Moody's ANALYTICS

COMMENTARY
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APAC Outlook: U.S. Versus Them

Confusion reigns as Trump does a policy backflip on tariffs.

- Stiff new tariffs and tariff threats from the U.S. prompted us to downwardly revise growth targets for many Asia-Pacific economies. Our April baseline captures weaker growth prospects for China, Japan, Vietnam, Taiwan, India, Indonesia, South Korea, New Zealand, the Philippines, Australia, Singapore, Hong Kong and Malaysia.
- Although U.S. President Donald Trump has just declared a 90-day freeze on most of the harsh tariffs announced a week ago and applied a 10% blanket tariff in their place, the April baseline represents the economic toll they'll have should they eventually go ahead in full. Trump's declaration overnight that the effective tariff on China is rising to 125%, effective immediately, means our April baseline is overly optimistic for Asia's biggest economy.
- Even if a 10% tariff on most trading partners becomes a permanent U.S. policy, many APAC economies will suffer direct and indirect bruising as intraregional trade diminishes.

The Asia-Pacific region has woken Thursday to news that the U.S. tariff blitz declared a week earlier has been substantially walked back. U.S. President Donald Trump's announcement outside the White House of an array of tariffs on trading partners dealt Asia's economies a heavy blow. Cambodia, Laos, Vietnam, Thailand, Taiwan, India, South Korea, Japan, Indonesia and Malaysia were to be subject to new tariffs ranging from 24% to 46% from 9 April. China faced an extra 34% tariff, which was to add to two 10% tariffs declared in prior months. With the exception of China, the latest policy pivot means that all are now looking at a 10% tariff for 90 days. China faces an effective tariff of 125%, which Trump said would be implemented immediately.

The big unknown is how negotiations might alter the extent and duration of tariffs in all directions and whether the U.S. will extend its 90-day pause on tariffs for 75 countries. What we do know is that the 'Liberation Day' tariffs represent the largest increases since the 1930s.

Uncertainty is palpable, with tumbling and volatile equity markets headlining financial market turbulence. The negative and pervasive impact of a sustained rise in uncertainty cannot be understated. Household and business sentiment is crumbling, and if the calamity continues, monetary policy easing that was supposed to characterise 2025 will lose some of its potency. Households won't want to spend more when the environment is so uncertain, regardless of stronger purchasing power, and businesses will hold back on additional investment as they navigate chaos.

Global Policy Uncertainty Has Spiked

Global Economic Policy Uncertainty Index, 3-mo MA

Sources: Economic Policy Uncertainty, Moody's Analytics

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As tariffs increase the cost and complexity of trade, they weaken global growth prospects. The 'Liberation Day' tariffs declared last week increased the odds of a global recession. Under those tariffs, inflation across Asia would stay subdued amid weaker trade and growth dynamics. Inflation in the U.S., however, would rise as tariffs increased prices of producer and consumer goods.

Relative vulnerabilities

Our April alternative scenarios, released mid-month, incorporate increasingly severe U.S. tariff rates in the forecast horizon, with trading partner retaliation also factored in. Economies across Asia are not equally vulnerable and exposed to U.S. tariffs. A starting point to determine relative vulnerability is knowing how much exports comprise GDP and direct merchandise exposure to the U.S.

