

# Emerging Markets Roundtable

Opportunities and risks in the shadow  
of US trade protectionism



# Agenda

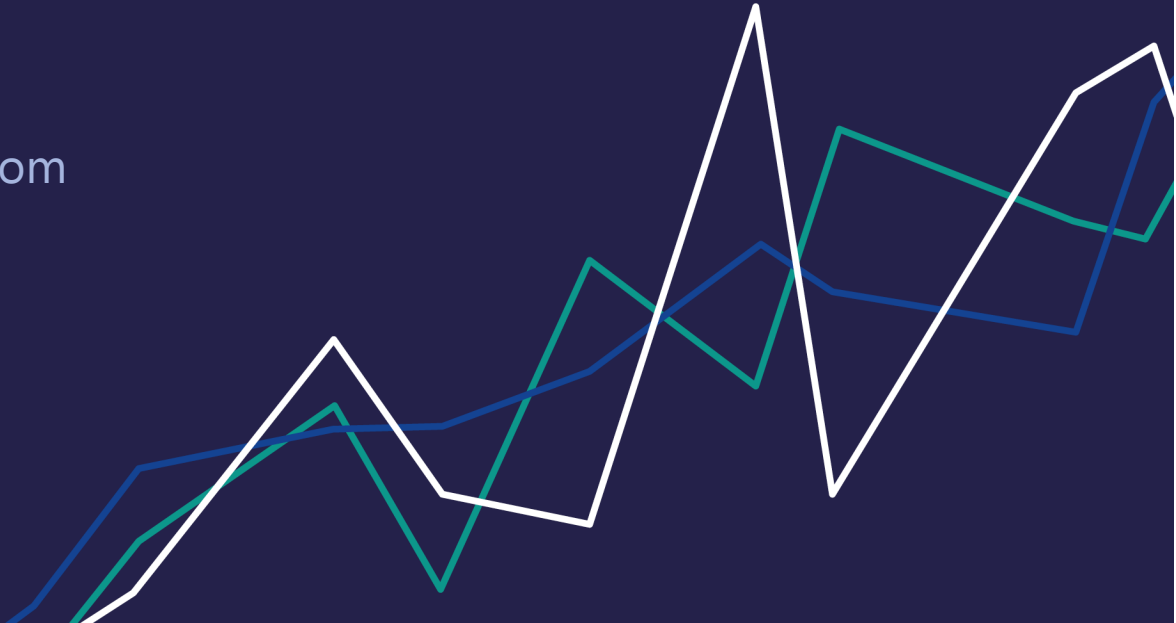
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- How will US tariffs impact China's exports?
- How will EMs respond to rising imports from China?
- Which EMs can fill China's shoes?

# How will US tariffs impact China's exports?

Leah Fahy, China Economist

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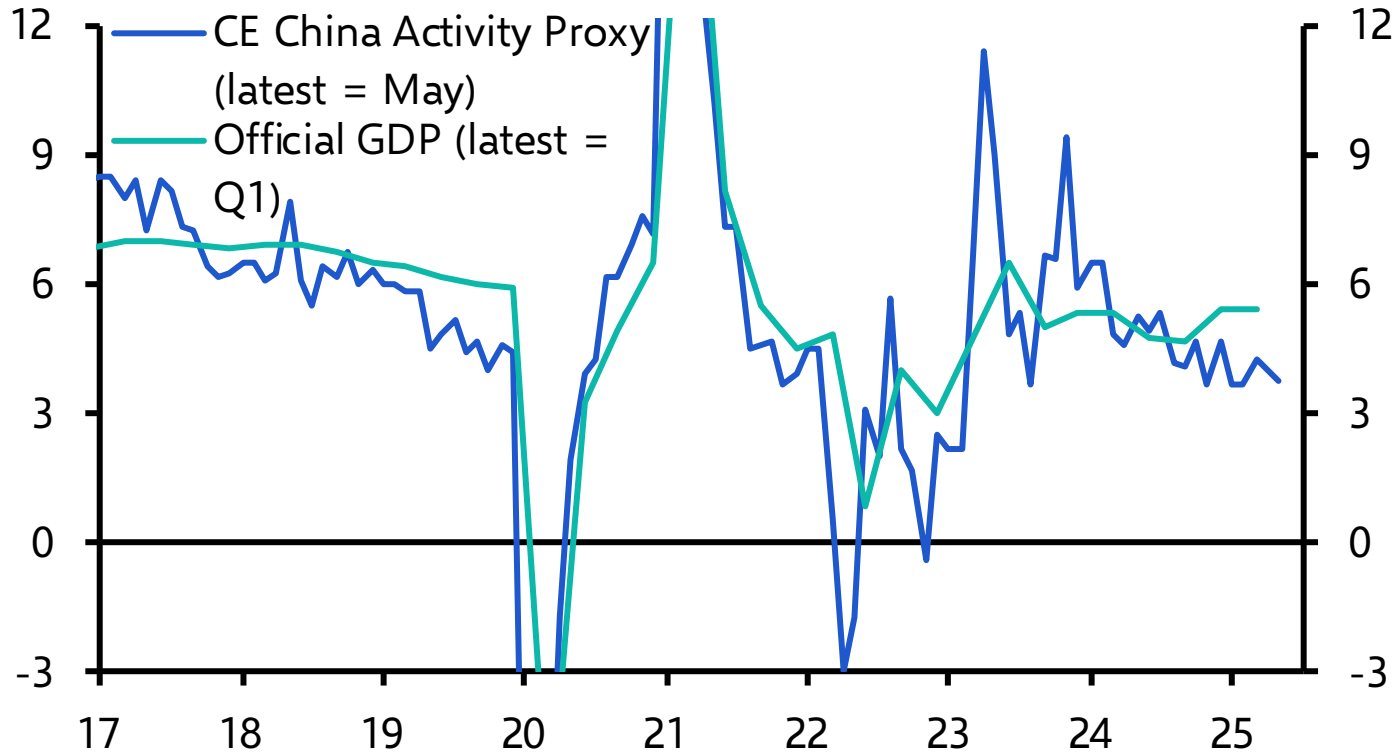


# Agenda

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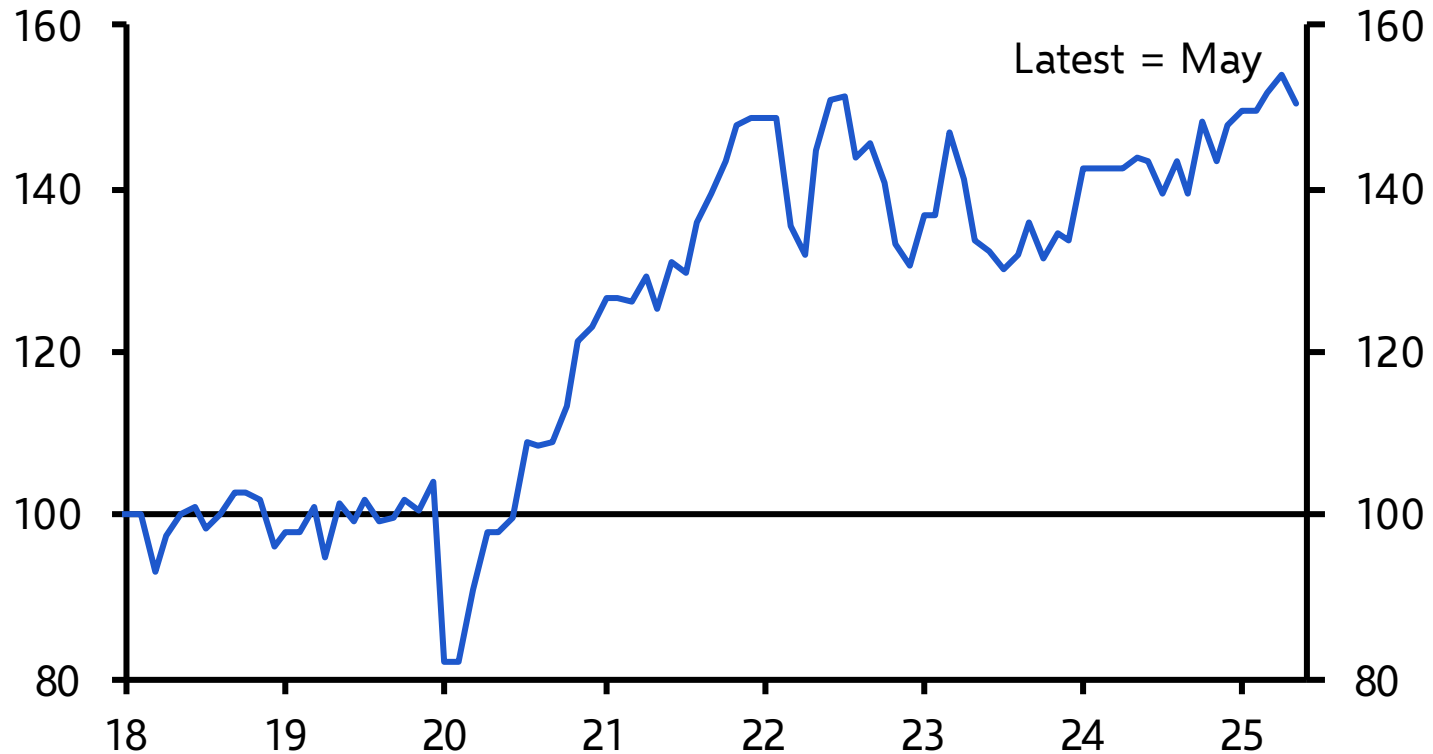
- China's economic backdrop.
- Impact of US tariffs on China's exports so far.
- What to expect going forward.

