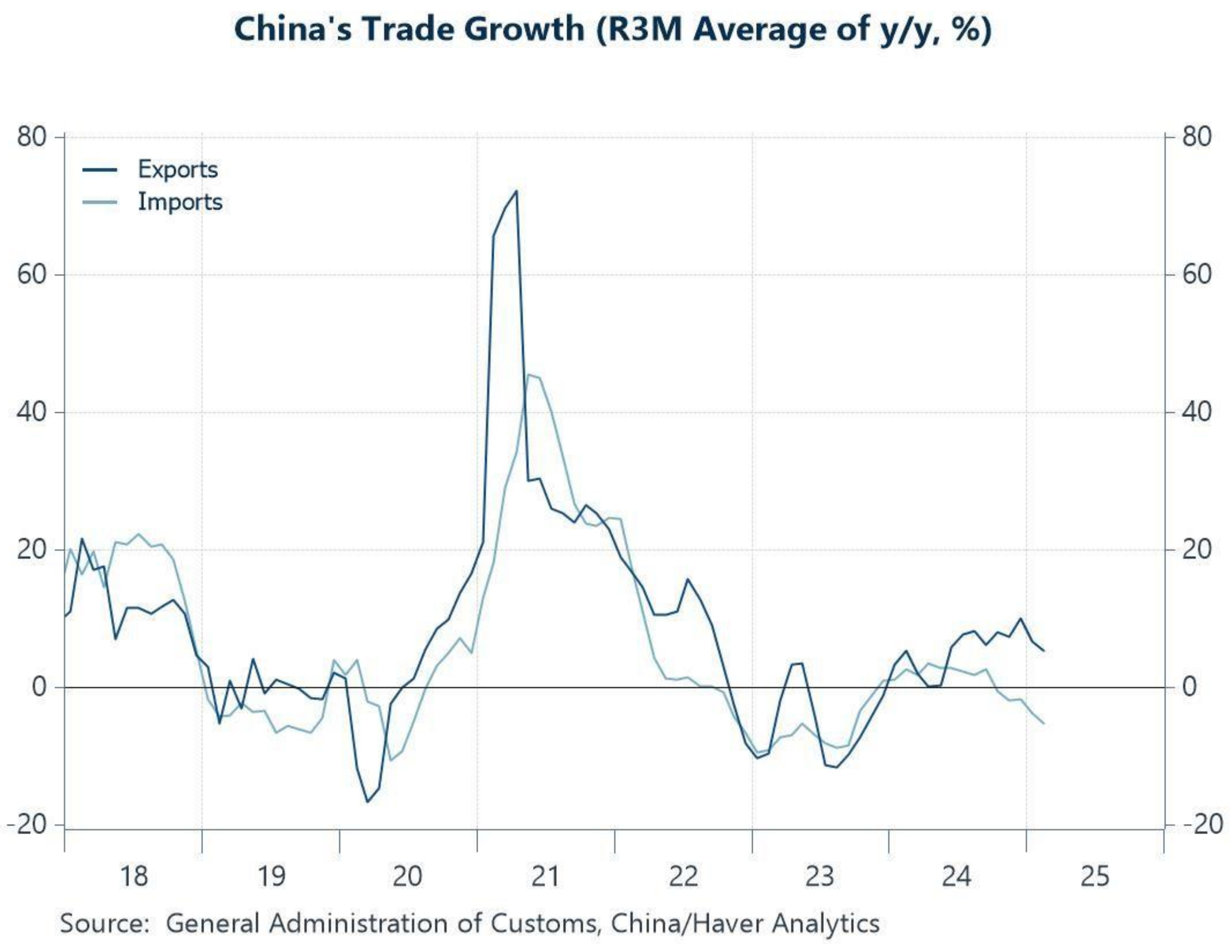
Link to online article: https://haverproducts.com/economic-letter-from-asia/
Written by [Tian Yong Woon]()

