Singapore Economic Policy Forum

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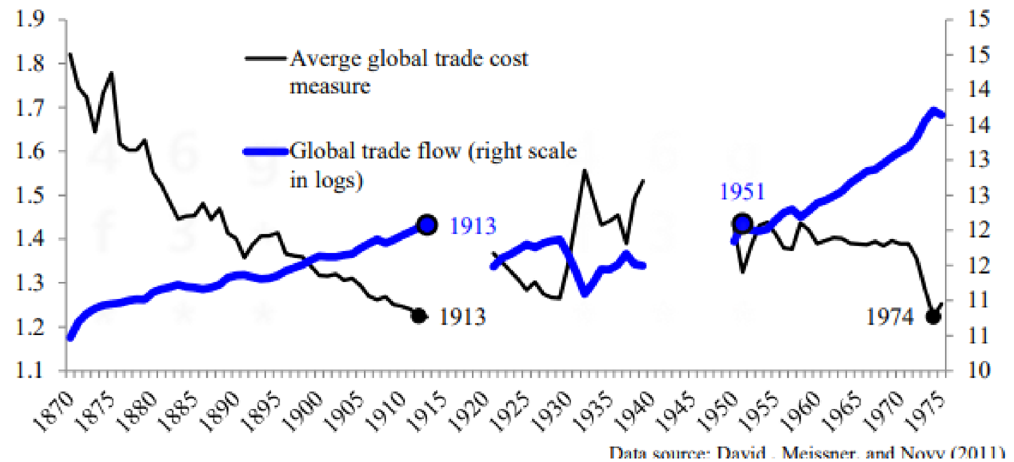
Executive summary

- The global trade construct has evolved in the past century. The ‘first unbundling’ came with the discovery of steam starting from 1830-1870. The ‘second unbundling’ came with the advent of technology, leading to supply chains being influenced by supply and demand forces in more obvious ways.
- The third big shift from our perspective is the changing role of China in the global economy. China’s ascension into the World Trade Organization in early 2000’s allowed China to take on a greater role in global production.
- That role was brought directly into question from higher tariffs under Trump 1.0. Subsequent shifts in supply chains to ‘friendshoring’ and ‘China +1’ policies saw Southeast Asia rise to greater prominence.
- The tariffs under Trump 2.0 take direct aim at these satellite economies. But the impact of higher US tariffs – reciprocal, sectoral, idiosyncratic – are complicated to decipher given highly interlinked global supply chains and varying global price dynamics.
- Global markets are largely shrugging off tariffs after digesting for six months. The initial tariff levels are lower than the original proclamation, GDP growth has been higher rather than lower in 1H25, and policymakers are proving proactive.
- Gold prices are up 50+% since the start of the year. US equities have been surprisingly resilient as the AI story keeps technology stocks kicking. Financial conditions remain accommodative.
- Whether this is developing resilience or a mirage that could unfold in the coming months remains to be seen.

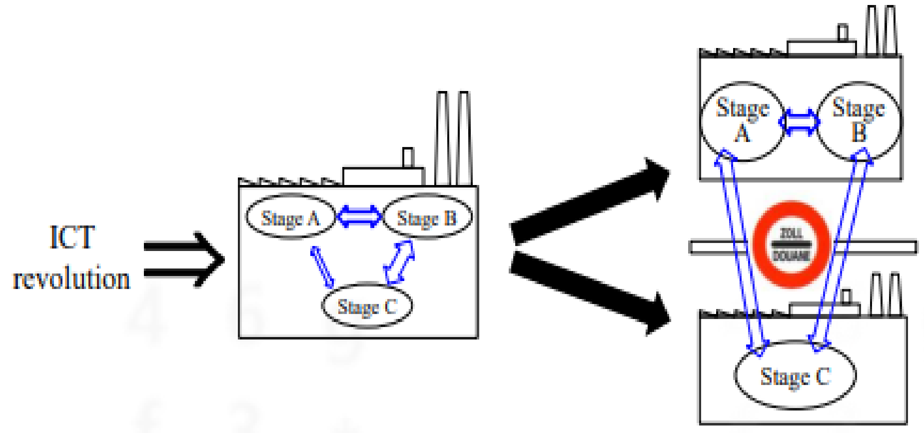
Trade has evolved from timely discoveries and efficiencies:

- History has guided towards the benefit of trade. The 'first unbundling' came with the discovery of steam starting from 1830-1870. Railroads and steamships made it feasible to spatially separate production and consumption.
- From the mid-19th century to WWI, trade costs fell rapidly due mostly to lower transportation costs. From 1914 to 1950, trade costs rose erratically. Following the World Wars, trade costs fell steadily due mainly to tariff liberalization and better organization of transportation.
- The second unbundling came in with the advent of information, communication and technology (ICT). This allowed some stages of production previously performed in close proximity became geographically dispersed.

Global trade flows and estimated trade costs, 1870–1975



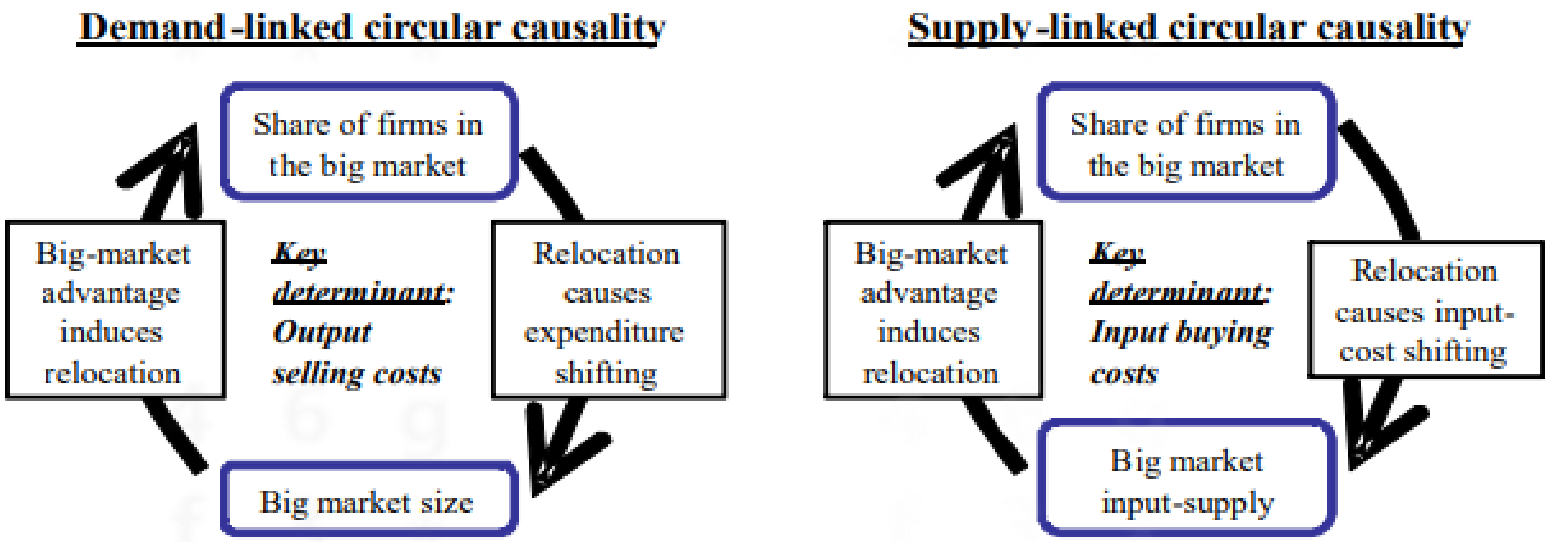
Schematic illustration of coordination costs and the second unbundling



Source: *Global supply chains: why they emerged, why they matter, and where they are going*, Richard Baldwin. This chapter is published in a book *Changing features of global value chains, edited by Deborah K. Elms (Editor), Patrick Low (Editor).*

Supply chains influenced by agglomeration forces:

- Two of the most important agglomeration forces for global supply chains are supply-side and demand-side.
- Demand-linked circular causality rests on market-size/demand issues. Some cities like Tokyo, demand-links have resulted in a share of activity concentrated spatially. This is one key reason why manufacturers continue to produce in high-wage nations.
- The supply linked circular causality of firms' sourcing intermediate inputs from other firms and the presence of many firms. This is one key reason why China is such an attractive location for the production of new goods – especially in electronics.
- However, the global economy may be at risk of being upended by US tariffs and MAGA phenomenon.