# Capital Economics China Activity Proxy & Official GDP (% y/y)



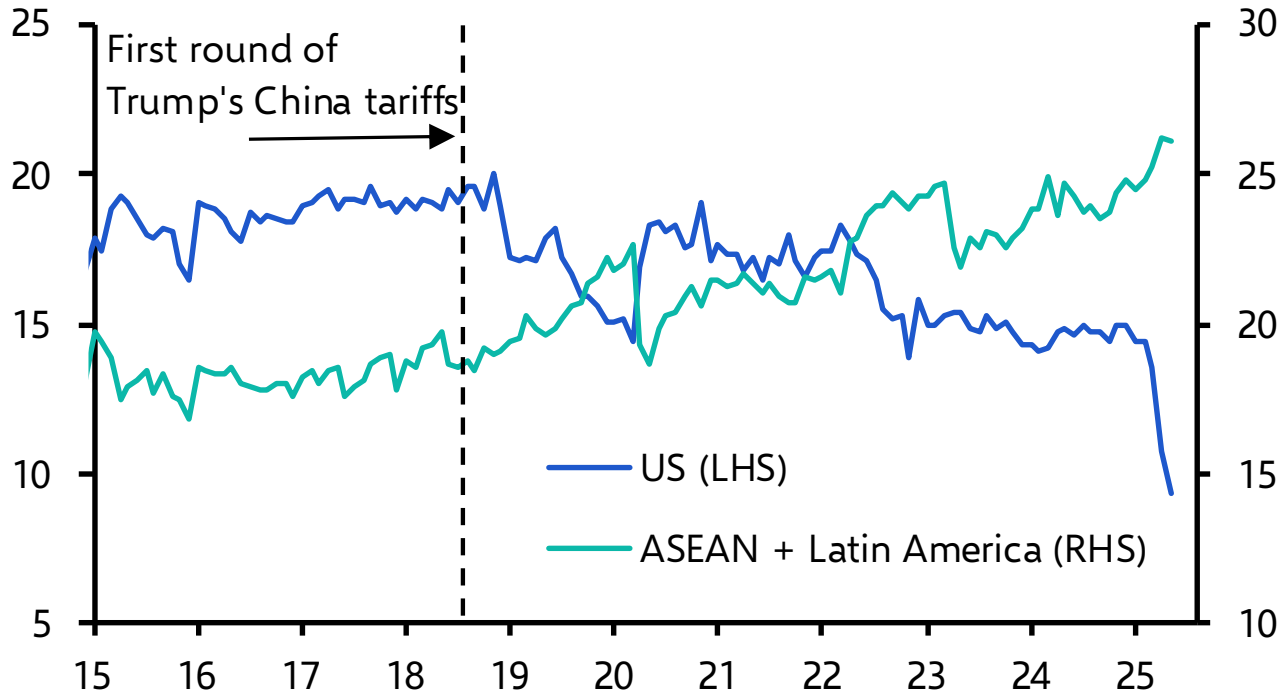
Sources: CEIC, WIND, LSEG, Capital Economics

# China Goods Exports (\$ Value, 2019 = 100)



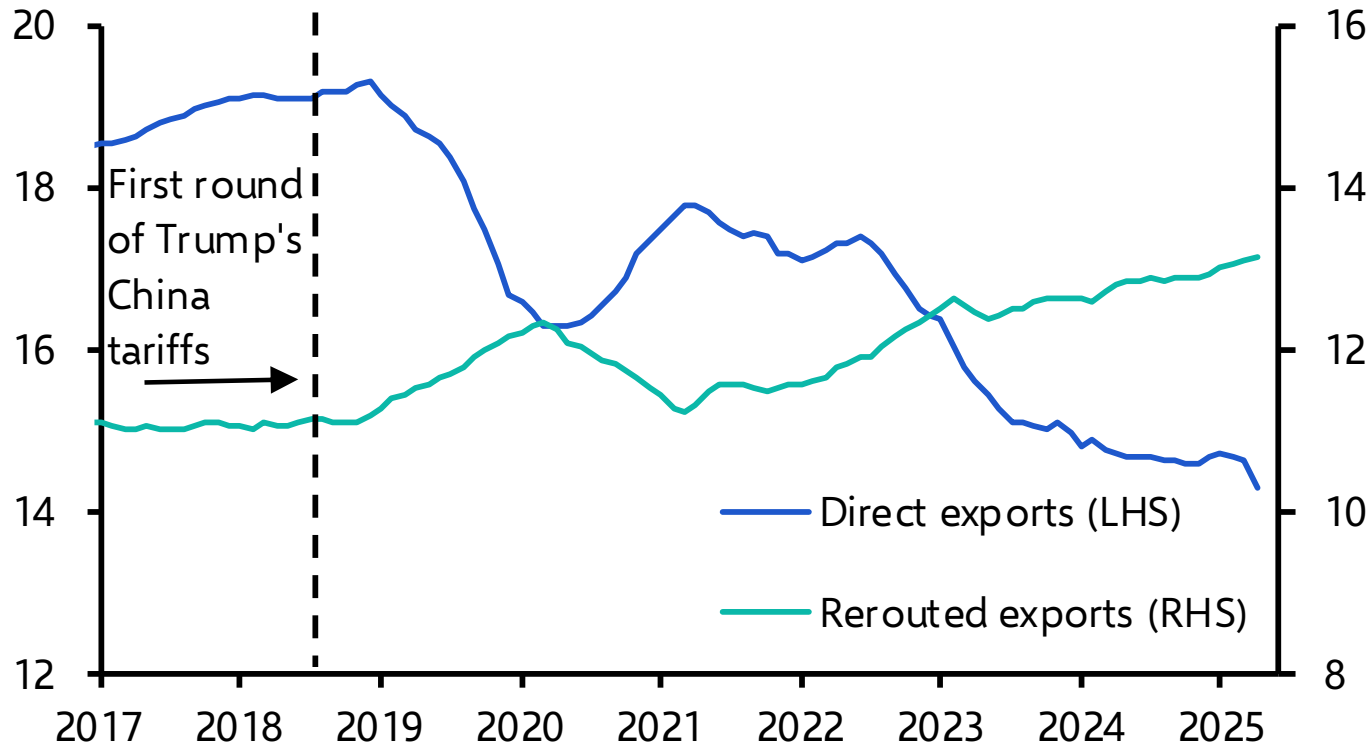
Sources: CEIC, Capital Economics

# China Exports by Destination (% of Total, Seasonally Adjusted)



Sources: CEIC, Capital Economics

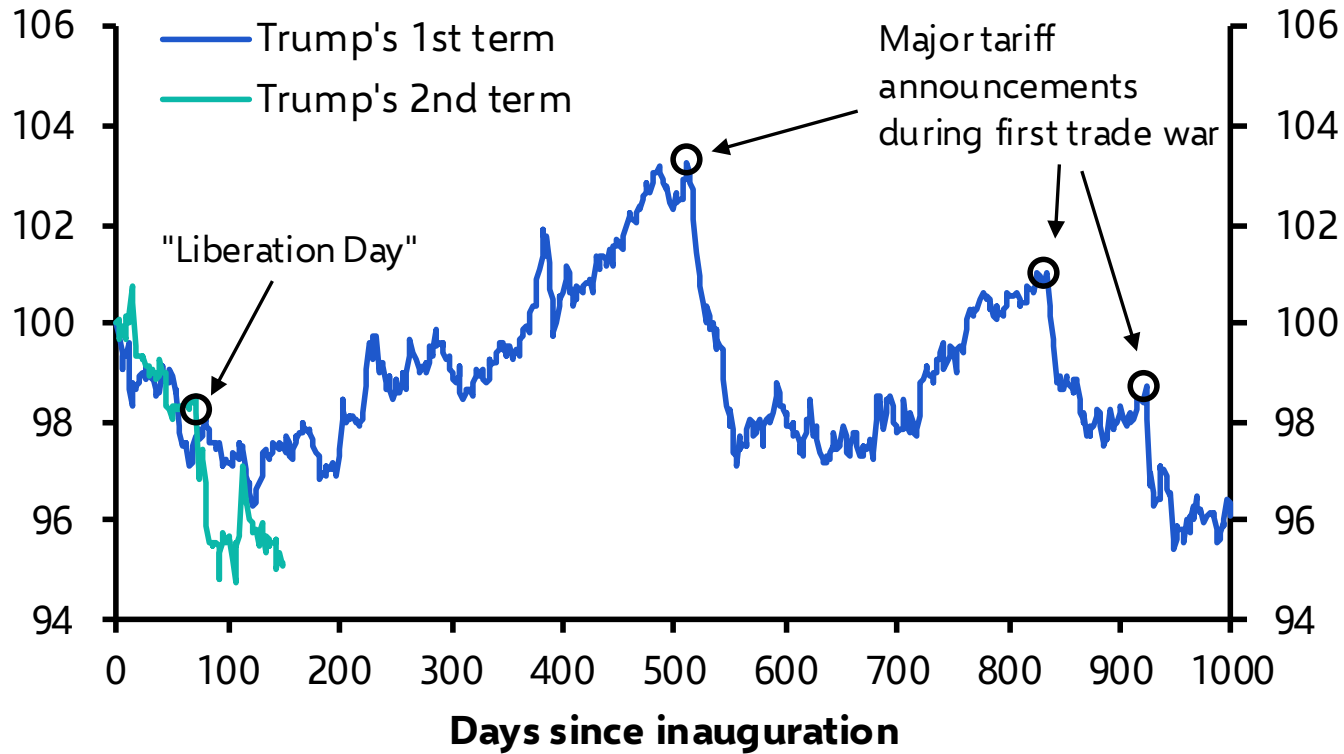
# China Exports to the US (12m Average, % of Total)



