



ASEAN's investment potential in a Trump 2.0 world

As the rest of the world contends with the geopolitical and economic implications of a second Trump term, for ASEAN countries, there is still much to gain.

By Yeu Huan Lai, Joint Head of Asian Equity
March 2025

The second Trump presidency brings with it both continuity and change. Many of the trends shaping global trade today began during his first term, particularly the shift in supply chains, which have been fragmenting since 2016. The trade war with China, coupled with the disruption caused by COVID-19, highlighted the risks of concentrated, 'just-in-time' supply chains. Geopolitical tensions in recent years have reinforced this shift. As a result, companies started diversifying production to reduce vulnerabilities, moving toward an alternative 'just-in-case' approach. Trump's return to office means this momentum is likely to continue. For ASEAN countries, despite the uncertainty, this also presents an opportunity.

Chart 1: ASEAN (Association of Southeast Asian Nations)



Source: Shutterstock, March 2025

For example, many ASEAN nations are now credible alternatives to China for manufacturing. Vietnam's proximity to Shenzhen, for example, makes it a convenient production hub. Malaysia has long-standing tech ecosystems, some even predating China's rise as a manufacturing powerhouse. And beyond the China-plus-one¹ strategy, businesses are also considering a 'Taiwan-plus-one'² approach, as geopolitical risks drive companies heavily dependent on Taiwan-based tech suppliers, for example, to diversify.

Trump's hopes of reshoring manufacturing jobs are limited, ASEAN to benefit

Despite the threat of Trump's protectionist policies, large-scale reshoring of manufacturing to the US remains an unlikely outcome, in our view. Infrastructure constraints and cost differences mean only high-value sectors, such as semiconductors or electric vehicles, might see some onshoring. Most production will continue to seek the lowest-cost locations, after factoring tariffs and trade policies. If ASEAN enjoys a tariff advantage over China, it could attract even more investment, reinforcing its role as a key manufacturing hub. If only a fraction of China's manufacturing base continues to shift to ASEAN, the positive economic impact is significant.

The possibility of higher tariffs directed at ASEAN countries remains unclear. While Trump has focused on Mexico, Canada, and China, Vietnam has also attracted some attention due to its growing trade surplus with the US. However, any tariffs imposed on ASEAN nations would likely be lower than those targeting China, given the US-China trade rivalry. This could create a relative advantage for ASEAN manufacturers, encouraging further investment in the region.

The inflationary and interest rate impact on ASEAN

Aside from tariffs and trade wars, the second Trump presidency has sparked fresh uncertainties around inflation and interest rates. Initially, markets had been expecting a more benign rate environment in 2025, with multiple rate cuts likely. However, towards the end of 2024, those expectations shifted, as concerns grew that Trump's policies would lead to a less accommodative stance from the US Federal Reserve.

A 'higher-for-longer' rate environment may affect ASEAN economies in different ways. Those more reliant on external funding, particularly those with significant US dollar-denominated debt, may be more vulnerable to higher interest rates. Indonesia, the Philippines, and Vietnam fall into this category and underperformed in late 2024 as rate cut expectations faded. In contrast, Singapore benefited from higher rates, as its banking sector, which is an index heavyweight, enjoyed improved lending margins because of the very low cost of funds, boosting its stock market performance.

So, last year's expected tailwind has tilted towards a more hawkish rate environment than originally anticipated. However, there are signs the environment may not be as severe as feared. The US dollar has softened slightly in early 2025, hinting at a marginal shift in sentiment. Additionally, it is worth noting that not all of the Trump administration's policies are inflationary. If he moves to end ongoing wars or implements swingeing government spending cuts, these could have a pronounced disinflationary effect. Therefore, should rate pressures ease, the underperformance of externally-funded ASEAN economies may reverse, while Singapore, which thrived on higher rates, could see relative underperformance. All we can say with certainty at this stage is that the situation remains fluid, with the worldview evolving and changing very quickly.

ASEAN's balancing act between the US and China

ASEAN countries have long navigated the complex relationship between the US and China, and that balancing act is set to continue. Despite growing geopolitical tensions, most ASEAN nations are unlikely to be forced into choosing one side outright. Instead, we believe they will maintain a pragmatic approach, aligning with each power on different issues that best serve their national interests.