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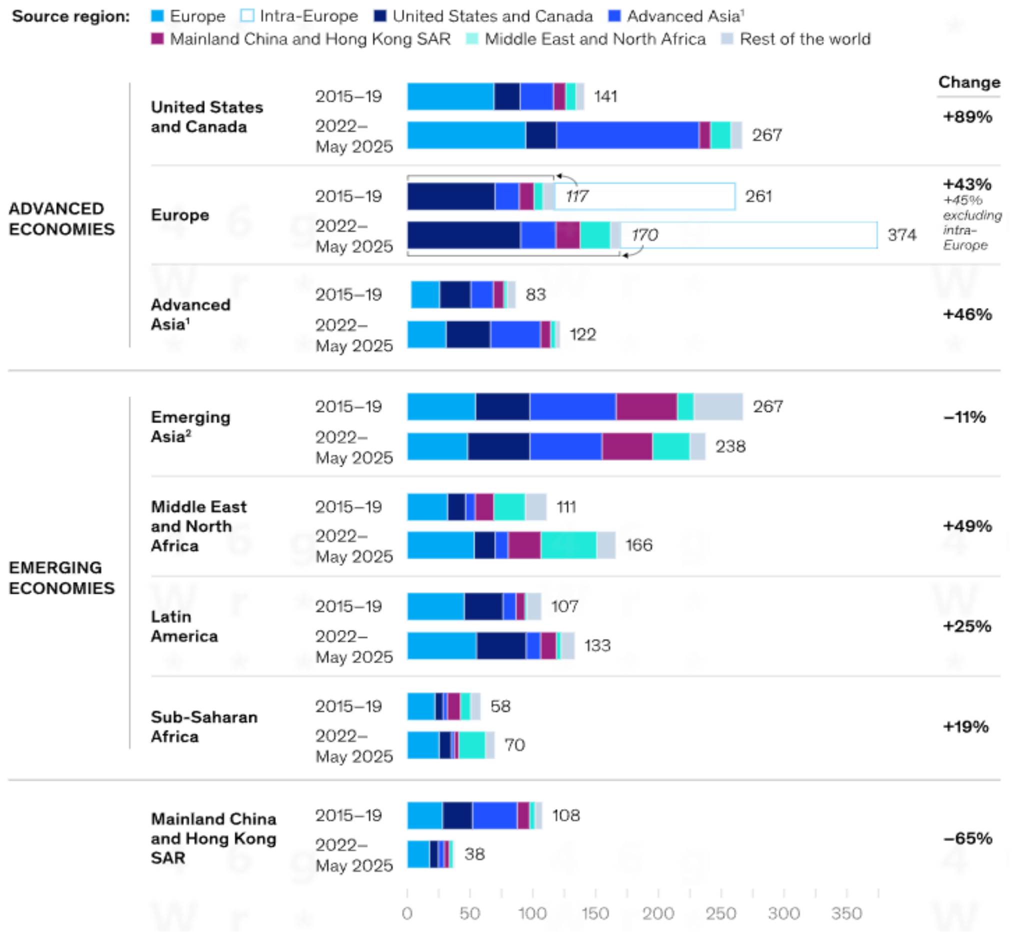
The changing role of China in global supply chains:

- The role of China has changed significantly since it first ascended the World Trade Organization in 2001. It became known as the factory of the world but this trend was disrupted somewhat by the tariffs put in place by President Trump in 2017-18.
- Since then, ‘China +1’ policies have become more popular. China shifted from a net investee to a major investor in future-shaping industries, increasing investments to Europe, Latin America, and MENA by over two-thirds, while emerging economies attracted diverse investment pledges.
- The role of ASEAN, Africa and Latin America as export markets for China is being evidenced in recent trade prints. For example, in 1Q25, ASEAN remained China’s largest trading partner accounting for 16.6% of overall foreign trade. Chinese exports to ASEAN countries, including flat panel display modules, automotive parts, and lithium batteries, rose by more than 20 percent.

Greenfield FDI announcement, inflows by region

(2015-19 and 2022-May 2025, annual average, USD bn)

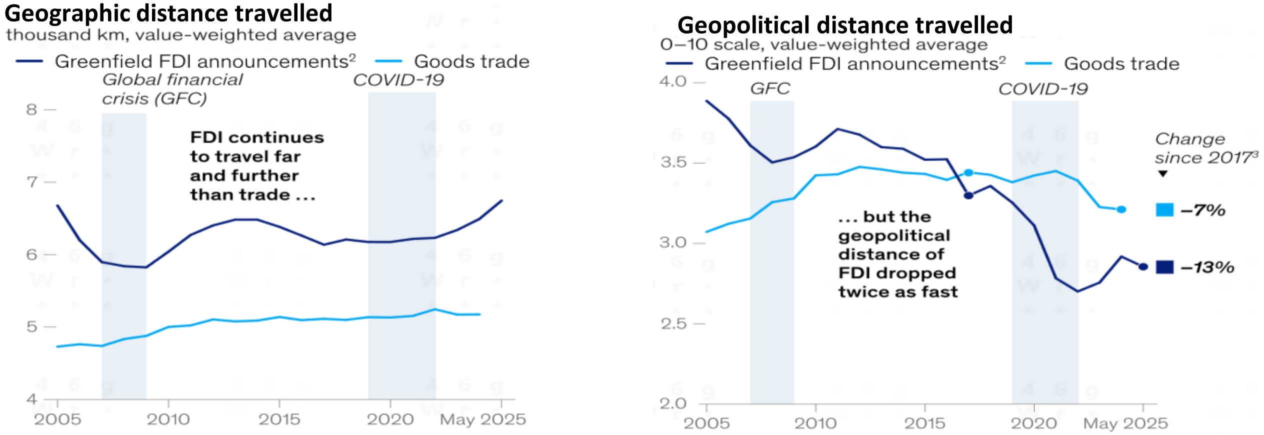


Source: McKinsey & Company.

