Corporate Top Trends Update

Asia-Pacific Corporates 2025: Who Can Take The Tariff Hit?

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This report does not constitute a rating action

Asia-Pacific

Who Can Take The Tariff Hit?

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Key Takeaways

- Export-focused Asia-Pacific will be stung by rising U.S. tariffs, with slowing regional or global growth posing the main risk.
- While 84% of firms in the region are rated investment grade, and can absorb much of the turbulence, net rating actions are starting to skew negatively.
- Rated firms with more export exposure are most at risk. By country, Japan and Korea stand out; by sector, autos, machinery, metals and chemicals do.

Export-focused Asia-Pacific will get pulled into tariff-induced trade volatility in 2025. Most rated firms in the region can manage much of the direct impact of higher U.S. duties given their typically low reliance on that market. However, indirect stresses pose material risks to many sectors.

Indirect effects may include a regional or global economic slowdown, or the risk that countries dump cheap goods on markets to offset a loss of access to the U.S.

Among firms we rate in the region, 84% are investment grade. The category implies substantial resilience. However, downgrades have outnumbered upgrades in Asia-Pacific since the start of 2025. This suggests to us that this year may be more challenging than 2024. Ratings concentrations at the lower end of investment grade, and a growing bias toward negative outlooks in some countries and sectors, point to pockets of risks.

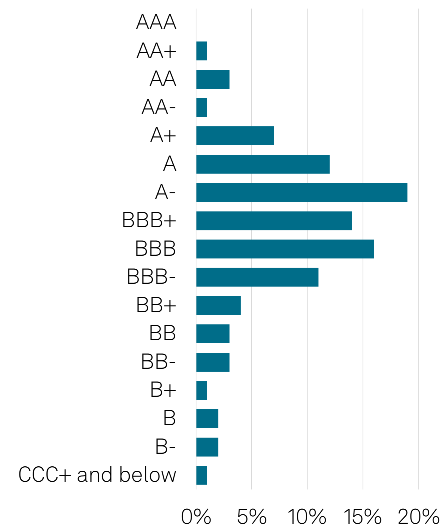
Rated Asia-Pacific firms with the most direct exposure to the U.S. market include Japanese auto and machinery manufacturers, and Korean makers of autos, machinery, and semiconductors. It's the same for Indonesian producers of textiles, apparel, rubber, palm oil, and tires. However, for most entities, the bigger risk lies in China's growth slowdown. The recently announced stimulus cannot stop this deceleration, we assume, with fresh U.S. tariffs weighing on the economy.

Slowing growth will hit the industrial, power, transport, property, and consumer sectors in China. There will be a knock-on to mining in Australia, minerals and intermediate metals in Indonesia, and steel and chemicals across Asia-Pacific. If the slowdown becomes regional, it could hit port and airport volumes and derail the consumer and real estate recovery in key markets, particularly Australia.

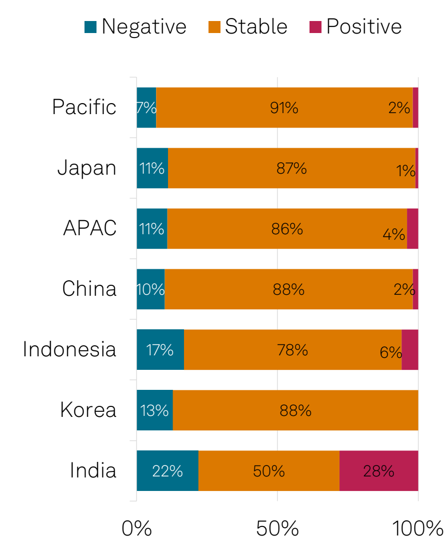
China recently reiterated its aim to address local-government debt and promote the technology and private sectors. That will be a silver lining to investors. Other governments in the region may also counter with stimulus. Many are already ahead of the U.S. in cutting interest rates. India in particular will be protected by a robust economy, which we project will expand 6.7% in the fiscal year beginning April 1, 2025. Years of efforts by Indian firms to improve operational and financial strength are also reducing credit risk.

Firms and governments will be aligned in their objective of managing trade turbulence in 2025. This may foster collaboration, and perhaps lead to some positive outcomes.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Tariff risks vary widely across Asia-Pacific. Going simply by a region's trade surplus with the U.S. in 2024, China's US$319 billion surplus puts it most at risk to heightened tariffs under the new U.S. administration.

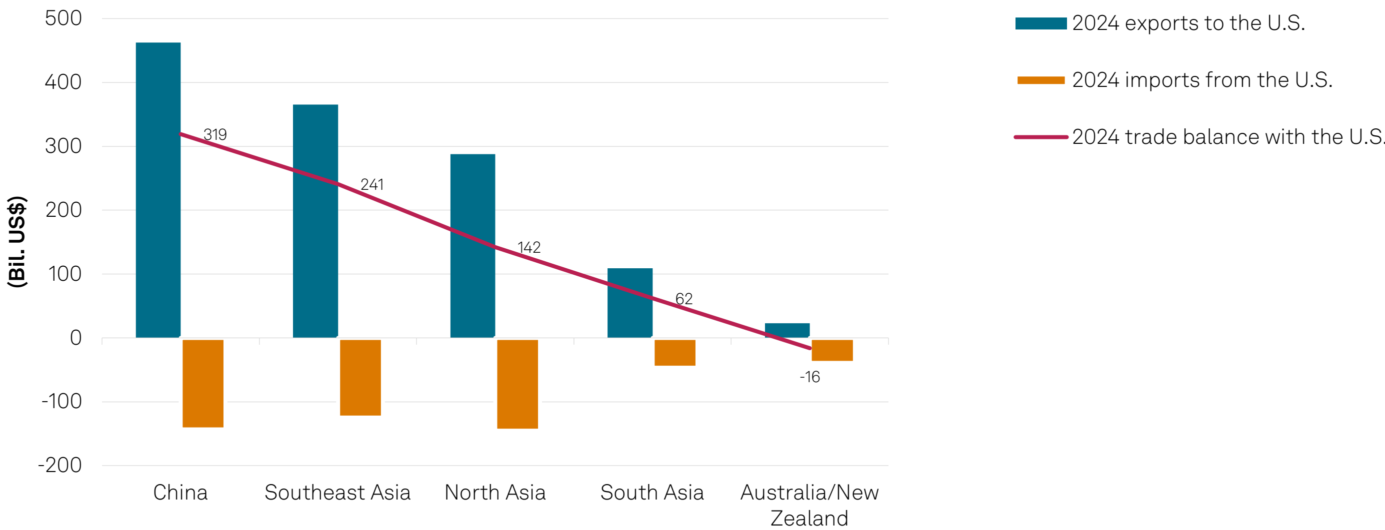
Next up is Southeast Asia, with a US$241 billion surplus, then North Asia (US$142 billion) and South Asia (US$62 billion). Australia and New Zealand, by contrast, had a combined trade deficit with the U.S. of about US$16 billion in 2024 (see chart 1).

Considering other factors that may attract U.S. tariffs show a similar set of countries facing higher tariff risk (see "Asia-Pacific Economies Likely To Be Hit By U.S. Trade Tariffs," published on RatingsDirect on Feb. 23, 2025).

Chart 1

Varying U.S. trade surpluses imply different tariff risks ahead

Asia-Pacific trade with the U.S., by region



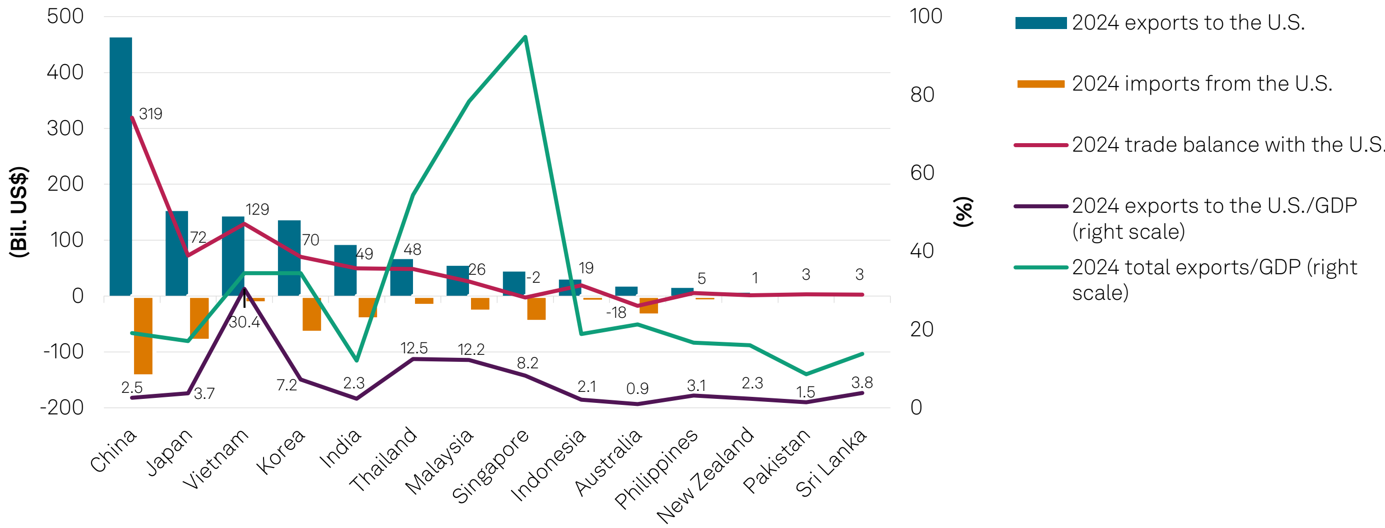
Sources: United Nations Comtrade, International Trade Centre, S&P Global Ratings.

