

Uneven Gains, Rising Constraints: Assessing the U.S.-China Trade War's Effects on ASEAN and Indonesia

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Abstract

This paper examines how the U.S.-China trade war functions as a structural geoeconomic shock that reshapes ASEAN's economic opportunities and strategic constraints, with particular attention to Indonesia's policy dilemma. The study applies library research using qualitative document analysis and a narrative-thematic synthesis of academic and policy sources to trace the main transmission mechanisms (tariffs, supply-chain reallocation, technology contestation, and investor expectations). The analysis shows that ASEAN's adjustment is inherently double-edged: trade diversion and relocation prospects coexist with deeper vulnerabilities stemming from continued reliance on China-centred production networks and the United States' role in investment and technology. For Indonesia, the trade war expands room for selective gains but simultaneously intensifies constraints on market diversification, industrial upgrading, and strategic autonomy, implying that resilience depends on proactive capability building and coordinated regional strategies rather than reactive tariff management. As a non-SLR, document-based study, the paper cannot provide causal estimation or sector-level measurement of heterogeneous effects across ASEAN members and relies on the completeness and quality of available secondary materials.

Keywords: US-China Trade War, ASEAN, Indonesia

Introduction

The reemergence of protectionism in the global political economy, particularly the United States' renewed focus on bilateral trade deficits – has intensified uncertainty for trade-dependent regions such as Southeast Asia. Within this context, the U.S.–China trade war has become a focal shock to global commerce, because it is not merely a short-lived tariff episode but a sustained contest shaped by strategic and political considerations. Chong and Li emphasise that the conflict was institutionalised through U.S. trade instruments (including Section 301-related actions) and has generated wide-ranging spillovers beyond the immediate bilateral trade relationship (Chong & Li, 2019). Empirically, the escalation pattern is visible in successive rounds of tariff increases during 2018, which created a new baseline of uncertainty for firms and policymakers. Lau documents how the tariff actions progressed through multiple tranches in 2018, reinforcing the expectation that policy risk rather than market fundamentals alone – would shape trade and investment decisions (Lau, 2019).

Importantly, many analysts argue that the trade war should be understood as a structural shift rather than a transitory dispute: the strategic logic of containment and competitive repositioning makes reversal politically difficult, while retaliation dynamics lock both sides into a prolonged bargaining cycle (Aslam, 2019). In parallel, the conflict increasingly overlaps with competition in technology and industrial capability. Chukwuma and colleagues frame the trade war as intertwined with struggles over globalisation's technological

dimension—where tariffs, export controls, and techno-nationalist policies function as instruments to reshape innovation pathways and supply chain governance (Chukwuma et al., 2024).

This shift matters for Southeast Asia because the region's growth model has been anchored in cross-border production networks, where technological upgrading and access to intermediate inputs are central to competitiveness. A growing quantitative literature documents that the trade war altered export performance and competitiveness—especially on the Chinese side while also producing diversionary effects. Cai and Li find a significant decline in China's exports to the United States after February 2020 and show that the trade war increased China's overall trade surplus, implying uneven adjustment channels rather than a simple rebalancing of deficits (Cai & Li, 2025).

Complementing this, Yang and co-authors identify a measurable negative impact of the trade war on China's export competitiveness using a difference-in-differences approach, highlighting that tariff shocks can translate into broader performance losses rather than being fully offset by price or routing adjustments (Yang et al., 2025). However, interpreting these outcomes purely through bilateral trade balances risks missing the main transmission mechanism: global value chains (GVCs). Luo and colleagues argue that standard trade metrics can obscure how “supply chain dependence” and the reallocation of supplier relationships reshape exposure to U.S.-China rivalry, motivating measurement approaches that track dependence structures and relocation pressures (Luo et al., 2024). For ASEAN economies, the key question is therefore not only whether exports rise or fall, but how

supply chain positioning changes – whether new demand represents durable upgrading or fragile, footloose relocation. For Southeast Asia, the trade war is widely associated with “trade diversion” opportunities, but this optimism is qualified by the region’s embeddedness in China-centred production networks. Aslam notes that ASEAN can benefit from trade diversion if U.S. tariffs weaken Chinese exporters and encourage U.S. importers to source from ASEAN instead (Aslam, 2019).

