Perspectives
Emerging Markets

Swiss Life Asset Managers

Q2 2025

Key takeaways

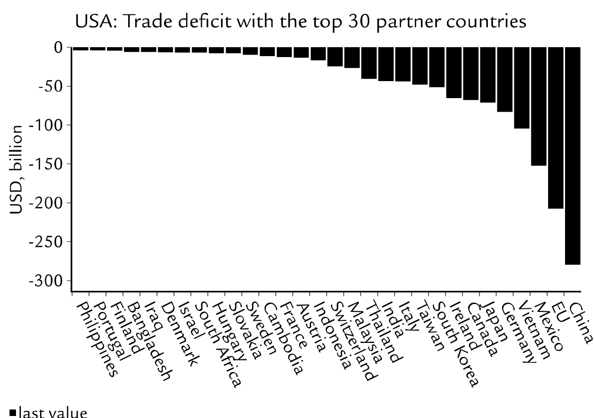
- Emerging markets are exposed to tariff threats owing to their trade surplus with the US
- China: US tariffs will weigh on exports, strong fiscal momentum supports the domestic economy
- India: Despite its untapped growth potential, India remains the fastest-growing economy

Number in focus

25%

At the beginning of March 2025, the US imposed trade tariffs of 25% on Mexican goods, although these were suspended shortly afterwards provided the goods concerned meet the requirements of the USMCA agreement. This suspension initially applies until 2 April 2025. It is still unclear what happens after that. However, if the tariffs are primarily used as a leverage for concessions, there are ways to prevent an escalation. The focus is on an early review of the USMCA agreement, in which Trump, with his tariff threats, could adjust various clauses to benefit the US industry.

Chart in focus



Emerging markets are greatly affected by tariff threats. Many of them impose higher tariffs on US goods than vice versa, and the US runs a large trade deficit with many of these countries. According to Trump, both aspects should be addressed by introducing tariffs. Alongside China and Mexico, which are already affected by tariffs, Vietnam, South Korea, Taiwan and India are among the most exposed emerging economies.

China: Deal or no deal?

While Trump has announced and subsequently withdrawn tariffs for several countries, he has been determined with regard to China. He has already imposed an additional 20% tariff so far this year, resulting in an effective average tariff rate of around 30%. Since Trump's first trade tariffs in 2018, China has significantly reduced its dependence on the US as an export market. The share of US exports in its GDP has fallen from 3.5% in 2018 to 2.5%. Although this will mitigate the impact on the Chinese economy, the imposition of tariffs will still be noticeable. How far the tariffs on China will go remains uncertain, as the target of the tariffs is unclear. Are tariffs the ultimate goal, or primarily a means of applying pressure in order to obtain concessions? If it is primarily the latter, one obvious measure to ease tensions would be to purchase more US goods. Given China's size, this could be significant. This is especially true for LNG and agricultural products – agricultural imports were one-third lower last year compared to their peak in 2022, so there is scope for a significant increase (see Chart 1). Commitments could also be made to the US to curb industrial overcapacity, as well as voluntary export restrictions on specific goods, as China is already planning to diversify its export markets away from the US in the long term. On the other hand, an obligation to increase Chinese investment in the US would be less straightforward owing to the two nations' rivalry, persistent mistrust, and a lack of willingness to cooperate on technology. It is even less likely that China will agree to change its industrial policy-based economic model or to appreciate its own currency under the Mar-a-Lago Accord – an initiative to weaken the US dollar.

The main reason for this is that China sees the Plaza Agreement of the 1980s (which also aimed for a devaluation of the US dollar) as the main cause of Japan's lost decades. Back then, the yen appreciated sharply, and the only way to defuse the situation was for the central bank to keep interest rates very low. However, this led to a speculative bubble in the real estate and equity markets, which eventually burst. Although there are corresponding approaches to a deal with Trump, it is likely to be a complex undertaking for China. Consequently, we are anticipating further tariffs for the time being before we can expect a more conciliatory tone. Given the gloomy external environment, the Chinese government is shifting its focus to the domestic economy, especially consumption. This remains weak due to cyclical and structural factors. The pandemic, followed by the real estate crisis that started in 2021, led to a deep shock that cost jobs and continues to affect consumer confidence to this day. In addition, the savings rate in China is structurally high. Households save about a third of their income due to inadequate social security systems. On the positive side, the Chinese government has begun to address precisely these issues by seeking to increase household incomes and improve the social security system. Overall, with stronger-than-expected fiscal stimulus and a heightened focus on the domestic economy, the government has sent a strong signal that it is ready to provide support (see Chart 2). This has prompted us to revise our GDP growth forecast upwards to 4.3% – however, it is still well below China's 5% growth target.

