ASEAN-4

8 July 2025

ASEAN-4: Trial by tariffs

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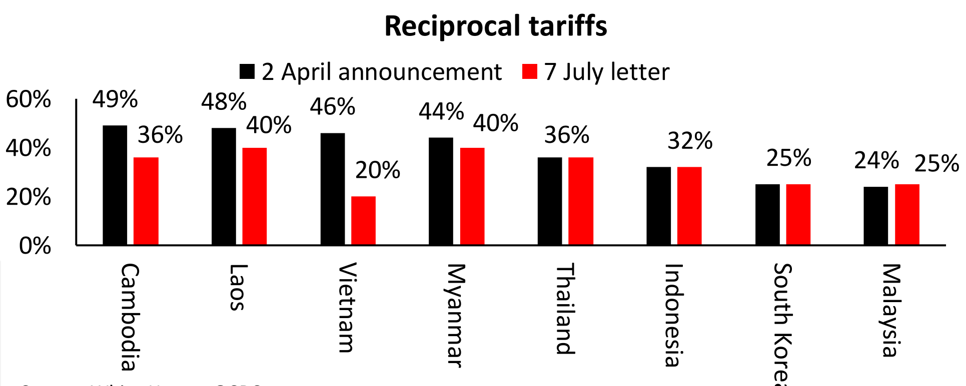
- It is a mixed bag of outcomes in terms of US tariffs for Indonesia, Malaysia, Thailand and Vietnam. Tariff rates are negotiable until implemented on 1 August.
- We have lowered our 2025 GDP growth forecasts for Malaysia to 3.9% YoY from 4.3% and Thailand to 1.8% from 2.0%, while raising our forecast for Vietnam to 6.3% from 5.5% and keeping Indonesia's unchanged at 4.7%.
- Central banks are primed for further rate cuts. We have added to rate cut forecasts for Thailand while shifting out Vietnam's rate cuts to 2026.

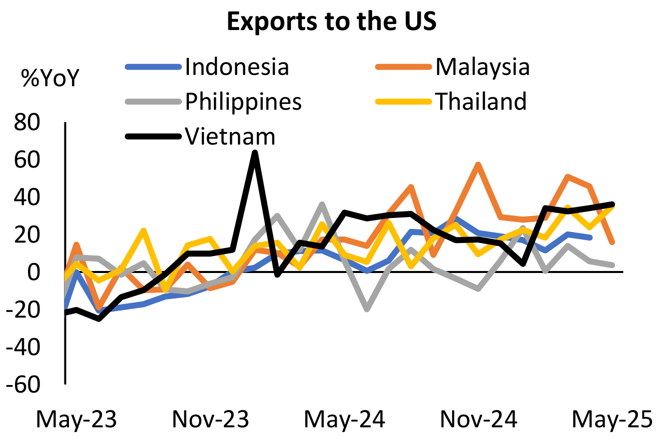
The differentiation we were expecting across ASEAN for the tariff rates imposed by the US seems to be materialising. According to official letters sent by the White House, the reciprocal tariffs for Indonesia (32%) and Thailand (36%) are unchanged from the announcement on 2 April. The tariff rate for Malaysia at 25% is slightly higher than 24% announced on 2 April. A disappointing outcome considering the effort made from officials to negotiate down the rates.

The official letters stated that "any and all" of the country products "sent into the United States, separate from all Sectoral Tariffs". Furthermore, there is an additional line which states that "goods transshipped to evade a higher tariff will be subject to that higher Tariff". This suggests that this is blanket tariff rate on top of which additional sectoral tariffs will be implemented. No letter was marked for the Philippines, which was hit with a reciprocal tariff rate of 18% on 2 April.

