NATIONS SCRAMBLE TO CUSHION TRUMP TARIFF SHOCK

China seeks to 'tariff-proof' economy

AFP, *Beijing*

China is trying to tariff-proof its economy by boosting consumption and investing in key industries, but analysts say it remains critically vulnerable to the economic storm triggered by Donald Trump's 104 percent levies on its goods.

Beijing has vowed to "fight to the end" against Trump's aggressive trade policy, with number two leader Li Qiang saying authorities were "fully confident" in the resilience of the Chinese economy.

But even before the tariffs hit, weakness in the post-Covid domestic market, rising unemployment and a long-running property crisis had all dampened consumption.

"The Chinese economy has been significantly weakened since Trump's first term and can't really withstand the impact of sustained high tariffs," said Henry Gao, an expert on the Chinese economy and international trade law.

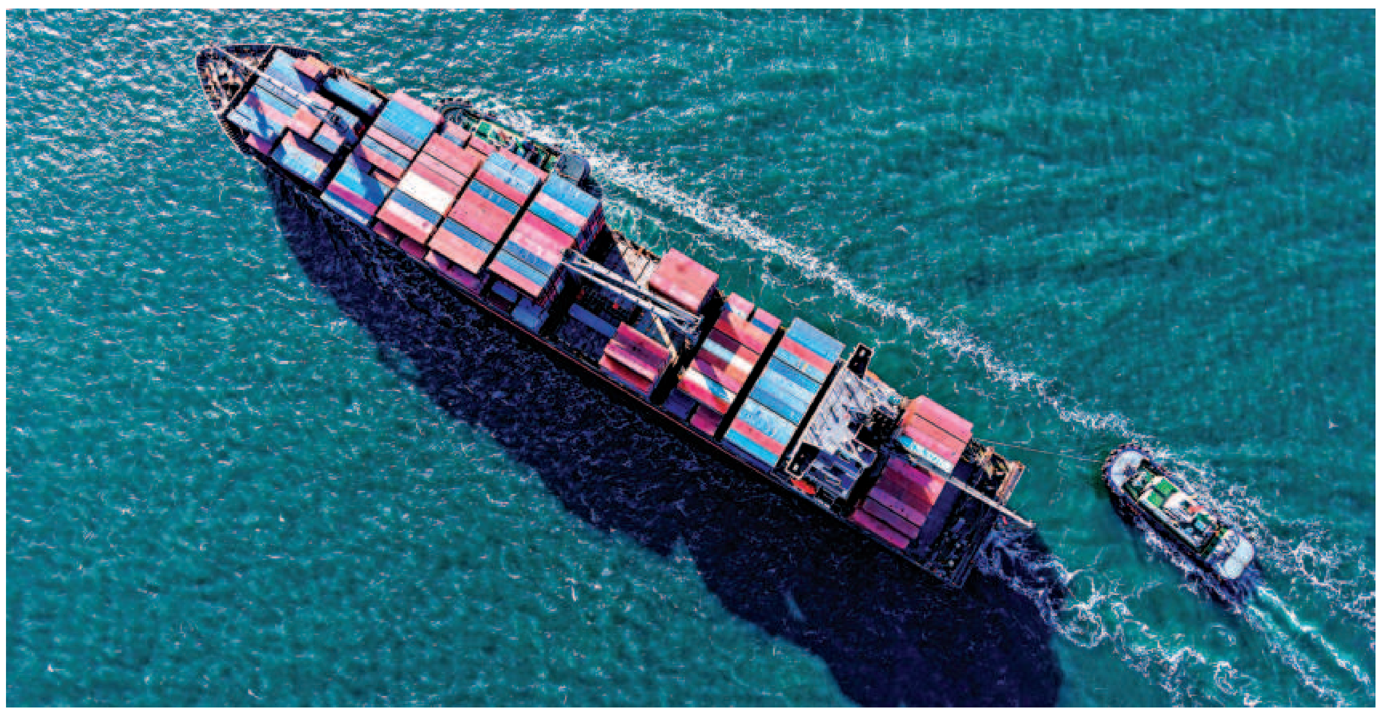
Overseas shipments had represented a rare bright spot last year, with the United States the top single country buyer of Chinese goods.

US figures put Chinese exports to the United States at around $440 billion in 2024, almost three times the $145 billion worth of imports.

Machinery and electronics -- as well as textiles, footwear, furniture and toys -- make up a majority of the goods sent, and a supply glut could squeeze already crowded domestic consumer markets.

Although China's domestic market is stronger now than in Trump's previous term, there would inevitably be pain ahead, said Tang Yao from Peking University's Guanghua School of Management.

"Certain products are specifically designed for American or European markets, so efforts to redirect them to domestic consumers will have only a limited effect," he said.



A ship with containers is seen near a port in Qingdao, in eastern China's Shandong province, on April 2. PHOTO: AFP

However, a weekend editorial in the Communist Party-backed People's Daily described the tariffs as a "strategic opportunity" for China to cement consumption as the main driver of economic growth. We must "turn pressure into motivation", it read.