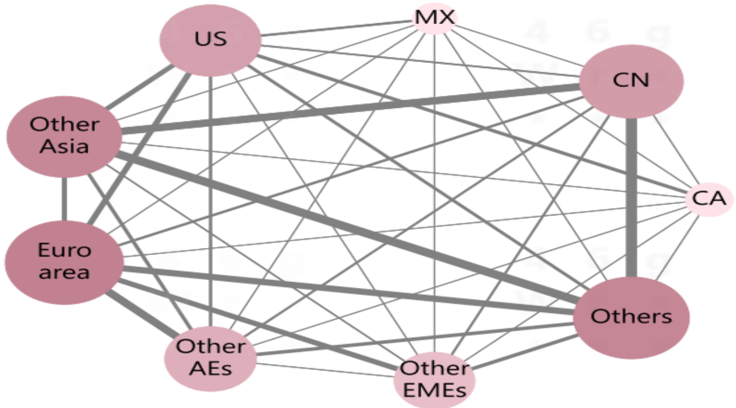
Recent investment flows reflect geoeconomic fragmentation:

- Pledged investment has increasingly aligned with geopolitical lines, with advanced economies boosting investments among themselves, especially into the US, while China experienced a ~65% decline in announced FDI from 2022-May2025 compared to 2015–2019.
- Specifically, China's outbound investment in the automotive and electronics sectors accounts for 25% of total announced investments in both industries. Emerging Asia remains the primary destination for Chinese outbound investment, focusing on integrating regional value chains.
- However, recent growth has been concentrated in Europe and MENA, where announced inflows increased by ~70% between 2022-May2025 compared to 2015–2019.

Greenfield FDI announcement & goods trade indicators, (2005 - May 2025)



Trade linkages for intermediate goods



Note: Distance measures value-weighted average distance. Geopolitical distance measure the value-weighted average partner similarity based on analysis of UN General Assembly voting patterns between 2005 & 2022. FDI announcements are 3yr rolling average. Goods trade figure represent change between 2017-24. All $ are in terms of 2024 USD. Advanced Asia includes Australia, Japan, New Zealand, South Korea, and Taiwan (China). Emerging Asia includes all Asian economies outside Advanced Asia and excludes Mainland China. Source: McKinsey & Company.

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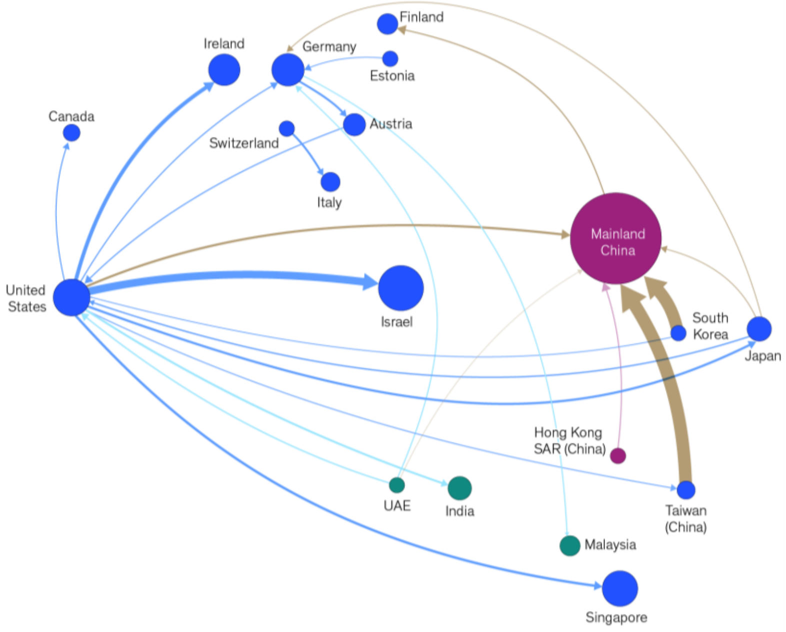
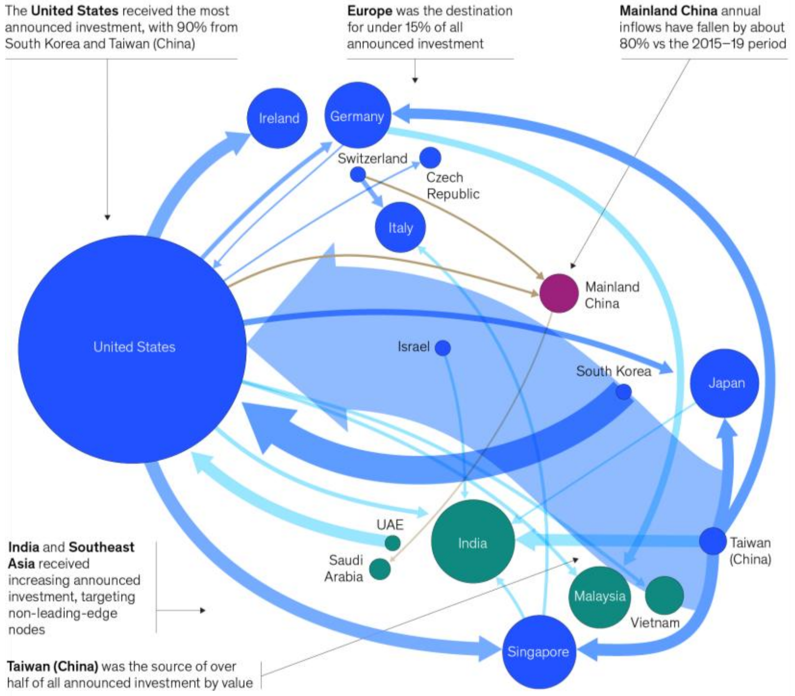
The geopolitics of semiconductor FDI: case in point

- The case for semiconductor investments is a clear case in point. Once dominated by Taiwan and South Korea, chip production is now being reshaped by USD115bn in annual FDI, with advanced economies like the US, Europe, and Japan building domestic capabilities to reduce strategic dependencies.
- This reconfiguration of supply chains marks a pivot from efficiency to resilience, as governments prioritise national security, industrial policy, and control over critical technologies. For ASEAN, the movement of supply chains to higher value-added products and services will be an important gauge for success within this field.

FDI in semiconductors (Top 25 corridor by announced greenfield FDI, USDbn)	**2015-19** Top 25 corridors accounts for 86% of total FDI in sector	**2022-25** Top 25 corridors accounts for 89% of total FDI in sector





Note: Adjusted for inflation based on World bank US CPI, indexed at 2024.

Source: McKinsey & Company.

The tariff shock from the US hits a nerve:

- Once a beacon of free trade, the US has reversed course sharply in 2025.
- The US is imposing reciprocal tariffs, effective 7 August and sector specific tariffs on goods it deems important to national interest.
- It is also imposing other arbitrary tariffs such as tariffs on fentanyl, Venezuela etc.

Reciprocal tariff rate (%)		
Country	2 April	31 July
EU	20	15 ↓
Japan	24	15 ↓
South Korea	25	15 ↓
Taiwan	32	20 ↓
Vietnam	46	20 ↓
United Kingdom	10	10 –
India	26	25 ↓
Brazil	10	10* –
Switzerland	31	39 ↑
Thailand	36	19 ↓

Note: 40% tariff applies on top of baselined 10%. Source, the White House, Financial Times.