Limited direct effects but material indirect risks. Most countries in Asia-Pacific have limited direct exposure to the U.S. as an export market, but variability is high. Among major exporters, Vietnam is the highest, with U.S. exports to GDP at 30%, followed by Thailand (12.5%) and Malaysia (12.2%). At the lower end, Chinese, Indian, and Indonesian exports to the U.S. total to just 2.5% or less compared to the size of their economies (see chart 2).

Chart 2

Most Asia-Pacific countries have limited U.S. exposure, but may be hit by indirect impact

Asia-Pacific trade with the U.S., by country



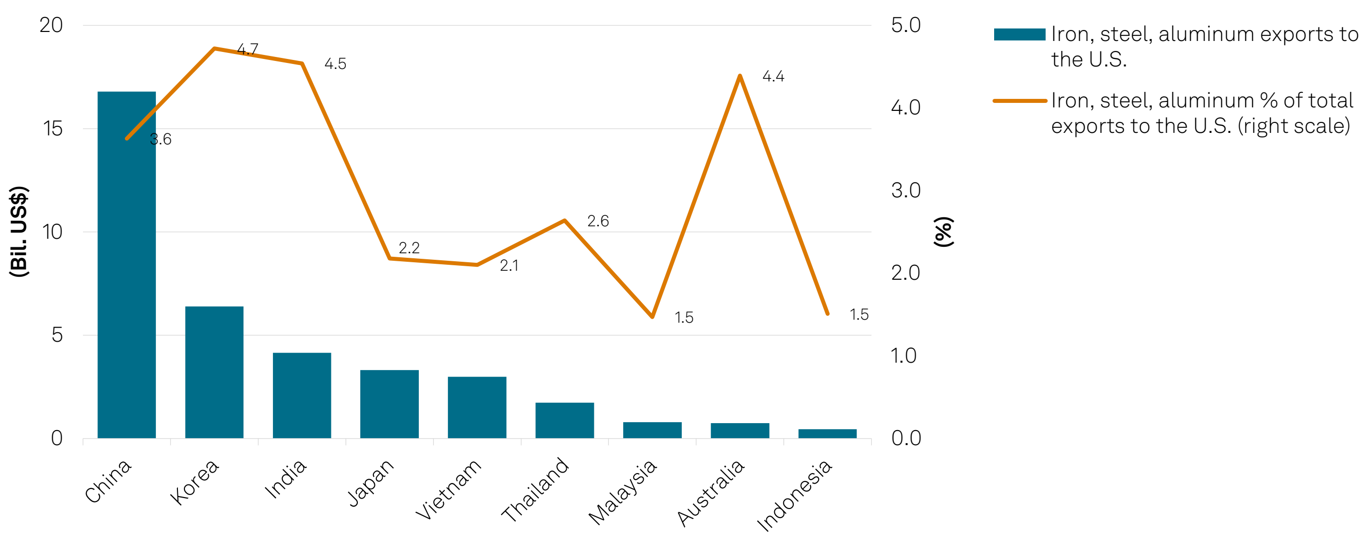
Sources: United Nations Comtrade, International Trade Centre, International Monetary Fund. S&P Global Ratings.

Direct exposure to the 25% U.S. tariffs on aluminum and steel is also limited (see chart 3). For South Korea, which has the highest exposure, iron, steel, and aluminum products sold to the U.S. make up only 4.7% of the country's total exports to the U.S. For other exporters, this figure is around 4% (India, Australia), 3% (China), 2% (Thailand, Japan, Vietnam), 1.5% (Malaysia, Indonesia) and less than 1% (most others).

Chart 3

Steel and aluminum make up a small part of exports, imply less tariff impact

Asia-Pacific's exports of iron, steel, and aluminum products to the U.S.



Sources: United Nations Comtrade, International Trade Centre, S&P Global Ratings.

However, Asia-Pacific countries with large export sectors are exposed to the indirect effects of U.S. tariffs, which may trigger a global or regional slowdown. This is particularly a risk for small, export-focused economies. Exports from Singapore are equal to 95% of its GDP; for Vietnam the figure is 86%. Malaysia and Thailand also rely heavily on exports.

Large economies in the region also face material risks in this regard. South Korea's exports total to more than a third of the size of its GDP and about one-fifth for China, Australia, Indonesia and Japan.

To offset loss of U.S. sales, goods intended for export to the U.S. may be redirected to regional markets at lower prices. This is an important secondary risk that may hit issuer margins and disrupt their sales.

Such goods are likely to come from North Asia, where some countries have substantial production capacity or natural cost advantages in commoditized products such as steel, aluminum, textile and chemicals. Manufacturers of these products in countries such as Vietnam, India and Indonesia will be more at risk if antidumping measures are slow or unable to address the impact.

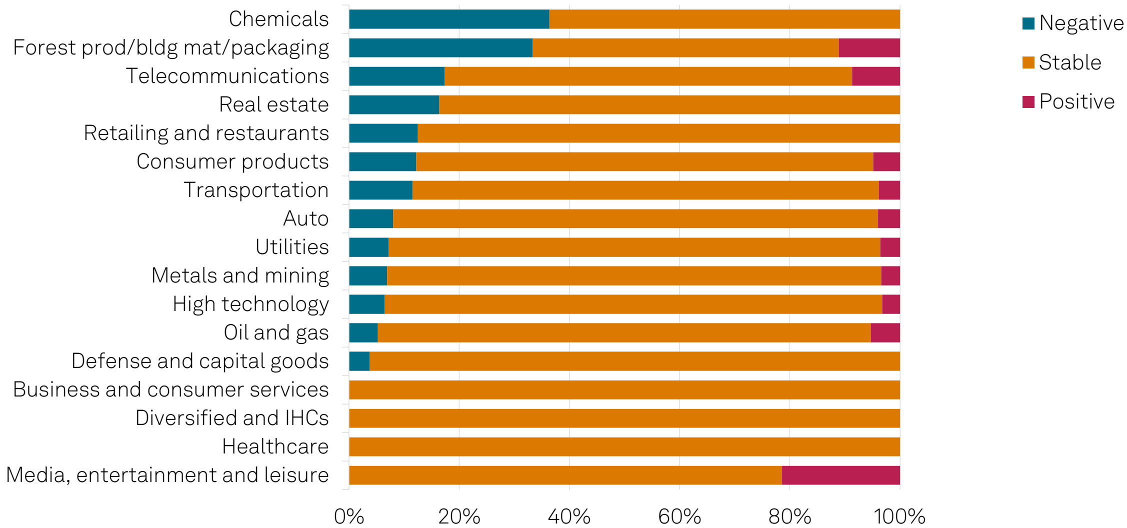
Most firms can take the hit, but rating concentrations and outlooks point to pockets of risks. Rated firms across Asia-Pacific are well positioned to withstand potential tariff effects described above. While 84% of our corporate ratings in Asia-Pacific are investment grade, half of the firms we rate in the region are at the lower end of this category. One-fifth are 'A-', a sixth are 'BBB', and one in 10 are 'BBB-'. As investors tend to be more sensitive to downgrades from those levels, this concentration suggests a greater risk of market volatility compared with regions with a more even rating distribution.

Our outlooks also point to certain countries and sectors as areas of focus. For example, a fifth of our corporate ratings in India and Indonesia carry negative outlooks, while 13% do in South Korea. Likewise, a third or more of our ratings on firms in chemicals and materials (forest, packaging, building) carry negative outlooks, while a sixth or more do in telecom and real estate (see chart 4).

Chart 4

Negative outlooks point to greater risks in chemicals, materials, telecom and real estate

Outlooks on corporate ratings in Asia-Pacific, by sector



Data as of Mar. 10, 2025. Forest prod--Forest product. Bldg mat--Building materials. IHCs--Investment holding companies. Utilities include regulated and unregulated power, water and gas utilities. Source: S&P Global Ratings.

While growth is slowing, lower inflation will allow for more rate cuts. Our economics team expects most Asia-Pacific economies will see slower growth in 2025. However, the degree of change varies widely. We project growth in the mainland Chinese economy will slow 70 basis points (bps) this year, versus the 2024 growth rate (see chart 5). The slowdown in India and Indonesia will likely be a more modest 10bps, while Taiwan's economic growth will fall by full two percentage points this year compared with last year's pace.

Chart 5

Asia-Pacific macro settings vary widely, shaping each region's resilience to tariffs

The difference between 2025 forecast GDP growth, inflation, and policy rates versus 2024 levels (basis points)

All forecasts are our own. For India, fiscal year data is shown; fiscal years begin on April 1 of the reference year. Source: S&P Global Ratings.

As inflation eases across the region, we expect central banks to cut rates, particularly in the slowing economies. For example, we assume the central banks in China and Malaysia will cut rates 20bps-25bps, while South Korea, Indonesia, and India will cut by 75bps (see table 1).

