

Asia Viewpoint

Reciprocal tariff spares no one in Asia

A significant growth shock to the region

Higher-than-expected reciprocal tariffs from the US will likely hit Asia hard. The tariff imposition by itself is not surprising, since we had anticipated that the US will take Asia as a highly probable target, given its persistent trade surplus and higher tariffs on US imports (see our report [Asia Viewpoint: Asia in the shadow of US tariffs](#)). However, that said, the latest tariff move is still much larger in size than what we and market had expected. On average, the news overnight implies major Asian exporting countries will face on average 30% reciprocal tariff rates from the US. If reciprocal tariffs are implemented and maintained as scheduled, we will likely see 0.6ppt growth impact on Asian economies (ex. Vietnam) on average. On a GDP-weighted basis, regional growth could moderate to mid-3% in 2025 from our current projection of 4.4%.

Risks tilted towards the downside

That said, these numbers are subject to large uncertainty range. On the upside, if all major exporters will face such restrictive tariff rates, imports from the US will likely be more inelastic given the lack of substitution. However, risks are still tilted toward the downside given the likely second-order effects on investment and consumption, lower global growth, narrower trade diversion gains and shocks to confidence and financial markets.

Negotiation rather than retaliation, except China

Despite the new scheme, we continue to think that Asia will proactively seek opportunities to negotiate with the US, which is actually what most Asian economies have been doing. Ultimately, the necessity and scope of such concessions could vary significantly across the region, depending on 1) how deep their integration with the US is, 2) how reliant they are on the US, economically and geopolitically, and 3) will any concessions cause significant disruption to domestic activities. That said, China could be the exception. We expect China could retaliate in the same moderate fashion as we saw in Feb and March. Measures could include further hiking tariff rates on US products and maintaining a stable exchange rate to pass through the price shock to the US.

Policy easing to intensify if tariffs to stay

If these reciprocal tariffs are implemented and stay on, we could expect to see downward pressure on growth and inflation emerging in 2Q25, triggering policy responses from all economies affected. Most economies will likely shore up fiscal support to buffer growth, while for central banks that are already in easing cycle would likely front load their hikes. The exceptional case is in Japan where we believe the BoJ would be more cautious about additional rate hikes.

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GEM Economics
Asia

Helen Qiao
China & Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 3961
helen.qiao@bofa.com

Ting Him Ho, CFA
Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 8744
tinghim.ho@bofa.com

A significant growth shock to the region

Higher-than-expected reciprocal tariffs from the US will likely hit Asia hard (see our report [Global Economic Viewpoint: Kitchen sink tariffs](#) for our initial reaction). The tariff imposition by itself is not surprising, since we had anticipated that the US will take Asia as a highly probable target, given its persistent trade surplus and higher tariffs on US imports (see our report [Asia Viewpoint: Asia in the shadow of US tariffs](#)). However, that said, the latest tariff move is still much larger in size than what we and market had expected.

According to the statement, the US will impose a 10% tariff on all economies (effective on April 5), as well as higher individualized reciprocal tariffs on countries with large trade surpluses against the US (effective on April 9). On average, the news overnight implies major Asian exporting countries will face on average 30% reciprocal tariff rates from the US, including 46% on Vietnam, 36% on Thailand, 34% on China, 32% on Taiwan and Indonesia, and some mid-to-high 20% on rest of exporters. Some economies are relatively more insulated (i.e. 10% on Singapore and Australia/New Zealand), which run trade deficits against the US.

