

# The US – China Trade War and Its Ramifications for ASEAN

Martin Sviatko\*

## ABSTRACT

This research paper attempts to analyze the ongoing trade war between the United States and China and its ramifications for the ASEAN region. The paper starts with a brief review of the trade war between the two world's largest economies, highlighting the main root causes of this trade conflict. In spite of the fact that in the initial stage of the trade war, ASEAN was largely perceived as a region which would positively benefit from the trade dispute and its spillovers, this research paper disputes such a narrative. As the trade war entered its second year, with a solution to this crisis yet to be found, the ASEAN economies began to feel various impacts of this trade dispute. The section of the paper presenting an analysis of the trade war effects on ASEAN documents largely negative impacts on this region. Given the fact that all the ASEAN member states adopted an export-led economic model – the model that lifted millions out of poverty and helped ASEAN's economies through the downturn of the 1997 Asian financial crisis – evidence suggests that exports appear to be the first victim of the trade war. Due to the decreasing volume of exports, ASEAN's economic growth has begun to dwindle. In its conclusion, the research paper argues that as long as the trade war continues to disrupt the global economy, its negative effects will continue to weigh heavily on ASEAN.

**Keywords:** ASEAN, Trade war, United States, China, Export, Economic growth.

---

\* Martin Sviatko, PhD  
CamEd Business School  
Email: [martin@cam-ed.com](mailto:martin@cam-ed.com)

## INTRODUCTION

In the month of June 2018, the Trump administration imposed a 25% tariff on products manufactured in China valued at USD 34 billion, setting off events that would come to be known as the US-China trade war. The rationale behind such a decision was an attempt by the Trump administration to reduce the US trade deficit with China, because over the past three decades, the US had consistently imported more products from China than it had exported to this world's second largest economy. To many, this was a surprise move, especially when one considers the fact that the tariff came into effect less than a year after Trump's 'successful' visit to Beijing. A closer look at this trade dispute, however, reveals a very different picture.

Prior to the 2016 presidential election, Trump ran his electoral campaign on a clear anti-China platform, blaming China for stealing millions of jobs from Americans, as well as accusing its Asian rival of violating intellectual property rights and manipulative devaluing of its currency, the yuan. These accusations resonated strongly among Trump's supporters, as many of them were victims of the process of outsourcing and offshoring manufacturing jobs that had begun to take place in the 1980s, and which culminated prior to the global financial crisis of 2007-2008, also known as the Great Recession. Although the initial and subsequent tariffs were imposed by the Trump administration on products manufactured in and exported from China – making China an exclusive target – these actions had unfortunate effects on other countries. The ASEAN community appears to be one of many collateral victims of this trade war.

## TRADE AND ASEAN

**When the Association of Southeast Asian Nations (ASEAN) was established by Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967**, it mainly aimed to address major political challenges to the region. Once the threat of a communist takeover dissipated, economic realities gradually became ASEAN's exclusive focal point. Reflecting on its history, one could argue that it had been only a question of time before regional actors would come up with a decision to create a single market in order to strengthen and institutionalize their mutual economic links. Using its sea routes, trade has always been vital to the development of the region. And while military strategists tend to consider oceans and seas to be large geographical barriers – difficult to overcome – merchants look at them through a very different lens.

The Strait of Malacca, the Sunda Strait and South China Sea have been used as trade and shipping routes for centuries. From this perspective, the seas did not divide. Quite the contrary: they brought geographically-dispersed communities a little closer. Thus, when ASEAN came into being – standing on its three pillars (political, economic and socio-cultural) – bringing economic realities to the fore was interpreted as a logical recognition of those events which had been shaping the region long before the onset of modern nation-states. By devising the ASEAN Economic Community, its second pillar, ASEAN merely recognized a continuing entrepreneurial culture which has always been a distinct hallmark of the region. **Interestingly, ASEAN's reorientation from the political-security pillar to the economic and social pillars coincided with wider structural modifications of an increasingly globalized economy.**

The previously mentioned adjustment occurred simultaneously with the beginning of a major shift in the center of the world's economic activity from the North Atlantic states to Eastern Asia. This shift had many causes. The global spread of capital and technology was one. Developments in transport and patterns of consumption were others. The easy exploitation of reasonably well-skilled pools of labor under authoritarian, market-friendly regimes in Asia also

stimulated capitalist growth. But perhaps most important was the unprecedented access to markets in Western countries that made export-led models of growth possible.<sup>1</sup>

