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Asia and "Reciprocal Tariffs": Is Regionalism the Antidote?

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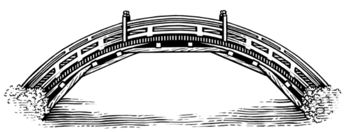

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EXECUTIVE SUMMARY

This essay argues that Asia's system of regional trading agreements will not protect countries from the uncertain and chaotic U.S. tariff policy but that this system nonetheless might help underpin a global response.

MAIN ARGUMENT

Asian countries are signatories to many trade agreements that have featured innovation, steady persistent cooperation, and large coalitions, all of which are factors that may be important in preserving the world trading system from the Trump administration's tariffs. However, these agreements are not a unified system and are mostly shallow; thus, without extension they will not produce new trade flows to counter losses in U.S. markets. Although President Donald Trump's trade policy is chaotic and destructive, his new trade restrictions are unlikely to disappear completely, even with international pressure and hostile equity and bond markets. No Asian country will be able to avoid economic stresses resulting from the reduction in world growth that these policies could cause. The most vulnerable will be the developing countries that have actively pursued export-led development with the U.S. as a primary partner. With uncertainty prevalent, a global response to Trump's tariffs based on World Trade Organization (WTO) rules is desirable.

POLICY IMPLICATIONS

- Although it may be a difficult and time-consuming process, Asian countries should extend and deepen their regional trading arrangements.
- In negotiating new tariffs with the Trump administration, governments should try to make their responses nondiscriminatory.
- At a minimum, countries should not agree explicitly to penalize other countries—for example, by joining Trump's trade war with China. Governments should deal with China according to their own national interests.
- Countries should open negotiations with non-U.S. members of the WTO to liberalize mutual trade and update the WTO's rules. The U.S. should be allowed to join these talks but not to veto them.

Asian countries have been prolific users of preferential trade agreements (PTAs), both among themselves and with countries elsewhere.[1] This has undoubtedly boosted their trade volumes and almost certainly their economic welfare. Asia has also been an innovator in trade agreements, most notably in terms of "mega-regionalism" (large PTAs) and digital trade agreements. But 2025 has thrown up a new challenge—U.S. president Donald Trump's chaotic love affair with tariffs. The question posed in this essay is whether Asia's regionalism has protected it from this storm and provided a safe way forward. The answer, I am afraid, is no.

This essay comprises five sections. First, I examine the contours of Asian regionalism both in broad terms and in terms of its innovations. Second, I briefly describe Trump's tariff policy, which has involved massive tariffs on steel, aluminum, and autos; 10% tariffs on nearly everything for all countries; larger "reciprocal tariffs" on sixty partners; and even larger tariffs on China. The Trump administration has offered several different justifications for tariffs, and most U.S. official announcements about them have involved subsequent clarifications, exemptions, pauses, or delayed start dates, resulting in frequent changes. The result has been a huge spike in U.S. policy uncertainty that has spread across the world economy.

In the third section, I argue that Asia will be very vulnerable to the reciprocal tariffs because the United States has trade deficits with most Asian countries and these were the basis on which reciprocal tariffs were calculated. In the fourth section, I argue that Asian regionalism alone does not provide a model for overcoming or mitigating the damage caused by U.S. tariffs. Much Asian trade is already covered by PTAs, and most Asian PTAs are relatively shallow; hence, merely increasing the number of agreements does not offer much scope for benefits. However, the shallowness of current PTAs and the lists of exclusions suggest that extending and deepening existing agreements (or creating new ones) could generate significantly more trade and thus help to soothe the higher cost of access to U.S. markets.

Finally, I consider a global response. I argue that the real threat to prosperity is not the tariffs but the possibility that the concessions offered in negotiations with the United States are discriminatory: that is, accommodating U.S. demands for preferential treatment could destroy the trading system that has benefited every country for over 75 years. To avoid this outcome, I suggest some guidelines that World Trade Organization (WTO) members should

[1] PTAs include all formal trade agreements in which at least two countries offer partners preferential access to their markets. The most common are so-called free trade agreements (FTAs) in which countries reduce most tariffs on each other's goods to zero.

follow in dealing with the United States. These amount to using WTO rules in these negotiations to ensure that settlements do not disadvantage other partners unduly. I also advocate seeking a new round of multilateral trade talks. Given that we have been looking over the edge of the abyss in recent months, such negotiations should be realistic about liberalizing trade and updating WTO rules. The talks would be open to the United States but not dependent on its participation. And if the United States were to choose to stand apart, the other WTO members could also examine how to deal with a large nonmember in ways that do not undermine relations between themselves.

THE NATURE OF ASIAN REGIONALISM

The Broad Contours

For nearly three decades, Asia has been the leading exponent of integration via small-group trade agreements. Its component countries have collectively signed more PTAs than other regions, created two of the largest trade blocs—the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP)—and also one of the longest lived, the Association of Southeast Asian Nations (ASEAN). Illustrations of the so-called Asian noodle bowl, which represents the various agreements diagrammatically, famously demonstrate the extent of Asian trade links and infamously the complexity or, less politely, muddle it imposes on traders.[2] The plethora of overlapping bilateral and small-group linkages, each with its own product exclusions, rules of origin, and other details, generates considerable complexity and hence additional costs for traders in Asian countries relative to the unencumbered trade that the term "free trade area" might imply. **Table 1** gives a brief summary.

