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# Regional Maritime Trade Dynamics: Opportunities and Challenges in Southeast Asia

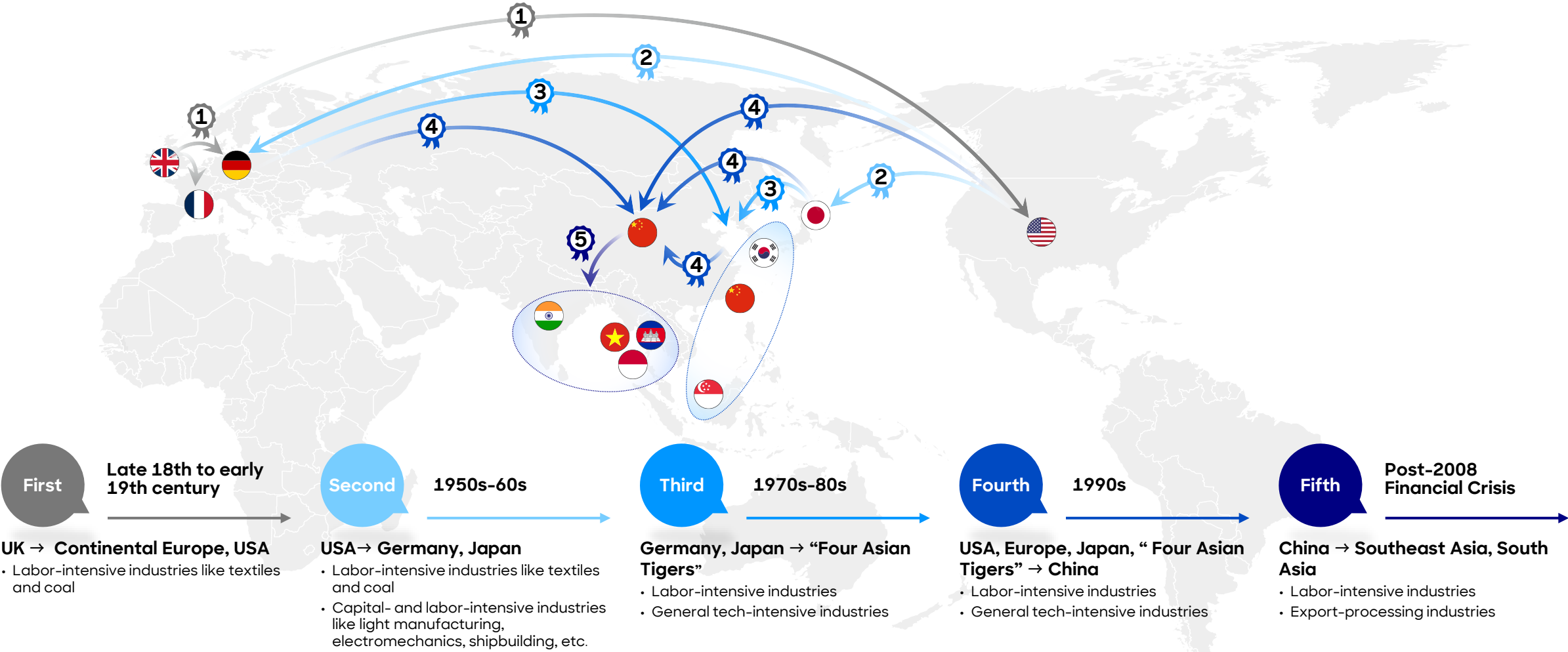
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# Since the Industrial Revolution, five major industry shifts driven by globalization have profoundly reshaped the global supply chain



# Previous industry shifts created a highly integrated Global SC which is now transitioning towards deglobalization due to macroeconomic changes