**Consequently, as globalization and technological changes gathered speed in the 1970s and 1980s, an opportunity was presented to the ASEAN member states to tap into those processes which would later facilitate their integration into international trade. Apart from political stability, this would be the single most important factor generating growth in the Southeast Asian emerging economies for decades to come.**

Lee Kuan Yew, the founding father of modern **Singapore**, stated that this island-state constructed its story on the backbone of global trade. The story of Singapore's progress is a reflection of the advances made in the industrial countries – their inventions, technology, enterprise, and drive. With each technological advance, Singapore advanced – containers, air travel and air freight, satellite communications, intercontinental fiber-optic cables.<sup>2</sup> Other founding members of ASEAN quickly followed suit.

By contrast, for those countries that decided to abstain from these processes for various reasons – and whose economies remained closed – this was a missed opportunity. The gross national income (GNI) per capita of **Cambodia, Myanmar, Laos and Vietnam** oscillated around USD 950 at the time when they joined ASEAN in the late 1990s.

Critics of ASEAN often point out that the effectiveness of this economic community will always be undermined so long as colossal economic differences exist among its member states. For instance, Singapore's GNI per capita in 2018 was USD 58,770 – on par with countries such as Sweden or Ireland. Cambodia's GNI per capita in 2018 was just USD 1,380. As we have just highlighted, nowhere else is this economic contrast greater than in ASEAN. But these numbers tell us only a fraction of the story. Cambodia won its independence in 1953, some twelve years before independence was achieved by Singapore. However, the country has failed to translate this advantage into sound economic policies, and it quickly embraced a command, centrally-planned economy rather than a market one. While Singapore has become a trade-dependent economy, Cambodia – disconnected from international trade and bypassed by major technological changes – has remained an aid-dependent economy up until its entry into ASEAN in 1999. **Despite all its flaws, the market economies have been able to produce a fairer and better functioning society than what the planned economies have been capable of achieving with a handful of theoretical benefits.** Thus, trade has played a critical role in determining the fate of nations.

Remarkably similar conclusions can be also drawn for other geographical regions. “The historical evidence examines the experiences of countries when they tried to isolate themselves from the world economy. There is the experience of the 1930s, when most countries tried to protect themselves from world events by shutting out flows of goods, capital, and labor. This did not cause the Great Depression of the 1930s but worsened it and, ultimately, led to the misery and tragedy of World War II. There are also the parallel experiences of countries that were divided by war, with one side becoming closed to the world economy, the other side open. Germany and Korea are the best examples, but all of Eastern Europe stands in stark contrast to the prosperity and cleaner environments of Western Europe after World War II. There are also

---

<sup>1</sup> Westad, O. A. (2017). *The Cold War: A World History*. New York, USA: Basic Books. pp.555.

<sup>2</sup> Lee, K.Y. (2013). *From the Third World to the First: Singapore And The Asian Economic Boom*. New York, USA: Harper Collins Publishers. pp.689.

the experiences of Latin America and East Asia in the 1960s, 1970s, and 1980s. It is perhaps not too much of a generalization to say that East Asia integrated itself into the world economy and watched growth take off, while Latin America partially closed its doors and got mediocre growth and a decade of depression and crisis in the 1980s.”<sup>3</sup>

## WHY EXPORT MATTERS FOR ASEAN

In order to further evaluate the role of trade in the economic development of the nation, we have to turn our attention to export, which is an integral part of trade. On the one hand, export facilitates employment. On the other hand, it contributes to the country’s national income. For the ASEAN members blessed with natural resources such as oil and gas, tapping into international trade is a necessity. Export and trade provides them with a significant part of their national incomes. Considering the existence of past trade routes inherited from the colonial era, all that the newly independent countries had to do was to revive them by rewriting trade agreements. However, countries which lacked natural resources had to create completely new export strategies, and they had to do it fast. For example, Singapore’s unemployment rate stood at 14 % when the country gained its independence. Export-oriented industrialization seemed to offer an effective solution to this problem.

Thanks to the export-oriented industrialization pursued by countries such as Hong Kong, Taiwan, South Korea and Singapore, which aimed to develop industries that could compete globally on their own merits – quality and price – without the benefit of any tariff preference, economists had concluded that export-oriented industrialization was far superior to import-substitution industrialization.<sup>4</sup>

As of the 1970s and 1980s, either raw materials or manufactured goods, produced by the economies of ASEAN member states, were destined for the western markets. But with the rise of China, particularly thanks to Deng Xiaoping’s economic policies in the early 1980s, China has successfully positioned itself as one of the largest trading partners of ASEAN at the turn of the twenty-first century. Irrespective of which markets products ‘Made in ASEAN’ were destined for, an export-led economic model was able to deliver some remarkable results.

