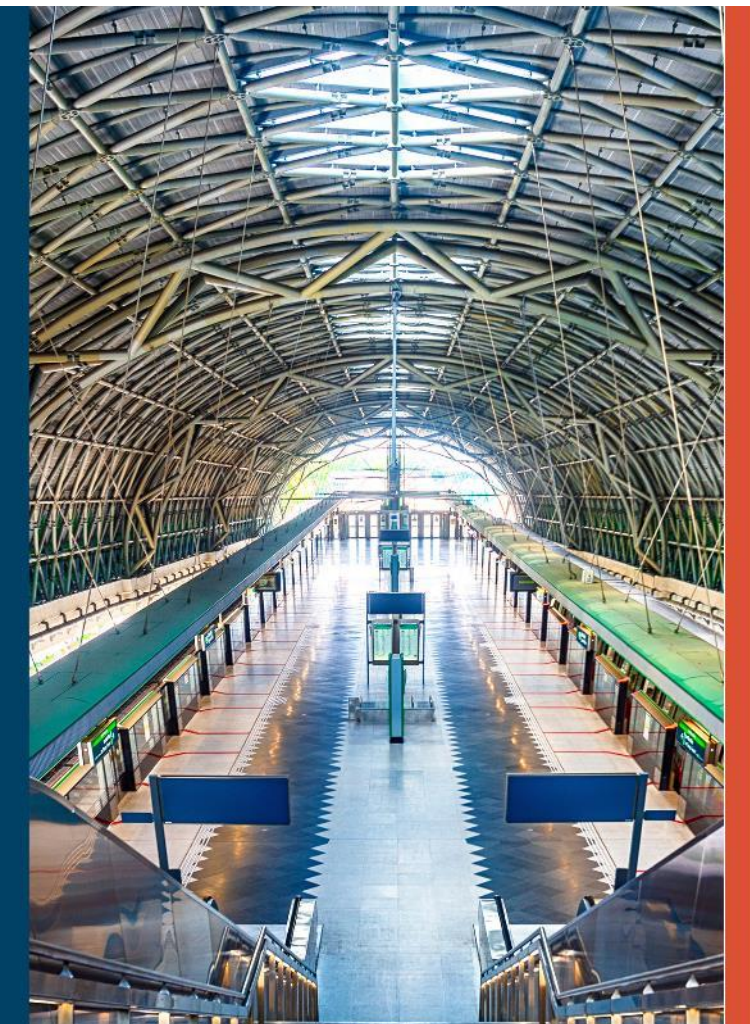


A Volatile World: How Are Trump's Tariffs Impacting Cross-Border M&A? What Are the Implications Across Asia?

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A. The Global Impact

President Trump's tariffs have injected significant risk and complexity into the global M&A landscape, prompting heightened caution among investors and necessitating more sophisticated deal-making strategies.

As is often the case during periods of market dislocation, the strongest, most agile players will benefit, while others may suffer considerable setbacks.

Since early 2025, Trump's tariffs have disrupted global cross-border M&A by introducing economic uncertainty, raising costs, and altering strategic calculations. The situation remains fluid and unpredictable. While definitive forecasts seem rash, uncertainty itself has become a major drag on deal activity—though some market participants will still be compelled to act.

Key Impacts to Date:

1. Heightened Uncertainty and Market Volatility

- Tariffs ranging from 10% to 145% (notably 145% on China) have triggered global market turmoil, with major indices like the S&P 500 experiencing sharp declines.
- The unpredictable nature of tariff policy, including a 90-day pause on some reciprocal tariffs (excluding China), complicates cost forecasting and valuation, further stalling negotiations

2. Increased Costs and Valuation Challenges

- Tariffs raise the cost of imported goods, affecting supply chains and profitability, and complicating M&A valuations. Companies now require detailed due diligence, including Harmonized Tariff Schedule (HTS) code reviews and rule-of-origin analyses
- Industries such as automotive, where parts cross borders multiple times (e.g., eight times under USMCA), are particularly exposed, reducing acquisition appeal