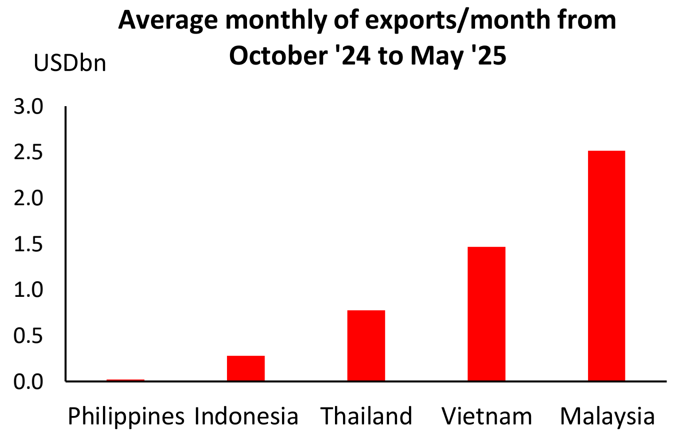


Source: White House; OCBC.

The growth picture for the bigger economies of ASEAN for 2025 will likely be a tale of two halves. The first half was characterised by frontloading of exports to the US while the second half will be dealing with the impact of the tariffs (assuming no delays beyond 1 August). The front-loading of exports to the US suggests significant payback is in the pipeline in 2H25. Our simple back of the envelope calculation suggests that the average monthly exports to the US have been higher by ~USD2.5bn from October through to May 2025 for Malaysia, USD1.5bn higher for Vietnam, USD0.8bn for Thailand, USD0.3bn for Indonesia and USD23mn for the Philippines. Once the tariffs come into place, we expect headline export growth to fall sharply across the region reversing much of the frontloading through to July.



Source: CEIC; OCBC.



Source: CEIC; OCBC.

The growth impact following this announcement, if implemented on 1 August with no further adjustments to the tariff rates, would suggest that Malaysia's economy takes the biggest hit relative to our current forecasts. We lower our 2025 GDP growth forecast to 3.9% YoY from 4.3% and to 3.8% from 4.3% for 2026. Thailand is next in line, and we lower our 2025 GDP growth forecast to 1.8% from 2.0%. By contrast, we raise our 2025 GDP growth forecast for Vietnam to 6.3% YoY from 5.5% reflecting robust 1H25 growth of 7.5% but also a reduced drag from tariffs considering its lower negotiated rate. We maintain our 2025 GDP growth forecast for Indonesia at 4.7%.

GDP Growth (% YoY)	1H25F	2H25F	2025F	2026F
Vietnam	7.5*	5.0	6.3	5.5
Thailand	2.8	0.9	1.8	1.8
Malaysia	4.3	3.6	3.9	3.8
Indonesia	4.8	4.7	4.7	4.7
Philippines	5.5	5.6	5.5	5.5
Note: * Refers to Actual. Source: OCBC.				

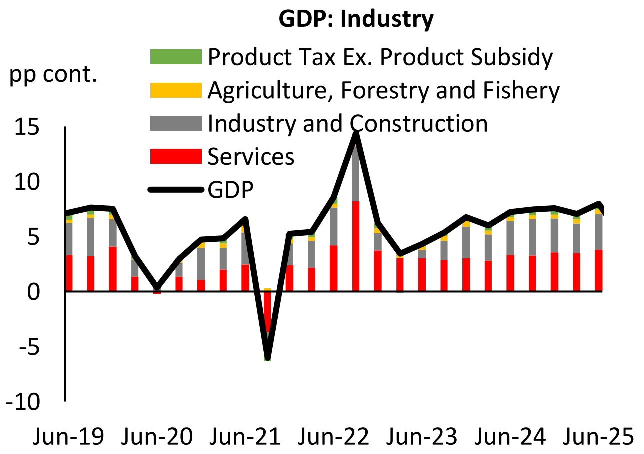
In terms of monetary policy implications, we have added another 25bp cut from Bank of Thailand (BoT), taking it to a cumulative 50bps in 2H25. For Bank Negara Malaysia (BNM), we continue to forecast a cumulative 50bps in rate cuts in 2H25. For Bank Indonesia (BI), our baseline is for another 25bp rate cut with the risk of deeper cuts should IDR stability sustain. For State Bank of Vietnam (SBV), we push our 50bps of rate cuts to 2026 from 2H25 as growth risks have been pushed to next year from 2025.