Table 1

Our forecasts show slowing growth, less inflation but more rate cuts

Baseline forecasts for real GDP growth, Inflation, and policy rates

	GDP growth (YOY, %)			Inflation (year average, %)			Policy rate (Q4 average, %)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Australia	1.1	2.1	2.2	3.2	3.1	2.9	4.35	3.85	3.35
China	4.8	4.1	3.8	0.4	0.3	0.4	2.00	1.80	1.50
Hong Kong	2.7	2.3	2.3	1.9	1.7	1.6	--	--	--
India	6.8	6.7	6.8	4.6	4.4	4.6	6.25	5.50	5.25
Indonesia	5.0	4.9	4.9	2.3	2.3	2.7	6.00	5.25	4.75
Japan	-0.3	1.3	1.0	2.6	2.2	2.1	0.25	0.75	1.00
Malaysia	5.5	4.9	4.5	1.9	2.2	2.0	3.00	2.75	2.75
New Zealand	0.8	2.2	2.4	2.9	1.9	2.2	4.50	3.25	3.00
Philippines	5.5	6.0	6.2	3.3	3.1	3.2	5.75	4.75	4.00
Singapore	3.4	2.5	2.4	2.4	2.0	1.9	--	--	--
South Korea	2.2	2.0	2.0	2.4	1.9	1.8	3.25	2.50	2.50
Taiwan	4.4	2.4	2.1	2.1	1.5	0.8	2.00	1.63	1.38
Thailand	2.8	3.1	3.0	0.6	1.6	1.1	2.25	1.75	1.75
Vietnam	6.7	6.6	6.7	3.7	3.4	3.5	--	--	--
U.S.	2.7	1.7	1.8	2.9	2.7	2.7	4.60	4.35	3.60
Eurozone*	0.8	1.1	1.1	2.4	2.4	2.0	3.00	2.25	2.25

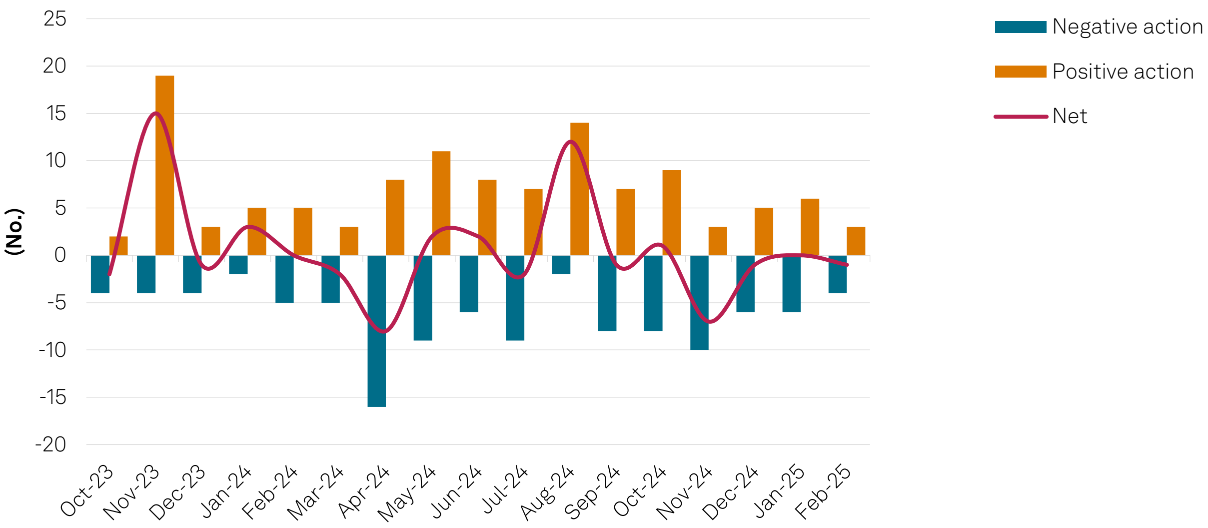
*The U.S. has not imposed tariffs on imports from the Eurozone--these numbers are hypothetical. For India, fiscal year data is shown; fiscal years begin on April 1 of the reference year. YOY--Year on year. Q4--Fourth quarter. Source: S&P Global Ratings.

Rating momentum has turned negative, flagging difficulties ahead. Positive rating actions outnumbered negative ones substantially following first-half and third-quarter results last year. However, ratings momentum dipped into the negative from the start of the year in the wake of rapid U.S. policy changes.

The measures have triggered caution among firms, volatility in the financial markets, and have generally reduced visibility. We expect most firms to tread more carefully through the year. Governments across Asia-Pacific will be standing by to provide support. This raises the possibility of a range of outcomes, including some positive ones, particularly if direct and indirect effects of new U.S. tariffs turn out to be less adverse than feared.

Chart 6

Rating momentum turned negative at the start of 2025, flagging challenges ahead



Data as of Feb. 28, 2025. The rating actions include upgrades/downgrades and revisions to outlooks and CreditWatches on our rated Asia-Pacific corporates. Source: S&P Global Ratings.

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

China

Can Stimulus Offset Slow Growth And New Tariffs?

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Key Takeaways

- China has the largest U.S. trade surplus in Asia-Pacific. Its U.S. exposure has been falling, but indirect effects can hit its large export sector.
- The tariffs' impact will unfold amid tepid growth. This will weigh on China's industrial, power, transport, property, and consumer sectors.
- Government initiatives will support renewable power, transition fuels (gas), industrial metals, and metro rail, while housing sales will stabilize.

Slowing growth, made worse by tariffs, will weigh on corporates. At US$319 billion in 2024, China's trade surplus with the U.S. is the largest in Asia-Pacific. The country's direct exposure to U.S. exports, however, has been falling--from 6.4% of GDP in 2010 to 2.5% currently (see chart 7). Despite this, the risk of indirect effects remain material. A global slowdown, for example, can hit China's large export sector, which amounts to one-fifth the size of its economy (see chart 8).

S&P Global Ratings believes that the impact of U.S. tariffs will play out while China's economy softens, and that likely stimulus won't be enough to fully offset these effects. Slowing growth will hit the country's industrial, power, transport, property, and consumer sectors. Energy transition initiatives may help some commodity and metals sectors, and the housing market may stabilize.

Our economists project the Chinese economy will expand 4.1% in 2025, meaningfully slower than last year's 4.8%. The 10% U.S. tariffs imposed in February, took 0.2 percentage points off our previously projected GDP growth. The U.S. added a further 10% tariff on China in March, but we expect the additional impact will be offset by likely stimulus.

Chart 7

China's export exposure to the U.S. has been falling

China's trade with the U.S.

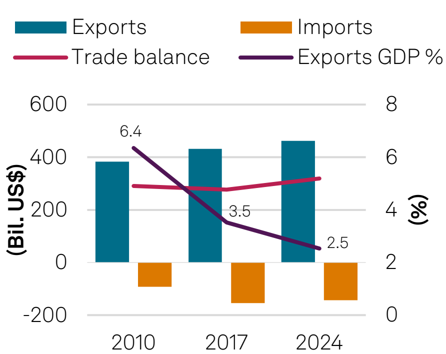
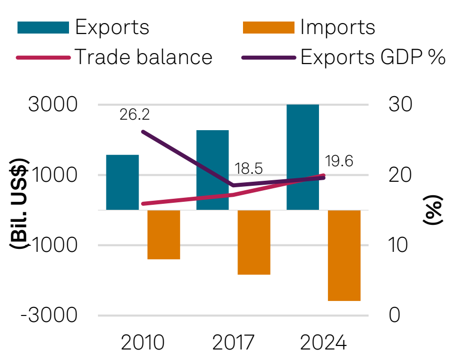


Chart 8

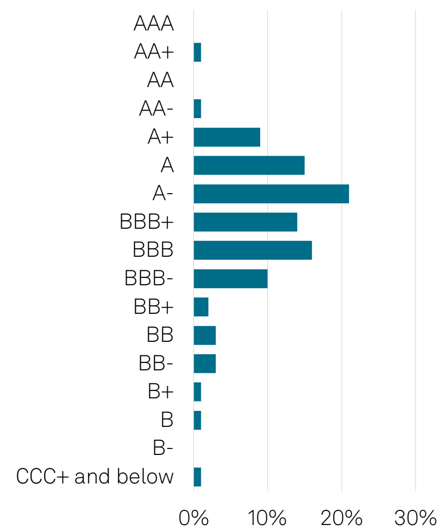
China's large export sector flags indirect risks

China's total trade

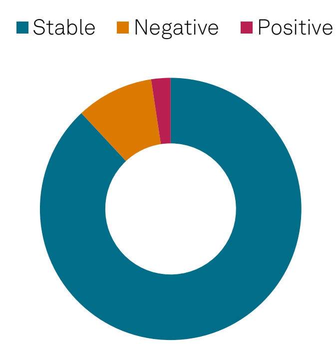


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

China announced a slate of stimulus during the recently concluded session of the National People's Congress. The government also reiterated its aim to address local government debt and promote the technology and private sectors. While these measures may not fully offset the country's slowing growth, they may be the silver lining for investors.

The chemicals and oil and gas sectors brace for sluggish growth. China's oil demand will likely grow by a sluggish 2% this year due to weakening economic growth and softening demand for transport fuels. Energy security and transition initiatives may keep production growth at 3% per annum. Growth in gas production, a key transition fuel, may rise as much as 5%-6%.