By the mid-1990s, Singapore was a major contributor to global technology, producing nearly half of the world’s output of disk drives. Thailand by the late 1980s ranked fourth in Asia (after Japan, Taiwan, and South Korea) as an exporter of textiles and was earning more from clothing exports than from its traditional exports of rice; it even began exporting cars (Mitsubishi Lancer compacts, assembled in Thailand and renamed Dodge and Plymouth Colts to circumvent import controls) to Canada in 1988. The Philippines developed an export economy based on manufacturing (garments, computer chips, electronic goods) in the 1970s and 1980s, rendering the decline in the price of its agricultural crops less threatening than they might otherwise have been. Malaysia in the 1990s possessed perhaps the most interesting industrial landscape of them all, with factories such as Electrolux, Daihatsu, and Motorola, along with plants for food processing, cars, and plumbing fittings. By the end of the twentieth century, electronics and electrical goods accounted for over half of the exports of Malaysia, which had become the world’s largest exporter of air conditioners and videocassette recorders.<sup>5</sup>

---

<sup>3</sup> Gerber, J. (2005). *International Economics*. San Diego, USA: Pearson. pp.10.

<sup>4</sup> Taylor, R. H., Woodside, A., & Wyatt, D. K. (2005). *The Emergence of Modern Southeast Asia: A New History*. Honolulu, Hawaii. USA: University of Hawai’i Press. pp.383.

<sup>5</sup> Ibid. pp.383-384.

As stated above, the export-led model economy did not only help individual ASEAN countries to climb up the economic ladder from low-income economies to middle-income ones, and then, for some, to high-income economies, it also allowed them to absorb shocks produced by various economic downturns and financial crises. Because other geographical regions remained largely unaffected by the Asian financial crisis, which erupted suddenly in 1997, exports appeared to save the ASEAN region.

In 1997, the economic and financial crisis hit the region hard. Although there were lingering effects, by 2000, the economies of the region's developing countries were growing at more than 7 % a year. One of the dominant traits of the countries in East Asia is the extent to which they are outward looking and dependent on the growth of their manufactured exports.<sup>6</sup>

## THE TRADE WAR EFFECTS ON ASEAN'S EXPORT

Two decades after the 1997 Asian financial crisis wreaked havoc across the region, ASEAN faces another economic challenge of major proportions – the US-China trade war and its spillovers. Unlike previous crises, the ongoing trade dispute between the two world's largest economies threatens to strike ASEAN economies where it hurts them most. Midway through 2019 – some twelve months after the trade spat erupted – it has become increasingly evident that the trade war affects ASEAN economies negatively by disrupting the global supply chain which ASEAN is an integral part of. Consequently, the exports of ASEAN countries are continually contracting on the quarterly basis. In June 2019, **Singapore's export fell** for a second month in a row by 17.3 % compared with the year before. This has had a direct impact on Singapore's economic performance, which showed a 3.4 % decline in growth in comparison with the previous quarter. **Indonesia**, which counts China as its biggest trading partner, also saw exports fall by 8.98 % in comparison with the same period of the previous year.<sup>7</sup> **Malaysia's exports** contracted by 3.1 % as exports to China shrank.<sup>8</sup> **Thailand** recorded a decrease of 2.15 % in its exports for June 2019, with an estimated value of 21.4 billion US dollars.<sup>9</sup> Elsewhere across ASEAN, exports for the month of June 2019 dropped in the **Philippines, Laos, Myanmar, and Brunei**. Although most ASEAN countries recorded a decline in their exports during this period of time, two ASEAN members saw an upsurge of their exports: **Vietnam** and **Cambodia**. Both countries were able to expand their exports because numerous firms have either decided to reroute their exports to the United States through Vietnam, or they have made a decision to relocate their production facilities from tariff-hit China to the two countries.

Overall, the situation in ASEAN is set to worsen in the third quarter of 2019, as meetings between US and Chinese government officials that have aimed to find solutions to the trade war have so far proved fruitless. Thus, a depressingly routine pattern is beginning to take shape across the ASEAN region as its economies witness a relentless decline of exports, which, in turn, continues to undermine their overall economic growth.

