Economics

DBS Focus

ASEAN-6: Tariff-ic times ahead

Economics/Growth

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Chua Han Teng, CFA
Senior Economist

Radhika Rao
Senior Economist

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

- *Details on the US reciprocal tariffs will be keenly watched.*
- *The wider scope and breadth of tariff action compared to Trump 1.0 is likely to keep the region open to direct and second derivative impact.*
- *The extent of impact will vary based on individual exposures.*
- *A cross-section of five parameters show that Thailand is the most vulnerable to US reciprocal tariffs, besides Malaysia and Vietnam.*
- *Measures are likely to be initiated to soften the blow.*
- *There are also encouraging instances of greater intra-ASEAN integration.*
- *We update our quarterly view on the ASEAN-6 countries.*
- *Our growth study points to differing spillover risks hinging on the tariff differentials.*

**ASEAN-6: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam*

Wider scope and breadth of tariffs compared to Trump 1.0

Compared to Trump 1.0, the ASEAN-6 countries face higher direct and indirect risks from tariffs under the current administration. Under Trump 2.0, tariff action is more wide-ranging than the first term, covering a broader spectrum of trading partners, product groups and higher rates. Additionally, in the past 6-7 years, the ASEAN-6 region has become more embedded in global supply chains, accompanied by a bigger share in global trade, whilst attracting strong investment interest. Supply chain reconfiguration has also led to an increase in trade with China as well as the US. Notably, China's global export share did not decline materially under Trump 1.0 in 2018-19.

Given the region's heterogeneity, we expect varying impact from the various proposed US tariffs – reciprocal tariffs beyond the US's very top trading partners; and sectoral tariffs covering autos, semiconductors, pharmaceutical, and copper products. **Using a cross-section of five criteria** including a) an increase in share of exports to the US; b) scale of trade imbalances with the US; c) reciprocal tariff differentials; and d) & e) exposures to the US semiconductor and pharma industries.

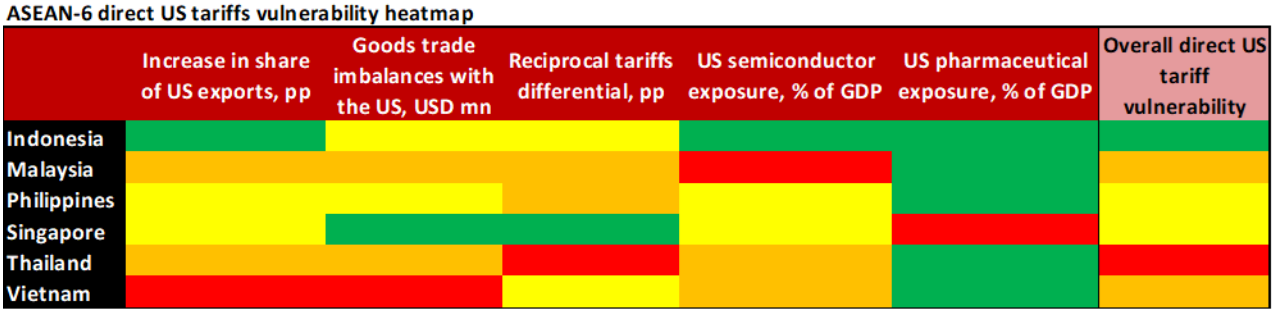
Our vulnerability heatmap (*shown below*) across these five criteria highlights Thailand, Vietnam and Malaysia as relatively more vulnerable, followed by a moderate spillover risk for Singapore, Indonesia and Philippines. While the direct impact could be via reciprocal tariff, the second derivative impact might be through slower growth in key trading partners, China and the US.

Cross-sectional vulnerabilities

In mid-February, the US government proposed to impose a 'Fair and Reciprocal Plan' on trading partners, which not only covered import tariffs but also non-trade barriers, including value-added taxes (VAT) and exchange rates, amongst others that might put US firms at a disadvantage. The ASEAN-6 countries have not been explicitly highlighted as the ones at risk compared to Brazil, India, and the European Union (EU). However, with the US aiming to reduce its large goods trade deficit to level the playing field and attract investments, most of its trading partners which have sizeable trade gaps will be in the crosshairs.

