

Asia takes big tariffs hit: Vietnam, Thailand most affected, while exemptions ease impact for India, Singapore

President Trump's punitive tariffs hit Asia, with largest levies on Vietnam and smaller textile exporters. The largest economies in the region, such as India, Japan, and South Korea, fared better. Overall, downside risks to growth and inflation could accelerate monetary policy easing and add to depreciation pressures on currencies



President Donald Trump holds up a signed executive order on global US tariffs

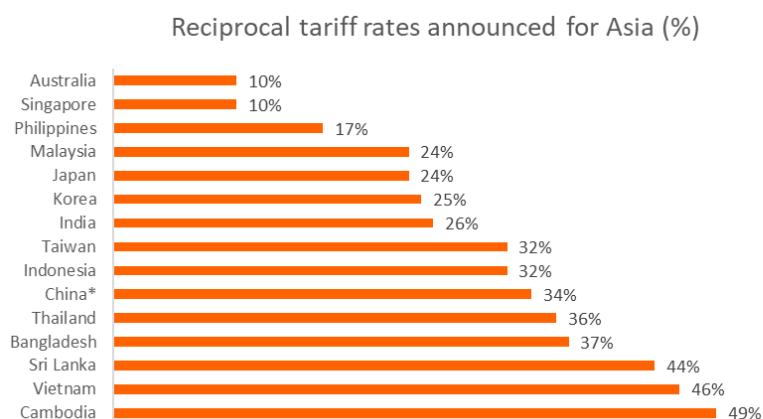
APAC hit by tariffs in the range of 10-49%

US President Trump announced a blanket tariff of 10% on US imports, though most APAC countries are being hit with an additional 10% or more on top of that rate. The largest tariffs seem targeted at countries exporting lower-value-added items like footwear, furniture, garments, and textiles. Vietnam, which after China has the largest trade deficit with the US, faces a 46% tariff. Cambodia got hit with a 49% tax, while Sri Lanka got 44% and Bangladesh got 37%.

The largest economies in the region, such as India, Japan, and South Korea, are relatively better off with tariffs in the 24-26% range. Additionally, their key manufacturing sectors with substantial exports to the US, like pharmaceuticals and semiconductors, benefit from tariff exemptions.

Thailand and Taiwan face relatively higher tariffs due to their larger trade surpluses with the US. In contrast, Australia and Singapore have relatively low tariffs at 10%, reflecting their smaller bilateral trade deficits with the US.

Large tariffs hit Asia



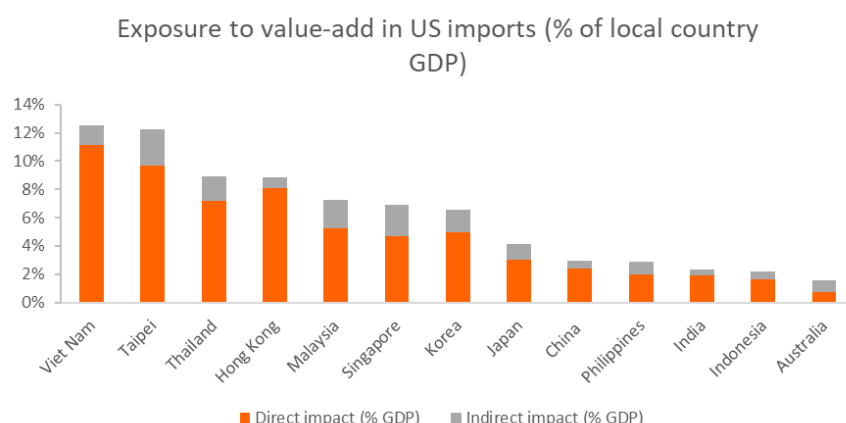
Tariffs will impact Vietnam GDP the most, followed by Thailand

Hefty tariffs especially on Vietnam and Thailand pose significant growth challenges. That's not just because of direct exposure to US imports, but also indirect hits via exports to the US through other countries. In the chart below, we stack up the value-add by each Asian country in terms of its own exports to the US (direct impact). We then add to it the value-add by each Asian country in the rest of the world's exports to the US (indirect impact).

Vietnam and Taiwan stand out with the highest total exposure to US imports -- and with large direct exposure. However, semiconductors are exempted from tariffs, which should reduce the blow on Taiwan. Semiconductors aside, Taiwan's export growth has been quite heavily concentrated in the US. The tariffs will threaten to dampen that growth (see [link](#)).

