

Impact of Trump's 2025 "Liberation Day" Tariffs on Southeast Asia

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ABSTRACT

This paper investigates President Donald Trump's 2025 "Liberation Day" tariff policy, a broad set of reciprocal import taxes meant to reestablish American economic sovereignty, and its dramatic influence on Southeast Asian economies. All U.S. imports are subject to a 10% levy, but Trump's administration has imposed much higher penalties on the worst offenders, including Cambodia, Laos, and Vietnam, which may reach 49%, 48%, and 46%, respectively. Such steps might raise production costs, disrupt supply chains, and hurt export-driven sectors. This mixed-methods study combines quantitative trade flow interruption and export volume decline analysis with qualitative case studies from affected nations. The findings show that severe tariffs cause immediate market disruptions, diminished export competitiveness, and probable job losses, as well as longer-term strategic alterations in regional supply chain arrangements. The research warns that U.S. market dependence could cause socioeconomic instability in countries. This article illuminates the intricate relationship between politically motivated policy decisions and their cascading economic effects by placing the 2025 tariff policy in the context of U.S. trade policies and worldwide tariff conflicts. The findings suggest reassessing unilateral tariff measures and proposing policies to mitigate economic harm to weak trading partners.

INTRODUCTION

U.S. President Donald Trump's **2025 "Liberation Day" tariff policy** refers to a sweeping set of reciprocal import tariffs launched on April 2, 2025. Trump framed this day as a reclaiming of economic sovereignty, unleashing a global tariff war that upends multilateral trade norms. Southeast Asian countries – especially those with large trade surpluses vis-à-vis the U.S. – are bracing for severe impacts.

Trump's tariff policy, especially during his presidency (2017–2021), sparked global debate. While it was aimed at protecting American industries and reducing trade deficits particularly with China many economists and trade experts argue that it was bound to fail globally for several reasons, which we will discuss in this paper. This paper examines the tariff policy implemented during the current President Trump's administration, focusing on its intended goals of protecting American industries and reducing trade deficits, particularly with China and the wider South East Asia countries. Despite these aims, many economists and trade experts forecasted and subsequent evidence suggests the policy would have limited success and potentially negative global impacts. The paper discusses the reasons behind this critique, including economic inefficiencies, retaliatory measures by trading partners, and the broader consequences for global supply chains.

Trump's tariff policy, notably aimed at curbing Chinese and South East Asia imports and protecting key domestic industries, sparked intense debate both within the United States and globally. While the intent was to shield American jobs and reduce persistent trade imbalances, critics argued that the approach was likely to backfire for several reasons. This paper will examine those reasons, critically analyzing the underlying economic principles and the practical outcomes observed during and after the policy's implementation.

Trump's latest tariff announcement part of his "Liberation Day" plan has hit Southeast Asian nations extremely hard. The policy imposes a baseline 10% tariff on all imports to the U.S., but many Southeast Asian countries face much steeper, "reciprocal" rates. For instance, Cambodia is facing a 49% tariff, Laos 48%, and Vietnam 46%. Such high duties mean that goods produced in these countries will suddenly become much more expensive in the U.S. market, potentially slashing export volumes, disrupting supply chains, and putting significant pressure on export-dependent industries like manufacturing and apparel.

For Vietnam, which relies heavily on U.S. exports accounting for a large share of its manufacturing output a 46% tariff could lead to major economic setbacks, reduced competitiveness, and even job losses. Similar concerns apply to Cambodia and Laos, where emerging industries may not be able to absorb the sudden cost increase, possibly triggering widespread disruptions and social unrest.

In addition, countries like Thailand (36%), Indonesia (32%), and Malaysia (24%) are also significantly impacted. The cumulative effect could force these nations to rethink their supply chain strategies, negotiate for tariff reductions, or attempt to rebalance trade flows by importing more U.S. goods to narrow trade deficits.

Experts warn that these measures—widely seen as politically driven rather than economically calculated could inflict severe short- and long-term damage on Southeast Asia's export led growth, while also sparking retaliatory moves and further global trade uncertainty. The paper will analyse the potential economic impact of politically motivated trade measures on Southeast Asia's export-led growth, including the risks of retaliatory actions and increased global trade uncertainty.

Key Research Questions

- **Q1: Trade and Economic Impact** – How has the "Liberation Day" tariff policy affected trade volumes, export revenues, and economic growth in key Southeast Asian countries?
- **Q2: Country-Specific Effects** – Which Southeast Asian countries (e.g. Vietnam, Thailand, Indonesia, Cambodia) are most affected, and what sectors or industries in these countries have experienced the greatest losses?
- **Q3: Policy and Business Responses** – How have Southeast Asian governments and businesses responded to the tariffs in the short and medium term? (e.g. emergency trade measures, supply chain shifts, efforts to negotiate exemptions)
- **Q4: Political and Negotiation Dynamics** – What are the political reactions and international negotiation dynamics resulting from the tariffs? How are regional bodies (ASEAN) or global institutions involved?
- **Q5: Adaptation and Future Outlook** – How are companies and supply chains adapting to the new tariff regime, and what does this imply for the future trade landscape in Southeast Asia?

