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Economic Letter from Asia: Art of the Deal

HAVER ANALYTICS*

Link to online article: <https://haverproducts.com/economic-letter-from-asia/>

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This week, we focus on trade developments between the US and major Asian economies. Early indications coming out of US-India trade talks seem encouraging, with terms such as “forward most-favoured-nation” for the US and “zero-for-zero” tariffs appearing in news reports — terms which, if enacted, would represent a significant win for the US. India stands to benefit greatly as well if key exports to the US, such as pharmaceuticals (chart 1), receive substantial tariff relief. The benefits could be strongly mutual if a deal also grants the US greater access to India’s large auto consumer market, particularly for major US electric vehicle (EV) producers, given that EV adoption in India remains at a very early stage (chart 2).

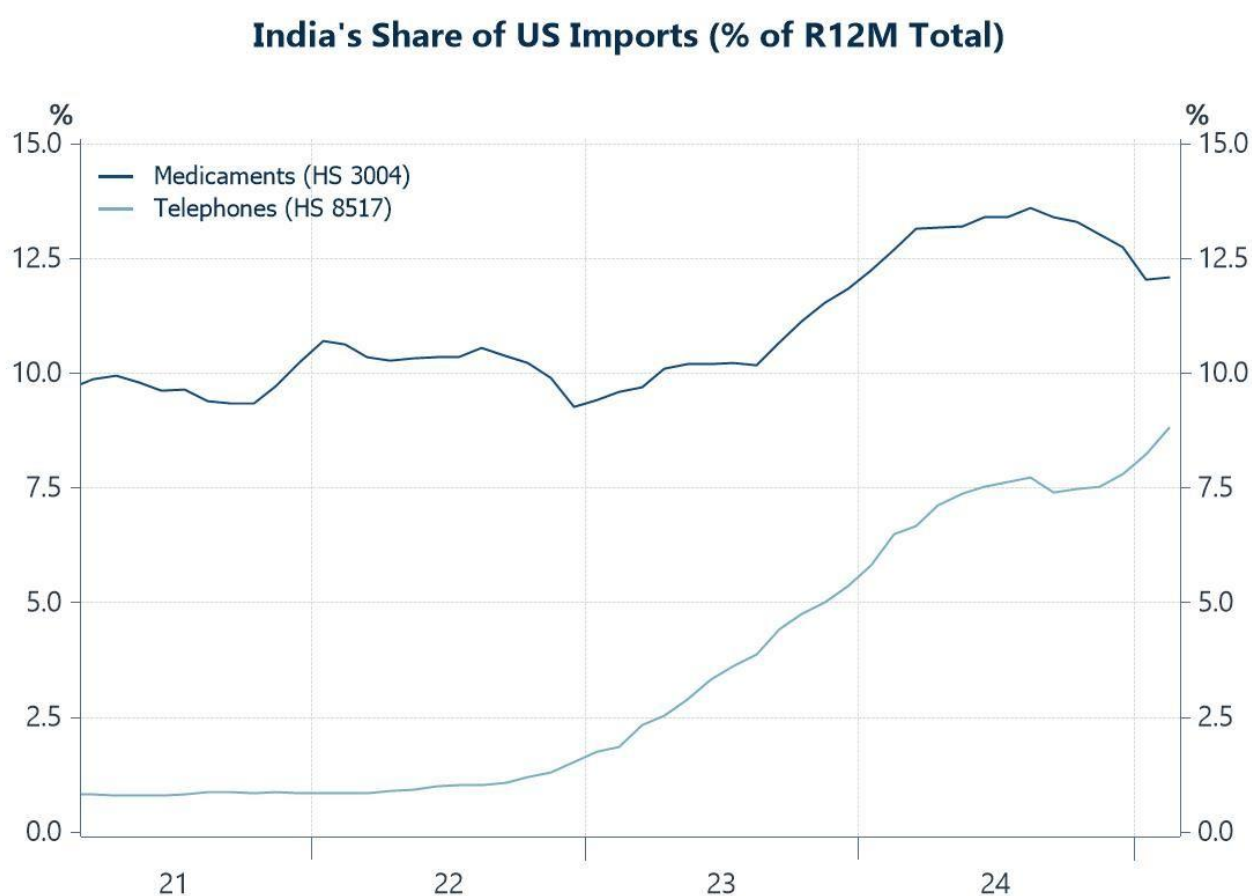
Turning to South Korea, discussions also appear to be progressing at a healthy pace, although details remain limited and ongoing domestic political challenges continue to hinder substantive breakthroughs. Nonetheless, the South Korean won has shown signs of stabilisation, while local equity markets have remained buoyant (chart 3). Recent trade data for April has also provided some investor relief, as weak exports to the US were more than offset by a strong performance in semiconductor shipments (chart 4).

