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Navigating a New Era of Reciprocal Tariffs: Strategic Implications for the Philippines and Selected ASEAN Economies

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Abstract

Amid the evolving U.S.-China tariff realignment and the broader restructuring of global value chains, this paper evaluates the vulnerability and strategic positioning of the Philippines alongside four other ASEAN economies—Indonesia, Malaysia, Thailand, and Vietnam. For the ASEAN-5, the key challenge lies in minimizing exposure to import flooding from displaced Chinese goods and potential exclusion from global value chains if competitiveness falters, while also capitalizing on trade and investment diversion opportunities.

Using a Tariff Exposure Composite Index (TECI), the assessment reveals that the Philippines and Malaysia fall within the moderate-to-low risk tier, owing to relatively low reciprocal tariff rates and strong exemption coverage—particularly for high-value electronics. Indonesia is classified as moderate risk but is more vulnerable due to limited exemption coverage and a dependence on low-tech, commoditized exports. Meanwhile, Vietnam and Thailand are in the high-risk tier, driven by steep tariffs, significant U.S. export dependence, and only moderate levels of tariff exemption.

Absent a coordinated and forward-looking policy response, the Philippines and its ASEAN neighbors risk becoming passive bystanders in an increasingly fragmented trade landscape. However, with strategic alignment of trade and industrial policy, the deployment of robust trade defense tools, and deeper ASEAN collaboration, these economies can reframe the current disruption as a platform to reposition themselves as high-trust, tariff-resilient production hubs in the new global trading order.

Keywords: US reciprocal tariffs, global value chain, industrial policy

Navigating a New Era of Reciprocal Tariffs: Strategic Implications for the Philippines and Selected ASEAN Economies

***Rafaelita M. Aldaba*[1]**

1. Introduction

The global trade environment is entering a new era of fragmentation and strategic recalibration. On April 2, 2025, the United States unveiled a sweeping reciprocal tariff regime aimed at countering perceived unfair trade practices, correcting trade imbalances, and reviving domestic manufacturing. Under the 2025 Executive Order (EO), a universal 10% tariff on all U.S. imports will take effect on April 5, 2025.

In a more targeted move, higher country-specific tariffs—framed as reciprocal responses to persistent trade imbalances and market barriers—will be implemented beginning April 9, 2025. These include steep penalties such as 54% for China, 46% for Vietnam, and 36% for Thailand. The European Union faces a 20% tariff, while India is subject to 26%. Singapore faces the lowest tariff at 10%. Cambodia, Laos, Myanmar and Brunei have been imposed tariffs of 49%, 48%,44%, and 24%, respectively. By comparison, the Philippines has a 17% tariff—still significant, but relatively modest compared to its regional peers.

Designed to penalize countries with persistent trade surpluses against the U.S., this tariff regime signals a decisive departure from multilateral norms and a shift toward bilateral pressure and unilateral trade enforcement. Canada and Mexico have been temporarily exempted from the new reciprocal tariff structure due to existing agreements and compliance with the United States-Mexico-Canada Agreement (USMCA). However, goods that do not qualify as originating under USMCA are subject to an additional duty of 25%. While Canadian energy and potash face a duty of 10%; steel, aluminum, and autos are subject to a 25% tariff.

Marking a decisive shift away from multilateralism, the newly announced tariffs have heightened global uncertainty and raised alarm among economists and trade experts. They warn that such measures could drive up consumer prices, disrupt global supply chains, and trigger retaliatory actions from affected countries. The stock market responded sharply, with major indices posting significant losses—reflecting investor concerns over escalating trade tensions and broader economic instability.

International responses have been mixed. Some governments have expressed willingness to negotiate exemptions or offer reciprocal concessions to maintain trade access. Vietnam signaled readiness to negotiate with the US by proposing to reduce its import tariffs on US goods to zero. Taiwan pledged to eliminate tariffs, remove nontariff barriers, and facilitate greater US investments by Taiwanese companies. Cambodia proposed to lower its tariffs on US goods from 35% to 5% as part of a broader accommodation.

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In contrast, other countries have strongly criticized the move as protectionist and detrimental to global economic stability. China swiftly retaliated by imposing a 34% tariff on imports of US products effective April 10 and implementing stricter export controls on rare earth elements -- critical inputs for semiconductors, E-vehicle batteries, and advanced electronics. In response**,** the United States further escalated the trade dispute by announcing an additional 50% tariff on Chinese imports**.** Issued on April 8, 2025, EO 14259 raised US tariffs on Chinese imports from 34% to 84%, effective April 9. Heightening the risk of a prolonged and destabilizing trade confrontation, China struck back by raising its duties on US imports to 84%. On April 9, 2025, a new Executive Order was signed modifying reciprocal tariffs to reflect trading partner retaliation and alignment. Responding to China, the EO raised tariffs on Chinese goods to 125%. The EO also temporarily suspended country-specific tariffs for over 75 cooperating nations and restored a 10% uniform tariff effective April 10 to July 9, 2025.

On April 11, 2025, a Presidential Memorandum was issued clarifying exceptions under EO 14257. The Memorandum clarified that semiconductors are exempt from reciprocal tariffs and defined the scope of semiconductors. This is an indication of the strategic focus of the US in protecting high-tech industries, ensuring tariff compliance, and reshaping global supply chains in favor of US national interests.

In the context of the above, this paper aims to assess the tariff exposure of the Philippines vis-a-vis four other countries in the Association of Southeast Asian Nations (ASEAN) – Indonesia, Malaysia, Thailand, and Vietnam. In the analysis of their exposure to the new tariffs, the paper presents quantitative estimates of the tariff costs, identifies vulnerable export sectors, and recommends strategic options to mitigate economic risks. For smaller economies like the Philippines, understanding tariff exposure risk is important in guiding governments as they formulate their responses to the trade shock.

2. EO 14257 on Reciprocal Tariffs and Exemptions

Issued on April 2, 2025, Executive Order 14257 entitled "Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits"[2] provides an outline of the new trade regime and industrial strategy of the US. Representing one of the most sweeping trade policy actions taken in recent decades, the EO marks a fundamental shift toward unilateral, reciprocal trade enforcement, seeking to rebalance global trade through tariffs and restore US manufacturing competitiveness.

[2] https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/

Through the EO, President Trump declared a national emergency citing large and persistent US goods trade deficits – reaching $1.2 trillion in 2024 - as a threat to national security. These deficits were attributed to:

- Lack of reciprocity in trade relationships,
- Disparate tariff and non-tariff barriers imposed by trading partners,
- Economic policies abroad that suppress wages and demand for U.S. goods.

Moreover, the EO argues that:

- The U.S. maintains the world's lowest average MFN tariff (3.3%) compared to much higher tariffs in countries like India (17%), China (7.5%), and Vietnam (9.4%).
- Tariff and non-tariff barriers (e.g., licensing restrictions, IP issues, currency practices) disadvantage U.S. producers.
- The post-war liberal trade system failed to ensure reciprocity, weakening the U.S. manufacturing and defense-industrial base.

To correct the structural imbalances in global trade, the EO focuses on incentivizing reciprocal treatment for US exports and links this trade action to the following goals:

- Revitalizing the domestic manufacturing base and innovation capacity
- Protecting the defense industrial base
- Reducing dependence on foreign supply chains – especially for defense and critical sectors like semiconductors, pharmaceuticals, and agriculture
- Enhancing national and economic security.

While some goods are exempt (e.g., certain defense-related items and key energy inputs), the order empowers US agencies to enforce content verification, prevent tariff circumvention, and modify rates in response to partner retaliation or compliance. This marks a significant shift toward protectionist industrial strategy, reshaping global trade dynamics and prompting both investment recalibration and potential retaliation from affected nations.