This week, we look again at US tariff policy and explore its potential implications for Asia, particularly China and South Korea. While US President Trump has temporarily dialled back his actions on Canada and Mexico, he has moved forward with doubling the tariff rate on China to 20%. However, China's trade data have already started to exhibit more fragility (chart 1), and lingering uncertainties are also beginning to affect other trade-dependent economies, such as South Korea (chart 2). To make matters worse, South Korea is grappling with significant political uncertainty at home, with much-needed fiscal support still in limbo. This only adds to the policy uncertainty it faces (chart 3). We also take a closer look at the key messaging coming out of China's National People's Congress, which began last Wednesday. Notably, China reaffirmed its commitment to an annual growth target of "around 5%" (chart 4), supported in part by more expansionary fiscal policy (chart 5). Additionally, we examine China's increased focus on shifting toward a more consumption-driven economy and the associated challenges (chart 6). This shift seems increasingly necessary, given the potential decline in export revenues due to more protectionist US policies.

Latest US Trade Policy

Last week, US President Trump proceeded with the implementation of blanket 25% tariffs on Canada and Mexico, following a prior delay. Additionally, he doubled import tariffs on China, increasing them from 10% to 20%. However, he later provided an interim reprieve for goods covered under the United States-Mexico-Canada Agreement (USMCA), delaying some tariffs on Canada and Mexico until April 2. In response, China swiftly retaliated by imposing tariffs ranging from 10% to 15% on US agricultural products, among other countermeasures. It is important to note that China's response to the US's broad tariffs has been relatively restrained. In terms of numbers, China's export growth has already slowed amid heightened trade uncertainty, as shown in chart 1. This slowdown is partly due to the easing of growth following prior front-loading of exports, as well as a decline in imports driven by softer demand.

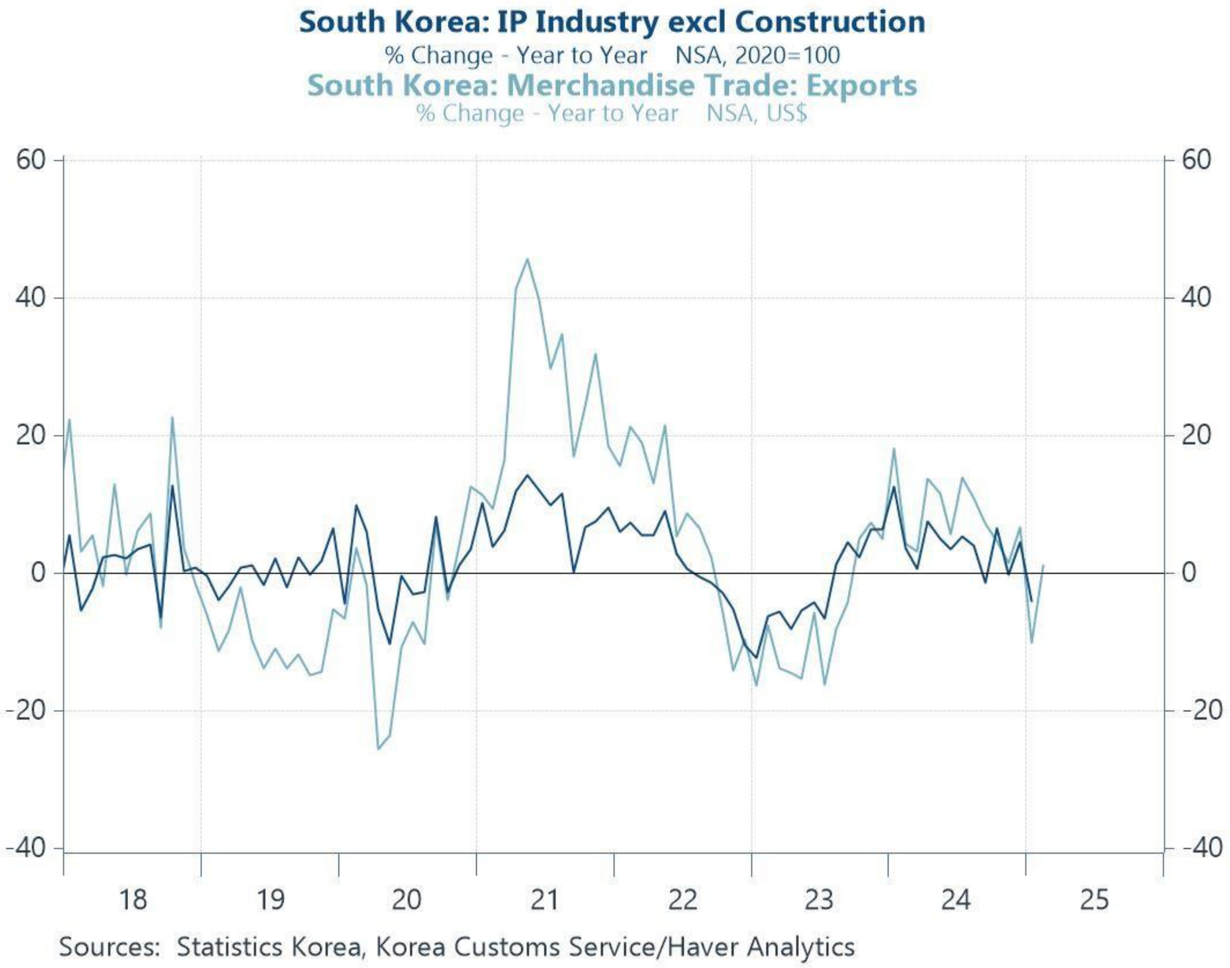
Chart 1: China exports and imports growth