## Keyword for the 5 previous industrial chains shifts: globalization

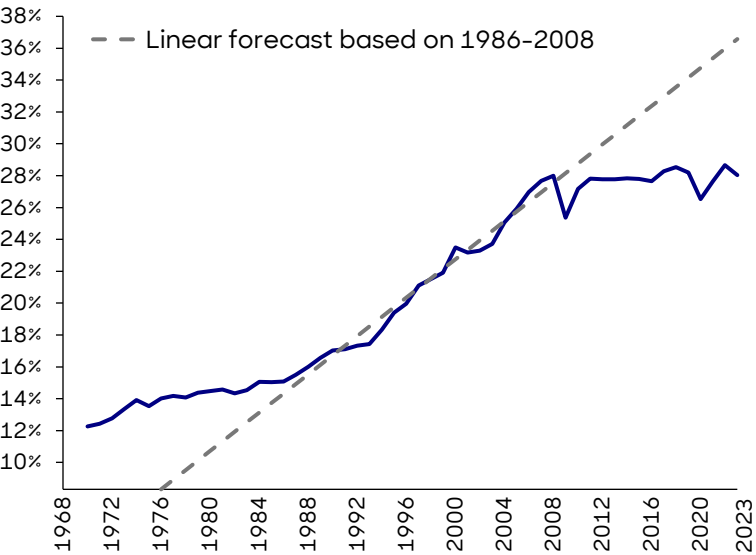
	R&D, design	Resource-based raw material	High-end manufacturing	Mid- to low-end manufacturing
USA 				
EU 				
Japan & South Korea 				
China 				
Southeast Asia 				

 Stages with Advantages  Stages with Certain Accumulation

- **USA, Europe, Japan and Korea** dominate high-value segments such as R&D, design, high-end Mfg and SC services
- **China**, as the "world's factory," is working to integrate into high-end Mfg but still holds an advantage in mid- to low-end Mfg
- **Southeast Asia** focuses on low-value segments like mid- to low-end Mfg and raw material supply

## Keywords for the 6th industrial chain shift: regionalization, localization

Share of world trade in world GDP (1970-2023) <sup>1)</sup>

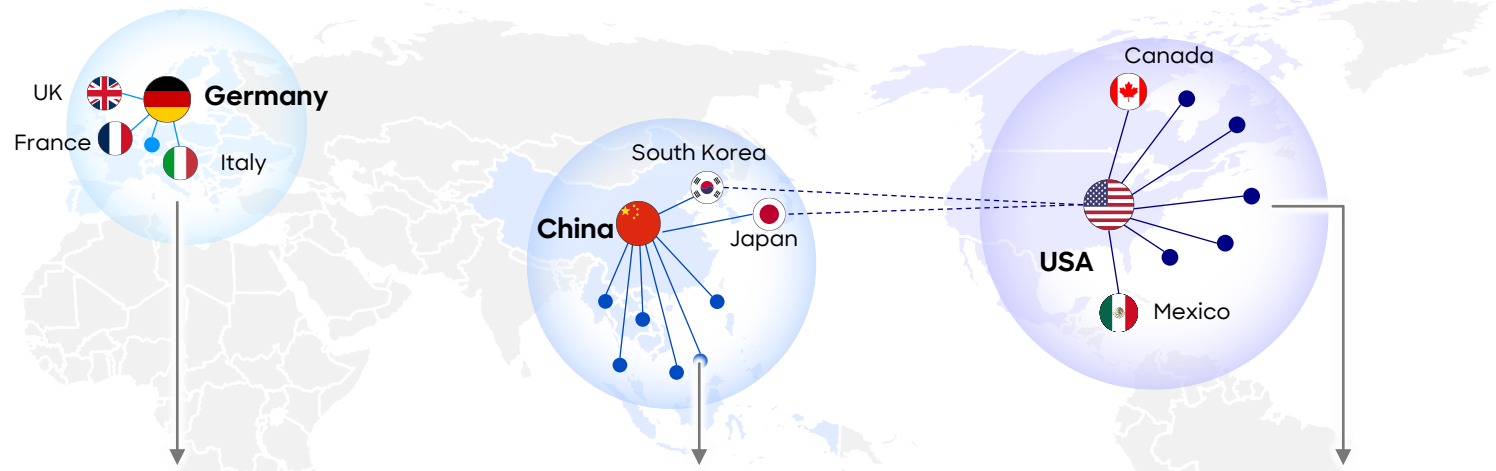


- After 2008, the global supply chain entered a phase of structural adjustment
- Around 2019, driven by trade disputes, geopolitical conflicts, and natural disasters, the world entered an era of deglobalization and regionalization

1) Based on constant US \$;

# Traditional Global SC no longer meets the resilience needs of regions, prompting Europe, North America, and Asia to build their own systems, a 'multi-polar SC'