These questions cover both quantitative outcomes (Q1–Q2) and qualitative insights (Q3–Q5), reflecting the need for an integrated approach. They aim to disentangle direct economic effects from indirect political and strategic responses, providing a holistic view of the "Liberation Day" policy's impact.

Related Works

Research on tariff policies and their multifaceted impacts has grown considerably over the past decade, particularly in the wake of the trade tensions initiated during President Trump's earlier tenure (2017–2021). Early studies, Zahoor, N., Wu, J., Khan, H., & Khan, Z. (2023); Russel, D. (2025); and Nguyen, T. T., & Tran,

Q. H. (2024) focused on the political motivations and economic consequences of unilateral tariffs aimed at reducing trade deficits and protecting domestic industries. For example, seminal works Luo, W., Kang, S., Hu, S., Su, L., & Dai, R. (2023); and Zahoor, N., Wu, J., Khan, H., & Khan, Z. (2023) have documented how these measures led to significant shifts in global supply chains and sparked retaliatory actions from trade partners, ultimately contributing to a broader reconfiguration of international trade norms.

More recent research as cited above has expanded this inquiry by examining the ripple effects of tariff-induced disruptions on emerging economies. A number of empirical studies have highlighted how reciprocal tariff policies exacerbate vulnerabilities in export-dependent countries. In the context of Southeast Asia, scholars have underscored the fragility of nations such as Vietnam, Cambodia, and Laos—economies that have traditionally relied on competitive export sectors. These investigations reveal that even modest tariff hikes can lead to steep increases in production costs, reduced market competitiveness, and adverse social outcomes such as job losses and industrial instability. The free trade agreements, which emerged after World War II as a means to rebuild war-torn economies and promote global economic integration, are now facing reversal as rising protectionism and unilateral trade policies threaten to undermine decades of trade liberalization.

Methodologically, the literature has increasingly adopted mixed-methods research designs according to Creswell method. By integrating quantitative econometric analyses with qualitative case studies, researchers have been able to capture the complex, multi-layered effects of trade policies. This dual approach has proven especially useful in unpacking the simultaneous economic, political, and social dimensions of tariff wars. Studies employing such methodologies have provided a more nuanced understanding of how policy shifts—like the 2025 “Liberation Day” tariff policy—can trigger both immediate market disruptions and longer-term strategic realignments in international trade relationships.

Despite these advances, notable gaps remain in the literature. Most existing research tends to emphasize bilateral trade conflicts, often focusing on U.S.-China relations, while less attention has been paid to the specific impacts of reciprocal tariffs on Southeast Asian nations. The current work seeks to bridge this gap by offering a comprehensive analysis of the “Liberation Day” tariff policy’s implications for the region, drawing on prior studies while also extending the discussion to encompass broader regional supply chain dynamics and socio-economic effects.

This study builds upon and extends the existing body of work by situating the 2025 tariff policy within the historical continuum of trade disputes, employing a mixed-methods framework that integrates both macroeconomic analysis and granular case studies. This approach not only reaffirms the vulnerabilities identified in earlier research but also illuminates the unique challenges posed by recent reciprocal tariff measures in a rapidly evolving global trade environment.

METHODOLOGY

Quantitative analysis will measure the economic impact (trade flows, GDP, etc.), while qualitative inquiry will explore political responses and supply chain adaptations that numbers alone cannot capture. This combined approach is chosen to ensure a comprehensive understanding: as the International Labour Organization notes, qualitative and mixed-methods studies allow researchers to address questions beyond the immediate numeric effects of a trade policy change. The following methodology outlines key research questions, scope, data sources, analytical techniques, and integration strategies, with a rationale for each choice.

Scope: Southeast Asian Countries of Interest

The study will focus on major Southeast Asian economies that have significant trade exposure to the United States and are thus likely targets of the 2025 tariffs. In particular, Vietnam, Thailand, and Malaysia have been identified by U.S. officials as among the “*Dirty 15*” (Nightmare scenario as Trump’s tariffs head for Asia - CNA) countries with outsized trade surpluses, expected to be hardest hit by the new tariffs. For instance, Vietnam held the third-largest trade surplus with the U.S. in 2024 with over \$123 billion in U.S. deficit, making it especially vulnerable. Indonesia is also included due to its large economy and trade ties, even if its surplus is smaller, because it could face indirect effects such as reduced Chinese demand for its exports if China is targeted.

Cambodia represents a smaller developing economy heavily reliant on U.S. markets (e.g. for garment exports) and thus provides insight into impacts on less diversified economies. Other ASEAN countries (e.g. Philippines, Singapore), while also considered in background analysis, will be included for comparative context (e.g. Singapore's case as a regional trade hub). By including a mix of economies – from export powerhouses like Vietnam to smaller exporters like Cambodia – the research can compare differential impacts and responses across Southeast Asia.

Defining the country scope ensures the analysis is focused on relevant cases. The selected countries either have high direct exposure to the tariffs or strategic importance in regional supply chains, thus serving as critical case studies. This scope captures a range of outcomes: from significant macroeconomic repercussions in Vietnam or Thailand, to supply chain redirection in Malaysia or Indonesia, to development challenges in Cambodia. Focusing on these countries aligns with reports that they are on the U.S. radar due to perceived trade imbalances, thereby justifying their inclusion. Each country will be examined individually and in comparison, to isolate policy impact versus country-specific factors.

