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ASEAN Tax alert

Impact of recent US tariffs on ASEAN businesses

Companies should consider the following immediate actions:

- Assess the potential impact of the new US tariffs on upcoming US imports
- Consider alternative transaction to manage and comply with higher duty costs
- Analyse whether transfer pricing outcomes may deviate from the arm's length standard
- Proactively engage with government agencies to discuss incentives, particularly if there are modifications to

The trade and investment relationship between the US and The Association of Southeast Asian Nations (ASEAN) is significant. Recent changes in US tariff policies, particularly under the "America First Trade Policy", have profound implications for global trade dynamics, including those with ASEAN. This tax alert examines the impact of these tariffs on ASEAN businesses and outlines strategic responses to manage risks and navigate the impacts of these new developments.

Impact of US tariffs on ASEAN

ASEAN engages in extensive trade with the US, with total goods traded reaching US$476.8b in 2024. US goods exports to ASEAN are estimated at US$124.6b, while imports from the region totaled US$352.3b, resulting in a significant overall trade deficit[1]. In contrast, the US maintains a trade surplus with Singapore, exporting goods valued at US$46b and importing goods worth US$43.2b[2].

On 2 April 2025, US President Trump unveiled further elements of the "America First Trade Policy", a broad review of trade policy that introduces a new wave of tariff measures on all imports to the US.

[1] Office of the United States Trade Representative, https://ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean, accessed 7 April 2025.
[2] Office of the United States Trade Representative, https://ustr.gov/countries-regions/southeast-asia-pacific/singapore, accessed 7 April 2025.

Effective at midnight on 5 April 2025, this policy establishes a minimum blanket tariff rate of 10% on all US imports. Furthermore, beginning at midnight on 9 April 2025, a country-specific ad valorem tariff rate will be applied to nations with which the US has the largest trade deficits and that impose other trade barriers. Key US trading partners will be significantly impacted, with imports from the European Union, China, Japan, South Korea and Switzerland facing a reciprocal tariff of 20%, 54% (i.e., combined total tariff inclusive of the previously imposed 20%), 24%, 25% and 31% respectively. That said, on 9 April 2025, US President Trump announced that there will be a 90-day pause on the above higher country-specific reciprocal tariffs for certain trading partners and the tariff rate on China will be increased to 125%. The table below summarizes the proposed tariffs for ASEAN:

Country	US discounted reciprocal tariffs
Brunei	24%
Cambodia	49%
Indonesia	32%
Laos	48%
Malaysia	24%
Myanmar	44%
Philippines	17%
Singapore	10% (i.e., baseline tariff rate)
Thailand	36%
Vietnam	46%

Source: Reciprocal Tariffs, Whitehouse

Certain goods will not be subject to these new reciprocal tariffs, including the previously announced 25% ad valorem tariff on all automobile and automobile parts imports that went into effect as of 3 April 2025, goods subject to ongoing investigations (such as copper, pharmaceuticals, semiconductors) and imports from Canada and Mexico.

The new tariffs will likely lead to higher production costs in US and consumer prices, potentially reducing demand for ASEAN exports to the US and vice versa. The escalation of trade measures may also prompt retaliatory actions from affected countries, further complicating trade relationships, increasing the cost of doing business and resulting in a permanent decline in international trade. While US President Trump said that "my policies will never change", countries are approaching the US to make a deal. In ASEAN, Vietnam has started its negotiations with the US to delay the imposition of this new tariff and Malaysia is seeking to forge a united ASEAN response. The outcome of such negotiations remains uncertain and businesses will need to consider their strategic responses in this shifting international trade landscape.

Strategic responses for businesses

To navigate these challenges, businesses must be proactive and consider both immediate tactical, as well as longer-term, strategic responses.

Immediate responses

Assess impact and conduct scenario planning

The starting point for all businesses should be to have a clear map of transaction flows that could be affected. This should cover both sale of goods into the US market, as well as purchases from the US that might be impacted by any retaliatory tariffs.

When considering the implementation of a tariff rate change, businesses must evaluate whether they will absorb the tariff burden or pass it on to their customers in accordance with contractual terms. This decision often hinges on the price elasticity of demand for the products and the competitive landscape. If the tariff is absorbed, it may impact profit margins, whereas passing it on could lead to higher prices and potentially reduced demand. Clear and transparent communication with customers is crucial, explaining the reasons for the price adjustments and how it affects them.

Additionally, implementing a tariff rate change involves updating pricing models and billing systems and ensuring compliance with new regulations.

Furthermore, businesses should conduct thorough scenario planning to assess the potential impacts of various tariff scenarios on their operations, taking into consideration the likely responses of their key customers and suppliers. This involves assessing supply chain vulnerabilities, developing contingency plans for different tariff rates and durations, and engaging in continuous risk assessment and adjustment of business strategies in response to evolving trade policies.