For commodity chemicals, another tough year lies ahead, given a structural supply glut and a shaky demand recovery. The crop protection sector may recover. Global destocking is largely complete. However, demand for chemical products would be hit if new U.S. tariffs slow global growth.

Metals and mining face downside risks in demand and prices. Thermal coal demand will decline this year due to slower GDP growth and more focus on the transition to renewable energy. Prices will also moderate due to improved supply. We assume seaborne prices will fall to US$115 per metric ton (mt) in 2025 from US$136 per mt in 2024. Government steps to ensure sufficient supply will limit upside on domestic prices.

High metals prices may encourage miners to maintain elevated capital expenditure and to acquire more upstream assets. Domestic steel consumption will decline by 1% in 2025, we assume, given still-weak property markets and decelerating investment in traditional infrastructure. Production will fall by 1%, but this will not be sufficient to alleviate current oversupply. As foreign markets turn even less friendly, with some, such as Vietnam and South Korea, also imposing tariffs, export volume could fall by 15%-20%.

Industrial metals, however, may fare better, supported by demand from green industries. Tight supply and high costs may keep metals prices elevated but downside risks are substantial, in our view.

Property markets will stabilize while continuing to weigh on related sectors. Property sales will likely reach Chinese renminbi 17 trillion this year, or roughly equal to last year. Higher-value properties in upper-tier cities will lead the recovery and will eventually boost buyer interest in cheaper properties in lower-tier cities.

Flattening sales in the property sector will translate to flat revenue gains in engineering and construction firms. We assume revenues in the sector will grow 1% to 3% in 2025, following a tepid 0% to 2% expansion in 2024. Building materials, however, will remain under pressure, with continuing overcapacity exacerbating soft demand. This is despite regulatory efforts to rationalize production. Cement may stand out with modest margin improvements as coal prices decline.

Consumers not out of the woods despite stimulus. Auto sales will likely grow by a lackluster 0%-2% in 2025 given continued buyer caution on big-ticket purchases. The industry has limited exposure to overseas markets, but domestic price competition will remain intense and will continue to squeeze profitability.

In technology sectors, DeepSeek has shown China's AI competitiveness. However, AI features will not drive replacement cycles forward this year and will not reverse lukewarm PC demand and slowing smartphone sales, we assume.

Retail spending growth will remain at 4%-5% in 2025, or roughly flat to last year. While similar stimulus from trade-ins and other programs will come, they have been unable to reverse consumer caution despite the help of retailer discounts.

The food and beverage sector will follow a similar trend, with sales growth slowing to 5%-6% in 2025 from 8.2% in 2024. These domestically focused sectors have minimal direct exposure to the U.S. However, if U.S. tariffs lead to a deeper China slowdown than we now anticipate, consumer sectors will be pinched.

Airports will stand out; demand for rail, ports, and roads will moderate. Mainland ports' throughput growth may moderate somewhat amid trade pressures, including the addition of U.S. tariffs. However, shifting trade patterns resulting from these tariffs may also bring more demand to Chinese ports.

Toll-road traffic will grow more modestly, due to base effects and the slowing domestic economy. Railways, particularly urban rail in major cities, will remain stable, underpinned by resilient operations flowing from government support and expansion in key cities. Lastly, airports are likely to stand out. Overall volumes have hit record highs and international passenger demand has also largely recovered.

Power demand growth finds new drivers. Despite the slowing economy, power demand growth may stay at a relatively stable pace due to other drivers. In 2024, demand grew 7.1%, marginally higher than the previous two years. This is likely due to demand from areas such as further industrial electrification, new energy vehicles, and growth in certain consumer products such as air conditioning.

Renewable generation will climb given the government's energy transition push. However, we expect renewable capacity buildout to slow somewhat. Lower returns and greater price volatility may make independent power producers more selective, along with the higher curtailment risk of renewable power.

The government plans to push all new renewable power projects to market-based trading by midyear this year. Whatever is left will make that transition before 2030. While these initiatives will make the sector more competitive, it will also bring more volatility. The volume growth of gas--which is used a transition fuel--will moderate as parties shift from gas to meet the government's carbon-neutrality goals.

Local government financing vehicles (LGFVs) will likely see some immediate relief, but their long-term challenges remain. China has unveiled a basket of measures to manage LGFV debt such as extending the maturity of such debt, reducing the interest cost, and swapping eligible debt with local government bonds. The execution of these measures has been swift, but risks remain for the weakest entities that continue to rely on nonstandard financing and offshore debt, which are high cost.

LGFV debt has grown quickly over recent years. It will remain a heavy burden that will take more time and effort to resolve. The government is pushing to transform the LGFVs into more commercial, self-sustaining enterprises. This will depend on the LGFV's ability to make operations more profitable or their government owners' willingness to provide them more cash-generating assets. Some entities will be able to make this transition, but many may struggle.

Japan

Risks Ahead From Tariffs and Global Slowdown

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Key Takeaways

- Tariffs would hit the operating outlook of Japanese exporters; makers of autos would be hit the hardest, followed by machinery.
- Economic slowdown in the US and China may squeeze demand and weigh on firms' profitability; BOJ' s rate hike will be manageable for most.
- Aggressive spending for growth, large acquisitions, and return to shareholders may impair the credit quality of some companies we rate.

U.S. tariffs may hit Japan's auto, capital goods, and machinery sectors the hardest. Japan's trade surplus with the U.S., at US$72 billion in 2024, is the second largest in Asia-Pacific behind only China (see chart 9). The country's exports to the U.S., however, amounts to only 3.7% of its GDP. While this implies lower direct exposure than the regional average of 6.3%, indirect effects could hit Japan's sizable export sector, which is as large as a sixth of its economy (see chart 10).

Fresh U.S. tariffs would hit Japanese carmakers the hardest, followed by manufacturers of capital goods, such as power-generating machines and construction machinery. The effect on Japanese steelmakers and many electronics firms would be likely manageable as such entities typically have limited direct sales to the U.S.

Higher tariffs on China, Canada, Mexico and elsewhere could, however, indirectly hurt Japanese firms. The levies would weigh on global growth and generally impair Japanese firms' overseas sales.

While credit metrics are largely stable, the negative bias is growing. Outlooks on 87% of our ratings on Japanese issuers are stable. While this will largely remain

Chart 9

Japan's U.S. exposure is low despite a large trade surplus

Japan's trade with the U.S.

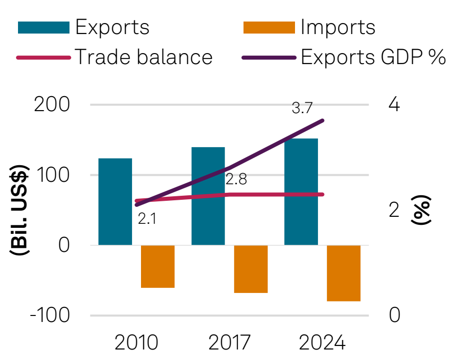
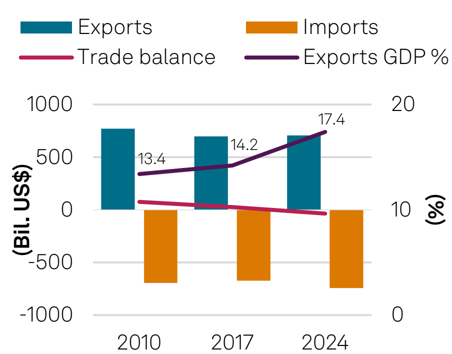


Chart 10

Japan's sizable export sector could be hit by indirect tariff effects

Japan's total trade



Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

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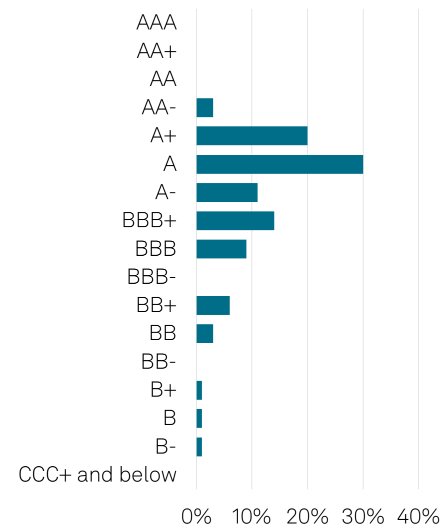

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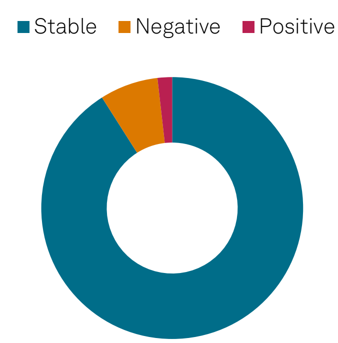

Data as March 10, 2025. Source: S&P Global Ratings.

Since November 2024, we have already revised outlooks on two major issuers to negative from stable due to aggressive investment (Tokyo Gas Co. Ltd.) and heightened business risk (Nissan Motor Co. Ltd.)

