Chapter 2

Major Issues in the Asian Region

Section 1
Japan and Japanese Companies' Economic Strategy toward Southeast Asia

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1. Disruption of the International Trade Order and ASEAN

Since the inauguration of the second Trump administration (hereinafter "Trump 2.0") in January 2025, not only the U.S. but the entire world has been thrown into daily turmoil by President Trump's words and actions[1). Although his "madman theory" strategy has become increasingly exasperating, we must still consider how to respond should he actually carry out what he says.

The immediate issue in international trade policy is the U.S. tariff policy. Since the first Trump administration ("Trump 1.0"), there have been three types of tariffs, based on U.S. domestic laws that have either been imposed in addition to ordinary tariffs or announced for introduction. The first type is based on Section 232 of the Trade Expansion Act of 1962, a domestic statute that allows the U.S. to impose trade restrictions for reasons of national security. Under Trump 1.0, starting in March 2018, additional tariffs of 25% and 10% were imposed, respectively, on certain steel and aluminum products[2). Although some of these measures were later relaxed through negotiations, Trump 2.0 raised the additional tariff on aluminum to 25%, removed country-specific exemptions, and expanded the list of covered items. Furthermore, a 25% additional tariff was imposed on automobiles and automobile parts, followed by the introduction of

1) The information in this section related to Trump 2.0 tariffs is as of the mid-July 2025. However, most of the following discussion stands as it is.
2) Regarding these additional tariffs, the WTO panel, which serves as the adjudicator of first instance, has ruled that they do not fall under the national security exception (e.g., DS544).

detailed exception measures. The administration also announced that it would conduct investigations toward imposing additional tariffs on copper, lumber, semiconductors, pharmaceuticals, critical minerals, medium- and heavy-duty trucks, and civilian aircraft and aircraft parts. These tariffs appear to be strategically targeted at industries and products that the administration seeks to protect for national or economic security reasons.

The second type is based on Section 301 of the Trade Act of 1974 and related provisions. Section 301 authorizes the U.S. Trade Representative (USTR) to determine whether unfair trade practices are being carried out by another country. If such practices are found, the President may enter into consultations with the country concerned, and, if the issue remains unresolved, impose sanctions. As these measures can be implemented without going through the World Trade Organization (WTO) dispute settlement process, their consistency with international trade rules has long been questioned, but under Trump 1.0, the provision began to be used extensively on the grounds that China was engaging in intellectual property rights violations. Beginning in July 2018, the U.S. imposed additional tariffs on Chinese imports, prompting China to retaliate with its own additional tariffs on U.S. goods, resulting in a "tariff war" spanning four rounds, in which both sides levied tariffs across a wide range of products. Most of these Section 301 tariffs remained in place under the subsequent Biden administration, and by the end of that administration, the scope of the additional tariffs had been expanded to include products such as electric vehicles (EVs). Under Trump 2.0, the Section 301 additional tariffs have been maintained, and these measures remain primarily directed against China.

The third type is based on the International Emergency Economic Powers Act (IEEPA). Under Trump 2.0, additional tariffs were imposed on Chinese-origin products as well as on goods originating from Canada and Mexico, to pressure these countries to take stronger measures against fentanyl and illegal immigration. In addition, the so-called reciprocal tariffs, which use bilateral trade deficits as a numerical basis, are also grounded in the IEEPA. Although these measures were announced on April 2, it was subsequently declared that, except for the base 10% rate, the introduction of the other portions would be postponed for 90 days. Like the Section 301 tariffs, these IEEPA-based tariffs are highly questionable in terms of their consistency with WTO rules. It is also noteworthy that, in May 2025, the U.S. Court of International Trade (CIT) ruled that the tariffs imposed under the IEEPA were invalid, and future developments on this matter warrant close attention.

Under the Trump 1.0 tariffs, ASEAN countries—along with Mexico—moved eagerly to capture the "positive trade diversion effects." Most of the Trump 1.0

tariffs were imposed on a bilateral basis between the U.S. and China. Seizing the opportunity created by the difficulty of Chinese exports entering the U.S. market, ASEAN countries expanded their own exports to the U.S. The degree of success varied significantly from country to country, but a critical factor here is that ASEAN had already built and maintained favorable locational advantages within international production networks. Another significant factor was that ASEAN economies had already established and maintained strong trade and investment links with both China and Western countries. Figure 2-1-1 shows ASEAN country exports and imports by partner country or region from 2019 to 2023. In 2023, China accounted for 16% of ASEAN's exports and 24% of its imports. Meanwhile, the combined share of Japan, the U.S., and the EU-27 stood at 31% for exports and 21% for imports. These figures illustrate how ASEAN has maintained a neutral stance amid the U.S.-China confrontation and has successfully leveraged the advantage of being connected to both sides.