Singapore is a prime example. Its economic ties are divided, with stronger manufacturing and trade links with China, while financial services and technology sectors have deeper connections with the US. This strategy extends across much of ASEAN. Countries like Vietnam have a long history of skilfully managing great-power dynamics, leveraging both US and Chinese engagement for their economic and strategic benefit. Malaysia, Indonesia, and Thailand also seek to maximise their interests without fully committing to one bloc or the other.

¹ The term "China Plus One" describes a business approach used by organizations, particularly multinational firms, for diversifying their supply chain and manufacturing operations by incorporating a different manufacturing or sourcing location outside of China.

² The Taiwan Plus One Strategy aims to reduce economic risks and supply chain problems by advising Taiwanese companies to incorporate an additional country, focusing on Southeast Asia, India, and other areas.

There are exceptions. Laos and Cambodia are far more dependent on China and are unlikely to deviate from that **alignment. But for the region as a whole, the ability to 'walk the tightrope' remains a key strength. ASEAN nations** have proven adept at navigating shifting global alliances, and as the rivalry between the US and China evolves, they will look to continue this delicate balancing act to their advantage.

Our bottom-up approach to investing in ASEAN

While many investors are wondering how Trump's policies will shape global markets, and are looking to allocate assets accordingly, we remain committed to a bottom-up investment approach. Rather than making broad calls on macroeconomic trends, we continue to prioritise investing in companies with strong fundamentals, high sustainable returns, and positive structural change. While we maintain a view on macro developments, stock selection ultimately drives investment decisions. The ongoing shift in global supply chains, for example, is seen as a long-term structural trend, and we seek companies positioned to benefit from it.

For example, the supply chain bifurcation **we've** outlined extends beyond traditional manufacturing to data infrastructure. The global technology landscape is increasingly bifurcated, with separate data ecosystems emerging inside and outside of China. The development of artificial intelligence (AI) follows a similar pattern, with distinct regional domains. This has driven a growing emphasis on data sovereignty, as governments push for localised data storage and infrastructure. Malaysia and Thailand are seeing increased investment in data centres, helped by their abundant energy resources, which are essential for powering data facilities. As a result, we are attracted to companies involved in building, operating, or supplying land for data centres, including a Malaysian firm that recently secured **the country's largest-ever land deal with Microsoft.**

Beyond technology, there are attractive opportunities in sectors that offer resilience in an uncertain economic environment. Consumer staples in Indonesia are particularly attractive, as companies benefit from strong pricing power and lower input costs, leading to growing margins. The healthcare sector presents a similar opportunity, with Thai hospital operators supported by medical tourism and domestic healthcare reforms.

Supportive government policies are also shaping investment opportunities. Singapore recently introduced new incentives to attract fund managers and investment capital. Meanwhile, economic cooperation between Singapore and Malaysia is strengthening, culminating in the launch of the Johor-Singapore Special Economic Zone (JS-SEZ) in January 2025. This agreement is expected to drive high-value investment in manufacturing, tourism, renewable **energy, and logistics, further integrating Johor into Singapore's business ecosystem.** With upcoming elections in Singapore (this year) and Malaysia (in two or three years), both relatively new governments have strong political incentives to deliver tangible economic growth.

Vietnam is another market to watch. Its new leadership is expected to take a more pragmatic, business-friendly approach, in contrast to the previous **administration's more ideological stance. This could create further investment opportunities** as policy shifts encourage economic growth.

While Trump's trade policies will continue to influence global markets, they do not dictate stock selection. We remain focused on identifying companies that can thrive regardless of the macroeconomic backdrop, ensuring that investment decisions are driven by long-term fundamentals rather than short-term political shifts. Overall, the ASEAN region presents a wealth of long-term investment opportunities, driven by strong fundamentals and supportive policies, making it a compelling destination for investors seeking growth and resilience in these uncertain times.

Important information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment.

The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

Luxembourg and Germany: This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive

Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

Canada: The information provide herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.