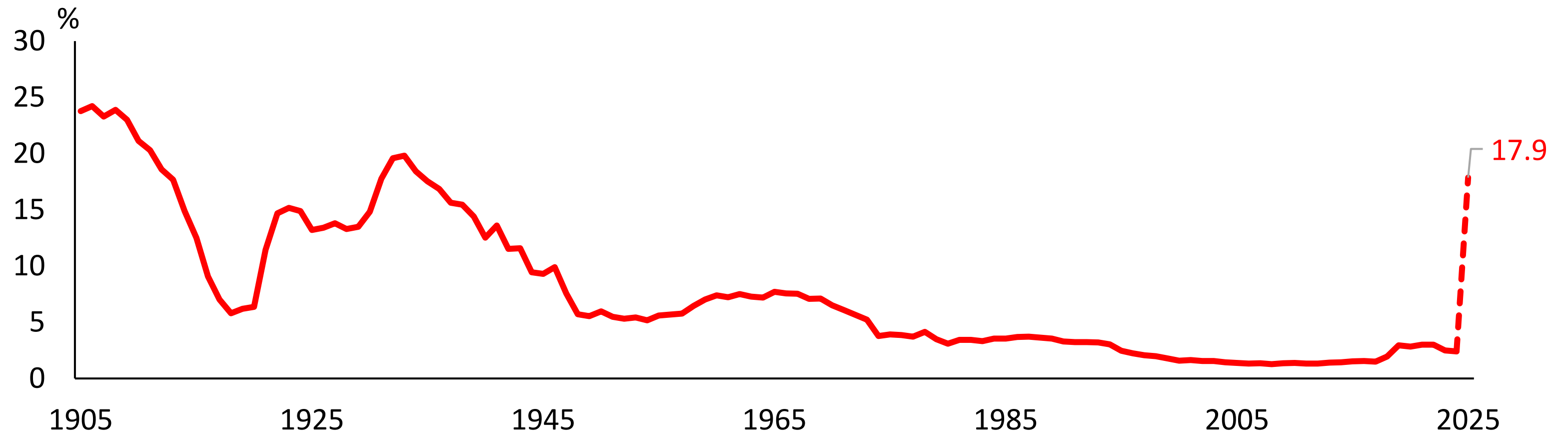
Sector	Date in effect	Rate
Automobiles	3 April 2025; amended 16 June 2025	25%
Automobile parts	3 May 2025; amended 16 June 2025	10% for UK-origin; 25% for all other foreign-origin
Steel and aluminium	12 March 2025; increased 4 June; amended 16 June 2025	25% for UK-origin; 50% for all other foreign-origin
Copper	1 August 2025; amendments made to raw copper	50%; Copper input materials exempt
Commercial aircraft and jet engines & parts	8 September 2025; subject to HTSUS descriptions stated in ANNEX II of modified Executive Order 14257	Bilateral tariff rate, subject to civilian usage
Pharmaceuticals, pharmaceutical ingredients, and derivative	1 October 2025	100% on branded or patented pharmaceutical products; domestically manufactured exempt
Timber and lumber	1 October 2025	10%; upholstered wood furniture 25%
Trucks, truck parts, and derivate products	1 November 2025	25%
Processed critical minerals & derivative products	**Pending implementation**	**0%**
Semiconductors and semiconductor manufacturing equipment	**Pending implementation**	**100%; domestically manufactured chips exempt**
Maritime, logistics, and shipbuilding	**Pending implementation (14 October 2025)**	**Phased fees (20-100%)**

Source: Atlantic council, Trade compliance resource hub, OCBC. Last Updated: October 2025.

Highest effective tariff rate for the US in decades:

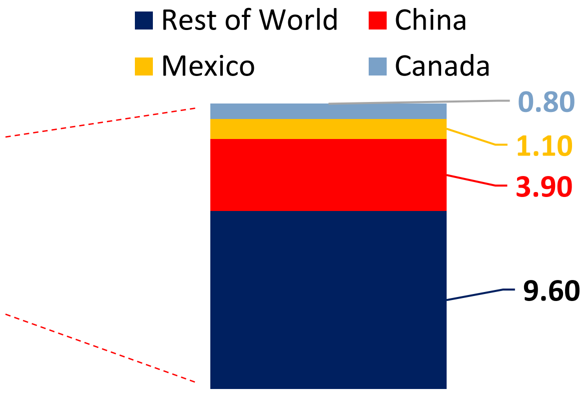
- The real question in our highly integrated world is whether the US is harming itself more than helping itself. The average effective tariff rate in the US exceeded 17%, highest since 1935. There is a potential for this to rise if transshipment tariffs come into play along with more stringent sectoral tariffs.
- The idea behind tariffs, as we understand it, is to bring back investments onshore to the US and reduce the comparative advantage that other economies such as China and India have.
- The loss for the other economies comes because of the US is one of the biggest global consumers. It remains to be seen whether other economies can compensate for potentially lower US demand for goods.

US average effective tariff rate



Note: 2025 data refers to current pre-substitution rate as of 26 September.
Source: The Budget lab, OCBC.

Avg. effective US tariff rate
(by country contribution, pp cont.)



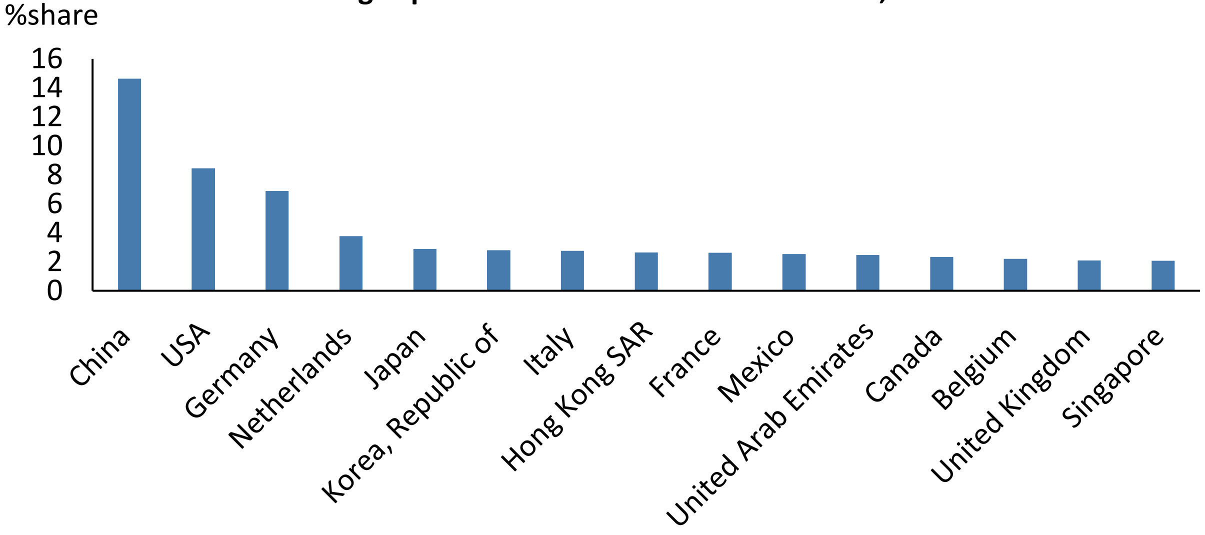
Note: Pre-substitution rate as of 26 September. Source: The Budget lab.