High investment-grade composition implies resilience. Roughly 87% of our ratings on Japanese corporates are investment-grade, implying substantial resilience against deterioration in external conditions. We expect the median revenue and EBITDA growth of these issuers to remain in the low-single digits despite rising trade tensions and new U.S. tariffs. They should also stay resilient against interest rate hikes in Japan and volatility in the Japanese currency. The return of domestic inflationary dynamics will be supportive; this will give firms more flexibility to raise prices.

A global economic slowdown will be the main risk. China and the U.S. each account for about 20% of Japan's exports. An economic slowdown in each country resulting from higher U.S. tariffs may strain demand and weigh on Japan's export-focused sectors.

China's slowdown has already hit those sectors. Oil and gas producers and trading and investment companies are more vulnerable, as they are already entering a cyclical slowdown after a period of high commodity prices. More U.S. tariffs, and more yen appreciation, would hurt a broader range of Japanese corporates.

Japanese firms' M&A will be a key risk driver. Shareholders in Japan are increasingly demanding growth and returns. This is challenging in a mature economy that has been sluggish for decades. As a result, more firms are seeking growth offshore through large mergers and acquisitions (M&A). Such transactions often push up leverage, raise operational uncertainty, and elevate execution risks of rated Japanese firms.

A ¥780 billion acquisition of a U.S. homebuilder by Sekisui House Ltd. in 2024 led to a two-notch downgrade. Nippon Steel Corp.'s proposed acquisition of U.S. Steel Corp. has been under review for over a year, and it remains unresolved due to unpredictable political factors. Honda Motor Co. Ltd. and Nissan Motor Co. Ltd.'s integration talks ended in failure, highlighting the complexity of large M&A deals.

The impact of higher rates will remain manageable. In January 2025, the Bank of Japan (BOJ) raised interest rates by 25 basis points (bps) for the third time in six months. We expect the BOJ's policy rate in 2025 to rise another 25 bps to 0.75%, but the impact will not be material for most firms.

Most Japanese entities we rate have very strong interest coverage ratios and enjoy low funding costs, which makes them highly resilient to interest-rate increases. That said, in highly debt-dependent industries such as railways, real estate, and electric utilities and gas, gradually increasing interest payments would weigh on interest coverage.

Firms' appetite for growth, dividends, and buybacks to weigh on credit metrics. We expect the median ratio of debt to EBITDA of our rated Japanese firms to modestly deteriorate to 1.7x in 2025 from 1.6x in 2024. This estimate excludes general trading and investment companies and investment holding companies. Median EBITDA growth will likely improve to 5%-6% in 2025 from 2% the year prior.

However, growth appetite will likely push up debt just as fast, by a likely gain of 5% in aggregate in 2025. Shareholder pressure for dividends and share buybacks will also whittle away much of the potential improvements in discretionary cash flows.

Financial discipline will be tested. We expect investment-grade firms to maintain disciplined financial management. However, appetite for investments and acquisitions, and increasing shareholder demand for returns could worsen their credit quality substantially.

Entities may take mitigating actions such as cost-cutting, asset sales, or the issuance of hybrid debt or equity to protect their credit ratings. For example, Panasonic Holdings Corp., Nippon Steel Corp. and Sharp Corp. have exited cross-shareholdings and sold less competitive businesses and assets to fortify their balance sheets. They largely did this to absorb the pressure stemming from large investments and acquisitions.

Favorable domestic funding channels will support capital raising and liquidity. Refinancing risks will be manageable for most Japanese firms, as their debt largely comprise domestic yen-denominated loans. Japanese banks, backed by strong performance and solid balance sheets, will likely support their longstanding borrowers. That said, the funding and liquidity of firms rated 'BB+' will remain vulnerable to rate hikes and financial-market conditions in Japan.

More hybrid refinancings will come. We see a high probability of Japanese firms refinancing hybrid bonds we assess as having intermediate equity content using proceeds from bonds or loans with similar equity content.

Low interest rates and good credit quality have raised the probability of such refinancings. Large Japanese banks have also been keen providers of syndicated hybrid loans. The instruments are less exposed to the volatile issuing conditions seen in bond markets. Aside from refinancings, we also expect more firms to issue hybrid capital to finance large M&As, offsetting some of the debt burden.

Japan's auto sector is exposed

Even without any tariff shocks we expect global light-vehicle sales to increase by a modest 2%-3% in 2025. This sector is becoming increasingly competitive. Japanese carmakers' plans to invest in electric vehicles, including research and development, will add to the pressure on the industry.

These factors may exacerbate the sharply diverging earnings of Japan's automakers. The strong sales and profitability outlook of Toyota Motor Corp. (A+/Stable/A-1+), backed by its hybrid-car division, and Honda Motor Co. Ltd. (A-/Stable/A-2), backed by its motorcycle unit, stand in contrast to the likely sharp drop in profitability at Nissan Motor Co. Ltd. (BB/Negative/B) and Mitsubishi Motors Corp. (BB+/Stable/--). The latter two firms are experiencing soft global car sales. We downgraded Nissan to 'BB' from 'BB+' in March 2025 citing weak sales in China and the U.S. The outlook on the rating is negative.

U.S. tariffs on Japan and beyond would hit the Japanese auto sector hard. Of Japan's ¥20 trillion in exports to the U.S. in 2023, autos made up the largest portion, at 29%. About 30% of Toyota's export sales, for example, are to the U.S. A tariff increase of 20% could translate to a 9% drop in Toyota's EBITDA. For Nissan, given their thin profitability and high production capacity in Mexico, the potential impact would be larger.

South Korea

An Uphill Climb Against U.S. Headwinds

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Key Takeaways

- Korea's large and growing trade surplus may attract U.S. tariffs, which would hit makers of autos, industrial machinery, and semiconductors.
- Weaker U.S. support for EVs may slow sales further and pressure Korean firms in EV value chains, especially firms with aggressive U.S. investments.
- 13% of our outlooks on Korean firms are negative, none is positive. Steel face China supply, petrochemicals face overcapacity, both under weak demand. High-tech chips can pass-on tariff costs, helped by AI needs.

Tariffs and U.S. policy shifts could weigh on Korean issuers. Korea has a sizable and rapidly growing trade surplus with the U.S. that totaled to US$70 billion in 2024 (see chart 11). This may attract U.S. tariffs and add costs to Korean firms. Most at risk are makers of autos, industrial machinery, and semiconductors--the top three Korean exports to the U.S.

Reduced U.S. policy support for electric vehicles (EVs) could also hit Korean firms. This could slow EV adoption and pressure Korean firms across the EV value chain, particularly battery makers with investments in the U.S. Indirect impact on growth resulting from tariffs and other policy shifts could weigh on Korean industries sensitive to global demand, such as steel and petrochemicals. The country's exports to global markets total to a third of the size of its GDP (see chart 12).

Ratings are under increasing downward pressure. Outlooks on our ratings for Korean firms are showing a skew to the downside: 13% are negative and none is positive. This contrasts with a year ago, when our outlook distribution was more balanced, with 8% positive and 5% negative.

Chart 11

Korea's large and growing U.S. trade surplus may attract tariffs

Kora's trade with the U.S.

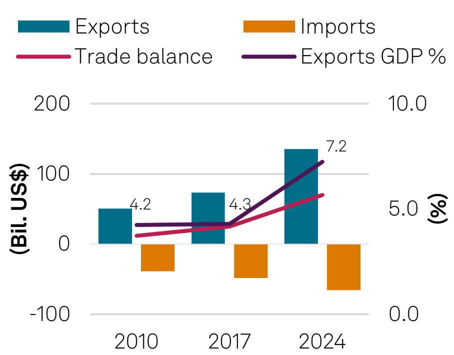
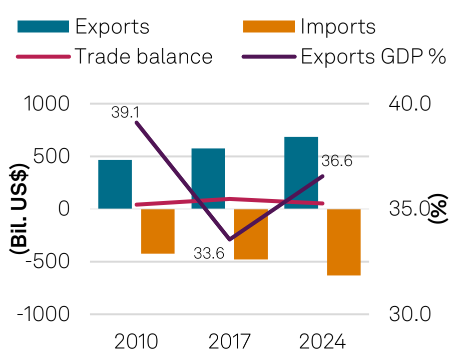


Chart 12

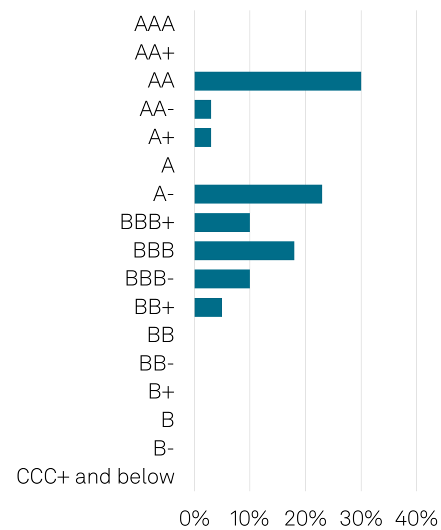
Korea's large export sector flags exposure to global demand

Kora's total trade

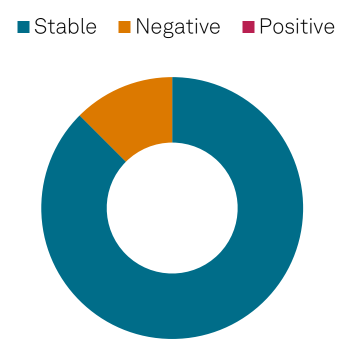


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Even before the new U.S. administration took office, Korean firms faced weak demand and deteriorating market conditions. Some entities' aggressive investments compounded this weakness. We recently downgraded LG Chem Ltd. and LG Energy Solution Ltd. and revised the outlook on Posco Holdings Inc. and its two subsidiaries to negative, for example.

