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The economic influence of China and the United States on Southeast Asia: Recent trends

Chair Price, Vice Chair Schriver, distinguished members of the Commission: Thank you very much for the opportunity to testify before you on the influence of the Chinese and U.S. economies on Southeast Asia.

Introduction: Contextualizing Southeast Asia

Southeast Asia comprises ten countries[1] that differ vastly in size, per capita income, resource endowments, political systems, religions, colonial histories, and, most importantly, development strategies.[2] Yet, over the past half century, four common forces have made the Southeast Asian region one of the world's consistently good economic performers. The first is the region's strategic location astride the Malacca Strait -- the world's second-busiest shipping channel and the second most traversed oil tanker route. The second is Southeast Asia's abundance of natural resources[3] which have over the centuries attracted traders, colonists, and, more recently, foreign investors. Third, the region's shared institutional and trade architecture facilitated economic integration, promoted dialogue on economic and security issues, and created avenues for peaceful resolution of regional disputes. Finally, Southeast Asia's proximity to China, Asia's rapidly growing, resource-hungry giant, helped transform the countries of the region from "dominoes to dynamos".[4]

Taken as a whole, Southeast Asia looms large on the world stage. Its population of near 680 million is twice the size of the United States and smaller than only two countries, China and India. Likewise, only four countries in the world – the U.S., China, Japan, and Germany – exceed the region's nearly $4 trillion GDP. Southeast Asia is the world's most trade-dependent region, which

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[1] For the purposes of this testimony, Southeast Asia is deemed to comprise Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, which are also the ten members of the Association of Southeast Asian Nations (ASEAN). Timor-Leste is physically located in Southeast Asia but is excluded from this testimony for three reasons: first, it is not a member of ASEAN; second, its GDP (in current dollars) is a quarter the size of Brunei's, ASEAN's smallest economy; and third, Timor Leste's economic data is scarce compared with the other economies in the region.

[2] For example, the largest Southeast Asian country (Indonesia) is 700 times as populous as the smallest (Brunei); the per capita income of the most economically developed (Singapore) is almost 80 times that of the poorest (Myanmar). Political systems in the region range from Communism to military rule to thriving democracies, with virtually everything in between. Different parts of the region were colonized by Britain, the Netherlands, and France at different times in their histories, with Thailand the sole exception.

[3] Timber, rice, palm oil, cocoa, coffee, a variety of minerals, and a range of energy sources (hydro, oil, natural gas, and geothermal).

[4] John Bresnan, *From Dominoes to Dynamos: The Transformation of Southeast Asia* (New York: Council on Foreign Relations, 1994).

has helped propel its economic growth over decades while, at the same time, linking it tightly to the world economy, especially the U.S. and China.

The rest of this written testimony examines the nature and trajectory of the economic links between Southeast Asia and the world's two economic superpowers, and their implications for this strategically critical region. Its structure has been guided by the questions posed by the Commission's staff.

Trends in trade

Trade lies at the heart of Southeast Asia's development story. At 116 percent, its trade-GDP ratio today is the highest for any region in the world, including the European Union.[5] But there is a striking contrast in the trajectory of the trade-GDP ratio for these two regions. While the EU's trade-GDP ratio has climbed steadily,[6] Southeast Asia's trade-GDP ratio reached its peak in 2005 (at 156 percent) and has since declined steadily. The main contributors to the descent were the "big four" (Indonesia, Malaysia, Philippines, and Thailand) on account of growing protectionist tendencies and resource nationalism – especially in Indonesia. To some extent, these trends were partially mitigated by climbing trade-GDP ratios in Southeast Asia's late trade liberalizers – Cambodia and Vietnam.

Merchandise trade. There are three notable features about the trend in Southeast Asia's international merchandise trade over the past two decades. The first is that China has become the largest trading partner for all Southeast Asian economies. In 2003-2023, Southeast Asia's merchandise trade with China grew twice as fast as with the United States (12.6 percent a year compared to 6.0 percent a year).[7] In 1995, China's trade with Southeast Asia was a mere fifth of America's; today it is almost twice as large.[8]

Second, manufacturing in mainland Southeast Asia — led by multinational enterprises — have increasingly participated in complex regional and global value chains.[9] These firms have largely supplied inputs to China for further processing or assembly. Southeast Asia was at the forefront of this "second unbundling" of globalization,[10] making East Asia the "factory of the world". Production across borders fragmented in accordance with areas of comparative advantage. Over the last two decades, the share of Southeast Asia's intra-industry trade in total trade has climbed, and the share of domestic value added in total trade has declined. This is especially true in sectors such as electronics that are subject to increasing returns to scale.[11] Southeast Asian economies – especially

[5] Data for 2023. The numerator in the trade-GDP ratio includes imports and exports of goods and services in current US dollars. Data taken from the World Bank's World Development Indicators. The EU's trade-GDP ratio is 95 percent.

[6] Except for two small hiccups triggered by the global financial crisis in 2008 and the pandemic.

[7] Based on data from UNCTAD Direction of Trade Statistics.

[8] Southeast Asia's trade with the U.S. is 56 percent of its trade with China.

[9] Complex value chains are when goods cross country borders at least twice in the process of production before sale to the final consumer.

[10] Baldwin, Richard. 2016. "The Great Convergence: Information Technology and the New Globalization" (Cambridge, Mass.: Harvard university Press).

[11] These increasing returns are of three types: those within firms (internal economies of scale), those across firms producing similar products but located within clusters (external economies of scale), and those arising from firms producing differentiated products in an urban setting (urbanization economies). Alavi, Hamid, Ralph Van Doorn, and Vikram Nehru. 2012. "*Building a Neighborhood – One Policy at a Time: The Case for Deeper Economic Integration in East Asia*", in

those on the mainland – were able to able to leverage scale economies into international competitiveness which, in turn, attracted more investment that further enhanced competitiveness.

Southeast Asia's two fastest growing indirect exporters to China are Cambodia and Vietnam. Not to be left behind, resource-rich Southeast Asian economies are equally well integrated with the Chinese economy. Laos (copper — ore and refined, rubber, and electricity), Indonesia (palm oil, coal, nickel, coffee, tropical fruits) and Myanmar (gas, refined copper, rice, gems, jade, timber) offer China a wide range of energy, minerals, raw materials, and food products. China's export success could not have been possible without access to this large southern hinterland providing key components and raw materials for production, assembly, and even final consumption.

Third, in recent years, Southeast Asia's imports from China have grown faster than its exports to China. In fact, in 2023 Southeast Asia became China's largest export market, ahead of even the U.S. and the EU, and this gap increased in 2024.[12] Southeast Asia now runs a significant bilateral trade deficit with China (over $190 billion). Four factors have contributed to this recent surge in China's exports to Southeast Asia: first, the facilitation of trade through the Regional Comprehensive Economic Partnership (RCEP), a trade agreement which came into force in 2022 and includes all ten members of ASEAN as well as China (together with four other Asia-Pacific economies);[13] second, increased offshoring of Chinese manufacturing to Southeast Asia, with these firms reliant on machinery, equipment, and components imported from China; third, excess capacity in Chinese manufacturing placing pressure on Chinese firms to seek export markets, including in Southeast Asia; and fourth, the growth of Southeast Asia as a final market destination for Chinese-manufactured consumer goods. The consequences of this are explored later in this paper.

