DBS Focus

ASEAN-6 - North Asia: Connectivity dividend

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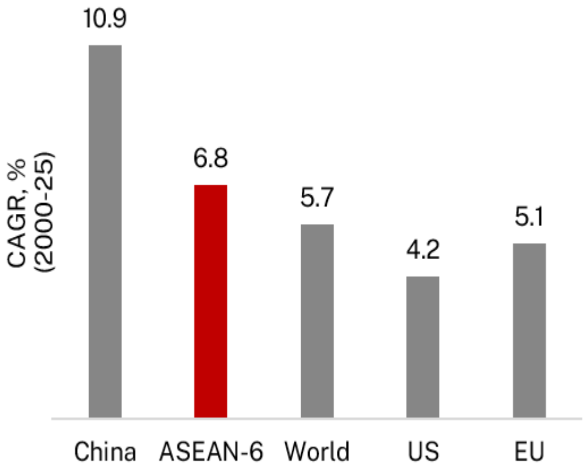
- *ASEAN will continue to benefit from trade and investment openness, despite rising geoeconomic fragmentation.*
- *Besides growing intra-ASEAN pie, trade and investment links with North Asia are set to deepen further.*
- *North Asia is ASEAN-6's major trading partner, led by China and Hong Kong SAR, followed by Taiwan.*
- *FDI connectivity with China and Hong Kong SAR has grown sharply, catalysed by China+1 strategy.*
- *Linkages with Taiwan are emerging as a new growth opportunity amid rapidly evolving technological trends.*

INTEGRATED ASIA OPPORTUNITY

We believe that Southeast Asia will continue to position itself as a region open to international trade and investments, despite rising geoeconomic fragmentation and protectionism. Its open policies have attracted foreign investments and facilitated trade, serving the region well with fast economic growth following the massive shock from the Asian Financial Crisis and subsequently the pandemic.

ASEAN-6's high trade openness is reflected in its average goods and services trade-to-GDP ratio of nearly 130% across the six key economies, above key global economies and twice the world's figure. The bloc achieved brisk goods trade growth of 6.8% CAGR between 2000 and 2025, above global trade expansion of 5.7%, and improved its global exports share.

ASEAN-6 has benefitted from brisk goods trade growth



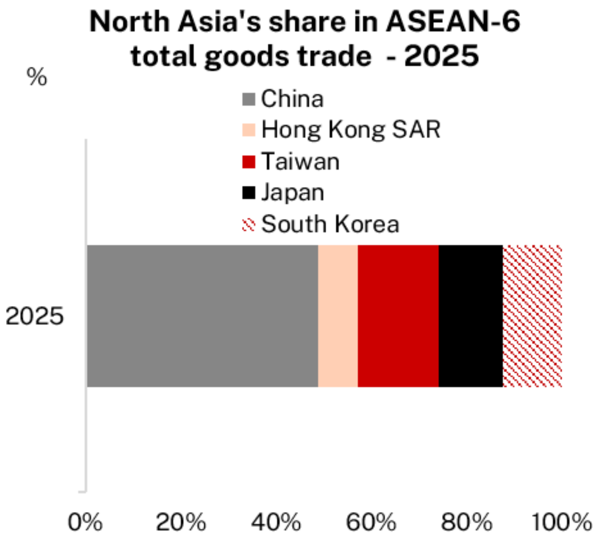
Source: WTO, DBS

The bloc remains committed to upholding an open and rules-based multilateral trading system, and deepening integration by actively upgrading existing FTAs while exploring new ones with like-minded partners.

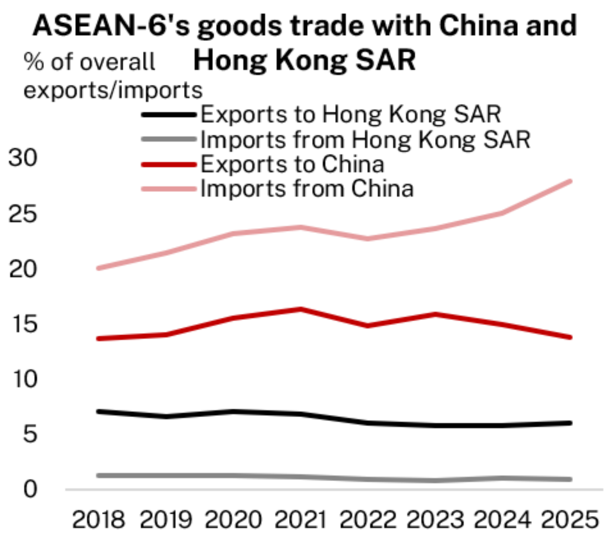
Against the tide of US-led trade protectionism, the world could begin to transition to 'Trade Outside the US (TOTUS)', with **ASEAN's regional integration providing opportunities while potentially buffering against global shocks.** Southeast Asia is therefore collectively enhancing its economic relations with other key Asian partners, while taking gradual improvements in its long-term path towards a cohesive and economically integrated ASEAN Economic Community (AEC).

