Navigating Geopolitical Turbulence for Asian Growth

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Based on

- McKibbin W.J., Hogan, M. and M. Noland (2024) “The International Economic Implications Of A Second Trump Presidency”. Working Paper 24-20. PIIE Washington DC.

- McKibbin W., Noland, M. and G. Shuetrim (2025a) “ The global economic effects of Trump’s 2025 tariffs” Working Paper 25-13. PIIE, Washington DC.

- McKibbin W., Noland, M. and G. Shuetrim (2025b) “The Global Trade War: An Update” Blog PIIE 1 October 2025

Two issues and what they mean for Asia

- Economic impacts of latest US tariffs and retaliation

- Economic impacts of a loss of confidence in the US economy

The G-Cubed Model

McKibbin W and Wilcoxen P (2013), A Global Approach to Energy and the Environment: The G-cubed Model” Handbook of CGE Modeling, Chapter 15, North-Holland, pp 995-1068

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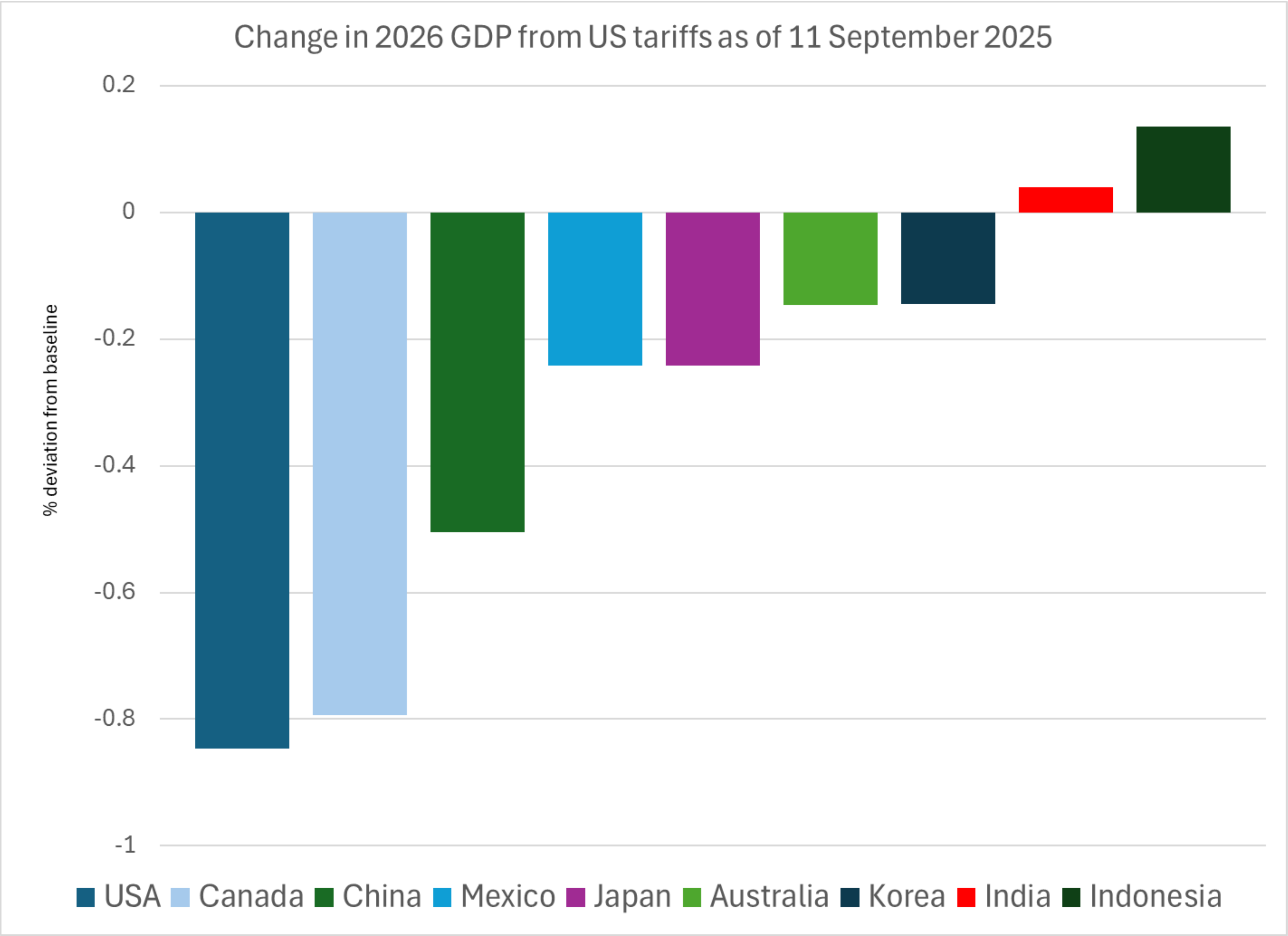
Tariffs Shocks

- Calculated in collaboration with Chad Bown at PIIE
- Effective tariffs are much lower than the headline tariffs
  - Especially true for USMCA and countries that have done deals


Change in 2026 GDP from US tariffs as of 11 September 2025
0.2
0
-0.2
-0.4
-0.6
-0.8
-1
% deviation from baseline
USA
Canada
China
Mexico
Japan
Australia
Korea
India
Indonesia

