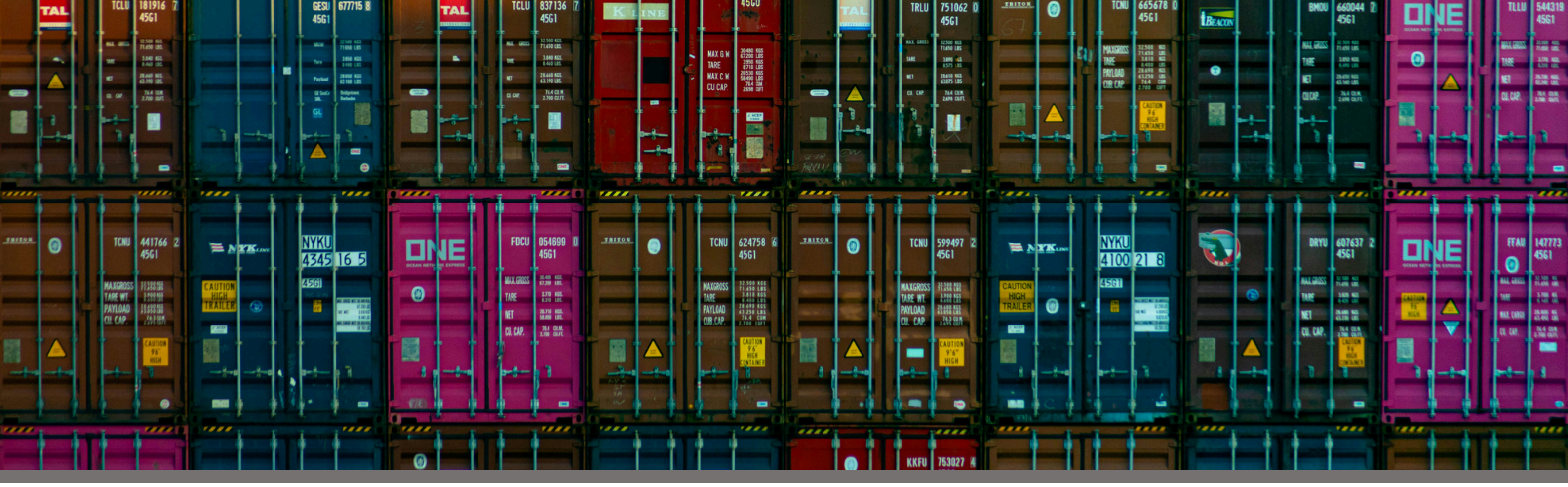

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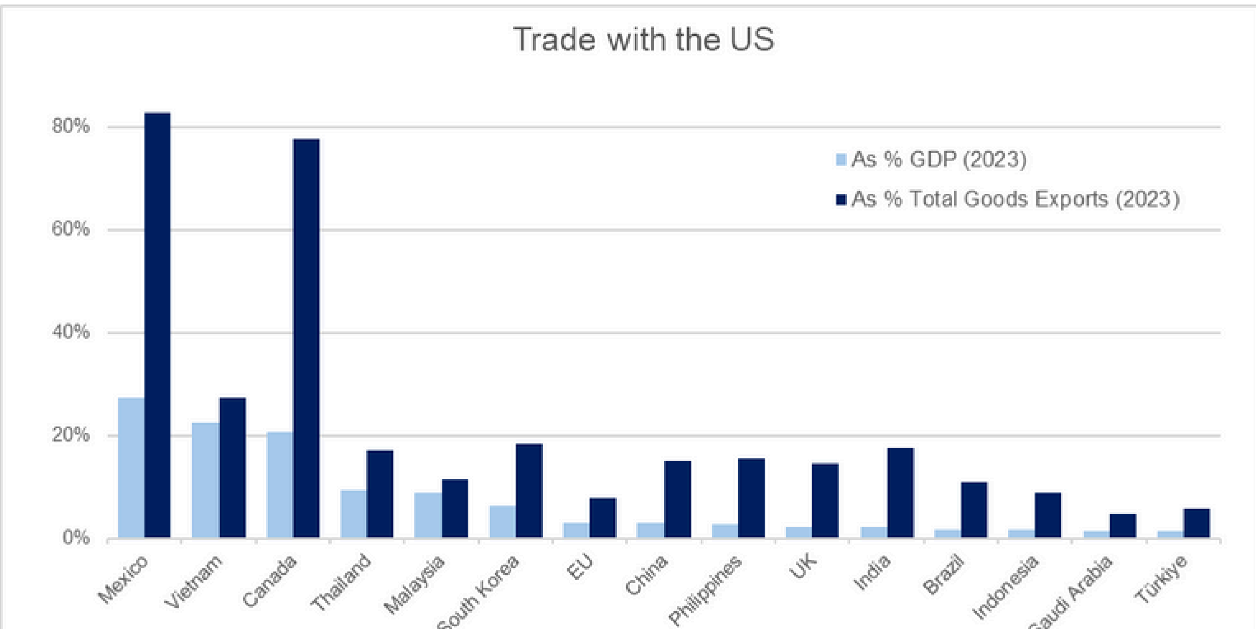
How Trump's Tariffs Hit Emerging Economies