In terms of "active" PTAs per country—that is, PTAs in force, signed, or under negotiation—East and Northeast Asia is the most enthusiastic subregion. Containing China, Hong Kong (China), Japan, and South Korea, it also has the region's largest economies and hence is the most likely to influence trade volumes and the world trading system. Overall, three quarters of PTAs are bilateral and almost all are small in terms of their contribution to world trade and influence on trade practices. However, the Asia-Pacific includes major innovators and leaders in trade agreements, such as Singapore (in

2 See, for example, the map in UN Economic and Social Commission for Asia and the Pacific (ESCAP), "Asia-Pacific Trade and Investment Trends 2024/25: Preferential Trade Agreements," 2024, 4.

digital trade) and New Zealand (in sustainability). The country blocs and the plurilaterals (groups with more widely spread membership) also demonstrate leadership—for example, the Digital Economy Partnership Agreement signed in 2020 between Chile, New Zealand, Singapore, and South Korea.

TABLE 1

Characteristics of Asia-Pacific Trade Agreements

Subregions	East and Northeast Asia	North and Central Asia	Pacific	Southeast Asia	South and Southwest Asia	Total
(A) Scope						
Bilateral	64	46	28	56	59	253
Country bloc	6	10	2	10	6	34
Plurilateral	11	3	12	17	8	51
(B) Coverage						
Outside the Asia-Pacific	40	32	15	36	39	162
Within the Asia-Pacific	36	8	20	45	25	134
Within subregion	5	19	7	2	9	42
(C) Nature						
Customs union	0	0	0	0	1	1
Customs union and EIA	0	2	0	0	0	2
Digital	2	0	2	4	0	8
Environment	0	0	2	1	0	3
FTA	7	44	5	13	39	108
FTA and EIA	66	12	31	55	18	182
Partial scope agreement	6	1	2	10	15	34
Total	81	59	42	83	73	338
Number of countries	*7*	*9*	*21*	*11*	*10*	*58*

Source: UN Economic and Social Commission for Asia and the Pacific (ESCAP), "Asia-Pacific Trade and Investment Trends 2024/25: Preferential Trade Agreements," 2024, 7, fig. 3.

Note: ESCAP has 53 members and 9 associates and thus has a broad definition of the Asia-Pacific. For the composition of subregions, see ESCAP, "Country Names and Groupings" ∼ https://www.unescap.org/sites/default/files/Country_names_grouping_ESCAP_SYB2016. FTA stands for free trade agreement (goods only); EIA stands for economic integration agreement (extending beyond goods to services and/or regulation).

By a small margin, the majority of active agreements are among Asia-Pacific countries, but agreements with partners outside the region have predominated in recent years. For the key Asian trading powers, agreements with the major external economies—notably the European Union and the United States—have looked very attractive in terms of both obtaining access to major markets and engaging with the movers and shakers of the trading system. As discussed below, however, at least as far as the United States is concerned, the attraction has diminished rapidly.

Overall, while the Asia-Pacific has many PTAs, they are mostly not very deep either in terms of goods (i.e., there are many exceptions) or in their provisions on services and regulation. For example, over a quarter of the PTAs lack provisions on antidumping duties, as do a different quarter on technical standards; fewer than half contain provisions on financial services; a similar percentage lack provisions on telecommunications; and the liberalization of sensitive agricultural products in the CPTPP is subject to tariff rate quotas in several members. On the other hand, the creation and maintenance of these PTAs have involved interactions and cooperation, and so in the current extreme trade environment, their existence may be important as a foundation for future collaboration.

Mega-regionalism

Formed in 1967, ASEAN is a regional grouping aimed at promoting both economic and security cooperation.[3] Partly as a result of its consultative and cooperative approach, ASEAN has evolved and deepened only slowly, but it has developed a strong culture of cooperation. ASEAN or its leading members have been central to the creation of APEC (Asia-Pacific Economic Cooperation) and RCEP. It is also currently negotiating an agreement with the EU. With 4% of world GDP (in current dollars), ASEAN is not a major power, but its long tradition of quiet cooperation and liberalization could allow it to play a critical role in mitigating and eventually unwinding Trump's assault on free trade.

RCEP comprises ASEAN plus five additional members.[4] It is the world's largest trading bloc, with 31% of world GDP, but among the shallowest, aiming to have zero tariffs on 65% of the bloc's internal trade by 2040. RCEP went

3 ASEAN comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

4 RCEP comprises ASEAN—which initiated the idea—plus Australia, China, Japan, New Zealand, and South Korea. India joined negotiation but withdrew toward the end.

into effect in 2022, but negotiations had started in 2013, partly because they offered China an alternative to the Trans-Pacific Partnership (TPP), which was also being negotiated at the time. The TPP was led by the United States after it applied in 2008 to join a small but far-reaching agreement between four Pacific countries—Brunei, Chile, New Zealand, and Singapore. Though the TPP had a policy of open access, this was quickly and consciously transformed into one of excluding China from what the United States hoped would become the largest agreement in the world with strong rule-setting influence. However, Trump withdrew the United States from the TPP on his first day in office in January 2017, apparently scuttling the deal. With the demise of the TPP, RCEP lost its relevance as a counterweight and now seems unlikely to play a significant role in moving the trading system forward from its current doldrums.

Straight after the U.S. exit, the remaining eleven members of the TPP, led by Japan, modified and signed the agreement in January 2018 under the name of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.[5] The CPTPP accounts for 15% of global GDP. It is a relatively broad arrangement that seems able to accommodate a wide range of regulatory approaches in the areas it seeks to manage, is committed to open trade, and, because it is recent, is still in the habit of negotiating its way to agreement. Coupled with its size and its non-U.S. leadership, the CPTPP is a potentially significant player in 2025.

