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**The Stress Test: Redefining Hegemony and Regional Resilience
through an Analysis of U.S. Economic Coercion and
the Thailand-Cambodian Conflict**

**การทดสอบความเครียด: การกำหนดอำนาจเหนือและความยืดหยุ่นของ
ภูมิภาคใหม่ผ่านการวิเคราะห์การบีบบังคับทางเศรษฐกิจของสหรัฐฯ
และความขัดแย้งระหว่างไทย-กัมพูชา**

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Abstract

This research employs a predictive case study methodology within a constructed hypothetical scenario to analyze the interplay between U.S. trade policy and regional security in Southeast Asia, focusing on the Thailand-Cambodian border conflict. Addressing the theoretical puzzle of how external economic pressure interacts with regional institutional fragility, this paper develops a plausible "what-if" scenario to rigorously stress-test three interlinked systems, i.e., U.S. economic statecraft, regional supply chain resilience, and ASEAN's diplomatic centrality. Rather than simply exploring influence, the study articulates the structural mechanisms of tariffs as instruments of economic coercion in reshaping conflict resolution and regional alignments. While U.S. economic leverage might compel short-term de-escalation, findings reveal a critical paradox where coercive mechanisms simultaneously

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expose deep vulnerabilities in the "China Plus One" supply chain model, undermine ASEAN's diplomatic credibility, and risk accelerating geopolitical realignment in the region. Though limited by the boundaries of the specific scenario parameters rather than empirical historical data, this analysis demonstrates how predictive scenario analysis can reveal structural weaknesses often invisible in retrospective studies. These insights provide a robust conceptual foundation for future empirical study of economic coercion and crisis diplomacy in Southeast Asia.

Keywords: Economic Coercion, Supply Chain Resilience, Geopolitical Alignment, Predictive Case Study, Stress Test

บทคัดย่อ

งานวิจัยนี้ประยุกต์ใช้ระเบียบวิธีวิจัยกรณีศึกษาเชิงพยากรณ์ (Predictive Case Study) ภายใต้สถานการณ์จำลองที่สร้างขึ้น เพื่อวิเคราะห์ปฏิสัมพันธ์ระหว่างนโยบายการค้าของสหรัฐอเมริกา และความมั่นคงในภูมิภาคเอเชียตะวันออกเฉียงใต้ โดยมุ่งเน้นที่ความขัดแย้งบริเวณชายแดนไทย-กัมพูชา เพื่อตอบโจทย์ทางทฤษฎีที่ว่าแรงกดดันทางเศรษฐกิจจากภายนอกมีปฏิกริยาอย่างไรต่อความเปราะบางของสถาบันภายในภูมิภาค บทความนี้ได้พัฒนาสถานการณ์จำลองแบบ "สมมติเหตุการณ์" (What-if scenario) ที่มีความเป็นไปได้ เพื่อทำการทดสอบภาวะวิกฤต (Stress-test) อย่างเข้มข้นต่อระบบที่เชื่อมโยงกันสามระบบ ได้แก่ ยุทธศาสตร์การใช้อำนาจรัฐทางเศรษฐกิจของสหรัฐฯ (U.S. Economic Statecraft) ความยืดหยุ่นของห่วงโซ่อุปทานในภูมิภาค และความเป็นแกนกลางทางการทูตของอาเซียน โดยแทนที่จะสำรวจเพียงแค่อิทธิพลทั่วไป การศึกษานี้ได้แจกแจงกลไกเชิงโครงสร้างของการใช้ภาษีศุลกากรในฐานะเครื่องมือบีบบังคับทางเศรษฐกิจ เพื่อปรับเปลี่ยนทิศทางของการแก้ไขความขัดแย้งและการจัดดุลอำนาจในภูมิภาค ซึ่งแม้ว่าอำนาจต่อรองทางเศรษฐกิจของสหรัฐฯ อาจกดดันให้เกิดการลดระดับความรุนแรงได้ในระยะสั้น แต่ผลการศึกษาเผยให้เห็นความย้อนแย้งที่สำคัญ กล่าวคือ กลไกการบีบบังคับดังกล่าวกลับเปิดเผยจุดอ่อนที่ยังรากลึกในโมเดลห่วงโซ่อุปทานแบบ "China Plus One" บันทึบนความน่าเชื่อถือทางการทูตของอาเซียน และเสียงที่เรงให้เกิดการจัดตั้งอำนาจทางภูมิรัฐศาสตร์ใหม่ในภูมิภาค ทั้งนี้ แม้การศึกษานี้จะมีข้อจำกัดภายใต้ขอบเขตของตัวแปรในสถานการณ์จำลองมากกว่าการใช้ข้อมูลเชิงประจักษ์ทางประวัติศาสตร์ แต่การวิเคราะห์นี้แสดงให้เห็นว่าการวิเคราะห์สถานการณ์เชิงพยากรณ์สามารถเปิดเผยจุดอ่อนเชิงโครงสร้างที่มักมองไม่เห็นในการศึกษาย้อนหลัง (Retrospective Studies) ได้อย่างไร ซึ่งข้อค้นพบเหล่านี้ช่วยวางรากฐานเชิงโมโนทัศน์ที่เข้มแข็งสำหรับการศึกษาเชิงประจักษ์ในอนาคต เกี่ยวกับการบีบบังคับทางเศรษฐกิจและการทูตในภาวะวิกฤตของภูมิภาคเอเชียตะวันออกเฉียงใต้

คำสำคัญ: การบีบบังคับทางเศรษฐกิจ ความยืดหยุ่นของห่วงโซ่อุปทาน การปรับแนวทางภูมิรัฐศาสตร์ กรณีศึกษาเชิงคาดการณ์ การทดสอบความเครียด

Introduction

In an era where economic tools are increasingly central to power politics, the intersection of trade policy and regional security creates complex vulnerabilities that traditional empirical studies cannot fully capture. To address the theoretical puzzle of how external economic pressure interacts with regional institutional fragility, this research employs a predictive case study methodology. While predictive case studies, or “thought experiments,” are established tools in social sciences for exploring causal mechanisms, this study moves beyond general exploration to rigorously apply a “Stress Test” framework. This approach subjects Southeast Asia’s geopolitical and economic architecture to a plausible “what-if” scenario, at which a localized Thailand-Cambodian border conflict coincident with new U.S. reciprocal tariffs.

