Article | 12 February 2025

Trump's tariff war: Asia's winners and losers

President Trump has declared 25% tariffs on all steel and aluminium imports into the US. We analyse the potential impact of these tariffs on Asia

The US administration walked the walk on tariffs by first announcing 25% levies on imports from Canada and Mexico, followed by a 10% tax on imports from China. While the actual implementation for Canada and Mexico is on hold for now, tariffs on China are already in place.

In the most recent escalation, President Trump announced additional 25% tariffs on all steel and aluminium imports into the US. Below we analyse what Trump's tariffs might mean for Asia.

Within Asia, Vietnam appears most exposed to tariffs on steel and aluminum

Tariffs on steel and aluminium are not new, having been initially introduced during Trump's first presidency in 2018. If we assume that Trump is following the same strategy, these tariffs could likely be used as leverage in trade negotiations.

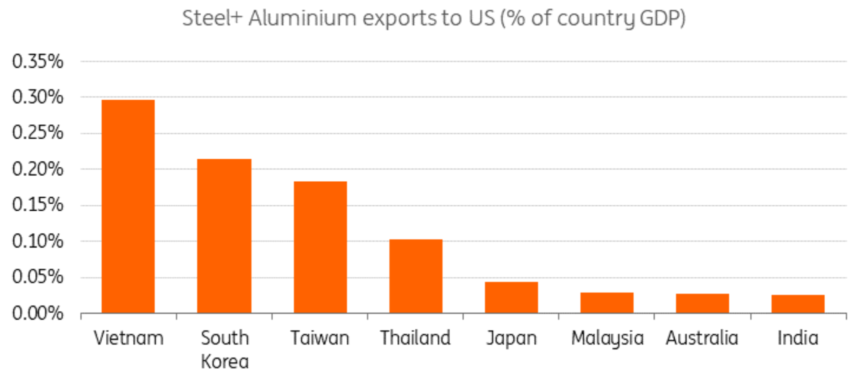
Take India, for instance. In 2019, India retaliated by imposing additional customs duties on 28 US products. After years of negotiations with Prime Minister Narendra Modi, Trump removed tariffs on steel and aluminium imports from India in 2023.

Trump is also hinting at tariff concessions for Australia again, similar to last time. However, we believe Australia is relatively less affected, with steel exports to the US accounting for just 0.1% of its GDP.

Interestingly, Vietnam exports more steel (by value) to the US than China. This is because Vietnam buys large quantities of semi-processed steel from China, processes it and then re-exports it to the rest of the world. While steel tariffs are likely directed towards China, Vietnam's economy appears most exposed in Asia; its steel plus aluminium exports to the US were 0.3% of GDP in 2024.

Another country that ranks higher in its exposure to steel and aluminium exports to the US is South Korea. In 2018, Korea was granted a tariff-free export quota by the US. However, recent Korean exports to the US have been below this quota. While it's uncertain whether Trump will remove the quota system, it appears that South Korea has some negotiating leverage.

Vietnam and South Korea are most exposed to aluminum and steel tariffs



Source: International Trade administration

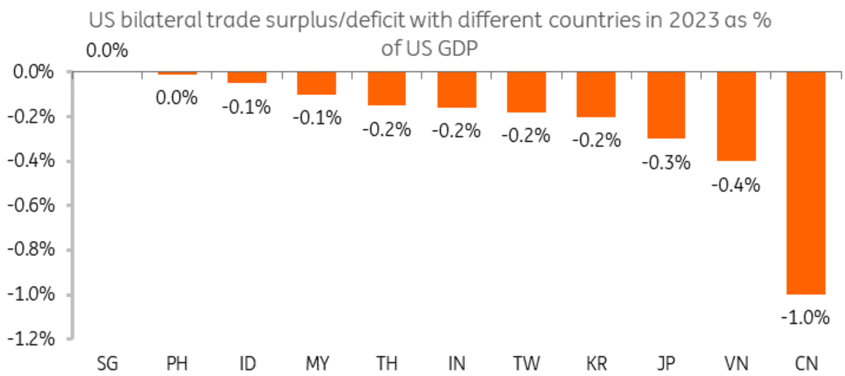
China, Korea and Vietnam are most exposed to possible direct tariffs by the US

When we look at the broader impact of Trump's 'America First' trade policy on Asia, it's clear the impact on some sectors and countries in the region will be greater than others. Overall, countries with a larger share of external demand in GDP growth will be impacted more, not just by direct tariffs, but also by the uncertainty of global trade. This will deter cross-border investments and future capacity increases.

- **North Asia is the most exposed.** Within Asia, the countries with a large goods trade surplus with the US and more dependent on external demand are China, Korea and Vietnam. In addition, when it comes to sectors, Trump's ambitions to scale domestic production of hi-tech goods should impact Asia economies that are major exporters of semiconductors, AI and new energy sector-related goods. In that regard as well, North Asian economies including China, Japan, Korea and Taiwan are the most exposed to tariffs compared to South Asian giants like India and Southeast Asian economies like the Philippines.

