The Tariff Map Redrawn

US-Asia Trade at Mid-2026: Effective Rates, Rules of Origin, and Supply-Chain Rerouting

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Abstract

By mid-2026 the US-Asia tariff regime has hardened from a negotiating tactic into a structural feature of the trade map. The US-China truce holds at a 47.5% effective rate, India sits at 36%, and Vietnam faces intensifying transshipment scrutiny. We argue the market continues to underprice tariffs as both a first-order drag on regional export margins and a fat tail. Near-zero direct export profitability on many Chinese goods is now forcing geographic diversification of China's 1.2 trillion USD surplus, rerouting production and value-added through ASEAN and India. Rules-of-origin enforcement, not headline rates, is the binding variable that determines who captures relocation rents and who inherits stranded capacity. We map effective rates across the region, quantify the rerouting channel, and set positioning: overweight India and domestic-demand ASEAN (Indonesia, Singapore), market weight the reroute beneficiaries where enforcement risk is live (Vietnam, Malaysia), and underweight China domestic demand and Thailand.

1. The Regime Has Set: From Threat to Structure

For eighteen months markets treated the US tariff agenda as a bargaining posture that would soften once deals were struck. That framing is now wrong. By mid-2026 the tariff schedule has crystallized into a durable regime with three defining features: a US-China truce that stabilizes rather than reverses the escalation, at a 47.5% effective rate on Chinese goods; a tiered structure that penalizes some partners far more than others; and an enforcement architecture built around rules of origin rather than headline rates. The regime is no longer a risk event with a resolution date. It is the operating environment.

The macro backdrop makes the timing acute. WTO merchandise trade volume growth is running near 0.5% in 2026, down from above 2% across 2024 and 2025, and the deceleration is concentrated precisely in the trade corridors the tariff map has reshaped. Asia-Pacific still grows around 4.4% and contributes roughly 60% of world GDP growth, but that resilience is increasingly a story of domestic demand and intra-Asian reallocation rather than the old China-to-US export engine. The engine has not stalled so much as been rerouted, and the rerouting is where the money, and the mispricing, now sits.

> **Our view:** The consensus error is treating tariffs as a 2025 shock that has passed. We treat the 47.5% China rate and the tiered ASEAN and India schedule as a permanent feature of the cost of capital for regional exporters. It is both a first-order margin drag and a live tail risk, and it is underpriced on both counts.

2. Mapping the Effective Rate Landscape

Headline tariff numbers mislead because they ignore stacking. The effective rate that matters is the blended burden across Section 301 legacy duties, the reciprocal tariff layer, sectoral levies on steel, aluminium, autos, and semiconductors, and the residual most-favored-nation base. On that basis the map is steeply tiered. China sits at a 47.5% effective rate under the truce, a level that leaves direct export margins on a wide range of consumer and intermediate goods at or below zero. India, despite its strategic courtship by Washington, carries a 36% effective rate that has become a genuine irritant in the bilateral relationship even as the India-EU trade deal opens an offsetting corridor. The ASEAN cluster is broadly exposed but internally differentiated, with Vietnam singled out for transshipment enforcement.

Economy	Effective US tariff (mid-2026)	Primary exposure channel	Rerouting role
China	47.5%	Direct exports, near-zero margins	Origin of diverted surplus
India	36%	Textiles, pharma, electronics	Net reroute beneficiary
Vietnam	~20% base, higher on transship	Electronics, furniture, footwear	Beneficiary under enforcement risk
Thailand	~19%	Autos, electronics	Marginal, high domestic drag
Indonesia	~19%	Commodities, downstream nickel	Beneficiary via downstreaming
Malaysia	~19%	Semiconductor packaging	Beneficiary, China oversupply risk
Japan	~15% autos	Autos, machinery	Insulated, quality exporter

Effective rates are blended estimates across reciprocal, sectoral, and legacy layers. Vietnam's applied rate rises materially where rules-of-origin fail. Sources: USTR schedules, J.P. Morgan Asia Trade Tracker, Nikkei Asia compilations, Darmine estimates.

The single most important line in that table is the gap between China at 47.5% and the ASEAN cluster near 19%. That 28-point wedge is the entire economic rationale for supply-chain rerouting. It is large enough to justify the fixed cost of relocating assembly, re-papering suppliers, and absorbing the friction of a less mature manufacturing base. It is not, however, large enough to survive if rules-of-origin enforcement collapses the distinction between goods genuinely transformed in ASEAN and goods merely passed through it.