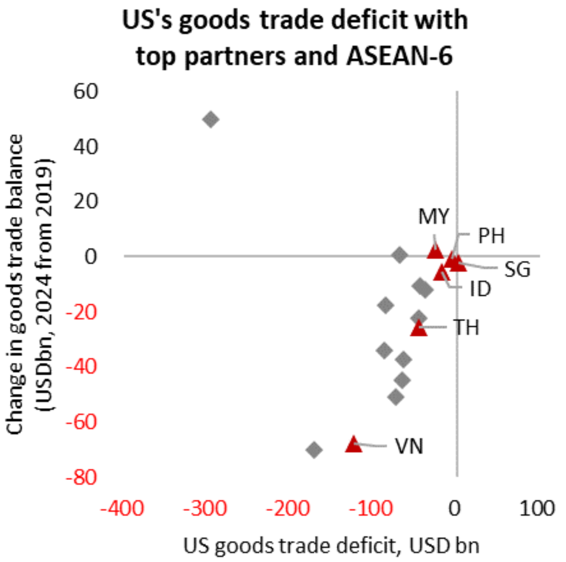
- **From the lens of the scale of increase in the country's share of exports to the US between 2016 and 2024 as well as running large trade deficits with the US**, Vietnam and Thailand look the most vulnerable within ASEAN-6. Vietnam was the US's third largest goods trade deficit partner in 2024, behind China and Mexico. US's goods trade deficit with Vietnam also widened significantly in the past decade, and the change was among the most compared to other top partners between 2019 and 2024. While the US's

ASEAN-6 direct US tariffs vulnerability heatmap



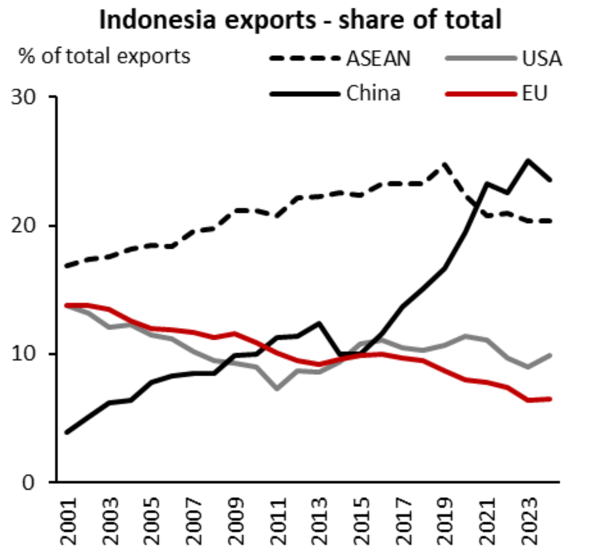
Source: CEIC, WITS, US census bureau, DBS

Note: Red=High risk; Green=Negligible risk; Yellow=Low risk; Orange=Medium risk; Assessed based on relative ranking negative gap with Thailand was not as large as Vietnam, Thailand was still the US's 11th largest goods trade deficit partner in 2024. The increase in the US's shortfall with Thailand over 2019 and 2024 was also noticeable.



Source: CEIC, DBS

While linkages with the US is closely watched, we also flag the risk that ASEAN's rising trade and investment relations with China might also come under enhanced scrutiny. A case in point is Indonesia. Indonesia's share of exports to China has jumped sharply in the past decade, from ~10% in 2014 to 24% in 2024, besides China also being amongst the five FDI investors into the country.