The selection of the Thailand-Cambodia dynamic is critical. Unlike other regional pairings, this relationship represents a fragile fault line characterized by historical territorial disputes and deep economic interdependence, making it an ideal case to test the limits of ASEAN’s diplomatic centrality against external coercion. Furthermore, this study integrates the “China Plus One” concept not merely as a business trend, but as a structural variable. By introducing a tariff shock to this specific supply chain model, the research challenges the prevailing assumption that regional diversification automatically equates to resilience against geopolitical risk.

Consequently, this paper does not merely predict a future event. It utilizes the scenario to stress-test three interlinked systems, i.e., U.S. economic statecraft, regional supply chain resilience, and ASEAN’s diplomatic centrality. This analysis demonstrates how predictive scenario analysis can reveal structural weaknesses often invisible in retrospective studies, specifically investigating whether economic coercion by an external power can effectively supplant the region’s traditional consensus-based diplomacy.

Research Questions

1. To what extent can U.S. tariffs, acting as a form of economic coercion, compel a diplomatic resolution to an intra-regional conflict, and what does this reveal about the limits of ASEAN's traditional consensus-based frameworks?
2. How would a dual shock of tariffs and conflict impact the operational integrity and investment decisions of companies operating within the "China Plus One" supply chain model?
3. Does the efficacy of external economic coercion in resolving a regional conflict theoretically undermine the concept of ASEAN Centrality, and does this accelerate a geopolitical realignment toward a bipolar order in Southeast Asia?

Research Objective

By utilizing a predictive case study as a theoretical stress test, this research aims to move beyond observation to challenge and refine existing theories of regional stability. Guided by the scenario, the specific objectives are:

1. To theoretically evaluate the efficacy of economic coercion as a tool for achieving diplomatic outcomes in a regional security dispute, contrasting it against the limitations of ASEAN's non-interference principle.
2. To critically assess the "China Plus One" strategy, determining if regional supply chains possess genuine resilience or merely displace vulnerability under the combined pressures of a major-power tariff policy and a localized conflict.
3. To explore the theoretical implications for geopolitical realignment, specifically testing the hypothesis that economic statecraft is eroding ASEAN Centrality in favor of bilateral, transactional relationships with major powers.

Benefits of Research

This study contributes to academic, policy, and business domains by offering a structured analytical framework for understanding the intersection of trade policy, regional conflict, and supply chain risk.

For academics, it provides a multi-layered scenario to test theories of economic statecraft, supply chain resilience, and ASEAN centrality. The thought-experiment approach

generates hypotheses for future empirical validation, such as whether economic coercion by an external power may prove more effective than ASEAN's consensus-based diplomacy.

For policymakers, the paper serves as a risk-assessment tool. Scenario analysis can guide contingency planning such as diversifying trade partners, creating relief mechanisms, or strengthening regional frameworks. It also illustrates trade policy's use as diplomatic leverage and underscores ASEAN nations' need to reduce dependence on any single major power.

For business leaders, the findings expose vulnerabilities in the "China Plus One" strategy and emphasize integrating geopolitical foresight into corporate planning. The analysis highlights how tariff shocks and regional instability influence investment decisions and supply-chain strategies in emerging Southeast Asian economies.

Literature Review

This research draws from three distinct but overlapping bodies of literature, i.e., traditional and modern theories of trade and protectionism; the emerging field of supply chain resilience in a geopolitical context; and the use of economic coercion within international relations theory. By integrating these perspectives, this research paper seeks to provide a holistic framework for analyzing the complex interplay of economic policy and regional security.

Trade Theory and Protectionism as Foreign Policy

Classical trade theory emphasizes the welfare-enhancing effects of free trade, as established in the foundational works of Smith (1776), Ricardo (1817), and the Heckscher–Ohlin model (Heckscher and Ohlin, 1967). From this perspective, tariffs are viewed as distortions that reduce allocative efficiency, inhibit comparative advantage, and decrease welfare. However, modern international political economy scholars argue that states frequently deploy tariffs not solely for economic reasons but as instruments of political strategy. Cooper (1972) provides an early articulation of this view, suggesting that trade measures can be leveraged to influence strategic behavior, while Krugman (1991) further observes that even efficiency-reducing protectionist policies can be rational under certain political or strategic conditions.

Despite these advances, existing literature often treats trade policy and regional security architectures as separate domains. This study bridges that theoretical divide by demonstrating that when tariffs are deployed as foreign policy instruments, they do more than distort prices; they effectively weaponize the asymmetric interdependence of global value

chains. Building on these insights, this study conceptualizes tariffs not as traditional protectionist tools but as the hidden mechanisms of economic coercion that increase the political cost of noncompliance for targeted states. This approach addresses a critical gap in current scholarships by accounting for how the trade strategies of major powers can unintentionally fracture the "efficiency logic" of smaller regional supply chains and force a structural shift toward geopolitical resilience. This conceptualization forms the analytical basis for understanding the role of U.S. reciprocal tariffs in the scenario used in this study.

