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# U.S. Tariffs and Emerging Markets

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The second Donald Trump administration is likely to see the U.S. significantly impact global trade flows through the use of tariffs. If enacted, higher tariffs will have far-reaching impacts on the currencies, companies and economic performance of emerging markets (EM).

Whereas in the first Trump administration tariffs were largely implemented to gain concessions from trading partners or as a negotiating mechanism. It is likely they will now also be used to generate revenue to fund expansionary fiscal policies, such as tax cuts. While the original motives will remain, we anticipate U.S. tariff policy will increasingly be linked to funding fiscal deficits.

So far, Trump has proposed tariffs of at least 60% on goods from China, a 25% tariff on Mexican and Canadian goods, a and blanket tariff of 10% to 20% on goods from every country. Broadly speaking, EMs such as China, Mexico, South Korea, and those which are more export-oriented and have currencies closely tied to the US$, will be more vulnerable to tariffs.

However identifying EM winners and losers is nuanced and depends on whether the impact of tariffs is assessed at a sectoral or country level.

For example, Taiwan is a highly export-oriented economy sensitive to global trade disruptions, making it vulnerable to higher tariffs. However, from a sectoral perspective, Taiwan Semiconductor Manufacturing Company (TSMC) is a key global supplier of chips, particularly for the U.S. firm Nvidia. The lack of substitutes for TSMC's products gives it increased pricing power, potentially insulating it from higher tariffs.

The ability of an EM to stabilise fluctuations in its currency will be another factor determining how sensitive it’s economy is to tariffs.

EMs with less fiscal or monetary room to stabilise their currencies will see currency adjustments absorb much of the tariff pressure, causing their currencies to devalue against the US$. Indonesia is one EM which plans to require commodity exporters to keep part of their foreign currency earnings onshore for at least one year to increase foreign currency reserves, a strategy designed to stabilise its currency, the rupiah.

EMs that do not export much to the US, have diversified trade sources, and can rely on domestic consumption to drive their economies are likely to be less vulnerable to higher tariffs. EMs such as India, Turkey, and those in Central and Eastern Europe (CEE) fall into this category.

In an era of high tariffs, EMs are likely to experience more macroeconomic dislocations, such as heightened currency volatility, and microeconomic distortions, such as companies' pricing power being tested.

Understanding an economy's ability to stabilise its currency and knowing which companies have pricing power are some of the steps companies and investors can take to mitigate EM risks and identify opportunities.

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