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US' Trade Wall, China's Open Door:
Southeast Asia Caught in the Middle



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Executive Summary

Following the inauguration of his second term, President Trump immediately imposed sweeping 10% tariffs and higher tariffs on virtually all US trade partners with which the country recorded trade deficits. Many of the ASEAN countries are significantly impacted, with the highest tariffs imposed on Laos, Myanmar, Brunei Darussalam, and Viet Nam. China also became a primary target, facing initial tariffs of up to 145%, to which it responded by imposing 125% tariffs on US goods. Since then, the US and China have been engaged in a series of escalating tensions and retaliatory measures, which have led to disruption and heightened uncertainty in the global economy.

While the two major economies remain locked in a continuous trade war, ASEAN finds itself caught in the middle. The region has adopted a dual-track strategy, with ASEAN, as a regional bloc, issuing a collective regional response and individual member states pursuing their own bilateral negotiations, with varying degrees of outcomes. Nevertheless, the escalation has presented the region with both opportunities and challenges. ASEAN's capacity to navigate these new dynamics will hinge on its ability to develop long-term strategies to enhance its economic resilience by responding proactively, diversifying its economic partners by adopting a sector-based approach, and deepening regional economic integration.

The US' 'Trade Wall' versus China's 'Open Door' Policies

President Trump's second term has marked a major shift in the US trade policy profile, marked by a deepening and expansion of protectionist tendencies in approaching trade and industrial policies. In January 2025, the administration issued a Presidential Memorandum on the *America First Trade Policy Agenda*, treating trade policy as a central component of US national security.¹ The memorandum instructed key agencies, including the Office of the United States Trade Representative (USTR), to review existing trade configurations and propose measures to restore the US trade and technological supremacy, with explicit emphasis on protecting the country's workers, re-industrializing the economy, and securing critical supply chains. In doing so, the administration emphasizes the strategic use of tariffs as a powerful diplomatic leverage at the negotiation table,² inducing its trade counterparts to align their trade policies with the US economic interests.³

¹ The White House. (2025a, January 21). *America First Trade Policy – The White House*. The White House. <https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/> The securitisation of economic policies continues as it explicitly mentioned in Trump administration 2025 National Security Strategy (NSS).

² The White House. (2025b). *National Security Strategy of the United States of America*. The White House. <https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf>

³ Bhattacharyya, S., Chakrabarti, A., Colak, G., & Wang, J. (2025,

The 2 April 2025 *Liberation Day* announcement marked an inflection point in the trade wars dynamics, unprecedented since the establishment of modern global trade architecture. Chronologically, the imposition of sweeping reciprocal tariffs under the International Emergency Economic Powers Act (IEEPA) institutionalized a new phase of US protectionism, which then led to a cascading sequence of sector-specific tariffs, mainly on advanced manufacturing and high technology sectors (autos, pharmaceuticals, semiconductors) and critical industrial inputs (copper, aluminum, steel, critical minerals).⁴ Data from the Global Trade Alert indicated that US import restrictions in 2025 reached the highest level in the past 16 years.⁵

In addition to enhancing diplomatic leverage, five key rationales can be observed as driving Trump's "*Liberation Day*" decision. First, invoking national security justifications especially on sensitive high-technology sectors; second, correcting merchandise trade deficits; third, raising government

April 23). *Trump tariffs disrupt and divide the global economy*. East Asia Forum. <https://eastasiaforum.org/2025/04/23/trump-tariffs-disrupt-and-divide-the-global-economy/>

⁴ Bown, C. P. (2025, February 25). *Trump's trade war timeline 2.0: An up-to-date guide*. Peterson Institute for International Economics. <https://www.piie.com/blogs/realtime-economics/2025/trumps-trade-war-timeline-20-date-guide>

⁵ Dür, A., & Invernizzi, A. (2025). Weathering the Storm: US Trade Policy Beyond Trump. *International Organization*, 79(S1), S194–S208. <https://doi.org/10.1017/S0020818325101112>

revenue to offset revenue foregone due to tax cuts; fourth, imposing punitive measures on trading partners whose trade practices are considered tantamount to non-tariff barriers (NTBs); and fifth, promoting industrial re-upgrading and the revitalization of a production-focused economy.⁶

Trump 2.0's protectionist policies can be divided into two broader categories: tariffs and NTBs. For the former, unlike Trump's first term, the new tariff regime combined a blanket tariff of 10%, sector-specific measures, and reciprocal tariffs based on bilateral trade balances, which not only targeting China but also impacting the US' traditional allies such as Australia and the United Kingdom. For the latter, the White House imposed three main measures. First, export restrictions by mandating export license requirements on semiconductors targeting advanced chip processors destined for China. Second, financial incentives that might be tantamount to subsidies as observed in the issuance of the Seabed Mineral Resources Executive orders, allowing the use of loans, grants, and government procurement to crowd in capital in seabed critical mineral mining activities.⁷ Third, pressuring firms to re-shore semiconductor manufacturing to the US and reducing foreign inputs, especially from China,⁸ might implicitly tantamount to performance requirements,⁹

⁶ Harithas, B., Meng, K., Brown, E., & Mouradian, C. (2025, April 3). "Liberation Day" Tariffs Explained. CSIS. <https://www.csis.org/analysis/liberation-day-tariffs-explained>

⁷ Global Trade Alert. (2025). *GTA Monthly Roundup: April 2025 - Global Trade Alert*. Global Trade Alert. <https://globaltradealert.org/blog/GTA-Monthly-Roundup-April-2025>

⁸ Rockwell, K. (2025, September 16). *Trump 2.0 tears apart global supply chains*. East Asia Forum. <https://eastasiaforum.org/2025/09/17/trump-2-0-tears-apart-global-supply-chains/>

⁹ Conditions imposed by a government to foreign firms and/or their investments to meet certain host state national objectives in exchange for market access, investment approvals, and/or incentives. Genest, A. (2019). *Performance Requirement Prohibitions in International Investment Law*. Brill | Nijhoff. <https://doi.org/10.1163/9789004392106>

These industrial policies are strictly regulated in the World Trade Organization (WTO) agreements, especially the General Agreement on Tariffs and Trade (GATT) and Trade-Related Investment Measures (TRIMs) Agreement.¹⁰



ASEAN Member States (AMS) were not exempted. The Liberation Day tariffs imposed differentiated rates across AMS, disproportionately affecting export-dependent and lower-income economies. As shown in Table 1, after bilateral negotiations, six AMS are now operating under tariff rates of 19–20%, while Singapore retains a 10% rate largely due to its existing FTA alignment.¹¹ In contrast, countries such as Lao PDR, Myanmar, and Brunei Darussalam face less competitive tariff treatment, reflecting their limited integration into global value chains (GVCs).

