The global investment banking advisor for Asia

Tsunami warning: how will Trump's trade policy impact Asia in 2025?

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I. Tariffs and tensions ahead

President Donald Trump will be inaugurated for a second time on 20th January 2025. His trade policies, if enforced, will upend the post-WWII global trading system. Global multinationals and exporters worldwide will face a significantly more difficult business environment.

This may understate the coming change. Trump's new administration will challenge the global consensus and the accepted wisdoms of modern economics.

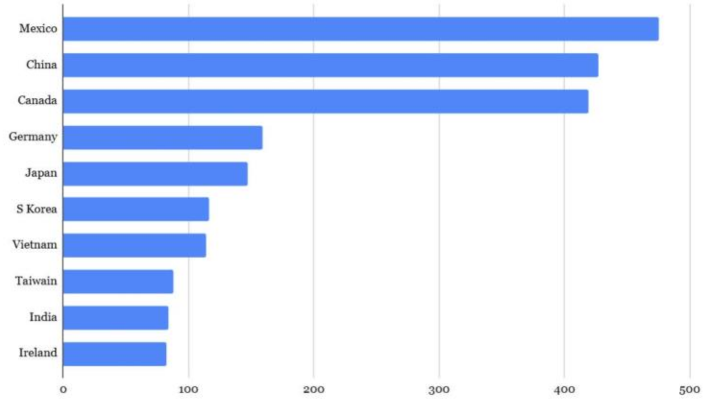
In the short term, companies and investors must prepare for tariffs, strained alliances, and impulsive, unilateral policymaking that will be aggressive even compared to Trump's previous term. Relocating to **Vietnam, India, or Mexico** to cut costs and sidestep the **US-China geopolitical rivalry** will no longer shield global companies from uncertainty or further costs.

Significant tariffs on imports from outside the US may make Trump's first-term trade wars seem trivial. According to his (consistently inconsistent) campaign statements, he may impose 60%-100% tariffs on goods from China and 10%-20% on everything else, no matter where these goods are made.

The looming disruption to international trade threatens to unravel the 20th and 21st-century norms established under the General Agreement on Tariffs and Trade (GATT) and later extended by the World Trade Organization (WTO). Whether this results in creative destruction to create a more fair-trade regime or just chaos remains unclear.

Howard Lutnick, co-head of Trump's transition team and Commerce Secretary designate, argued in the lead-up to the election that, for Trump, raising tariffs is mainly "just a negotiating tactic." Setting higher import rates on goods that are strategic to US interests or that are made domestically makes sense, he argues, but not automatically on goods made only abroad.

US imports by place of origin in 2023, US$ billions



Source: International Trade Administration

II. Shifting trade winds in Asia

The impact of President Trump's trade policy on Asia in 2025 could be influenced by outcomes from previous years. Here are a few potential scenarios:

- **More tariffs:** If Trump's policies remain or are reinstated, high tariffs, especially on **Chinese** goods, will likely continue to affect trade flows. This could lead to elevated prices for consumers and production costs for manufacturers reliant on imported materials.
- **Reshaping supply chains:** Companies might have to permanently shift their supply chains away from China, opting for countries like **Vietnam, India, or Indonesia.** This shift could foster economic growth in these regions while continuing to diminish China's manufacturing dominance.
- **Strengthened regional trade agreements:** With the US potentially maintaining a more isolationist trade stance, Asian nations may deepen their economic ties through regional agreements like the Regional Comprehensive Economic Partnership(RCEP). This could lead to increased intra-Asia trade and market integration, reducing dependency on US markets.
- **Adaptation by Asian economies:** Asian economies may adapt by diversifying their export markets and developing new partnerships, increasing resilience against external trade pressures. Innovations in sectors like technology and green energy could also gain momentum.
- **Geopolitics to the fore:** The ongoing trade tensions between the US and China could exacerbate geopolitical divides, with countries in Asia balancing their relationships with both powers. Some might align more closely with China economically, while others may seek to strengthen ties with the US for security and trade purposes.
- **Foreign direct investment (FDI):** Foreign direct investment patterns will continue to evolve. Countries perceived as lower-risk alternatives to China may see increased investment, affecting local economies and industries.
- **Economic growth variability:** The impacts on economic growth in Asia could become more heterogeneous, with some countries benefiting from realigned trade flows, while others continue to face challenges due to reduced access to US markets.

Overall, the landscape in 2025 will reflect the dynamic interplay of these factors, shaped by policy and global economic conditions. The medium-term effects of evolving trade policy will result in a more complex and interconnected economic environment across Asia.