The core policy of imposition of reciprocal tariffs has two major components:

- A baseline 10% tariff is imposed on *all imports* starting April 5, 2025**.**
- Higher, country-specific tariffs are applied to certain nations beginning April 9, 2025, as specified in Annex I[3] of the order.

Note that these tariffs override existing preferential trade agreements unless otherwise stated. The order bypasses many existing trade agreements and justifies the action under the International Emergency Economic Powers Act and other federal statutes.

Annex I of the Executive Order outlines the country-specific adjusted tariff rates, reflecting the US response to what it deems as unfair or non-reciprocal trade practices. These tariffs target 57 countries and are imposed in addition to the baseline 10% tariff on all imports. The rates vary

[3] https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf

significantly by country, based on the extent of trade imbalances and barriers identified. The following notable tariff rates were imposed on key economies:

- Vietnam: 46%
- India: 26%
- Thailand: 36%
- Malaysia: 24%
- Indonesia: 32%
- Philippines: 17%
- China: 34%
- European Union: 20%
- Japan: 24%
- South Korea: 25%
- Taiwan: 32%

Highest tariffs were imposed on:

- Lesotho: 50%
- Cambodia: 49%
- Laos: 48%
- Madagascar: 47%
- Myanmar and Sri Lanka: 44%

Certain goods are exempted under Annex II[4], including:

- Articles covered under national security exclusions (e.g., steel and aluminum under Section 232),
- Pharmaceuticals, semiconductors, energy products,
- Goods from Canada and Mexico under USMCA (with conditional exceptions).

Tariffs apply only to the non-U.S. content of a good if at least 20% of the value is of U.S. origin.

Annex II lists a total of 1,039 product lines as exempted from the new tariff regime. These exemptions are intended to mitigate potential negative impacts on industries deemed critical to US economic and national security interests. Table 1 provides a summary of the exemptions based on 2-digit HS 2022 codes. The largest cluster of exemptions falls under organic chemicals (HS 29) accounting for 36% of the total, followed by wood (HS 44) with 16% share, and copper (HS 74) with 8.6% while electrical machinery and equipment (HS 85) has a share of 1.5% covering 26 HTSUS product codes.

Table 1: Summary of Exemptions under EO Annex II

HS2_Code	HS2_Description	Number of HTS8 Codes	% Share
29	Organic chemicals	374	36.0
44	Wood and articles of wood	170	16.4
74	Copper and articles thereof	89	8.6
28	Inorganic chemicals	85	8.2

[4] https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-II.pdf

27	Mineral fuels, mineral oils and products	76	7.3
30	Pharmaceutical products	47	4.5
81	Other base metals; cermets; articles thereof	41	3.9
39	Plastics and articles thereof	24	2.3
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	17	1.6
26	Ores, slag and ash	17	1.6
85	Electrical machinery and equipment	16	1.5
49	Printed books, newspapers, pictures	15	1.4
72	Iron and steel	14	1.3
71	Precious or semi-precious stones, metals	12	1.2
38	Miscellaneous chemical products	8	0.8
32	Tanning or dyeing extracts	6	0.6
79	Zinc and articles thereof	6	0.6
31	Fertilizers	6	0.6
40	Rubber and articles thereof	5	0.5
80	Tin and articles thereof	4	0.4
34	Soap, organic surface-active agents	3	0.3
36	Explosives; pyrotechnic products	1	0.1
48	Paper and paperboard; articles of paper pulp	1	0.1
75	Nickel and articles thereof	1	0.1
5	Products of animal origin, not elsewhere specified	1	0.1
All Sectors		1039	100.0

Source: Annex II https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-II.pdf. Note that the exempted products under Annex II are expressed in terms of 8-digit HTSUS codes. In the summary table, these were converted to HS 2-digit codes to group together similar products into clusters.

Following retaliation from China, the US issued three subsequent amendments of the original Executive Order (EO 14257) and implementing directives:

- EO 14259 entitled "Amendment to Reciprocal Tariffs and Updated Duties on Applied to Low-Value Imports from the People's Republic of China" (April 8, 2025) was issued as a direct response to China's announced retaliation (34% tariff on US goods effective April 10, 2025) following the issuance of EO 14257
    - raised tariffs on imports from China from 34% to 84%
    - increased the tariff on low-value imports from China from 30% to 90%
- EO on "Modifying Reciprocal Tariff Rates to reflect Partner Retaliation and Alignment (April 9, 2025) represents a dual-track strategy characterized by a punitive escalation against China
    - applying 125% tariffs on Chinese-origin goods (including from Hong Kong and Macau)

    - a temporary easing for cooperative partners by suspending headings applying higher tariffs to other countries for 90-days, while reaffirming the US intent to use trade as a tool to restore reciprocity and revitalize its industrial base
- Presidential Memorandum on "Clarification of Exceptions Under EO 14257 (April 11, 2025) reaffirms that semiconductors are exempt from the additional ad valorem duties imposed under EO 14257 and its subsequent amendments (EO14259 on April 8 and the April 9 EO responding to retaliation) and formally defines the scope of semiconductor exemptions to cover the following 16 8-digit HTSUS codes and 4 4-digit HTSUS codes:
    - Computers and semiconductor manufacturing equipment: 8471, 8473.30, 8486
    - Telecommunications and networking devices: 8517.13.00, 8517.62.00
    - Storage media and display panels: 8523.51.00, 8524, 8528.52.00
    - Semiconductor devices and components: 8541.10.00, 8541.21.00, 8541.29.00, 8541.30.00, 8541.49.10, 8541.49.70, 8541.49.95, 8541.51.00, 8541.59.00, 8541.90.00
    - Integrated Circuits: 8542

Trump's reciprocal tariffs are likely to trigger significant exposure risks with asymmetric impacts on developing countries depending on their export composition, dependence on the US market, and capacity to adjust trade and production structures. For smaller economies like the Philippines, the new tariff regime presents both a strategic opportunity and a formidable challenge. The relatively lower tariff rate creates openings for niche export expansion, particularly in sectors with tight price margins and high tariff sensitivity such as garments and footwear. However, capitalizing on this window is far from automatic. The Philippines' ability to convert this relative advantage into tangible economic gains will hinge on how swiftly it can mobilize responses in logistics, investment facilitation, and targeted export promotion.

3. Assessing the US Reciprocal Tariffs: Tariff Exposure Composite Index

In analyzing the implications of the US reciprocal tariffs, a tariff exposure composite index (TECI) was constructed. The Index represents a multi-dimensional tool quantifying the relative vulnerability of the country's exports to the new tariff regime. It captures how much of a country's export value to the US is at risk of added costs, competitive disadvantage, or trade diversion due to new tariffs on non-exempted products**.** The index integrates five key dimension of tariff exposure:

1. **Tariff Rate Severity** – the reciprocal tariff rate applied under Executive Order 14257, reflecting the headline level of trade restriction imposed on a particular country under Annex I of the Executive Order.
2. **Tariff Burden** – the share of country i's total US-bound exports that are not exempted and will incur new duties. The Tariff Burden quantifies the actual financial impact of a tariff regime and gives a clear measure of how much of a country's trade with the US is effectively penalized under the tariff system. This is calculated as:

$$Tariff\ Burden_i = \left(\frac{Tariff\ Cost\ on\ Non-Exempted\ Imports_i}{Total\ US\ Imports\ from\ Country_i}\right)$$