EV-related sectors feeling the strain. Global EV sales growth has slowed considerably over the past 18 months, particularly in non-China markets. The Trump administration's stance on energy transition suggests that policy support for EVs may weaken, and demand in the U.S. may deteriorate as a result.

This poses a significant risk for Korean EV battery makers that invested aggressively in North America; a view reflected in our recent downgrade of LG Energy Solution and negative outlook on SK Innovation. Related capital expenditure is a drag on profitability and will push up their leverage. Further erosion of U.S. EV demand would only compound the impact. Korean firms that actively invested in EV battery materials, including Posco Holdings and LG Chem, are likely to report weak results even without such a policy shock.

Petrochemical and steel face a longer cyclical downturn. Overcapacity and weak demand will continue to weigh on the profitability of Korean petrochemical companies in 2025. Recovery could be delayed due to their dependence on export sales and the thin margin spreads for commodity chemicals. Even with tighter controls over capital expenditure, rating buffers will likely narrow.

In steel, Korean producers such as Posco and Hyundai Steel Co. are contending with margin pain due to rising supply from China. The demand picture will likely stay hazy. The decline in raw material prices will only partially mitigate the deterioration in crack spreads, in our view.

Korean automakers are relatively well positioned in a tougher market. Even without new U.S. tariffs, we expect volume growth of global light-vehicles sales to slow to 1%-3% in 2024-2026, compared with 9.8% in 2023. Prices will also weaken across the U.S. and Europe following a period of strength.

Hyundai Motor-Kia is relatively well-placed to handle these pressures, thanks to its competitive product offerings in hybrid vehicles and pure EVs. The company's market share gains in the U.S. and strong sales of high-margin hybrids will help offset higher buyer incentives and other sales costs amid intensifying competition. They will also help moderate the impact of new tariffs.

The effect of tariffs on Mexico, Canada, and Europe should not be material for Korean carmakers. Hyundai Motor-Kia, for example, ships only a few models from Mexico to the U.S. The hit would be harder, however, if the U.S. imposed tariffs on all countries. The entities export sizable volumes from Korea to the U.S., and price hikes resulting from such tariffs would weigh on overall demand in the U.S.

AI demand to support certain tech companies. The recent boom in AI-related demand has driven the current upcycle in the memory semiconductor industry. Growth in the highly profitable high bandwidth memory (HBM) segment spurred by AI demand will likely continue to drive strong performance for some Korean semiconductor makers.

SK Hynix Inc., in particular, is well placed to take advantage of this trend given its strong positioning in the segment versus Samsung Electronics Co. Ltd. and Micron

Technology Inc. Conventional memory, in contrast, is likely to see pricing pressure due to subdued end-market demand.

Korean memory makers are less likely to be impacted by tariffs. High-tech products such as HBM make up a significant portion of their memory chip sales to the U.S. As such chips are in tight supply, HBM producers will be able to pass on any additional tariff costs to their customers. On the non-conventional memory side, while producers are less able to pass-on such costs, U.S. sales are not large enough to materially impair their profitability.

Indonesia

Funding At Home Eases Risks From Abroad

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Key Takeaways

- Low U.S. exports limit direct risks, but indirect effects may hit Indonesia's large export sector and raise dumping risks for steel and chemical sectors.
- Risks from subdued revenue and profit growth and elevated investments to be moderated by lower refinancing needs and healthy funding conditions.
- Government policies will support the housing market and reshape the credit dynamics of the country's SOEs.

Indonesian corporates face moderate tariff risk but material indirect exposure. Indonesia's trade surplus with the U.S. doubled since 2010 to US$19.3 billion in 2024 (see chart 13). However, the country may be a less prominent target for U.S. tariffs, as its surplus is much smaller than that of major Asian exporters--Vietnam's is 6.7x larger, and Japan's and Korea's are 3x-4x bigger.

Indonesia's exports to the U.S. also total to a relatively small 2% of the size of its GDP, one-third of the Asia-Pacific average. The U.S. is an important market for only a few sectors. For example, 60% of Indonesia's textile and apparel exports are sold to the U.S. Rubber, palm oil, and tires sectors also rely on the U.S. market.

The more material risk for Indonesia is the indirect effect of U.S. tariffs. Slowing global growth, for example, could hit the country's large export sector, which amounts to one-fifth the size of its GDP. Diminished demand from the country's biggest trading partners in Asia-Pacific could hit their demand for Indonesian minerals and intermediate metals. Steel, textile, apparel, and chemical sectors may also be squeezed if regional firms attempt to mitigate slowing sales at home by dumping their excess production abroad.

Chart 13

Indonesia's low U.S. exposure may limit direct tariff impact

Indonesia's trade with the U.S.

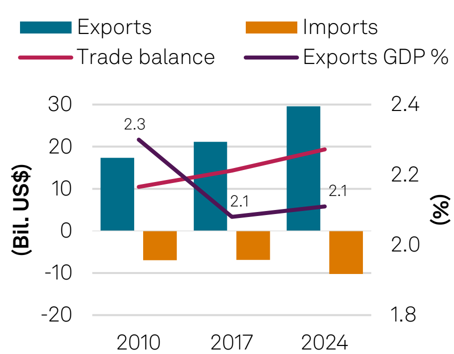
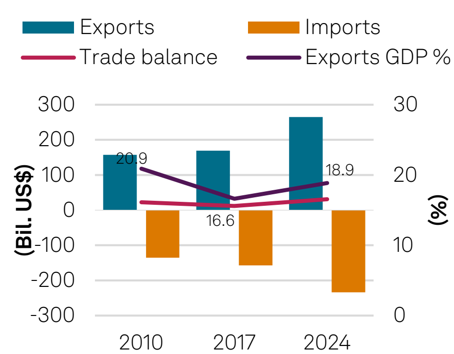


Chart 14

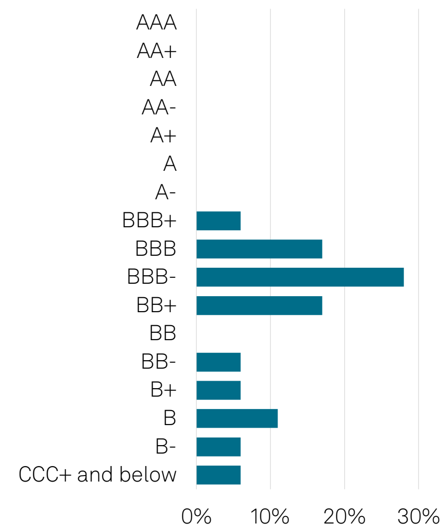
Indonesia's large export sector could be hit by tariff effects

Indonesia's total trade

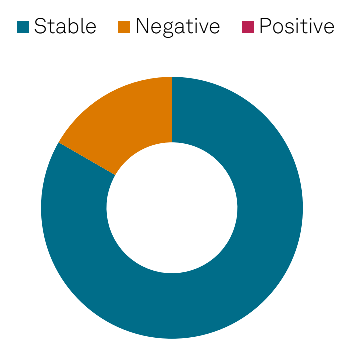


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

2025 is likely to be another year of subdued revenue and profit growth. Our economists forecast Indonesia's GDP will grow 4.9% in 2025, with no near-term catalyst from the new administration's economic policies. Strains are likely to persist throughout the year for exporters amid tepid growth in Europe and slowing growth in China as the effects of new U.S. tariffs play out globally and regionally.

The macro, employment and inflation settings in Indonesia will be somewhat supportive of domestically focused sectors. These include consumer goods, retail, telecom, and light manufacturing. However, significant competition will likely persist with limted catalysts for meaningful margin or volume growth.

Investments to stay elevated, marginally eroding cash flows. Capital spending on energy transition and business model diversification will stay elevated, we assume, after a significant step-up in 2023 and 2024. Similar to last year, about half of the firms we rate are likely to post negative discretionary cash flows in 2025. However, we expect earnings will grow in line with debt incurred to fund growth. For this reason about 80% of our ratings on Indonesian firms carry stable outlooks.

Domestic funding conditions will remain constructive. We expect moderately tightening bank liquidity to slow loan growth from nearly 15% last year to 10%-12% in 2025. This level is still above the average over the last five years, reflecting less selective lending by capital providers compared to the past. Like 2024, issuance in overseas capital markets will likely be limited to larger private firms or state-owned enterprises (SOEs) and their subsidiaries. The cost of raising domestic capital for smaller firms is now below that of U.S. dollar funding, all things being equal.

Corporates can absorb a modest depreciation in the rupiah. The Indonesia rupiah has weakened over recent months and now hovers near all-time lows against the U.S. dollar. So far, the resulting impact on margins, interest servicing and investor sentiment has been modest. Currency hedging is more frequent, and rated issuers are increasingly raising domestic funding to repay foreign-currency debt.

Most of about US$15 billion in dollar-denominated debt due between 2025 and 2027 are borne by commodity producers and large SOEs that often have a natural hedge. Residual pockets of currency mismatch remain in the real estate, animal feed, tire manufacturing, telecoms and unregulated power sectors. Recent asset-liability management transactions by real estate firms have reduced near-term refinancing risk in that sector.

