

Trade War Between the US-China: Impact Towards Asean

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Abstract: *The trade war between the United States (US) and China has significantly impacted the Association of Southeast Asian Nations (ASEAN), posing a direct threat to its diplomatic and economic structures. The aim of this study is to comprehensively understand the effects of the US-China trade war on ASEAN. Therefore, the research explores various impacts of the trade war, including political consequences, economic interests, economic drawbacks, and the opportunity for ASEAN to become a new hub for economic development. This study has two objectives: identify the factors that contribute to the Trade War between US and China and to study the impacts of Trade War between US and China towards the ASEAN. By employing a qualitative method, secondary data was collected from scientific materials such as books, papers, journals, and online sources. The study utilizes the concept of national interests to explain the phenomenon under investigation. The research highlights the significant factor of the trade war between US and China on the economy, politics, security, and presidential leadership. The effects of the trade war between US and China, categorizing them into political and economic impacts, and explores the potential for ASEAN to become a new hub for economic development. Consequently, ASEAN has begun taking actions to mitigate the drawbacks of the trade war while maximizing the benefits it brings. These actions include promoting regional economic integration, developing local businesses, strengthening internal cooperation within ASEAN, and diplomatic efforts externally.*

Keywords: ASEAN, China, Economy, Trade war, The US

1. Introduction

Conybeare (2017) defines a trade war as an international conflict in which the means of exchange are restrictions on the free flow of goods and services, and in which states engage in interaction, bargaining, and retaliation primarily over economic objectives directly related to the traded goods or service sectors of their economies. In 2018, the US and the People's Republic of China formally entered a trade war. Some analysts, however, firmly feel that the trade tensions began in 2010 or so, during the Obama administration. According to Feng (2006), Beijing overtook Washington to become the "world's largest manufacturing nation," most likely in the wake of China's 2001 WTO membership.

According to Zheng (2019), one of the campaign promises made by 45th U.S. President Donald Trump was to reduce unfair trade practices that the Chinese government was promoting. According to data from the US Trade Balance, there was a trade deficit of over \$300 billion. President Trump then pledged to lower the amount by instituting trade practices and tariffs.

Imposing tariffs, the US and China began a trade war in March 2018, which increased the amount of steel and aluminum that was imported from China. The goal of the U.S. government's increased tariffs was to confront China's purported unfair trade practices. The Chinese government retaliated by enacting tariffs equal to those suggested by the US government (Finbarr, 2019). The trade war has had dire repercussions for China, the US, and the Association of Southeast Asian Nations (ASEAN), despite efforts by both governments to lessen the effects of the sanctions. Several factors, including political, economic, and security concerns, are driving the U.S.-China trade war. A thorough conversation would cover topics like the disparity in trade, worries about national security, protection of intellectual property, competitive geopolitics, internal politics, and negotiating tactics. There is more to the Trump administration's recent spate of anti-Chinese actions than meets the eye. Its goal is to undermine high-tech industries supported by the state, which are the backbone of Beijing's "Made in China 2025" initiative. In order to give American businesses better investment opportunities, another goal is to pressure Beijing to expand market access for goods and services from the US Superpower trade disputes have serious ramifications for ASEAN countries, which are mostly developing nations.

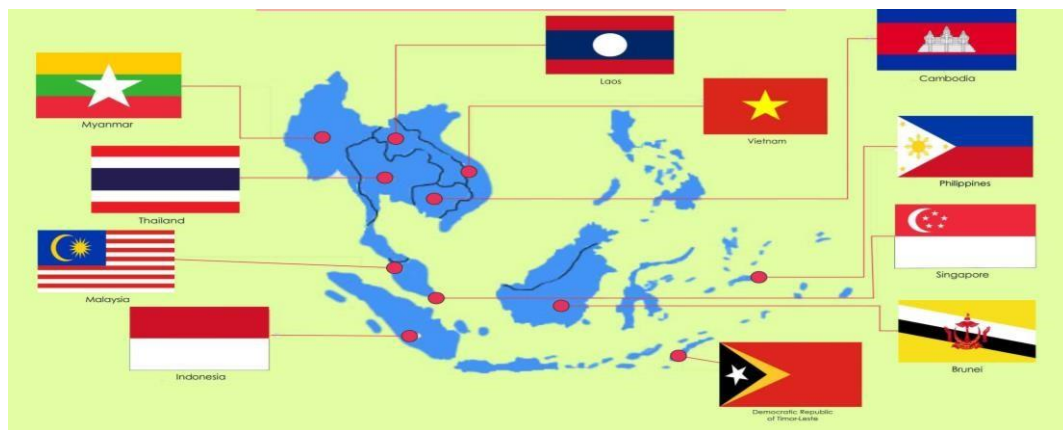


Figure 1: Location of the ASEAN country and their flag
Source: Jogja, R. (2021)

Figure 1 show the map of the ASEAN countries, ASEAN comprises ten member states, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The US-China trade war, initiated in 2018, has had a significant impact on the economies of ASEAN countries. As the world's two largest economies, the US and China, engaged in a trade dispute characterized by escalating tariffs and trade restrictions, ASEAN countries found themselves caught in the crossfire due to their deep economic ties with both nations. The ASEAN nations have been severely impacted by the US-China trade war. The region's economic landscape has been altered by trade flow disruptions, export diversification initiatives, and shifts in foreign direct investment flows. Additionally, the geopolitical ramifications of the trade war have affected the diplomatic strategies of ASEAN and the dynamics of regional security, posing opportunities as well as challenges to the ASEAN community (Abdul, A., 2018). The rivalry between the US and China in Southeast Asia is said to have the potential to increase regional instability because of the two countries' competition for influence in the region, according to Evelyn G. (2005)'s article "Meeting the China Challenge: The US in Southeast Asian Regional Security Strategies." The ripple effect that follows a financial shock can be used to identify the spread of uncertain economic conditions (Kim et al., 2015).

Long-term trade disputes between the US and China could erode investor confidence and impact the global and European economies (Gunnella & Quaglietti, 2019). The US-China trade war has affected many different regions and industries, and it has caused challenges for the global economy. In this instance, the ASEAN has been crucial in fostering regional stability and reducing the negative effects of the trade war (Peter A., 2019). The ten ASEAN members are crucial in mitigating the adverse effects of the trade war. The group has implemented various measures to address these effects and foster collaboration among its members (Abdul, A., 2018). It was clear that the relationship between the US and China had a direct bearing on every nation on Earth, including Southeast Asia. The recent years have seen an increasing rivalry and tensions, with implications for global stability and prosperity. According to Huang (2022), "It Could Be "Win-Win": The US-China Bilateral Relationship," the connection between the US and China is essential for international relations since these two great power states will have an impact on the world's politics, economy, and security. It was clear that the relationship between the US and China had a direct bearing on every nation on Earth, including ASEAN country. ASEAN country play a significant role to overcome the trade war between these two superpower country.

2. Factors of the Trade War Between United States and China

The occurrence of the multiple factor that cause trade war directly led to the rapid expansion of the scale of the trade war, which had a major impact on the global economy. The trade dispute initially stemmed from a memorandum signed by former US President Donald Trump on March 22, 2018, claiming that "China is stealing American intellectual property and trade secrets" (Andrew, 2020). Trump administration initiated trade conflicts ostensibly out of dissatisfaction with the SinoUS trade imbalance and the hope that China would reduce trade barriers and increase procurement US goods reduce the Sino-U.S. trade deficit, but there may be deeper reasons behind this, such as promoting the expansion of US manufacturing, diverting domestic conflicts in the US, and even curbing China's technological progress and hindering China's development and economic rise (Chad, 2018). Through history, states have undergone trade wars whose outcomes were less supported domestically as well as globally (Tao, 2022).