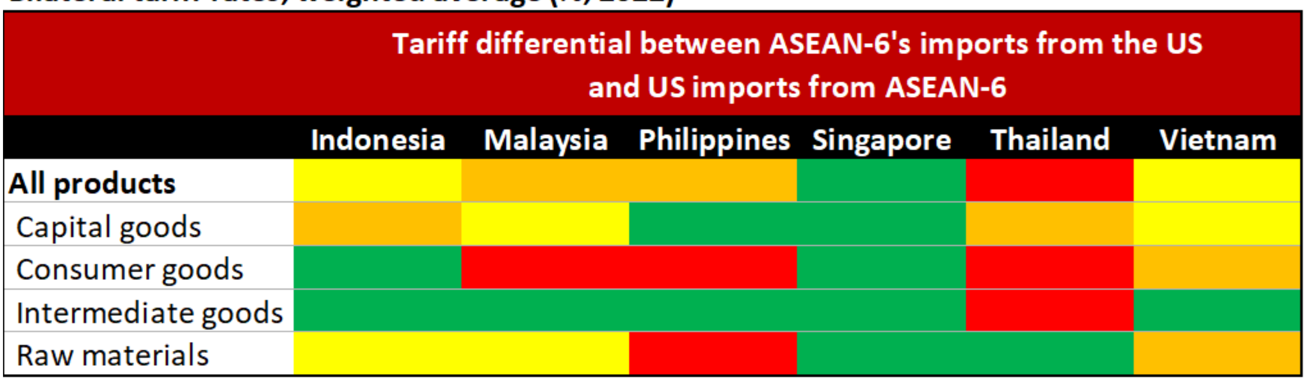


Source: CEIC, CBS, DBS

- **Risk of reciprocal tariff action remains an overarching concern**. The US government has signalled that the scale of reciprocal action can be dictated by several considerations, including bilateral import tariffs, and non-trade barriers such as exchange rates.

As our heatmap shows, the tariff differential i.e. the difference between what the country imposes on the US and the US on the country is the most positive for Thailand. Thailand imposed a weighted average tariff rate of 6.2% on US imports, compared to 2.0% put on Thai goods by the US. The large tariff differential is observed across a wide range of consumer,

Bilateral tariff rates, weighted average (%, 2022)

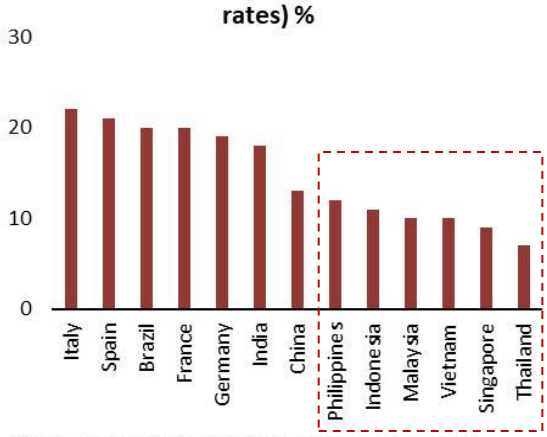


Source: WITS, DBS

Note: Red=High risk; Green=Negligible risk; Yellow=Low risk; Orange=Medium risk intermediate, and capital goods. Malaysia and Philippines are next. In contrast, Singapore faces the least risk of reciprocal US tariffs, given the negative tariff differential, helped by the Free Trade Agreement (FTA) with the US.

While Thailand faces the highest risk of reciprocal action, the US may still raise tariffs on certain import categories in other ASEAN-6 countries. These could include transportation goods in Indonesia, Philippines, and Vietnam, and/or animal products in Indonesia, Philippines, and Vietnam, which can be categorised as raw materials in our heatmap.