In Japan, the race to secure a trade deal with the US is well underway, with automotive exports expected to be a key focal point given their significance to Japan’s economy and the US being a major export destination (chart 5). China, however, remains a notable outlier, with formal trade talks with the US not yet underway. Still, the US-China trade relationship continues to be the most closely watched, given its scale and potential impact on global growth and trade dynamics. While markets await China’s official April trade data, early indicators such as port activity already suggest a decline in bilateral trade flows (chart 6).

US-India trade talks

US-India trade discussions have reportedly been progressing rapidly, with both sides having already finalized in April the terms of reference for talks, setting the stage for formal negotiations. One early sign of favourable momentum is India's possible offering of a "forward most-favoured-nation" clause to the US. This would ensure the US always receives the most favourable tariff terms, ahead of any other trade partner. If enacted, this would be a significant win for the US and a major leap forward in the US-India trade relationship. Another reported breakthrough involves India's reported proposal of "zero-for-zero" tariffs on steel, auto components, and pharmaceuticals—offered on a reciprocal basis up to a certain quantity. If agreed, this would be mutually beneficial, especially as pharmaceuticals remain one of the US economy's key imports from India, as shown in chart 1. On a separate note, and more recently, India's phone exports to the US have reportedly gained prominence. With steep US tariffs on China, firms like Apple are increasingly incentivised to accelerate production shifts to India.