3. **Exemption Coverage** – the proportion of U.S. imports from country i that are exempted from tariffs under Annex II of the Executive Order and subsequent clarifications. This is a protective buffer in trade exposure analysis—it shows how much of a country's trade remains unaffected by the new tariff regime. It is calculated as:

$$Exemption\ Coverage_i = \left(\frac{Exempted\ Imports_i}{Total\ US\ Imports\ from\ Country_i}\right) * 100$$

4. **Strategic Exposure** – a qualitative judgment on the strategic importance of affected goods to each country's industrial structure, based on the value, competitiveness, and technological depth of the products exposed to tariffs. This is scored from 1 (non-strategic, low-tech, low-dependence products) to 4 (highly strategic, concentrated in critical industries such as semiconductors, electronics, automotive, ICT, pharmaceutical, etc where disruption could impair national competitiveness).
5. **US Export Dependence** – the degree to which a country relies on the US market, measured as the share of its total global exports that go to the US. This is calculated as:

$$US\ Export\ Dependence_i = \left(\frac{Exports\ to\ US_i}{Total\ Exports\ of\ Country_i\ to\ the\ world}\right) * 100$$

All five indicators — Tariff Rate Severity, Tariff Burden, Exemption Level, Nature of Affected Goods, and U.S. Export Dependence — are important in assessing exposure to the U.S. reciprocal tariff regime. Focusing on just tariff rates or burden can be misleading, because:

- A high tariff rate is less threatening if most exports are exempt (e.g., semiconductors or critical components).
- A country with a moderate burden may still face high exposure if its exports are concentrated in low-margin, price-sensitive goods, where buyers are quick to shift sourcing.
- A low tariff rate combined with high exemption coverage positions a country to attract trade relocations, becoming a strategic beneficiary of supply chain shifts.
- High U.S. export dependence amplifies systemic risk[5] — even low tariffs can have outsized effects if a country heavily relies on the U.S. market for its exports.

Each of the five indicators is assigned a risk score from 1 to 4, where 1 indicates low vulnerability and 4 represents very high vulnerability. For exemption coverage, the scoring is inverted—higher exemption shares reduce exposure. The final TECI score is computed as the unweighted average of the five component scores.

[5] Systemic risk refers to the broad and structural vulnerability of an economy or a significant portion of its export sector to disruptions arising from US trade policy. This covers not just isolated exposure to a few product lines, but widespread impact across multiple high-value export categories, risk that disruption affects the overall stability, growth, or competitiveness of the country's external sector, and potential to trigger chain disruptions, job losses, or economic stress in export-dependent sectors.

A country is classified into risk levels based on its composite score:

Risk Classification	Range	Interpretation
Low Risk	TECI < 2.0	exposure is minimal, country is well shielded by exemptions, low dependence, and low tariff rate
Moderate Risk	2.0 ≤ TECI < 3.0	partial exposure across dimensions, some vulnerability in cost, concentration, or sector profile
High Risk	3.0 ≤ TECI < 3.5	multiple dimensions show elevated vulnerability, though not systemic
Very High Risk	TECI ≥ 3.5	deep, structural exposure across tariff rate, burden, and export reliance to the US market shifts

This index offers a practical and data-driven framework for trade policy analysis, enabling comparative assessment across countries and identification of sectors that are most vulnerable to new tariff regimes. It can inform government responses, industrial upgrading strategies, and regional trade positioning under ongoing global trade realignments.

4. Analysis of Findings

A. Philippines and Selected ASEAN Countries

Tables 2 and 3 highlight the export structure and relative exposure of the ASEAN-5 economies to the US market. Among them, Vietnam emerges as the largest exporter, accounting for nearly half (47%) of total ASEAN-5's total exports to the US and 35% of Vietnam's global exports. This underscores Vietnam's deep dependence on the US market, with exports led by electronics (data processing machines, communication apparatus), furniture, and footwear.

Thailand follows, contributing around 22% of ASEAN-5 total US exports. While its US-oriented exports represent a smaller chare of Thailand's global trade (22%), the product mix- dominated by automotive parts, electronics, and transmission equipment – reflects the country's advanced manufacturing base and close ties to global supply chains.

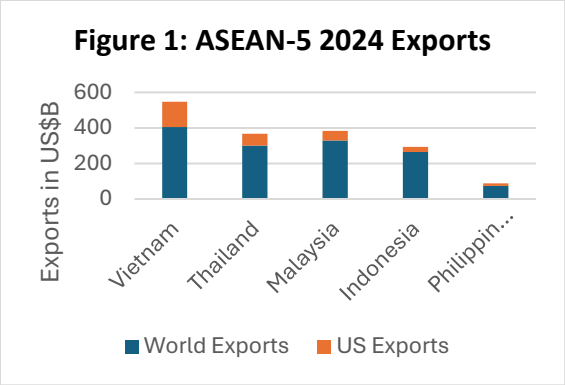


Table 2: ASEAN 5's US Export Footprint, 2024 (in USD B)

Country	Exports to the US	Exports to the World	% Share ASEAN	% Share Country
Vietnam	142.48	405.5	46.5	35.1
Thailand	66.01	300.5	21.5	22.0
Malaysia	53.85	329.6	17.6	16.3
Indonesia	29.55	264.7	9.6	11.2
Philippines	14.59	73.3	4.8	19.9

Note: The 2024 exports to the US were from the World Integrated Trade Systems (WITS) with the US as reporting country. Exports to the world totals were gathered from the following sources: Philippine Statistics Authority, BPS-Statistics Indonesia, Malaysia External Trade Development Corporation, Thailand Ministry of Commerce, and Vietnam Briefing.

Table 3: ASEAN 5's Top 10 US Exports, 2024

Country	Top 10 Exports to the US
Vietnam	Automatic data processing machines; communication apparatus (excluding telephone sets or base stations); machinery; parts & accessories; electrical apparatus; photosensitive semiconductor devices; seats; furniture; sports footwear
Thailand	Transmission apparatus; storage units; photosensitive semiconductor devices; parts; static converters; other machines & apparatus; of a kind used on motor cars; of a kind used on buses or lorries; parts & accessories of machines (heading 84.71)
Malaysia	Electronic integrated circuits; communication apparatus (excluding telephone sets or base stations); machinery; parts & accessories; semiconductor media; solid-state non-volatile storage devices; printing machinery; electrical apparatus; photosensitive semiconductor devices; electronic integrated circuits; electrical machines & apparatus; rubber; vulcanized, gloves
Indonesia	Vegetable oils; palm oil; electrical machines & apparatus; communication apparatus (excluding telephone sets or base stations); footwear; rubber; new pneumatic tires; rubber in primary forms; crustaceans; frozen shrimps & prawns; sports footwear; tricycles, scooters, pedal cars; jerseys, pullovers, cardigans
Philippines	Machinery; parts & accessories; semiconductor media; solid state non-volatile storage devices; automatic data processing machines; insulated electric conductors, ignition wiring sets; communication apparatus (excluding telephone sets or base stations); electronic integrated circuits; electrical static converters; vegetable oils; coconut oil; printing, copying, & facsimile machines

Note: The 2024 exports to the US were from the World Integrated Trade Systems (WITS) with the US as reporting country.

Malaysia ranks third accounting for around 18% of ASEAN-5 US exports and 16% of its own total global exports. Its shipments are heavily concentrated in high-value electronic components, particularly integrated circuits, semiconductor media, and ICT accessories, reinforcing its strategic role in the global electronics supply chain.

Indonesia's exports to the US represents about 10% of the ASEAN-5 exports. While the US accounts for only 11% of Indonesia's total exports, its export structure is heavily oriented toward primary and agro-based goods like palm oil, rubber, frozen seafood - shrimp and prawn, and

footwear. This points to comparative advantage in resource-based industries, but limited penetration in high-value sectors.