The underlying reasons include the US government's desire to reduce its dependence on China and restrict China's economy. China's rapid growth in the manufacturing sector has led the US domestic market to gradually shift from relying on domestic manufacturing companies to depending on Chinese manufacturing (Chad, 2018). This is because China's manufacturing industry possesses more mature technology and offers products at lower prices, which has attracted numerous customers and fueled the rapid development of China's economy. Due to China's rapid development, the US government has also implemented related policies to protect its domestic mid-to-low end enterprises (Lighthizer, 2021). China has gradually captured market share, and the US hopes to support local companies and balance China through trade wars (Tao, 2022). Intellectual property rights have become a catalyst for trade wars, as China lacks supervision in intellectual property rights, leading to counterfeit goods affecting international markets and US domestic companies (Graham, 2023). China's rapid economic development has also affected the international standing of the US, including its pursuit of hegemony. The US enjoys many benefits under its hegemonic position, which makes it highly value its international status and global influence. The two countries' differing political ideologies have made their relations less harmonious over the years and have become a trigger for the trade war (Tao, 2022). President Trump's leadership style was also a significant factor in the occurrence of this trade war.

2.1 Economy

Some studies argue that the trade war was a means for the US to reduce its trade deficit with China. In March 2018, the Trump administration rejected China's proposal to prevent a trade war by reducing trade barriers and instead demanded Beijing to quickly reduce its \$375 billion trade surplus with the US by \$100 billion (Feenstra and Sasahara 2018). While tariffs imposed by the US on China could reduce imports, they also triggered retaliatory tariffs and raised the cost of production and export for American companies. Both measures would decrease trade exports for both countries. Tariffs may encourage some trade to shift to countries like Vietnam in Southeast Asia, potentially widening the US trade deficit with these nations (Davis & We, 2020).

After 40 years of special protection, the trade dispute between China and the US in 2018 suggests that the dispute is not new or recent, according to background research on the subject (Chad, 2018). The US and China employ distinct approaches. Trade imbalances, political clout, and growing rivalry between the two countries have put President Trump in a deadlock right now (Chong & Li, 2018). Since the Chinese economy was starting to negatively affect the American economy due to its rapid growth, the US government purposefully started a trade war with China (Davis & Wei, 2020).

One of the reasons the US started a trade war with China was a trade imbalance or deficit (Tao, 2018). According to Davis and Wei (2020), a trade deficit occurs when a nation imports more goods and services than it exports. A trade surplus, on the other hand, indicates the opposite situation. When import payments are greater than export revenue, there is a trade deficit in global commerce. A negative balance of trade is another name for a trade deficit (Hayes, 2021). When a nation's imports are greater than its exports for a specific period of time, a trade deficit is created (Andrew, 2020). Continuous trade deficits can cause a nation's currency to weaken and increase its reliance on foreign investment. These negative impacts can significantly affect the economy of the US. Hence, the trade deficit became one of the factors that prompted the Trump administration to initiate a trade war with China.

Since the late 1970s when China implemented its reform and opening-up policy, significant progress has been made in China's economic and trade relations with the US (Lardy, 2001). A data provided by the Chinese Ministry of Commerce in 2018, the trade surplus between China and the US was \$418.23 billion in 2018. In 2018, China's exports to the US were \$538.5 billion, while imports from the US were \$120.3 billion, resulting in a trade surplus of \$418.23 billion. From the perspective of the regional structure of the US trade deficit, the proportion of the European Union and the Middle East regions has shown a significant increase, while the Southeast Asian region has shown a decreasing trend in the deficit. The US trade deficit with China is, in fact, largely a result of the transfer of manufacturing from countries or regions like Japan and South Korea in Southeast Asia to China, as well as a shift of trade surpluses from the US to China. Due to China's lower labor wages and favorable tax incentives for foreign investment, the benefits of this industrial and trade surplus shift are largely gained by foreign companies and their home countries (Tao, 2018). However, from the perspective of international balance of payments, China's surplus is increasing.

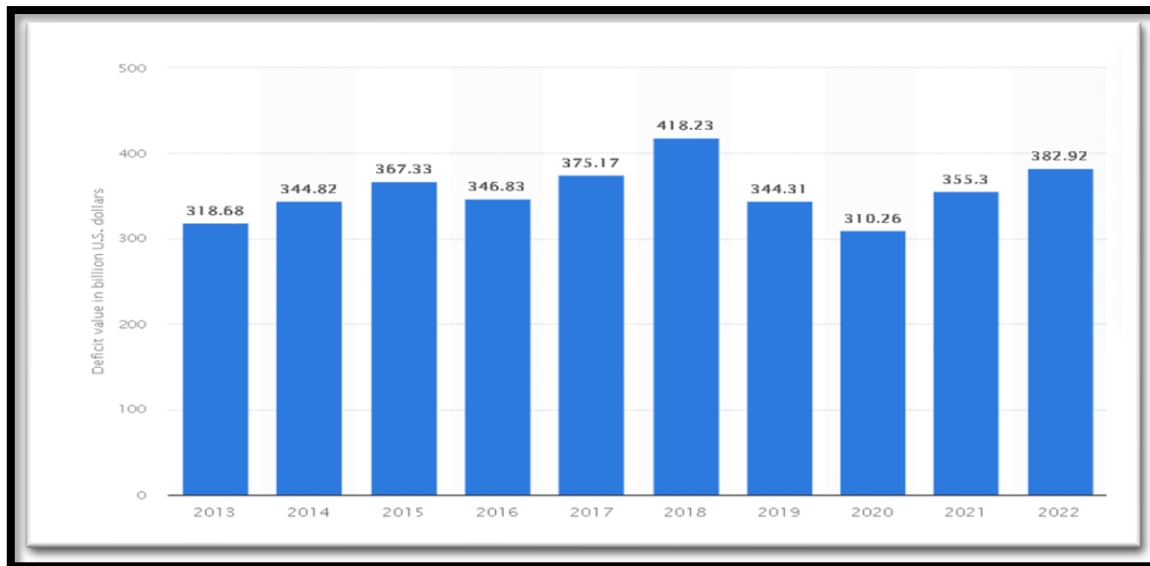


Figure 2: The United States goods trade deficit with China from 2013 to 2022.

Source: Statista (2023). <https://www.statista.com/statistics/939402/us-china-trade-deficit/>

The trade deficit in goods between the US and China is shown in Figure 2 for the years 2013 to 2022, but we are only interested in the years 2018 to 2020, which is when the trade war started. In 2018, the trade deficit between the US and China reached a record-breaking \$418.73 billion. The annual increase in the trade deficit between the US and China reached a record high in 2018, which prompted President Trump's administration to declare war on China (Chad, 2018). The trade deficit between the two nations was immediately reduced as a result of the trade war, demonstrating its effects. The continued trade deficits can potentially lead to the depreciation of a country's currency. This is because the country needs to sell its currency to acquire more goods and services from other nations, increasing the supply of its currency in the foreign exchange market and lowering its value. This means that the US government would need to use more US Dollars to purchase Chinese yuan to obtain Chinese goods, which could result in a decrease in the value of the US Dollar. The US Dollar is a widely used global currency, and the Trump administration certainly would not want to allow its depreciation (Lioudis, 2022). Persistent trade deficits can also deplete a country's foreign exchange reserves (Andrew, 2020). To finance a trade deficit, a country may need to use its foreign exchange reserves. Continuously running a trade deficit can exhaust these reserves, reducing the country's ability to stabilize its currency during economic difficulties. Trade wars can restrict the net exports of both countries and reduce trade deficits (Tao, 2018). Here, we can see the stance of the Trump administration and understand that one of the reasons for initiating a trade war with China was to address the trade deficit.