¹⁰ By conditioning incentives on re-shoring and input substitution, these measures might transform industrial policy into NTBs, even though their WTO consistency depends on their specific policy design and justification.

¹¹ Medina, A. F. (2025, October 31). *U.S. Tariffs in Asia 2025: A New Regional Trade Order*. ASEAN Business News. <https://www.aseanbriefing.com/news/u-s-tariffs-in-asia-2025-a-regional-investment-map/>

Table 1. Reciprocal Tariff Rate Targeting AMS (2 April 2025) and Renewed Tariff Rate after Negotiation (as of November 2025)^{12, 13}

ASEAN Member States	Trade in Goods Surplus with the US (US\$ billion)	Reciprocal Tariffs	Renewed Tariffs
Brunei Darussalam	0.11	24%	25%
Cambodia	12.3	49%	19%
Indonesia	17.9	32%	19%
Lao PDR	0.76	48%	40%
Malaysia	24.8	24%	19%
Myanmar	N/A	44%	40%
The Philippines	4.9	17%	19%
Singapore	2.8	10%	10%
Thailand	45.6	36%	19%
Viet Nam	123.5	46%	20%

From a legal perspective, these differentiated tariff rates are inconsistent with the Most-Favoured-Nation (MFN) principle under Article I of the GATT, which requires WTO members to accord equal treatment to like products originating from other members, unless covered by recognized exceptions consistent with Article XXIV. The US, on the other hand, has cited national security as a justification for these unilateral tariffs, which may fall under Article XXI of the GATT.¹⁴ However, pursuing WTO litigation to determine whether such measures are WTO-consistent or which party's interpretation would ultimately

prevail is nearly impossible, given the US' continued blockage of the WTO Appellate Body, which has left the dispute settlement system effectively paralyzed.¹⁵

While AMS have generally chosen pacifying approaches, engaging in negotiation and avoiding retaliation, China, on the other hand, as the primary target of U.S. trade measures, has responded to the US imposing unilateral tariffs with retaliatory actions. Following the sweeping tariff measures introduced in April 2025, which initially targeted all Chinese imports and reached rates of up to 145% at their peak, China responded by imposing tariffs of up to 125% on the US. In the early stages of the dispute, China retaliated by suspending its purchase of US soybeans, a commodity that had previously been the largest US export to China by value.¹⁶ In 2024 alone, China imported 26.8 million metric tons of soybeans from the US.¹⁷ These imports came to a halt during the trade war, prompting an increase in imported soybeans from Brazil and Argentina to China. The suspension of soybean imports was then followed by the imposition of export controls on rare earth minerals. Given China's dominance in the production and refining of rare earth materials, which are critical for the defense sector and high-technology industries, these export controls subsequently became a bargaining tool and source of leverage for China in the trade dispute later on. In 2023, China accounted for 62% of global mined production

¹² Ibid.

¹³ Business Times. (2025). *The list of new tariff rates Trump set on US imports from dozens of countries*. The Business Times. <https://www.businesstimes.com.sg/international/global/list-new-tariff-rates-trump-set-us-imports-dozens-countries?>

¹⁴ Damuri, Y. R. (2025). *Policy Brief: Reaffirming Multilateralism: A proposal for ASEAN Common Framework for Negotiating with the US*. CSIS Indonesia. https://s3-csis-web.s3.ap-southeast-1.amazonaws.com/doc/Policy_Brief_REAFFIRMING_MULTILATERALISM.pdf?download=1

¹⁵ Bahri, A. (2019). Appellate Body Held Hostage: Is Judicial Activism at Fair Trial? *Journal of World Trade*, 53(Issue 2), 293–315. <https://doi.org/10.54648/trad2019014>

¹⁶ Liu, Z. Z. (2025, December 16). *China's Long Economic War*. *Foreign Affairs*. <https://www.foreignaffairs.com/china/chinas-long-economic-war-zongyuan-zoe-liu>

¹⁷ Colussi, J., & Michael, L. (2025). U.S.–China Soybean Deal: Comparing Past Export Levels and Global Market Impacts. *Farmdoc Daily*, 15(212). <https://farmdocdaily.illinois.edu/2025/11/us-china-soybean-deal-comparing-past-export-levels-and-global-market-impacts.html>

and 92% of the global refined output alone, far surpassing any other country.¹⁸ Since then, the bilateral trade relationship of the two biggest economies has been a roller-coaster of repeated tit-for-tat actions, with consequences that have reshaped global trade relations and the broader international political economy landscape.



As of early December 2025, the dispute has significantly de-escalated, although longer-term stability remains uncertain. This followed a high-level meeting in October 2025 that ultimately brought together Donald Trump and Xi Jinping in South Korea. The engagement was subsequently continued through a phone call between the two presidents in late November, which led to the outcomes as a “positive, friendly, and constructive” discussion.¹⁹ Following these meetings, China agreed to accelerate its purchase of US goods, including a commitment to buy

12 million metric tons of soybeans by early 2026.²⁰ Additionally, the US has agreed to lower tariffs on Chinese imports from 20% to 10%, in exchange for measures to curb the flow of fentanyl.²¹ Both parties have also agreed to set up another high-level meeting in April 2026.

Beyond the unilateral tariffs imposed on multiple countries, including those in ASEAN, the US-China trade dispute has also reshaped broader trade relations. Given the economic significance of both countries, the prolonged tensions have encouraged countries to reconsider their trade dependencies and diversify their economic partners. On the other hand, given the substantial impact of the US tariffs imposed on ASEAN countries, China has also seen this as an opportunity to expand its influence and deepen its relationships with countries in the region. Recently, both ASEAN and China signed the upgraded ASEAN-China Free Trade Area (ACFTA) 3.0 on 28 October 2025, to broaden the cooperation across nine areas, including the digital economy, green and sustainable development, supply chain connectivity, and micro, small, and medium enterprises (MSMEs).