Exhibit 1: Reciprocal tariff rates announced to Asia

Reciprocal tariff is much higher than expected, especially that on Asia

	Reciprocal tariff rate (%)
Vietnam	46
Thailand	36
China	34
Taiwan	32
Indonesia	32
India	26
Korea	25
Japan	24
Malaysia	24
Philippines	17
Singapore	10
Australia	10
New Zealand	10

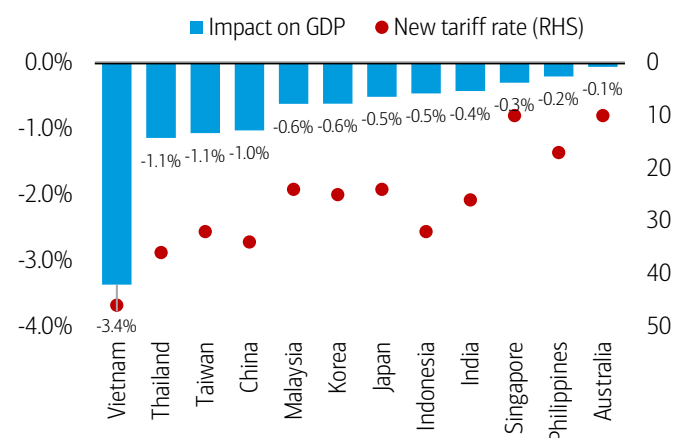
Source: White House, BofA Global Research

Note: This does not account for the additional tariffs previously imposed on China

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Exhibit 2: Impact on GDP growth under new reciprocal tariff rate

Asia face notable drag on growth under the new tariff scheme



Source: OECD TiVA, BofA Global Research estimates

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We previously estimated that a 10% blanket tariff from the US, assuming unitary elasticity (i.e. 10% rise in tariff rate cause a 10% drop in exports) and only considering direct impact, will shave growth by 0.2ppt on GDP growth in each country on average, with Vietnam's drag being largest at more than 0.7ppt. This implies if reciprocal tariffs are implemented and maintained as scheduled, we will likely see 0.6ppt growth impact on Asian economies (ex. Vietnam) on average. On a GDP-weighted basis, regional growth could moderate to mid-3% in 2025 from our current projection of 4.4%.

That said, these numbers are subject to large uncertainty range. On the upside, if all major exporters will face such restrictive tariff rates, imports from the US will likely be more inelastic given the lack of substitution. Accordingly, elasticity could come close to around or below 0.5, implying such growth shock could be halved. However, risks are still tilted toward the downside given that:

- **Second-order effects:** First, the above estimation does not consider the second-order effects, which represent the spillover to the broader sectors, as well as consumption and investment demand. Analysis from input-output table suggest that the indirect impact could be as significant as the direct impact itself.
- **Lower global growth:** Extensive tariff hikes at global level likely result in lower global growth, resulting in lower underlying demand for exports. Right



now, our global economists assume the tariff shock could at least drag global growth by 0.5ppt from the current 3.1%. Growth in US could be subtracted by 1.5ppt in the next couple of quarters, and 0.4-0.6ppt for Europe respectively, putting both economies at the verge of technical recession.

- **Narrower trade diversion gains:** There is much narrower room for trade diversion or supply chain realignment to buffer growth adversaries, compared to a few years ago. ASEAN is likely to be a relative loser in this regard, as it used to benefit from the supply chain relocation mainly from China, as well as rising foreign investment from the rest of the world. With punitive tariff in place on the region (especially 46% on Vietnam), we could expect a notable pullback in foreign investment and activities.
- **Shocks to confidence and financial markets:** While these are hard to quantify, heightened policy uncertainty imply uncertainty shock and could increase volatility, ultimately hurting the real economy through capex and consumption weakness driven by weak expectations.

Negotiation rather than retaliation, except China

Despite the new scheme, we continue to think that Asia will proactively seek opportunities to negotiate with the US, which is actually what most Asian economies have been doing. For example, India PM Modi's visit to the US in February was among the most high-profile action, while leaders in the region are actively negotiating with US authorities seeking for tariff exemption.

