How Trump's economic policies will impact South Asia

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As Donald Trump prepares to be inaugurated as the 47th president of the United States on January 20, marking the start of his second term, this occasion highlights essential democratic traditions and carries significant implications for his economic policies that will resonate globally. Joseph Liow Chin Yong, dean of the College of Humanities, Arts, and Social Sciences at Nanyang Technological University (NTU) in Singapore, told the Time magazine after the election that Trump would be "more prepared" in 2025. His anticipated economic policies, driven by an "America First" agenda, are set to transform not only the financial landscape in the US, but also that across South Asia, a region home to nearly two billion people and with vast opportunities and substantial challenges.

Trump, branding himself as a "tariff man," centres his economic platform on trade levies. A Trump 2.0 administration would likely focus on economic nationalism, prioritising US interests with potential tax cuts for individuals and corporations to spur growth, possibly making parts of the Tax Cuts and Jobs Act of 2017 permanent. He intends to reduce regulations in energy, finance, and healthcare to lower compliance costs and boost economic activity. Maintaining a protectionist trade approach, he aims to renegotiate agreements, impose tariffs on imports—especially from China—and foster domestic manufacturing. In his 2024 campaign, he proposed at least 60 percent tariffs on Chinese imports and 10-20 percent on global imports. He has threatened tariffs on companies like John Deere for considering offshoring, and could levy 100 percent tariffs on the BRICS nations if they create a trade currency. Further tariff threats are expected as Trump views them as vital to diplomatic leverage. Advisers' proposals may enable the president to impose "reciprocal tariffs" matching those of other nations.

Infrastructure spending may be prioritised, with plans for significant investment in transportation, energy, and technology to create jobs. Policies aimed at energy independence would support fossil fuel production and relax environmental regulations. Economic initiatives could align with immigration reform, limiting immigration to safeguard jobs while seeking skilled labour for growth. Trump may advocate for domestic manufacturing through subsidies or tax breaks, and assist small businesses by enhancing access to capital and easing regulatory burdens. Additionally, he may pursue healthcare reforms to reduce costs and boost competition, including efforts to repeal the Affordable Care Act. Overall, these strategies would prioritise national security by protecting US industries and jobs from foreign competition.

A second Trump presidency might reshape the current dynamics of South Asian geopolitics and economics. Trump opposes rerouting US-China trade through third countries, with Oxford Economics predicting that his tariffs could decrease US imports by three percent and exports by eight percent, impacting 'non-China Asia.'

How Trumponomics 2.0 could impact South Asia

Washington's South Asia policy will align with its Indo-Pacific vision initially established during Trump 1.0. His foreign policy could significantly influence the region's security and economy, with India playing a key role due to its contributions to the Indo-Pacific. A second Trump presidency might reshape the current dynamics of South Asian geopolitics and economics. Trump opposes rerouting US-China trade through third countries, with Oxford Economics predicting that his tariffs could decrease US imports by three percent and exports by eight percent, impacting "non-China Asia." The ongoing US-China trade tensions could drive a restructuring of global supply chains, potentially shifting 20 percent of manufacturing away from China by 2025. During the previous administration, countries like Malaysia, Vietnam, and Thailand benefited from the trade war as factories relocated there to establish new supply chains. However, the competition for low-cost manufacturing remains fierce, particularly with Vietnam attracting foreign direct investment (FDI) at a much higher rate—$36.6 billion in 2023—compared to Bangladesh ($3 billion). India has a robust infrastructure to appeal to export-oriented manufacturers, but regional trade partnerships face challenges.

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An "America First" agenda under the Trump administration could impose tariffs detrimental to export-reliant economies like Bangladesh and India. A five percent tariff increase on Bangladeshi exports, valued at $9.74 billion (2022), could result in a $487 million annual loss. Additionally, tighter immigration policies may reduce remittances—a crucial income source for South Asia. In 2023, Bangladesh received $2.6 billion in remittances from the US, making up 15 percent of its total inflows.

