



सत्यमेव परमो धर्मः

INSTITUTE OF ECONOMIC GROWTH

# INSTITUTE OF ECONOMIC GROWTH

## KEC POLICY BRIEF

Kautilya  
Economic  
Conclave

2025

4th EDITION

# NAVIGATING GEOPOLITICAL TURBULENCE FOR ASIAN GROWTH\*

Chair: Tarun Das

Speakers: Cheng-Chwee Kuik, Assaf Razin, Joseph Liow Chin Yong,

Warwick McKibbin, C. Raja Mohan

Date: 04<sup>th</sup> October 2025 | Time: 11:30 - 13:00 hrsInteractive  
Session

3B

Geopolitical turbulence has risen sharply in recent years, blurring the once-clear boundaries between politics, economics, and security. “Job economics” increasingly intersects with “job politics,” as seen in H-1B visa policies that directly link labour mobility to strategic considerations.

The Global South, and Asia in particular, is responding to this uncertainty through hedging — an active strategy of balancing relationships, diversifying partnerships, and offsetting risks. India exemplifies this approach by being both a member of the QUAD and BRICS.

Hedging is not passive neutrality; it is a deliberate effort to maintain strategic flexibility. Its essence lies in:

### 1. Active neutrality

staying engaged with multiple powers while safeguarding national interests.

### 2. Inclusive diversification

reducing dependency through broad-based economic and diplomatic partnerships.

### 3. Strategic offsetting

adopting counterbalancing measures to minimise exposure to any single partner.

The return of Trump 2.0—style politics and the volatility of global trade make hedging not just a preference, but a necessity.

### Hedging in Practice: The Asian Experience

Across Asia, governments are already employing hedging strategies to navigate economic and geopolitical uncertainty.

- Vietnam, Indonesia, and Thailand have benefitted from the China + 1 strategy, drawing investment as global firms diversify supply chains beyond China.
- Malaysia has positioned itself effectively by attracting semiconductor manufacturers from both the United States and China, balancing engagement between rivals.
- ASEAN countries, guided by Cold War memories when geopolitical rivalry turned into direct conflict in Vietnam and Korea, now understand that not hedging is not an option.

This active balancing ensures continued economic engagement without the costs of rigid alignment.

\* Prepared by: Anurag Guatam, Lokesh Singh, Rishita Kumari (IES Officer's Trainee 2025 Batch)



# INSTITUTE OF ECONOMIC GROWTH

## KEC POLICY BRIEF

### The U.S.–China Rivalry and Its Spillovers

The rivalry between the United States and China has intensified, encompassing tariffs, technology bans, and security realignments. These developments have significant implications for global trade, technology, and investment.

Countries such as India, Japan, and South Korea are recalibrating their foreign policies by engaging new partners in Brazil, Africa, and Europe, reducing vulnerability to great-power competition.

#### India and China as Contrasting Superpowers

Category	China	India
Demographics	Ageing population	Young, expanding population
Economic trends	Deflationary pressures, real estate overcapacity, weak domestic demand	Rising domestic demand, infrastructure expansion, GST-based fiscal federalism
Technology	Leader in AI and green energy	Leader in fintech and digital platforms
Investment pattern	Large outward FDI	Large inward FDI

Both economies share technology as a common driver of growth but follow distinct paths: China relies on outward industrial investment, while India attracts inward flows supported by digital

innovation and domestic consumption.

### The Age of Polycrisis

We live in an era of polycrisis - where multiple disruptions overlap and reinforce each other. Nations are increasingly diverting resources from social welfare to defence spending, highlighting growing insecurity.

The U.S.–China rivalry is felt most acutely in Southeast Asia. Both powers are attempting to unhedge ASEAN nations by pulling them into exclusive alignments. Yet both appear to be in a race to lose the region:

- The United States risks irrelevance due to inconsistent engagement and waning interest.
- China faces backlash from its “wolf-warrior diplomacy,” assertive behaviour in the South China Sea, and preference for tactical victories (land and influence) over strategic victories (trust and goodwill).

This environment reinforces ASEAN's conviction that balanced neutrality and regional solidarity are indispensable.

### ASEAN's 5D Framework for Strategic Stability

ASEAN's collective experience has given rise to a pragmatic guiding framework for hedging, summarized as the Five Ds:

#### 1. Deepening of regionalism

Strengthen ASEAN, RCEP, and CPTPP (which



सत्यमेव परमो धर्मः

INSTITUTE OF ECONOMIC GROWTH

# INSTITUTE OF ECONOMIC GROWTH

## KEC POLICY BRIEF

Kautilya  
Economic  
Conclave

2025

4th EDITION

exclude U.S. or Chinese dominance) and promote ASEAN-led forums such as the EAS.

