

Economic Watch

China| An input-output table analysis on US's "reciprocal" tariffs on Asian countries

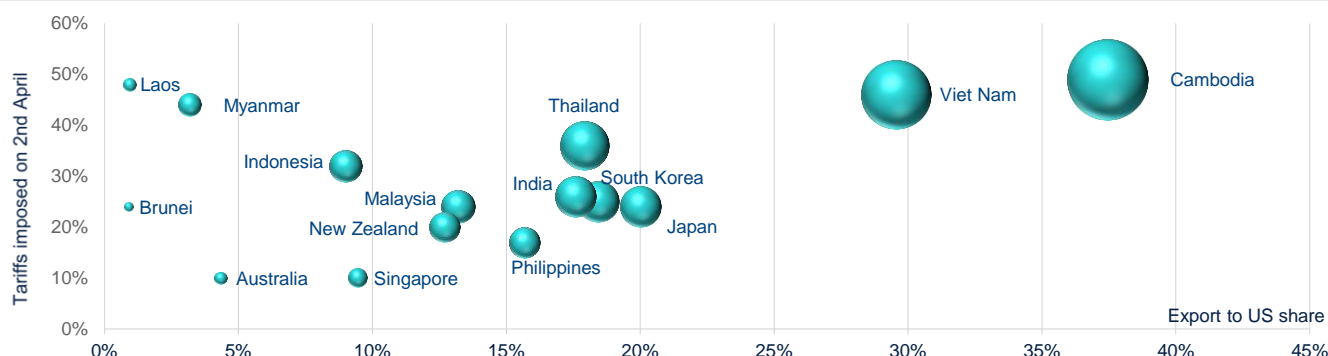
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On April 2nd, the United States announced the imposition of broad reciprocal tariffs targeting nearly all Asian countries and covering most categories of imports. This sweeping measure is part of a broader strategy aimed at addressing trade imbalances, protecting American industries, and responding to concerns about unfair trade practices. While the tariffs apply to a wide range of goods, strategic sectors such as semiconductors, critical electronic components, and certain medical devices have been exempted to avoid disruptions to U.S. supply chains. A 90-day negotiation window was offered to all affected countries—except China—to allow time for potential resolution and adjustment of trade practice.

The effect of these tariffs varies significantly across the region. Cambodia, Laos, Vietnam, and Myanmar are among the most vulnerable, facing tariff rates exceeding 40 percent (Figure 1). Cambodia is especially exposed, with nearly 40 percent of its exports destined for the U.S., primarily in garments and footwear. Vietnam similarly relies on U.S. demand for key export products, including electronics, apparel, furniture, and leather goods, making it highly sensitive to tariff changes. Laos and Myanmar, while also facing high tariff rates, have relatively smaller export volumes to the U.S., which tempers the immediate impact. However, their limited economic diversification and reliance on a few primary sectors—such as basic manufacturing and agricultural products—could exacerbate the economic strain if tariffs persist. Additionally, these economies may struggle to reorient trade flows quickly due to infrastructure limitations and lower integration into global value chains.

Thailand and Indonesia are moderately affected, encountering tariff rates slightly above 30 percent. Although their export portfolios are more diversified, they remain dependent on critical sectors such as automotive parts, electronics, and agricultural products that are heavily tied to the U.S. market. This could lead to disruptions, posing medium-term risks to their economic growth and employment.

Figure 1. **US RECIPROCAL TARIFFS POSE DIFFERING LEVELS OF EXPOSURE AMONG ASIAN COUNTRIES**



Source: BBVA Research based on data from UNComtrade *Note: Latest data available

India, Malaysia, Brunei, Japan, South Korea, and New Zealand experience a moderate impact with tariffs exceeding 20 percent. India's large domestic economy provides some insulation from external shocks. Malaysia and Brunei benefit from a broad base of exports including petroleum products and electronics. Meanwhile, Japan and South Korea's expansive trade ties with a variety of global partners reduce the relative importance of the U.S. market. New Zealand, with its emphasis on agricultural and niche high-value exports, is similarly moderately affected.