Identify approaches to manage higher duty costs

The quantum of customs duties to be paid is a function of three factors: the nature of the goods in question (as determined by the HS code), the country of origin, and the value of the goods being imported. For most companies, in the short term, it would be practical to re-evaluate the valuation of goods. Importers can consider alternative transaction flows and valuation methods that reflect the interplay between transfer pricing and customs duties as a way of addressing some of these costs.

Consider secondary implications for transfer pricing policies

The imposition of new US tariffs is likely to elevate the cost of doing business and cause significant global disruption. As many companies experienced during the COVID-19 pandemic, these unanticipated shocks can make it difficult to manage transfer pricing policies. Depending on the incidence of the tariff burden, the operating margins for distributors may be adversely affected. For limited risk distributors, it is imperative to assess whether the targeted arm's length margin can still be achieved.

Review impact on currency fluctuations

The shift in trade policies and consumer and investor confidence has caused unpredictable currency movements. Currency fluctuations can significantly affect the financial health of businesses engaged in international trade. Strategies to manage these impacts include monitoring exchange rates, implementing hedging strategies, and engaging in financial planning and analysis to forecast and manage currency risks.

Review impact on existing tax incentives

For MNCs that benefit from substance-based incentives, it will be necessary to consider whether reduced trade and potential shifts in supply chain activity will impact their ability to meet incentive obligations.

In light of the prevailing economic uncertainties, companies may find it prudent to postpone investments, delay the launch of new products and implement cost-cutting measures. For companies bound by commitments (e.g., project commitments, volume targets, manpower targets and local business spending) under existing tax incentives, it is essential to assess how evolving business strategies and circumstances may affect these incentives.

Incentivised companies should engage in transparent and proactive communication with government agencies. This dialogue is crucial for renegotiating the terms of existing incentives, thereby managing the risk of retroactive clawbacks of incentive benefits. By fostering collaborative relationships with government agencies, companies can better align their operational objectives with the evolving economic environment, ensuring sustained growth and compliance.

Longer-term strategic responses

The current levels of uncertainty make it very difficult for most companies to contemplate material changes to their supply chain. However, as the dust begins to settle, companies should consider what changes are necessary to both manage the specific costs associated with the newly imposed tariffs, as well as to provide enough flexibility in the supply chain in order to manage and be prepared for future risks.

Identify alternative manufacturing locations and models

Under the previous President Trump Administration, some companies (although by no means all) began to implement a "China plus one" strategy, whereby manufacturing capability in China was retained but supplemented with additional facilities, typically in ASEAN. As the new global trade landscape begins to unfold, companies will once again have to consider their production location sites, and whether ASEAN remains viable compared to near-shoring or onshoring in the US, including whether a twin-hub model leveraging the new Johor-Singapore Special Economic Zone (JS-SEZ) makes strategic sense.

Companies may also need to consider whether they will be best placed to manage the shocks to the global supply chain by maintaining production in-house or whether it is better to utilise a network of outsourced manufacturers or develop strategic joint ventures.

Where production is kept in-house, it will be necessary to evaluate whether a robust manufacturing network can be built sufficiently quickly or whether acquisitions are required.

Identify alternative suppliers

Diversifying the supply chain is crucial to managethe risks associated with heavy reliance on affected regions. Steps include mapping the supply base, identifying potential alternative suppliers in less affected regions, negotiating flexible contracts with suppliers and considering nearshoring or reshoring options.

Find alternative markets for goods

Exploring new markets can help businesses offset potential losses from decreased demand in the US, while recognising that finding a replacement market as large as US will not be an easy feat. Actions include researching and identifying emerging markets with favourable trade conditions, developing tailored marketing and sales strategies, and leveraging trade agreements and partnerships.

Find the new balance between profits and risk management

The historic economic platform afforded by geopolitical stability and low interest rates (amongst other factors) enabled most companies to focus on profit and revenue growth. This was largely achieved by lowering the cost of production where possible and having open access to many markets. In a world of rising supply costs (either actual or tariff-driven) and reduced market access, the decision-making process for many companies will look different. Managing downside risk will become more important and companies may need to trade off higher profits for greater certainty, especially where existential risks are a growing concern.

Conclusion

The imposition of new US tariffs presents significant challenges for ASEAN businesses. By employing strategic scenario planning, diversifying supply, exploring new markets and managing currency risks, businesses can navigate this complex trade environment. Proactive measures and continuous adaptation will be essential to maintaining competitiveness and achieving long-term success in the face of evolving global trade dynamics.

Changes made to the supply chain may lead to different tax outcomes, compliance requirements and potential benefits. Companies must assess how these adjustments could impact their overall approach to tax management, including the evaluation of incentives and grants, direct taxes, indirect taxes (e.g., tariffs and duties), withholding taxes and other tax impact such as BEPS 2.0 Pillar Two.

Engaging with tax professionals to navigate these complexities will be crucial in ensuring that companies remain compliant while strengthening their tax positions. By integrating tax considerations into supply chain decisions, companies can better manage their financial exposure and enhance their resilience in a challenging trade landscape.

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