For Vietnam, with total exposure to US imports of 12% of GDP, a 46% tariff rate -- ceteris paribus and assuming demand elasticity of 1 -- would put 5.5% of Vietnam's GDP at risk. Similarly, Thailand's exposure of 9% of GDP, with a tariff rate of 36%, risks 3% of GDP being impacted in the medium term.

Vietnam and Taiwan stand out with highest exposure to US imports



Source: OECD, CEIC,

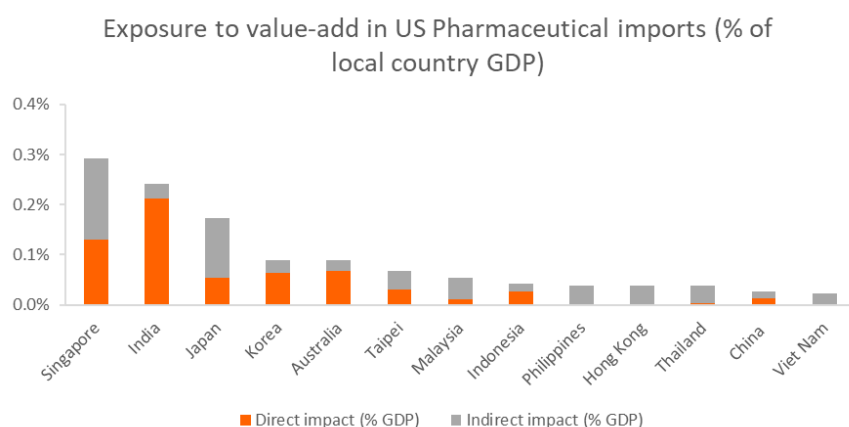
*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Exemptions on Pharma and Semiconductors (for now) should reduce the blow for India, Singapore and Japan

Although Singapore has significant high value-added exposure to US imports, two factors could mitigate the impact: 1) a relatively low tariff rate of 10% on Singapore's direct exports and 2) pharmaceutical exports to the US. They account for 0.3% of GDP and remain exempt from tariffs, lessening the blow. However, the most notable concern is Singapore's indirect exposure to the US, where the impact is likely to be more pronounced.

Similarly, India benefits from exemptions on pharmaceuticals. The US is India's largest export market for pharmaceuticals and a full-blown tariff hit would've been detrimental. As we discussed here: [Advanced talks with US lower risk of high reciprocal tariffs on India](#). While Korea and Japan also benefit from exemptions on semiconductors and Pharma, these latter economies will still face significant challenges from the already announced 25% tariffs on automobiles and auto parts.

India and Singapore benefit from exemptions on pharmaceuticals



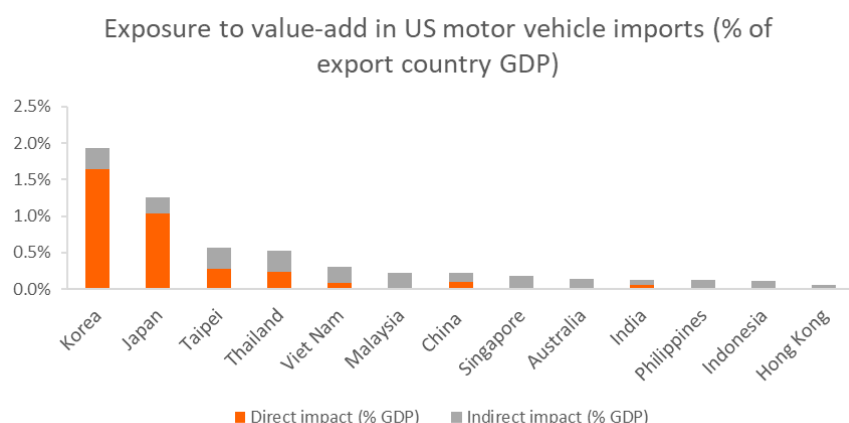
Source: OECD, CEIC

*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Vietnam and Thailand also stand out in their relatively higher exposure to US in the auto sector

Thailand is a major auto manufacturing hub in ASEAN. It's already suffering a sharp downturn amid rising competition from Chinese electric vehicles (EVs) and weak domestic demand. This puts the sector at further risk. In terms of overall Asia exposure to US auto imports, Korea stands to lose the most with value-add exposure at 1.9% of GDP, followed by Japan at 1.3%.

