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Economic Letter from Asia: On China and ASEAN

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Written by Tian Yong Woon

This week, we explore a series of interconnected themes—from China's accelerating AI ambitions to evolving geopolitical dynamics in Southeast Asia, shaped in part by the United States' increasingly inward focus and protectionist trade measures. Despite US chip export restrictions, some—including Nvidia's CEO—have questioned their effectiveness. Indeed, select indicators suggest that China's AI capabilities continue to advance (chart 1), even as broader dimensions of development—beyond raw performance—reveal areas where significant progress is still needed (chart 2).

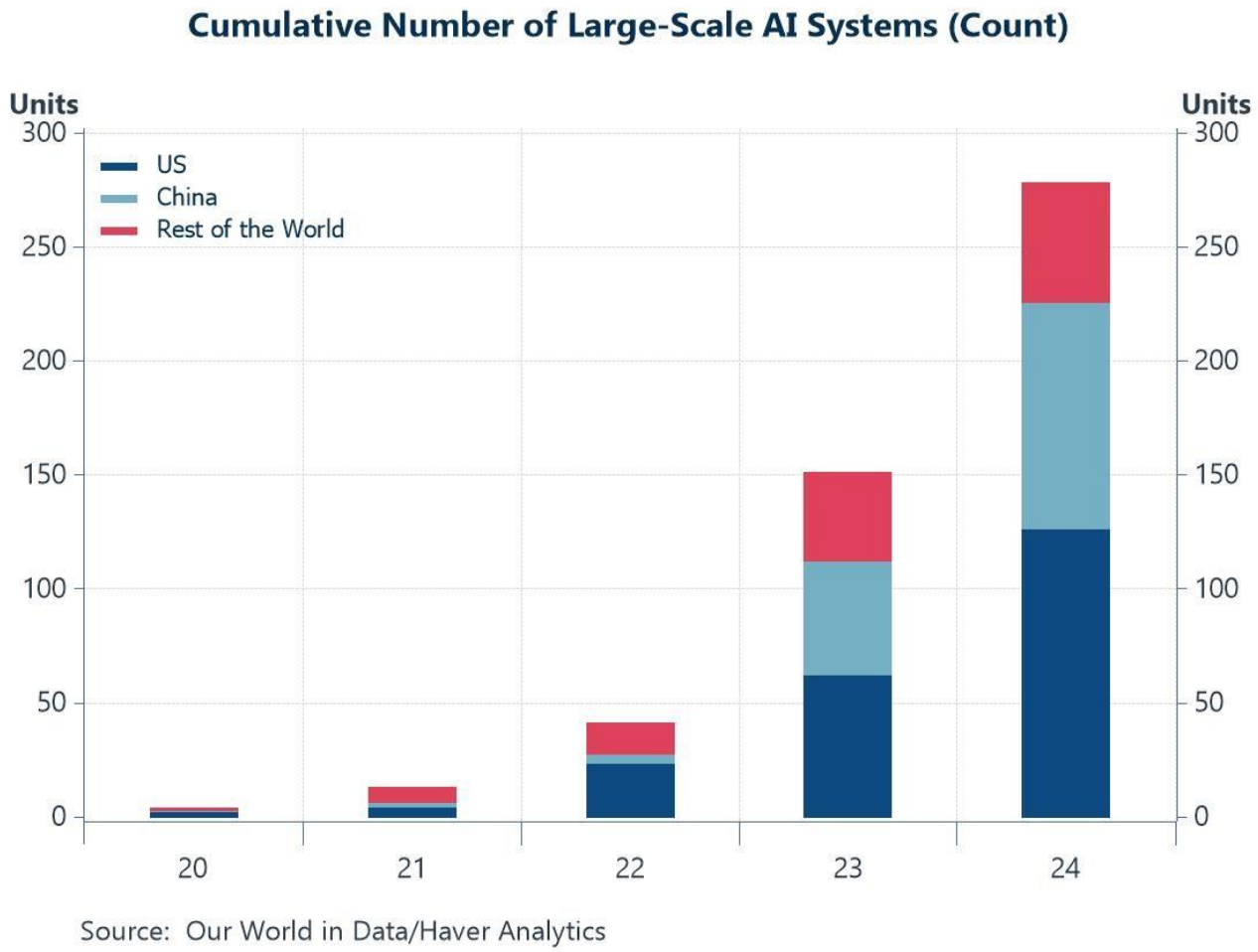
In Indonesia, we discuss last week's central bank rate cut, which some economists saw as necessary to support the economy amid external trade-related headwinds and reduced government spending. The move was also made possible by recent signs of rupiah stability (chart 3). In response to global trade uncertainties, Indonesia is also deepening regional ties, particularly with China—a relationship that has been strengthening even prior to this year's US trade measures (chart 4).

