

The Developing Countries: Take Southeast Asian Region as an Example

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Abstract. The U.S.-China trade war has had significant repercussions on developing countries, particularly in Southeast Asia, making it a crucial area of study. This paper aims to analyze the impact of the U.S.-China trade war on the world economy, with a specific focus on its effects on developing countries in Southeast Asia. The study delves into the economic, trade, and legal implications of the trade war on these developing nations and explores the strategies adopted by them to respond to the challenges posed by the conflict. By examining the policies and measures undertaken by Southeast Asian developing countries, the paper seeks to identify effective approaches in dealing with similar trade disputes in the future.

Keywords: US-China Trade; developing countries; Southeast Asian region; impact.

1. Introduction

At present, China has become the second largest economy in the world and boasts the largest foreign exchange reserves. By the end of 2018, China's foreign exchange reserves stood at 3072.712 billion US dollars, reaching a record high of 4 trillion yuan. The RMB was added to the SDR (Special Drawing Right) on October 1, 2016, and has become the second largest currency in world trade. The internationalization trend of Chinese currency, RMB, is gradually advancing, and China has emerged as a key participant or leader in shaping global economic, trade and financial rules. Notably, China's involvement in initiatives like the G20, the Belt and Road Initiative and the Asian Infrastructure Investment Bank demonstrates its growing influence [1].

However, this economic growth and influence have been met with challenges, particularly in the form of the trade war initiated by the United States against China. The Trump administration, disregarding previous trade agreements, invoked Section 301 of the Trade Act of 1974, accusing China of unfair trade practices and intellectual property theft. As a result, the United States imposed tariffs on Chinese goods, triggering a retaliatory response from China, leading to a series of escalating tariffs on both sides.

The purpose of this study is to explore the impact of the U.S.-China trade war on the development of the world economy as well as on developing countries, to understand what kind of opportunities and challenges the U.S.-China trade war brings to developing countries by analyzing the corresponding policies of developing countries, and ultimately to understand how developing countries can cope with similar challenges.

Amidst the ongoing trade dispute between the two economic giants, the impact of the U.S.-China trade war extends beyond their borders, affecting the global economy and, in particular, developing countries in Southeast Asia. This study aims to explore the far-reaching consequences of the trade war on the global economy, with a specific focus on the effects on developing countries in Southeast Asia. By analyzing the corresponding policies of these developing countries, we seek to understand the opportunities and challenges that arise from the trade war's ripple effects.

South-East Asia is home to a large number of developing countries and these countries are often important players in global supply chains. What is more, South-East Asia is situated in a very special geographic location at the crossroads of the trade war, which is more profoundly affected by the trade war. At the same time, many countries in Southeast Asia have similar industrial structure with China, and the situation can be studied more comprehensively.

In this context, the primary objective of this paper is to shed light on the specific impacts of the U.S.-China trade war on the economies of Southeast Asian developing countries. By examining the policies these countries have implemented in response to the trade war, the paper aims to identify the opportunities and challenges they face. Ultimately, it endeavors to offer insights into how developing countries in Southeast Asia can effectively navigate and cope with the challenges posed by the U.S.-China trade war, as well as devise strategies to safeguard their economic interests and sustain their development progress.

2. Basic Theories on U.S.-China Trade War and Developing Countries

2.1. International Trade Theories and the U.S.-China Trade War

2.1.1 Applicability and limitations of the theory of comparative advantage

The theory of comparative advantage proposed by David Ricardo in his masterpiece, "Principles of Political Economy and Taxation," explains international trade based on relative (rather than absolute) differences in production technology and relative costs among countries. Countries pursue interests by concentrating on producing and exporting products in which they have a comparative advantage and importing products in which they have a comparative disadvantage. In the US-China relationship, China has backward technology and capital, but extremely rich in labor. The United States, on the other hand, is rich in capital and technological resources, but labor costs are extremely high. The major commodities imported and exported by both also prove this point. But why does a country with advanced technology and capital like the United States have a trade deficit instead? This brings us to the limitations of the theory of comparative advantage. First, the theory of comparative advantage looks at a country as a whole, but in the real world, some groups of people gains imply losses for other groups. At the same time, Ricardo believes that two countries can have a fully specialized division of labor, but this requires specific conditions. Secondly, the theory of comparative advantage does not take into account the complexities of the international situation.