Trump's comeback has sparked considerable unease across global governments, including Washington's allies and rivals across Asia. During his first term in office, from 2017 to 2021, unpredictability was a hallmark of Trump's foreign policy. He tried to facilitate dialogue between North and South Korea, but simultaneously escalated US-China tensions and withdrew from regional agreements like the Trans-Pacific Partnership. However, since he left office in early 2021, the world has undergone profound changes. The COVID pandemic reshaped societies and reconfirmed economic security as the top priority on national agendas.

Simultaneous conflicts in Ukraine and the Middle East have dominated international affairs. This landscape, coupled with shifting power dynamics among global actors, creates numerous challenges for Trump and his team.

III. Uncertainty abounds, all round Asia

- **A tough line on Beijing**: Trump's stance on China may appear straightforward, but it is more complex than it seems. On one hand, he has vowed to take a tougher stance than Biden, proposing to increase **tariffs on Chinese imports to 60%-100%.** His refrain that China is a severe threat has proven popular with his base, and he is likely to double down on this narrative. However, Trump's inner circle includes business figures, notably **Elon Musk**, who have significant investments in China and could influence the President-elect's policy stances toward Beijing.

- **Tentative steps in Korea and Japan**: Washington's allies in East Asia are also approaching Trump's return with caution. During his first term, **Japan was led by Shinzo Abe**, who cultivated a close personal relationship with Trump. This relationship encouraged Trump to adopt the Indo-Pacific strategy promoted by Japan, making the region a key focus. Today, however, Japan's political landscape is less stable, making it harder to replicate such close ties. Nonetheless, Japan is one of the few US allies whose increasing defense spending aligns with Trump's preferences. In South Korea, **President Yoon Suk Yeol** faces a delicate situation. There are concerns in Seoul that Trump might revive his personal rapport with North Korean leader Kim Jong Un, potentially sidelining Seoul's interests, while demanding an increased burden-sharing commitment for its security.

- **A storm is brewing in the South China Sea**: This remains a major flashpoint for escalating tensions between Washington and Beijing. On the Taiwan front, Trump's stance has oscillated between open hostility toward Beijing and support for Taiwan's government, while also suggesting that **Taipei should bear a greater share of the costs** for US military protection. Trump has criticized Taiwan's role in the global semiconductor manufacturing sector, implying that they have taken advantage of the US economy. Taiwanese President Lai Ching-te has already begun efforts to strengthen ties with the incoming administration, but it remains unclear how Trump will respond to future Chinese provocations. Similarly concerned are Southeast Asian countries like the **Philippines**, which oppose Chinese encroachment in the South China Sea and fear a reduction in US military engagement under Trump, leaving them more vulnerable to Beijing's regional ambitions.

- **Modi is hoping to capitalize on Trump's second term**: Indian PM Narendra Modi sees Trump's return as an **opportunity to advance India's interests**. With Trump's tough stance on China, Modi hopes to deepen defense and economic ties with Washington, leveraging this renewed partnership to counterbalance Beijing's growing influence in the Indo-Pacific. India is keen to enhance its strategic partnership with the US in technology, infrastructure, and defense procurement.

Washington's partners in Asia are aware that Trump's comeback to the White House may result in **reduced US support.** The new administration is expected to adopt a **harder line toward China**, while becoming less engaged militarily in the Indo-Pacific, also favoring bilateral deals at the expense of multilateral economic platforms like the **Indo-Pacific Economic Framework** (IPEF). Conversely, Biden's administration had focused largely on strengthening ties with a network of Asian partners, viewing these relations as an effective counterbalance to China's influence. This shift in priorities will force Asian allies to adjust to a new, **more transactional era of US foreign policy**. While the US will likely remain involved in the region, its approach will shift toward economic containment through bilateral agreements and putting less emphasis on military deployments in the Indo-Pacific.

IV. Finance across Asia

In the eyes of asset managers, the proposed 10% tariff on European products is likely manageable, but the 60%+ tariff on **Chinese** products could be deeply disruptive. Trump's victory could lead to greater **stimulus and policy responses** from the Chinese government to address the country's economic challenges.

India is less exposed than other emerging markets to the impact of Trump's policies, so it could adopt a defensive stance in the short term. The electoral aftermath continues following **Trump's** victory and the Republicans' success in the elections.

US presidents traditionally exert significant discretion over trade policy. However, during his campaign, **Trump** proposed reciprocal tariffs on US imports, equivalent to the tariffs other countries impose on US exports. Specifically, he proposed a universal basic tariff **of 10%-20% on all US imports and a 60%-100% tariff on imports from China** Additionally, he suggested applying a 25% tariff on goods coming from Mexico and Canada.

