How could uncertainties around US policy impact emerging markets?

The new administration in Washington is pursuing radical changes to global trade – what consequences could these have for rising economies?

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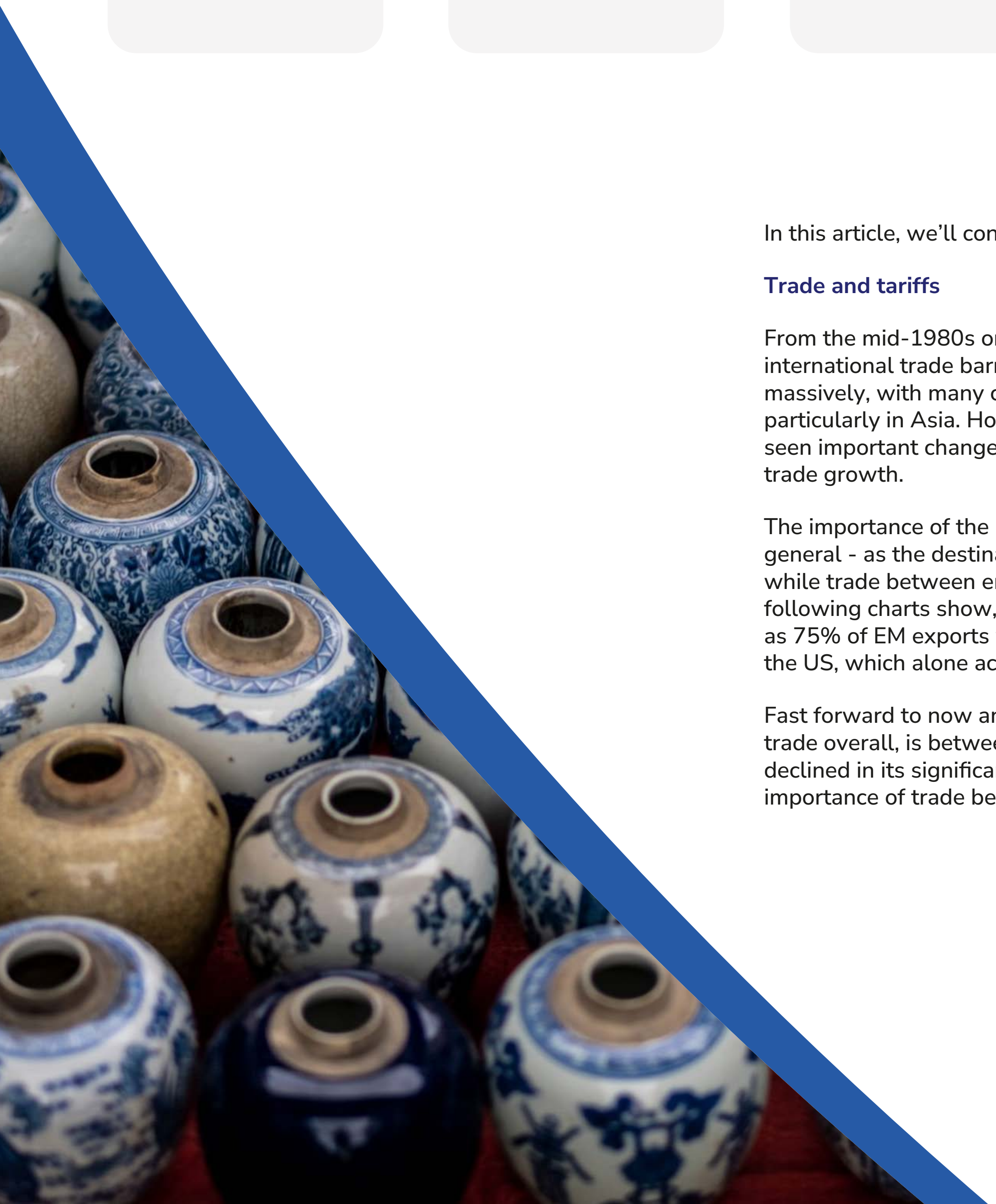
The Trump administration is instituting policy changes that will have far reaching implications for much of the world. They span the domestic economy, society and foreign policy, and they are likely to have consequences for the macro outlook for emerging markets (EM).

Should public proclamations of intended US policy changes translate into action and remain in effect for a sustained period, there are four main areas they'll likely impact:

1. Trade
2. Aid
3. Remittances
4. Changes in the outlook for US growth and inflation



In this article, we'll consider each of these in turn.