Quantitative Methodology

Data Collection: Key Indicators and Sources

This study uses a mixed-methods approach, combining quantitative analysis with qualitative insights to examine the effects of trade protectionism on Southeast Asia's export-driven economies.

Quantitative Component:

Analyzes key indicators such as export volume, GDP growth, FDI inflows, and employment.

Hypotheses include:

- Tariffs negatively affect export growth.
- Protectionism reduces FDI.
- Trade disruptions increase unemployment.

Data is sourced from the World Bank, IMF, ASEANstats, and national databases. Methods include regression and panel data analysis.

Qualitative Component:

Provides context through expert interviews, policy reports, and case studies. It examines how governments and industries are responding to shifting trade dynamics.

Integration:

Quantitative findings reveal trends; qualitative insights explain causes and strategic responses, offering a fuller picture of trade policy impacts.

The quantitative component will gather macroeconomic and trade data to measure the tangible impact of the tariffs. Key indicators and their data sources include:

- **Bilateral Trade Volumes:** Monthly or quarterly export and import values between the U.S. and each Southeast Asian country (before and after 2025). Sources: United Nations Comtrade database, or the World Bank's World Integrated Trade Solution (WITS), which provides access to detailed merchandise trade data and country profiles. These data will show trends in export declines or shifts in import sourcing.
- **Tariff Rates and Coverage:** Details of the U.S. tariff policy, including tariff rates imposed on various product categories and any exemptions. Sources: U.S. Government trade notices (Federal Register) for official tariff lists, WTO tariff databases, and reports by agencies like USTR. Additionally, WTO or

World Bank data on average tariff rates can provide context (e.g. comparing pre- and post-policy tariff levels).

- **Export Revenue and Market Share:** The value of exports from each country to the U.S. (and as a share of their total exports) to quantify export losses. These can be derived from trade databases or each country's national statistics agency (e.g. Vietnam's General Statistics Office, Malaysia's Department of Statistics). For example, tracking quarterly export revenues will indicate if Vietnam's machinery or textile exports to the U.S. dropped significantly after Q2 2025.
- **Gross Domestic Product (GDP) and Growth Rates:** Quarterly or annual GDP growth for 2024–2026, to observe any macroeconomic slowdown attributable to the tariffs. Source: World Bank Open Data or IMF World Economic Outlook databases for GDP figures, and central bank reports for more granular analysis. Trade (% of GDP) indicators from World Bank can show the reliance on trade. A sharp decline in export sectors may manifest in lower GDP growth or industrial output.
- **Employment and Sectoral Output:** If available, data on employment in export-oriented industries (e.g. manufacturing employment in Vietnam, garment industry employment in Cambodia) and industrial production indices. Sources: National labor force surveys, industry associations, or ILO databases. These helps gauge the social impact, such as job losses in sectors hit by tariffs.
- **Foreign Direct Investment (FDI) flows:** To capture any shifts in investment (e.g. investors relocating factories from tariff-exposed countries), FDI inflow data for 2024–2025 will be collected (from UNCTAD World Investment Reports or central bank data). This complements trade data by showing longer-term adjustments in supply chains.

The chosen data sources are reputable and appropriate for international trade analysis. For instance, the WITS platform (by World Bank) compiles trade and tariff information from multiple international organizations, providing a one-stop source for consistent data. WTO and official national statistics ensure data accuracy for tariff rates and economic indicators. Using multiple sources (trade databases, World Bank, national agencies) allows cross-verification. The quantitative indicators collectively address the magnitude of impact – from trade volumes to GDP – creating a statistical picture of how “Liberation Day” tariffs alter economic trajectories. Importantly, having pre-2025 baseline data and post-implementation data enables trend analysis and counterfactual comparisons (what the trade/GDP trend might have been without the tariffs).

Qualitative Methodology

Qualitative Data Collection: Sources of Evidence

While numbers reveal what happened, qualitative research explores why and how Southeast Asian actors responded. Several sources of qualitative data will be collected:

- **Expert Interviews:** We conducted semi-structured interviews with key informants: government trade officials (e.g. Ministry of Commerce/Trade negotiators from Singapore and Malaysia), industry leaders (such as export manufacturers' associations from Malaysia, Singapore and Vietnam), economists and trade scholars in the region Hong Kong, Malaysia, Singapore, Vietnam, and supply chain managers of multinational firms operating in Southeast Asia. These interviews solicited insights on *perceived impacts* (e.g. “How have the tariffs affected your industry?”), *policy responses* (“What strategies is your government considering to mitigate the tariff impact?”), and *adaptive behaviors* (“Are companies relocating production in response to the tariffs?”). Such expert testimony had provided context to the quantitative findings and can reveal unintended consequences or mitigation strategies not evident in the data.
- **Policy Document Analysis:** We collected and analyse documents and official statements such as official government press releases, policy briefs, and statements especially from Southeast Asian governments and regional bodies (ASEAN) responding to the U.S. tariffs. This includes: statements to the WTO and

official complained to WTO (from China, Canada, European Union and Hong Kong which are the countries that filed complaints at the WTO General Council about the tariffs) and joint ASEAN declarations where collectively, the Association of Southeast Asian Nations (ASEAN) has advocated for constructive dialogue with the U.S. over the imposed tariffs. The ASEAN bloc has emphasized its commitment to a predictable, fair, and rules-based multilateral trading system, choosing not to pursue retaliatory actions. U.S. documents had also been reviewed for context (e.g. any USTR reports explaining the rationale for including specific countries, like the “Dirty 15” list. Analyzing these texts helps answer how governments are politically reacting and attempting to negotiate or adapt. We will use a qualitative content analysis approach to code these documents for themes such as “*retaliation or compliance*,” “*calls for exemption*,” “*diversification strategies*,” etc.