Sources: UN Comtrade, China Customs, USITC CEIC, Capital Economics

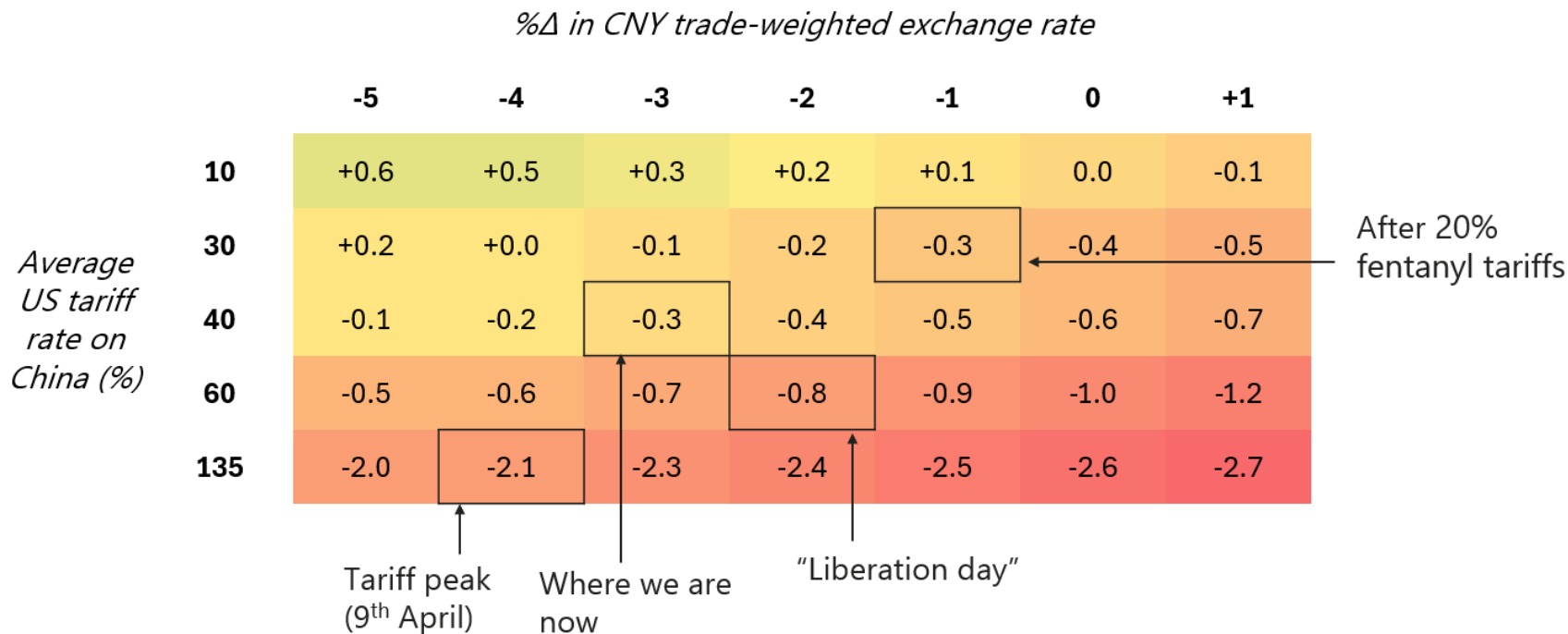


# China Trade Weighted Exchange Rate (100 = 1<sup>st</sup> Day in Office)



Sources: CEIC, Capital Economics

# Hit to China's GDP (% Relative to Pre-election Status Quo)



Sources: CEIC, Capital Economics

# How will EMs respond to rising imports from China?

Shilan Shah, Deputy Chief Emerging Markets Economist  
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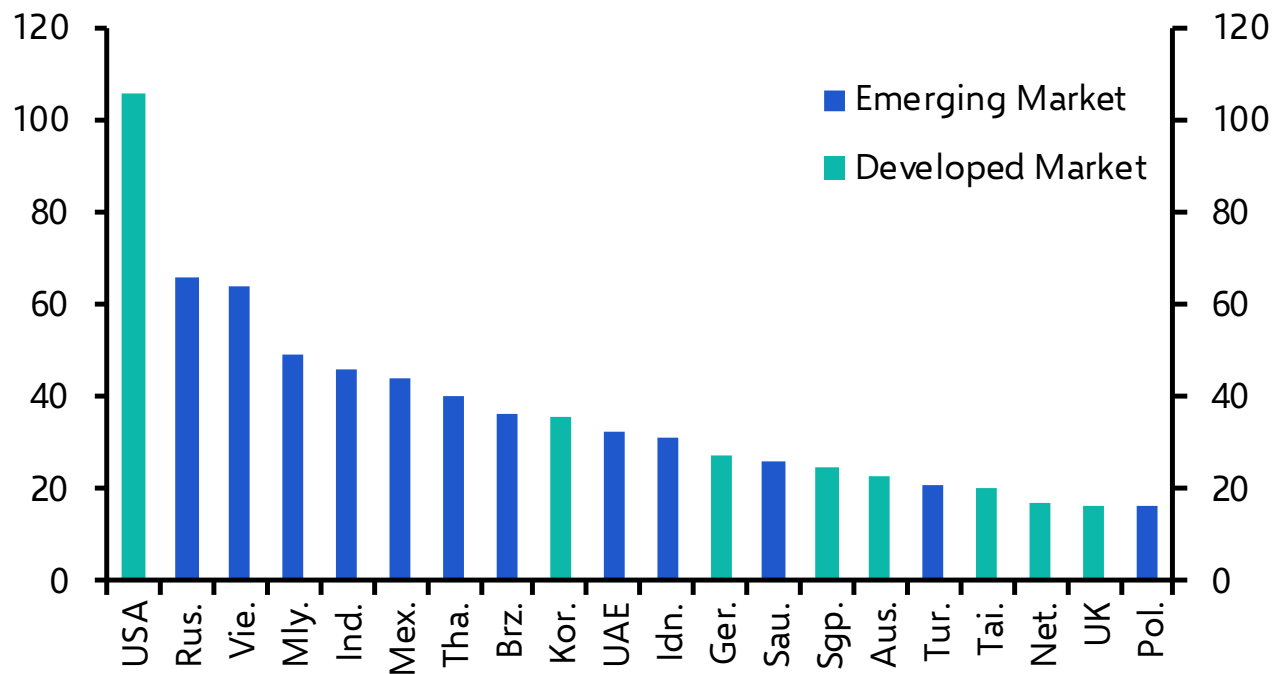


# Agenda

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- What has happened to imports from China since the pandemic?
- Why rising imports from China are a concern.
- Which EMs will respond, and how?

# Change in China's Goods Exports (\$bn, 2019-24)



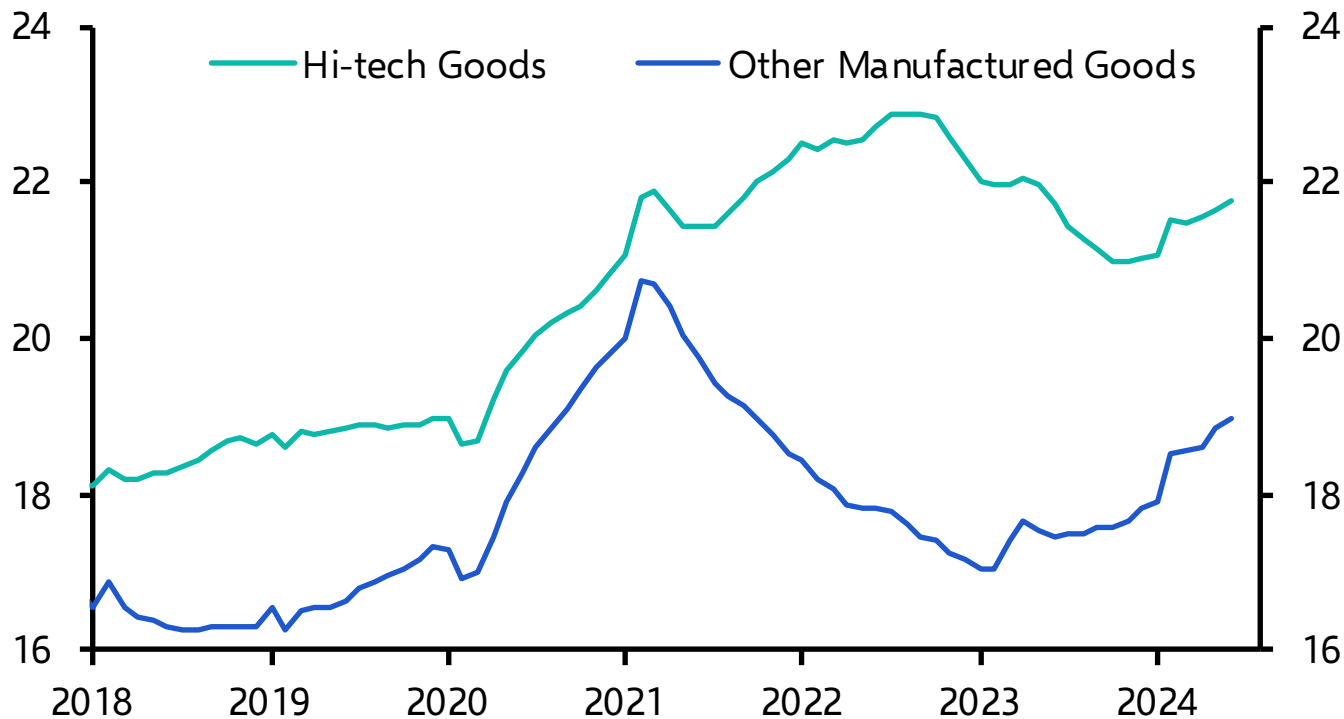
Sources: Intracen, Capital Economics

# Why might EMs be worried?

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- Rerouting could put the EM in question in the US's crosshairs.
- Undermining of domestic industry.
- Stiffer competition in third countries.

# China Global Export Market Share (% , 12m Average)



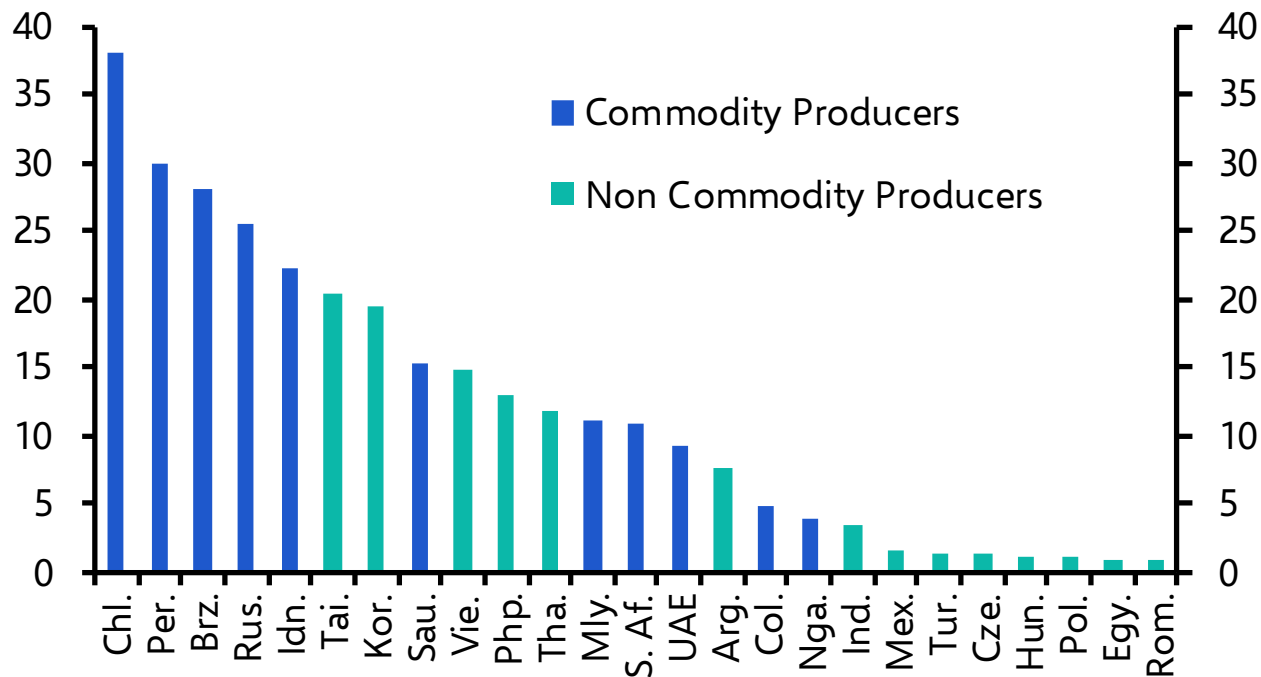
# Factors that will determine the response of EMs

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- Geopolitical alignment.
- Reliance on Chinese demand.
- Importance of manufacturing sectors.