April 2025

Donald Trump, President of the US, unveiled on Wednesday sweeping new tariffs on nearly all US imports. The methodology behind the move - purportedly grounded in "reciprocity" - has mystified economists and rattled global equity markets. The new regime imposes a blanket 10% tariff on nearly all US imports, with steeper rates targeting specific nations: 34% on China, 20% on the EU, and 46% on Vietnam. While Trump aimed at bolstering US domestic manufacturing and correcting trade imbalances, the policy risks undermining both US and global growth in the near term. For emerging markets that are highly exposed to US trade flows, the implications are far-reaching. We should note that the implications are not immediately straightforward amidst other important considerations, such as the exemptions for now on pharmaceuticals and semiconductors, with steel and automotives bundled into their own separate packages, and the uncertain impact on many goods for which the US has non-existent manufacturing capacity where production reshoring would be unlikely.



Source: ICM, IMF, Factset

Asia: worst hit but on a varying degree

The tariffs imposed on Asia were amongst the highest, however the economic impact varies widely by country. Many countries' exports to the US are under 10% of their GDP, and while the tariffs are high the impact will likely be muted. Thailand is relatively more exposed with a 36% tariff on exports that constitute 9.4% of its GDP, followed by Malaysia and Korea with tariffs of 24% and 25% respectively, with exports to the US representing 8.9% and 6.3% of their corresponding GDP. The Philippines, with tariffs of 17% and exports of only 2.6% of GDP[1], is more insulated.

Vietnam notably stands out from the rest with a very high 46% tariff applied as Vietnam has a significant imbalance in US export exposure, exporting US$97bn worth of goods in 20231 to the US without any meaningful counterbalance on the import side of the equation. With exports to the US accounting for over 20.0% of its GDP, Vietnam will face short term challenges which has been reflected in sharply lower equity markets and currency.

Despite similar absolute tariff values applied on India (26%) and Indonesia (32%), their comparatively lower exposure of exports to the US reduces the impact. In India's case, the government is also in the process of negotiating the first phase of a free trade agreement with the US following Modi's visit to the White House in February, declaring its willingness to cut more than half of its tariffs against US imports – equivalent to US$23bn[2].

China braces for tariff shocks

With a trade deficit of US$295[3] billion in 2024, China remains by far the largest contributor to the US trade deficit. On top of the existing 20% tariff imposed on all Chinese imports since Trump took office in January to address the fentanyl issue[4], China (including Hong Kong and Macau) now faces an additional 34% tariff [5], bringing the total tariff burden to 54%, just shy of the 60% rate Trump advocated during his campaign. Simultaneously, a 32% tariff has also been imposed on Taiwan, although semiconductors have been exempted [5]. Separately, the US has revoked tariff exemptions for de minimis imports (valued under US$800) from China, effective 2 May - all relevant postal items are now subject to a levy of either 30% of their value or US$25 per item (increasing to US$50 after 1 June 2025) [6].

While China's direct exports to the US accounted for only 2.3% of its GDP in 2024[7], this figure does not capture the substantial volume of Chinese goods rerouted through other countries, or via overseas production facilities of Chinese manufacturers. As a result, the actual economic impact could prove significantly more severe, particularly as neighbouring countries now also face elevated tariffs as laid out above, raising uncertainty about the sustainability of supply chain "near-shoring" strategies. Consensus estimates suggest that the additional 54% tariff could severely disrupt US-China trade, potentially dragging down China's GDP by approximately 2.5%[8].

Despite this, Chinese equities displayed relative resilience compared to regional peers following the announcement, with the MSCI China Index rising 0.03% on 3 April, the day after the tariffs were revealed. This may suggest that investors are still pricing in the possibility of further negotiations between the two superpowers, and market attention remains focused on China's potential domestic policy responses, particularly on measures to stimulate consumption and mitigate the adverse impacts of tariffs.