Zooming out to broader regional issues, this week's ASEAN-related summits reflect a growing inclination to expand ties with both China and the Middle East. As such, ASEAN's already substantial trade with China (chart 5) may be poised to grow further. At the same time, ASEAN is now exploring a collective approach in trade talks with the US—alongside ongoing bilateral efforts—potentially to stave off further tariff increases on its exports (chart 6).

China's AI push

It has been another revealing week in US–China developments. Nvidia CEO Jensen Huang remarked that US chip export controls have not only failed but may have accelerated China's drive for self-reliance in AI chips—particularly at the high end. Indeed, this trend appears to be playing out. China has steadily increased investment in its AI capabilities over the years, bolstered by a strategic government push that includes substantial funding. This has led to tangible progress, such as a rising number of large-scale AI systems (see chart 1). Notably, China's advances have continued despite sustained US efforts to hinder its technological progress—many of which were introduced under previous administrations.

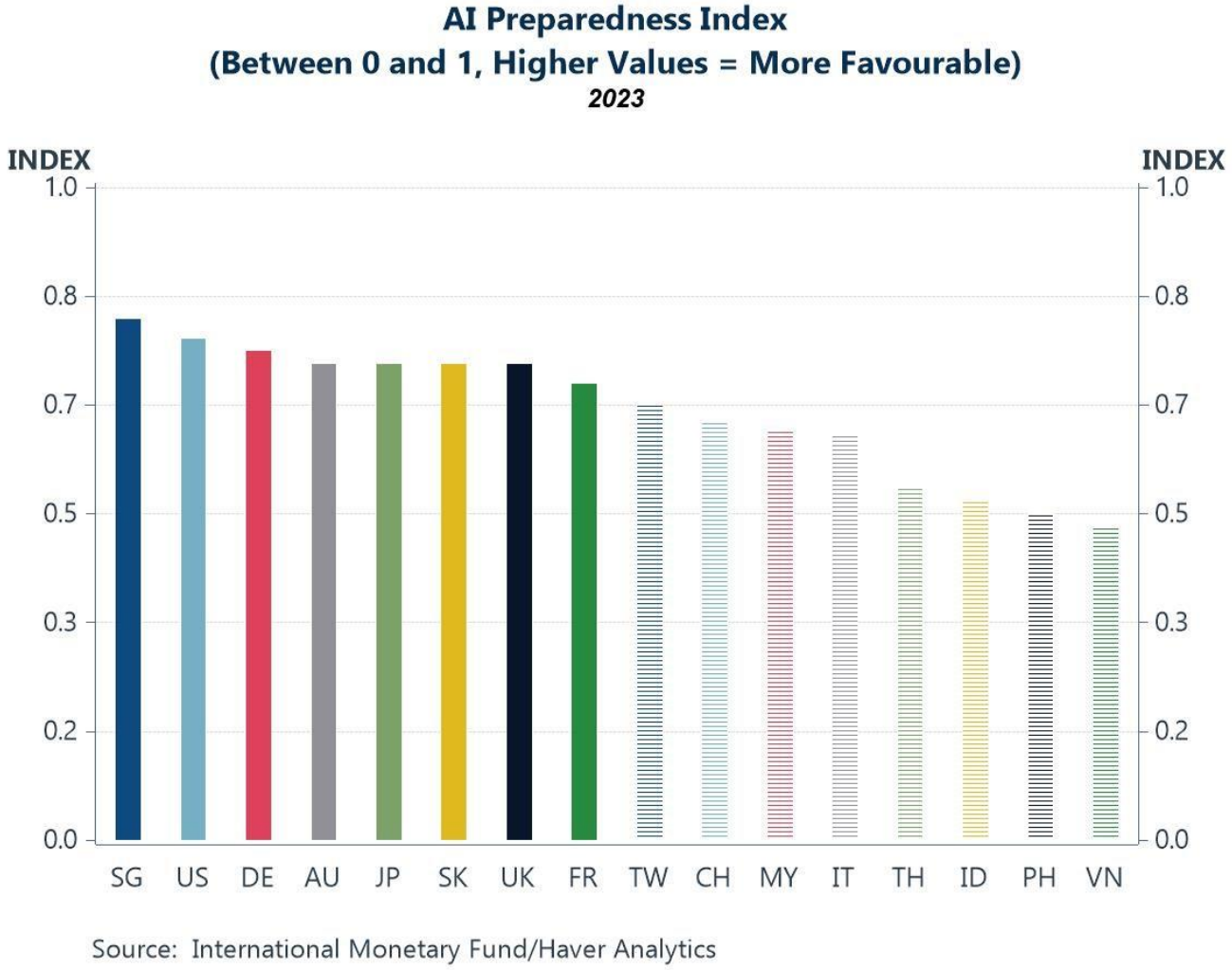
Chart 1: Cumulative number of large-scale AI systems



