

ASEAN-in-Practice Podcast Episode 8 Transcript

Denis: A very good morning to all of you, and welcome to the 8th episode of the Asean in Practice Podcast series. My name is Denis Hew, and I'm a Senior Research Fellow at the Centre on Asia and Globalisation (CAG) at the Lee Kuan Yew School of Public Policy, National University of Singapore.

Today, we'll be talking about the United States (US) trade policy under President Trump, and its implications on Southeast Asia. To help us understand what's going on, we are very fortunate today to have a very experienced trade specialist, Mr Stephen Olson, on this show.

Stephen Olsen, friends call him Steve—friends like me, is currently a Visiting Fellow at the Singapore-based Institute of Southeast Asian Studies (ISEAS), Yusuf-Ishak Institute. He is also a visiting lecturer and non-resident fellow at the Clayton Yotta Institute of International Trade and Finance.

Over the course of his more than thirty-year international career, Stephen has lived and worked in Asia, the Middle East and the US, holding senior executive positions in the private sector, government, research institutions, and academia.

He is a recognised expert on international trade, economics and business issues. Steve began his career in Washington, DC as a US trade negotiator. He is a member of the World Economic Forum's Global Futures Council (GFC) on trade, and he co-leads a joint work stream with the World Economic Forum's GFC, Global Futures Council, on Geopolitics. Steve is also an adjunct professor at the George Mason University, Schar School of Policy and Government and lectures in Beijing, China at the Capital University of Economics and Business as part of a joint program. Steve, welcome to the show.

Stephen: Thanks Denis, it's great to be with you. But I have to say, when you read my bio like that, it reminds me how old I am.

Denis: Same here. We've got a long career, both of us. Okay, so I think we could do a quick update on our podcast and talk a little bit about this whole flurry of new tariffs that have been announced by President Trump, his so-called Liberation Day on April 2. It is kind of divided into two components. One is kind of a baseline 10 percent increase in tariffs. And the second one really is reciprocal tariffs to over sixty countries, including all the Southeast Asia countries. And of course, the hardest hit I believe is Cambodia, Laos, and Vietnam, all over 40 percent. Singapore is at the baseline 10 percent. And some time, I think I believe is April 9, he made another announcement saying that there is going to be a 90-day grace period. So, the 10 percent baseline holds but the reciprocal tariffs will be on hold for 90-

days. And a couple days later, he made some announcements again about exemptions for certain things, including laptops and a few other products. So, it is all very confusing and chaotic. So, how do you see all these playing out and two, what are the implications for Southeast Asian countries and the global economy in general?

Stephen: Well look, Denis, I think you used the correct two words—confusing and chaotic, are a good description of where we are today. But having said that, I only see two to three ways ultimately that this can play out and unfortunately, none of them are good. In the first instance, I think it is very likely that we will see some of these countries successfully negotiate “deals” with Trump to get out from under these reciprocal tariffs. No one should celebrate that. That is not good news because at that point, Trump has essentially transformed trade relationships from relationships built on mutual respect and mutual benefit to something somewhat akin to an organised crime protection racket in which the principle is. You must pay to avoid pain. When we're dealing with gangsters, it means shopkeepers pay money to avoid having their stores burned down. And when we're dealing with Trump and his reciprocal tariffs, it means you must offer concessions, in order to avoid these, these draconian, these draconian tariffs. Now there's, there's a couple of different problems with this.

Whether we're talking about Trump or whether we're talking about gangsters, you can be assured that the price will always continue to rise. It'll never be over. And the other question I would pose, to any of these countries seeking agreements with Trump is have you seen any evidence that Donald Trump is willing and capable of abiding by any trade agreements that he signed. Because frankly, I haven't seen that evidence. So, if we do end up as, as I expect, we will, seeing at least some countries negotiating these agreements, I don't think that that's good news and I don't think that that's going to end well now. A second option would be for countries to really stand up to Trump and punch back hard. And certainly, this is the path that China has gone down. The European Union (EU) has already indicated a very robust retaliation list if their negotiations don't succeed. So, we know at least some large trade partners, large economies, will take this approach.

Now, the problem here is once we start going down this road of tit-for-tat retaliation. We literally don't know where it will end, and I think the results could end up being significantly worse than the very damaging global trade war of the 1930s. Keep in mind, in the 1930s, that was a trade fought almost entirely with tariffs. In this instance, we've already got indications that countries are going to move well beyond tariffs. So, China for instance, is adding US companies to its unreliable entity list, sort of a defacto blacklist and is also restricting US access to critical materials. The EU looks like it's going to use its anti-coercion instrument in

order to go after US services, an area where the US actually has a surplus. So, once we start going down this road of, of tit for tat retaliation, I don't think that's going to end well.