## The multi-polar competitive structure of the Europe, North America, and Asia



### Europe: Re-industrialization

- "National Industrial Strategy 2030 (Germany, 2019)", strengthening government guidance and support for industries
- The "CBAM (2021)" legislative draft, imposing carbon tariffs on high-carbon imported products
- "EU Chips Act (2022)", supporting the development of the local semiconductor industry
- "Net Zero Industry Act (2024)", aimed at increasing the EU's domestic capacity for green technologies

### Asia: Complete Value Chain Development

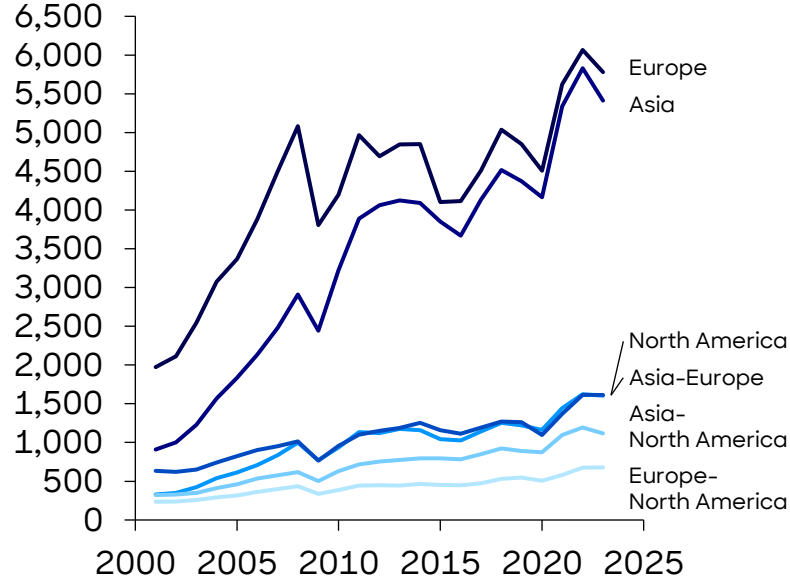
- RECP signed in 2020
- China: Establishing the dual circulation strategy (2020); Supporting foreign investment in mid- to high-end mfg, high-tech, and the transformation of traditional industries (2021); Focusing on new quality productive forces (2024)
- Japan: Industrial policy focused on "strategic autonomy" and "strategic indispensability" (since 2020)
- South Korea: "K-Chips Act (2022)"

### North America: Mfg Reshoring

- Obama Administration: "A Framework for Revitalizing American Manufacturing (2009)", "Manufacturing Enhancement Act (2010)"
- Trump Administration: "Strategy for American Leadership in Advanced Manufacturing (2018)"
- Biden Administration: "CHIPS and Science Act (2022)", "Inflation Reduction Act (2022)"
- Trump 2.0: Tariffs used as a tool to promote reshoring of manufacturing activities (2025)

## Trade value within and between regions

[2001-2023, bn USD]