2.1.2 Challenges and interpretation of international trade theory in the U.S.-China trade war

The Free Trade Theory, which centers on the fact that free trade can bring trade benefits to both parties involved in trade, is derived from near-perfect empirical analyses of the causes of trade and logical reasoning, and this is the main reason why the Free Trade Theory has gained wide acceptance [2-4]. Free trade liberalism has been the core of international trade theory since its inception. In the China-US trade war, the unilateral imposition of tariffs by the United States on Chinese imports undoubtedly challenges free trade liberalism. Furthermore, the US sanctions against China bypassed the WTO dispute settlement mechanism and implemented economic sanctions against China citing domestic laws, exposing the blurred boundary between domestic and international laws in the current international trade order. It also reflects the shortcomings of the WTO in maintaining the trade order. Trade wars can potentially trigger other countries' protectionist measures, leading to a deterioration of the global trade environment. This could result in an increase in trade barriers, limiting the freedom of international trade and causing negative impacts on the global economy.

2.2. Background and Motivation of the US-China Trade War

2.2.1 The deeper reasons behind the China-US trade war

The mainstream view is that the huge trade deficit is the direct cause of the trade war, however, if we look deeper into its internal causes, we will find that it is a reflection of the hegemony of the United States to suppress emerging countries. Historically, the downfall of two countries, the Soviet Union and Japan, reflects this point. Moreover, the U.S. trade deficit is not due to defects in goods or policies, but because it is wary of China and intends to suppress its high-tech industries. So in essence, the US-China trade war is actually a suppression of emerging countries by the US. This undoubtedly serves as a warning to the current developing countries. Because the trade war reflects the old hegemon's unfriendly attitude toward emerging countries, it can let developing countries see the

essence of the U.S. political attitude early. At the same time, the current developing countries can also learn something from China's performance in the trade war, which will have some guidance for future development and coping with difficulties.

2.2.2 The focal points of the trade dispute between China and the United States

The background and motives of the US-China trade war can be traced back to several aspects. Firstly, China's economic rise and rapid development have raised concerns in the United States. China has become the world's second-largest economy and is competing with the US in many fields, which has threatened the US's economic position.

Secondly, the US believes that China has engaged in a series of unfair trade practices, such as forced technology transfer, intellectual property theft, and market access restrictions. These actions are believed to have caused losses to US companies and violated international trade rules.

Furthermore, the US government also accuses China's industrial policies and subsidy measures of distorting market competition and creating an unfair competitive environment for US companies. The US believes that China should adopt more open and transparent economic policies to promote fair competition.

Lastly, there are differences between the US and China on the issue of trade imbalance. The US has long been concerned about its trade deficit with China and believes that it has had a negative impact on the US economy. The US hopes to improve trade relations by reducing the trade deficit, while China believes that the trade imbalance is determined by market factors and should not be a reason for a trade war.

2.3. The Relationship Between Developed Countries and Developing Countries

2.3.1 The rise of trade protectionism in developed countries

Trade wars have serious implications for the world economy. Trade is an important activity to boost the world economy, and a blockade of the second largest economy by the first largest economy will only cause the world economy to decline. Due to the significant impact of the China-US trade war on the global economy, many developed countries have implemented a series of conservative economic strategies, such as increasing tariffs and subsidizing domestic companies, in order to protect their own industries. This undoubtedly poses a major challenge to free trade liberalism and hinders the development of the global economy. For example, Spain's implementation of increased tariffs and quota restrictions on Moroccan agricultural products, and Germany's imposition of tariffs on Chinese solar products, these protectionist measures may have certain negative impacts on international trade. They can lead to intensified trade frictions, limit consumer choices, and increase product prices. Undoubtedly, these measures are disadvantageous for some developing countries.

2.3.2 The role and challenges of developing countries in the global trade system

Developing countries play a significant role in the global trade system. They contribute to the global economy by providing a large labor force, abundant natural resources, and emerging markets for goods and services. However, due to a lack of technology and capital support, developing countries often find themselves in a passive position in international trade. At the same time, the unfair structure of the world economy forces developing countries to bear responsibilities such as environmental protection that developed countries have not experienced. Therefore, developing countries still face severe challenges.