# Goods Exports to China (% of Total, 2024)



# Factors that will determine the response of EMs

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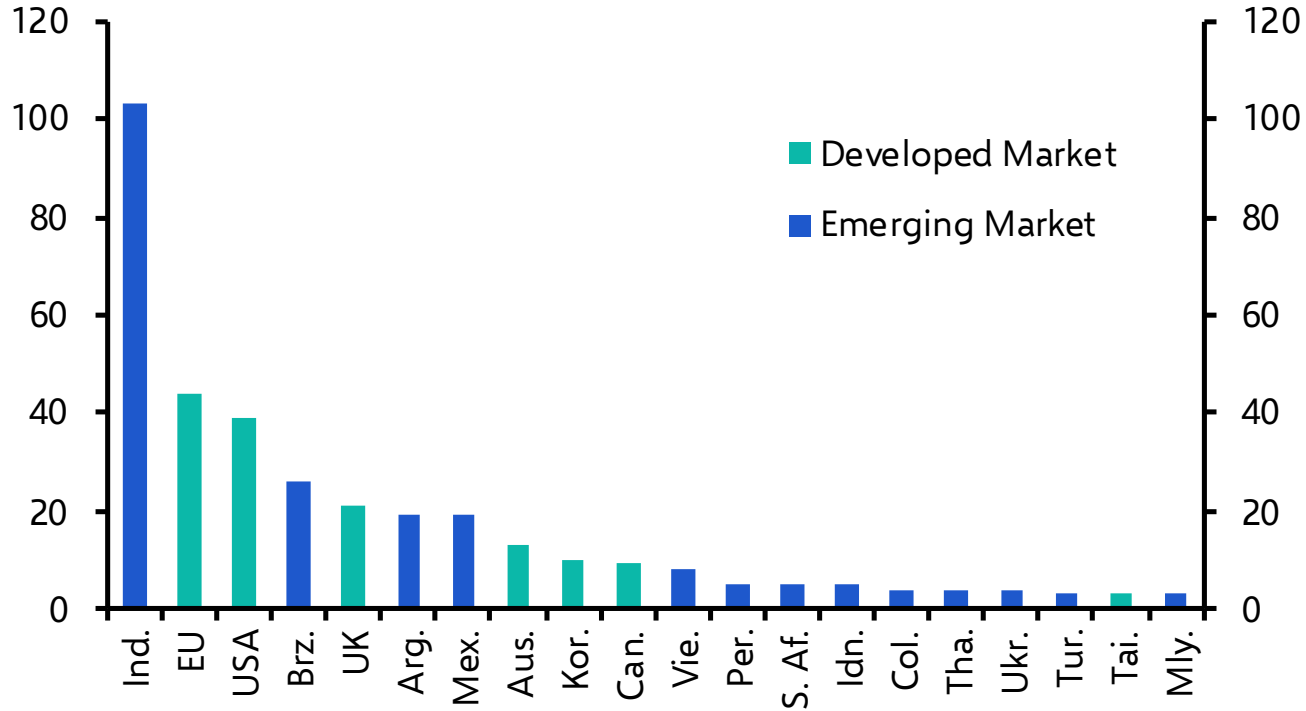
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# The nature of the EM response

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- EMs with large domestic markets more likely to opt for tariffs.
- Small, trade-dependent EMs may prefer industrial policies.
- Many in Africa and Latin America are unlikely to respond.

# Number of Anti-dumping Measures Against China since 2020



Sources: Global Trade Alert, USITC, Capital Economics

# The nature of the EM response

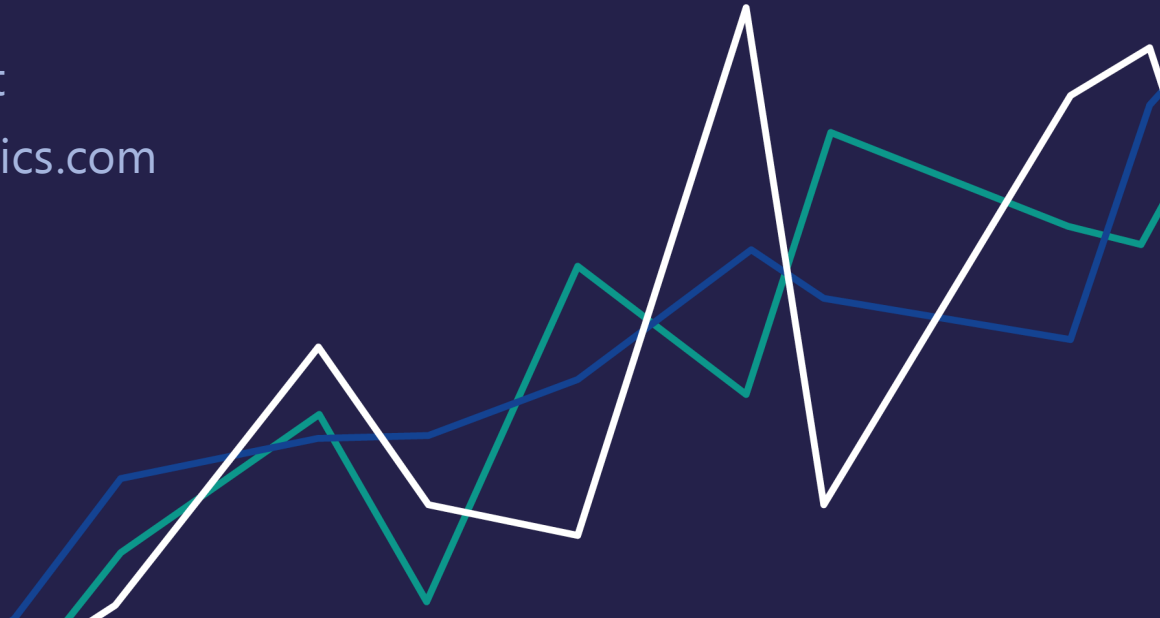
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# Which EMs can fill China's shoes ?

Gareth Leather, Asia Economist

[gareth.leather@capitaleconomics.com](mailto:gareth.leather@capitaleconomics.com)

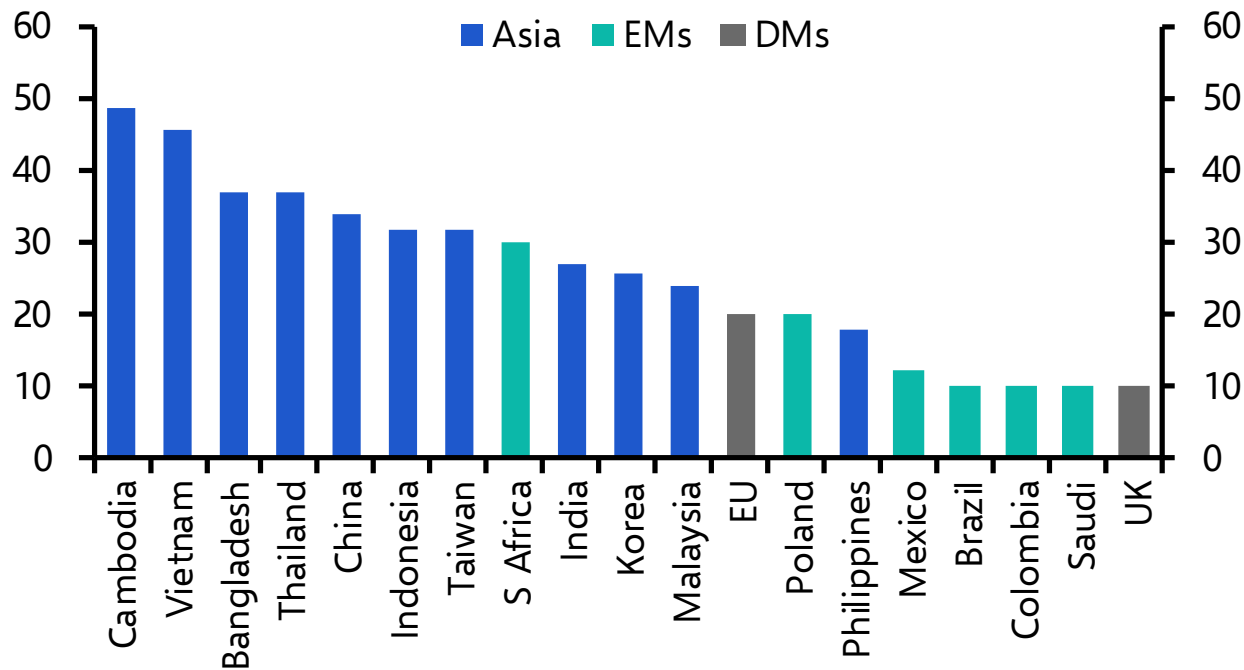


# Agenda

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- What happens next in the trade war.
- Large scale re-shoring to the US unlikely.
- Potential beneficiaries from the trade war.

# “Liberation Day” Reciprocal Tariff Rates (%)



Sources: White House, Capital Economics



# What we are assuming

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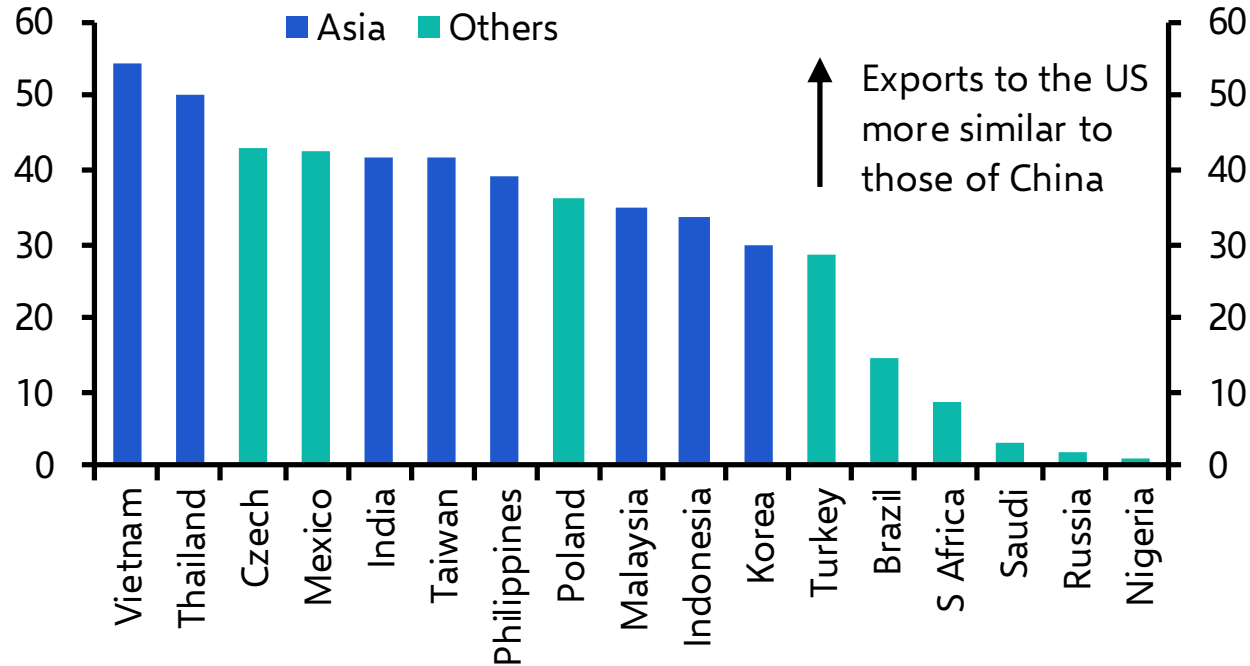
- Full-blown trade deals unlikely.
- But no return to Liberation Day tariff rates.
- Most countries will see tariff rates of around 10%.
- Tariffs on China to remain much higher than on rest of the region.