Economic Statecraft and Coercive Diplomacy

Economic statecraft literature provides the core theoretical foundation for analyzing how states use economic tools to influence the preferences and behavior of other actors. Baldwin (2020) argues that states increasingly rely on economic instruments where tariffs, sanctions, and investment restrictions serve as substitutes for military coercion. Similarly, Okano-Heijmans (2011) highlights the rise of "economic diplomacy," where economic levers serve as both incentives and punitive tools. More recently, Mouslim (2025) and others have noted that economic statecraft is undergoing a transformation, with coercive diplomacy being recalibrated to address crises in an era of multipolarity.

However, a significant theoretical limitation remains in the existing literature. Conventional analysis often evaluates the efficacy of these economic tools in isolation, neglecting the cascading effects when a coercive economic shock coincides with an acute regional security crisis. This aligns with the logic of the dual-shock scenario constructed in this study, where U.S. tariffs represent a coercive measure deployed to influence the diplomatic behavior of Thailand and Cambodia. By integrating these dimensions, this research contributes to the literature by reframing economic statecraft not merely as a bilateral transaction, but as a systemic stressor that exploits the structural intersection between supply chain fragility and institutional weakness. The proposed scenario tests whether economic penalties can outperform traditional diplomacy. As Chansok (2025) cautions, such strategies depend heavily on the target's economic vulnerability and the sender's credibility; this study further posits that such vulnerability is now inextricably linked to the architectural resilience of regional supply chains.

Supply Chain Resilience and Geopolitical Risk

Traditional models of global value chains (GVC) emphasize efficiency, cost minimization, and just in time production. However, the rising geopolitical tensions have shifted scholarly focus toward resilience, robustness, and redundancy (Caldara and Lacoviello, 2022).

Geopolitical risks such as trade wars, sanctions, and conflicts are now among the most significant global disruptors (S&P Global, 2025). Scholars identify four core resilience strategies comprising supplier diversification as in the “China Plus One” model which spreads exposure across multiple regions (Garcia, 2025), regionalization and nearshoring which reduce vulnerability to cross border disruptions (DHL, 2024), digital transformation through AI and blockchain which enhances visibility and predictive capacity (Ivanov, 2020), and public private collaboration which aligns corporate and national risk management goals (U.S. Chamber of Commerce Foundation, 2024). The China Plus One strategy has emerged as a key diversification model for firms seeking to mitigate overexposure to China. While this strategy seeks geographic dispersion of production networks, the literature shows that such diversification does not inherently reduce exposure to systemic geopolitical shocks if major powers impose region wide trade measures. Yet a critical theoretical gap persists as current resilience frameworks largely treat political risk as a localized disruption rather than a coordinated instrument of statecraft. This research fills that void by demonstrating that the China Plus One model remains structurally vulnerable when regional security dynamics are inextricably linked to great power trade policies. Consequently, this study contributes to the field by proposing that true supply chain resilience requires not just geographic dispersion but geopolitical diversification to withstand the compounded pressures of economic coercion and regional conflict.

ASEAN Centrality and Great-Power Rivalry

ASEAN is widely regarded as the cornerstone of Southeast Asia’s diplomatic architecture anchored by principles of non-interference and consensus-based decision making as well as regional autonomy (ASEAN Centrality, 2024; Acharya, 2014). However, ASEAN’s crisis response capacity is frequently constrained by divergent national interests and weak enforcement mechanisms alongside the absence of coercive instruments (Paijuntuek and Pairon, 2024; Heydarian, 2020). Recent scholarship highlights growing concerns about ASEAN’s ability to maintain centrality amid intensifying U.S.-China rivalry and the emergence of minilateral security groupings as well as rising intra-regional tensions (Valockova, 2025). These concerns are especially salient in scenarios involving cross border conflicts or sudden geopolitical disruptions. Despite this extensive body of work there remains a lack of theoretical clarity regarding how the consensus-based model functions when a member state is subjected to direct economic coercion by an external hegemon. Most studies analyze diplomatic pressure, but fewer examine how economic statecraft specifically erodes institutional centrality during a bilateral conflict. This research addresses this limitation by investigating whether

external economic leverage creates a bypass mechanism that renders the non-interference principle obsolete in practice. By simulating a stress test on these institutional norms this study contributes to regionalism theory by defining the precise threshold where economic survival supersedes regional diplomatic unity.

Synthesis and Theoretical Gap

While these three bodies of literature are comprehensive individually a critical theoretical gap exists at their intersection. Few studies specifically account for how economic coercion impacts the architectural resilience of global supply chains while simultaneously stressing the internal cohesion of regional organizations like ASEAN. Existing theories often treat these systems in isolation meaning that trade economists frequently overlook diplomatic fallout while security scholars rarely model the granular impact of logistics disruptions. This study fills that theoretical gap by examining these variables not as separate silos but as an interconnected system where a shock to one economic policy directly tests the structural integrity of the supply chains and regional diplomacy. By synthesizing these perspectives, this research offers a novel theoretical contribution that explains how major power economic statecraft can effectively weaponize supply chain interdependence to override regional consensus-based norms and accelerate geopolitical realignment.

The Stress Test Conceptual Framework

As illustrated in the following model, the study addresses this gap by adapting the architecture of stress testing to create a three-stage geopolitical-economic stress test, i.e., (1) Input Shocks, (2) Intervening Variables, and (3) Outcomes. This integrated model serves as the conceptual basis for analyzing hypothetical scenarios in Southeast Asia where economic coercion and security crises occur simultaneously. This framework clarifies how the stress test logically operates, tracing the causal flow from the dual shock through the structural vulnerabilities of the region to the final geopolitical and economic outcomes.