Policy Rate (% Year-End)	Current	End-2025F	End-2026F
Vietnam	4.50	4.50	4.00
Thailand	1.75	1.25	1.25
Malaysia	3.00	2.50	2.50
Indonesia	5.50	5.25	5.25
Philippines	5.25	5.00	5.00
Source: Various central banks, Bloomberg, OCBC.			

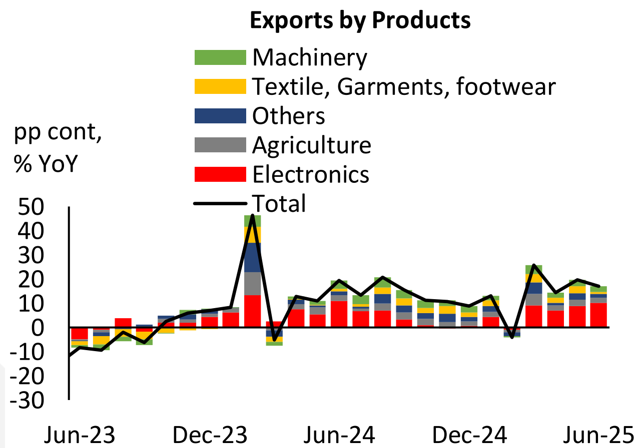
Vietnam: Best deal so far

The tariff rate negotiated at 20% and announced earlier this week is the best deal for the region under our coverage[1] but the definition of 'transshipments' is still unclear. Exports considered transshipments will face a levy with 40%.

The strong first half growth outcome puts the economy in a better position to endure the impact of the tariffs. GDP growth for 1H25 was solid at 7.5% with growth of 7.0% in 1Q25 and 8.0% in 2Q25. The resilience was broad-based across the agriculture, manufacturing, construction and services sectors. Specifically, services growth was 8.1% YoY in 1H25 (2H24:7.9%) while manufacturing sector growth was 10.1% in 1H25 (2H24: 10.6%). While growth was supported by front-loading of exports to the US, domestic demand conditions were also resilient.



Source: General Statistics Office, CEIC, OCBC.



Source: GSO, CEIC, OCBC

The authorities are keen to keep domestic demand supported. The government extended the reduced VAT rate of 8% until end-2026. The National assembly also approved some crucial reforms recently including to reduce the number of provinces and cities from 63 to 34, with a streamlined two-tier local government system. Legislation to bolster private sector participation towards economic

[1] The tariff rates for Laos, Myanmar and Cambodia were reduced by 8pp, 4pp and 13pp respectively, which are significant.

development through better access to land, financial and credit support as well as innovation & digital transformation was also passed. The National assembly approved key infrastructure projects including the approval of a high-speed rail connecting Hanoi to Ho Chi Minh, as well as approving the Lao Cai – Hanoi – Hai Phong Railway and full tuition exemption for all preschool children (ages 3–5) through 12th-grade students nationwide (previously, only primary school students and students in special circumstances were fully exempt).

The strong 1H25 outturn and broader domestic demand resilience has led us to revise higher our 2025 GDP growth forecast to 6.3% YoY from 5.5%. This nonetheless implies slower growth of 5.0% in 2H25. For 2026, assuming tariffs on exports to the US remain in place, we expect growth to be slower at 5.5% YoY.

The case for outright easing in the near-term from the SBV is reduced considering more contained growth risks than we had previously anticipated and continued depreciation pressures on the currency (VND). We therefore push out our call for a cumulative 50bps in rate cuts from SBV to 2026 from 2H25.

Indonesia: No respite on reciprocal tariffs

The reciprocal tariff rate remained unchanged at 32% and this is disappointing given the negotiation efforts by officials. The negotiations with the US centred on raising imports from the US, near-zero import tariffs for more than 1,700 goods, more relaxed local content requirements, and purchases of military equipment. The government's proposals were quite comprehensive, in our view, leaving Indonesian authorities with limited wiggle room to further negotiate down the tariff rate.