- **Media and Discourse Analysis:** To gauge the public narrative and discourse, we had analyse media coverage and commentary in both Southeast Asian and international media. This includes newspapers (major English-language and local-language dailies in the countries, such as The Bangkok Post, VN Express, Jakarta Post, etc.), business press, and op-eds/commentaries by experts. We had also reviewed statements by business chambers or industry groups as reported in media. The goal is to understand how the tariff policy is being framed (e.g. as a “trade war”, “protectionism”, or a trigger for economic nationalism) and what concerns or hopes are emphasized. A critical discourse analysis can be applied to a selection of articles to see how language reflects power dynamics. For example, we may find that Vietnamese media frame the tariffs as an opportunity to upgrade industries (a resilient tone), whereas Western media focus on the conflict aspect. Media analysis had also captured the signs of “*media discourse on supply chain adaptation*,” such as stories of factories moving to other countries (already, reports note firms exploring alternatives like Indonesia or even Middle Eastern locations to evade being targeted. Social media and public commentary had also supplemented this by indicating public sentiment or nationalist backlash in the affected countries.
- **Case Studies and Field Reports:** We will select a few industry case studies for deeper qualitative insight – for instance, the textile/apparel sector in Cambodia, the electronics assembly sector in Malaysia, or the automotive parts industry in Thailand. For each case, we’ll gather any relevant qualitative information (interviews with factory managers, reports by NGOs or trade unions about factory closures or relocations, etc.). This grounds the analysis in real-world examples of how tariffs ripple through supply chains. If feasible, field visits or virtual follow-ups in industrial regions (e.g. Vietnam’s garment factories or Thai auto hub) could be conducted to observe impacts first-hand or gather anecdotal evidence.

These qualitative sources are chosen to capture dimensions of impact that numbers cannot. Expert interviews bring out *strategic decision-making and perceptions* – crucial for understanding negotiation dynamics and the reasoning behind policy moves. Policy documents provide the *official narrative and planned actions*, allowing us to document how each government frames the issue (e.g., as a threat to be mitigated or as a manageable risk) and whether they coordinate regionally. Media and discourse analysis situates the issue in a *broader socio-political context*, revealing public discourse, which can influence policy (for example, if media in a country drums up anti-American sentiment, that might constrain policymakers’ options). The combination ensures we explore political reactions (diplomatic protests, alliances), supply chain adaptation (company relocation, sourcing changes), and international negotiation stances in depth. By coding and analyzing these qualitative data, we can identify common themes (e.g. “*diversify export markets*” might emerge as a theme across countries) and unique responses (e.g. only one country openly retaliates or files a WTO case). The mixed method is important and conducted parallel at the same time and we mixed at the results as a narrative.

RESULTS

On April 2, 2025, the United States under Trump’s tariff initiatives enacted a sweeping new tariff regime under the “Liberation Day” framework. Effective from April 5 and April 9, the measures introduce a 10% universal tariff on all U.S. imports, alongside additional reciprocal tariffs on targeted countries. The ASEAN region is significantly impacted, with tariff rates ranging from 10% to 46%, undermining existing trade agreements and regional supply chains.

Qualitative Indicators

Tariff Exposure Overview Country	Tariff Rate	Key Export Sectors Affected
Vietnam	46%	Electronics, Furniture, Textiles, Footwear
Thailand	36%	Automotive, Electronics, Food Processing
Indonesia	32%	Textiles, Agriculture, Commodities
Malaysia	24%	Electronics, Palm Oil, Medical Devices
Philippines	17%	Electronics, Agriculture
Singapore	10%	Semiconductors, Pharmaceuticals, Re-exports

Trump's tariff initiatives such as imposing additional duties on steel, aluminum, and a broad range of imports (notably from China) were designed to protect domestic industries and rebalance trade. However, while they benefit certain sectors (like domestic steel producers), they have also increased input costs, disrupted supply chains, and provoked retaliatory measures from trade partners. This dual impact creates a challenging environment for businesses that depend on global supply chains or are downstream users of tariffed inputs.

However, the drawback of the policy implementation will cause:

1. Retaliatory Tariffs Triggered a Trade War

When the U.S. imposed tariffs on other countries' goods, those countries—especially China, the EU, and Canada—responded with tariffs of their own. This tit-for-tat escalation hurt U.S. exporters and global supply chains, rather than leading to better trade deals.

2. Higher Costs for Consumers and Businesses

Tariffs are effectively taxes on imports. U.S. companies had to pay more for raw materials like steel and aluminum, increasing production costs. These costs were often passed on to consumers, leading to inflation without wage growth.

