ASEAN

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Assessing the impact of potential tariffs[1]

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- The US elections on 5 November 2024 is set for a nailing biting finish. This has raised investor anxiety around the prospects of additional tariffs under second potential Trump presidency.
- In this piece, we outline three scenarios for tariff implementation and look at their impact on GDP growth.
- We estimate that ASEAN-6 GDP growth could fall by 0.1 percentage points (pp) to 1.3pp depending on the scenario.

The US elections on 5 November 2024 is set for a nailing biting finish. Neither Donald Trump nor Kamala Harris have held onto leads in the polls in a convincing or sustained manner. This has raised investor anxiety around the prospects of additional tariffs under a second potential Trump presidency.

The ASEAN-6 region, i.e., Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, have significantly benefited from the 'China +1' strategies adopted following the imposition of tariffs in 2018, during the previous Trump presidency. This makes these economies targets should Donald Trump follow through on his election promises of higher tariffs on all US trading partners. Specifically, former President Trump has said that he will consider a blanket tariff of 10-20% on almost all imports into the US, with tariffs of 60% on Chinese imports.

Scenario analysis

Below we describe three potential scenarios for tariffs imposition. Our note here is that is meant to be an illustrative exercise to provide some impacts on regional GDP growth. Our approach is simplistic and assumes a one-time shock.

Under scenario 1, we assume a 60% tariff is imposed on China's exports to the US. Under scenarios 2 and 3, tariffs are imposed on all trading partners including ASEAN along with 60% tariffs on China's exports to the US. Under scenario 2, we assume a tariff of 10% is imposed on all US trading partners including the ASEAN countries along with a tariff of 60% on China's exports to the US. Under scenario 3, a 20% tariff is imposed on US trading partners, along with a tariff of 60% on China's exports to the USA.

As mentioned above, we use a simplistic approach limited to the trade channels to determine the impact of the tariff shock on regional GDP growth.

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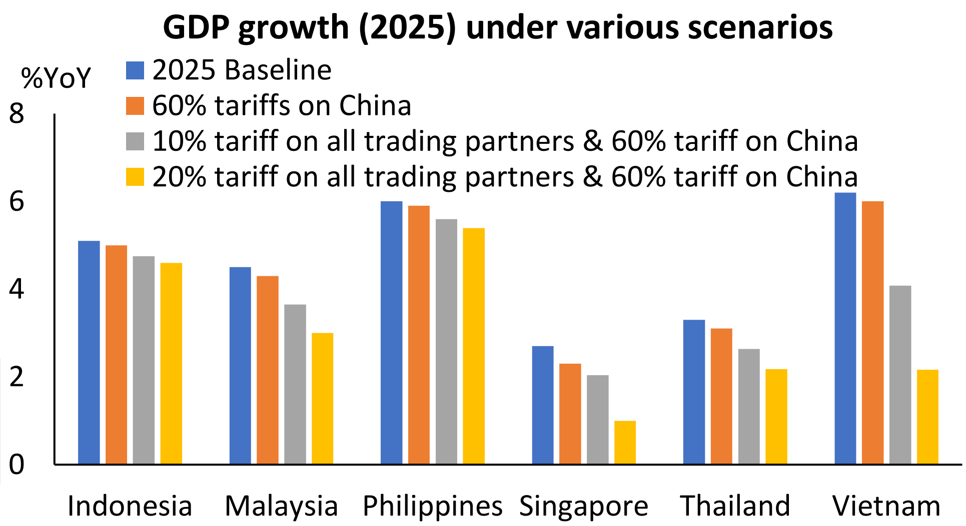
[1] In this piece, our references to China are specifically to Mainland China.

We also assume it is a one-time shock and look to examine the impact only for the year of implementation, which we assume to be 2025.
Our approach assumes a complete pass-through of the tariff shock onto import prices. We then estimate changes in import volumes changes based on trade elasticities calculated by a World Bank Policy Research Working Paper called *Trade Elasticities in Aggregate Models, Estimates for 191 Countries*[2]. The changes in imports are measured as a percentage of GDP and this is the decline we assume for GDP growth.