Beijing has been seeking to "recast structural external pressure as a catalyst for long-intended reforms", said Lizzi Lee from the Asia Society Policy Institute's Center for China Analysis.

Authorities are "projecting confidence", she said.

China's quick and coordinated response to tariffs reflect lessons learned from Trump's first term, she added.

For example, in addition to readying reciprocal tariffs on US goods set to come into effect Thursday, Beijing's commerce ministry the same day announced export controls on seven rare earth elements -- including ones used in magnetic imaging and consumer electronics.

Beijing's response to any further escalation may no longer be confined to tit-for-tat levies, as China is "refining its retaliatory approach", Lee said.

Since Trump's first term, China has diversified and fortified relationships with countries in Europe, Africa, Southeast Asia and Latin America, as well as South Korea and Japan.

Beijing could also expand government support for the private sector as entrepreneurs fall back into President Xi Jinping's good graces, added ANZ's Raymond Yeung.

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China's central bank asks state lenders to reduce dollar purchases

REUTERS

China's central bank will not allow sharp yuan declines and has asked major state-owned banks to reduce US dollar purchases, people with direct knowledge of the matter said on Wednesday.

The directive from authorities comes as the yuan faces heavy downward pressure following massive US tariffs on Chinese exports and retaliatory moves by Beijing.

The People's Bank of China (PBOC) sent the window guidance, which is its informal style for managing policy around markets, to state banks this week, asking them to withhold US dollar purchases for their proprietary accounts, three sources said.

Big banks were also told to step up checks when executing dollar purchase orders for their clients, one of them said, in a move markets interpret as a way for the central bank to curb speculative trades.

The country's big state banks were seen selling dollars and buying yuan aggressively to slow the pace of yuan declines in the onshore spot market on Wednesday, two separate sources said.

China's yuan has lost about 1.3 percent so far this month and was last at 7.35 per dollar on Wednesday, while its offshore counterpart hit a record low overnight.

Additionally, China's central bank will not resort to yuan devaluation to soften the blow from tariffs on exports and the broad economy, three policy advisers and another banker familiar with the central bank's thinking told Reuters.

"A sharp depreciation will not happen as that could hurt market confidence, but a modest depreciation will help exports," said one of the policy advisers.

ECB braces for bigger-than-anticipated growth hit

REUTERS, *Frankfurt*

Euro zone economic growth could fall much more from the impact of US trade tariffs than initially estimated by the European Central Bank and the turmoil could also drag inflation down in the near term, four sources told Reuters.

That might leave the bloc's economy stagnating and dash hopes for a recovery that had been growing until recently on the back of large-scale public investment plans.

The ECB last month predicted that a trade war would take 0.5 percentage points off the euro zone's economic growth in the first year and would briefly send prices up by a similar magnitude if the European Union retaliated.

But the actual tariffs unveiled by President Donald Trump are far more detrimental than models estimated and ECB staff have been asked to come up with fresh numbers to be discussed by policymakers at their April 17 meeting, the sources, all with direct knowledge of the situation, said.

Informal conversations among policymakers may start as soon as this week when they meet in Warsaw on the sidelines of the Eurogroup meeting, the sources, all with direct knowledge of the discussion, added.

All agreed that the 0.5 percentage points estimate is too low now and one of them said the impact could be in excess of 1 percentage points - also due to the increase in uncertainty and the hit to confidence. This would essentially wipe out all economic growth since the bloc is only seen expanding by about 1 percent this year. An ECB spokesperson declined to comment.

PHOTO: AFP/FILE

Such sluggish economic activity may push inflation down rather than up, the sources said. But some argued that greater fragmentation in global trade may result in structurally higher inflation further out.

Energy prices are down, the euro is firming and corporate bond yields are up, all contributing to a slowdown in inflation.

In addition, international markets, including supposedly safe corners such as US treasuries, are in tumult.

These factors will add to the case for another interest rate cut next week, some of the sources said. This move is already fully priced in by money markets.

A long list of influential policymakers have already backed a rate cut in public commentary and only one, Austria's Robert Holzmann, spoke against a move, which would be the ECB's seventh in the past year.

S Korea unveils $2b support for carmakers

AFP, *Seoul*

South Korea on Wednesday unveiled a $2 billion emergency support package for its crucial export-focused carmakers, warning US President Donald Trump's 25 percent tariffs on the sector could be a "significant blow".

"Given that automobiles and auto parts are South Korea's top exports to the US, the decision to impose a 25 percent tariff on these items is expected to deliver a significant blow to our auto industry," the government said in a statement announcing the support measures.

Last week, Trump announced sweeping and punitive tariffs against the United States' biggest trading partners, the most severe of which are due to come into force on Wednesday.

Goods from South Korea are set to be taxed at 25 percent.

Trump also imposed steep tariffs on foreign-made cars sold in the United States, raising concerns over the global economic outlook and leaving Asia's fourth-largest economy scrambling to respond.