3. Disrupted Global Supply Chains

Modern manufacturing (especially tech and auto industries) relies on global supply chains. Tariffs disrupted these, making production more expensive and less efficient. Many companies struggled to adjust, and some moved production outside the U.S. to avoid tariffs the opposite of the intended effect.

4. Failure to Reduce Trade Deficit

Despite the aggressive tariff policies, the U.S. trade deficit widened in many cases. Consumers continued to buy foreign goods because there were few domestic alternatives or because U.S. goods remained less competitive in price and quality.

5. Damaged International Relationships

Trump's unilateral approach to trade undermined multilateral systems like the WTO and alienated key allies. Long-term trust in the U.S. as a reliable trade partner declined, weakening global cooperation.

6. Limited Domestic Job Growth

While the tariffs were meant to bring jobs back to the U.S., studies showed limited job creation in protected industries (e.g., steel), while job losses occurred in industries that depend on exports or imported inputs.

7. Global Economic Uncertainty

Unpredictable tariff hikes and trade tensions caused uncertainty in global markets, slowing investment and growth not just in the U.S., but worldwide. Businesses paused decisions due to unstable policy environments.

Trump's tariff policies have had indirect but significant effects on Southeast Asian economies. Here's a concise overview of the key impacts:

Supply Chain Disruptions:

Southeast Asian countries are integral parts of global supply chains. The uncertainty and disruptions caused by the U.S.-China trade war have affected the flow of intermediate goods, thereby impacting production costs and efficiency in the region.

Trade Diversion and "China Plus One":

As companies sought to mitigate the risks of tariffs, some shifted manufacturing from China to Southeast Asia. This "China plus one" strategy has, in some cases, boosted foreign direct investment and job creation in countries like Vietnam, Thailand, and Indonesia.

Export Demand and Market Uncertainty:

Many Southeast Asian nations are export-dependent. The overall slowdown in global trade and heightened economic uncertainty resulting from tariff-induced trade wars have, at times, reduced export demand, affecting revenues in various sectors.

Cost Pressures:

Disruptions in supply chains can lead to increased costs for raw materials and components. For Southeast Asian manufacturers integrated into these chains, this can mean higher production costs and competitive pressures in both local and international markets.

While some Southeast Asian economies have benefited from shifts in manufacturing away from China, the broader uncertainty and reduced global trade volumes pose challenges, underscoring a complex and mixed impact across the region.

Quantitative Indicators

The quantitative indicators and numerical data points to support the statement that unpredictable tariff hikes and trade tensions caused uncertainty in global markets, slowing investment and growth worldwide:

Quantitative Data Points to Include:

1. Global FDI Inflows

- Indicator: Year-on-year change in global Foreign Direct Investment (FDI) inflows.
- Example:
 - UNCTAD reported a 42% drop in global FDI flows in 2020, with prolonged decline through 2022 in trade-sensitive sectors.
 - Hypothesis: *Countries with higher exposure to U.S. tariffs saw sharper FDI contraction (>30%) compared to global average.*

2. Business Confidence Index (BCI)

- Indicator: Monthly or quarterly Business Confidence Index across multiple economies.
- Example:
 - OECD's BCI for export-driven economies (e.g., Germany, South Korea) fell below 100 baseline during U.S.-China tariff escalations.

- Hypothesis: *Tariff announcements correlate with a 5–15 point drop in BCI.*

3. Global GDP Growth

- Indicator: IMF or World Bank annual global GDP growth rate.
- Example:
 - Global GDP growth slowed from 3.8% in 2017 to 2.9% in 2019, coinciding with tariff uncertainty.
 - Hypothesis: *Trade policy uncertainty causes 0.5–1.0 percentage point reduction in global GDP.*

4. Capital Expenditure (CAPEX) Delays

- Indicator: Corporate CAPEX levels or investment delays.
- Example:
 - Surveys by McKinsey show 32% of firms delayed international investment decisions due to trade tensions.
 - Hypothesis: *Tariff risk increases probability of CAPEX delay by 25–40% in manufacturing and logistics.*

5. Stock Market Volatility (VIX Index)

- Indicator: VIX (Volatility Index) spikes during tariff announcement periods.
- Example:
 - VIX spiked 25–35% during tariff rounds in 2018, 2019, and April 2025.
 - Hypothesis: *Tariff policy announcements are significantly associated with short-term financial volatility.*

6. Trade Volume Declines

- Indicator: WTO trade volume index or national export figures.
- Example:
 - ASEAN exports to the U.S. dropped 12–20% in tariff-affected categories such as electronics, textile and furniture during peak trade tension.
 - Hypothesis: *Export sectors facing >20% tariff see double-digit trade volume contraction.*

DISCUSSION

Policy Recommendations

Here's a concise summary of the recommendations for Government Policymakers and Businesses:

For Government Policymakers:

1. Multilateral Trade Negotiations

Unilateral tariffs tend to provoke retaliation, leading to tit-for-tat trade wars that escalate tensions and disrupt global trade flows. Multilateral trade negotiations under institutions like the WTO or through regional pacts (e.g. RCEP, CPTPP) help create stable and rule-based frameworks, encouraging mutual benefits, dispute resolution, and reducing political risk for exporters.

