Forecasting Trump's Impact on Southeast Asia

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U.S. President Donald Trump disembarks from Air Force One in 2019. (Photo: Jeon Heon-Kyun-Pool/Getty Images)

Key Takeaways

- Trends expanding commercial opportunities in Southeast Asia are endogenous to the region and will continue during a second Trump administration.
- Geopolitical factors will likely accelerate the diversification of supply chains that has favored Southeast Asia, particularly for semi-conductors and cutting-edge technologies.

- Southeast Asia will continue to pursue the clean energy transition, albeit at a more measured pace than initially anticipated, with opportunities in clean energy, critical minerals, and EVs expanding.
- Digitization of Southeast Asian economies will accelerate, fueling the need for data centers, secure systems, and digital infrastructure.
- The region's economies could be damaged by proposed tariff increases, but almost all Southeast Asian leaders have assets to influence Trump for relief.

Likely Impact on Regional Trends

Southeast Asia will continue to benefit from increasing supply chain diversification and focus on resiliency. Diversification predates Trump's first term, initially driven by higher production costs in China. While the trade war with China launched during Trump's first term accelerated this process, the full surge of foreign investment and exports to Southeast Asia followed the COVID-19 pandemic and responded to improve the resiliency of overly centralized and fragile supply chains. Furthermore, the geopolitical tensions driving Southeast Asia's expanding role in semiconductor supply chains will continue, and likely intensify, during the new administration. A repeal of the CHIPS Act, which Trump has heavily criticized, could bolster Southeast Asia's role in the sector if it made the United States a less viable destination for semiconductor manufacturing.

The clean energy transition in Southeast Asia will modulate, but ultimately continue, as the region has its own reasons for adopting new technology. The region's energy demands are massive and continue to grow substantially. Most Southeast Asian nations remain extremely dependent on fossil fuel imports, which has historically caused macroeconomic problems. Moreover, air pollution and vulnerability to natural disasters intensified by climate change are both growing challenges motivating further climate mitigation through clean energy. While Trump repealing or weakening the Inflation Reduction Act could lower demand for clean energy, EV's, and critical minerals in the United States, this could benefit Southeast Asia if investors increasingly turn to the region as an alternative market. At the same time, Trump is likely to resume lobbying regional governments to purchase U.S. LNG, and he may find more willing buyers, as most regional energy planning has recentered gas as a key transition fuel.

Southeast Asia's embrace of digitization will accelerate regardless of the new administration. The ongoing boom in data center investments is driven by the region's intensifying adoption of AI, cloud computing, and 5G telecom networks. Internet penetration and data usage continue to surge, creating a need for more investments in cybersecurity and expanded digital infrastructure such as 5G telecom networks, cloud computing systems, and subsea internet cables. The new administration could boost regional demand for secure digital infrastructure from the United States, Japan, South Korea, and Australia by expanding on the pressure exerted during Trump's first term on Chinese competitors like Huawei and ZTE.

Risks for Major Southeast Asia Markets

Despite the promising continuity in regional trends, Trump's proposed 10–20 percent universal tariff threatens to depress Southeast Asia's exports and trade dependent economies. While the proposed 60 percent tariff on imports from China probably would drive further supply diversification and investments towards Southeast Asia, it also would reduce Chinese demand for the region's exports of raw materials and intermediate goods. Furthermore, the incoming administration will be less tolerant of "Southeast Asia washing" by Chinese companies seeking to avoid U.S. tariffs, trade remedies, and export controls. Nearly all of the countries in the region have some capacity to ingratiate themselves with Trump by expanding purchases of U.S. oil and natural gas, and some will have additional forms of potential leverage. The bigger challenge will be getting Trump's attention when competing with most of the world in seeking a deal.

INDONESIA

Indonesia has a large trade surplus with the United States, but the bilateral trade and investment relationship is small given the country's large economy. This probably will afford Jakarta greater insulation from Trump's tariffs than its Southeast Asian counterparts. Still, China increasingly dominates Indonesia's critical minerals mining and processing industries. Trump's proposed tariff on Chinese exports could disproportionately hurt this increasingly crucial sector. Likewise, Trump's attempts to hinder U.S. adoption of clean energy and EVs could also suppress global demand for Indonesian minerals. Trump removed visa restrictions on Indonesian President Prabowo during his first term, and the two leaders had a positive phone conversation shortly after Trump's 2024 election victory. Nonetheless, should the impact of Trump's proposed tariffs prevent achieving growth targets, Indonesia may be forced to cut back on infrastructure development and other investments. Prabowo can appeal to Trump through the purchase of U.S. defense equipment and secure U.S. digital systems, particularly subsea cables, as an alternative to Chinese companies like Huawei and ZTE.