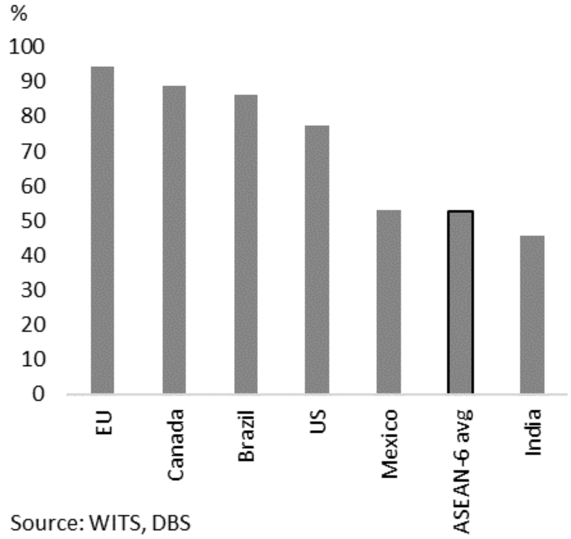
Value added tax (or equivalent tax rates) %



Source: PWC, DBS; presented VAT/ sales tax/ GST; countries with multiple rates - used mid-point or highest slab

Non-tariff considerations will also be at play. Encouragingly, the VAT rates in ASEAN-6 are lower than major EU countries, while the non-tariff measure coverage ratios in ASEAN-6 are also largely lower than other countries, which were singled out like the EU and Brazil (*see charts*).

Non-tariff measure coverage ratio



Source: WITS, DBS

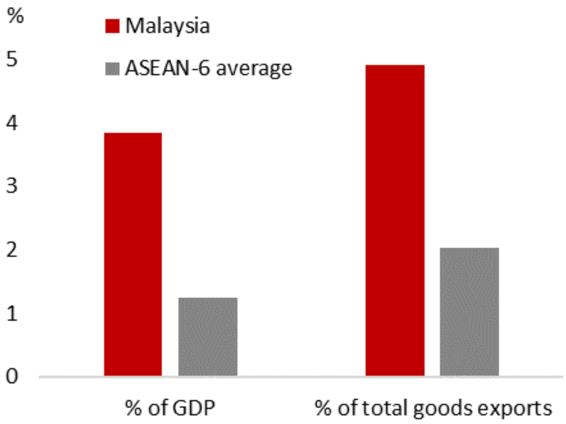
Additionally, the US Treasury has placed Vietnam and Singapore on its currency Monitoring List as of the November 2024 report and has removed Malaysia. This further elevates Vietnam into the US's spotlight.

- **Sectoral exposure/ vulnerability is in focus, from universal tariffs on specific products.** Beyond reciprocal tariffs, Trump's administration is also considering 25% tariffs on autos, semiconductors, and pharmaceuticals imports (the effective dates are uncertain for the latter two, but in the near future), while ordering a new tariff investigation on US copper imports, with tariffs on steel and aluminium already taken effect. On autos, we assess that ASEAN-6 faces negligible risks from higher US autos tariffs, with Japan and South Korea more vulnerable. Southeast Asia is not a major source of imports for the US for copper.

Given the region's integration with the global supply chains, the impact from semiconductors will be material. Malaysia and Singapore face higher risks from action on exports to US semiconductor and pharmaceutical import tariffs, respectively.

We assess that Malaysia is the most directly exposed to potential 25% US tariffs on semiconductors within the bloc (*see chart*). Analysing the US trade account data, US semiconductor imports from Malaysia accounted for ~4% and ~5% of Malaysia's GDP and total goods exports in 2024, well above the ASEAN-6 average.

Exposure to US semiconductor imports

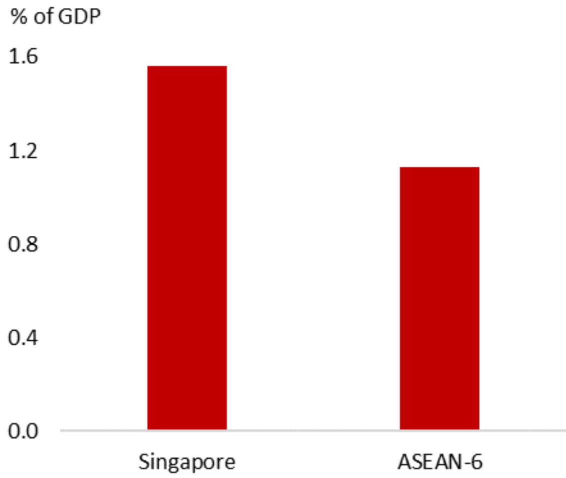


Source: CEIC, US census bureau, DBS
Note: Calculations are based on US semiconductor imports from ASEAN-6, based on US trade accounts in 2024.