For the shock from China growth, we overlay estimates from the IMF's study on *Spillovers from China's Growth Slowdown to the Singapore Economy.* This study estimates that a 1pp decline in Chinese domestic growth will result in a cumulative decline of about 1pp of trend growth on average in ASEAN countries after five years, which is equivalent to about 0.2 percentage points per year. The study further notes that "accounting for the particularly large exposure of Singapore to Chinese final demand (relative to other ASEAN countries)" the cumulative decline in Singapore's output could be as high as 2.1 percentage points over five years. We assume the impact per annum is 0.4pp.

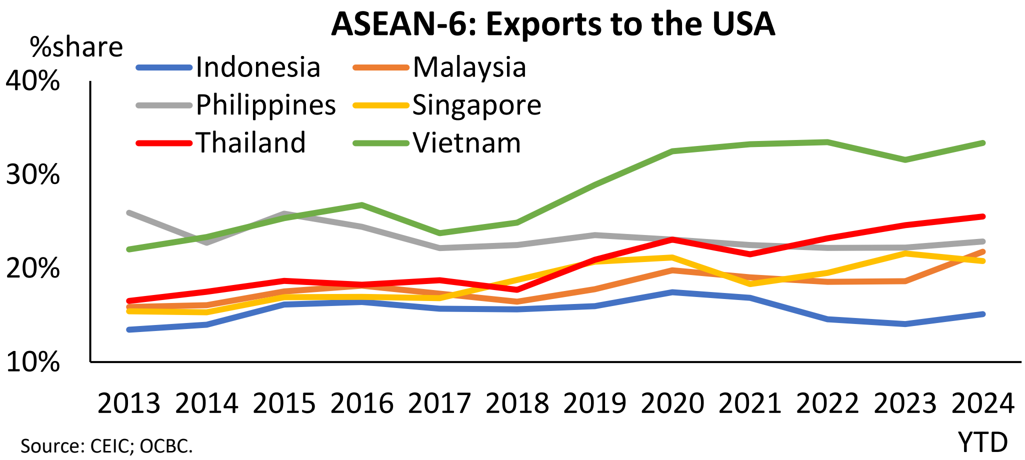
In terms of timing, we assume that the tariffs will be implemented and made effective in January 2025, almost immediately after the new President takes office, assuming Donald Trump wins. Our house view is that if 60% tariffs are implemented on China's exports to the US, China's GDP growth could fall by 1.0pp. This is scenario 1. Under these circumstances, GDP growth for the ASEAN-6 region could be relatively unimpacted. In fact, these economies could continue to benefit over the medium-term. However, under scenarios 2 and 3, we expect ASEAN-6 GDP growth to be lower by 0.7pp and 1.3pp, respectively, relative to our baseline.



Source: CEIC; UNComtrade; OCBC.

[2] World Bank Group, Policy Research Working Paper 10490, *Trade Elasticities in Aggregate Models*, Estimates for 191 Countries. Shantayanan Devarajan, Delfin S. Go, and Sherman Robinson, June 2023.

While total trade (exports and imports) exposure to the US is not as high as China for any of the ASEAN-6 economies, the picture becomes more nuanced looking at the breakdown of exports and imports. For almost every country in the region, with the exception of Indonesia, exports to the US (as a share of total exports) have increased over the past five years. The uptrend has become more pronounced since the pandemic.



Source: CEIC; OCBC.

