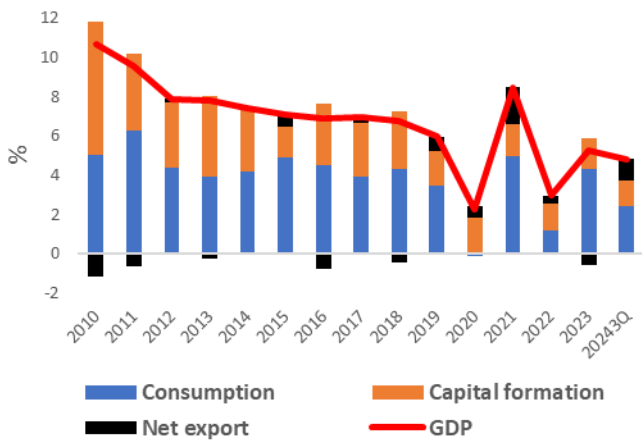
Key cooperations between China and key ASEAN countries in November 2024	
4Nov	State Visit of Malaysia PM Anwar to China: PM attended the 7th China International Import Expo. Malaysia and China signed multiple agreements to boost cooperation in sectors such as technology, digital economy, and green development. Both countries agreed to jointly nominate the lion dance for UNESCO intangible cultural heritage status, highlighting deep cultural connections.
7Nov	Singapore's Energy Market Authority signed a preliminary agreement with PetroChina International to strengthen expertise in liquefied natural gas supply and management
9Nov	State Visit by Indonesia President Prabowo Subianto to China: The leaders agreed to elevate their comprehensive strategic partnership, focusing on sectors such as security, economic development, and cultural exchange.
10Nov	China and Indonesia signed deals worth \$10 billion, targeting areas like new energy, technology, and biotechnology in Beijing.
11Nov	China and Indonesia reached a consensus on joint development in areas of overlapping claims in the South China Sea.
11Nov	In the 20th Joint Council for Bilateral Cooperation (JCBC) Meeting, China and Singapore signed 25 agreements to enhance collaboration in areas such as trade, finance, and maritime activities.
13Nov	China's Greater Bay Area and ASEAN signed 15 contracts worth CNY29.9 billion in the second Annual GBA and ASEAN cooperation forum.
14Nov	China and Thailand leaders met in APEC meeting, agreeing to accelerate the construction of the China-Thailand Railway and to expand cooperation in emerging fields such as new energy, digital economy, and artificial intelligence.

Key Economic Indicator Forecasts:

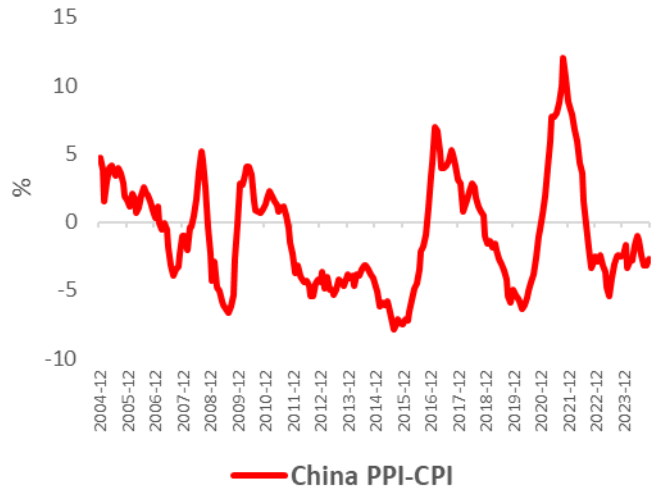
	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	17814.3	17925.2	17900.3	183886.3	192230.9	205179.8
GDP per capita (USD)	12613.2	12693.4	12688.8	13041.6	13633.4	14551.8
GDP (% YoY)	8.5	3.0	5.2	4.9	4.8	4.6
Exports (% YoY)	28	6.9	-4.7	5.1	2.6	-1.0
Imports (% YoY)	29.7	1.0	-5.5	2.0	2.0	0.0
Current Account Balance (% of GDP)	2.0	2.5	1.4	1.2	1.5	0.5
Unemployment Rate (%)	5.1	5.5	5.1	5.0	5.1	5.1
Headline CPI (% YoY)	0.9	2.0	0.2	0.4	1.5	2.4
M2 (% YoY)	9.0	11.8	9.7	7.6	7.8	7.5
1-Year Loan Prime Rate (LPR) (%)	3.80	3.65	3.45	3.10	2.70	2.70
Exchange Rate (USDCNY)	6.37	6.95	7.09	7.30	7.31	7.22