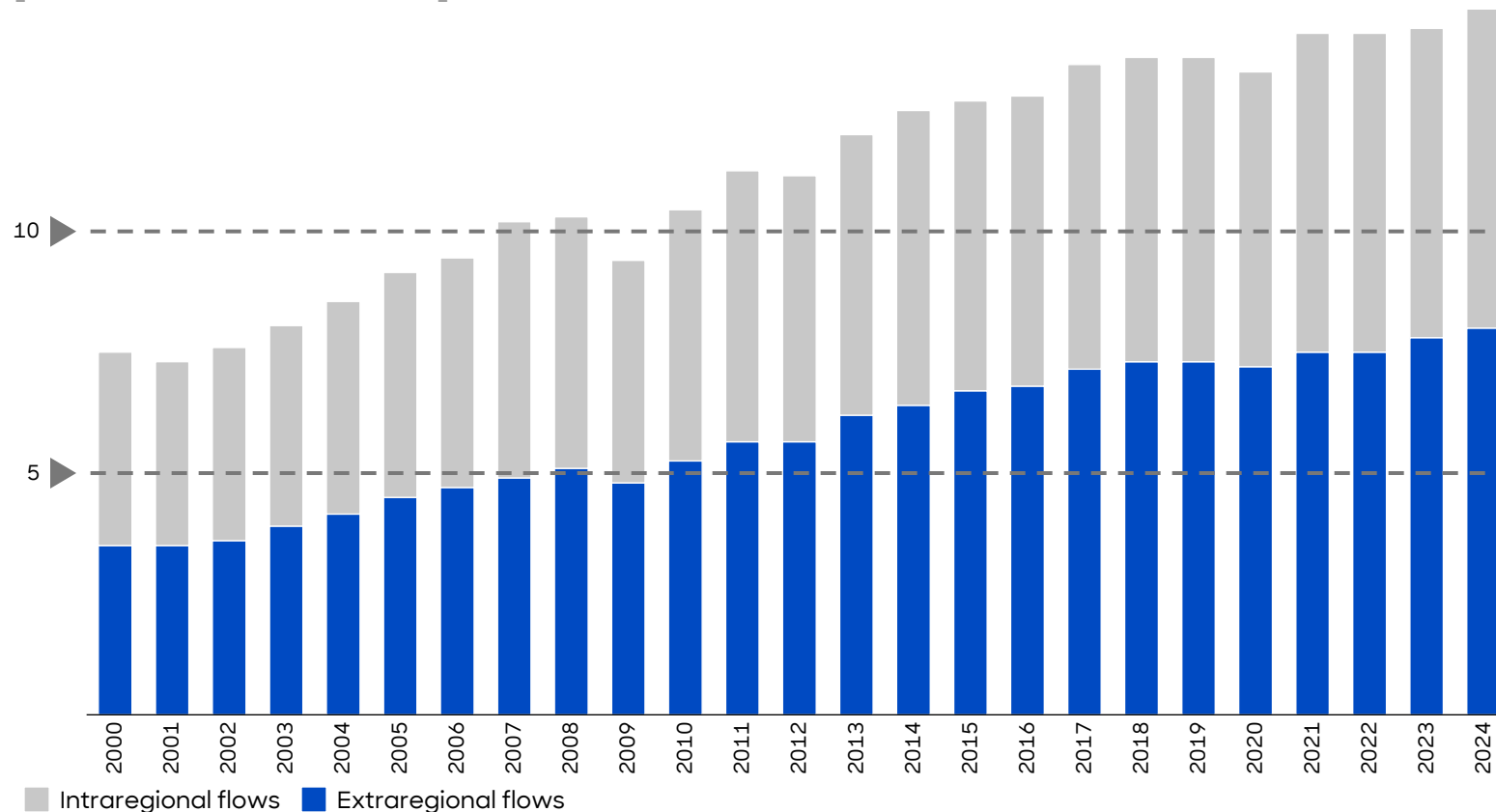


• Since the COVID-19, deglobalization has become more pronounced, trade within the three major regions—Europe, Asia, and North America—has surged, while intra-regional trade has grown more slowly

# Multi-polar SC results in more regionally interconnected and globally distributed maritime trade flows – increasing complexity for maritime players

## Intraregional versus extra-regional maritime trade flows

[2000-2024, billions of tons]



Keywords for multi-polar SC: globally distributed and supply chains diversification

### Geography of trade flows is evolving

- Share of non-mainline flows rising driven by **increase in South-South trade** such as trade links between East Asia and Latin America, Africa and East Asia
- Expansion of **non-mainline East-West flows** supported by expanding trade between **East Asia and the Indian subcontinent**