Beyond engaging with ASEAN as a regional grouping, China has also sought to strengthen its ties with individual ASEAN countries in light of the ongoing trade tensions. President Xi Jinping has made state visits to Viet Nam, Malaysia, and Cambodia in April 2025. These visits led to the signing of 45, 31, and

¹⁸ International Energy Agency. (2024). *Global Critical Minerals Outlook 2024*. International Energy Agency. <https://iea.blob.core.windows.net/assets/ee01701d-1d5c-4ba8-9df6-abeeac9de99a/GlobalCriticalMineralsOutlook2024.pdf>

¹⁹ Doyle, K. (2025, November 26). *Trump says China's Xi Jinping agreed to accelerate purchases of US goods*. Al Jazeera. <https://www.aljazeera.com/news/2025/11/26/trump-says-chinas-xi-jinping-agreed-to-accelerate-purchases-of-us>

²⁰ The White House. (2025c, November). *Fact Sheet: President Donald J. Trump Strikes Deal on Economic and Trade Relations with China*. The White House. <https://www.whitehouse.gov/fact-sheets/2025/11/fact-sheet-president-donald-j-trump-strikes-deal-on-economic-and-trade-relations-with-china/>

²¹ Bown, C. P. (2025, August 27). *US-China trade war tariffs: An up-to-date chart*. Peterson Institute for International Economics. <https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart>

37 agreements, respectively, highlighting China's deepening engagement with its backyard neighbors.²² While the agreements spanned a wide range of sectors, particular emphasis was placed on enhancing trade and investment relations, strengthening the supply chain, and improving connectivity through the Belt and Road Initiative. Additionally, President Xi Jinping also put forward the narrative of “safeguarding the bright prospect of our Asian Family”,²³ signaling his intention to draw these countries closer to China. While this remark was made in the context of his visit to Malaysia, it clearly conveys a broader strategic message that is also directed at other countries in the region.



Given the region's heavy reliance on the US market as a major export destination,²⁴ ASEAN finds itself increasingly “caught in the middle”: facing pressure to accommodate US trade preferences while becoming the receiving end of Chinese goods ‘tsunami’ redirected from China's saturated domestic demand

²² Mai, L., & Poling, G. B. (2025). *The Latest on Southeast Asia: Xi's Visit to Southeast Asia | The Latest on Southeast Asia | CSIS*. Center for Strategic and International Studies. <https://www.csis.org/blogs/latest-southeast-asia/latest-southeast-asia-xis-visit-southeast-asia>

²³ Pandey, R. (2025, April 21). *Xi Jinping's Tour Highlights Southeast Asia as the Frontline of the Global China-US Competition*. The Diplomat. <https://thediplomat.com/2025/04/xi-jinpings-tour-highlights-southeast-asia-as-the-frontline-of-the-global-china-us-competition/>

²⁴ Winanti, P. S. (2025). *The ASEAN Members' Response to Trump's Liberation Day*. International Institute for Sustainable Development (IISD). <https://www.iisd.org/articles/policy-analysis/asean-response-trump-liberation-day>

and constrained access to the US market,²⁵ which potentially impacting the region's manufacturing industries and workforces.

ASEAN's Response to US Reciprocal Tariff

In response to the tariffs imposed by President Trump, ASEAN has adopted a dual-track strategy, consisting of a collective regional response alongside bilateral negotiations by individual member states. With regard to the collective regional approach, ASEAN issued a *Joint Statement of the ASEAN Economic Ministers on the Introduction of Unilateral Tariffs of the United States* on 10 April 2025. This statement seeks to balance national interests with ASEAN's broader trade and economic agenda. ASEAN expressed deep concern over the US unilateral tariffs, emphasizing that such measures risk disrupting regional and global trade and investment flows, as well as supply chains, thereby affecting businesses and consumers worldwide and ultimately undermining economic security and stability.²⁶

Three key aspects of ASEAN's strategy can be highlighted. First, ASEAN has demonstrated a shared commitment to engage in frank and constructive dialogue with the US to address trade-related concerns, while refraining from retaliatory measures.²⁷ This dialogue-oriented approach reflects the *ASEAN Way*, which prioritizes consultation, consensus-building, and non-confrontation. Unlike countries such as China, the European Union (EU), Canada,

²⁵ Pangestu, M., & Armstrong, S. (2025, February 2). *ASEAN response to a Trump-generated Chinese economic tsunami*. East Asia Forum. <https://eastasiaforum.org/2025/02/02/asean-response-to-a-trump-generated-chinese-economic-tsunami/>

²⁶ ASEAN Secretariat. (2025, April 10). *Joint Statement of the ASEAN Economic Ministers on the Introduction of Unilateral Tariffs of the United States*. <https://asean.org/wp-content/uploads/2025/04/04-Special-AEM-Joint-Statement-Unilateral-Tariffs-Adopted.pdf>

²⁷ Ibid.

and Mexico—which have responded with retaliatory actions—ASEAN's stance also underscores the region's continued economic dependence on the US as a major export destination and the largest source of foreign direct investment (FDI). As such, retaliatory measures would pose significant risks for ASEAN economies.

Second, ASEAN continues to reaffirm its strong commitment to a rules-based multilateral trading system and supports the central role of the WTO in maintaining global trade stability. Third, ASEAN aims to further strengthen and expand intra-ASEAN trade and investment as part of its efforts to advance regional economic integration.²⁸ Despite having established ASEAN free trade agreements, intra-ASEAN trade currently accounts for only about 21.5% of total regional trade in 2024,²⁹ as many member states continue to trade more extensively with external partners—particularly China and the US—than with fellow AMS.³⁰

In parallel, during the 90-day suspension period, AMS used the window to pursue bilateral negotiations with the US to secure the best possible trade deals and preserve access to the US market. Overall, AMS engaged in a series of trade talks with the US, committed to purchasing certain US goods, addressed non-tariff measures and trans-shipment issues, and strengthened cooperation on economic security.

²⁸ Ibid.

