

Constructing a New Triangular Trade Pattern: Southeast Asia and the US–China Competition

ZHONG Feiteng*

The overall development of Southeast Asia has been affected by the great power competition between China and the United States in recent years. Against the backdrop of ongoing trade frictions and the intensifying strategic competition between the two countries, Southeast Asia's strategic position has become more prominent than ever. China recognises the need to not only build more stable and mutually beneficial trade relations, but also develop comprehensive economic relations with countries in the region. In this context, all parties should attempt to establish a new model of triangular trade relationship.

DURING THE BIDEN administration, the United States had significantly strengthened its cooperation with Southeast Asia. Since the establishment of the Comprehensive Strategic Partnership between the United States and ASEAN

* ZHONG Feiteng is a Senior Research Fellow at the National Institute of International Strategy, Chinese Academy of Social Sciences, Beijing, China.

This is an Open Access article published by World Scientific Publishing Company. It is distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 (CC BY-NC) Licence which permits use, distribution and reproduction in any medium, provided the original work is properly cited and is used for non-commercial purposes.
© 2025 East Asian Institute, National University of Singapore.

in May 2022, both sides have made significant progress in cooperating in domains such as digital issues, cyber, health, environment and climate, energy, transportation and women's empowerment, while expanding existing dialogue tracks on diplomacy, economics and defence, according to US officials.¹

Compared to the advent of the 21st century, the United States has focused on Southeast Asia, with the primary aim of countering China's growing influence. Nearly two decades ago, then US Assistant Secretary of State for East Asian and Pacific affairs Christopher Hill delivered his remarks at the Lee Kuan Yew

School of Public Policy in Singapore that "more China in Southeast Asia does not mean less of the United States".²

Such optimistic and positive rhetoric is rarely heard of in the United States today, and instead, discussions increasingly centre on tit-for-tat competition between China and the United States in Southeast Asia.

There is mounting evidence that the United States now regards Southeast Asia as a critical region to contain and suppress China. The rationale is clear: Southeast Asia is on the rise, serving as a model for the international community in both economic development and regional institution-building. As a close neighbour, China is paying increasing attention to Southeast Asia, and the United States naturally takes heed of all areas that China has prioritised. Moreover, the United States is

increasingly concerned that its traditional strengths in the region are being eroded by China's rise. As a result, the United States has adopted a mentality akin to a zero-sum game towards the development of China's relations with Southeast Asia. The return of Donald Trump to the White House has further escalated the trade war, adding new complexities to the region's dynamics.

Compared with the two great powers—China and the United States—Southeast Asia remains relatively weak, and the negative impact of the strategic competition between China and the United States on Southeast Asia is the latter's greatest concern. According to the realist logic of international relations theory, great power politics shapes the evolution of international politics. However, Southeast Asia is characterised by its diversity. Almost all major powers recognise the centrality of ASEAN. In addition to realist's power politics, the liberal logic of mutual benefit and win-win cooperation, as well as constructivism, which emphasises identity, have taken roots in the region. The author observes that Southeast Asian countries

¹ "The United States–ASEAN Relationship", 26 July 2024, <<https://asean.usmission.gov/the-united-states-asean-relationship-3/>> (accessed 1 August 2024).

² Christopher Hill, "US and China Are Not Competitors in Southeast Asia, 2006", 22 May 2006, <<https://china.usc.edu/node/20520>> (accessed 1 August 2024).

There is mounting evidence that the United States now regards Southeast Asia as a critical region to contain and suppress China.

are able to manoeuvre their path out of the complex geopolitical situation and maintain peaceful relations with China and the United States.

Great Power Competition and the Development of Southeast Asia

The development of Southeast Asia has long been closely related to the great power competition. Before World War II, China's influence was weakened by the rise of Japanese militarism, which disrupted traditional regional economic relations. Motivated by the need to defeat Japan during World War II, the United States coined the term "Southeast Asia" and viewed the region as a whole. Following the establishment of the People's Republic of China, the United States increasingly recognised Southeast Asia's economic significance. To prevent the collapse of the Japanese economy, the United States attempted to establish a triangular trade relationship among itself, Japan and Southeast Asia. As Cumings has pointed out, the US government regarded Southeast Asia as an ideal alternative for Japan's hinterland—both as a market for Japan's textile and light industrial exports and as a source of raw materials that were scarce in Japan. In this emerging triangular arrangement of international trade, the United States occupied the core position, Southeast Asia on the periphery and Japan at the semi-periphery position.³

