

Macro Note

US: Trade tariff re-escalation

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- US President Trump unveiled the first wave of tariff letters to 14 countries on 7 Jul, slated to take effect on 1 Aug deadline (extended from 9 Jul). These rates would be “separate from all sectoral tariffs,” meaning, the new tariff will not be stacked on top of any existing/future sector-specific tariffs.
- The list contained many Asian countries and included Japan (25%), South Korea (25%), Malaysia (25%), Indonesia (32%), Thailand (36%) amongst others, which is broadly similar (and in some cases slightly worse compared) to the rates announced on Liberation Day. Some of the Asian countries do not run significant trade surpluses with US but are still hit with material tariff rates, likely to mitigate trade diversion/transshipment from China.
- The US-China 90-day pause in reciprocal tariffs which will end on 13 Aug, will come into view. Trump’s reversion to Liberation Day tariff rates for some economies on 7 Jul has increased the risks for China in addition to US potentially seeking to cut transshipments (targeting goods with Chinese content) through a tiered tariff agreement (such as with Vietnam). We expect a trade deal to be announced (including the tariff rates and finalized terms) or a further extension of the 13 Aug deadline.

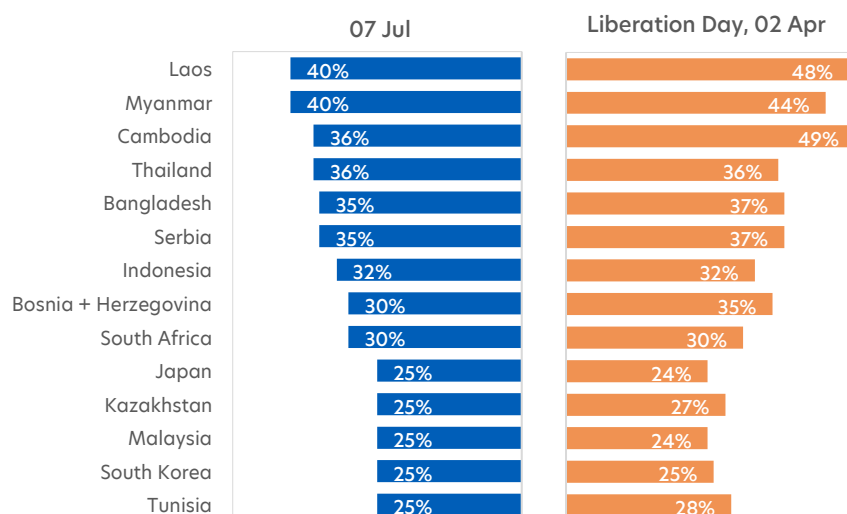
Trump issues new tariff rates, warns against retaliation, but still open for negotiations

On Mon (7 Jul), fresh from his victory in the passage of his “One Big, Beautiful Bill” (OB BB) and ahead of the 9 Jul expiration of the 90-day tariff pause, US President Trump unveiled follow-up letters to 14 countries (mostly Asian) announcing updated rates. These included Japan (25%), South Korea (25%), Malaysia (25%), Indonesia (32%), Thailand (36%) amongst others, which are broadly similar (and in some cases slightly higher) compared to the tariff rates announced earlier on 2 Apr Liberation Day (see Chart 1). Trump also signed an executive order extending the tariff pause from 9 Jul to 1 Aug. According to the fact sheet, Trump may send more letters in the coming days and weeks.

Importantly, Trump said these rates would be “separate from all sectoral tariffs,” meaning the new tariff will not be stacked on top of any existing/future sector-specific tariffs. Trump also warned against tariff retaliation, stating that if countries raise tariffs against the US, the US will add the same amount to the announced tariff levels. That said, Trump left the door open for additional negotiations and extensions, saying the 1 Aug deadline was “not 100% firm” and he remained open to continuing to tweak the rates (Trump: “Maybe adjust a little bit, depending ...We’re not going to be unfair.”)