3. Strategic Shifts in M&A Activity

- "Tariff-jumping" M&A is rising, with firms acquiring foreign operations to bypass trade barriers—especially horizontal mergers aimed at producing locally
- High tariffs, however, discourage acquisitions of firms heavily reliant on imports, contributing to a 13% decline in US M&A volume in Q1 2025

4. Regional and Sector-Specific Impacts

- North American supply chains, especially involving Mexico and Canada, have faced disruption due to threatened tariffs (some of which were temporarily paused or renegotiated)
- This environment has prompted multinational companies to consider relocating production to more tariff-resilient regions such as Southeast Asia (e.g., Malaysia, Vietnam) or even reshoring operations back to the United States

5. Global Trade and Retaliatory Measures

- Retaliatory tariffs from China and potential countermeasures from the EU (pending negotiations) have escalated tensions, further chilling M&A. China's export restrictions on critical minerals may also dampen high-tech sector deals
- The WTO projects a sharp contraction in North American trade, with exports down 12.6% and imports down 9.6% in 2025

6. Positive Effects in Select Cases

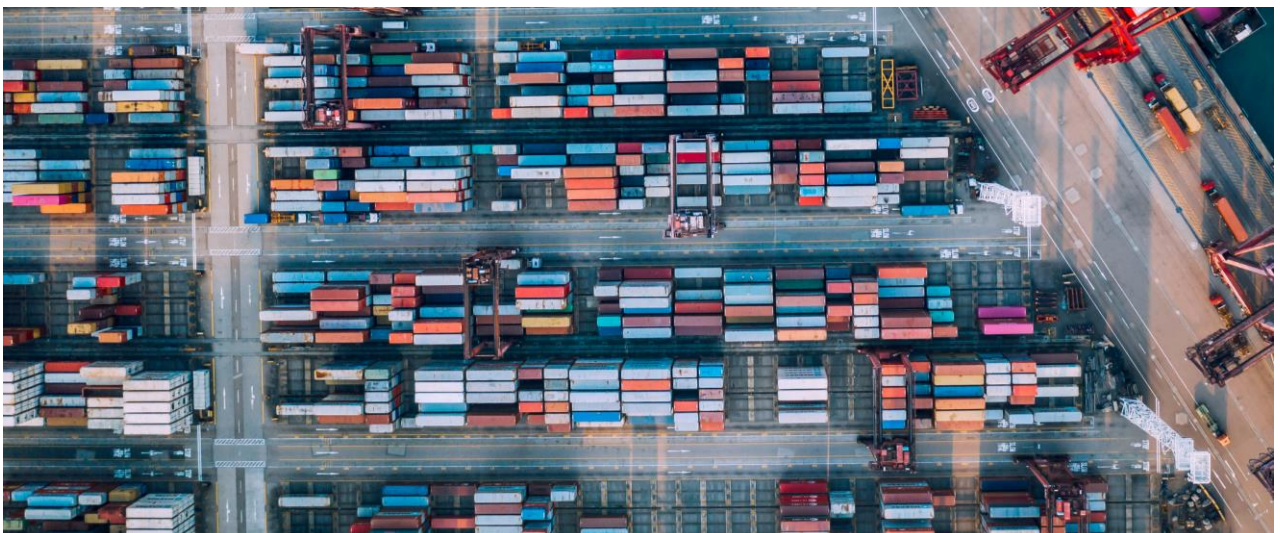
- Trump's policies have facilitated megadeals such as Google's US\$32bn acquisition of Wiz, buoyed by expectations of relaxed antitrust scrutiny
- Proposed lower corporate tax rates (20% or 15% for US-produced goods) could make US firms more attractive M&A targets, though offset by broader tariff-related risks

Critical Perspective:

Although intended to protect US industries, the broad application of tariffs risks triggering a global slowdown. Consumer price hikes and supply chain disruptions may outweigh benefits such as reshoring. Heavy reliance on executive authority (via IEEPA) also adds legal and political uncertainty.