Finally, the Philippines records the smallest export footprint among the ASEAN-5, with its exports making up just 5% of ASEAN-5's total, though the US represents a significant 20% of its total exports. Philippine exports are largely concentrated in electronics such as semiconductor media, storage devices, and ICT parts alongside coconut oil and printing machines. Its limited product diversification and small volume make it more vulnerable to sector-specific shocks but also signals potential for targeted upgrading.

Table 4 presents the major exports of the ASEAN-5, categorized into exempted (Table 4A) and non-exempted (Table 4B) products under the U.S. reciprocal tariff regime. Together, these classifications offer a dual perspective: they highlight the structural strengths and export specializations of each country, while also exposing areas of vulnerability to tariff shocks. The exempted products indicate sectors that are more resilient and likely to be shielded from immediate disruption, whereas the non-exempted items signal where each country faces potential cost pressures, competitive disadvantage, or trade reallocation risks in the U.S. market. In terms of the exempted exports, Table 4A indicates strong similarities among the Philippines, Vietnam, Malaysia, and Thailand in the manufacturing and export of electronics and ICT products. The four countries share a common core of electronics, semiconductors, ICT equipment, and machinery parts:

- Electronics integrated circuits (ICs), especially processors and controllers and other categories
- Automatic data processing machines and their parts
- Solid-state non-volatile storage devices and other semiconductor media

The above indicates that the four countries are deeply integrated into global electronics supply chains and are beneficiaries of the exemption carve-out designed to protect advanced ICT systems and the US tech sector's own resilience.

Table 4A: Top Ten Exempted Export Products

Country	Product Description
Philippines	Machinery, parts & accessories of machines heading 8471; semiconductor media, solid-state non-volatile storage devices; units of automatic data processing machines, storage units; communication apparatus (excluding telephone sets or base stations); electronic integrated circuits, nec heading 8542; electronic integrated circuits, processors & controllers; electrical apparatus, transistors (other than photosensitive); electronic integrated circuits, amplifiers; amine-function compounds, acyclic monoamines & derivatives; electrical apparatus, photosensitive semiconductor devices, diodes other than light emitting diodes & photovoltaic cells
Vietnam	Automatic data processing machines, portable; communication apparatus (excluding telephone sets or base stations); machinery parts & accessories of machines heading 8471; telephone sets, smartphones for cellular or other wireless networks; semiconductor media, solid-state non-volatile storage devices; electronic integrated circuits, processors & controllers; units of automatic data processing machines, input or output units; units of automatic data processing machines, nec; monitors, other than cathode-ray tube; units of automatic data processing machines, processing units

Thailand	Communication apparatus (excluding telephone sets or base stations); units of automatic data processing machines; machinery parts & accessories of machines heading 8471; electronic integrated circuits, nec heading 8542; units of automatic data processing machines; processing units other than those of item no. 8471.41 or 8471.49; semiconductor media; solid-state non-volatile storage devices, whether or not recorded; rubber; technically specified natural rubber (TSNR), in primary forms or in plates, sheets or strip; automatic data processing machines, portable; copper; tubes and pipes, of refined copper; electronic integrated circuits; processors and controllers
Malaysia	Electronic integrated circuits; processors and controllers; communication apparatus (excluding telephone sets or base stations); machinery parts & accessories of machines heading 8471; semiconductor media; solid-state non-volatile storage devices; electronic integrated circuits; nec in heading 8542; machines and apparatus of a kind used solely or principally for the manufacture of semiconductor devices or of electronic integrated circuits; units of automatic data processing machines, nec; electrical apparatus, transistors, (other than photosensitive); machines and apparatus of heading 8486; parts and accessories; electronic integrated circuits, memories
Indonesia	Communication apparatus (excluding telephone sets or base stations); rubber, technically specified natural rubber; plywood, with sheets of wood only; plywood, consisting only of sheets of wood (not bamboo); units of automatic data processing machines; input or output units; tin, unwrought, not alloyed; petroleum oils & oils from bituminous minerals; wood, coniferous species; wood, coniferous species of pine, sawn or chopped lengthwise; magnetic or optical readers, machines for transcribing data onto data media nec; rubber, natural (excluding latex)

Note: The 2024 exports data are from the World Integrated Trade Systems (WITS) with US as reporting country.

Table 4B: Top Ten Non-Exempted Export Products

Country	Product Description
Philippines	Insulated electric conductors, ignition wiring sets; electrical static converters; commodities not specified according to kind; vegetable oils, coconut (copra) oil & its fractions other than crude, whether or not refined but not chemically modified; printing, copying, & facsimile machines; insulated electric conductors; cases & containers, nec in heading 4202; rubber, new pneumatic tyres; vegetable oils, coconut (copra) oil, not chemically modified; projectors capable of directly connecting to & designed for use with an automatic data processing machine of heading 84.71
Vietnam	Electrical apparatus, photosensitive semiconductor devices, photovoltaic cells assembled in modules or made up into panels; seats, with wooden frames, upholstered; headphones & earphones; furniture, wooden other than for office, kitchen or bedroom use; sports footwear; footwear, nec in heading 6403; furniture wooden for bedroom use; commodities not specified according to kind; floor, wall or ceiling coverings; television cameras, nec in item 8525.8
Thailand	Electrical apparatus, photosensitive semiconductor devices, photovoltaic cells assembled in modules or made up into panels; electrical static converters; electrical machines & apparatus nec in heading 8543; rubber, new pneumatic tyres of a kind used on motor cars; rubber new pneumatic tyres of a kind used on buses or lories; television cameras, nec in item 8525.8; printing, copying, & facsimile machines; dog or cat food, put up for retail sale; cereals, rice, semi-milled or wholly milled; air conditioning machines
Malaysia	Printing machinery, parts & accessories nec in 8443.91; electrical apparatus, photosensitive semiconductor devices, photovoltaic cells assembled in modules or made up into panels; commodities not specified according to kind; electrical machines & apparatus nec in heading 8543; rubber vulcanized, gloves of a kind used for medical, surgical, dental or veterinary purposes; electrical apparatus, photosensitive semiconductor devices, photovoltaic cells not assembled in modules or made up into panels; electrical static converters; radio-broadcast receivers not capable of operating

	without an external source of power; medical, surgical instruments & appliances, electro-diagnostic apparatus nec in item number 9018.1; furniture; wooden, for bedroom use
Indonesia	Vegetable oils, palm oil & its fractions; electrical machines & apparatus; footwear, nec in heading 6403; rubber, new pneumatic tyres of a kind used on motor cars; crustaceans, frozen shrimps & prawns; sports footwear; tricycles, scooters, pedal cars; jerseys, pullovers, cardigans, waistcoats; footwear nec in heading 6402; cases & containers, nec in heading 4202

Note: The 2024 exports data are from the World Integrated Trade Systems (WITS) with US as reporting country.

Malaysia and the Philippines have more advanced semiconductor tooling with both exporting electronic outputs (ICs). Malaysia also exports machinery for producing semiconductor devices and integrated circuit parts while the Philippines shows exports in chemical (amines) used in electronics or pharma sectors, a more niche exemption category. These two economies seem to be better positioned to absorb relocations of high-tech production due to their electronics and semiconductor base.

Vietnam exemptions lean more toward finished ICT goods like smartphones and monitors while Thailand has more diversified electronics products, but also raw materials like refined copper tubes, reflecting a mix of upstream and midstream electronics. Indonesia's exempted exports are heavily skewed towards primary products and low-tech goods (natural rubber, wood products, tin, plywood, and crude petroleum) and only limited presence in electronics (input/output units of ADP machines and data transcription devices.