GDP growth

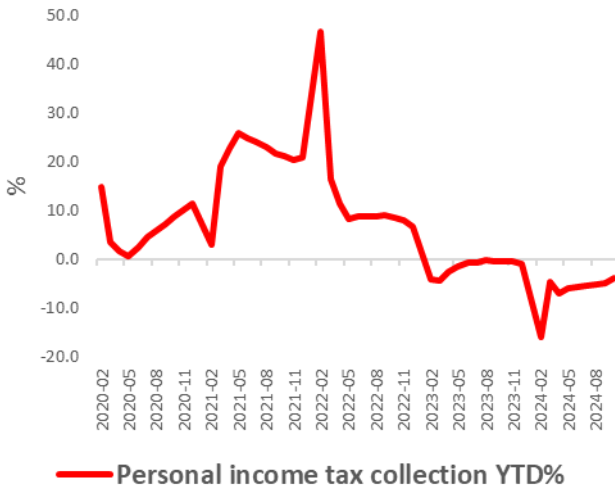
China's GDP growth by expenditure



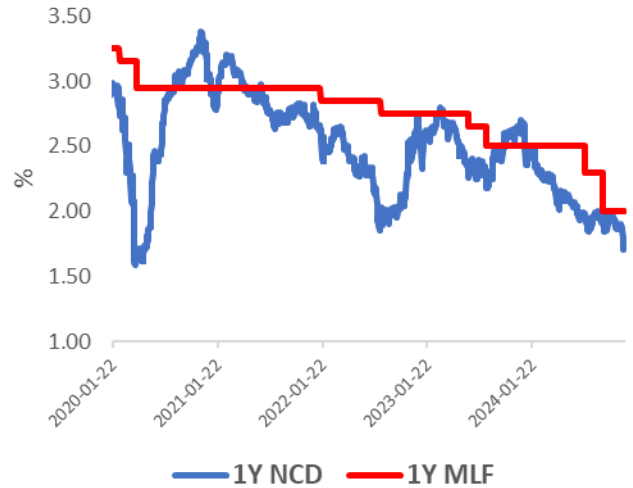
Inflation



Personal income tax collection



China's interest rate trajectory



Business expectation for manufacturing sector



Basic balance as % of GDP

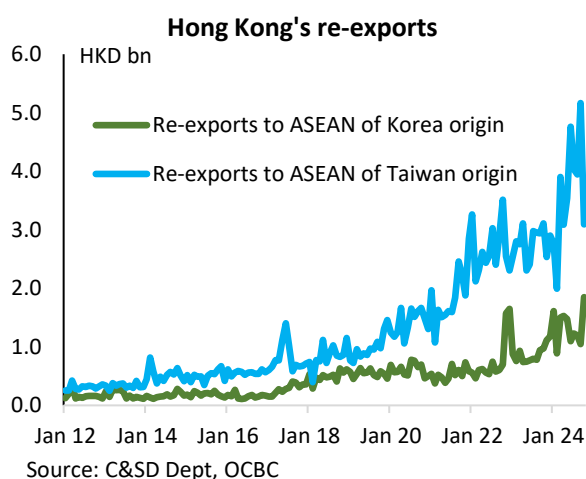
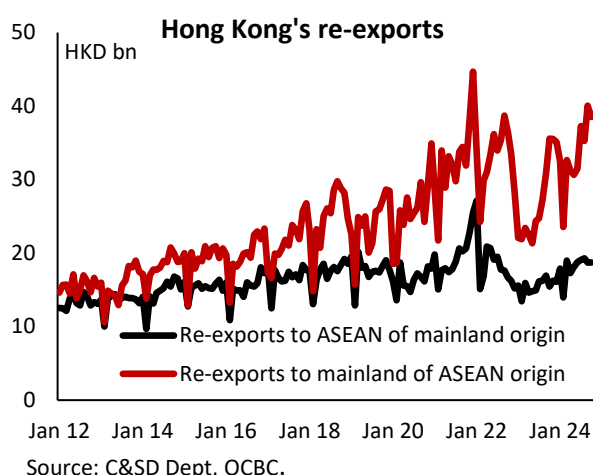


Hong Kong:

Riding the tide of closer regional economic collaboration, the volume of re-exports processed by Hong Kong for merchandise trades between ASEAN and other Asian economies continued to grow.

On ASEAN-China trade, Hong Kong remained a key gateway to mainland China, as the trade volume between the two sides grew substantially. Looking past the disruptions caused by the pandemic, Hong Kong's re-exports originating from ASEAN to mainland remained on a sharp uptrend. The figure surged by 31.2% YoY in the first 10 months of 2024, and exceeded the pre-pandemic level in 2018 by 35.6%. However, Hong Kong played a much less significant role as an entrepot for China's exports. Hong Kong's re-exports originating from mainland to ASEAN largely stagnated over the past couple of years, while its share over the total merchandise exports from mainland to ASEAN stayed flat at around 4-5%. Total re-exports originating from mainland China to ASEAN rose by 17.4% YoY in the first 10 months of 2024, but was merely 5.5% above the pre-pandemic level in 2018.

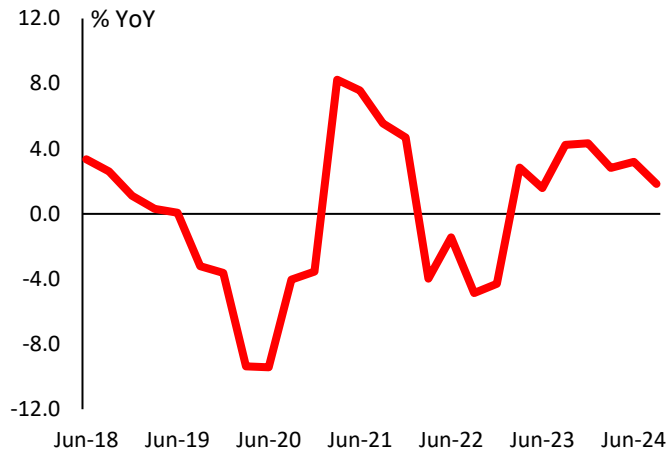
Hong Kong also had some success capturing regional trades between ASEAN and other Asian economies. In particular, there were growing re-export demands from Taiwan and South Korea to ASEAN economies. Total re-exports to ASEAN originating from South Korea and Taiwan via Hong Kong surged by 61.4% and 30.0% in the first 10 months of 2024, way above the growth trend of these two economies' direct merchandise exports to ASEAN economies.



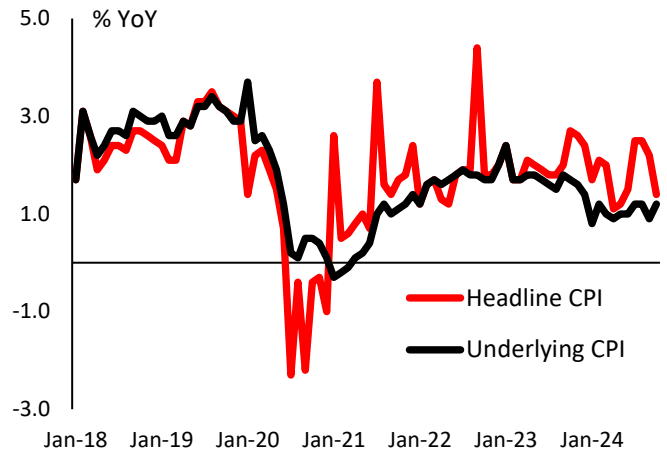
Key Economic Indicator Forecasts:

	2021	2022	2023	2024F	2025F	2026F
GDP (USD bn; current prices)	367.7	360.1	382.3	398.6	416.1	436.3
GDP per capita (USD; current prices)	49,600	49,023	50,723	52,933	55,251	57,934
GDP (% YoY; 2022 prices)	6.4	-3.7	3.3	2.4	2.2	2.5
Exports (% YoY)	17.0	-12.5	-6.6	11.6	3.0	6.0
Imports (% YoY)	15.8	-12.2	-5.4	7.3	2.2	4.5
Current Account Balance (% of GDP)	11.8	10.2	9.2	13.0	7.5	7.0
Unemployment Rate (%)	5.4	4.3	3.0	3.0	3.1	3.0
Fiscal Balance (% of GDP)	34.1	27.6	23.2	16.0	15.0	15.0
Headline CPI (% YoY)	1.6	1.9	2.1	1.7	2.0	2.3
M2 (% YoY)	4.3	1.6	4.0	7.0	7.5	8.0
Base window rate (%)	0.5	4.75	5.75	4.75	3.75	3.75
3-month HIBOR (%)	0.26	4.99	5.15	4.10	3.35	3.35
Exchange Rate (USDHKD)	7.80	7.81	7.81	7.80	7.79	7.79

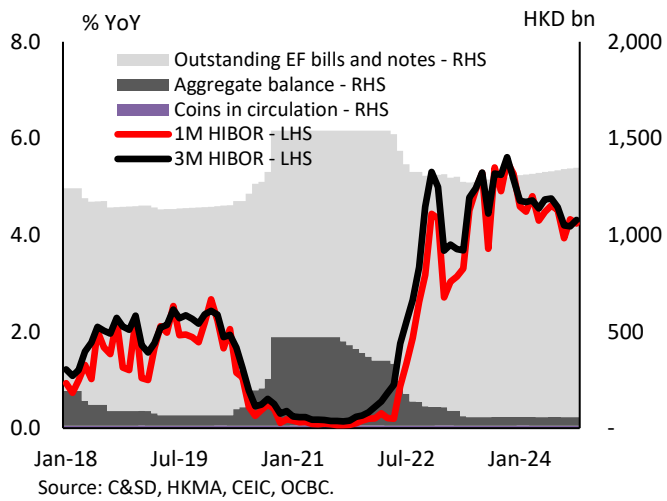
GDP growth



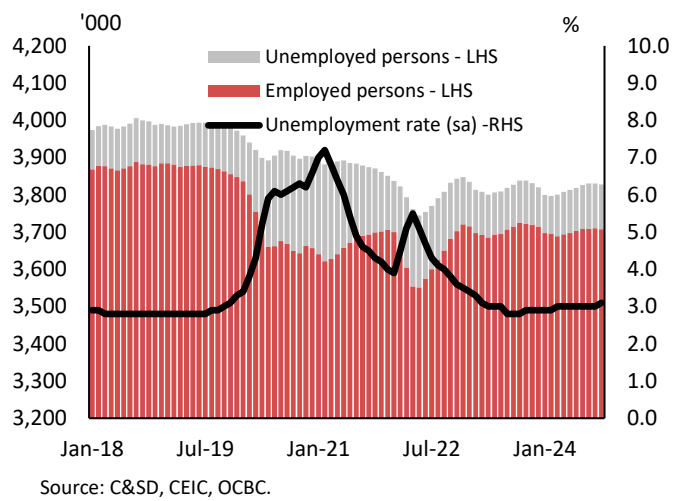
Inflation



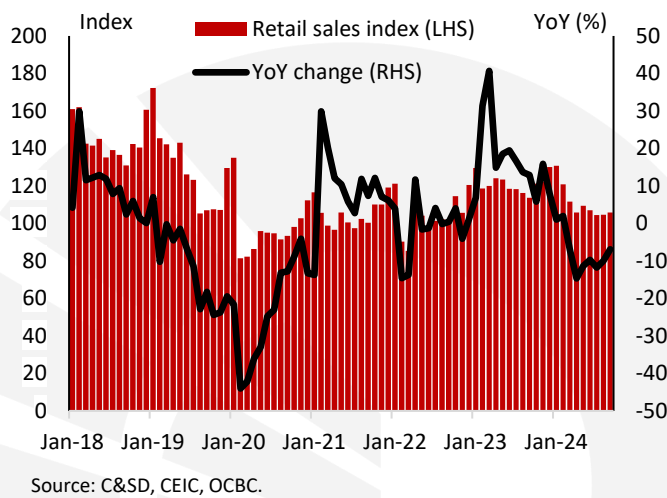
HIBORs and monetary base



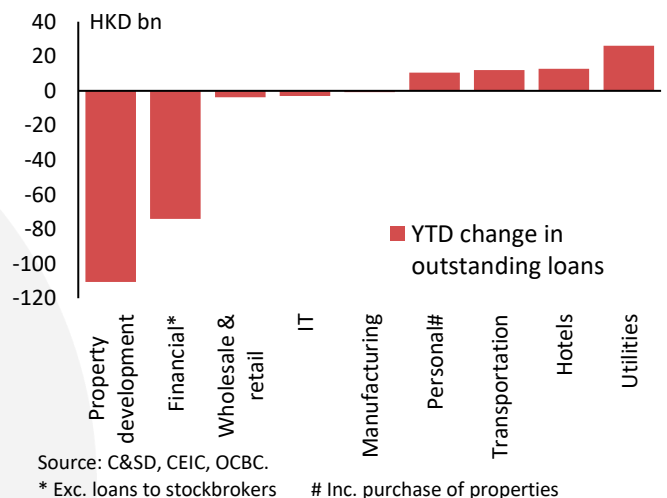
Labour market



Retail sales



Total loans and advances by sector

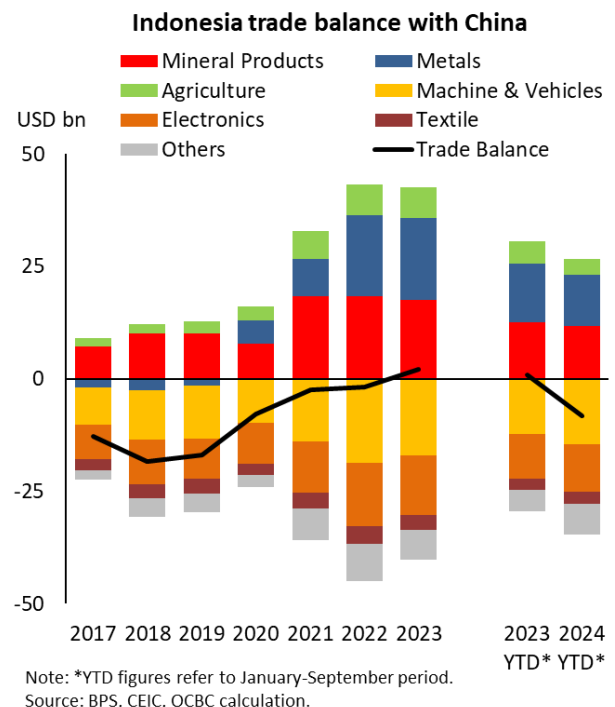


Indonesia:

Indonesia's strong relationship with China is clearly visible on the trade front. Year-to-September exports to Mainland China reached USD44.1bn, or 22.9% of total exports. The growth rate, however, is weaker (year-to-September growth at -6.5% YoY), reflecting subdued demand from China due to weaker growth fundamentals. On the other hand, imports from China were strong, having risen by 21.8% YoY in the 3Q24, up from 8.4% in 2Q24, bringing the year-to-September growth to 13.0% YoY. Consequently, the trade deficit with China widened to USD3.2bn in 3Q24, compared to USD2.1bn in the 2Q24, bringing the year-to-September deficit to USD8.1bn, versus a USD1.0bn surplus during the same period in 2023. Looking at the composition of the trade balance, Indonesia saw a notable surplus in mineral products (USD11.7bn) and metals (USD11.4bn) in the year-to-September period, in line with China's deepening role in Indonesia's downstream push. However, this was offset by a persistent trade deficit in machinery and vehicles (USD14.6bn), electronics (USD10.5bn), and textiles (USD2.7bn).

Nearly a third of Indonesia's FDI inflows, as measured by the Investment Coordinating Board (BKPM), are from Mainland China & HK SAR. These investments have been directed towards the manufacturing, transportation and storage sectors. The benefits have also become more evident in the minerals resources sector, where numerous Chinese firms have invested in this sector, in line with the government's priority to increase the value-add of the domestic resources sector. While the benefits in terms of increased trade and connectivity to China is clear, there is a risk of over-concentration from Indonesia's standpoint on China's FDI inflows.