Conclusion:

Trump's tariffs have created a complex, costly environment for cross-border M&A. Though select sectors and regions present opportunities, the overall effect has been a slowdown, driven by uncertainty and trade barriers. Firms must adopt flexible, risk-mitigating strategies to succeed.



B. Implications for Key Asian Economies

Trump's tariffs significantly impact key Asian economies, particularly those heavily reliant on exports to the US. Notable country impacts include:

1. China

- **Tariff Impact:** 145% tariffs imposed; de minimis e-commerce loophole closed for shipments under US\$800
- **Economic Implications:** US market access collapsed; factories face sharp export losses. Beijing is pushing domestic consumption, but weak local demand limits success. Major deflationary pressure remains
- **Strategic Response:** Increased focus on domestic sales and deeper engagement with regional trade frameworks like CPTPP and RCEP. Seeking long-term alternatives to US demand

2. Vietnam

- **Tariff Impact:** 46% tariffs announced; temporarily paused for 90 days (currently facing 10%)
- **Economic Implications:** Export-led growth model at risk. Stock market fell ~7% after announcement. Electronics and apparel sectors most vulnerable
- **Strategic Response:** Negotiating directly with US (offering to lower tariffs on US goods and expand imports); simultaneously deepening ties with China and ASEAN to hedge against long-term shifts

3. Japan

- **Tariff Impact:** 24% across-the-board tariffs announced (paused); 25% auto-specific tariffs still active
- **Economic Implications:** Auto industry hit hardest. Nikkei dropped ~5% intraday on news. GDP forecast cut due to reduced exports
- **Strategic Response:** Pursuing bilateral deal with US and reaffirming commitment to regional trade (e.g., CPTPP, RCEP) to mitigate future protectionist shocks

4. Korea

- **Tariff Impact:** 25% tariff announced; paused to 10%. Auto tariffs at 25% active. Semiconductors currently exempt
- **Economic Implications:** Auto exports face sharp cost pressure; chip sector on alert. Seoul launched US\$10bn support package for autos
- **Strategic Response:** Leveraging KORUS FTA and alliance ties to push for permanent tariff exemptions. Highlighting US investments by Hyundai and Samsung to strengthen case

5. Cambodia

- **Tariff Impact:** 49% tariff announced; currently under 10% pause
- **Economic Implications:** Severe threat to garment and footwear exports, which drive much of Cambodia's GDP. Risk of mass layoffs and social unrest
- **Strategic Response:** Turning to China for support (investment, aid). Limited leverage in US negotiations

6. Indonesia

- **Tariff Impact:** 32% announced; paused to 10%
- **Economic Implications:** Potential disruption to emerging export manufacturing (electronics, garments). Impact less severe due to large domestic market
- **Strategic Response:** Pushing coordinated ASEAN response. Diversifying export markets through RCEP and regional trade

7. Thailand

- **Tariff Impact:** 36% tariffs announced; paused
- **Economic Implications:** Export-dependent growth under threat. Auto and electronics sectors face elevated costs. GDP forecast cuts possible
- **Strategic Response:** Active diplomatic engagement with US and ASEAN. Avoiding retaliation, emphasizing bilateral ties and possible concessions

8. Malaysia

- **Tariff Impact:** 24% tariffs announced; paused
- **Economic Implications:** Electronics sector exposed, especially in semiconductors. However, diversified economy cushions broader impact
- **Strategic Response:** Positioning as alternative hub for diverted supply chains. Engaging diplomatically and coordinating ASEAN's trade response

Broader Regional Implications

Trump's 2025 tariffs have escalated global trade tensions, prompting the IMF to cut its global growth forecast to 2.8% for 2025 (down from 3.3%), with Asia and the US (1.8% forecast) hit hardest. Retaliatory tariffs from China, the EU, and others threaten US\$330bn in US exports, risking a broader global trade war that could sharply reduce Asian export markets. Southeast Asia faces further disruption as Chinese goods, displaced by US tariffs, flood local markets, creating new competition. Countries like Malaysia and the Philippines could attract investment as supply chains diversify, but more vulnerable economies like Cambodia and Myanmar face severe strain.

