

How Economic Security Is Reshaping Asia Trade

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Sara Murray: Welcome to C-Suite Perspectives, a signature series by The Conference Board. I'm Sara Murray, Managing Director International at The Conference Board and the guest host of today's episode. Today we discuss trade in Asia amid rising volatility and what a more fragmented, geopolitically driven trading environment means for businesses operating across the region.

From economic security to shifting alliances and supply chain pressures, we explore how leaders are adapting to growing uncertainty. Joining me is Max Zenglein, Center Leader for Economy, Strategy & Finance in Asia at The Conference Board. Welcome, Max.

Max Zenglein: Welcome. Good to be here.

Sara Murray: Let's kick off. Are we witnessing the end of the rule-based global trade system and, if so, what is actually replacing it?

Max Zenglein: I'll be a bit positive. Let's say it's a transformation that's taking place. If you consider the rules-based system or rules-based global trading system that was introduced by the World Trade Organization (WTO), I do think we're seeing an erosion that is accelerating. We tend to think this is a recent event due to the geopolitics in Paris and all that. But I think it's important to understand this is part of a longer shift that is based on structural dissatisfaction of the trading regime and the liberalization that came with it. If you just think about some of the backlash due to the inequality, that has, in some cases, domestic implications.

There's a geopolitical component to it in the post-Cold War order. There's an era of unhappiness that's driving some of this, in combination with some of the mega trends that

we're seeing in tech, climate, and demographics. These are all compounding the geopolitical rivalry between the West and China that are leading to this transformation of the global trading system as we knew it.

Sara Murray: Perhaps the challenge for leaders is that the replacement system is evolving in real time.

Max Zenglein: It's evolving in real time indeed but there's also not a clear vision of where we're heading. It was much more easier if you think about the globalization of the past decades. It was built on liberalization, where governments reduced barriers, and that gave companies an incentive to pursue efficiency and profitability. That led to these highly integrated global value chains that we have. And now, we have left this stable situation. We're in a period of non-equilibrium that is marked by instability and this constant adjustment without this clear ideological framing where we're heading.

That's why we're seeing a lot of uncertainty, fragmentation, and a very transactional relationship that are creating the business environment, making it very difficult for companies to navigate.

Sara Murray: We're seeing a surge in trade deals, especially in Asia, but are these agreements stabilizing the system?

Max Zenglein: Of course it's positive to have countries trying to cooperate and find new ways. This was framed as the rise of middle powers, standing up for the multilateral system and the rules-based trade that is also essential for a lot of them, the middle powers and the emerging economies.

We have this wave of bilaterals, multilaterals, you name it. Asia really has been front and center on this. If you just think about the EU concluded free trade agreements with Indonesia, with India, with Australia. There's a lot of other agreements and partnerships between the likes of Singapore and Japan, for example.

There's a wave of these happening but we also need to be realistic about what they can achieve. Even under the best conditions, these types of trade agreements require time and ideally some form of political alignment to become really effective and be credible enough for companies then to pursue these.

There's a political reality of closing deals and trade agreements, and then there's the operational reality of how companies make use of this. Reflecting on the recent wave they're seeing here, it's very uncoordinated and with a lot of overlapping frameworks, which, from a company's perspective, it's a compliance nightmare. What does this mean? In which direction this is going? That's the one point.

Another point is we're in a world where geopolitics and security are becoming more important. Some of these deals are a form of what I would call a geopolitical reality check, where they have to prove themselves, if they can actually sustain the economic intent

they had based on any form of political- or geopolitical-induced pressure.

And this is not just a US–China dynamic that's going on here. For example, the revival of a trilateral between Japan, South Korea, and China that has been long in the making. There was a period of trying to reignite this as relations between China and Japan fell apart. This shows you how fragile this is. I could go on with a list of these. There is this geopolitical component that risks to derail these deals.

