EMERGING ASIA ECONOMICS UPDATE

What do US tariffs mean for Asia?

- US tariffs on imports of solar cells and washing machines are likely to cause some short-term disruption in parts of the region, most notably Malaysia, Korea and Vietnam. However, the overall impact on the region’s growth prospects will be very small.

- Late on Monday, President Trump approved a range of new tariffs ranging from 20-50% on US imports of solar cells and washing machines. The tariffs have been met with protests from across the region.

- In 2016, exports of solar panels from Emerging Asia to the US reached US$8.5bn, which is the equivalent to just 0.02% of the region’s GDP. Even a sharp fall in exports of solar panels to the US would therefore have only a very small overall impact on the region’s prospects.

- Even in Malaysia, which in 2016 exported US$2.5bn worth of solar panels to the US (which is the equivalent to 0.8% of its GDP), the impact is likely to be relatively small. This is because the value-added to Malaysia’s economy from its solar panels industry is much less than the headline figure implies.

- China, which until recently was the biggest exporter of solar panels to the US, shifted much of its assembly of US-bound solar panels to other parts of Asia (mainly Malaysia) in order to circumvent US tariffs that were imposed in 2012. However, Malaysia’s role in the production process is mostly limited to assembling the final components which are imported from China, before shipping them off to the US. The value-added to Malaysia’s economy from its solar panel exports to the US is therefore much lower than the 0.8% of GDP headline figure. As a result, while there is likely to be disruption to Malaysia’s economy from the tariffs as production is relocated to other countries, the macro impact will be small.

- The impact of the tariff increases on washing machines is likely to be even smaller. After China, Vietnam is the biggest exporter of washing machines to the US in Asia, but its exports are the equivalent to less than 0.1% of its GDP.

- The bigger risk is that after a year when Trump has done little to follow up his campaign threats to get tough on countries that run big bilateral trade surpluses with the US, today’s move marks a sudden change in US policy.

- Countries in Emerging Asia export more to the US than most other emerging markets (see Chart 2), and more generally have been among the biggest beneficiaries of globalisation in the world. Any moves towards protectionism would deal a blow to the region’s most trade-dependent economies such as Singapore, Taiwan and Vietnam. Korea would also be badly hit if instead of trying to renegotiate the Korea-US Free Trade Agreement (KORUS), the US completely withdrew from the deal.

- It is not just goods exports which would be affected if US policy becomes more protectionist. The Philippines thriving business process outsourcing (BPO) sector last year brought in revenues equivalent to around 10% of GDP. Around three-quarters of total revenue from the sector comes from US companies. If Trump put pressure on American companies to bring this work back to the US, the sector would be hit hard. India, where BPO receipts are the equivalent to about 7% of GDP, could also be affected.
Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

Distribution: Subscribers are free to make copies of our publications for use at their location. No other form of copying or distribution of our publications is permitted without our permission.