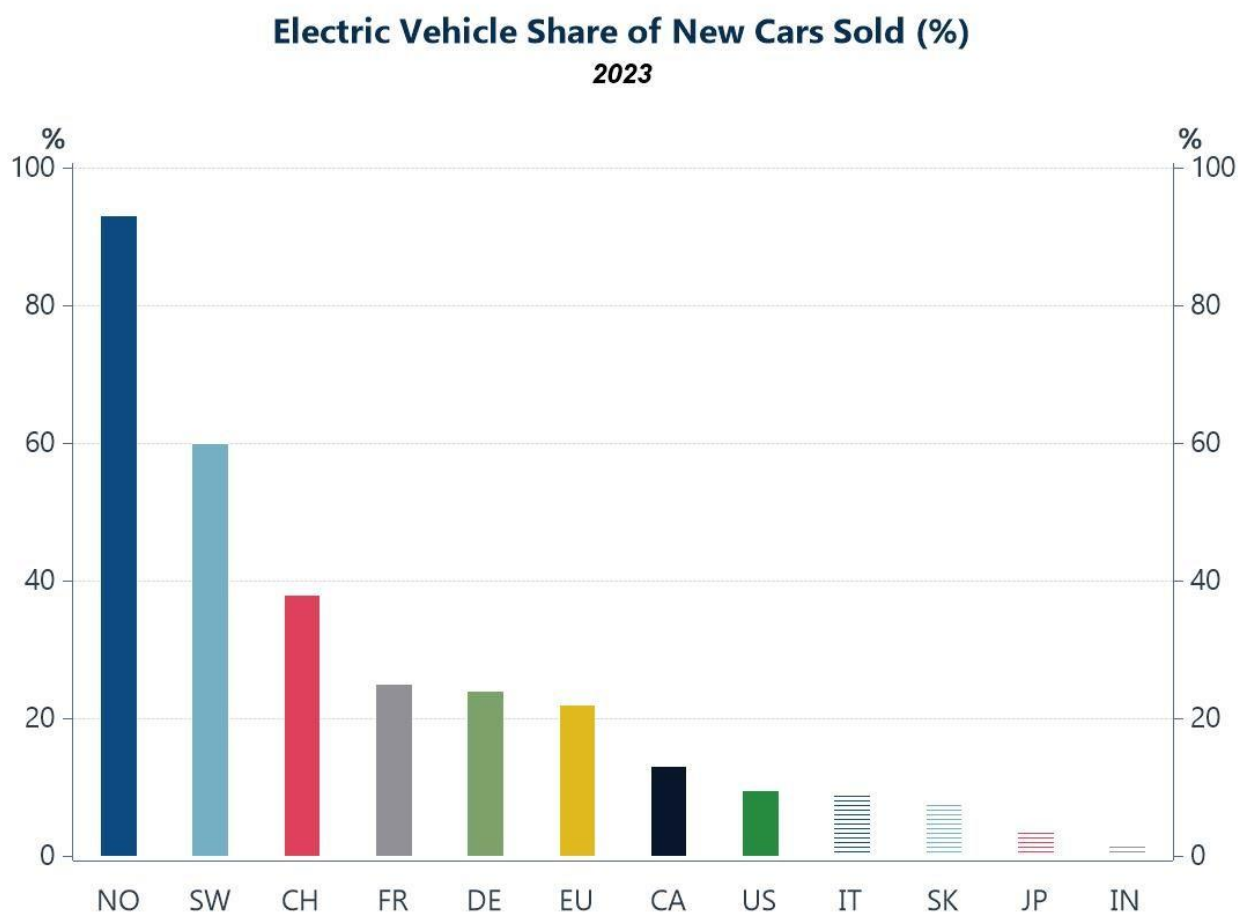
Chart 1: India's share of US imports



Source: US Census/Haver Analytics

Additionally, India’s proposed “zero-for-zero” tariff plan for auto parts may galvanise US access to India’s large domestic auto market, which has remained comparatively insulated due to high import tariffs. Another area to watch in the trade talks is electric vehicle (EV) imports, especially given US EV giant Tesla’s continued interest in expanding into the Indian market. That said, EV adoption in India remains in its early stages by many measures. While India has an immense middle class with future sales potential, EVs accounted for only about 2% of new cars sold in 2023, as shown in chart 2. This is well below levels seen in other Asian economies like China, or leaders in this space like Norway, where nearly all new cars sold are EVs. Challenges remain in unlocking the domestic Indian market—particularly around affordability and the underdeveloped state of EV infrastructure.