Sara Murray: There's some important distinctions you've just made between activity and actual stability, and it sounds like companies now need to understand not just tariffs, not just trade flows, but, like you said, political alignment and how it's actually going to work in practice.

Economic security, as you mentioned, is becoming a defining feature of trade. How do you see this impacting the business landscape?

Max Zenglein: We've heard a lot about this shift from efficiency toward resilience. That's part of it but I think it misses a large dynamic that is really shaping this framework and which is also a key element of a lot of these trade deals that are emerging.

A key element of almost all these new trade deals, they either have economic security directly baked into them or there's a parallel track that focuses on supply chain security, even to the point to collaboration on defense and national security elements. That shows you this is no longer traditional trade and investment agreements.

There's now national security objectives that are integrated and converged with trade policy. And, quite frankly, we're not prepared for this. Even in government or in companies, this is a new dynamic. I don't think we've been educated for this, to be honest.

I'm a trained economist. I went to school learning different things. It was about liberalization, opening up, and not these type of dimensions. That's creating a really difficult operating environment for companies to embrace these changes and then react to a more complex, fragmented, and policy-driven environment.

We have a situation now where the government framing is much more interventionist in terms of export controls, investment screening, inbound investment screening, outbound investment screening, or industrial policy that aims to strengthen the industrial base and reduce dependencies. This is really the opposite of liberalization and integration.

This is something that makes it so difficult, as the business landscape is in a phase of transition.

Sara Murray: Yeah. It sounds like businesses are increasingly being asked to think like geopolitical strategists. There's a lot for multinational companies to balance, right? Compliance, competitiveness, resilience. Very complex.

Max Zenglein: Indeed. Without trying to be too negative here but just get that message

across. Resilience and reducing dependencies is one element to it. But in some cases, in some economies, you do see a shift to where you're following a wartime economy logic, where security is trump over any commercial interests. And this, I think, is, let's say, taken a bit further rather than just saying we're transitioning from efficiency to more resilience.

Sara Murray: We're going to take a short break and be right back with more of my conversation with Max Zenglein. When we come back, we'll explore what this new environment means for business strategy and leadership decision-making.

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Sara Murray: Welcome back to C-Suite Perspectives. I'm your host, Sara Murray, Managing Director International at The Conference Board, and I'm joined by Max Zenglein, Center Leader for Economy, Strategy & Finance in Asia at The Conference Board.

How should business navigate a world where economic decisions are driven by geopolitical and security considerations rather than efficiency?

Max Zenglein: I wish I'd had an easy answer to that question. But I think the starting point is to take persistent uncertainty as the baseline of your operating environment. This is a result of the tensions that we're seeing. Now, on the positive front, this is a period of opportunity for companies to define their competitive edge. That means it will be those companies that are the most efficient in their transition to becoming less efficient that will have a competitive edge. This means companies that are successful in installing a form of operational resilience in this uncertain world that we're in.

Another point about this is not just about identifying the external risk environment but looking internally how the company needs to change and adapt. It requires strengthening cross-functional coordination within an organization. I'm not quite sure that a lot of companies are really at the forefront of this.

Just to give you an example, you can have an amazing strategy team that goes through scenario planning and something happens, they've mapped it all out. But at the same

time, nobody's spoken to the procurement team and their key performance indicator (KPI) is still to minimize costs and procurement. When the crisis then unfolds, they said, "Yes, we have this on our agenda," but it didn't really translate throughout the organization. This is something that is a key challenge that companies need to overcome internally to be successful.

There's also a question—and this is really a strategic choice—and that is how far companies are willing to go to implement resilience measures and how many costs they're willing to pay for this in order to absorb the potential risk and then be responsive to this.

This is a bit of a part of this strategic dilemma, I guess you could call it, in this race to become less efficient in the most efficient way.

Sara Murray: Yeah. Sounds like agility is becoming just as important as scale but, like you say, leadership teams need closer alignment between the geopolitical analysis and then the operational strategy.