Critical Perspective and Outlook

While framed as protecting US industries, Trump's tariffs raise consumer costs (estimated at US\$1,243 per household in 2025) and risk isolating the US from trade blocs like CPTPP. Claims about widespread Chinese transshipment through Vietnam are overstated, with studies showing only 7%–16% of exports linked to Chinese origin. Targeting allies like Japan and Korea undermines broader US strategic interests in Asia, where China's influence continues to expand. Long-term, these tariffs pose serious risks to Asia's export-led growth model and could entrench a more divided global trade environment.

C. India and Trump's 2025 Tariffs: Impact and Strategic Response

Tariff Impact on India

- **Reciprocal Tariff:** India faces a 10% universal tariff on all US imports, and a 26% reciprocal tariff was announced but temporarily paused pending negotiations. India's trade surplus with the US was around US\$46bn in 2024, lower than China's (US\$300bn) and Vietnam's. Key Indian exports like petroleum products, pharmaceuticals, textiles, and IT services are affected by the 10% tariff
- **Sector-Specific Tariffs:** A 25% tariff on autos and auto parts impacts India's small but growing automotive exports to the US (about US\$1.5bn annually). Steel and aluminum exports (about US\$2bn) also continue to face elevated duties under updated Section 232 measures
- **De Minimis Loophole Closure:** The closure of the US\$800 duty-free threshold primarily targeted China and had limited impact on Indian e-commerce, given India's smaller online retail shipments to the US

Economic Implications

- **Export Challenges:** The US is India's largest export market, accounting for about 18% of India's total goods exports (US\$80–83bn in 2024). Petroleum (US\$20bn), pharmaceuticals (US\$15bn), and textiles (US\$10bn) face higher tariffs, risking competitiveness. Analysts estimate a 0.3%–0.5% GDP reduction for India in 2025 if tariffs persist, but India's projected 6.5% growth remains stronger than many peers
- **Services Resilience:** India's IT and business process outsourcing sectors (over US\$50bn in US exports) remain largely unaffected by goods tariffs, providing a buffer. However, future US visa restrictions (e.g., H-1B changes) could pose risks
- **Supply Chain Opportunities:** India is a prime beneficiary of the "China+1" strategy. Electronics (Apple's iPhone production expansion), pharmaceuticals, and machinery investments are rising, aided by India's Production-Linked Incentive (PLI) schemes. Higher tariffs on Vietnam and Cambodia may redirect further investment to India
- **Domestic Inflation and Costs:** If retaliatory US measures escalate, India's imports from the US (around US\$46bn in 2024, including aircraft, machinery, and soybeans) could become more expensive, marginally impacting inflation (already around 5%–6%)
- **Trade Deficit Dynamics:** India's relatively moderate trade surplus limits its risk of deeper punitive actions. However, the US push for reciprocity may pressure India to lower tariffs on US goods like agricultural products and medical devices

Geopolitical and Strategic Implications

- **US-India Relations:** India's strategic partnership with the US via Quad cooperation, defense ties, and technology initiatives (e.g., iCET) gives New Delhi leverage in seeking tariff exemptions or adjustments. Negotiations for an "early harvest" trade deal are underway
- **China's Regional Push:** Trump's tariffs on Southeast Asia have strengthened China's influence in ASEAN, but India is deepening ties with both the US and Japan to counterbalance China, while cautiously maintaining BRICS and SCO engagements
- **Regional Trade Blocs:** India's absence from CPTPP and RCEP limits its immediate trade alternatives, but active negotiations with the EU and UK provide diversification opportunities

Strategic Responses

- **Negotiation with the US:** India is engaging the US Trade Representative to seek tariff relief, offering to lower tariffs on US goods and improve market access
- **Diversification:** India is expanding non-US exports, growing shipments to Europe, the Middle East, and Africa. Non-US exports rose about 10% in 2024
- **Investment Attraction:** India received about US\$15bn in FDI from US firms in 2024, especially in electronics and semiconductors, supported by state-level incentives (e.g., Tamil Nadu, Gujarat)
- **Domestic Reforms:** India is accelerating infrastructure improvements and labor reforms to boost competitiveness, addressing long-standing trade bottlenecks

Critical Perspective

Trump's tariffs are **less punitive** for India compared to China or Southeast Asia, reflecting India's smaller trade surplus and strategic alignment with the US. However, the broad US protectionist approach risks straining ties if visa or secondary measures emerge. India's diversified economy and 1.4 billion consumer base provide resilience, but sectors like textiles, gems, and electronics face near-term challenges.