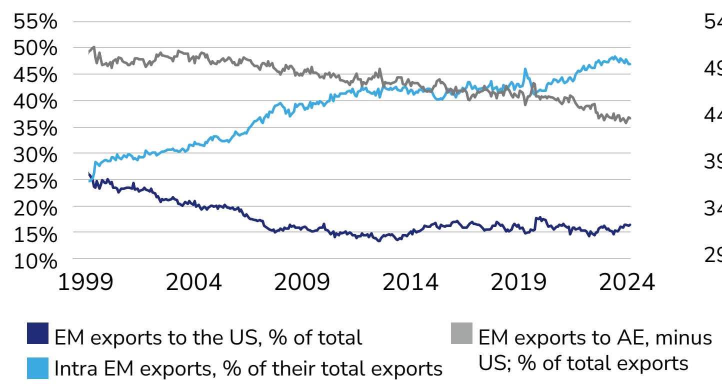
Trade and tariffs

From the mid-1980s on, there was a rapid reduction in international trade barriers. Emerging markets benefited massively, with many countries emerging as strong exporters, particularly in Asia. However, the last two decades have seen important changes in the dynamics surrounding this trade growth.

The importance of the US – and advanced economies in general - as the destinations for EM exports has declined, while trade between emerging markets has grown. As the following charts show, in the late 1990s/early 2000s, as much as 75% of EM exports went to advanced economies including the US, which alone accounted for a quarter.

Fast forward to now and almost half of EM exports, and trade overall, is between themselves. Trade with the US has declined in its significance for the EM economies, while the importance of trade between emerging markets has increased.

EM export shares; goods (IMF DOT)



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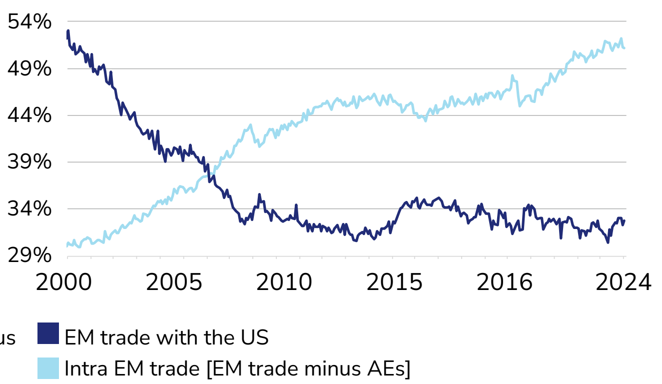
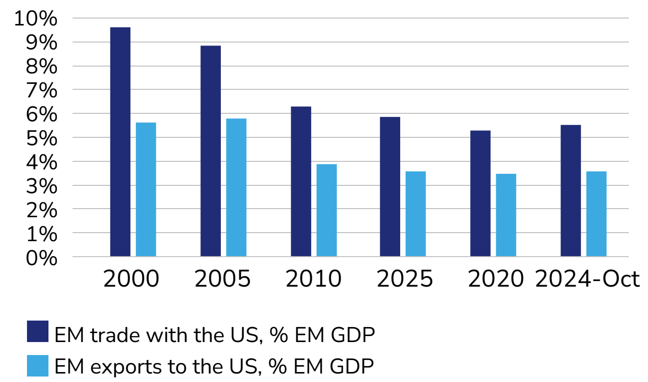
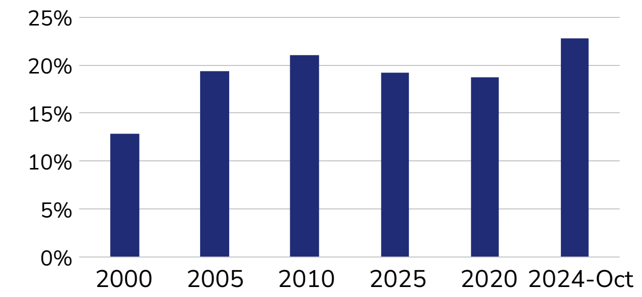


EM exports/trade with the US



Intra EM trade; % EM GDP



Source: IMF Direction of Trade Statistics, 28 February 2025

Looking at the table on the next page, and bearing in mind the still uncertain outlook for tariffs and trade, emerging Asia and Latin America appear most vulnerable given the large share of their exports to the US. African countries are also vulnerable, given large tariff differentials with the US. Looking across the emerging markets most vulnerable in terms of trade and tariffs, we estimate they account for a quarter of benchmark indices.