In terms of non-exempted exports, Table 4B shows that electrical components (conductors, static converters), coconut oil, printing machines, and rubber tires dominate for the Philippines. Vietnam's non-exempted exports are centered on furniture, footwear, photovoltaic panels, and consumer electronics (headphones, TV cameras). Though Vietnam enjoys protection in tech assembly, it is highly vulnerable in labor-intensive, price-sensitive exports like footwear and furniture, which may face demand contraction under tariffs.

Thailand's main non-exempted exports consist of solar panels, TV cameras, car/bus tires, rice, and consumer electronics. While it is protected in ADP parts, ICs, and core electronics, it is exposed in automotive parts, agri-food exports and low-to-mid tier electronics. Malaysia's non-exempted exports include solar panels, rubber gloves, printing equipment, miscellaneous medical devices, and low-end electronics. While its strong semiconductor base is well-protected and even its export of solar components shows some resilience, however, rubber gloves are tariff-exposed.

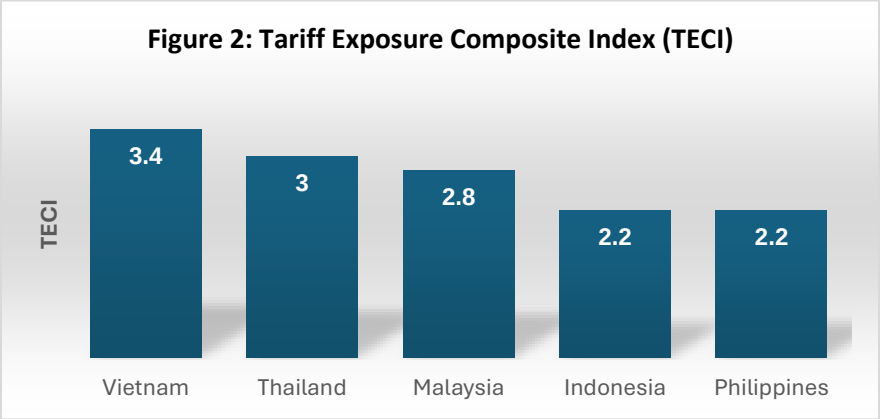
Indonesia' non-exempted exports are concentrated in palm oil, rubber tires, footwear, crustaceans, and apparel. Meanwhile, its exempted goods are mostly low-tech natural resources and plywood, with limited high-tech participation. This implies that Indonesia's export structure is heavily reliant on primary goods and labor-intensive industries, most of which are unprotected. Its exposure is broad and deep, making it vulnerable to price competition and trade deflection.

Table 5 presents a summary of the overall tariff exposure levels of the ASEAN-5 countries measured by the tariff exposure composite index, a multidimensional indicator based on five key dimensions. Vietnam registers the highest tariff exposure risk, followed by Thailand, which is also categorized as High Risk. Indonesia, Malaysia, and the Philippines are assessed to fall within the Moderate Risk category, though with varying degrees of vulnerability and resilience.

Table 5: Tariff Exposure Composite Index (TECI)

Country	Exempted Exports US$B	Non-Exempted Exports US$B	Tariff Cost US$B	Tariff Rate Severity (%)	Tariff Burden (%)	Exemption Coverage (%)	Export Dependence (%)	TECI
Vietnam	41.20	101.28	46.59	46	32.69	28.91	35.1	3.4
Thailand	19.93	46.08	16.59	36	25.13	30.19	22.0	3.0
Indonesia	2.92	26.63	8.52	32	28.84	9.88	11.2	2.2
Philippines	4.86	9.74	1.66	17	11.35	33.31	19.9	2.2
Malaysia	24.65	29.20	7.01	24	13.01	45.78	16.3	2.8

Note: The 2024 export data are sourced from the World Integrated Trade Solution (WITS), with the United States as the reporting country. To estimate the value of exempted exports, the Annex II exemption list—based on 8-digit HTSUS codes—was cross-referenced with the US import data expressed in HS 2022 6-digit codes.



Vietnam: High Exposure

Vietnam registers the highest Tariff Exposure Composite Index (TECI) among the ASEAN-5, with a score of 3.4**,** placing it firmly in the High Risk category. This reflects a confluence of vulnerability factors: a very high reciprocal tariff rate (46%)**,** significant U.S. export dependence (35.1%)**,** and a tariff burden of 33%**,** the highest among its regional peers. Although Vietnam benefits from moderate exemption coverage (29%)**,** it is not sufficient to offset the impact of broad-based exposure.

Vietnam's export profile is heavily weighted toward electronics, where core strategic components like semiconductors are largely exempted. However, its non-exempted exports—such as consumer electronics, wooden furniture, and footwear—are price-sensitive and face intense global competition, amplifying the risk of market contraction or supply chain reconfiguration. These factors collectively underscore Vietnam's systemic exposure to trade disruptions stemming from the U.S. tariff realignment.

Thailand: High Exposure

Thailand also falls under the High Risk category, albeit at the lower threshold, with a TECI of 3.0. This score reflects a combination of moderate tariff burden (25%), limited exemption coverage (30% of U.S.-bound exports), and moderate strategic exposure, especially in the automotive and electronics supply chains. While key electronic components remain exempt, a substantial portion of Thailand's non-exempted exports consists of mid-tech industrial goods—such as tires, electrical converters, and auto parts—that are sensitive to cost increases and market volatility. Its considerable export dependence on the US market (22%) further heightens its vulnerability to shifts in trade policy.

Malaysia: Moderate Exposure

Malaysia registers a TECI of 2.8, placing it within the Moderate Risk category. The country's export profile is heavily anchored in semiconductors and advanced electronics, giving it strong strategic exposure to global supply chains. Despite this, its tariff burden remains modest at 13%, and its U.S. export dependence is relatively low at 16%, offering some insulation from external shocks. Crucially, Malaysia benefits from the highest exemption coverage among the ASEAN-5 at 46%, particularly for high-tech components like integrated circuits and semiconductor manufacturing equipment. This high level of tariff shielding provides a strong buffer against the impact of reciprocal tariffs.

However, Malaysia still exports several high-value, non-exempted products—notably medical gloves, photovoltaic cells, and solar panels—which are cost-sensitive and face potential demand volatility under the new tariff regime. Malaysia's Moderate Risk classification reflects a nuanced position: while the country is well-insulated in core sectors and stands to attract trade relocations, pockets of vulnerability in strategic non-exempted exports warrant close monitoring.

Indonesia: Moderate Exposure

Indonesia's TECI stands at 2.2, placing it in the Moderate Risk category, but at the lower end of the spectrum. While it faces a relatively high reciprocal tariff rate of 32%, its U.S. export dependence is limited to just 11%, helping cushion the potential impact of trade disruptions. However, exemption coverage is low at only 9.9%, exposing a large portion of its U.S.-bound exports to tariff hikes.

Indonesia's export basket is dominated by low-tech, low value-added commodities and manufactured goods—such as palm oil, rubber, tires, footwear, and apparel—many of which are non-exempt and highly price-sensitive. These products are vulnerable to demand shifts and face strong global competition, increasing substitution risk. Nevertheless, Indonesia's lower participation in advanced manufacturing and technology-intensive global value chains reduces its strategic exposure, keeping its systemic risk moderate. Its TECI profile reflects broad vulnerability to tariff cost pressures, but limited strategic disruption due to the nature of its export structure.