²⁹ ASEAN Secretariat. (December 2024). *Annual Report 2024 ASEAN: Enhancing Connectivity and Resilience*. https://asean.org/wp-content/uploads/2024/12/ASEAN-AR-2024_e-pub_web.pdf

³⁰ Heiduk, F., & Hell, N. (2025). The ASEAN Summit 2025 - More Than Just a Stage for Trump. *SWP Comment No. 48*. https://www.swp-berlin.org/publications/products/comments/2025C48_ASEANSummit_2025.pdf

Below are the individual measures taken by AMS in response to US reciprocal tariffs:

- **Cambodia:** Among ASEAN members, Cambodia faced the highest tariff in April 2025, placing it in a vulnerable position as the US is its largest export destination. Cambodia conducted negotiations with the US, announced a tariff reduction from 35% to 5% on 19 categories of US products, and agreed to an immediate and unconditional ceasefire in the Thailand–Cambodia conflict.
- **Lao PDR:** Lao PDR engaged diplomatically by having Prime Minister Sonexay Siphandone send an official letter to the US and hold meetings with US trade representatives.
- **Viet Nam:** Viet Nam dispatched a special envoy to the US, reduced import tariffs on US goods to zero, and implemented regulatory measures to verify rules of origin and manufacturing processes to address trans-shipment concerns.
- **Myanmar:** On 9 July, Myanmar issued an official letter proposing reciprocal tariff cuts—from 88% to 0–10% on US imports and 10–20% on Myanmar's exports to the US. The letter also offered to send a high-level negotiation team if necessary and called for the removal of US economic sanctions.
- **Thailand:** Thailand adopted a multi-tiered negotiation mechanism involving the prime minister, ministers, ambassador, and data support from a joint public–private working group. It submitted a five-point proposal to US trade representatives aimed at reducing Thailand's trade surplus

with the US by 50% within five years. The proposal included strengthening US–Thai food processing trade, increasing imports from the US, opening markets, and reducing trade barriers on approximately 99% of US goods (industrial, food, and agricultural), strict compliance with rules of origin, and expanding Thai investment. Thailand also decided to strengthen trade and investment in critical mineral supply chains with the US.³¹ In the political realm, Thailand agreed to an immediate and unconditional ceasefire in the Thailand–Cambodia conflict.

- **Indonesia:** Due to the vacancy of Indonesia's ambassadorial post in the US at the time, Indonesia sent senior trade officials to conduct negotiations. Indonesia also announced tariff reductions on most US goods to near zero and committed to major purchases from the US, including energy, agricultural commodities, and 50 Boeing aircraft.
- **Malaysia:** Malaysia sent a delegation to the US and announced a package of assistance measures to protect MSMEs potentially affected by tariffs. Malaysia agreed to simplify market access for US businesses, remove or reduce tariffs on most US goods, lift certain non-tariff barriers, and refrain from banning or imposing quotas on exports to the US of critical minerals. Given its economic reliance on the US, Malaysia prioritized cooperation with the US in the economic, education, and defense sectors.
- **Brunei Darussalam:** Brunei Darussalam assessed potential economic impacts and conducted technical discussions with US counterparts to clarify and negotiate tariff rates.
- **The Philippines:** Negotiations were conducted by the Philippines' president, ambassador, and senior officials with their US counterparts.
- **Singapore:** Although Singapore's prime minister publicly expressed disappointment with the US, Singapore chose not to impose retaliatory tariffs. Instead, it established a high-level Economic Resilience Task Force to monitor developments and support affected businesses and workers.

After issuing a unified regional position and pursuing intensive bilateral discussions, ASEAN succeeded in avoiding the most severe tariff impacts compared with many other regions worldwide. Almost all AMS managed to secure lower US import tariffs than those announced in April, with the exceptions of Singapore, whose rate remained unchanged, and Brunei Darussalam and the Philippines, whose rates increased. It is noteworthy that, in addition to economic interests, the US considered geopolitical factors—particularly the Thailand-Cambodia conflict—when determining tariff levels for both countries. The details of the changes in US tariffs imposed on AMS can be found in Table 1.

³¹ Bown, C. P. (November 20, 2025). *Trump's Trade War Timeline 2.0: An Up-to-date Guide*. <https://www.piie.com/blogs/realtime-economics/2025/trumps-trade-war-timeline-20-date-guide>

Opportunities and Risks for ASEAN Amid Intensifying US–China Trade Tensions

Amidst the turbulence caused by the tensions between the US and China in their trade war, ASEAN is faced with vulnerabilities, yet still in a strategic position.³² Being the two largest trading partners of ASEAN,³³ the escalation presents ASEAN with both opportunities to strategically position itself within the GVCs and the risk of economic distortion. In determining the extent how far ASEAN can convert external shocks into gains and minimize its negative impacts hinges on regional coordination and the effective use of existing trade frameworks.

³⁴

One of the most important institutional assets for ASEAN amidst the growing global trade fragmentation is the Regional Comprehensive Economic Partnership (RCEP). As the largest regional trading bloc in the world, it has a combined population of 2,4 billion people (30,3 % of the world population in 2020), a regional gross domestic product (GDP) of \$25,873 billion (30,6% of global GDP in 2020), and a regional trade of \$10,173 billion (29,1% of global trade in 2020).³⁵ RCEP provides a rule-based framework that promotes trade continuity and stability in the supply chain across the Asia-Pacific. Its cumulative rules of origin (RoO) allow firms to source inputs from

different or various member countries while retaining preferential tariff treatment.³⁶ RCEP should not merely serve as a simple trade diversification, but also facilitate a deeper integration, especially to those manufacturing-oriented AMS such as Indonesia, Malaysia, Thailand, and Viet Nam. There are still many untapped potentials to be fully realized across AMS, and an effective utilization of RCEP could strengthen ASEAN's position as a regional manufacturing and logistics hub, while mitigating its dependency on bilateral trade relations with either major powers.³⁷

The heightened external uncertainty also requires the organization to look inward and deepen its intra-ASEAN trade, where it accounts for 21,5% of ASEAN's total trade despite decades of integration efforts,³⁸ presenting a significant unrealized potential. Furthermore, the newly upgraded ASEAN Trade in Goods Agreement (ATIGA) is expected to foster AMS shared commitment in promoting a modern, inclusive, and sustainable trade system for a deeper integration.³⁹ By strengthening regional supply chains through the new upgraded agreement, this could pave the way for ASEAN's greater resilience against external shocks while at the same time reinforcing its centrality. Expanding regional production networks in various sectors, such as automotive components, electronic parts, and digital services, are

³² Zha, W. (2023). Southeast Asia amid Sino-US Competition: Power Shift and Regional Order Transition. *The Chinese Journal of International Politics*. Vol. 16. No. 2.

³³ The ASEAN Secretariat. (2024). ASEAN Key Figures. Vol. 7.

³⁴ Eswaran, V. (2025). ASEAN is Turning Global Tensions into Regional Opportunities. *World Economic Forum*. <https://www.weforum.org/stories/2025/07/why-asean-must-transform-global-tensions-into-regional-opportunities/>.