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Key risk
The value of any investment and any income taken from it is not guaranteed and can go down as well as up, and investors may get back less than the amount originally invested. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

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EM trade vulnerabilities; top 20

	Trade surplus	Exports to the US	Tariff differential	EMBI GD
	USD blns	%GDP	%; simple avg.	Index weight; Feb-25
China	295.4	2.4	-8.3	3.65
Mexico	171.8	26.6	6.6	4.87
Vietnam	123.5	26.6	5.4	-
Taiwan	74.0	11.6	2.2	-
South Korea	66.0	6.8	2.0	-
India	45.7	2.3	11.5	0.77
Thailand	45.6	10.9	7.3	-
Malaysia	24.8	11.6	2.3	-
Indonesia	17.9	2.0	5.7	4.32
Hungary	9.4	5.1	0.9	2.68
Costa Rica	2.0	12.1	0.1	1.04
Nigeria	1.5	1.6	12.3	2.20
Jordan	1.3	2.3	11.8	0.80
Angola	1.2	1.4	10.8	1.11
Ivory Coast	0.4	1.2	12.3	0.60
Ghana	0.2	2.1	11.6	0.82
Zambia	0.1	0.6	13.6	0.28
Kenya	-0.1	0.8	15.5	0.83
Senegal	-0.1	0.5	12.8	0.33
El Salvador	-2.3	7.2	-0.1	0.82
Singapore	-2.8	8.2	0.1	-

Source: Morgan Stanley; JP Morgan; L&G

A second source of vulnerability for emerging markets arises from the US's mooted suspension of bilateral aid. The United States is amongst the largest sources of aid, channelling some $80 billion USD in 2023 to emerging markets via various agencies and programmes[1].

Notwithstanding the large absolute dollar amount relative to other bilateral donors, at an aggregate level the support provided is relatively small at just 0.2% of EM GDP in 2023 (our calculation, based on GDP data from the IMF). Even at a disaggregated level, and if we disregard Ukraine, US aid provided to countries with traded external debt is relatively small - as detailed in the table opposite.

1. Source: foreignassistance.gov, 2025

US aid: largest recipients

	FY23 disbursements	% 2023 GDP	EMBI GD weight (Feb-25); %
Ukraine	24.4	13.7	1.4
Israel	3.3	0.6	-
Ethiopia	1.8	1.1	0.1
Jordan	1.7	3.4	0.8
Egypt	1.4	0.4	2.6
Afghanistan	1.3	7.4	-
Somalia	1.2	11.0	-
Nigeria	1.0	0.3	2.2
DRC	1.0	1.5	-
Syria	0.9	3.8	-
Colombia	0.7	0.2	2.8
Mozambique	0.7		0.1
Total			10.0

Source: www.foreignassistance.gov, 2025

Remittances from the US

EM external financing needs could also rise in some emerging markets thanks to plans to deport as many as 11 million illegal migrants from the United States. Data from the Migration Policy Institute presented in the table on the right suggests a heavy skew to Mexico within the unauthorised population.

The data opposite covers 70% of the estimated migrant population. In the table opposite, we also include other countries which receive significant remittances from the US. It is conceivable that some part of the migrant population from these countries is unauthorised.

Although there are significant uncertainties (including logistical and potentially legal challenges), should the Trump administration be successful in executing its deportation policies, some of the countries could see lower remittances, and – all else being equal – larger external financing needs.

Profile of the unauthorised population

Demographics	Estimate	% of Total
Unauthorised Population	11,047,000	100%
Top Countries of Birth		
Mexico	5,313,000	48%
El Salvador	741,000	7%
Guatemala	724,000	7%
India	553,000	5%
Honduras	490,000	4%

Source: Migration Policy Institute, 2025
migrationpolicy.org/data/unauthorized-immigrant-population/state/US

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EM economic strength

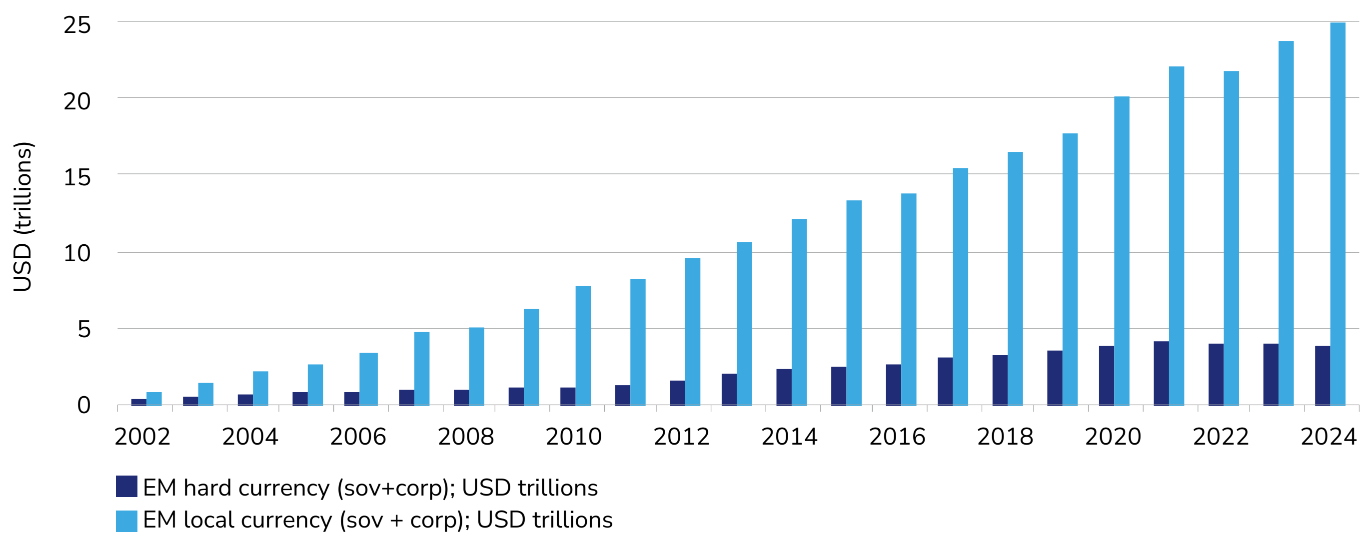
However, whether it's the decline in aid or remittances, there are several mitigating factors.

