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**MACRO PICTURE:
US, China, and ASEAN:
The Great Game of Tariffs
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Executive Summary

The Effects of Tariffs on ASEAN

- ✦ The tariffs recently implemented by the Trump Administration have seen ASEAN countries being affected. Nations such as the Philippines and Vietnam, erstwhile US allies, have been affected by the said tariffs.
- ✦ While China, a main target of the tariffs, has not backed down and even implemented tariffs of their own, many ASEAN countries have announced that they will take measures for a tariff delay.

What Could be the Negative Effects of Tariffs on ASEAN Economies.

- ✦ The highest tariffs are implemented to Vietnam and Cambodia and are likely to deal large blows to their economic ambitions. For Vietnam, exporting to the US at a reasonable profit was key to its ambitions to develop into a high technology economy. For Cambodia, thousands of jobs in the strategically important garments sector may be lost.
- ✦ Other countries such as Malaysia may be slightly less affected, although even they will find the economic challenge of dealing with the US to be close to overwhelming.

Could SEA be Incentivised to Build Closer Ties with China

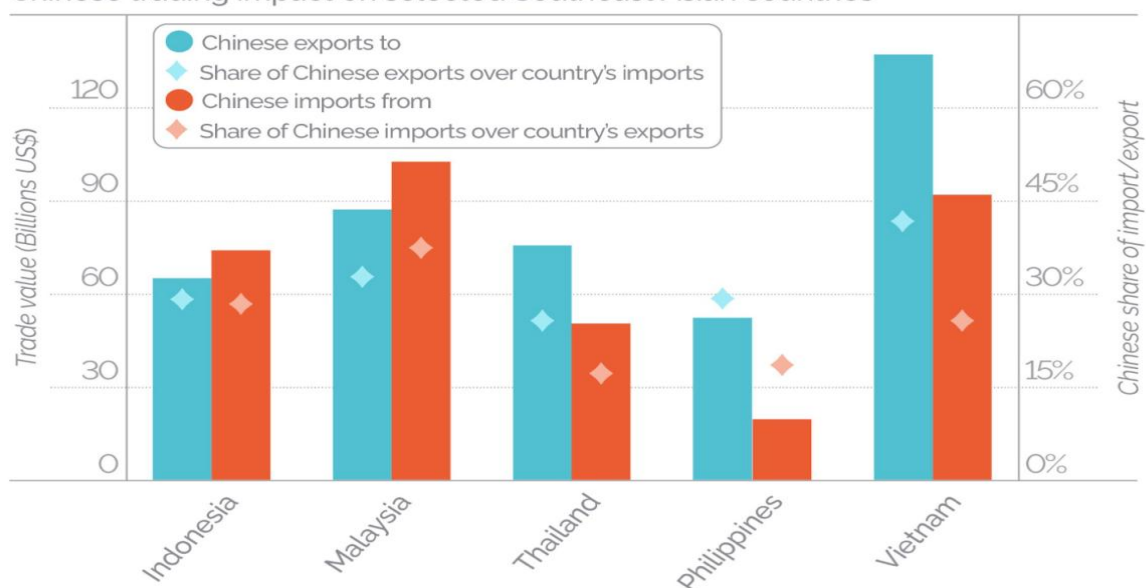
- ✦ It is likely that the tariffs are an opportunity for China to play up the economic development it has spurred in the ASEAN, particularly in areas such as infrastructure and renewable energy.
- ✦ There is little argument to be made against the fact that the US already complex economic ties with Southeast Asia will not be improved by the tariffs, as many countries in the ASEAN will find a more robust market in China for their goods.

Progress by China in Financial Infrastructure in ASEAN Countries

- ✦ Recent developments indicate that it has made determined investments to be the leading provider of financial infrastructure as well, such as the digital Yuan.
- ✦ The digital Yuan prevents Western countries from strong-arming their way to diplomatic outcomes by simply using financial leverage, a tactic that was on display most recently against Russia in its war against Ukraine.