National debt will rise as a result of trade deficits. The used of borrowed funds to finance a trade deficit will rise the nation's debt. The nation's financial situation may be further strained by interest payments on this debt. The US is among the nations with the highest levels of national debt as of 2021, according to data from the Tax Foundation. China is one of the largest holders of US security bonds and exercises influence over the US through loans to China and other nations. China's increasing global influence was demonstrated by the modern Silk Road, which was named after a sequence of infrastructural investments made by the country in developing nations worldwide.

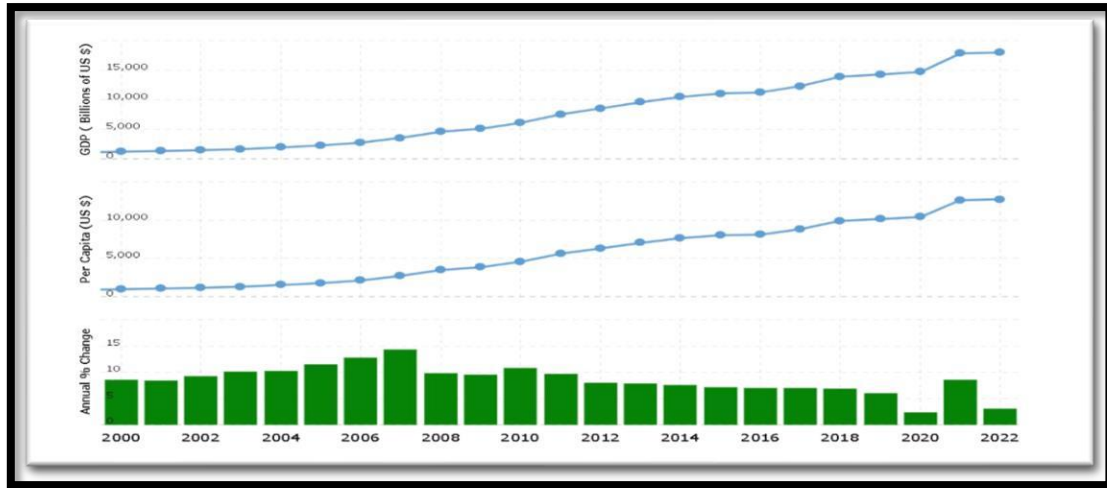


Figure 3: China GDP, GDP Per Capita and Annual % Change from 2000 to 2023.
Source: World Bank (2023)

According to the Figure 3, China GDP rise after 2000 and increase every year, it proves that China economy are become stronger and becoming a threat towards the US. China's economy has experienced significant growth since the year 2000, becoming an almost indispensable economic powerhouse in the world (Davis & Wei, 2020). China GDP in 2000 is \$1211.33 billion of U.S. Dollars and now in 2022 is \$17963.11 billion of U.S. Dollars. The GDP per capita also increase from \$959 U.S. Dollars to \$12720 U.S. Dollars. The rapid rising of China's economy becoming a threat to the US and the US trying to find new strategy to overcome the situation. The US has gradually perceived a threat from China and aims to continue restraining China's economy through trade wars to limit China's economic development. As the world's top superpower, the US absolutely will not tolerate its position being overtaken by China. After experiencing rapid economic growth, China accumulated a significant amount of wealth. China then used this wealth to extend substantial loans to other countries, providing financial support for local development. The US aims to reduce China's influence, especially given China's significant investments in infrastructure development in several developing countries, including those in Southeast Asia and Africa. China seeks to elevate its international standing by supporting and aiding the development of these nations, which poses a direct challenge to the international position of the US.

2.2 Security

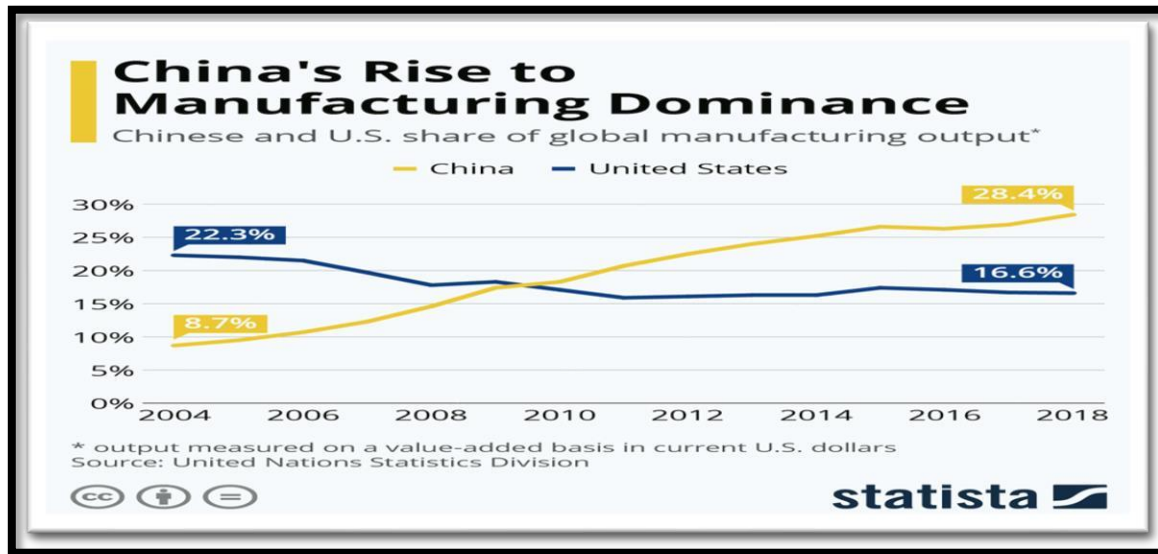


Figure 4: The China's Rise to Manufacturing Dominance

Source: Statista (2020). <https://www.statista.com/chart/20859/chinese-and-us-share-of-global-manufacturingoutput/>

The Figure 4 shows China's share of global manufacturing output rose from 8.7% in 2004 to 28.4% in 2018. This data is based on statistics from the United Nations, and the agency's report indicates that during the same period, the US saw its share of global manufacturing decrease from 22.3% to 16.6%. Here, we can clearly see that the world heavily relies on China's manufacturing industry, including the US government itself, as China's manufacturing industry accounts for 28.4% of the entire world's production, clearly exceeding a quarter. We can also observe that major American brands choose to establish factories in China because of its developed manufacturing sector and significantly cheaper labour compared to many other markets. This indicates that many of the world's largest consumer brands rely on Chinese manufacturing. Some of these major brands include Apple, and data scale and cost are important factors driving Apple to continue manufacturing in China. If the iPhone were to be produced in the US, economists estimate that the additional cost for the device would hover around \$65. Furthermore, the relatively smaller scale of the US workforce, which would demand higher wages, healthcare plans, long-term savings accounts, and traditional Western full-time employment arrangements, may not support the pace of new device releases (Chad, 2018).