---

<sup>6</sup> Gerber, J. (2005). *International Economics*. San Diego, USA: Pearson. pp.14.

<sup>7</sup> Waswani, K. (2019, July 18). *New cracks in global economy as exports tumble*. Retrieved from <https://www.bbc.com/news/business-49013571>.

<sup>8</sup> Chin, J. (2019, August 2). *June exports contract by 3.1 % to 76.17 b, lowest since February*. Retrieved from <https://www.thestar.com.my/business/business-news/2019/08/02/june-exports-contract-by-31--to-rm7617b-lowest-since-february>.

<sup>9</sup> Thailand Business News. (2019, July 22). *Thai Exports down 2.91 % in the first half of 2019*. Retrieved from <https://www.thailand-business-news.com/business/74912-thai-exports-down-2-91-in-the-first-half-of-2019.html>.



Beyond ASEAN, it did not take too long before the imposed tariffs produced some adverse effects on the Chinese economy itself. As of June 2019, **“China’s exports fell 1.3 % year-on-year for the first half in dollar terms, while imports dropped 7.3 %. China’s economic growth has slumped to its lowest level in nearly three decades as the world’s second largest economy feels the effects of a prolonged trade war with the United States.”**<sup>10</sup>

And while China’s economic growth, currently standing at 6.2 %, certainly draws the admiration of many – ranging from the Eurozone countries to the African Union member states – the fact remains that keeping its large population of 1.4 billion employed and satisfied remains a top priority for Chinese officials. Thus, the ongoing trade war appears to be a significant economic and political challenge for the fifth generation of China’s current political leadership.

## ASEAN’S ECONOMIC GROWTH SLOWS DOWN

While the old proverb ‘*When America sneezes, the world catches a cold*’ may still hold true, it is probably not an exaggeration to suggest the same for China-ASEAN economic relations. If China’s economy shows signs of a slowdown, the situation must be particularly worrisome for the ASEAN member states. **Judging by the declining volume of China’s imports, as well as the declining volume of ASEAN’s exports, it is only logical to predict that a slower pace of economic growth across the ASEAN region is here to stay as long as the trade war continues.**

As we have already shown, a prolonged trade war will continue to hamper ASEAN’s economic growth. According to the Asian Development Bank, the GDP growth across the ASEAN region in 2019 will be lower than forecasted. If initial reports forecasted a growth of 4.9 %, more recently, this has been revised downward to 4.8 %, largely due to the ongoing trade war.<sup>11</sup> In 2018, ASEAN’s estimated economic growth was 5.3 %.

The problem is further compounded by the fact that China has been the single largest trading partner of ASEAN since 2009. ASEAN’s export-dependence on China is, therefore, striking. However, one more factor has to be taken into consideration. The fact that China will be using its currency as a weapon in the ongoing trade war became obvious in August 2019, when China weakened its currency to the lowest levels since 2008. This will have a negative effect on the currencies of individual ASEAN countries as there is a risk that these will imitate the downward fluctuation of the yuan. For example, the Indonesian rupiah and the Malaysian ringgit, the two currencies that have been under sustained market pressure for the past two years, are now alarmingly close to the ill-famed lows of the 1997 Asian financial crisis.

The export-dependence of smaller countries on their larger partners in Asia is not the only thing that worries economists. A remarkably similar situation can be observed in the European Union, where most Central and Eastern European economies have become an integral part of the supply chain of Europe’s largest economy, Germany. The fact that Germany itself is an export-oriented economy, focusing primarily on China’s market, indicates just how interdependent and intertwined the global economy has become. What has initially started as an imposition of tariffs

---

<sup>10</sup> He, L. (2019, July 15). *China’s economic growth slumps to lowest in 27 years as the trade war hits*. Retrieved from <https://edition.cnn.com/2019/07/15/economy/china-gdp-growth/index.html>.

<sup>11</sup> Tomas, J. (2019, August 5). *ASEAN growth slower than forecasted*. Retrieved from <https://theaseanpost.com/article/asean-growth-slower-forecasted>.

solely on products manufactured in China is now becoming a significant economic threat to the ASEAN region and beyond.

