

MEDIA RESPONSE

Impact of US Tariffs on Singapore and SG Businesses

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Attributed to Kok Ping Soon, CEO of Singapore Business Federation

The unprecedented scale of the scope and speed of implementation of the import tariffs have presented a seismic-grade shock to the world trading system.

To put the tariffs in context, the US's average tariff rates had been close to 1 percent before Trump's first term. This rose to about 3 percent when Trump was elected the first time. With this announcement, the rate is expected to be over 20 percent on average. It takes the average level of US import tariffs back to levels not seen since the early 20th century. The size of the import tariff increases is so large for many countries that it would be unlikely to be offset by currency depreciation.

A 10% tariff is now the "new low". Nonetheless, given our dependence on trade and the regional presence of our businesses, the impact on Singapore is significant. According to the SBF National Business Survey, 71% of Singapore businesses have an offshore presence. Top markets include Malaysia (63%) and Indonesia (49%), which have been hit by reciprocal tariffs of 24% and 32% respectively, as well as China (46%), where reciprocal tariffs imposed were 34%. Companies which may have adopted a China+1 strategy in the past to locate their operations in Southeast Asia are now casualties. In cases where Singapore exports intermediate goods to another country that is also subjected to US's reciprocal tariff, the compounded impact across the supply chain could reduce overall competitiveness.

In terms of sectors, the most immediately affected look likely to be autos and auto parts, electronics and machinery. The next tier would be trade-oriented industries such as manufacturing, wholesale trade, logistics and transportation. Other possible sectors affected may also include pharmaceutical and chemical.

Tariff uncertainty will continue as countries consider retaliation plans. Escalation spiral of tariffs cannot be ruled out. Another source of uncertainty going forward is that it is unclear how frequently these tariff increases will be recalculated based on changes in bilateral exports and imports with the United States.

Predictability and certainty are fundamental to cross-border commerce. Both are now absent. Hence, there is great uncertainty about the actual economic effects of this tariff policy as it will take time for it to play out, but slower growth is expected.

Businesses will need to urgently look at compliance, supply chain risk, and how best to engage with government officials in countries they operate. They will have to re-examine their reliance on US as a market and consider whether there are market opportunities in the region and in the trade corridors where Singapore has Free Trade Agreements.



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