3. The Impact of the China-US Trade War on Developing Countries

3.1. Changes in Trade Opportunities

The trade war between China and the United States has generated significant spillover effects, presenting various opportunities and challenges for many developing countries. The countries most affected are those with a high level of trade dependence on both China and the United States. For

example, the United States has cancelled most-favored-nation treatment for 25 countries and regions due to the trade war. Undoubtedly, this poses a huge challenge for some developing countries. However, there are pros and cons to every situation. The trade war in 2019 has fully demonstrated the significant dependence of the United States on Chinese exports, and both sides recognize the importance of each other's markets. The United States' actions are not only targeted at China, but also at many major textile and apparel exporting countries such as Vietnam, India, Indonesia, and Thailand, as they have unilaterally revoked preferential treatment.

In 2019, the United States imported a total of \$111.283 billion worth of textile and apparel, a year-on-year increase of 0.29%. Imports from China amounted to \$36.452 billion, a year-on-year decrease of 10.16%. Imports from Vietnam amounted to \$14.436 billion, a year-on-year increase of 11.61%. Imports from India amounted to \$8.051 billion, a year-on-year increase of 4.96%. Although the US sanctions cannot change the pattern of clothing imports, they will undoubtedly divert some products. This presents an opportunity for countries like Myanmar and Bangladesh. In the past five years, Myanmar's textile and apparel industry has made significant progress, with exports increasing from \$900 million in 2012 to \$4.037 billion in the 2018-19 fiscal year. Compared to countries like Vietnam, Myanmar has lower labor and shipping costs, as well as zero-tariff preferences for exporting to the European Union [2].

From this perspective, it can be seen that for some developing countries, especially those with industrial structures similar to China, they can take advantage of the China-US trade war to fill the industrial gaps caused by mutual sanctions between China and the US, attract foreign investment and technology, and accelerate their own development.

However, it should be noted that filling the industry gap caused by the US-China trade war is not an easy task. Attracting foreign investment and technology requires these countries to have a favorable investment environment, stable political situation, and well-developed infrastructure, among other conditions. Additionally, these countries need to have a certain industrial foundation and competitiveness in order to attract foreign investment and technology.

Overall, the US-China trade war may provide opportunities for some developing countries to fill the industry gap. However, this requires these countries to have certain conditions and competitiveness. At the same time, these countries also need to carefully deal with the uncertainties and risks that the US-China trade war may bring.

3.2. Impact of the US-China Trade War on Investment and Technology Transfer to Developing Countries

The trade diversion effect refers to the marginal effect of shifting the share of bilateral trade to a third country, usually as a result of changes in the cost of trade due to trade facilitation or trade protection measures, resulting in a shift of part of the trade to the third-country market.[5] Many foreign companies in China have had to endure a shrinking market share as the United States has raised tariff barriers to Chinese products. Therefore, many foreign enterprises in China either have to bear the losses brought by the trade war or choose to transfer their enterprises and investments to countries similar to China that have relatively abundant resources and labor. This is the transfer of industry and technology. Many Southeast Asian countries such as India, Malaysia, Vietnam, etc. have more or less accepted part of the transferred industry. The American Chamber of Commerce in China (AmCham China) and the American Chamber of Commerce in Shanghai (AmCham Shanghai) released a questionnaire survey of more than 430 U.S.-funded companies in China in September 2018, in which 35% of the surveyed companies have moved their production bases from China to Southeast Asia and other countries or are considering doing so, and 31.1% said they are considering delaying or canceling their investments in China[3]. The data showed that exports from Southeast Asia to the U.S. increased by 4.6% year-on-year in March-September 2018, with Vietnam's exports increasing by 7.9%, while exports from Northeast Asia increased by only 2.4% in the same period. From Northeast Asia, shipments exported from South Korea to the U.S. grew 3.3% year-on-year in March-September, while exports from mainland China increased 2.7% year-on-year.

3.3. Adjustment of Policies in Developing Countries

3.3.1 Political attitudes of developing countries toward the U.S.-China trade war

In the volatile international environment created by the trade war between the United States and China, different countries have adopted different policies. Countries such as Thailand and Malaysia have sought to be balanced and autonomous from the tide of the trade war.

Thailand, for instance, has adopted a pragmatic approach. Given its geographical location at the heart of Southeast Asia and its significant trade ties with both China and the United States, Thailand has sought to maintain a balanced stance to avoid unnecessary economic repercussions. By engaging in constructive dialogues with both countries, Thailand aims to protect its economic interests and preserve stability. Malaysia is also swinging between China and the U.S. In May 2019, the Malaysian side said it would not impose a ban on Huawei. At the same time, Malaysia's official navy announced the acceptance of 12 U.S. surveillance drones. Malaysia actively participates in World Trade Organization (WTO) negotiations and discussions and supports a fair, open and transparent trade environment. Malaysia also joins other countries in calling on all parties to abide by the rules of international trade and to refrain from unilateralism and trade protectionism.