Ultimately, the necessity and scope of such concessions could vary significantly across the region, depending on **1)** how deep their integration with the US is, **2)** how reliant they are on the US, economically and geopolitically, and **3)** will any concessions cause significant disruption to domestic activities. By our analysis, Taiwan and Vietnam may have to do the most given their reliance and dependence to the US. Across Asia, the common strategies seem to be increasing purchases of key US exports (e.g. petroleum products), increasing direct investment to the US, lowering non-tariff trade barriers. Some would likely have to increase defense spending and purchase more military weapons from the US (see our report [Global Economic Viewpoint: Global Defense Spending in 10 questions](#))

That said, China could be the exception. We expect China could retaliate in the same moderate fashion as we saw in February and March. Measures could include further hiking tariff rates on US products and maintaining a stable exchange rate to pass through the price shock to the US. While China maintains that it remains open to dialogues, Chinese policy makers do not seem to believe the US will sincerely cut tariff rates until tariffs hit the US economy hard. That implies a lower probability for bilateral negotiations between China and the US in the near future, although we remain optimistic on negotiations in the medium term.

Could other countries get away with US reciprocal tariffs by voluntarily hiking tariffs on Chinese products through negotiations with the US? We cannot rule that out, but we think it is unlikely, given that broad-based tariffs on most countries offer an important fiscal revenue stream for the US. The probability of removing all tariffs on all countries except on China seems to us to be low.

Downward pressure on inflation

Since we don't expect most Asian economies to retaliate with higher tariffs, the impact from US imports on regional inflation is likely muted. In the first place, Asia mostly imports capital goods and energy products from the region, implying limited impact on broader consumer inflation even if any retaliation.

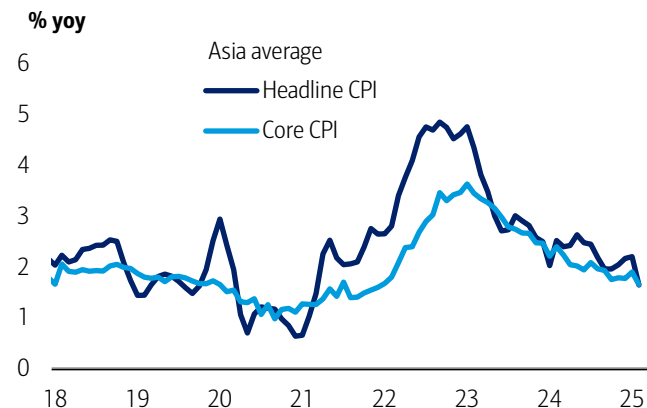
However, if aggregate demand shock is not smoothed by timely and effective countercyclical policies, there could be deflationary pressure on core CPI resulted from



the export downfall and external sector weakness. This is particularly the case for economies running a below-target inflation, such as China and Thailand.

Exhibit 3: Regional inflation

We foresee downward pressure on inflation resulting from trade shock, especially on core CPI (1.7)

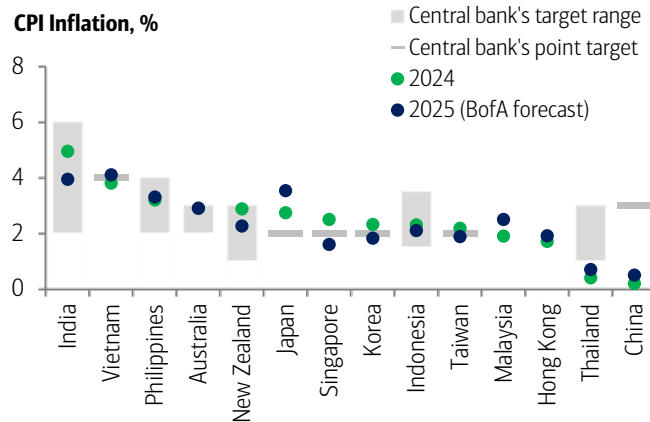


Source: Haver, BofA Global Research

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Exhibit 4: Inflation and central banks' target by economy

We see notable deflation pressure on Thailand and China



Source: Haver, BofA Global Research estimates

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Policy easing to intensify if tariffs to stay

If these reciprocal tariffs are implemented and stay on, we would expect to see downward pressure on growth and inflation emerging in 2Q25, triggering policy responses from all economies affected. Most economies will likely shore up fiscal support to buffer growth, while for central banks that are already in easing cycle would likely front load their hikes. The exceptional case is in Japan where we believe the BoJ would be more cautious about additional rate hikes, although we have not yet changed our baseline that the BoJ will deliver its next hike in June.