South Korea's economy

The uncertainties stemming from US tariff actions are starting to hit trade-dependent South Korea hard too. In February, the country's export growth fell short of expectations, and industrial production contracted during the same period, as shown in chart 2. South Korea faces a challenging road ahead, weighed down by both external and internal factors. Externally, the nation must contend with the potential impact of escalating US tariffs, which pose a significant threat to trade-reliant economies like South Korea. Domestically, political instability is growing due to the fallout from former President Yoon's martial law declaration. This situation further compounds uncertainty, with attention now shifting to the government's supplementary budget and its potential to support growth.

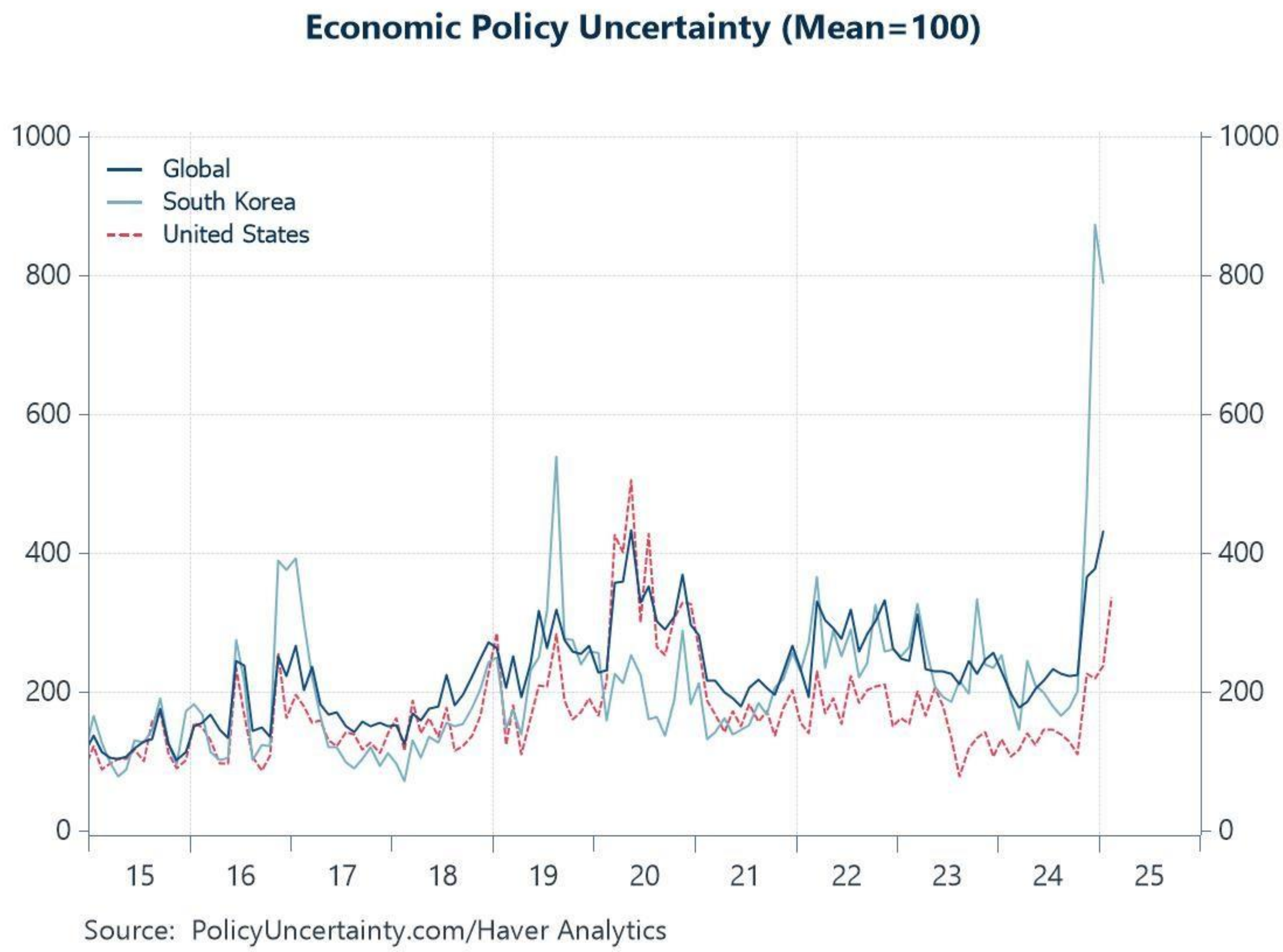
Chart 2: South Korea exports and industrial production



Policy uncertainty

In response to the fragile outlook, the Bank of Korea (BoK) lowered its policy rate by 25 basis points to 2.75% in February, as expected. This marks the second rate cut since the policy rate peaked at 3.5% in 2023. Of greater concern, however, is the BoK's revised GDP forecast for 2025, which now projects growth of 1.5%, down from the 1.6-1.7% range previously forecast in January. Economic policy uncertainty is rising globally, not just in South Korea, as shown in chart 3. Investors are struggling to predict how policies will unfold in the US and how other economies will respond to mitigate the negative effects of these actions. However, South Korea's situation is particularly acute due to its domestic political challenges. With the government's supplementary budget still uncertain, the near-term future of the South Korean economy depends on securing much-needed fiscal support. This makes the uncertainty in South Korea especially pronounced.