Malaysia might, therefore, face a double whammy, as it would also be indirectly vulnerable to a tariff-induced global semiconductor downcycle as well. Semiconductors accounted for ~20% of Malaysia's GDP and 26% of total goods exports in 2024, based on Malaysian trade account data. The current situation would potentially be much worse than during Trump 1.0. During Trump 1.0, Malaysia's real GDP growth slowed to 4.4% in 2019 from 4.8% in 2018, with semiconductor exports contracting by ~10% YoY in late-2019, amid an electronics downturn and global trade policy uncertainty due to the US-China trade war.

Other key regional electronics exporters, Thailand and Vietnam, would also be negatively impacted by any implementation of US semiconductor tariffs, even if lesser than Malaysia. Singapore might be able to escape direct US semiconductor tariffs due to its healthy economic and trade relationship with the US underpinned by an FTA, and US semiconductor investments in the city-state. Nonetheless, we anticipate indirect damage, due to Singapore's integration in the global semiconductor supply chain.

Value-add to US computer, electronic, and optical product imports



Source: CEIC, OECD TIVA, DBS

Using numbers from OECD TIVA database, we estimate that Singapore's value-add to overall US computer, electronic, and optical product imports (semiconductors are likely a major part of this broader category) accounted for 1.6% of GDP, higher than the ASEAN-6 average of 1.1% of GDP.

While the potential risk of higher US tariffs on Singapore's pharmaceutical imports is also mitigated by the above-mentioned positive relations and US biomedical foreign investments in the city-state, such action if imposed would drag on Singapore's economy more than other ASEAN-6 peers. US pharmaceutical imports from Singapore accounted for ~3.5% of Singapore's GDP in 2024, compared to the tiny exposures for the others, based on the US trade account data. Other ASEAN economies value-added exposures to overall US pharmaceutical imports were also negligible, according to figures from the OECD TIVA database.

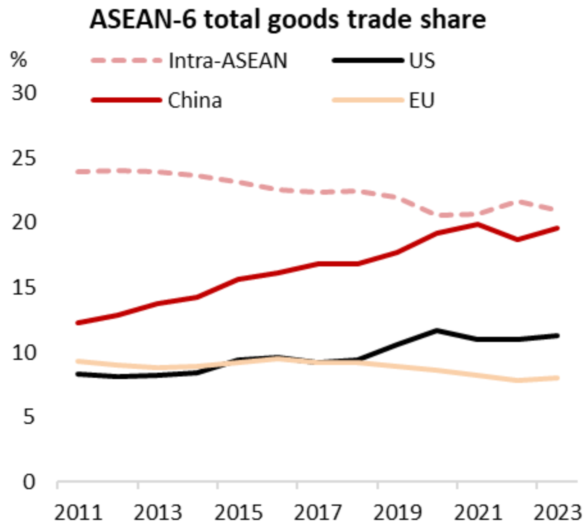
To counter risks and strengthen defences

- **Regional governments are likely to initiate bilateral discussions and seek concessions with the US administration as the scale and scope of reciprocal action becomes clearer in early-April.**

  A broad range of conciliatory options include diplomatic and other economic steps - bilateral trade agreement/ critical minerals agreement (applicable for Indonesia for instance) with the US. Secondly, the region might seek to step up purchases from the US, for instance agricultural inputs, machinery, aircrafts, energy and defence, to balance the trade gaps. A unilateral reduction in tariffs to accommodate US demands (without an FTA) might be challenging given the need to level the playing field with all the countries under the MFN terms. Concurrently, there might cascading tariffs in the region as any instance of dumping activity from China or other trading partners might attract countervailing duties.