Table 1: Geopolitical–Economic Stress Test Conceptual Framework

Stage	Variable	Theoretical Basis	Description in the Model
Stage 1: Input Shocks	U.S. Reciprocal Tariff as Coercive Signal	Economic statecraft; coercive diplomacy (Baldwin, 2020; Drezner, 2003; Whang, 2011)	U.S. tariff serves as an external coercive shock designed to increase the political cost of conflict behavior, exploiting asymmetric economic dependence.

	Border Conflict Escalation (Thailand-Cambodia)	Security dilemma; conflict escalation models (Kuik, 2008; Caldara and Iacoviello, 2022)	Border clashes trigger immediate trade disruptions and heighten insecurity, creating conditions under which economic coercion exerts stronger influence.
Stage 2: Intervening Variables	State Strategic Calculus (Compliance, Hedging, Resistance)	Foreign policy decision-making under pressure; asymmetric interdependence (Baldwin, 2020; Acharya, 2014)	Dual shocks increase geopolitical and economic costs, compelling governments to reassess strategic options and adjust behavior (e.g., negotiation, concessions, hedging adjustments).
	Supply Chain Vulnerability (Chokepoints, FDI Exposure, Diversification Limits)	Supply chain resilience; GVC disruption theory (Ivanov, 2020; Sheffi, 2015; Kim and Li, 2023)	Disruptions propagate through border closures and regional tariff exposure, revealing fragilities in China Plus One diversification and prompting adaptation (rerouting, reshoring, automation).
	ASEAN Institutional Constraints (Consensus, Non-Interference)	Regionalism & governance theory (Acharya, 2014; Beeson, 2023; Pajjuntuek and Pairoh, 2024)	ASEAN's structural norms limit crisis response capacity, resulting in slow or symbolic action while major powers exert more decisive influence.
Stage 3: Outcomes	Supply Chain Reconfiguration (Relocation, Regionalization, Upgrading)	Resilience & adaptability frameworks (Gereffi, 2020; Ivanov, 2020)	Firms restructure production and logistics routes to minimize exposure, shifting from efficiency-oriented to stability-oriented configurations.
	Diplomatic Realignment (Compliance, Strategic Adjustment, Great-Power Orientation)	Alignment theory; hedging behavior (Kuik, 2008)	Targeted states adjust diplomatic messaging and bargaining positions to secure relief from coercive shocks, reducing space for hedging strategies.
	ASEAN Centrality Erosion (Fragmentation, Competitive Bilateralism)	Critiques of institutional capacity under stress (Heydarian, 2020; Valockova, 2025)	ASEAN functions as a diplomatic venue but not an enforcement actor; reliance on major powers for crisis resolution weakens collective centrality.

Source: Author (2025)

Research Methodology

This study adopts a predictive case study methodology, or a "thought experiment," to examine how Southeast Asian states, supply chains, and regional institutions might respond to simultaneous economic and security shocks. This approach is appropriate when the objective is to test theoretical mechanisms under plausible hypothetical conditions rather than evaluate historical events (Barma *et al.*, 2015; Stuart, 2020). Predictive case studies rely on counterfactual reasoning, structured scenario construction, and theory-driven interpretation. They are widely used in political science, international relations, and strategic studies where data may be incomplete, unavailable, or insufficient for empirical testing. The hypothetical scenario in this study is therefore treated as an analytical device to explore how compound shocks propagate through interconnected political - economic systems.

Scenario Development

The Thailand-Cambodia bilateral relationship and their economic ties with the United States were selected due to several theoretically relevant characteristics: (1) historical precedents of border conflict and diplomatic tensions make crisis escalation plausible; (2) asymmetric dependence on U.S. markets creates conditions conducive to economic coercion; (3) deep integration into the China Plus One supply chain model exposes both states to geopolitical risk; (4) documented limitations of ASEAN crisis management (Acharya, 2014; Heydarian, 2020) provide fertile ground for stress-testing. Following the logic of theory-driven case selection, this case pair is not intended to produce statistical generalizations, but to maximize analytical leverage for testing theoretical claims about dual shocks and regional resilience.

Scenario Construction Procedure

To ensure methodological rigor and transparency, the scenario was constructed following established practices in scenario analysis, political risk assessment, and structured analytical techniques (Airmic, 2023; Heuer and Pherson, 2014).

Step 1: Define Shock Parameters

- Shock 1: U.S. reciprocal tariffs targeting Thailand and Cambodia
- Shock 2: Escalation in the Thailand-Cambodia border conflict

Step 2: To ensure plausibility constraints, the events must be plausible, given historical patterns; internally consistent, without contradictory actor behavior; and bounded, avoiding excessive speculation.

Step 3: The sequential stages of events are constructed chronologically to simulate compounding pressures, allowing the model to test cascading failures across diplomacy, supply chains, and institutions.

Step 4: Each event aligns with established theoretical expectations where economic coercion relates compliance incentives; conflict escalation associates with supply chain disruption; institutional constraints with ASEAN inaction.

The foundation of this methodology is a plausible scenario grounded in existing geopolitical and economic trends. The primary variables are:

- U.S. trade policy, marked by a shift toward protectionism and reciprocal tariffs.
- The long-standing border dispute between Thailand and Cambodia.
- The intensifying great power competition between the U.S. and China in Southeast Asia.

