Research @ Citi Podcast, Episode 53: APEC at a Crossroad

Recorded: Oct. 14, 2025

Published: Oct. 23, 2025

Host: Lucy Baldwin, Head of Research, Citi

Guest: Johanna Chua, Global Head of Emerging Markets Economics, Citi

Transcript:

Lucy Baldwin (0:00)

Hello and welcome to the Research at Citi podcast. I'm your host Lucy Baldwin, Head of Research at Citi. Today I'm delighted to be joined by Johanna Chua, our Head of Emerging Market Economics here at Citi. Welcome to the show Johanna.

Johanna Chua (0:15)

Hi Lucy.

Lucy Baldwin (0:17)

So, we're looking ahead to the APEC Summit, which is scheduled for the end of October, a couple of weeks' time from when we're recording this. As we look at the landscape, it's now 21 economies, 40% of the global population, 60% of global GDP, and around 50% of global trade. Obviously, since APEC was first started back in 1989, the world has shifted pretty profoundly. And I'm hoping that today you can tell us a little bit about that reordering and realignment that you've seen across the block in that period of time, and what we can expect out of the summit later in October.

Johanna Chua (0:55)

Thank you very much, Lucy. You're absolutely right. APEC was founded over 35 years ago — 1989, which you can basically say was almost ages ago, a different generation. It was what you call the unipolar moment, where obviously there was this huge shift towards Western liberalization. And it's quite remarkable. You look at the 21 member countries, not only do you have the core ASEAN nations and the major economies in Asia, like China, Japan, Korea. But you have the U.S. there, you have Russia, even China Taipei is a member. You couldn't recreate that organization if you tried to do it today, given the state of geopolitics that we are in. So, obviously things have shifted a lot and as you mentioned, we've got the APEC meeting coming and notwithstanding a little bit of a crisis to the extent that it was founded on this idea of increased economic and investment integration, and what's happened is you have two core members of APEC, the U.S. and China, at loggerheads really in a major strategic rivalry. And it's created a lot of tensions. I mean, we're already seeing it now.

But obviously, this APEC summit still remains a useful venue for dialogue. There's not that many occasions to have an opportunity for U.S. President Trump and Chinese President Xi to meet together face to face to help address some of the tensions. And we remember under the Biden administration — especially the 2023 summit in San Francisco — where we had that pivotal meeting that helped re-engage military-to - military engagement. I think going into this upcoming summit, there's a lot of expectation, as we know, that there's going to be a meeting between Trump and Xi in South Korea. And again, we're seeing it play live in the avenue we're seeing in the news every day, where on the one hand you have tightening of export controls and the U.S. imposing the 50% rule for entity list affiliations in China, and then you've got China tightening critical minerals, and then Trump threatening 100% tariffs.

So we're really going to watch this upcoming summit. To what extent we can have the face-to-face meeting and what are the potential avenues for areas of cooperation? I think that has almost become the most important reason for APEC. And especially because G20 is a broader array of grouping with European countries, Latin American countries. This seemed a little bit more focused. And G20 is being hosted by South Africa, which probably makes it a little bit complicated to get Trump to go. So this is going to be one of the key issues we're going to watch for the upcoming APEC summit.

Lucy Baldwin (3:20)

As you point out, they haven't met face-to-face for some time — President Xi, President Trump. Probably 2019 G20 was the last face-to-face meeting. So, a lot of expectation if indeed that does go ahead.

Johanna, you talked a little bit about this evolving, shifting world order that we're seeing. And maybe just to delve a little deeper into the U.S.-China dynamics and the trade tensions that we're seeing, which, as you pointed out, re-escalated again last week. How do you see the relationship between the two really reshaping the global alliances between the APEC members more broadly?

I was also thinking about how you've talked about this concept of connector countries, and whether the relationship dynamics between the U.S. and China are really setting us on a path for a much more fragmented set of trade blocks rather than a new push for multilateralism. How do you see that playing out?

Johanna Chua (4:19)

I think global trade relationships have been changing already. Of course, geopolitics and a lot of related policy interventions influenced by geopolitics are part of it. But technology is also making a lot of changes of trade realignment, and I think what we're seeing right now is what people are very focused on is the extent that U.S. and China are disengaging with each other for national-security reasons and policy interventions.