Admittedly, there are many dimensions to consider in assessing China's rise in the AI space—beyond just pure performance metrics. Chart 2 highlights one such multi-dimensional perspective: the IMF's AI Preparedness Index (AIPI), which captures four key pillars—digital infrastructure, human capital, technological innovation, and legal frameworks. Based on 2023 data, China recorded a relatively high overall AIPI score but still lagged behind several major advanced economies, including the US, Germany,

and Japan. A closer look at the sub-indexes shows that while China scores strongly in digital infrastructure, there remains room for improvement in the other three areas. That said, China's current priority appears to be achieving self-reliance and eventual dominance in AI capabilities.

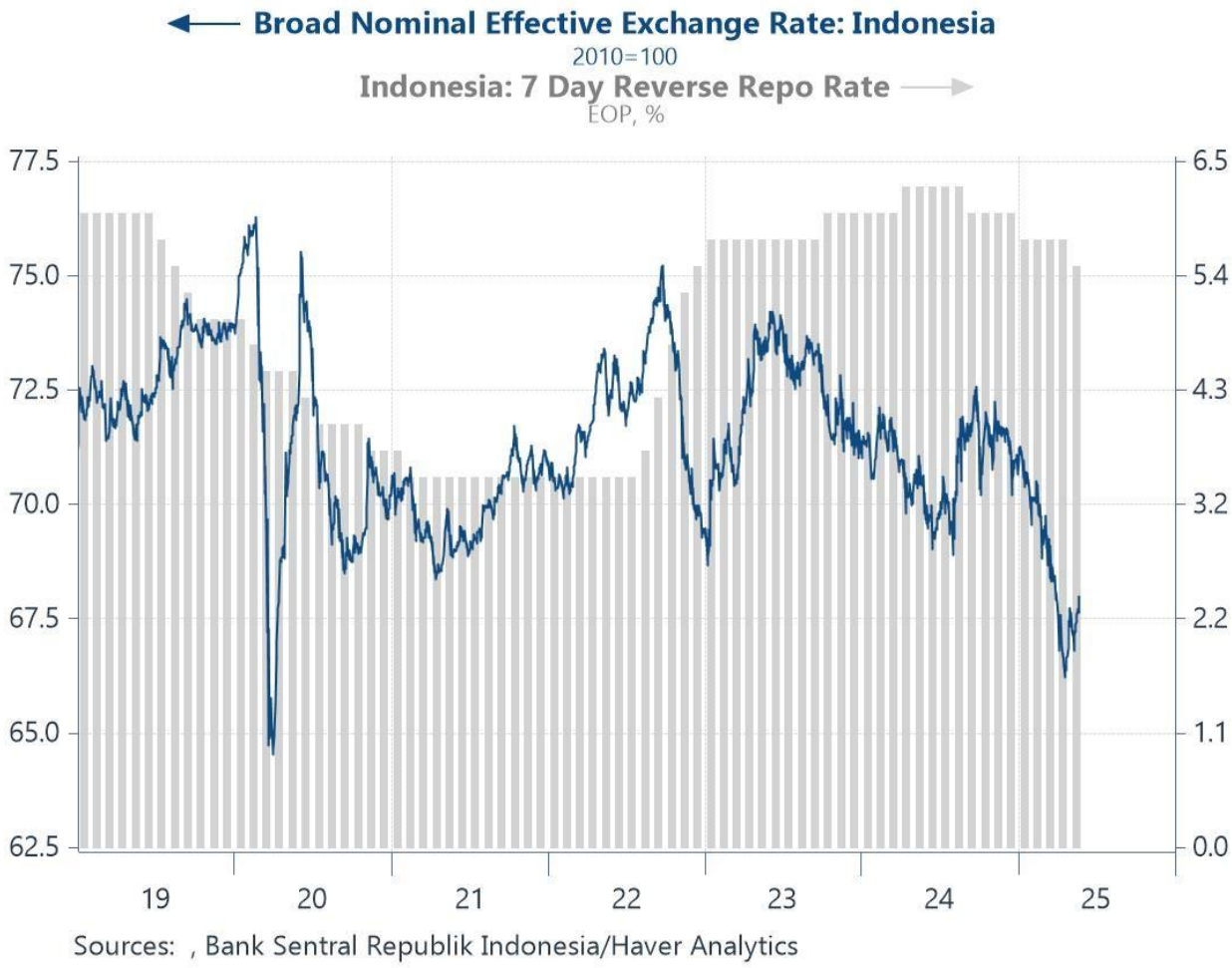
Chart 2: AI preparedness index



Indonesia-related developments