Negotiations	
Increase imports from the US	Increase strategic imports from the US by up to USD19bn, including USD10bn of energy products. Increase in imports of machinery and agricultural commodities. The government will make appropriate adjustments to selected US imports. Near-zero tariffs on over 1,700 commodities, covering close to 70% of US imports, and committed to purchasing USD500mn worth of US wheat.
Non-tariff measures	There are plans to review various non-tariff measures and potentially relax the local content requirement (TKDN) for US products, particularly in the ICT sector. Additionally, broader deregulation efforts may be pursued. Ease import restrictions on 10 groups of goods, including plastics, chemicals, fertilizers, and forestry products, to reduce bureaucratic hurdles and improve business certainty. These measures are expected to take effect in August or September. The new policy removes licensing requirements and overlapping rules.
Increase investments into US	Indorama has made a USD2bn investment commitment in a blue ammonia project in Louisiana, USA.
Others	Efforts will continue to improve administrative processes and efficiency, including taxation, customs procedures, and licensing processes. In July 2025, the government offered investment opportunities in its critical mineral sectors, including copper, nickel, and bauxite, as reported by Reuters.

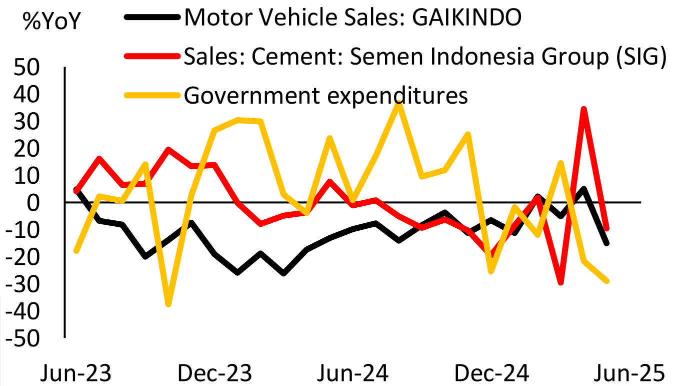
Source: Jakarta Post, Jakarta Globe, Bloomberg, Reuters, OCBC.

Exports to the US accounted for ~10% of total exports in 2024, lower than shares to other major trading partners such as Mainland China (24%) and ASEAN (20%). Our 2025 GDP growth remains 4.7% YoY, which implies slower growth from 2Q25-4Q25. This accounts from a modest drag of 0.1pp on GDP growth from higher tariffs for the remainder of 2025, assuming these rates are effective on 1 August.

Our tracking estimate for 2Q25 GDP growth based on available activity data for April and May is 4.8% YoY. The activity data has been mixed, erring on the weaker side. Although cement sales growth improved to 5.5% YoY in April/May from -12.6% in 1Q25, motor vehicle sales were weaker at -6.9% YoY compared to -4.7% in 1Q25. Government spending was sharply lower at -27.8% YoY in April/May from 1.4% in 1Q25. Higher import growth of 12.4% YoY in April/May (1.5% in 1Q25) with only modestly better export growth of 7.8% (6.9% in 1Q25) suggests that the contribution of net exports to GDP growth could be lower than 0.8percentage points (pp) in 1Q25.

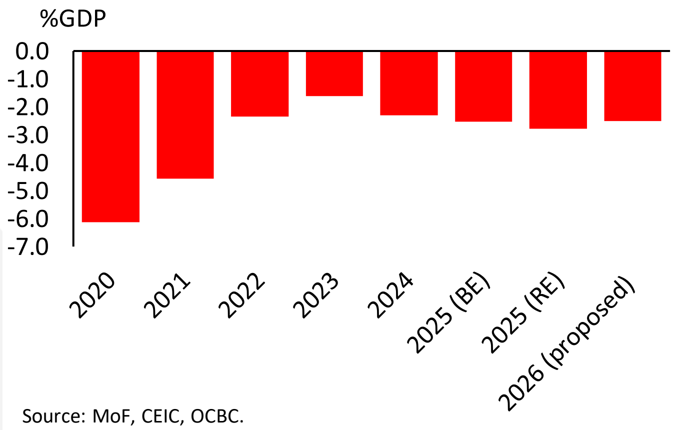
The perceived policy uncertainties that weighed on sentiment in 1Q25 have abated somewhat in 2Q25 following clarifications on the structure of Danatara, continued stewardship of the finance ministry under Sri Mulyani and well-timed rate cuts from BI. That said, fiscal worries are not completely erased. The finance minister did confirm that there will fiscal slippage in 2025, with the budget deficit widening to 2.8% of GDP from 2.5% of GDP, however, the financing of this additional deficit will likely be through excess budget funds of IDR85.6bn[2]. Revenues collections remain under pressure from slower economic growth and weaker commodity prices more than offsetting lower disbursements including for the free meal scheme (IDR5trn out of IDR171trn, as of June 2025).