> **Our view:** The wedge, not the level, is the tradable variable. A 47.5% China rate against a 19% ASEAN rate creates a 28-point arbitrage that funds real capacity relocation. Own the economies that can defend the arbitrage with genuine value-added; avoid those whose beneficiary status rests on relabeling.

3. Rules of Origin: The Binding Constraint

The regime's center of gravity has shifted from rates to rules. A tariff schedule is only as meaningful as the origin regime that decides which schedule applies. Washington has learned that a 47.5% China rate is trivially circumvented if Chinese goods can acquire a Vietnamese or Malaysian passport through minimal final assembly. The 2025 and 2026 enforcement push, centered on regional value content thresholds and substantial transformation tests, is the mechanism by which the US converts a static rate schedule into a dynamic tool that follows production wherever it goes.

3.1 The Transshipment Penalty

Vietnam is the test case. Its bilateral surplus with the US ballooned as first-stage rerouting sent Chinese intermediates through Vietnamese final assembly, and Washington responded by writing an explicit transshipment penalty into the Vietnam framework: goods deemed transshipped rather than substantially transformed face a punitive rate roughly double the standard applied tariff. This is not a rhetorical threat. Customs data matching, supplier audits, and value-content documentation requirements have turned origin compliance into an operational risk that sits on the income statement of every exporter routing through Vietnam.

The economics are stark. An exporter that genuinely localizes 40% or more of value content in Vietnam captures the 28-point arbitrage cleanly. An exporter that ships near-finished Chinese goods for cosmetic assembly faces a rising probability of the transshipment rate, which erases the arbitrage and adds a compliance and reputational tail. The dispersion between these two outcomes is enormous, and equity markets are pricing the Vietnam manufacturing complex closer to the benign case than the enforcement-adjusted mean.

The mechanics of the origin regime reward real industrialization and punish arbitrage. A regional value content test that requires, say, 40% of a good's value to originate within the exporting economy forces the relocation of genuine processing steps, component sourcing, and labor rather than a final box-assembly stage. Economies that have already built deep supplier networks can clear that bar and defend the arbitrage through a full audit cycle: India in electronics and pharmaceuticals, Indonesia in nickel and battery precursors. Economies whose beneficiary status rests on thin final assembly cannot, and the gap between the two is precisely the dispersion the market is failing to price. Enforcement therefore does not destroy the reroute; it sorts it, concentrating the relocation rents in the economies that did the industrial work and stranding the capacity that merely relabeled. This is why the correct unit of analysis is the supplier, not the country, and why aggregate country-level exposure indices systematically overstate the safety of the pass-through names.

> **Our view:** Vietnam is a market weight, not an overweight, precisely because its beneficiary status is contingent on an enforcement variable it does not control. We are constructive on genuine localizers and cautious on the aggregate. The correct trade is selectivity within Vietnam, not a blanket long.

4. The 1.2 Trillion Surplus Has to Go Somewhere

China ran a record trade surplus of roughly 1.2 trillion USD in 2025. That number is the fulcrum of the entire regional trade story. A 47.5% effective US tariff does not make that surplus disappear; it makes the direct US channel uneconomic and forces the surplus to seek other geographies. The result is a two-front diversion: China's exports are being redirected toward third markets, and Chinese capital and intermediate goods are being relocated into ASEAN and Indian production platforms that can access the US at 19% to 36% rather than 47.5%.

This is why the tariff regime is fundamentally a rerouting story rather than a de-globalization story. Volumes are not being destroyed at the pace headline decoupling rhetoric implies. WTO merchandise growth of 0.5% is weak, but it is positive, and beneath the aggregate the composition is shifting violently. Chinese direct exports to the US fade; Chinese-linked exports via ASEAN and India rise; and the value-added that used to be captured entirely in China is now split, with the marginal slice migrating to the reroute economies.

The scale of the diversion is easier to grasp in flow terms. A 1.2 trillion USD surplus is larger than the entire annual output of all but a handful of economies, so even a partial reallocation reshapes trade balances across the region. If a meaningful fraction of the China-to-US direct channel migrates into ASEAN and Indian assembly over the next three years, the reroute economies absorb capital inflows and incremental export volumes that are large relative to their own pre-tariff manufacturing base. That is what makes the reroute a genuine investment thesis rather than a rounding error: the marginal buyer of ASEAN and Indian industrial capacity is now a Chinese producer priced out of the direct US channel, and the marginal arbiter of that relocation is a Washington enforcement regime deciding how much of the value-added must be real. Asia contributing roughly 60% of world GDP growth is, in part, this diversion showing up in the growth accounts: the region is not merely exporting less to America, it is rebuilding a share of the supply chain inside its own borders.