T. Rowe Price believes that the tariff increase is likely to be part of the budget debate. "Putting aside the specific figures, these statements indicate that Trump is likely to take an aggressive stance on trade policy that would extend beyond China. This approach could set the stage for obtaining concessions from other countries, whether on trade or to advance other political objectives, such as pressuring European allies to increase defense spending. However, unilateral tariff actions would likely provoke retaliation from affected countries," said Gil Fortgang, as quoted in an article by Funds Society.

"A Trump administration will likely be negative for emerging market equities. The possible widespread tariff enforcement on imports to the US, with a particularly significant increase in **tariffs on China,** is the most notable risk for emerging markets. Tariffs would likely cause weakness in the currencies of exposed countries, especially due to the potential depreciation of the renminbi. Moreover, the imposition of high tariffs could trigger a more significant political response from China to defend its growth," added Tom Wilson at Schroders, as stated in an article by Funds Society.

Federated Hermes says that the proposed new tariffs on **China** are likely to be a negotiating position from Trump, who hopes to moderate the US trade deficit. "Given China's significant under-consumption compared to global standards, we believe an agreement is possible. Domestic demand could absorb a much larger portion of China's productive capacity than currently, so the terms of the agreement could include rebalancing China's economy toward consumption and some restructuring of the supply side. This may not be bad for **China** in the long run."

Allianz GI argues that, if meaningful tariffs on imports are approved, they will trigger retaliation from other countries, increasing the risk of a trade war that could lead the US into a recession. "We foresee an increase in the relocation of companies to diversify their **supply chains,** which could pressure their balances. The increase in tariffs could negatively impact European and emerging market stocks, particularly those dependent on the US market, such as luxury goods manufacturers, automobile companies, aerospace firms, and steelmakers. On the other hand, more defensive sectors, such as oil, finance, and potentially infrastructure, could benefit from this situation. In this context, active management will be crucial to identify the winners and losers."

IV. Finance across Asia (cont.)

Immediately following Trump's victory, the market reaction in emerging countries was swift. **China markets showed weakness, and India markets showed strength**, while other Asian markets sensitive to the Federal Reserve showed weakness.

Trump will clearly adopt an aggressive stance toward China, as well as Iran, stoking tensions in the Middle East. Trump will try to reach an agreement with **Putin** to end the war in **Ukraine**, which could then lower commodity prices, as **Russia** returns to the markets. Europe will be forced to increase military spending, raising its debt and limiting other productive spending. We can expect policy tensions with some European countries, which might in turn spook investors across Asia.

Of course, China is emotionally prepared for these impacts. Despite short-term negative sentiment, we do not expect Trump's second term to alter the structural growth engines of **emerging markets**. Asian countries have pivoted toward internal consumption, increasing their investment in infrastructure. The penetration of digitalization is helping drive efficiency and productivity gains. Emerging economies control significant portions of their own critical resources, and many remain leaders in technology supply chains, with no credible alternatives in developed markets. Asian emerging economies benefit from favorable demographics, providing an abundant supply of cheap labor, and avoiding the wage spiral facing developed markets.

The fundamentals across Asia's emerging markets are solid. **China is gradually signaling more significant support for its domestic economy, addressing problems in the real estate sector**. Economic vulnerability is relatively low, while structural growth engines are intact, and equity markets are not particularly overvalued at present: valuations show a significant discount compared to other developed markets. Most emerging economies have not significantly cut interest rates, and some have even started to raise them, continuing with the history of monetary prudence in these economies. Although macroeconomic factors will dominate market movements and trigger episodes of volatility, investors continue to prioritize value and growth, along with valuations that offer a margin of safety. They focus on companies with strong balance sheets that benefit from structural growth factors that can persist despite the changing US political landscape. Investors across Asia are showing stronger conviction in their thesis that technology, specifically industrials, the internet, telecom, health, online finance, and insurance, will benefit from higher rates in the long term.

V. China

The proposed **10% tariff** on European products is manageable, but a **60%-100% tariff on Chinese products would be highly disruptive**, reducing Chinese demand, triggering a massive devaluation of the yuan, and/or encouraging Chinese producers to compete more aggressively with European suppliers outside the US market. However, China still faces profound issues. The market is reacting positively to the likely increase in debt issuance by the PRC government, which should act to calm property markets.

Trump's trade war with China may pressure imports. Tariffs increase the probability of severe trade conflicts and could lead to an increase in credit spreads across emerging markets. Observers hope for a grand bargain to emerge between the US and China.

Even in the worst-case scenario, the resulting turmoil could serve as a catalyst for a fundamental reform of the Chinese economy. This offers hope to investors and market participants. Obviously, this isn't the first time US tariffs have created a potential problem; this time, Chinese companies are better prepared. Many are diversifying their production bases, setting up plants in SE Asia, Mexico, and Eastern Europe. Chinese exports have continued to grow. While they have slowed within the US, they have increased in other regions of the world, and high-value-added products continue to perform well in international markets.