Besides a growing intra-ASEAN pie, the group's trade and investment links with North Asia (China, Hong Kong SAR, Taiwan, Japan, and South Korea) have strengthened in the past decade.

North Asia is around 40% in ASEAN-6's total goods trade, led by China and Hong Kong SAR, followed by Taiwan. Foreign direct investment (FDI) connectivity has also grown sharply, with Taiwan's share in ASEAN-6's FDI rising notably from under 2% in 2015-19 to nearly 4% post-pandemic. Singapore has been the main beneficiary of these flows, besides Vietnam, Thailand, and Malaysia.



Source: CEIC, DBS
Note: Based on ASEAN-6's trade accounts.



Source: CEIC, DBS
Note: Based on ASEAN-6's trade accounts

CHINA & HONG KONG SAR: DEEPENING TIES

TRADE

China's transformation into an economic superpower over the past three decades, particularly its rapid industrialisation into the factory of the world following its accession to the World Trade Organisation in 2001, has reshaped regional trade and investment dynamics, including for ASEAN-6.

The bloc benefitted from increased global trade integration with China through bilateral and multilateral trade agreements that lowered trade barriers, even if the increase of ASEAN-6's goods exports share in global markets over the past decades was not as high as China's. The bloc's share of global exports rose to ~8% in 2025 from below 5% in the 1990s but still dwarfed by China's hefty ~15%.

Nonetheless, ASEAN-6 rode the wave of regional production networks, with China being ASEAN-6's largest trading partner since the Global Financial Crisis. The bloc has supplied key intermediate electronics and components into Chinese assembly hubs, and increasingly, has served as an alternative production base importing goods from China for further processing and export to the US amid deteriorating US-China trade relations since 2018 (*see ASEAN-6: Counting on trade, eye on risks for our four key observations*).

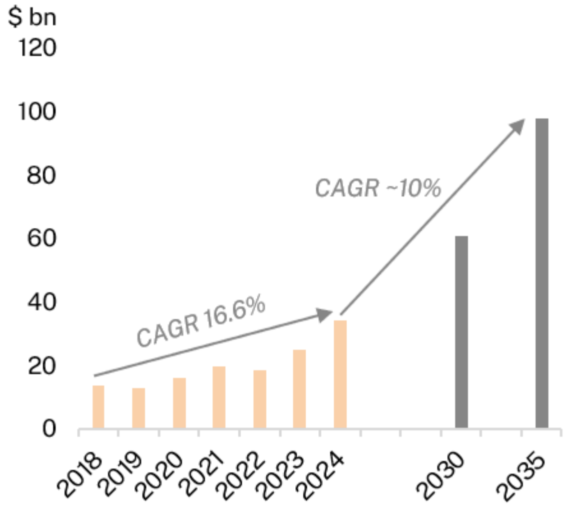
Meanwhile, Hong Kong SAR remains a crucial entrepot for goods trade between Southeast Asia and China. ASEAN-6 is Hong Kong SAR's second largest trading partner, supplying more to the territory than it imports from it. These exports are dominated by electronics products, mainly shipped from Singapore, followed by Malaysia and Vietnam.

INVESTMENTS DRIVEN BY CHINA+1 STRATEGY LED BENEFITS

As China grew to become the world's second largest economy, rising labour costs prompted a shift towards higher value-added and technologically advanced industries. In turn, this resulted in the migration of low-tech and labour-intensive sectors like textiles and footwear to ASEAN-6, as well as medium-tech industries like assembly of semiconductors and electronics.

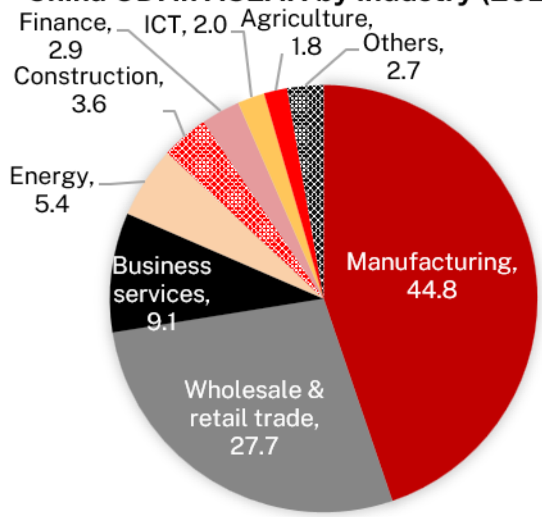
The diversification of supply chains with an alternative beyond China and into ASEAN-6 was subsequently catalysed by rising US-China geopolitical and trade tensions in the past decade and the unprecedented COVID-19 pandemic. Reflecting this growing appeal, FDI inflows into ASEAN have exceeded those into China since 2021.