Trump aims to implement strict measures on immigration, including ending the Deferred Action for Childhood Arrivals (DACA) programme and the Public Charge Policy. This could strip protective status from over half a million DACA recipients and amplify fears among immigrant families about accessing essential services like healthcare. Stricter immigration policies may also reduce the flow of skilled labour and remittances, affecting various South Asian countries. Additionally, educational exchanges might suffer, as over 200,000 South Asian students currently studying in the US could choose more welcoming countries like those in Europe, Canada or Australia. Lastly, India's rising influence in the QUAD bolsters its strategic role but may marginalise smaller economies that overlook regional cooperation through bodies like SAARC or ASEAN.

Challenges and opportunities for Bangladesh

Bangladesh will encounter various challenges and opportunities during Trump's second term. The ready-made garment (RMG) sector, which comprised 84.7 percent of total merchandise exports in FY23 (ERD, 2024), offers low added value compared to the overall product value. To ascend the global value chain, Bangladesh must focus on creating more sophisticated products and enhancing backward and forward linkages. Although product diversification has occurred, areas such as design, branding, sales, and after-sales services remain largely unaddressed. Strengthening backward linkages is crucial for increasing domestic value addition. Moreover, diversifying the export base is essential to mitigate vulnerabilities associated with tariff hikes. Promising sectors like ICT, pharmaceuticals and agro-processing, which showed significant growth in 2023, offer viable alternatives to reduce economic risks.

Other serious needs include infrastructure development, in which Bangladesh is ranked 88th out of 139 countries regarding logistics performance (2023), far from Vietnam's 43rd and India's 38th positions. In the current realignment of global supply chains, how Bangladesh will be able to attract FDI to its industrial zones is a challenge that needs consideration, along with the rationalisation of regulations. Migration and remittances remain critical, with $2.6 billion received from the US in 2023; exploring partnerships with countries like Canada, the UK, and Australia that have friendlier immigration policies could bring relief.

It is also important that in the education sector, much effort should be invested in strengthening local institutions and building international academic collaborations as a hedge against the risk of more stringent visa policies by the US, given that over 9,000 Bangladeshi students pursue higher education there every year. Finally, when India is increasingly strengthening its role within QUAD, Bangladesh will have to go further in regional cooperation through SAARC and ASEAN, forging partnerships with other countries like Vietnam and Indonesia for its protection of economic and strategic interests.

For South Asia and Bangladesh to navigate the challenges posed by Trump's policy agenda, proactive measures are essential. The region must lead efforts to foster cooperation in response to shifting global dynamics, while Bangladesh should focus on diversifying exports, attracting foreign investment, and improving infrastructure. Innovative strategies are necessary to promote a fair migration agenda, ensuring equitable benefits from labour migration for countries of origin and destination, employers, and all workers—both nationals and migrants. Strengthening ties with new destination countries and enhancing domestic educational opportunities are vital steps to mitigate risks and leverage emerging opportunities for sustainable growth in an evolving world.