## EMs could live with this scenario

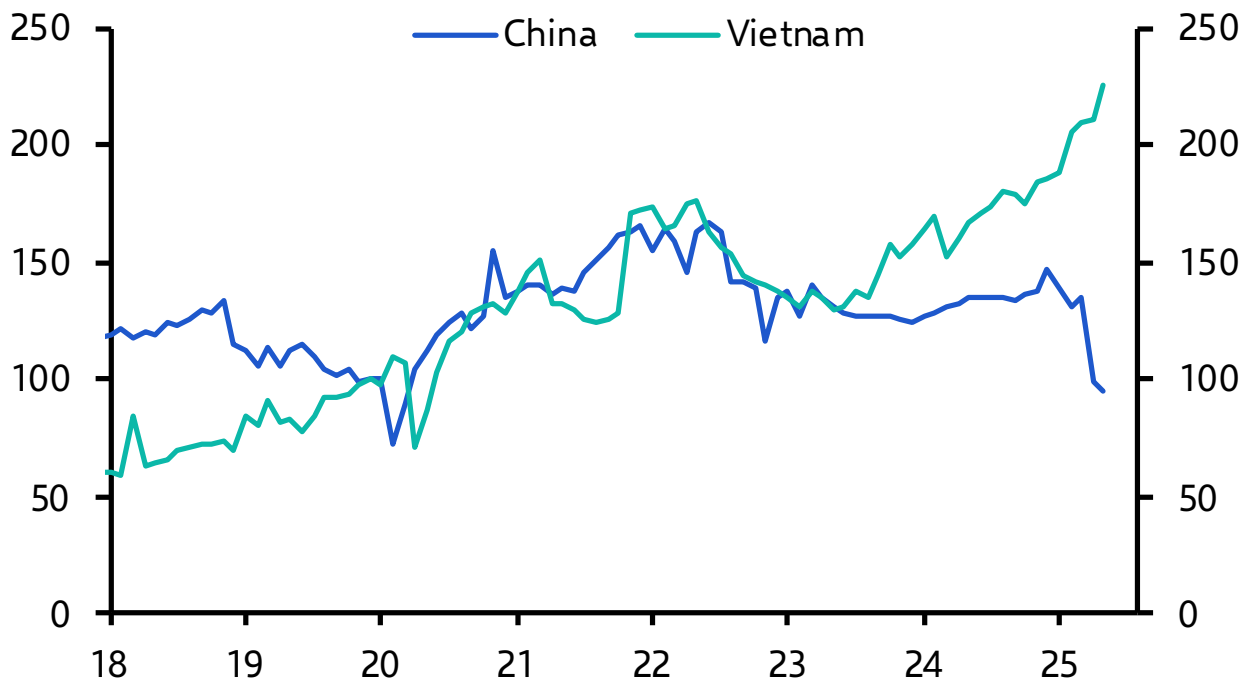
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- Universal 10% tariffs. No loss of competitiveness.
- Large scale reshoring to US unlikely. Possible in some sectors.
- But Asia has many advantages (costs, supply chain networks).
- Higher tariffs on China will create opportunities.

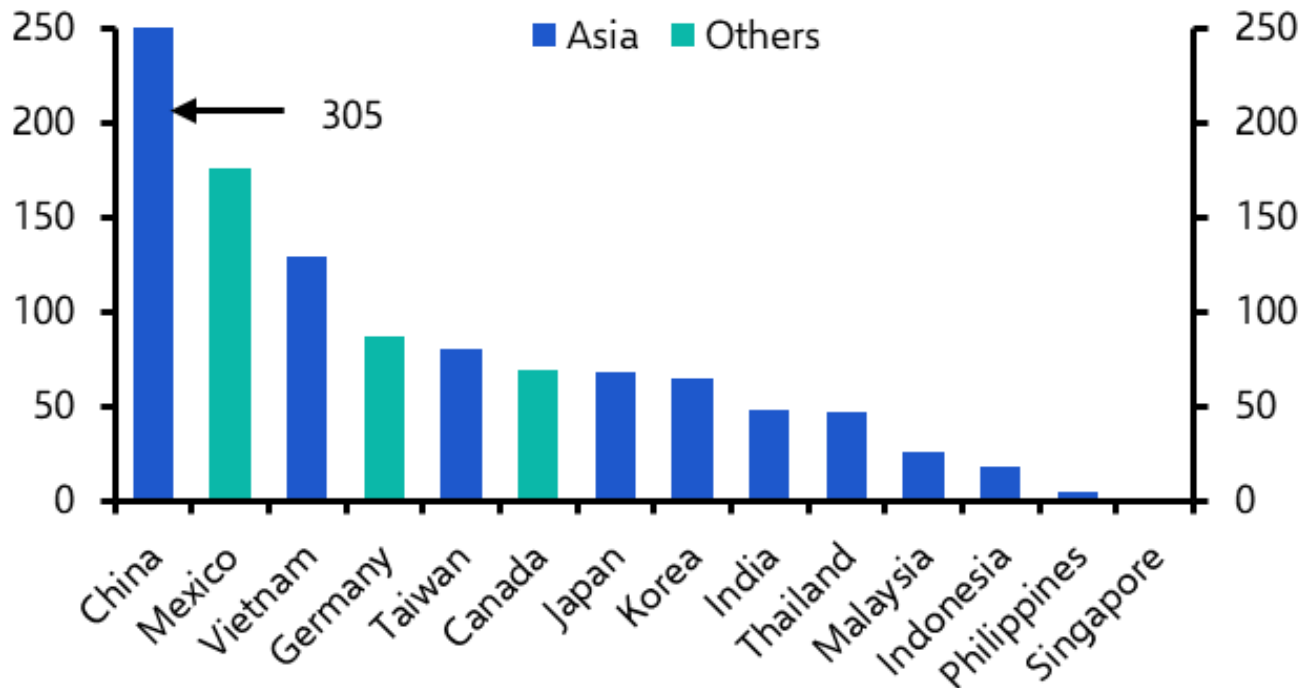
# Export Similarity Index (100 = Highest)



# Exports to US (US\$, Dec. 2019 = 100, Seasonally Adjusted)



# Goods Surplus with US (US\$bn, 12-Month Sum)



# Concluding thoughts

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- Impact of US tariffs on China likely to be smaller than most expect.
- Chinese exporters are likely to face greater trade barriers in some EMs (especially India).
- Parts of Asia are beneficiaries from the trade war. They – and Mexico – could be the long-term winners too.

# Emerging Markets Roundtable

Appendix: Additional Charts



# Israel-Iran Ceasefire: Initial Thoughts

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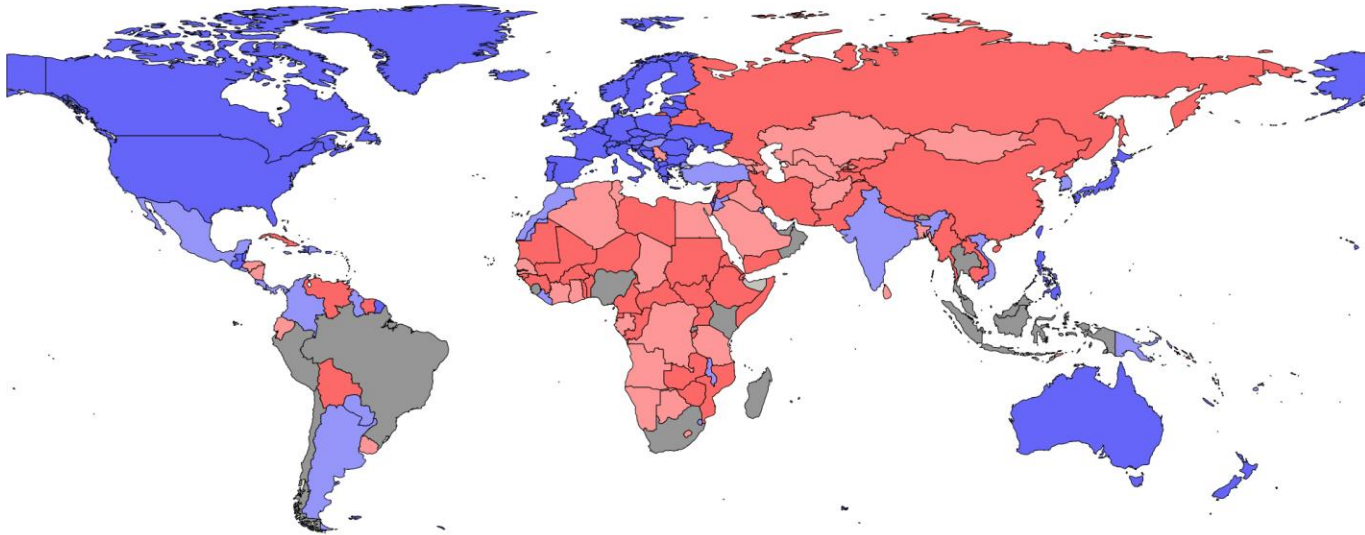
- Positive market reaction reflects relief that Iran hasn't escalated (e.g. closing the Strait of Hormuz).
- Ceasefire could be fragile (see Israel-Hamas and Israel-Hezbollah).
- Lots of permutations. Does Iran try to rebuild nuclear infrastructure or re-start nuclear talks? Does the Iranian regime survive?
- Oil market likely to focus on bearish fundamentals.