4.1 Deflation as the Pressure Valve

China's persistent deflation is not incidental to this story; it is the pressure valve. With domestic demand soft, the property overhang unresolved, and the US channel throttled, Chinese producers are clearing excess capacity into every accessible market at falling prices. That exported disinflation is a gift to some Asian importers and a threat to others. Malaysian and Thai producers competing directly with Chinese oversupply face margin compression, while Indonesian and Indian domestic-demand stories are relatively insulated. The PBoC's moderately loose stance and continued easing reinforce the dynamic rather than reversing it.

> **Our view:** We remain underweight China domestic demand. The surplus diversion and exported deflation are structural, not cyclical, and easing does not fix a demand problem rooted in property and confidence. The trade is to own the recipients of the diverted capacity, not the source.

5. Where the Reroute Lands: India and ASEAN

The reroute is not evenly distributed. It flows toward economies with three attributes: a large enough domestic market to anchor investment beyond pure export arbitrage, a credible substantial-transformation story that survives origin audits, and policy stability. On that test India and Indonesia score highest, Vietnam and Malaysia score well but carry enforcement or oversupply risk, and Thailand scores poorly.

5.1 India: Structural Conviction

India remains our highest structural conviction in the region despite a 36% effective US tariff that is higher than the ASEAN cluster. The reason is that India's growth of roughly 6.5%, the fastest of any major economy, is domestic-demand driven and therefore far less tariff-sensitive than an export-led model. The S&P upgrade to BBB from BBB- lowers the cost of capital at exactly the moment global manufacturers are choosing relocation sites. A median age of 28 supplies the labor. The India-EU trade deal opens a large tariff-advantaged corridor that partially offsets the US rate. India is the rare economy where the tariff map is a marginal headwind rather than a first-order determinant of the equity thesis.

5.2 Indonesia and Singapore: Domestic and Defensive

Indonesia's nickel downstreaming and EV-battery buildout give it a reroute story anchored in genuine resource-based value-added, backed by 270 million consumers and strong FDI, at roughly 5.0% growth. Singapore is the region's quality-defense holding: 2025 grew 5.0% with Q4 up 6.9% year on year and manufacturing up 18.8% in the fourth quarter, the MTI 2026 forecast has been upgraded to 2.0 to 4.0%, MAS maintains gradual S NEER appreciation, and the construction pipeline of Changi Terminal 5, Tuas Port, and the North-South Corridor underwrites domestic activity through the trade cycle. Neither is a pure tariff play, which is exactly why both belong overweight in a portfolio whose dominant risk is trade dislocation.

> **Our view:** Overweight India on structural conviction and Indonesia and Singapore on insulated, domestically anchored growth. These are the cleanest ways to be long the reroute without owning the enforcement tail that sits on the pass-through economies.

6. The Chip Corridor and the Divergence Overlay

The tariff map does not sit on a neutral macro. It overlays a region already pulled apart by central-bank divergence and the AI capex cycle. Taiwan and Korea account for roughly 30% of global AI capex per J.P. Morgan, driving 12% to 13% EPS growth for Asia ex-Japan. That semiconductor and AI hardware corridor is partly insulated from consumer-goods tariffs but exposed to the sectoral semiconductor levies and to the memory-chip cycle. Korea's 2025 collapse to 1.1% growth amid its constitutional crisis gives way to a roughly 1.8% recovery in 2026, high beta and tactical rather than a core hold. Malaysia's semiconductor packaging benefits from the same corridor but carries direct China oversupply risk.

The divergence overlay sharpens the currency dimension of the tariff trade. The BOJ is normalizing toward a 0.75% to 1.0% policy rate by mid-2026 with the 10-year JGB above 2.3%, the highest since 1998, Shunto wages near 5.5%, and PM Sanae Takaichi's expansionary fiscal stance; we hold Japan at market weight with selective financials and a TOPIX target of 3,350 to 3,400. The PBoC eases, the Fed cuts, and MAS appreciates. For a US importer choosing a reroute base, a normalizing yen, an easing renminbi, and an appreciating Singapore dollar all feed into the landed-cost calculus alongside the tariff rate. Tariffs are the largest term in that equation but not the only one.

