

RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical issues and contemporary developments. The views of the authors are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced electronically or in print with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email: RSISPublications@ntu.edu.sg for feedback to the Editor RSIS Commentary, Yang Razali Kassim.

Brexit's Impending Impact: Assessing ASEAN's Exposure

By Aédán Mordecai and Phidel Vineles

Synopsis

This week, the UK government will finally start the process for Britain's withdrawal from the EU. The rest of the world is assessing how exposed other countries are to the almost inevitable economic fallout that will follow Brexit. How will ASEAN be affected, given the region's globally-connected export content?

Commentary

AS THE United Kingdom formally starts its exit from the European Union, a clearer picture is emerging of how Brexit might unfold. The new Prime Minister Theresa May has pushed her Brexit bill through parliament and is poised to invoke Article 50 today, 29 March 2017. She also went some way to resolving the often repeated question of whether the UK will pursue a 'hard' or 'soft' Brexit, by indicating that Britain will not be looking to remain in the single market, with control over immigration winning that particular battle.

The British economy has largely done better than expected since last June's referendum, with growth accelerating at the end of last year and growing by 1.8% overall in 2016. The fall in the pound sterling has given a boost to exporters while raising costs for the many products imported, pushing up inflation quickly. Nonetheless most economic actors are considering their options before they commit to the UK economy; they are either hesitant to invest or are looking to potentially move their operations out of the country. As the UK is a significant member of the world economy, all eyes are on the fate of Britain, as well as the rest of Europe, while assessing the potential impact of Brexit on other regions of the world.

ASEAN's exposure to the UK and Europe

ASEAN, for one, is not immune to the Brexit fallout, given its economic exposure to both the EU and the UK economies. The common method to assess the degree of exposure is to measure the volume and flow of exports going to the EU from ASEAN and the foreign direct investment (FDI) heading in the opposite direction.

According to the Asian Development Bank (ADB) and International Trade Centre (ITC Trademap), Vietnam and Thailand were the largest exporters from ASEAN to the UK, which amounted to USD4.8 billion and USD3.6 billion, respectively in 2014. Overall, however, the Economic Research Institute for ASEAN and East Asia (ERIA) estimated that the UK only accounted for 1.5 percent of ASEAN exports in 2015.

ASEAN is significantly more exposed to the EU as a whole, particularly via trade channels, compared to the UK. The EU is ASEAN's second largest trading partner, which accounted for around 13 percent of ASEAN trade in 2014. The European Commission states that the largest exporters to the EU in ASEAN were Vietnam, which amounted to more than EUR33 billion, and Malaysia (EUR22.2 billion). With regards to foreign direct investment going into ASEAN, 16.7% of FDI comes from the EU totalling more than USD19 billion, with one third of that coming from the UK.

Beyond Exports and FDI: The Global Value Chain

Analysing exports and FDI alone, however, provides an inadequate picture of ASEAN's exposure to Brexit. While it is true that ASEAN is an export-oriented region and will continue to be for the foreseeable future, there is an increasing reliance on 'importing to export' with imports making up a portion of the final export product. Production has become more fragmented in the age of globalisation, with products less and less likely to be manufactured wholly in one country, by one firm alone.

The result is that much more of global trade is not in finished products but also in components and parts (intermediate goods). The World Bank estimated that 20 per cent of global trade was in intermediate goods in 2015. ASEAN is no exception to the growing level of production networks that span multiple nations with high levels of trade of unfinished products coming in and out of the region. The Global Value Chain (GVC) participation rate was at 56 per cent for East and Southeast Asia in 2010 according to the United Nations Conference on Trade and Development (UNCTAD). This illustrates the degree of fragmentation within the region.

In the case of ASEAN, 28.4 percent of its total exports' value was produced from outside the region in 2011 according to statistics collected by the OECD and the World Trade Organisation (WTO), with the EU being a major contributor to the region's 'foreign value added' content of exports. In fact, a total of 16.3 percent of foreign value added embodied in ASEAN exports originated from the EU.

The share of EU value added within exports is particularly high in Singapore, Brunei, and Malaysia. Digging further into the trade data of ASEAN member states highlights how crucial the share of EU value added in ASEAN exports is to some key industries. Malaysia's most important export industry – electronics - owes almost 10 percent of its total gross export value to the EU. Elsewhere, ASEAN's largest automobile exporter, Thailand, has the EU contributing 6.4 percent to the industry's

total exports, while 4.4 percent of Vietnam's important textile export industry originates from the bloc.

What Does this Mean for ASEAN?

There are two main takeaways from this analysis of ASEAN's exposure to Brexit.

Firstly, and as already widely known, ASEAN has most to worry from an economic slump spreading from Britain and causing significant damage to the rest of the EU. A slowdown in the EU would negatively affect the demand for ASEAN's exports much more than a consequent economic downturn limited to only the UK.

The data also brings to light an aspect of vulnerability that has not been seriously considered, which is the potential disruption in the production networks that ASEAN export industries rely on. The complex fragmented nature of global trade and ASEAN's movement up the value chain means assessing the region's exposure to external shocks is becoming an increasingly inter-connected and comprehensive exercise.

It is therefore necessary to go beyond the standard examination of gross exports and FDI when assessing the potential fallout from Brexit on ASEAN, or Southeast Asia. It is equally crucial to consider the importance of foreign value added content when analysing ASEAN's exposure to the impending impact of Brexit.

Aédán Mordecai and Phidel Vineles are Senior Analysts with the Centre for Multilateralism Studies (CMS) at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore.

Nanyang Technological University
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
Tel: +65 6790 6982 | Fax: +65 6794 0617 | www.rsis.edu.sg