

## ASEAN in Trump's tariff squeeze

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US President Donald Trump has made it clear. His strategy of weaponising tariffs would be deployed not only to ensure a reduction in America's trade deficit but also to achieve political and diplomatic objectives. Examples abound, not least the excessive punitive tariffs on Brazil because of its indictment and arrest of friend Jair Bolsonaro, and on [India](#) to restrict its imports of oil from a US-sanctioned Russia.

Such threats have not always worked. Most strikingly, [China](#) has forced Trump to rein in his trade aggression, by resorting to its own retaliatory tariffs on imports from the US and by exploiting its monopoly over rare earth reserves to restrict supplies to the US. Moreover, there is a grudging realisation that decoupling from China has domestic costs that may undermine Trump's already fading popularity. In the event, China has forced a temporary truce in the trade war.

That has upset Trump's effort to intensify the long-running US push to contain a rising China. In response, the US administration has shifted away from its earlier focus on direct attacks on China in the form of punitive tariffs, non-tariff measures of protection, and restrictions on technology access in the name of national security threats and intellectual property theft. The new thrust is to isolate China by using the tariff weapon to force other trading partners to weaken or cut off economic ties with it. This shift is most visible in Asia, where China has built partnerships with countries like Cambodia, Indonesia, Malaysia, Thailand, and Vietnam. They keep their markets open to Chinese goods, allow for extraction of critical raw materials to support China's economic expansion, and permit China to use them as platforms for final production for export to the US.

The strategy began unfolding after the US' "Liberation Day" announcement in April 2025 of likely steep tariff hikes, with the threat set at 36 per cent for Cambodia, 32 per cent for Indonesia, 25 per cent for Malaysia, and 36 per cent for Thailand. If lower tariffs were desired, Trump argued, countries must accept a negotiated "deal" (dictated by the US). Most of these countries seem to have caved in, with preliminary agreements that incorporated clauses damaging to them and beneficial to the US.

There are some common elements in these deals. One involves major concessions for US exports to their markets. Malaysia, for example, has agreed to cut tariffs to zero on 98 per cent of American goods that it imports, which covers more than 11,000 manufactured and agricultural products. That was in return for a lower "reciprocal" tariff of 19 per cent as against the 24 per cent originally announced. A second is US access to reserves of critical raw materials they own. In a deal signed with Malaysia and Thailand on the sidelines of a summit of the Association of Southeast Asian Nations (ASEAN) in Kuala Lumpur in late October, the two countries agreed to help ease [rare earth](#) supply constraints faced by the US because of China's monopoly on supply. A third, is a ban on digital services taxes that are seen as discriminating against US companies.

But what is noteworthy is that these concessions to the US have been accompanied by clauses targeted at the relationship these countries have with China. These "poison pill" clauses are

aimed at deterring them from entering into trade and economic partnership agreements with China. Thus, the agreement with Malaysia gives the US the right to unilaterally terminate the agreement (and restore more punitive tariffs) if Malaysia “enters into a new bilateral free trade agreement or preferential economic agreement with a country that jeopardizes essential U.S. interests”. Malaysia is also expected to follow the US when it imposes import restrictions or sanctions on third countries. The deal is facing opposition in the country, but the government has pushed ahead so far.

Similar clauses are included in the agreement with Cambodia and are reportedly being pushed for inclusion in the Thailand and Vietnam agreements as they are given final shape. Further, in a related move, these countries are being forced to rethink ties with Chinese investors that use them as an export platform, given the threat of imposition of a 40 per cent tariff (as opposed to the base 20 per cent) on goods “transhipped” through these countries to the US. Given the US’ objective to contain China, “transshipment”, when finally defined, may be broad in coverage and damaging to these countries.

There are some signs of pushback. *Financial Times* reported in end November that Indonesia is now resisting US efforts to impose stringent conditions on it. The preliminary deal signed in July was only a “framework” for the final deal to be negotiated. Indonesia’s resistance to the “loss of economic sovereignty” is undoubtedly influenced by the benefits it derives from ties with China, including in nickel production and processing. It is rumoured that Vietnamese policymakers too are pushing back. Besides the base 20 per cent tariff (slightly higher than the 19 per cent imposed on many neighbours), the 40 per cent rate on “transshipped” goods poses a major challenge, given Vietnam’s role as a processing platform for raw materials and components imported from China. This is a problem for the other ASEAN members as well.

There are three ways in which these countries could be affected adversely by this pivot in US strategy. First, despite reductions relative to the original threats, the still high tariffs these countries would be subject to would affect their exports. Second, domestic production would be hurt by the inflow of cheaper US imports. Finally, their favourable economic relationship with China would be weakened, with significant consequences.

Given these pressures, it is likely that countries will resist or evade efforts to use trade measures to subordinate them and isolate China. In any case, these “deals” would only weaken the dynamism of what are current and potential markets for US firms. The effort to “Make America Great Again” would, even if successful, only backfire.

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