Max Zenglein: Yes. Correct. The other thing is that it really depends also on your industry and line of business on what you need to do. I think this will have an impact on your approach. For example, you might be in an industry that is at the forefront of this. Just thinking, maybe companies operating in national defense. Here, probably you need to take some preemptive actions and be willing to absorb the cost. In other cases, you might be fine just to have some contingency planning and be able to operationalize a response once you're confronted with the risks and the spectrum of the risks that we have.

For others, you might even come to the conclusion to have a form of selective inaction, which means you're accepting the risks and you're just going to wait for it to unfold because potentially by reducing your risk exposure, you price yourself out of the market by the time the risks unfold.

This is part of the challenge that a lot of companies have. For some companies, you probably need to do a mix of all these.

Sara Murray: If uncertainty's the new normal, what are you seeing when you're talking to companies about what a successful strategy looks like, either at the company or the country level? What does it look like in this environment?

Max Zenglein: I made this point earlier but I just maybe want to emphasize this because it really struck me when we were beginning to talk about US tariffs roundabout last year, and everybody's waiting for the tariffs finally to fall and then hoping for some stability.

Then you also had, during the US–China meetings during the APEC summits last year in Asia, there was also a hope about this is now creating a floor. So there's this continued desire for some stability and it's essential for companies to realize the transformative and transitional phase we're in, embrace uncertainty, and move away from hoping from there's

going to be a stabilization front.

My opinion is we're really just seeing the beginning of this all unfold. You better tighten your seatbelt and be in for the ride. So that as a starting point. And the challenge here is then also to try to identify the risks and then prepare for them. It's usually the high-probability risks that are easier to prepare for than the ones that are less likely. These are much more of a challenge.

What we're seeing in the past months is basically we're on a learning curve of getting to know new forms of choke points, which before we didn't know. We're moving from we all knew rare earth for a long time, now we are learning geographical choke points in the Strait of Hormuz. We're learning related choke points to helium that is part of refining and semiconductors. This just shows the complexity of this. That's really key.

But maybe one example of an experience I had addressing Chinese companies in Vietnam and they were more of a glass-half-full type of mentality. It was a very refreshing engagement. I grappled with why are they relatively positive? They were not ignorant of the changes that are taking place. But I have basically three reasons where I found was the basis of their relative optimism. One was they were willing to take more risks. They were prepared to be more agile and flexible. If a barrier breaks up, okay, we move on. We're not going to contemplate too much. We're going to respond quickly and move on. And not waiting for stability to come but acting despite uncertainty.

The key point of all this was that they'd had a long-term mindset to kind of break through the uncertainty that we're in right now and try to look at what's on the other side. It's a different way of moving through the fog that we're in. This was, for me at least, quite an interesting takeaway from these interactions.

Sara Murray: Yeah, indeed. What assumptions about globalization and international trade no longer hold true today, in your opinion?

Max Zenglein: I think that could be a long list but I'll start with a few. One would be the topic of convergence. You can use China again as a very good example here. With integrating them into the WTO, there was this belief there was going to be a convergence toward a market-based liberal type economic system. This proved to be relatively false and at the moment we're moving in the opposite direction. This belief that economic integration will lead to convergence of economic systems no longer holds true, if it ever held true.

The other one is that economic logic dominates government policy. This is now something that is clearly being replaced by a security logic that we probably last saw in the Cold War era, even though then I would argue it was still mainly economic logic that was still pretty dominant despite security being important—partially because you had relatively separated economic worlds in the Cold War.

Now we're in a different stage but the security logic is now being introduced and

economics is going on the back front. Related to that is that efficiency maximization is at least being redefined. We need to rethink what does it mean to be efficient and it's probably no longer the same level of efficiency that we would consider being highly efficient just a few years ago.