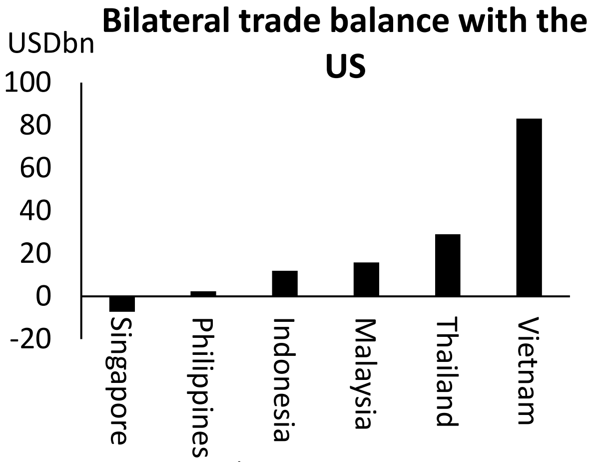
Vietnam

Vietnam will, in our view, be the most sensitive in the ASEAN-6 region to higher tariffs from the US. Vietnam's exports to the US were 27% of total exports in 2023, edging higher to 29% year-to-August 2024. Even in USD terms, Vietnam's exports earnings from the US were the highest in 2023 at USD97.0bn, more than double of Singapore's export earnings and nearly 8.5 times the earnings from Philippines exports to the US.

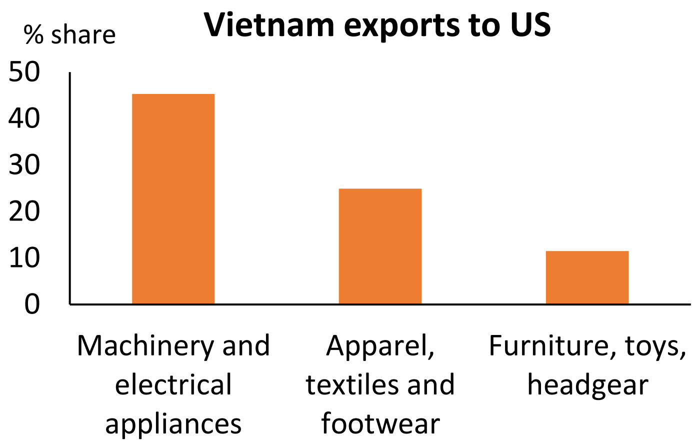
Indeed, Vietnam's bilateral trade surplus with the US was the highest in the region in 2023. These large trade surpluses are also responsible for Vietnam featuring on the US Treasury's report to Congress on the '*Macroeconomic and foreign exchange policies of major trading partners of the United States*'. In terms of products, 45.3% of Vietnam's exports to the US were machinery and electrical equipment (2022) and 36.4% of total exports were textiles, apparel, footwear, furniture and toys[3].

As one of the biggest beneficiaries of the 'China +1' policies, we expect Vietnam's GDP growth will be relatively insulated under scenario 1, where tariffs increases are limited to China, with GDP growth staying close to 6.0% in 2025 (baseline: 6.2%). Over the medium-term, Vietnam will continue to benefit from supply chain diversification. However, under scenarios 2 and 3, we expect GDP growth to be lower by 2.1pp and 4.0pp relative to our baseline. This would put GDP growth on par with rates last seen during the pandemic.

[3]We classify these as largely labour-intensive sectors in our categorisation, used for the other countries.



Source: UNComtrade; OCBC.



Source: UNComtrade; OCBC.