Furthermore, China's trade model and global industrial shifts are also relevant factors contributing to the U.S.-China trade imbalance. China's relatively lower production costs give it a significant comparative advantage during periods of rapid economic expansion. As a result, manufacturing from many countries or regions gradually shifted to China. On the one hand, this led to a transfer of their trade surplus from the US to China. However, Wang (2018) points out that this also spurred the growth of China's processing trade. Currently, processing trade in China accounts for over 50% of the total trade volume, with a significant portion carried out by foreign-invested enterprises. The processing trade model involves importing raw materials and exporting finished products. Additionally, due to low labour costs and preferential tax policies for foreign-invested enterprises, a substantial portion of the added value flows to these enterprises, while the income for the Chinese government and Chinese workers remains limited. The rapid development of China's manufacturing industry under the policies of reform

and opening has been accompanied by a proliferation of counterfeit goods due to a lack of supervision by the Chinese government. Despite being influenced by international agreements in the global market, the country's approach to adopting fair production practices remains relatively conservative, with limited oversight of its manufacturing sector. This attitude has led to dissatisfaction among manufacturers in many countries, as the market is disrupted by counterfeit goods from China. From China's technological and institutional perspective, it is evident that Chinese companies are not as inclined as Western companies to enforce and apply for patents to protect innovation (Huang et al., 2017).

The US contends that China's disregard for intellectual property rights has led to a decline in the value and trading capability of American products (Zeng et al., 2022). The continuous influx of low-cost products from China has been occupying the domestic market in the US. In order to protect domestic businesses, the Trump administration decided to restrict China's manufacturing sector through a trade war. The proliferation of counterfeit products further impacted the development of the US manufacturing industry, especially in the mid-to-low-end sectors. Counterfeit products also harm market competitiveness, leading to an unhealthy state in the international market. If people worldwide develop a habit of using counterfeit products, it hinders innovation and damages the manufacturing industry. Trump strongly criticized China for its counterfeit products, addressing various issues in several public speeches. One piece of evidence supporting this is General Electric's sale of its Haier brand, as the Haier brand, benefiting from relatively lower labour costs in China, has penetrated local markets with cheaper electronic products (Contractor, 2017).

As the world gradually enters the high-tech era, China is emerging as a hub for technological innovation (Wang, 2018). China is increasingly establishing a significant presence in high-tech fields, including DJI Innovations in the drone industry and Huawei in the communications sector (Prud'homme et al., 2018). China's gradual foray into high-tech fields and its emergence as leaders in certain high-tech domains represent a significant threat to the US. This trend could potentially weaken the US international standing and diminish its share in high-end markets. Furthermore, it is clear that if the US does not maintain leadership in high-tech sectors, it could risk losing a substantial portion of intellectual property revenue (Thiel, 2019). This is because the US boasts several tech giants, including Tesla, Apple, Microsoft, and others, and a significant portion of their profits comes from intellectual property fees. If some Chinese companies were to replace these tech giants, it would mean that these intellectual property fees would be paid to China, something the US government cannot allow. Huawei's leading position in 5G technology has made it one of the primary global suppliers of 5G equipment (Miller, 2022). This has put competitive pressure on US technology companies as they need to compete with Huawei to secure market share. It has also driven US companies to increase their investments in 5G technology research and innovation to maintain their technological leadership (Tao, 2022). Huawei's global dominance in 5G communication technology has made it a major player in providing 5G devices and infrastructure worldwide. The US is concerned that if Huawei plays a key role in the construction of 5G networks, the Chinese government may use this position to threaten international security and US national security (Miller, 2022). The US government is concerned that Huawei might be used by the Chinese government for espionage or cyber-attacks, given the close ties between Huawei's founder and senior executives and the Chinese government. This has raised national security concerns, especially in the construction and operation of critical infrastructure and communication networks (Miller, 2022).

2.3 Political

The US saw tremendous growth in its economy, military might, and global clout following the end of the Cold War, eventually emerging as a global leader. The world was split into two main political blocs during the Cold War, each with its own set of beliefs: the Soviet Union, which supported socialism and communism, and the US, which supported Western democracy (Wang, 2018). The US emerged as the only superpower following the disintegration of the Soviet Union and continued to hold a commanding position in world affairs. Leading UN initiatives like the Gulf War, the US helped to uphold global security and order. In the late 20th and early 21st centuries, globalization accelerated, and the US became a dominant force in global trade and financial systems. The U.S. dollar became a primary international reserve currency, while American technology companies, culture, and innovation had a profound impact on the world. In the early 21st century, the rise of emerging powers like China and Russia posed a challenge to U.S. hegemony (Zeng et al., 2022).

China's communism and what appears to be an inability to harmonize with American democracy have created a persistent divergence in political ideologies (Boylan et al., 2020). This division has existed since the end of the Cold War and has even led to the world being divided into two major blocs, with both camps being at odds with each other. China, following its rapid economic development, has become the second communist country capable of challenging the US, following Russia (Tao, 2022). This has raised concerns within the US government, as the US now faces a more formidable adversary on the global stage. Unlike America's Western allies, China is not always compliant and openly disagrees with the US on various issues. This has led the US to perceive China as a threat (Chad, 2018). As China continues to grow in strength, the US has begun to impose restrictions on this potential threat, including engaging in a trade war. China's rapid economic growth has gradually impacted the US global standing, potentially leading to a weakening of American international influence and a change in the dynamics of American hegemony. The US, as a hegemonic power, has significant political influence in international organizations and diplomatic negotiations (Kitchin & Thrift, 2009). It can promote its values, interests, and policy preferences on a global scale. Furthermore, as a leading economic powerhouse, the US benefits from its hegemonic status in trade, investment, and economic influence. US companies can more easily access global markets, and the position of the U.S. Dollar as the primary international reserve currency provides economic advantages (Ha & Lars Willnat, 2022). If China were to gradually replace the US, the US would lose some of these advantages. The US government will not idly stand by while its hegemonic position is weakened; instead, it will employ various means to counteract this potential threat. Among these, trade war serves as a tool to curb China's development and protect the US status as the world's leading superpower.

2.4 Preside Leadership

The outbreak and escalation of the US-China trade conflict are also related to the personal characteristics of Donald Trump. Donald Trump's personality and leadership style did play a significant role in his approach to trade relations with China during his several aspects of his personality influenced his decision to initiate a trade war with China (Lau, 2019). Donald Trump's election was a surprise to almost everyone all over the world. His presidency so far has been full of surprises and uncertainties as well (Ha & Lars Willnat, 2019). Trump is impulsive, tough, and has a strong anti-intellectual tendency (Weixing, 2018). He disregards effective international trade rules and baselessly accuses China and other trading partners of being thieves stealing American jobs, portraying China's legitimate and lawful acquisition of advanced technology from various countries as intellectual property theft (Lau, 2019). The trade conflict initiated by the Trump administration with China and the trade frictions with

other countries have seriously undermined existing international economic norms, harmed principles of justice and fairness, and not only caused difficulties for economic growth worldwide but also put the US economy itself in deeper trouble. As the US midterm elections approach, Trump has further attempted to boost American nationalism and increase his domestic support by adopting a tough stance against other countries (Weixing, 2018).

The ideology and political style that Trump adheres to during his presidential term are closely related to his basic base and are called "Trumpism" (Finley & Johnson, 2018). Some comments described his political stance as right-wing populist, protectionist and nationalist (Mehmood & Khan, 2021). Trump's personality is characterized by assertiveness and a confrontational negotiating style. He often takes a "tough on trade" stance and believes in using aggressive tactics to gain leverage in negotiations. Trumpism emphasizes opposing elitism and emphasizing politics on behalf of "ordinary people." His campaign slogan "Make America Great Again" (Make America Great Again) expressed his commitment to the bottom voters, trying to meet their concerns and demands. This can be clearly shown during Trump's election campaign. The right-leaning presidential personality made Trump unexpectedly win more votes on his way to the presidency (Lau, 2019). Analyzing the results of the US election, Trump won votes from rural America, which can also explain why his policies when he became the president of the US were to protect the output of US agricultural products. The trade war provoked by Trump has also greatly protected the interests of local farmers in the US.

