THE SINO-AMERICAN TRADE DISPUTE AND ITS REGIONAL IMPLICATIONS: AN INTERIM REPORT

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Executive Summary

1. The protracted trade imbalance between China and the United States, exacerbated after China's entry to the World Trade Organisation, led to the recent trade dispute and a new round of geopolitical competition.

2. After imposing numerous waves of tariffs on each other, the two countries have engaged in trade negotiations. Despite periodic signals that talks are nearing successful completion, the trade friction continues.

3. The possible impacts of the Sino-American trade friction on Southeast Asia are mixed. Pessimists point out that Southeast Asian countries that are part of a China-based supply chain could be hurt by trade-related fall in production in both China and the United States.

4. Optimists believe that the trade friction could increase Southeast Asian countries' exports to the United States and China as a substitution for the products affected by the tariff hikes.

5. Additionally, manufacturing enterprises in China, including both Chinese and foreign companies, would relocate their factories to Southeast Asia to avoid the effects of the tariffs.

6. From the point of geopolitics, the rise of China has been a rising security concern for Southeast Asia. In this aspect, the rebalance of the United States to the Asia Pacific has been viewed as beneficial for the region.

7. Nevertheless, China is still intertwined in the value-chains of the region. Southeast Asian countries therefore need to balance their economic and security interests.

8. To date, there are three possible outcomes of the trade dispute. In the first scenario, the "great deal" that Trump has long eulogised is reached resulting in an

improvement in China-US relations. This will likely induce little change to the current status quo in the Southeast Asia region.

9. In the second scenario, both the trade dispute and strategic competitions continue, leading to a reshuffling of the regional political and economic structure as the Chinese and American economies decouple and a slowdown of regional growth. Over the longer term this could be beneficial to South and Southeast Asia through import substitution and relocation of value chains.

10. The third scenario is the most realistically likely outcome: a truce in the trade dispute, while strategic competition continues. In this case, the Southeast Asia region will be less economically impacted, but politically they would be under growing pressure to choose sides.