Relative Export Vulnerabilities

Country	Nominal US$ GDP (bn) in 2023	Total US$ goods export value (bn) in 2023	Goods exports/ GDP share	U.S. share of 2023 exports	U.S. reciprocal tariff rate (4/2)	Elasticity	Direct hit to GDP
IKHM	42.3	27	63.79%	35.28%	49%	1	-11.00%
IVNM	433.5	394	90.89%	24.14%	46%	1	-10.10%
ITHA	516.6	290	56.14%	16.20%	36%	1	-3.30%
ITWN	757.3	491	64.83%	14.65%	32%	1	-3.00%
IMYS	399.6	350	87.58%	10.79%	24%	1	-2.30%
IKOR	1,838.40	640	34.81%	18.70%	25%	1	-1.60%
ICHN	17,814.70	3,300.00	18.52%	13.71%	34%	1	-0.90%
IJPN	4,219.30	726	17.21%	20.86%	24%	1	-0.90%
ILAO	15	8.6	57.36%	2.93%	48%	1	-0.80%
ISGP	505.5	350	69.24%	11.63%	10%	1	-0.80%
IIDN	1,371.40	254	18.52%	8.86%	32%	1	-0.50%
IIND	3,494.10	406	11.62%	17.22%	26%	1	-0.50%
IMMR	64.8	21	32.41%	3.43%	44%	1	-0.50%
IPHL	436.6	81	18.55%	13.56%	17%	1	-0.40%
IHKG	381	205	53.81%	2.27%	34%	1	-0.40%
INZL	253.5	40	15.78%	11.50%	10%	1	-0.20%
IAUS	1,742.00	321	18.43%	3.82%	10%	1	-0.10%

Sources: https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf
https://atlas.hks.harvard.edu/explore/treemap?exporter=country-392&productClass=HS92&view=markets

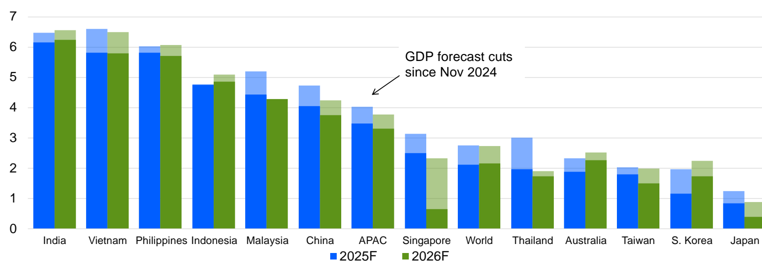
If the 90-day pause is followed by a return to Trump's Plan A, and if we assume perfect elasticity of demand with the announced U.S. reciprocal tariff rates, Cambodia, Vietnam, Thailand and Taiwan are the most exposed because exports are the backbone of their economies and the U.S. has become an increasingly important export destination. In contrast, Australia and New Zealand are less directly exposed, given that exports are a smaller share of GDP and, in the case of Australia, shipments to the U.S. are a smaller share of the merchandise export basket.

April baseline adjustments

Our April baseline adjustments are below. The baseline (most likely) scenario carries a 50% probability and is predicated on the assumption that the most ruthless tariff rates will not hold for long.

Asia in the Firing Line for Trump's Tariffs

Real GDP, % change, ranked by 2025 growth, Moody's Analytics Apr 2025 baseline



Source: Moody's Analytics

China

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Even before the overnight hike in trade barriers on China, the extra 34% tariff announced last week was set to hamper export growth by sending stateside firms looking to other suppliers and slamming the brakes on investment. And it's not just the direct hit on China; the large tariffs directed at Vietnam, Thailand and Cambodia were about closing China's backdoor entry to the U.S. We expect the squeeze on Chinese businesses to drive up urban unemployment. When combined with weaker wage growth, rising unemployment will hold back household spending.

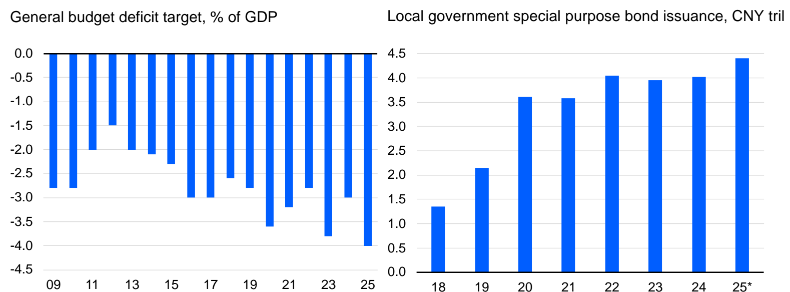
China's initial restraint after news of the third Trump tariff hike this year was merely the calm before the storm, with the country on Friday hitting back with aggressive tariff hikes of its own. Within a few hours of Trump presenting his tariff poster outside the White House, Chinese officials merely urged the U.S. to cancel the new tariffs while threatening firm countermeasures. But a day later, they announced a matching 34% increase in tariffs on all U.S. imports, effective 10 April, as well as restrictions on rare-earth exports to the U.S., the suspension of imports of poultry products from two U.S. suppliers, the addition of several firms to China's 'unreliable entity' list, and extra controls on others.