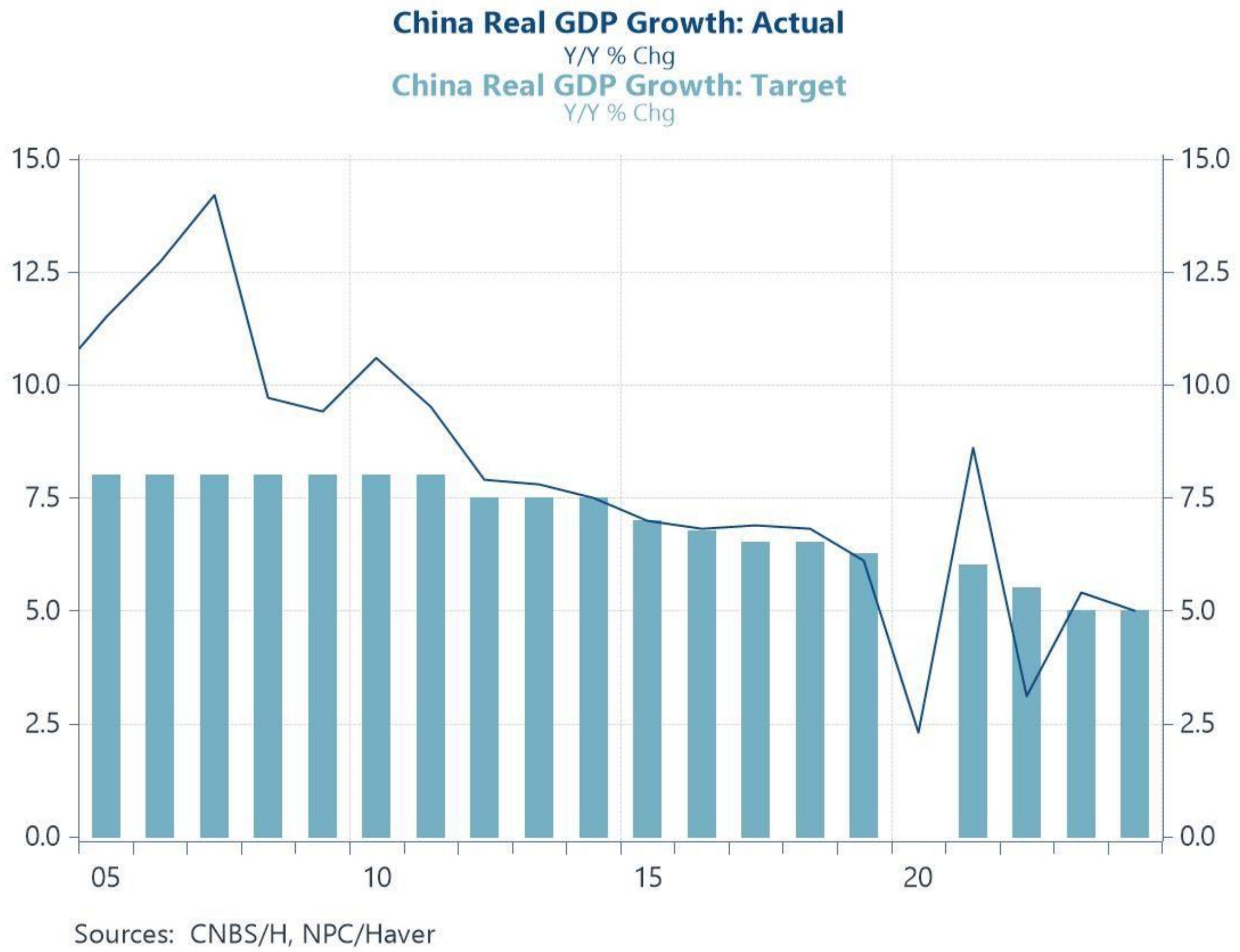
Chart 3: Economic policy uncertainty



China's National People's Congress

Turning back to China, despite the potential growth-dampening effects of US policies and other risks, the country has once again set its annual growth target at "around 5%." This target was announced during China's annual National People's Congress, which began last Wednesday. Investors are now closely watching for specific policy details on government measures to support growth and address China's ongoing challenges. An early indicator of China's approach is the budget deficit target of 5.7 trillion yuan ($790 billion), or about 4% of GDP this year—up from 3% last year and marking the largest deficit in more than 30 years. This suggests the government is prepared to significantly increase spending to support the economy. For context, China achieved exactly 5% growth last year, largely driven by a strong Q4 performance as stimulus measures took effect. Ironically, this growth was also supported by a front-loading of imports in anticipation of potential US trade moves.

