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Trade Wars and Climate Goals: Implications for ASEAN's Low-Carbon Future

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SYNOPSIS

Many ASEAN developing countries have set conditional climate targets, meaning that more ambitious greenhouse gas emission reductions will be achieved depending on access to appropriate international support, such as climate finance and technology transfer. However, the recent escalation of tit-for-tat trade policies and protectionism between major economies threatens not only economic development but also international cooperation for decarbonisation. This policy brief discusses how the evolving trade landscape, particularly influenced by US trade policies, may impact ASEAN's ability to meet its climate goals.

KEY POINTS

- The US has imposed aggressive tariffs on multiple countries, prompting retaliatory measures that may disrupt global trade and economic stability.
- The current trade wars could cause domestic economic shocks, inadequate global climate financial support, and an increase in restrictions on technology exports, leading developing countries to be put at risk of being left behind in efforts to achieve their climate targets.
- Rising tariffs and weakened climate commitments by the US urge ASEAN countries to diversify their financial channels and supply chains for energy transition and reduce their reliance on external support.

INTRODUCTION

The tariff war began as the White House, on 1 February 2025, announced a 25% additional tariff on imports from Canada and Mexico, as well as a 10% additional tariff on imports from China. In the same month, President Trump imposed 25% tariffs on all steel and aluminium products imported into the United States (US), and subsequently, revealed country-specific reciprocal tariff rates ranging from 10% to 49% in April 2025. These moves reflect the administration's approach to using trade policy as a tool to safeguard national security and advance US economic interests.

Such changes in the US trade policies can have multifaceted impacts on ASEAN countries. Higher tariffs may pose serious economic challenges for ASEAN countries by reducing the price competitiveness of their export products. The impact will be more severe for countries such as Vietnam, which relies on US exports and has large trade surpluses resulting from them. Meanwhile, tit-for-tat trade policies between the US and other major economies may fuel greater protectionism, leading to further export control measures and foreign technology restrictions—similar to those seen during Trump's first presidency in 2018. At that time, some ASEAN countries benefited from Chinese firms' relocation of production facilities to bypass tariffs on exports to the US, particularly in green technology sectors like solar panels and electric vehicles. In this sense, for ASEAN countries, the changing conditions in international trade may present both challenges and opportunities for economic growth and green transition.

ANALYSIS

The Rise of Trade Tensions

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Before Trump's first presidency, the US government already had tariffs on Chinese solar panels, which were introduced during the Obama administration to counter unfair competition and level the playing field in the green technology sector. President Trump viewed existing bilateral trade agreements, some of which include tariff exemptions, as loopholes that have been exploited by China and other countries, leading to a decline in domestic production. Hence, the Trump administration has expanded the imposition of tariffs. This may appear to serve macroeconomic goals, but a closer look reveals that the Trump administration leveraged the tariffs as part of a broader protectionist agenda to reinforce economic nationalism. For instance, tariffs have been used to push Mexico into tightening border enforcement against migrants and drugs, and wielded as a strategic tool to secure geopolitical advantages—ensuring access to critical raw materials, semiconductors and digital technologies.

Trump's second term, beginning in January 2025, has ushered in an even more aggressive trade policy, with sweeping tariffs imposed not only on a few but also on any country with which the US has a trade imbalance, including those under free trade agreements. This approach effectively disconnects tariffs from their traditional role under World Trade Organisation (WTO) rules, which are intended to protect against unfair trade practices such as dumping or subsidies.

Several affected nations have retaliated against the US tariffs. China immediately announced retaliatory tariff measures on certain US imports (10-15% additional tariffs) in February 2025. In March 2025, the European Union (EU) reinstated its previous countermeasures imposing additional tariffs on US goods to ensure that the total value of EU countermeasures matches the economic impact of the latest US tariffs. These measures were originally enacted in 2018 and 2020 but had been suspended until March 2025. These counter-tariffs are paused for six months as the EU and US agreed on a deal regarding tariffs and trade on 27 July 2025. Moreover, Ontario, a Canadian province, imposed a 25% surcharge on electricity exports to US states in direct retaliation for US trade policy.

