**Economic Watch**

# Asia| US reciprocal tariffs offer no help in narrowing trade deficits with Asian economies

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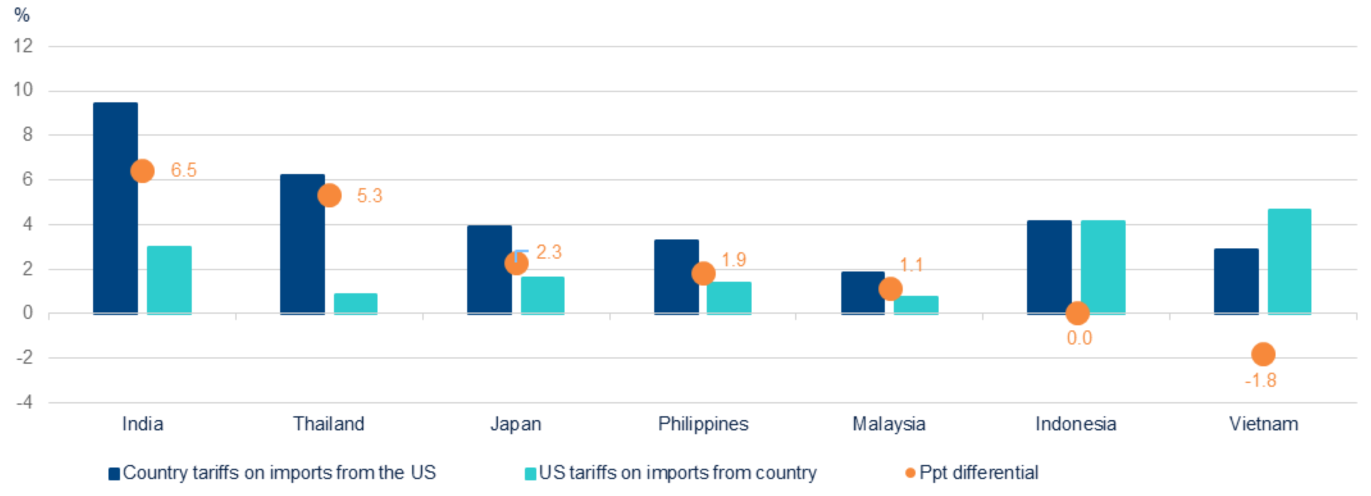
On February 13, 2025, U.S. President Donald Trump announced the imposition of reciprocal tariffs, effective from April 2, marking a significant shift in U.S. trade policy. This move aims to match the tariffs imposed by trading partners on U.S. exports, ensuring a "fair" and more balanced trade relationship. The policy primarily targets countries that maintain higher import duties on U.S. goods while benefiting from lower tariffs when exporting to the U.S.

This note analyzes the impact of U.S. reciprocal tariffs on Asian economies through a sectoral analysis. Notably, Singapore and South Korea are excluded from this study due to their Free Trade Agreements (FTAs) with the U.S. Additionally, China, already a primary target of U.S. trade policies, is also excluded. In our country-specific analysis, we do not include the agricultural industry, as most bilateral or multilateral trade agreements involving the U.S. tend to grant special treatment to this sector. This is partly due to the U.S.'s strong competitive advantage in agriculture and the industry's political significance in other countries.

Figure 1. **ASIA: EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**




Source: BBVA Research based on data from WITS

Drawing on data from the World Integrated Trade Solution (WITS), we provide an overview of tariff comparisons between the U.S. and several Asian economies (Figure 1). Based on this, we classify these economies into four categories:

- **High Tariff Differentials**: India and Thailand exhibit the highest tariff differentials with the U.S. in terms of the weighted average tariff rate. India has the largest differential at 6.5 percentage points, followed by Thailand at 5.3 percentage points (Figure 1).
- **Moderate Tariff Differentials**: Japan, the Philippines, and Malaysia impose higher tariffs on U.S. imports than the U.S. does on theirs, with differentials of 2.3 percentage points for Japan, 1.9 percentage points for the Philippines, and 1.1 percentage points for Malaysia.
- **Balanced Tariff Structure**: Indonesia maintains an equal tariff structure with the U.S., indicating neither country has a tariff advantage.
- **Vietnam's Tariff Disadvantage**: Vietnam is the only country in the analysis with a negative differential, as it faces higher U.S. tariffs (around 5%) on its exports than it imposes on U.S. goods (around 3%), resulting in a tariff disadvantage of -1.8 percentage points.