But having said that, China is still the world's largest global manufacturing powerhouse. U.S. is still the largest consumer market. So even though they try to de-risk each other because of geopolitical reasons, economic forces still want some level of re-engagement. And the way you get around that is you try to use other intermediaries — as I said, “connector countries” — that can facilitate this kind of trade flow, so that at least global trade is not so disrupted. I mean, it may obviously be not as efficient as we would have liked because you're creating another wedge, ironically making supply chains longer, but at least you're trying to make them a little bit more geopolitically resilient by reducing some of the bilateral frictions by moving to third countries.

And we find because of this whole subset of 21 member APEC countries, it does host a number of key economies that are performing this role, where they have good trade relationships on both sides and then creating a little bit of a connector role. And again, that at least reduces the costs of geoeconomic fragmentation. It would have been much worse if you had a complete severing of ties.

And so, in this piece, we look at who are the connector countries. And one way you could try to measure that is not just looking at which country is trading a lot more with China and which country is trading a lot more with the U.S., but looking at the directionality of the flows. So you would make an argument countries that are suddenly seeing a rising share of imports from China just as they're making significant inroads of export-share gains in the U.S. are countries that are performing disconnected roles. What we say in this piece is that Vietnam, Thailand (which are APEC member countries), Mexico (another APEC member country) seem to be satisfying this role. I mean, there's other countries like Cambodia, but they're not part of APEC. So that's one of the metrics that we look at.

There are a few countries that seem to also be gaining a lot of U.S. market share but not really seeing a huge surge of Chinese import market share. And one of those is India, which again, is not an APEC member country, but is an important country performing an alternative role.

And then we also talk a little bit about Korea and Taiwan, which again, similar to India, is also making a lot of U.S. market-share gains, but not really seeing a lot of import market share for China. So, it's not really a connector economy role, it's really probably more related to the technology and AI. And in fact, in cases of technology — which is very, very sensitive, especially high-tech — it's really hard to connect these two large economies because obviously we have this whole regime of export control.

So that's one way we look at it. We look at these shifting trade patterns. The other way we also look at it is we don't want to just look at countries playing connector, but it's just really a transshipment or trade rerouting with not a lot of value addition. So, the other way you try to look at the function of connector role is to look at FDI flows as a key channel, because obviously FDI flows can capture production location shifts and value addition shifts. And FDI is a very important channel for technology transfers and productivity growth in emerging markets.

And here again, we look at FDI flows and to what extent we are also seeing some shifts. And what we are seeing is a China increasing originator of FDI flows that have skewed a lot more to ASEAN in recent years. While when you look at U.S.-based FDI flows, it seems to have shifted more to some of these non-APEC countries, for example, like India. But obviously, Mexico seems to have been receiving flows from both.

So those are the different patterns we're looking at the piece. But I have to say, a lot of this is looking at the recent history up until 2024. I do think a lot of these relationships are still evolving. And as you know, this year we've got another round of tensions with Liberation Day tariffs, and obviously, this fraught relationship between U.S. and China persisting.

So, for example, in the case of Mexico, I think it's going to be more challenging for Mexico to be a recipient of FDI flows from China, because I think there is really a lot more push from the U.S. to provide a bit of a tariff wall around North America's supply chain. Which means Mexico — given it's trading a lot more with U.S. than China — is probably going to have to choose U.S. a lot more. So that will be difficult.

And then Thailand, Vietnam is still playing this connector role, but we have to also be wary of this transshipment tariff that's being threatened. And again, we don't have a lot of details yet, but there is this threat of a 40% transshipment tariff coming out of Washington. And we don't exactly know how they're going to define transshipment. But I think there's a lot of expectation that transshipment will be defined by a domestic-value-added rule, which is going to be very, very complicated for ASEAN countries. Because, in integrated global supply chains — especially for manufactured goods — domestic value-added content is actually lower than the 60% threshold that is being kind of lobbied around in the news as a potential threat.

So we will see to what extent that could be a more challenging role for connector countries. And then, although not an APEC member country, we did not expect India to get an even higher tariff than China at 50%. So that's also complicating the connector role.

