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US Trade Policy on PV Panels is a Reality Check for Southeast Asia Ties

By Kevin Chen Xian An

SYNOPSIS

The recent announcement that photovoltaic cell companies in Cambodia, Malaysia, Thailand, and Vietnam are under investigation by the United States Commerce Department for circumventing tariffs on China highlights the very real consequences of US-China rivalry for Southeast Asia.

COMMENTARY

In December 2022, the United States Commerce Department [issued a preliminary decision](#) affirming that certain photovoltaic (PV) cell and panel imports from Cambodia, Malaysia, Thailand and Vietnam were circumventing tariffs on China. The Department found that four companies within these countries were assembling PV cells and modules with Chinese-made components to [circumvent](#) antidumping duties imposed by the US in 2012.

The unassuming announcement was largely overlooked in regional news outlets. After all, it was just a preliminary decision, and the final determination for the case is only due in May 2023. Moreover, thanks to a two-year tariff waiver that US President Joe Biden granted in June 2022, any punitive tariffs on solar industry actors would only be levied after June 2024.

However, the investigation has important implications for US relations with governments from the Association of Southeast Asian Nations (ASEAN). Over 2022, the US took pains to convince these governments that it is a reliable partner that does not view their bilateral ties through the [prism of strategic competition](#) with China. This development undermines Washington's strategic promises by reminding regional governments that US fixation on strategic competition with China can still cause collateral damage to its partners.

A Promising Strategic Premise

After years of drift under the Trump Administration, the White House under President Joe Biden appeared to hit its stride in improving US-Southeast Asia ties in 2022. Three noteworthy developments occurred during this time.

First, the US launched the Indo-Pacific Economic Framework for Prosperity ([IPEF](#)) in May 2022, aiming to drive sustainable growth for regional economies. Second, the launch of Biden's National Security Strategy (NSS) in October 2022 emphasised that Washington would engage its partners "on their own terms", and based on their [support for the international system](#) instead of regime type. Third, the upgrading of the US-ASEAN relationship to a Comprehensive Strategic Partnership in November 2022 committed the parties to new high-level dialogues for intensified cooperation, including environmental and energy-related issues.

These initiatives are still works in progress. As pointed out by other observers, IPEF is an [agreement to negotiate](#) instead of a completed agreement, and it remains to be seen how it will gain buy-in from regional governments without offering market access as an incentive. There are also questions about how Washington will balance its strategic attention as the Russian invasion of Ukraine continues unabated.

Nonetheless, these developments point to a promising strategic premise: Washington intends to remain engaged with the region, and has identified areas for cooperation such as climate change, which the NSS calls "[the greatest and potentially existential \[problem\] for all nations](#)." Indeed, cooperation on climate and energy issues is already ongoing. The US has offered assistance to [Thailand](#) and the [Philippines](#) to develop small modular nuclear reactors and to increase their energy security. Meanwhile, Cambodia, Malaysia, Thailand and Vietnam accounted for [roughly 82 per cent](#) of PV panel imports to the US in the third quarter of 2022.

Strategic Interests and Their Consequences

Against this heady context, the Commerce Department investigation is a reality check. Even though the investigation may critically undermine Biden's domestic goal for America to attain [100 per cent](#) of its energy from clean sources by 2035, there are no signs that it will pull its punches. Indeed, there are reports that Southeast Asian solar producers have pre-emptively halted exports to the US, imperilling [64 per cent](#) of solar installations planned in 2022.

This is not to say that Southeast Asian governments are hapless bystanders amid great power competition; in fact, they have demonstrated a remarkable ability to manage and benefit from such tensions. During the Trump-initiated trade war, manufacturers in China relocated to countries such as Vietnam to escape tariffs on operations in China, driving foreign direct investment (FDI) into Vietnam to [US\\$19.1 billion](#) in 2018 and [US\\$20.4 billion](#) in 2019. The region also appears poised to benefit from the US' Creating Helpful Incentives to Produce Semiconductors and Science Act of August 2022 (CHIPS Act). GlobalFoundries Inc. announced plans to build a [US\\$4 billion chipmaking plant in Singapore](#), and Samsung committed [US\\$3.3 billion to scale-up semiconductor components](#) at its Thai Nguyen factory in Vietnam.

Yet the investigation is a reminder that US interests and those of its partners do not always align. Indeed, Washington's efforts to compete with China can have unintended consequences for its other relationships, especially those that are close economic partners with Beijing.

Regardless of the outcome of the investigation, both Southeast Asian governments and Washington should take heed of its lessons. The former set of leaders cannot afford to take their ties with Washington for granted and should continue dialogues with their American counterparts to promote a better understanding of mutual concerns. Washington, in turn, should better appreciate that strategy formulation is an exercise in prioritisation. There are costs associated with every action – the question is whether Washington is willing to throw a spanner into its relations with Southeast Asia in a bid to compete with China.

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