ASEAN-6 & India

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Some of the hardest hit by reciprocal tariffs

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- The ASEAN economies were hard hit by President Trump's tariffs. The reciprocal tariff rates were significantly higher than expected.
- While there is room for negotiation and potentially retaliation, the high levels of tariffs cannot be ignored. The situation is fluid, and we will continue to monitor our forecasts based on incoming information.
- We have reduced our 2025 GDP growth forecasts for the region and added higher magnitudes of rate cuts to buttress growth.

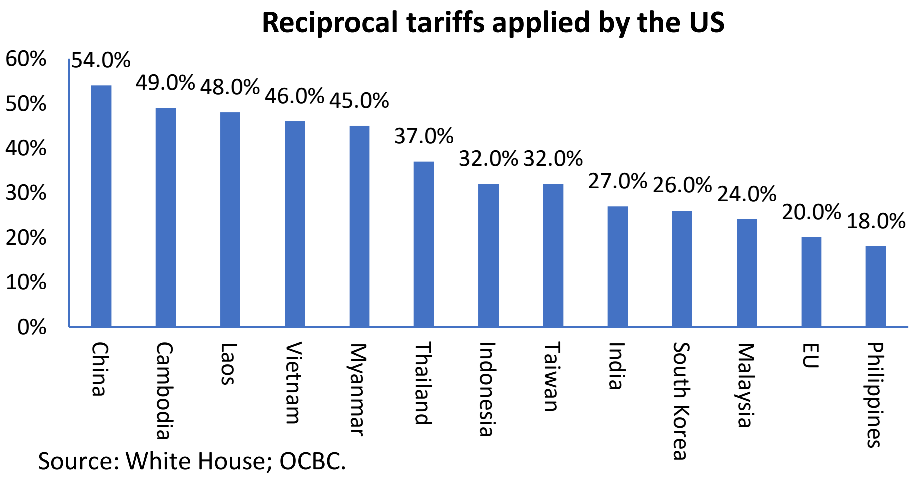
Since the announcement of reciprocal tariffs, markets have reacted with many equity bourses under some pressure. In the FX space, USD has been bid versus AXJ FX, with growth-sensitive currencies like CNH, KRW, SGD, MYR and THB under pressure. S$NEER is trading softer, suggesting some increased market expectations that MAS may ease monetary policy settings at the upcoming April MPS. Safe-haven proxies like gold, JPY and CHF remain supported. We believe this is not the end of road for tariffs. There is still room for negotiation, retaliation and further potential escalation.

Our analysis of tariffs has spanned from blanket tariffs, similar to what we got today, to reciprocal tariffs, to sector specific tariffs. The ASEAN economies we cover were hard hit by tariffs as we had expected (see ASEAN-5 & India: Potential implications of reciprocal tariffs & more, 25 February 2025) but the magnitude of the hit is much larger than we saw. This is partly based on the US computation of the tariffs imposed on it by trading nations resulting in hefty tariff rates and subsequently discounted differential tariffs.

Both are dramatic in their magnitude. These will have implications for growth, inflation, fiscal and monetary policies. Admittedly, there are still some uncertainties. This pertains to the room to retaliate and/or negotiate. Although US Treasury Secretary Scott Bessent warned against retaliation, the strategy adopted by trading partners remains to be seen.

Significant downside risks to growth

Within ASEAN, Cambodia, Laos, Vietnam and Myanmar bear the bigger brunt of tariff increases, in terms of the magnitude of higher differential tariffs. This is followed by Thailand, Indonesia, Malaysia and the Philippines. India's differential tariffs of 27% seems marginal compared to the long list of trade restrictions mentioned in the 2025 National Trade Estimate (NTE).



Source: White House; OCBC.

The blanket tariffs will come into effect on 5 April 2025, while reciprocal tariffs will come into effect on 9 April. There are still some exemptions under the reciprocal tariff arrangements, including those items that are already under investigation including copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, energy and energy products. There is a risk of tariffs on these products or higher blanket tariffs down the road.