The scenario unfolds as a chronological sequence of events, i.e., a 2025 Thailand-Cambodian border conflict coincides with the U.S. imposition of new reciprocal tariffs on ASEAN nations. The U.S. then uses its tariffs as a tool of economic coercion, offering a reduction in exchange for a ceasefire. This scenario is plausible because its elements are grounded in historical precedent, allowing the study to explore how these real-world drivers might interact in a new, unpredictable way.

Methodological Limitations

It is crucial to acknowledge the limitations of this approach. As a predictive case study, the results are derived from logical inference rather than empirical observation. The scenario assumes rational actor models that may not fully capture the emotional or irrational dimensions of nationalism in border conflicts. Furthermore, while the scenario is grounded in current trends, it cannot account for black swan events that might disrupt the causal chain.

Research Results

Stage One Input Shocks Results

The U.S. implemented a reciprocal tariff in April 2025, which imposed a baseline 10% tariff on most imports and higher, country-specific tariffs based on trade deficits with the U.S. Thailand was initially given a 36% tariff, while Cambodia was assigned an even higher at 49%.

Table 2: United States Original and Adjusted Reciprocal Tariffs for ASEAN Nations

Country	Original (2 April 2025) (The White House, 2025a)	Revised (31 July 2025) (The White House, 2025b)
Brunei	24%	25%
Cambodia	49%	19%
Indonesia	32%	19%
Laos	48%	40%
Malaysia	24%	19%
Myanmar	44%	40%
Philippines	17%	19%
Singapore	10%	10%
Thailand	36%	19%
Vietnam	46%	20%

Source: The White House (2025a); The White House (2025b)

The 2025 Thailand-Cambodia border conflict escalated into armed clashes around the Preah Vihear area, overwhelming ASEAN's diplomatic mechanisms and disrupting trade. The U.S. seized this opening, with the Trump administration linking conflict de-escalation to tariff reductions with an explicit use of economic pressure as diplomatic leverage. This approach facilitated an unconditional ceasefire on July 28, 2025, followed by a tariff cut from 36% to 19%. The episode illustrates a clear transactional link between U.S. economic policy and diplomatic outcomes, marking a shift toward a "tariff as a tool" doctrine.

Daily cross-border trade worth 500 million baht was disrupted by the conflict, forcing businesses to divert shipments through longer and costlier routes via Laos and Vietnam, exposing the fragility of the tightly linked Thailand-Cambodia supply chain. Although bilateral trade had been strong in early 2025, rising to 95.147 billion baht in the first half of the year, border clashes caused a sharp decline by dropping about 40% from March to June as checkpoints closed. Officials warned this could reduce annual border-trade growth by 1%, signaling a significant but not catastrophic setback. Meanwhile, U.S. tariff pressures placed

Cambodia’s garment, electronics, and processed food sectors, particularly its million-worker garment industry, at severe risk due to heavy dependence on the U.S. market.

Figure 1 shows how land-based cross-border trade fluctuated sharply with political and security shifts. After strong performance in 2024 and continued momentum into early 2025, trade collapsed once fighting resumed in late May, dropping to THB 10.90 billion in June, a year-on-year fall of more than 20% (Commerce Ministry Cuts, 2025). This abrupt decline underscores the vulnerability of land-based trade routes to checkpoint closures, military activity, and sudden protectionist actions.

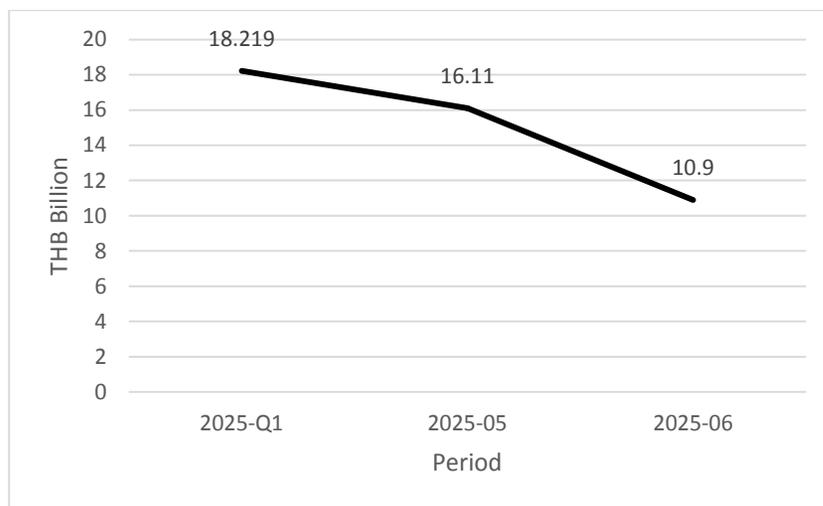


Figure 1: Land-based Thailand-Cambodia Border Trade from Jan – June 2025

Source: Department of Foreign Trade, Thailand

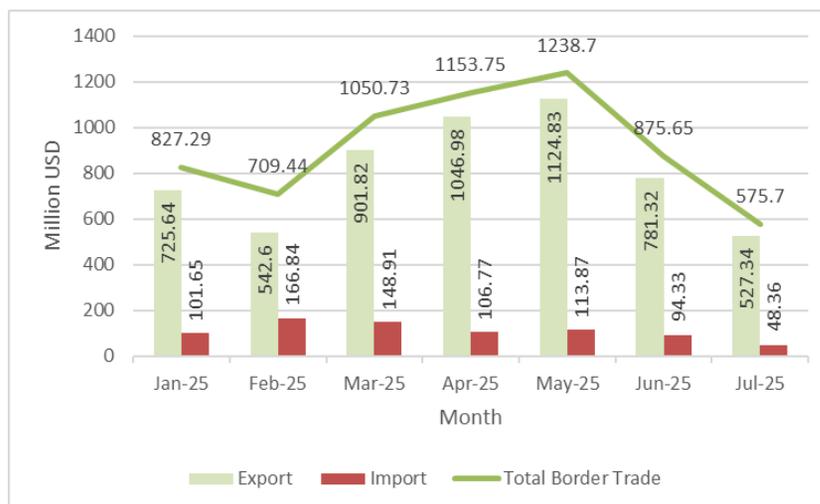


Figure 2: Total Thailand-Cambodia Bilateral Border Trade from Jan – July 2025

Source: Bank of Thailand (2025)