Our in-depth sectoral analysis, detailed in the following Country-Specific Analysis section, leads to several key conclusions regarding the impact of U.S. reciprocal tariffs. The figures in the Country-Specific Analysis section clearly show that bilateral trade structures are shaped by comparative advantages rather than tariff levels. For instance, in the Machinery and Electrical (Mach & Elec) sector, the tariff differentials between the U.S. and most Asian countries (except India) are minimal. In contrast, in the Footwear and Textiles & Clothing sectors, Indonesia, Thailand, and Vietnam impose significantly lower tariffs on U.S. imports than the U.S. does on theirs. These three sectors account for a large portion of the U.S. trade deficit with its Asian partners. Given these structural trade patterns, imposing reciprocal tariffs is unlikely to shift comparative advantages or significantly reduce the trade imbalance.

Second, reciprocal tariffs might lead some Asian countries to lower their tariffs on some US exports, but with complex consequences. Some proponents of reciprocal tariffs argue that such policies could encourage Asian countries to lower tariffs on U.S. exports. However, the reality is more complicated. When tariff differentials are small, adjustments are feasible. However, when differentials are large, reducing tariffs becomes difficult because of Most Favored Nation (MFN) obligations, which require countries to extend tariff cuts to all trade partners. For example, India might be willing to lower tariffs on U.S. textile and clothing imports, but if doing so requires extending the same lower rates to Vietnam, domestic political and economic pressures could prevent it. As a result, U.S. reciprocal tariffs could further destabilize the already weakened multilateral trade system.

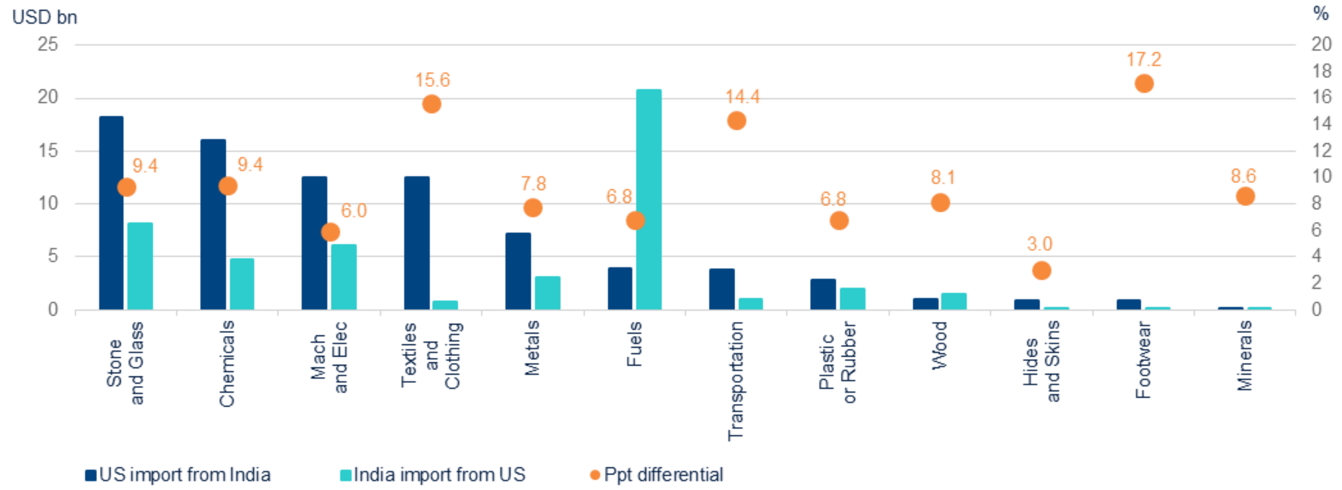
Last but not least, as we analyzed above, more protectionist measures are likely to follow. Given the ineffectiveness of reciprocal tariffs in reducing the U.S. trade deficit with Asian countries, the Trump administration is unlikely to stop there. Additional protectionist measures are expected. Even as this analysis is being written, President Trump has proposed a 25% tariff hike on all imported cars, semiconductors, and pharmaceutical products. Another likely approach is pressuring Asian countries to increase purchases of U.S. agricultural products and energy resources. Even countries with FTAs with the U.S., such as South Korea and Singapore, will not be exempt from these broader protectionist policies.