The sharp escalation of tariffs rates, if realised, will have a hard-hitting impact on economic growth through the export channels. Based on import elasticities and our back of the envelope calculations, Vietnam will be hardest hit with GDP growth, followed by Thailand, Malaysia while Indonesia and India could be more insulated. Philippines, by our estimates, will be least impacted.

%YoY	Previous forecast (2025)	Revised forecast (2025)	Change in GDP growth
Vietnam	6.2	5.0	-1.2
Thailand	2.8	2.0	-0.8
Malaysia	4.5	4.3	-0.2
Indonesia	4.9	4.7	-0.2
India	6.2	6.0	-0.2
Singapore	2.2	2.1	-0.1
Philippines	6.0	5.9	-0.1

Source: OCBC.

Central banks more inclined to support growth

We now expect regional central banks to become more supportive of growth, particularly in 2H25. We are adding rate cuts to our Vietnam, Thailand, Indonesia and India forecasts. We expect the State Bank of Vietnam and Bank of Thailand to cut by an additional 50bps in 2H25, while Bank Indonesia and Reserve Bank of India will likely cut by an additional 25bp on top our current forecast of 25bp. This implies an additional 50bps in rate cuts by end-2025. Although the growth impact is limited for BSP, we expect it will take the opportunity to lower rates further to mitigate downside risks. We, therefore, expect a cumulative 50bp in rate cuts in 2025.

%, year-end	Present rate (2025)	Revised forecast (2025)	Change policy rate (bp)
Vietnam	4.50	4.00	-0.50
Thailand	2.00	1.50	-0.50
Malaysia	3.00	3.00	*Rising risk of a rate cut in 2H25*
Indonesia	5.75	5.25	-0.50
India	6.25	5.75	-0.50
Philippines	5.75	5.25	-0.50

Source: OCBC.

Singapore: Still cautious

The silver lining is that 10% is relatively mild compared to China, Vietnam and many of the other ASEAN countries. Singapore's resilience will depend on how well it adapts to shifting trade flows, potentially benefiting from companies diversifying away from the more heavily tariffed countries, while managing broader economic uncertainties and financial market volatility. But the indirect impact is through knock on effects through our role as trading, logistics and financial hubs. For Singapore, the top three NODX markets in 2024 are China (17%), US (15.8%) and Malaysia (8.7%). Moreover, there was no specific sectoral tariffs on semiconductors or pharmaceutical industries for instance. But the caveat is we have to wait and see what happens in the coming days and weeks.

For now, it is too early to say for Singapore. But the odds may be slightly skewed towards a Monetary Authority of Singapore policy easing at the upcoming April Monetary Policy Statement. S$NEER was last seen at 0.61% above model-implied mid. MAS quarterly MPC meeting is less than 2 weeks away from now (no later than 14 April). Judging from our S$NEER model, markets may already be pricing some risk of an easing. While it may be a close call, we believe there is a strong chance that MAS will slightly adjust its policy slope downward, particularly in light of another downside surprise to core CPI.

Vietnam: Hardest hit

We reduce our 2025 GDP growth forecast to 5.0% YoY versus our previous forecast of 6.2%. Vietnam's exports to the US totalled USD119.4bn in 2024, which can be reduced by as much as 35-40%, by our estimates. The impact on economic growth, however, is not straightforward particularly for 2025 considering that 1Q25 GDP growth was already relatively resilient at 6.6% YoY, by our estimates. Moreover, with semiconductors exports still exempted from the reciprocal tariffs' announcements, the hit to exports will likely be reduced.

The authorities have been negotiating with the US in terms of trying to reduce tariffs and raise imports from the US. While the outcomes are still uncertain, we expect the authorities to remain focussed on expediting infrastructure spending and diversifying trade partners. The higher reciprocal tariffs on most goods, and likely impending tariffs on semiconductors, suggests that fiscal and monetary policies will have to be nimble. We now expect the State Bank of Vietnam to reduce its policy rate by 50bps this year compared to our previous forecast of no change.

Thailand: Next in line

The reciprocal tariff rates imposed on Thailand is 37%. Vuttikrai Leewiraphan, permanent secretary at the Ministry of Commerce, estimated that exports could be hit by USD7-8bn if tariffs on Thailand exports to the US were raised by 11%. This suggests a significant impact. However, with certain key items still exempt from tariffs (for the moment), we expect the hit to growth to remain significant at 0.8pp. We, therefore, reduce our 2025 GDP growth forecast to 2.0% from 2.8%.