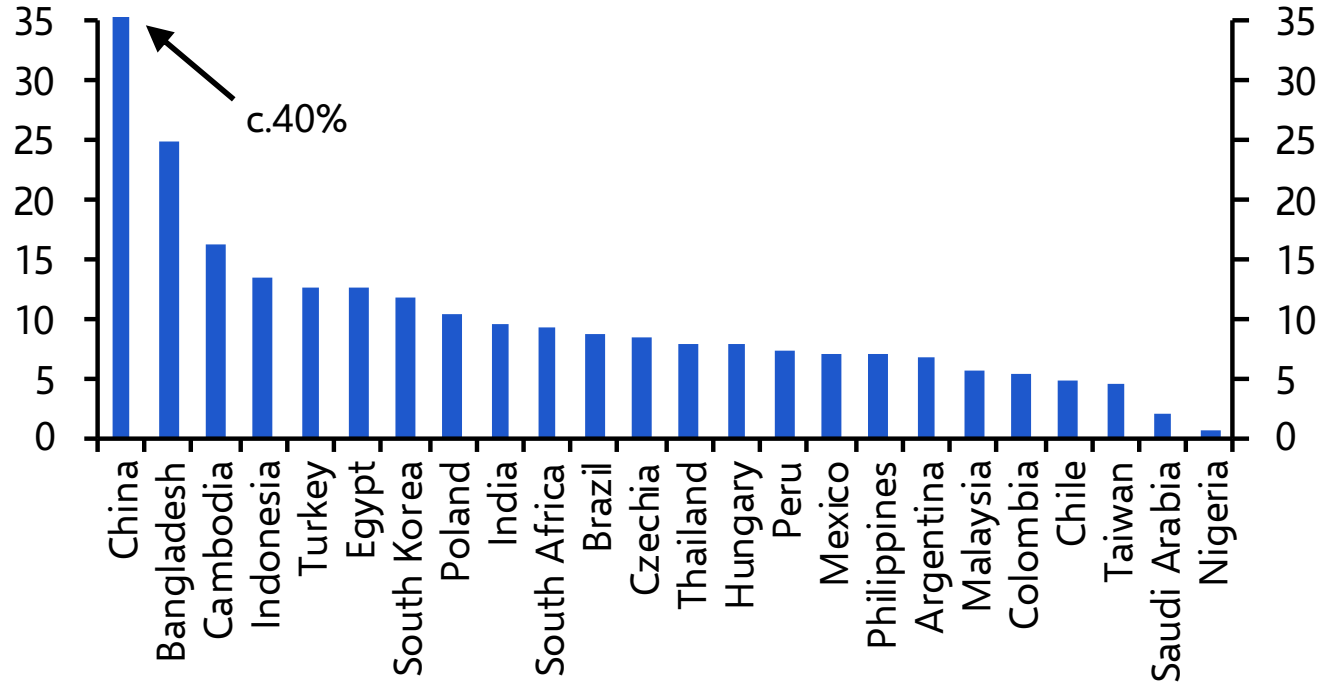
# Capital Economics Classification of Global Alignment in 2025

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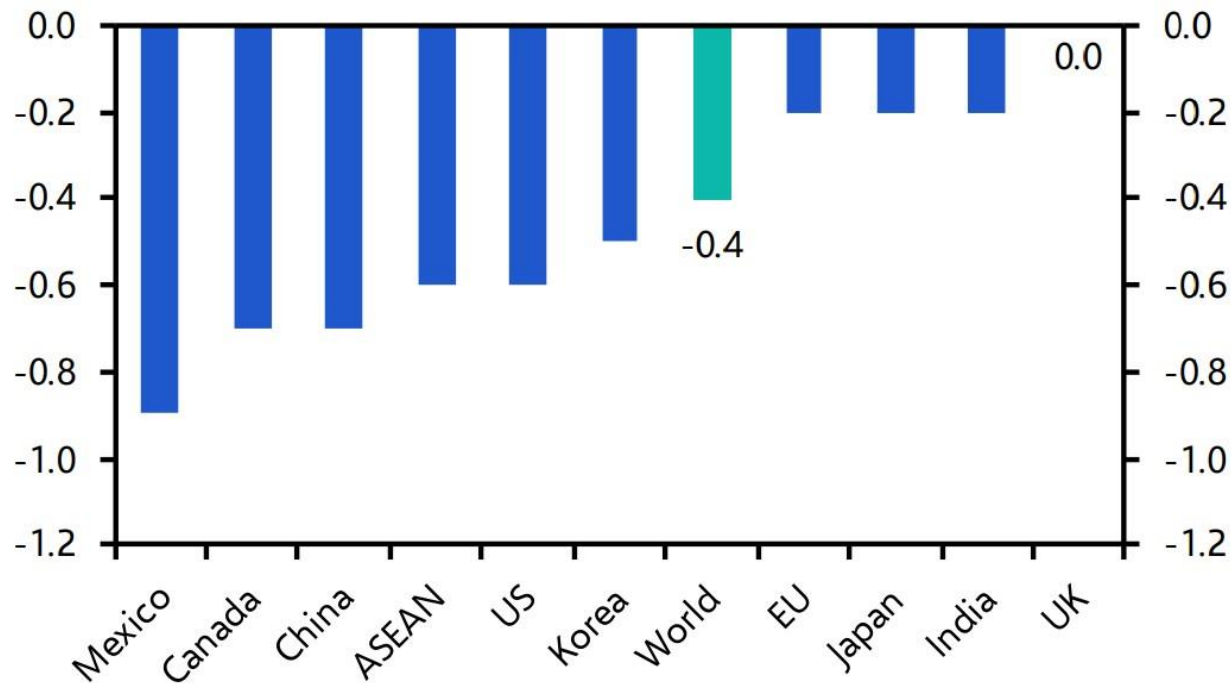
● US & allies ● Leans US ● Unaligned ● Leans China ● China & allies



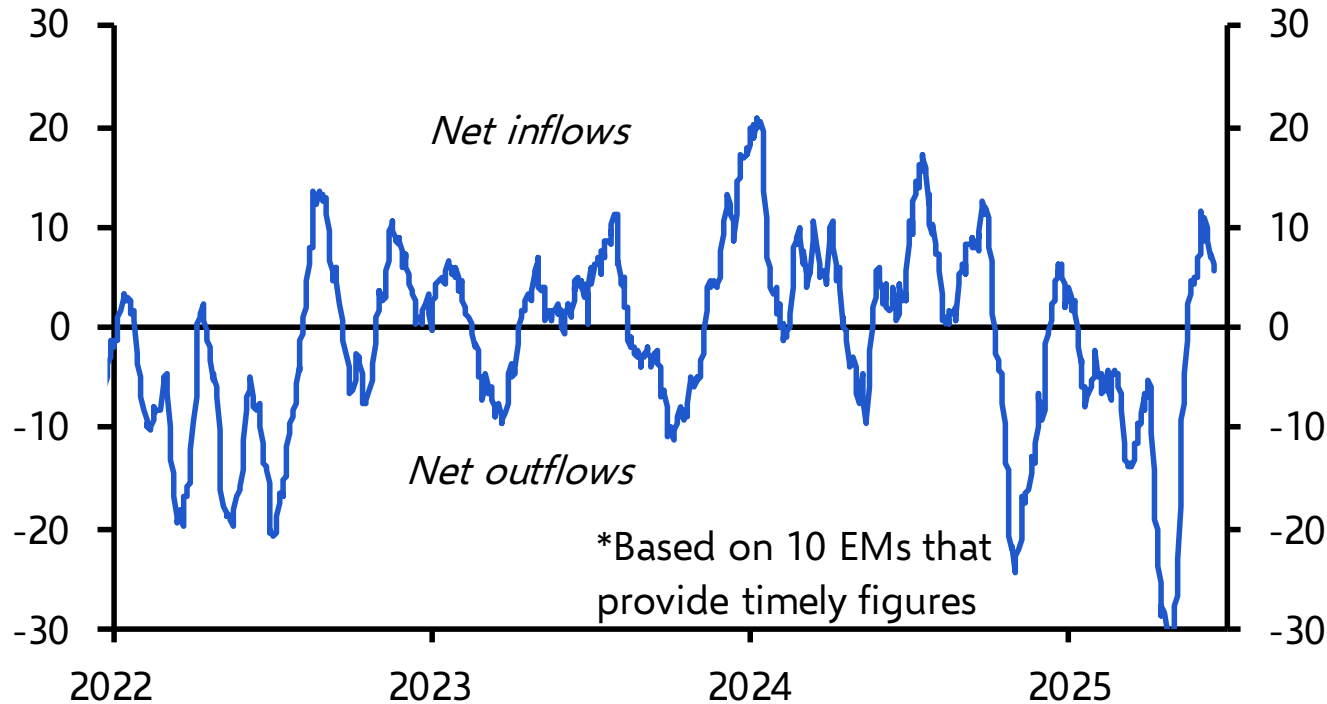
# Effective US Import Tariff Rate by Country (%)



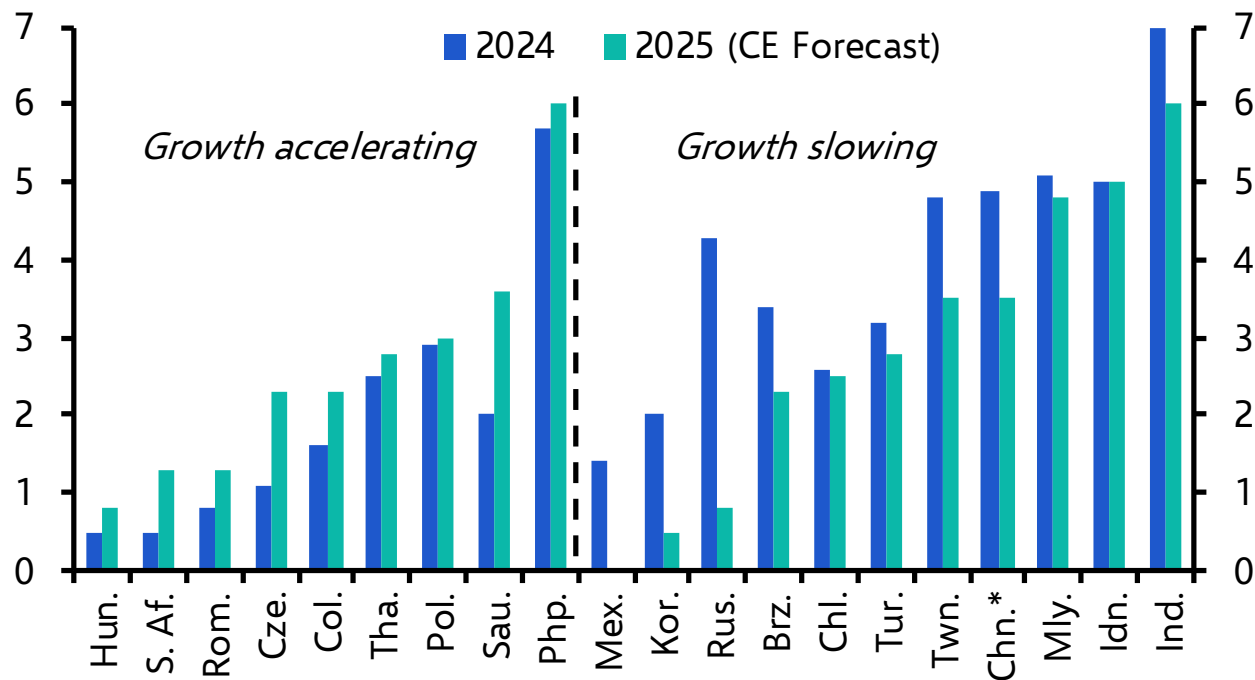
## 2-Year Hit to GDP if Tariffs in Line with CE Assumptions (%)