Key Picture: ASEAN is a Crucial Trading Partner for China

Chinese trading impact on selected Southeast Asian countries



Source: [GACC, ISPI elaboration](#) (14 April 2025)

1. The Effects of Tariffs on ASEAN

In the past few months, many countries located in Southeast Asia have come to feel the brunt of the reciprocal tariff program being implemented by the Trump Administration. The tariffs are a particularly touchy subject for a region that has multiple export-oriented economies, among them US allies such as the Philippines and Vietnam. The Trump Administration's reciprocal tariffs are particularly difficult for these economies with one [article](#) noting tariffs on Southeast Asia were notably higher than in Europe. Notably, countries such as Cambodia experienced tariffs as high as 49 percent.

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It should be noted that these events happen only in the light of significant trade war between the United States and China. During the first Trump Administration, tariffs targeted over 800 different items and as much as 34 billion dollars worth of Chinese goods. The Chinese response during the first Trump Administration ranged from diplomacy to reciprocal tariffs. However, an underrated story from the time of the first Trump Administration is that there were other non-targeted tariffs implemented on goods such as steel and aluminium, affecting countries such as [Canada and Mexico](#). In the battle between the elephants (China and the United States), it has often been the case that the grass of Southeast Asian trade has been stepped on.

This situation is particularly difficult for Southeast Asian countries that rely on favourable rates to be able to export their goods. The aforementioned Cambodia saw the US buy nearly [38 percent](#) of its exports on products, a significant part of which are electronic equipment and apparel. Vietnam is another export-oriented market which was slapped with significant tariffs by the US, as it also exports significant amounts of the same products to the country. Ostensibly, the Trump administration created the tariff program to balance large trade deficits, which it encourages countries in Southeast Asia to have engineered via unfair practices such as currency manipulation.

However, certain economic analysts have offered relatively compelling explanations for how this came about. [Cullen Hendrix](#) from the Peterson Institute for International Economics has noted that there is an asymmetry in the demand that the US and Vietnam has for each other's goods, with US consumers demanding a healthy amount of Vietnamese goods, and the Vietnamese demanding less of the capital intensive and high technology products being sold by US companies.

This dynamic has much to say about the relationship between the US and export-oriented countries in Southeast Asia, with implications for the competing hegemon in China. Countries such as Vietnam and Cambodia rely on the US playing a similar role that China played for [natural resource exporters](#) such as those in Africa during the decades of explosive growth and bringing millions out of poverty. That is to say, many Southeast Asian countries rely on the US as a consumer of various exported goods, safe in the knowledge that the more advanced economy will continue to demand electronic equipment, various apparel, and a whole host of other trinkets that power Western lifestyles. In this scenario, the trade deficit is not an aberration so much as it is a feature of the trade relationship.

In relation to this, several leaders have tried to take measures to assuage the Trump Administration. Vietnamese Prime Minister Pham Minh Chinh has said that his country will buy more US products, including planes from Lockheed Martin as well as other items related to defence and security while Indonesia and Thailand have [committed](#) to buying more oil and gas. Both Malaysia and Cambodia have also dispatched ministers to discuss reductions in the tariffs.

It is notable that China has made several efforts to capitalize on the economic chaos caused by the Trump tariffs. It has told several countries, particularly those that are especially affected by high tariff percentages such as Cambodia and [Vietnam](#), to hold fast and not be swayed by the tariffs. However, the country led by its Communist Party has not limited itself only to statements, as various [deals](#) for supply chain protection were also inked.

2. What Could be the Negative Effects of Tariffs on ASEAN Economies

The tariffs have the potential to result in significant negative effects for ASEAN. However, it is also clear that the results are not equal across the board. Two key variables that will determine the extent of negative effects on a country are the percentage of the tariffs as well as the type of economy it runs. Some countries such as Singapore may not be as badly affected due to the lower tariff levels, while the Philippines' domestic consumption-oriented economy is likely to see limited effects. However, as previously mentioned, many in the ASEAN run on export-oriented economies, with those in Indochina prominent among them.

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A key variable to understand the negative effects of the tariffs is to understand whether ASEAN economies have China as a fallback developed economy to export to. To start, China is currently in a stage where its demand for exports such as Indonesia's palm oil has been relatively stable. Some experts have even noted that structural factors could see that demand [declining](#). At the same time, another structural factor could undercut the viability of increasing exports to China, namely its new policy focus on sustainability. Some Chinese firms have been reported to have been acting under the ambit of new sustainability mandates and are demanding "deforestation-free" imports of various products.