After China's more measured responses to U.S. tariff hikes in February and March, that move signalled that China had fully entered the ring and planned to stay there. We wait and watch for China's response to Trump's latest salvo.

U.S. agriculture is on the front line of China's 34% tariff declaration. China is one of the largest buyers of U.S. agricultural products, so when this latest increase is combined with March hikes of 10% on soybeans, fruit, dairy products, pork and beef, and 15% on chicken, wheat, corn and cotton, U.S. farmers will soon feel a noticeable decline in Chinese demand.

China's stronger response to Trump's 'Liberation Day' hikes reflected its confidence in mitigating their toll on its struggling domestic economy. As China has targeted growth of around 5% this year, the more aggressive trade response signals an increase in government support for the local economy. We anticipate news of more support measures in coming weeks, building on promises made during the Two Sessions political meetings in March and the subsequent 30-point plan to boost consumption. Beijing will pull fiscal and monetary policy levers. The government will roll out more stimulus targeted towards households, and the People's Bank of China will likely slash key lending rates, steering panel banks in the same direction.

China's Government Spending to Rise



*Announced government target.

Sources: Ministry of Finance of China, CEIC, Moody's Analytics

Beijing has been ramping up stimulus since September, with households increasingly benefiting. This has included minimum wage hikes and a slight widening of the social safety net via measures such as increased pensions for retirees and larger medical insurance subsidies. The government has also widened a consumer goods trade-in scheme. Combined, these measures will not reinvigorate household consumption overnight or overwhelm the challenging export environment. In particular, the trade-in scheme is a temporary, bandaid solution to lift retail trade and doesn't address the underlying reason for Chinese households not spending. The correcting property market is hurting household consumption via wealth effects, and the weak labour market is keeping households cautious.

Despite extra support, it will take a miracle to reach the government's 5% growth target. Given the new tariffs, as known at the end of last week, we downwardly revised our forecast for China's GDP growth in 2025 to 4% from our prior 4.2% estimate. Now that the U.S. has returned fire, we may have to review our 2025 China GDP growth forecast again.

Japan

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The 24% tariff declared on Japan last week added to a daunting set of challenges for its economy, compounding the toll from global trade tensions and increased foreign competition on its exports. If the full measure is implemented as promised and largely maintained, it could shave more than 1% off GDP.

Domestic demand is of little support. Inflation has outpaced wage growth for nearly three years, leaving consumer spending stagnant. Investment spending has also lagged expectations. Better nominal pay gains should provide some relief later this year, but with inflation proving stickier than expected, the recovery will be slow. We have trimmed our forecast for Japanese real GDP growth in 2025 to 0.8% from 1% previously and to 0.4% from 0.7% for 2026.
The worsening outlook raises questions about the Bank of Japan's rate hiking plans. Still, barring a sharp downturn, we expect the central bank to press ahead with a rate rise in the Japanese summer. The fiscal picture is murkier. Weakened by last year's lower house election losses, the ruling Liberal Democratic Party-Komeito coalition is bracing for setbacks in summer's upper house election. As parties and their internal factions scramble for influence, the risk of abrupt fiscal policy shifts is rising. Japan has a history of ill-timed or ill-targeted fiscal pullbacks that have worsened economic and fiscal conditions. All told, Japan's 2025 economic outlook is deteriorating fast.