Longer-term, India could emerge as a winner by capturing supply chain realignments—if it continues reforms and navigates diplomacy carefully.

Summary

India faces moderate economic challenges from Trump's tariffs, with a projected 0.3%-0.5% GDP hit in 2025, primarily affecting petroleum, textiles, and autos.

However, its diversified economy, resilient IT sector, and strategic US ties mitigate the impact compared to export-dependent peers like Vietnam or Cambodia.

India stands to gain from supply chain diversification, potentially attracting investment redirected from China and SE Asia. By negotiating with the US, diversifying markets, and accelerating domestic reforms, India can navigate tariff challenges while strengthening its global economic position. Geopolitically, tariffs may push India closer to the US to counter China's regional gains, though PM Modi will balance this with economic engagement in BRICS and beyond.

D. Conclusion: How to Adapt and Thrive

Trump's 2025 tariffs have created a complex environment for global cross-border M&A, characterized by increased costs, delayed deal execution, and strategic pivots toward tariff-avoidance strategies. While sectors like automotive, energy, and manufacturing may find new opportunities, the overarching effect is a temporary slowdown in M&A activity, driven by tariff uncertainty, supply chain disruptions, and broader geopolitical instability.

Strategic and private equity investors must adopt flexible, risk-mitigating approaches, focusing on deeper due diligence, supply chain realignment, contractual protections, and post-merger operational optimization.

Agile global companies operating amid escalating trade frictions and shifting political alignments should deploy a multi-pronged strategy to mitigate risks and capitalize on emerging opportunities:

1. Diversify Supply Chains and Manufacturing Bases

- **China+1 and Multi-Region Strategy:** Expand manufacturing to tariff-light jurisdictions. India's Production-Linked Incentive (PLI) program and record US\$15bn US FDI in 2024 position it as a leading alternative, particularly in electronics and pharmaceuticals. Malaysia's semiconductor export strength is also drawing new investment
- **Nearshoring and Friendshoring:** Relocate production closer to key markets—Mexico for the US, Poland for the EU—or to geopolitically aligned allies like India and Japan. Apple, for example, expanded iPhone production in India to approximately 14% of global output by 2024, with plans for further increases
- **Supply Chain Redundancy:** Maintain dual or multiple suppliers across regions, such as sourcing from both Vietnam and India, to hedge against tariff hikes and geopolitical shocks
- **Digital Supply Chain Management:** Use AI-driven platforms to monitor tariff risks, track supplier stability, and optimize logistics amid changing global trade routes
- **Implementation Actions:**
 - Conduct a tariff exposure audit to identify vulnerabilities
 - Partner with local firms to navigate regulations and reduce costs
 - Secure long-term supplier contracts in low-tariff regions

2. Diversify Markets and Revenue Streams

- **Expand into Non-US Markets:** Target growth in the EU, Middle East, Africa, and ASEAN. India's 10% non-US export growth in 2024 demonstrates the potential of market diversification
- **Focus on Emerging Markets:** Urbanization and digitalization in Africa and Latin America offer new demand opportunities. Chinese companies like Huawei are successfully pivoting to these regions
- **Leverage Regional Trade Blocs:** Engage with CPTPP and RCEP to access tariff-free markets across Asia-Pacific, while companies outside RCEP (e.g., India) pursue bilateral agreements with the EU and UK
- **Strengthen E-Commerce Channels:** Develop direct-to-consumer models to bypass tariff-heavy B2B channels, particularly in Southeast Asia
- **Implementation Actions:**
 - Hedge against currency risks, particularly in volatile markets like Vietnam and Thailand