A third potential option at least, and I think this is for the countries that find themselves now at the lower end of that spectrum, that sort of 10 percent baseline tariff. Some countries might just decide, let's keep our head down. Let's write out the storm. Now, that might be plausible but the one word of caution that I would give to these countries is. Do not anticipate that just because you're at 10 percent today, that 10 percent could turn into 20 percent, 30 percent, 40 percent in the future if Trump doesn't seem to get what he wants, and that's a possibility. Further increasing the reciprocal tariffs that are explicitly provided for in the executive order on the reciprocal tariffs. So, as I said, I see only a handful of ways this can, this can play out, and unfortunately, none of them are particularly good.

Now, in terms of, of how this will play out and what this will mean for Southeast Asia I'd take a step back and I would, I would look at the bigger picture. And from my point of view, the bigger picture here is that what we're seeing play out now could potentially end up being the, the collapse of the rules-based global trading system.

Now, it would be unfair to, to blame all of this on Trump. The system was already in bad shape, was already on wobbly legs, long before Trump arrived on the scene, but like a boxer who's already absorbed a number of punches to the head, I fear that Trump could be the knockout punch for that rules-based global trade system.

Now, I'd never say that any system is perfect, but I think we have to acknowledge that this system has been a primary driver of economic growth and development around the world, but especially in ASEAN for eight decades. And if that system is now going to start to fall apart, that's going to have very bad implications for the small trade dependent economies of Southeast Asia. So, I think that for the region, I think we are looking at some pretty grim prospects here.

Denis: Let me just follow up on that point. So, what should ASEAN do? Should they try to step up on their own economic integration process—the ASEAN Economic Community, or they should perhaps move closer to China? They do have, with other member countries, a mega free trade agreement, the Regional Comprehensive Economic Partnership (RCEP). So, what should ASEAN do?

Stephen: Well look, it saddens me to say this, but I think ASEAN and any other country or region in the world for that matter, moving forward for at least the foreseeable future has to regard the US as an unreliable partner. I think we're in for another, almost four years of chaos

under Donald Trump. I think you have got to get serious about diversifying your trade investment and economic relationships away from the US. I think that almost by definition that means integrating even more closely both within the region and also with China. Now, I should point out there's, there's one potential complication when it comes to ASEAN integrating more closely with China, and that is China's got a lot of excess industrial capacity that otherwise would've ended up in the US. Those products are now not going to end up in the US, and I think there's a reasonable chance a good portion of those will end up in ASEAN. And we've already seen a number of ASEAN countries expressing concerns about dumping from China launching anti-dumping investigations, leading potential to potential tariffs. So, while there'll be an impetus for ASEAN to work more closely with China, it could come against the backdrop of rising antagonisms with China over the prospect for dumped products entering into ASEAN and damaging local producers. The picture, I think, is a little bit more nuanced there.

Denis: I guess the other concern, of course, with nearshoring or bringing back many of these operations is that it might increase production operation costs, and ultimately that could be inflationary. I know lot of people are talking about rising inflation in the US because of that. So, is that something you're worried about too?

Stephen: I don't think there's any question that, and this, you know, goes back to Trump 1.0, and also resulting from the pandemic and the war in Ukraine, where I think, we see the pendulum of global trade swinging back more in the direction of security and supply. Previously, it was all about globalisation. It was all about economic efficiencies. It was all about, produce your product in the most cost, efficient way, even if that meant a highly extended global supply chain spread out around the world. I think the Trump protectionism. I think the pandemic. I think the war in Ukraine, has opened people's eyes that maybe we allowed that pendulum to swing a little bit too far in the direction of economic efficiencies and lower costs. And now, for all of these reasons, I think we're seeing sort of a macro trend where we're now going to see that pendulum swing back in the direction of ensuring security of supply.

Now, while there will be benefits associated with improving security of supply, I don't think there's any question, as your question alluded to, that it's going to increase costs and fuel inflationary pressures. And then, when you roll on top of that, the different tariffs that are going to be applied in different points along the supply chain, I just don't see any scenario under which we escape inflation, and I think the only question is how severe.

Denis: Well, back to this region. How do you see the implications on Asean as an economic bloc? As you know, Asean is trying to forge closer economic integration among its ten Member States—and soon to be eleven—and to achieve the ASEAN Economic Community (AEC). I think they're coming up with a new strategic plan post-2025. How do you see that having an impact on the various efforts, including the FTAs, I mean Asean has bilateral FTAs with its dialogue partners. It also has regional free trade agreements like the RCEP and you can also include Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), quite a number of ASEAN Member States are members of that, too. So how do you see that evolving and changing.

Stephen: I think there's a real potential silver lining to all the dark clouds that are on the trade horizon right now, and I think it provides Asean with a real impetus to take its regional integration to the next level. Yes, we understand that there are free trade agreements. There is the AEC.

But we also understand that these agreements still leave a lot of restrictions, a lot of barriers in place. I think this is a real opportunity for the region to sort of redouble their efforts to regional integration and further trade and investment liberalisation. In terms of, more broadly, some of these regional trade agreements that you've mentioned: I think there's an opportunity there, too, for CPTPP and for RCEP.