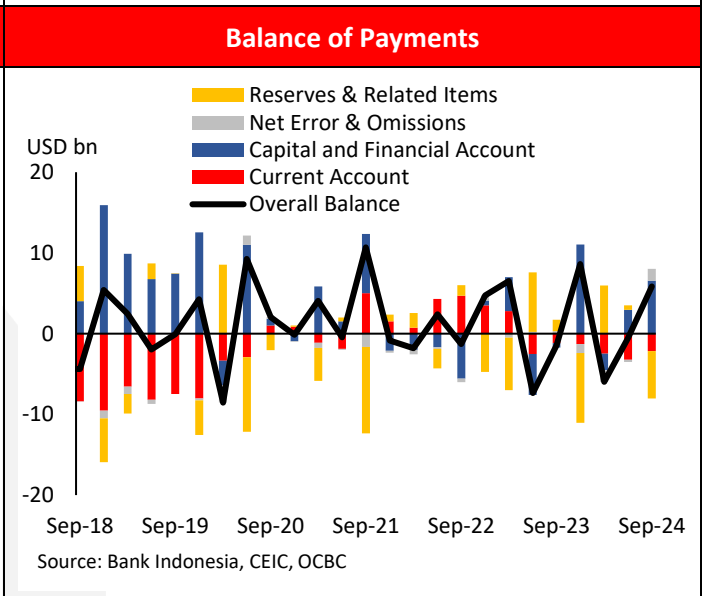
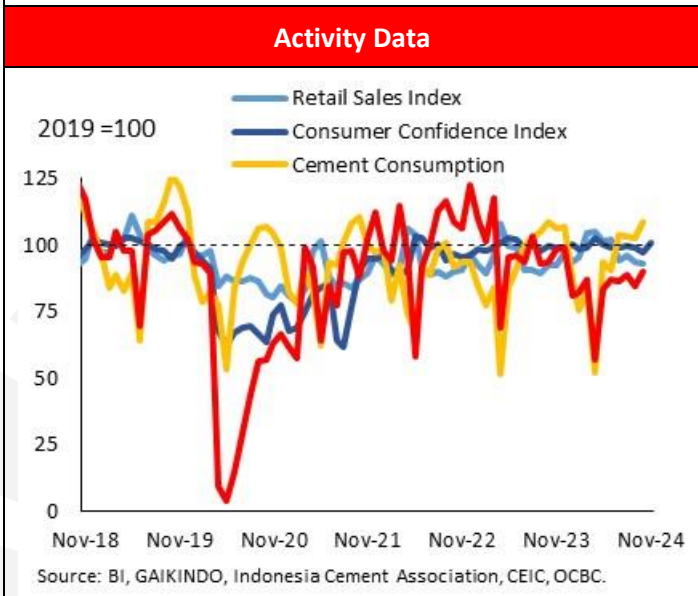
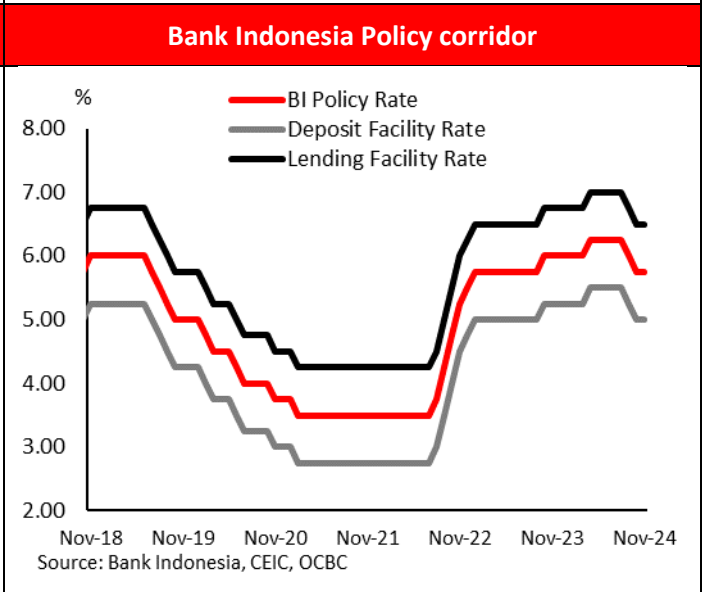
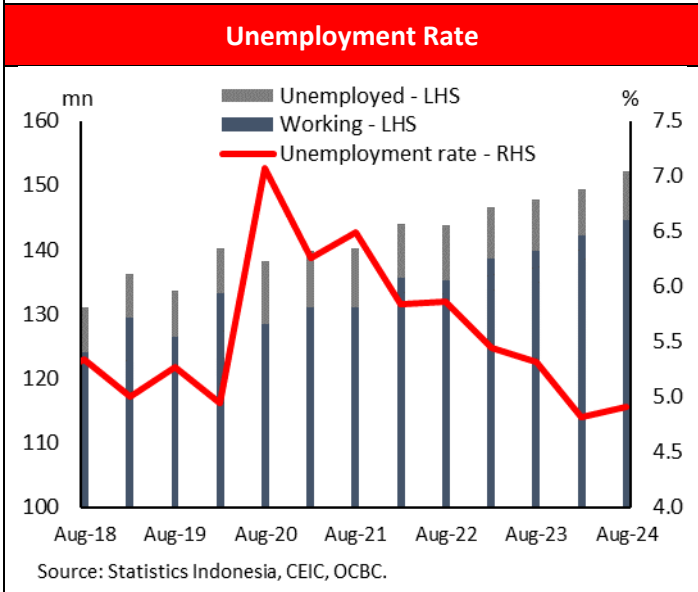
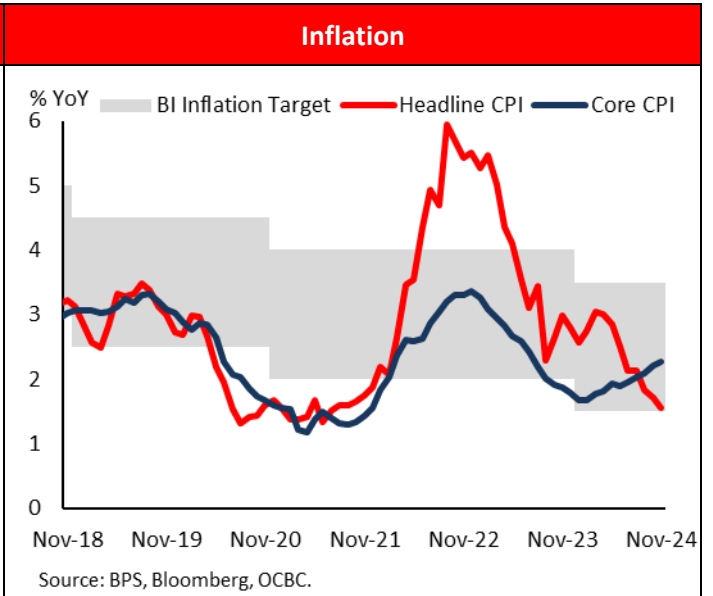
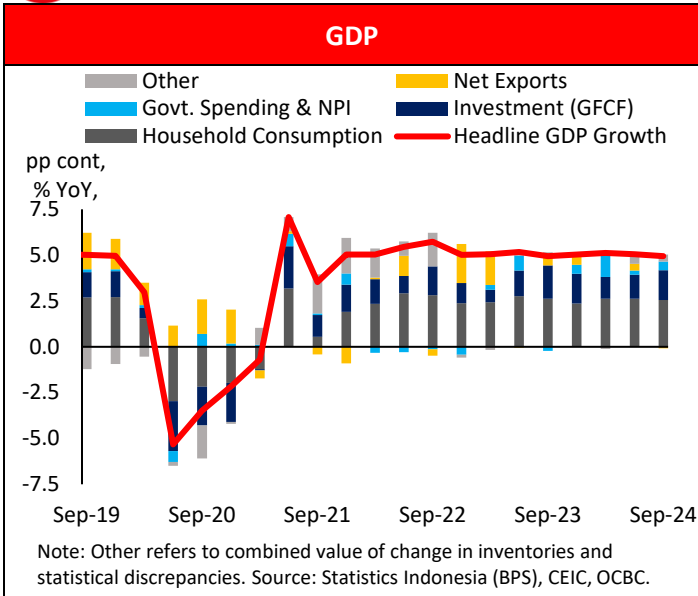
	Past 3M	Level	1M	YTD
% Change				
JCI		7438	1.8	2.0
USDIDR		15865	-1.2	-3.0
CNHIDR		2183	-0.9	-1.3
bp Change				
5Y		6.84	29	44
10Y		6.90	19	45
1M JIBOR		6.63	0	-2
3M JIBOR		6.92	0	-3
12M JIBOR		7.21	1	1
% Change				
Brent (USD/bbl)		72	-2.7	-6.7
Nickel (USD/mt)		15783	-2.4	-4.0



Key Economic Indicator Forecasts:

	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	1187.3	1318.3	1372.0	1396.3	1517.2	1669.1
GDP per capita (USD)	4290.1	4728.1	4879.4	4925.4	5310.0	5797.8
GDP (% YoY)	3.7	5.3	5.0	5.0	5.1	5.2
Exports (% YoY)	20.0	14.3	-1.1	6.1	6.2	6.2
Imports (% YoY)	26.6	12.4	-3.4	8.0	6.0	5.8
Current Account Balance (% of GDP)	0.3	1.0	-0.2	-0.6	-1.4	-1.6
Unemployment Rate (%)	6.5	5.9	5.3	4.9	5.0	5.0
Fiscal Balance (% of GDP)	-4.6	-2.4	-2.3	-2.7	-2.5	-2.5
Headline CPI (% YoY)	1.6	4.2	3.7	2.5	2.8	2.7
BI Rate (% eop)	3.50	5.50	6.00	6.00	5.50	5.50
USDIDR (eop)	14253	15568	15397	15800	15900	15400

Source: BPS, Ministry of Finance, Bank Indonesia, CEIC, Bloomberg, OCBC.