Among the Trump 2.0 tariffs, the measure that is likely to have the greatest potential impact on ASEAN countries is the reciprocal tariff. Under this scheme, in addition to the base rate of 10%, higher tariff rates are imposed on countries that run larger trade surpluses with the U.S. As a result, many ASEAN countries

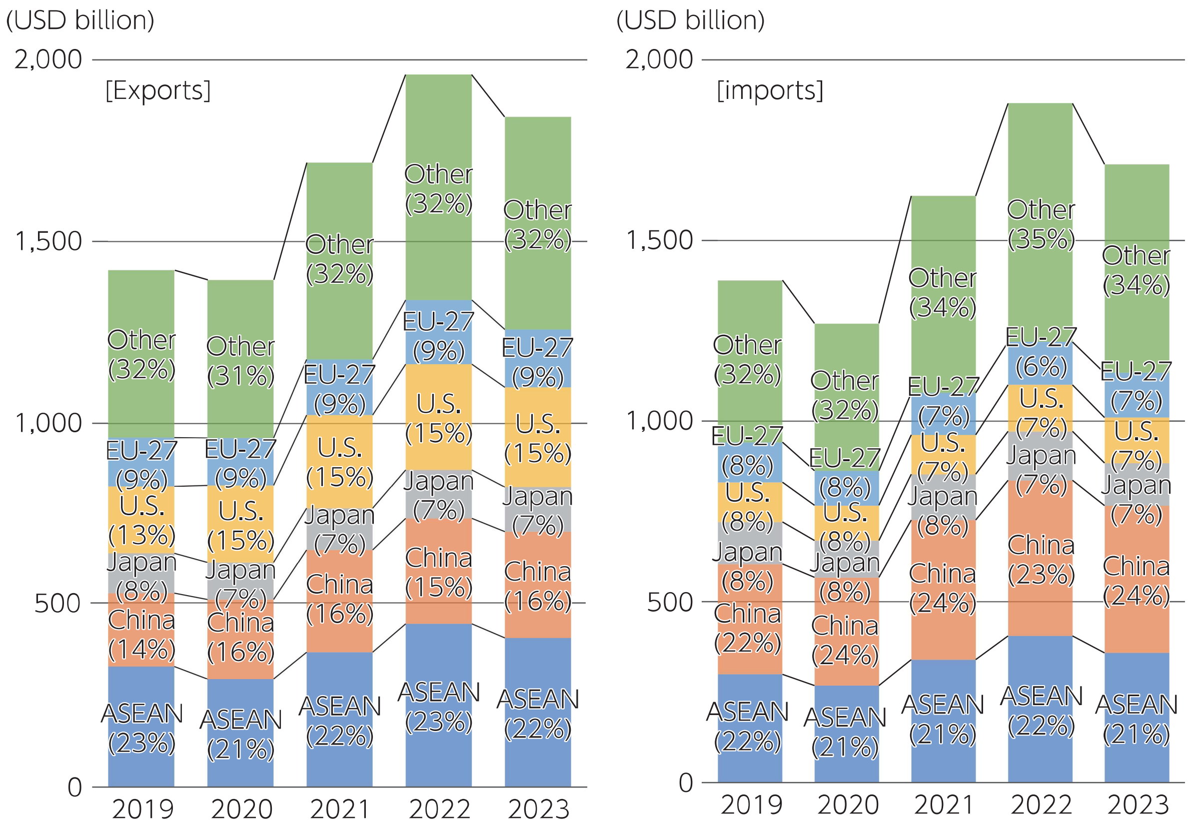

Figure 2-1-1 Exports and imports of ASEAN countries by partner country/region

Source: Prepared by the author based on data from the ASEAN Secretariat website and JETRO (2024).

that have expanded their exports to the U.S. have been assigned relatively high reciprocal tariff rates.

2. Reconfiguring ASEAN's Supply Chain Strategy

(1) Results of Simulation by the Institute of Developing Economies (IDE-JETRO)

It is impossible to know which parts of the Trump 2.0 tariffs will actually be imposed and how long they will be maintained. However, it is still useful to examine the potential economic effects if they were to be applied. The estimates based on the Economic Geographical Simulation Model (IDE-GSM) of the Institute of Developing Economies (IDE-JETRO) (Kumagai et al., 2025) provide a helpful reference.