Most of the countries with heavy remittance exposure are rated either investment grade or high BB, implying stronger buffers via FX reserves, large local markets, more flexible exchange rates and access to global capital markets. EM local markets – catering to both sovereign and corporate issuers - were sized at nearly $25 trillion USD at the end 2024, having doubled since 2014[2]. This growth in local markets is testimony to reforms carried out over the last two decades, with many emerging markets moving to more credible monetary policy and exchange rate frameworks.

Further, relatively contained EM spreads means market access remains strong for emerging markets experiencing larger needs.

Indeed, despite the uncertainties around the US macro and policy outlook, issuance from EM sovereigns in the year to date – $82.5 billion USD – is running close to record levels[3]. Meanwhile, lower rated credits such as Honduras and El Salvador are benefiting from ongoing IMF programmes that could help facilitate greater financial support if need be. Indeed, the post-COVID period has seen multilateral agencies increase their support for emerging markets.

The rapid development of local markets provides financing flexibility to EM

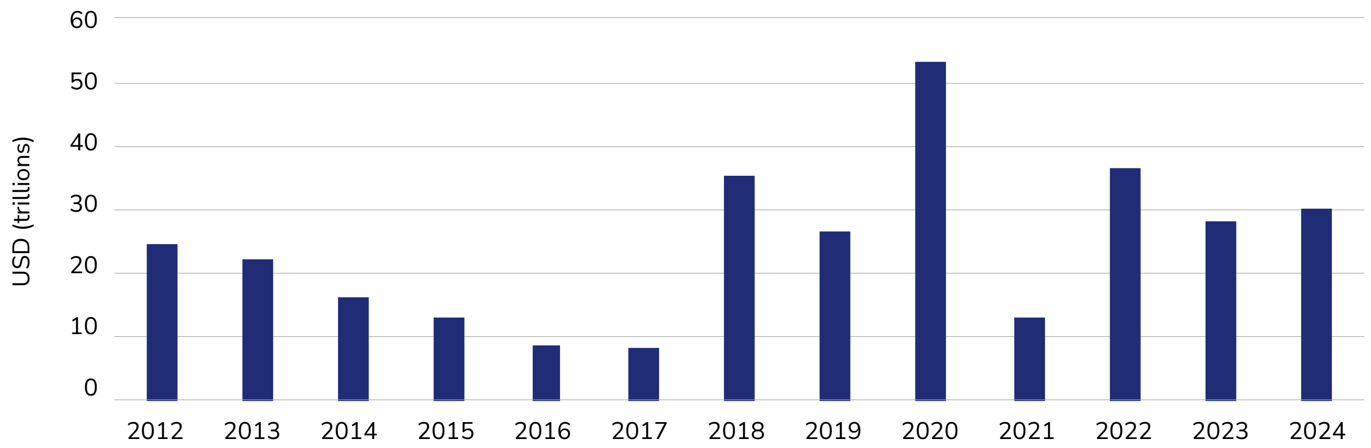


Source: JP Morgan, L&G; March 2025

EM aversion to using the exchange rate as a buffer against shocks has increased

Source: Deutsche Bank, 20 March 2025

The IMF has lent an average $32 billion USD annually over the last 5 years



Source: IMF, March 2025

Concluding thoughts

Rapid changes in US policies pose risks for emerging markets. However, the EM world is much stronger than it used to be. Nowhere is this more evident than in Asia, home to some of the world's fastest growing economies. Reforms since the Asian Financial Crisis in 1997 have opened the door to decades of growth outperformance, with Asian countries continuing to anchor EM growth, FX reserves and ratings. This story is not only about China and India - Indonesia, Philippines, Malaysia, Vietnam are all examples of how countries can turn the corner.

2. Source: JP Morgan, IMF, L&G calculations, March 2025
3. Source: Morgan Stanley at at 14 March 2025

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Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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