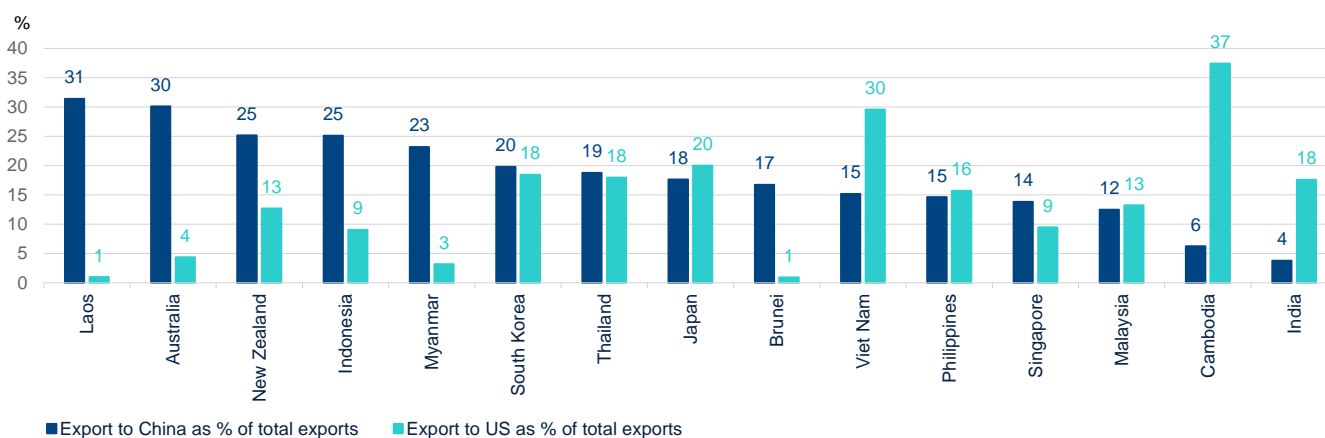
In contrast, Australia, Singapore, and the Philippines are the least affected, facing tariffs under 20 percent. Australia's export-driven economy is centered on globally demanded commodities like iron ore and natural gas. Singapore's resilient economic infrastructure and diversified trade base minimize the impact, while the Philippines' services-led economy and robust BPO (Business Process Outsourcing) sector offer insulation from direct tariff effects.

Asian trade partners (RECP+India) between a rock and a hard place

Asian trade partner countries maintain significant economic ties with both the United States and China, highlighting their delicate position amid rising tensions between the two major powers. In terms of exports, several countries such as Cambodia and Vietnam show greater export dependency on the U.S. market, with U.S. exports accounting for a larger share of their total outbound trade compared to exports to China (Figure 2). This pattern underscores the crucial role that U.S. consumer demand plays in sustaining their export-driven economies, especially in labor-intensive industries like garments, footwear, and electronics assembly.

However, when considering total bilateral trade — including both imports and exports — is more substantial with China (Figure 3). This reflects China's role not only as a major export destination but also as a critical supplier of intermediate goods and raw materials. Countries like Laos, Indonesia, Myanmar, Vietnam and Thailand exhibit particularly high levels of trade integration with China, underlining their dependence on Chinese supply chains and regional economic networks.

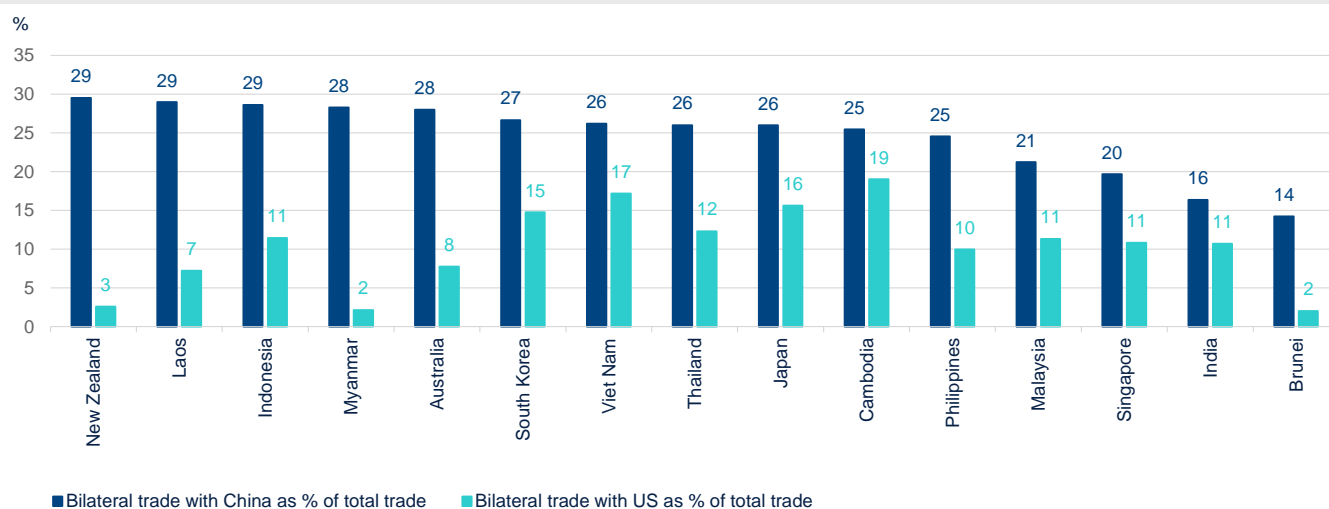
Figure 2. **ASIAN COUNTRIES EXPORTS RELIANCE WITH CHINA AND US**