Vietnam

For months, we flagged Vietnam as having a high risk of more aggressive tariffs, and, unfortunately, we were correct. The U.S. declaration of a 46% import tariff on goods from Vietnam marked a major shift from Trump's first presidency. Back then, Vietnam was the poster child, benefiting from manufacturers moving part or all of their operations out of China to circumvent tariffs. As a result, Vietnam has run an increasingly large trade surplus with the U.S. in recent years. The huge tariff, if it does return after 90 days, will hit Vietnam hard; the U.S. is its largest trading partner, and exports make up about 88% of GDP.

Working on the basis of a 46% tariff, we trimmed our forecasts for Vietnam's GDP growth to 5.8% in 2025 and 2026, a reduction of 0.7 and 0.6 percentage point, respectively, from our March baseline.

We see little change in inflation because we don't expect retaliatory tariffs. Vietnam's government wants to do a deal with the U.S. to get a milder tariff and has little interest in imposing retaliatory tariffs. Early steps to win favour with the U.S. include the lowering of food tariffs and a commitment to buy more liquefied natural gas from the U.S. Increased fiscal support will only partially help domestic demand.

Taiwan

Taiwan's small, export-oriented economy will suffer, whether the initially declared 32% tariff or a watered-down 10% tariff eventuates long term. Aside from a direct tariff, weaker global demand will batter the island. We downwardly revised our 2025 GDP forecast for Taiwan to 1.8% from 2.2% in our March baseline.

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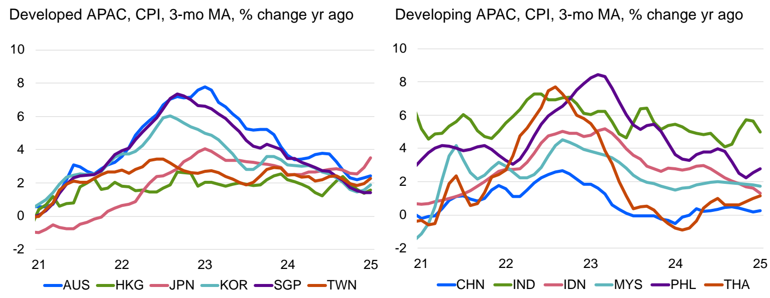
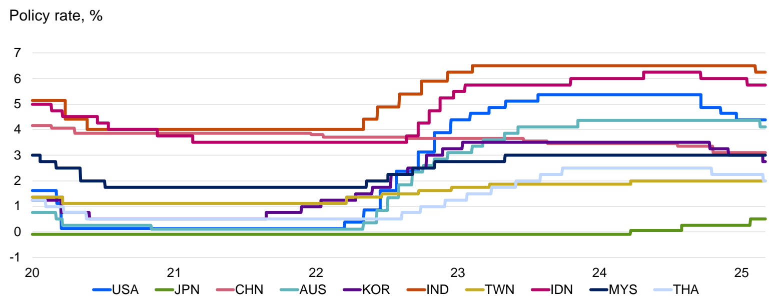
Inflation Is Mostly Back to Normal...and Will Be Subdued by Weaker Demand



Sources: National statistical offices, CEIC, Moody's Analytics

The Easing Cycle Is Underway



Sources: Central banks, Moody's Analytics

The April baseline has the same inflation forecast as the March baseline. Inflation has been hovering around 1.8%, just below the central bank's 2% target, and will likely stay subdued as the impact of an electricity price hike rolls out of year-on-year comparisons. Easier monetary policy settings will do little to insulate the economy from the challenging export environment and aren't likely until early 2026.

Taiwan's medium-term geopolitical position is under threat as tensions with China simmer. This instability has challenged Taiwan's attractiveness to foreign investors so much that foreign investment outflows have gathered pace, making its currency one of Asia's poorest performers.