After industry consultation, Seoul has decided to introduce "a set of industrial safety net measures centred on the most urgent demands," it said.

The government has also "pledged to take flexible action depending on the level of industry damage going forward."

South Korea's auto-related exports to the US totalled $42.9 billion last year, according to officials.

India central bank cuts interest rates

AFP, *Mumbai*

India's central bank cut interest rates in the world's fifth-largest economy on Wednesday as US President Donald Trump's tariffs kicked in and policymakers warned of "challenging global economic conditions".

The cut, the second this year, aims to boost a slowing economy grappling with the impact Trump's sweeping tariffs.

The Reserve Bank of India (RBI) said the benchmark repo rate, the level at which it lends to commercial banks, would be reduced by 25 basis points to 6 percent.

The central bank's decision was announced the same day Trump's 26 percent tariff for the world's most populous nation came into effect.

Easing inflation concerns over the last few months have allowed the RBI to focus on perking up the Indian economy, whose growth has slowed in the last few quarters.

Trump's protectionist trade policies will likely add to growth pressures and present a challenge for Indian policymakers.

While New Delhi is not a manufacturing powerhouse, experts believe that high US tariffs will hurt billions of dollars of Indian exports across different sectors, including gems, jewellery and seafood.

Economists project that Trump's tariffs drive will impact India's GDP growth, with analysts at Goldman Sachs reducing their forecast for the current fiscal year from 6.3 to 6.1 percent.

The RBI was more cautious on Wednesday, downgrading its GDP growth projection for the current financial year from 6.7 percent to 6.5 percent.

Asean chief calls for 'boldly' integrating region's economies

AFP, *Kuala Lumpur*

Asean must "act boldly" to accelerate regional economic integration as sweeping US tariffs leave much of the world caught in the middle of a devastating trade war, the bloc's chief said Wednesday.

The 10-member Association of Southeast Asian Nations, which count on the United States as their main export market, were among those slapped with the toughest levies by President Donald Trump.

"To remain relevant and resilient in a world where economic chaos is fast becoming the new normal, we must act boldly, decisively, and together to reaffirm Asean's commitment to a stable, predictable, and business-friendly environment," Asean Secretary-General Kao Kim Hourn told an investment conference.

He was speaking on the eve of a meeting of Asean economic and finance ministers as well as central bank governors in the Malaysian capital of Kuala Lumpur to discuss how to respond to the US tariffs.

Asean governments have chosen not to the retaliate against Washington, preferring dialogue.

But their export-oriented economies risk being hurt by a global trade war after China -- another key market -- imposed its own tariffs on the United States.

"Without urgent and collective action to accelerate intra-Asean economic integration and diversify our markets and partnerships, we risk ceding our place in a fractured and fast-evolving global economy," Kao said.

Manufacturing powerhouse and Asean member Vietnam was hit with a 46 percent tariff on exports to the United States, while neighbouring Cambodia -- a major producer of low-cost clothing for big Western brands -- was slapped with a 49 percent duty.

Other Asean nations hit with hefty tariffs are Laos (48 percent), Myanmar (44 percent), Thailand (36 percent), Indonesia (32 percent).

Chipmaking giants face triple tariff hit

REUTERS, *Hong Kong*

Chipmakers will feel the heat of Donald Trump's tariff rampage. The exemption of semiconductors from the US president's announced levies may not last. What's more, the blow to demand for phones and other consumer electronics will be painful for Taiwan Semiconductor Manufacturing Company, Samsung Electronics and peers. Surging costs also will disrupt their bold plans to set up factories in the US

That US imports of semiconductors are not subject to reciprocal tariffs is hardly a reprieve for the industry. Speaking on Air Force One on Thursday, Trump warned, more levies were on the way and "the [ones on] chips are starting very soon"; in February he suggested the latter could be 25 percent or higher.

In that scenario, the direct hit on chipmakers like $735 billion TSMC may be limited. The company booked roughly $60 billion, or 70 percent of sales, last year from North America-based customers such as Apple and Nvidia . But most of the processors they purchase are packaged and assembled into PCs, smartphones and other devices outside the country. The US imported chips worth $82 billion in 2024, less than the $100 billion for computers.

Either way, higher prices for end-products, coupled with a likely recession in the world's largest economy, will weigh on consumer demand. Apple, for instance, manufactures an estimated 85 percent of its iPhones in China, where exporters face cumulative tariffs over 100 percent. Little wonder shares of TSMC and South Korea's smartphones-to-semiconductor giant Samsung Electronics shares are down 15 percent and 10 percent since Trump unveiled his tariffs. As of Tuesday's close, the duo had shed $117 billion in market value combined.

An employee is working at a semiconductor chips factory in Huai'an, in eastern China's Jiangsu province. PHOTO: AFP/FILE

The third blow to manufacturers like Samsung and TSMC may be the most worrying, however. The costs of setting up factories in the US will rise after Washington's various duties go into effect. Take the lithography machines produced by ASML in the Netherlands.