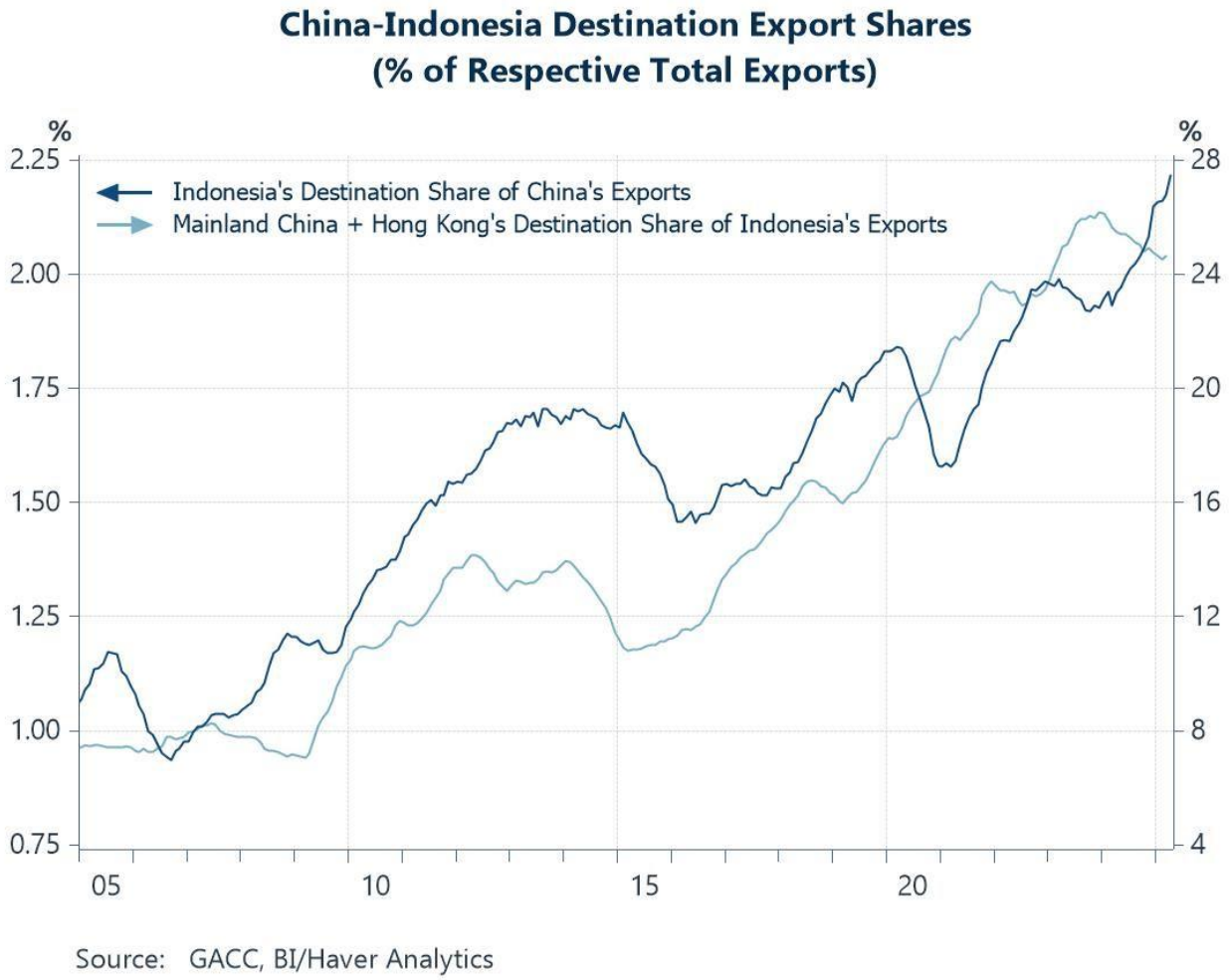
Turning to Indonesia, its central bank (BI) cut its policy rate by 25 bps last week, as widely expected. Like many central banks globally, BI has shifted its focus toward supporting growth, as trade-related pressures from the US continue to weigh on economic momentum. Crucially, inflation has remained well-behaved—staying within the central bank's target range of ±1% around the 2.5% midpoint—which provided the space for this latest rate cut. A consideration more specific to Indonesia is BI's explicit mandate to maintain FX stability. On that front, the rupiah has recently stabilized after a prolonged period of depreciation, as shown in chart 3. This stabilization also gave BI more confidence to ease policy during its May decision. Looking ahead, however, BI has not explicitly endorsed further near-term rate cuts, signalling a more cautious stance toward additional easing.