³⁵ Park, I. (2022). Comparison of the Regional Comprehensive Economic Partnership and Other Free Trade Agreements. Fukunari Kimura, Shandre Thanavelu, & Dionisius Narjoko (Eds). *Regional Comprehensive Economic Partnership: Implication, Challenges, and Future Growth of East Asia and ASEAN* (pp. 45-82).

³⁶ Suvannaphakdy, S. (2021). RCEP Will Drive ASEAN Economic Recovery. *The Diplomat*. <https://thediplomat.com/2021/12/rcep-will-drive-asean-economic-recovery/>.

³⁷ Malvenda, M. (2019). The RCEP: Impacting ASEAN's Supply Chains and Business Environment. *ASEAN Briefing*. <https://www.aseanbriefing.com/news/rcep-impacting-aseans-supply-chains-business-environment/>.

³⁸ ASEAN Secretariat. (December 2024). *Annual Report 2024 ASEAN*.

³⁹ Antara. (2025). ATIGA Upgrade Boosts ASEAN's Economic Resilience, Minister Says. *Antara*. <https://en.antaranews.com/news/388157/atiga-upgrade-boosts-aseans-economic-resilience-minister-say>.

opportunities that exist with an increasing intra-ASEAN trade.⁴⁰ Despite the constraints on deeper integration due to persistent NTBs and uneven implementation of ASEAN Economic Community (AEC) commitments; improved connectivity, trade facilitation, and regulatory harmonization are crucial for enabling smaller and less-developed AMS to achieve better integration.⁴¹

The intensifying US-China trade war is also giving even more of an incentive for ASEAN to diversify its trade and investment partnership beyond its traditional economic anchors. ASEAN needs to diversify its cooperation with external partners, not only on a country-by-country basis but also through a more strategic and sector-based approach with partners that have established advanced capabilities in the relevant sectors. For instance, engagement with the EU countries can be deepened through cooperation in renewable energy and sustainable supply chains, which aligns with ASEAN's growing manufacturing and energy transition needs. Countries like Chile and Peru are also another examples of key suppliers of lithium and copper, which could position them as valuable partners for EVs industries, while Gulf countries are important for energy security.

Additionally, cooperation with non-ASEAN traditional partners, Taiwan for instance, holds significant potential, particularly in key sectors such as semiconductor—widely regarded as the critical backbone of digital trade. ASEAN accounted for approximately 12% of global

FDI inflows in semiconductors for 2021-2024 with an annual value amounting to \$12 billion. Singapore and Malaysia emerged as the largest recipients of FDI, followed by Viet Nam, the Philippines, Thailand, and Indonesia.⁴² The region also accounted for 25% global semiconductor exports in 2023.⁴³ Recently, Southeast Asia has witnessed a growing greenfield FDI in this critical sector. In 2024, TSMC affiliate, Vanguard International Semiconductor (VIS), invested in a joint venture project to build a \$7.8 billion 300-mm semiconductor wafer manufacturing facility in Singapore. In 2025, United Macroelectronics invested \$5 billion to build an advanced fabrication facility in Singapore, producing 22-nm and 28-nm chips.⁴⁴ Given ASEAN's recent shift and growing focus on strengthening its position in the global supply chain and its ambition to become a single production base for semiconductors, this could present an opportunity for Taiwan to further expand its semiconductor investment beyond the US.⁴⁵ Taiwan's increasing 'silicon' footprint in ASEAN seems to align with its ambition of developing a non-red supply chain for advanced manufacturing and reflects the objectives of its integrated diplomacy practice under the New Southbound Policy (NSP). As Taiwan possesses technological capacity and capital allocation, should AMS seek to ascend their involvement within the global high-tech supply chain, Taiwan could be an ideal partner to consider.

⁴⁰ Rifki et al. (2025). ASEAN's Next Trade Breakthrough: Accelerating Cross-Border Growth Through Interoperable Identity. ASEAN Business Advisory Council. <https://asean-bac.org/news-and-press-releases/asean%E2%80%99s-next-trade-breakthrough-accelerating-cross-border-growth-through-interoperable-identity>.

⁴¹ Sundram, P. (2025). Network governance in ASEAN: fostering regional cooperation and integration. *Front. Polit. Sci.* 7:1434595.

⁴² ASEAN. (2025). *ASEAN Investment Report 2025: Foreign Direct Investment and Supply Chain Development*. ASEAN. https://asean.org/wp-content/uploads/2025/10/AIR2025_rev17-Okt.pdf

⁴³ Tan, G., & Wihardja, M. M. (2025, December 1). *ASEAN's regional ambitions for the semiconductor industry*. Fulcrum. <https://fulcrum.sg/aseans-regional-ambitions-for-the-semiconductor-industry/>

⁴⁴ ASEAN. (2025). *ASEAN Investment Report 2025*.

⁴⁵ Kabinawa, R. (2025, November 6). *After the Hyundai raid: How Taiwan should recalibrate its semiconductor investments*. Korea On Point. https://koreaponpoint.org/articles/article_detail.php?idx=482#

Taiwan's successful development model of a semiconductor industrial cluster, together with the close and highly integrated upstream, midstream, and downstream partnerships within its electronics industry, has become a focal point of international attention. With its strong technological capabilities and capacity for capital integration, Taiwan stands out as an ideal partner to be given priority consideration should AMS seek to deepen their engagement and positioning within the global high-tech supply chain. Amid the ongoing restructuring of global supply chains, Taiwan's solid foundation in technological research and development, coupled with flexible and efficient industrial policies, has established a successful model widely regarded as a benchmark for other countries. As AMS currently aspire to develop their semiconductor industries and advance industrial upgrading, Taiwan—with its strengths in high-tech manufacturing and supply chain integration—emerges as an outstanding and highly credible partner for cooperation.

On the other hand, the intensifying competition is accompanied by a number of varying risks to ASEAN. First, the redirection of Chinese goods has been flooding the region with Chinese cheap products as access to the US market becomes more restricted. Sectors such as steel, chemicals, electronics, and consumer goods could overflow into the ASEAN market, resulting in excess capacity.⁴⁶ Such import surges could cause a hindrance for domestic manufacturing in a less-industrialized AMS, while more industrialized members face an intensifying competition that compresses margins and weakens industrial

development efforts.⁴⁷ Now, faced with the influx of cheaper imports and intensified competition, manufacturers could further accelerate closures and exacerbate job losses, particularly for MSMEs.⁴⁸ The current rise of automation and investment pattern shifts is also already eroding competitiveness in industries across AMS.⁴⁹ This risk is even more apparent for lower-income AMS, where labour-intensive industries remain pivotal to employment and social stability. ASEAN may risk absorbing external pressures rather than capturing long-term value if this is not addressed with effective trade remedies and monitoring mechanisms.