Innovative Regionalism

The other element of note in Asia-Pacific regionalism is innovation. Smaller traders have pioneered several innovative agreements, most notably on digital trade and on sustainability. The inclusion of digital provisions in PTAs started in the Asia-Pacific in 2003 (Singapore with New Zealand and then Australia), and by late 2024, there were 120 PTAs in the region with digital provisions.[6] In addition, of the ten free-standing digital trade agreements extant worldwide, eight contain Asia-Pacific members (five in force and three under negotiation as of December 2024), with the pioneer being Singapore, which belongs to six. Digital rights and trade are at the heart of current trade policymaking. Technical progress has made digital trade powerful and ubiquitous, and regulation needs to catch up without hindering trade unduly. The role of Asia is significant in demonstrating that leadership does not need to come from the United States,

5 The CPTPP now comprises Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United Kingdom, which acceded in 2024.

6 ESCAP, "Asia-Pacific Trade and Investment Trends 2024/25."

even when the latter has massive economic interests in a topic. The flexibility that smaller players can show has allowed them to sign agreements with both the United States and the EU, possibly positioning Asia to become a bridge between their different approaches to digital policy. Additionally, Asia-Pacific innovators have contributed significantly to advancing the Joint Statement Initiative on E-Commerce in the WTO. While China is also very interested in e-commerce, it seems unlikely at present to join agreements on data transfer and storage initiated by others.

CRISIS? WHAT CRISIS?

Trump has advocated restrictions on international trade—specifically tariffs—for nearly four decades, and since becoming president for a second term in 2025, he has imposed or intends to impose tariffs on nearly all U.S. imports of goods. These are substantially higher than anyone expected. Although many of the tariffs were temporarily suspended soon after they were declared, Trump has said they will take effect August 1. Compounding the damage from their height, the tariffs have been given many justifications by Trump and his administration—some mutually inconsistent, some clearly for political as much as economic reasons, and most for ends that are not likely to be achieved by tariffs. The tariffs were calculated in ways that manifestly do not correspond to their stated aims, and they have been switched on and off in an apparently arbitrary manner. The culmination to date has been an escalating tariff war with China, peaking on April 12, with China facing tariffs of 145% (and up to 245% on some products) and charging 125% in return. These tariffs were paused for 90 days on May 12 at 30% (and up to 55% on some products) and 10%, respectively, while talks were started.

Briefly, the main developments of U.S. tariff policy by mid-July 2025 were:[7]

- Steep tariffs (mostly 25%) applied to Canada and Mexico were announced on February 1. Following threatened (Mexico) and actual (Canada) retaliation, the tariffs were variously turned on and off and are currently applied to goods that do not meet the rules of origin in the U.S.-Mexico-Canada Trade Agreement (USMCA). In July the Trump administration sent letters assigning rates of 35% to Canada and 30% to Mexico, effective August 1.

[7] See "Trump Tracker," *Financial Times* ⁓ https://www.ft.com/content/2c473393-35fb-479d-8bba-236a1a98087c; and, for more detail, Chad P. Bown, "Trump's Trade War Timeline 2.0: An Up-to-Date Guide," Peterson Institute for International Economics, April 24, 2025 ⁓ https://www.piie.com/blogs/realtime-economics/2025/trumps-trade-war-timeline-20-date-guide.

- Tariffs of 25% were applied to nearly all partners on steel, aluminum, cars, and car parts. Several partners threatened retaliation but in most cases this was delayed pending negotiations. Trump raised the steel and aluminum tariffs to 50% from June 4. He has promised a 50% tariff on imported copper starting August 1.
- On April 2, "liberation day," Trump invoked the International Emergency Economic Powers Act to announce so-called reciprocal tariffs of 10% on most goods imports from all countries (some sectors were excluded but they were threatened with future tariffs) and at rates above the 10% base for 60 countries. After protests and turmoil in the bond and equities markets, Trump "paused" the latter tariffs for 90 days on April 9. He announced that partners could avoid these tariffs if they negotiated satisfactory agreements with the United States. On May 28, the U.S. Court of International Trade ruled both components illegal, but on May 29 a federal appeals court permitted them to remain operative or on the books while an appeal was heard.
- As the expiration of the "pause" grew close, in July, Trump announced that the April rates or new rates, communicated by letter, would take effect August 1 for states that had not by then reached an agreement with the United States. Only the UK, Vietnam, and Indonesia had reached such agreements by July 16—all with some details still to be negotiated and none legally binding. The letters increased rates for the EU from 20% to 30%; Brazil, 10% to 50% (on explicitly political grounds); and Japan, 24% to 25%.
- China was singled out with 10% tariffs announced on February 1 and increases announced on March 4 (by 10%), April 2 (by 34%), April 8 (by 50%), and April 9, when the general rate settled at 145%. Smartphones and other consumer electronics were exempted from the 145% tariff, although further tariffs were threatened. The escalations generally followed Chinese retaliation, which took China's tariffs on U.S. goods to 125% by April 12. In talks on May 12, the general rates were reduced for a 90-day period to 30% by the United States and 10% by China. The countries subsequently traded accusations of violating the nontariff elements of that agreement but also agreed to talk further. In June, Washington and Beijing reached a deal that sets tariffs beyond the 90-day pause with the U.S. base tariff on Chinese imports at 30% and Chinese tariffs on U.S. imports at 10%. Certain Chinese products, however, will continue to face higher tariffs under previous U.S. trade policy actions.[8]

8 Jeff Mason, Alistair Smout and Doina Chiacu, "Deal to Get U.S.-China Trade Truce Back on Track Is Done, Trump Says," Reuters, June 11, 2025 ∾ https://www.reuters.com/world/china/us-china-trade-talks-resume-second-day-2025-06-10;

