

## Chip wars and economic blocs under Trump 2.0

*di Richard J. Heydarian*

Just weeks into office, Donald Trump made it clear that his second term would be even more disruptive and unpredictable than the first. Trump's so-called '[flood the zone' strategy](#) has now extended to matters of foreign policy. From suspending overseas development aid, which has [placed millions of lives](#) at risk, to [brazenly threatening](#) the occupation of Panama Canal, Greenland and [even Gaza](#), the American president is also upending his country's relationship with the rest of the world.

While [threatening key allies](#) such as Canada with tariffs, and signaling [potential abandonment](#) of partners such as Ukraine, the second Trump administration has extended the olive branch to key rivals. He has pressed ahead with direct [negotiations with Russia](#) over the Ukraine conflict, excluding both Brussels and Kyiv, while expressing openness to negotiating a new nuclear deal with [a "very strong" Iran](#). Most crucially, the US president [has also expressed](#) his intent on negotiating [a G2-style global order](#) with the world's other superpower, namely China, thus raising fears of strategic abandonment among frontline Asian allies such as Taiwan and even the Philippines.

Nevertheless, there is an essential element of continuity in Trump's foreign policy. At heart, the US president represents [the "Jacksonian" tradition](#), which combines populist nativism with economic nationalism. Trade deficits and [US dollar dominance](#) have so far dominated the American president's economic statements, but his administration will likely also double down on earlier efforts to constrain [China's rapid emergence](#) as a technological rival. And no technology is as singularly relevant to determining the future of geopolitics [than semiconductors](#).

Thus, the Trump administration will likely increase pressure on key allies, from Japan to Taiwan and Europe, to collectively build a [‘Digital Iron Curtain’ against China](#).

### **A 21<sup>st</sup> century McKinley**

One of the bizarre aspects of the second Trump administration is how it eerily resembles more 19<sup>th</sup> century American politics than the policy orientation of his more contemporary predecessors’ – both Democrats and Republicans. Trump himself has repeatedly expressed his admiration for Andrew Jackson, the 7<sup>th</sup> American president (1829-37) who oversaw the consolidation of America as a continental-sized nation with [unabashed brutality](#) and uncanny [populist flair](#). As historian Walter Russell Mead [has explained](#), the “Jacksonian” tradition is “less an intellectual or political movement than an expression of the social, cultural and religious values of a large portion of the American public”, who are aloof to international entanglements.

In many ways, Trump even resembles [the 25<sup>th</sup> American president, William McKinley](#) (1897-1901), who ruthlessly combined ‘small government’ fiscal conservatism with relentless imperial expansion, which culminated in America’s emergence as a global power with territories extending to present-day Philippines. His little regard for transatlantic relations and a more values-based international order, therefore, should come as little surprise.

Intimately familiar with America’s imperial history in the Pacific, Asian nations have been quick to adjust to new geopolitical realities under the second Trump administration. What began as perilous insouciance quickly transformed into proactive and personalized diplomacy, with [Japanese Prime Minister Shigeru Ishiba](#) and Indian Prime Minister Narendra Modi among the first foreign leaders to visit the White House this year.

Meanwhile, top Philippine leaders, including Secretary of Foreign Affairs [Eduardo Manalo](#) and Defense Secretary [Teodoro Locsin Jr](#), were among first foreign leaders to hold personal conversations with their counterparts in Washington. By and large, Asian allies are confident of winning over the second Trump administration by leveraging personal ties as well as pragmatic geopolitical factors.

### **Asian exceptionalism**

Notwithstanding Trump's conciliatory statement towards Beijing, and the presence of [so-called 'restrainers'](#) advocating for détente within key defense positions, China remains the primary threat to America's global hegemony. In fact, practically all of [Trump's top defense officials](#) as well as top economic advisers, namely both [Peter Navarro](#) and [Robert Lighthizer](#), have identified the Asian superpower and its rapid technological rise as a key national security threat. And semiconductors, [which fuel](#) today's global economy and next-generation weapons systems, could singularly decide the future of great power rivalry in Asia.

The success of Trump's China strategy, however, will also largely depend on cooperation with and among frontline allies in Asia. On its part, Tokyo has largely preempted the return of the second Trump administration by launching, inter alia, new initiatives aimed at reducing economic dependence on China and, accordingly, enhancing its own manufacturing capacity in next-generation technologies. Last year, the second largest Asian economy launched [a \\$65 billion program](#) to revive its semiconductor production capacity.

[Among key investors](#) in Japan's new initiative is neighboring Taiwan – the world's leading producer of high-end semiconductors. Eager to win over the new administration in Washington, the self-ruling island nation has mulled not only [multi-billion purchase](#) of American weapons systems, but also [semiconductor investments](#) in the US. Crucially, the Philippines, among the [world's top ten largest producers](#) of semiconductors, [is also joining the fray](#) by actively courting high-end manufacturing investments from key allies.

As Taiwan's closest southern neighbor, the Southeast Asian nation is in a unique position to serve as an [alternative production site](#) and, at the very least, a source of packaging and design for more high-end semiconductors. Meanwhile, Japan and the US are also set to [expand semiconductor and manufacturing-related investments](#) in the so-called "Luzon Economic Corridor" in northern Philippines under the newly-launched Japan-Philippine-US (JAPHUS) trilateral framework. Meanwhile, the Southeast Asian nation is also positioning itself as a leading [source of 'China free'](#)

[strategic minerals](#), given the relatively limited presence of Chinese companies in the country's mining sector.

Aside from geopolitical considerations, including the need to economically rope in key neighbors and the Americans for its own protection, Taiwan is also confronting rising costs and [ecological challenges](#) at home. Aside from threatening new tariffs and sanctions, it's still not clear how the second Trump administration will incentivize manufacturing revival among likeminded nations in a coordinated fashion.

Targeted strategic investment overseas and sector-specific and digital trade agreements – short of a full-fledged 'free trade' pact – will likely be part of the conversation. But Trump's former trade representative, Lighthizer, [has argued for](#) the establishment of nothing less than a new global economic order, which ditches 'free trade' in favor of 'friend-shoring' and institutionalized strategic economic cooperation among fellow democracies against a resurgent China.

It remains to be seen if [the US can ever revive](#) its battered manufacturing sector after decades of offshoring. But pursuing new US-led economic blocs – combining both elements of geopolitics and geoeconomics with growing focus on critical technologies such as semiconductors in Asia – at the expense of traditional 'globalization' could be in the cards under a second Trump administration.