# Country-Specific Analysis

## India: Sectors at risks from U.S. reciprocal tariffs

India is the most vulnerable country to US reciprocal tariffs, as it has the largest tariff differential among the nations analyzed (Figure 2). The positive tariff differentials span multiple industries. Highly impacted sectors include textiles & clothing (+15.6 ppts), chemicals (+9.4 ppts), stone & glass (+9.4 ppts) and machinery & electrical (+6.0 ppts). These sectors maintain a significant trade surplus with the U.S. and impose substantially higher tariffs on U.S. imports. If the U.S. matches these tariffs, Indian exports in these sectors will lose price competitiveness, leading to potential declines in export volumes.

Figure 2. **INDIA: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US (USD BN, %)**




Source: BBVA Research based on data from WITS
Note: A positive PPT differential means that India imposes higher tariffs on U.S. goods than the U.S. does on Indian goods.

Moderate impact sectors include plastics & rubber (+6.8 ppts), wood (+8.1 ppts), footwear (+17.2 ppts) and minerals (+8.6 ppts). Although the tariff differentials are significant, the overall economic impact is lower due to smaller trading volumes. Limited impact sectors include fuels sector (+6.8 ppts), as India imports a substantial amount of U.S. crude oil and has a trade deficit with the U.S.

## Thailand: Sectors at risk from U.S. reciprocal tariffs

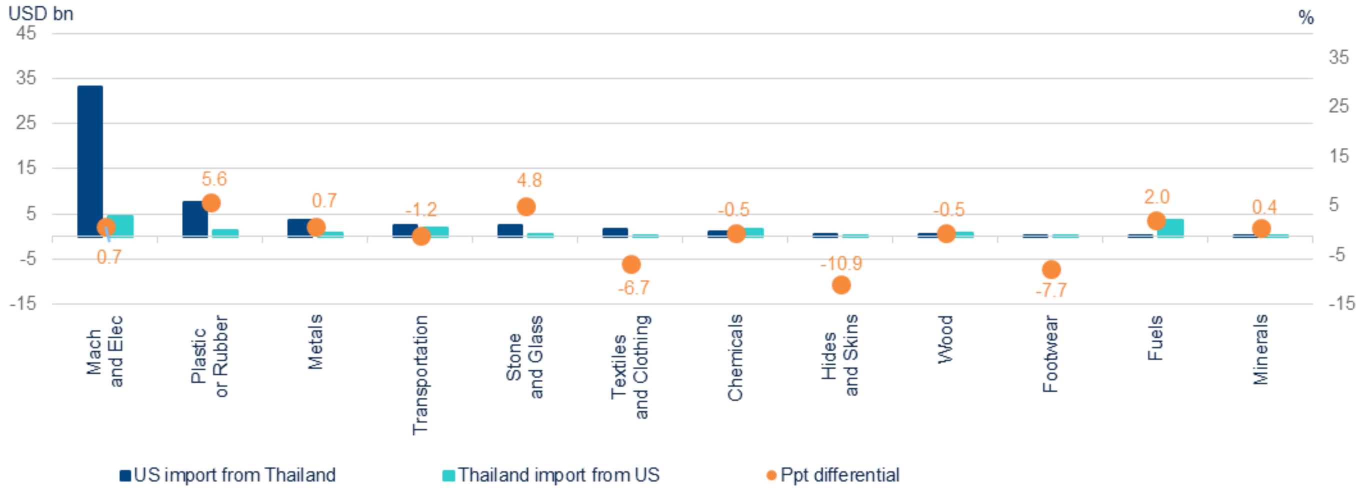
Thailand is also highly exposed to US reciprocal tariffs due to its substantial tariff differentials across key industries (Figure 3).

Highly impacted sectors include plastic & rubber (+5.6 ppts), stone & glass (+4.8 ppts) industries. These industries impose considerably higher tariffs on U.S. imports than the U.S. does on Thai imports. If the U.S. reciprocates, Thailand's exports of rubber tires and plastics will suffer, leading to potential price disadvantages in the U.S. market. Additionally, Thailand imposes slightly higher tariffs on U.S. metals (+0.7 ppts), but Trump's 25% tariff on steel and aluminum will further increase costs for Thai steel and aluminum exports. Furthermore, although the transportation sector (-1.2 ppts) and chemicals (-0.5 ppts) have negative tariff rate differentials, Thailand's auto parts, vehicle and pharmaceuticals exports could be severely affected due to the recent increase in U.S. tariffs on automobiles.

