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Exploring the Tariff Outlook under Trump 2.0

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SYNOPSIS

Trump's fascination with tariffs is linked to their utility as a negotiating tool, but we should not discount his belief in their practical purposes such as raising government revenue. As his administration scrutinises countries that have trade surpluses with the United States and collaborate with Chinese companies, Southeast Asian governments should be mindful that it will be more challenging to benefit from the relocation efforts of manufacturers as they did during his first trade war.



Under the first Trump administration, many Southeast Asian economies benefited from manufacturers who relocated from China; Trump 2.0's focus on tariffs, China and trade imbalances places these gains at risk. Image from *Wikimedia Commons*.

COMMENTARY

Much ink has been spilled over what president-elect Donald Trump will do once he returns to the White House in January 2025. In particular, his professed adoration for tariffs has garnered significant attention. Even after the election, Trump has continued to issue tariff threats, targeting not just China, but the rest of the world as well.

On one hand, Trump's tariff threats may be a bargaining tool to force countries to the negotiating table. Trump is, after all, known as a dealmaker, and he [observed](#) during a *Bloomberg* interview that tariffs are "good for negotiation... [other countries] would do anything [to get me to stop]." However, given his belief in the practical utility of tariffs, it is exceedingly likely that he will follow through with some of these threats, especially those aimed at China. The wide-ranging nature of his tariff threats could ignite a broader trade war.

Amid these risks, Southeast Asian leaders should be mindful of the fact that the playbook from Trump's 2018–2019 trade war will not be as effective this time. While the region continues to welcome Chinese and American investors, US officials are increasingly wary of "Southeast Asia-washing", where Chinese companies try to circumvent tariffs by relocating their manufacturing or assembly operations to the region. It will be more challenging to navigate today's more turbulent environment.

"The Most Beautiful Word in the Dictionary"

For Trump, tariffs enable him to apply a simple solution to otherwise complex issues. Trade imbalances, currency manipulation and the hollowing out of the US manufacturing base require years of careful planning to address. But, by simply brandishing tariffs against a country's goods, Trump can twist the arms of foreign leaders and claim victory when they come to the negotiating table. Issues do not have to be trade-related either, given that Trump linked his tariff threats against Mexico and Canada to border security.

Yet, beyond using tariffs as a negotiating tool, Trump believes that tariffs have practical purposes. For one, he believes that tariffs should be used to address trade imbalances with other countries. He has suggested that tariffs can help to protect US manufacturing jobs by making foreign products prohibitively expensive, while encouraging foreign companies to relocate their operations to the United States. Trump also believes that tariffs can address the fiscal hole created by his planned tax cuts. The president-elect constantly referenced President William McKinley on the campaign trail, believing that McKinley "[made this country rich](#)" through tariffs, with an estimated [half of federal revenue](#) coming from tariffs in the 1890s.

It is unclear whether tariffs can fulfil these practical purposes. During Trump's first trade war, US manufacturing jobs [fell slightly](#) from employing 12.4 million workers to 12.2 million workers despite tariffs, although the cause of this drop is still disputed. More prominently, research by the Peterson Institute of International Economics argues that it is "[literally impossible](#)" for tariffs to make up for an annual estimated

US\$2 trillion fiscal hole that will be caused by abolishing federal corporate and individual income taxes. Far from being paid by foreign countries, these costs will be shouldered by American consumers.

Nonetheless, Trump ostensibly intends to make good on his threats. Members of the Trump team are [warning](#) corporate consultants that the president-elect is not wavering from his plans to make liberal use of tariffs in his second term. Trump's fascination with "[the most beautiful word in the dictionary](#)" appears to be very real and unshakeable.

Not a Reprise of 2018–2019

Southeast Asian leaders may feel they have heard this storyline during the 2018–2019 US-China trade war. Back then, countries such as Vietnam were able to attract companies that were relocating their manufacturing operations out of China due to tariffs and geopolitical risks.

However, the looming trade war is shaping up to be much broader and more intense. To date, Trump has threatened at least 60% tariffs on Chinese goods, 25% tariffs on Mexican and Canadian goods, and 20% tariffs on goods from the rest of the world. He appears to be on a mission to not only rectify the US trade imbalance with China, but the imbalance with countries all over the world, including allies and partners. As Trump [mused](#) during a Pennsylvania election rally, the European Union "[doesn't] take our cars. They don't take our farm products ... they are going to have to pay a big price."

Trump's trade war will have at least three serious implications for Southeast Asia. First, it will inevitably broaden as US trade partners retaliate. Both the [European Union](#) and [Canada](#) have promised to fight back against US tariffs, raising the possibility of more protracted cycles of reprisal. Such an eventuality would create a more challenging environment for trade-dependent countries in this region to operate in.

Second, Trump's fixation on trade balances may lead to heavier scrutiny of countries such as Vietnam. During his first term, Trump labelled Vietnam as the "[single worst abuser of everybody](#)" due to its trade surplus with the United States, although he left office before he could take retaliatory action. Given that regional economies hold a [US\\$200 billion](#) trade surplus with the United States, there are concerns that Trump may brandish tariffs to force Vietnam, Thailand and others to the negotiating table.

Third, scrutiny of "Southeast Asia-washing" has been growing in Washington as it seeks to compete against Beijing. The Department of Commerce under the Biden administration [cracked down](#) on certain solar panel exports from Malaysia, Cambodia, Vietnam and Thailand, believing they were helping Chinese manufacturers circumvent tariffs and dump products on the US market. Anti-dumping rates of between 21.31% and 271.28% were imposed on the manufacturers as a result, and such a move may just be the beginning. We are likely to see more of such investigations and duties under Trump's term of office.

In these circumstances, Southeast Asian leaders will need to proceed cautiously. Trump's fixation with tariffs is very real, and Southeast Asia needs to be prepared for not just a broader trade conflict but greater scrutiny from Washington as well. There

are still opportunities to attract investments from firms relocating from China, but the risks are even greater this time.

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