Chart 1: Tariff rates by announcement date – 7 Jul's broadly similar to Liberation Day's tariffs but slightly worse off for Japan and Malaysia

Source: White House, CNBC, UOB Global Economics & Markets Research



Noticeably missing in the first batch of countries receiving the US tariff letters were the EU and India. According to reports, the EU is not expecting to receive a letter setting tariff rates on Mon, but seeking to conclude a preliminary deal this week that would allow it to lock in a 10% tariff rate beyond the 1 Aug deadline as they negotiate a permanent agreement. As for India, President Trump made clear mention that the US is close to making a deal with India. Few countries have succeeded to conclude trade negotiations with US, except UK and Vietnam, and China which agreed to a trade negotiation framework with the US.

Considerations for the tariffs – Trade deficits not the only consideration

The trade escalation is first seen to be driven by large trade deficits that US continues to run against some of its trade partners. As we have written in earlier reports, since US President Trump's first term, US trade deficits have narrowed against China but worsened against many countries in Asia ex-China, EU and its North American allies as trade diversification, supply chain shifts and trade diversion accelerated. Thus, with the US total goods trade deficit reaching a record US\$1.2 trillion in 2024, Trump will be looking for ways to address the worsening imbalance in his second term.

In Asia, Japan, Vietnam, Taiwan, South Korea, India and Thailand recorded significant increases in trade surpluses against the US between 2018 and 2024. Exports to the US have helped to drive the performance of Asia ex-China's trade and economic performances in the past two years. As a result, economies such as Vietnam, Malaysia, Thailand, South Korea and Taiwan have seen significant increases in their exports to the US since 2018, thus increasing their vulnerability in any escalation in trade tensions or restrictions. And while Vietnam "escaped" with a trade deal of 20% tariff, many of these economies, on 7 Jul, were at the receiving end of additional tariffs to address the trade imbalance.

But why are some ASEAN countries, Myanmar, Laos and Cambodia, which do not run significant trade deficits with US imposed with the most significant tariff rates? One possible reason is to mitigate trade diversion from China. Note that within the Vietnam trade deal, the US has imposed a 40% tariff on transshipments. The rate

is coincidentally the same tariff rate imposed on Myanmar and Laos, and similar to the rate (36%) imposed on Cambodia and Thailand. Based on 2024 data, the top US imports from Laos were solar cells while the top US imports from Myanmar included apparel and electronics. Both countries run trade surpluses of more than US\$500mn but less than US\$1 bn with the US in 2024.

Malaysia: A slightly bigger tariff hit of 25% but positives still abound

Malaysia's latest tariff rate imposed by the US was 25%. This is slightly higher than the initial 24% announced in Apr. Nevertheless, we continue to view Malaysia as a potential beneficiary of onshoring trends, particularly as multinational corporations pursue "plus one" diversification strategies. While we remain cautious due to the possibility of additional sector-specific tariffs —especially in semiconductors— it is encouraging that these are not cumulative with existing sectoral tariffs.

The Malaysian government said it will likely continue to engage the US to address outstanding issues, clarify the scope, and work towards concluding negotiations before the 1 Aug deadline. Malaysia has also signaled openness to US market access requests, provided they align with domestic regulations and labor standards. Sectors that have been discussed include semiconductors, agriculture, gloves, solar panels and furniture. To increase oversight and enforce stricter checks on the country of origin and prevent diversion, Malaysia has centralized the process for issuance of non-preferential certificates of origin (NPCOs) for all exports to US.

We maintain our projection for GDP to expand by 4.0% in 2025, which has taken into account the direct impact from the US' reciprocal tariffs on Malaysia and secondary effects from tariffs on major trading partners. Recent data points, external developments, trade and tariff uncertainty reaffirm our view of a potential 25bps rate cut to 2.75% at the upcoming Monetary Policy Committee (MPC) meeting (9 Jul).

China: coming into view with its 90-day pause ending 13 Aug

The US-China 90-day pause in reciprocal tariffs will end on 13 Aug, more than a month from now. However, Trump's reversion to Liberation Day tariff rates for a number of economies has increased the risks for China, which has the largest trade surplus with the US among its trade partners. The US may also be seeking to cut transshipments (targeting goods with Chinese content) through a tiered tariff agreement (such as with Vietnam).