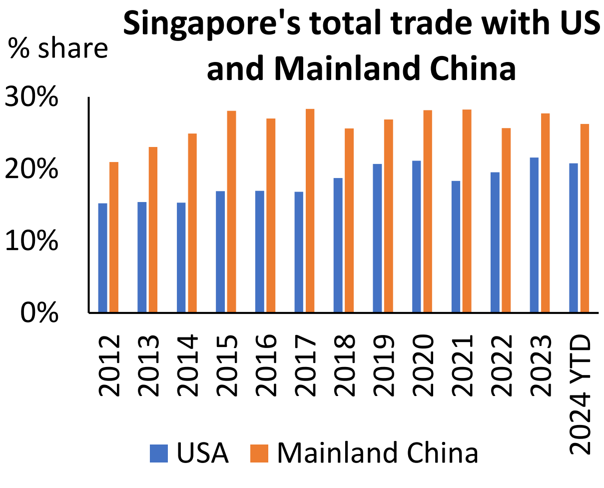
Singapore

Singapore's share of total exports to the US is amongst the lowest in the region and its exports to the US mainly constituted machinery, electrical equipment and optical apparatus. These accounted for ~63% of total exports to the US in 2023. However, Singapore's relatively high trade elasticity[4], according to the World Bank study we use, and exposure to China leaves it vulnerable to sharp growth slowdowns under scenarios 2 and 3. That said, Singapore's import elasticities could be over-estimated, particularly if 10-20% tariffs are imposed on all other global economies.

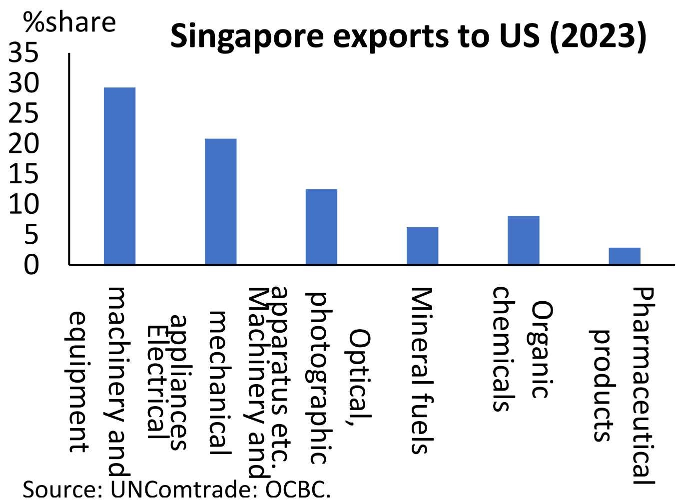
Singapore, however, has a bilateral Free Trade Agreement (FTA) with the US. An imposition of tariffs by US on Singapore would likely require an amendment of the US-SG FTA. Article 21.8 of the FTA cites that the agreement "*may be amended by agreement in writing by the Parties such amendment shall enter into force after the Parties have exchanged written notification certifying that they have completed necessary internal legal procedures and on such date or dates as may be agreed between them*." There remains a high degree on ambiguity on whether the FTA can be amended, and if so, what will be the timing and nature of the amendments.

With these caveats in mind, we note that for Singapore scenario 1 could be the most likely outcome. Relative to our baseline of 2.7%, under scenario 1, where 60% tariffs are imposed on China's exports to the US, we expect the impact on Singapore GDP growth to be limited to 0.4pp lower than our baseline, in line with IMF's estimates. Under scenarios 2 & 3, we estimate GDP growth could slow to 2% YoY and 1%, respectively.

[4] The paper we refer to estimates Singapore's trade elasticity to be 1.070, higher than Malaysia (0.736), Vietnam (0.849), Indonesia (0.889), Philippines (0.783) and Thailand (0.490).

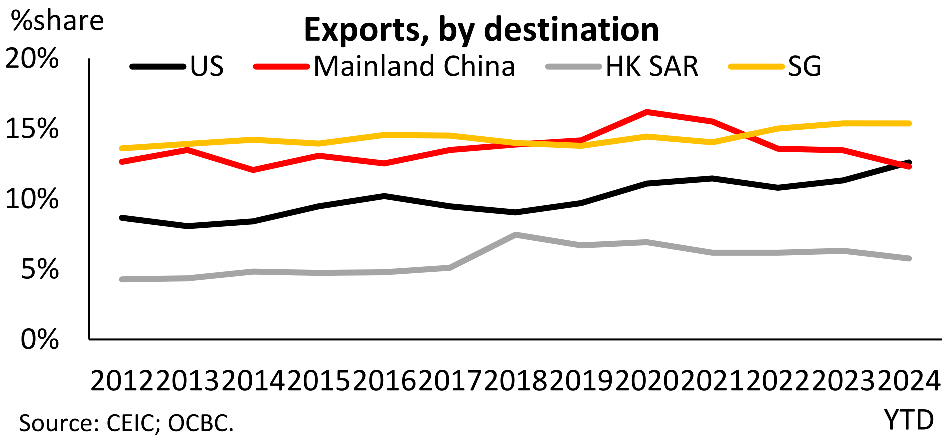


Source: CEIC; OCBC.