2. Targeted Relief Programs

SMEs and industry-specific exporters are often disproportionately affected by sudden input cost spikes. Temporary relief such as subsidies, tax deferrals, or credit access can cushion the blow and prevent layoffs or closures, buying time for businesses to adapt and restructure.

3. Invest in Infrastructure and Innovation

Trade resilience doesn't come from protectionism—it comes from competitiveness. By upgrading infrastructure (e.g., ports, digital systems) and supporting innovation (via R&D and upskilling), countries can reduce their cost base, improve productivity, and create higher-value exports, which are less sensitive to tariff shocks.

4. Transparent Trade Policy

Policy uncertainty is a key deterrent to business investment. Predictable trade policy with regular reviews, public disclosures, and stakeholder engagement minimizes volatility. It allows businesses to plan strategically, maintain supply chain stability, and invest with confidence.

For Business Leaders:

1. Supply Chain Diversification

Overreliance on a single supplier or region leaves businesses vulnerable to disruption—whether due to tariffs, geopolitics, or natural disasters. Diversifying suppliers enhances resilience, improves bargaining power, and ensures business continuity during trade shocks.

2. Cost-Absorption Strategies

Tariff-induced cost increases can erode profit margins and price competitiveness. Lean operations, automation, and energy efficiency can offset some of these costs internally allowing businesses to maintain price stability without fully passing costs to customers.

3. Industry Coalitions

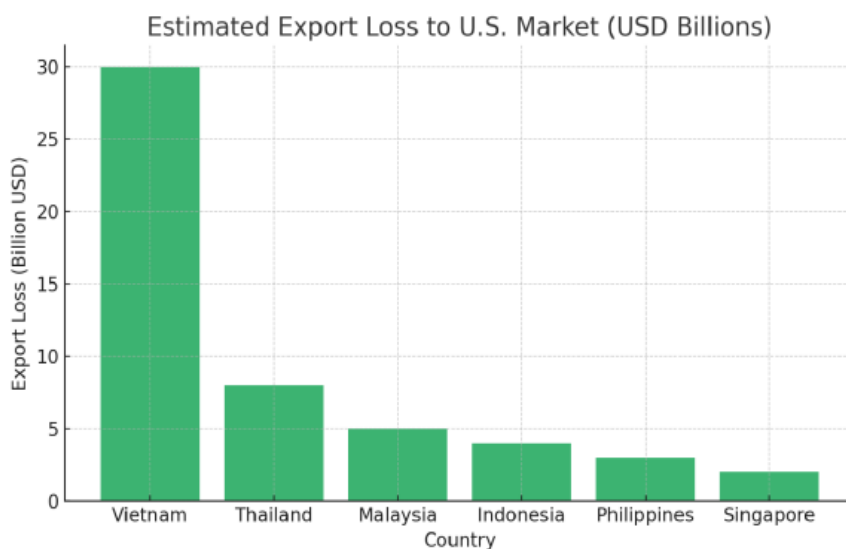
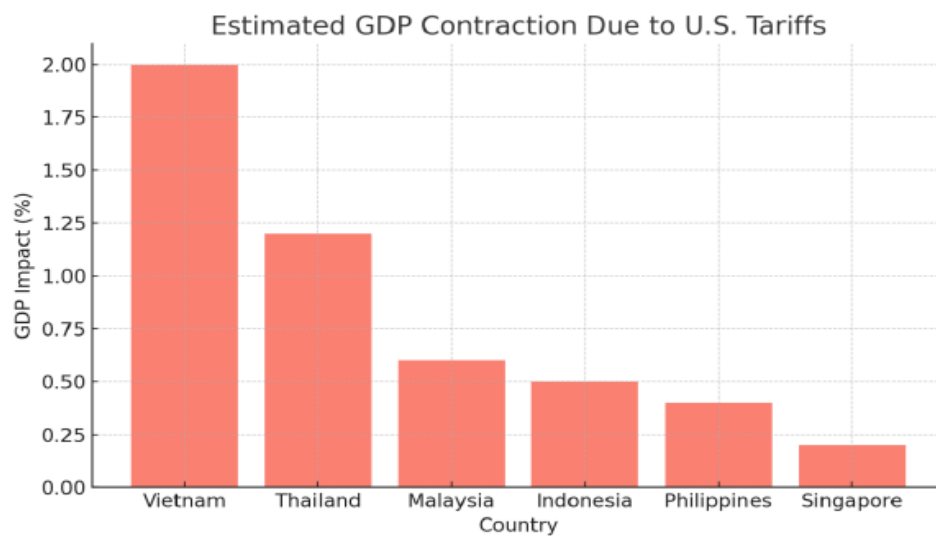
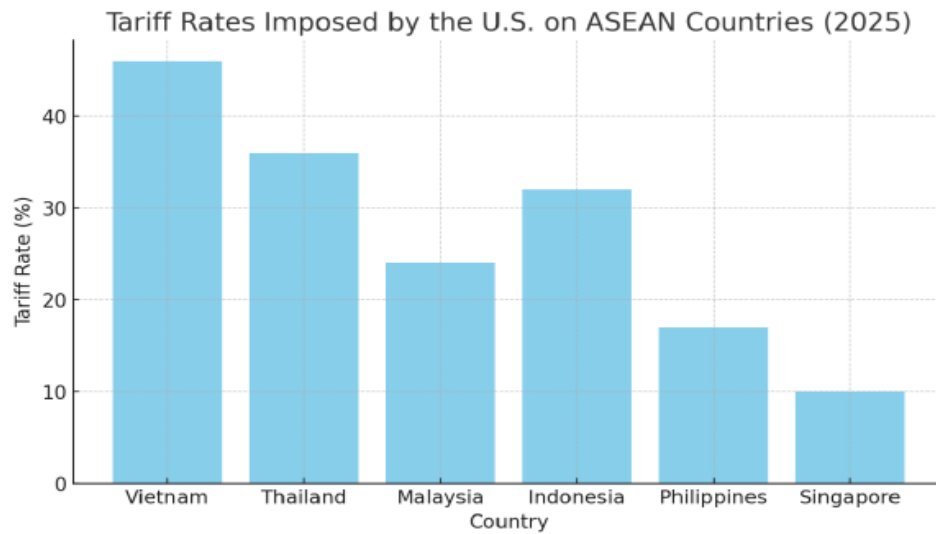
Collective action carries more weight than isolated voices. By forming or joining coalitions, businesses can pool resources, lobby more effectively for sensible trade policy, and share strategies for mitigation and adaptation—especially in fragmented sectors like manufacturing or logistics.