Philippines: Moderate Exposure

Like Indonesia, the Philippines—scoring a TECI of 2.2—is classified under Moderate Risk. It benefits from the lowest reciprocal tariff rate among the ASEAN-5 (17%) and a relatively high exemption coverage of 33%, largely due to the structure of its exports. Electronics—including semiconductors—account for over 50% of the country's total exports, and many of these products are included in the U.S. exemption list. This strongly cushions the Philippines from broader tariff disruptions, helping to temper its actual trade vulnerability. Key exempted exports include integrated circuits, memory chips, processing units, and storage devices, which are critical to global supply chains and thus strategically favored for exemption.

However, the country still faces some exposure. Non-exempted exports—such as coconut oil, insulated wires, containers, and select low-tech manufacturing goods—are more vulnerable to cost increases and competition, especially from trade diversion out of China or higher-tariff ASEAN partners. Despite this, the Philippines is strategically positioned to benefit. Its unique combination of low tariff rate, strong exemption for high-value exports, and moderate strategic exposure creates an advantageous platform for trade redirection, particularly for thin-margin, cost-sensitive goods. To harness this opportunity, the country should bolster its industrial base, improve logistics and customs efficiency, and actively promote itself as a stable and efficient export hub amid shifting global supply chains.

B. Summing Up

Vietnam's exports represent a diversified mix of electronics, consumer goods, furniture, and garments. Malaysia stands out for quality over quantity, a large share of its exports are high-tech and benefit from tariff exemptions. Thailand has a strong and diversified manufacturing base but faces higher exposure due to automotive and hardware components not covered by exemptions. Indonesia is characterized by resource-and labor-intensive exports with relatively low exemption coverage and significant exposure to price and tariff shocks on palm oil, garments, and footwear. Despite being electronics-heavy, the Philippines trails far behind in value, highlighting the need for deeper participation in higher-value segments of the supply chain. Its narrow focus on a few high-tech goods limits spill-over into other sectors such as garments, agri-food, or mid-tech machinery where U.S. buyers might be seeking alternative sourcing. Unlike Vietnam or Thailand, the country has limited share in these high-volume manufactured goods. Balaoing-Pelkmans and Mendoza (2023) pointed out that global competition has led to the declining revealed comparative advantage of the country's textile and garment sectors which led to the disappearance of 33 out of 44 product lines with comparative advantage.

The foregoing TECI analysis reveals that Vietnam and Thailand are most at risk under the US reciprocal tariff regime due to their export concentration, high US dependence, and moderate exemption buffers. Vietnam's very high tariff rate, high US export dependence, strategic exposure, and moderate exemption coverage increases its systemic risk. Vietnam's trade and industrial structure are deeply intertwined with the US market, such that any major tariff shock can ripple though key sectors, employment, and investment flows. Meanwhile, Malaysia and the Philippines benefit from higher exemption levels and more strategic insulation in electronics, while Indonesia's low U.S. dependence reduces its systemic risk.

As the global trading system recalibrates, each country must tailor its policy response—balancing industrial upgrading, diversification, and strategic alignment—to safeguard its trade resilience. Malaysia should maintain and deepen exemption-focused strategies by expanding its technology-driven exports and maximizing its strong positioning within GVCs. Indonesia should accelerate efforts toward product diversification, higher value processing and active pursuit of expanded exemptions to lower tariff vulnerability. The Philippines should strategically capitalize on its lower tariff rate by improving exemption coverage, broadening its product portfolio and opening new export markets. Vietnam and Thailand should continue intensifying efforts to diversify their markets beyond the US, aggressively pursue sectoral tariff carve-outs, upgrade into higher margin, exempt product segments. Enhancing competitiveness through innovation, value upgrading, and industrial transformation is critical to sustaining growth in a more fragmented global trade environment.

C. China's High Tariff Exposure and Strategic Implications for ASEAN-5

China faces extraordinary exposure under the U.S. reciprocal tariff regime. With an exceptionally steep tariff rate of 125% and over 91% of its U.S.-bound exports falling into non-exempted categories, the financial and structural burden is profound. Although it retains moderate exemption coverage (26.5%), the concentration of exports in high-tech and strategic sectors—such as electronics, machinery, photovoltaic cells, and ICT components—exposes it to potential systemic vulnerability and long-term disruption.

Table 6A: China's Top 10 Exempted US Exports, 2024

Product Code	Product Description	Trade Value in US$ B
851713	Telephone sets; smartphones for cellular or other wireless networks	41.73
847130	Automatic data processing machines; portable, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard and a display	33.06
851762	Communication apparatus (excluding telephone sets or base stations); machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus	7.74
847330	Machinery; parts and accessories (other than covers, carrying cases and the like) of the machines of heading no. 8471	6.58
300490	Medicaments; consisting of mixed or unmixed products n.e.c. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale	5.64
852852	Monitors; other than cathode-ray tube; capable of directly connecting to and designed for use with an automatic data processing machine of heading 84.71	5.06
847160	Units of automatic data processing machines; input or output units, whether or not containing storage units in the same housing	1.70
854231	Electronic integrated circuits; processors and controllers, whether or not combined with memories, converters, logic circuits, amplifiers, clock and timing circuits, or other circuits	0.86

490199	**Printed matter; books, brochures, leaflets and similar printed matter n.e.c. in item no. 4901.10 or 4901.91**	**0.79**
293499	Nucleic acids and their salts, other heterocyclic compounds, n.e.c. in heading number 2934	0.70

Note: The 2024 export data are sourced from the World Integrated Trade Solution (WITS), with the United States as the reporting country. To estimate the value of exempted exports, the Annex II exemption list—based on 8-digit HTSUS codes—was cross-referenced with the US import data expressed in HS 2022 6-digit codes.

Table 6B: China's Top 30 Non-Exempted US Exports, 2024

Product Code	Product Description	Trade Value in US$ B
850760	Electric accumulators; lithium-ion, including separators, whether or not rectangular (including square)	16.46
950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size (scale) models and similar recreational models, working or not; puzzles of all kinds	14.42
999999	Commodities not specified according to kind	11.61
950450	Games; video game consoles and machines, other than those of subheading 9504.30	5.79
392690	Plastics; other articles n.e.c. in chapter 39	4.39
392410	Plastics; tableware and kitchenware	3.98
851830	Headphones and earphones, whether or not combined with a microphone, and sets consisting of a microphone and one or more loudspeakers	3.59
630790	Textiles; made up articles (including dress patterns), n.e.c. in chapter 63, n.e.c. in heading no. 6307	3.45
950510	Christmas festivity articles	3.24
392490	Plastics; household articles and hygienic or toilet articles	2.92
940320	Furniture; metal, other than for office use	2.89
850440	Electrical static converters	2.88
640299	Footwear; n.e.c. in heading no. 6402, (other than just covering the ankle), with outer soles and uppers of rubber or plastics	2.65
854442	Insulated electric conductors; for a voltage not exceeding 1000 volts, fitted with connectors	2.54
732393	Steel, stainless; table, kitchen and other household articles and parts thereof	2.42
640419	Footwear; (other than sportswear), with outer soles of rubber or plastics and uppers of textile materials	2.25
851679	Electro-thermic appliances; n.e.c. in heading no. 8516, used for domestic purposes	2.21
940161	Seats; with wooden frames, upholstered, (excluding medical, surgical, dental, veterinary or barber furniture)	2.19
841590	Air conditioning machines; with motor driven fan and elements for temperature control, parts thereof	2.17
848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves	2.10
870323	Vehicles; with only spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 1500 but not over 3000cc	1.94
950590	Festive, carnival or other entertainment articles including novelty jokes and conjuring tricks; other than Christmas festivity articles	1.89
870830	Vehicle parts; brakes, servo-brakes and parts thereof	1.86
950691	Athletics and gymnastics equipment	1.86

841451	Fans; table, floor, wall, window, ceiling or roof fans, with a self-contained electric motor of an output not exceeding 125W	1.85
732690	Iron or steel; articles nec in heading 7326	1.84
961700	Vacuum flasks and other vacuum vessels, complete with cases; parts thereof other than glass inners	1.70
853952	Lamps; light-emitting diode (LED) light sources, light-emitting diode (LED) lamps	1.70
870829	Vehicles; parts and accessories, of bodies, other than safety seat belts	1.69
853224	Electrical capacitors; fixed, ceramic dielectric, multilayer	1.68

Note: The 2024 export data are sourced from the World Integrated Trade Solution (WITS), with the United States as the reporting country. To estimate the value of exempted exports, the Annex II exemption list—based on 8-digit HTSUS codes—was cross-referenced with the US import data expressed in HS 2022 6-digit codes.