*Note: Latest data available.

Source: BBVA Research based on data from UNComtrade

Figure 3 **ASIAN COUNTRIES BILATERAL TRADE TIES WITH CHINA AND US**



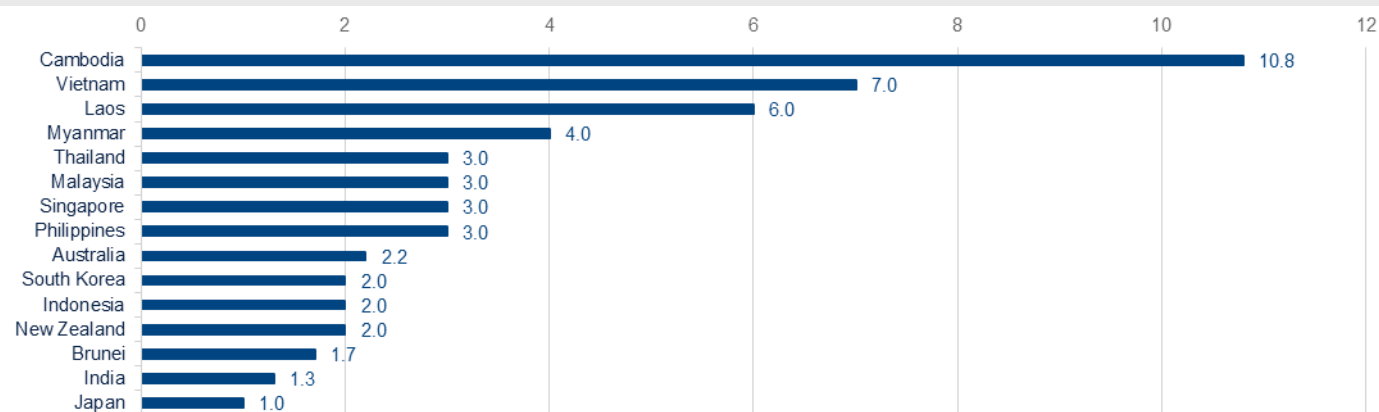
*Note: Latest data available.

Source: BBVA Research based on data from UNComtrade

Input Dependency on China

Further reinforcing the region's economic ties with China, OECD input-output data reveal considerable reliance on Chinese intermediate goods across Asia (Figure 4). Cambodia relies on China for more than 10 percent of its production inputs, with the machinery and equipment sector showing nearly 38 percent dependence. Vietnam's overall input reliance on Chinese goods stands at 7 percent, with specific sectors such as electrical equipment and food, beverage, and tobacco manufacturing depending on China for 23 percent and 22 percent of their inputs, respectively. In Laos, where overall reliance is 6 percent, the computer and electronics manufacturing sector is 35 percent dependent on Chinese supplies. High levels of reliance are also evident in sectors such as refined petroleum, rubber and plastics, textiles, and furniture manufacturing.

Figure 4. **CHINA INPUT RELIANCE (%) FOR INTERMEDIATE GOODS**



Source: BBVA Research based on data from OECD input-output table

Countries such as Malaysia, Singapore, and the Philippines also show notable input dependence, sourcing around 3 percent of their intermediate goods from China. Other countries such as Singapore, Australia, Indonesia, and Brunei also demonstrate notable reliance on Chinese intermediates, although to a slightly lesser extent. This deep integration into China's supply chains underscores the critical role China plays not only as a final market but also as a vital supplier of parts and components essential for manufacturing and assembly industries across the region. This trend is particularly evident in the growth of China's exports of intermediate goods in sectors such as electronics, automotive components, and textiles.

