

*Market Monitor – Asia*

## Most Asian economies actively seek to negotiate with the US



- Asian economies opt for a negotiation rather than retaliatory approach in resolving trade disputes with the US.
- In Q1 2025, South Korea, Singapore and Malaysia's economic growth moderated, while Taiwan's accelerated and beat expectations.
- Bank of Japan remains committed to its rate hike plans, while the Bank of Thailand and Bangko Sentral ng Pilipinas cut rates.

### Asian economies are seeking trade solutions with the US

**Asian economies opt for a negotiation rather than a retaliatory approach in resolving trade disputes with the US.** As the US recorded some of its largest trade deficits with Asian economies, the Trump Administration has proposed, though currently delayed, high reciprocal tariffs against most Asian economies. Asian economies will also be hit by sectoral tariffs, including autos and, at a later stage, semiconductors. However, the US and Asian economies have strong strategic relationships beyond economic and investment interests, particularly in the context of broader geopolitical dynamics in the region. Asian economies, no matter if they are Japan, South Korea, Taiwan or ASEAN economies, have adopted a negotiation rather than retaliatory approach in resolving trade disputes. Several Asian economies, including Japan, South Korea, Taiwan, Vietnam, Indonesia and Thailand, have reached out to the US proactively. Various proposals include expanding procurement of American goods (including energy, agriculture and defense), making more direct investment in the US, removing non-tariff trade barriers, and addressing US concerns over export controls, etc. in return for the removal of all tariffs. Meanwhile, other ASEAN economies are pushing for a collective negotiation to maximise their leverage. Even though the situation remains fluid and depends on the willingness of the US to reach agreements, the first trade deal has been reached between the US and the UK. This indicates that those proactively seeking negotiation could have a higher chance to resolve the trade disputes more quickly, paving the way for a new trade balance between the

## Economic Research

May 2025

US and Asian economies going forward.

**Asian manufacturing PMIs pointed to deteriorating sentiment amid trade tensions.** In the advanced Asian economies, South Korea and Taiwan's manufacturing purchasing managers' indices (PMIs) pointed to a faster pace of contraction, declining from 49.1 and 49.8 in March to 47.5 and 47.8 in April, respectively, while Japan stayed subdued at 48.7 in April, slightly up from 48.4 in March. Meanwhile, ASEAN manufacturing PMI slumped to 48.7 in April from 50.8 in March, the first contraction after 15 consecutive months. Since the US has announced significantly larger than anticipated tariff increases (though delayed), and Asian economies are taking time to reach agreements with the US, the Asian manufacturing sector is expected to face increasing pressure ahead.

### Asian economies moderated in Q1, except Taiwan

**South Korea's economy slightly contracted in Q1, while Taiwan's posted robust growth.** Softening domestic and external demand dragged South Korea's economy in Q1, which shrank 0.1% year-on-year (YoY) in Q1 after 1.2% growth in Q4 2024. Domestic political instability dampened market sentiment, resulting in weaker investment and consumption. Softened global demand also led to slower growth of exports than imports. On the other hand, Taiwan's GDP growth accelerated from 2.9% YoY in Q4 2024 to 5.4% in Q1 2025, exceeding expectations. Capital formation remained the primary growth driver, driven by strong demand for technology investment. Net exports also resumed positive contribution to GDP growth in Q1 2025 after being the drag since Q2 2024, possibly linked to front-loading in response to US tariff hikes.

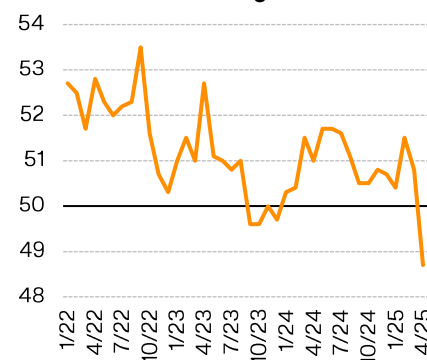
**Singapore and Malaysia slowed in Q1 2025.** Singapore's GDP growth decelerated from 5.0% YoY in Q4 2024 to 3.8% in Q1 2025, with moderating growth seen in both the manufacturing (from 7.4% to 5.0%) and services sectors (from 4.6% to 3.4%). Its Ministry of Trade and Industry has downgraded its growth forecast for 2025 from "1.0% to 3.0%" to "0.0% to 2.0%", reflecting increasing challenges from US trade policy and pressure on business and consumer sentiment. Similarly, Malaysia's GDP growth slowed from 5.0% in Q4 2024 to 4.4% in Q1 2025, with the manufacturing and services sectors declining from 4.4% YoY and 5.5% to 4.2% and 5.2% in Q1 2025, respectively.