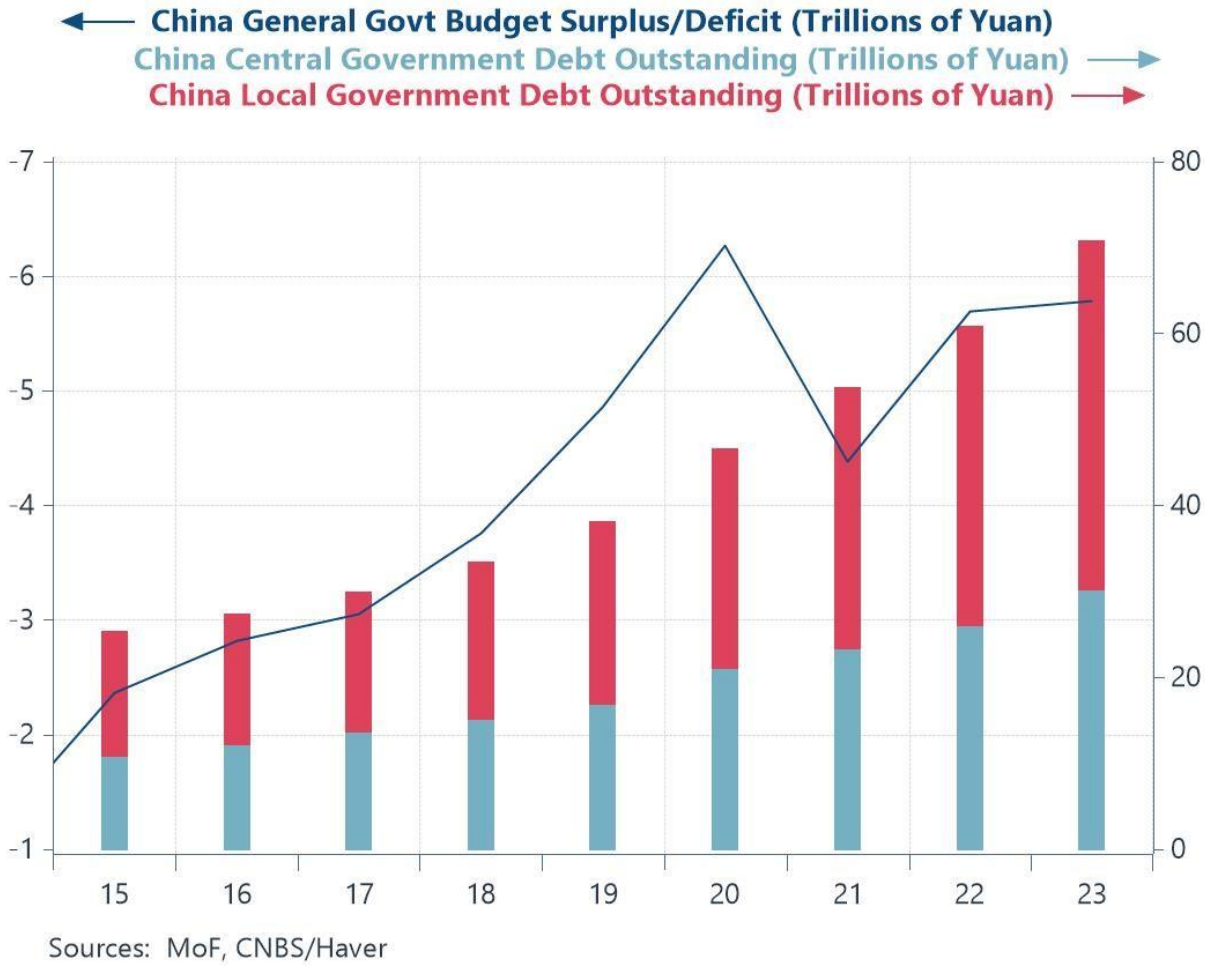
Chart 4: China's targeted vs. actual real GDP growth



China's fiscal policy

While China's increased government spending to boost growth may ease some investor concerns, several lingering questions remain. Two key issues are worth highlighting here. First, it remains uncertain whether the added government spending will be enough to fully offset the impact of US policies, especially if they persist or, worse, escalate. Second, while the short-term boost may help China's near-term growth, the larger budget deficit means China will incur more debt (chart 5), exacerbating a longer-term issue. That said, this challenge of balancing short-term needs with long-term sustainability is faced by all economies, not just China. Sometimes, addressing immediate priorities requires compromising on longer-term outcomes—it's a delicate balancing act.