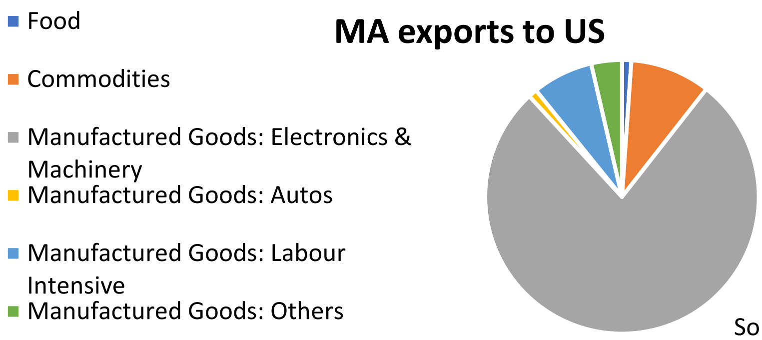
Source: UNComtrade; OCBC.

Malaysia
Malaysia's share of exports to US were higher than Mainland China's from January to August 2024. This suggests rising sensitivities to potential tariffs from the US. Malaysia's exports to the USA, however, seem quite narrow-based and mainly concentrated in the electronics and machinery sectors, which accounted for ~77% of total exports to the US (Jan-Aug 2024). Commodities exports accounted for ~8% of total exports while labour intensive exports accounted for 7.5% of total exports to the US.



Source: CEIC; OCBC.

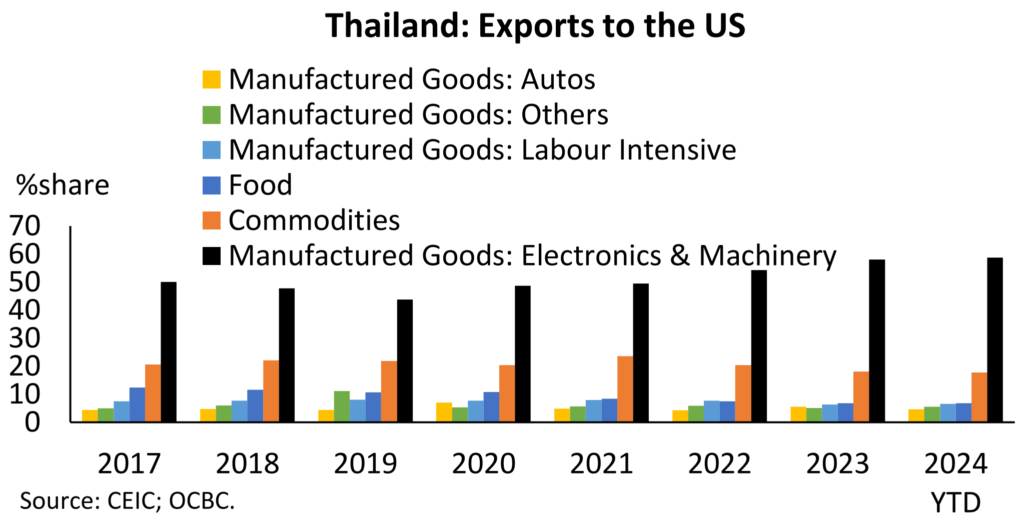
While we have argued that Malaysia's has a well-diversified export base in terms of trading partners and products, tariffs could shave off up to 0.9pp off our baseline under scenario 2 and as much as 1.5pp under scenario 3. We expect Malaysia's growth to only be modestly impacted by 0.2pp under scenario 1. Higher tariffs on China alone will impact Malaysia via slower demand from China but there is a clear offset in terms of rising investments and further acceleration of 'China +1' policies.