These tariffs are obviously violations of U.S. obligations under the WTO, but the United States, and in particular Trump, is generally rather hostile toward that organization and has suspended paying its budget contribution.[9] The tariffs also violate several U.S. trade agreements—for example, with Canada and Mexico, with South Korea, and under the African Growth and Opportunities Act. The latter grants most African countries tariff-free access to the U.S. market and has generous rules of origin in textiles and clothing, which is where most of the growth in exports has occurred. The new duties will raise the U.S. effective tariff rate to an average of 20.6%—a level not seen since 1910. The Yale Budget Lab projects that "after consumption shifts, the average tariff rate will be 19.7%, the highest since 1933."[10]

This sorry tale has led to widespread economic uncertainty, a large decline in business confidence, a (temporary) run on equity markets, increased borrowing costs for the U.S. government, and a material decline in the dollar.[11] In the past, uncertainty and loss of confidence have driven investors to seek refuge in dollar assets, leading to lower borrowing costs for the U.S. government and a higher-value dollar. By contrast, the situation now suggests declining faith in the United States as the center of the global financial system. Regardless of the policy cocktail that eventually results, the world economy will suffer as governments adjust their views about the stability of trade agreements in general and with the United States in particular.[12]

Working out how to respond to U.S. tariffs is also complicated by the difficulty of identifying Trump's underlying worldview. He seems to believe that dealmaking is the pursuit of commercial advantages and that transactions are zero-sum—if one side wins, the other must lose. Beyond these beliefs, however, not much is clear. One coherent argument for the declining U.S. interest in a rules-based trading system that likely has explanatory power among U.S. policymakers (even if just subconsciously) is that the United States' declining share of the global economy has lowered

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9 Emma Farge, "Exclusive: U.S. Pauses Financial Contributions to WTO, Trade Sources Say," Reuters, March 27, 2025 ~ https://www.reuters.com/world/us-suspends-financial-contributions-wto-trade-sources-say-2025-03-27.

10 Budget Lab, "State of U.S. Tariffs: July 14, 2025," Yale University, July 14, 2025, https://budgetlab.yale.edu/research/state-us-tariffs-july-14-2025.

11 Equities recovered by early May and have since risen to record levels. This is partly due to Trump's tax policies but also to the so-called TACO trade—"Trump always chickens out"—which observes and extrapolates the fact that, to date, few of Trump's tariff threats have come to fruition. The acronym was coined by *Financial Times* columnist Robert Armstrong on May 2; it is not universally accepted that such an extrapolation is sound.

12 The internal constitutional stresses that Trump has created add to this problem as doubts arise about the reliability of U.S. governance.

the returns of maintaining the global system relative to the costs of doing so, compared with the returns and costs of a nonhegemonic power-based approach.[13]

This argument applies to other domains as well. For example, Steve Miran, chair of Trump's Council of Economic Advisors, argues that Trump is using his aggressive tariff policy as a weapon to achieve objectives related to security and defense burden-sharing.[14] Yuval Noah Harari offers a related explanation: Trump believes that stability and peace are best assured by having spheres of influence (empires, essentially) that barely interact with each other.[15] Within each sphere, "the strong do what they can and the weak suffer what they must," as Thucydides put it, and the hegemon ensures that smaller states do not start unnecessary inter-empire battles. From this perspective, Trump's tariff policy is a way of asserting primacy over U.S. allies and encouraging modesty in China's ambitions.

HOW VULNERABLE IS ASIA?

In examining Asia's vulnerability to Trump's trade policy, I consider here only economic vulnerability and will not consider the impact on alliances, health research, climate policy, and the management of digital information, among other areas, which could add up to an even higher cost in the long run. The fragmentation of the world economy and the massive policy uncertainty that his administration has unleashed will affect incomes around the world. The International Monetary Fund's World Economic Outlook of April 2025 downgraded its growth forecasts relative to forecasts in January 2025 (before Trump took office) by 0.5 percentage points in 2025 and 0.3 in 2026 globally and by 0.9 and 0.4 for the United States specifically. In Asia, even after compensatory fiscal policies, the corresponding figures were downgrades of 0.6 and 0.5 percentage points for China, 0.5 and 0.2 for Japan, 0.3 and 0.2 for India, and 0.6 and 0.6 for the ASEAN-5.[16]

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13 Aaditya Mattoo and Robert W. Staiger, "Trade Wars: What Do They Mean? Why Are They Happening Now? What Are the Costs?" *Economic Policy* 35, no. 103 (2020): 561–84 ~ https://doi.org/10.1093/epolic/eiaa013.

14 "CEA Chairman Steve Miran Hudson Institute Event Remarks," White House, April 7, 2025 ~ https://www.whitehouse.gov/briefings-statements/2025/04/cea-chairman-steve-miran-hudson-institute-event-remarks.

15 Yuval Noah Harari, "Trump's World of Rival Fortresses," *Financial Times*, April 18, 2025 ~ https://www.ft.com/content/06cc7b0f-3e32-4164-b096-ff92a1532236.

16 International Monetary Fund, World Economic Outlook, database, April 2025 ~ https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025.

Asian countries have been huge beneficiaries of the open world economy, and the extent to which they suffer will depend at least partly on their economic structure. It will also, of course, depend on how they react. **Table 2** presents some economic indicators to help assess vulnerability:

- GDP (size may matter, not least in terms of how effective robust responses may be);
- the ratio of exports (goods and services) to GDP (broadly speaking, an indicator of vulnerability to economic conditions abroad);
- the share of goods exports destined for the United States (an indicator of exposure to U.S. markets; Trump' trade policies have so far focused just on goods)[17];
- the ratios of goods exports to the United States to total exports and to GDP;
- the shares of goods exports destined for the EU and the rest of Asia (essentially links with possible alternative markets);
- Trump's country-specific reciprocal tariff (as of mid-July); and
- the country's PTAs (their number, partners, and proportion of trade, which help assess what scope the country has to liberalize trade with non-U.S. partners).