### Reconfiguration of global supply chains to continue

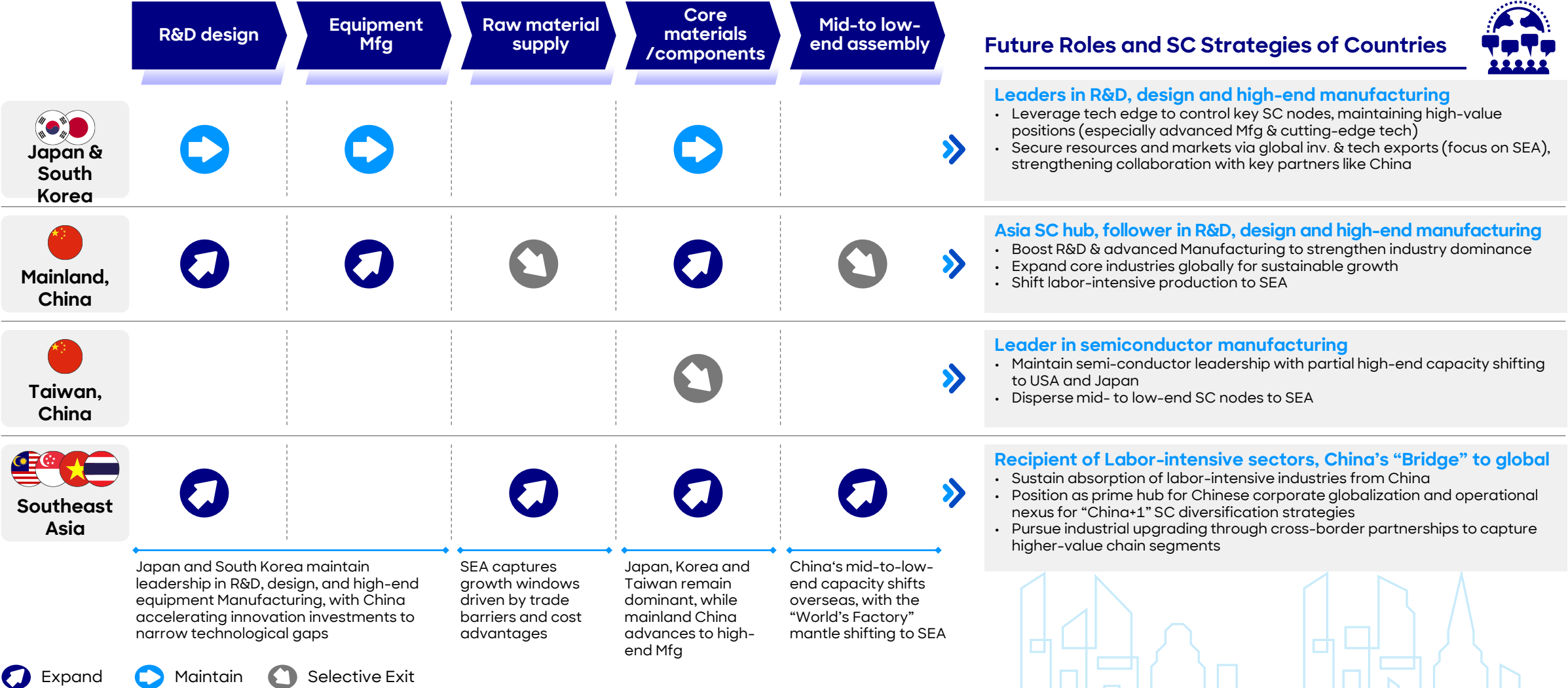
- Companies will continue to **diversify sourcing and manufacturing locations** in response to geopolitical tensions, increase trade barriers and supply chain disruptions – resulting in a **gradual move away from highly centralized single-source models** towards more distributed, multi-origin networks



### Demand for maritime services to be impacted

- As trade policy remains uncertain **growth in non-mainline trade routes expected to continue** – creating more complex maritime routes