## CONCLUSION

A closer look at China's economy indicates that although China exports far more than it imports from the US, the communist country has managed to decrease its overall strategic dependence on exports over the course of the past decade. Had the tariffs been imposed on China a decade earlier, say in the aftermath of the Great Recession, China would have faced a far more difficult situation. "In 2018, net exports were just 0.8 % of China's GDP, which represents a dramatic compression from a decade earlier, when net exports accounted for fully 7.5 % of real GDP."<sup>12</sup> This restructuring of the Chinese economy, however, proved to be costly. Consequently, a much more serious concern than China's declining export and import volume is its total indebtedness. The government, corporate and household debt reached a staggering amount of USD 40 trillion, representing 303 % of its GDP for the first quarter of 2019.<sup>13</sup>

**Imposing tariffs on China by the Trump administration, therefore, lacks a rationale. It can merely be seen as an attempt to recreate past realities.** From this perspective, tariffs do not only represent a particular economic instrument, they seem to embody rising protectionist sentiments that have been gathering strength since the days of the Great Recession.

Great expectations that well-paid manufacturing jobs will be brought back to the US will not materialize, presumably leading to a further polarization of its society. Instead of trying to turn back time, hoping to bring back a world that is long gone, policy makers should redirect their focus to future challenges. The unprecedented rise of AI and automation, supported by **the 6 G network**, which is expected to be rolled out by 2030, will lead to a further reduction of the role that humans perform in the workplace. Creating a human-centered regulatory framework for the world to come is definitely more urgent, and probably more sensible, than attempting to recreate the past.

---

<sup>12</sup> Roach, S. (2019, August 2). *Commentary: In the eye of a trade war storm but China still takes the long view*. Retrieved from <https://www.channelnewsasia.com/news/commentary/us-china-trade-war-president-xi-jinping-2020-elections-11762178>.

<sup>13</sup> The Star. (2019, July 18). *China's debt tops 300 % of GDP, now 15 % of global total*. Retrieved from <https://www.thestar.com.my/business/business-news/2019/07/18/chinas-debt-tops-300pct-of-gdp-now-15pct-of-global-total/>.

## REFERENCES

- Chin, J. (2019, August 2). *June exports contract by 3.1 % to 76.17 b, lowest since February*. Retrieved from <https://www.thestar.com.my/business/business-news/2019/08/02/june-exports-contract-by-31--to-rm7617b-lowest-since-february>.
- Gerber, J. (2005). *International Economics*. San Diego, USA: Pearson.
- He, L. (2019, July 15). *China's economic growth slumps to lowest in 27 years as the trade war hits*. Retrieved from <https://edition.cnn.com/2019/07/15/economy/china-gdp-growth/index.html>.
- Lee, K.Y. (2013). *From the Third World to the First: Singapore And The Asian Economic Boom*. New York, New York. USA: Harper Collins Publishers.
- Roach, S. (2019, August 2). *Commentary: In the eye of a trade war storm but China still takes the long view*. Retrieved from <https://www.channelnewsasia.com/news/commentary/us-china-trade-war-president-xi-jinping-2020-elections-11762178>.
- Stiglitz, J. (2018). *Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump*. New York, United States: W.W. Norton & Company.
- Stiglitz, J. (2016). *The Euro: How a Common Currency Threatens the Future of Europe*. New York, United States: W.W. Norton & Company.
- Stiglitz, J. (2006). *Making Globalization Work*. New York, United States: W.W. Norton & Company.
- Taylor, R. H., Woodside, A., & Wyatt, D. K. (2005). *The Emergence of Modern Southeast Asia: A New History*. Honolulu, USA: University of Hawai'i Press.
- Thailand Business News. (2019, July 22). *Thai Exports down 2.91 % in the first half of 2019*. Retrieved from <https://www.thailand-business-news.com/business/74912-thai-exports-down-2-91-in-the-first-half-of-2019.html>.
- The Business Times. (2018, December 4). *GDP growth in Asean expected to slow in 2019: ICAEW report*. Retrieved from <https://www.businesstimes.com.sg/asean-business/gdp-growth-in-asean-expected-to-slow-in-2019-icaew-report>.
- The Star. (2019, July 18). *China's debt tops 300 % of GDP, now 15 % of global total*. Retrieved from <https://www.thestar.com.my/business/business-news/2019/07/18/chinas-debt-tops-300pct-of-gdp-now-15pct-of-global-total/>.
- Tomas, J. (2019, August 5). *ASEAN growth slower than forecasted*. Retrieved from <https://theaseanpost.com/article/asean-growth-slower-forecasted>.
- Waswani, K. (2019, July 18). *New cracks in global economy as exports tumble*. Retrieved from <https://www.bbc.com/news/business-49013571>.
- Westad, O. A. (2017). *The Cold War: A World History*. New York, USA: Basic Books.