Table 2 reports on the Asia-Pacific as a whole and a sample of countries. In nearly all cells, the data refers to 2023, which is the most recent year for which there is full data.

On average, Asian countries are fairly open, with a mean ratio of exports (goods and services) to GDP of 29%. This makes them relatively vulnerable to developments outside their borders. Exports are heavily weighted toward physical goods (services account for only 22% of the total), which is unfortunate because Trump's policies are, at least at present, entirely oriented toward goods markets. The geographic spread of Asia's goods exports is about what one would expect given incomes and distances: over half are intraregional, with around 12%–14% going to each of the United States and the EU.[18] The region's exports of goods to the United States are equivalent to 3.1% of GDP, but its exposure in income terms is less because exports are

17 The Canadian government, however, scrapped a digital services tax that would have affected U.S. tech firms in order to continue trade negotiations with the United States.

18 Note that in the table Asia as a destination has a slightly different coverage from Asia-Pacific as a source.

measured gross (i.e., including the value of material inputs, at least some of which come from outside the region).

The use of inputs from outside the region reflects the fact that supply chains are extensive; in many cases, the disruption of just one input (even a small one) can cause the whole chain to suffer. We do not have sufficient data to assess the extent of these supply chain linkages properly, but the fact that they exist raises the possibility that the disruption of trading links could be worse than seems evident merely from the value of trade flows.[19]

TABLE 2

Trading Patterns of a Sample of Asia-Pacific Countries

	Economy		**Exports of goods – shares**			
Country	**GDP (2023)**	**Exports as % of GDP**	**To the United States**	**To the EU**	**To Asia**	**In total exports**
	$ billion	%	%	%	%	%
Column no.	**1**	**2**	**3**	**4**	**5**	**6**
Data source:	(a)	(a)	(b)	(b)	(c)	(b)
Asia-Pacific	*35,275*	*29*	*14*	*12*	*52*	*78*
Australia	1,728	27	4	3	69	77
Bangladesh*	437	13	19	44	15	84
Cambodia	42	67	37	15	28	82
China	17,795	20	15	15	48	90
India	3,568	22	18	17	41	56
Indonesia	1,371	22	9	6	75	89
Japan	4,204	22	20	10	56	78
Laos*	16	50	1	4	93	78
Pakistan	338	10	17	29	35	79
Philippines	437	27	16	11	67	60
Singapore	501	174	9	7	71	59
South Korea	1,713	44	18	11	57	84
Thailand	515	65	17	8	60	83
Vietnam	430	87	30	13	47	91

19 For more discussion, see Simon Evenett, "Is Geopolitics Transforming Global Value Chains?" East Asia Forum, August 29, 2024 ~ https://eastasiaforum.org/2024/08/29/is-geopolitics-is-transforming-global-value-chains.

Table 2 continued

	Exposure to the U.S. market			PTAs			
Country	**Goods to the United States/ total**	**Goods to the United States/ GDP**	**U.S. reciprocal tariff**	**Total no.**	**With the United States?**	**With the EU?**	**% of exports covered**
	%	%	%	–	–	–	%
Column no.	**7**	**8**	**9**	**10**	**11**	**12**	**13**
Data source:	col. 3 x col. 6	col. 7 x col. 2	(d)	(e)	(f)	(f)	(g)
Asia-Pacific	*11*	*3.1*	–	–	–	–	–
Australia	3	0.7	10	19	Y	–	87
Bangladesh*	16	2.1	35	5	–	–	13
Cambodia	31	20.6	36	10	–	(Y)	34
China	14	2.7	30	20	Y	–	44
India	10	2.2	27	19	–	(Y)	33
Indonesia	8	1.7	19†	16	–	(Y)	67
Japan	16	3.4	25	18	Y	Y	81
Laos*	0.4	0.2	40	10	Y	(Y)	96
Pakistan	14	1.5	30	10	–	–	33
Philippines	9	2.5	18	11	–	(Y)	67
Singapore	6	9.7	10	28	Y	Y	95
South Korea	15	6.8	25	23	Y	Y	85
Thailand	14	9.3	36	15	–	(Y)	59
Vietnam	27	23.4	20†	16	–	Y	67

Source: (a) World Bank, World Development Indicators databank, April 2025; (b) International Trade Centre, Trade Map database, April 2025; (c) International Trade Centre, Trade Map database, April 2025 (Asia excludes the Pacific and includes the Middle East); (d) "See the Trump Tariffs List by Country," BBC, April 10, 2025 ~ https://www.bbc.com/news/articles/c5ypxnnyg7jo; and Danielle Kurtzleben "Here's a List of Trump's Tariff Letters So Far and the Rates They Threaten," NPR, July 15, 2025 ~ https://www.npr.org/2025/07/12/nx-s1-5463818/trump-tariff-rate-letters; (e) WTO, Regional Trade Agreements database, 2025 ~ https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx; (f) ESCAP, "Asia-Pacific Trade and Investment Agreement Database – APTIAD" ~ https://www.unescap.org/content/aptiad; and (g) ESCAP, "Asia-Pacific Trade and Investment Trends 2024/25," 7.

Note: Asterisk indicates trade shares (columns 3–6) for Bangladesh and Laos refer to 2015 and 2020, respectively. Dagger represents rate if the current tentative deal is finalized. Y denotes an agreement and (Y) an agreement under negotiation.