Moderate impact sectors include machinery and electrical (+0.7 ppts), fuel (+2.0 ppts) and minerals (+0.4 ppts) industries. Thailand's trade with the U.S. in these industries either involves small tariff differentials or trade deficits, reducing the overall impact.

Limited or no impact sectors include hides & skins (-10.9 ppts), footwear (-7.7 ppts), and textiles & clothing (-6.7 ppts), which already face higher U.S. tariffs than Thailand imposes on U.S. imports. If the U.S. introduces reciprocal tariffs, the impact will be minimal because U.S. tariffs are already high.

Figure 3. **THAILAND: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**



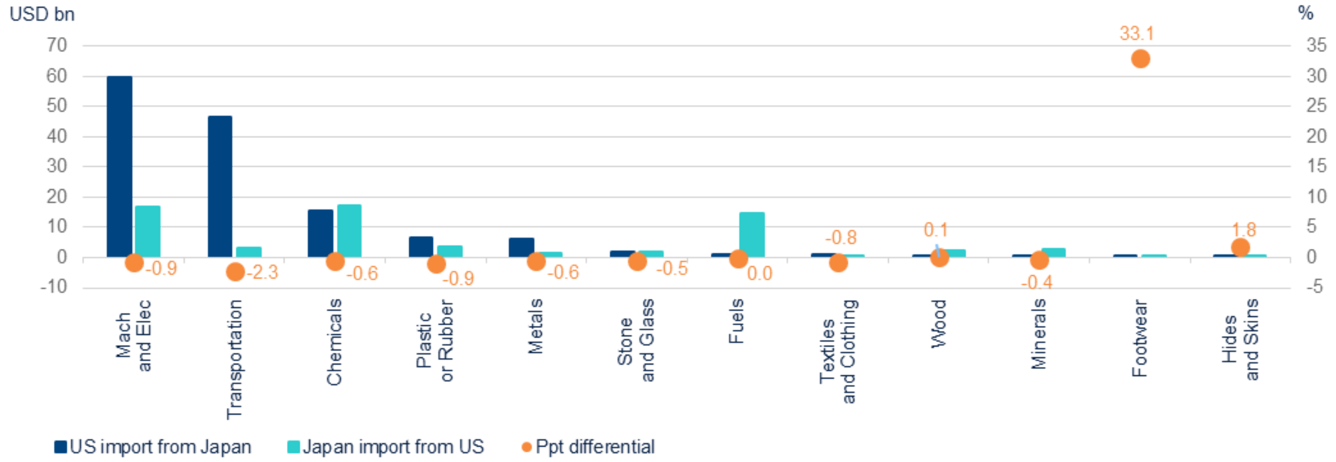

Note: A positive PPT differential means that Thailand imposes higher tariffs on U.S. goods than the U.S. does on Thailand's goods.
Source: BBVA Research based on data from WITS

## Japan: Sectors at risk from U.S. reciprocal tariffs

Japan has a moderate tariff differential with the U.S. compared to India and Thailand, meaning the impact of U.S. reciprocal tariffs will likely be less severe, except for the auto, pharmaceuticals, chips, steel and aluminum industries, which have been targeted with a 25% tariff across all countries.

Almost all sectors except footwear (+33.1 ppts), hides & skins (+1.8 ppts), and wood (+0.1 ppts) have negative tariff differentials with the U.S. (Figure 4). This means the U.S. already imposes higher tariffs on Japanese exports than Japan does on U.S. imports. As a result, reciprocal tariffs would have minimal impact on most Japanese industries.