For China, we no longer hold the expectation of potential de-escalation through negotiations in the near term, and we believe it will step up on both fiscal and monetary easing to shore up domestic demand. Since Chinese policy makers promised more policy flexibility this year, this is the time to use their policy ammunition left.

Exhibit 5: Quarterly change in policy rates (Historical numbers and forecasts)

We expect a more front-loaded easing cycles in several central banks, while the BoJ would be more cautious in additional hikes

	% EOP	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
	Fed (US)	0.00	0.00	-0.50	-0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	ECB (Europe)	0.00	-0.25	-0.60	-0.50	-0.50	-0.50	-0.50	0.00	0.00	0.00	0.00	0.00
Hiking camp	BoJ (Japan)	0.15	0.00	0.20	0.00	0.25	0.25	0.00	0.25	0.00	0.00	0.25	0.00
Pause camp	CBC (Taiwan)	0.125	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	BNM (Malaysia)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	SBV (Vietnam)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Easing camp	PBoC (China)	0.00	0.00	-0.10	-0.25	-0.05	-0.10	-0.10	0.00	0.00	0.00	0.00	0.00
	RBI (India)	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00
	RBNZ (New Zealand)	0.00	0.00	-0.25	-1.00	-0.50	-0.50	-0.50	-0.25	0.00	0.00	0.00	0.00
	BoK (Korea)	0.00	0.00	0.00	-0.50	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00	0.00
	BI (Indonesia)	0.00	0.25	-0.25	0.00	-0.25	-0.25	0.00	0.00	0.00	0.00	0.00	0.00
	BSP (Philippines)	0.00	0.00	-0.25	-0.50	0.00	-0.25	0.00	-0.25	0.00	0.00	0.00	0.00
	RBA (Australia)	0.00	0.00	0.00	0.00	-0.25	-0.25	0.00	-0.25	0.00	0.00	0.00	0.00
	BoT (Thailand)	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00	0.00

Source: BofA Global Research

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Country Summary

China

China faces a reciprocal tariff rate of 34%, effective on April 9, in addition to the two earlier rounds of 10% hikes that were implemented earlier in the year. Cumulatively, this means that Chinese goods will face a cumulative tariff rate of 54%. Relative to our baseline forecasts made at the start of the year, where we assumed the tariff shock to be a cumulative hike of 20% beginning in 2Q25, these announcements have occurred both earlier and at a significantly higher magnitude than we had expected.

For China, each 10% of tariff hike is estimated to reduce US-bound exports by around 10%, translating to roughly 0.25 percentage point drag to annual GDP growth. Consequently, the cumulative 54% of tariff rate, of which 43% was the incremental increase this year, could result in around 1 ppt drag on GDP growth this year. However, this estimate does not account for three factors: indirect impact from other countries and drag from de minimis rule exemptions, and additional domestic policy support.

Despite recent press reports suggesting the possibility of an imminent meeting between the presidents of China and the US, we believe the path to official negotiations will be challenging. First, trade issues have expanded beyond economics concerns and are now tied to both sides' long term strategic goals. This has made it less likely for either side to capitulate to pressure. Second, the preconditions for talks do not align. From China's view, an important precondition for high level communication would be the US agreeing to roll back the tariffs imposed on China so far this year, which will be difficult as the US views tariffs as a key negotiation tool and an important source of fiscal revenue.

Similar to the prior two rounds of tariff hikes, we think China is likely to further retaliate, though not strictly in a reciprocal manner, leaving room for some negotiation. This could include hiking tariffs on select US products and expanding the unreliable entity list. We also think finding some sort of "partial" deal is still likely. China could offer four key concessions: further collaboration in addressing the fentanyl crisis ("F"), greater direct investments to the US ("I"), increased purchases of American goods (such as LNG) ("P"), and more market access to American firms ("A"), collectively referred to as "F.I.P.A".