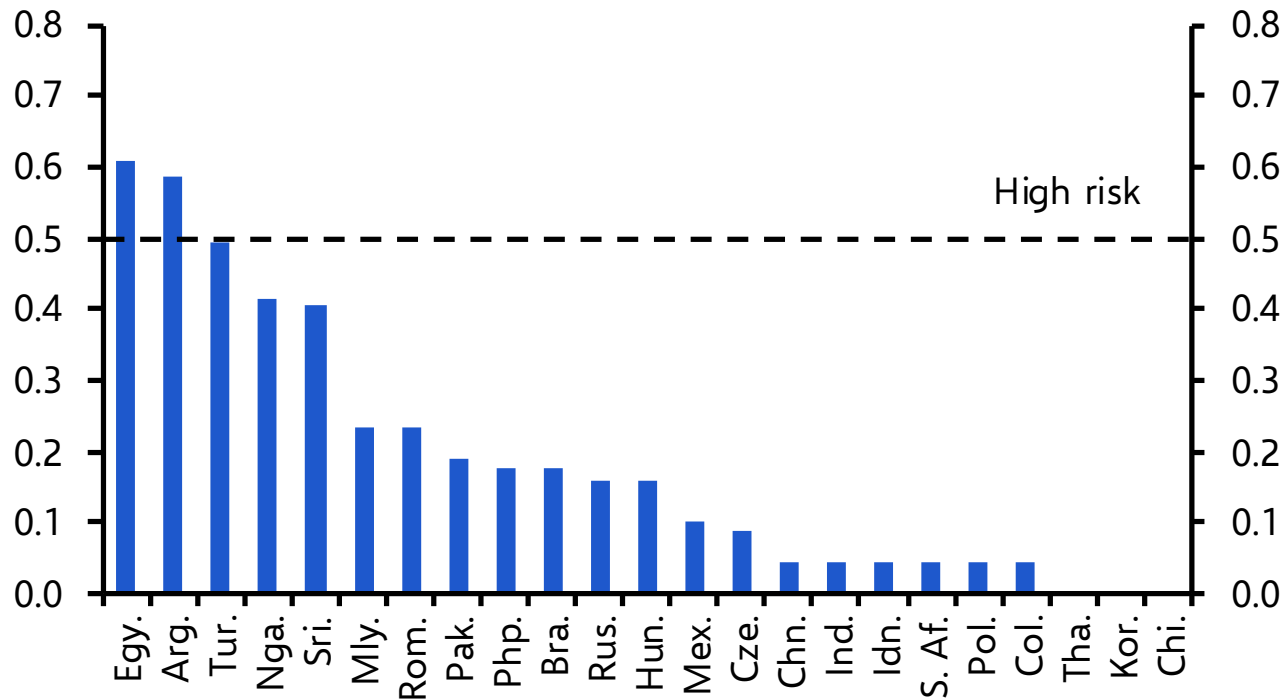
# Net Purchases of EM\* Bonds & Equities (1m Sum, \$bn)



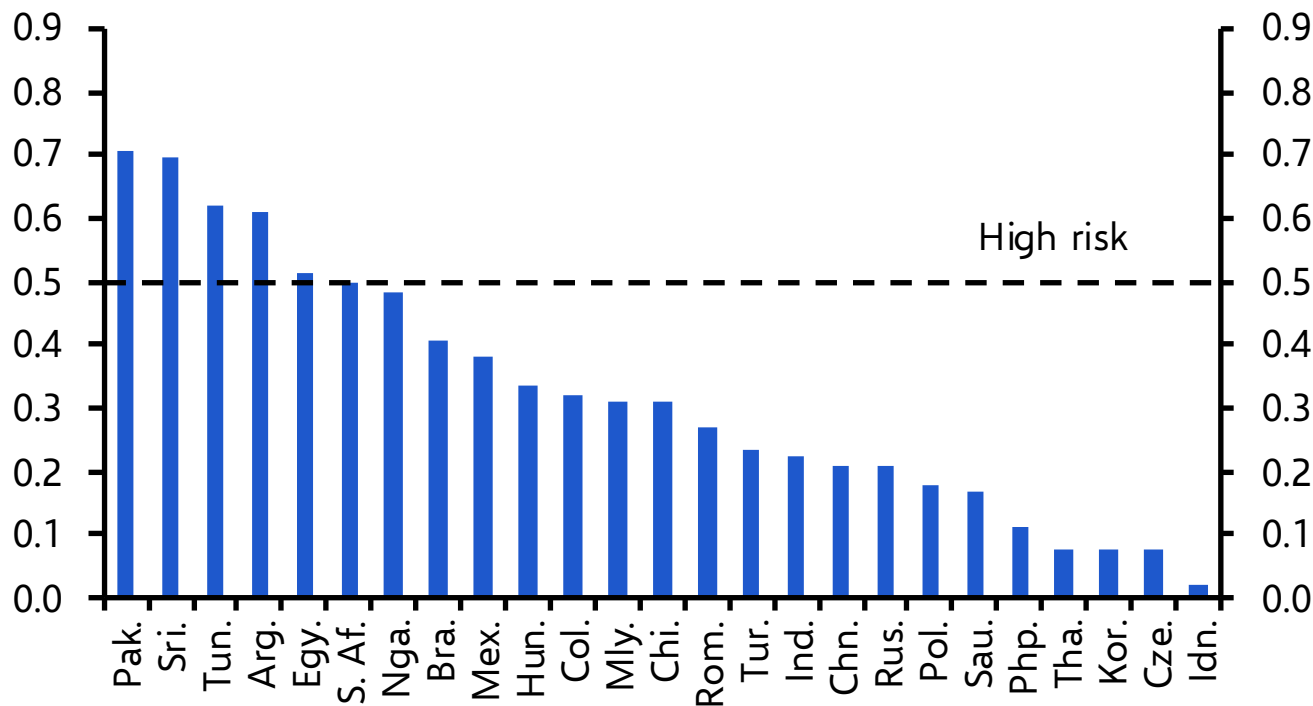
# CE GDP Growth Forecasts (%)



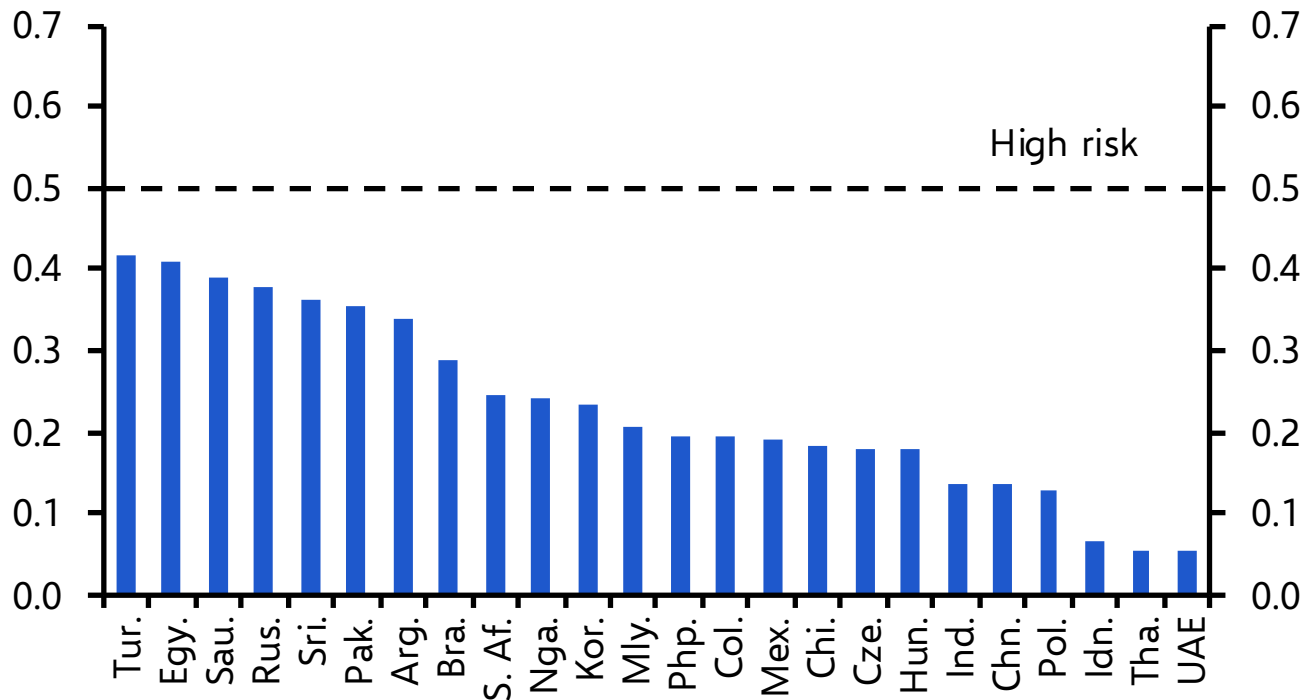
# CE EM Currency Risk Indicator (Latest)