MALAYSIA

Malaysia has an elevated risk of being targeted by the new administration as it enjoys the third largest trade surplus in Southeast Asia with the United States. The United States is Malaysia's biggest source of foreign direct investment and third largest trading partner after Singapore and China. Supply chain diversification and the Biden administration's "de-risking" efforts have made Malaysia a semiconductor powerhouse as the world's sixth-largest semiconductor exporter accounting for 13 percent of global assembly, testing, and packaging. So far, Prime Minister Anwar Ibrahim stands out in showing little interest in cultivating ties with Trump. Anwar's tilt towards China and public embrace of Hamas will likely aggravate Trump and the China hawks in his new cabinet.

PHILIPPINES

President Trump's return presents comparatively fewer economic risks to the Philippines, and the country is unlikely to be targeted by the new administration's trade policy. The Philippines' trade surplus with the United States is small, and its business process outsourcing services and semiconductor testing and packaging industries are not economical to move to the United States. However, the Philippines will depend heavily on Trump supporting the alliance, and Manila's primary concern will be continuing U.S. security guarantees in the South China Sea. President Ferdinand Marcos, Jr. and the alliance both enjoy strong bipartisan support in the U.S. Congress. Marcos also has unique tools to cultivate Trump, given that the Philippines has the most pro-American population in the region and the U.S. President is typically more popular in Manila. In addition to continuing to boost defense expenditures and purchases of U.S. oil and gas, Marcos could couple his interest in U.S. civil nuclear energy investment with promoting secure U.S. digital infrastructure to demonstrate the benefits of the alliance to Trump.

SINGAPORE

Singapore is among the few countries in the world with whom the United States enjoys a trade surplus. Trump has never criticized the United States' 20-year-old Free Trade Agreement with Singapore and is unlikely to attack the city state in his new term. Singapore also hosted Trump during his diplomatic attempts to engage North Korea. Nonetheless, because the city-state's economy is among the world's most dependent on trade, Singapore would be negatively and disproportionately impacted by Trump's tariff proposals. The first Trump administration's tariff increases on China already hurt Singapore's major trading partners and negatively affected regional trade. Trump's proposed tariffs also could depress investment inflows. The United States is the largest source of investment in Singapore, but much of these funds support U.S. trade across the region. Singapore will be among the most vocal in lamenting Trump's protectionism, as well as the expected waning U.S. diplomatic engagement with Southeast Asia and regional institutions. However, recently installed Prime Minister Lawrence Wong will be careful not to antagonize Trump and will likely compensate instead by focusing on Singapore's quiet leadership within ASEAN and APEC.

THAILAND

Thailand has the second largest trade surplus with the United States in the region but is unlikely to be targeted early in the new administration. Still, exports to the United States account for 10 percent of Thai GDP and economists have warned that Trump's proposed tariffs would complicate Thailand's efforts to achieve its annual growth targets. Trump's efforts to stymie the adoption of EVs could also hurt the Thai auto sector, which is the biggest in Southeast Asia. Trump led a thaw in U.S.-Thai relations after relations had waned in response to the 2014 coup. He hosted formal visits by former Prime Minister Prayut Chan-o-cha to Washington and New York in 2017 and 2019 respectively, and his Commerce Secretary led the 2019 Indo-Pacific Business Forum in Bangkok. Nonetheless, the first Trump administration also withdrew Thailand's eligibility for the Generalized System of Preferences trade program in 2019 due to labor rights concerns, which also has since precluded any investments in Thailand by the U.S. Development Finance Corporation.

VIETNAM

Vietnam is arguably the most vulnerable in the region to being specifically targeted by Trump. The country has the third largest trade surplus with the United States globally after China and Mexico, and the largest in Southeast Asia. The United States is also Vietnam's largest export market accounting for 30 percent of all Vietnamese exports globally. Economists in Singapore have warned that Trump's proposed universal and China tariffs could reduce Vietnamese economic growth by four percent. Trump singled out Vietnam for criticism in 2019, saying "Vietnam takes advantage of us even worse than China", and his first administration labelled the country a currency manipulator. Former Trump officials also accused Vietnam of facilitating "Southeast Asia washing" by Chinese firms aiming to avoid Trump's 2018 tariff increases. An 80 percent increase in Chinese FDI in 2023 could increase Vietnam's risk of being targeted again. Besides increasing oil and gas purchases, Vietnam can enhance its position with Trump through aircraft purchases, favoring U.S. companies in replacing and expanding its subsea internet cables, and moving away from Huawei and ZTE technology in its telecom networks.