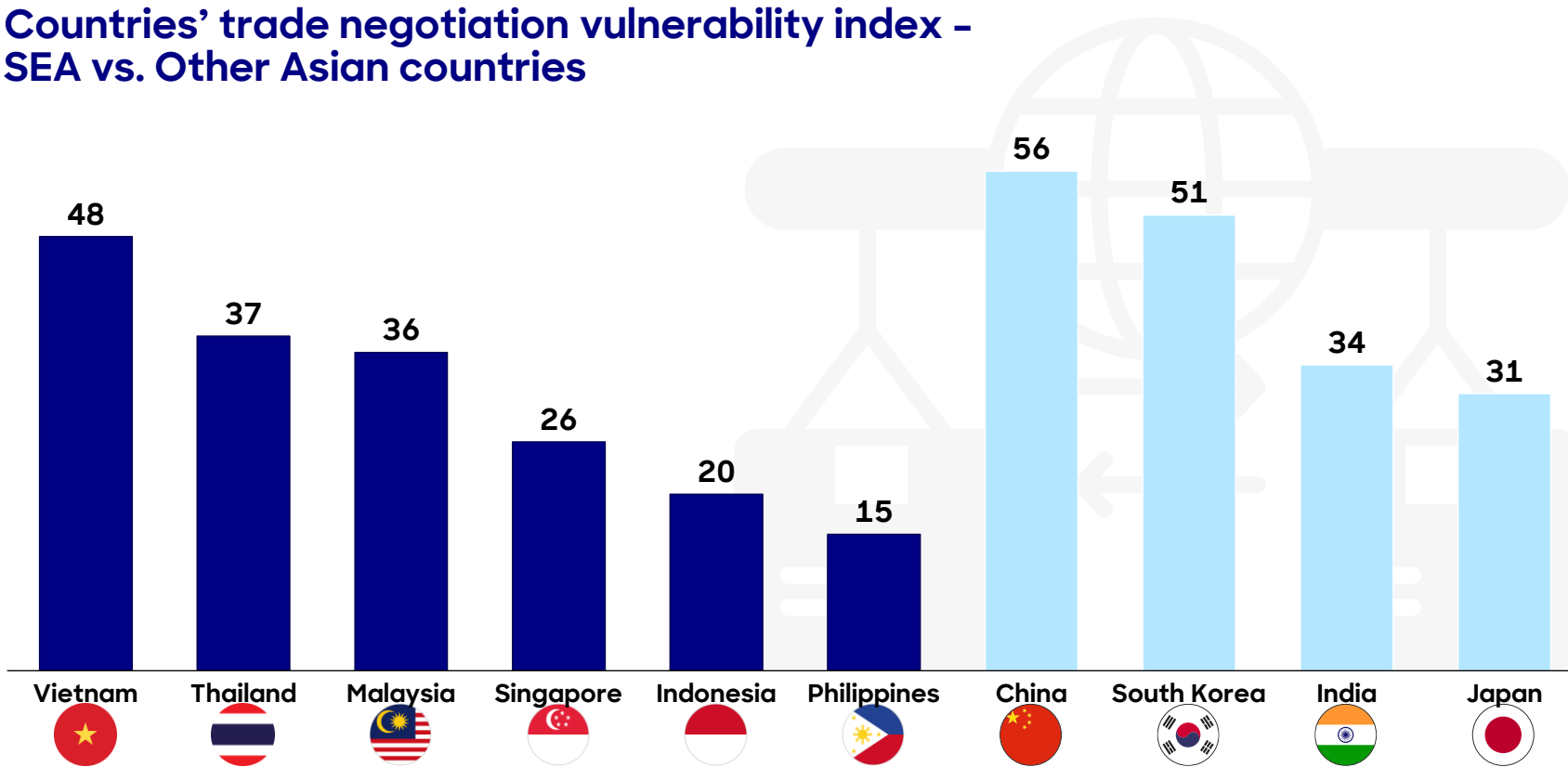
# Amid ongoing SC reconfiguration, China is prioritizing upstream high-end segments, SEA absorbing labor-intensive industries as “bridge” to global markets



# SEA's trade vulnerability varies, Vietnam, Thailand, and Malaysia most exposed, while expanding U.S. tariffs beyond China reshape regional dynamics

Trade Negotiation Vulnerability Index – Southeast Asia (SEA)

## Countries' trade negotiation vulnerability index - SEA vs. Other Asian countries



## Key insights

- SEA nations show varying levels of trade negotiation vulnerability, with **Vietnam, Thailand, and Malaysia ranking the highest** due to their strong export dependence on the U.S., while **Indonesia and the Philippines have lower vulnerability**, reflecting more diversified trade relationships
- **China and South Korea have the highest vulnerability** in the region, largely **driven by U.S. trade policies**, including tariffs and supply chain decoupling efforts, which have significantly impacted their trade exposure
- Recent U.S. trade policies, including tariffs targeting China and South Korea, and trade tensions with Japan and India, have reshaped trade dynamics in Asia, prompting countries to **reassess their strategies by diversifying export markets and strengthening regional partnerships** to enhance economic resilience

# SEA's supply chains face major shifts driven by manufacturing relocation from China, infrastructure gaps, technology upgrades, and geopolitical tensions