We think China will roll out more aggressive policy easing, both fiscal and monetary, given greater external shock. Consumption boosting will be a clear top priority and we see scope for further issuance of SCG this year if needed to support expanded consumer goods and services subsidy programs, national level pro-birth subsidies, and increases social safety net such as pension payouts. Increased support to investment projections is also an option. On the monetary front, we expect rate cuts and Reserve Requirement Ratio (RRR) cuts in the near-term, especially if March data shows meaningful deterioration.

Japan

(Full report: [A serious downside risk to growth and BoJ rate hikes](#))

The announced 24% reciprocal tariff rate on Japan is much more aggressive than we had assumed and---together with already-announced 25% auto tariffs---implies significant downside risks for Japan's US-bound exports. In CY24, Japan's exports to the US totaled approximately US\$140bn, or 3.5% of GDP. The direct hit to Japan's GDP via the reduction in exports depend on assumptions around the extent of tariff pass-through and elasticity of demand. But under the simplest assumption of 100% pass-through and unitary elasticity, the proposed tariffs would represent a 0.9ppt drag to real GDP. The headwinds to Japan's growth are likely to be even bigger if these tariffs stick, given 1) the negative spillovers of reduced external demand to the rest of the economy; 2) likelihood of much weaker global growth, including in the US; and 3) negative impact from increased financial market volatility. We have been forecasting Japan's economy to expand 0.8% in FY25. But the tariff headwinds and secondary impacts could easily wipe



out growth and topple the economy into a recession if they are implemented at the global level in their proposed form.

There is always the possibility that today's announced tariffs are a starting point for negotiations, and that implemented tariff rates will ultimately be reduced. Indeed, this has been our assumption up until now, though we must admit our confidence level in this relatively benign outcome has been declining. Today's announcement will raise the urgency for the Japanese government to negotiate with the US administration to secure exemptions on the announced 25% auto tariffs, as well as the latest 24% reciprocal tariff, using increased imports of US energy/ag/defense products and increased investment as bargaining chips. Meanwhile, we remain of the view that Japan will not impose retaliatory tariffs on the US, which would limit the impact on domestic inflation.

Finally, it goes without saying that the latest developments have raised the uncertainty around the Bank of Japan policy outlook. Prior to today's announcement we had expected the Bank of Japan to deliver its next rate hike to 0.75% in June, followed by three more 25bp hikes to take the terminal rate to 1.5% by end-FY26. However, given the high level of uncertainty about the impact of these proposed tariffs on both the domestic and overseas economy, the BoJ will likely adopt a more cautious stance on additional hikes, unless the proposed tariffs are quickly reversed, or reduced significantly.

With the BoJ likely needing to wait for more data—both domestic and overseas—to assess the impact of the tariffs, we think the hurdle for a June hike has risen notably and that additional hikes are likely to be delayed till at least July. And there is a real possibility that the BoJ rate hikes will be stopped out at 0.5% for the foreseeable future.

Korea

(Full report: [25% reciprocal tariff: Embracing the new normal](#))

It is announced that Korea will be levied 25% reciprocal tariffs by the US, and to be taken effective on April 9. Note that earlier this year, Korea autos, steel and aluminum have already been tariffed at 25% under section 232, while the semiconductor exports is now exempted for now but still pending on future tariffs. Altogether, this will bring the US effective tariff to increase from 8% (consider latest tariffs) to more than 23% on Korea, according to our estimation. After the announcement, Acting President and Prime Minister Han convened an emergency meeting to discuss measures, and Finance Minister Choi said to focus efforts on negotiation with the US to minimize the impact of the tariff policy. That said, given the tight window for the negotiation, we may expect the newly levied tariff to be in place, at least for the near-term.

