

Q4 2025

## Key takeaways

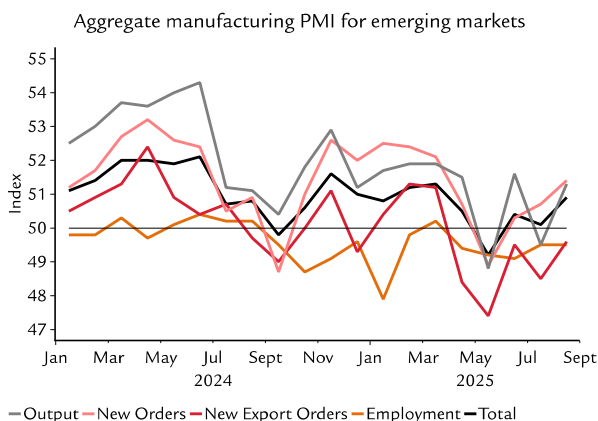
- Despite (geo)political risks, emerging markets are showing economic resilience
- China: no turnaround in deflation yet – globally, China contributes to lower goods prices
- India: tensions with the US could trigger a geopolitical realignment

## Number in focus

# 10

The current tariff pause between the US and China ends on 10 November. Currently, the average effective US tariff on Chinese goods is around 40%. While we do not expect a sharp escalation in tariffs at present, a number of geopolitical and economic issues could weigh on the otherwise conciliatory climate – in some cases also strategically, to create negotiating leverage. These include restrictions in the technology sector, China’s trade practices and its crude oil imports from Russia.

## Chart in focus



In August, several emerging markets concluded trade agreements with the US that offer companies more planning security. This development is also reflected in Purchasing Managers’ Indices (PMI), which may have bottomed out. The aggregate PMI for the manufacturing sector in emerging markets rose further above the 50-point threshold in August, signalling expansion. While individual sub-indicators such as employment and export orders remain below the growth threshold, indicators reflecting the dynamics of the domestic economy are proving robust.

## Expansion despite tariff barriers

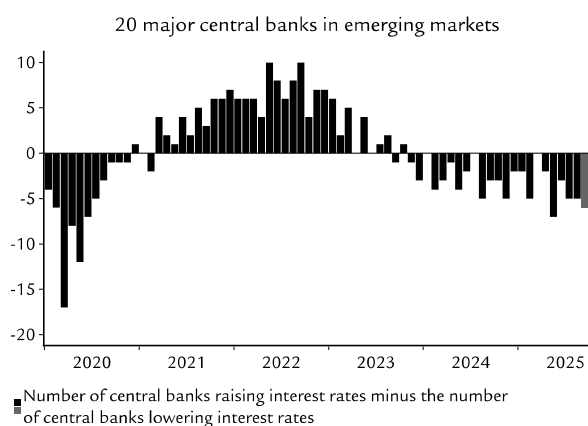
On 1 August, the US president announced new global tariff measures, which came into effect on 7 August. For many emerging markets, the overall result was less negative than expected. Countries such as South Korea, Vietnam, Indonesia, the Philippines, Malaysia and Thailand have successfully negotiated with the US and concluded new trade agreements. While these deals are not entirely beneficial – the additional tariffs are likely to weigh on export activity and the concessions are largely one-sided – they have nevertheless led to a noticeable reduction in the tariffs originally threatened on 2 April. As a result, many emerging markets are now faced with tariffs that are predominantly in the 10-20% range – a burden that the respective economies can basically withstand. The newly defined tariff framework also creates more planning security for companies, which is already reflected in current business surveys (see chart in focus). These survey data also show that weaker US demand is offset by robust domestic activity. A key driver is falling inflation, which is strengthening purchasing power and supporting consumption. External conditions continue to support a moderate price environment: many emerging market currencies have appreciated in value as they diversified away from the US dollar, and cheap Chinese imports are helping to dampen inflationary pressures. Stable inflation rates are giving the central banks additional monetary policy flexibility. Many emerging markets already cut interest rates in mid-2023 as price pressures eased and the economy needed support. The now lower interest rates are having an impact: investment and consumption are picking up, and the latest GDP data has so far consistently surprised to the upside. Politically, on the

other hand, the emerging markets remain turbulent. The verdict against former Brazilian President Jair Bolsonaro, who was sentenced to 27 years and 3 months in prison, reflects the independence of the judiciary in Brazil. At the same time, the ruling could further heighten tensions with the US, which has already imposed a politically motivated 50% tariff on Brazil. In Indonesia, the dismissal of Finance Minister Sri Muliyani – a key guarantor of fiscal discipline – is undermining investor confidence, especially given President Prabowo’s populist spending plans. India, meanwhile, is under US tariff pressure. While the US government has announced further tariff negotiations, it is also demanding that Europe impose a 100% punitive tariff on Indian imports in response to India’s continued oil deals with Russia. At the same time, there is no end in sight to the wars in Ukraine and Gaza.