Figure 4. **JAPAN: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**



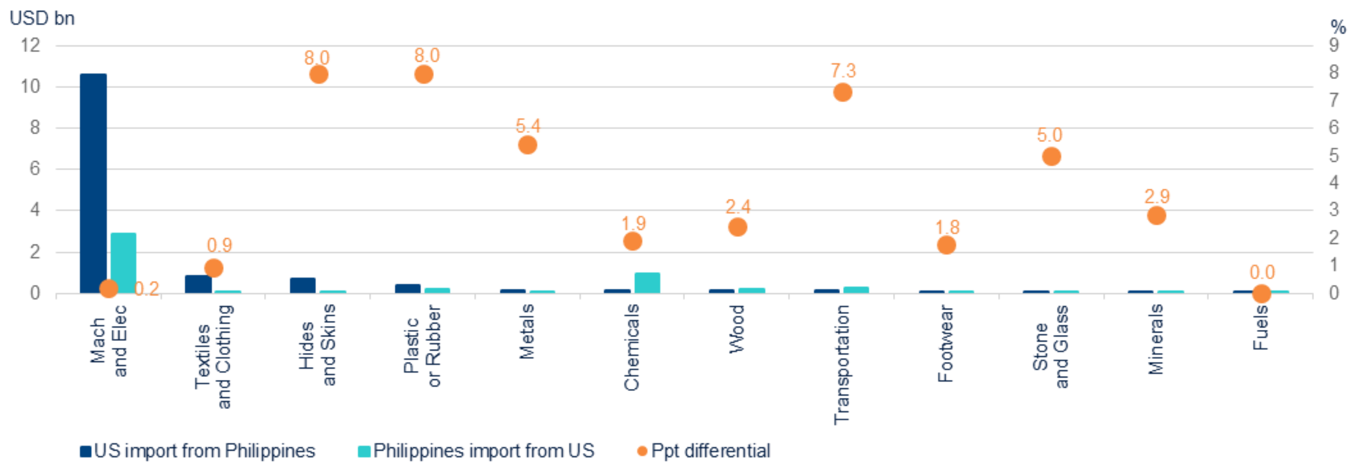

Note: A positive PPT differential means that Japan imposes higher tariffs on U.S. goods than the U.S. does on Japan's goods.
Source: BBVA Research based on data from WITS

For the three industries with positive tariff differentials, their trade volumes are very small, reducing their exposure to potential U.S. trade actions. Additionally, these industries are either in trade balance or experiencing a small trade deficit with the U.S. Thus, if reciprocal tariffs are enforced, the overall impact on Japan's industries will be negligible.

## Philippines: Sectors at risk from U.S. reciprocal tariffs

The Philippines has a moderate tariff differential with the U.S., meaning some sectors could face trade disruptions if the U.S. imposes reciprocal tariffs. However, compared to India and Thailand, the overall impact may be limited due to lower trade volumes in most sectors.

Figure 5. **PHILIPPINES: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**




Note: A positive PPT differential means that the Philippines imposes higher tariffs on U.S. goods than the U.S. does on Philippine goods.
Source: BBVA Research based on data from WITS

Highly impacted sectors including hides & skins (+8.0 ppts) and plastic & rubber (+8.0 ppts). These sectors have the highest positive tariff differentials, meaning the Philippines imposes significantly higher tariffs on U.S. imports than the U.S. does on Philippine exports. If the U.S. reciprocates, Philippine exports in these industries could lose price competitiveness, leading to potential declines in export volumes. In addition, the metals industry (+5.4 ppts) will be hit by the 25% tariffs recently announced.

Moderately impacted sectors covering stone & glass (+5.0 ppts), textiles & clothing (+0.9 ppts) and footwear (+1.8 ppts), which have a moderate tariff differential on U.S. imports. Meanwhile, minerals (+2.9 ppts), and wood (+1.9 ppts) also have smaller positive tariff differentials, but since the Philippines runs a trade deficit with the U.S. in these sectors, they face moderate risk.

Limited or no impact sectors including machinery & electrical (+0.2 ppts) and fuels (0.0 ppts). Due to negligible tariff differentials and small trading volumes, any reciprocal U.S. tariffs would have minimal effect on these sectors.