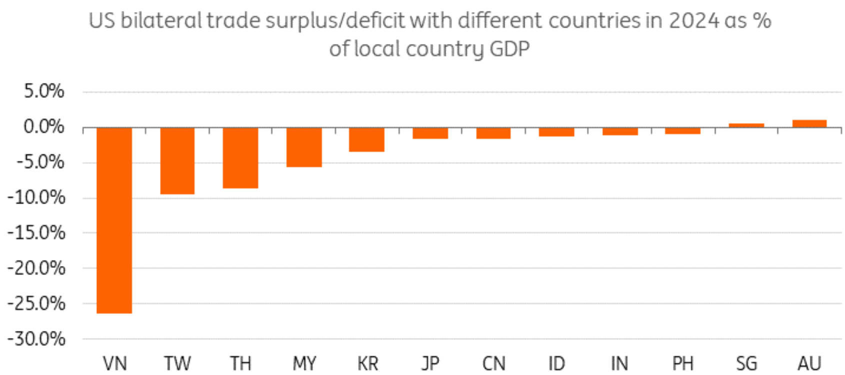
- **India and the Philippines are less at risk** because these economies are domestically demand-driven and export fewer sophisticated goods that compete directly with the US. The risk, however, is that their share of services exports to the US is large. If services trade is targeted by Trump's tariffs, sectors such as outsourcing and software services could be negatively impacted.
- **At the middle of the pack lie Malaysia, Thailand and Indonesia**. While Malaysia and Thailand play important roles in the semiconductor and auto supply chains, respectively, they have also benefitted from recent supply chain shifts which should partly offset the impact of tariffs. Indonesia has only a small trade surplus with the US, but it could face disruptions to its large ecosystem for electronic vehicles after Trump's rollback of EV incentives under the Inflation Reduction Act (IRA). This could deter US investments in Indonesian nickel smelters and battery plants.

China, Vietnam, and Japan have large bilateral trade imbalances with US



Source: CEIC

Domestic GDP growth for Vietnam, Taiwan, Thailand and Malaysia is most exposed to US tariffs



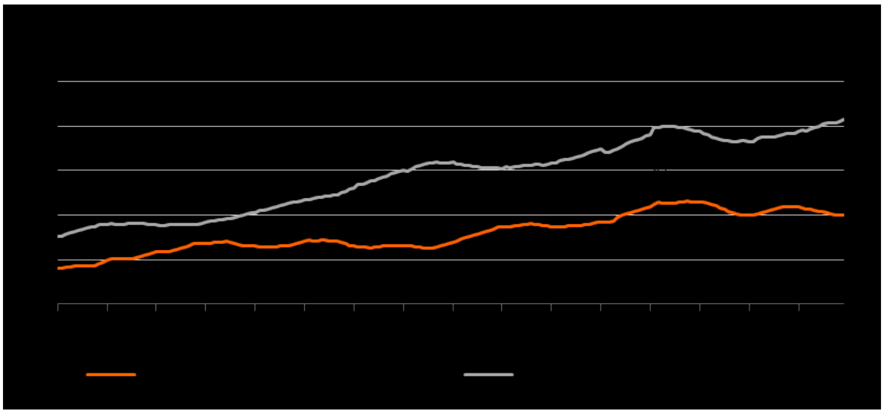
Source: CEIC

Growing dependence on China suggests indirect impact of tariffs on ASEAN could be large

ASEAN economies are highly linked to China with deep trade and investment ties, driven by various trade agreements. China is ASEAN's largest and fastest-growing source of imports. It accounted for nearly 26% of ASEAN's total imports in 2024, a significant increase from the 16% share a decade earlier.

Growing imports from China suggest that the supply chains are becoming increasingly more intertwined. Despite Southeast Asia benefiting from the China+1 strategy (a business strategy encouraging companies to diversify their supply chains by manufacturing in more than one country), supply chains remain heavily reliant on China. The range of traded sectors and products is extensive, encompassing electronics, machinery, petroleum products, steel, plastics, and chemicals.

ASEAN is China's largest trading partner, with a rapid acceleration in ASEAN’s imports from China



Source: CEIC

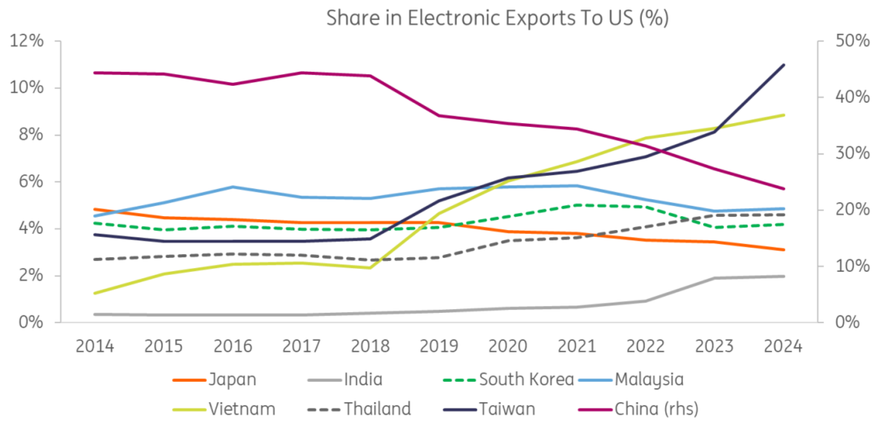
Electronics is where supply chains are the most integrated

From a sector perspective, electronics is where we see the biggest risk. Among the Asian economies, Vietnam has seen one of the largest increases in electronic export market share to the US, thanks to its adoption of the China+1 production model. Asia is not only an important supplier of intermediate electronic inputs for the US and China, but also for Mexico despite the physical distance.