China ODI in ASEAN



Source: CEIC, DBS

China ODI in ASEAN by industry (2024)



Source: CEIC, DBS

ASEAN-6 is likely to remain a location of choice for a production base over the next decade, not just for western multinational companies but also Chinese firms. It remains well positioned to benefit from the global supply chain realignment and the increasing adoption of "China+1" strategy, despite US tariff challenges, which could impact the attractiveness of certain export-oriented investments.

We see this shift to be enduring due to a few reasons:

1) Resilience quotient – Firms continue to build greater redundancy into their production networks and lower concentration risks, which will enhance resilience of global companies.

2) Cost competitiveness – As costs at home rise, ASEAN provides an important alternative, due to attractive incentives, lower labour/ operational costs, and governments keen to secure investments as regional competition heats up.

3) Growth focused – A mix of ageing societies and developed status has

narrowed the consumption base in a good part of the developed world. By contrast, countries in this region offer a growing middle class, incomes that are bound to expand over time and a relatively young population.

Since 2010, ASEAN has attracted a growing share of Chinese outbound investment, with inflows accelerating in recent years amid supply-chain diversification, industrial upgrading, and rising regional demand. Flows from China increased from $4.4bn in 2010 to $34.3bn in 2024, representing a strong CAGR of 15.8%. In 2024, China ranked as ASEAN's second-largest source of FDI on a single country basis — after the US and ahead of Japan. ASEAN has become a key destination for Chinese outbound investment, ranking second only to Hong Kong SAR. As China's economy matures, Chinese firms are looking beyond their home market to strengthen supply-chain resilience, optimise operating costs, and capture growth opportunities across Southeast Asia's dynamic economies.

Notably, however, rising trade protectionism in the US has increased the pressure on several ASEAN countries to address concerns related to Chinese transshipment and origin-washing practices. While Chinese investment has contributed significantly to ASEAN's industrial development, discussions are also emerging around the importance of maintaining diversified economic partnerships and avoiding excessive dependence on any single market.

We forecast China's ODI into ASEAN to grow at a CAGR of 10% over the next decade, reaching approximately $100bn by 2035.

From a sectoral perspective [1], FDI in ASEAN is expected to increasingly shift toward domestically oriented and higher value-added sectors over the next decade. Traditional export-oriented industries targeting the US market, such as textiles and consumer electronics, are likely to become less attractive. Conversely, ASEAN's growing domestic consumer market — driven by population growth and an expanding middle class — will boost investment in consumer-facing sectors like retail, food and beverage, lifestyle services, and financial services.

Additionally, ongoing urbanisation and infrastructure development will continue to attract FDI in real estate, construction, transportation, and logistics. The expansion of the digital and green economies is also expected to draw significant investment into advanced technologies, including semiconductors, artificial intelligence, electric vehicles, and renewable energy.

Hong Kong SAR has positioned itself as a springboard to capture the rising trend of Chinese companies venturing abroad into promising Southeast Asian markets. The territory is leveraging its strength as an established international financial centre for capital raising, while also providing professional services to support Chinese firms' ambitious push

[1] *ASEAN-6 2025-2040 Outlook page 19-20*

into ASEAN. ASEAN ranked third among Hong Kong SAR's destinations of ODI as of 2024, with a stock of HKD671.2bn ($86.0bn), according to latest available government data.

Approximately half of ODI stock in ASEAN sit in Singapore, reflecting the two city's complementary roles in supporting expansion into other Southeast Asian markets, with Singapore often established as a regional headquarters. Looking at ASEAN-6's FDI inflows perspective, Hong Kong SAR accounted for 6.7% of the overall in 2025, ranking fifth behind intra-ASEAN, EU, US, and China.

Industries of interest included manufacturing, finance & insurance, and wholesale & retail trade, accounting for 35.4%, 23.4%, and 13.3%, respectively, in 2025. Hong Kong SAR's share was stable compared to the 2022-24 average, rising from ~6% average pre-pandemic, increasing in tandem with China's increased prominence in ASEAN's FDI inflows.