As the Cold War confrontation intensified, some Southeast Asian countries began to establish such a regional organisation such as the Association of Southeast Asian Nations (ASEAN) from the mid-1960s, in an attempt to preserve their sovereignty integrity and maintain a degree of independence amid the great power rivalry. The rapid growth of the Japanese economy since the late 1960s led to multiple rounds of trade frictions with the United States. To ease such trade frictions, Japan began relocating its industries to Southeast Asia. From the 1970s onwards, Japanese companies rapidly expanded into Southeast Asia. In order to ensure investment returns, the Japanese government proposed to build a "heart-to-heart" relationship with Southeast Asia. By the mid-1980s, trade frictions between the United States and Japan had reached their climax, culminating in forced signing of the Plaza Accord in 1985 by Japan and the United States. This agreement prompted Japanese companies to accelerate their "going out", leveraging the exchange rate, and to relocate industries to low-income Asian countries. Japan had reduced its bilateral trade surplus with the United States by shifting trade to Southeast Asia. In order to counter Soviet expansion, the United States was also willing to accept new exports from Southeast Asia. Until the end of the Cold War, most Southeast Asian nations pursued development strategies closely aligned with the US-led international system. This relationship was long exemplified as the "flying geese model", with Japan as the lead goose that drove

³ Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences", *International Organization*, vol. 38, no.1, Winter 1984, p. 19.

regional economic development through industrial transfer: first to the Asian Tigers, then to some ASEAN members and later to the coastal areas of China.⁴

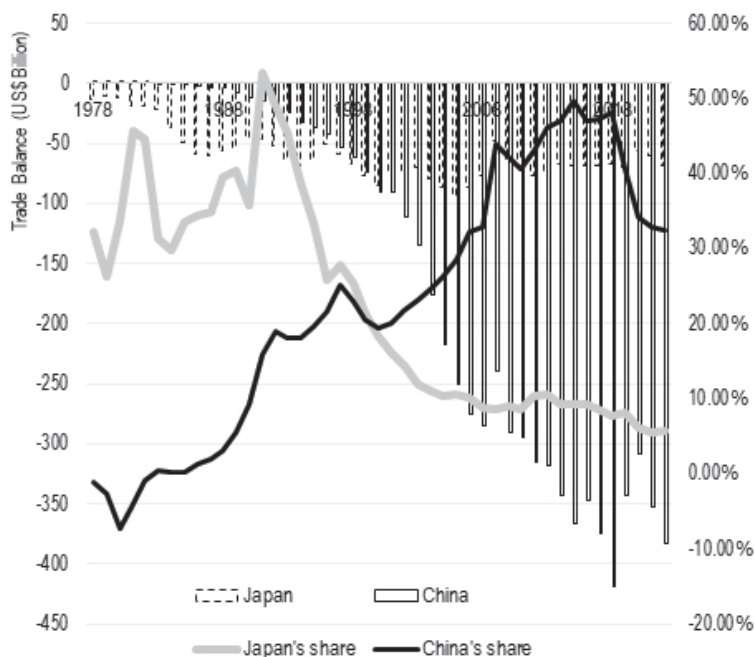
Meanwhile, changes in trade relations among the United States, Japan and Southeast Asia coincided with shifts in China–US relations, providing new opportunities to the Southeast Asian region. On the one hand, China’s coastal areas had long entered the international market through the development of labour-intensive industries, with investment from overseas Chinese in Southeast Asia as a key driving force. On the other hand, China’s rapid economic growth led to intense competition with Southeast Asia for foreign investment, while also leading China to become an increasingly important final markets for Southeast Asian exports. Towards the end of 20th century, ASEAN admitted Vietnam, Laos and Cambodia as its members, making the development of good relations with China even more important.