Services trade. Globally, trade in services over the past decade has grown faster than merchandise trade. But in Southeast Asia, services trade is a mere fifth of total merchandise trade and has grown more slowly. The reason is the high level of restrictive measures against services trade in virtually all Southeast Asian economies. These barriers have not only restricted services trade but are also responsible for the poor quality of domestically provided services, making them internationally uncompetitive. Nowhere is this more important than in health and education. A binding constraint in these sectors is often the shortage of skills needed for innovation, technological progress, economic transformation, and international competitiveness. Yet policies governing services trade restrict foreign skills from being imported to relieve such critical bottlenecks.

The notable exception in Southeast Asia is Singapore. Singapore is in fact a services powerhouse, trading services equivalent to 136 percent of its GDP in 2024.[14] It is the portal through which many U.S. companies operate in Southeast Asia. Singapore's financial sector is the banker to Asia's corporations and elites (with many of those banks being American), its hospitals provide world class healthcare, its location makes it the preeminent port in the region, and it is the hub of most commercial airlines operating between Asia and Europe. Sixty percent of the Fortune 500

Takashi Shiraishi and Jiro Okamoto (eds.), "Engaging East Asian Integration: States, Markets and the Movement of People" (Singapore: ISEAS).

[12] Asia Society Policy Institute. 2025. "ASEAN Caught Between China's Export Surge and Global De-Risking", February 17, 2025; available at: https://asiasociety.org/policy-institute/asean-caught-between-chinas-export-surge-and-global-de-risking.

[13] The four other economies are Japan, Korea, Australia, and New Zealand. The United States, on the other hand, has a free trade agreement with only one Southeast Asian economy – Singapore.

[14] Department of Statistics, Singapore (https://www.singstat.gov.sg/).

companies have located their Asia-Pacific headquarters in Singapore.[15] Singapore's international connectivity is ranked the highest in the world,[16] its stock of world class transport and communications infrastructure, its well-developed legal system, and its skilled and well-educated workforce make it an attractive conduit for U.S. businesses seeking markets in the most dynamic and populous region in the world.

Domestic pressure groups and local unions have successfully sheltered their members from international competition to the detriment of growth in other sectors of the economy. There are obviously exceptions to such broad generalizations – Singapore's health and education sectors, as well as the Thai health system, being important examples.[17] But by and large, Southeast Asian economies would benefit greatly if they were to liberalize their services sector and open them up to international competition.

Southeast Asian policies appear to be less restrictive of digital services trade. In many of these economies, the lack of government capacity could arguably be an important cause. The explosive growth of Southeast Asia's digital economy has partly been because government policies have not caught up with these new technologies. Singapore is an exception. Indeed, its regulations for digital services trade are considered best practice internationally, and it has concluded cutting edge international agreements on digital services trade with New Zealand, Chile, Australia, Korea, and the United Kingdom.

In other Southeast Asian countries, despite high levels of services trade restrictiveness, the explosive growth of the digital economy is among the most exciting economic developments in the region. Focused primarily in fintech, e-commerce, food delivery, transport, and online media, the digital economy has been growing at over 20 percent a year and giving rise to unicorns and some decacorns, mostly in Singapore and Indonesia. In 2014, there were just three unicorns in Southeast Asia; now there are 50 as well as 2 decacorns – and all of them operate in the digital economy. While Chinese investors provide the bulk of Southeast Asia's digital infrastructure, it is American high-tech companies by far that have the largest footprint in the region's digital economy (Amazon, Microsoft, Google, Facebook, WhatsApp, YouTube, Netflix, and so on).

Participation in trade agreements

Southeast Asia's high trade-GDP ratio is buttressed by a regional institutional architecture that is, in its scope and depth, unrivalled by any other developing region. All ten Southeast Asian nations are members of the Association of Southeast Asian Nations (ASEAN), a 55-year-old regional grouping that has a range of agreements covering trade in goods and services, as well as foreign investment, migrant workers, and mutual recognition of professional qualifications. In 2015, ASEAN created the ASEAN Economic Community, although its aim of establishing a single market for goods, services, investment, and skilled labor by 2025 is not going to be achieved (and a revised target date has not been set).

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[15] See https://admissions.smu.edu.sg/mastersday/jan/about-singapore.

[16] See the DHL Connectedness Tracker available at: https://www.dhl.com/global-en/microsites/core/global-connectedness/tracker.html.

[17] Indonesia's recently approved Omnibus Law promisingly opens the tertiary education sector and the hospital system to foreign direct investment. The government has yet to issue implementing regulations for the law, so the jury is still out on how effective this reform will be. Nevertheless, it represents a positive step in the right direction.

More importantly, Southeast Asian economies have – individually or as a group -- also entered into 49 regional trading arrangements with their main trading partners.[18] None are perhaps as important as the Regional Comprehensive Economic Partnership (RCEP), which came into force in January 2022.[19] It includes all ten Southeast Asian countries together with five of its major trading partners – Australia, Japan, New Zealand, South Korea, and – most significantly -- China.[20] Together, these 15 economies account for about a third of global GDP and a third of global exports, making it the world's largest regional trading agreement.

Some criticize RCEP as a "low ambition" agreement.[21] True, it does not address many "behind-the-border" barriers. But RCEP does contain some important provisions worth highlighting. Investments located anywhere within the RCEP membership that produce goods with a cumulative 40 percent regional content (or more) can enjoy the same preferential tariffs no matter where in the RCEP region the product is manufactured or sold. This is expected to boost trade among member countries by about US$90 billion annually.[22]

In addition, RCEP requires all member countries to adopt a "negative list" for FDI which treat foreign and domestic investors the same and are subject to a "ratchet clause" – namely, the level of openness to foreign investment, once granted, cannot be reversed. [23]

Finally, the RCEP touches upon some "behind-the-border" barriers. These include intellectual property rights, investment, competition policy, government procurement, small and medium enterprises, and e-commerce. Similarly, the agreement covers: the digital economy; paperless trade; electronic authentication and electronic signatures; personal information protection; rights and interests of online consumers; and a commitment to keep cross-border digital trade duty free.

The next most important regional trading arrangement in Southeast Asia is the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) which originally had 11 members of which four were Southeast Asian (Brunei, Singapore, Malaysia, and Vietnam). Its predecessor, the Trans-Pacific Partnership (TPP) lost some of its luster when the United States withdrew in January 2017.[24] In the absence of the United States, Japan assumed leadership of the process and the deal was eventually

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[18] The number has been derived by the author from ESCAP's "List of Trade Agreements covered by the UNESCAP Regional Trade Agreement Analyzer".

[19] To come into force, the RCEP agreement required ratification by a minimum of six ASEAN members and three non-ASEAN signatories. This condition was met after Australia and New Zealand ratified the agreement in November 2021. Myanmar is now the only signatory that has yet to ratify the deal.

[20] India participated in the initial negotiations but eventually withdrew.

[21] This term was used by former Australian Prime Minister Malcolm Turnbull when speaking to a U.S. audience in 2020.