Yet diversion is not automatically welfare-improving: it can intensify intra-ASEAN competition, create dependence on volatile external demand, and generate adjustment costs in sectors tied to Chinese intermediate inputs. Lim and Nguyen underline that diversion dynamics imply competition with China and can introduce new vulnerabilities rather than straightforward gains (Lim & Thien Nguyen, 2024). Recent regional assessments further stress this “double-edged” structure. Doarest and Wihardja argue that ASEAN’s position is precarious because the region is highly reliant on China for trade while simultaneously remaining deeply connected to the U.S. through investment – creating constraints on how ASEAN economies can capitalise on reconfiguration without incurring strategic and economic risks (Doarest & Wihardja, 2024). At the sector level, Hendrati and colleagues highlight that ASEAN markets often exhibit oligopolistic features (high concentration), shaping how shocks transmit through price-setting and import competition – an important reminder that the distribution of trade-war effects depends on market structure, not only on tariff schedules (Hendrati et al., 2024).

Indonesia's position within this regional transformation is analytically important but policy-challenging. Pangestu situates the contemporary turn toward protectionism within longer-standing U.S. concerns about trade deficits and competitiveness, suggesting that Indonesia must anticipate recurring external pressures rather than treating the trade war as a one-off disruption (Pangestu, 2019). At the same time, Indonesian responses cannot be reduced to economics: as a pivotal ASEAN member, Indonesia faces strategic expectations to shape regional outcomes while managing domestic constraints. Basri and Laksmana argue that Indonesia often behaves as a "passive spectator" and must convert its "passive assets" into active capital implying a need for more deliberate statecraft and economic-security strategy amid U.S.-China competition (Chatib Basri & Laksmana, n.d.).

Financial channels also matter: Kalev and Lee show that trade-war news can influence investor risk-taking and market behaviour, reinforcing that uncertainty operates through expectations as well as through real trade flows (Kalev & Lee, 2025). These economic dynamics unfold in a geopolitical setting where major powers actively seek to shape Southeast Asia's strategic room for manoeuvre. Tsjeng argues that China's regional vision is to cultivate a "friendly backyard" that serves its geopolitical interests, while ASEAN responses remain divided in the context of intensifying U.S.-China rivalry – raising risks for ASEAN unity and centrality (Tsjeng, 2021). In this environment, concepts such as "strategic autonomy" become contested. Tan and Lye note that China has intensified calls for Southeast Asian states to uphold "strategic autonomy" free from external influence, particularly

the U.S., yet the meaning and practice of autonomy differ between Beijing and Southeast Asian governments, who often prefer inclusive engagement with multiple partners (Tan & Liang Fook, 2025).

Against this backdrop, this study reframes the central question from “who wins the trade war” to “how the trade war restructures ASEAN’s especially Indonesia’s economic options and strategic constraints.” The contribution is threefold. First, it synthesises evidence on trade, competitiveness, and supply chain reconfiguration to clarify the mechanisms through which the trade war affects ASEAN. Second, it foregrounds Indonesia’s policy dilemma: leveraging diversion opportunities while avoiding dependency traps and managing heightened uncertainty. Third, it connects economic effects to the region’s evolving strategic environment, where competing visions of order and autonomy shape the feasible policy space. The remainder of the paper proceeds by (1) reviewing key debates on the trade war and GVC transmission mechanisms, (2) analysing ASEAN-wide patterns of trade supply chain adjustment, (3) focusing on Indonesia’s opportunities and constraints, and (4) discussing policy implications for strengthening resilience and strategic agency.

Method

This study employs library research using a qualitative document analysis approach combined with a narrative thematic synthesis to explain the impacts of the U.S.-China trade war on ASEAN and its implications for Indonesia. This approach is appropriate because the phenomenon under investigation is macro-level, cross-sectoral, and driven by multiple mechanisms (tariffs, supply-chain reconfiguration,

investment flows, and technology contestation). Accordingly, the explanation required is best developed through critical reading and integrative synthesis across sources, rather than through hypothesis testing based on surveys or experiments. The study follows established principles for producing rigorous literature-based research—namely, defining a clear focus, documenting the search process, and conducting a critical synthesis—in line with scholarly guidance that emphasizes methodological transparency and analytical depth in literature reviews (Pautasso, 2013).

Result and Discussion

Trump again imposed import tariffs on several countries in early April 2025. This time, not only China was affected, but all countries that were considered to have a trade surplus with the United States. Trump's protectionist policy is not new. In early 2018, he introduced import tariffs of 25% on Chinese products. This policy triggered long tensions between the US and China, which only calmed down after the two countries reached a trade agreement in Washington in 2022 (Teekah, 2025).