Source: Bloomberg, Reuters, OCBC

The conundrum of modern trade:

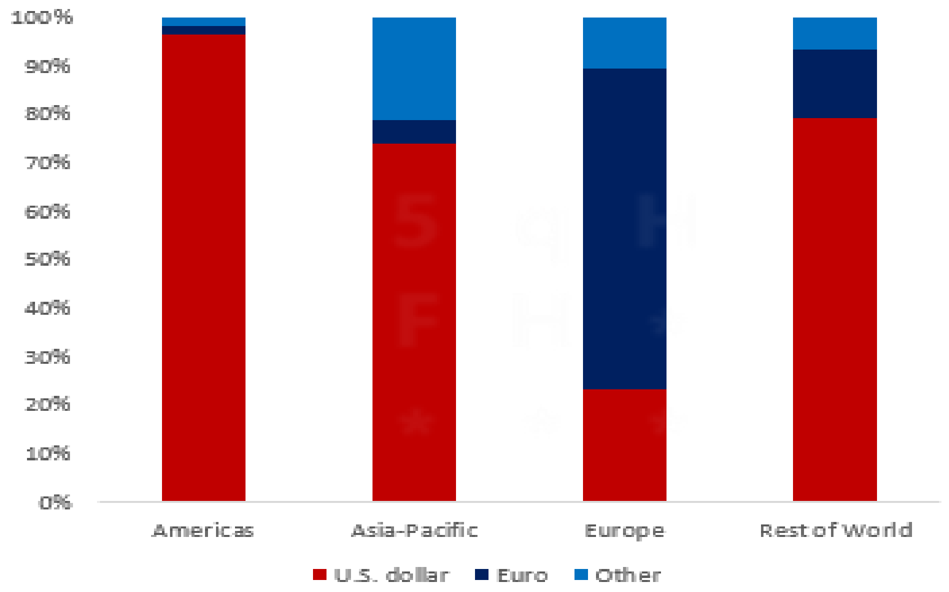
- The conundrum of modern trade is that the US accounts for 8.5% of global exports and 13.6% of global imports (2024) but export invoicing globally is predominantly undertaken in US dollars. In fact, other than Europe, the remainder of world still largely relies on USD for global trade invoicing. According to Boz et al, the share of USD in invoicing has varied little over history across different regions.
- The FX markets is predominantly concentrated in USD with 88% (2022) of spot, forward and swap markets featuring USD in one leg of the transactions. As a comparison, the EUR, being the second most traded currency, is trailing behind with a rather large margin.

Leading exporters in world merchandise trade, 2024



Source: WTO; OCBC.

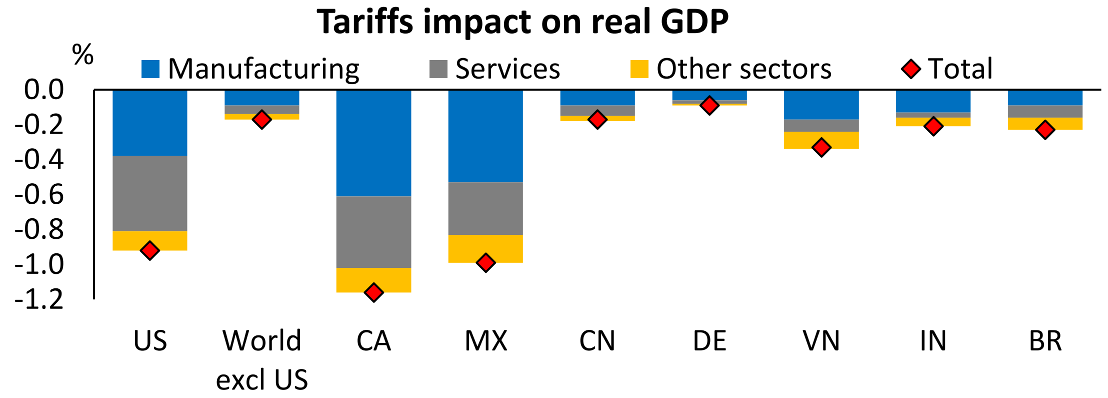
% Share of export invoicing through 1999 to 2019



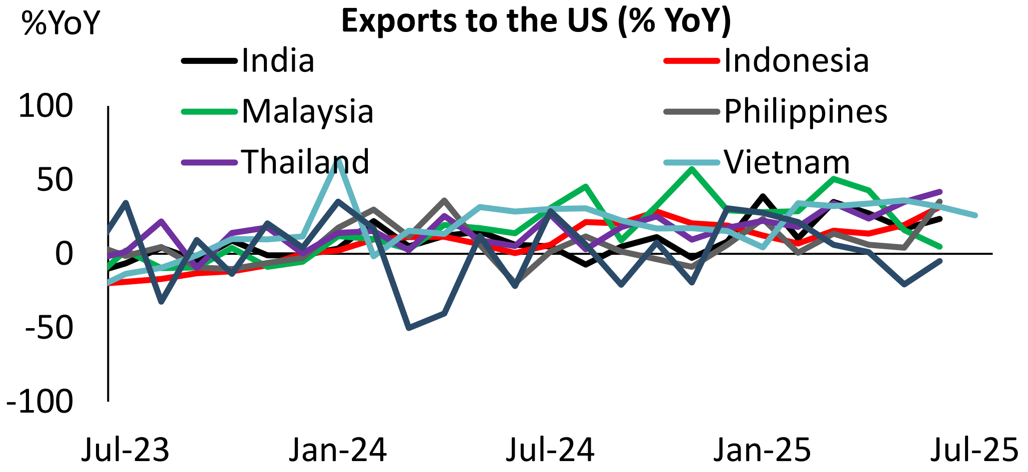
Source: IMF Direction of Trade; Central Bank of the Republic of China, Federal Reserve, Gita Gopinath & Jeremy C. Stein, 2018, OCBC Research

Tariff impact on growth: theory and reality have diverged so far

- Economic theory suggests that tariff changes significantly affect output and inflation, especially in the US and its key trading partners. Burgert et all (2025) model projects a notable drop in US output and a rise in prices compared to unchanged tariffs. There could also be noticeable output changes in key trading partners for the US such as Canada, Mexico, Vietnam and India.
- However, these short run effects do not account for factors like tariff uncertainty or lower oil prices. Indeed, these factors have impacted near-term behaviours in a significant manner. The frontloading of exports to the US across the region was clear in 1H25 supporting growth and economic activity beyond our baseline. The questions are whether there be payback into 2026, and can non-US demand compensate for the drop in exports to the US?



Note: In per cent, deviation from no-tariff change baseline.
Source: ADB, MRIO tables, BIS (Burgert et al (2025) - A multi-sectoral assessment of the macroeconomic effects of tariffs).



Source: CEIC; OCBC.

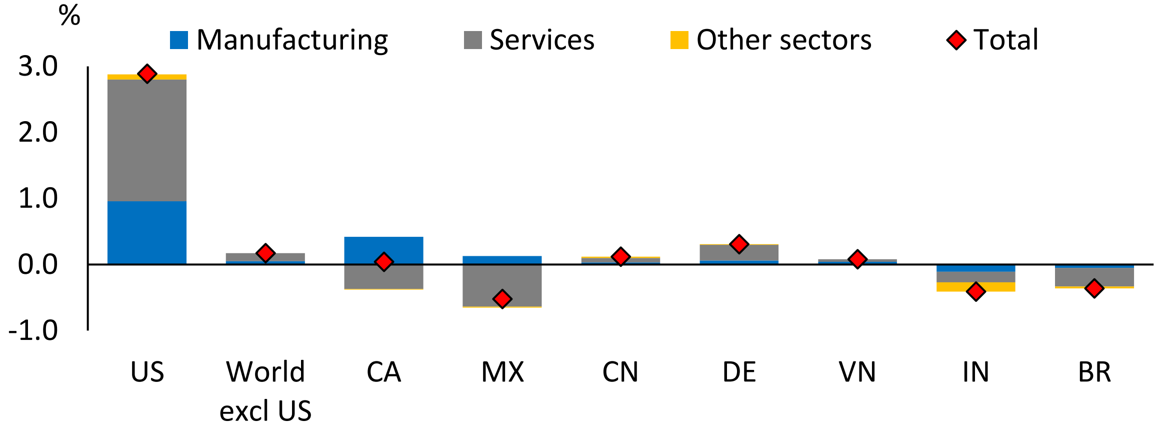
Note: Short-run impacts of announced tariffs as of 25 August based on simulations of the MS-Trade model, as deviations from a counterfactual where tariffs remained at end-2024 levels