TAIWAN: NEW GROWTH OPPORTUNITY

TRADE

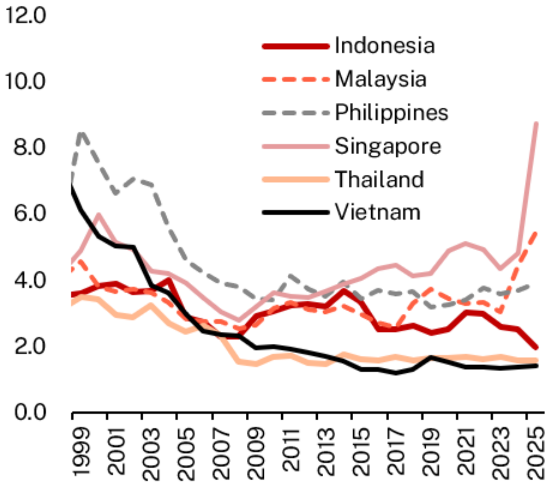
Taiwan has become an increasingly important economic partner for ASEAN-6 economies, reflecting the deepening integration of Asian manufacturing networks and the continued fragmentation of production across the region. Trade between Taiwan and ASEAN-6 is driven less by final consumer demand and more by intermediate goods flows, particularly in electronics, semiconductors, machinery, petrochemicals, and precision components. As firms diversify production bases and strengthen supply-chain resilience, ASEAN-6 economies have assumed a larger role as manufacturing and assembly hubs, while Taiwan remains a key upstream supplier of technology-intensive inputs and capital goods.

Among the major ASEAN-6 countries, the share of exports averaged 3.8% (simple average) in 2025, but differed from a country-specific lens.

Linkages with Singapore have been the most significant, especially as a major source of end-demand for Taiwanese technology products. As Southeast Asia's largest cloud-computing and data-centre hub, Singapore continues to attract substantial investment from hyper-scalers and digital infrastructure providers, drawn to its stable regulatory environment, concentration of multinational headquarters, and extensive submarine cable networks.

Roughly half of Singapore's imports from Taiwan are consumed domestically, reflecting strong local demand for AI servers, semiconductors, advanced packaging services, and other technology products in which Taiwan holds global leadership. Links with the other trading partners in ASEAN-6 are also notable, with Taiwan among the top five largest trading partner for Malaysia and near top ten for Vietnam.

Share of exports to Taiwan (%)



Source: CEIC, DBS

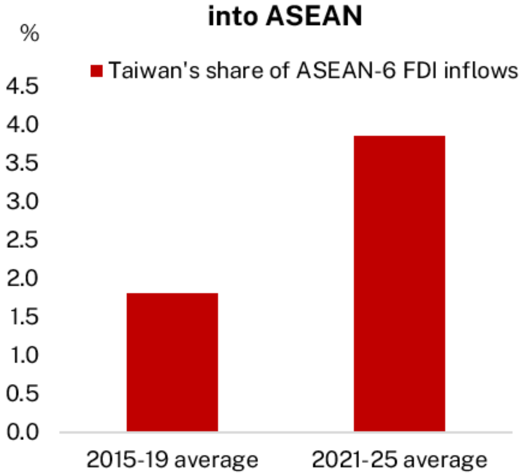
INVESTMENT

Taiwan's share in ASEAN-6 FDI has risen notably from under 2% in 2015-19 to nearly 4% post-pandemic, tapping on the advantages offered by Southeast Asia in terms of GDP growth, wage costs, and demographics. In the bloc, inflows into Singapore and Vietnam are the top two destinations, with the share of inbound flows into Singapore alone rising from 50% of the total to nearly three-fourth in 2021-25.

The relationship appears even stronger when viewed through Singapore's investment statistics. Singapore's ODI into Taiwan could reach approximately $7 bn this year, while Taiwanese FDI into Singapore could approach $6bn, implying total bilateral investment flows comfortably exceeding $10bn.

Singapore is also Taiwan's most important institutional economic partner in Asia, linked through the ASTEP economic partnership agreement, which closely resembles an FTA. As Taiwanese companies continue to internationalise, Singapore is becoming an increasingly important base for supply-chain management, regional treasury centres, and investment holding structures.

Taiwan's growing FDI potential into ASEAN



Source: ASEANstats, CEIC, DBS

Apart from Singapore, outbound data from Taiwan also shows that inflows into Vietnam are sizeable. Notably, Taiwan is among the top five investors into Vietnam, focused on high-tech manufacturing, electronics supply chain diversification, semiconductors, and large-scale renewable energy projects.

Thailand and Malaysia are the other two destinations, which are preferred to de-risk supply chains, besides tapping into extensive FTA networks, which could allow foreign investors based in ASEAN to access greater opportunities. Key sector linkages include integrated circuits, semiconductor products, and electronic/ machinery components. This should be especially attractive to Taiwanese firms, given that Taiwan does not have comprehensive FTAs with individual ASEAN countries (other than ASTEP with Singapore) or as an aggregate bloc.

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