## Asian Supply Chain Reconfiguration Megatrends for Southeast Asia (SEA)

	 <b>Key Trends</b>	 <b>Description</b>	 <b>Countries Affected<sup>1)</sup></b>
<b>Shifts in Manufacturing &amp; Trade Flows</b>	<b>Relocation of Labor-Intensive Manufacturing to SEA</b>	China's mid-to-low-end industries (e.g., textiles and consumer electronics) are relocating to SEA due to rising labor costs and trade tensions	
	<b>China+1 Diversification Strategies</b>	Global firms adopt "China+1" to reduce dependency and mitigate China-related geopolitical & trade risks, making SEA a key operational nexus	
	<b>Increased Intra-Regional Trade Integration</b>	Growth of intra-Asian trade driven by regional agreements like RCEP, creating integrated regional supply chains with higher intra-SEA economic dependency	
	<b>Intensifying Low-End Manufacturing Competition</b>	Homogeneous and overlapping capacity expansions intensify competition among SEA countries, leading to market saturation	
<b>Supply Chain Bottlenecks &amp; Infrastructure Gaps</b>	<b>Infrastructure Gaps in Logistics</b>	Insufficient infrastructure investments in ports, roads, and energy grids continue to limit SEA's manufacturing efficiency, despite rapid inflow of FDIs	
	<b>ASEAN Collaboration Inefficiencies</b>	Lack of unified standards limits regional synergy despite shared goals	
	<b>Workforce Upskilling for Advanced Manufacturing</b>	Rising demand for skilled labor in automation and precision manufacturing strains existing vocational training systems	
<b>High-Tech &amp; Green Supply Chain Transformation</b>	<b>Green Tech Investment Surge</b>	EU carbon tariffs and net-zero policies drive investments in renewables, EVs, and sustainable manufacturing	
	<b>Tech Transfer from Northeast Asia</b>	Japan/South Korea/Taiwan shift mid-tier tech to SEA, but high-end R&D remains concentrated	
<b>Geopolitical</b>	<b>Geopolitical Fragmentation Risks</b>	SEA nations face pressure to align with US- or China-centric supply chains, creating trade policy inconsistencies	

1) Ranked from most affected (left) to least affected (right); other countries in the SEA may still be affected, although the level of impact is not as high as in the three countries highlighted



# There are 5 potential impact areas for local, regional and global businesses operating in SEA ...

Overview of supply chain reconfiguration and tariff implications to SEA

## 1 Changes in SEA exports to the US

- Softened demand for SEA-produced goods with companies renegotiating contracts with SEA-based manufacturers for lower volumes
- Reduced export competitiveness of countries with high tariff increases (e.g. Vietnam, Thailand, Malaysia, Cambodia)
- Potential economic and production slowdowns, and job losses – e.g. solar panel industry in Thailand which was hit with tariffs up to 375%
- Reduced export revenues of SEA countries which impacts economic growth

## 2 Supply chain reconfigurations

- Companies will reconsider supplier locations and supply chain network to minimize tariff exposure
- Increased risk of capital flight if manufacturing-focused corporations relocate operations to less tariff-impacted countries

## 3 Manufacturing footprints

- Existing manufacturing operations in heavily tariff-impacted sectors and countries will reduce or halt operations
- SEA countries with lower tariff impact and preferential trade agreements may benefit from manufacturing rebasing
- Companies may hold off on investments into manufacturing presence expansion in the region

## 4 Potential SEA retaliation

- SEA countries have largely ruled out retaliatory tariffs against the US given high economic dependence on the US market and investments
- ASEAN's strategy is to pursue dialogue and constructive talks with the US to find mutually acceptable solutions

## 5 Operational reviews

- Governments (e.g. Singapore) are forming task forces to help businesses navigate uncertainties caused by tariffs
- Companies are reassessing cost structures, supply chain dependencies, and market assumptions to enhance resilience
- Increased push towards operational efficiency, streamlining, and possibly accelerating digital transformation to mitigate tariff-related risks and sustain growth

# ... resulting in implications for companies looking to derisk including focus on production locations, strengthening resilience and leveraging regional opportunities

Key implications for companies

## Relocation

- **Shift Manufacturing Closer to End Markets:** 'China + 1' Strategy is increasingly being adopted by companies to reduce over-reliance on China, mitigating risks such as political tensions
- **Policy Alignment and Industry Challenges:** Assess whether the key policies in potential relocation countries align with your company's needs and regional challenges, such as political instability, infrastructure gaps, or regulatory hurdles should also be considered