Presumably, Indonesian palm oil would not meet such a standard. That China, a nation sometimes painted as a climate villain, would implement such standards indicates that it is secure enough about its economic development that it does not feel the need to consume raw material exports at all costs. This may affect other countries exporting raw materials to China, such as Brunei, given that Chinese crude oil demand has been seeing a relatively public [slowdown](#). Energy exporters in particular have strong reason to believe that business will not always be booming in the People's Republic: the country has made significant strides in renewable energy investment, and the Communist Party has provided political muscle to buttress the effort towards a cleaner and greener society.

Recent news has indicated that the tariffs may not see full implementation, as Trump even [backed down](#) on the said tariffs. However, this sudden whiplash may have dealt a near-fatal blow to something more important: confidence on the part of businesses and supply chain players of global trade stability.

This stability is exactly what many ASEAN economies are counting on, particularly for certain strategic sectors that underpin their domestic economies.

Vietnam's domestic technology sector, for example, relies on exporting products such as semiconductors to the US market to fulfil the country's ambitions of becoming a high-tech economy. Even the threat of close to 50 percent tariffs would place on the horizon its products no longer becoming competitive in a key market, a clearly unacceptable risk for its businesses. Cambodia's strategic garments sector is in a somewhat similar situation, with textiles and garments accounting for a [majority](#) of the country's exports. Even in relatively advanced economies hit by lower tariff levels such as Malaysia, the effects can still be felt. The country's nascent solar panels industry, which produced panels at a cheap price for key brands such as Jinko Solar, was dealt a blow with several companies scaling back their operations in the country and closing their local plants.

Therefore, many ASEAN countries will be forced to adjust to access new markets for their products, having lost the security blanket of selling many of their products to superpowers. Efforts will have to be made to access new markets for the goods from Southeast Asia. That may have already started with several ASEAN countries' efforts to be included in BRICS. As the analyst Cullen Hendrix has noted, countries such as Vietnam have relied on exports to come close to the development levels that Western countries have often taken for granted. To see decades of progress stunted by one administration would be a cruel irony, one that would reverberate across the global economy and affect international relations. The mere threat of this occurring is likely enough to heighten the level of distrust that each country feels for the United States.

3. Could SEA be Incentivised to Build Closer Ties with China?

As mentioned before, China's attempts to play up its prospects as an economic partner for ASEAN may be stymied slightly by its slowing demand for raw materials and the changing nature of its economy. However, it is clear that the political incentives are currently for ASEAN to cautiously build ties with China. There are some reasons to be wary: many ASEAN countries have currently found themselves as the [dumping](#) ground for cheap Chinese goods, which have priced out local products.

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While it may make economic sense for countries to be wary before joining hands with Xi in his efforts to rally the region against US tariffs, the political situation is likely to be even less in favour of the US. All in all, it is only the Philippines, with its unique combination of a tariff-insulated economy and the spectre of Chinese hegemony hanging over its interests in the West Philippine Sea, that has an overwhelming interest to remain steadfast to its alliance with the US. Many other ASEAN countries have long-standing cultural, economic and political ties to China, and possibly even a minor axe to grind against the US (particularly relevant for Muslim-majority countries such as Malaysia and Indonesia). In that case, the spectre of economic chaos caused by erratic US trade policy contrasted with China's organized efforts to be a driver of economic development in the region may cause leaders some political disquiet.

China, for example, can point to its work on key infrastructure projects such as high-speed rail in Indonesia and Laos and economic frameworks such as the newly signed free trade [agreement](#) as signs that ASEAN can find its economic future through Chinese economic leadership. While individual political leaders may have their own concerns with this version of events, the erratic nature of US trade policy at the moment means that there simply is no good alternative to building stronger ties with the world's second largest economy.

4. Progress by China in Financial Infrastructure in ASEAN Countries

It is not only in building physical infrastructure (although that in itself is hugely significant) where China has made progress in building alternatives to the US for countries in the Global South. Recently, developments indicate that it has made determined investments to be the leading provider of [financial infrastructure](#) as well. The People's Bank of China has recently announced the launch of its cross-border settlement system referred to as the Digital Yuan. This system is a transparent attempt to replace the SWIFT international transaction system, notably using blockchain technology.

Analysts have noted that settlement times under the digital yuan-denominated Chinese system are much faster, counting in seconds compared to SWIFT's normal timeframe of several days, while decreasing handling fees as well. There is strong evidence that it is increasingly appealing to countries from the Global South, particularly in the ASEAN.