China’s accession to the WTO at the beginning of the 21st century had a significant impact on regional trade relations. By 2005, China’s total trade volume surpassed that of Japan, and China’s role in the regional division of labour became increasingly prominent. In 2010, China’s economic output surpassed Japan’s, and China gradually developed into the centre of regional production network. Sino–Japanese economic relations have hence undergone major adjustments in the region. Japan’s leadership position in regional economic relations was replaced by China. China became the largest trading partner of many Asian countries, including most Southeast Asian countries, while US–Japan economic conflict evolved into US–China conflict, due to China’s huge economic scale that is considered to have exerted immense geopolitical influence. The United States long believed that free trade would benefit it most. In the international industrial division of labour, the United States needs to master only the high-profit aspects such as finance, design and services, while leaving lower value-added manufacturing to Asian countries. However, the 2008 financial crisis shattered this belief, leading to harsh criticism of neoliberalism and its gradual abandonment. One key explanation to the unsustainability of the traditional world economy is the weakening consumption power of the United States and the West that is no longer able to absorb outputs from the “world factory” like East Asia.

From the United States’ perspective, the trade deficit with China is even more serious than the trade deficit it had with Japan in the 1980s. Hence, US President Donald Trump launched a trade war against China during his first term. Japan’s share of the US trade deficit in the 1980s nearly equalised China’s share of the US trade deficit 30 years later (Figure 1). From China’s point of view, the resolution of the US–Japan trade frictions was due largely to the relocation of production to

⁴ Kiyoshi Kojima, “The ‘Flying Geese’ Model of Asian Economic Development: Origin, Theoretical Extensions, and Regional Policy Implications”, *Journal of Asian Economics*, vol. 11, no. 4, Autumn 2000, pp. 375–401.

**FIGURE 1 CHINA, JAPAN AND THE UNITED STATES
TRADE DEFICITS**



Source: Direction of Trade Statistics, International Monetary Fund.

China. As a result, US–China trade tensions are a familiar scenario to East Asian economies. East Asian economies, long reliant on export-oriented models, have had to periodically adjust their trade relations according to shifts in final export markets.

After the onset of the US–China trade war in 2018, Southeast Asia’s geographical advantages became even more apparent, transforming the region into an ideal “transit station” for Chinese enterprises to “go overseas”. A significant proportion of China’s production capacity has been relocated to Southeast Asia, and trade in intermediate goods—i.e. value-added trade based on international production chains—has flourished and developed into a more sophisticated “triangular trade” model.

New Developments in the US–Southeast Asian Relations

At the start of the Biden administration, the Asia Foundation—a US-based think tank—recommended in its report *Urgent Issues in US–Southeast Asia Relations in 2021* that the United States should recognise the intrinsic importance of Southeast Asia and ASEAN, rather than treating them merely as pawns in the US–China rivalry. The report also noted that the economic ties between the United States

and ASEAN represented the weakest link in the US–Southeast Asian relations.⁵ Responding to this concern, the Biden administration undertook comprehensive efforts to reshape the United States’ relationship with Southeast Asia.

In May 2022, the Biden administration held the first historic US–ASEAN special summit at the White House, reaffirming the United States’ enduring commitment to Southeast Asia and emphasising the importance of US–ASEAN cooperation in promoting security, prosperity and respect for human rights. According to official US data, the United States was the largest source of foreign

direct investment in Southeast Asia. By end-2022, more than 6,200 US companies were engaged in trade with ASEAN countries, contributing about US\$520 billion in trade volume. Moreover, these multinationals had created 625,000 jobs in the United States and one million jobs in Southeast Asia.⁶

The Biden administration’s most notable economic initiative has been the Indo-Pacific Economic Framework (IPEF).

The Biden administration’s most notable economic initiative has been the Indo-Pacific Economic Framework (IPEF). Announced by Biden in May 2022 during his visit to Tokyo, “the future of the 21st century economy is going to be largely written in the Indo-Pacific”. These economies, which participate in the IPEF, “are writing the new rules for the 21st century economy that are going to help all of our countries’ economies grow faster and fairer”.⁷ When Biden established this arrangement,

China was excluded, while seven Southeast Asian economies were included. This exclusion is likely to be perceived by China as an act of containment, signalling a further departure from the arrangements the United States pursued earlier in the early 21st century.

Beyond economic and trade relations, the Biden administration had further strengthened its relationship with Southeast Asia through new diplomatic mechanisms. First, the reappointment of a US ambassador to ASEAN. Despite

⁵ John J Brandon, “Report: Urgent Issues in U.S.–Southeast Asia Relations for 2021”, 3 February 2021, <<https://asiafoundation.org/wp-content/uploads/2024/08/Urgent-Issues-in-US-Southeast-Asian-Relations-for-2021.pdf>> (accessed 1 September 2024).