Now, in his second term, Trump has again enforced more aggressive protectionist measures, especially against China. Although several countries also received a basic import tariff of 10%, China remains the main target. The reason is simple: Trump wants to reduce the US trade deficit with China. As a result, both countries imposed retaliatory tariffs. At its peak, the US raised tariffs on Chinese products to 145%, and China responded by imposing a 125% tariff on American goods (Kompas.id, 2025). A new phase of the US-China tariff war has

created wide economic and political impacts around the world. Nobel laureate Joseph Stiglitz commented that the continuation of this trade war would harm both countries and create uncertainty for international law (Project Syndicate, 2018). Global supply chains and trading patterns are now changing. Countries and businesses, especially in China, are trying to reduce supply chain risks by expanding into alternative markets, especially Asian countries (Doarest & Wihardja, 2024).

As the pillars of the liberal economic order become weaker due to the US-China trade war, more open, fair, and equal economic initiatives must continue to be strengthened especially through collective action among Global South countries. ASEAN countries could offer such alternatives. With long experience in regional cooperation in Southeast Asia, ASEAN is expected to take advantage of these shifts in the global economy. This article explains ASEAN's position as a representative of the Global South in offering alternatives and taking opportunities amid the US-China trade war (Luo et al., 2024).

In general, globalization was designed to promote cooperation and the exchange of ideas. However, in recent years, there have been trends that move in the opposite direction. Protests against immigration, the rise of white supremacy, and market monopolies show how globalization has developed in the modern era (cnn.com, 2025). I believe the US-China trade war is one clear example. China's penetration of global markets has created very strong economic growth, helping China rise as a new global economic power. According

to Joseph Stiglitz in magazine.colombia (2018), China's success comes from strong state control combined with complex market experimentation. Although China faces accusations of manipulating the Yuan to stay competitive and forcing technology transfers, Stiglitz argues that these policies helped the country reduce its knowledge gap.

Meanwhile, the United States is facing serious economic slowdown. The Washington Post (2025) reported that the US economy grew only 2.4% in 2024 due to falling consumer purchasing power and high import tariffs. Other contributing factors include the US trade deficit in goods and efforts to create domestic jobs, which motivated Trump to apply strict protectionism. These two conditions led to an escalation of economic conflict. This caused global supply chains to shift toward more stable alternative markets. American industries expanded their supply chains outside China, even though this meant losing the benefit of China's cheap inputs. For Chinese companies, government support became crucial to survive the high US tariffs (Chukwuma et al., 2024).

ASEAN as an Alternative Market

The shocks caused by US import tariffs provide important lessons for how countries can respond quickly to global economic changes. One key response is finding alternative markets to escape crisis. China experienced significant losses due to the US tariffs. It faced steep declines in exports to the US, especially in labor-intensive industries such as toys, food, and garments (Yang et al., 2025). Tariff increases eroded their competitive edge. To avoid deeper losses, China needs to adjust its industrial strategies and diversify exports. According to Yang

et al. (2025), market diversification can reduce dependency on the US. Second, expanding multilateral trade agreements and strengthening regional diplomacy can help open new markets.

One of the most important alternative markets is Southeast Asia. Southeast Asian countries also suffered from US tariffs. Although pressured by American protectionism, ASEAN countries did not retaliate the way China did (Asiatimes.com, 2025). They maintained strategic autonomy by keeping China as a strategic partner while also adapting to US tariff policies (thediplomat.com, 2024). From this position, ASEAN's role in the middle of the US-China tariff war should be seen as an opportunity, not merely a geopolitical risk. After Trump announced the new tariffs, Xi Jinping visited several Southeast Asian countries within a week (dw.com, 2025). For China, Southeast Asia is a strategic partner. This aligns with China's geopolitical vision of mutually beneficial cooperation. Henrick Tsjeng (2021), in his short paper *China's Vision for Southeast Asia*, explains that China and ASEAN share a strategic economic future. He notes that ASEAN is often described as China's "friendly backyard."

China also supports ASEAN countries by promoting principles of strategic autonomy and independence while encouraging a multipolar system (Tan & Liang Fook, 2025). The growth of China-ASEAN bilateral trade supports this claim. In the first eight months of 2025, trade increased by more than 9.7% compared to the previous year, and Chinese exports to ASEAN rose almost 20% after the US tariff announcement (Asiatimes.com, 2025). In contrast, the US is viewed by ASEAN countries as a balancing force against China, especially in the

South China Sea. Economic cooperation with the US mostly focuses on technology. ASEAN countries briefly benefited when Trump first imposed tariffs in 2017, leading to a rise in ASEAN exports to the US in 2019 (nationthailand.com, 2025). However, in Trump's second period, almost all ASEAN countries were hit by new tariffs. Bloomberg (2025) reported that the latest trade deals between the US and some ASEAN nations mainly benefited the US.