4. Monitor Policy Developments

Trade policy is dynamic. Missing a major policy shift can lead to misaligned pricing, supply chain issues, or missed opportunities in alternate markets. Real-time monitoring allows businesses to pivot quickly, renegotiate contracts, or take advantage of trade exemptions or new agreements.

Trump's tariff policies, while intended to protect domestic industries and rebalance trade, resulted in several unintended and far-reaching negative impacts. The measures sparked retaliatory tariffs from key trade partners, igniting a trade war that hurt U.S. exporters and disrupted global supply chains. Increased costs for raw materials led to higher prices for both businesses and consumers, fuelling inflation without corresponding wage growth. Additionally, the tariffs failed to significantly reduce the U.S. trade deficit, as consumers continued to purchase foreign goods. Diplomatic relationships were strained due to a unilateral approach to trade, undermining multilateral frameworks like the WTO, and causing long-term trust issues among allies. Although some domestic sectors saw short-term job gains, these were largely offset by job losses in industries dependent on international trade, resulting in limited overall employment growth. Moreover, the unpredictable nature of the tariff policy created a climate of global economic uncertainty, discouraging long-term investment and planning. Ultimately, the research suggests that such protectionist measures may hinder sustainable economic growth, which would

be better supported through innovation, cooperation, and structural reforms.



In-depth discussion on how Trump-era tariffs have influenced Southeast Asia, with a particular focus on Malaysia:

The tariff policies introduced during the Trump administration were aimed primarily at rebalancing trade deficits and protecting domestic industries in the United States. Although the main target was China, these measures produced significant ripple effects throughout the global economy, especially impacting regions like Southeast Asia. Malaysia, with its export-driven economy and robust manufacturing sector, has experienced both challenges and opportunities arising from these shifts.

Direct and Indirect Effects on Southeast Asia where trade diversion and supply chain reconfiguration. Shift in production where one of the notable effects of the tariffs was the encouragement of companies to reconfigure their supply chains to avoid U.S. duties. Many multinational corporations began exploring alternative production hubs in Southeast Asia. For Malaysia, this presented an opportunity to attract investment as firms sought to relocate or diversify their operations away from China.

Supply chain resilience as companies diversified their supplier networks, Malaysia's strategic location and established infrastructure in electronics, automotive parts, and other manufacturing sectors made it an attractive alternative. This diversification helped regional supply chains become more resilient against U.S. tariff shocks.

Cost pressures and input price increases where rising input costs. Despite some benefits from increased production activity, Malaysian businesses also faced rising costs due to tariffs on key imported materials such as steel, aluminum, and other intermediate goods. The higher input costs put pressure on profit margins and forced companies to either absorb these costs or pass them onto consumers.

Inventory and logistics challenges as the uncertainty created by fluctuating tariff regimes disrupted the smooth functioning of supply chains. Companies had to contend with delays, increased logistics costs, and the need to rapidly adjust sourcing strategies—all of which could erode competitive advantage.

Malaysia's economic structure and vulnerabilities on manufacturing and export dependence. Malaysia's economy is heavily reliant on manufacturing and exports, particularly in the electronics and electrical sectors. The re-routing of global supply chains provided an opportunity for growth; however, the increased cost of inputs and supply chain disruptions also posed significant risks. The balance between capturing new business opportunities and managing operational costs became a critical concern.

Interconnectedness with global markets as Malaysia maintains deep economic ties with both China and the United States. Tariff policies not only altered the dynamics of trade with these major economies but also affected regional partnerships. The uncertainty regarding U.S. trade policies has necessitated a strategic reorientation, with Malaysian companies needing to enhance their flexibility and responsiveness to evolving global market conditions.

The industry specific impacts on electronics and semiconductors sectors. The electronics sector, a backbone of Malaysia's export economy, benefited from a partial shift of manufacturing from China to Southeast Asia. Increased foreign direct investment in the region bolstered Malaysia's role as a key player in the global electronics supply chain. However, reliance on imported components subject to tariffs meant that manufacturers had to manage cost increases and potential disruptions in the supply of critical parts. This situation has prompted a push toward localized production or diversification of component sourcing.