Figure 2 shows that, unlike volatile land-based trade, total Thailand-Cambodia trade across all transport modes remained relatively resilient. Exports peaked at USD 1.12 billion in May 2025 (Bank of Thailand, 2025), and although total trade dipped to USD 875 million in June (Bank of Thailand, 2025), the decline was far milder than the sharp drop in border-only flows. This contrast demonstrates how seaborne and multimodal logistics absorbed much of the shock from border closures, even as Cambodia imposed selective bans on Thai products. Together, the charts highlight a dual dynamic in which land routes are highly vulnerable to conflict, while diversified transport channels help stabilize overall bilateral trade in the short term.

The analysis shows that Thailand and Cambodia face distinct vulnerabilities under the new U.S. tariff regime (Table 3). Thailand, with its export-dependent automotive sector, confronts intensified competitive pressures, while Cambodia, which heavily relies on garments and tourism, faces far more acute risks, including potential capital flight and large-scale job losses. Their policy responses also diverge. Thailand is deploying BOI incentives, technological upgrading, and market diversification, whereas Cambodia depends primarily on negotiations to ease tariff burdens due to limited structural flexibility.

Table 3: Significant Economic Impacts between Thailand and Cambodia

Factor	Thailand's Situation	Cambodia's Situation
Industry Focus	Highly specialized in automotive, automotive parts, and hard drives. These industries have complex, deeply integrated regional supply chains that are difficult to relocate quickly.	Heavily reliant on garments, footwear, textiles, and tourism. Primarily a final assembly hub for low-cost goods.
Tariff Rate and Impact	Negotiated a 19% tariff. While better than the initial threat, it's a significant blow to its highly profitable and complex supply chains. The automotive sector is particularly vulnerable due to its high value and deep reliance on U.S. market access.	Negotiated a 19% tariff. The tariff is a significant threat to its key export sector due to high reliance on U.S. and E.U. markets.
FDI Trends	The new tariff introduces significant uncertainty. Foreign investors are hesitant, as evidenced by reports from the Thai Board of Investment (BOI), which note that some investors are now considering other ASEAN countries for new projects.	Significant uncertainty and high risk of capital flight due to the tariff's direct impact on the garment sector.
Government Response	The Thai government, through the BOI, has focused on a domestic response, offering incentives for companies to invest in high-tech and automation. It's a strategic move to upgrade the quality of production rather than simply	Focused on trade negotiations to secure a lower tariff rate, but its response has been less diversified than its peers,

	compete on price, a recognition that the "low-cost labor" model is no longer sufficient.	highlighting its economic vulnerability.
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Source: Author (2025)

Overall, the tariffs expose both countries' structural weaknesses. Thailand depends on automotive manufacturing while Cambodia with its narrow industrial base relies on a single export market. Even the negotiated tariff reduction to 19% brings long-term challenges, including stronger foreign competition in Thailand's domestic market and existential pressures on Cambodia's garment industry. Both nations are now pursuing risk-mitigation strategies, but while Thailand is advancing long-term economic restructuring and diversification, Cambodia faces a steeper path requiring deep reforms in infrastructure, skills development, and governance to build a more resilient economy.

Stage One Key Findings and Results

Tariff announcements trigger immediate economic anxiety, especially within export-dependent sectors (automotive, electronics, and garments). The risk of market-access loss pushes both Thailand and Cambodia to reconsider the escalation of their political standoff. State officials signal diplomatic flexibility in response to the tariffs, consistent with coercion-compliance theory (Whang, 2011). The hypothetical tariff functions effectively as a coercive signal, increasing the political cost of sustaining conflict and creating incentives for rapid de-escalation, of which it demonstrates that economic coercion can be amplified when paired with security crises.

Stage Two Intervening Variables Results

In responding to the shocks, both countries increase nationalist rhetoric followed by rapid recalibration due to U.S. tariff pressure. The developments have undermined the "China Plus One" strategy, as firms that shifted production to Thailand and Cambodia to escape U.S. tariffs on China now face direct tariff exposure themselves. This has triggered a reassessment of optimal production locations, with countries like Vietnam and Indonesia where both benefiting from more favorable tariff terms emerging as increasingly attractive alternatives. The results suggest that the dual shocks undermine the China Plus One model in several way, including (1) firms diversifying into Thailand and Cambodia face U.S. tariff exposure that directly negating risk-mitigation goals, (2) FDI volatility increases, with manufacturers reassessing expansion plans, and (3) competing destinations such as Vietnam, Malaysia, Indonesia, India, become more attractive.

The findings show that Malaysia's mediation and the U.S. tariff pressure worked in tandem to push Thailand and Cambodia toward de-escalation. Malaysia provided the trusted platform (Abdul Ghapar, 2025), but Thailand only agreed to talks after President Trump's intervention, revealing that ASEAN offered space for dialogue while the U.S. supplied the decisive incentive. This contrast highlights ASEAN's structural limits where it can convene parties but cannot enforce cooperation, whereas the U.S. tariff threat functioned as an immediate, coercive lever.