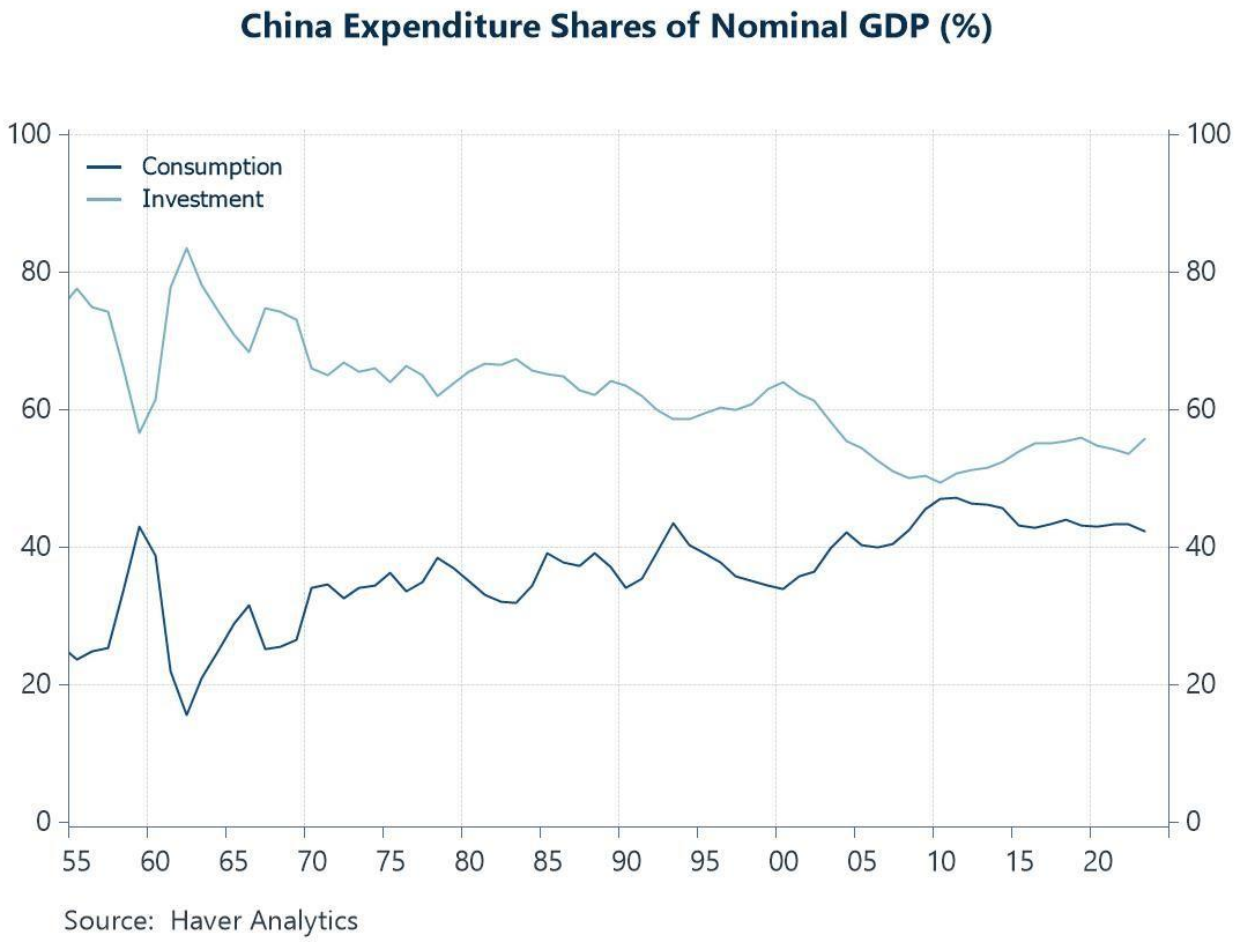
Chart 5: China’s government budget deficit and debt