According to our earlier estimation, 10% US-bound exports drop could have a direct hit of 0.2-0.3ppts GDP for Korea, hence the newly added tariff shock is in our view severe if an elasticity of 1:1 has been considered. That said, the wide range of US reciprocal tariff to other countries have also created uncertainties for the ultimate impacts. Note that Korea's 25% tariff is lower than many of other key US trade partners (other than Mexico and Canada), and at a similar level with that of Japan (24%) and EU (20%). Considering the potential trade diversion as well as all other factors, we include a direct growth impact equivalent to 0.4ppt of GDP. Will we see more policy step-ups in hedging with the downside risk? At the moment, KRW10tn worth (0.4% of GDP) extra budget has been proposed by the government, if passed, it will partially help to alleviate the growth drag. However, more is in need, given the already fragile growth momentum domestically. We also continue to expect the BoK to consider rate cut in coming months. In terms of timing, although the chance of immediate rate cut is building up (for the April 17th meeting), a May cut is still our base case. In our view, the BoK may thoroughly assess the changing environment after the tariff shock before making decisions. The near-term FX movement and the export growth data remain keys to watch.

Taiwan

(Full report: [Unexpected tariff to shake economy](#))



President Trump announced a 32% tariff on Taiwan, amid reciprocal tariffs on other products. If implemented and sustained over an extended period, the tariffs would notably hurt Taiwan's economy, given its sizeable exposure to the US market and global demand. Since 3.3% of Taiwan's GDP is exposed to US final demand for goods, a c.30% tariff increase (from current level) would lead to a 1pp blow to Taiwan's economy. The actual impact could be bigger, as the calculation has neither considered a potential global trade deceleration, nor Taiwan's rising dependence on the US demand after 2020. Conversely, the broad tariffs on almost every country could mean fewer alternative sources for US importers, and thus Taiwan's exports to the US may not decline as much as the baseline elasticity assumption shows.

Semiconductors are exempted from the reciprocal tariff, and the White House has clarified that the 32% tariff will not apply to semiconductor foundry, manufacturing, and design, indicating limited direct cost increase for key Taiwan semiconductor firms (see report from our tech team: No new tariffs on semiconductors). However, President Trump could still announce a separate tariff on semiconductors, as he implied at a c.25% levy earlier, along with auto (25% tariff already imposed) and pharmaceuticals (also exempted in this round). Therefore, we believe the related industries are not entirely out of the woods yet. That said, we believe the US demand for Taiwan's semiconductor industry is relatively rigid, as Taiwan manufactures 90+% of advanced chips and the US has few alternatives. Therefore, a 25% tariff increase, for example, will not shave off exports by as much, especially with [AI-related demand appearing resilient](#) (see report).

We expect Taiwan's government to prioritize securing a deal with the US, demonstrating heightened urgency compared to other Asian economies due to both economic dependence and national security necessity. Taiwan will likely offer to buy more US products (weapons, energy and agricultural products), increase investment in the US to help with manufacturing reshoring, and lower some agricultural tariffs on US products. Taiwan expressed regrets toward latest US tariffs announcement on April 3, and would continue to negotiate and communicate with the US to ensure national and industry's interests, according to Executive Yuan spokesperson. Policy makers may have to prioritize mitigating shock and propping up growth, and the CBC may need to prepare to shift towards easing, should the tariffs kick in and prove long-lasting.

India

(Full report: [India and US reciprocal tariffs – Looking for a deal](#))

As expected, India has been hit by reciprocal tariffs from United States, but on a relative basis, the reciprocal tariffs imposed by US on India appears relatively more benign, despite India being called out multiple times as an imposer of high tariffs on United States. The US President Donald Trump called out his meeting with India's Prime Minister Narendra Modi, who visited Washington DC on 12-13 February, and India is currently negotiating a bilateral trade deal with US officials, to find a way to reduce tariffs and increase trade between the two countries. In a further relief, there was no mention of services trade being under the scanner, which for India is a greater exposure on a relative basis, and will create larger economic downside.