## Malaysia: Sectors at risk from U.S. reciprocal tariffs

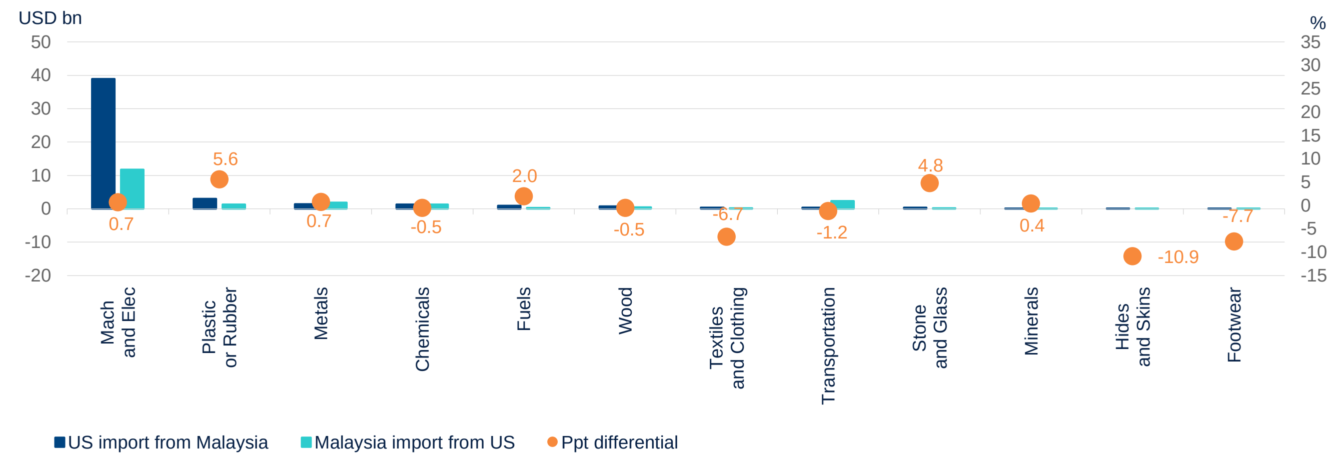
Similar to the Philippines, Malaysia has a moderate tariff differential with the U.S. While some industries impose higher tariffs on U.S. imports, Malaysia's overall exposure is lower compared to India and Thailand due to smaller tariff gaps and trade structure (Figure 6).

Plastic or rubber (+5.6 ppts) and stone & glass (+4.8 ppts) have the highest tariff differentials and could face potential trade disruptions if the U.S. imposes reciprocal tariffs.

Machinery & electrical (+0.7 ppts), fuels (+2.0 ppts), and minerals (+0.4 ppts) have small differentials, suggesting moderate risk but a lower likelihood of major trade disruptions.

Wood (-0.5 ppts), textiles (-6.7 ppts), hides & skins (-10.9 ppts) and footwear (-7.7 ppts) will likely see minimal impact, as they are already subject to high U.S. tariffs.

Figure 6. **MALAYSIA: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**




Note: A positive PPT differential means that Malaysia imposes higher tariffs on U.S. goods than the U.S. does on Malaysian goods.
Source: BBVA Research based on data from WITS

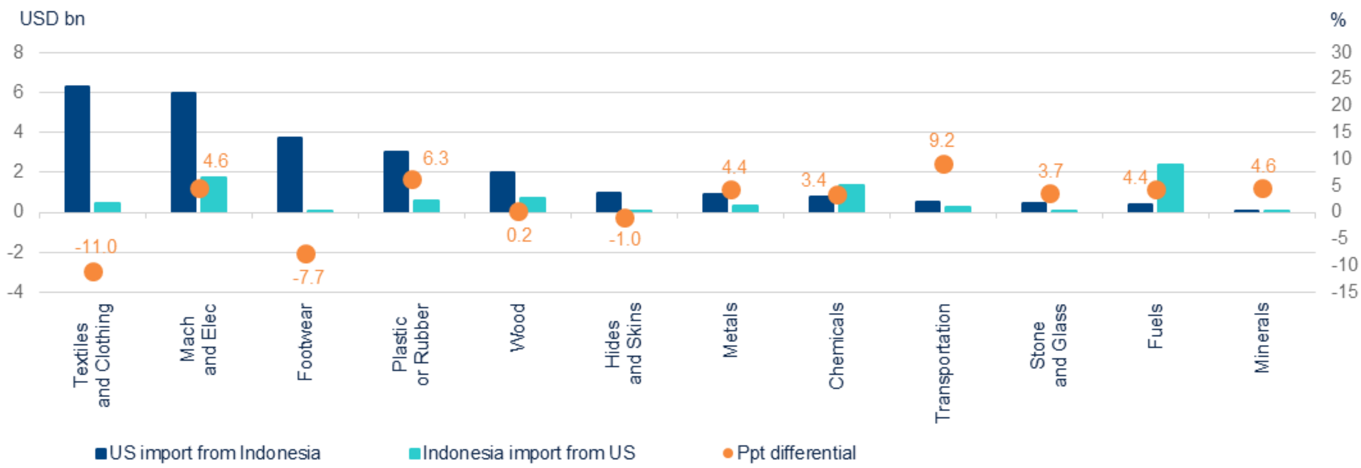
## Indonesia and Vietnam: Least impacted by US reciprocal tariffs