Latin America - Less negative with positive indirect effects

The outcome for Latin America appears less negative than for other countries. Indirect effects could be positive, as regional exports may benefit from improved competitiveness in markets where others face higher tariffs. Nations such as Brazil, Argentina, Chile, Colombia, and Peru will face the base tariff of 10%, with certain goods - including copper - exempt. Copper is a key export commodity for countries like Chile and Peru. Although exempted, a slowdown in demand is expected given the expected weaker global growth outlook. Both Chile and Peru have Free Trade Agreements (FTAs) with the US, implying that reciprocity would support lower or zero tariffs. Further negotiations on this basis are likely.

Meanwhile, Brazil's outcome was better than initially feared at 10% and could be seen as a relative winner. The US accounted for approximately 11% of Brazil's total exports in 2023 (1.7% of GDP), and the macroeconomic impact is likely limited given the country's relatively closed economy. Commodity-driven sectors, particularly agribusiness, could benefit from increased Chinese demand for products such as soy and corn, which may be redirected from the US.

Mexico also emerged as a potential winner, being excluded from this round of tariff (along with Canada). The US accounts for 83% of Mexico's total exports (27% of GDP), and the tariffs imposed on March 4th remained unchanged. Goods that comply with USMCA, the trade deal between the US, Mexico, and Canada that replaced NAFTA, rules of origin are exempt from these tariffs. Existing tariffs — 25% on non-USMCA goods (estimated to represent 15% of exports) and 10% on non-USMCA energy and potash — are unaffected[9]. This is a net positive, as: (i) no new tariffs were imposed, thus Mexico gains competitive edge over other exporters countries; (ii) the USMCA review may advance sooner than expected; and (iii) the nearshoring theme could gain momentum, with companies from other regions potentially shifting more investments to Mexico. So far, Mexico's response has been pragmatic, with President Sheinbaum avoiding retaliation and emphasising dialogue to maintain trade stability.

The above sentiment saw the Mexican, Chile and Colombian exchanges rise yesterday, and over the past month Brazil, Mexico, Chile and Colombia exchanges are up 6.8%, 3.3%, 5.5% and 5.9% respectively.

Western Europe to be hit directly, Eastern Europe feels the chill
The EU is targeted by a 20% blanket rate on European goods and a 25% duty on auto imports. This matters because the US accounts for 20.6% of EU's exports and approximately 2.8% of EU GDP. The three largest EU exporters to the US were Germany (€161 billion), Ireland (€72 billion) and Italy (€65 billion), followed by France (€47 billion) and Holland (€43 billion). Notably, machinery and vehicles constitute a substantial portion of these exports (39%)[10]. In Eastern Europe, direct US exposure is much more limited. For example, Poland's exports to the US equal just 1.6% of GDP, but countries like Slovakia, Hungary, and the Czech Republic are tightly linked to German manufacturing and could suffer collateral damage. Despite this, most Eastern European countries are projected to maintain growth, with forecasts ranging from 1.9% to 3% this year.

MENA: little direct impact, some indirect exposure
TheGulf Cooperation Council ("GCC") region is likely to be lightly affected by the blanket 10% tariff, especially considering the tariff exemption on energy products, of which all six countries' exports are concentrated. The impact is likely to be indirect, primarily through lower global trade and oil demand, which could put downward pressure on oil prices. In the medium-term, this is likely to accelerate the region's GDP diversification efforts away from oil and gas. Other MENA emerging markets are similarly less directly exposed, especially given their lower trade dependence on the US. However, these markets are more exposed to a global economic slowdown, particularly in Europe and Asia.

UEM's perspective
Altogether, these tariffs are likely to weigh on global growth and dampen investor confidence. They are also contributing to the waning of US exceptionalism - which could potentially redirect capital toward faster-growing regions, particularly within emerging markets.

A concern must be that the shock to the US of higher import costs sees stagflation risks rise in the world's biggest economy the US. The knock-on effects of which can be significant.

As a result, we do expect a weaker US Dollar and lower energy costs. A slowing US and global economy will likely prompt central banks to reduce rates, which should benefit emerging markets in particular. Emerging markets remain undervalued and underrepresented in investors' portfolios.

Our portfolio remains well-diversified across geographies and focused on defensive sectors such as utilities and infrastructure, positioning us to weather near-term volatility more effectively than the broader market. Crucially, we believe that this kind of dislocation creates fertile ground for active, bottom-up investors like us - unlocking new opportunities amid the noise.

UEM Investment Team

4 April, 2025

Source Data: ICM Limited, FactSet, International Monetary Fund (IMF), and Bloomberg unless otherwise stated below.

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Utilico Emerging Markets Trust plc | Registered Office
The Cottage, Ridge Court, The Ridge, Epsom Surrey, KT18 7EP, United Kingdom
Company registration number: 11102129
www.uemtrust.co.uk

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