Chart 3: The Indonesian rupiah and Indonesia's policy rate



BI's rate cut was widely seen by economists as necessary, given that year-on-year GDP growth in Q1 fell to multi-year lows, and amid ongoing substantial government spending cuts. With growth facing multiple headwinds—domestically and externally, such as from US trade tariffs—BI's easing was viewed as a move to help mitigate near-term economic pressures. At the same time, Indonesia is working to diversify and strengthen its longer-term growth drivers, including through deeper engagement with other Asian economies. A high-profile example of this took place over the weekend, when Indonesian President Prabowo met with Chinese Premier Li Qiang in Jakarta, as the latter began his Southeast Asian tour. Among the key outcomes were a signed memorandum of understanding (MOU) to promote bilateral transactions in local currencies and commitments to enhance cooperation in sectors such as tourism and agricultural exports. Even prior to this latest diplomatic push, China and Indonesia had been steadily deepening their economic ties. This is reflected, for example, in the growing share of Indonesian exports destined for China over recent years (chart 4).

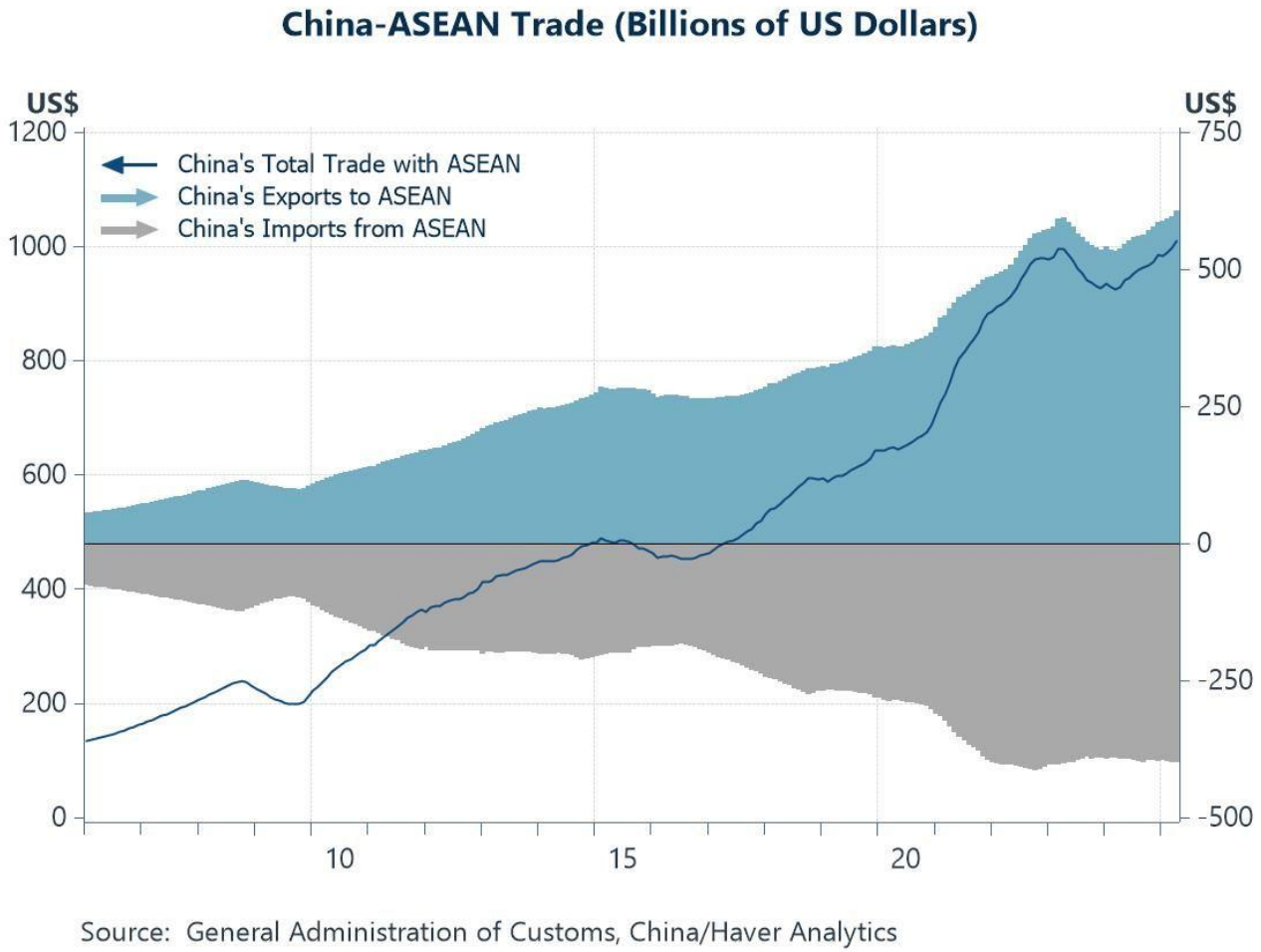
Chart 4: China-Indonesia destination export shares