India

We revised India's GDP growth forecast to 6.1% in 2025 from 6.4% in our March baseline. The U.S. is one of India's largest trading partners, so a 26% tariff hovering over imports of Indian goods will heavily impede the trade balance. Gems and jewellery, medical devices, and textile industries will be among the worst hit. Regardless, we expect overall growth to be relatively insulated from the shock since external demand makes up a relatively small portion of GDP.

Given headline inflation has been easing at a healthy pace, we expect the Reserve Bank of India to lower interest rates, most likely in the form of 25-basis point cuts that take the policy rate to 5.75% by the end of the year. This, paired with tax incentives announced earlier this year, should help boost the domestic economy and dampen the shock of the tariffs on overall growth relative to other vulnerable economies.

Indonesia

A 32% U.S. tariff looming over Indonesia will challenge the economy, with palm oil and electrical machinery exports particularly exposed. While exports are a relatively small driver of economic growth compared with other Southeast Asian economies, lower commodity prices will indirectly impact Indonesia. Global recession odds have increased with this latest round of tariffs, and commodity demand will undoubtedly be lower. A weaker China, Indonesia's largest trading partner, will also hurt the economy.

We downwardly revised Indonesia's GDP growth rate to 4.8% in our April baseline from 5% in our March baseline.

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Indonesia has formed stronger ties with China and has signalled a desire to join BRICS, a global alliance of large emerging economies such as Brazil, Russia, India, China and South Africa. The U.S.'s withdrawal from the Just Energy Transition Partnership has threatened Indonesia's optimistic decarbonisation goals. That exit has threatened more than $3 billion in climate-related investments, including some in Vietnam.

Even prior to the latest tariff announcements, Indonesia's near-term economic stability has been challenged by populist policies such as a free meal program for children and pregnant women, more restrictive foreign investment policies, and an expansion of military power. These changes have put the stock market and the rupiah under pressure. In late March, despite frequent central bank interventions, the currency hit its lowest level versus the dollar since 1997.

Bank Indonesia has the difficult task of managing a weakened currency while wanting to shore up the domestic economy in the face of ructions overseas. At this point, it is prioritising support of domestic demand over rupiah stability, so we expect a 25-basis point rate cut in April.

The government's goal of 8% GDP growth was unrealistic even under more stable domestic and international conditions.

South Korea

We have downwardly revised our forecast for South Korea's GDP growth by 0.3 percentage point to 1.2% in 2025. The economy could easily tilt into recession. Domestic demand is soft, and exports will have a challenging run.

As retaliation will be limited, if not non-existent, and domestic demand will only gradually improve, we maintain our subdued but stable inflation outlook.

With the impeachment process for former President Yoon Suk Yeol now concluded, the country will be perceived as lacking strong leadership. This creates a challenging environment for high-level negotiations. Once the presidential election is held on 3 June, the country may be in better shape to negotiate with the U.S.

Malaysia

We downwardly revised Malaysia's GDP growth forecast by 0.2 percentage point to 4.4% in 2025, based on a 24% tariff. Affected products include textiles, furniture and rubber. Although this tariff rate is higher than anticipated, it is not as harsh as some others in the region. Notably, Malaysia found some reprieve when semiconductors were exempted; however, any chips within more finished goods remain subject to tariffs.

While direct impacts may be limited—exports to the U.S. constitute about 10% of Malaysia's total exports—the indirect toll through China and other key trading partners on exports and foreign direct investment could be bigger. Since exports make up approximately 88% of the Malaysian economy, weaker global growth prospects will likely impact the country. Strong domestic demand, supported by a resilient labour market and public infrastructure spending, will provide limited cushioning, but it will not fully insulate the economy from these external shocks.

The Philippines

The U.S. dealt the Philippines a harder blow than we expected, declaring a 17% tariff, so we have trimmed our GDP growth forecast to 5.8% from 5.9% in our March baseline. Again, we'll have to wait and see whether the diluted 10% tariff will last long term or revert to 17%.