Malaysia and China combined supply more than 50% of integrated circuits. They are also the building blocks of the semiconductor supply chain to Mexico. Malaysia’s share of IC exports to the US is even higher than South Korea and Taiwan, countries that dominate high-end IC design. Hence countries like Malaysia will have to navigate the dual challenge of not just higher direct tariffs, but also indirect impacts from higher tariffs on Mexico and China.

For South Korea, the impact should be limited in the near term as Korean chipmakers have already closed order books for 2025. If tariffs become real, we are likely to see high-end chip makers ramping up investments and production capabilities in the US. Samsung and SK Hynix are already building chip factories in the US, which should bode well with Trump on the negotiation table.

Electronics export market share for Taiwan, Vietnam, Thailand and India has risen at the expense of China, Japan and South Korea



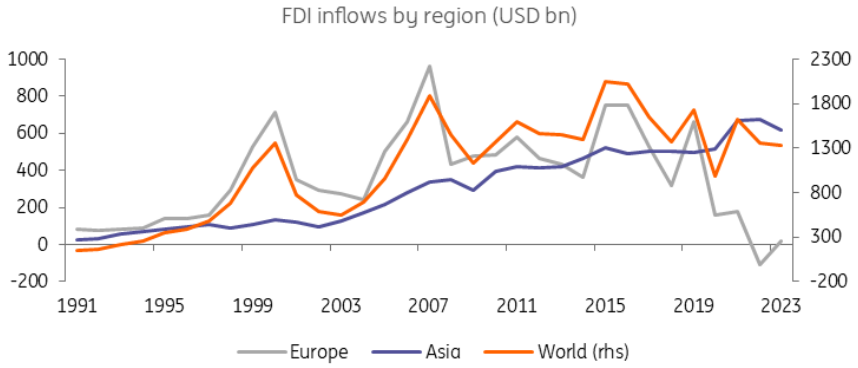
Source: Source: ITC Trade map *Electronic exports include computer and electronic product manufacturing plus Electrical Equipment, Appliance, and Component Manufacturing

Supply chain shifts boost ASEAN and India

US stakes in Asia have gone up as evidenced by the share of the US in foreign direct investment inflows to ASEAN, which have increased substantially since 2019. The US accounted for one-third of net FDI inflows into ASEAN in 2023. This suggests that ASEAN is playing a significant role in the China+1 strategy. Highly skilled and differentiated manufacturing hubs are emerging around the region, including electronics manufacturers. US MNC investments are accelerating in regions and areas historically dominated by Chinese and Japanese players. US giants like Intel, Cargill, Boeing and Apple have made extensive investments in Vietnam. HP and Dell are making desktop computers in Malaysia. And global tech giants like Google are setting up data centres in Thailand.

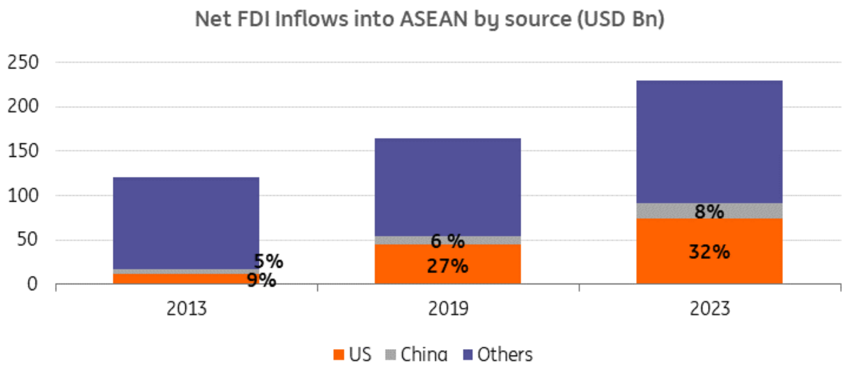
As such, even if universal tariffs were imposed, the impact should be less immediate. This may also increase the scope for bilateral strategic discussions on different sectors. On digital trade, Trump signed a digital free trade agreement (FTA) with Japan during his first term. A similar FTA process with ASEAN could be a positive starting point for discussions with the US. Singapore's significance as a regional energy trading hub could align with Trump's ambition of energy dominance.

Global FDI flows have weakened but inflows to Asia FDI have accelerated



Source: United Nations

There has been a sharp jump in the share of net FDI inflows from the US to ASEAN



Source: CEIC

Increased economic integration with China may negatively impact ASEAN in the short term due to China's domestic growth slowdown and reduced export demand from tariffs. However, ASEAN stands to benefit significantly from the surge in FDI inflows from both China and the US, as businesses adopt the China+1 strategy.

Author

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

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