Source: Asian Development Bank Multi-Regional Input-Output (MRIO) Tables; BIS calculations (Burgert et al (2025); BIS (2025a))

Tariff impact on inflation: time and place matters

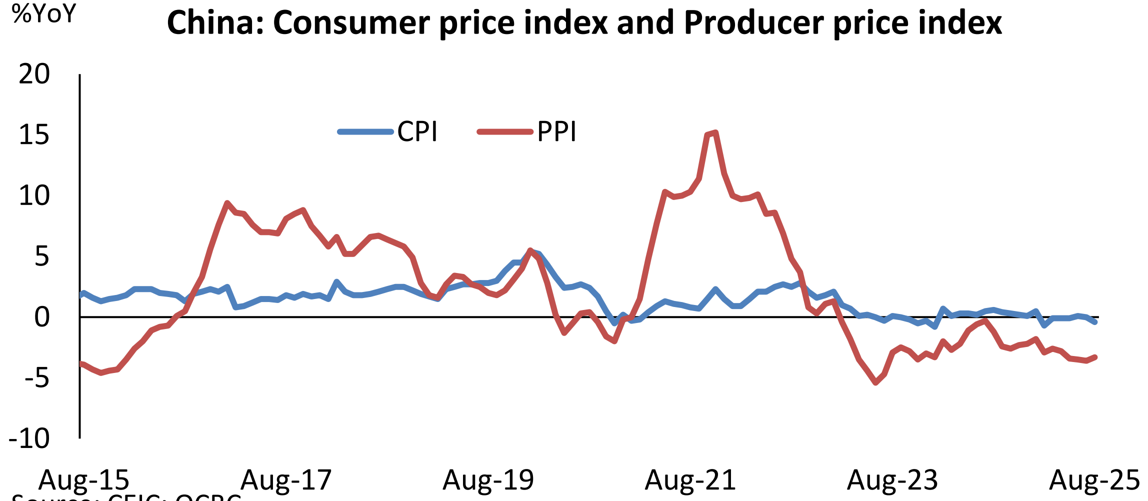
- Price effects vary widely. Burgert et all (2025) suggest that prices in the US will rise sharply but Mexico and Brazil could see price declines (0.5% and 0.4%). Canada's prices could remain stable due to retaliatory tariffs.
- Price changes reflect a balance between disinflation from lower output and inflation from higher US import costs and retaliatory tariffs. In countries with strong supply chain links to the US, inflationary pressures partially offset output-driven disinflation, resulting in modest overall price changes.
- Importantly, for ASEAN's inflation trajectory, including for Singapore, China matters as their exports diversify away from the US market. The Chinese authorities' anti-involution drive to push up prices may still only have a limited impact on import prices for ASEAN in the near-term.

Tariffs impact on price level



Note: In per cent, deviation from no-tariff change baseline. Source: ADB, MRIO tables, BIS (Burgert et al (2025) - A multi-sectoral assessment of the macroeconomic effects of tariffs).

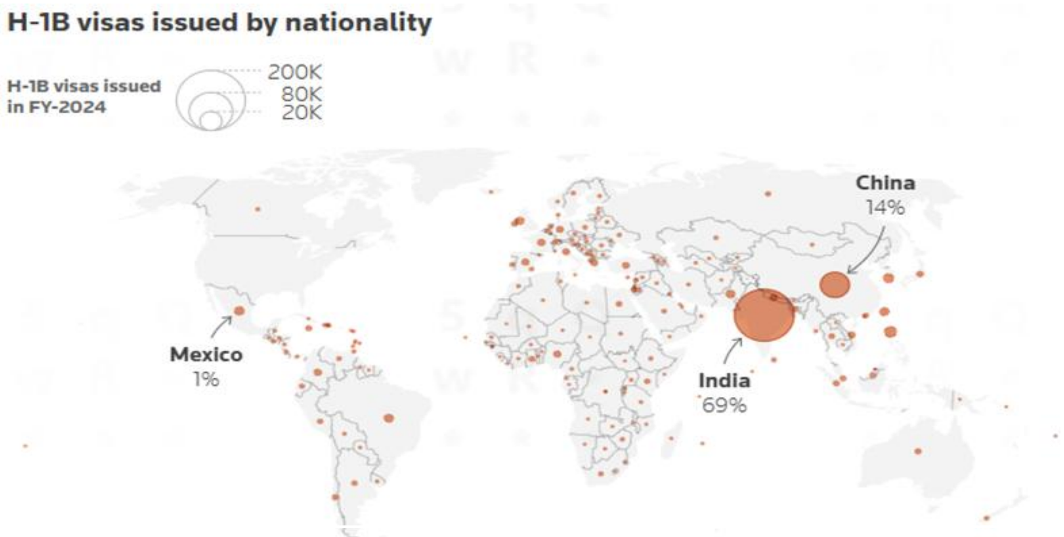
China: Consumer price index and Producer price index



Source: CEIC; OCBC.

Higher barriers to services trade cannot be ruled out:

- On 19 September, President Trump signed a proclamation adding a USD100k fee to H-1B foreign worker visas. The proclamation, which came into effect on 21 September, applies to new applicants of the visa but does not apply to existing H1B holders or renewals.
- India is currently the biggest beneficiary of the visa program, with 69% of all visas issued allocated to Indian nationals, followed by Chinese nationals at 14%.
- The tech sector looks to be the most affected by the new fee, with Amazon employing 10k workers under the program, while Tata Consultancy, Microsoft, Meta both have more than 5k employees under the program. Apple and Google currently have more than 4k workers employed under the visa.
- Singaporeans, who are eligible for a H-1B1 visa under the U.S.-Singapore FTA, do not require a standard H-1B visa to be employed in the US.



Source: Bureau of Consular Affairs, United States Department of State, Reuters

Rank	Employer (Petitioner) Name	Total Approvals
1	AMAZON COM SERVICES LLC	10044
2	TATA CONSULTANCY SERVICES LIMITED	5505
3	MICROSOFT CORPORATION	5189
4	META PLATFORMS INC	5123
5	APPLE INC	4202
6	GOOGLE LLC	4181
7	COGNIZANT TECHNOLOGY SOLUTIONS US CORP	2493
8	JPMORGAN CHASE AND CO	2440
9	WAL-MART ASSOCIATES INC	2390
10	DELOITTE CONSULTING LLP	2353
11	AMAZON WEB SERVICES INC	2347
12	ORACLE AMERICA INC	2092
13	INFOSYS LIMITED	2004
14	CAPGEMINI AMERICA INC	1844
15	LTIMINDTREE LIMITED	1807

Source: U.S Citizen and Immigration Services, OCBC

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Source: Bureau of Consular Affairs, United States Department of State, U.S Citizen and Immigration Services, Reuters, OCBC

Domestic politics becoming a hotbed of uncertainties

- Domestic politics is becoming a hotbed of uncertainties across key economies including France, Netherlands, Japan, Indonesia and Thailand.