Secondly, the trade war is also protecting the manufacturing industry in the US. Trump has won the votes of the blue-collar people in the US. Trump enjoyed broad support in the election, especially among rural areas, industrial states and some Republican base voters (Krugman, 2022). His policies and style have appealed to a segment of the American electorate but have also stoked division and controversy. Trump's leadership style has had a profound impact on his presidency, not only in domestic policy but also in international relations and American political culture. Trump has taken a tough stance on trade policy, advocating for tariffs and trade restrictions to protect American industries and jobs. He focuses on the interests of domestic manufacturing and agriculture and seeks to reduce dependence on imports (Ha & Lars Willnat, 2022). Trump's personality traits include an assertive, confrontational negotiating style and a tendency to take tough positions (Mehmood & Khan, 2021). This style has been reflected in his negotiations and foreign policy, including the trade war with China. Another indication of the US intent to protect its mid-to-low-end manufacturing industries from China is the fact that President Trump, on multiple occasions in public speeches, criticized China and labeled it as a "job thief." Trump accused China of being a so-called "job thief" and claimed that China should be held responsible for the decline of the US manufacturing industry (Hayes, 2022).

One of the important factors behind the trade conflict is the US government's attempt to promote the expansion of its domestic mid- to low-end manufacturing industry and improve the employment and improve the income conditions of blue-collar workers by setting up trade barriers on Chinese imports. The US has attracted many talented individuals from around the world in fields such as scientific research and higher education, which has led to its leading position in many high-tech areas (Tao, 2022).

Increased the cost of living and job pressure for Americans, as many ordinary Americans find it difficult to compete with the highly selected elites from around the world (Cerutti et al., 2019). As more and more blue-collar workers lose opportunities to compete with foreign elites, it leads to an increase in the unemployment rate. The Trump administration attempted to

promote the development of mid-to-low-end manufacturing industries through a trade war to ensure these industries could compete with foreign counterparts (Zeng et al., 2022). If Trump did not protect the country's mid-to-low-end manufacturing industries, it could have resulted in the US becoming overly dependent on foreign mid-to-low-end manufacturing, especially in China.

3. Impact of the Trade War Between US and China Towards Asean

The U.S.-China trade war has had varying degrees of impact on different regions globally. It is noteworthy that the US is the third-largest trading partner for ASEAN, while China holds the position of the largest trading partner. The conflict between these two major players has posed challenges for ASEAN. The trade war between the US and China has significant implications for regional security and economic development, placing ASEAN in a dilemma between the two superpowers. ASEAN naturally hopes for a resolution between the U.S. and China, as the trade war has serious consequences for regional security and economic growth. While the founding principle of ASEAN is to remain neutral in disputes among major powers, each ASEAN member's relationship with the U.S. and China varies, including in terms of trade and military cooperation. It cannot be denied that the impact of the U.S.-China trade war on ASEAN is primarily negative, at least in the short term. China is the largest trading partner for ASEAN in both exports and imports. Prior to the outbreak of the trade war, these two economic entities had a mutual interdependence. China plays a crucial role in the global supply chain. However, it is worth noting that the U.S.-China trade war has, to some extent, driven economic development in ASEAN. China, with the world's largest manufacturing sector, has undergone a shift in manufacturing due to the trade war. Many industries have relocated to other countries, with ASEAN being a major destination for these businesses.

3.1 Politics

Countries worldwide actively seek to increase their influence in global affairs, while also requiring more cooperation to address global challenges. Both China and the US aim to enhance their international influence in this new landscape, which is why the ASEAN, a regional intergovernmental organization comprising Southeast Asian countries, has become a target for their engagement (Aba, 2021). Since ASEAN inception, ASEAN has aimed to avoid taking sides in the conflicts between major powers. Situated in Southeast Asia, ASEAN holds strategic importance due to its geographic location, adjacent to the Pacific and Indian Oceans, serving as a bridge between the Asian mainland and the Pacific region. This geographical positioning grants ASEAN significance in both politics and economics. As one of the most economically dynamic regions globally, Southeast Asia occupies a powerful position. From a political perspective, ASEAN generally seeks to maintain a delicate balance in its relations with the US and China. ASEAN member states have been delicately balancing their relations between the US and China. As the two superpowers engage in economic and strategic competition, ASEAN nations aim to remain neutral and avoid taking sides (Egberink & van der Putten, 2010). For example, during the US-China trade war, ASEAN consistently maintained a neutral stance, hoping that the two countries would resolve their issues through negotiations rather than escalating trade tensions. Their concern is getting caught in the competition between the US and China, leading them to adopt nuanced positions in their foreign policies. ASEAN countries, both collectively and individually, adhere to policies of neutrality and non-alignment (Ahmad & Zhang, 2020). They refrain from aligning with either the US or China in their competition. This neutrality allows them to engage in economic and strategic cooperation with both nations while steering clear of getting involved in great power conflicts (Ganesan, 2000).

The ASEAN is an important regional organization located in the Asia-Pacific region and holds significant influence in both the Asia-Pacific region and the world. This also explains why both the Chinese and American governments frequently express goodwill towards ASEAN, they want to seek support from ASEAN. Since taking office, President Biden has expressed a desire to continue and reinforce the policies initiated during the Obama administration, focusing on re-engagement with Asia. China, on the other hand, has been actively promoting its international presence through initiatives like the "Belt and Road" project, with Southeast Asia serving as a vital component for expanding its international reach (Setiawan, 2020). From this perspective, it is evident that both the US and China are making significant efforts to gain the support of ASEAN member countries and extending olive branches. This situation could potentially put ASEAN in a difficult position as the organization will face diplomatic challenges (Ha & Lars Willnat, 2022).

US has consistently sought to avoid overreliance on Chinese manufacturers by encouraging diversification of its supply chains (Kraft, 2017). Simultaneously, the US aims to reduce other countries' dependence on China to decrease Chinese influence, particularly on neighbouring nations (Fama & Jensen, 2021). The US encourages its domestic companies to diversify their supply chains, lowering their dependence on China. This includes encouraging US companies to seek alternative suppliers in other countries to ensure that their production is not adversely affected by the instability of China's trade policies (Aba, 2021). The US also provides economic assistance and investment to support the infrastructure development and economic growth of other countries, thereby reducing their reliance on China. This contributes to decreasing China's influence, especially within the framework of initiatives like the "Belt and Road" project. When accepting US aid and benefits, ASEAN countries are cautious about Beijing's response (Fama & Jensen, 2021). They are unwilling to offend either China or the US and are careful not to forego assistance from either party.

In addition, the relationships among ASEAN member states will also be influenced by the trade war. Each ASEAN member has its own independent bilateral relationships, including cooperation with China and the US in trade, economy, military, and political domains (Egger & Zhu, 2020). The differences in these relationships impact the diplomatic positions and policy formulations of both China and the U.S. For instance, Malaysia and Vietnam have close economic and trade ties with China, especially under China's "Belt and Road Initiative." These countries may prioritize economic cooperation but also need to uphold their national interests in their relations with China (Hiep, 2019). On the other hand, countries like Singapore and the Philippines have military cooperation with the US, including the establishment of military bases and troop deployments. This indicates a greater emphasis on security cooperation with the U.S., particularly in maintaining regional security and stability (Kraft, 2017). This diversity and variation mean that ASEAN needs more intricate diplomatic efforts to navigate the competition and cooperation between China and the U.S., balancing the interests of each member state. Meanwhile, as an organization, ASEAN is also engaged in multilateral cooperation to maintain regional stability, striving to remain neutral and actively contribute to international affairs.