### Asian central banks increasingly focus on growth uncertainties

**Japan's underlying inflation ticked up further.** Driven by solid gains in food prices, Japan's headline inflation stayed relatively high at 3.6% YoY in March, edging down from 3.7% in February. Its core-core inflation (excluding fresh food & energy) accelerated from 2.6% YoY in February to 2.9% in March, reflecting rising wage pressure. South Korea's and Taiwan's inflation stayed modest at 2.1% YoY in April and 2.3% in March, respectively. Meanwhile, most ASEAN economies posted inflation below 2% YoY level, with Thailand experiencing a decline of 0.2% YoY in April after 0.8% growth in March, mainly due to lower energy prices.

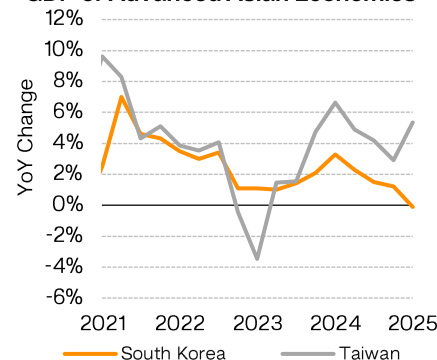
**The Bank of Japan (BoJ) stayed put, while the Bank of Thailand (BoT) and Bangko Sentral ng Pilipinas (BSP) cut rates.** In April, the BoJ maintained its policy rate at 0.5%. Even though the BoJ highlighted that the US's uncertain trade policy could lead to a slowdown in economic growth, evidenced by a reduction in

ASEAN Manufacturing PMI



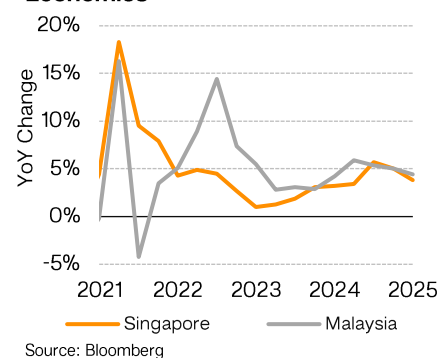
Source: Bloomberg

GDP of Advanced Asian Economies



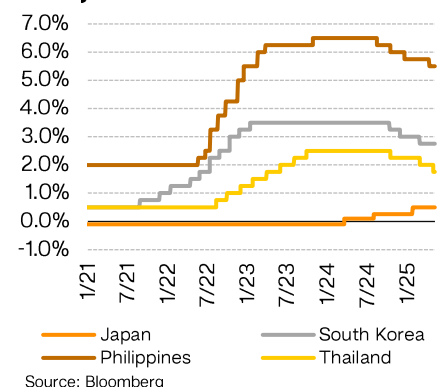
Source: Bloomberg

Growth of Selected ASEAN Economies



Source: Bloomberg

Policy Rates in Asian Economies



Source: Bloomberg

## Economic Research

May 2025

its growth forecasts to 0.5% for fiscal year 2025 and 0.7% for 2026, it remains committed to its rate hike plans if its economic and inflation outlook is realised. On the other hand, the BoT and BSP cut their policy rates by 25 basis points (bps) to 5.50% and 1.75% in April, respectively. Both central banks cited that the challenging external environment has raised downside risks, which supported monetary easing. During the month, Bank Indonesia and Bank of Korea held their policy rates unchanged.

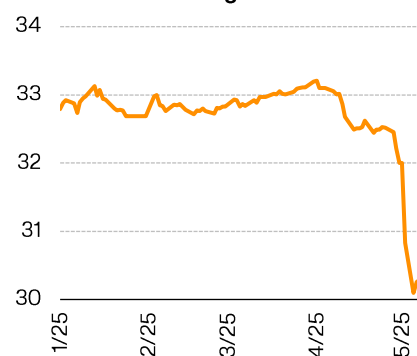
### Asian currencies strengthened in April

**Most Asian currencies appreciated against the US dollar in April.** The Trump Administration announced larger-than-expected reciprocal tariff measures in early April, which raised the recession risk in the US and triggered huge volatilities in US financial markets. In April, major Asian currencies recorded solid appreciation against the US dollar, such as the Japanese yen (4.8%), Korean won (3.4%) and Singaporean dollar (2.8%).

In early May, the Taiwanese dollar (TWD) once surged against the US dollar by around 8.0% during 2<sup>nd</sup> to 5<sup>th</sup> May, but the Taiwan's central bank denied speculation that the US asked the TWD to appreciate as part of the trade talk and urged calm in an emergency meeting, with the TWD later stabilised at around 30 per US dollar.

**Asian stock markets generally rebounded in April.** Japan's, South Korea's, Thailand's and Malaysia's equity markets recorded increases of 1.2%, 3.0%, 3.4% and 1.8% in April after notable declines in March. The 90-day pause of US reciprocal tariffs, along with the efforts of most Asian economies to negotiate with the US, has swiftly revived market confidence in Asian markets.

USD/TWD Exchange Rate



Source: Bloomberg, data as of 8/5/2025

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