So, for now, the relationships within APEC have helped channel and reduce the costs of trade frictions between U.S. and China. But the story is still evolving. And I think we still need to assess how hard is it going to be pushing through policy interventions to make even these connector roles become even more costly. So hopefully not. But that is something we need to guard against.

Lucy Baldwin (10:13)

You make a great point. If you have a massive supply-chain rerouting globally, it's expensive. If you want that optionality to be able to root your supply chain in multiple different places, it's going to cost a lot of money. And that's what we're seeing countries build out.

But what's also fascinating listening to you talk and reading some of your team's work is that at a high level, global trade's been quite stable. I think even trade intra-APEC block has been pretty stable and resilient, and actually been growing quite nicely. But under the hood there's all these massive changes, whether it's trade or whether it's flows of FDI, particularly between the U.S. and China. It's really big shifts over many years now, big percentage changes. And I think FDI into China is down 90 over the course of a few years, right? These are big shifts under the hood, which is what's so fascinating.

Johanna Chua (11:06)

There's definitely been a slowdown of global goods trade. It has come down from the peak in 2011. I do still worry that there's going to be potential downward pressure, again, if we get a lot of trade-policy intervention on the goods market. But I guess where there's a little bit more life — and we will see to what extent this will persist — at least when you look at cross-border trade of services, especially digitally delivered services, I think that continues to remain alive and well. But obviously, we need to see in this new age of AI and strategic rivalry of AI, to what extent can these policy interventions migrate a lot more to services trade?

But you're right. It's gotten a lot more complicated, certainly on the manufactured goods.

Lucy Baldwin (11:50)

Well, and as you say, that offset: declining manufactured goods under the hood, but massive growth in services globally. Let's dig into that, because obviously that is the big prize that everybody's really competing for. We talk a lot about goods because of tariffs and the trade war. But to your point, digitally delivered services is the hottest game in town. And it looks like the United States is currently winning that battle.

But how do you see that playing out? Because again, one might imagine that China has a whole set of structural advantages in terms of being able to become a real leader in this category too.

Johanna Chua (12:24)

I think when we look at the trade of services, a lot of that has really been facilitated by the fact that technology has improved a lot. And it's really facilitated cross-border trade. In the 90s, you had the rise of Voice-Over Internet Protocol and the ability to communicate through intra-firm through many borders to a lot of software services, etc. It really helped facilitate a lot of offshoring and outsourcing of what you call modern services. And obviously, one APEC member, for example, Philippines, saw a lot of back-office rise. And we see that beyond Philippines, other kind of economies as well.

And then you see that not only in direct outsourcing of services trade that we see in the balance of payment. Like, you look at certain categories of business services or info communication technology services, but sometimes you can't even see it in the direct flow. It's kind of hidden in manufactured goods, where you look at the service content embedded in directly traded manufactured goods. And you do also see the rising services value added, being contributed by some of these APEC member countries, which again, maybe it's also aided a lot by technology.

So I think that's been an important thing. And I think it's going to be increasingly important because in a world where China has been so dominant in global manufactured goods, and we will see to what extent they're going to shift their growth model. But it's been a real challenge for a lot of competing manufactured exporters, especially in an avenue over the last couple of years when China's domestic demand was so weak. And you had such a heightened supply-friendly industrial policies propagated by national-security imperatives in China that created a very, very unbalanced growth strategy.

And I think that's going to be what you call a China shock, kind of the second-generation China shock. It's been a challenge for a lot of manufactured exporters in the region. It's impacted ASEAN. You take, for example, Indonesia's garment footwear manufacturers in Thailand.

So, I think in that avenue, when we think about how the economies grow, there's been so much literature talking about the importance and the role that manufacturing-led development model had played in creating jobs and moving up the value-added chain.

And I'm saying that I think with technology and automation and the role of China, it's becoming harder for some of these economies really to move up the manufacturing value-added chain. And this is why we need to think about, “Are there other avenues of development?” Normally when you think of services, it's always associated with much lower productivity growth than manufacturing because services encompass a very broad array of categories of functions. Some of it is just a catch-all for everything that is not agriculture and manufacturing, and sometimes it captures a lot of informality and low-value added services.