Activity data



Source: CEIC; OCBC.

Fiscal balance



Source: MoF, CEIC, OCBC.

[2] Sri Mulyani Suggests Allocating IDR 85.6 Trillion from SAL to Offset Budget Deficit, *Metrotvnews*, 2 July 2025, last accessed 8 July 2025.

We expect BI to deliver another 25bp rate cut in 2H25, taking the policy rate to 5.25%. The timing of the rate cut will depend on IDR stability. A 25bp rate cut at the 16 July meeting cannot be ruled out should IDR depreciation pressures remain in check in the run-up to the meeting. The risk is for deeper rate cuts in 2H25 as BI has the policy room to be more aggressive in terms of rate cuts but the external conditions need to be conducive.

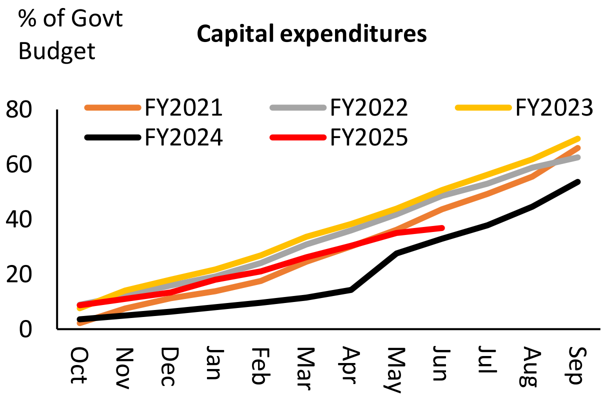
Thailand: Domestic and external headwinds bite

Similar to Indonesia, Thailand's reciprocal tariff rate was unchanged at 36%. As an open economy, Thailand is exposed to a sharper slowdown in growth from higher trade barriers particularly to a key trading partner like the US. Indeed, the minister of finance described the tariff rate as somewhat "shocking" while clarifying that Thailand's revised trade offer has not yet been considered by the US. However, if Indonesia and Malaysia (more below) are anything to go by, negotiation outcomes far more guarantee lower tariff rates.

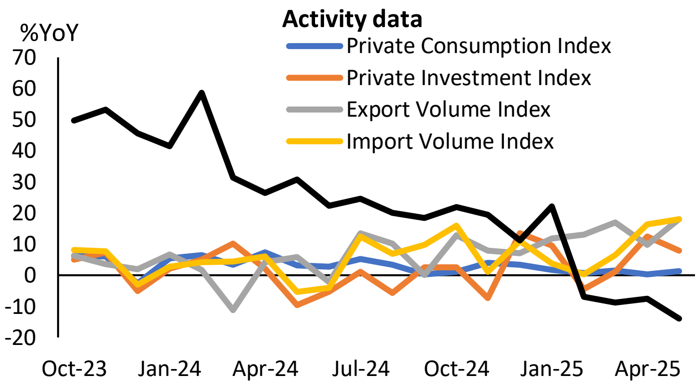
The authorities also stake a claim in the slower progress on tariff negotiations with the US. A delayed start to formal negotiations compared to regional peers, exacerbated by domestic uncertainties arising from politics mainly driven by the fallout from cross-border tensions with Cambodia, the withdrawal of the Bhumijaithai party from the majority coalition and the temporary suspension of Paetongtarn Shinawatra as the prime minister have weighed on negotiation prospects.