Chart 2: Electric vehicle share of new cars sold

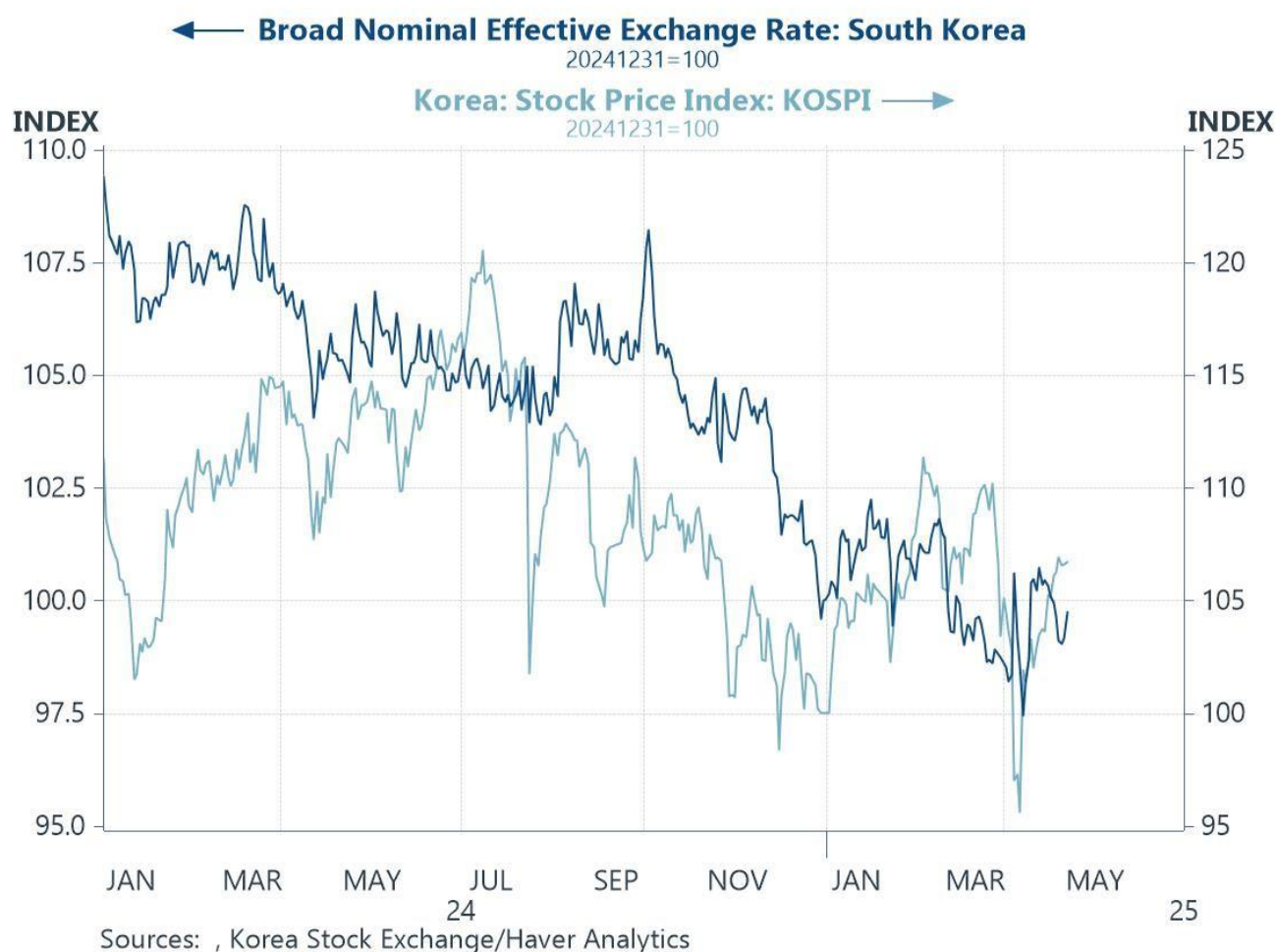


Source: Our World in Data/Haver Analytics

US-South Korea trade talks

Discussions on the US-South Korea trade front also appear to be progressing at a steady pace, with technical talks reportedly having concluded in Washington last week. However, details remain limited, and full-scale negotiations have not yet begun. Complicating matters is South Korea's domestic political landscape. With the country heading into a snap presidential election on June 3, Vice Industry Minister Park has said there is no chance of a comprehensive deal being reached before then. Still, both sides have committed to working toward an agreement before the expiration of Trump's 90-day reciprocal tariff pause on July 8. In financial markets, the won continues to swing but remains above its year-to-date lows (chart 3). Meanwhile, South Korean equities have been lifted by a softening in trade rhetoric from both the US and China, as well as optimism around the US-South Korea talks.