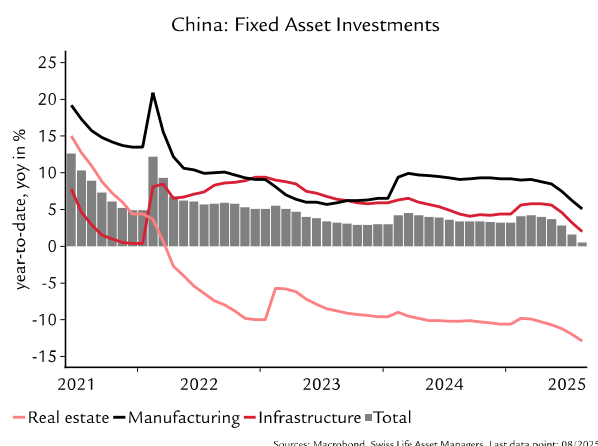
## China: exiting the deflation spiral?

Since the start of the second half of the year, Chinese economic data has disappointed, coming in weaker than expected. However, this was not due to exports. These remain surprisingly robust thanks to a broadly diversified export base, rising by 4.4% in August despite a 40% US tariff on Chinese imports. The main reasons for the slowdown in momentum are the ongoing correction on the real estate market and a new government initiative, dubbed the “anti-involution” campaign. The aim of this campaign is to curb overcapacity and ruinous competition in industrial sectors in order to halt price declines and declining corporate profits. Producer prices have been falling for more than 30

**Chart 1:** Central banks in emerging markets have been in a rate-cutting cycle since 2023



**Chart 2:** China’s anti-involution campaign and the real estate sector are holding back investments

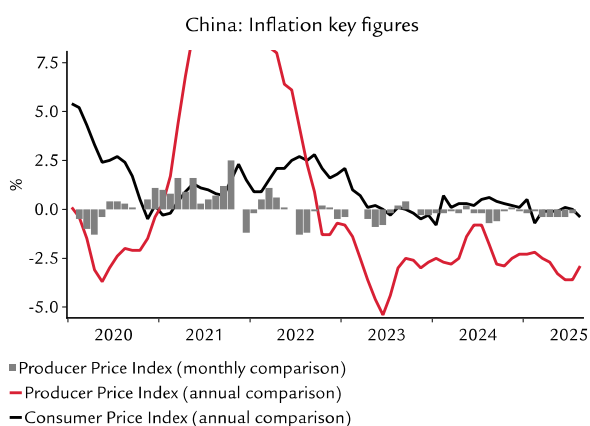


months. However, the measures taken so far are moderate: the focus is not on nationwide production cuts, but above all on the phasing out of local government subsidies and the introduction of stricter market access rules, such as with regard to product quality, key financial figures and labour standards. Sectors such as steel, chemicals, cement and glass as well as future-oriented sectors such as electric vehicles, batteries and solar energy are affected. In the short term, the campaign is dampening investment activity in the manufacturing sector. In the medium to long term, however, it could help stabilise prices and strengthen profitable companies. The initial effects are already visible: in August, for the first time in nine months, producer prices did not show a month-on-month decline. Overall, it is a cautious attempt to make industrial growth more sustainable. The high-tech sector in particular, which is now the central backbone of China's economic momentum, continues to show impressive growth rates. The current measures are intended to further strengthen this area in the long term. However, as the measures remain moderate and the production level continues to outpace demand, a significant reversal of the deflationary price trend is not to be expected in the short term. Accordingly, China will also contribute to lower goods prices globally.

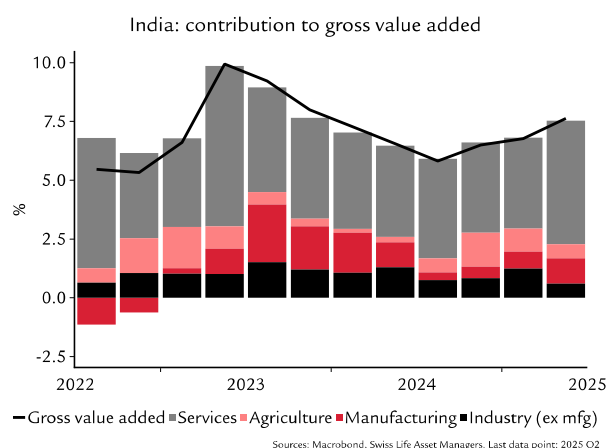
## India: new geopolitical orientation?

India is maintaining its position as the fastest-growing major economy in the world. In the second quarter, GDP grew by 7.8%, significantly exceeding the consensus forecast of 6.8%. The main driver remains the dynamic services sector, which underlines the structural orientation of the Indian economy. While industry is providing initial momentum, its contribution to growth remains limited. The hope that India will gain in importance as an alternative production location in the context of the China+1 strategy and thus experience an industrial boom has so far been held back by regulatory hurdles. The recent imposition by the US of a 50% punitive tariff on Indian imports is exacerbating the situation further – especially compared to competitors such as Bangladesh or Vietnam, which benefit from better trading conditions. In addition to the economic impact, the deterioration in relations with the US also carries geopolitical risks. A first bilateral meeting between Prime Minister Modi and President Xi Jinping in seven years points to a possible rapprochement with China. Should this deepen, new investments from China could strengthen the Indian industry and cushion the negative effects of US tariffs in the medium term. The economic outlook for India remains correspondingly positive over the medium term. Geopolitically, however, there is a risk that the country – as the largest democracy in the world – will move away from the West and towards more authoritarian states.

**Chart 3:** China's deflation in producer prices is easing somewhat



**Chart 4:** India's economy is mainly driven by the services sector



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