⁶ “US–ASEAN Comprehensive Strategic Partnership, One Year On”, 5 September 2023, <<https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2023/09/05/fact-sheet-u-s-asean-comprehensive-strategic-partnership-one-year-on/>> (accessed 1 September 2024).

⁷ “Remarks by President Biden at Indo-Pacific Economic Framework For Prosperity Launch Event”, May 23, 2022, <<https://bidenwhitehouse.archives.gov/briefing-room/speeches-remarks/2022/05/23/remarks-by-president-biden-at-indo-pacific-economic-framework-for-prosperity-launch-event/>> (accessed 1 September 2024).

the Obama administration's focus on the region and the establishment of the US mission to ASEAN in 2011, it did not appoint a US ambassador to ASEAN; instead, a special envoy served until it was removed immediately when Donald Trump took office, leaving the US ambassador post vacant for more than five years. In May 2022, during the first US–ASEAN special summit, Biden announced the nomination of Yohannes Abraham, chief of staff and executive secretary of the National Security Council, as ambassador to ASEAN.

In his statement delivered before the US Senate in July 2022, Abraham highlighted “the challenge that coercive activity by the People’s Republic of China (PRC) poses to that vision. It is in the national security interests of the United States for ASEAN to be strong, prosperous, united, and well-equipped to set the terms of its relationship with the PRC”.⁸ Biden further highlighted that strengthening US–ASEAN ties was “at the centre” of his foreign policy strategy. The appointment was widely seen as a clear signal of the Biden administration’s intent to refocus on Asia and reinforce the role of the United States as a counterbalance to China’s burgeoning rise in the region.

US Vice President Kamala Harris similarly underscored ASEAN’s vital strategic importance, assuring ASEAN leaders that the United States will remain engaged with Southeast Asian for the benefit of future generations.⁹ US Secretary of State Antony Blinken repeatedly emphasised the region’s importance to the United States. Blinken, during his visit to Southeast Asia in October 2024, said the United States had expanded cooperation with Southeast Asia on long-term priorities such as economic issues and defence, and launched new initiatives in public health, clean energy and women’s equality.¹⁰ These efforts aim to demonstrate ASEAN’s central role in the region, as recognised by the United States.

Second, the United States established the US–ASEAN Centre in Washington, DC. In September 2023, at the US–ASEAN Summit in Jakarta, Indonesia, Harris joined ASEAN leaders in announcing the establishment of this hub in Washington, DC. Built and operated by Arizona State University, the centre’s primary mission is to further institutionalise and deepen the US–ASEAN relationship while strengthening support for US–Southeast Asian economic and cultural engagement.

⁸ US Senate, Committee on Foreign Relations, “Statement of Yohannes Abraham Nominee to be Representative of the United States of America to the Association of Southeast Asian Nations Senate Committee on Foreign Relations”, 13 July 2020, <https://www.foreign.senate.gov/imo/media/doc/071322_Abraham_Testimony.pdf> (accessed 1 September 2024).

⁹ Aamer Madhani, “Biden Names Envoy to SE Asia Bloc, Stressing US Attention”, 13 May 2022, <<https://www.nbcnewyork.com/news/national-international/biden-names-envoy-to-se-asia-bloc-stressing-us-commitment-to-the-region/3687472/>> (accessed 1 September 2024).

¹⁰ Antony J Blinken, “Our Future Will Be Written In the Indo-Pacific”, 16 October 2024, <<https://2021-2025.state.gov/dipnote-u-s-department-of-state-official-blog/our-future-will-be-written-in-the-indo-pacific/>> (accessed 1 November 2024).

Since 2009, Arizona State University has been a pioneer in cross-border educational cooperation in Vietnam, leveraging the university's strengths in engineering, science and technology to train talent and establish government–industry–academic partnerships in ASEAN. Over the past decade, the university has remained active in the ASEAN region through various public-private partnerships with the US Department of State, US Agency for International Development (USAID) and other US and international industry partners. Notable programmes include the Southeast Asia Young Leaders Programme, which was launched in 2016 and has produced more than 6,000 alumni to date. Furthermore, more than 155,000 individuals had participated in the programme's digital networking training; these participants were regarded by the United States as an emerging force for the long-term development of US–ASEAN relations.¹¹

In December 2023, the US House of Representatives voted to pass the US–ASEAN Centre Act as part of the National Defence Authorisation Act for fiscal year 2024. This legislation grants ASEAN diplomatic privileges and immunities that are on equal treatment as the European Union, the Organisation of American States and the African Union.