> **Our view:** Treat Taiwan and Korea as the AI-capex beta of the region and manage them tactically around the chip cycle, not as tariff-regime hedges. The genuine tariff insulation sits in domestic-demand India, Indonesia, and Singapore, not in the export-heavy chip corridor.

7. Why the Regime Is Still Underpriced

Three mispricings persist. First, duration: markets model the tariff schedule as a level that will drift lower, when the enforcement architecture and the bipartisan US political economy point to persistence measured in years. Second, dispersion: the reroute beneficiaries are priced close to their benign case, ignoring the enforcement-adjusted mean that a serious transshipment crackdown would impose on Vietnam and the oversupply drag on Malaysia and Thailand. Third, the tail: a renegotiation shock, a truce breakdown, or an aggressive origin-enforcement escalation would hit regional export margins simultaneously, a correlation that current cross-asset pricing does not compensate.

The first-order drag is already visible in the 0.5% WTO trade-volume print and in fading Chinese exports. The tail is the part the market refuses to hold capital against. A regime that can move applied rates through origin rulings, without any change in the headline schedule, is a regime whose risk is intrinsically hard to hedge and therefore intrinsically underpriced. The correct response is not to avoid the region, which still delivers 4.4% growth and 60% of world growth, but to concentrate exposure in the parts of the map where the tariff variable is a second-order term.

> **Our view:** The tariff regime is the region's most underpriced first-order and tail risk. We express the view by rotating from export-margin exposure toward domestic-demand and value-added exposure, and by treating rules-of-origin enforcement as the single catalyst most likely to force a repricing.

Portfolio Positioning Summary

Overweight: India (highest structural conviction, domestic-demand driven, 6.5% growth, S&P upgrade to BBB, India-EU corridor offsetting the 36% US rate); Indonesia (nickel downstreaming and EV batteries, 270m consumers, insulated reroute beneficiary); Singapore (quality defense, MTI 2026 upgraded to 2.0 to 4.0%, MAS S NEER appreciation, Changi T5 and Tuas Port pipeline).

Market weight: Vietnam (reroute beneficiary but contingent on transshipment enforcement it does not control; own genuine localizers, not the aggregate); Malaysia (semiconductor packaging beneficiary offset by China oversupply risk); Japan (BOJ normalizing, selective financials, TOPIX 3,350 to 3,400); Taiwan and Korea managed tactically as AI-capex beta around the memory-chip cycle.

Underweight: China domestic demand (surplus diversion and persistent deflation are structural; PBoC easing does not fix property and confidence, US effective tariff 47.5%); Thailand (regional laggard at 1.8 to 2.5%, auto transition, high household debt, weak China tourism, March 2026 election overhang).

Key catalysts to reassess: Reassess on: a US transshipment enforcement escalation against Vietnam or a formal origin-rules tightening; any change to the 47.5% China truce rate in either direction; India-US progress lowering the 36% rate or a breakdown that raises it; a China deflation acceleration intensifying exported oversupply; BOJ hitting 1.0% and JGB moves through 2.5%; and a memory-chip cycle inflection reshaping the Korea and Taiwan capex beta.

Conclusion

The tariff map at mid-2026 is no longer a negotiation in progress; it is the settled terrain on which Asian trade now operates. The 47.5% China rate, the 36% India rate, and the roughly 19% ASEAN cluster are not way stations toward a resolution but the coordinates of a durable regime. The economically decisive feature is the 28-point wedge between China and ASEAN, which funds a vast rerouting of China's 1.2 trillion USD surplus through third markets, and the rules-of-origin enforcement architecture that decides who captures the relocation rents and who inherits stranded, relabeled capacity.

For allocators the implication is to stop trading the tariff regime as a passing shock and start owning the parts of the map where it is a second-order term. That means overweight India, Indonesia, and Singapore, where domestic demand and genuine value-added insulate the equity thesis; market weight the reroute economies whose beneficiary status is contingent on enforcement; and underweight China domestic demand and Thailand. Above all it means holding capital against the tail. A regime that can move applied rates through origin rulings alone is one whose largest risk is also its most underpriced, and rules of origin, not headline rates, will write the next chapter.

Sources and Further Reading

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