While the authorities have been transparent about their intent to negotiate with the US, and the Thai authorities have agreed to import certain goods from the US, the outcomes of further negotiations and the fate of the semiconductor tariffs remain uncertain. We now expect the Bank of Thailand (BoT) to reduce its policy rate by 50bps in 2025 to further bolster downside risks to growth, with the government continuing to pursue supportive fiscal policies.

Malaysia: Waiting for semiconductor tariffs

We reduce our 2025 GDP growth forecast to 4.3% YoY from 4.5%. This is given the impact of weaker external demand as most of Malaysia's trading partners are hit by tariffs. The relief for Malaysia's exports, for the moment, is that semiconductor exports are still exempt from the reciprocal tariffs. This accounts for approximately a third of total exports to the US. Given the nature of the reciprocal tariff announcements, it seems like only a matter of time before semiconductor exports are slapped with tariffs. This will have a more significant impact on Malaysia's GDP growth. The authorities have said that they will not pursue retaliatory tariffs and opt for negotiations.

While the stance of fiscal and monetary policy may not make dramatic shifts, it will likely lean towards becoming more growth supportive. The government plans to rationalise RON95 prices in a bid to reduce fuel subsidy expenditures. The government has stated that low-income groups will not be impacted. We see rising risks that this implementation could be delayed particularly if tariffs on semiconductor exports to the US are announced before 2H25.

If this price change materalises, Bank Negara Malaysia will be more inclined to look through supply-side shocks, but this will impact the timing of potential rate cuts to mitigate downside risks to growth. BNM could open the door to rate cuts in late 2025 or early 2026. If the price change is delayed, BNM could ease sooner.

Indonesia: Surprisingly hard hit

The reciprocal tariff rate of 32% is substantial and one of the most surprising, by our estimates. The economy is already hard hit by perceived uncertainties around domestic policy direction and cloudy fiscal policy outlook given weaker-than-expected revenue collections and budget reallocations. The higher-than-expected tariff rate will exacerbate these risks. We reduce our 2025 GDP growth forecast to 4.7% from 4.9% and expect that the worsening of current account deficit (1.4% of GDP in 2025 versus 0.6% in 2024) will put further pressure on the economy to maintain strong capital inflows even as the outlook for the latter remains uncertain.

The government and central bank will need to be nimble in their policy approach to prevent a further backsliding of sentiment, when markets open on 8 April 2025. The government will have to ramp up communications and better its perceived image on policy making.

Bank Indonesia has tied further rate cuts to IDR stability, however, with the downside risks to growth becoming increasingly obvious. It is worth noting that the anecdotal activity data during the Eid holidays have been lower compared to 2024. We expect BI to now cut by a cumulative 50bps in 2025, compared to 25bp previously. However, the timing for BI needs to become more proactive and less tied to currency outcomes to enable more timely growth support.

Philippines: Better by comparison

The reciprocal tariffs at 18% is the lowest in the region and the impact on GDP growth will also be concomitantly lower. Similar to Malaysia, Philippines exports to the US is biased towards semiconductors, which are still exempt from tariffs at the moment.

We expect GDP growth to be slightly lower at 5.9% YoY in 2025 versus 6.0%, previously. We expect Bangko Sentral ng Pilipinas (BSP) to follow on with a 25bp cut at its 10 April meeting. We now add in an additional 25bp rate cut for the rest of 2025, particularly as headline inflation remains well within BSP's 2-4% target range.