Russia-Ukraine conflict and the shifting alliances in Central Asia

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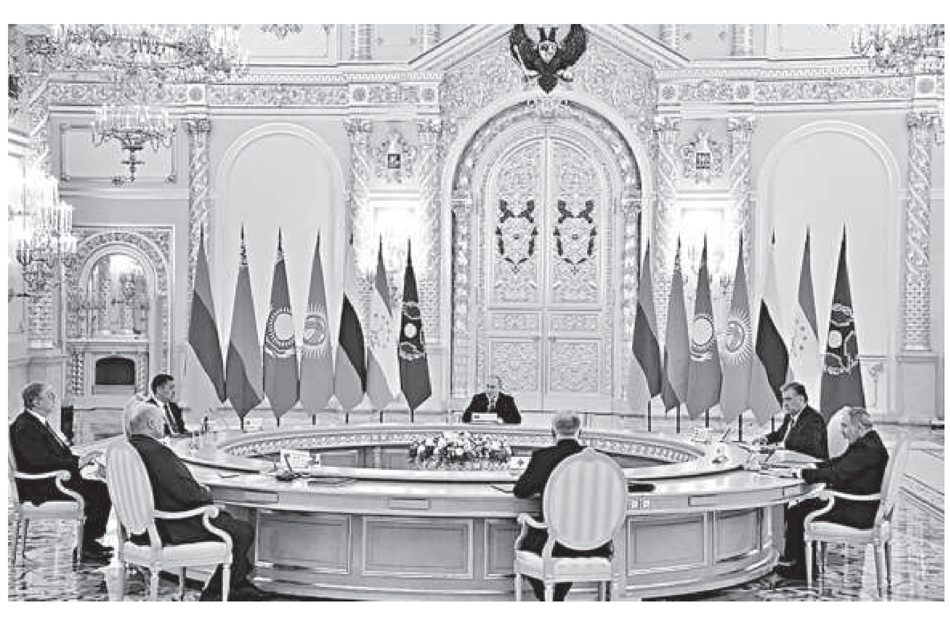
The war between Russia and Ukraine has become a major geopolitical crisis of the 21st century. Following Russia's invasion of Ukraine in February 2022, numerous countries, including the US, UK, EU, Australia, Canada, and Japan, have imposed over 19,535 sanctions against Russia. Their primary focus has been on Russia's financial resources. Approximately half of its total reserves—amounting to $350 billion—were frozen, impacting its foreign currency reserves. According to the EU, approximately 70 percent of the assets of Russian banks were frozen by a high-speed messaging service for financial institutions.

The war between Russia and Ukraine has undoubtedly influenced the relationship between Moscow and its allies. Following the imposition of sanctions on Russia, Russian President Vladimir Putin made a significant swing towards China, signing a series of agreements. The impact of this war was not only on Western and Russian relations but also on Russia's close allies. In this regard, Central Asian countries are now forced to strike a difficult balance between their long-standing relations with Russia and other large powers. While the region has historically relied on Russia for economic and security relationships, the protracted conflict has produced new challenges and possibilities, prompting these countries to pursue a more assertive but cautious foreign policy. At the same time, this upheaval and Russia's dependence on China create a golden opportunity for China to strengthen its ties with Central Asia.

Though, since the dissolution of the Soviet Union in 1991, the five Central Asian countries have gained more political and economic independence. Historically, the Central Asian Republics (CARs)—Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan—have always viewed Russia as a guarantor of security for internal stability and protection against foreign threats. Since their independence from the Soviet Union, Central Asian countries have faced a difficult transition from a common Soviet history to divergent nation-building and economic liberalisation pathways. The five Central Asian states are part of one or more Russian-led organisations, including the Commonwealth of Independent States (CIS), the Collective Security Treaty Organisation (CSTO), and the Eurasian Economic Union. These institutions provide forums for regional security and economic partnership with Russia, allowing Russia to maintain a substantial influence in Central Asia's geopolitical landscape. For example, in 2021, when the Taliban reclaimed control in Afghanistan, Russia stationed military equipment on the Tajik-Afghan border as part of the CSTO and conducted joint military drills with Uzbekistan and Tajikistan within 20 kilometres from the Afghan border. This exhibition aims to demonstrate Russia's military readiness in its own backyard in the event of an attack on Central Asia by the Taliban or other terrorist outfits. Similarly, in January 2022, Moscow dispatched soldiers from the CSTO to quash unrest in Kazakhstan.

Economically, Central Asia also depended on Russia. Moscow's energy and trade participation in the region was intended to lock the governments into a vital dependency, giving the Kremlin control over their internal and foreign policy decisions. For example, Kazakhstan exports 80 percent of its oil through the Caspian oil pipeline, which passes through Russian territory. The number of economic migrants who go to Russia for work is relatively high compared to other migrant workers worldwide. For example, approximately nine million Central Asians live and work in Russia, and practically every major city relies on their labour. According to a June 2022 report by the United Nations' International Organization for Migration (IOM), remittances from Russia to Kyrgyzstan and Tajikistan accounted for 31 percent and 27 percent of GDP, respectively, in 2020. The majority of this money is expected to come from their employees in Russia. In 2021, remittances from Russia accounted for 55 percent of total transfers to Uzbekistan and 51 percent to Kazakhstan.