Third, the United States has significantly stepped up its assistance to Southeast Asia. In June 2024, USAID reported to the House Foreign Affairs Subcommittee that the agency's budget for the East Asia and Pacific region for fiscal year 2025 is US\$853.6 million, an increase of 5.1% from fiscal year 2023.¹² By contrast, the budget request for South and Central Asia (including Afghanistan and Pakistan) was US\$832.9 million, 2% lower than in fiscal year 2023.¹³

These adjustments in aid allocation reflect the United States' recognition of the Indo-Pacific region's strategic importance, with greater emphasis recently on the Western Pacific region, including Southeast Asia. The shift in priorities in aid distribution is closely connected to China's growing influence in the region.

Fourth, the modernisation of bilateral security alliances has been significantly strengthened. US Secretary of Defence Lloyd Austin III highlighted this in June 2024 at the Shangri-La Dialogue in Singapore, stating that the global security

¹¹ “ASU Inaugurates US–ASEAN Center in Partnership with Department of State”, ASU (Arizona State University) News, 19 December 2023, <<https://news.asu.edu/20231219-global-engagement-asu-inaugurates-usasean-center-partnership-department-state>> (accessed 1 August 2024).

¹² Michael Schiffer, “Written Testimony at the House Foreign Affairs Committee Subcommittee for the Indo-Pacific, ‘Properly Resourcing the Indo-Pacific in an Era of Great Power Competition’”, <<https://docs.house.gov/meetings/FA/FA05/20240627/117479/HHRG-118-FA05-Wstate-SchifferM-20240627.pdf>> (accessed 1 September 2024).

¹³ Anjali Kaur, “Written Testimony at the House Foreign Affairs Subcommittee on the Middle East, North Africa, and Central Asia and Subcommittee on the Indo-Pacific, ‘Examining the President’s Fiscal Year 2025 Budget Request for South and Central Asia’”, <<http://docs.house.gov/meetings/FA/FA13/20240723/117538/HHRG-118-FA13-Wstate-Kaur-20240723.pdf>> (accessed 1 September 2024).

environment is at a historic turning point, and that, under US leadership, Asia-Pacific region is seeing a new convergence in security arrangements. Traditionally, the region's security model was structured around a "hub-and-spoke" model. However, through the efforts of the Biden administration, "this new convergence is producing a stronger, more resilient, and more capable network of partnerships. And that is defining a new era of security in the Indo-Pacific". Austin further emphasised that "it is not a single alliance or coalition, but instead something unique to the Indo-Pacific—a set of overlapping and complementary initiatives and institutions, propelled by a shared vision and a shared sense of mutual obligation".¹⁴

One of the driving forces behind such an alliance is to constrain the development of China's maritime power. The internationalisation and militarisation of the South China Sea issue intensified at the United States' instigation. The United States has promoted the "China threat" theory in various international forums. For example, at the East Asia Summit in Laos in October 2024, US Secretary of State Blinken expressed US concerns about China's "increasingly dangerous and illegal" activities in the disputed South China Sea.¹⁵ However, from China's perspective, the United States and some non-regional countries' increased military deployments and operations in the South China Sea, in an attempt to contain China, had further heightened tensions.

Countries in the region are increasingly concerned about the emergence of a trend of "Asia-Pacificisation" of the NATO model. As is widely known, the primary factor behind the establishment and continued existence NATO is the presence of a clear external security threat. During the Cold War, this threat was caused primarily by the Soviet Union, and in recent years, it stemmed largely from the crisis in Ukraine. However, in the Asian region, it is difficult to identify an external threat that is felt by nearly all countries. In traditional security terms, no East Asian country defines China as enemies and threats. As Kang has noted, East Asian countries did not form an anti-China coalition, contrary to the expectations of many scholars in the United States.¹⁶ Therefore, by encouraging countries in the region to create a NATO-style security mechanism based on an imaginary enemy, the United States is, in fact, creating a new security threat.