China state media warns Trump against mutually destructive tariff war:

- "There are no winners in tariff wars," *China Daily* says
- Tariff threat rattles China's struggling industrial complex
- Economists have begun downgrading their GDP targets
- Economists forecast a range of eventual tariffs, from 15%-60%

China's state media warned Trump that his pledge to slap additional tariffs on Chinese goods over fentanyl flows could drag the world's top two economies into a mutually destructive tariff war.

China might retaliate by driving the yuan lower. Xi could impose a manufacturing tax that slams **Apple, Walmart**, and other top US companies. Beijing could also dump some of its US$770bn US Treasury securities. The surge in US debt yields would boomerang back on China. But Xi might calculate the US would lose more as a plunging dollar devastates the stock market, and Washington's borrowing costs soar.

Trump now says he will impose "an additional 10% tariff, above any additional tariffs" on imports from China until Beijing clamps down on trafficking of the chemical precursors used to make the deadly drug, fentanyl.

PRC Party mouthpieces, *China Daily* and *The Global Times*, are warning Trump not to make China a "scapegoat" for the US fentanyl crisis or "take China's goodwill for granted regarding anti-drug cooperation."

"The excuse the president-elect has given to justify his threat of additional tariffs on imports from China is farfetched," *China Daily* said. "There are no winners in tariff wars. If the US continues to politicize economic and trade issues by weaponizing tariffs, it will leave no party unscathed."

Economists have begun downgrading their growth targets for **China's US$19tn economy** for 2025 and 2026 in anticipation of further tariffs promised by Trump during the election campaign and are warning Americans to brace for an increase in the cost of living.

S&P Global has lowered its China forecast to 4.1% in 2025 and to 3.8% in 2026.

V. China (cont.)

Trump is now threatening Beijing with far higher tariffs than the 7.5%-25% levied on Chinese goods during his first term.

"China already has a template for dealing with the previous US tariff policy," *The Global Times* quoted Gao Lingyun, an analyst at the Chinese Academy of Social Sciences in Beijing, as saying. "Using counternarcotics issues to increase tariffs on Chinese goods is untenable and unpersuasive," Gao added.

Chinese President **Xi Jinping** told former Singapore Prime Minister **Lee Hsien Loong** that China's economy will continue to grow and develop in the long-term, after Trump's comments. Lee told Xi "no one should underestimate the Chinese people's determination for their nation to succeed and stand tall in the world," a remark which *The Global Times* said was "also meant for some people in (the) international community."

Profits at Chinese companies fell 10% year-on-year in October 2024, showing how those companies are struggling to remain profitable in an economy that is far more vulnerable to trade shocks this time around. Economists in a Reuters poll expect additional US tariffs ranging from 15% to 60%. Most agree that **Beijing** will need to inject more stimulus to boost economic growth and offset pressure on exports.

The threat is rattling China's industrial complex, which sells US$400bn of goods annually to the US, and hundreds of billions more in components for products Americans buy from elsewhere.

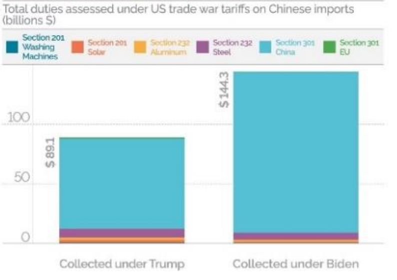
Trump's pick of trade lawyer **Jamieson Greer** as the new US trade representative elevates a veteran of his first term trade war against China and points to another bruising four years for trade negotiators. Greer served as chief of staff to Trump's former US Trade Representative **Robert Lighthizer,** the architect of Trump's original tariffs on $370bn of Chinese imports and the renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico.

The president-elect looks set to tear up that agreement on his first day in office. Trump has also pledged 25% tariffs on goods from Mexico and Canada, saying the US's neighbors are not doing enough to stop drugs and migrants crossing their borders.

China can expect to bear the brunt of Trump's efforts to bring down the US's trade deficit and bring about the "manufacturing renaissance" he promised on the campaign trail.

"What the future will bring on this front is hard to say," S&P Global's Kuijs said. "There are many uncertainties. There is still a large increase to go to get to 60%."

US-China: Has the trade war gotten worse?