China’s consumption led growth model

China has also strongly expressed its desire during the NPC to pivot toward a more consumption-driven economy. This goal ties into efforts to increase the consumption share of GDP and its contribution to overall GDP growth. However, China’s consumption share remains well below that of its peers, with investment and net exports still significant drivers of growth (chart 6). The challenge for China’s government lies in how to rebalance the economy without causing too much short-term pain. One potential approach would be to empower the Chinese consumer by raising wages and boosting purchasing power, particularly among low-income groups. However, while this could elevate living standards, it would also make workers more expensive, pushing up labour costs for businesses and potentially reducing their competitiveness. That said, these higher labour costs could be offset by corresponding gains in productivity. The key question then becomes: how can authorities achieve productivity improvements that align with rising wages?

Chart 6: China expenditure shares of nominal GDP



About the author

Haver Analytics is pleased to bring Tian Yong Woon's commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Series info:

Chart 1: China exports and imports growth
Series 1: movv(yryr%(N924IXD@EMERGEPR),3)
N924IXD@EMERGEPR [China: Merchandise Exports, fob (NSA, Mil.US$)]
Series 2: movv(yryr%(N924IMD@EMERGEPR),3)
N924IMD@EMERGEPR [China: Merchandise Imports, cif (NSA, Mil.US$)]

Chart 2: South Korea exports and industrial production
Series 1: yryr%(N542D@EMERGEPR)
N542D@EMERGEPR [South Korea: IP Industry excl Construction (NSA, 2020=100)]
Series 2: yryr%(N542IXD@EMERGEPR)
N542IXD@EMERGEPR [South Korea: Merchandise Trade: Exports (NSA, Mil.US$)]

Chart 3: Economic policy uncertainty
Series 1: N001VIUC@ESG
N001VIUC@ESG [Global Economic Policy Uncertainty Index [Current Price GDP Weights] (Mean=100)]
Series 2: N542VIUC@ESG
N542VIUC@ESG [Korea: News Based Economic Policy Uncertainty Index (Mean=100)]
Series 3: N111VIUC@ESG
N111VIUC@ESG [United States: News-Based Economic Policy Uncertainty Index (1985-09=101.82079)]

Chart 4: China's targeted vs. actual real GDP growth
Series 1: A924NGCY@EMERGEPR
A924NGCY@EMERGEPR [China: GDP Index (Y/Y % Chg)]
Series 2: A924VGDP@EMERGEPR
A924VGDP@EMERGEPR [China: GDP Target Rate (Y/Y %Change)]

Chart 5: China's government budget deficit and debt
Series 1: A924FTB@EMERGEPR
A924FTB@EMERGEPR [China: General Govt Budget Surplus/Deficit (100 Mil.Yuan)]
Series 2: A924FDG@EMERGEPR
A924FDG@EMERGEPR [China: Central Government Gross Debt Amount Outstanding (100 Mil.Yuan)]
Series 3: A924FDL@EMERGEPR
A924FDL@EMERGEPR [China: Local Government Debt Outstanding (100 Mil.Yuan)]

Chart 6: China expenditure shares of nominal GDP
Series 1: (A924NFB@EMERGEPR % A924NGDP@EMERGEPR)
A924NFB@EMERGEPR [China: GDP: Investments (Bil.Yuan)]
A924NGDP@EMERGEPR [China: Gross Domestic Product (Bil.Yuan)]
Series 2: (A924NC@EMERGEPR % A924NGDP@EMERGEPR)
A924NC@EMERGEPR [China: GDP: Consumption Expenditure (Bil.Yuan)]
A924NGDP@EMERGEPR [China: Gross Domestic Product (Bil.Yuan)]

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