¹⁴ "The New Convergence in the Indo-Pacific": Remarks by Secretary of Defense Lloyd J Austin III at the 2024 Shangri-La Dialogue", 1 June 2024, <<https://www.defense.gov/News/Speeches/Speech/Article/3793580/the-new-convergence-in-the-indo-pacific-remarks-by-secretary-of-defense-lloyd-j/>> (accessed 1 September 2024).

¹⁵ Eileen Ng and Jintamas Saksornchai, "Blinken Tells ASEAN the US is Worried about China's 'dangerous' Actions in Disputed Sea", The Associated Press, 11 October 2024, <<https://apnews.com/article/asean-us-china-south-china-sea-blinken-12e98754ad3ece4932254b8a869c02ec>> (accessed 1 November 2024).

¹⁶ David C Kang, "Still Getting Asia Wrong: No 'Contain China' Coalition Exists", *The Washington Quarterly*, vol. 45, no. 4, 2022, pp. 79–98.

Deepening US-led security cooperation has also had significant implications for regional economic relations. The economic decoupling between Northeast Asia and China is a case in point, given that trade between the two allies of the United States in Northeast Asia and China had weakened significantly. Although Southeast Asia's security ties with the United States are weaker than those of Northeast Asia, and the region is not as sensitive strategically as Northeast Asia, the United States continues to interfere with China's cooperation with Southeast Asian countries by intervening in the South China Sea issue. Furthermore, the United States introduces forces outside the region, such as India and Europe, to exacerbate the South China Sea issue, impeding China's efforts to strengthen cooperation with ASEAN.

Two important events are particularly noteworthy. The first is China's participation in the ASEAN Regional Forum in the early 1990s, which marked China's recognition of the importance of multilateralism.

New Development of China's Economic Relations in Southeast Asia

China's relationship with Southeast Asian countries spans thousands of years, resulting in deep ties across security, economic, trade and cultural dimensions. In modern times, however, China's influence over Southeast Asia significantly weakened due to its decline. In terms of security and economics, China and Southeast Asia had become increasingly estranged, and Southeast Asian countries, including China itself, have shifted from the classical tributary system of East Asia to a treaty-based system. At a time of China's decline, Southeast Asian countries—most of which were colonised by Western imperialists—were more in contact with immigrants from the mainland China, but rarely established direct security, economic or trade ties with the mainland Chinese government.

Following the founding of the People's Republic of China, Southeast Asia first encountered "New China" on the international stage. In the 1950s, Premier Zhou Enlai's announcement of the Five Principles of Peaceful Coexistence during his visit to Indonesia won acclaims from neighbouring countries. Unfortunately, China soon shifted to a more revolutionary foreign policy. The normalisation of China's relations with Southeast Asia began with Deng Xiaoping's visit to the region and was deepened with China's reform and opening up. This relationship expanded from the diplomatic realm to other areas. Two important events are particularly noteworthy. The first is China's participation in the ASEAN Regional Forum in the early 1990s, which marked China's recognition of the importance of multilateralism. The second event is the Chinese government's efforts to prevent the renminbi from depreciating during the 1997 East Asian financial crisis, and the move had earned China considerable goodwill.

Since the beginning of the 21st century, improved diplomatic and security relations have created new opportunities for China–ASEAN economic and trade development. As the world-renowned historian Wang Gungwu has observed, economic relations have become the most prominent feature of contemporary China–Southeast Asia ties, compared with the historical connections.¹⁷ Unlike simple trade exchanges of the past, Southeast Asia has been China’s partner in modernisation, and an important enabler of China’s connection to international markets, since development became China’s central agenda of its national strategy. Moreover, unlike the early stage of reform and opening up, which was characterised primarily by flow of investment and goods “brought in” from Southeast Asia, China’s burgeoning economy has made a shift towards “going out” with Chinese outward direct investment into Southeast Asia.

Currently, China’s investment, and economic and trade cooperation in Southeast Asia is comprehensive, covering not only basic sectors such as infrastructure and agriculture, but also in various industrial cooperation, development and the establishment of specialised industrial parks. Under the Japan-led model, countries that transfer their industries and countries that receive industrial transfers actually share a common export destination—i.e. developed countries such as the United States. Today, many Southeast Asian countries trade simultaneously with both China and the United States, while China has also become the final export destination for many manufactured goods in ASEAN.