Source: CEIC, OCBC.

Thailand

For Thailand, we estimate that GDP growth could lower by 0.7pp in 2025 under scenario 2 and 1.1pp lower under scenario 3. Under scenario 1, we expect GDP growth to be 0.2pp lower than our baseline. In terms of products, ~59% of Thai exports to the US were electronics and machinery in 2024 (January-August) followed by 17.2% of commodities and commodities-related exports including rubber, articles of iron & steel, precious metals and 7.2% of labour-intensive sectors.

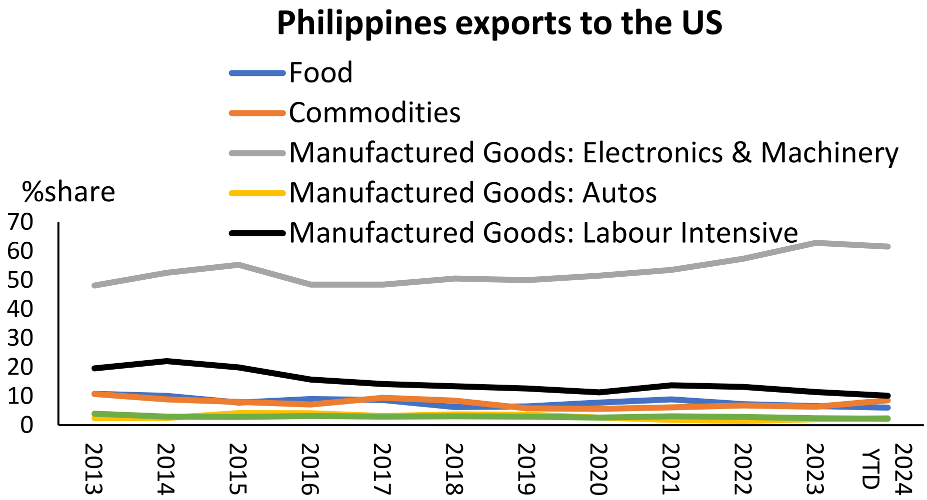


Source: CEIC; OCBC.

The Philippines

The largest export market for the Philippines remains the US, accounting for 16% of total exports, while Mainland China accounts for about 14%. We estimate that tariffs could shave off 0.4 to 0.6pp off headline GDP growth under scenarios 2 &3 while GDP growth could be 0.1pp lower under scenario 1. Indeed, the Philippines rate of growth was relatively unscathed in 2017-18 when US-China trade tensions began.

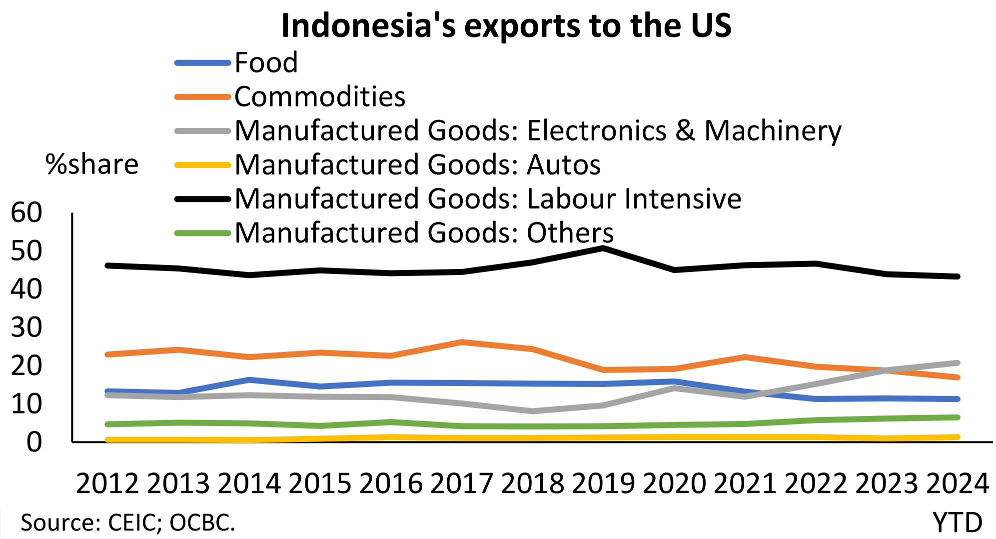
About 47% of exports to US were electronics & machinery followed by commodities, labour intensive and food exports. The Philippines and Indonesia are likely to be more insulated from regional peers under scenarios of external stress, given that growth engines are more domestic demand oriented. However, impact from weaker sentiment and heightened uncertainties could keep consumers and businesses on the sidelines.