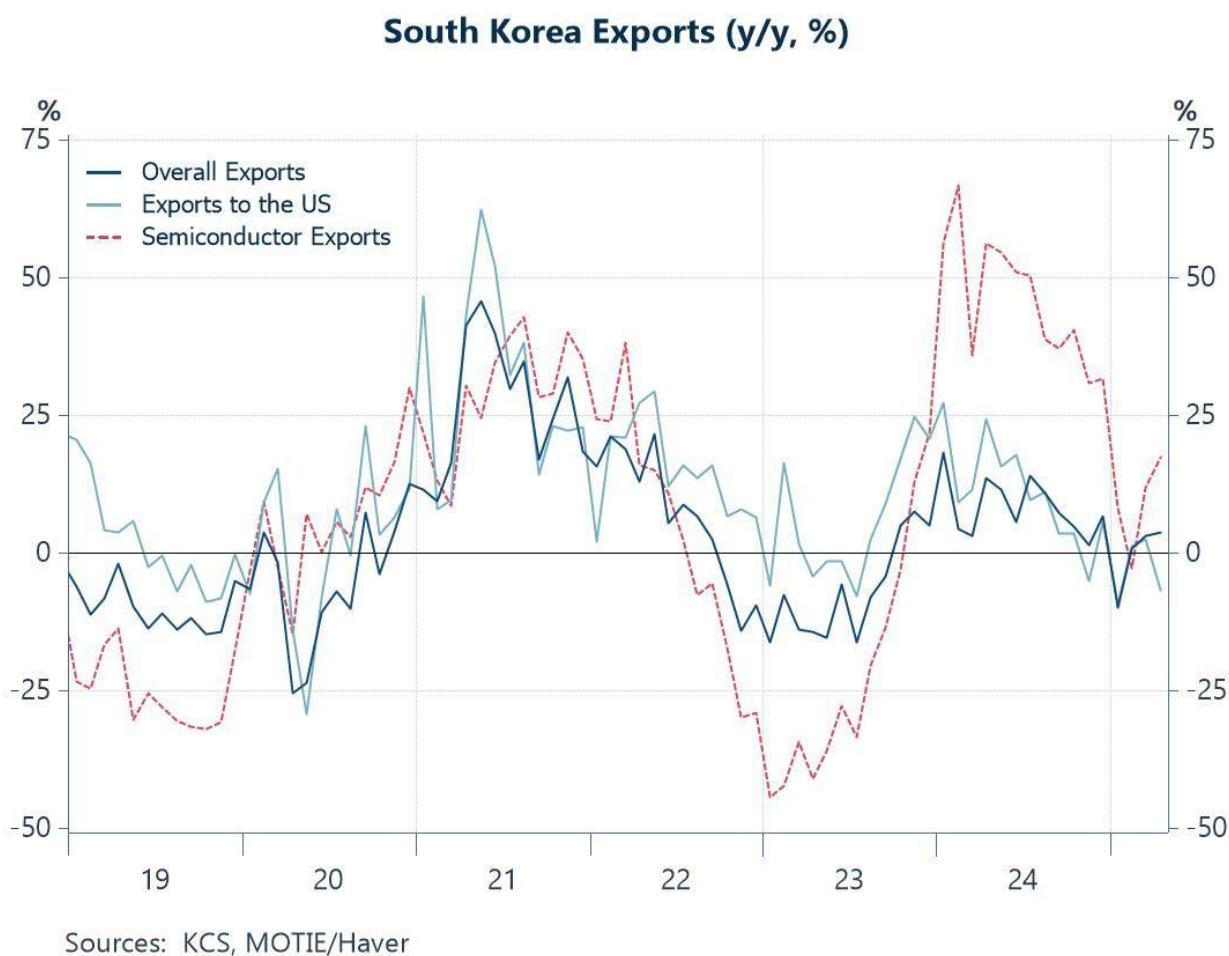
Chart 3: South Korean won and the KOSPI



Turning to the hard trade data, South Korea's more complete April numbers offered some initial relief to investors. The economy still managed to post moderate export growth, surprising many, despite a nearly 7% y/y decline in exports to the US, as shown in chart 4. One of the key drivers was semiconductors, which

recorded double-digit y/y growth for the second consecutive month. However, these figures likely do not yet reflect the full initial impact of the steep mutual tariffs between the US and China. Firmer indications may emerge in the coming months. By then, though, attention will likely have shifted toward the outcome of US trade talks with key partners, as the end of its 90-day reciprocal tariff pause draws near.