Some commentators have focused on China's dominance in critical minerals (notably rare earths) and its huge manufacturing base as evidence that the country has a strong hold over many supply chains. In some cases, this reflects China's stability, industrial efficiency, and skilled labor force (for example, clothing and electronic assembly), whereas in other cases this also reflects real technological advantages (for example, electric vehicles and photovoltaics). Many importers are trying to diversify their sourcing for these products: this is especially difficult for sectors where China has a technological advantage, and even where it does not, geographic diversification is occurring mainly through the agency of investments by Chinese firms. Decoupling the Western economy from China is now widely accepted to be virtually impossible, but there is still a good deal of thought being given to "de-risking." Even this, however, is a challenging task that will take a decade or more.[20]

Turning to the sample of countries in Table 2, the heterogeneity is immediately apparent. The best way of exploring it is via column 8, which expresses goods exports to the United States as a percentage of GDP. Two countries leap out as highly vulnerable: Cambodia and Vietnam. Both are poor (column 1), are very open (column 2), export heavily to the United States (column 3), and disproportionately rely on goods for their exports (column 6). They also both have large trade surpluses with the United States and consequently were hit by high reciprocal tariffs (column 9). The least vulnerable appear to be Bangladesh, Laos, and Australia. The first is aided by low openness, the second by focusing exports on Asia, and the last by relatively low scores on both indicators.[21] India and Pakistan are also less exposed because they are less open than the Asian average. Singapore, on the other hand, is hugely open; thus, even though goods account for less than 60% of its exports and the U.S. share in them is small, the ratio in column 8 is relatively large. However, in Singapore, goods exports likely incorporate large shares of imported inputs, so the column exaggerates its income vulnerability.

The apparent solution to reduced access to the U.S. market is to seek other markets, and in the long run that is exactly what will happen. However, in the short run this strategy poses challenges. Most obviously, is it worth it? Will Trump unwind his trade restrictions, or will the next administration

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20 These arguments come from Agatha Kratz, Lauren Piper, and Juliana Bouchaud, "China and the Future of Global Supply Chains," Rhodium Group, February 2025 ~ https://rhg.com/research/china-and-the-future-of-global-supply-chains. On the other hand, Simon Evenett suggests that the dog whistle argument that we are all too dependent on China in critical areas is exaggerated. See Simon J. Evenett, "Chinese Whispers: Covid-19, Global Supply Chains in Essential Goods, and Public Policy," *Journal of International Business Policy* 3 (2020): 408–29 ~ https://doi.org/10.1057/s42214-020-00075-5.

21 Bangladesh and Laos, however, are the two countries for which the trade data is very dated, so their apparent good fortune is tentative.

do so? Both might weaken the barriers, but neither is likely to reverse them completely—Trump because his attachment to tariffs seems set, and the next administration because three years of protection will create winners that will seek to prevent the system's dismantlement.

Hence, some restructuring of trade patterns needs to occur, but the search for new markets is time-consuming and expensive. Moreover, almost all candidate markets have also suffered from Trump's trade policy and will not welcome a flood of diverted exports. Most have trade defense mechanisms, such as antidumping and safeguard policies, and in the current climate will face great domestic pressure to use them. Thus, progress will be slow, and the process would be greatly eased if it were accompanied by broad-based trade liberalization (excluding the United States if necessary). Yet, such negotiations also take a lot of time. Overall, then, trade-dependent countries could well take several years to recover from Trump's first six months.

IS REGIONALISM IN ASIA THE ANSWER TO THIS CRISIS?

Possibly the most significant factor in East and Southeast Asian countries' prodigious economic development has been their single-minded engagement with the rest of the world, notably through exports. As mentioned above, these countries have been huge beneficiaries of the open trade regime—not least the United States' appetite for the cheap goods they provide—but have also been prolific PTA creators. These PTAs have reinforced their openness and helped integrate the Asian economy and transform it into a formidable producer. Of course, if access to the U.S. market is suddenly reduced, open traders are more vulnerable than other countries, both directly and from spillovers. In case this seems to imply that openness is the problem, we should be clear that the concern over the possible decline in trade is perhaps the best evidence that trade has been, indeed, beneficial.

The last block of Table 2 presents data on Asian countries' portfolios of PTAs. The majority have between ten and twenty PTAs, with China's, Singapore's, and South Korea's agreements numbering in the twenties. And as column 13 shows, for some of this sample, very high proportions of their exports are already to PTA partners (although not all such exports will benefit from the preferences because the agreements have exclusions or restrictions for many products and rules of origin on all imports). Those countries with 80% or more of their exports going to PTA partners are unlikely to find much relief by seeking more such agreements. Rather, relief will require that PTAs are deepened or extended into areas that were previously excluded, but this will be harder and slower to achieve. The exclusions arose in the first place because liberalization posed political problems, and extensions into new areas such as digital trade or services will also require more technical work before it can be done confidently. In the case of the former area, experience lies mostly in Asia, particularly with Singapore. It is possible that under the pressure to stimulate commercial activity to compensate for U.S. tariffs, Asian countries (many of which have links with Singapore already) might be able to move relatively quickly. This would have to be a "coalition of the willing" because it is highly unlikely that China would want to join meaningful digital and data agreements that are not entirely on its own terms. But it may well be that this is an area in which Asian countries can lead the non-U.S., non-Chinese world.

For the countries with less existing trade under current PTAs, signing new deals on similar terms may be useful, but again not as useful as moving to negotiate deeper and more inclusive agreements. The obvious targets for such deals will be the larger markets. Drawing up a trade agreement with a small partner may be easier and quicker than doing so with a large one, but not much more so, especially since the larger markets will typically have fairly clear views of what they want, although that will typically be a lot.