Higher U.S. tariffs will weaken goods exports because the U.S. is the largest buyer of Philippine goods. Further, slowing growth in China will hit service exports, especially in tourism-related sectors. Prior to the COVID-19 pandemic, Chinese tourists were the country's largest group of visitors. The inflation outlook has not changed. The inflation rate has fallen markedly from its peak in January 2023 and should hold within Bangko Sentral ng Pilipinas' target range of 2% to 4% this year. We maintain our monetary policy outlook for one 25-basis point cut in April and another in the second half of 2025.

Australia

We lowered our GDP growth forecast for Australia to 1.8% in 2025. While the 10% baseline tariffs introduced on Australia don't mean much directly, there will be a meaningful indirect hit via weaker Chinese and global demand. Exports dove most of the downward revision.

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We have pencilled in a rate cut for May, bringing that expected easing forward from July. The most probable outcome is that inflation will not spike, as retaliation will be muted, and there could be some dumping of goods, including autos and clothing, by other countries that find their goods priced out of the U.S. market. The extension of electricity rebates will also keep a lid on headline inflation. We expect inflation to stay around 2.5% this year.

Singapore

We lowered Singapore's GDP growth rate to 2.5% in 2025 from 2.7% in the March baseline. The U.S. declared a 10% tariff on Singapore. This was less severe than its treatment of many other countries in the APAC region and will have a limited direct impact on Singapore's economy. However, due to the openness of its economy and its heavy reliance on exports, weaker global demand will hit Singapore.

The country will not implement retaliatory tariffs, so inflation should hold relatively stable. Also, as the U.S. tariff blitz will likely reduce oil and commodity prices, inflation may fall. We still expect the Monetary Authority of Singapore to ease its monetary policy settings in April amid an unchanged inflation outlook and a significant slowdown in February's inflation print.

Hong Kong

We lowered Hong Kong's GDP growth forecast 0.2 percentage point to 1.3% in 2025, but like China, a much greater U.S. tariff has this forecast looking optimistic. Some front-loading of trade happened in the first months of the year in anticipation of the Trump administration's tougher stance on Chinese-origin goods. The U.S. no longer recognises Hong Kong as a separate customs territory distinct from Mainland China. Heightened tariffs also mean less demand for trade finance, a traditional strength of the Hong Kong financial segment. The combined value-add of the financial services and the trading/logistics industries represented two-fifths of Hong Kong's GDP in 2023, so Hong Kong is staring down the barrel.

In other parts of the Hong Kong economy, retail sales are down from last year. Hong Kong's government is starting a calibrated fiscal consolidation from this fiscal year ending March 2026. Since a hard currency peg means Hong Kong's policy rate is synced with the U.S. fed funds rate, higher prices in the U.S. could mean that the Fed holds interest rates where they are, leaving the Hong Kong Monetary Authority no choice but to maintain high interest rates. All this points to reduced overall activity. But there is a silver lining: Mainland China is slated to support its domestic economy, and its state-owned investment units could spy some attractive investments in Hong Kong.

New Zealand

We downwardly revised our forecast for Kiwi GDP growth in 2025 to 0.9% from 1.1%.

The U.S. is one of New Zealand's top three export markets. U.S. demand for Kiwi beef has been instrumental in an improving external sector in recent quarters. The new 10% tariff will drag on beef and dairy exports. Trump's tougher stance on China (NZ's largest export market) may also depress consumer sentiment in China, softening Kiwi dairy shipments. The governing coalition government has said it will not retaliate. Inflation expectations remain relatively stable.

We have kept our baseline forecast for three 25-basis point cuts in the coming three meetings (the first of which was confirmed on Wednesday). This will put the official cash rate at 3% in July. But evolving global growth prospects may challenge this. Weaker global demand and exports could translate to weaker domestic demand, allowing the Reserve Bank of New Zealand to cut even more. Should the impact of slower global growth substantially change the trajectory for domestic growth and inflation in the year ahead, an extra 25-basis point cut in August or September may be warranted. This possibility will be considered for the May baseline after the RBNZ's April meeting.

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