Chart 4: South Korea semiconductor exports, exports to US

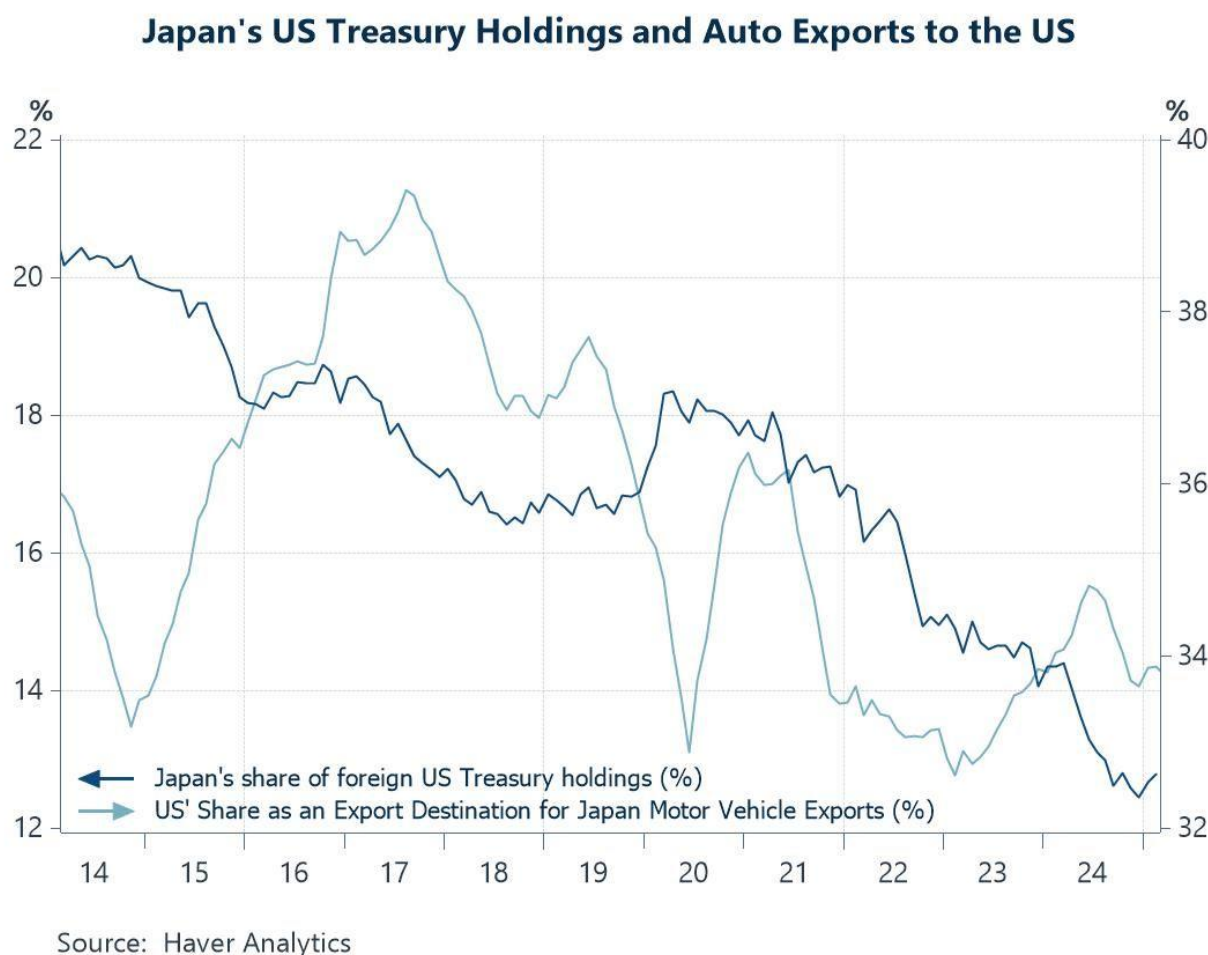


US-Japan trade talks

Turning to Japan, there is a sense of cautious optimism, with Japan's chief trade negotiator Akazawa expressing hope for a US-Japan trade deal by June, following the second and most recent round of talks held in Washington last week. A key point of interest is whether Japan can negotiate an exemption from the current 25% automotive tariffs imposed by the US. This is especially significant given the importance of the US as a destination for Japanese auto exports, as shown in chart 5, and the central role the sector plays in Japan's broader manufacturing economy. Also worth noting is a recent clarification by Japan's Finance Minister Kato,

who walked back earlier remarks and stated that Japan will not use the sale of US Treasuries as a bargaining tool. The clarification may help defuse a potential point of friction between the two sides as trade discussions continue.