More importantly, the latest announcement has important carve outs for several products India exports to US, especially for pharmaceuticals, which along with specialty chemicals, organic chemicals and some electronics have been given some exemptions, which would reduce the impact of the reciprocal tariffs, but only modestly. Indeed, based on our data available for 2024, when India exported USD80.7bn of goods, bulk of the exposure being in electronics, jewelry, and pharmaceuticals. On a cursory glance, the exemptions may amount to almost USD6-8bn of exports. The impact will likely be further blunted by a potential reduction of tariffs from India in the coming weeks and months for US exports into India, which can be done in a strategic manner based on execution of sectoral tariffs that the US imposes in coming months, as indicated in recent news reports.

In the face of rising global uncertainty, we believe India's investment climate will also take a hit, and the primary channel of impact would be felt on investment growth. Exports too would be somewhat vulnerable, but given India's relatively smaller reciprocal tariffs, some areas of relative comparative advantage may open as well, especially in areas where price sensitivity is higher and margins lower. Still, with economic uncertainty rising, global growth and sentiment weakening, and commodity prices moderating, both growth and inflation in India are likely to be on a weaker footing, even if the relative exposure and impact is smaller. We still expect the domestic policy orientation to be supportive for economic growth, and the impact of monetary easing, and relatively smaller fiscal belt tightening to contribute positively to economic growth in FY26. We keep our GDP growth projections at 6.5% for FY26 for now but wait and see how other economies react to the tariffs, and in an escalatory cycle, downside risks to India's growth projections through the global growth channel could rise. For next week's monetary policy meeting, we expect the Reserve Bank of India to go ahead and cut policy rates by 25bp, bringing the repo rate to 6.00%.

ASEAN

Indonesia: Reciprocal tariffs on Indonesia seems to us high at 32%, but Indonesia's growth outlook is more tied to its domestic policies and China's commodities demand. As such, we don't necessarily foresee GDP growth slowing sharply. Instead, we see rising risk of growth stuck at 4.8-5% (rather than converging to trend pace 5.3-5.4%). Inflation has been low in Indonesia's context and could stay closer to 2% (rather than 3%) for longer if negative output gap takes longer to close. If global market volatility rises, BI would probably place even greater emphasis to IDR stability, with policy rate path very much aligned with its Fed rate outlook. Amid global trade tensions, we think that Indonesia could continue its multi-alignment approach to deepen global ties (and attract more FDI). For instance, Indonesia formally joined BRICS in Jan 2025, which contrasts with the more phased approach taken by the previous administration.

Malaysia: Announced tariffs seems to us slightly broader vs. Bank Negara Malaysia's (BNM) bearish scenario built into their baseline outlook (see our BNM Annual Report Review). As such, we see rising risks of GDP growth slipping slightly below the official 4.5-5.5% range in 2025 and below trend-pace growth of 4-5% in 2026. Risk of



calibrated 25bp rate cut in May or July has thus risen on possibly lower real rates (based on 1Y ahead projections) and potential growth drags from any tightening of financial conditions. We think that RON95 subsidy reforms could still go ahead around June to capitalize on lower oil prices. Rate cuts (if any) are likely to be calibrated and spaced out, with BNM likely watchful of second round inflation effects from RON95 subsidy reforms.

Philippines: We see some downside risks to growth from possibly lower US final demand. However, the overall extent is likely mitigated by the domestic-oriented nature of the economy, as well as potential cushions from any trade and FDI diversion to the Philippines. For instance, the relatively lower rate of tariffs for the Philippines vs. other ASEAN countries could have some immediate benefit to commodity exports, especially those produced in other countries (i.e. coconut water, canned tuna from Thailand). Inflation could be more benign than we thought if prevalence of lower-cost Chinese imports increase. We currently see The Bangko Sentral ng Pilipinas (BSP) cutting by 50bp this year, with further rate cuts possible if the Fed cuts. We expect the Philippines to continue engagement with the US and look at ways to narrow its trade surplus vs. the US. An agreement was put in place this week to purchase \$5bn worth of fighter aircrafts, with other future purchases from the US possible (e.g. cars).