Indonesia has almost the same tariff level as the U.S., while Vietnam has a negative tariff differential (-1.8 ppts) with the U.S., meaning it already faces higher U.S. tariffs than it imposes on U.S. goods. This suggests that Indonesia and Vietnam are less exposed to U.S. reciprocal tariffs compared to countries with large positive tariff differentials. However, certain industries still face risks if the U.S. introduces additional trade barriers (Figures 7 and 8).

It is worth noting that even though certain industries in some ASEAN countries have a negative tariff differential with the U.S.—meaning the U.S. imposes higher tariffs on their exports than they do on U.S. goods—the U.S. still experiences a trade deficit with these countries in certain industries.

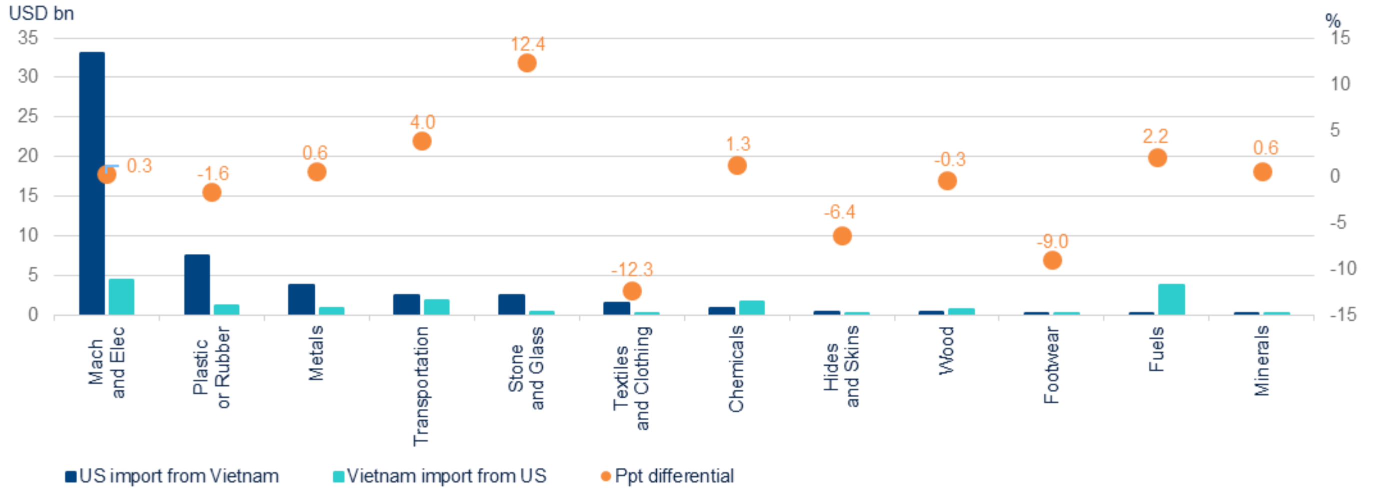
One key reason behind this paradox is product competitiveness. While tariffs impact trade costs, they do not solely determine trade balances. The U.S. trade deficit with ASEAN nations persists due to: i) Lower production costs and price competitiveness in ASEAN countries; ii) ASEAN's role in global supply chains, making it a crucial exporter; iii) Specialization in high-demand industries, where U.S. production is limited; iv) Long-term trade and investment relationships, ensuring consistent import demand.

Figure 7. **INDONESIA: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**




Note: A positive PPT differential means that Indonesia imposes higher tariffs on U.S. goods than the U.S. does on Indonesian goods.
Source: BBVA Research based on data from WITS

Figure 8. **VIETNAM: TRADE VOLUME AND EFFECTIVE WEIGHTED AVERAGE TARIFF RATES WITH THE US**




Note: A positive PPT differential means that Vietnam imposes higher tariffs on U.S. goods than the U.S. does on Vietnam's goods.
Source: BBVA Research based on data from WITS

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