Macro Note

US: Tariff reset offers clarity, but trade uncertainty persists

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- US President Trump signed an executive order adjusting "reciprocal" tariffs on 69 countries, effective 7 Aug, with rates ranging from 10% to 41%. Key impacts include lowered tariff rates for ASEAN countries and 10% baseline for Singapore. Investment pledges from the EU and Japan to invest in the US were also announced.
- Transshipment of goods will face a 40% tariff, but details remain unclear and subject to bilateral negotiations. Sector-specific tariffs add to uncertainty, with pending investigations into semiconductors and pharmaceuticals. Singapore may be exposed, as pharmaceuticals made up 35% of its US export value in 2024, up from 24% in 2023.
- **Outlook** – While tariff clarity has improved, uncertainties around transshipment and sector-specific tariffs persist. The US shift towards bilateral deals has upset the globalization efforts, raise inflation risks and global trade tensions. De-dollarization concerns are growing, though the US dollar will remain dominant for some time. Asia's export outlook may soften in 2H25 and into 2026, while regionalization accelerates, with ASEAN poised to benefit from initiatives like the Johor-Singapore SEZ and FDI inflows in this uncertain environment.

Tariff reset ahead of 1 Aug deadline

Just ahead of the 1 Aug deadline, US President Donald Trump signed an executive order ("Further Modifying the Reciprocal Tariff Rates" link) on Thu (31 Jul) that modified "reciprocal" tariffs on a number of countries/regions, with updated levies ranging from 10% to 41%. The tariff rates are slated to take effect from 7 Aug. The original "reciprocal" tariff rates were announced on 2 Apr "Liberation Day", which shocked global markets with its unexpectedly high rates (link). The US subsequently paused the implementation for 90 days and instead implemented a universal 10% baseline rate for most exporters, and set a new deadline of 1 Aug.

The latest adjusted tariff rates range from 10% to 41% (Syria) and target exports from 69 countries/regions, including Canada, India, Switzerland, and Brazil. Its close trade partner, Canada, was hit with 35% except for goods that are covered under the U.S.-Mexico-Canada free trade pact signed during Trump's first term. Goods from Switzerland will be subjected 39% of duty, from 31% earlier. India said it will be negotiating with the US after being hit with a 25% tariff that could affect US$40 bn worth of its exports. In Southeast Asia, most economies, including Thailand and Malaysia, saw lower-than-expected rates of 19%. Singapore's Ministry of Trade and Industry (MTI) on Fri (1 Aug) confirmed that the baseline 10% tariff will continue to apply (link).

Other than tariff rates on goods imports into the US, Trump also negotiated for investment commitments from the European Union (US$600 bn) and Japan (US$550 bn) into the US. No details have been released as to what qualifies as "investment" as well as the timeframe and enforcement mechanism for realizing these investments.

Uncertainty remains over transshipment rules and sector tariffs

Another key element of note in the White House statement is that all goods that are considered to have been transshipped will also be subject to a 40% tariff. This "transshipment" tariff was first announced in early Jul with Vietnam (link). It is clear now that this concept would be implemented universally, and such practice would attract a much higher tariff rate and potentially severe penalties for tariff evasion (details in White House statement's Annex II link).

However, it is unclear what exactly is considered "transshipment", although it is likely to be negotiated and agreed upon bilaterally rather than under a one-size-fits all rule.

The most common measurement will be through the amount or percent of domestic value added on a particular product to quality as country of origin for the purpose of exporting to the US. For instance,

- It has been reported earlier that the Vietnamese government is preparing "stricter penalties to crack down on trade fraud and the illegal transshipment of goods" (link)
- The US government was demanding a 60% domestic value add to qualify for "Made in India" while the Indian government countered with a figure of 30% (link).
- In Malaysia's case, Non-Preferential Certificate of Origin (NPCO) for exports to the US will be issued by the Ministry of Investment, Trade and Industry (MITI) effective 6 May 2025, with a minimum requirement of 25% of local contents (link).

It remains to be seen how each country would respond to US' demand for local contents to determine whether a product fits the country of origin or a transshipment. The process of bilateral negotiations would likely take a considerable amount of time to conclude

In addition to topic of transshipment, trade uncertainty will continue to weigh on sentiment. Tariffs on some sectors remain outstanding, particularly for semiconductors and pharmaceuticals which could put further pressures on ASEAN exporters. Announced sector tariffs include those for steel, aluminum, copper, automobiles and auto parts.