- **Greater intra-ASEAN collaboration is another opportunity.** Beyond multilateral catalysts, there is progress on bilateral initiatives. **A case in point is Singapore and Malaysia collaborating on the Johor-Singapore Special Economic Zone (JS-SEZ)** (see our detailed *Chartbook: Johor-Singapore Special Economic Zone's potential*).

  The JS-SEZ Agreement was formalised during the 11th Malaysia-Singapore Leaders' Retreat on January 6-7. The JS-SEZ aims to create a dynamic and integrated economic hub that promises a significant scaling up of an already deep regional symbiosis, with firms set to benefit from Singapore's strength as a business and financial centre, complemented by Johor's abundant land, energy, and labour force. The JS-SEZ is also strategically positioned to capture the rising FDI that ASEAN-6 is already receiving, amid a reconfiguration of supply chains in an increasingly uncertain global economic landscape marked by heightened geopolitical tensions. Potential beneficiaries include data centres, electronics, tourism, and renewable energy.



Source: CEIC, DBS
Note: Based on ASEAN-6's trade accounts

- ASEAN-6 has also maintained a close relationship intra-region, even amid increased FDI and trade linkages with China over the past decade. **Intra-ASEAN goods trade share for ASEAN-6 continues to be the largest, exceeding 20% over the years** (valued at above USD700bn as of 2023) and higher than that with China.

- Besides trade, strong trade co-operation is also supported by **multilateral agreements** such as the Regional Comprehensive Economic Partnership trade pact (RCEP) and a potential upgrade to the ASEAN Trade in Goods Agreement (ATIGA), with discussions underway. We note greater integration in already concentrated categories, such as electronics and mineral fuel-related products. These were already the top two items traded intra-ASEAN prior to the pandemic, and their respective shares rose further by 1.4 and 1.5 percentage points to 24.7% and 21.8% between the periods of 2017 and 2023.

Growth implications

Details on the upcoming US reciprocal tariffs will be keenly watched. In our assessment, the wider scope and breadth of tariff action compared to Trump 1.0 is likely to keep the region open to direct and second derivative impact. The extent of negative direct impact will vary based on individual exposures, with our multi-factor analysis pointing to Thailand most at risk followed by Vietnam and Malaysia.

To gauge the impact on growth, our framework marries export elasticities and bilateral trade/ sector flows. If the reciprocal tariffs are implemented, raising rates to match the current differential (on aggregate and on selected sectors), we estimate a potential impact of 1.0-1.5 percentage points (ppt) on the GDP of Thailand and Malaysia. The domestically oriented nature of Indonesia and Philippine economies shields them, limiting the spillover impact to less than 0.3ppt. Our estimates for other countries fall within these two extremes.

Direct growth impact - DBS estimates

Countries	Growth impact
Indonesia	
Malaysia	
Philippines	
Singapore	
Thailand	
Vietnam	

Source: CEIC, WITS, US census bureau, DBS
Note: Red=High risk; Green=Negligible risk; Yellow=Low risk; Orange=Medium risk; Assessed based on relative ranking

Country-specific updates

In the next section, we provide quarterly updates on each of the ASEAN-6 countries.

Indonesia: Local fragilities bite

A difficult global environment has been compounded by simmering domestic uncertainties in Indonesia. New President Prabowo Subianto's first six months in office has been marked by plans to fulfil campaign promises, including higher welfare spending such as free meals program, free health check-ups, and affordable housing project, amongst others. These additional spending needs are likely to be met by reprioritising existing revenue heads and expenditure cuts (~8-9% of total).

This comes in an environment where total revenues declined 20% YoY in Jan-Feb25, compounded by a 30% decline in tax receipts. Officially, this fall was put to a correction in key commodities including coal, crude oil and nickel as well as adverse base effects from January 2024, which had seen the implementation of TER PPh21. Teething issues from the introduction of a new platform called Core Tax administration system (Coretax) also likely added to a miss in targets. Weaker revenues and higher spending needs have increased the likelihood that 2025 fiscal deficit will widen to -2.9% of GDP vs -2.3% in 2024. Implicit guidance that the central bank will step up bond purchase has fed debt monetization concern.