Strategic risks and geopolitical tensions

Asian economies face a complex and escalating strategic dilemma in balancing their economic relationships with both the U.S. and China. On one hand, the U.S. offers vital market access and export-driven revenue that supports employment and growth in key sectors; on the other, China provides the critical intermediate goods and raw materials essential for manufacturing and assembly, forming the backbone of many regional supply chains. This dual dependency makes these economies increasingly vulnerable as geopolitical tensions rise and trade policies become more volatile.

On China's side, China is expected to tolerate the enforcement of trade rerouting restrictions by its partners to a certain extent, recognizing the necessity of regulatory compliance; however, it remains firmly opposed to any deeper alignment with U.S. protectionist measures. Its ongoing retaliatory actions—ranging from targeted tariffs to regulatory scrutiny—are designed not only to protect its own interests but also to serve as a warning to discourage other nations from siding with Washington in a broader economic confrontation.

Scenario analysis based on OECD input-output tables

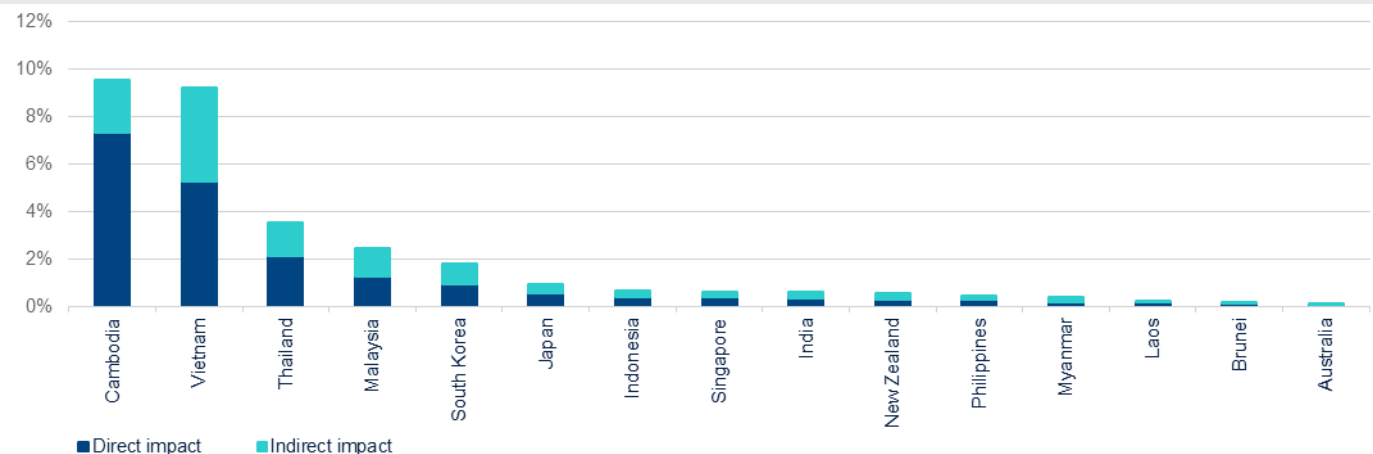
In light of the ongoing tariff negotiations, Asian countries face a range of potential outcomes, each carrying different economic and strategic implications. To assess the potential economic impacts of the U.S. reciprocal tariffs, this analysis employs input-output modeling using data from the OECD. The methodology evaluates both direct and indirect effects on GDP. Direct impacts refer to the immediate exposure of a country's exports to U.S. tariffs, estimated based on trade elasticity and value-added contributions of affected sectors. Indirect impacts capture the secondary effects propagated through international supply chains, measured using the Leontief inverse matrix. This matrix allows for the tracing of inter-industry linkages and the amplification of shocks across borders. Together, these measures provide a comprehensive picture of each country's vulnerability under various tariff scenarios.

Risk Scenario: Reciprocal tariffs remain

In the risk scenario, the failure of negotiations and the continuation of the original reciprocal tariffs could have far-reaching consequences for Asian economies (Figure 5). Countries like Cambodia and Vietnam would be the most severely affected, with GDP losses nearing 10 percent and 9 percent, respectively. These figures reflect both the direct impact on exports and the broader disruption caused by the interconnectedness of regional supply chains. Malaysia, Thailand, and South Korea would also experience substantial indirect effects due to their extensive integration into global value chains, particularly in high-tech and industrial manufacturing sectors. The cumulative strain on trade flows, investment confidence, and employment could reverse years of economic development and challenge political stability in the region. At the lower end of the spectrum, countries like Philippines, Myanmar,