Source: CEIC; OCBC.

Indonesia

Finally, Indonesia's exports share to the US has remained broadly unchanged at 9%-11% over the past decade to 2023. About 43% of total exports to the US from January-August 2024 were labour extensive, while about ~21% were electronics and machinery exports, followed by commodities exports including palm oil. We estimate that the impact of the tariffs under scenarios 2 & 3 could shave off 0.4-0.5pp off headline GDP growth while under scenario 1, the impact will be contained to 0.1pp.



Source: CEIC; OCBC.

The above analysis looks mainly at the growth implications from the trade channel for the ASEAN economies. Below we look at the inflationary and policy implications.

Less clear outcomes for inflationary pressures

The consequence of broad-based tariffs, apart from lower growth, could be a build-up in inflationary pressures. These are likely to be associated with higher costs of trade exacerbated by a potential lack of domestic alternatives. Furthermore, financial market volatility and concomitant depreciation pressures on EM Asia currencies (versus USD) could further add to imported inflation pressures.

However, the offset is that global commodity prices are likely to fall especially if growth in China tumbles as under all three of our scenarios. Moreover, with GDP growth likely to slow on account of slower trade prospects, core inflation pressures could become more contained. To that end, we would say the impact on headline and core inflation under these scenarios is quite mixed and depends on the interplay for numerous external factors.

Scope for counter-cyclical policies

The role of counter-cyclical policies also cannot be negated under the above scenarios considering the extent of growth stresses. Indonesia, and to a lesser extent, Vietnam, Thailand and Singapore have some room to expand fiscal deficits to support growth. The fiscal room to manoeuvre is considerably more limited for Malaysia and the Philippines, where fiscal deficits remain larger than pre-pandemic levels.

Monetary policy will continue to remain accommodative in the Philippines, Indonesia and Thailand. There is room for the central banks to deliver a deeper rate cutting cycle than pencilled into our baseline. However, for Bank Indonesia (BI), the balancing of IDR stability and growth priorities could become harder, particularly if a risk-on scenario persists and sentiment declines. Similarly, the State Bank of Vietnam (SBV) will likely face external volatility challenges but will make room for rate cuts to support growth given the extent of the growth shock under the various scenarios.

APPENDIX: Trade categorisation & Trade elasticities

Country	OCBC classification	HS Code
Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam	Food	1 to 14; 16 to 21
	Commodities	15; 25 to 27; 40; 68; 71 to 83
	Manufactured Goods: Electronics & Machinery	84 to 85; 90
	Manufactured Goods: Autos	86 to 89
	Manufactured Goods: Labour Intensive	41 to 67; 69 to 70; 91 to 92; 94 to 95
	Manufactured Goods: Others	22 to 24; 28 to 39; 93; 96 to 97

Country	Trade elasticities
Indonesia	0.889
Malaysia	0.736
Singapore	1.070
Thailand	0.490
Philippines	0.783
Vietnam	0.849

Source: World Bank Group, Policy Research Working Paper 10490, *Trade Elasticities in Aggregate Models*, Estimates for 191 Countries. Shantayanan Devarajan, Delfin S. Go, and Sherman Robinson, June 2023; OCBC.

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