The issue of transshipment is also of particular concern for Southeast Asian economies. The Trump administration plans to impose additional 40% tariffs on circumvented goods via third country transshipment to avoid higher tariffs.⁵⁰ Studies⁵¹ show that during the trade war, a decline of China's share in US imports was correlated with Vietnam's increase in its share to US imports. The US has been insisting AMS to enforce stricter RoO, which emphasizes "substantial transformation."⁵² Bilateral reciprocal trade arrangements, with

⁴⁶ Raychaudhuri, M. (2025). ASEAN countries face their own 'China shock': Raychaudhuri. Reuters. <https://www.reuters.com/markets/asia/asean-countries-face-their-own-china-shock-raychaudhuri-2025-05-15/>.

⁴⁷ Kelly, B., & Wester, S. (2025). ASEAN Caught Between China's Export Surge and Global De-Risking. Asia Society Policy Institute.

<https://asiasociety.org/policy-institute/asean-caught-between-chinas-export-surge-and-global-de-risking>.

⁴⁸ Rajah, R., Albayrak, A., & Walker, R. (2025). Navigating the Storm: Southeast Asia and the Global Trade Shocks. Lowy Institute. <https://www.lowyinstitute.org/sites/default/files/2025-12/RAJAH-ALBAYRAK-WALKER-Navigating-the-storm.pdf>

⁴⁹ Chang, J., H., Rynhart, G., & Huynh, P. (2016). ASEAN in Transformation: How Technology Is Changing Jobs and Enterprises. International Labour Organization. Working Paper No. 10.

⁵⁰ Rajah, R., Albayrak, A., & Walker, R. (2025), p. 27.

⁵¹ Alfaro, L., & Chor, D. (2023). *Global Supply Chains: The Looming "Great Reallocation"*. Harvard Business School. <https://doi.org/10.2139/ssrn.4567667>

⁵² U.S. Customs and Border Protection. (2006). *Importing into the United States A Guide for Commercial Importers*. <https://www.cbp.gov/sites/default/files/documents/Importing%20into%20the%20U.S.pdf>

Malaysia as an instance, contain provisions aimed at combating transshipment.⁵³ Singapore has also issued Circular No. 06/2025 to provide guidance for stakeholders engaged in cross-border trade.⁵⁴ Noting the importance of the US market for Southeast Asia, as discussed earlier, recent developments have prompted supply-chain readjustments discussions. Production networks in Asia are being reconfigured as firms increasingly reduce Chinese inputs to avoid exposure to US tariffs. However, this strategy has been constrained largely due to limited US manufacturing capacity.⁵⁵ These dynamics might create other opportunities for AMS to position themselves as alternative hubs, including non-red supply chains, particularly in the manufacturing of intermediate goods that feed into global production networks. Regionally, ASEAN could develop common guidelines on non-preferential RoO that specify the criteria for “substantial transformation”. This approach would help align AMSs’ responses to the US’ demands while remaining WTO-consistent, thereby strengthening the region’s resilience and credibility.⁵⁶

Conclusion

The US’ unilateral actions potentially embody the “kicking away the ladder”,⁵⁷ that then-

⁵³ The White House. (2025c, October 26). *Agreement Between the United States of America and Malaysia on Reciprocal Trade*. The White House. <https://www.whitehouse.gov/briefings-statements/2025/10/agreement-between-the-united-states-of-america-and-malaysia-on-reciprocal-trade/>

⁵⁴ Christy, J., Nadya, C., & Vergano, P. R. (2025, July 28). *Transshipment in ASEAN Member States under scrutiny: Singapore clarifies rules on preferential and non-preferential declarations of origin*. Lexology. <https://www.lexology.com/library/detail.aspx?g=7c04f269-c077-46b8-ac92-47d81be612d4#:~:text=Also%20in%20May%202025%2C%20Malaysia,measures%20to%20address%20US'%20concerns.>

⁵⁵ Rockwell, K. (2025, September 16).

⁵⁶ Damuri, Y. R. (2025), p. 8.

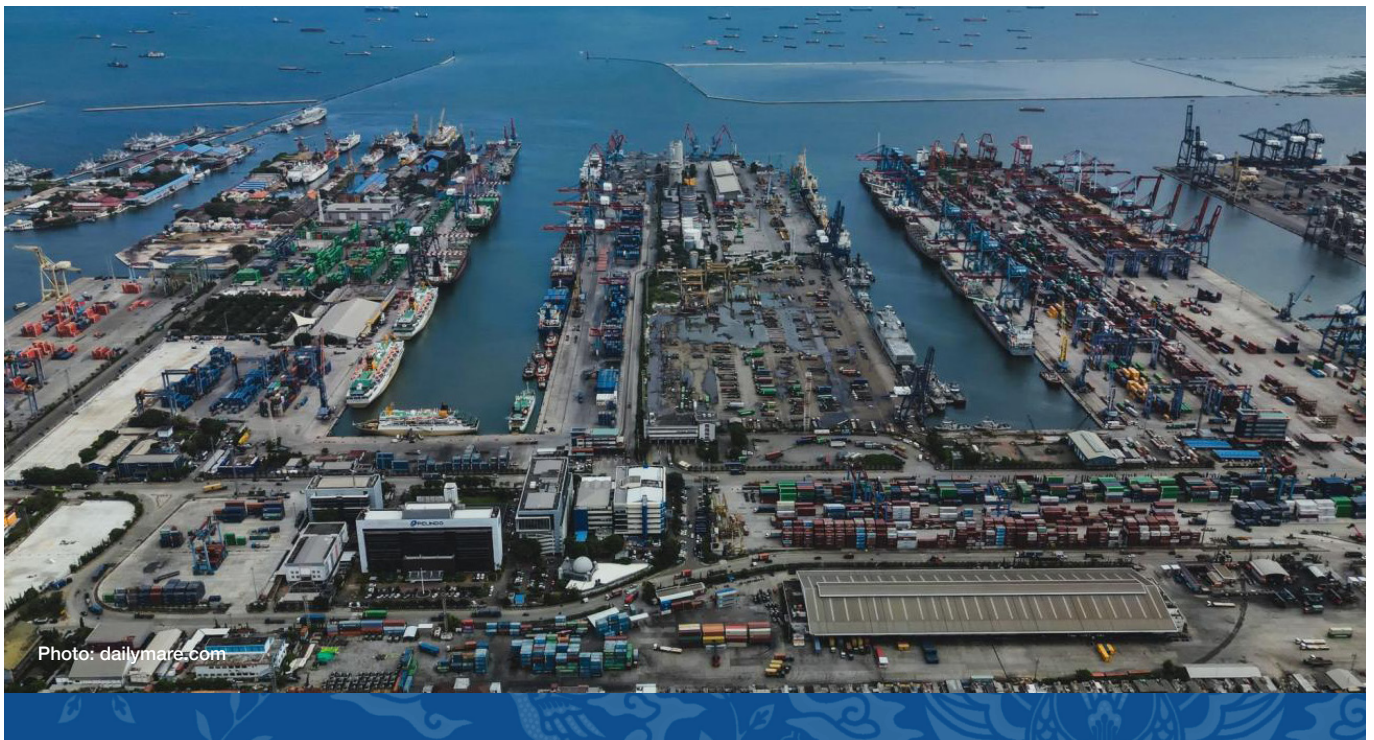
⁵⁷ Chang, H.-J. (2007). *Kicking Away the Ladder: The “Real” History of Free Trade*. In *Globalization and the Myths of Free Trade: History, Theory and Empirical Evidence* (1st ed.). Taylor & Francis