One of the things we argue is that there are services sectors, modern services, that can be very productive, even more productive than manufacturing. It requires a certain amount of skills and development, it's not as easy and straightforward to generate a service-driven development model. In fact, it's only more obvious for these very small economies, like if you're a city, say like Singapore, when you drive financial services, or Hong Kong, both of which are APEC members.

But I think in larger economies, it's not clear whether you're going to be able to absorb as much labor force. Certainly, technology is something we're watching very closely, and the role of AI. On the one hand, there's a big debate, right? It can act as a substitute, and it can act as a complement to labor. And in one way, you can say, OK, a lot of technologies are really going to improve, it can facilitate a lot of trade. I mean, heck, you know, it can maybe make direct trade easier by using AI tools: customs regimes are very complicated. Now, technology can help match buyers and sellers, and maybe it can make trade smoother or easier. I mean, that's one direct role that technology can play to facilitate services trade.

But on the other hand, obviously, there's also a lot of debate and question to what extent some of this rapid improvement in services in AI — which basically translates to knowledge — can also substitute. It could make workers more productive, but it could also act as a potential drag to job creation and especially for services sector.

So, I think this is still being debated because we're still in the early phase of technology diffusion. But I imagine, for certain APEC member countries — I mentioned, for example, Philippines — if a lot of your cross-border services are basically call centers, will that be displaced by AI? And how is that going to impact a lot of other APEC member countries that don't want to get into this?

Obviously, U.S. is the leader in a lot of these kind of high-value-added services, especially software, IP services. Obviously, U.S. is the technology superpower. But right now there is a huge rivalry going on between U.S. and China. China also coming up with its own kind of AI technology stack. And, again, maybe not the most cutting edge, but they're going to try to really push for the diffusion and application. And maybe you don't need cutting edge for everything. And those two are obviously going to go after it. They're going to compete globally and certainly within the APEC member space: who is going to be part of their technology stack, and to what extent countries may try to choose both technology stacks.

But again, with such a rivalry between the two, you do worry that the ability to cooperate, the ability to create synergies between two technology behemoths, may become more challenging. And there may be inefficiencies by creating two separate ecosystems that could be less interoperable than you would expect. And that's going to be a complicated factor for a lot of multinational companies that are engaging in both avenues of the tech stack.

Lucy Baldwin (18:03)

That's a great point. And China looks like it's strategically done some very smart things, whether it's with mobile technology, whether it's with EVs. And maybe we could talk a little bit about how you feel the U.S. has lost its cost advantages or its relative dominance in areas like clean tech to China. And maybe that in and of itself is going to give us some clues as to how China may play this AI race and how that might work in terms of the quest to get supremacy within digital services.

But again, listening to you talk about FDI flows as an extension to things like Belt and Road, China's done an interesting job of being able to essentially get its technology, whether it's through EVs or mobile phones that may not be initially super cutting edge, but are unbelievably cost-competitive at least. And they can scale very quickly into a lot of these particularly emerging-market economies that wouldn't otherwise be able to afford EVs or smartphones from the West, right? Combined with potentially a different tech stack over time, is that going to give it some strategic power with a lot of countries that are rapidly growing, at least from a population perspective, vs. the West?

I mean, it's an interesting thing to debate, isn't it? But maybe the clean-tech example can give us some clues as to how this might play out more broadly.

Johanna Chua (19:28)

Right. I think for clean tech, though, China basically controlled the whole vertical supply chain from the upstream, whether it's the mining of the critical metals and the processing all the way to the battery and EV. So, they kind of control the whole vertical.

To some extent, given their dominance especially in renewables, I think it's going to be hard to unseat them given their competitiveness. And with the U.S. policy now pivoting a lot more toward fossil fuel and changing a lot of the incentives from the Inflation Reduction Act, you would say that I think China pretty much controls this space.

And again, I think the fact that technology is improving and making it cheaper is allowing more affordability and availability of that technology across the global south and obviously even other APEC member countries. For some economies, they're worried. Obviously, we have to watch, for example in the auto sector, the fact that EV is so disruptive. You've got a number of APEC member economies that have considerable auto sectors, like Korea, Japan, Thailand. There will be some sensitivities around this from a trade-friction perspective.