[22] Sheng, Bin and Chenxin Jin. 2022. "An Evaluation of the Regional Comprehensive Economic Partnership Agreement: Market Access and Trading Rules", China & World Economy, Vol. 30, No. 5, pp 49-74.

[23] A "negative list" contains sectors prohibited or restricted for foreign investment without special regulatory approval. Seven of RCEP's 15 countries already use a negative list; the remaining eight are required to adopt one within 6 years of ratification.

[24] The estimated benefits of the pact would have been three times greater if the U.S. had remained in the agreement. See Peter A. Petri, Michael G. Plummer, Shujiro Urata and Fan Zhai. 2021. The Economics of the CPTPP and RCEP: Asia Pacific Trade Agreements without the United States", in Lee, Cassey and Pritish Bhattacharya (eds.). 2021. "The Comprehensive and Progressive Trans-Pacific Partnership: Implications for Southeast Asia" (Singapore: ISEAS Yusof Ishak Institute)

brought it into force in December 2018. Since then, the UK has joined the group (May 2024) and other countries – most notably China -- have expressed an interest in joining.

Many consider CPTPP the gold standard among regional trade agreements. Its multiple economic objectives and comprehensiveness are reflected in the agreement's thirty chapters. Yet, because it only has 12 members, the agreement's total estimated benefits are expected to be 40 percent of the RCEP's estimated benefits. Nevertheless, what it lacks in size it makes up with high-quality provisions that confront barriers to trade and investment that operate at—and behind—national borders. These include not just tariff, non-tariff, and technical barriers, but also intellectual property rights, policies toward state enterprises, investor-state dispute settlement arrangements, labor rights, and environmental protection

Singapore is the only Southeast Asian country which has a trade agreement with the United States, and the current administration's stance on trade suggests it will not consider fresh trade links to Southeast Asia any time soon. In contrast, China has actively sought to expand and deepen its economic links with Southeast Asia. Its participation in the RCEP already connects it to all Southeast Asian countries and the agreement has provisions for periodic enhancements. China is updating and upgrading some of its other trade agreements (such as the ASEAN–China Free Trade Area). Even so, the benefits of trade agreements should not be exaggerated. Markets, geography, and national policies do more to promote trade. Yet, trade agreements are useful because they lend certainty to investors that governments are bound by treaty to forego politically or economically expedient beggar-thy-neighbor protectionism. Indeed, even as protectionism spreads globally, Southeast Asia's web of trade agreements and regional global value chains has ensured its policymakers welcome foreign trade and investment.

Trends in foreign direct investment (FDI)

Trade and FDI tend to go hand in hand. Like trade, FDI into Southeast Asia (from the rest of the world) is booming. In 2022, the FDI stock in the region reached $3.6 trillion, double the level in 2015 and three times the level in 2010.[25] FDI inflows reached $224 billion in 2022 -- and if it were one country, it would be the world's largest developing country recipient of FDI, having surpassed China in 2021.[26]

Just as China has come to dominate trade with Southeast Asia, the U.S. has been the region's dominant foreign investor, accounting for 13 percent of Southeast Asia's total FDI stock ($480 billion) in 2022 and 16.5 percent of the 2022 inflow ($37 billion). Southeast Asia's second most important FDI source is Japan, which accounted for almost 9 percent of Southeast Asia's 2022 stock ($322 billion) and 12 percent of its flows ($27 billion). China comes third, with its stock accounting for 4.3 percent ($155 billion) and its 2022 flows for 6.7 percent ($15 billion).[27]

[25] ASEAN. 2023. "A Special ASEAN Investment Report 2023 -- International investment trends: Key issues and policy options." (Jakarta: ASEAN Secretariat), p. 5.
[26] In 2024, ASEAN's FDI inflows also appear to have exceeded China's. See https://www.fdiintelligence.com/content/7af4ba12-7bae-5011-8df7-948a8c2d33d9.
[27] Most of the FDI data in this section are taken from ASEAN. 2023 "ASEAN Investment Report 2023 - International investment trends: Key issues and policy options" (Jakarta: ASEAN Secretariat) December 2023.

While FDI inflows into Southeast Asia have been growing at a rapid clip, these resources have not been evenly spread around the region. Singapore is by far the largest recipient of FDI inflows into Southeast Asia, accounting for almost two-thirds of the region's total. But much of that money doesn't stay in Singapore; it is channeled eventually to other Asian destinations. In fact, for most Southeast Asian economies, Singapore is the largest FDI source.[28] Many, if not all multinational investors prefer to register their local operations in Singapore, thus making their contracts subject to Singaporean law and enforceable by Singaporean courts. Also, by locating in Singapore, they partially protect their assets from capricious, and sometimes corrupt court decisions in other Southeast Asian countries where their operations may be located and where judicial systems are less well developed.

The top three sectoral destinations of FDI into Southeast Asia – finance, manufacturing, and domestic trade -- reflect the most dynamic parts of the region's economy. Most FDI in finance and insurance is destined for Singapore which has successfully attracted financial companies and wealthy clientele from troubled Hong Kong, further establishing itself as "Asia's Switzerland". FDI in manufacturing is more broadly diversified across the region, but arguably the most preferred destination has been Vietnam which has successfully attracted manufacturers leaving the Chinese mainland on account of rising real wages and U.S. protectionist barriers against Chinese exports. Vietnam's proximity to China, and its relatively open trade and investment policies, productive and skilled labor force, and excellent logistics, have placed it in pole position to attract labor-intensive manufacturing from China and elsewhere. Finally, FDI in Southeast Asia's domestic trade has been largely triggered by the explosion in e-commerce activity and the rapid spread of digital technologies in the region.

Most Southeast Asian governments have welcomed Chinese FDI, even when they have close ties with the United States (for example, Indonesia and the Philippines). They see this investment as central for economic growth, especially if they can gain access to new technologies, such as EVs, solar panels, and batteries. A significant share of China's FDI in Southeast Asia is in EV-related manufacturing and the digital economy, and Chinese firms have been the largest foreign investors in Cambodia, the Lao People's Democratic Republic (PDR) and Myanmar. Nine of the top 10 global EV battery manufacturers, representing more than 90 per cent of global EV battery sales, operate in Southeast Asia, and most are Chinese and South Korean. Some have invested in nickel mining and smelting to secure critical supplies (see below).

For Chinese firms, investments in Southeast Asia provide access to critical raw materials (such as lithium and nickel) and rapidly growing markets. But there are also aspects of China's FDI that give Southeast Asian governments pause. Much of the value-added still takes place in China, limiting the positive effects of such investments on the host economy. In addition, compared to multinationals from advanced economies, Chinese-owned foreign invested enterprises tend to have greater vertical integration with firms on the Chinese mainland, rely more heavily on skilled labor from mainland China, and have lower environmental standards. As a result, such enterprises tend to have fewer linkages with local suppliers, stimulate less local employment, generate fewer technology spillovers, and impose higher environmental costs.

[28] Singapore is also the biggest foreign investor in India as well as China (if one excludes roundtripping from Hong Kong).