developing countries become rich countries nowadays not by following a myth of free-market policies but instead by invoking tactics that were used to protect their domestic and infant industries from foreign competition. The US’ recent turn towards protectionist measures has twisted the narrative of ‘free and fair’ trade it once constructed, reshaping the landscape of the contemporary international political economy. The shift is not only rooted in the unilateral tariffs imposed by the US on its multiple trading partners, but also as a result of the trade war between the US and China, the world’s two major economic powers. These continued dynamics have served as a wake-up call for many countries, including those in the ASEAN region, prompting them to diversify their economic and trade partners.

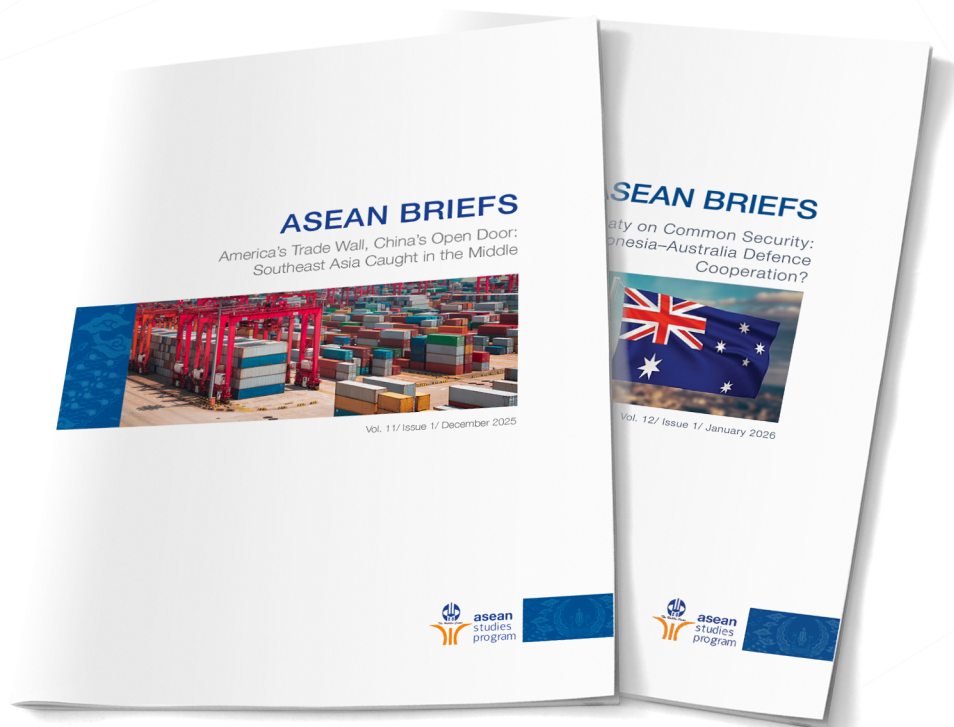
ASEAN is a dependent market economy due to its export-oriented structure, with the US serving as a major export destination for several AMS. While China is ASEAN’s largest trading partner, a significant share of the region’s prosperity is derived from access to the US market. Consequently, the US has been able to leverage, if not weaponize, ASEAN’s dependence by pursuing a bilateral strategy in its trade relations, potentially undermining the region’s trade policy cohesion. Through a combination of a unified regional response and bilateral negotiations, almost all AMS managed to secure lower US import tariffs than those initially announced in April. However, although these approaches have helped mitigate the immediate impact, they represent only short-term solutions. ASEAN, therefore, continues to require long-term strategies to strengthen its economic resilience.

ASEAN should capitalize on these global trade

Group. <https://doi.org/10.4324/9780203966389>



dynamics by not acting reactively, but proactively, to avoid being caught between competing economic powers. RCEP should be effectively utilized as a tool for a deeper regional economic integration, supply-chain readjustment, and industrial development. At the same time, efforts to deepen intra-ASEAN trade, especially with the newly upgraded ATIGA, are being made by strengthening regional production networks in key sectors to enhance resilience against potential external shocks. Finally, diversification of trade and investment partnerships beyond the US and China towards the EU, Chile, Peru, Gulf countries, and other East Asia partners will be essential to mitigate geopolitical risks in an increasingly fragmented global economy.



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The Habibie Center was founded by Bacharuddin Jusuf Habibie and family in 1999 as an independent, non-governmental, non-profit organisation. The vision of The Habibie Center is to create a structurally democratic society founded on the morality and integrity of cultural and religious values. The mission of The Habibie Center are first, to establish a structurally and culturally democratic society that recognizes, respects, and promotes human rights by undertaking study and advocacy of issues related to democratization and human rights, and second, to increase the effectiveness of the management of human resources and the spread of technology.