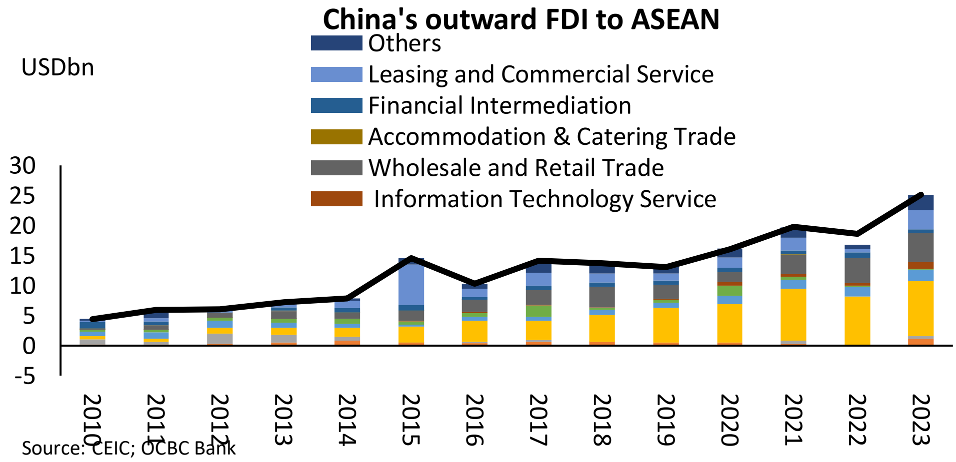
India: In the middle but limited impact

India's tariff rate of 27% looks more manageable compared to regional peers. However, there will be a modest hit to growth of 0.2pp considering weaker external demand. As a predominantly domestic demand driven economy, the impact of higher tariffs from the US will likely have sector specific impacts.

From a policy perspective, further simplification of non-tariff trade measures, continued negotiations with the US will likely keep the Indian economy in good stead. The Reserve Bank of India's (RBI) has increased banking sector liquidity to allow for further rate cuts, in our view. We expect the RBI to reduce its policy rate further by 25bp at its 9 April meeting and now add another 25bp in rate cuts for the remainder of 2025.

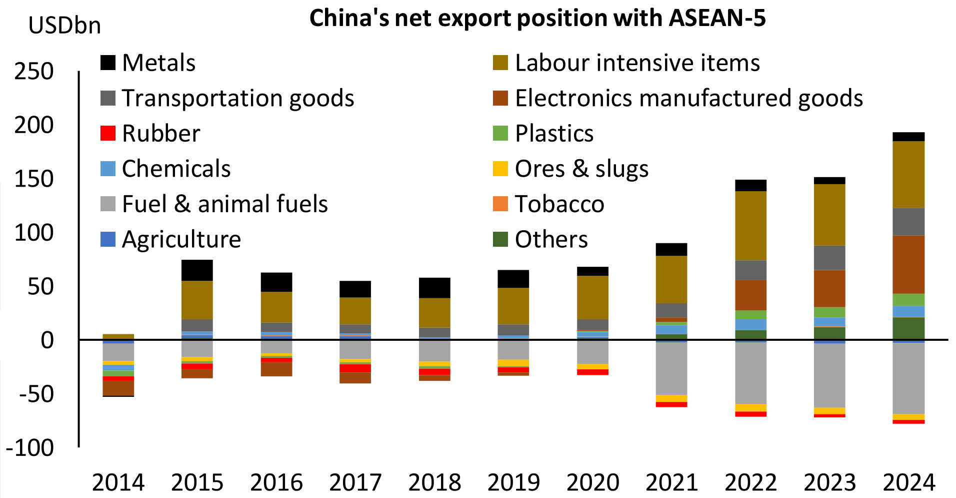
FDI investment flows could change

The reciprocal tariffs on ASEAN and India will hurt the 'China+1' strategy that has benefited the region for some years now. Although China's tariff rate is still higher at 54% (reciprocal 34% plus previously imposed 20%), the elevated tariffs on Cambodia and Vietnam suggest that the allure of shifting production to these economies is reduced compared prior to the tariffs. It will, however, take time for global supply chains to adjust and in the interim, firms will either need to bear the brunt of the tariffs or pass it onto the consumer, complicating the picture for price pressures.



Source: CEIC; OCBC Bank

In the interim, the ASEAN markets will remain vigilant of lower goods coming in from China. China's surplus with the ASEAN markets increased significantly in 2024 and we do not rule out further measures from these economies to protect against the inflows of goods at reduced prices from China.



Source: CEIC; OCBC. Note: labour intensive products include toys, furniture, apparel.

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