Source: S&P Global

VI. India

During his first term, **Trump consistently referred to India as a "tariff king"** and criticized the country for imposing higher duties on American products. Now, as he campaigns for a second term, Trump has vowed to implement a reciprocal tax against India if re-elected. Delhi should take this threat seriously, given that the first Trump administration revoked India's Generalized System of Preferences (GSP) status in 2019, a decision that adversely affected India's export-oriented sectors, including **pharma, textiles, agriculture, and automotive components.**

India is less exposed than other emerging markets to the impact of Trump's policies, which could allow it to adopt a defensive stance in the short term. However, while the market in China now has more solid political backing, trade uncertainty persists. We remain cautious about deviating from our neutral stance on India, given the potential for greater political stimulus and supportive positioning in the country.

Notably, India is absent from Trump's initial tariff plans, but it has not been spared from his criticism. Trump has labelled India a "very big [trade] abuser," suggesting the possibility of renewed trade disputes over the $75bn in Indian exports to the US.

According to the Economist Intelligence Unit (EIU), Mexico, China, and Canada are the top three US trading partners most vulnerable to Trump's proposed policies. India ranks eighth on the list of countries that could face trade challenges under Trump's presidency. While Trump's renewed trade policies are expected to significantly impact China, research by Bernstein suggests that India may only see limited benefits. Instead, India could face renewed tariff pressures, as Trump's rhetoric hints at revisiting the trade disputes of his first term. As Trump prepares to assume office, his aggressive tariff strategy signals a sharp escalation in global trade tensions, with India and other US trading partners bracing for the potential fallout from his policies.

VII. Indonesia

After his inauguration on October 20th, Indonesian **President Prabowo Subianto quickly embarked on an active international agenda**, meeting both Xi Jinping and Joe Biden within a short span of time. His first international visit took him to China from November 8th to 10th, where the two nations signed a series of agreements valued at US$10bn, focusing on **infrastructure, agriculture, green energy, and technology sectors.**

The visit underscored Prabowo's intention to maintain strong ties with Beijing to support his domestic economic goals. China also expressed support for his initiative to provide free meals to Indonesia's poorer population, a key element of his social welfare program. However, the most surprising development was the joint agreement to cooperate in areas of overlapping claims in the South China Sea, particularly near the Natuna Islands, where China's "nine-dash line" overlaps with Indonesia's exclusive economic zone.

Such an agreement could potentially validate and bolster China's territorial claims in the South China Sea, raising concerns about the implications for Indonesia's sovereignty. This issue gained further attention after a joint statement issued by Prabowo and Biden during the latter's visit to the White House, where both leaders emphasized the importance of freedom of navigation and respect for coastal states' jurisdictions in accordance with international law.

The stark contrast in tone between the two visits has raised eyebrows, prompting Prabowo to clarify his position and reaffirm his commitment to protecting Indonesia's sovereignty. However, it will take time to fully assess how his foreign policy will unfold in the coming months.

VIII. Japan

Japan does not have any option other than to strengthen its alliance with the US, regardless of the ideological orientation of the administration and who occupies the White House. It's too early to tell what adjustments Japan will need to make in its defense posture when facing the incoming administration, including the decision to increase its defense spending to 2% of GDP by 2027, an autonomous action based upon its own assessment of the strategic situation in Asia. The most likely complication may lie in the disturbance to the hard-won linkage between security in Europe and in Japan/Asia, given the ongoing Russian aggression against Ukraine. The mantra Japan adopted since the previous Kishida administration that "Ukraine today may be East Asia tomorrow" may become more difficult to sustain if Europe is isolated and the US ponders withdrawing support for Ukraine. If Europe focuses more closely on its own geography, less attention will remain for cooperation with the Indo-Pacific. This is an outcome both Europe and Japan will try to avoid.

Tokyo is bracing for a sharp turn in US international economic policy in the second Trump administration. A week of meetings in Japan following the election showed that the prospect of broad tariffs, forced decoupling from China, and further disruption of the global economic order, left Japanese officials and business leaders stoic, but worried.

When asked what worries them most about the return of Trump to the presidency, Japanese officials point to security concerns. Will the new Trump administration pursue a less robust response to North Korean missile provocations or Chinese aggression in the East & South China Seas, accommodate Russian aggression in Ukraine, or provoke an escalation of conflict in the Middle East? Economic concerns also loom, especially Trump's promise to impose tariffs of 60% on Chinese imports into the US, 25% or higher on goods from Mexico, and 10%-20% on everything else.