Also clouding the outlook are the softer growth indicators, rupiah volatility and channelling of budgetary support (including revenues) towards the new investment agency. Despite favourable inflation dynamics, BI is expected to stay reticent to ease the policy rate in April, if global conditions remain unconducive and domestic uncertainties persist. We trim our growth forecast modestly to 5% in 2025, with downside bias.

Radhika Rao

Malaysia: Risks to cautious optimism

Bank Negara Malaysia (BNM) maintains a cautiously optimistic economic growth outlook for 2025, according to its 4.5-5.5% forecast in its Economic & Monetary Review (EMR) 2024 released on March 24, 2025 (5.1% for 2024). This aligns with the government's range in the Budget 2025 announcement last October. **Our growth projection of 4.8% lies slightly below official estimates, and we see considerable downside risks from escalating global protectionism led by US tariff threats.**

BNM expects domestic demand to anchor overall growth in 2025, exceeding the pre-pandemic average. Household spending is to be sustained by favourable labour market and income conditions, alongside government policies such as civil servant salary increment, a higher minimum wage, and the progressive wage model. Investment is in an upswing, benefitting from multi-year high approvals in key sectors like information & communications, and electrical & electronics (E&E) manufacturing, as well as the implementation of various public projects.

BNM anticipates moderate exports growth in 2025. It foresees still-resilient E&E shipments amid the global technology upcycle and demand for semiconductors and devices. BNM baseline numbers do not appear to us that they have factored in tariff threats such as 25% US semiconductors tariffs, despite acknowledging considerable downside external uncertainties from more restrictive trade policies and tit-for-tat measures. Given Malaysia's significant semiconductor exports exposure, especially to the US, we consider this a significant downside risk to our growth and monetary policy outlook in 2H25.

Chua Han Teng

Philippines: Treading water

The Philippine economy expanded 5.6% in 2024, registering a small increase from the year before, with the tail end of last year impacted by series of typhoons. In 2025, growth is likely to fall short of the 6.5-7.5% target, with our revised forecast at 5.8% YoY. Higher government spending, disbursements on infra projects (ahead of the mid-term elections in May) and impact of rate easing are likely to compensate for subdued consumption. Politics is a watch factor.

The BSP unexpectedly held the policy rate unchanged in February after three successive cuts in 2H24. While the bank maintains a dovish bias, inflation projections were dialled up. Administrative measures including rice import tariffs and food security emergency, will keep a lid on inflation, while higher utilities and firmer wages are risks to the outlook. As signalled, the reserve requirement ratio (RRR) for commercial and universal banks was lowered by 200bps to 5%. The BSP is likely to stay data-dependent in the coming months, with an eye on tariff-driven uncertainty, while we retain our call for 50bps more cuts in the second half of the year.

Direct impact from US tariffs is likely to be limited, with Philippines' contribution to value-add to US imports amongst the smallest vs ASEAN-6 countries and the size of the bilateral trade surplus moderate vs peers. While the US is an important trade partner (accounting for 16.6% of total), exposure to targeted sectors like pharma, and semi-conductors etc is modest. A high VAT rate of 12% leaves the economy open to reciprocal action, albeit the scale is likely to be limited as the weighted average tariff rate on the US is small at 3.3%.

Radhika Rao

Singapore: In a better position but indirectly vulnerable to a global tariff tensions

We believe that Singapore faces limited direct risks from US tariffs. Singapore runs a goods and services trade deficit with the US, unlike surpluses for other ASEAN-6 economies. Additionally, Singapore has a close and healthy economic relationship with the US, underpinned by a bilateral Free Trade Agreement (FTA) that celebrated its 20th anniversary in 2024. US companies are also the top foreign direct investors in the city-state. We expect the US's reciprocal tariff plan to have a contained impact on Singapore relative to other ASEAN-6 economies. Singapore has minimal trade barriers on the US, with no tariffs on US imports except for alcoholic beverages. The US's proposed pharmaceutical tariffs would be more consequential if directly imposed on Singapore, as the products accounted for ~3.5% of Singapore's GDP in 2024.