Chart 5: Japan's US Treasury holdings and auto exports to the US

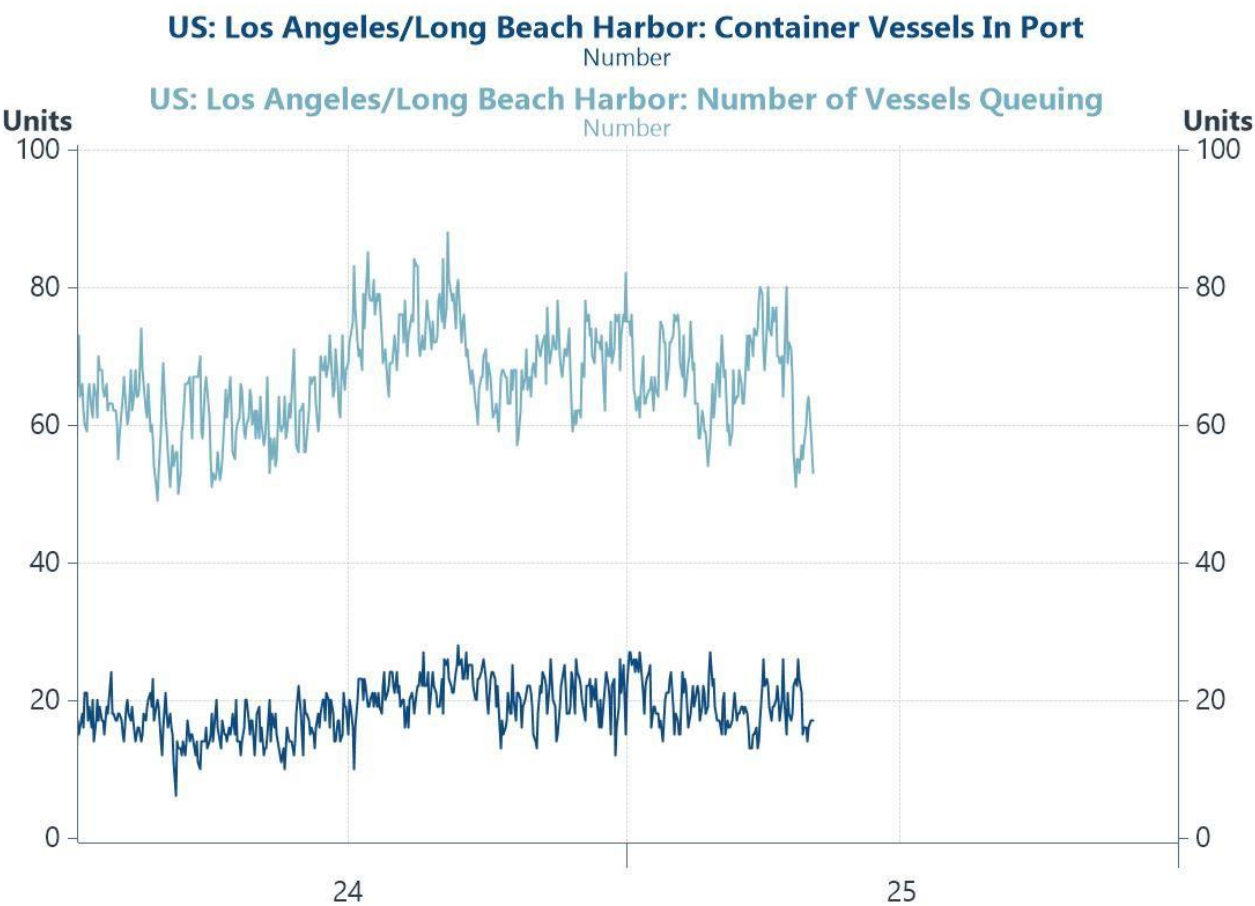


US-China trade developments

Turning to US-China trade developments — while progress here has lagged, this relationship remains the most closely watched, given its potentially large impact if meaningful movement occurs. Recent messaging from both sides has softened, stepping back from the fiery exchanges and tariff escalations seen earlier in April, offering some interim relief for investors. China has reportedly exempted certain US imports from tariffs, including specific pharmaceutical and industrial chemical products. However, on US-China trade talks, they remain at a very early stage, with China merely “evaluating” the prospect of negotiations with the US. This suggests we are still far from anything resembling a formal deal. Investors are now closely watching for first-round effects of US tariffs, which are expected to appear in China’s April trade numbers due later this

week. Early signs point to a slowdown. For example, vessel traffic at the Los Angeles–Long Beach port remains at range lows, hinting at reduced shipments from China.