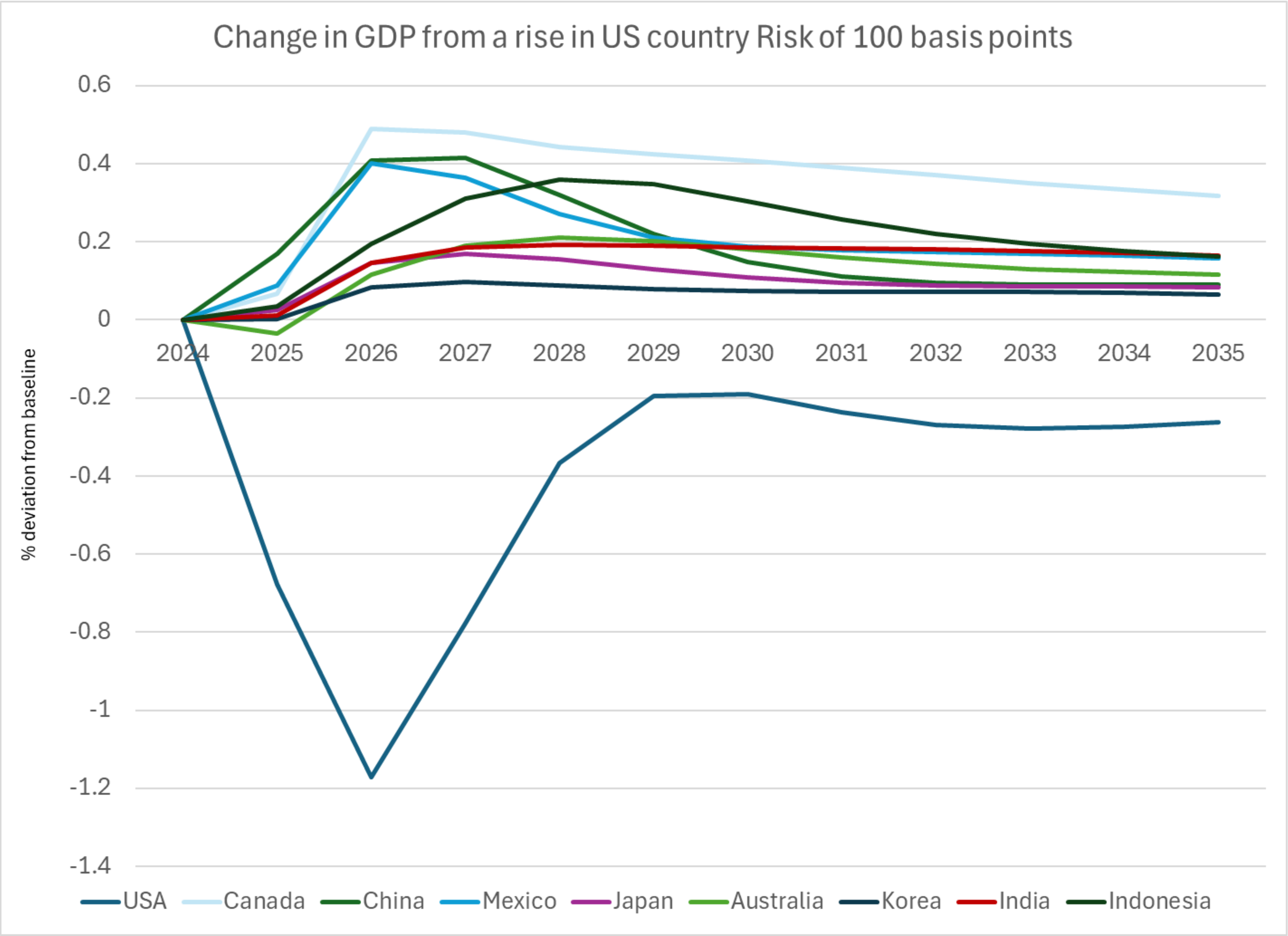
Main insights from tariffs

- The US experiences an economic slowdown and higher inflation
- For the US, the more severe the tariff war, the larger the economic slowdown and the higher the inflation outcome.
- Retaliation by countries makes their losses and US losses larger.
- The impact on the rest of the world varies
- Some countries gain under some scenarios
  - The impact depends on the dependence on the US market across different sectors
  - The sectoral composition of exports
  - The impact on major trading partner countries (especially China)
  - The change in global financial markets and foreign and domestic debt exposure.

US Country Risk

- Between April 2 and July 1, the $US dollar depreciated relative to the Euro by around 10%

- Suppose investors lose confidence in US policy which causes a rise in US country risk of 100 basis points.


Change in GDP from a rise in US country Risk of 100 basis points
0.6
0.4
0.2
0
-0.2
-0.4
-0.6
-0.8
-1
-1.2
-1.4
% deviation from baseline
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
USA
Canada
China
Mexico
Japan
Australia
Korea
India
Indonesia

Main insights from rise in US country risk

- The US experiences an economic slowdown and higher inflation
- The $US depreciates and the US trade balance improves
- US demand for imports falls
- Capital flows out of the US economy into countries with open capital markets
- The capital reallocation is positive for countries but the trade impacts on demand from a slowing US economy are negative depending on a countries' reliance on the US economy.
- Countries receiving capital experience a worsening of the trade balance as currencies appreciate.

Main insights for Policymakers in Asia

- Don’t retaliate to tariffs with tariffs (it worsens the economic damage)
- Expand trade relations with the 85% of the world trading system outside the US
- Be prepared for a substantial shift in global capital markets if the US trade and fiscal policies become unsustainable and if the US AI bubble in equity markets burst.

Dashboards

- https://camadashboards.shinyapps.io/TrumpPolicies/
- https://documentation.gcubed.com/gcubed/version/6G/scenarios/McKibbin_Noland_Shuetrim_2025a/dashboards/2025-05-10/
- https://documentation.gcubed.com/gcubed/version/6G/scenarios/McKibbin_Noland_Shuetrim_2025a/dashboards/2025-09-11/

Thank you

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