3.3.2 Developing countries' responses to the trade war between China and the United States

As mentioned earlier, developing countries have been presented with both opportunities for industrial transfer and spillover effects, as well as significant challenges due to the U.S.-China trade war. These countries must navigate their political conditions and policies to create a favorable environment for industrial investment and technology transfer. Let's explore how Indonesia, Vietnam, and Malaysia have responded to the trade war.

Indonesia's Joko government and its 2019 election environment alone led to a missed opportunity for industrial transfer. In terms of long-term plans, Indonesia has realized that trade wars can lead to more foreign investment. During the epidemic, it approached companies in the U.S. and Japan to persuade them to move their industries from China to Indonesia, and in October 2020, the Joko administration even pushed for a "reform and opening up" in the country by launching the Comprehensive Law on Job Creation, which streamlines the approval process and optimizes the business environment [4].

Viet Nam has actively attracted foreign investments, especially those transferred from China and other countries. Viet Nam has provided a series of preferential policies and facilitating conditions to attract foreign enterprises to set up production bases in Viet Nam for better access to China and other markets. Domestic enterprises are encouraged to strengthen technological innovation and improve product quality to enhance competitiveness. At the same time, Vietnam has also increased its support for emerging industries, such as electronics, information technology and manufacturing, in order to reduce its reliance on traditional manufacturing. Although Vietnam has continued to provoke China over the South China Sea and strengthened its cooperation with the United States, it still avoids the fundamental issue of taking sides.

Malaysia's approach to the trade war is characterized by its pursuit of independence and autonomy. While the nation is wary of both the U.S. and China, it seeks a strategy of great power parity rather than one-sided dependence. Some Belt and Road projects, such as the Myitsone hydropower project in Myanmar and the East Rail project in Malaysia, have been "politicized" and put on hold [5]. Malaysia has sought to strengthen cooperation with the United States to counterbalance China without compromising its sovereignty. The nation's participation in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) further expands opportunities for cooperation with China, especially in the areas of cross-border e-commerce, digital transformation, and digital infrastructure [6]. A report by the United Nations Conference on Trade and Development (UNCTAD) on December 15, 2021 states that Malaysia will be the ASEAN member country to benefit the most from the regional agreement in the area of exports, with the country's export trade volume growth expected to reach \$200 million [7]. To leverage the opportunities arising from the U.S.-China trade war, Malaysia's Minister of Trade and Industry,

Mohamed Azmin Ali, announced in July 2020 that the Malaysian Investment Development Authority (MIDA) is actively working to attract international companies seeking to relocate their operations to the country as a result of the trade war.

4. Recommendations for Legal Strategies of Developing Countries in Responding to Trade Wars

4.1. Utilization and Strengthening of Multilateral Mechanisms

4.1.1 Strengthening developing countries' participation in WTO negotiations

Developing countries should recognize the importance of active participation in WTO negotiations as a means to voice their concerns and assert their trade priorities. Given the disruptions caused by trade wars to global trade flows, the WTO offers a critical platform for effectively addressing trade-related issues.

Participating in WTO negotiations empowers developing countries to influence the formation of global trade rules and challenge unfair trade practices. By actively contributing to the negotiations, these nations can ensure that their specific circumstances are taken into account and seek favorable outcomes in resolving trade disputes.

Participating in WTO negotiations protects developing countries to a certain extent from malicious tariff barriers in developed countries. On March 5, 2012, the U.S. announced a tariff of 8%-30% on some steel imports from March 20 under Section 201 of the U.S. Trade Act, and the countries that were ultimately harmed forced the U.S. to remove this protective measure through the WTO negotiation. This shows that participating in WTO negotiations can effectively protect the interests of developing countries.

4.1.2 Advocating for WTO reform

In light of the U.S.-China trade war, developing countries should advocate for comprehensive WTO reform to address existing imbalances and ensure a level playing field for all member states.

Recommended reforms should focus on enhancing transparency, dispute settlement mechanisms, and trade rule enforcement. Developing countries should push for greater transparency in trade-related practices and dispute resolution, enabling a fairer and more accountable process. Additionally, they should advocate for streamlined decision-making processes within the WTO to expedite negotiations and achieve timely resolutions.