This simulation estimates changes in GDP relative to the baseline scenario if the reciprocal tariffs announced on April 2 were imposed[3]. The country-specific reciprocal tariff rates and the results of the simulation are shown in Table 2-1-1.

First, the impact on the U.S. itself, which imposes high tariffs on a wide range of imports, is strongly negative (-5.2%), while China, which is also subject to high tariffs including other tariffs, experiences a negative effect (-1.9%). The global economy as a whole is also pushed down by -1.3%, while Canada and Mexico, which are not subject to the new tariffs, benefit from positive trade diversion effects and experience a positive impact.

What is particularly noteworthy is the impact on other third countries. Contrary to what many might intuitively expect, the effects on most countries cluster near zero. This results from a cancellation between the negative spillover caused by a global economic slowdown and the positive trade diversion effects arising from the large gap between U.S.-China tariffs and the tariffs imposed on themselves. In addition, because the simulation assumes that reciprocal tariffs are applied simultaneously to many countries rather than just one, the effects of tariffs tend to cancel out among exporting countries. While there may be fluctuations at the industry or sector level, they appear to be relatively limited purely in terms of the direct macroeconomic effects of the tariffs.

3) In this simulation, the following assumptions were made: for automobiles, a separate 25% tariff is imposed instead of a reciprocal tariff; for China, a 20% additional tariff is combined with the reciprocal tariff; for Mexico and Canada, all goods are subject to the United States–Mexico–Canada Agreement (USMCA), so no reciprocal tariffs are applied; for countries for which country-specific reciprocal tariff rates have not been announced, a 10% additional tariff is imposed; and no retaliatory tariffs from other countries on U.S. imports are considered.

Table 2-1-1 Reciprocal Tariff Rates and their impact on the global economy

	Reciprocal Tariff Rates	GDP Growth Rate
U.S.	–	-5.2%
Canada	0%	2.9%
Mexico	0%	4.0%
China	34%	-1.9%
Japan	24%	0.2%
Korea	25%	0.1%
Taiwan	32%	-0.2%
Indonesia	32%	0.0%
Malaysia	24%	0.0%
Singapore	10%	2.6%
Thailand	36%	-0.5%
Philippines	17%	0.2%
Cambodia	49%	-0.2%
Laos	48%	0.4%
Vietnam	46%	-1.3%
India	26%	0.4%
EU	20%	0.3%
World	–	-1.3%

Source: The reciprocal tariff rates are those announced by the U.S. government on April 2, 2025. GDP growth rates are based on simulations by Kumagai et al. (2025).

(2) Four Strategies

Based on the above, how should ASEAN countries respond to the Trump 2.0 tariffs? There are four possible strategies.

The first strategy is, as with the response to the Trump 1.0 tariffs, to actively seek positive trade diversion effects by taking advantage of tariff differentials. Even if ASEAN countries themselves are subject to high tariffs, the tariffs on China are likely to be set even higher, which could make ASEAN more advantageous in competition with China. The locational advantages of ASEAN remain highly attractive to companies from all nations. It is a natural strategy to continue actively attracting both domestic and foreign investment and to secure favorable positions within production networks.

There is certainly a risk that the U.S. may become sensitive to the activities of Chinese companies in ASEAN. However, ASEAN is also the most favorable destination for Chinese firms, and the region seeks to leverage this advantage. It would be advisable to come up with measures that avoid unnecessarily provoking the U.S., such as monitoring Chinese companies' strict compliance with rules of origin to prevent their exports from being labeled as "Chinese circumvention exports," and aligning with U.S. policies regarding high-tech export controls.

The second strategy is to diversify trade partners. The uncertainty of U.S.-origin policies will not disappear quickly, so relying solely on the U.S. market is not feasible. It is necessary to develop export destinations, including the European Union (EU) and other third-country markets, and to deepen economic partnerships. To this end, ASEAN governments are also expected to provide support, such as by expanding their network of free trade agreements (FTAs).

The third strategy is to be prepared to implement broad safeguard measures, such as safeguards, anti-dumping measures, and countervailing duties, as needed to deal with a sudden surge in imports of products that lose their market due to trade barriers imposed by the U.S. or other countries. The first concern is addressing China's so-called excess production capacity. For example, in the case of EVs, countries that have little interest in developing a domestic EV industry may not view low-priced imports as problematic. However, some countries may fear that their domestic industries will be wiped out and their markets dominated. In addition, if U.S. tariffs are applied to various countries, imports of displaced products could surge not only from China but also from neighboring countries. While there are certain limits to the policies that are permissible within the policy disciplines of the World Trade Organization (WTO), there is still room for action.