Besides tariffs, the trade war has historically extended to stricter export controls and investment restrictions on critical emerging technologies. This was evident during Trump's first presidency. In 2018, Congress passed the Export Control Reform Act, aimed at controlling the export and transfer of commodities, software and technology to safeguard US national security and advance its foreign policy objectives. A key example of these measures is the US Department of Commerce's mandate in September 2020, requiring US companies to obtain a license before conducting business with SMIC, China's largest semiconductor manufacturer. This aimed to stifle China's ability to advance in cutting-edge technology and maintain US dominance in the sector. Export controls also serve as a retaliatory measure. China, which holds a dominant position in critical mineral supply chains, has banned or restricted exports of minerals essential for advanced manufacturing, including semiconductors and clean energy technologies, to the US in response to the US's technology restrictions and tariffs.

Potential Negative Impacts of Trade Wars on Climate Commitment

Mounting trade tensions and protectionist policies may not only slow global economic growth but also jeopardise some countries' climate goals in several ways. First, climate policies may risk being deprioritised in favour of more immediate economic and social concerns such as rising consumer prices. In developing nations, in particular, public and political support for a clean energy transition is unlikely if it leads to higher financial burdens on consumers or redirects government spending from other pressing needs. Thus, amid higher tariffs and other protectionist measures, governments may be compelled to devote attention and resources to alleviating domestic economic shocks and could ill afford to pursue ambitious climate initiatives.

Second, President Trump's return may reduce global climate finance, which is essential for developing countries to meet their nationally determined contributions (NDCs). Given that many developing countries still face insufficient budgets and a lack of technologies for tackling climate change, their more ambitious climate commitments have been

presented as conditional targets in their NDCs. That is, their progress depends on securing financial and technological support from other nations. As the largest shareholder in both the World Bank and Asian Development Bank and one of the largest official development assistance donors, the US's role in global climate finance has been critical. Notably, the Biden Administration significantly increased climate aid for developing nations to 11 billion USD annually, which accounted for more than 8% of global climate finance in 2024. On the contrary, during Trump's first term, US climate finance contributions stalled, and this phenomenon is likely to repeat or worsen in his second term. In February 2025, President Trump signalled the US's shift away from international climate financing by rescinding 4 billion USD in pledges to the Green Climate Fund and dissolving the US Agency for International Development. He stated that "US foreign aid industry and bureaucracy are not aligned with American interests" and "the US is no longer going to blindly dole out money with no return for the American people."

Third, the growing trend of protectionism may hinder technology transfer, another key enabler for developing countries' NDC achievement, as mentioned above. Many developing nations lack the capacity to fully leverage green technologies independently, making international support vital. However, trade protectionism may restrict technology transfer by controlling the free flow of goods and services across borders. Furthermore, political leaders in major economies, leading in patents related to innovative energy and decarbonisation technologies such as energy-efficient building design, renewable energy integration and energy storage, are increasingly viewing green technologies as a means of maintaining their competitive edge in the 21st century rather than fostering global cooperation to address the climate crisis collectively. Hence, technology transfer and diffusion currently primarily rely on market mechanisms and foreign direct investment. This system prioritises larger and more attractive markets, leaving smaller and less developed economies at a disadvantage.

In brief, the current trade wars could lead to domestic economic shocks, inadequate global climate financial support, and an increase in restrictions on technology exports. As a result, developing countries may be put at risk of being left behind in efforts to achieve their climate targets and shift to a more sustainable, low-carbon economy. Ultimately, this situation will make it challenging to meet the global 1.5°C climate goal.

Implications for ASEAN's Energy Transition and Green Industries

ASEAN countries remain heavily reliant on fossil fuels. Thus, to address the dual challenge of decarbonisation and economic growth, they have paid attention to increasing access to clean, affordable energy and fostering green industries. With specific targets of renewable energy installed capacity or generation and various policy support, ASEAN has made significant progress in deploying renewable energy. According to the *8th ASEAN Energy Outlook (2024)*, the share of renewables in the region's installed power capacity reached 33.6% in 2022—close to the region's 35% target for 2025. Looking ahead, it is expected that this share will increase to 69.4% by 2050 if all member states achieve their individual renewable energy targets.