Those would be three points. And maybe a last point in terms of what doesn't hold true anymore is that—I'm not sure how to frame this—the past era of globalization—you see I'm already using past tense here—it was based on integration. Now we're trying to reconcile somehow integration whilst pursuing strategic autonomy and hedging, and these are massive contradictions. This path toward rethinking how integration looks in the context of geopolitics, I would say, is another element that at least I'm not sure if holding true is the right term but at least needs to have some rethinking.

Sara Murray: It just also seems like the pace of change itself is one of the biggest strategic challenges really.

Max Zenglein: Yes and it's twofold. It's the pace of change but you don't know what the change is. It's much easier to understand, "Okay, we're in a period of change but I understand the weather is changing, and it will be snow and then I can prepare for that." Now it's "We're in the midst of a storm and we have no idea, is it going to be hot? Is it going to be cold? Is it going to be wet? Is it going to be an earthquake? I don't know what this is going to be." That just shows the magnitude of the challenges. And hence, again, as simplistic as it sounds, you need to embrace this uncertainty.

Sara Murray: Given that, how can businesses maintain long-term investment confidence in an environment that's shaped by such change and all these kind of short-term political cycles?

Max Zenglein: We do see some glimmers of hope, if you want to see, or still some positive elements. And then is the question, maybe of the duration of these things. If you look at the AI boom, really at the forefront also of geopolitics and the nexus of economics and geopolitics.

But yet there is, at the moment, a window where these companies in this environment can really be extremely profitable and have tremendous growth rates. Without naming any company examples here, but if you just look at the exports from South Korea and Taiwan at the moment, Taiwan's exports are up by almost 70% in Q1, South Korea's by 50%.

And this is mainly driven by prices. So that's one way to look at it, to identify niches of growth but maybe not expect that this is going to be a 10-year cycle. But you can go in it when you can and seek that opportunity.

Maybe two points that I think are worthwhile to consider.

The first one would be to just realize the high-frequency news cycle we're in and how toxic

that is for strategic thinking. I would also go to the point on a personal level, how even your staff is impacted by this. They're getting tired by this constant news feed and that makes it difficult to decouple strategy from the short-term noise.

In that process, there's a risk that you're not going to see the forest for all the trees. That's one really key element—to find your Zen, to not respond to all of these type of distracting and disturbing news you need to digest—in order to really define and also understand what's actually highly relevant for your company and their strategic decision-making. Because a lot of it might be completely irrelevant to your company but you might think it is and then make false decisions. It's about really distilling the essential points that have the most impact on the company's operation and what they should do.

The second point, and I find this very important, there is a tendency, because geopolitics are so dominant at the moment, that this tends to be the main focus of how to look at the world, how to identify risks or growth opportunity. But at the end of the day, I would argue it's those countries that have their domestic politics and their domestic economy and their reform agenda, we're pushing it in the right direction that are really in the best position to move through this uncertainty.

It's quick to point my economy's not doing good because geopolitics. Also here in Southeast Asia, where I am here, I'm based in Singapore, there's a lot of countries that haven't been performing very well but it's domestic driven. It's really important to understand domestic policies and invest the time in understanding what specific countries are doing that are creating a growth environment for your company to thrive and to be more resilient in this geopolitical complexity.

Because at the end of the day, resilience is going to be most or best place, if whatever your company's doing is in sync with country that you're operating in.

Sara Murray: It sounds like it's more like confidence today is coming less from stability but more from an organization's ability to adapt to where the opportunities are.

Max Zenglein: Yeah, and being able to identify them and then move on them and respond on the right cues.

Sara Murray: Max, this has been an incredibly insightful discussion. Thank you. There's no simple roadmap through this period of uncertainty but I think your insights offer a valuable way to think about how leaders can navigate through these changes. Thank you for joining today.

Max Zenglein: Thank you for having me.

Sara Murray: And thanks to all of you for listening to C-Suite Perspectives. I'm Sara Murray and this series has been brought to you by The Conference Board.

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