Stage Three Outcomes

The stress test exposes several weaknesses. (1) Supply chains highly dependent on land routes experience acute fragility, aligning with resilience research indicating that chokepoints amplify disruption (Ivanov, 2020); (2) Geographic diversification alone does not guard against geopolitical risk when coercive measures are applied regionally, confirming critiques by Kim and Li (2023); (3) ASEAN becomes a diplomatic venue rather than a decisive actor, confirming academic concerns about structural weaknesses (Acharya, 2014; Valockova, 2025).

Under compounded shocks, firms are increasingly restructuring their supply chains through three key adaptive strategies. First, relocation has accelerated, with production moving from Cambodia to Thailand, from Thailand to Vietnam or Indonesia, and, in some cases, diversifying further into India and the Middle East. Second, firms are regionalizing their operations by prioritizing maritime routes and reducing reliance on politically sensitive land crossings. Third, companies are upgrading their capabilities through higher automation, supported by Thailand's Board of Investment (BOI) incentives that promote high-tech transitions (The Nation, 2025; Borodin, 2025). Collectively, these shifts indicate a broader move from efficiency-driven to stability-oriented supply chain configurations, aligning with resilience insights highlighted by Sheffi (2015).

The scenario illustrates a pattern of diplomatic realignment in which Thailand and Cambodia recalibrate their strategic messaging to better align with U.S. expectations, while China adopts the role of a long-term stabilizer by refraining from coercive actions. As the dual shocks intensify, traditional hedging strategies become increasingly untenable, pushing states toward more explicit alignment choices. Overall, these dynamics suggest that compounded crises undermine the feasibility of hedging, consistent with Kuik's (2008) theoretical predictions on crisis-driven realignment.

The stress test reveals a clear erosion of ASEAN centrality through three interconnected mechanisms. First, enforcement effectively shifts to external powers, with the

United States acting as the primary conflict mediator but not ASEAN. Second, member states' interests fragment due to uneven tariff exposure, making regional consensus increasingly difficult to sustain. Third, bilateralism rises as states prioritize direct negotiations with major powers rather than relying on ASEAN-led platforms. As a result, ASEAN centrality diminishes in crisis situations that demand rapid, coercive, or binding responses, reinforcing longstanding critiques of regional governance highlighted by Beeson (2023).

Synthesis of Results

Across all stages, the stress test highlights several dynamics that collectively refine theoretical understandings of economic statecraft, regionalism, and supply chain resilience. First, the high effectiveness of economic coercion when combined with security instability reinforces a core proposition in economic statecraft theory, of which coercive measures gain leverage when target states face simultaneous strategic vulnerabilities as well as increasing their susceptibility to external pressure. Second, the emergence of supply chain fragility due to cross-border dependence and limited geopolitical diversification illustrates the structural-risk argument in resilience theory, which posits that concentrated or poorly diversified networks amplify exposure to systemic shocks. Third, ASEAN's limited capacity to manage acute crises reflects longstanding critiques in regionalism scholarship that consensus-based institutions lack the binding or enforcement mechanisms necessary for rapid crisis response. Finally, the acceleration of geopolitical realignment under compounded pressures supports alignment theory's expectation that states adjust their strategic orientation more decisively when confronted with simultaneous economic and security shocks. Together, these patterns not only validate existing theoretical propositions but also extend them by demonstrating how layered crises interact to intensify state vulnerability and reshape regional order.

Research Discussion

Economic Coercion and Strategic Behavior

The findings show that U.S. tariffs exert greater coercive leverage when paired with concurrent security instability validating arguments that economic tools can substitute for military pressure (Baldwin, 2020) and operate most effectively under asymmetric dependence (Drezner, 2003). The study extends this literature by identifying a force multiplier dynamic where economic coercion becomes more potent when security crises elevate the political costs of noncompliance. This observation refines established hegemony theories by demonstrating

that economic statecraft functions not merely as a transactional penalty but as a decisive tipping point during security dilemmas. By exploiting the target state's urgent need for stability, the coercing power can extract concessions that would remain unattainable through standard diplomatic negotiation. However, the resulting compliance remains tactical and temporary reflecting domestic constraints and ongoing hedging rather than durable realignment.

Supply Chain Resilience and Geopolitical Risk

The dual shocks reveal acute fragilities in Southeast Asia's efficiency driven production networks particularly those dependent on border logistics. While consistent with Sheffi's (2015) account of vulnerability in hyper efficient systems the findings introduce a novel insight that geographic diversification such as "China Plus One" does not equate to geopolitical diversification. This distinction challenges the prevailing assumption in global value chain theory that spatial dispersion automatically mitigates systemic risk. Firms remain exposed when coercive measures target entire political risk clusters. Instead, the analysis suggests that when major powers utilize broad spectrum economic statecraft the supply chain is treated as a single geopolitical target rather than a collection of independent nodes. The stress test thus highlights an emerging shift from "efficiency logic" to "resilience logic" including reshoring and regionalization as well as automation. Future resilience frameworks must therefore integrate diplomatic alignment as a critical operational variable alongside traditional cost and speed metrics.

ASEAN Centrality and Institutional Constraints

The scenario underscores ASEAN's limitations as a crisis management institution. Its consensus-based design enables dialogue but cannot supply coercive enforcement during rapid onset crises. This structural rigidity reveals that the ASEAN Way of non-interference functions effectively only in peacetime but falters when economic survival is threatened. Consequently, external powers particularly the United States become the de-facto enforcers while member states increasingly rely on bilateral strategies for economic relief. The findings theoretically position this trend not as a temporary setback but as a systemic reversion to bilateralism where member states prioritize vertical alignment with major powers over horizontal regional cohesion. These dynamics accelerate fragmentation and weaken ASEAN centrality reinforcing critiques that its institutional norms are mismatched with the demands of great power competition.