Broader ASEAN developments

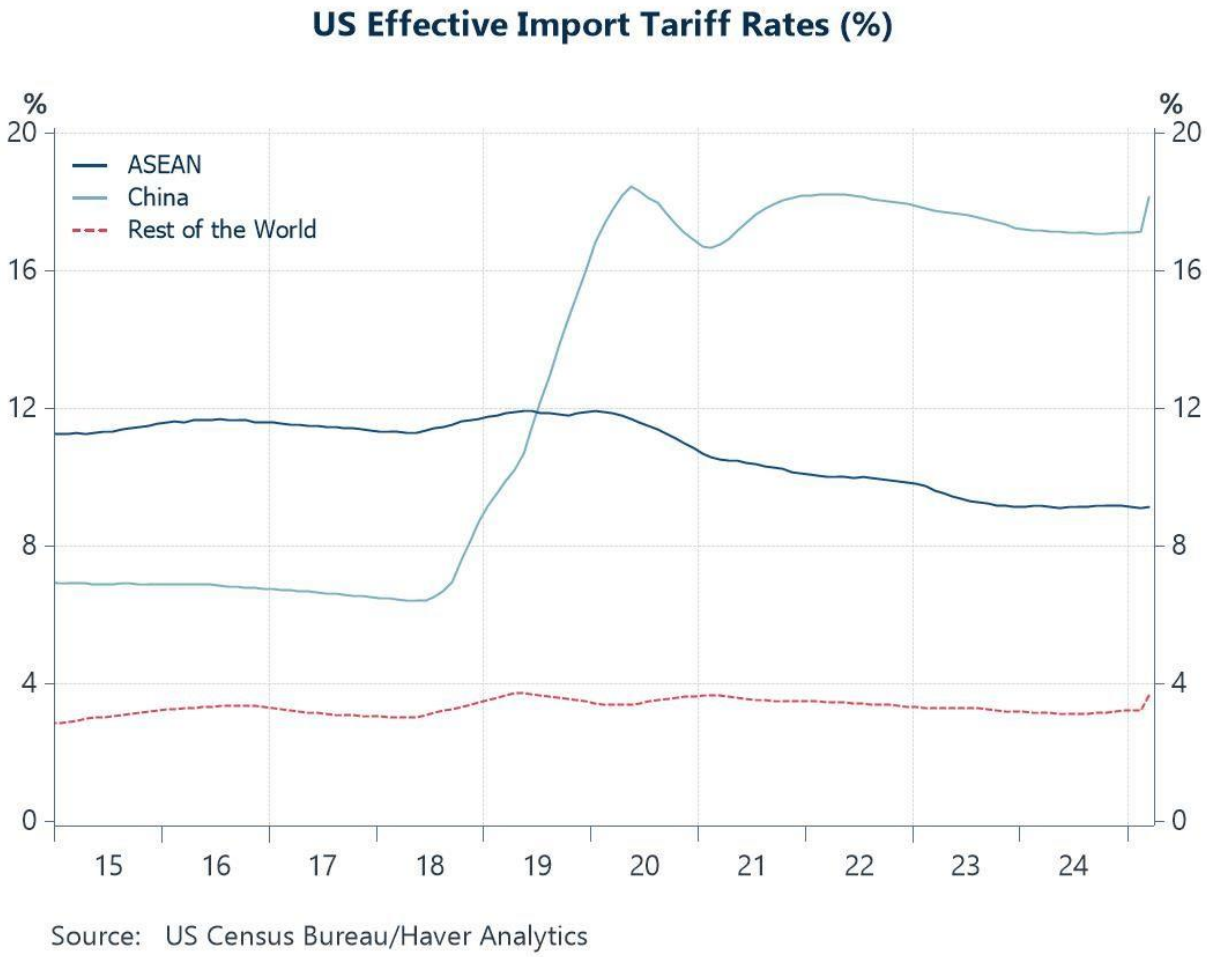
As noted earlier, Chinese Premier Li Qiang's visit to Indonesia marked the first stop of his Southeast Asian tour. He later travelled to Kuala Lumpur, Malaysia, to attend the inaugural ASEAN–Gulf Cooperation Council (GCC)-China summit—underscoring China's growing interest in deepening ties across both Asia and the Middle East. This renewed diplomatic and economic outreach comes at a time when the US has stepped up its trade-related actions. While these moves are intended to support the US economy, they have also strained its relationships with key partners, leaving space for other major players—most notably China—to strengthen their influence. In the case of ASEAN, China has long been the region's largest trading partner and investor, with rapid growth over time, as shown in chart 5. While the US remains ASEAN's second-largest trading partner and maintains strong defence ties with several member states, its ability to sustain this position is increasingly in question. As the US once again turns inward—with trade tariffs already in place and the prospect of even higher rates looming without substantive trade agreements—its economic engagement in the region faces growing challenges.