We lower our 2025 GDP growth to 1.8% from 2.0% as domestic policy uncertainties have also cast a long shadow on growth for this year along with tariff pressures. Domestic demand conditions have been anaemic in 1H25 judging by the private consumption and investment indices, as well as slower tourist arrivals particularly from China. The execution of the FY25 (i.e., October 2024 until September 2025) budget was also weak, with the capital expenditures disbursement rate at 36.8% of the annual budget as of June 2025. The passage of Budget FY26 (i.e., starting October 2025 through to September 2026) due in July/August will be litmus test for the current administration's political standing.

We revise our baseline forecast for BoT to lower its policy rate by another 50bps in 2H25 from 25bp previous. This follows a cumulative 50bp cut in 1H25. BoT has remained dovish while signalling that the room for policy rate reductions is limited. However, a collision of external and domestic headwinds leaves room for BoT to be more forthcoming with rate cuts.



Source: Budget Bureau, Ministry of Finance, CEIC, OCBC.



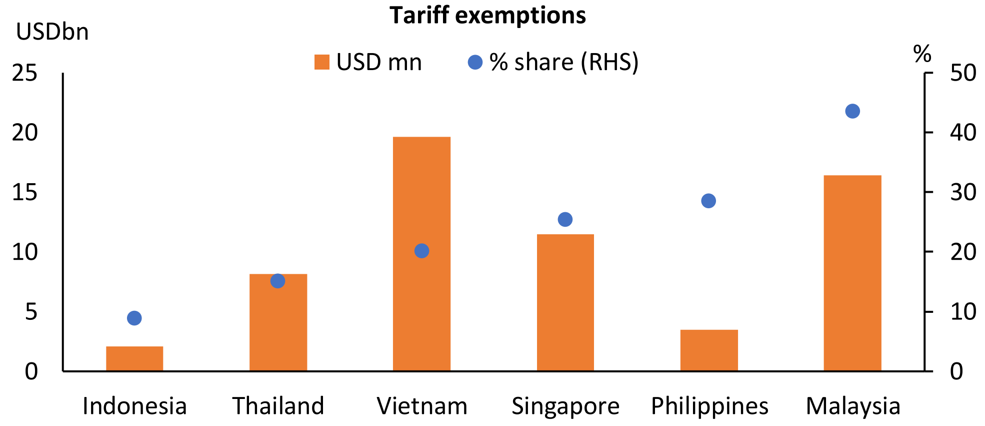
Source: CEIC; OCBC.

Malaysia: Rock and a hard place

Malaysia's unique hit of higher tariffs of 25% from 24% is unexpected. While the official letter from the US is clear that this is not the end of the road for negotiations, the offerings from the Malaysian side could become more constrained.

The Minister of Investment, Trade and Industry (MITI) Tengku Zafrul Aziz noted in early May that the US had made four demands from Malaysia covering non-tariff barriers, the trade deficit, safeguarding US technology and investing in American industries. Effective 6 May, the authorities issued a new regulation whereby MITI will be sole issuer of Non-Preferential Certificated of Origin for exports to the US. We expect the hit to growth from higher across-the-board reciprocal tariffs to be painful for growth. We lower our 2025 GDP growth forecast to 3.9% YoY from 4.3% and to 3.8% from 4.3% for 2026. Specifically, for 2H25, this implies a sharper deceleration in GDP growth to 3.6% YoY from 4.3% in 1H25.