However, energy transition projects such as expanding renewable energy, accelerating energy efficiency improvements, upgrading grid and storage infrastructure, and phasing out inefficient fossil fuel subsidies usually require high upfront costs and advanced technologies. ASEAN countries face particularly significant challenges in pursuing this energy transition due to their many young coal-fired power plants and the expansion of state-owned oil and gas operations. The International Energy Agency estimated that annual energy investment of nearly 300 billion USD is needed by 2035 for ASEAN countries to achieve net-zero emissions by 2050. Furthermore, according to UNCTAD's *Technology and Innovation Report 2023*, Singapore was the only country to rank among the global top ten countries (3rd place) in the frontier technology readiness index measured based on ICT, skills, R&D, industrial capacity, and finance for 17 technologies. These technologies also include green technologies related to solar, wind, bioenergy, green hydrogen, and electric vehicles (EVs). Other ASEAN countries ranked between 32nd (Malaysia) and 134th place (Lao PDR). Thus,

similar to other developing countries, many ASEAN countries need international financial and technical assistance, including both development finance and foreign direct investment, to meet this goal.

In this sense, the US's shrinking climate finance and cancellation of foreign aid may discourage ASEAN countries' efforts to transition to a low-carbon economy and meet their NDC targets. For example, the US's withdrawal from the Just Energy Transition Partnership agreements with Indonesia and Vietnam may add a financial burden and increase the time for these countries to phase out coal power plants and shift to clean energy. ASEAN countries may continue to attract Chinese investments and technologies, which have already played a significant role in the region's renewable energy sector with massive investments in solar, wind, battery storage, and infrastructure. However, in the absence of the US's development finance, dependence on a single country could increase energy security risks and the uncertainty of funding and project implementation. Therefore, ASEAN countries need to explore alternative financing options, including regional collaboration and promoting domestic private investment.

Meanwhile, the US's increased tariffs may pose both challenges and opportunities for green industries in ASEAN. On 31 July 2025, the US government confirmed revised reciprocal tariffs, and most ASEAN countries secured reduced tariff rates compared to the initial plans. Nevertheless, countries with large exports of solar products and emerging EV manufacturing could still be negatively impacted by increased tariffs. Particularly, the US imposed 14.6-3,521% tariffs combining antidumping and countervailing duty (AD/CVD) on solar cells and panels from Cambodia, Malaysia, Thailand and Vietnam. At the same time, ASEAN countries may embrace an opportunity for price competitiveness over Chinese solar panels. High tariffs on Chinese solar products could reshape the global solar supply chain by increasing the prices of Chinese products. Additionally, the fact that most producers on the AD/CVD list are Chinese manufacturers suggests that the main purpose of such high tariffs is to prevent Chinese firms from relocating their production sites to other countries to circumvent the US tariffs. In this context, ASEAN countries need to cultivate their own clean energy technology industries and mitigate their supply chain dependence on China to capitalise on new market opportunities. The growth of local green industries will also contribute to meeting NDC targets by lowering the cost of low-carbon technologies.

CONCLUSION

The escalating trade conflicts and protectionist policies under Trump's second term pose risks to ASEAN's energy transition and green industries. Rising tariffs and weakened climate commitments from major economies urge ASEAN countries to diversify their financial channels and supply chains, thereby reducing reliance on external support. To address these challenges, regional leaders need to advocate for fair trade policies, strengthen domestic green industry capabilities, and explore alternative partnerships. It will enable ASEAN countries to achieve their climate goal and ensure a sustainable green future.

WHAT TO LOOK OUT FOR

- Potential tariff escalations and the expansion of restrictions on technology transfers in the clean energy sector
- Changes in ASEAN countries' dependence on Chinese green technologies
- ASEAN countries' policy action and implementation related to NDC ambition

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