3.2 Economy

The economic impact of the trade war on ASEAN is complex and diverse because different ASEAN member countries are affected to varying degrees and have experienced both benefits and drawbacks. The trade war has prompted some ASEAN countries and businesses to diversify their supply chains, reducing overreliance on a single country, especially China (Hiep, 2019). This helps mitigate risks, as it makes them less vulnerable to policy changes or market

disruptions in a single country. Due to the reconfiguration of global supply chains, some ASEAN countries have become new manufacturing bases, attracting foreign investment and spurring growth in the manufacturing sector (Wang et al., 2020). This has led to job creation and higher economic growth. However, the trade war has also had negative effects on ASEAN's economy. It has resulted in trade tensions between the US and China, which have had adverse effects on global trade (Setiawan, 2020). This slowdown in global trade has impacted export-oriented ASEAN countries negatively. The trade war has introduced economic uncertainty, which has had a detrimental impact on economic growth in ASEAN countries. Given the interconnected nature of the ASEAN region, a global economic slowdown can have ripple effects on their economies (Wang et al., 2020). Overall, the impact of the trade war on ASEAN's economy is a mix of both positive and negative effects, and it varies among member countries and industries. The trade war has both encouraged diversification of supply chains and disrupted global trade, resulting in both opportunities and challenges for ASEAN nations.

When the US initiated a trade war with China, it had an impact on China's manufacturing sector, including foreign manufacturers operating in China. The trade war prompted these companies to consider relocating to other countries to avoid the effects of the trade war, this move was driven by the need to diversify risks (Stubbs, 2019). Shifting some factories away from China was aimed at mitigating the impact of the trade war. These companies' objectives in transferring assets and factories also included reducing their dependence on Chinese manufacturing (Soeparna, 2021). As a result, some ASEAN countries are poised to benefit from the trade war because they have become alternative manufacturing and export destinations for companies looking to reduce their reliance on China. This diversification of supply chains has brought about increased investment and trade in countries like Vietnam, Thailand, and Malaysia, among others (Petri & Plummer, 2013). This shift in manufacturing and trade activities has been driven by the desire to minimize exposure to the trade war and to diversify the geographic spread of production.

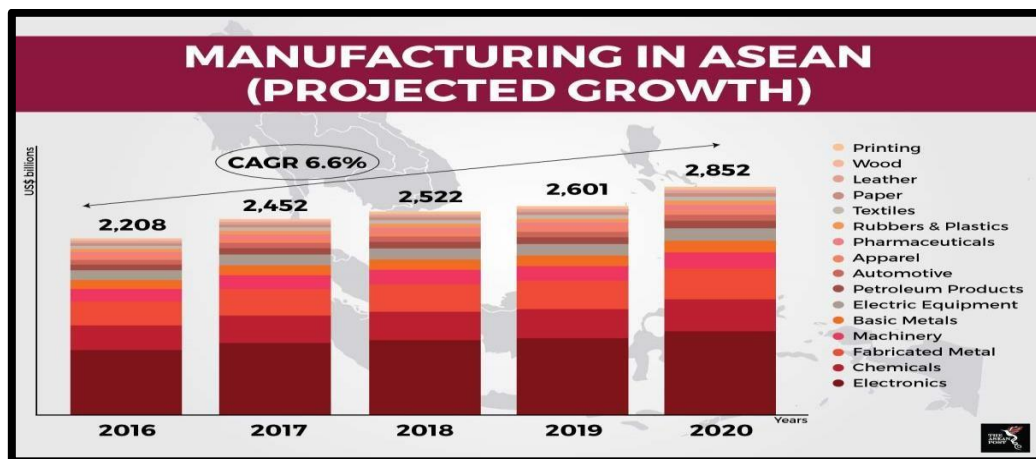


Figure 5: The projected growth of manufacturing sector in ASEAN.
 Source: The ASEAN Post (2020)

Figure 5 shows the projected growth manufacturing sector in ASEAN from 2016 to 2020. The manufacturing sector has been one of ASEAN's key economic growth drivers. Already, the region is a global manufacturing hub and is estimated to grow at a compound annual growth rate (CAGR) of 6.6 percent between 2016 to 2020. It shows that the manufacturing sector at the ASEAN get a big advantage after US launch trade war towards China. The rapid development of the manufacturing industry has positive impacts on local economies and the entire ASEAN region (Ahmad & Zhang, 2020). This includes creating job opportunities and

increasing local revenue, among other benefits. This presents a great opportunity for the ASEAN to develop its regional economy.

The drive of the manufacturing industry will indeed provide the ASEAN region with more export opportunities (Egger & Zhu, 2020). Furthermore, for ASEAN countries not directly involved in trade disputes, conflicts have created opportunities to expand their exports to the US and Chinese markets. These countries have leveraged the disruption in the global supply chain to significantly boost their exports of various products and services. The growth of the manufacturing sector typically involves large-scale production of goods and services, which offers ASEAN countries greater access to international markets (Hiep, 2019). Especially for products that meet global demand, such as electronic devices, automotive components, and textiles, the export prospects are increasingly promising.

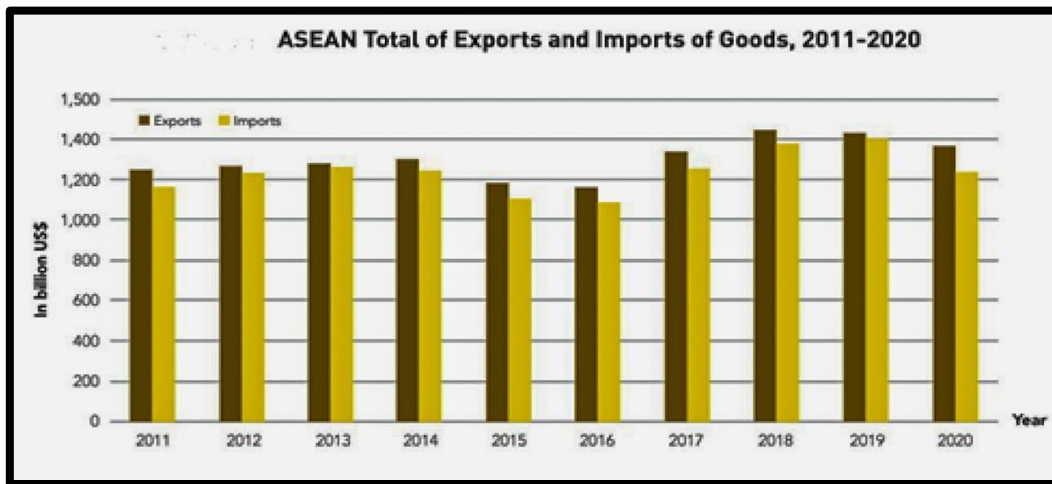


Figure 6: ASEAN total exports and imports of goods
 Source: ASEAN Statistic Yearbook (2021)

Figure 6 show the ASEAN total exports and imports of the goods in 2011 to 2020. But we will focus on the export on 2015 to 2020 to see more clearly the impact of the trade war, the export of the ASEAN in 2015 is 1171 billion US Dollars and it rise to 1423 billion U.S. Dollars. The increase in the ASEAN's export trade volume indirectly reflects that the trade disputes, to a greater or lesser extent, have helped boost the ASEAN's export trade (Egger & Zhu, 2020). These export figures are propelling the GDP of ASEAN countries to new heights. An increase in exports typically signifies an expansion of production activities, which contributes to promoting the economic growth of the country or region. These export values can also reduce ASEAN's trade deficit with the outside world and enhance foreign exchange income. Foreign exchange income is highly crucial for a country's international reserves because international reserves are used for importing essential goods, servicing debt, and supporting the domestic economy (Hui, 2021). High export values are often considered an indicator of economic prosperity and international competitiveness, but they also need to be balanced with sustainability, trade balance, and other factors (Wang et al., 2020).