THE STRAITS TIMES · 1h

France's new prime minister Lecornu resigns

His resignation was unexpected and unprecedented, having just been ...

Thai court sacks PM Paetongtarn Shinawatra for ethics violation

Paetongtarn's dismissal after only a year in power paves the way for the election by parliament of a new prime minister, a process that could be drawn out.

Indonesian Finance Minister Sri Mulyani Indrawati fired in reshuffle

Rupiah, stocks weaken as technocrat replaced by Indonesia Deposit Insurance Corporation head

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Source: ST, Nikkei, CNA, OCBC

The need for trade partner diversification is real:

- This year, trade deals between Southeast Asian, European, Gulf states, and states in the Asia Pacific ex US have picked up. We see this in the resumption of trade talks, revision of existing trade partnerships and new trade deals signed.

Europe		
Announcement Date	**Agreement Name**	**Status**
17 Jan 2025	EU-Mexico Agreement	Signed
20 Jan 2025 (resuming)	EU-Malaysia FTA	Under Negotiation
23 Jan 2025	EFTA-Thailand FTA	Signed
1 Feb 2025	EU-Chile ITA	Signed
10 Mar 2025 (resuming)	EU-India FTA	Under Negotiation
28 May 2025	EU-UAE FTA	Under Negotiation
23 Jun 2025	EFTA-Malaysia MEEPA	Signed
10 Jul 2025	EAEU-Indonesia FTA	Negotiation finalised
23 Sept 2025	EU-Indonesia FTA	Signed
30 Sept 2025	EFTA-India TEPA	Signed
1 Oct 2025	EU-Mercosur FTA	Under Negotiation

Asia Pacific		
Announcement Date	**Agreement Name**	**Status**
18 Mar 2025	NZ-India FTA	Under Negotiation
21 Apr 2025	ASEAN-Australia-NZ FTA	Signed
24 Sept 2025	Canada-Indonesia CEPA	Signed
3 Jul 2025	Mercosur-EFTA FTA	Under Negotiation
25 Aug 2025 (resuming)	Mercosur-Canada FTA	Under Negotiation
16 Sept 2025	Mercosur-UAE FTA	Under Negotiation
16 Sept 2025	Mercosur-Vietnam FTA	Under Negotiation
18 Sept 2025	Mercosur-Indonesia FTA	Under Negotiation
10 Oct 2025	Singapore-NZ Comprehensive Strategic Partnership	Signed

Gulf States		
Announcement Date	**Agreement Name**	**Status**
13 Feb 2025	Indonesia-GCC FTA	Under Negotiation
27 May 2025	ASEAN-GCC FTA	Under Negotiation
27 May 2025	Malaysia-GCC FTA	Under Negotiation
6 Oct 2025	EU-GCC FTA	Under Negotiation

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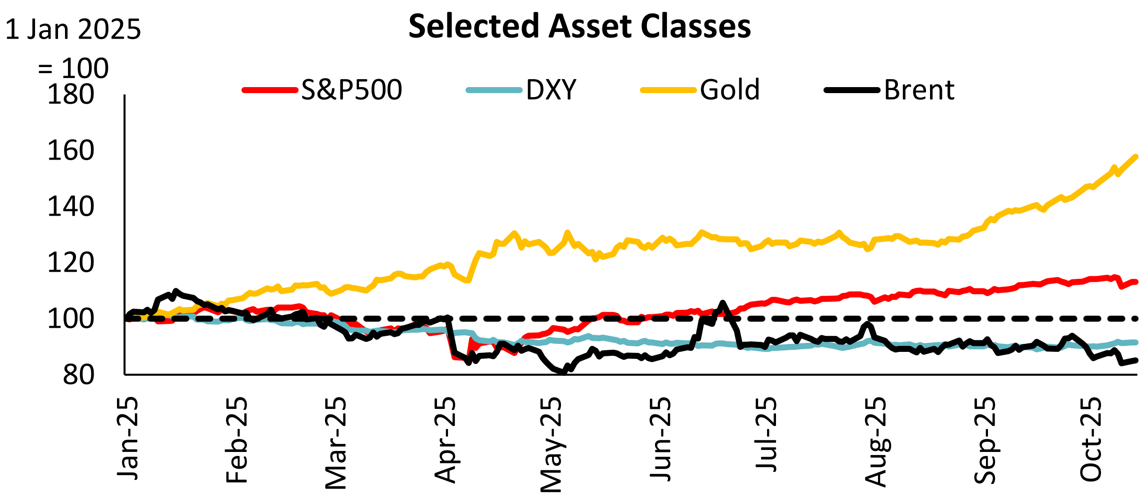
Source: Center for Strategic and International Studies (CSIS), various news websites, OCBC

Global financial markets are looking for solace:

- Gold has gained ~50+% since the start of 2025, driven by cyclical factors such as heightened geopolitical risks, expectations for more rate cuts from the US Federal Reserve and US policy uncertainties, as well as structural factors such as central bank buying of gold for reserve accumulation.
- By contrast, global oil prices have been falling despite tensions in the Middle East for much of the year. This is because supply constraints have eased, and the OPEC+ alliance is releasing more barrels of oil into the market in 2026.
- US equities have been surprisingly buoyant, notwithstanding the ongoing US government shutdown and threats to the US Federal Reserve's independence. Similarly, the DXY index is falling but the story of dollar diversification will likely be a slow and calibrated one.



Source: Bloomberg, OCBC.

Nontraditional currencies in Global FX reserves (End 2020)

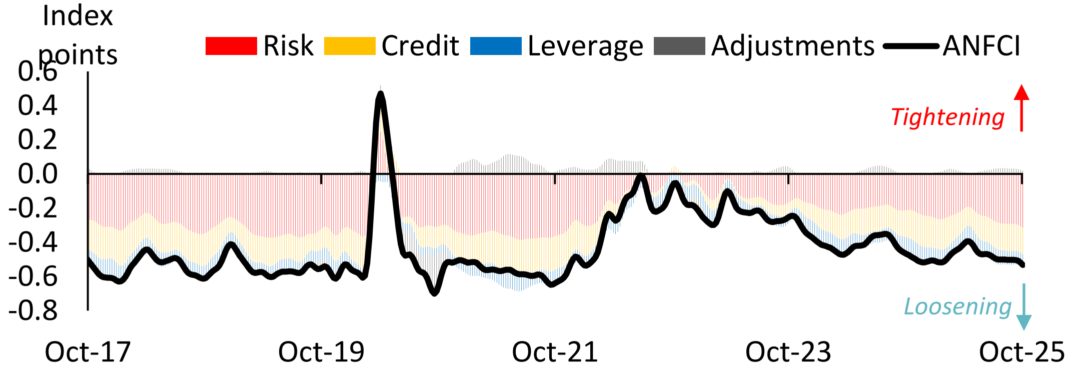
	in bil US$	as % of Total
Total	1070	100%
Australian dollar	217	20%
Canadian dollar	247	23%
Chinese renminbi	272	25%
Swiss franc	21	2%
Other	315	29%
Korean won	81	8%
Swedish krona	63	6%
Singapore dollar	51	5%
Norwegian krone	49	5%
Danish krone	47	4%
New Zealand dollar	12	1%
Hong Kong dollar	11	1%