Chart 5: China-ASEAN trade



Staying with Southeast Asia, this week's ASEAN–GCC–China summit is part of a broader series of meetings, including the 46th ASEAN Summit, the inaugural ASEAN–GCC–China Summit, and the 2nd ASEAN–GCC Summit. During the 46th Summit on Monday, Malaysian Prime Minister Anwar—whose country holds the rotating chairmanship this year—revealed that he had written to US President Trump proposing a US-ASEAN summit. The summit could possibly be focused on dialogue on trade issues, particularly in light of ongoing US tariffs. The shared challenge of potentially steep tariff increases from current levels (see chart 6) seems to have prompted ASEAN member states to explore a collective approach to trade discussions with the US, rather than solely pursuing separate bilateral talks. However, given President Trump's apparent preference for bilateral negotiations, it remains unclear whether the US would engage in a multilateral summit format. While an ASEAN-wide discussion with the US could produce a more comprehensive outcome for the region, it is still too early to tell whether such a summit will materialize under the current US administration.

Chart 6: US effective import tariff rates



About the author

Haver Analytics is pleased to bring Tian Yong Woon's commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Series info:

Chart 1: Cumulative number of large-scale AI systems
Series 1: USASCTO@GLSECTOR
USASCTO@GLSECTOR [Cumulative Number of Large-Scale AI Systems: United States (Number)]
Series 2: CNASCTO@GLSECTOR
CNASCTO@GLSECTOR [Cumulative Number of Large-Scale AI Systems: China (Number)]
Series 3: ((WOASCTO@GLSECTOR - CNASCTO@GLSECTOR) - USASCTO@GLSECTOR)
WOASCTO@GLSECTOR [Cumulative Number of Large-Scale AI Systems: World (Number)]
CNASCTO@GLSECTOR [Cumulative Number of Large-Scale AI Systems: China (Number)]
USASCTO@GLSECTOR [Cumulative Number of Large-Scale AI Systems: United States (Number)]