However, the CARs' internal unrest, Russia's actions in Ukraine, and growing concerns about sovereignty have forced Central Asian nations to look for new allies for long-term security cooperation and are diversifying their foreign policy in an effort to reduce Moscow's influence. Furthermore, Western sanctions on Russia led the CARs to seek alternate channels to sell commodities to the world market. Therefore, CARs have responded to the altering geopolitical landscape in a variety of ways, including preserving economic links with Russia, avoiding outright criticism of Moscow, and increasing partnerships with other global powers such as China, the West, and Turkey.



Presidents Tokayev (Kazakhstan), Japarov (Kyrgyzstan), Putin, Rahmon (Tajikistan), Prime Minister Pashinyan (Armenia), Stanislav Zas, Secretary General of the Collective Security Treaty Organisation (CSTO), and President Lukashenko (Belarus) hold a CSTO meeting at the Kremlin, Moscow, May 16, 2022. FILE PHOTO: AFP

Since the beginning of the Russian-Ukraine war, Central Asian leaders have also been at the forefront of the so-called "multi-vector" foreign policy approach, aiming for balanced relations with Russia as well as other countries such as China, the West, and Turkey. The states of the region refused to accept Russia's recently seized areas in Ukraine, and some issued public declarations in support of Ukraine's territorial integrity in the early days of the 2022 war.

Nonetheless, these powers did not openly condemn Vladimir Putin and his "special military operation." Various factors are at play here, including economic reliance, Central Asian immigration, and membership in Russia-led institutions.

Moreover, according to polls, the majority of Central Asians—70 percent in Kyrgyzstan, 55 percent in Kazakhstan, and 30 percent in Uzbekistan—ascribe the regions current economic difficulties to Russia's invasion of Ukraine. The popularity of the Russian language is declining, entertainment venues are refusing to host Russian performers, and there have been multiple anti-war protests in Almaty and Bishkek. Russia has blocked Central Asian media sites for attempting to provide unbiased coverage of the conflict in Ukraine. The public conversation has returned to the topic of decolonisation.

On the other hand, Central Asia is a strategically important region for China due to its abundant resources, transit links, and shared border, which are vital for China's security. China's Belt and Road Initiative (BRI) underscores its interest in the region, leveraging growing unease and Russia's focus on Ukraine. Central Asian nations increasingly rely on China for both security and economic resources, potentially challenging Russian dominance and jeopardising Moscow's security interests. Despite a recent decline in historical hostility between the two sides, Russia believes that China's increasing economy might soon enable it to contest Moscow's geopolitical sway in Central Asia.

Notably, China is assisting the CARs in strengthening their security and law enforcement capabilities by capitalising on their worries about Russia. During his visit to Central Asia in September 2022, Chinese President Xi Jinping stated that he supported Kazakhstan's territorial integrity in light of these exceptional circumstances. When Xi called the China-Central Asia Summit to order in Xi'an in May 2023, he emphasised the significance of the security, sovereignty, independence, and territorial integrity of the CARs. In the midst of the intensifying powerplay among the world's strongest nations, Beijing is taking big measures to expand its regional influence in order to counter the US's encirclement of China.

China is still dedicated to its long-standing regional objectives. With over half of China's trade and investment going to Kazakhstan, Beijing sees the country as its main economic partner in Central Asia. China's economic interests are further supported by the transportation opportunities that have emerged since Russia's invasion.

Beijing is becoming increasingly interested in playing the role of a security supplier in the region due to its rising concerns about the unrest in Afghanistan and Central Asia. This development may cause future difficulties with Moscow. China-Central Asia's security cooperation has already been strengthened by BRI efforts. More robust security allies like China could undermine Russia's position as the principal security guarantor. China's growing influence in Central Asia after the invasion presents a challenge to Moscow's dominance, potentially altering the dynamics of security cooperation and posing future complications for Moscow.