Tariffs on pharmaceuticals and semiconductors are pending investigations that Trump initiated back in Apr 2025. The probe was launched under section 232 of the Trade Expansion Act of 1962, as part of a bid to impose tariffs on both sectors on national security grounds. Trump has previously threatened levies as high as 200% on pharmaceuticals and rates of 25% or higher on semiconductors. US Commerce Secretary Howard Lutnick had said earlier (27 Jul) that the outcome of the investigation on semiconductors would be released in two weeks. While exporters like Malaysia, Vietnam, Thailand will be vulnerable to increased levies on semiconductor sector, Singapore will be exposed to tariff on pharmaceuticals, which (classified under HS code 30) accounted for 35% share of US imports value from Singapore in 2024, significantly higher compared to the 24% share in 2023.

Outlook – Improved clarity, persistent challenges

While the latest reset provides some clarity and certainty as far as tariff rates are concerned, several unresolved issues may continue to exert downward pressures on businesses, including transshipment and sector-specific tariffs that are still outstanding.

Regardless, the latest development once again confirms that the US is moving further from a global trade system based on most favoured nation (MFN) principle, to one that is based on bilateral negotiations with much higher tariff rates and restrictions.

According to estimates by Yale Budget Lab (link), the latest tariff changes would lift the overall ("pre-substitution") US average effective tariff rate to 18.3%, the highest since 1934, up from the average of 2.4% in early Jan 2025. After consumers and businesses adjust their purchase preferences in response to the tariff-induced price increases, or "post-substitution" — as imports shift in response to the tariffs — overall US effective tariff rate is estimated at 17.3%, the highest since 1935.

US inflation / Fed policy

With the US now setting tariff rates that are highest in more than 9 decades, the costs of these price increases will be borne by American businesses and consumers ultimately. US inflation has been largely contained so far and early signs of tariff-related pressures are emerging but yet to manifest in a meaningful way (link). Some have attributed this to the availability of existing inventory, increased imports during the 90-day pause, and burden-sharing by both importers and exporters to minimize passing of the costs. It remains to be seen how far these factors can mitigate the impact given the new set of tariff rates will be implemented by 7 Aug.

The uncertainty of how much and how fast the feed through of tariff impact on US inflation going forward is keeping the US Fed in a wait-and-see mode, as reflected in the latest FOMC decision to hold rates steady, though with 2 dissenting votes. However, the surprisingly weak Jul nonfarm payroll report subsequently has shifted the attention to the state of the US labor market. We still see room for the Fed to cut interest rates 3 times in 2025, starting with the Sep FOMC (link).

Asia trade outlook

With US consumers facing the highest import duties in more than 9 decades, the negative impact will be considerable for Asia which is generally export oriented. It remains to be seen how big the impact will be given that a number of Asian economies, including China (link), Taiwan (link), Hong Kong (link), Singapore (link), and Malaysia (link), have reported upbeat 1H25 GDP data partly due to the frontloading of exports orders to take advantage of the 90-day pause in reciprocal tariff.

How the second half will pan out remains to be seen, although we anticipate exports demand to moderate, due to the higher tariffs that are being levied by the world's largest consumer market and importer. While the impact across ASEAN may vary, Indonesia could see some substantial decline in exports to the US by 2026 (link) while Vietnam's exports to the US could stagnate in 2025 compared to the double digit gains seen in 2024 (link).

Overall, we expect ASEAN's growth rate to slow to around 4.2% in 2025 and to 4.4% in 2026, compared to an average of about 5% annually.

Regionalization / geoeconomic fragmentation to accelerate

The US is now clearly moving further away from a global trade system based on most favoured nation (MFN) principle, which ensures that when a country offers a trade benefit (e.g. lower tariffs, preferential import quotas) to one nation, it must offer the same benefit to all other World Trade Organization (WTO) members.

Instead, the US is engaging with its trade partners on a bilateral basis to achieve the best outcome for itself under the "America First" banner. The concessions it has extracted including commitment to invest a substantial amount in the US, zero tariff access for US goods, purchasing of US arms, among others.