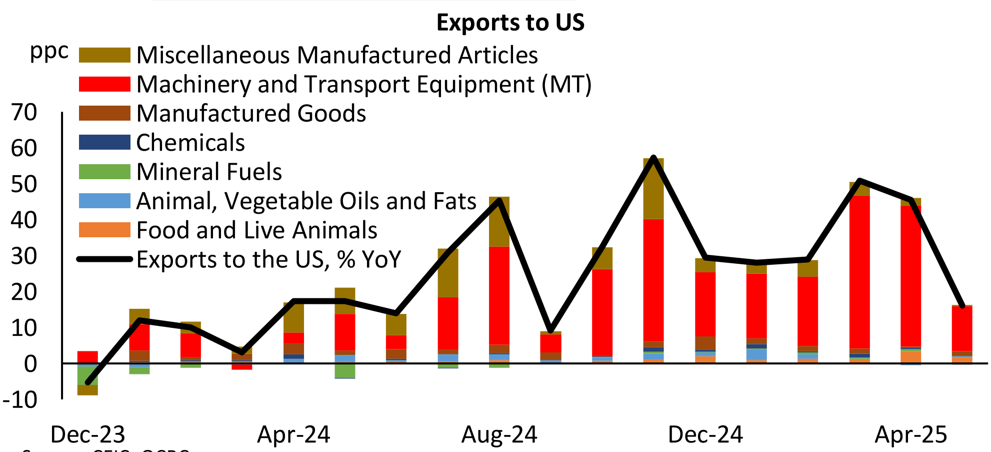
The hit to growth is more significant for Malaysia compared to regional peers primarily because we assume that exemptions that held following the 2 April announcements for semiconductors are longer applicable. This applies to 43.6% of exports to the US by our estimates; Bank Negara Malaysia's estimates are at 32%. Notwithstanding, all exports to the US, which are primarily electronics and electrical appliances, are now exposed to tariff risks. The US is also one of Malaysia's largest trading partners, accounting for 13.2% of total export share in 2024, exacerbating the downside risks to growth. Moreover, as an open economy reliant on export growth, the drag from exports will weigh on domestic demand particularly investment spending and household consumption.



Note: This is calculated using the latest available UN Comtrade data for each country (2024: MY, PH, TH; 2023: ID, VN, SG) at HS6 digits. Source: UNComtrade; White House; OCBC.

That said, the drag from growth will unlikely lead to negative growth prints as growth momentum remains supported by strong domestic policy direction. Sustained efforts to bolster investment spending through infrastructure development as well as schemes such as GEAR-uP remain supportive of investment spending, while initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ) provide opportunities for better spatial distribution of growth across the country. The continued focus on fiscal reforms, albeit delayed from original timelines, also speaks to the authorities' commitment to create fiscal space to better support economic growth.

In addition, the authorities have made a concerted effort to broaden and diversify trading and investment partners via BRICS and GCC alliances. The government also concluded its negotiation on an economic partnership agreement with the EFTA States – Iceland, Liechtenstein, Norway and Switzerland – on 11 April 2025, and announced the resumption of talks with the EU on a free trade agreement. Although these relationships and agreements will take time to solidify, it does open up newer markets for Malaysia's exports over the medium-term.



Source: CEIC; OCBC.

In terms of monetary policy implications, we expect BNM to lower its policy rate by a cumulative 50bps in 2H25. We expect the first rate of 25bps at the 9 July meeting. While this is a close call, our view is that the clear downside risks to growth will allow BNM to pull the trigger on rate cuts.

Moreover, inflationary pressures remain well contained with headline inflation easing to 1.2% YoY in May from 1.4% in April. Our estimates suggest that even if RON95 rationalisation were to materialize in October 2025, with higher prices of 20-25%, it would add 0.5pp to headline inflation, which is currently tracking 1.5% for 2025. The price adjustment would lift headline inflation to 2.0% for 2025 and as such, remain benign enough for BNM's stance to be growth supportive.

What next?

There is wiggle room for tariff reductions and official efforts will likely continue through July. It remains to be seen what comes off these efforts. According to President Trump, the US remains open to negotiations and as stated in the letters to the respective countries there will be no tariff on the economy "if…companies within your country, decide to build or manufacture product within the United States, and, in fact, we will do everything possible to get approvals quickly, professionally, and routinely – In other words, in a matter of weeks."

The upshot for the authorities of ASEAN economies faced with higher tariffs is that they will need to brace for the impact of higher tariffs in the near-term while continuing to build economic resilience through reforms and trade partner diversification over the medium-term. For regional central banks, notwithstanding sharp fluctuations in the currency, the room for further easing is clear.

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