Now, having said that, I'm looking at China's very, very unbalanced growth strategy. And part of it is being reflected in its dominance in clean tech. And to some extent, it's also being reflected by the lagged impact of its subsidies and industrial policies. And then obviously, the risk is that's creating a lot of trade frictions for countries that have competing industries. For most countries, they're happy with getting cheap goods because they're not competing goods. But for others, it's obviously more sensitive.

I think encouraging news we're seeing in China is that the last five-year plan, in 2020, it was really all about supply, new productive forces, just kind of pressing the pedal on more supply and more supply. And a lot of that was because of national-security imperatives. We're going into the eve of the fourth plenum next week. People are also going to be looking very closely to what extent Chinese policies shift a little bit more to a more balanced strategy, strategic policies on the supply side. And this is also reflected in EV to the extent that they've pushed so much the incentives and supply that you've created a lot of excess capacity, you've impacted profitability, and then you also created potential trade tension.

So, I think there are now signs with their anti-involution policies a couple of months ago they're also trying to provide a little bit more demand support and consumption that maybe they'll rebalance a little bit. If we want global trade relationships to last longer and to be more stable over time, you need these occasional recalibrations.

And again, related to that, we also did see China announce these export-licensing regimes for their EVs to curtail significant dumping and price cuts. So clean tech, obviously China's dominant, and we will see how the world will have to absorb or accept that, and to what extent that will be a stable trade relationship.

But AI is a different animal because I think that the rivalry between U.S. and China, it's not really clear who's going to win. Obviously, U.S. has dominance over compute, and they control the cutting edge. But like I said, AI is a general-purpose technology that could be applied in so many ways, and you don't really need all the cutting edge.

And I think where China is trying to approach it is, first of all, you need the intelligence, and then you need energy to fuel that. And China has no shortage of electrification and energy sources — they've built the whole infrastructure stack. And then you need the supply chain associated with that intelligence. So on the intelligence, U.S. has the lead when you look at the models, but the lead is not as huge of a gap. And U.S. is focusing on the closed models. China is focused on the open-source models, which is commoditizing the intelligence and looking at the other avenues.

So, in a way, there are two secular technology races happening. And like I said, on clean tech China has kind of dominated. On AI, it's really an open question. And of course, there's going to be a lot of national-security tensions around that because you're dealing with data. And one of the things that we need to watch in this race between the two is to what extent is it also going to balkanize how countries are going to opt for their AI tech infrastructure? Because maybe there'll be an issue of, do they trust the surveillance and the data-privacy issues? Which side are you going to trust?

Again, that's something that we need to watch. But for now, I think Southeast Asia is probably in the front line of a lot of that competition for influence. And you're seeing that for some economies, they don't have the same national securitization of everything against China. They seem more open to absorbing a lot of the Chinese technology stack and will keep themselves open on both sides.

So I think the AI race is still open. And the front line of that race is within a lot of these APEC member countries. Clean tech is probably a little bit more obviously on the China space. And what we don't want is the strategic rivalry between the U.S. and China to disrupt everybody.

And so, because of this AI race, you have now this competing escalation. I mean, the AI race needs semiconductors and the whole high-end supply chain, which U.S. is exercising its choke point to export controls. But then you still need critical minerals and magnets where China has choke points. And obviously, you don't want that to get too off the guardrails. And then obviously that has impact on everyone.

So, we're going back full circle back to APEC, where we hope this dialogue between Xi and Trump happens, and that some of these tensions and escalation can actually simmer down and create some avenue for cooperation.

Lucy Baldwin (25:13)

Johanna, thank you. Plenty to watch out for over the course of the next couple of weeks as we go into the summit and see, as you say, what discussions might occur and the impacts that's going to have in terms of the shaping of how U.S.-China relations are going to evolve, but also the race for AI and broader tech dominance.

Johanna, thank you so much for joining us. It's been a great conversation.

Johanna Chua (25:34)

Thanks, Lucy.

Lucy Baldwin (25:36)

This episode of Research at Citi was recorded on Tuesday, Oct. 14, 2025. I'm your host, Lucy Baldwin. Please do join us next time as we discuss IBM quantum computing with our U.S. DOR, Rob Rowe.

Disclaimer (25:50)