The ASEAN Reconfiguration

Supply Chain Diversification, China+1, and the New Geography of Asian Manufacturing

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Abstract

The restructuring of global supply chains away from concentrated Chinese production is the defining structural shift in Asian economics for the 2020s decade. This paper examines the China+1 phenomenon not as a binary relocation story but as a complex, multi-speed reconfiguration that creates distinct winners and losers within ASEAN. Vietnam and Indonesia are capturing the bulk of manufacturing FDI. Singapore is consolidating its position as regional headquarters and wealth hub. Thailand faces an identity crisis as its automotive franchise is disrupted by Chinese EV production. And the entire region confronts the paradox that China+1 diversification often means more Chinese investment in ASEAN, not less. We map the industrial geography, quantify the capital flows, and assess which economies are positioned to capture durable value versus those serving as temporary tariff arbitrage platforms.

1. The Scale of the Shift

The numbers are striking. Foreign direct investment into the ASEAN-6 economies rose to $236 billion in 2023, up from an annual average of $190 billion between 2020 and 2022. Vietnam's exports grew from $320 billion in 2019 to $440 billion in 2023, a CAGR of 8.2%. Indonesia's exports grew from $180 billion to $290 billion over the same period, a CAGR of 12.3% — the highest among Southeast Asian countries. ASEAN now handles over 20% of the world's semiconductor assembly, testing, and packaging, and its automotive parts exports account for roughly 22% of global trade in the category.

But the aggregate numbers obscure a critical nuance: this is not a uniform shift. The FDI is concentrated in specific countries, specific sectors, and increasingly driven by Chinese firms themselves. The diversification that was supposed to reduce dependence on China has, in many cases, deepened Chinese economic influence within Southeast Asia — just restructured through different corporate vehicles and trade routes.

The 2025 trade data underscores the dynamic. Chinese exports to Southeast Asian countries surged 13% in 2025, even as exports to the US fell 20%. China's $1.2 trillion trade surplus was achieved partly by rerouting production through ASEAN, creating a complex web of interdependency that benefits both sides but also creates vulnerability to rules-of-origin enforcement.

Our view: China+1 is real and accelerating, but its benefits are unevenly distributed. The ASEAN economies that build genuine domestic value chains and workforce capabilities will capture durable gains. Those that serve primarily as tariff arbitrage platforms face the risk that trade enforcement will eventually close the loophole.

2. Country-by-Country Assessment

2.1 Vietnam: The Electronics Powerhouse

Vietnam is the most visible China+1 beneficiary. Samsung already produces roughly half its global smartphones in Vietnam. Apple supplier Foxconn and Chinese CoreTek have relocated assembly operations there. BOE Technology is investing hundreds of millions in new Vietnamese factories. The country's competitive labor costs, extensive free-trade agreements, and proximity to Chinese supply chains make it the default first choice for electronics diversification.

But Vietnam's success contains its own risks. The country is heavily exposed to electronics and semiconductors — the very sectors where US tariff policy and Chinese mineral export controls create maximum volatility. Recent anti-dumping duties on steel imported from China via Vietnam demonstrate that trade authorities are scrutinizing transshipment. If the value-add in Vietnam is insufficient to satisfy rules-of-origin requirements, the tariff advantage evaporates.

Our view: Vietnam's manufacturing position is durable but increasingly contested. The key variable is whether Vietnamese firms can move up the value chain from assembly to component manufacturing and R&D.; Samsung's growing R&D; footprint is encouraging.

2.2 Indonesia: The Resource-Backed Play

Indonesia's China+1 story is fundamentally different. It is driven by natural resources, particularly nickel and the downstream EV battery supply chain, plus a domestic market of 270+ million consumers. Indonesia received approximately $33 billion in greenfield manufacturing FDI in 2023 — the largest in ASEAN. Chinese EV manufacturers including BYD plan to start commercial production in Indonesia in 2026.

The government has pursued aggressive downstream industrialization, banning raw nickel exports to force domestic processing. This attracted smelter investment but raised environmental concerns and created dependence on Chinese processing technology.

Our view: Indonesia's resource endowment provides a structural floor, but the quality of FDI matters. The government's ability to enforce local content requirements and environmental standards will determine whether Chinese investment creates genuine technology transfer or replicates extractive patterns.

2.3 Singapore: The Orchestrator

Singapore's role in the ASEAN reconfiguration is not as a manufacturing destination but as the command-and-control hub. The city-state accounts for roughly 10% of global chip fabrication and has positioned itself as regional headquarters for firms diversifying China exposure, the primary wealth management destination for Chinese capital outflows, and a key node in the semiconductor supply chain.

Singapore's economy grew 5.0% in 2025, with Q4 surging 6.9% driven by AI electronics. MTI upgraded the 2026 forecast to 2.0–4.0%. MAS maintained its S$NEER appreciation path in January 2026. The construction pipeline — Changi Terminal 5, Tuas Port, the North-South Corridor — will generate $39–46 billion in annual demand from 2026 to 2029.

But Singapore is not immune to risks. If the AI capex cycle peaks and semiconductor demand normalizes, manufacturing outperformance would cool sharply. The 58% of employers planning headcount freezes in 2026 suggests the labor market is already anticipating a slowdown.

Our view: Singapore's structural position is among the strongest in Asia. The wealth management inflows, regional HQ consolidation, and infrastructure investment provide multiple growth engines. We view Singapore as the highest-quality risk-adjusted exposure in ASEAN.