Singapore: Singapore's open economy would be directly hit by any slowdown in global trade activities, rather than direct hit to its exports to the US. As such, we see rising probability of GDP in the lower (rather than upper) half of the 1-3% official forecast range, staying below trend-pace growth of 2-3% in 2026, and output gap turning negative by end-2025. This could in turn keep core inflation well below the historical mean (1.5-2%) even longer than earlier thought. That said, we think there is sufficient fiscal space to roll out stimulus measures to cushion growth impact, given fiscal surpluses accumulated the past years. We think that calibrated 50bp slope reductions in April and 2H (thus flattening the slope) still seems likely. Outright slope flattening in April still seems unlikely in our view, with meeting in April too close for The Monetary Authority of Singapore (MAS) to assess whether tariff effects are permanent. Downward-centering at some point from 2H cannot be ruled out if negative growth effects are more pronounced.

Thailand: The levels of tariffs imposed on Thailand is far higher than we expected, and we see risks of GDP growth falling well below 2% if adverse US tariffs are permanent. We have greater conviction over call for the Bank of Thailand (BoT) to cut by 25bp in April, and we reiterate our call for 3x25bp rate cuts (or more) thereafter the next 12 months. We expect Thailand to step up engagements with the US, and potentially offering to (1) lower tariffs for high-tariff sector (e.g. agriculture, footwear, food), (2) open up the sectors that the US has voiced concerns (e.g. pork, chicken, services, insurance, financials), (3) purchase more US goods (e.g. crude, LNG, aircrafts, weapons, machineries), and (4) increase efforts to clamp down on re-routing from China.

Vietnam: GDP growth has been tracking around 7%, and we see rising risk that it could fall below 6% in 2025-26 given its final demand exposure to the US. Pressure on FX could increase, and the State Bank of Vietnam (SBV) will likely ramp-up monetary operations to keep VND within the $\pm 5\%$ band. Band widening is possible to preserve FX reserves, but only as a last resort. One-off depreciation is highly unlikely in our view, as this would counter ongoing efforts to improve FX flexibility over time, especially in light of its engagement with the US. We think that stable policy rates are still most likely – rate cuts would complicate FX stabilization efforts while rate hikes would weigh further on growth. Vietnam has limited leverage against the US, and if anything, we think authorities would step up engagement efforts with the US.

Australia

(Full report: [Tariff troubles to lower growth](#))

President Trump announced a 10% tariff on Australian exports to the US. Tariffs announced on Australia's major trading partners were larger than expected, with Asia likely to be hit with a significant growth shock. This may not be the end of it either, given sector-specific tariffs may still come in a few days. It came as a surprise to us as we expected Australia's FTA with the US, long-running trade deficit with the US, and strong defense relationship would see only a minor tariff rate applied to Australian exports.

We estimate modest direct effects on GDP, with a 10% tariff leading to an 8-20% drop in export volumes to the US, translating to a 5-10bps drag on GDP over 2-3 quarters (up to 30bps over 3 years). However, considering indirect effects implies a larger GDP effect given the hit to Australia's key export markets. While we expect some tariffs to be negotiated away, we see lower global growth weighing on Australian GDP through reduced export demand with negative spillovers, heightened uncertainty, and lower confidence.

The overall impact on inflation is uncertain, but we believe risks are skewed to the downside. Inflationary pressure could increase through supply chain disruptions and/or a lower AUD in response to a global growth shock pushing up import prices. But we expect this would likely be more than offset by broader disinflationary pressure from exporters redirecting trade away from the US.

The Australian government would lobby for a tariff exemption but has ruled out imposing retaliatory tariffs on the US. Prime Minister Albanese announced a range of measures to support Australian firms in response. We believe Australia is well placed to receive an exemption on at least some exports. Meanwhile, it increases our conviction on a May cut given the negative growth implications, with no obvious inflation implications for Australia. Markets are now pricing a 92% chance of a 25bps cut in May (from c.80% prior to tariff announcements), with the terminal rate declining 10-15bps in response.



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