When a region's overall manufacturing and export sectors experience high-speed growth and improvement, it brings positive impacts to the entire region (Stubbs, 2019). This is particularly attractive to foreign investors, and foreign investment further drives the overall regional economy. The ASEAN region, being a large economic entity, benefits from this. Even if only a few countries within the ASEAN region experience economic growth, foreign investors exploring the region will discover the advantages of other ASEAN member states. This, in

turn, attracts foreign investors to other ASEAN member countries. Secondly, when ASEAN countries receive foreign investments, they also gain access to more technology (Egger & Zhu, 2020). This indirectly encourages businesses to enhance the quality of their products and services to meet the demands of international markets. This improves the competitiveness of these businesses and promotes innovation and technological advancement. Foreign investors coming to ASEAN to invest also foster greater international trade cooperation and negotiation, which helps improve international relations (Aba, 2021).

Foreign investors coming to ASEAN for investment also promote more international trade cooperation and negotiation, which helps improve international relations (Aba, 2021). Countries and regions often enter into trade agreements with other nations to facilitate trade and investment. For instance, in the current ASEAN context, high-end manufacturing and headquarters of major corporations are concentrated in Singapore, while lower-end enterprises are concentrated in countries like Vietnam and Thailand. Companies involved in mid-range manufacturing may choose other ASEAN countries like Malaysia and Indonesia. Additionally, various trade agreements within ASEAN make internal trade and cooperation extremely convenient (Egger & Zhu, 2020). The combination of these factors is attracting foreign investors, especially companies affected by trade disputes, to invest in ASEAN, help develop the region, and potentially relocate their businesses to ASEAN.



Figure 7 (a): Intra and Extra-ASEAN Foreign Direct Investment (FDI) inward flows 2011-2020.
Source: ASEAN Statistic Yearbook (2021)

Figure 7 (a) show Foreign Direct Investment (FDI) in ASEAN has been on the rise since 2011 and continued to grow until 2019. This consistent upward trend during this period demonstrates the globalization of the world economy. In 2018, after the US initiated a trade war with China, foreign investments shifted their focus towards ASEAN. There was a significant surge in FDI between 2018 and 2019 at ASEAN, primarily due to the aftermath of the US-China trade war, during which foreign investors were looking for new partners and many withdrew from the Chinese market. Foreign investments, to varying degrees, changed their investment priorities due to the trade war, directing more investments towards ASEAN (Ahmad & Zhang, 2020).

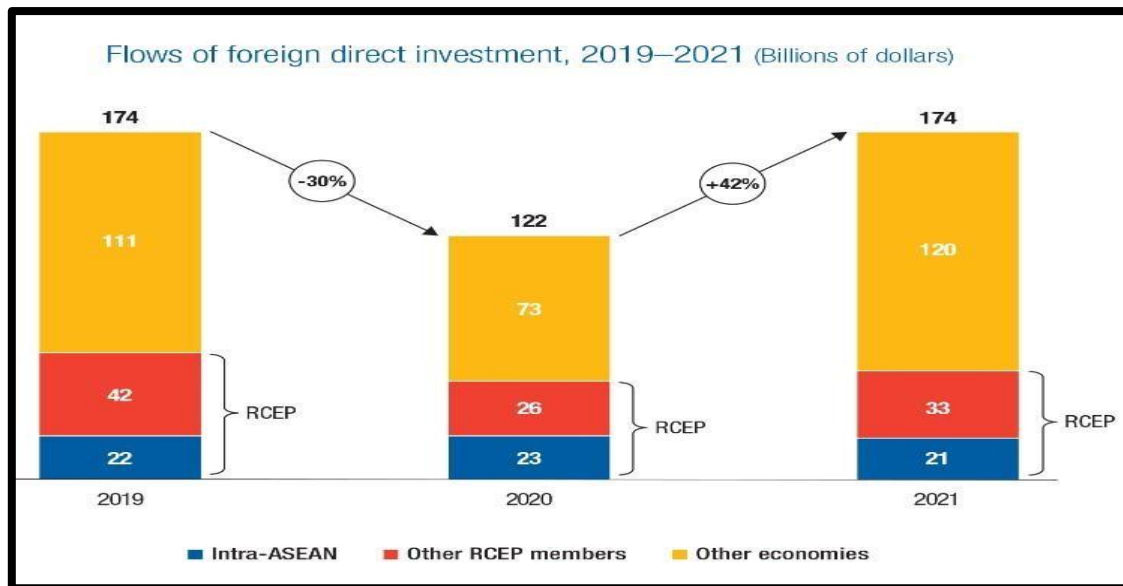


Figure 7 (b): The flow of Foreign Direct Investment (FDI) from 2019-2021.

Source: ASEAN Secretariat (2022). <https://asean.org/our-communities/economic-community/investment-2/>

As shown in Figure 7 (b), that there was a downward trend in FDI from 2019 to 2020, coinciding with the onset of the COVID-19 pandemic. However, this didn't deter foreign investments in ASEAN. While FDI dropped by 30% from 2019 to 2020, economic recovery and trade normalization occurred as vaccine distribution became widespread. Between 2020 and 2021, FDI increased by a total of 42%, bouncing back to the 2019 levels. This suggests that foreign investors have continued to view ASEAN as a region with great potential. In this regard, the trade war did indeed bring economic benefits to ASEAN. Investing more in ASEAN could help diversify their risks and, at the same time, assist in the development of the ASEAN economy (Fama & Jensen, 2021). Therefore, the trade war did indeed increase FDI in ASEAN and helped with the region's economic growth. China is the world's largest exporter and a critical part of the global supply chain. When the US initiated a trade war with China, it significantly impacted China's export industry. The trade war's uncertainty and tariff measures led some companies to reconsider their supply chain strategies (Egger & Zhu, 2020). This resulted in disruptions in the global supply chain, as many products rely on critical components and raw materials sourced from China. Supply chain interruptions affected production and manufacturers worldwide, resulting in production delays, increased production costs, and supply instability (Egger & Zhu, 2020). These consequences have caused a slowdown in economic growth in ASEAN countries, and in the long term, these effects can be detrimental. The disruption of the global supply chain has also contributed to rising prices, further impacting the already severe issue of inflation (Hui, 2021). This affects global inflation rates and may have negative implications for households and businesses.



Figure 8: The total value of trade between ASEAN and China from 2006 to 2020.

Source: ASEAN-China Centre (2021). <https://news.cgtn.com/news/2021-11-22/Xi-chairs-summit-marking-anniversary-of-ASEAN-China-dialogue-relations-15oga5BCb3q/index.html>

Figure 8 shows the total value of trade between ASEAN and China. China surpassed Japan to become ASEAN's largest trading partner in 2009 which about 200 billion U.S. Dollars. And China and ASEAN became each other's largest trading partner for the first time in 2020 which reach almost 700 billion U.S. Dollars. Since 2009, China has remained ASEAN's largest trading partner for 12 consecutive years, while in 2020, ASEAN also became China's largest trading partner. This serves to demonstrate that ASEAN and China are mutually dependent, especially in the export and import sector. China is the largest trading partner of ASEAN and has a significant impact on ASEAN's economic growth. During the trade war, China's economic growth rate slowed down, which, in turn, affected the economic growth of ASEAN. It is important to understand that the world economy is complex and interconnected (Egger & Zhu, 2020). The US initiation of a trade war with China has resulted in a global economic slowdown. ASEAN, as China's largest trading partner, faced challenges in various areas during the trade war. Some companies in ASEAN needed to import raw materials or goods from China for processing and assembly (Hiep, 2019). However, when the global supply chain, centered around China, was disrupted, these ASEAN companies were forced to import similar goods from elsewhere. This has led to increased costs and extended manufacturing lead times.