2.4 Thailand: The Identity Crisis

Thailand built its manufacturing identity on Japanese automotive investment over four decades. Now Chinese EV manufacturers are displacing that franchise. By 2026, Chinese companies plan to produce over 1 million vehicles in ASEAN, with approximately 600,000 being EVs — and Thailand is the primary production base. The government allocated $970 million to support EV production.

The problem is that Chinese EV production is more vertically integrated, with less local content than Japanese auto manufacturing. Thai component suppliers face obsolescence. GDP growth is projected at just 1.8–2.5% for 2026.

Our view: Thailand faces genuine structural adjustment. The question is whether the EV transition creates a new industrial ecosystem with Thai participation or merely replaces a Japanese-led franchise with a Chinese-led one that captures less domestic value. We are cautious.

2.5 Malaysia: The Quiet Winner

Malaysia's semiconductor packaging, assembly, and testing capabilities are well-established, with Intel, GlobalFoundries, Infineon, and Siltronic expanding operations. The semiconductor sector contributes an estimated 25% of GDP. The Singapore-Malaysia-Indonesia triangle has become the preferred location for chip companies navigating high-tech decoupling.

3. The Chinese Investment Paradox

The most underappreciated dynamic: Chinese firms are among the largest drivers of China+1 investment. Chinese FDI into ASEAN has surged as manufacturers seek to circumvent US tariffs and secure market access. BYD in Thailand and Indonesia, Longi and Jinko Solar in Vietnam and Malaysia, and hundreds of smaller manufacturers in CLMV countries — the diversification is partially a reorganization of Chinese supply chains, not an abandonment.

This creates a political economy challenge. Chinese investment brings capital, technology, and employment, but also competition with local firms, environmental concerns, and potential dependency on Chinese supply chains that mirrors the very concentration risk China+1 was supposed to address. US anti-dumping enforcement is increasingly targeting these operations — Longi halted five Vietnamese production lines and Jinko closed a Malaysian plant in response to tariff actions.

The $1.2 trillion Chinese trade surplus itself is partly a product of this restructuring: as Chinese firms establish ASEAN operations, intermediate goods flow from China to ASEAN for final assembly and re-export. This creates the appearance of geographic diversification while maintaining Chinese firms' control over the value chain.

4. The EU-ASEAN Convergence

An underappreciated development: the US-China decoupling is pushing ASEAN and Europe closer together. The EU is working to finalize free-trade agreements with India and Indonesia, with deals targeted for the Philippines, Thailand, and Malaysia by 2027. The recently concluded India-EU trade deal represents a significant milestone in this convergence.

For ASEAN, EU trade agreements provide market diversification away from US-China bipolarity. Brussels is also considering a minimum price system for Chinese EVs to replace steep import tariffs, signaling a more nuanced approach to trade tensions that could benefit ASEAN intermediaries in the EV supply chain.

5. Infrastructure and Logistics: The Hidden Bottleneck

The supply chain reconfiguration is outpacing infrastructure development in most ASEAN economies. Chinese manufacturing operates on world-class logistics infrastructure: deep-water ports with 24-hour operations, high-speed rail connecting industrial zones, and integrated customs systems. ASEAN's infrastructure readiness is uneven. Singapore and Malaysia have competitive facilities, but Vietnam, Indonesia, and Thailand face congestion, customs delays, and inadequate intermodal connectivity.

The countries that invest most aggressively in logistics modernization will capture disproportionate manufacturing relocation share. Singapore's Tuas Port megaproject, designed to consolidate all container operations by 2040, is the most ambitious example and positions Singapore as the logistics orchestrator for the entire reconfiguration.

6. The Workforce Challenge

Manufacturing relocation requires skilled workers at competitive wages. ASEAN's young population is an advantage, but the skills gap is real. Chinese manufacturing benefits from decades of vocational training, engineer density, and industrial culture that ASEAN cannot replicate overnight. The ASEAN economies that attract capability-building investment — R&D; centers, vocational programs, technology transfer — rather than pure cost arbitrage, are the ones building durable competitive advantages.

7. What We're Watching

Rules of origin enforcement: The single biggest risk to the China+1 thesis. If US tariff authorities determine that minimal-assembly operations are circumventing China tariffs, the entire cost structure of diversified supply chains changes overnight.

Chinese EV penetration in ASEAN: Whether ASEAN automotive sectors capture value or merely host production. Thailand and Indonesia are the critical test cases.

Semiconductor cycle timing: Singapore, Malaysia, and Taiwan are all exposed to the AI-driven supercycle. Peak capex would reverberate through the entire supply chain.

EU-ASEAN trade deals: Successful completion would be a structural positive for market diversification and reduced vulnerability to US-China bilateral dynamics.

8. Conclusion

The ASEAN reconfiguration is the most significant structural shift in Asian economic geography since the original wave of Japanese manufacturing FDI in the 1980s. It is creating new industrial corridors, new trade patterns, and new competitive dynamics that will persist for at least a decade. The economies that build genuine capabilities — workforce skills, domestic supply chains, institutional quality — will capture durable value. Those that serve primarily as arbitrage platforms will find their advantage transient.

For Darmine Capital, the investment implications are clear: favor the orchestrators and capability-builders (Singapore, Malaysia) over the pure-volume plays. Monitor transshipment enforcement risk as the key swing factor. And recognize that the biggest beneficiary of China+1 may paradoxically be Chinese firms themselves, operating from new geographic bases with diversified market access.

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