The fourth strategy is to pursue tariff jumping direct investment. Despite being based in ASEAN, a company that is internationally competitive might turn the risk of being subject to tariffs to its advantage and consider entering the U.S. market through direct investment.

(3) Economic Growth Forecasts

Table 2-1-2 shows the economic growth rate forecasts for developing economies in Asia, as published by the Asian Development Bank (ADB) in April 2025. It is explicitly noted that these figures do not reflect the tariff scheme announced by the U.S. government on April 2, but they can be viewed as a baseline with the understanding that slight downward revisions may be possible.

What stands out here is that the ADB expects China's economic growth rate to slow, projecting 5.0% in 2024, 4.7% in 2025, and 4.3% in 2026. In contrast, the aggregated growth rate for Southeast Asia is forecasted at 4.8%, 4.7%, and 4.7%, slightly surpassing China. Although there is considerable variation among ASEAN countries, this suggests that they are generally expected to achieve steady economic growth.

It is difficult to predict what kind of foreign economic policies the U.S. will pursue in the future. However, as long as policy uncertainty does not significantly destabilize macroeconomic and financial conditions, ASEAN is likely to

Table 2-1-2 Economic growth rates of developing Asian regional economies: Actual and forecast (%)

	2023	2024	2025(f)	2026(f)
East Asia Total	**4.8**	**4.7**	**4.4**	**4.0**
China	5.4	5.0	4.7	4.3
Korea	1.4	2.0	1.5	1.9
Taiwan	1.1	4.6	3.3	3.0
Southeast Asia Total	**4.1**	**4.8**	**4.7**	**4.7**
Brunei	1.1	4.2	2.5	2.0
Cambodia	5.0	6.0	6.1	6.2
Indonesia	5.0	5.0	5.0	5.1
Laos	3.7	4.0	3.9	4.0
Malaysia	3.6	5.1	4.9	4.8
Myanmar	0.8	-0.7	1.1	1.6
Philippines	5.5	5.6	6.0	6.1
Singapore	1.8	4.4	2.6	2.4
Thailand	2.0	2.5	2.8	2.9
Vietnam	5.1	7.1	6.6	6.5
South Asia Total	**7.8**	**5.8**	**6.0**	**6.2**
Bangladesh	5.8	4.2	3.9	5.1
India	9.2	6.4	6.7	6.8

Note: East Asia total, Southeast Asia total, and South Asia total include countries other than those listed separately.
Source: ADB (2025)

be able to maintain a dynamic economy even if tariff policies become highly volatile.

3. Preserving the International Trade Order and Japan–ASEAN Economic Diplomacy

(1) The Importance of the International Trade Order

Another likely consequence of Trump 2.0 is the weakening of the rules-based international trade order centered on the WTO.

The U.S. was both the creator and the guardian of the international trade rules centered on GATT/WTO after World War II. However, it has not always acted strictly in accordance with those rules. Even in its relationship with Japan, when the U.S. was losing international competitiveness in key industries and products such as color televisions, automobiles, and semiconductors, it did not hesitate to openly apply a double standard. What sets Trump 2.0 apart, however, is the extremely wide scope of rule deviations and the apparent disregard for the importance of international rules.

Rule violations are not limited to the overt tariff policies of the U.S. Many retaliatory or rebalancing measures taken by other countries may also constitute potential breaches of the rules[4]. Furthermore, as countries engage in bilateral negotiations with the U.S. in the future, some may be forced into deals that favor only the U.S., in violation of the most-favored-nation principle[5].

Another disruptive factor is the issue of the Appellate Body of the WTO. Since 2017, the U.S. has blocked the appointment and reappointment of members to the Appellate Body, which serves as the adjudicator of second instance in WTO dispute settlement. The Appellate Body is supposed to consist of seven members, with three assigned to each case, but by 2019 the number of members had dropped to one, and the following year to zero, effectively bringing it to a standstill. As a result, so-called "appeals into the void" have emerged, in which the dissatisfied party attempts to appeal to a currently inactive Appellate Body. By the end of 2024, as many as 25 such cases had accumulated.

For ASEAN countries, a rules-based international trade order is extremely important. A stable and predictable policy environment is essential for companies to make investments from a long-term perspective and for governments to carry out various infrastructure developments and other support measures.