From a trade perspective, China’s position in Southeast Asia has now surpassed that of the United States. According to ASEAN data, between 2003 and 2023, China’s share of ASEAN’s exports rose from 6.5% to 15.9%, while US share of ASEAN’s exports fell from 15.5% to 14.9%.¹⁸ Over the same period, ASEAN’s foreign trade increased fourfold, from US\$871.8 billion to US\$3,525.7 billion, of which trade with China increased by nearly 11 times and trade with the United States increased by 3.2 times. China’s share of ASEAN’s foreign trade increased from 7.4% in 2003 to 19.8% in 2023, while US share of ASEAN’s foreign trade declined from 14.1% to 11.2% over the same period.

Chinese data reflect a similar trend.¹⁹ The Biden administration had maintained the tariffs imposed during the Trump era, and had even exerted pressure on allies

¹⁷ Wang Gungwu, *Renewal: The Chinese State and the New Global History*, The Chinese University of Hong Kong Press, 2013.

¹⁸ Data from the ASEAN Bureau of Statistics, <<https://www.aseanstats.org/>>. The economic and trade data, unless the source is specifically indicated, are primarily from the ASEAN Secretariat. The reason for such a consideration in this article is that the statistics of China and ASEAN are slightly different; the emphasis on the data provided by ASEAN benefits our standing of China–ASEAN economic and trade relations from the perspective of ASEAN.

¹⁹ Data reported in this section are cited from the General Administration of Customs of the People’s Republic of China, <<http://gdfts.customs.gov.cn/customs/index/index.html>>.

to increase economic and trade sanctions against China. In this context, Chinese companies initiated to increasingly invest in Southeast Asia, reducing trade with the United States and avoiding confrontation. Between 2018 and 2024, China–ASEAN trade increased by 3.2 percentage points to 15.9% of China’s total foreign trade (Table 1). During this six-year period, China’s trade with ASEAN increased by about RMB3.1 trillion, while China’s trade with the United States and Europe has increased by about RMB1.8 trillion, compared to the United States’ increase by less than RMB750 billion. Considering that the much larger size of US economy relative to the EU, this underscores the magnitude of the decline in China–US trade growth. Currently, the share of China–US trade in China’s total foreign trade had fallen from 13.7% at the beginning of trade tensions to 11.2% currently, a decline of more than 2.5 percentage points. Meanwhile, China’s trade with ASEAN had risen rapidly, accounting for more than half of Asia’s overall trade growth. To a certain extent, China has been able to recoup losses in the US market through the ASEAN market.

TABLE 1 TRADE BETWEEN CHINA AND ITS TOP TRADING PARTNERS (RMB100 MILLION)

	2018		2024		2018–24
	Trade value (RMB100 million)	Share of total trade (%)	Trade amount	Share of total trade (%)	Trade value (RMB100 million)
Global	305,050	100	438,468	100	133,418
Asia	157,117	51.5	220,122	50.2	63,005
United States	41,778	13.7	48,978	11.2	7,200
EU	45,041	14.8	55,915	12.8	10,874
ASEAN	38,788	12.7	69,899	15.9	31,111

Note: China’s trade with ASEAN denominated in renminbi rather than in US dollars due to volatility of the US dollar exchange rate which does not fully reflect the dynamics of China’s economic relations in Southeast Asia.

Source: The General Administration of Customs of the People’s Republic of China, various years.

From the perspective of product structure of trade, ASEAN data shows that China–ASEAN trade has become increasingly optimised. In 2023, ASEAN’s trade with China increased by a net total of US\$255.7 billion, compared to 2017. Among ASEAN’s exports to China, electrical equipment (accounting for 30.8% of the increase) ranked first, followed by machinery and equipment (10.8%), steel (7.9%) and mineral products (6.0%) at second, third and fourth, respectively. Notably, ASEAN’s exports of steel products to China increased from US\$2.6 billion in 2017 to US\$18.8 billion. This dramatic increase suggests that part of China’s steel production capacity had shifted to Southeast Asia. During the same period,

ASEAN's imports of steel products from China increased from US\$13.6 billion to US\$17.6 billion, indicating that intra-industry trade in steel had developed between China and ASEAN.