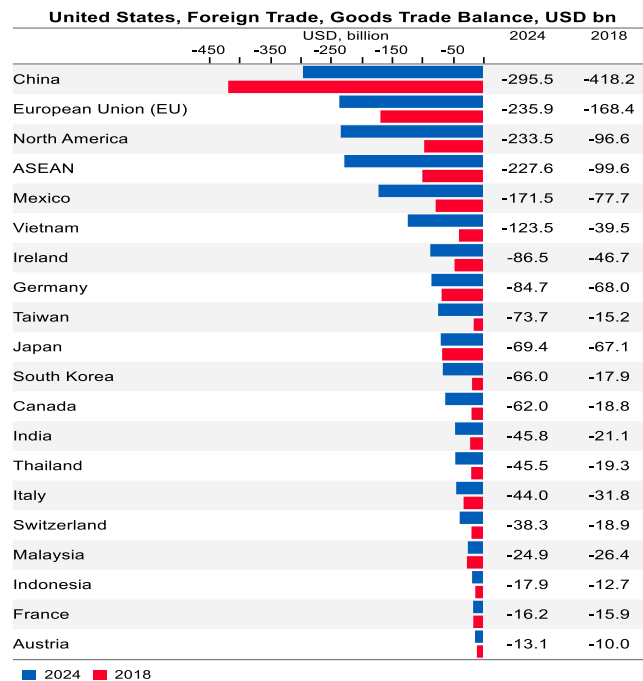
China's Commerce Ministry confirmed on Fri (Jun 27) that it has reached a trade deal framework with the US where it "will review and approve applications for the export control items that meet the requirements in accordance with the law" and "the US side will correspondingly cancel a series of restrictive measures against China". **We expect a trade deal to be announced (including the tariff rates and finalized terms) or a further extension of the 13 Aug deadline.** The established communication channel to continue discussions would reduce the risk of a breakdown in negotiations.

Following the Phase 1 trade deal in 2020, we believe an eventual trade deal this time would likely commit China to reduce its trade surplus with the US by increasing its US imports as well as address issues related to export controls. It is likely that the baseline tariff rate will be raised for China, but the two countries may find some resolution to address the Trump administration's concerns about China's role in the fentanyl trade. This could potentially lead to a removal of the 20% fentanyl-related tariff, in an optimistic scenario. Thus, **it is conceivable that the eventual US tariff rate on imports from China may settle between 30% and 60%.** It is important to

remember that any trade deal will not resolve longstanding conflicts and competition between the two economic powers, and the US is likely to continue using various ways to contain China's development in the high-tech sectors.

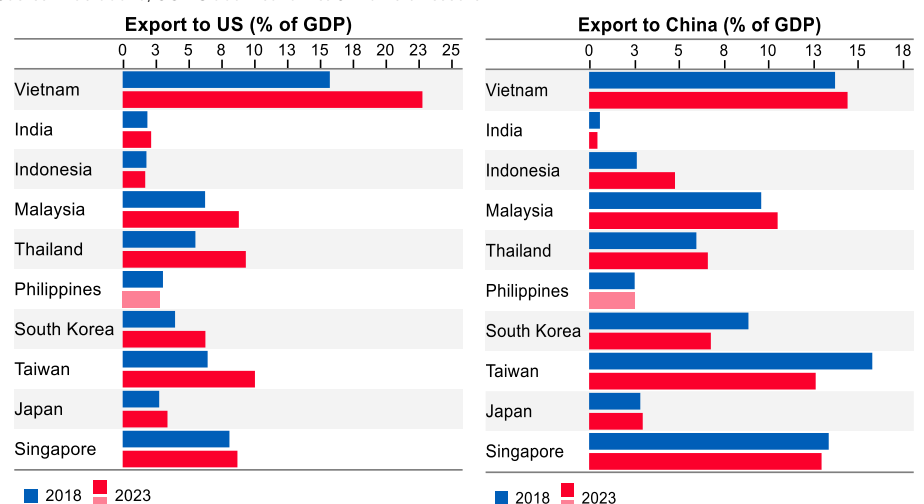
US trade deficits with the top 20 economies and blocs

Source: Macrobond, UOB Global Economics & Markets Research



Asian economies such as Vietnam, Malaysia, Thailand, South Korea and Taiwan saw significant increase in their exports to the US while some declines in shipments to China

Source: Macrobond, UOB Global Economics & Markets Research



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