Examples of the role of U.S. and Chinese FDI in key Southeast Asian industries: This section provides an overview across five of the most industrialized countries in the region (Indonesia, Malaysia, Thailand, Philippines, and Vietnam), and very briefly describes the crucial role that U.S. and Chinese FDI have played in developing their most important industries:[29]

Indonesia's largest industries include:

- Automobiles: Japanese FDI has been key in developing Indonesia's automobile industry strong automobile manufacturing base. In more recent years, however, Chinese manufacturers of EVs have expanded their role in Indonesia and now dominate the EV market. Ford had a fluctuating presence in Indonesia, but now plans to invest in an EV manufacturing plant in Indonesia by 2025.[30]
- Nickel processing: Indonesia's nickel and stainless-steel industry is dominated by Chinese enterprises, including the Tsingshan Group, Zhejiang Huayou Cobalt, and Jiangsu Delong Nickel Industry Co. Ltd; U.S. and European companies – including EV producers – have been late in recognizing the potential of Indonesia's reserves and are now playing catch up.
- Oil refining and petrochemicals: U.S. oil companies were instrumental in developing Indonesia's oil and petrochemical sector, starting with the very first investment in oil exploration by Standard Oil in 1898 in Sumatra. Today, Chevron and Exxon Mobil are the key oil companies that continue to operate there.
- Mining and mineral processing: U.S. companies – especially Freeport-McMoRan - have been most influential in shaping Indonesia's mining industry. The most prominent example is the Freeport's Grasberg mine in Papua, one of the world's largest copper and gold mines.

Malaysia's largest industries include:

- Electrical and electronics: U.S. technology companies, such as Intel, AMD, and Texas Instruments, were the first to establish operations in Malaysia. China's involvement has grown in recent years, with investments from companies like Huawei.
- Automobiles: Japan was the first to partner with Proton Holdings, Malaysia's state-owned car company but the company has struggled to be financially viable. More recently, Chinese companies like Geely have acquired stakes in Proton, facilitating technology exchange and expanding market reach. In November 2023, Ford, which had an earlier presence in Malaysia, announced that it planned to invest in Malaysia, but there has been no further developments since.
- Petrochemicals: The petrochemical sector is vital to Malaysia's economy, with the country being a leading exporter of petrochemical products. U.S. companies such as ExxonMobil and Dow Chemical have longstanding investments in Malaysia, contributing to the development of refineries and petrochemical plants. China has also invested in this sector, with companies participating in joint ventures and infrastructure projects, enhancing Malaysia's production capabilities.

[29] Singapore is excluded because it is largely focused on services, not industry and, in any case, as has been previously discussed, is heavily dependent on U.S. FDI.

[30] In preparation, Ford entered into a $4.5 billion agreement in March 2023 with PT Vale Indonesia and China's Zhejiang Huayou Cobalt Company to develop a nickel processing plant that would provide inputs into its production of lithium-ion batteries.

- Palm oil processing**:** While the U.S. has been a major importer of Malaysian palm oil products, China has been an investor, with Chinese companies engaging in joint ventures to develop plantations and processing facilities.
- Medical devices: U.S. companies – for example Boston Scientific and Abbott Laboratories -- established manufacturing facilities that made Malaysia an important exporter of medical devices. China has started investing in the sector recently, but it has played a relatively minor role.

Thailand's key industries include:

- Automobiles**:** Thailand's automotive industry, developed largely through Japanese FDI, is the largest in Southeast Asia and the ninth largest globally. Chinese EV manufacturers have increased their presence substantially in recent years, challenging existing competitors. U.S. involvement has been primarily through Ford and GM, although their presence is comparatively limited.
- Electrical and electronics**:** U.S. companies – such as Western Digital and Seagate – were among the first foreign investors that established manufacturing operations in this sector, notably in data storage devices. Today, Chinese companies like Huawei have become an important presence.
- Petrochemicals: Dow Chemical's largest operations in the Asia Pacific are in Thailand's. The Map Ta Phut Industrial Estate, one of the largest petrochemical complexes globally, includes 13 of its manufacturing plants. Chinese firms have played a growing role building the sector's infrastructure, such gas processing plants and pipelines.
- Food processing**:** China has been a large investor in agricultural processing (sugar, rubber, and fruit), with the bulk of its output destined to meet Chinese consumer demand. As a large market for Thai food products, the U.S. has focused on providing technical assistance to enhance food safety standards.

The Philippines' key industries include:

- Electronics: Big U.S. tech companies, such as Texas Instruments and Intel, established significant operations in the Philippines, making electronics the largest industrial subsector in the country. China's involvement has been relatively minor.
- Automobiles: Japanese and American brands like Toyota and Ford established assembly plants in the country, contributing to local manufacturing capabilities, but more recently, Chinese automobile companies, such as Chery and Foton, have entered the Philippine market, setting up assembly plants.
- Shipbuilding: The Philippines is the seventh-largest shipbuilding nation by gross tonnage. South Korean companies have been the principal foreign investors; U.S. and Chinese involvement has been limited.
- Aerospace components: U.S. companies such as Moog, with facilities in Baguio, manufacture parts for major U.S. aircraft manufacturers like Boeing and Airbus. China's role is minimal.

Vietnam's key industries include:

- Electronics and electrical**:** The role of American tech companies – such as Intel's investment in chip assembly and testing and Apple's manufacturing (part of its China+1 strategy) -- has been pivotal in Vietnam. Chinese firms -- especially components manufacturing and

assembly plants in electronics -- have also become an important presence, in part to circumvent U.S. tariffs on imports from China.

- Textile and garments: Numerous American retailers source apparel from Vietnam but there is U.S. investor presence is minimal. China is not only a major investor in Vietnam's textile manufacturing., but it is also a major supplier of raw materials.

- Agricultural processing: Neither U.S. nor Chinese companies are major investors in this sector although China has invested in connective infrastructure to facilitate China-Vietnam trade in processed agricultural goods.

U.S. and Chinese FDI in Southeast Asia's high-tech sectors

Technological change, interacting with trade and FDI policies, is rapidly changing the economic landscape in Southeast Asia and has been the scene of fierce competition between U.S. and Chinese companies. Nowhere is this more evident than in industries related to electronic vehicle manufacturing, where activities run from nickel mining and smelting to battery production to manufacturing of electric vehicles. Indonesia and the Philippines are among the top six countries that account for over 80 percent of global nickel reserves (nickel being a critical input into nickel-ion batteries for cars).[31]

Ten multinationals dominate the global electric vehicle battery market, all of them headquartered in China, South Korea, and Japan, and all with a presence in Southeast Asia.[32] Similarly, all top ten manufacturers of electric vehicles (EVs) in the world – including Tesla -- have a presence in Southeast Asia and some have already begun manufacturing or assembling EVs in the region.[33]

Indonesia represents the epicenter of this fierce global competition to dominate the EV value chain. The groundwork was laid in 2009 when Indonesia introduced policies to restrict mineral ore exports, encourage domestic smelting and metals production, and gradually increase Indonesian ownership of foreign-owned mines. In 2014, Indonesia went a step further and banned the export of mineral ores (although the regulation was implemented in fits and starts). Its timing was fortuitous. Sharply growing demand for nickel-ion batteries on the back of a boom in EV production worldwide contributed to rapid growth in Indonesian nickel production and exports. This growth was underpinned by Chinese investors financed by China's state-owned banks, including the Export-Import Bank of China, the China Development Bank, Bank of China, and the Industrial and Commercial Bank of China, among others.