Danantara will shape the credit dynamics of Indonesian SOEs. Daya Anagata Nusantara Investment Management Agency (Danantara) is a vehicle that will take ownership of some of Indonesia's largest SOEs. The Indonesian parliament approved the bill creating the fund in February 2025. As we gain clarity on the new vehicle over the next few months, our analytical focus on affected SOEs will be:

- Mechanisms in place in the new structure for the government to provide financial support to the SOEs,
- Danantara's powers, oversight quality, and support responsibilities to the weaker SOEs; and
- Danantara's financial strategy, capital allocation and leverage and how the factors will shape policies and capital spending of SOEs the fund holds.

Indonesia Property Sector Outlook 2025: Reduced Refinancing Risks

Credit profiles of most Indonesian property developers are stabilizing. Refinancing risks in 2025 are significantly lower thanks to liability management exercises in 2024, including full repayments as well as tender offers below par. We anticipate modest deleveraging among developers this year, driven by an increase in earnings from improving sales.

Marketing sales will grow modestly by about 5% in 2025, supported by government policies. The government extended a phased reduction on value-added tax (VAT) until the end of 2025, instead of the end of 2024 as originally scheduled. This extension, coupled with moderating mortgage rates and easing inflationary pressure, will bolster demand for affordable housing. Homebuyers will save up to 11% on VAT for residential units priced below IDR5 billion, provided the units are handed over to the buyer before the end of 2025.

Most developers' cash position will remain thin despite improving earnings. We expect developers will likely reinvest most extra cash flow into property construction and opportunistic land acquisitions. Furthermore, as most developers refinanced their U.S. dollar offshore notes with domestic bank loans in 2024, annual amortization of these loans will further reduce their surplus cash.

India

Protected by Growth, Funding, And Credit Strengths

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Key Takeaways

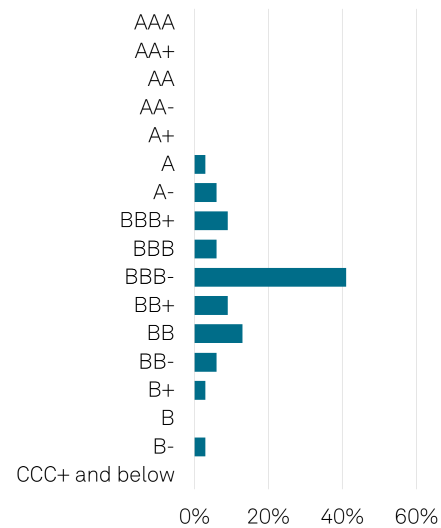
- India's low U.S. exposure reduces tariff risks, but indirect effects, such as trade redirection to the country, could hit the steel and chemicals sectors.
- Firms are protected by robust growth and strengthened credit quality; most will fund onshore given better access to deepening liquidity onshore.
- About 30% of our outlooks on rated firms are positive while 20% are negative, driven largely by the positive sovereign outlook and the recent negative actions on the Adani group entities.

Tariffs may strain some sectors despite healthy rated firms and low U.S. exposure. India's exports to the U.S. amount to only 2% of its GDP, a third of the average in Asia-Pacific. However, its growing trade surplus with the U.S., which total to a sizable US$50 billion in 2024 (see chart 15), could subject the country to new tariffs, particularly as the U.S. mulls reciprocal levies on trading partners.

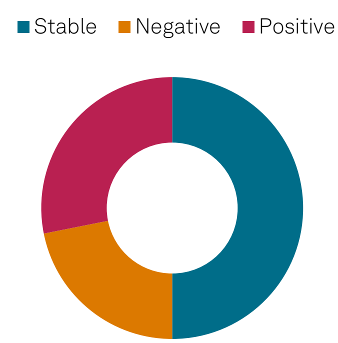
Indirect effects from these tariffs, such as slowing global growth, may have limited impact on India, as its export sector amounts to just over a tenth of its GDP (see chart 16). Years of credit improvements and healthy economic growth also reinforce rated firms' resilience. That said, new U.S. duties may redirect trade flows to the country, which could disrupt sectors such as steel and chemicals.

Domestic focus and strong fundamentals bolster Indian firms' defenses. Most of our rated Indian firms can withstand temporary earnings slowdowns. Improvements in operating and financial strength over the last few years provide more cushion to help absorb such pressures. Firms in the country also benefit from a growing economy, supported by strong infrastructure and consumer

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Chart 15

India's low U.S. exports will limit direct tariff impact

India's trade with the U.S.

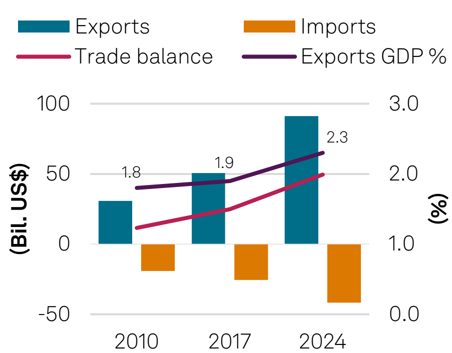
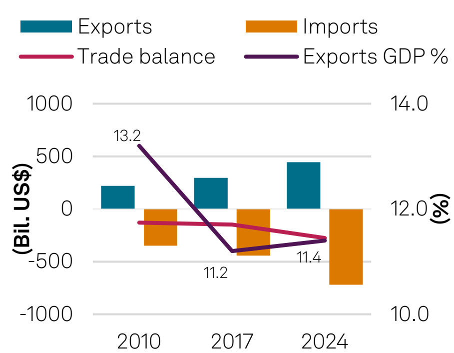


Chart 16

India's smaller export sector reduce indirect tariff risks

India's total trade



Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

spending. Our economists expect India's GDP to expand by 6.7% in the fiscal year beginning April 1, 2025, making the country the fastest growing economy in Asia-Pacific.

Few sectors with high U.S. exposure. Sectors with a high dependence on U.S. markets are mainly IT services, chemicals, and autos. Services are not subject to tariffs, but in the auto sector, some firms, such as Tata Motors Ltd., via Jaguar Land Rover Automotive PLC (JLR), has relatively high exposure to the U.S. The firm could be affected if the U.S. imposes tariffs on autos made in the U.K.

Sectors such as steel and chemicals could also be hit indirectly if new tariffs lead to trade diversion away from the U.S. and into India as producers try to compensate for loss of U.S. sales. Rising imports from China, for example, have already pushed down steel prices in 2024.

Korea and Japan, which accounted for 15% of U.S. steel imports in 2024, could also redirect exports to India. Under our new downside scenarios, leverage for the sector could be 45% higher than our base case. For more details, please see "Indian Steelmakers Face Harsher Downside Scenarios On U.S.-Tariff Effect," March 5, 2025.

Capital expenditure to rise significantly for utilities. India plans to expand renewable capacity to an ambitious 500 gigawatts (GW) by 2032 from about 200GW currently. There is also significant investment in the transmission sector. Power Grid Corp. of India Ltd. could double its capital expenditure to more than Indian rupee 300 billion per annum for the next few years.

Such plans will make these utilities the exceptions to the declining leverage trend among Indian corporates, but they are unlikely to strain ratings, as leverage of affected firms will likely rise only moderately. This is because the additional debt will be supported by solid demand, a growing earnings base as new capacities come online, and a favorable regulatory backdrop that protects profitability. For example, NTPC Ltd.'s ratio of debt to EBITDA will likely rise to 5x by March 2027, a manageable pickup from the 4.7x currently.

Broad-based revenue and EBITDA growth to continue. We expect median revenue and EBITDA growth of our rated firms to reach nearly 8% in fiscal 2025. This would mark the fifth straight year of such expansion. Steel, chemicals and airport sectors will likely report above-average EBITDA growth.

In our base case, steel producers will benefit from a modest decline in input prices and a substantial increase in volumes following recent capacity additions, although product prices will likely stay rangebound. This is assuming no impact on steel prices from trade diversion under the U.S tariffs.

The chemicals sector will continue to recover following the downturn in 2024. Airports, particularly Delhi Airport, will benefit from higher passenger yields once new rates are implemented. Utilities' EBITDA will grow at about 10%, on the back of rising demand and new capacity.

The exception will be autos. The sector will post modest growth as it enters a cyclical slowdown after a period of sharp sales gains that peaked in 2023. While the Indian economy is also slowing after a period of brisk expansion, looser monetary policy and government initiatives to boost consumer demand should fortify demand for the sector.

Onshore liquidity and access to drive domestic funding. We expect Indian firms to predominantly fund onshore this year given the lower cost of domestic markets. Offshore channels, including dollar bonds, remain an option, but companies will likely use this selectively. Most issuers have limited or manageable need for refinancing or growth funding.

Sovereign outlook positive but idiosyncratic risks remain. About 30% of our outlooks on rated Indian firms are positive while 20% are negative, driven largely by linkages to the positive sovereign outlook and the recent negative actions on the Adani group entities.

This highlights idiosyncratic risks that remain on the horizon even though we expect the credit metrics of most of our rated issuers to modestly improve or stay broadly stable. The negative outlooks on Adani's group companies represent about half of the negative outlooks on Indian corporate ratings. The cause--an ongoing investigation by the U.S. Department of Justice--is not an operational issue, but it could hit the group's credit quality.