Officials in Tokyo have heard that the incoming Trump team plans to group countries into three buckets—allies, adversaries, and others—and to assess tariffs on each depending on how countries perform on four criteria:

- The level and direction of their defense spending
- The level and direction of their bilateral trade imbalance with the United States
- How many US Treasury securities they purchase
- Whether they manipulate their currency

Japan is well positioned on some of those criteria but is at risk on others. Tokyo has committed to ramping up defense spending in response to regional security threats, but a weakening yen has undermined these efforts—as well as prompting the US Treasury Department to keep Japan on a monitoring list for possible currency manipulation. As the largest foreign buyer of Treasuries, Japan would normally get credit for helping finance the massive US debt, but some in the Trump team see such inbound capital flows as a driver of US trade deficits and have aired the idea of taxing them. And perhaps most likely to eventually draw Trump's attention, Japan's trade surplus with the United States remains stubbornly high.

Thankfully**, Japan probably ranks fourth or fifth on Trump's list of targets for increased** tariffs, after China, Mexico, Vietnam, and Europe. Beyond the direct cost of 10%-20% tariffs on Japanese exports to the US, tariffs on products from China and Mexico would disrupt Japanese supply chains by hitting their products assembled in those countries. They would also divert Chinese and Mexican exports to other advanced markets, creating pressure on Japan to erect its own protectionist barriers.

Tokyo is still formulating plans on how it will respond to new Trump tariffs. Retaliation seems less likely, based on past Japanese practice. There's little confidence in Tokyo that a weakened PM Ishiba Shigeru will be able to win favor with President Trump as Abe Shinzo did at the start of the first Trump term. Ishiba will probably offer to buy more US agriculture and energy products and to encourage more Japanese direct investment into the US, although the prospect that Nippon Steel's acquisition of US Steel will be blocked by either Biden or Trump is likely to have a chilling effect on at least new inbound investment (and not only from Japan).

Tokyo has other concerns beyond tariffs. It is worried that Trump will force Japan to align with expanded US efforts to limit exports of critical technologies to China and perhaps to support a broader economic decoupling from that country. Tokyo sees the second Trump administration as disruptive to the global and regional economic order. The threat that the US will pull out of the WTO over the next four years still looms large. As a candidate, Trump vowed to kill the Biden administration's signature economic initiative in Asia, the Indo-Pacific Economic Framework for Prosperity (IPEF), in which Japan is deeply vested.

More broadly, Japan is worried that the new Trump administration will alienate the strategically important ASEAN countries, pushing them closer to China.

Tokyo does see some silver linings in a second Trump administration. Japanese companies in the US will benefit from tax cuts and deregulation. According to one Japanese official, while Japan remains committed to the clean energy transition, a possible phase-out of subsidies for EVs will give Toyota and other Japanese automakers invested in hybrid and hydrogen technology some breathing room. Trump's commitment to "drill, baby, drill" offers the prospect of more US LNG exports to energy-starved Japan.

Nor is Trump's disdain for multilateralism all bad for Japan. The Trump administration's indifference to reform of the IMF and World Bank could help Japan by preserving its disproportionate share in governance of those institutions. And even where plurilateral bodies such as the G7 are likely to take a hit, some groups in which Japan is a member, notably the Quad — the US, Japan, Australia, and India — will remain in favour in the second Trump administration.

In summary, **Trump 2.0 will benefit Japan in the short term** — from tax cuts to a renewed emphasis on fossil fuels — but could damage the country's longer-term interests, i.e. a fiscally stable US and slowing climate change. Meanwhile, tariffs will be a headache. Prospects for cooperation between the US and Japan on economic policy in the second Trump administration are mixed at best. Japan hopes for a new bilateral trade deal, building on the 2019 Abe-Trump deal (to restore lost US agriculture sales in Japan resulting from the Trump pullout of the Trans-Pacific Partnership). Sadly, this is not likely to be a priority for the new Trump team. IPEF is likely dead in the water, and other forms of affirmative US-Japan economic cooperation in Southeast Asia do not seem imminent.

Bilateral cooperation on economic security, which Japan championed during its 2023 G7 presidency, could be more promising, as the second Trump administration will share Japan's worries about supply-chain resilience, China's off-market practices and economic coercion, and protection of critical infrastructure. Still, any appetite in Tokyo for forcefully constraining China, let alone decoupling, is sure to be limited.

IX. South Korea

Export-dependent Korea will be among Asia's biggest losers of Trump's blanket 20% tariffs and an all-out US-China trade war.

South Korean exports are vulnerable to Trump's promised 20% blanket tariffs.

The Bank of Korea rarely finds itself at the center of the global economic discourse, but the team led by Governor Rhee Chang-yong is on the front lines of the two biggest 2025 imponderables: the experience of the US and Chinese economies and their respective markets.

Trump's return to the White House ensures these two giants will collide, possibly creating a third unknown: a huge trade conflict the likes of which the globe has never seen before.