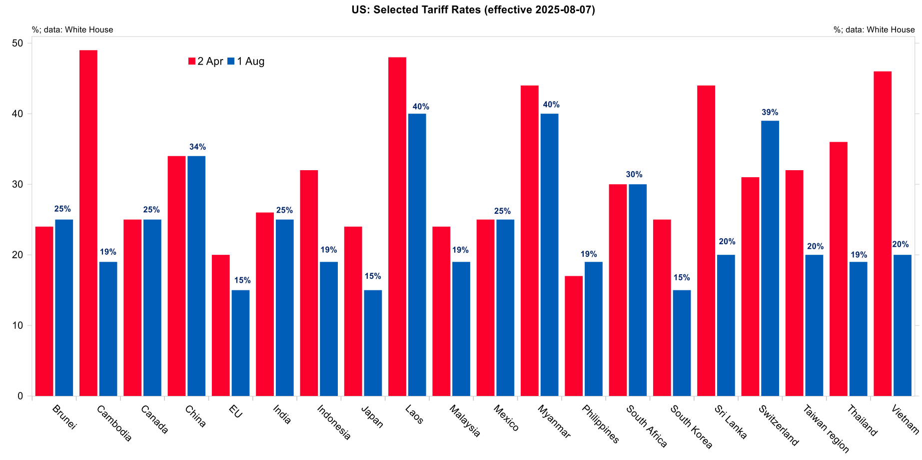
The consequences of such pivot and uncertainty are multifold, which include the erosion of the trust and confidence in the US system and the US dollar, unwinding of globalization efforts, accelerating geoeconomic fragmentation/regionalization of trade and investment, and further splintering of the supply chains to cater to multiple large markets.

The erosion of trust and confidence in the US can be attributed to the increased concerns of de-dollarization and the US as a safe haven. Given the lack of a credible alternative, the US dollar will remain dominant as a reserve currency and de-dollarization will take place only over a long period of time. However, a weakened US dollar could result in less demand for US assets including the Treasuries, which in turn could push up the costs of US government financing.

In the case of further accelerating regionalization, ASEAN members benefit given that the grouping has demonstrated its ability to collaborate and cooperate through its history. The latest efforts by the governments of Malaysia and Singapore to develop the Johor-Singapore Special Economic Zone (JS-SEZ; see further details via these links link, link, link) is a case in point and is expected to continue attracting both domestic and foreign investors to capitalize on business opportunities arising from such collaborative ventures. In 2024, ASEAN reported another year of record inflows of foreign direct investment (FDI) and as the world's second largest FDI destination after the US (link).

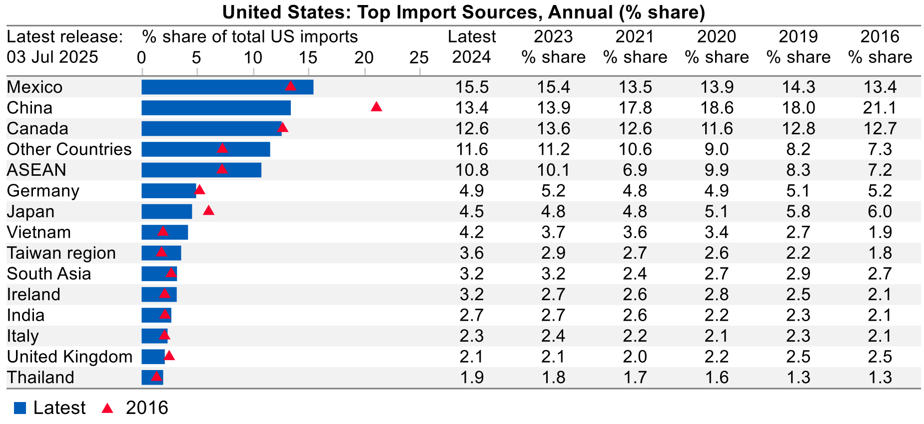
US: Selected Tariff Rates (effective 2025-08-07)

Source: Macrobond, UOB Global Economics & Markets Research



United States: Top Import Sources, Annual (% share)