One pilot project between Hong Kong and Abu Dhabi saw the payment settle in seven seconds, with associated fees decreased by as much as 98%. In addition to the added efficiency, one should not discount the geopolitical consequences of the move: the digital Yuan prevents Western countries from strong-arming their way to diplomatic outcomes by simply using financial leverage, a tactic that was on display most recently against Russia in its war against Ukraine.

Some estimates claim that up to 40% of global trade may be done via the digital yuan in the coming years. Understandably, this would be an appealing option to many leaders in ASEAN and Middle Eastern countries, who are sensitive about public opinion amongst a typically West-sceptic public.

4.1 Innovation Rivalry

Certain analysts speak of a first-mover advantage that often accompanies Western innovation, as was recently seen for the United States during the digital revolution. American companies such as Apple (smartphones), Microsoft (technology services), Amazon (global retail) have often held the lead in being able to create and sell

first of their kind products that have no clear point of comparison in other countries, allowing the US to exercise a sort of leverage simply by being the first to a particular breakthrough.

One can argue that Elon Musk's ventures such as Tesla (electric cars) and SpaceX (space exploration) were banking on this same kind of frontier spirit as well. However, China's successes (the digital yuan being the latest example) appear to be demonstrating that there might be such a thing as a second-mover advantage. Companies such as Huawei (digital technology), DJI (drones), and BYD (electric cars) have become competitive not by being the first to create a new kind of product, but by filling in the gaps in execution where existing Western technologies failed to fit the needs of other mass markets in Asia and the Global South. This strategy has allowed China's "private" sector to erode the market dominance that US and European countries could rely on in a bygone era. Consumers in BRICS and other developing countries may be considered beneficiaries, as a litany of options has opened to supply the needed services for national goals whether it be electrification, digitalization, or upgrading their physical and financial infrastructure.

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These incentives add to the fact that by and large, China is amassing certain strategic advantages vis-a-vis the US while eroding the American lead in certain other sectors. In the strategic sector of renewables, as well as in others such as electric vehicles and critical minerals, China has several key advantages that could place it in a significant position to claim the industries of the future. More strategically-minded leaders have good reason to ponder how essential the US is to their domestic interests, outside of the counterweight it provides against Chinese hegemony in the region. It is clear that many countries are adopting a wait-and-see attitude at the moment: the default attitude for Southeast Asia as it has been caught in the middle of the rivalry between the US and China.

5. Conclusion

For now, it is clear that China will find a massive opportunity to increase its soft power at the expense of the US while the Trump Administration is still at the helm. The transactional, hard-ball nature of Trump's foreign policy makes it difficult for many ASEAN countries, especially those openly in alliance with China such as Cambodia and Laos, to justify any pro-US shift in their foreign policy.

There might only be one trend moving in favour of the US in Southeast Asia. Many countries have territorial disputes with China, and these have only become more prominent as the Chinese project maritime power abroad. The Philippines is currently upgrading its [naval power](#) in a bid to protect as much of the West Philippine Sea as possible. Vietnam has also been taking action to contest Chinese power, engaging in a program of island building starting with the heavily contested Spratly Islands. There is a latent distrust of China in many parts of the region, which the US can utilize in its effort to at least maintain the status quo. However, the recent Chinese charm offensive in Southeast Asia led by Communist Party leader Xi Jinping indicates that the advantage in soft power might be very strongly on the side of the Asian hegemon.

In sum, the Trump Administration has some work to do to be able to win back the soft power that the recent tariff program has likely lost. If the US continues to be seen as a force for economic chaos and downturn, the developing and stability-hungry economies of the ASEAN will have a strong reason to look to China as their preferred development patron. Alarming, these sentiments may even trickle down to the population.

One [survey](#) has even noted that a majority of Southeast Asians already prefer siding with China over the US. In addition, the Belt and Road initiative continues apace in a region needing infrastructure to support their growing populations. This is a form of soft power that the US has not shown a clear alternative to. Unfortunately, this has clear implications for soft power, as it is clear that the society that once implemented the Marshall plan across Europe might not be coming to counter China's advances. If anything is sure, it is that those currently tasked with maintaining US credibility in Southeast Asia have a significant problem on their hands.

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