3. Enhance Operational Agility and Cost Management

- **Optimize Cost Structures:** Automate production, transition to just-in-time inventory, and renegotiate supplier agreements to offset higher input costs
- **Pass-Through Pricing Strategies:** Adjust pricing in tariff-impacted regions while maintaining competitive positioning elsewhere

- **Invest in Digital Transformation:** Deploy AI, IoT, and predictive analytics to streamline operations and optimize logistics, especially amid disruptions like the Red Sea shipping crisis
- **Tax and Tariff Optimization:** Relocate entities to favorable jurisdictions like Singapore or the UAE, and use free trade zones to minimize duty exposure
- **Implementation Actions:**
 - Conduct scenario planning for tariff escalation and geopolitical shocks
 - Implement ERP systems to dynamically adjust to cost changes
 - Engage trade consultants to navigate Section 301 exclusions and local content compliance

4. Align with Geopolitical Realities

- **Adopt Market Neutrality:** Avoid over-reliance on either the US or China. For example, Samsung balances production across Vietnam, India, and South Korea to serve both markets
- **Engage in Diplomatic Advocacy:** Collaborate with trade associations like AmCham and ASEAN Business Council to lobby for tariff relief and trade concessions
- **Comply with Global Trade Regulations:** Stay ahead of regulations like the US Uyghur Forced Labor Prevention Act (UFLPA) and the EU's Carbon Border Adjustment Mechanism (CBAM)
- **Leverage Strategic Alliances:** Strengthen ties with reliable partners like India and Japan (Quad members) to secure supply chains and stable market access
- **Implementation Actions:**
 - Establish a geopolitical risk task force to monitor developments
 - Train legal and compliance teams on evolving trade regulations
 - Build relationships with local governments to secure investment incentives

5. Invest in Innovation and Localization

- **Localize Production:** Set up manufacturing in key markets to meet local content requirements and bypass tariffs. Tesla's Gigafactories in Shanghai and Texas exemplify this approach
- **Invest in R&D:** Focus on tariff-resilient technologies like software, green energy, and alternative materials for tariffed commodities
- **Customize Products:** Tailor offerings to comply with local regulatory incentives, such as the US Inflation Reduction Act's EV battery subsidies
- **Prioritize Sustainability:** Align operations with ESG goals to meet carbon regulation standards like the EU CBAM and attract sustainability-driven investment
- **Implementation Actions:**
 - Establish regional R&D hubs in innovation-friendly countries like Singapore and India
 - Partner with local universities and startups
 - Integrate sustainability metrics into operations and reporting

6. Build Financial Resilience

- **Strengthen Balance Sheets:** Maintain high liquidity and prudent leverage to absorb tariff and supply chain shocks
- **Hedge Currency Risks:** Use forex derivatives to protect margins in countries with volatile currencies
- **Diversify Funding Sources:** Tap into stable capital markets and sovereign wealth funds, particularly in the Gulf and Singapore
- **Adopt Scenario-Based Budgeting:** Prepare dynamic financial models for multiple tariff escalation and geopolitical risk scenarios
- **Implementation Actions:**
 - Conduct stress tests for scenarios like 50% reciprocal tariffs
 - Expand trade finance relationships to cushion liquidity needs
 - Borrow in local currencies where practical to minimize forex risk

Final Thoughts

Agile global companies should adopt a multi-pronged approach to navigate trade wars and geopolitical instability: diversify supply chains and markets, enhance operational agility, align with geopolitical realities, invest in innovation, and build financial resilience.

Practical steps may include relocating some production to India or Malaysia, targeting EU and African markets, leveraging AI for cost management, lobbying for tariff exemptions, and hedging currency risks.

By acting proactively, companies can mitigate tariff impacts, capitalize on supply chain shifts, and thrive amid uncertainty. Regular monitoring of evolving **trade policies** (US-China talks, ASEAN's 2025 agenda) and **geopolitical flashpoints** (Taiwan, Ukraine) is critical to stay ahead.

For those global players who can be both agile and bold, the opportunities will greatly outweigh the risks.

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