Indonesia now has several large industrial estates focused squarely on downstream nickel processing. Of these, three are operational.[34] The largest of them is the Indonesia Morowali Industrial Park

[31] There are also around 3,000 nickel-based alloys, stainless steel being the most prominent among them.
[32] The top ten EV battery manufacturers in 2023 were CATL (China), BYD (China), LG Energy Solution (South Korea), Panasonic (Japan), SK On (South Korea), CALB (China), Samsung SDI (South Korea), Gotion High Tech (China), EVE Energy (China), Sunwoda (China)
[33] Those that have started production or assembly of EVs are BYD (Thailand), GAC Aion (Thailand), Great Wall Motor (Thailand), Nissan (Thailand, Indonesia), Hyundai (Indonesia), and BMW (Thailand).
[34] They are Morowali (Central Sulawesi), Weda Bay (Halmahera, North Maluku) and Obi Island (South Halmahera, Maluku). A fourth major hub is in development in Konawe (Southeast Sulawesi). Over the last decade, China has invested more than $29 billion in these industrial estates (see "The Nickel Pickle", May 8, 2023).

(IMIP) in which China's Tsingshan Group has a majority shareholding. A decade ago, the Morowali site was dense forest. Today, it stretches over 8,000 acres in Central Sulawesi, employs around 90,000 workers, and includes 20 nickel smelters, two high-pressure acid leach (HPAL) facilities, coal-fired power plants generating 1.9 GW (to be expanded soon to 2.9 GW), a planned project to produce 500 MW of solar panels (to improve its environmental footprint), a seaport, an airport, dedicated telecommunications including underwater cables, dormitories for workers, and a three-star hotel together with three mosques. Investments on a broadly similar scale are being made in the other two industrial estates in Sulawesi and North Maluku.

Strikingly, U.S. and European companies – including EV producers – have been late in recognizing the potential of Indonesia's reserves and are now playing catch up. Ford is the only U.S. company to have announced investments in nickel processing in Sulawesi, as have a few European companies (Volkswagen, BASF, and Eramet). From a strategic perspective, U.S. and European automobile manufacturers now rely on Chinese-controlled Indonesian nickel.

Like developments in the nickel industry, the rapid growth of Southeast Asia's digital economy (e-commerce, fintech, travel, transport, and digital media, among others) has led to rapid development in telecommunications infrastructure — where Southeast Asian countries have faced the choice of adopting technology platforms from the West (primarily Nokia and Ericsson) or China (primarily Huawei).[35] Even Singapore, while opting for Nokia/Ericsson as its principal technology option for telecommunications, has allowed the Singaporean Port Authority to use Huawei as a key high tech infrastructure provider. Besides Singapore, however, virtually every other Southeast Asian country has Huawei as the key telecom infrastructure provider, preferring its cheaper technology which has been offered with few restrictions. Even so, Nokia, Ericsson, and other telecom infrastructure providers have a significant presence in every Southeast Asian country, many of whom are still building their digital economies. So, the Southeast Asian market for telecommunication infrastructure remains open to purchasing western hardware and software if offered the right competitive mix of technology, price, and finance.

Cloud computing is another high-tech space where competition between Chinese and U.S. companies is intense and the competitive landscape changing rapidly. In 2023, western cloud computing companies (Amazon Web Services, Microsoft Azure, and Google Cloud) were well established as the prime suppliers of cloud computing services.[36] But with large investments in data centers, Chinese companies (Huawei, Tencent) have in a very short time come to dominate in several Southeast Asian countries (notably Thailand, Philippines, and Malaysia).[37] In Indonesia and Singapore, Chinese and U.S. companies have roughly equal shares of the market. Vietnam has chosen to avoid both sources and relied solely on home-grown companies, although Apple and Microsoft are exploring investment options there.[38] The top tech firms have already spent some $70 billion on 500 data centers, and another 270 are expected to come online this year. Malaysia, with its

[35] Other significant telecom infrastructure providers in the region include Ooredoo Group (Qatar), First Pacific Company Limited (Hong Kong), Macquarie Group (Australia), OMS Group (Malaysia), ST Telemedia (Singapore), and YTL Power (Malaysia). But Huawei, Nokia, and Ericsson tend to be among the top three providers in every Southeast Asian country.

[36] See Lewis, James Andrew. 2023. "Cloud Computing in Southeast Asia and Digital Competition with China", CSIS, August 7, 2023 (https://www.csis.org/analysis/cloud-computing-southeast-asia-and-digital-competition-china)

[37] The Economist. 2024. "America v China: who controls Asia's internet?", October 8, 2024 (https://www.economist.com/asia/2024/10/08/america-v-china-who-controls-asias-internet).

[38] Primarily Viettel IDC and VNG Cloud, although there are others.

excellent tech ecosystem, has emerged as Southeast Asia's data center capital (for AI and cloud) where well-known tech names (AWS, Nvidia, Microsoft, and Bytedance, among others) are expanding their investments.

Drivers of Southeast Asia's FDI inflows and trade

Southeast Asia's FDI and trade trajectories have been driven by three forces: geography, markets, and most recently, trade and technology competition between the U.S. and China.

Most Southeast Asian countries are in close physical proximity to each other, providing appropriate conditions for rapid growth in intraregional trade. Over the last two decades (2003-2023) intra-ASEAN merchandise trade growth has averaged over 6.5 percent a year. But ASEAN's merchandise trade with China has grown at almost twice that pace (12.6 percent a year). China's size, location, and dynamism have created a strong gravitational force that is drawing into its orbit all the economies within close geographical proximity. In accordance with the laws of gravity, the economies of Southeast Asia that are closer to China – those on the mainland of the continent -- have seen their trade with China grow faster than those of maritime Southeast Asia (Indonesia and the Philippines).

Trade integration within Southeast Asia and between Southeast Asia and China began well before free trade agreements were negotiated. Initially, markets drove Asia's trade integration; policies arrived later to support it. The bulk of Southeast Asia's trade expansion reflected the rising importance of regional production networks in which different stages of the manufacturing process locate in different countries. Initially Southeast Asian countries offered raw materials (Indonesia, Cambodia, Laos, Vietnam) and components (Malaysia, Thailand), while China's competitive advantage lay in labor-intensive assembly together with some fabrication. This allowed firms to specialize, achieve scale economies, and locate where conditions suited them best.

Over the last two decades, however, these trade patterns gradually shifted as real wages climbed in China, skills improved, and technological capabilities increased, making the country less competitive in labor-intensive manufacturing and more competitive in higher value-added, more skill- and capital-intensive manufacturing, including design and fabrication. Firms located in China, mostly western and Japanese multinationals but in later years even Chinese firms, started shifting the labor-intensive part of their value chains to lower-wage economies, mainly in Southeast Asia. Much of this investment went to Vietnam which had the stability, policies, skills, and infrastructure to make it internationally competitive in labor-intensive manufacturing.