Chart 6: US Los Angeles-Long Beach port vessel counts



Source: The Marine Exchange of Southern California/Haver Analytics

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: India's share of US imports

Series 1: (movt(I5343004@USTRAD,12) % movt(I0013004@USTRAD,12))

I5343004@USTRAD [US Imp from India: Medicaments Nesoi, Mixed or Not, in Dosage Etc Form(Thous. \$)]
I0013004@USTRAD [US Imp from World: Medicaments Nesoi, Mixed or Not, in Dosage Etc Form(Thous. \$)]

Series 2: (movt(I5348517@USTRAD,12) % movt(I0018517@USTRAD,12))

I5348517@USTRAD [US Imports from India: Electric Apparatus for Line Telephony Etc, Parts(Thous.\$)]
I0018517@USTRAD [US Imports from World: Electric Apparatus for Line Telephony Etc, Parts(Thous.\$)]

Chart 2: Electric vehicle share of new cars sold

Series 1: NOOWNE@TRANSPRT

NOOWNE@TRANSPRT [Norway: Share of New Cars Sold: Electric (%)]

Series 2: SEOWNE@TRANSPRT

SEOWNE@TRANSPRT [Sweden: Share of New Cars Sold: Electric (%)]

Series 3: CNOWNE@TRANSPRT

CNOWNE@TRANSPRT [China: Share of New Cars Sold: Electric (%)]

Series 4: FROWNE@TRANSPRT

FROWNE@TRANSPRT [France: Share of New Cars Sold: Electric (%)]

Series 5: DEOWNE@TRANSPRT

DEOWNE@TRANSPRT [Germany: Share of New Cars Sold: Electric (%)]

Series 6: EUOWNE@TRANSPRT

EUOWNE@TRANSPRT [European Union: Share of New Cars Sold: Electric (%)]

Series 7: CAOWNE@TRANSPRT

CAOWNE@TRANSPRT [Canada: Share of New Cars Sold: Electric (%)]

Series 8: USOWNE@TRANSPRT

USOWNE@TRANSPRT [United States: Share of New Cars Sold: Electric (%)]

Series 9: ITOWNE@TRANSPRT

ITOWNE@TRANSPRT [Italy: Share of New Cars Sold: Electric (%)]

Series 10: KROWNE@TRANSPRT

KROWNE@TRANSPRT [South Korea: Share of New Cars Sold: Electric (%)]

Series 11: JPOWNE@TRANSPRT

JPOWNE@TRANSPRT [Japan: Share of New Cars Sold: Electric (%)]

Series 12: INOWNE@TRANSPRT

INOWNE@TRANSPRT [India: Share of New Cars Sold: Electric (%)]

Chart 3: South Korean won and the KOSPI

Series 1: index(X542NR@INTDAILY,20241231=100)

X542NR@INTDAILY [Broad Nominal Effective Exchange Rate: South Korea (2010=100)]

Series 2: index(S542CEX@INTDAILY,20241231=100)

S542CEX@INTDAILY [Korea: Stock Price Index: KOSPI (Jan-4-80=100)]

Chart 4: South Korea semiconductor exports, exports to US

Series 1: yyr%(N542ITC@EMERGEPR)

N542ITC@EMERGEPR [South Korea: Exports (NSA, Thous.US\$)]

Series 2: yyr%(N542ITUS@EMERGEPR)

N542ITUS@EMERGEPR [South Korea: Exports to the United States (NSA, Thous.US\$)]

Series 3: yyr%(N542IXSC@EMERGEPR)

N542IXSC@EMERGEPR [South Korea: Exports: Semiconductors (NSA, Thous.US\$)]

Chart 5: Japan's US Treasury holdings and auto exports to the US

Series 1: (FH158TB@USINT % FH001TB@USINT)

FH158TB@USINT [Japan: Holdings of US Treasury Securities (EOP, Bil.\$)]

FH001TB@USINT [Foreign Holdings of US Treasury Securities (EOP, Bil.\$)]

Series 2: (movt(VEAUSMV@JAPAN,12) % movt(VEATTLMV@JAPAN,12))

VEAUSMV@JAPAN [Japan: Exports of Goods: USA: Motor Vehicles (NSA, Bil.Yen)]

VEATTLMV@JAPAN [Japan: Exports of Goods: Motor Vehicles (NSA, Bil.Yen)]

Chart 6: US Los Angeles-Long Beach port vessel counts

Series 1: USCLNPO@TRANSPRT

USCLNPO@TRANSPRT [US: Los Angeles/Long Beach Harbor: Container Vessels In Port (Number)]

Series 2: USCLNFO@TRANSPRT

USCLNFO@TRANSPRT [US: Los Angeles/Long Beach Harbor: Number of Vessels Queuing (Number)]

For more info on our databases, please email sales@haver.com.