Table 6A shows that China's exports under the exempted list are largely centered on high-tech, high value-added goods such as smartphones (HS 851713) – $41.7B**,** portable computers (HS 847130) – $33.1B**,** communication and networking equipment (HS 851762, HS 847160)**,** and processors and ICs (HS 854231). These reflect China's deep integration in global electronics and ICT value chains, with a dominant presence in final assembly. Despite the high values, many of these are still exempted, likely due to their global indispensability and the risk of disrupting supply chains serving U.S. tech firms. Malaysia, Vietnam, and the Philippines—with existing electronics sectors—may not be immediate substitutes for such highly capital- and scale-intensive exports. However, backend operations**,** component supply**,** or peripheral device production (e.g., memory, cases, chargers) could be viable relocation points.

Table 6B, listing the top 30 non-exempted exports, presents a very different picture: consumer electronics (e.g., lithium-ion batteries, headphones, game consoles), household goods and toys (plastics, tableware, scooters, festive articles), light manufactures (textiles, footwear, kitchenware), furniture and auto parts, and electro-thermic appliances and cooling devices. These products are mostly mass-market, commoditized, and price-sensitive—ideal for relocation to lower-cost ASEAN economies, or for redirection toward emerging consumer markets like Indonesia or Vietnam.

As the trade conflict intensifies, China is likely to undergo prolonged adjustments marked by overcapacity in several sectors, including steel, chemicals, semiconductors, solar panels, EVs, consumer electronics, garments, and auto parts. China will likely redirect these exports toward alternative destinations—chief among them, ASEAN. Proximity, integration through the Regional Comprehensive Economic Partnership (RCEP), and existing bilateral FTAs make ASEAN a natural redirection zone. Preferential or zero-tariff access under RCEP allows China to shift surplus production quickly and cost-effectively, avoiding the frictions of entering more distant or protected markets. While this can bring benefits in the form of cheaper inputs and consumer products, it also raises concerns of market saturation, suppressed local pricing, and crowding out of domestic industries within ASEAN.

At the same time, the U.S. tariffs of 125% on Chinese goods create strong incentives for multinational firms to relocate production to lower-risk jurisdictions. This opens a critical window of opportunity for ASEAN-5 countries, particularly those with low tariff exposure to the U.S. The Philippines and Malaysia are well-positioned to attract diverted investments – Malaysia with its

expanding EV-related industries may absorb lithium battery pack assembly, while the Philippines, with its moderate labor cost advantage, can specialize in light electric devices and appliances, as well as in footwear, garments, accessories, and toy manufacturing. Vietnam, already operating at scale, can further solidify its role as an alternative supplier for furniture, garments, footwear, and plastic ware. Indonesia, with its large labor force and growing domestic market, is well-suited for producing footwear, tires, and consumer plastics. Thailand, leveraging its strength in automotive and mid-tech electronics, can focus on vehicle parts, household appliances, and kitchen tools.

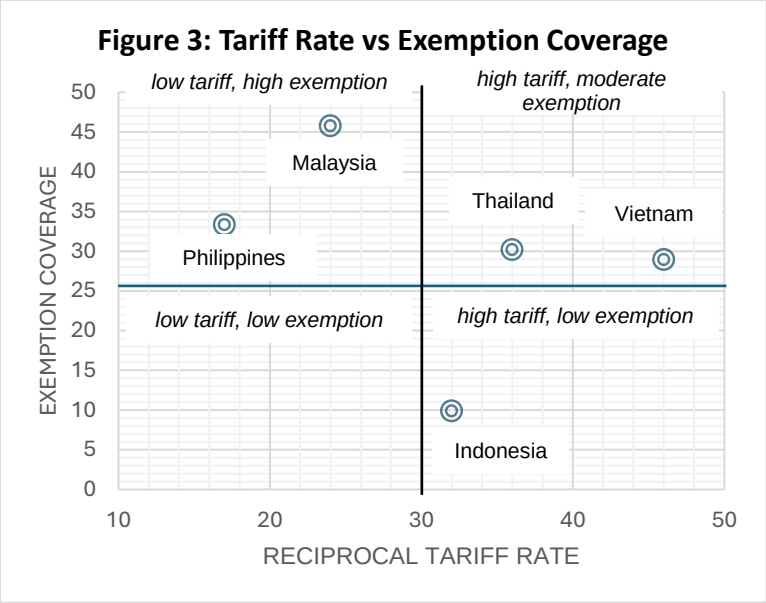


Figure 3 shows a scatter plot illustrating how the ASEAN-5 countries compare in terms of their reciprocal tariff rates from the US and their exemption coverage under the US tariff regime. Malaysia and the Philippines are in the most favorable quadrant: low tariff + high exemption coverage. Vietnam and Thailand both face high tariff rates but only moderate exemption coverage which places them at a higher risk of trade and production disruption. Indonesia stands out as the most exposed among the ASEAN-5 with its high tariff rate (32%) and very low exemption coverage (9.9%). Countries in the bottom-left (low tariff, low exemption) may have room to negotiate better product coverage while the top-left quadrant represents ideal tariff-safe zone. Movement towards this zone should be a strategic goal for countries aiming to attract US-oriented production.

With the lowest U.S. reciprocal tariff rate in the region (17%), relatively high exemption coverage, and a robust base in electronics and semiconductors, the Philippines is well-positioned to capture relocation and supply chain shifts, especially in:

- Final assembly and testing of electronics
- Semiconductor packaging and IC backend services
- Production of converters, power supplies, and telecom devices
- Peripheral manufacturing (e.g., SSDs, memory cards, printers, data readers)
- Select consumer goods (e.g., optical equipment, electrical accessories)

However, to realize this opportunity, the Philippines—and similar ASEAN peers—must address structural gaps:

- Rules of origin compliance: Avoid U.S. scrutiny by ensuring sufficient transformation and value addition.
- Infrastructure readiness: Address port congestion, energy reliability, and logistics bottlenecks.
- Labor market alignment: Upskill the workforce to meet the demands of more complex and precision-oriented manufacturing.

China's displacement from the U.S. market is not merely a bilateral shock—it signals a systemic realignment of global value chains and is fundamentally reshaping the geography of international trade. For ASEAN, the risks of import surges and industrial crowding are real—but so are the opportunities. The key lies in strategic positioning, regulatory clarity, and proactive industrial policy**.** Without these, countries risk being sidelined as collateral damage. Those with tariff-safe status, competitive cost structure, skilled labor, and credible governance frameworks will emerge as the new frontline nodes of global production. If the ASEAN-5 act decisively and collaboratively, they can move beyond being fallback suppliers and position themselves as strategic beneficiaries in the next phase of global trade restructuring.