*Example: Apple has increasingly adopted the "China + 1" strategy, diversifying its manufacturing operations out of China to countries like India, Vietnam, and Malaysia*



## Resilience building

- **Diversification of Supply and Demand Source:** Multi-sourcing, where companies procure materials from multiple regions or suppliers, and sell to different countries mitigates risks such as political instability and tariff changes and increases flexibility
- **Stockpiling Critical Materials:** Given the unpredictability of global supply chains, companies should consider strategic stockpiling of essential which can be done at a central warehouse or across regional hubs to ensure supply continuity

*Example: Toyota uses a multi-sourcing approach for key components, e.g., , Toyota sources semiconductor chips from various suppliers across Japan, Taiwan, and South Korea*



## Regional collaboration

- **Consideration of Industry-Specific Hubs:** Companies could focus on countries with strong industry foundation and policies (e.g., tax incentives) designed to nurture these industries, e.g., Vietnam has become a major hub for electronics and textiles
- **ASEAN Integration:** ASEAN is increasingly becoming a more integrated economic bloc, and companies can benefit from cross-border partnerships and regional supply chain networks

*Example: Unilever strategically leverages ASEAN countries' strengths by establishing a food manufacturing hub in Thailand consumer goods manufacturing in Indonesia, and using Singapore as its regional hub for logistics and supply chain management*



## Sustainability

- **Sustainability Conscious:** Companies prioritizing eco-friendly standards, such as reducing carbon emissions, ensure compliance with sustainability requirements in different countries and help attracting environmentally-conscious consumers
- **Leveraging Government Incentives:** Companies that adopt sustainable practices can benefit from government incentives (e.g., tax breaks, subsidies, or grants) which can lower costs

*Example: Tesla places a strong emphasis on sustainability within its operations, from sourcing raw materials for EV production to using renewable energy at its Gigafactories*



# Reconfiguration of supply chain has implications for maritime players in SEA – increased uncertainties creates challenges and opportunities

Key challenges and opportunities for SEA maritime players

## Challenges



### Reduced demand for maritime services

- High likelihood of manufacturing centres expected to **shift to locations with lower tariff** or **reshoring closer to end-use markets** – **reducing overall demand for maritime throughput** from producers in Asia with end customers in North America



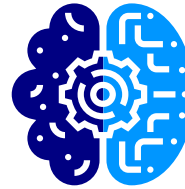
### Increased trade barriers

- Imposition of **new port fees** for using Chinese built and operated vessels **adds financial burden and uncertainty** over port call strategies while **tariff and changes to custom enforcement** creates **additional compliance requirements** – resulting in increased operational friction for maritime players



### Shifting trade landscape

- **Continuously shifting trade and supply chain landscape create uncertainties** in medium-term and long-term strategies by manufacturers especially in Asia – **constraining ability of long-term demand planning** by maritime players



## Opportunities



### Focus on improving operational resilience

- Continued **investments in digitalization and automation** optimize operational costs and efficiency – **enhancing operational resilience** of maritime players to meet trade uncertainties



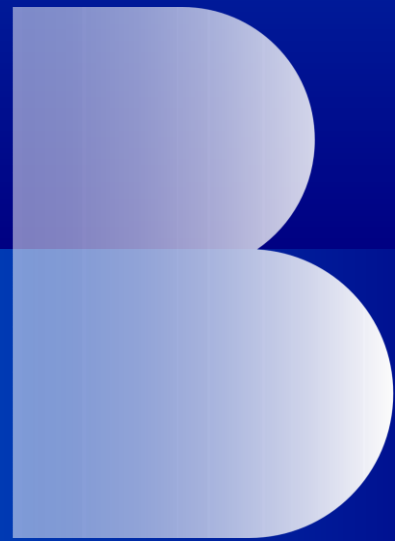
### Emphasis on regional shipping

- **Growing regional integration** in ASEAN and ASIA creates **opportunities for specialized intra-Asia shipping** and feeder services that avoid US-China routes due to trade restrictions



### SEA as alternative shipping hub

- Increased restriction affecting China-US shipping provides opportunity for **SEA to strengthen its role as logistics and manufacturing hub** connecting the two regions



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