There is little doubt that Southeast Asia's geographical proximity to China turbocharged these market decisions. Proximity helps keep transport and communication costs low, shrinking economic distance between different production centers and allowing fragmentation of production across borders without loss of competitiveness. It is no accident that while trade between China and Southeast Asia grew very fast over the last four decades, it grew much faster for mainland—not maritime—Southeast Asia because of the former's geographical proximity. Vietnam was a preferred location for most firms migrating out of China because of its common border with China, complemented by low trade barriers, disciplined labor force, and political and economic stability.

The competitive advantage of firms relocating to Southeast Asia was further improved with transport and energy infrastructure investments that strengthened logistics within Southeast Asia while also reinforcing China's connectivity with the region. New highways have reduced transport costs from China to Southeast Asia as well as from Vietnam's east coast to Thailand's west coast; high speed rail has reduced freight times from China all the way to Malaysia; and port construction is proceeding apace in Indonesia, Cambodia, and elsewhere in Southeast Asia.

The rise of trade and technology tensions between the U.S. and China has only accelerated these trends. While the volume of trade between the U.S. and China has declined, trade between Southeast Asia and these two superpowers has increased. ASEAN's shares in the imports and exports of China and the U.S. have climbed. Vietnam gained the most. Not only did its share of U.S. imports climb, but so did its share of China's imports. Vietnam's exports of high-tech products and electronics to the United States doubled after Washington imposed tariffs and restrictions on imports of telecommunications equipment, semiconductors, and other high-tech products from China. Some of this export growth came from multinationals relocating from China to Vietnam to evade U.S. tariffs. But Chinese firms benefited too. In fact, Chinese firms were among the largest investors of newly registered FDI in Vietnam after 2019. There is also some evidence of increased transshipment from China to the U.S. through Vietnamese ports (see below).

Indonesia was another Southeast Asian country that benefited in the last five years from U.S.-China rivalry. Growth in Indonesia's nickel exports to China was the product of a scramble by Chinese nickel producers to relocate their production from the Chinese mainland to Indonesia. Their decision in part was caused by Indonesia's export ban on nickel ore, but another factor was their desire to gain an early-mover advantage by seizing nickel ore supplies ahead of potential competitors from the United States and other Western battery manufacturers.

There is now consensus that foreign investors tend to employ four criteria when choosing their preferred investment location: the host country's market size, factor endowments (including natural resources, human capital, and infrastructure), economic and political stability, and institutional quality (as reflected in the policy environment for private investment). The countries of Southeast Asia offer these criteria in different degrees, and the calculus of investors is likely to differ depending on their sector of operation. Singapore's unique location, stability, and quality of human capital make it a natural choice as a transport hub, financial service center, biomedicine research and production, AI, advanced manufacturing, and robotics. In contrast, Vietnam's stability, disciplined labor, low trade barriers, solid infrastructure, and proximity to China make it a natural choice for industries seeking to diversify out of China or relocate the labor-intensive parts of their value chain. Indonesia's natural endowments interest investors in mining, plantations, minerals processing, or food processing, as well as footloose industries (footwear, garments) attracted by its large domestic market. The examples of Myanmar and Thailand demonstrate how political instability can deter private investors (domestic and foreign), while the examples of Cambodia and Laos demonstrate how weak institutions can do the same.

Policy levers which have lasting power in attracting foreign investment are those that enhance these criteria – but they are also the most difficult. Ensuring stability, increasing human capital, or improving institutional quality are long-term endeavors that require consistently clear policy direction and sound leadership – a big ask for the developing countries of Southeast Asia. On the other hand, quick fixes – such as tax holidays or other forms of subsidies – are usually poor

substitutes and empirical studies show that they have not had much impact on investor preferences.[39]

Excess industrial capacity in China and its effect on Southeast Asia

The rapid growth of manufacturing capacity in China coupled with slowing domestic demand has generated widespread excess capacity in a range of sectors, including steel, petrochemicals, semiconductors, electrical machinery, electric vehicles (EVs), batteries and solar. To some extent, this is reflective of China's success in implementing its "dual circulation strategy" aimed at reducing China's dependence on the world while increasing the world's dependence on China. Their combined effect is reflected in China's manufacturing trade surplus which climbed from $1 trillion in 2018 to $1.8 trillion in 2023.[40]

The consequences of this export surge are being felt globally, including in Southeast Asia, and policymakers are concerned that this could be exacerbated by the recent increase in U.S. tariffs on imports from China which would divert yet more Chinese exports to Southeast Asia (and other markets).[41] To complicate matters for Southeast Asia, it is also the recipient of a substantial increase in Chinese FDI as Chinese firms seek to offshore their export capacity and take advantage of lower wages, avoid tariffs imposed by the U.S. and the EU, access raw materials, and tap rapidly growing local market demand. These Chinese firms, now located in Southeast Asia, are exerting pressure on indigenous Southeast Asian firms competing in the same industry, lowering returns, and in some cases, even leading to closures.

The combined effect of these two phenomena on Southeast Asia are complex. Both could potentially inject competitive pressure and stimulate improved efficiency among domestic producers, but only if Chinese products are not dumped in local or third-country markets.[42] Policymakers fear, however, that export price deflation generated by Chinese manufacturers in domestic markets will drive Southeast Asian manufacturers out of business and seriously affect their industrialization process. The same could be true if Southeast Asian exporters compete with Chinese exporters in third-country markets.

Domestic Southeast Asian manufacturers have been experiencing the effects of cheap Chinese goods for some time. Some high-profile Indonesian textile businesses, for example, have gone bankrupt, although over-leveraging and mismanagement could also have been causes.[43] While the expected tsunami of cheap Chinese goods hasn't yet materialized, it is something Southeast Asian

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[39] Klemm, Alexander and Stefan Van Parys. 2009. Empirical Evidence on the Effects of Tax Incentives, IMF Working Paper WP/09/136, Fiscal Affairs Department, July 2009

[40] Asia Society Policy Institute (2025), op. cit.

[41] Pangestu, Mai and Shiro Armstrong. 2025. "ASEAN response to a Trump-generated Chinese economic tsunami", East Asia Forum, February 2, 2025 (VilBLE AT: https://eastasiaforum.org/2025/02/02/asean-response-to-a-trump-generated-chinese-economic-tsunami/).

[42] Dumping is said to occur when a company sells a product in a foreign market at a price that is lower than the price it charges in its home market.

[43] Indonesian textile giant Sritex was declared bankrupt in October 2024 with the potential layoff of thousands of workers. Management blamed competition from China, but excessive debt and mismanagement could also have played a role. See Jakarta Post. 2025. "Analysis: Textile giant Sritex shuts down, leaving over 10,000 workers jobless", March 11, 2025. https://www.thejakartapost.com/opinion/2025/03/11/analysis-textile-giant-sritex-shuts-down-leaving-over-10000-workers-jobless.html.

economies are bracing for. Policymakers are considering imposing – or have already imposed -- restrictions on imports of textiles and ceramics. The post-2000 'China shock' was managed by Southeast Asia through appropriate trade and macroeconomic policies. Rapid growth made adjustment possible, with new employment generated through Southeast Asian firms participating in regional value chains. Employment and capital were quickly redeployed from shrinking to expanding sectors. The current China shock is likely to be more severe and there is no certainty that Southeast Asian economies will be able to adjust as easily this time. Southeast Asian policymakers will be tested to ensure that any transitional unemployment and deterioration in the quality of bank balance sheets doesn't spiral out of control and lead to systemic financial or social crises.