Already announced tariffs on Auto sector to hit Asia as well



Source: OECD, CEIC

*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Room for negotiations with US, which could lower the hit to growth

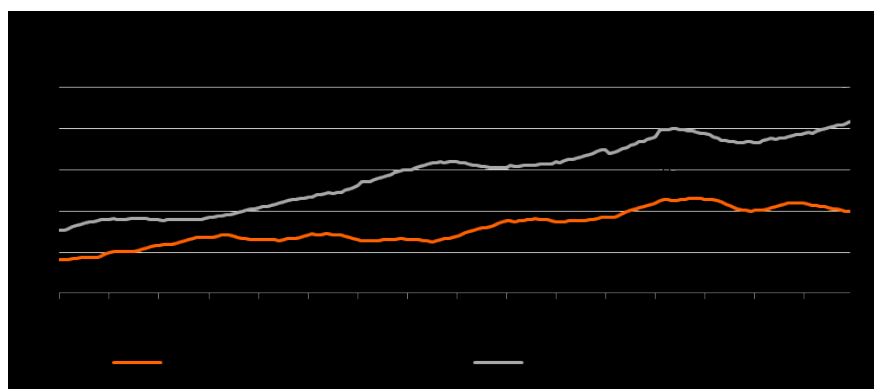
Retaliatory tariffs from Association of Southeast Asian Nations (ASEAN) members and India look unlikely. But uncertainty remains as countries continue to negotiate. Economies such as Vietnam made last-minute efforts to avoid tariffs. Unfortunately, they were unsuccessful in escaping sweeping tariffs. Vietnam is likely to continue negotiating with the US by making further concessions, such as lowering import duties on a range of goods, including cars, liquefied gas, and some agricultural products.

China overcapacity increases the risk of lower inflation for the region

Inflationary pressures in Asia are at their lowest in three years, with most countries seeing headline consumer price index (CPI) readings within central banks' target range. High tariffs on China are exacerbating its industrial overcapacity, which poses a significant threat to both domestic and external demand, particularly for ASEAN countries.

China's dominance and overcapacity in clean energy sectors like EVs, solar panels, and batteries, is now extending to a wider set of industries. These include steel, petrochemicals, semiconductors, and other low-value-added sectors like footwear, furniture, garments, and textiles. It's not only impacting ASEAN economies directly by displacing local production for some final goods, but also indirectly by displacing exports to the rest of the world. Reduced demand for goods should keep inflation well contained in Asia.

Rapid acceleration in ASEAN's imports from China



Risk of faster monetary policy easing as growth concerns deepen

Downside risks to growth, low inflation, and pressures coming from China's manufacturing overcapacity risk displacing ASEAN exports. All this suggests further monetary policy easing in Asia is coming. We already have additional rate cuts in our 2025 forecast profile for Korea (75bps), Indonesia (50bps), Philippines (75bps), India (75bps), Singapore (slope reduction), and Australia (75bps). However, tariff war escalation could mean that the rate cuts come in faster than our expectations. The aim would be to proactively ward off downward growth pressures. One country

where the scope for rate cuts might increase is Thailand, where headline CPI is likely to slip into negative territory in the second quarter. The relatively large impact tariffs have on growth could further shift the central bank's stance in favour of rate cuts.

Asia inflation likely to fall further, monetary easing to continue



Source: CEIC

Implications for FX

Asian currencies generally appreciated modestly against the USD in the first quarter of 2025, except for the HKD, TWD, and IDR. This was largely influenced by the Europe re-rating story. Consequently, we believe the market underestimated the tariff risks, which are proving worse than anticipated. For the CNY, the latest round of tariffs will likely add to downward pressures in the near term. But we don't expect significant devaluation pressures on the CNY, as the People's Bank of China (PBoC) remains firm on its currency stability objective (see [here](#) for details).

Asian currencies may face increased depreciation pressure as markets turn risk-averse, affecting foreign institutional investor (FII) inflows. Delayed investment decisions could impact foreign direct investment (FDI) inflows into the region, while exporters may devalue their currencies to stay price-competitive

More specifically, the tariff announcements have further reinforced our view for a weaker Thai Baht vs. USD, one based on weaker external and fiscal balances and a cautious view on growth. Vietnamese Dong (VND) fell to an all-time low of 25803 vs the USD and the upside pressure on USD/VND is likely to continue. INR, PHP and SGD are likely to outperform the region in the near-term given the relatively lesser blow from tariffs, while KRW should continue to underperform in second quarter of 2025, when sentiment will likely be at its worst (see [here](#) for details)

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