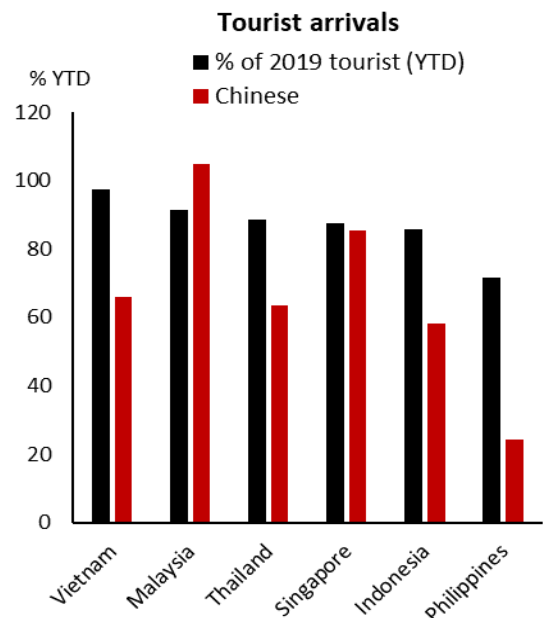
Malaysia:

The trade and investment connectivity between Malaysia and Mainland China remain strong, albeit with some momentum weakening. Mainland China and HK SAR are one of Malaysia's largest trading partners after ASEAN at 18.1% export share (year-to-October 2024). Export growth has tapered off in 2024 but the avenues to investment flows remains strong ahead into 2025. Specifically, investment commitments from Mainland China & HK SAR into Malaysia's manufacturing sector have been broadly stable over the past few years. The initiation of the Johor-Singapore Special Economic Zone (SEZ) can catalyse further diversification of out China into the SEZ.

Looking ahead, we do expect these channels of commitments to remain strong. In recent months, PM Anwar visited China (4 Nov to 7 Nov 2024) while Malaysian king Sultan Ibrahim Sultan Iskandar also visited China from Sep 19 to Sep 22. With US-China trade tensions rising, the risk is that Malaysia is caught between the rock and the hard place. This was implied when Deputy Trade Minister Liew Chin Tong, suggested that Chinese companies avoid using Malaysia as base to "rebadge" products (2 December 2024).

More innocuously, Malaysia remains an attractive destination for tourism from Mainland China. While tourist arrivals have improved across the ASEAN region, the standout has been for Chinese tourists into Malaysia. These are now more than 100% of pre-pandemic levels for year-to-September 2024 and is expected to remain strong as we enter the year end and Lunar New Year Holidays. Attracting Chinese tourists into Malaysia has been prioritised as the first of three levels consistent with the 'Visit Malaysia 2026' roadmap.

	Past 3M	Level	1M	YTD
% Change				
KLCI		1611	-0.8	10.6
USDMYR		4	-0.3	3.8
CNHMYR		1	0.0	5.7
bp Change				
5Y		3.56	-4	-2
10Y		3.78	-10	5
1M KLIBOR		3.29	1	-8
3M KLIBOR		3.70	10	-7
6M KLIBOR		3.75	10	-6
% Change				
Brent (USD/bbl)		72	-2.7	-6.7
CPO (MYR/mt)		5308	2.1	43.9