Source: Macrobond, UOB Global Economics & Markets Research

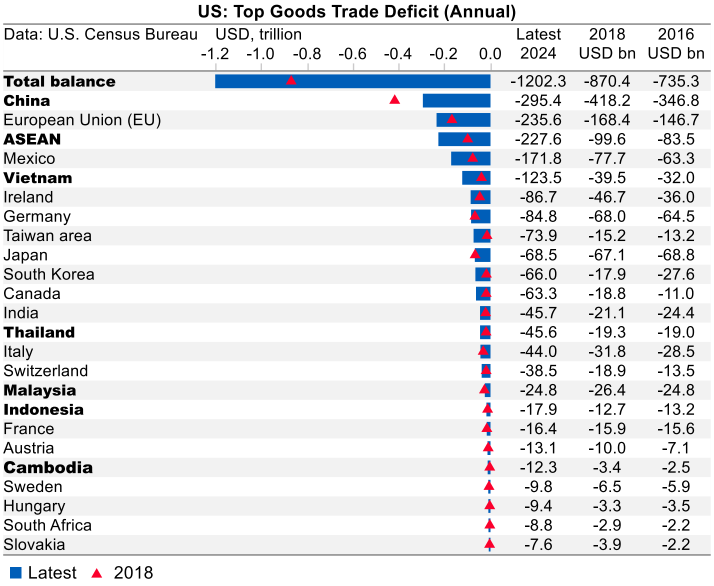


Latest release: 03 Jul 2025	Latest 2024	2023 % share	2021 % share	2020 % share	2019 % share	2016 % share
Mexico	15.5	15.4	13.5	13.9	14.3	13.4
China	13.4	13.9	17.8	18.6	18.0	21.1
Canada	12.6	13.6	12.6	11.6	12.8	12.7
Other Countries	11.6	11.2	10.6	9.0	8.2	7.3
ASEAN	10.8	10.1	6.9	9.9	8.3	7.2
Germany	4.9	5.2	4.8	4.9	5.1	5.2
Japan	4.5	4.8	4.8	5.1	5.8	6.0
Vietnam	4.2	3.7	3.6	3.4	2.7	1.9
Taiwan region	3.6	2.9	2.7	2.6	2.2	1.8
South Asia	3.2	3.2	2.4	2.7	2.9	2.7
Ireland	3.2	2.7	2.6	2.8	2.5	2.1
India	2.7	2.7	2.6	2.2	2.3	2.1
Italy	2.3	2.4	2.2	2.1	2.3	2.1
United Kingdom	2.1	2.1	2.0	2.2	2.5	2.5
Thailand	1.9	1.8	1.7	1.6	1.3	1.3

■ Latest ▲ 2016

US: Trade deficits against trade partners (Annual)