And I say that because, as Trump's approach to trade continues to further decimate the rules-based global trading system, I think there's a real opportunity for some of these regional trade agreements to become safe harbours; and for countries that continue to believe in free trade, continue to believe in rules-based trade, and a reduction rather than an increase in barriers. I think agreements like CPTPP and RCEP could potentially become more attractive. So, my advice to the countries that are member countries of both of those agreements would be to raise your ambition level, to really think about expanding your membership and deepening the rules contained, because, as Trump's trade actions continue to be a broadside against the multilateral global system, I think the relevance of CPTPP and RCEP could be increased.

Denis: So, if this trade war is going to escalate, and it's going to be pretty extensive, how is this going to play on the global economy? I mean, watching the news, the Dow Jones and the US Stock markets have fallen quite significantly over the last couple of days, and there's a lot of uncertainties. There's a lot of concerns that, maybe too many concerns about the fact that the US Economy might go into a recession, who knows, I think it's a bit too early to tell.

But how do you see all this playing out? What's the worst-case scenario over the next couple of years?

Stephen: Well, it's interesting that you mentioned the financial markets, because I think actually, that might be one of the few remaining guardrails on some of Trump's more extreme trade policies. He pays attention to the markets, and to the extent there's a severe and a prolonged downturn in the market that can be attributed to some of his trade policies, I think that might be one thing, that sort of causes him to perhaps rethink some of these policies. On a global basis, I think you're right. I don't think there's any question that we're moving into an increasingly fragmented global economy, and as I alluded to earlier, I think that this rules-based global trade system, which was put in place at the end of the Second World War, and has been a primary driver of economic development and growth throughout the world, I think we could really start to see the unravelling of that system accelerate.

And I think especially in Southeast Asia, because so many of the countries of this region owe their remarkable economic development to that rules-based system, to a progressive decrease in trade and investment restrictions. And if that if that system really starts to wobble and really starts to unravel, I think that's going to have very significant negative impacts, especially on the small trade-dependent economies of East Asia.

Denis: Yeah, you know, Steve, based on my own work experience, many years in Asia-Pacific Economic Cooperation (APEC), I'm a strong believer in the multilateral trading system. And if that breaks down, as you said, you know, one of the biggest losers would be the less developed countries, the less developed economies, because, in a way, the poorest of these countries in the world may not be able to have the opportunity or the capacity to join various kinds of free trade agreements. Right. So that's one of the concerns. You might see that fragmentation and inequality actually widening over the coming years.

Stephen: It's so true. And sort of as a personal side note, I think it's a kind of common human experience that we take things for granted, and then we only miss them when they're gone.

And I think that's what we're going to find with the global trade system. I think we've sort of taken it for granted, and if it does unravel as it could in the worst-case scenario, we're really going to miss it. And you know, for all the flaws that the system has, and the flaws have been significant; we got away from law of the jungle. We got away from might makes right. We got away from the big fish, eating the little fish. Under the rules-based system, a country the size of Thailand could challenge an unfair trade practice by the US and the World Trade Organization (WTO), win that case, and then see the US remove that practice.

That's a wonderful, wonderful benefit. And even if we start to tilt even somewhat back in the direction of that old law of the jungle system, I think it's going to be real bad news for a lot of countries in the region.

Denis: You know, Steve, I mean, you mentioned earlier also about security. And we always know that economic security is very much an integral part of national security. The trouble is when it's an overemphasis on national security. It does, particularly in this region, it creates a lot of ill will and distrust among member states. It could unravel decades of cooperation—regional cooperation, security cooperation, economic cooperation—among Asean member states. So one of the biggest concerns, of course, is that, as we move forward in terms of the AEC, depending on how the global economy turns out, the concern is that national priorities may override regional ones, and then you get that division among member states when what they should be doing is doubling down on economic integration as a way to protect themselves, to be more resilient against some of the challenges that we're going to be facing.

That's really it for me, Steve. Thanks so much for taking the time today to speak with us. From this podcast session, we have certainly learned a lot about how US trade policy actions under President Trump could impact Southeast Asia, as well as ASEAN's own efforts to forge closer economic trade and economic integration, and how they can try to adjust to many of these trend's challenges. Thank you again, Steve, for taking part in this podcast episode, and I hope that all of you will look forward to the coming episodes ahead. Thanks.

Postscript (date: 13 May 2025):

Hi everyone! I have just added a postscript that since this podcast was recorded, the United States and China have announced a temporary easing of trade tensions, agreeing to a 90-day reprieve on tariffs. As part of this deal, the US will scale back its proposed tariffs on Chinese imports from 145 percent to 30 percent, while China will reduce their tariffs down to the US baseline reciprocal tariff of 10 percent.

While this development may offer a short-term breather for global markets, it does little to resolve the underlying strategic tensions or restore confidence in a stable rules-based international trading system. The risks to the global economy remain acute, and there is no guarantee that a deeper economic slowdown can be averted. We just have to wait and see.

We will continue to monitor these fast-moving trade developments and return with an updated discussion in a future podcast episode. Many thanks.

*The podcast was first recorded on March 11, 2025, and it was re-recorded on April 29, 2025. Denis included a post-script recording on May 13, 2025.