Note: The size of "other" currencies is estimated based on Arslanalp and Tsuda
Source: IMF COFER, Dollar Dominance in the International Reserve System: An Update, Bloomberg, OCBC Research

Financials conditions remain loose, yet vulnerabilities remains

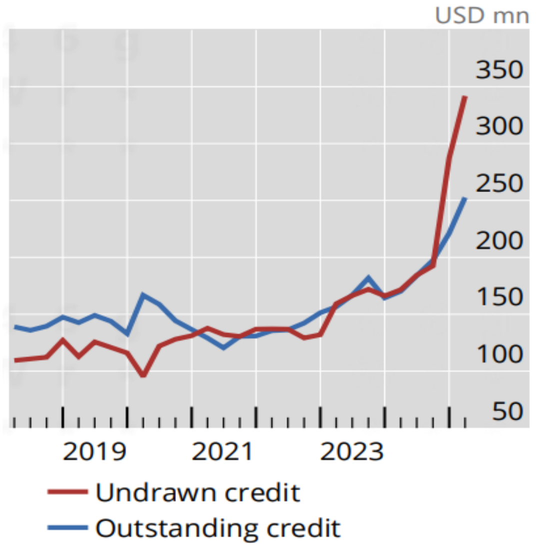
- Accommodative financial conditions have so far cushioned the global economy from tariff shocks. Initial market sell-offs were brief, with investor sentiment quickly rebounding due to trade negotiation progress. Strong US risk appetite and stable financial conditions support growth, aided by a weaker US dollar that boosts risk-taking and eases borrowing costs in emerging markets by lowering bond risk premiums.
- Firms anticipated tariff impacts by securing credit lines in late 2024, building liquidity buffers to manage higher costs and income shocks. However, these buffers are limited, especially for tradable sector firms in the US, euro area, UK, and EMEs, which often cannot sustain operations beyond a quarter without new cash flows.
- Risks remain if investor risk appetite falters, potentially tightening financial conditions and triggering market corrections. This could worsen supply chain disruptions through squeezed trade finance and working capital.

Financial condition index

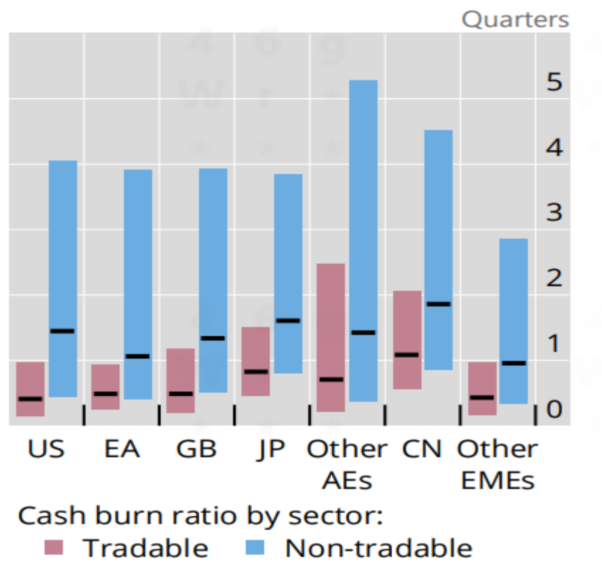


Note: Adjusted national financial conditions index (ANFCI), along with contributions to the index from the three categories of financial indicators (risk, credit, and leverage) and from the macroeconomic adjustments. Source: The federal reserve Bank of Chicago.

Firms undrawn credit line



Firms' liquidity cushion against income shocks

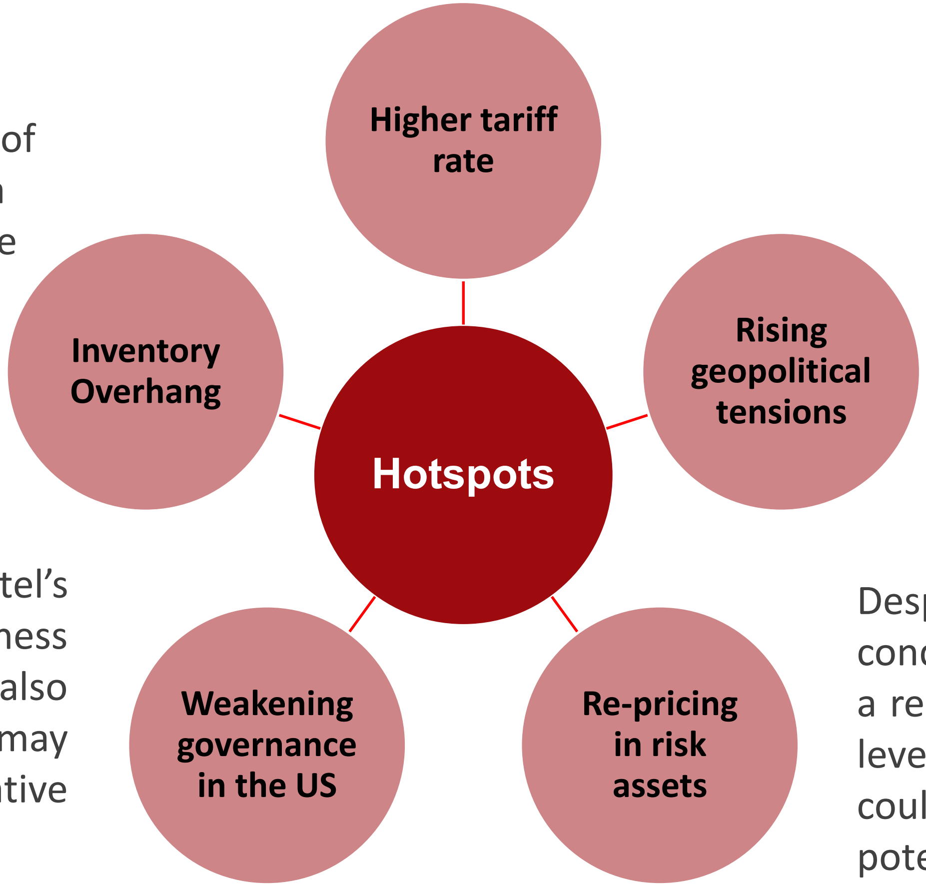


Source: The Federal Reserve Bank of Chicago; BIS - Kohlscheen et al (2025); OCBC.

Hotspots and risks in the near term

There is a risk that the Trump Administration may impose additional sectoral tariffs. This may lead to higher effective tariff rate. The IMF estimates that renewed and unresolved trade tensions, coupled with supply chain disruptions, could lower global output by 0.3% points in 2026.

The front-loading of economic activity in the first half of the year has created exposures that could amplify the impact of potential negative shocks. For instance, a possible inventory overhang could reduce import orders more than projected, burdening firms with increased holding costs and potential losses from obsolescence.



Other than the hot wars in Ukraine and Middle East, the secondary tariff for countries purchasing Russian oil and threatened additional tariff on BRIC+ countries will lead to more confronting world, which may potentially heighten the market volatility.

Trump demanded the resignation of Intel's CEO, underscoring his growing willingness to weigh in not only on Fed policy but also on corporate leadership. These moves may again undermine the traditional narrative of US institutional independence.

Despite the easing of global financial conditions and rebounding equity markets, a rebound of tariffs to meaningfully higher levels following the end of current pauses could weigh on market sentiment, potentially triggering a sharp repricing in risk assets.

Thank you

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