Australia and New Zealand

Indirect Exposure Threatens A Delicate Recovery

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Key Takeaways

- Australia and New Zealand have limited exports to the U.S., but indirect tariff effects could hit their large export sector.
- Weak Chinese demand pose risks for miners; a regional slowdown could hit ports and airports and derail the consumer and real estate recovery.
- Stabilizing office values will support REIT deleveraging; capex flexibility and bank liquidity will help infrastructure firms.

Less direct risks but substantial indirect exposure. Australia and New Zealand may face less risk of new U.S. tariffs relative to other Asia-Pacific economies. Instead of a trade surplus, the Pacific has a sizable US$16 billion trade deficit with the U.S. (see chart 17). They would also face less direct impacts from U.S. tariffs--their exports to the U.S. amount to just 1.1% of their combined GDP.

Adverse outcomes of U.S. tariffs, such as a global slowdown, could nevertheless deliver substantial indirect hits through the Pacific's large export sector, at a fifth of its GDP (see chart 18). China's weakening demand, for example, could weigh on Australian miners. If the slowdown becomes regional, it could hit port and airport volumes, nullify recent government stimulus, and derail the consumer and real estate recovery in key markets, particularly Australia.

Weak China growth is a key risk for iron ore miners. New U.S. tariffs on Chinese goods threaten to slow China's growth and further reduce the country's imports of Australian commodities. Global demand is already softening without the new levies, reflected in our assumption that iron ore prices will fall from US$100 per dry metric ton in 2025 to US$90 in 2026.

Chart 17

Australia's and New Zealand's low U.S. exports to limit direct exposure

Australia's and New Zealand's U.S. trade

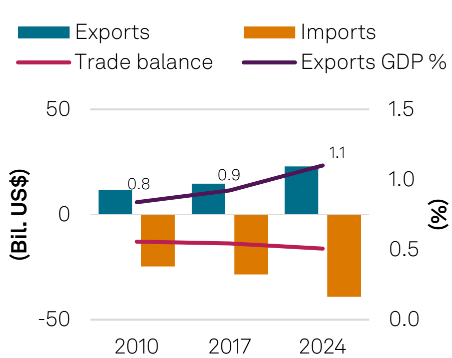
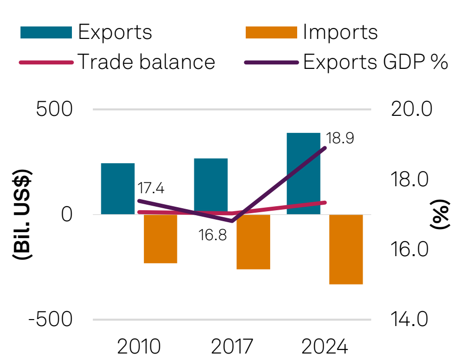


Chart 18

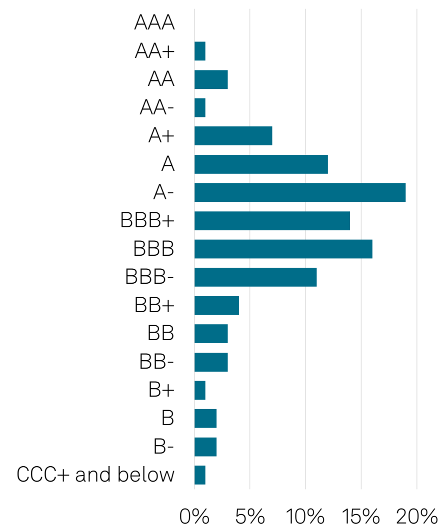
Australia's and New Zealand's large export sector raise indirect risks

Australia's and New Zealand's total trade

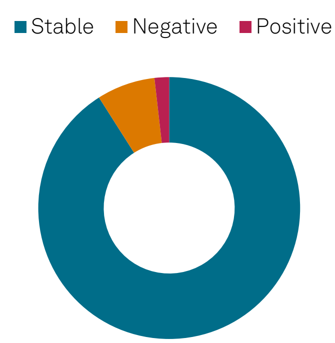


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Major iron ore operators such as Fortescue Metals Group Ltd., Rio Tinto PLC, and BHP Group Ltd. can absorb this price impact given their strong balance sheets and low-cost positions. However, entities higher up the cost curve could see their viability threatened if fresh tariffs trigger a pullback in China's industrial activity and pressure the sector's profitability.

Copper and gold more resilient on price outlook and U.S. protection. Commodities that stand to benefit from energy transition, such as copper, enjoy a healthy price outlook. Meanwhile, gold continues to trade at record price levels, reflecting its role as a hedge against inflation and geopolitical uncertainties. These commodities are likely to remain resilient against coming tariff headwinds.

On the metals side, the competitive and cost advantages of Australian producers with operations in the U.S may benefit from U.S. tariffs at the expense of their global peers, particularly those with tighter profit margins. This includes steel and packaging manufacturers Bluescope and Amcor.

Consumer recovery could be derailed by new U.S. tariffs. New U.S. tariffs and resulting retaliation by targeted countries could disrupt global supply chains and rekindle supply-side inflation. This, plus other potential effects such as slower growth, weaker confidence, and retreats from spending to saving could nullify recent rate cuts and stimulus and derail the gradual consumer recovery in Australia and New Zealand.

Australia's consumption has held up on a resilient labor market that has pushed down unemployment to generational lows. Recent federal income tax cuts and other stimulus will help raise consumers' propensity to spend, even if they do so in a price-conscious manner.

Rate cuts by the Reserve Bank of Australia will also encourage spending. This is particularly the case for lower-income households with high mortgage debt, as they have been hit the hardest by higher prices and mortgage payments amid a protracted decline in real wages. Lastly, government scrutiny on the marketing practices of supermarkets could reduce their pricing flexibility; however, resulting regulatory actions may lead to pricing adjustments that facilitate more spending.

REIT recovery relies on improving financing conditions. Commercial real estate is set to recover further on the back of lower rates and a stronger sector outlook--if these conditions are not derailed by new U.S. tariffs. Mirvac Wholesale Office Fund, Kiwi Property Group and Investa Commercial Property Fund are all seeking to sell assets and raise fresh equity or third-party capital. These plans are critical to easing pressures on the trusts' credit quality after years of rising redemptions and falling valuations and capital investments.

For offices, lower interest rates and stabilizing valuations should support asset sales, particularly in Sydney, Australia's largest office market. An improving sector outlook and a weaker Australian dollar should also encourage inflows of foreign capital to further support equity fundraising, although landlords will balance divestments with portfolio scale and competitive position.

In retail, demand for high-quality assets continues to strengthen under low supply over the past five years and a strong recovery in foot traffic after the pandemic.

In the industrial sector, vacancy and incentive rates will rise modestly in 2025, albeit from a low base. Credit profiles should remain stable, underpinned by high quality, well-located, and highly diversified assets with long leases. Strong demand for data centers, in particular, will provide a substantial new growth area for players such as Goodman Group.

Lastly, credit improvements will also hinge on bond market access. Adverse market conditions and competitive loan pricing over recent years led more issuers to borrow from banks. As a result, debt maturities have shortened meaningfully. Associated risks are moderating as inflows return to the bond market, which is tightening spreads and allowing issuers to restore longer debt tenors and more funding diversity.

The energy sector faces elevated capex and policy uncertainties. Capital outlays remain elevated in the energy sector. This exacerbates sensitivity to economic slowdowns and supply and demand imbalances. Regulated entities benefit from cost-recovery mechanisms, but unregulated ones rely on their own capital management, risk-sharing, and hedging to temper exposure to market cycles.

Investments in renewable energy may moderate in 2025 from record levels in 2024. Australia's election could also affect the amount and type of future investments given the policy divergence between the country's major political parties. The incumbent government may press ahead with its renewable agenda, but the opposition party's promotion of nuclear generation could hurt investments in wind, solar, and firming batteries.

Fossil fuels firms are looking to balance returns against the higher capital needs of sustainability projects. They are likely to reorient their focus toward traditional projects, given the challenge for renewable projects to achieve comparable returns, particularly under policy uncertainties ahead. Woodside's decision to delay its hydrogen and solar projects in the U.S. reflects a reassessment of the need for clean energy investments that generate lower returns.

Against these considerations are booming power demand for data centers and their construction, which continue to drive the need for renewables as well as other sources of energy.

Infrastructure firms have some exposure to geopolitical tensions despite defensive characteristics. Most entities in the sector are coping with higher costs fueled by inflation and more frequent adverse weather events. New U.S. tariffs and rising geopolitical tensions in Asia-Pacific could add to these strains.

Ports and airports may face slower growth; this is given 80%-85% of port trade is headed to or coming from Asian economies, while 75%-80% of international tourism into Australia also comes from the region. For land transport, poor consumer confidence or lower spending due to any tariff impact would likely knock on to rail freight volumes, which are already dealing with competitive challenges. The utilities sector is less exposed to global factors but faces high capital investments. Execution risk remains high with cost and risk sharing mechanism becoming more common.

Rated firms in these sectors have the financial flexibility, mainly around timing of capex, to withstand some turbulence over the next 12 months. Refinancing needs, meanwhile, are supported by strong liquidity in the bank market and healthy appetite for Australian infrastructure assets from offshore investors.

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