Integrated Interpretation and Theoretical Contributions

The stress test demonstrates that economic shocks amplify security risks, security shocks heighten economic vulnerability, and both together overwhelm ASEAN's buffering capacity. This cascading failure pattern aligns with systemic stress-testing theory and reveals the fragility of hedging strategies under compounding pressures (Kuik, 2008). The study contributes theoretically by (1) showing that economic coercion operates most powerfully under multi-domain stress, (2) identifying geopolitical coherence of shocks as a critical but underexamined supply chain vulnerability, and (3) demonstrating the sharp decline of ASEAN institutional effectiveness in enforcement-intensive crises. Collectively, these insights refine existing theories by highlighting how compounded shocks reshape state behavior and regional order in Southeast Asia.

The analysis of this research paper leads to several crucial conclusions with significant economic and geopolitical implications for both nations and the wider ASEAN region. The central finding is that global trade policy is no longer confined to economic forums but has become a potent instrument of foreign policy, capable of influencing regional security dynamics.

Recommendations for Future Research

This study underscores the utility of predictive case studies in clarifying how major-power economic coercion can reshape Southeast Asia's security and economic architecture. The analysis indicates that U.S. reciprocal tariffs, which linked to the Thailand-Cambodian conflict, could operate as an immediate diplomatic lever. Yet, the causal connection must be viewed cautiously, as conflict resolution often stems from multiple intersecting factors, including domestic politics, military realities, and ASEAN's diplomatic facilitation.

Theoretically, this research enriches understanding of how economic statecraft can supplement or supplant traditional diplomacy. Practically, it reveals vulnerabilities in regional supply chains and limitations within ASEAN's institutional framework. While coercive trade policies may yield short-term stability, they risk undermining ASEAN's credibility and prompting member states to depend more on external powers. Future studies should empirically test these propositions, isolate causal mechanisms, and examine ASEAN's institutional adaptability amid intensifying great-power rivalry.

Recommendation 1: Conduct a Retrospective Empirical Study

Future research should extend beyond predictive scenarios to empirical validation. A comparative study of ASEAN nations such as Thailand, Cambodia, Vietnam, and Indonesia which were facing common shocks (e.g., U.S. trade policies or tariff shifts) would clarify the drivers of supply chain resilience. For instance, comparing the 2025 Thailand-Cambodian border conflict with the U.S.–China tariff war’s impact on Vietnam could reveal how different types of shocks, i.e., security versus economic, shape regional outcomes. Such comparison would illuminate which policy variables most influence recovery and resilience.

Recommendation 2: Deepen the Analysis of Causal Mechanisms

Further research should deepen the analysis of how economic coercion translates into geopolitical change. Rather than establishing simple correlations, studies should explore *how and why* firms and policymakers act in response to tariffs or conflicts. For example, analyzing shifts in foreign direct investment (FDI) flows during and after U.S.–China trade tensions could test the “China Plus One” model’s stress points. Understanding whether relocations arise from immediate cost pressures, risk perceptions, or broader geopolitical recalculations would enrich theories of decision-making under uncertainty.

Recommendation 3: The Possible Erosion of ASEAN's Credibility in Favor of Economic Benefits

This study argues that sustained exposure to external coercion and internal conflict may gradually erode ASEAN’s credibility. While ASEAN’s consensus-based approach facilitates dialogue, it often lacks the speed and coercive tools necessary for crisis response. The combined impact of border closures and tariffs exposes ASEAN’s limited capacity to mitigate economic pain swiftly. Consequently, member states may perceive external actors, particularly the U.S., as more effective crisis mediators. Bilateral negotiations for tariff relief further weaken ASEAN’s collective voice, fostering a future of bilateralism rather than regional unity. This dynamic could accelerate geopolitical realignment, as countries increasingly prioritize tangible economic incentives from external powers over ASEAN’s slower, consensus-driven mechanisms.

Consideration of Alternative Explanations

Although U.S. economic coercion appears decisive in this predictive case, several alternative factors likely contributed to conflict resolution. Domestic politics in Thailand and

Cambodia may have independently incentivized de-escalation, battlefield conditions might have necessitated a ceasefire, and ASEAN's quiet diplomacy such as Malaysia's mediation provided institutional legitimacy. Moreover, China's stabilizing though non-interventionist role may have tempered escalation. Recognizing these variables prevents oversimplification and emphasizes that economic coercion operates within a web of interconnected drivers.

Proposed ASEAN Institutional Reforms

The findings reveal structural weaknesses in ASEAN's ability to address crises that combine security and economic dimensions. Several institutional reforms could enhance its adaptability and resilience.

1. ASEAN Dispute Resolution Mechanism to establish a quasi-judicial or arbitration-based system under the ASEAN Charter for faster resolution of intra-regional disputes, potentially on a voluntary, semi-binding basis.
2. ASEAN Economic Security Framework to institutionalize an *ASEAN Economic Security Council* to assess vulnerabilities in trade, supply chains, and energy security. The council would coordinate regional "stress tests" and facilitate joint responses to external shocks such as sanctions or tariffs.
3. Strengthening Crisis Mediation Capacity by forming a permanent ASEAN Mediation Unit with rapid-response capabilities to assist member states in conflict prevention and resolution.
4. ASEAN + External Partnerships would enhance structured engagement with major powers (e.g., U.S., China, Japan, EU, India) within ASEAN-led frameworks, ensuring external interventions reinforce rather than bypass ASEAN mechanisms.

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