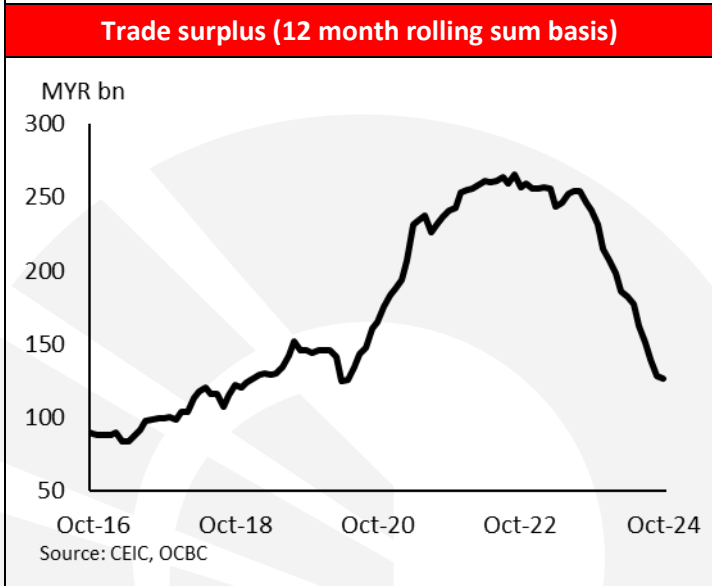
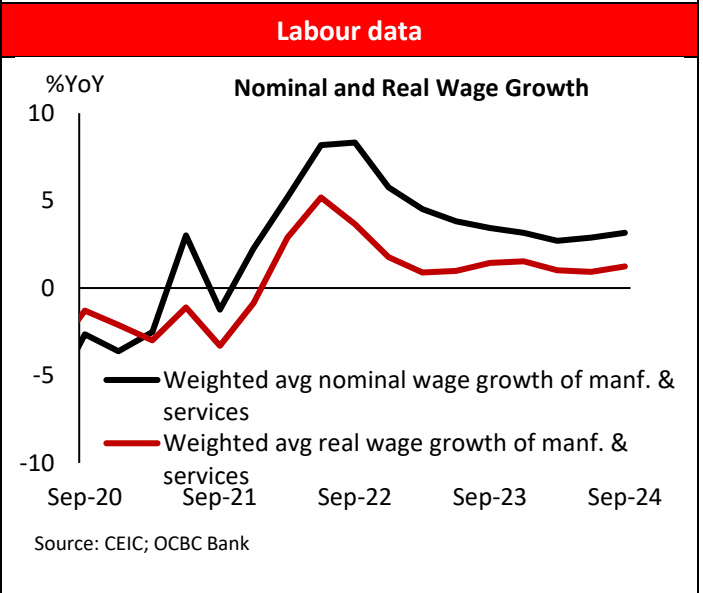
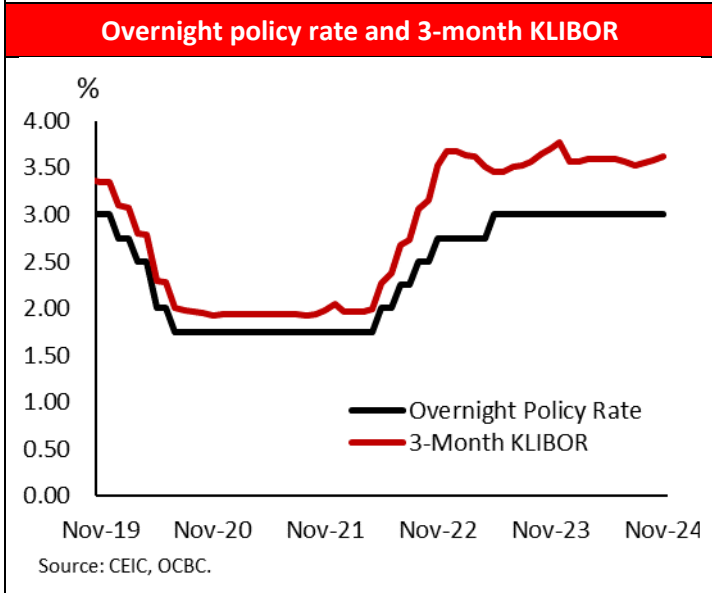
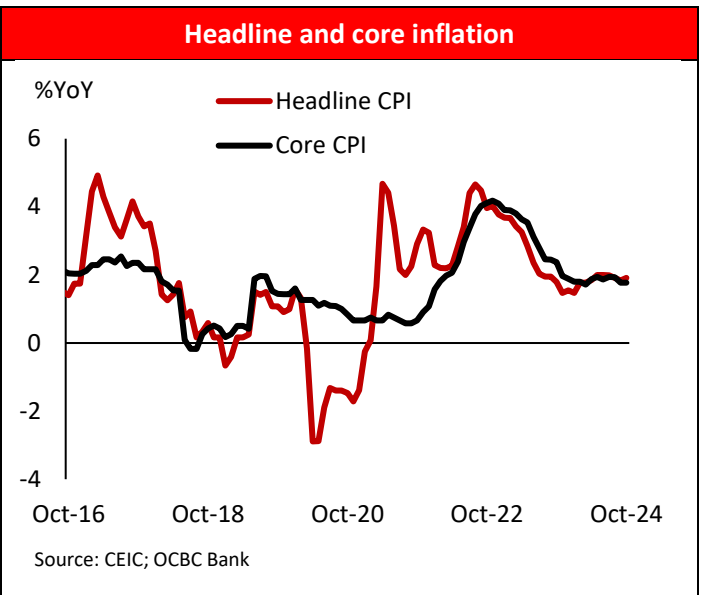
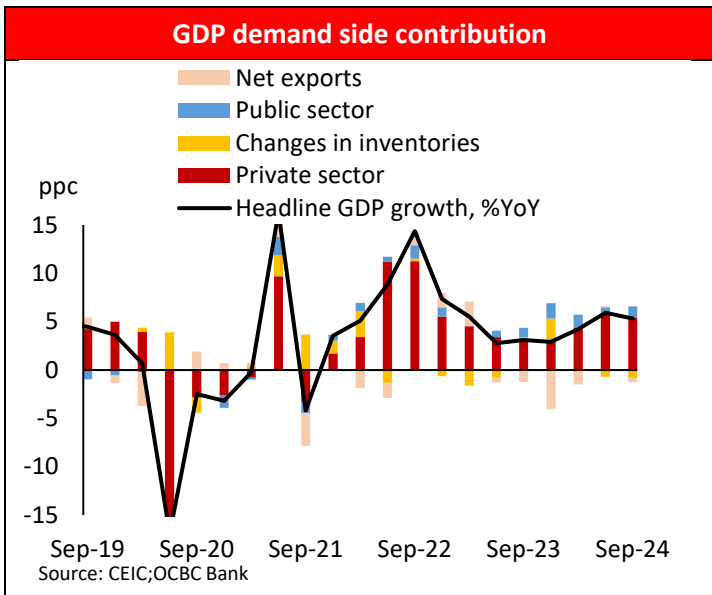


Source: CEIC, OCBC.

Key Economic Indicator Forecasts:

	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	373.6	407.6	399.4	423.1	468.7	511.9
GDP per capita (USD)	10896.9	11749.0	11371.0	11899.8	13028.6	14069.9
GDP (% YoY)	3.3	8.9	3.6	5.4	4.9	4.4
Exports (% YoY)	26.6	12.4	-3.4	8.0	6.0	5.8
Imports (% YoY)	23.8	14.4	-11.7	11.4	8.5	4.9
Current Account Balance (% of GDP)	3.9	3.2	1.5	2.5	2.4	1.8
Unemployment Rate* (%)	4.2	3.6	3.3	3.3	3.3	3.3
Fiscal Balance (% of GDP)	-6.4	-5.6	-5.0	-4.3	-3.8	-2.7
Headline CPI (% YoY)	2.5	3.4	2.5	1.8	2.7	1.8
BNM overnight Rate (% eop)	1.75	2.75	3.00	3.00	3.00	3.00
USDMYR (eop)	4.17	4.40	4.59	4.44	4.46	4.32

Source: DOSM, Ministry of Finance, Bank Negara Malaysia, CEIC, Bloomberg, OCBC.



Singapore:

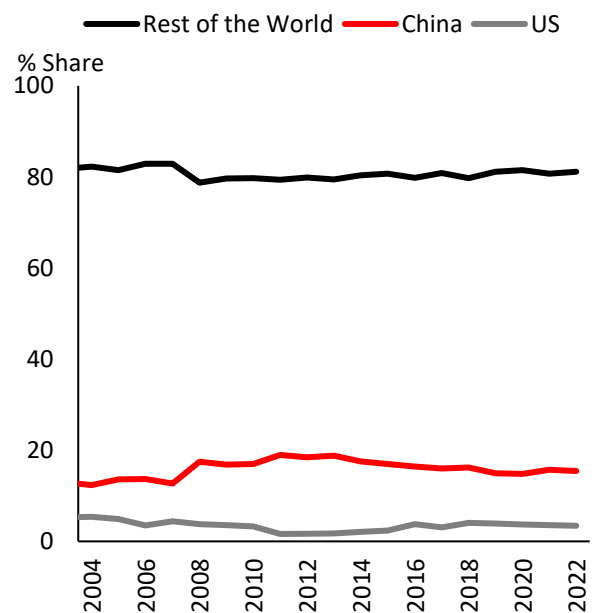
Singapore and China held the 20th Joint Council for Bilateral Cooperation (JCBC) on 11 November in Singapore. The annual apex meeting reviewed the progress of bilateral cooperation across a broad range of areas including trade, sustainability and finance. Twenty-five MOUs and agreements were also announced.