5. Policy Recommendations: Integrated Trade and Industrial Policy Imperative

Amid the conditions of heightened global trade uncertainty such as the reciprocal tariffs implemented by the US, an integrated strategy that closely aligns trade policy with industrial upgrading is critical. Without rapid, deliberate policy implementation and institutional coordination, the Philippines—and similarly situated ASEAN economies—risk losing valuable opportunities presented by this shifting global trade landscape. Effective integration of industrial policy with proactive trade strategy remains crucial to minimizing tariff impacts and achieving sustained competitive advantage.

Compared to its regional peers, the Philippines benefits from a relatively lower reciprocal tariff rate, offering a strategic opening to enhance its export competitiveness, attract reconfigured global supply chains, and amplify its strengths in digital and service-driven industries. However, this advantage is tempered by the country's modest export base, which significantly constrains its ability to seize emerging trade-diversion opportunities. The Philippines remains heavily dependent on a narrow set of export products and lacks the manufacturing necessary for scale and resilience. As a result, any shifts in US procurement strategies or global supply chain disruptions could swiftly erode its already modest trade footprint – unless the country undertakes aggressive efforts toward export diversification and value upgrading.

Moreover, several structural and institutional constraints continue to undermine the country's ability to fully leverage its tariff advantage:

- Logistics and Infrastructure Deficits: Persistently high transportation costs, port inefficiencies, and unreliable utilities burden exporters and discourage new investment.
- Limited Industrial Depth: The country possesses fewer backward linkages and supporting industries relative to competitors such as Vietnam and Thailand, constraining integrated manufacturing and advanced export capabilities.
- Workforce Skilling Gaps: While competitive in basic IT services, significant gaps persist in high-value skills such as artificial intelligence (AI), advanced manufacturing, and research and development (R&D).

To overcome these barriers and unlock its full export potential, the Philippines must urgently implement a coordinated set of strategic trade and industrial interventions to safeguard critical sectors while accelerating industrial upgrading. In his new era of global tariff shifts and geoeconomic fragmentation, trade policy is no longer about maximizing market access – it is about securing industrial competitiveness. In assessing the impact of the US and China rivalry, Abrenica and Sabarillo (2023) provided support for a proactive, targeted industrial policy in the Philippines. While the gains may be modest in absolute terms, they are strategically significant, protecting local industries from decline and positioning the Philippines to capture new niches in restructured global value chains. The paper also showed that policy mix matters more than policy alone with a mix of industrial subsidies + moderate tariffs performing better than either alone. One important insight is for small open economies like the Philippines, it is crucial to navigate this terrain strategically – neither retreating to passivity nor blindly following great power tactics.

To protect domestic industries, expand the country's industrial base, diversify export markets, and strategically position the country as a competitive and reliable hub for trade and production, two complementary sets of measures are recommended:

1. **Industrial Upgrading and Resilience Building**

- Transition from assembly-centric manufacturing to upstream activities such as semiconductor design, advanced packaging, power electronics, medical devices, AI hardware components, and digitally-enhanced manufacturing services.
- Prioritize investments in critical sectors -- semiconductors, electric vehicle (EV) components, textiles, green metals, and sustainable electronics and expand sector-specific clusters and supporting then with integrated infrastructure investments and targeted fiscal incentives.
- Strategically use subsidies and performance-based fiscal incentives to catalyze investments in high-value, innovation-driven, and ESG-compliant production. Incentives should reward value-added activities, technology transfer, and local employment generation.
- Proactively attract multinational firms seeking to diversify from higher-tariff or higher-cost production jurisdictions, offering relocation packages, investment matching grants, and streamlined approvals for target sectors like electronics, ICT hardware, and medical technology.

- Align technical, vocational, and higher education programs with 21st-century industrial needs, including automation, electronics engineering, cleanroom operations, and AI-enhanced manufacturing skills.
- Digitize and upgrade logistics and customs operations, promoting adoption of advanced technologies such as AI, blockchain, and digital twins to improve efficiency and resilience within export manufacturing ecosystems.
- Embed resilience, sustainability, and digital readiness metrics into incentive qualification criteria to align private sector behavior with strategic policy outcomes.
- Modernize priority economic zones (Clark, Batangas, Subic, Tarlac, Cebu) with 5G connectivity, green power integration, smart logistics systems, and integrated waste-to energy solutions. Designate these zones as special hubs for electronics, renewables, and export manufacturing, supported by sector-specific fiscal and non-fiscal incentives.

2. Trade Defense and Monitoring Mechanisms

- Apply WTO-consistent safeguards, anti-dumping, and countervailing duties to defend against import surges, unfair pricing, and trade distortion. Prioritize vulnerable sectors with a mix of trade remedies and temporary support subsidies for adjustment.
- Establish a dynamic trade intelligence and early warning system to track global tariff shifts, supply chain relocations, and import surges. Use this platform to trigger automatic reviews of incentive policies and defense measures for exposed sectors.
- Adjust incentives responsively: Grant temporary relocation incentives or transition support for firms in non-exempted sectors to pivot toward exempted or strategically relevant product lines.
- Upgrade customs enforcement with digital post-entry audits, AI-powered anomaly detection, and stricter rules-of-origin checks to curb undervaluation, misclassification, and transshipment abuses.
- Implement regulatory streamlining to help exporters rapidly comply with evolving origin and certification requirements, supported by digital portals and one-stop assistance desks in export clusters.
- Establish a Trade-Industrial Transformation Council, tasked with integrating trade defense, industrial upgrading, and investment promotion. The Council shall also coordinate closely with the Fiscal Incentives Revenue Board to craft and oversee the strategic and targeted deployment of subsidies and fiscal measures, ensuring coherence with national development plans, sectoral competitiveness goals, and the country's global trade and investment commitments.

Without swift and proactive policy implementation, the Philippines risks being merely a passive beneficiary rather than a strategic player in ongoing global trade realignments. Persistent product concentration and unaddressed structural vulnerabilities could severely limit future economic resilience and constrain participation in high-value global industries. Conversely, by adopting targeted policy and institutional measures—grounded in digital readiness, sectoral upgrading, and strategic positioning—the Philippines can establish itself as a credible alternative hub for digitally-enhanced, service-integrated, and geopolitically trusted exports. Moreover, deeper coordination with ASEAN neighbors can amplify regional bargaining power, harmonize rules of origin, and mitigate the risks of trade deflection and industrial crowding. Such deliberate urgency,

coupled with integrated domestic reform and regional collaboration, is critical to seizing current opportunities before the competitive advantage window closes.

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Annex 1: TECI Score Guide

Tariff Rate Score		
Score	Tariff Rate Range	Interpretation
1	≤ 20%	Low
2	21–30%	Moderate
3	31–45%	High
4	> 45%	Very High

Tariff Burden Score		
Score	Burden	Interpretation
1	≤ 10%	Low
2	11–25%	Moderate
3	26–50%	High
4	> 50%	Very High

Exemption Coverage Score		
Score	Exemption Coverage	Interpretation
1	≤ 10%	Very High
2	11–20%	High
3	21–30%	Moderate
4	> 30%	Low

US Export Dependence Score		
Score	US Share	Interpretation
1	≤ 10%	Low
2	11–20%	Moderate
3	21–30%	High
4	> 30%	Very High

Strategic Exposure Score		
Score	Exposure Type	Interpretation
1	Commoditized, low-tech goods (garments, rubber, crude palm oil)	Low
2	Basic manufacturing, low value components	Moderate
3	Mid-tech products with some specialization (consumer electronics, intermediate electronics)	High
4	High-tech, strategic goods (chips)	Very High