Nonetheless, Singapore's small and open economy remains highly indirectly vulnerable to rising global protectionism and the potential for a tit-for-tat global trade war. Our 2025 GDP growth forecast of 2.8% assumes resiliency and dynamism among external-oriented sectors at least in 1H25, but the full-year outlook faces considerable downside risks from escalating geopolitical tensions. Current positive sentiment in trade-related manufacturing and wholesale trade firms would start to be sapped by continued increased trade policy uncertainties. Continued financial market downside volatility from tariff rhetoric that we saw in March 2025 might also dampen investor sentiment. Rising tariffs would disrupt supply chains and hurt global trade once the initial boost from exports front-loading fade.

Chua Han Teng

Thailand: BOT minutes supports further easing

The Bank of Thailand (BOT)'s minutes to its January 2025 monetary policy meeting published on March 19 reinforces our view for further monetary easing in 2025. We forecast another BOT rate cut of 25bps to 1.75% in the remainder of 2025, with risks of additional reduction should growth disappoint further to already downshifted forecasts. The significant downside risks facing Thailand's economy raise the probability of extra interest rate cuts to cushion growth from external headwinds, although the minutes mentioned that the 25bps loosening in January 'was not intended as the start of an easing cycle', and the 2.00% rate can 'address various potential scenarios'.

We expect the Thai economy to face an increasingly challenging external landscape, as the US escalates trade tensions, which is also a major risk highlighted by the BOT minutes. Thailand is at high risk of being targeted by the US, as it is the 11th largest goods trade deficit partner, and having widened significantly over recent years. **We assess that Thai goods are the most at risk in ASEAN-6 to US reciprocal tariffs**, given the significant tariff differential between the two countries. Agricultural products and processed foods are especially exposed. 25% US semiconductor tariffs if imposed would also weigh on Thai electronics exports. Thailand is the US's fifth largest semiconductor import partner in 2024, at 6.3% of the total. We estimate that US semiconductor imports from Thailand accounted for 1.0% of Thai GDP in 2024. The BOT is also closely monitoring tight financial conditions due to credit deterioration in small and medium-sized enterprise and household loans, which could impact economic growth negatively.

Chua Han Teng

Vietnam: Resilience to be highly tested

Vietnam's highly trade dependent economy faces considerable external downside risks from a wider trade war led by the Trump administration's increased US tariff threats. Vigilance is needed even as the economy began 2025 resiliently in the first two months of the year. Near-term growth resilience was observed in robust macroeconomic indicators: exports (8.4% YoY), industrial production (7.2% YoY), registered foreign direct investment (35.5% YoY), retail sales (9.4% YoY), and public investment (19.9% YoY). Our 2025 GDP forecast of 6.8% faces downside risks, as the US accounts for ~30% of overall goods exports.

We believe that Vietnam is at very high risk of being targeted by the US, although the focus has so far been on China, Canada, and Mexico. Vietnam is the US's 3rd largest goods trade deficit partner, with a significant widening of the imbalances over recent years comparable to that of Mexico. The US is also monitoring Vietnam for currency manipulation. We assess that Vietnam's risk of reciprocal tariffs will be on specific products, such as stone and glass, animal, vegetable, and transportation. We think that Vietnam is also exposed to 25% US semiconductor tariffs, as it is the US's 3rd largest source of semiconductor imports behind Malaysia and Taiwan. We estimate that US semiconductor imports from Vietnam accounted for 1.8% of Vietnam's GDP in 2024.

We therefore foresee supportive policies in 2025. They will focus on increasing public infrastructure spending, and stimulating bank lending via a higher credit growth target of 16% for 2025 to mitigate upcoming trade headwinds and bolster domestic growth.

Chua Han Teng

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Senior Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Senior Economist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

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