Due to the tense trade relations between the US and China, some ASEAN countries are compelled to seek expanded cooperation with other trading partners to reduce their reliance on US-China trade (Aba, 2021). This may involve strengthening trade relations with countries such as Europe, India, Japan, and others. ASEAN is also forced to adjust its export structure to meet the demands of the global market and reduce overreliance on specific markets (Hui, 2021). These changes vary by country and industry, and different ASEAN member states will adopt different strategies to address the impact of the trade war and the dynamics of global trade. The changes in trade patterns present opportunities for some countries but also pose new challenges (Hiep, 2019). Therefore, ASEAN countries typically seek a balance among various factors to promote economic stability and sustainable growth.

The trade war has indeed impacted commodity prices, and this can have a significant effect, especially on countries heavily reliant on commodity exports (Soeparna, 2021). Commodities refer to basic raw materials and goods produced and traded on a large scale, typically encompassing agricultural products, minerals, energy resources, and more (Ng, 2021). These commodities are integral to global trade as they are used in production, consumption, and

export, thereby exerting substantial influence on economies worldwide. The trade war affects some ASEAN countries, particularly those that are major exporters of agricultural commodities. ASEAN exports five primary food commodities, namely rice, corn, soybeans, sugarcane, and cassava (Kraft, 2017). The prices of these products have, to varying degrees, been affected by the trade war and other factors, contributing to significant price volatility.

After US declare trade war towards the China, ASEAN become a new hub for economy development (Ahmad & Zhang, 2020). The trade tensions and trade war between the US and China have led to a shift in economic dynamics in the Asia-Pacific region. ASEAN has indeed gained prominence as an alternative hub for economic development, as businesses seek to diversify their supply chains and explore new opportunities in the region. ASEAN's growing economic integration and its strategic location have made it an attractive destination for investment and trade (Ng, 2021). This shift highlights the organization's increasing importance in the global economic landscape. ASEAN's strategic geographical location has attracted numerous foreign investors for trade and, due to its convenient transportation, is well-suited for foreign investment in manufacturing. ASEAN is home to several world-famous ports, including Singapore Port, Malaysia's Port Klang, and Laem Chabang in Thailand. Southeast Asia has historically been home to some of the world's important ports due to its unique geographical location (Egberink & van der Putten, 2010)

Southeast Asia also has more advantages compared to other regions, and one of them is that all ASEAN countries have the demographic dividend advantage. The relatively young and continuously growing population in the Southeast Asian region brings potential economic advantages to the ASEAN economies (Soeparna, 2021). Against the backdrop of the ongoing China-US trade war, this will further enhance the ASEAN economy. The people of ASEAN countries also have a higher level of education compared to some regions, and this advantage can produce skilled and productive individuals. Well-educated labour force generally possesses higher skill levels, which can provide high-quality labour for various industries, thereby promoting productivity and innovation (Zhao et al., 2020).

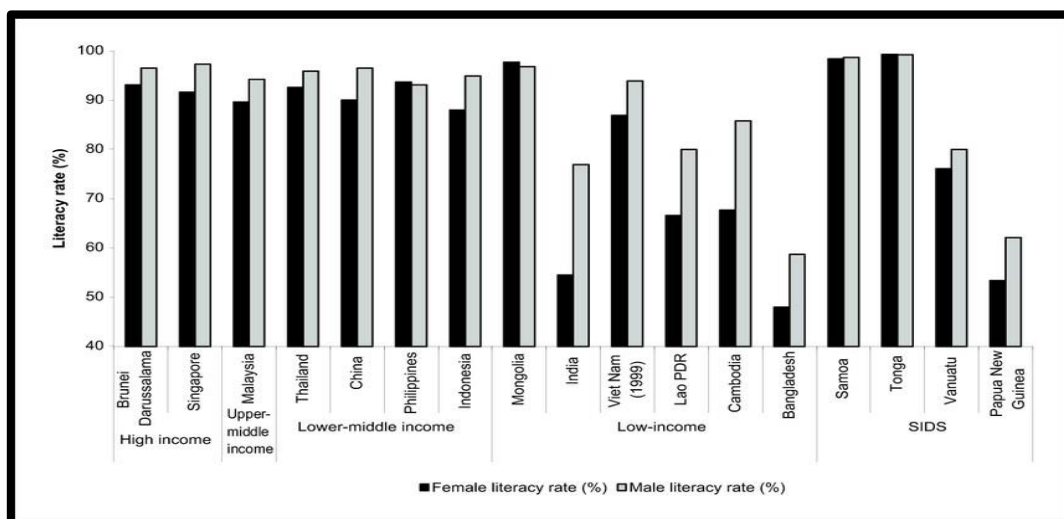


Figure 9: The adult literacy rates at the Asia Pacific region in 2020.

Source: Huong Nguyen (2021). https://www.researchgate.net/figure/Adult-literacy-rates-Select-countries-across-the-Asia-Pacific-region_fig3_50376480

Figure 9 shows the adult literacy rates at the Asia Pacific region in 2020. We can find most of the ASEAN countries have high literacy rate, there are 9 ASEAN countries showed on the

figure. Brunei has the highest literacy rate in all of ASEAN, followed by Singapore, Malaysia, and Thailand. The people of ASEAN countries also have a higher level of education compared to some regions, and this advantage can produce skilled and productive individuals. Well-educated labour force generally possesses higher skill levels, which can provide high-quality labour for various industries, thereby promoting productivity and innovation (Aba, 2021). Regions with high literacy rates will enhance a country's productivity and can attract foreign investment (Hiep, 2019). This will further assist ASEAN in improving its overall economy and drive economic growth throughout the entire region. ASEAN also has several advantages over other regions, including geographical location and demographic dividend. These advantages have made ASEAN become a new hub for economy development. ASEAN has more advantages than other regions, including geographical location and demographic dividend. These advantages, along with the backdrop of the China-US trade war, have made ASEAN the new hub of economic development.

4. Conclusion

Several factors are driving the trade war between the US and China. A factor that comes from the economic domain is the trade deficit between the US and China. The US suffer from protracted trade deficits one such consequence is currency depreciation. Through the trade war, the US hopes to slow down China's economic expansion. The US is concerned about China's fast economic growth in the twenty-first century, which has made it one of the largest economies in the world. In addition, the US hopes to lessen its reliance on China by using the trade war to defend domestic companies that are being progressively supplanted by Chinese companies. The US long-standing hegemonic status is one of the other factors. The trade war between China and the US has had a significant impact on ASEAN, with the economic consequences being the most severe. Both China and the US, as major global economic powers, have caused significant disruptions to the world economy, including that of ASEAN. While the trade war has brought negative economic consequences to ASEAN, it has also created opportunities, depending on how well ASEAN seizes them. The trade war between China and the US has also served as a wake-up call-in international politics. The tensions between these two global superpowers have influenced the political positions of other countries, and ASEAN, as a significant global economic entity, is closely watched in this context. Within ASEAN, each member country has different perspectives due to their distinct relationships with China and the US. ASEAN also has several advantages over other regions, including geographical location and demographic dividend. These advantages have made ASEAN become a new hub of economy development.

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