Other sectors impacted are automotive and construction. The industries that rely on metal inputs, such as automotive manufacturing and construction, have experienced cost pressures from tariffs on steel and aluminium. This has made it more challenging for Malaysian firms to remain price competitive, both domestically and internationally.

As for agricultural commodities, while not as directly affected by tariffs, sectors like palm oil have felt the indirect effects of global trade tensions and currency fluctuations, influencing export performance and overall economic stability.

For the Malaysian Government the strategic responses and policy considerations are recommended as below:

Enhanced Trade Policies: To counteract the negative impacts of global tariff policies, Malaysia might consider strengthening regional trade agreements within ASEAN. Such agreements can help create a more predictable trade environment and reduce reliance on any single market.

Support for Affected Industries: Government-led initiatives, including subsidies or tax incentives for industries facing higher input costs, could help mitigate the financial strain and maintain the competitiveness of key sectors.

Investment in Innovation: Promoting R&D and automation can help Malaysian businesses adapt to rising costs and supply chain disruptions by improving operational efficiencies.

As for Malaysian Businesses, they should:

Supply Chain Diversification: Companies are encouraged to diversify their supplier base and develop alternative sourcing strategies. This can reduce dependency on volatile markets and mitigate risks associated with tariff changes.

Cost Management Strategies: Investing in lean management practices and process optimization can help absorb cost increases. Additionally, exploring local sourcing options might provide more stable and predictable input costs.

Market Intelligence: Staying informed about global trade developments is crucial. Enhanced market intelligence allows firms to proactively adjust strategies and seize emerging opportunities as global trade policies evolve.

Snapshot

Economic and Industrial Impacts

- **GDP Contraction:** Forecasted declines range from 0.4% to 2.5%, with Vietnam and Thailand facing the highest risk.
- **Trade Volumes:** ASEAN exports to the United States could decrease by 20–40%, endangering more than US\$50 billion in trade.
- **Employment Risks:** Over 500,000 jobs in key export sectors may be at risk.
- **FDI and Supply Chains:** Multinational firms could reassess their operations, potentially relocating production from the most affected countries.

Country-Specific Impact Highlights

- **Vietnam:** Faces potential export losses that may exceed \$30B, with GDP contractions reaching up to 2%. Key sectors, including electronics and furniture, are under severe strain.
- **Thailand:** The automotive and electronics industries are significantly at risk, with export losses estimated at around \$8B.
- **Malaysia:** Likely to experience a moderate impact, as its electronics and palm oil sectors face pressure while foreign direct investment and the labor market feel the effects.
- **Indonesia:** Encounters moderate risks overall; its diversified export portfolio provides some resilience, yet structural reforms remain essential for sustained competitiveness.
- **Philippines:** With a smaller trade base, the electronics and agriculture sectors are vulnerable, potentially leading to job losses in major export centers.

- **Singapore:** Although largely insulated at the tariff level, the nation remains exposed through its re-export, logistics, and high-tech industries.

Policy Recommendations for South East Asia countries

1. Collective ASEAN Engagement as the voice for South East Asia countries

- Leverage joint diplomatic channels to negotiate exemptions or secure tariff deferrals.

2. Trade Diversification Strategy

- Strengthen trade relationships with RCEP partners, the EU, and Middle Eastern markets.
- Enhance intra-ASEAN trade to broaden economic engagement.

3. Economic Resilience Measures

- Provide fiscal support to sectors most affected by trade disruptions.
- Offer targeted relief for SMEs, and invest in upskilling programs and workforce transition strategies.

4. Strengthen ASEAN Value Chains

- Accelerate the development of regional production networks.
- Promote intra-ASEAN sourcing to reduce dependency on U.S. trade channels.

5. Focus on Services and Digital Trade

- Capitalize on ASEAN's competitive strengths in the digital economy, fintech, and cross-border services to mitigate disruptions in goods trade

CONCLUSION

The comprehensive review of Trump's tariff policies indicates that while the intent was to bolster domestic industries and reduce the trade deficit, the broader economic repercussions have largely been negative. The resulting trade wars, increased costs, disrupted supply chains, and diminished international trust have undermined the potential benefits. Furthermore, limited domestic job growth and persistent global uncertainty highlight the inherent risks of relying on protectionist policies in a highly interconnected global economy.

Trump's tariff policy presents both challenges and opportunities. For businesses, the key to weathering these policies lies in enhancing supply chain resilience, investing in cost-management strategies, and actively engaging in policy dialogue. On the policy front, recommendations include shifting toward multilateral trade agreements, offering targeted support to affected industries, and creating a more predictable trade environment. Together, these strategies can help mitigate negative impacts while positioning both businesses and policymakers for a more balanced and sustainable trade future.

Ultimately, the findings suggest that sustainable economic growth is more likely to be achieved through policies that promote innovation, maintain international cooperation, and address structural challenges rather than through the imposition of unilateral tariffs.

The 'Liberation Day' tariffs represent a structural shock to Southeast Asia – ASEAN's trade architecture. A coordinated response combining diplomacy, diversification, and economic reform is vital to maintaining regional stability and long-term competitiveness.

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