China-washing: Illegal transshipment of Chinese goods through Southeast Asia to the United States

Southeast Asian countries – especially Vietnam – have been illegal transshipment points for Chinese producers who wish to evade Section 301 tariffs imposed on Chinese-origin products. At its peak in 2020, the share of illegally transshipped products in Vietnam's total exports to the U.S. ranged between 7.5 percent and 16 percent.[44] But this share had declined to 4.0 percent by 2022, or roughly $5 billion, and has probably declined further as Chinese firms relocated to Vietnam or offshored their production to Vietnamese firms. Moreover, concerned with the reputational fallout, the Vietnamese authorities have improved their capacity to identify such cases and impose penalties on transgressors.[45] Perhaps for this or other reasons, there is some evidence to suggest that Chinese goods are also being rotated through other Southeast Asian countries – notably Thailand, Singapore, and Malaysia -- for transshipment to the U.S.[46] Much smaller amounts are also transshipped through the Philippines and Cambodia. The most transshipped export category is machinery and electronics,[47] and in Vietnam's specific case, the product with the largest share of transshipment in 2020 was solar panels.[48]

Potential penalties for firms transgressing Section 301 tariffs are many and severe, but the risks of being detected and penalized are low.[49] Even though Customs and Border Protection (CBP) are

[44] These two estimates come from two different studies that use similar methodologies but adopt different standards to define transshipment: the higher bound is taken from Iyoha, Ebehi et. al. 2024. "Exports in Disguise? Trade Rerouting during the U.S.-China Trade War", Harvard Business School Working Paper 24-072; the lower bound is the central estimate from Freund, Caroline. "The China Wash: Tracking Products to Identify Tariff Evasion Through Transshipment." Policy Report, UC San Diego School of Global Policy and Strategy, 21st Century China Center and Center for Commerce and Diplomacy, February 2025. Freund also reports upper and lower bounds using more conservative or liberal conditions. Both studies use product-level data (8-digit HS codes) to identify products where goods are shipped from China to a third country and then re-exported to the U.S. by that country.
to the United States with little additional transformation.

[45] Reuters. 2019. "Vietnam to crack down on Chinese goods relabeled to beat U.S. tariffs" (https://www.reuters.com/article/idUSKCN1TB0HY/).

[46] Freund, op. cit. and Jennings, ralph. 2025. "Malaysia and Thailand vow to back Trump's China trade war - but analysts are sceptical", South China Morning Post, January 20, 2025 (https://www.scmp.com/economy/global-economy/article/3295508/malaysia-and-thailand-vow-back-trumps-china-trade-war-analysts-are-sceptical). The estimated transshipment in 2022 for Thailand was about $5 billion, Malaysia over $4 billion, and Singapore close to $3 billion.

[47] Equivalent to the HS (Harmonized System) code HS85.

[48] HS854140.

[49] The potential penalties are high because the U.S. can impose duties retroactively, apply additional anti-dumping and countervailing duties (which are higher than Section 301 tariffs and last for years), seize illegally transshipped goods and

increasingly export at identifying illegal transshipments, the process is difficult and expensive, often requiring onsite verification. The CBP uses factory inspections, supply chain audits, bill of lading analysis, and country of origin labeling inspections to determine if the rules of origin are being followed.[50] Based on press reports, it appears that the CBP has been successful in identifying only a handful of cases of illegal transshipment from Southeast Asia.[51] The only way forward in improving the detection of illegal transshipments is through the active cooperation of the authorities in Southeast Asia.

Cross-border infrastructure finance

The geographical proximity between Southeast Asia and China has been shrunk further by transportation, energy, and communications infrastructure investments linking the two. This has helped further facilitate trade and investment flows between China and Southeast Asia. Oil and gas pipelines run through Myanmar from the Bay of Bengal to southern China. New highways from China to Southeast Asia and from Vietnam's east coast to Thailand's west coast have cut transportation costs. High-speed rail has reduced freight times from China all the way to Malaysia. Port construction is proceeding apace throughout the region. Launched in 2013, China's Belt and Road Initiative (BRI) financed a significant acceleration in these infrastructure investments, largely in Cambodia, Indonesia, Laos, the Philippines, and Vietnam.[52] In the first three years, the focus was on physical connectivity—mainly transportation and energy infrastructure. BRI investments later diversified to include special economic zones and, during the pandemic, protective health equipment and vaccine production. More recently, BRI's focus has shifted to digital connectivity through telecommunications infrastructure and digital platforms—the so-called Digital Silk Road—which, on account of their low cost and rapid rollout, have proved to be popular in most Southeast Asian countries, notwithstanding the security risks they may involve. Recently announced U.S. controls on the export of advanced semiconductor chips might delay, but not derail, these Chinese initiatives. U.S. warnings about the potential data security and surveillance risks of Chinese ICT systems appear to have gained little traction in Southeast Asia.

The ambition and scope of Chinese-financed cross border infrastructure projects have triggered the United States and its partners to respond with infrastructure-financing initiatives of their own. In 2016, Japan launched the Expanded Partnership for Quality Infrastructure and allocated $200 billion to be delivered through the Japan Bank for International Cooperation (JBIC). In 2018, the U.S. Congress passed the BUILD Act, creating the U.S. International Development Finance Corporation with a lending capacity of $60 billion. More recently, in 2022 the G-7 launched the Partnership for Global Infrastructure and Investment (PGII), pledging $600 billion in infrastructure financing for developing countries.[53] So far, the U.S. government has announced that of its $200 billion pledge to

impose severe monetary penalties, ban imports under the Enforce and Protect Act (EAPA), and pursue criminal or civil penalties against transgressors.

[50] In countries which do not have a free trade agreement with the U.S., the substantial transformation rule says that the country of origin is where it undergoes substantial transformation.

[51] Statistics on the number of cases identified by the CBP and details regarding the penalties imposed on transgressors are not publicly available.

[52] Further information on this trend, including a breakdown of BRI projects by year, country, and status, is available in: International Institute for Strategic Studies (IISS), *Asia-Pacific Regional Security Assessment: Key Development and Trends, 2023* (London: IISS, 2023), 95.

[53] Of the $600 billion pledged, the United States pledged $200 billion, the EU pledged $317 billion, and Japan pledged $65 billion.

the PGII, $60 billion in grants, federal financing, and private sector funding has been mobilized, and other G-7 members are expected to follow suit.[54]

Viewed broadly, however, not only do these G-7 initiatives fall short of the funding that China has provided, but their implementation has been slow. Some have not even financed a single project.[55] Yet, if they do get off the ground, these initiatives will be welcomed by Southeast Asia for two important reasons. First, the demand for infrastructure in the region far exceeds the total financing currently available. Second, G-7 financing could compensate partly for a further slowdown in BRI-related financing, as China's faltering economy and the growing nonperforming loan portfolio of its banks begin to impinge on the lending capacity of the Chinese financial system.