(2) Japan–ASEAN Economic Diplomacy

It is difficult to control U.S. policy, and it may be unavoidable that international rules cannot be fully observed in bilateral deals with the U.S. However, efforts are required to firmly preserve a rules-based international trade order among third countries outside the U.S. and China. In that regard, it is necessary for Japan and other free-trade-oriented middle powers to seek closer cooperation with ASEAN.

There is much that Japan and ASEAN can do to preserve a rules-based international trade order as broadly as possible. First and foremost, they should support the authority of the WTO. Although the U.S. is a large country, its share of global trade—measured by total exports and imports—amounts to only about 10–15%. While supply chains are indeed complex and intertwined, more than 80% of trade occurs without direct involvement of the U.S. That portion is still functioning in a near-normal state. Among third countries, respect for WTO rules remains largely intact, and it is essential to continue to firmly support it.

4) Panels have also ruled that certain retaliatory or rebalancing measures violate WTO rules (DS558, 561, 564).
5) The Japan–U.S. trade agreement concluded during Trump 1.0 (which came into effect in January 2020) was not even notified to the WTO and could be considered one such example.

One immediate measure would be to increase participation in the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) and thereby effectively restore the WTO's dispute settlement function. The MPIA, initiated by the EU, allows two parties involved in a dispute who are both MPIA participants to resolve the issue through procedures equivalent to those of the Appellate Body. This arrangement is consistent with WTO rules. As of May 2025, there are 29 participating countries and regions (56 if EU member states are counted individually). In the Expanded East Asia region, participants include Japan (since March 2023), China, Hong Kong, Macao, the Philippines (since May 2024), Malaysia (since May 2025), Singapore, Australia, and New Zealand. ASEAN and South Asian countries should also prioritize increasing MPIA participation, setting aside immediate gains and losses.

In addition, efforts should be made to support international rules indirectly through various regional cooperation frameworks. For ASEAN, strengthening cohesion among member countries is likely to be the first priority. Furthermore, initiatives to conclude free trade agreements (FTAs) with the EU, Gulf countries, and Latin American nations should be actively pursued, both on a country-by-country basis and collectively as ASEAN.

For Japan, it is first necessary to present a vision for how to utilize and expand the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP has unintentionally become a grouping of free-trade-oriented middle powers and emerging countries, with neither the U.S. nor China participating. With the U.K. formally joining in December 2024, the number of members increased to twelve, and negotiations for Costa Rica's accession began in November 2024. Within ASEAN, Brunei, Malaysia, Singapore, and Vietnam are members. Additionally, Indonesia formally submitted its application for accession in September 2024. On May 29, 2025, Prime Minister Shigeru Ishiba delivered a speech at the 30th Future of Asia Nikkei Forum, expressing Japan's intention to expand the CPTPP framework and to seek dialogue with ASEAN and the EU.

For Japan, it would be desirable to increase the number of CPTPP members from ASEAN; however, it is important to avoid expanding membership at the expense of the CPTPP's defining features: a high level of liberalization and the establishment of advanced international rules. Countries currently applying for accession include China, Taiwan, Ecuador, Uruguay, Ukraine, and Indonesia. As specified in the agreement, the requirement that all conditions be fully met before formal accession negotiations begin must be upheld. In particular, China's accession has not entered the formal process because all existing members have not given their unanimous approval, citing insufficiently demonstrated commitments.

As regards the potential for cooperation between the CPTPP and the EU, EU accession to the CPTPP is unlikely to be straightforward, as the agreement contains provisions—such as those on investment dispute settlement and e-commerce—that the EU may find difficult to accept. If the CPTPP framework can be adjusted, a form resembling a high-liberalization FTA with a limited policy mode could be worth exploring.

Another interesting development is that Indonesia and Thailand have begun accession negotiations with the Organisation for Economic Co-operation and Development (OECD). While the OECD is not a trade agreement, it is an organization that supports the comprehensive policy reforms required for entry into the ranks of advanced countries and strengthens a rules-oriented approach. In addition to Indonesia and Thailand, countries currently in the accession process include Argentina, Brazil, Croatia, Peru, and Romania. As an organization embodying Western values, it is also something that Japan should actively support.

Within a few years, ASEAN's overall GDP will surpass that of Japan, and the region's position in the world is likely to change significantly. While it is inevitable that ASEAN's view of the United States will become more critical, other Western countries lack the economic capacity to fully compensate. At the same time, ASEAN's importance to China is evident, and it will likely seek to further increase its influence. For Japan, it will be essential to use economic diplomacy and other forms of soft power effectively to offset the relative decline in its presence.

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