Still, domestic considerations in both Washington and Beijing are already putting Rhee's BOK on the spot. In flux are the odds of a US Federal Reserve rate cut at its 28th November policy meeting; odds falling by the day. The case for Fed easing is buttressed by signs US employment growth may be slowing, and that China's property crisis continues to generate deflation. Korean inflation, meanwhile, is holding below the BOK's 2% target. As the Korea Development Institute, a state-run think tank, notes: "tightening of monetary policy through interest rate hikes appears to have been effective in curbing high inflation since 2022." Rhee's future behaviour is complicated by trends at home, particularly near-record household debt levels.

The central bank faces a challenging situation of slower domestic demand and inflation below target, which typically calls for rate cuts. However, concerns about financial stability due to high household leverage complicate the decision. Delaying the next rate cut would allow more time for evaluating the incoming US administration's policy agenda and its potential impact on global trade, which would affect Korea's growth and inflation outlook for 2025.

That agenda could change things drastically if Trump 2.0 hits the ground running with 60% tariffs on China. Or if Trump slaps 20% blanket, across-the-board levies on all goods globally.

Unilaterally via aggressive intervention in currency markets or with another "Plaza Accord" gambit, after a 1985 pact to weaken the dollar versus the yen. That was forged by the top industrialized nations at New York's Plaza Hotel, which Trump owned for a time.

Trump also wants to reduce the Fed's independence, giving the White House influence over interest rate decisions.

In Trump's second term, there should be no major changes in US-South Korea relations. Given that there is no change in the structural framework of US-China competition in the international order, Korea's strategic importance in helping the US to counter China in NE Asia will remain significant. Furthermore, following Biden, the Trump administration is also likely to prioritize issues other than North Korea. As a result, the significance of the US-South Korea alliance, particularly with US forces stationed in South Korea, in managing North Korea's nuclear threat and ensuring security on the Korean Peninsula, will remain strong. On the other hand, the likelihood of the Trump administration demanding a renegotiation of defense cost-sharing is high. However, this is likely to serve as a bargaining chip for the US, either to secure other "interests" from South Korea or to press for a stronger role for South Korea in regional security.

How Rhee balances Korea's current challenges with what's to come in 2025 — whatever that might be — is an open question. And one that could matter far beyond decisions made at BOK headquarters in Seoul.

IX. South Korea (cont.)

Korea's sizable, open and trade-reliant economy serves as a bellwether for global inflections. That's why Korea's "sandwiched" reality these days is raising red flags. This predicament was coined in 2007 by then-Samsung Group head, Lee Kun-hee. Lee described Asia's fourth-biggest economy as sandwiched between wealthy Japan and low-cost China. Now, Korea is caught in the middle of a juicier sandwich. It's squeezed between a Japan that's raising rates, a China that's slowing and an imminent "Trump trade" causing extreme dollar volatility. Economists eyeing policy choices agree that a case could be made for the BOK to ease this month, but also to wait until January.

Recent Korean data has been somewhat encouraging. It suggests that the worst is probably over for domestic demand. Nonetheless, soft Q3 GDP is concerning, and could lead to South Korea missing the BOK's 2024 GDP growth target of 2.4%.

Seoul, though, must protect itself as the Trump vs Xi brawl begins. Though China is the immediate target, Korea Inc. will suffer collateral damage. A blanket global US tariff of 20% would be disastrous for Korea, which generates 40% of GDP via exports. Trump might imperil key Korean industries, not least autos.

Trump has threatened 100% taxes on all Mexican-made vehicles. If Korean President Yoon Suk Yeol doesn't agree to big trade concessions, Trump might widen those levies to include Korean vehicles.

Korea will try to placate Trump the same way Japan did from 2017 to 2021: upping investment in the US to maintain peace and a friendly mood with Trump.

If tariffs are raised, the first step will be raising direct investment and on-site production," Korean Trade Minister Cheong In-kyo tells Reuters. "There are ongoing investments already, and there is a possibility that investment could accelerate, followed by an increase in US-bound exports by small and medium-sized parts manufacturers."

Cheong adds that Seoul will also step up trade diplomacy. "We can only respond to the new administration's policy," Cheong noted. "Nevertheless, we will make efforts for trade to remain smooth, with not only the US but also China." In 2023, Korea's trade surplus with Washington hit a record US$44.4bn, Seoul's biggest imbalance anywhere. That's certain to raise hackles in Trump World.

With his approval rating at only 20% halfway through his five-year term, it's not clear how much latitude Yoon has to give in to Trump's demands for trade concessions.

And what if Trump's real goal is to force China into a "grand bargain" trade deal? On the one hand, this might be good news for Korea if it avoids the financial carnage from a new trade war. But on the other, a US-China deal might leave Korea on the outside looking in.