Separately, SM Lee made an official visit to China in late-November. The six-day visit saw the signing of multiple bilateral investment cooperation projects. Bilateral relationship was elevated in 2023 and will mark 35 years of diplomatic ties in 2025. President Xi has called for both sides to deepen their cooperation and make new and greater contributions to regional peace and prosperity. SM Lee also opined that Singapore needs to work "extra hard" to maintain valuable ties with China amid the tense global strategic situation. He also reiterated that Singapore wants to be friends with all sides and to have mutually beneficial relations with all sides.

The trade and investment connectivity between Singapore and Mainland China remain strong. Direct investment to China accounts for 15.5% of total direct investments abroad in 2022, up from 12.3% in 2004. The impending launch of the Johor-Singapore Special Economic Zone (SEZ), tentatively slated of January 2025, can also help usher in further investments into the region and foster greater collaboration between Singapore, the rest of ASEAN and key trading partners such as China.

	Past 3M	Level	1M	YTD
% Change				
STI		3795	2.4	17.7
USDSGD		1	-0.4	-1.4
CNHSGD		0	-0.2	0.2
bp Change				
5Y		2.63	-9	-3
10Y		2.68	-13	-1
SORA		3.19	8	-44
1M Comp. SORA		2.98	-9	-67
3M Comp. SORA		3.17	-17	-55
% Change				
Natural Gas (USD/MMBtu)		3	18.7	26.0

Direct Investment Abroad

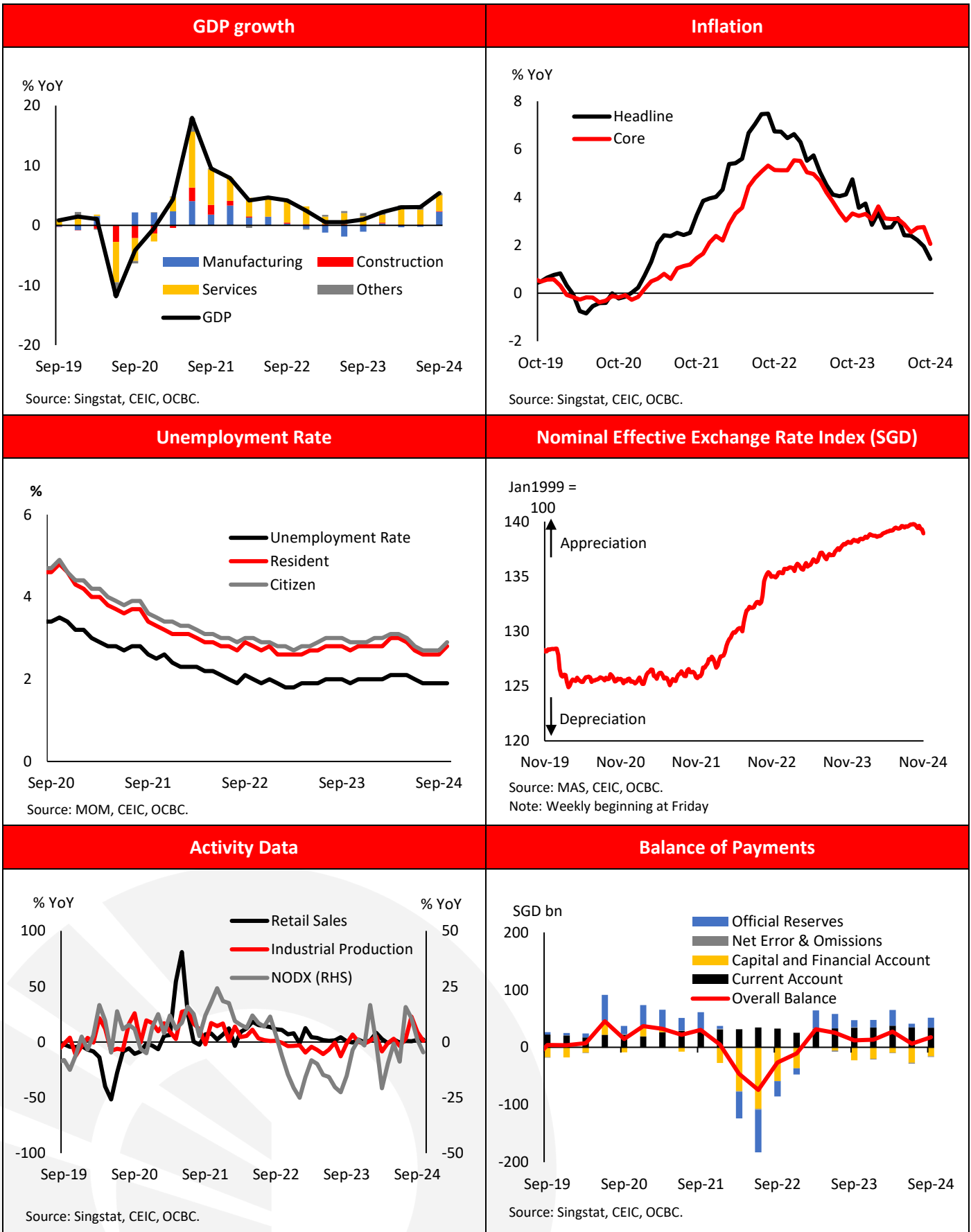


Source: Singstat, CEIC, OCBC.

Key Economic Indicator Forecasts:

	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	433.9	498.4	501.3	540.8	567.2	598.0
GDP per capita (USD)	78229.4	88217.8	86594.0	92716.9	96615.4	101261.8
GDP (% YoY)	9.7	3.8	1.1	3.6	2.7	2.5
Non-oil Domestic Exports (% YoY)	12.2	3.5	-12.6	1.0	4.5	2.0
Unemployment Rate* (%)	2.1	1.8	1.8	1.8	2.0	2.2
Fiscal Balance (% of GDP)	0.3	0.3	-0.5	0.1		
Headline CPI (% YoY)	2.3	6.1	4.8	2.4	2.0	1.9
USDSGD (eop)	1.35	1.34	1.32	1.33	1.33	1.32

Source: Singstat, Ministry of Finance, Monetary Authority of Singapore, CEIC, Bloomberg, OCBC.



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