### 2. Distance from major powers

Engage both Washington and Beijing pragmatically, identifying where they are constructive or disruptive.

### 3. Diversification of relationships

Broaden partnerships with India, Japan, Australia, the EU, Africa, and Latin America.

### 4. Defending rule-based order

Uphold international law and freedom of navigation as anchors of stability.

### 5. Doubling down on diplomacy

Use ASEAN's convening capacity to reduce tensions and manage competition.

There is growing awareness among Southeast Asian nations that they must elevate their engagement and leadership to safeguard regional autonomy.

## The Shrinking Role of the U.S. in the Global Economy

The United States, which once dominated global trade and production, now accounts for roughly 20% of world GDP and 15% of global trade. Two major challenges define its evolving role:

1. The economic impact of new U.S. tariffs and retaliatory measures.
2. The loss of global confidence in the predictability of U.S. policy.

Although headline tariffs appear high, effective

tariffs remain lower for countries under preferential agreements such as USMCA. Computable General Equilibrium (CGE) modelling shows that the U.S. itself bears the largest cost of its own tariffs, followed by Canada, China, Mexico, and Japan.

For India, this underlines the need to act decisively — both to prevent spillover losses and to capture opportunities emerging from global supply-chain realignment.

## New Evidence: U.S. Tariff and Country Risk Scenarios

Recent simulations presented at the Kautilya Economic Conclave (2025) highlight the spillover effects of new U.S. tariff measures and rising U.S. country risk.

### Key findings include:

- Tariffs backfire on the U.S. itself, causing a deeper GDP loss compared to its trading partners.
- Emerging Asian economies such as India and Indonesia stand to benefit moderately from trade diversion effects.
- A 100 basis point rise in U.S. country risk leads to:
  - ➔ Capital outflows from the U.S. to Asia.
  - ➔ A temporary boost in Asian GDP due to inflows.
  - ➔ Currency appreciation and trade balance pressures in the medium term.
- Policy implication: Asian economies should



सत्यमेव परमो धर्मः

INSTITUTE OF ECONOMIC GROWTH

# INSTITUTE OF ECONOMIC GROWTH

## KEC POLICY BRIEF

Kautilya  
Economic  
Conclave

2025

4th EDITION

avoid reactive tariff measures and instead reinforce financial stability and diversification.

### Strategic Implications for Asian Policymakers

1. Avoid tariff retaliation: Protectionist responses only deepen global GDP losses.
  2. Diversify export markets: Strengthen ties with non-U.S. trade partners that form 85% of global trade.
  3. Prepare for capital volatility: Maintain fiscal prudence and macroeconomic buffers.
  4. Invest in domestic resilience: Leverage capital inflows for productive use - infrastructure, digital transition, and innovation.
- Asia's balance of power cannot be maintained without a U.S. security presence, even if its consistency is uncertain.
  - Engagement with the U.S. must continue, recognising that Trump is not America.
  - U.S. economic policy has become more transactional — as seen in demands for Taiwan's semiconductor relocation — yet long-term cooperation remains vital.
  - Within ASEAN, domestic political constraints in Indonesia, Malaysia, Thailand, and the Philippines limit collective action.
  - For India, the Russia policy complicates deeper engagement with the European Union, requiring careful diplomacy.

### Insights from Reassessing Asia's Growth Model

Asia's remarkable growth over the past seven decades was driven by globalization and open markets. The Asian Tigers, followed by China and India, leveraged U.S. and global market access to industrialize and expand.

That foundation is now under stress. The U.S.–China normalization that once supported regional prosperity has unravelled, and domestic politics in key economies - from MAGA populism in the U.S. to discontent among youth in Indonesia and Nepal- add to instability.

Key observations include:

- The U.S. cannot be easily substituted; a “sans-America” strategy is unrealistic.

### Conclusion

Asia stands at a critical inflection point. The merging of political, economic, and security spheres demands new forms of strategic agility. Hedging — through active neutrality, diversification, and offsetting — is no longer a temporary tactic; it is a long-term survival strategy.

The ability to manage uncertainty, maintain autonomy, and cooperate regionally will determine Asia's growth trajectory in this turbulent era.

In today's polycrisis world, hedging is not indecision — it is intelligent resilience.







## INSTITUTE OF ECONOMIC GROWTH

University of Delhi Enclave, (North Campus), Delhi- 110007, India

+91-11-27667288/365/424/570/260 & 9810322376, 9810334376

**Website: <https://iegindia.org/>**

 @iegresearch  in.linkedin.com/company/institute-of-economics-growth