Chart 2: AI preparedness index
Series 1: A576IA@ESG
A576IA@ESG [Singapore: AI Preparedness Index (0 to 1)]
Series 2: A111IA@ESG
A111IA@ESG [United States: AI Preparedness Index (0 to 1)]
Series 3: A134IA@ESG
A134IA@ESG [Germany: AI Preparedness Index (0 to 1)]
Series 4: A193IA@ESG
A193IA@ESG [Australia: AI Preparedness Index (0 to 1)]
Series 5: A158IA@ESG
A158IA@ESG [Japan: AI Preparedness Index (0 to 1)]
Series 6: A542IA@ESG
A542IA@ESG [South Korea: AI Preparedness Index (0 to 1)]
Series 7: A112IA@ESG
A112IA@ESG [United Kingdom: AI Preparedness Index (0 to 1)]
Series 8: A132IA@ESG
A132IA@ESG [France: AI Preparedness Index (0 to 1)]
Series 9: A528IA@ESG
A528IA@ESG [Taiwan: AI Preparedness Index (0 to 1)]
Series 10: A924IA@ESG
A924IA@ESG [China: AI Preparedness Index (0 to 1)]
Series 11: A548IA@ESG
A548IA@ESG [Malaysia: AI Preparedness Index (0 to 1)]
Series 12: A136IA@ESG
A136IA@ESG [Italy: AI Preparedness Index (0 to 1)]
Series 13: A578IA@ESG
A578IA@ESG [Thailand: AI Preparedness Index (0 to 1)]
Series 14: A536IA@ESG
A536IA@ESG [Indonesia: AI Preparedness Index (0 to 1)]
Series 15: A566IA@ESG
A566IA@ESG [Philippines: AI Preparedness Index (0 to 1)]
Series 16: A582IA@ESG
A582IA@ESG [Vietnam: AI Preparedness Index (0 to 1)]

Chart 3: The Indonesian rupiah and Indonesia's policy rate
Series 1: X536NR@INTDAILY
X536NR@INTDAILY [Broad Nominal Effective Exchange Rate: Indonesia (2010=100)]
Series 2: N536RTAR@EMERGEPR
N536RTAR@EMERGEPR [Indonesia: 7 Day Reverse Repo Rate (EOP, %)]

Chart 4: China-Indonesia destination export shares
Series 1: (movt(N924IXID@EMERGEPR,12) % movt(N924IXT@EMERGEPR,12))
N924IXID@EMERGEPR [China: Exports to Indonesia (NSA, Mil.US$)]
N924IXT@EMERGEPR [China: Exports (NSA, Mil.US$)]
Series 2: (movt((N536ITHK@EMERGEPR + N536ITCN@EMERGEPR),12) % movt(N536IXFB@EMERGEPR,12))
N536ITHK@EMERGEPR [Indonesia: Exports to Hong Kong SAR (NSA, Thous.US$)]

N536ITCN@EMERGEPR [Indonesia: Exports to People Republic of China (NSA, Thous.US$)]
N536IXFB@EMERGEPR [Indonesia: Exports of Goods, fob (NSA, Thous.US$)]

Chart 5: China-ASEAN trade
Series 1: (movt(N924IXO7@EMERGEPR,12) + movt(N924IMO7@EMERGEPR,12))
N924IXO7@EMERGEPR [China: Exports to ASEAN (NSA, Mil.US$)]
N924IMO7@EMERGEPR [China: Imports from ASEAN (NSA, Mil.US$)]
Series 2: movt(N924IXO7@EMERGEPR,12)
N924IXO7@EMERGEPR [China: Exports to ASEAN (NSA, Mil.US$)]
Series 3: (-1 * movt(N924IMO7@EMERGEPR,12))
-1
N924IMO7@EMERGEPR [China: Imports from ASEAN (NSA, Mil.US$)]

Chart 6: US effective import tariff rates
Series 1: (movt(CDASE@USTRADE,12) % movt(DVASE@USTRADE,12))
CDASE@USTRADE [US Imports from ASEAN: Calculated Duty (Thous.$)]
DVASE@USTRADE [US Imports from ASEAN: Dutiable Value (Thous.$)]
Series 2: (movt(CD924@USTRADE,12) % movt(DV924@USTRADE,12))
CD924@USTRADE [US Imports from China: Calculated Duty (Thous.$)]
DV924@USTRADE [US Imports from China: Dutiable Value (Thous.$)]
Series 3: (movt(((CD001@USTRADE - CDASE@USTRADE) - CD924@USTRADE),12) % movt(((DV001@USTRAD
CD001@USTRADE [US Imports from the World: Calculated Duty (Thous.$)]
CDASE@USTRADE [US Imports from ASEAN: Calculated Duty (Thous.$)]
CD924@USTRADE [US Imports from China: Calculated Duty (Thous.$)]
DV001@USTRADE [US Imports from the World: Dutiable Value (Thous.$)]
DVASE@USTRADE [US Imports from ASEAN: Dutiable Value (Thous.$)]
DV924@USTRADE [US Imports from China: Dutiable Value (Thous.$)]

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