# CE EM Sovereign Debt Crisis Risk Indicator (Latest)



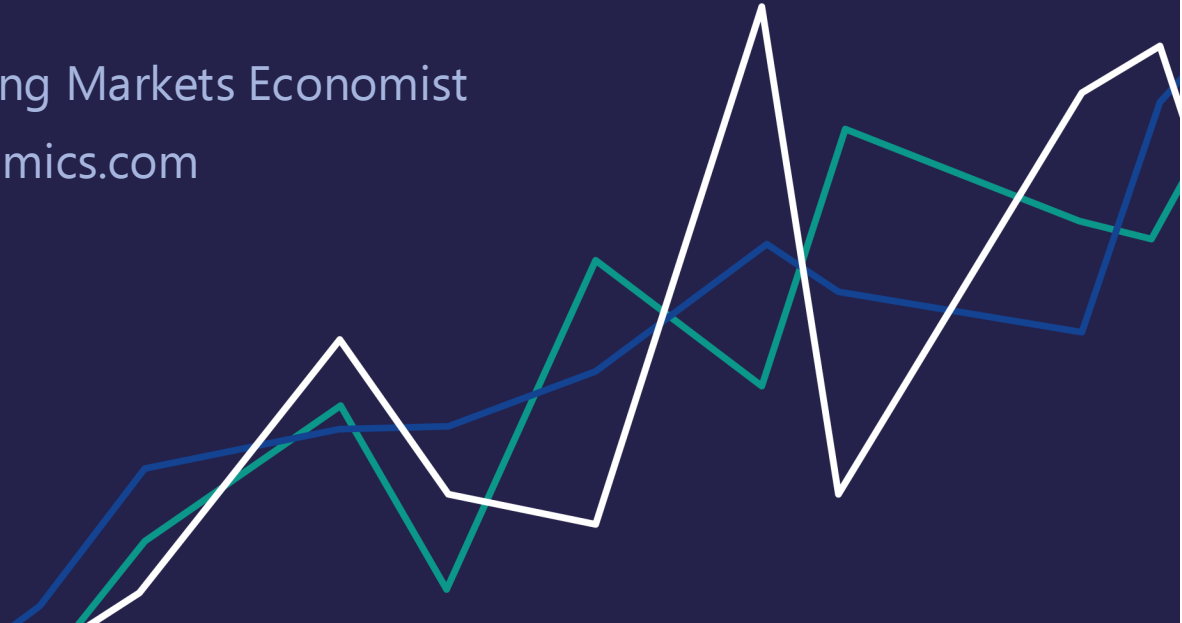
# CE EM Banking Crisis Risk Indicator (Latest)





# The Israel-Iran conflict, oil prices & EMs

William Jackson, Chief Emerging Markets Economist  
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# Mapping out conflict scenarios

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## Scenarios

## Impact

1. Conflict dies down  
in a few weeks

Risk premium in the oil price unwinds. Safe haven flows in financial markets reverse.

2. Escalation then Iran  
sues for peace

Oil prices initially spike (\$130-150pb), but then fall back. Central banks generally look through the spike.

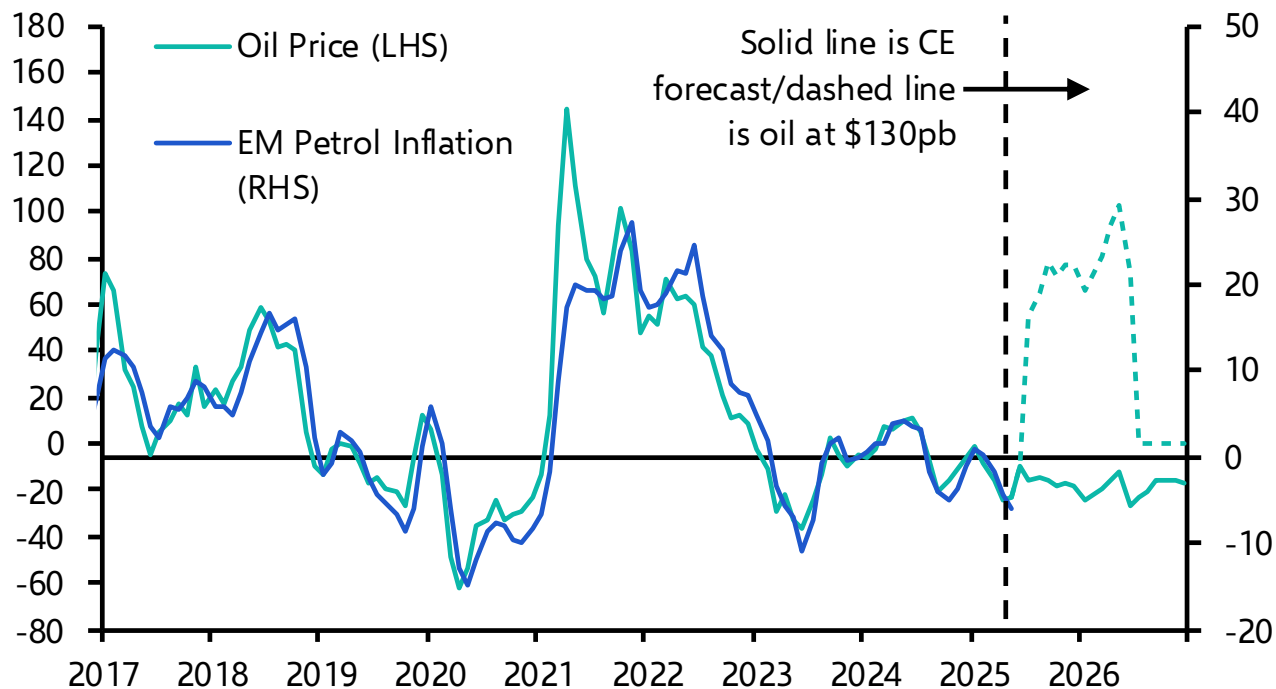
3. Regime change in  
Iran

Oil prices initially spike. Likely to fall back with regime change (potentially below pre-conflict level).

4. Long-lasting  
conflict

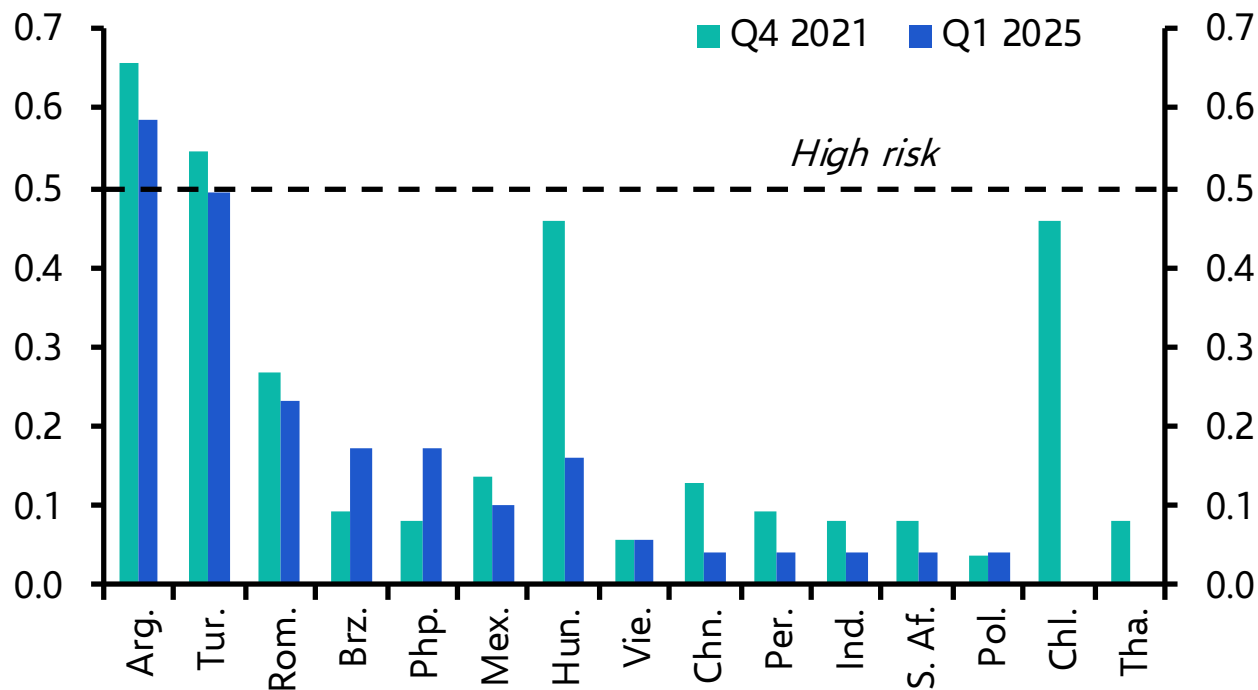
Oil prices remain above \$100pb for considerable time. Harder for central banks to look through.

# Global Oil Prices & EM Petrol Inflation (% y/y)



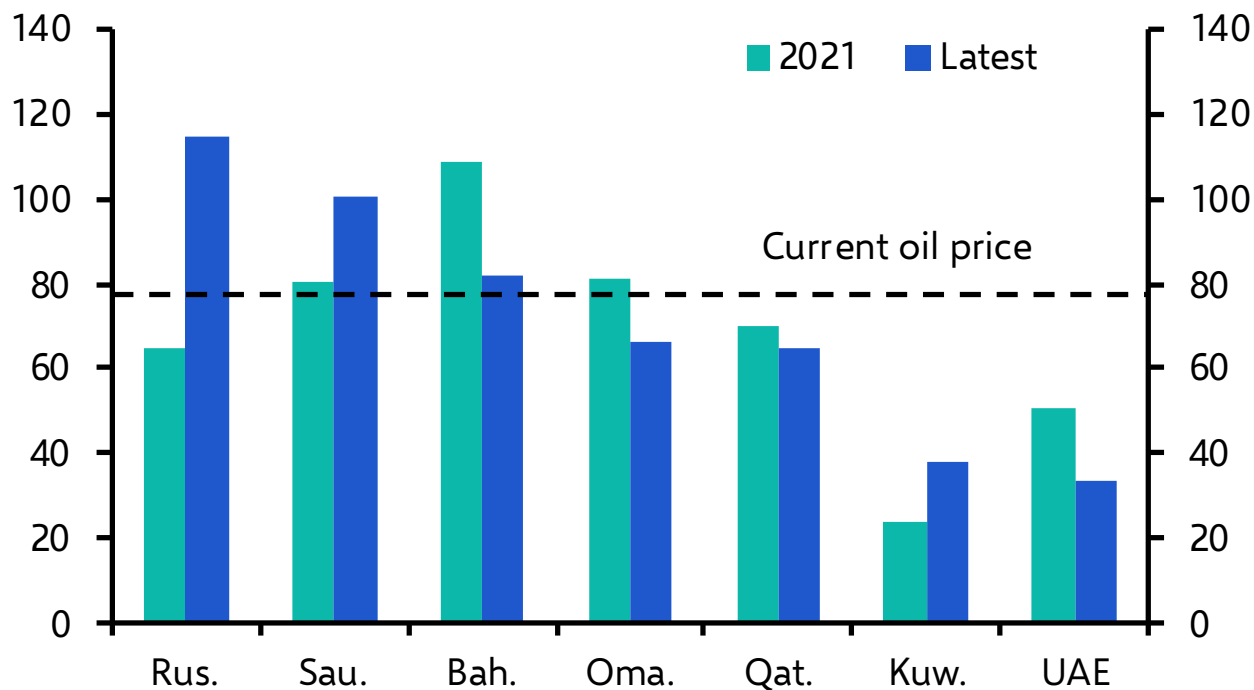
Sources: LSEG, Capital Economics

# CE Currency Crisis Risk Indicators



Sources: LSEG, Capital Economics

# Budget Break-even Oil Prices (\$pb)



Sources: LSEG, Capital Economics

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