Chart 1: China has capacity to increase US agricultural imports to defuse tariff disputes

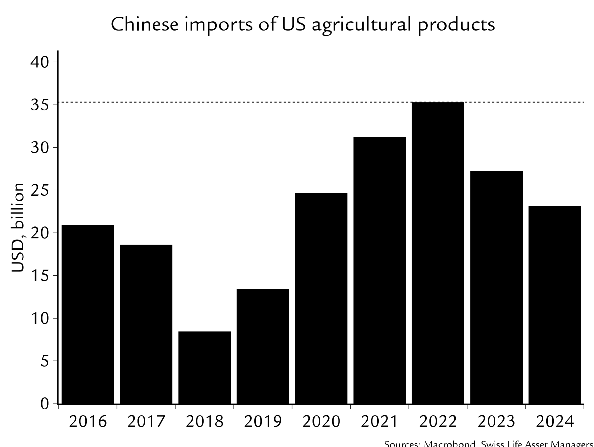
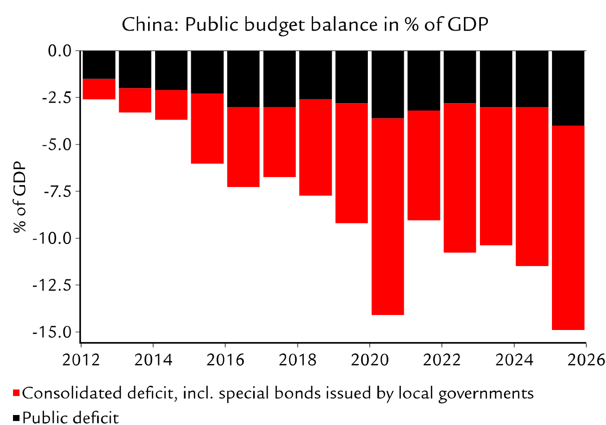


Chart 2: China announces stronger-than-expected fiscal stimulus to support the domestic economy



India: a new global growth engine?

Although India is exposed to tariff threats due to its relatively high tariffs on US goods and its trade surplus with the US, it is less affected by external trade problems. This is because India is less dependent on exports than other emerging economies, and its economy is more domestically oriented. Given the global efforts to diversify from China, the question arises: Will India take over China's role as the new global growth engine? The consensus is that India can sustain economic growth of around 6% over the medium term, making it the fastest-growing major economy in the world. However, very few are betting on a significantly higher growth forecast of more than 8% or even double-digits. This means that India will not be able to match China's contribution to global growth over a very long period of time. The main problem here is insufficient job creation, especially for low-skilled workers in the manufacturing and construction sectors. Almost one in two Indians currently work in the agricultural sector, although this only accounts for 15% of GDP. The industrial sector, which currently accounts for a quarter of GDP, employs only 10% of the working population, and this share has declined over the years. Creating more jobs for farmers seeking better-paid non-agricultural work, and integrating a larger proportion of the population into the labour force are key to higher growth rates. India has an extremely low labour force participation rate of just 60%, and only 30% for women – one of the lowest in the world (see Chart 3). But why isn't it building more factories? Despite making remarkable progress in modernising the country's infrastructure, the Modi government has so far achieved only limited success in the manufacturing sector. On the one hand there is no pressure from the people, who praise the government and welcome the protection for the agricultural sector. On the other, the high government debt, which currently stands at 80% of GDP, is limiting further government expansion. Private investment is therefore urgently needed. This, in turn, is hampered by the very harsh regulatory environment with rigid labour laws and numerous bureaucratic hurdles. Despite these challenges, however, the medium to long-term investment outlook for India remains solid. Firstly, the low level of development offers considerable scope for improvement in many areas, such as infrastructure. As a result, growth rates of around 6% are relatively easy to achieve. Moreover, the country's fundamentals are solid, with strong institutions, a credible monetary policy, political stability and a structurally more balanced current account. India is thus still the fastest-growing major economy in the world. Already the fifth-largest economy, India is on its way to overtaking Germany and Japan to become the third-largest economy. When considering investments in emerging markets, India will remain a key market.

Chart 3: To achieve significantly higher growth, India needs to increase its low employment rate

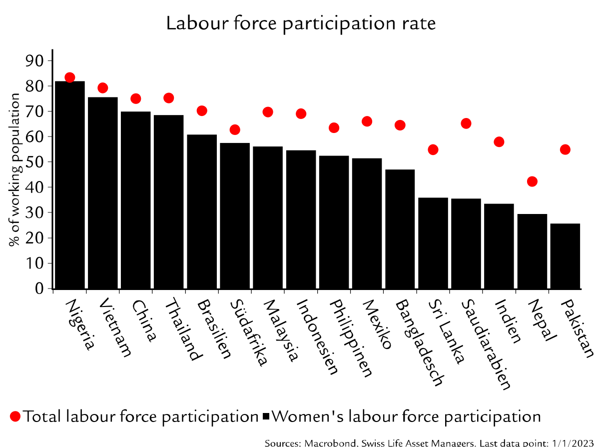
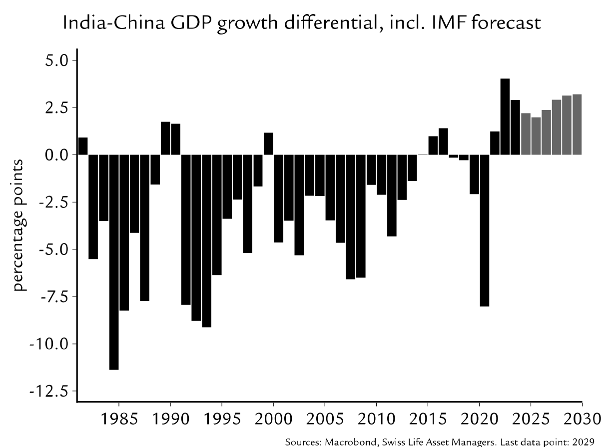


Chart 4: India has surpassed China in economic growth and will continue to grow faster



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