Columns 11 and 12 of Table 2 show whether countries have agreements with the United States and with the EU. We used to teach that trade agreements were a way of cementing trade relations and creating certainty, through which firms (and even governments) would be encouraged to invest in learning to trade and producing tradable goods. But the most obvious lesson from comparing columns 9 and 11 is not to expect past agreements to constrain the current U.S. administration's behavior. The tariffs on steel, aluminum, and cars and the reciprocal tariffs all violate U.S. agreements. (Outside Asia, the USMCA has apparently mitigated the tariff attack to some extent.)

The EU is a much more reliable partner than the current United States, although once the magic of trade agreements creating certainty has been broken, no one will have quite the same confidence in them as before. Moreover, the EU, as a major target of Trump's trade policy and rhetoric, is anxious to extend its trade relations and, as column 12 shows, is negotiating with several of these countries. So far, it seems as if governments are expediting trade negotiations, but more in the spirit of getting to yes by avoiding the hard issues than by tackling them. Thus, whether this approach really is a major contribution to economic welfare seems unclear at the moment.

Among the smaller and middle-sized trading partners, serious effort would be warranted to try to combine the many bilateral or minilateral PTAs into larger blocs with common rules of origin and, ideally, compatible regulations.

This could include joining existing larger groups. As explained above, the role models for either deepening or widening would be ASEAN and the CPTPP rather than RCEP. ASEAN has made steady, quiet progress to ease the cost of trading among members. While the CPTPP is apparently able to accommodate a wide range of approaches in different regulatory areas, it has a fairly ambitious set of goals beyond mere tariff reduction. Moreover, ASEAN has a long tradition of negotiation and compromise, and the CPTPP has the benefit of being a recent agreement forged in the shadow of a U.S. withdrawal. The CPTPP also has size in its favor. At least one well-informed commentator sees it as the natural counterpart to the EU in building a global response to Trump's policies.[22]

A GLOBAL RESPONSE

There is barely a non-U.S. government or commentator that has not been outraged by Trump's attack on the world trading system and has not wished, at least at some point, for the targeted countries to retaliate. Rationally, this is a difficult decision to take because retaliation reduces trade further and adds to the losses from the initial hit. Paraphrasing the famous economist Joan Robinson, "if your trading partner throws rocks into his harbor, that is no reason to throw rocks into your own."[23] In fact, however, Robinson strongly qualified her case for free trade: do it if everyone else does, but if they do not, retaliate.[24] The main argument for retaliation lies in whether it will cause Trump to reverse his policies.[25] Canada, for example, reacted strongly to tariffs and, with Trump's concession that exports meeting the USMCA rules of origin do not face tariffs, was faring much better than originally feared. China retaliated against Trump's various escalations with benefits, it seems, for everyone else. At least part of the bond market's adverse reaction to tariffs arose from the escalation between China and the United States, and this is

22 Ignacio García Bercero, "Trump's Tariffs Need a Strategic Response from the EU and Others," Bruegel, April 15, 2025 ~ https://www.bruegel.org/first-glance/trumps-tariffs-need-strategic-response-eu-and-others.

23 Joan Robinson, "Beggar-My-Neighbour Remedies for Unemployment," in *Essays on the Theory of Employment*, 2nd ed. (Oxford: Basil Blackwell, 1947), 158.

24 Robinson in fact was making a case for import substitution, although this is less relevant now in the second quarter of the 21st century.

25 This is a venerable observation about retaliation—for example, Adam Smith made it in 1776. See L. Alan Winters "Adam Smith's Wealth of Nations Is Still Relevant to UK Policymaking on International Trade," *National Institute Economic Review* 265 (2023): 26–38 ~ https://doi:10.1017/nie.2023.19.

what seems to have driven Trump's pausing of reciprocal tariffs above 10% on April 9.

I argue that for every affected country, adhering to WTO rules is an essential part of a global response. One of the ways in which the WTO (and the General Agreement on Tariffs and Trade before it) has contributed to a stable trading system is by constraining retaliation by requiring time-consuming procedures and capping the level of retaliation permitted in a pseudo-technical way. However, Trump's assault on the WTO has been so extensive and brazen that, while partners ought to lodge their disputes with the United States in the organization, there is surely no obligation to respect the United States' WTO rights if strong responses are warranted.

It is possible to argue that the WTO faces so many challenges that respecting its rules is not a solution. I would argue, however, that while we do need a serious and more open round of negotiations that results in real steps to update the WTO, doing so is a long process. For now, in summer 2025, the WTO is all we have as a focal point for cooperation. While adhering to its principles may not be enough in the longer term, these principles are not harmful and offer useful guidance to prevent the entire world trading system from descending into Trumpian chaos.

The question is whether strong retaliation by a majority of partners is warranted. As of July 2025, while reciprocal tariffs are under legal challenge and with Trump's policies still in flux nearly daily, it makes sense for partners to go slow on their retaliation—that is, not to poke the bear. But they should ensure that domestic legalities and practicalities are in place in case the Trump administration does not eventually modify its stance. When things are clearer, if the United States settles on relatively high tariffs (in which I would include a uniform 10% tariff on nearly all trading partners), countries may wish to respond in similar terms to obviate the terms of trade losses that the tariffs might impose on them and to incentivize the next administration to negotiate mutual de-escalation. If so, it would be worthwhile for countries to try to coordinate their responses both to increase their effectiveness (by preventing the United States from just redirecting its exports to avoid the tariffs) and to mark the seriousness with which the global community views the United States' defection. In such a coordinated response, the negotiated and cooperative approach to trade of Asian mega-regionalism could pay dividends, allowing the Asia-Pacific to become a hub around which other countries focus their diplomacy.