Trade alone does not capture the full spectrum of economic relations; the flow of direct investment by multinational corporations is a better indicator of economic dynamism of a region and economic interdependence. According to ASEAN data, the United States remained the largest source of foreign investment in ASEAN at US\$74.9 billion in 2023, accounting for 32.0% of ASEAN's foreign investment the same year. China was second with 7.5%, at over US\$17.6 billion in 2023. Japan fell from second place in 2022 to third in 2023, with an investment of \$16.1 billion in ASEAN. If Hong Kong's investment in ASEAN is taken into consideration, China's share could hit 14.0%.²⁰ In Singapore, Indonesia and Malaysia, the United States leads in investment, while China leads only in Cambodia and Myanmar. US investment, particularly in Singapore, is heavily concentrated in the financial sector, which contrasts with the sectoral focus of the investment of China and Japan in Southeast Asia. Generally, countries with higher level of economic development tend to have closer economic and trade ties with the United States.

In the monetary and financial spheres, many Southeast Asian countries remain vulnerable under the dominance of the US dollar. While these countries are better able to stabilise the prices of exported goods than pure resource exporters, they are still susceptible to large fluctuations in commodity prices. It is well known that most countries follow closely to changes in US Federal Reserve interest rates, because the Fed's interest rates are seen as the vane of the US economy and have immense impact on global capital markets. Many countries in the region, including China, express dissatisfaction with this asymmetrical financial hegemony. Today, most Southeast Asian countries have included the renminbi to their official reserve currencies and are seeing to reduce dependence on the US dollar in financial transactions, although the US dollar still dominates. This situation underscores the importance for enterprises to monitor the macroeconomic policies of relevant countries when dealing with international financial risks.

Concluding Remarks

Southeast Asia's population is projected to exceed 700 million by the end of the third decade of the 21st century, creating a substantial and increasingly significant consumer market. For companies that focus on consumer markets, this represents an opportunity that cannot be overlooked. Both Chinese companies and those from the United States and its allies recognise this potential. Compared with the beginning of the 21st century, it is rare to hear optimistic voices in the United States about the possibility of jointly developing Southeast Asia with China; instead, there is a bipartisan consensus viewing China as the biggest strategic

²⁰ Data from the ASEAN Bureau of Statistics, <<https://www.aseanstats.org/>>.

competitor. In the context of the ongoing China–US trade friction and intensified strategic competition, Southeast Asia’s position is more prominent than ever, but the region also faces greater challenges.

For China, it is crucial to recognise the strategic deployment of the United States in the region when developing its relations with Southeast Asia, because shifts in US policy towards China are already influencing the policies of countries in the region. Overall, Southeast Asian countries are reluctant to choose sides between China and the United States. However, it is essential for China to approach Southeast Asia in a comprehensive manner—prioritising not only on a more stable and mutually beneficial trade relationship, but also on developing more comprehensive and sustainable economic ties.

Southeast Asian countries are at a critical juncture in their development, particularly as they seek to avoid falling into the middle-income trap. Therefore, this drives their strong interest to establish stable economic and trade relations with major partners in the region. It is foreseeable that as Asian countries unite and strengthen their regional cooperation frameworks, they will increasingly view each other as important markets, and reduce their dependence on the United States. The United States itself has become a growing source of uncertainty for the region, especially given increasing unpredictability in US policy. Most observers believe that the second Trump administration is clearly protectionist, and that China–US trade relations continue to face tremendous challenges. Through mutually beneficial cooperation in the economic and trade fields, China hopes that it can work with Southeast Asia to further stabilise regional peace and cooperation, thereby laying a solid foundation for the long-term development of relations between China and its neighbours.

Looking ahead, there is potential for China, Southeast Asia and the United States to establish a new type of triangular trade relationship. In this configuration, China and ASEAN would play increasingly significant roles in consumer markets, while the United States, leveraging its financial strength, would support local technological development and help Southeast Asia achieve more advanced industrial upgrading. Such a model would avoid the shortcomings of traditional triangular trade—where the United States serves as the sole market—and help achieve a rebalancing of trade relations in the Asia-Pacific region. ■

Acknowledgements

The author thanks the two anonymous reviewers for their constructive suggestions. Any potential shortcomings in this article will be borne by the author. The author also acknowledges the funding from the National Social Science Foundation of China (no. 23&ZD331).