Although developing countries can enjoy special and differential treatment, these "best efforts clauses" may not always be realized. According to China's Ministry of Commerce (MOFCOM), of the 155 S&DT provisions in the 16 existing WTO agreements, at least 105, or 67.7 percent, are too broad to be operational, and of the remaining 50, at least 25 are transitional or technical assistance provisions. Moreover, some Member States might not recognize the status of some developing countries and thus deny them special treatment [8]. Therefore, promoting WTO reform is a more favorable action for developing countries.

4.2. Regional Cooperation and the Choice of Free Trade Agreements

In response to trade war uncertainties, developing countries should actively strengthen regional trade agreements to enhance market access and diversify their trading partners. Agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the African Continental Free Trade Area (AfCFTA) present significant opportunities for regional economic integration and cooperation.

By embracing regional trade agreements, developing countries can reduce their vulnerability to overreliance on a single market and build resilient supply chains within their regions. These agreements should facilitate the exchange of best practices, technology, and investment, promoting sustainable growth and economic development.

Free trade agreements is an agreement between two or more countries or regions signing the agreement. Its members further open their markets on the basis of WTO's most-favored-nation

treatment, and eliminate tariffs and non-tariff barriers on most goods in phases[9]. Through free trade agreements and regional cooperation, developing countries in South-East Asia can concentrate their resources on the most efficient domestic industries to enhance competitiveness and develop their economies. At the same time, as a result of importing low-cost products from cooperating countries, consumer spending is reduced and consumer surplus is increased, which is conducive to further market expansion. In addition, free trade agreements and regional cooperation could attract more foreign investment and promote technological progress in developing countries.

4.3. Adjustments and Innovations in Domestic Laws and Policies

4.3.1 Fostering flexibility in domestic laws and policies

Developing countries should prioritize the creation of agile and adaptable legal frameworks that can respond swiftly to evolving trade conditions. Trade policies should be regularly reviewed and updated to identify potential areas of improvement. Additionally, relevant organizations can provide convenient services for foreign investment, and the country also needs to improve its own infrastructure measures to provide a favorable environment for the introduction of foreign investment. At the same time, it can also legally utilize favorable factors such as religion and geography to unite nearby developing countries in order to reduce the impact of trade wars on their own countries.

4.3.2 Embracing innovation and economic diversification

Trade wars should encourage developing countries to explore innovative strategies and diversify their economies. Investments in research and development, technology, and innovation will enhance competitiveness in global markets.

Accelerating industrial upgrading and building new growth points in the economy. While utilizing big data to accelerate the transformation and upgrading of traditional industries, it will guide the path of industrial upgrading with high-tech and intellectual property rights, and take the lead in the development of high-value-added industries, such as the emerging information industry, bio-industry, new energy, new-energy automobiles, high-end equipment manufacturing and new materials [10].

5. Conclusion

In conclusion, the China-US trade war has had a significant impact on developing countries, particularly in Southeast Asia, presenting a dual landscape of opportunities and challenges. While the trade war may impose tariff barriers and economic burdens on some developing economies, it also opens avenues for industrial transfer, technology acquisition, and increased investments. As discussed earlier, countries like Indonesia, Vietnam, and Malaysia have demonstrated varying responses and legal strategies in the face of this trade conflict. Developing nations must carefully assess their positions in the trade war and adopt appropriate economic policies based on their international stance.

Maintaining a fair and just attitude in the face of the trade war is crucial for developing countries to avoid becoming hostages to great power diplomacy. Striving for independence and autonomy in their economic decisions will safeguard their interests and prevent undue influence from external forces.

At the same time, developing countries can leverage the trade war to attract industrial transfers and investments by offering preferential policies and creating favorable political and economic environments. This approach can foster economic growth and development, providing opportunities for local businesses to thrive and expand.

Sustainable development should remain a paramount consideration for developing countries. While capitalizing on the opportunities presented by the trade war, it is essential to strike a balance and avoid overexploiting natural resources or neglecting environmental concerns. Embracing environmentally-friendly practices will ensure a more resilient and sustainable growth trajectory for these nations.

Overall, navigating the complexities of the China-US trade war requires developing countries to be strategic, adaptive, and responsible. By embracing the opportunities while mitigating the challenges, these nations can position themselves for sustainable growth and prosperity in the ever-changing global trade landscape.

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