So, what is ASEAN's strategy to maximize opportunities after Trump's new tariffs? Globally, ASEAN is considered a dynamic market supported by a young productive population and strong digital infrastructure. According to Hendarati et al. (2024), ASEAN can reduce negative impacts while capturing opportunities through three strategies: first, policy adjustments. Flexible regulations to respond quickly to market changes. Secondly, internal investment. Improving human resource quality to enhance global competitiveness. Thirdly, market diversification. Avoiding overdependence on one or two major countries and building a multipolar trade structure. In addition, Lim and Nguyen (2024) highlight flexibility tailored to each ASEAN country's needs. The shifting global supply chain must be used immediately. Strategic relocation requires strong infrastructure, skilled labor, and technological innovation. Finally, ASEAN must reduce dependency risks by expanding partnerships beyond the US and China, while strengthening internal regional cooperation.

Indonesia's Opportunities and Challenges

Indonesia is often seen as the backbone of ASEAN. As the largest country and one of the world's biggest democracies, Indonesia is

considered ASEAN's de facto leader (Muhibat, 2023). With this position, Indonesia is expected to take advantage of opportunities created by Trump's second-round tariffs for both national interest and regional leadership. Indonesia initially faced a reciprocal tariff of 32%, later reduced to 19% after negotiations (Kompas.id, 2025). Other ASEAN countries like Vietnam also received reductions, paying around 20% (Asianbriefing, 2025). For Indonesia, the 19% tariff affects several sectors such as textiles, shrimp, and furniture. If not handled well, Indonesia's target of 8% economic growth will be hard to reach.

The main challenge is how to diversify markets and reduce reliance on the US. Since almost all ASEAN countries are affected by the new tariffs, strengthening regional cooperation becomes essential (SourceofAsia.com, 2025). China has clearly shifted its focus to Southeast Asia as an alternative market. This means Chinese products may flood ASEAN markets, creating new challenges for local industries. Before this happens, Indonesia and ASEAN countries must build a common regional market. This requires: Firstly, shared market rules to protect local industries. Secondly, product diversification cooperation to avoid overlapping commodities. Thirdly, strong exchanges of ideas in science and technology, so ASEAN can become a manufacturing growth center.

Conclusion

This study demonstrates that the U.S.-China trade war should be treated as a structural geoeconomic shock that reconfigures ASEAN's economic opportunities and strategic constraints through

intertwined channels (tariffs, supply-chain reallocation, technology contestation, and investor expectations) rather than as a temporary bilateral dispute. In this context, ASEAN's adjustment is best understood as a double-edged outcome: short run gains from supply chain relocation and trade diversion coexist with heightened exposure to escalation risks and deeper forms of dependence, particularly given ASEAN's high trade reliance on China alongside the United States' position as a major investor and technology source (Doarest & Wihardja, 2024). At the same time, the distribution of "benefits" within the region is not automatic, since market structure and concentration dynamics can shape who captures value and how vulnerabilities spread across sectors (Hendrati et al., 2024). By synthesising these mechanisms and linking them to ASEAN's contested strategic environment, the paper advances a framing that moves beyond "who wins" toward "how economic and policy space is being reorganised", especially for Indonesia as a pivotal actor in ASEAN.

The main implication is that resilience and agency in ASEAN, particularly for Indonesia, depend less on reactive tariff management and more on deliberate strategies to secure upgrading within reconfigured value chains while avoiding dependency traps. Regionally, this reinforces the practical logic of not choosing sides and sustaining an inclusive architecture, because enforced alignment would be disruptive to ASEAN's embedded production networks and investment relationships (Doarest & Wihardja, 2024). For Indonesia, the findings underscore the need to convert structural advantages into usable policy leverage an "active alignment" posture that engages both

major powers while strengthening domestic capability and reform capacity (Chatib Basri & Laksmana, n.d.). Future research should deepen this study's contributions by moving from synthesis to targeted empirical testing: sector- and firm-level tracing of relocation and upgrading outcomes, comparative analysis across ASEAN members' industrial policies, and closer measurement of how technology and investment restrictions reshape bargaining power and long-term development pathways under conditions of strategic autonomy.

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