Politically, being left out of a US-China deal could be just as bad for Yoon's support rate as the economic hit from Trump's tariffs.

Korea — and the Kospi stock index — would be in the crossfire more than most export-driven economies. These risks and others explain why Rhee's staff at the BOK may be dreading 2025. Yoon's administration, too, as its lack of urgency in implementing vital reforms comes back to haunt it. Yoon is just the latest Korean leader to win power pledging a supply-side Big Bang only to fall short.

X. South Korea (cont.)

Over the last 15 years, successive Korean governments have been sidetracked by political squabbling and short-term concerns. Rather than recalibrate growth engines to increase competition and productivity, leader after leader turned to the BOK to paper over economic cracks.

Conglomerates, chaebols, towering over the economy. Moon promised to pivot toward “trickle-up economics,” but achieved little. The same went for **Park Geun-hye,** president from 2013 to 2017. Korea’s first female leader promised to build a more “creative economy” and reduce the economic power of chaebols. She pledged to make space for startups to generate economic energy from the ground up as opposed to the top down. Park, too, achieved little.

Before her, Lee Myung-bak, president from 2008 to 2013, had his own bold plan to generate 7% growth and make Korea one of the seven largest economies via disruptive reforms. Results were sparse.

Korea still needs bold policies to level playing fields, increase productivity, empower women and encourage young entrepreneurs. For all the excitement about Korea’s startup culture, the chaebol-heavy business climate leaves limited economic oxygen for enterprises to thrive. Korea now has an economic speed problem on its hands. China, for all its troubles, has been speeding up Asia’s economic clock.

China continues to invest in dominating the future of semiconductors, electric vehicles, aerospace, renewable energy, biotechnology, artificial intelligence, robotics and green infrastructure. As China’s production capabilities increase, Korea is having a harder time keeping pace with the region’s top export power and revamping its policy mix accordingly.

Seoul must look inwards and outwards to navigate an uncertain second Trump administration.

XI. Vietnam

Trump's threat of a universal tariff is one of the biggest uncertainties facing Vietnam's economy. President Luong Cuong warned of the dangers of a world with higher tariffs earlier this month, telling APEC leaders that "trade wars lead only to recession, conflict and poverty."

While Vietnam waits to see what measures it will face, Trump delivered his first specific threats to other countries, saying he would impose additional 10% tariffs on goods from China and 25% tariffs on all products from Mexico and Canada.

Vietnam is among the world's most trade-dependent nations, with exports accounting for 85% of its economy. Vietnam had a surplus of $100bn with the US in 2023, making it a key second-level target for Trump's policies to rebalance trade.

The proposed tariffs are a very real possibility. Government and business in Vietnam and around the world should prepare themselves," said John Goyer, the US Chamber of Commerce's executive director for SE Asia.

PM Pham Minh Chinh says his country needs to remain close to the US, its biggest export market. Chinh reiterates Vietnam's call for the US to classify Vietnam as a market economy. In August, the Biden administration rejected Vietnam's request to change its status, a setback for Hanoi's efforts to boost exports to the US.

Vietnam's good relationship with the US "should be translated into specific actions," he said. "We need to remove all remaining obstacles."

The nation has emerged as an electronics manufacturing powerhouse after getting a boost from the US-China trade war during Trump's first administration. Apple suppliers and other global brands have raced to set up factories in Vietnam country in recent years, following **Samsung and Intel**.

Key export sectors are already weighing alternatives. Vietnam's **garment industry** says it's looking to diversify its export markets, products, and clients, as it anticipates tariffs.

"Ultimately, it's hard to see how new US tariffs applied broadly and implemented without careful consideration of specific trade distortions, would not undermine the global trading system," Goyer said.

XII. Conclusion

President Trump has promised to be a bomb-thrower, using aggressive tactics to benefit “America first”. We should take him at his word.

His incoming administration will face fewer checks and balances than his first. No trading partner will be entirely spared.

Opportunities will certainly emerge across Asia, for countries who move fast and ingratiate themselves to US markets.

All Asian countries will hope to find growth nearer to home and Intra-Asian trade will boom. Those Asian countries which show agility and diplomacy will enjoy great profits, in the coming turbulent seas.

On balance, **India, Japan, and Indonesia look well-placed**, but it would be foolish for any Asian companies to be complacent. As ever, fortune will favour those who are most courageous, and canny.

Technology and Healthcare are poised to thrive regionally. **Consumer and Services** companies will find room for growth.

Asian companies should not ignore the European markets, which will look increasingly attractive if the US puts up barriers.

BDA Partners stands ready to support its financial and strategic clients to take advantage of these fast-flowing waters. Change creates opportunities.

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