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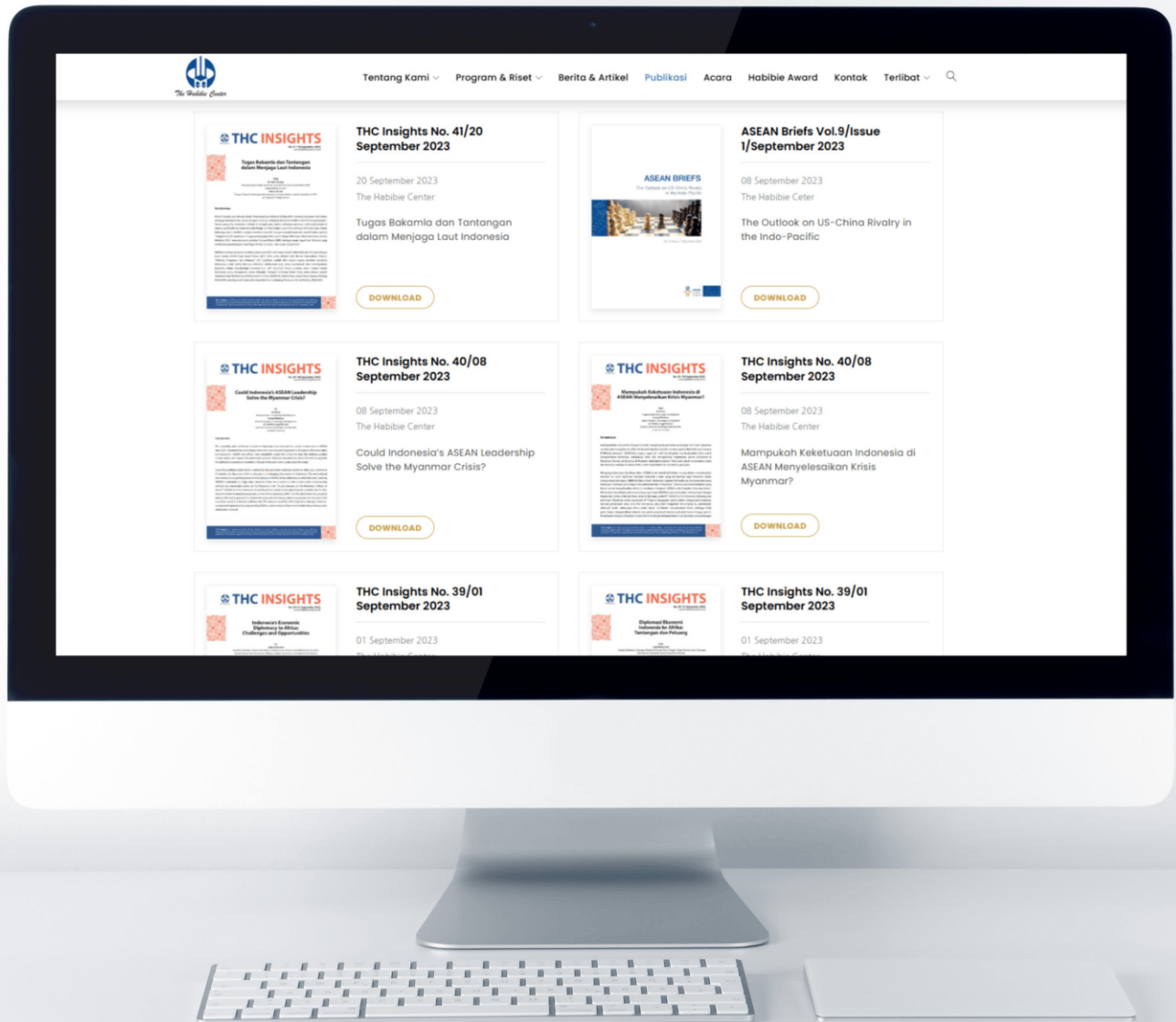
The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights. The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

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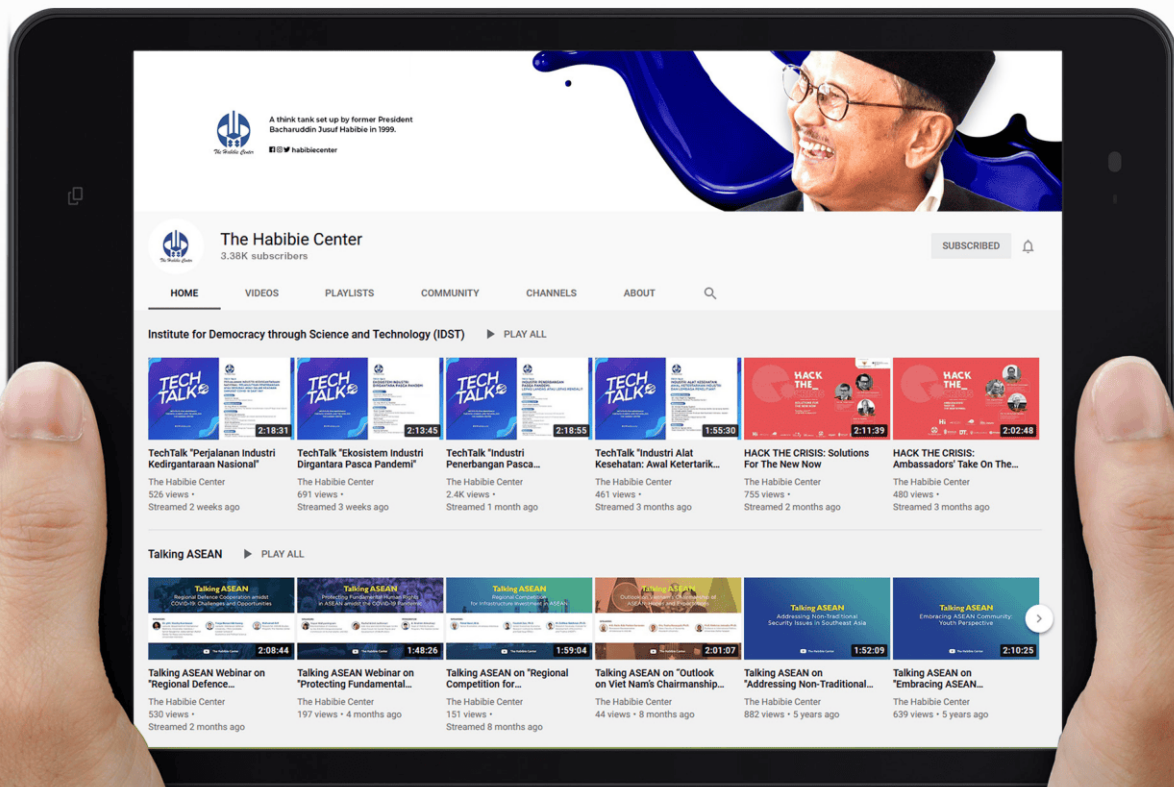
Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

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