China's influence in Southeast Asia relative to the United States

This section explores how the economic power of China and the United States translates into influence over public opinion in Southeast Asia. To do so, it draws on a rigorous and well-structured 2024 opinion survey of Southeast Asia's political, economic, and professional elite.[56] This demographic is particularly significant because public and elite opinion tends to shape future domestic and foreign policy in ways that would have differential effects on Southeast Asia's economic relations with the United States and China. Unfortunately, the survey was conducted in 2024 and there has been no such survey since the second Trump administration started. The results should, therefore, be interpreted with caution.

A question on the relative economic influence of the two countries places China well ahead of the United States in every Southeast Asian country. China's economic influence, however, grew between 2018 and 2023 but dipped slightly in 2024, while that of the United States waned in 2018-2023 but increased slightly in 2024. Furthermore, more respondents worry about China's growing strategic and economic influence than welcome it, while the opposite is true for the United States (although the number welcoming America's influence has shrunk). Southeast Asians consider both powers of broadly equal strategic relevance.

Interestingly, though unsurprisingly, Southeast Asians do not consider any global power as a champion of free trade (United States, 22 percent; China, 19 percent; EU, 14 percent). The survey doesn't provide a ringing endorsement of the United States and the EU as leaders of a rules-based international order (United States, 27 percent; EU, 17 percent), but the endorsement of China in this regard was even less (12 percent – although this was more than double the score in 2023). A large

[54] The U.S. contribution to these multilateral initiatives could yet fall victim to the ongoing cuts in spending initiated by the Trump administration.

[55] It is important to note that the PGII has not approved a single project in Southeast Asia, let alone completed a project. In contrast, by 2021, 90 BRI projects had been completed in Southeast Asia, 25 were ongoing, and 16 were planned. Implementation of BRI had slowed after 2020 on account of the pandemic.

[56] Seah, S. et al. 2024. "The State of Southeast Asia 2024 Survey Report" (Singapore: ISEAS - Yusof Ishak Institute, 2024). The survey covered 1,994 Southeast Asians from: (a) academia, think-tanks or research agencies; (b) private sector organizations; (c) civil society, NGO or media; (d) government; and (e) regional or international organizations. The survey was conducted completely online using a mixed sampling method.

majority (over 60 percent) were favorably inclined toward China's vision of a "global community of common destiny", considering it complementary to, and beneficial for, Southeast Asia.[57]

Perhaps the most striking shift was when respondents were forced to choose between China and the United States. In 2023, it was no contest – they opted for the United States (61 percent to 39 percent); but in 2024, China emerged the winner in a squeaker (50.5 percent to 49.5 percent). Countries that benefitted mostly from the BRI increased their support for China (Malaysia, Indonesia, Laos, and Thailand), while the United States still enjoyed majority support in the Philippines, Vietnam, Singapore, Myanmar, and Cambodia. Yet only a third of the respondents expressed confidence in the United States as a strategic partner and provider of security.

Encouragingly, many more respondents felt confident or very confident that the United States would "do the right thing" (42 percent) compared to China (24 percent). More Southeast Asians trusted the United States than distrusted it (42 percent to 38 percent), while half as many respondents trusted China than distrusted it (25 percent to 50 percent).

In conclusion, China remains the dominant economic, political, and strategic force in the region, surpassing the United States by a considerable margin. If compelled to choose sides in the ongoing U.S.-China rivalry, most respondents leaned toward Beijing. Yet, this influence is accompanied by deep-seated concerns—half of those surveyed distrust China, fearing that its growing economic and military power could be leveraged to undermine their sovereignty and national interest.

Policy recommendations for the United States

The policy recommendations outlined here are designed to serve one overarching objective: advancing the long-term strategic and economic interests of the United States. A fundamental assumption underlying this objective is that a strong, prosperous, and stable Southeast Asia—one that remains open, competitive, and engaged with the United States—is in America's best interest. Ensuring this outcome requires a strategic, whole-of-government approach to economic engagement that prioritizes mutual benefit, regulatory alignment, and high-standard trade and investment partnerships.

First, the United States must develop a coherent and enduring strategic framework for economic engagement with Southeast Asia. Previous initiatives, including Obama's "pivot to Asia" and Biden's Indo-Pacific Economic Framework (IPEF), have been overtaken by events. A new strategy must be comprehensive, institutionally embedded, and developed in close consultation with ASEAN, ensuring that the region's priorities are fully integrated into U.S. economic diplomacy. ASEAN, as the region's leading coordinating body, is well-positioned to facilitate this dialogue.

Second, the strategy must prioritize fair trade enforcement, particularly the elimination of illegal transshipment practices that allow Chinese goods to evade U.S. tariffs. ASEAN should implement a robust certification mechanism to verify that goods exported from its ports adhere to strict rules of origin, preventing tariff circumvention. In exchange, the U.S. should extend reciprocal assurances

[57] In 2013, China proposed a vision of a "global community of common destiny". Over the years, China added different global initiatives including the Belt and Road Initiative, the Global Development Initiative, the Global Security Initiative, and the Global Civilization Initiative. These multilateral initiatives are part of China's vision of building a "Global Community with a Shared Future for Mankind".

that foreign-invested enterprises operating within ASEAN—so long as they comply with these certification rules—retain access to the U.S. market.

Third, the U.S. should establish a high-standard security framework to protect dual-use technologies, particularly in advanced semiconductor manufacturing. Only Southeast Asian countries that meet stringent security and verification standards should be permitted to host U.S. investment in such industries. This would align existing trade policies with broader national security objectives and ensure that sensitive technologies remain protected.

Fourth, Washington should be open to negotiating critical minerals agreements with countries such as Indonesia, provided stringent environmental and governance safeguards are in place. These agreements would grant the U.S. secure access to essential raw materials while offering Southeast Asian suppliers an opportunity to diversify their export markets beyond China. However, the agreements must also include provisions to prevent supply restrictions from being used as geopolitical leverage at a later stage.

Fifth, reducing restrictions on services trade should be a priority, allowing U.S. firms to compete on an even playing field in Southeast Asia's aviation, finance, healthcare, and education sectors, among others. Many ASEAN economies urgently require greater efficiency and modernization in these industries, creating a natural opportunity for mutually beneficial cooperation. Given the comparative advantage of U.S. firms in these sectors, such reforms would bolster regional economic capacity while expanding America's commercial prospects.

Sixth, beyond trade reforms, the U.S. should pursue high-standard bilateral investment treaties (BITs) that balance investor rights with regulatory sovereignty. Future BITs should go beyond merely offering protections against expropriation and instead incorporate strong labor, environmental, and dispute resolution mechanisms, ensuring a sustainable and rules-based investment environment.

Seventh, and finally, the U.S. should establish a regional framework for cross-border data governance. This should include data localization restrictions, cybersecurity safeguards, and enforceable personal data protection standards to ensure harmonized and secure digital trade across ASEAN. Given Southeast Asia's rapid digital transformation, setting high regulatory standards now will shape the future rules of digital commerce in the Indo-Pacific.

By advancing a strategic, rules-based economic partnership with Southeast Asia, the U.S. can offer a compelling alternative to China's state-led economic model. A well-calibrated approach—one that prioritizes investment, market access, and regulatory alignment—will ensure that Southeast Asia remains an open and competitive economic powerhouse, benefiting both regional prosperity and long-term U.S. strategic interests.