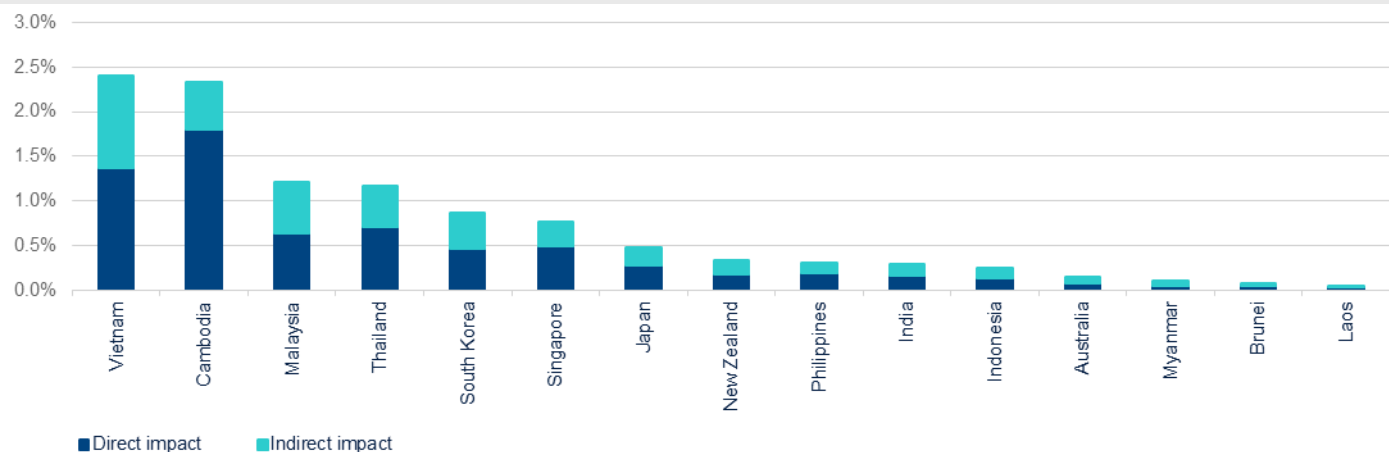
Laos, Brunei and Australia exhibit greater resilience, with GDP losses staying below 0.5% even in the risk scenario. Their lower integration into U.S.-bound supply chains or diversified export bases may explain this resilience.

Figure 5. **RISK SCENARIO SHOCK ON GDP**



*Note: Assuming import demand elasticity 0.8.
Source: BBVA Research based on data from OECD input-output database.

Figure 6. **OPTIMISTIC SCENARIO SHOCK ON GDP**



*Note: Assuming import demand elasticity 0.8, US bilateral tariffs assumed to be equal to 12% for each country, in line with 25% US tariffs on vehicles (including their parts), steel, aluminum and products not satisfying USMCA requirements.
Source: BBVA Research based on data from OECD input-output database.

Optimistic Scenario: Successful Negotiation

In the optimistic scenario, Asian countries successfully utilize the 90-day negotiation window to secure comprehensive bilateral trade agreements with the United States. These agreements would establish a uniform 10 percent tariff across all goods and a 25 percent tariff specifically for imported vehicles (including their parts), steel, aluminum and products not satisfying USMCA requirements. Such a resolution, although requiring concessions from Asian nations in areas like regulatory transparency, intellectual property, or market access for U.S. products, would provide a much-needed framework of predictability and stability. Countries such as Cambodia and Vietnam,

which remain somewhat vulnerable due to their heavy reliance on U.S. markets, would see a considerable reduction in economic exposure. In this scenario, the GDP impact is mitigated, with Cambodia and Vietnam experiencing more manageable contractions of approximately 2.3 and 2.4 percent, respectively. This would enable these countries to continue leveraging global supply chains while gradually diversifying their trade dependencies.

Pragmatic Scenario: Differentiated Outcomes

The pragmatic scenario falls between these two extremes, offering a more nuanced outcome. It anticipates a situation where countries experience differentiated treatment based on the concessions they are willing or able to make. Nations such as Vietnam, Thailand, and the Philippines that demonstrate flexibility and align more closely with U.S. trade expectations could secure permanent tariff reductions and selective exemptions for key industries. Meanwhile, countries less inclined to comply may face renewed tariffs, albeit possibly at moderated levels. This differentiated approach would likely accelerate internal divergence within Asian countries, dividing the region into two blocs: those with strengthened ties to the United States and enhanced negotiating leverage, and those with weaker bargaining positions and deeper economic linkages with China.

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