Source: Macrobond, UOB Global Economics & Markets Research

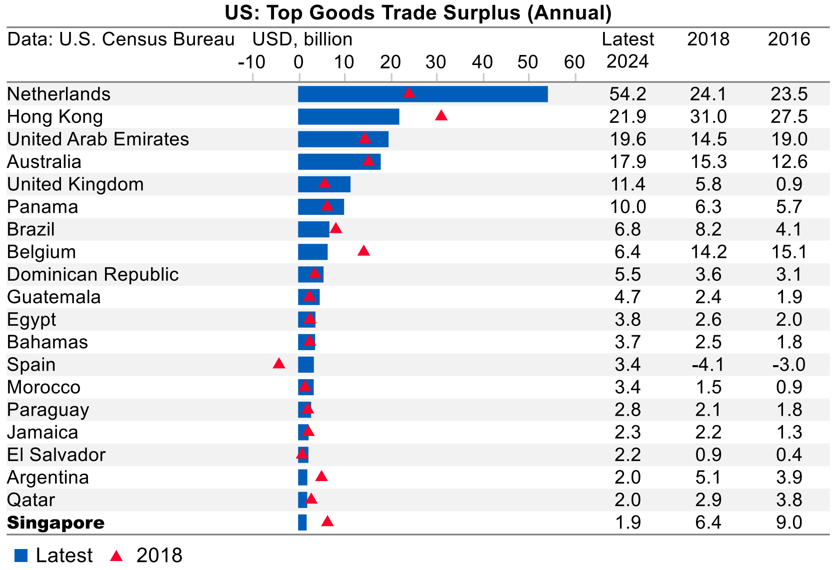


Data: U.S. Census Bureau	Latest 2024	2018 USD bn	2016 USD bn
Total balance	-1202.3	-870.4	-735.3
China	-295.4	-418.2	-346.8
European Union (EU)	-235.6	-168.4	-146.7
ASEAN	-227.6	-99.6	-83.5
Mexico	-171.8	-77.7	-63.3
Vietnam	-123.5	-39.5	-32.0
Ireland	-86.7	-46.7	-36.0
Germany	-84.8	-68.0	-64.5
Taiwan area	-73.9	-15.2	-13.2
Japan	-68.5	-67.1	-68.8
South Korea	-66.0	-17.9	-27.6
Canada	-63.3	-18.8	-11.0
India	-45.7	-21.1	-24.4
Thailand	-45.6	-19.3	-19.0
Italy	-44.0	-31.8	-28.5
Switzerland	-38.5	-18.9	-13.5
Malaysia	-24.8	-26.4	-24.8
Indonesia	-17.9	-12.7	-13.2
France	-16.4	-15.9	-15.6
Austria	-13.1	-10.0	-7.1
Cambodia	-12.3	-3.4	-2.5
Sweden	-9.8	-6.5	-5.9
Hungary	-9.4	-3.3	-3.5
South Africa	-8.8	-2.9	-2.2
Slovakia	-7.6	-3.9	-2.2

■ Latest ▲ 2018

US: Top Goods Trade Surplus (Annual)

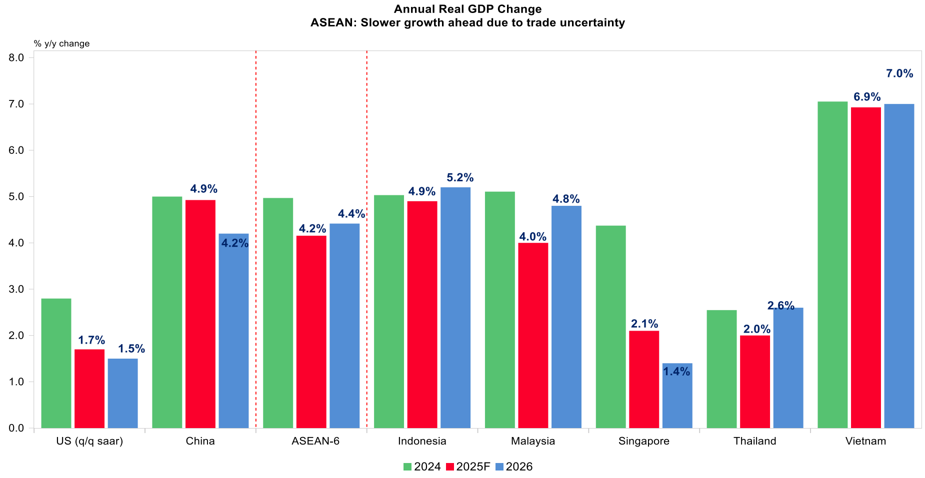
Source: Macrobond, UOB Global Economics & Markets Research



Data: U.S. Census Bureau	Latest 2024	2018	2016
Netherlands	54.2	24.1	23.5
Hong Kong	21.9	31.0	27.5
United Arab Emirates	19.6	14.5	19.0
Australia	17.9	15.3	12.6
United Kingdom	11.4	5.8	0.9
Panama	10.0	6.3	5.7
Brazil	6.8	8.2	4.1
Belgium	6.4	14.2	15.1
Dominican Republic	5.5	3.6	3.1
Guatemala	4.7	2.4	1.9
Egypt	3.8	2.6	2.0
Bahamas	3.7	2.5	1.8
Spain	3.4	-4.1	-3.0
Morocco	3.4	1.5	0.9
Paraguay	2.8	2.1	1.8
Jamaica	2.3	2.2	1.3
El Salvador	2.2	0.9	0.4
Argentina	2.0	5.1	3.9
Qatar	2.0	2.9	3.8
Singapore	1.9	6.4	9.0

ASEAN: Overall, slower growth expected in 2025 and 2026

Source: Macrobond, UOB Global Economics & Markets Research



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