The most important principle that should guide other countries' responses is that a reasonably orderly trading system still remains at the end of the

Trump presidency, whether the United States is part of it or not. The United States accounts for about 13% of world goods imports and 8% of world goods exports. Disrupting these is a big blow, but, in principle, it still leaves around 87% of other countries' exports and 92% of their imports independent of the shock. U.S. tariffs will mainly hurt the United States, with the costs to other countries almost always proportionally smaller. Hence, the main objective of the responses to the Trump administration must be that the United States does not affect the terms on which the other countries of the world (165 of which are members of the WTO) trade with each other.

To achieve this goal, I would not advocate a giant negotiation to create a new order because that does not seem feasible in the time available. For now, the focus should be on preserving what we have, much as the members of the CPTPP let that agreement emerge from the wreckage of the TPP. In fact, the situation now is even more urgent than it was then. If countries do not exercise self-discipline during negotiations with the United States, the trading system as we know it could disintegrate.

Quite inadvertently, Trump's pause of the country-specific element of the reciprocal tariffs took the United States back toward the cardinal rule of the world trading system—nondiscrimination, with the same tariff for any given product being levied on all suppliers (the so-called most-favored nation clause). While this does not signal that the United States is supporting the rules-based trading system, it does offer a better chance of preserving that system. I suggest using the WTO rules as a guide to negotiating with the Trump administration. Although the WTO is far from perfect, it has many virtues, including that its rules are already known and accepted by its members. Thus, in addition to pausing retaliation (where not already in operation), I would suggest that WTO members take the following actions:[26]

- *Make a public commitment that the outcomes of bilateral negotiations with the United States will be consistent with the WTO and will not explicitly impose costs on other parties.* This is not costless because the negotiations are being done under duress and pauses and agreements could be ended for any country at any time. It requires that partners ensure that whatever they agree is nondiscriminatory or at least satisfies WTO rules for PTAs. In the many areas in which WTO rules are not defined, negotiators should also ensure that

26 This discussion is based partly on L. Alan Winters and Michael Gasiorek, "Negotiating Reciprocal Tariffs: Five Guidelines to Preserve the Trading System," Centre for Inclusive Trade Policy, April 16, 2025 ~ https://citp.ac.uk/publications/negotiating-reciprocal-tariffs-five-guidelines-to-preserve-the-trading-system.

outcomes are not explicitly or obviously at the expense of other members. In deciding what to offer, governments need to recognize that having a signed agreement is not a perfect shield against hostile U.S. policies.

- *Publish the outcomes of negotiations as soon as they are completed.* Transparency helps keep governments honest and the commitment to publish will help offset any U.S. pressure for discriminatory favors.
- *Reject the United States' pressure to join in its discrimination against China*. Governments should deal with China according to their own national interests, not as a concession to Washington. It is possible that Chinese firms will attempt to flood other markets with goods excluded from the United States, and in these circumstances it is reasonable that the affected governments should exercise their trade remedies in the usual way. But they should not stretch or violate their existing trade remedy procedures, and they should steadfastly reject any suggestions that they emulate the United States in hitting Chinese trade in other ways.

These guidelines help countries achieve collective benefits by constraining behavior at an individual country level. And even if the United States eventually chooses not to play by the guidelines, they can preserve a system for the remaining 165 members of the WTO.

At the same time, WTO members should aim to liberalize trade among themselves and initiate a new multilateral round that includes meaningful discussions about reforming the organization. Given that we have all looked over the edge of the trade abyss in recent months, these discussions should be realistic about updating and upgrading WTO rules and liberalizing trade. The talks should be open to the United States but not dependent on its participation. Recall that the Uruguay Round had its origins in trying to resolve U.S. concerns about trading rules and to limit aggressive U.S. unilateral policies. And if the United States chooses to stand apart, these discussions could also examine how to deal with a large nonmember or nonparticipating member in ways that do not undermine relations between members.

Unless it formally leaves the WTO, the United States could block an agreement, but it cannot prevent, except through threats in other areas, the other 165 members from meeting and discussing matters. Whether the other 165 could actually reach agreement is unclear, but, as noted above, the Asian experience of innovation, negotiation, and compromise could greatly aid the process.

CONCLUSION

This essay asked whether Asia's extensive web of international trade agreements inoculates regional countries from the ongoing chaos of the Trump administration's trade policy. The answer is that it alone does not, but that it can contribute valuably to a global response.

Among Asian countries' large number of trade agreements are beneficial examples of calm and steady cooperation and the ability to construct and maintain large coalitions of partners and agreements in innovative areas. These are among the characteristics that may be able to preserve the world trading system through the Trump era.

Although Asian countries vary in their vulnerability to U.S. trade policy, none can avoid serious economic stresses, given that U.S. policies seem likely to reduce world growth. The most vulnerable are the developing countries that have most actively pursued export-led development. They are very open, trade extensively with the United States, and run large trade surpluses with it. They also lack the size to either offer large carrots or wield large sticks in bilateral negotiations.

The reason that Asian trade agreements are not a solution to the present shocks is that declining access to the U.S. market needs to be met by new opportunities elsewhere. The shallow agreements that Asia has in abundance have mostly plucked the low-hanging fruit and deepening them will be a challenge both technically and politically. It will require time.

Finally, designing a new global system or even coordinating retaliation among many players will take time and effort, but there is a need now for quick responses. Thus, I have suggested guidelines for responding to U.S. tariffs. Most fundamentally, countries should ensure that any agreements with the United States be consistent with their WTO obligations and not explicitly disadvantage other members. It is not that the WTO is perfect, but it is all we currently have as a focal point for cooperation. Thus, I also advocate seeking a new multilateral round of trade talks that is realistic in liberalizing trade and updating and upgrading WTO rules. These talks would be open to the United States, but not dependent on it. ◈