Policy Analysis Focus 25-7
Impact of US Reciprocal Tariff on Third Economies[1]

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I. Introduction

The temporary suspension until July 9 of the reciprocal tariff introduced by United States (US) President Trump has been extended to August 1. Meanwhile, announcements of new tariff rates have continued. Tariffs lower than those previously announced would be applied to several economies whose US negotiations have been agreed. On the other hand, high tariffs (similar in scale to the reciprocal tariffs announced in April) would be applied to other economies whose US negotiations have not reached agreement. The impact of changes in the magnitudes of US tariff hikes on major economies including China, Canada, Mexico and the European Union (EU) would be large on third economies alongside own economies.

This article quantitatively investigates the relative significance of the impact of US reciprocal tariff on third economies by means of simulation studies using a computable general equilibrium (CGE) model of global trade.[2]

II. Review of US reciprocal tariff

Reciprocal tariff rates on 57 economies were indicated in the Executive Orders of President Trump on April 2.[3] Rates of reciprocal tariff on 14 economies including

[1] This is a supplementary report to Kawasaki (2024), "Economic Impact of Further US Tariff Hikes," GRIPS Discussion Paper 24-12, GRIPS, December 2024. The views expressed in this article are the author's own and do not represent those of GRIPS Alliance or other organizations to which the author belongs.
[2] The framework of model simulations remains unchanged from that in Kawasaki (2024). The Global Trade Analysis Project (GTAP) 7 model (based on GTAP 11c Data Base) is solved using GEMPACK software referred to in Horridge, Jerie, Mustakinov & Schiffmann (2018), GEMPACK Manual, ISBN 978-1-921654-34-3, incorporating dynamic effects of capital and labor. The baseline data for GDP and population are updated to those for 2025 based on the World Economic Outlook (WEO) Database, International Monetary Fund (IMF).
[3] https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-

Table 1 US reciprocal tariff rates

(%)

	April 2	Updated		April 2	Updated
China	34	30	Japan	24	25
Korea	25	25	Brunei	24	25
Cambodia	49	36	Indonesia	32	19
Laos	48	40	Malaysia	24	25
Myanmar	44	40	Philippines	17	20
Thailand	36	36	Vietnam	46	20
Bangladesh	37	35	Sri Lanka	44	30
Canada	25	35	Mexico	25	30
Brazil	10	50	EU	20	30
Serbia	37	35	Moldova	31	25
Bosnia and Herzegovina	35	30	Kazakhstan	27	25
Iraq	39	30	Algeria	30	30
Tunisia	28	25	Libya	31	30
South Africa	31	30	World average	20	27

Sources: Based on various anouncements by US President.

Japan and Korea were announced on July 7[4] and on eight economies on July 9, including a hike of reciprocal tariffs from 10% to 50% on Brazil, with which the US has recorded a trade surplus. On the other hand, the reciprocal tariff on Indonesia, which concluded tariff negotiations with the US, would be reduced from 32% to 19% and on Viet Nam from 46% to 20%. Meanwhile, US auto tariff hikes would be limited to 10% on the United Kingdom (UK), lower than the uniform additional 25% tariff.

Meanwhile, China has been subjected to an additional 30% tariff, and imposition of reciprocal tariff hikes on Canada, Mexico and the EU have also been announced. Moreover, the US has announced its intention to hike unform additional tariffs on most trade partners from 10% to 15% or 20%. The above new US tariff rates as of July 15 are shown in Table 1. The world average US tariff rate is calculated to rise from around 20% to around 27%.

III. Macroeconomies impact

It must be noted that the impact of US tariff hikes on US and other economies would be affected by relations with other economies alongside bilateral relations through tariff negotiations between the US and other economies. A worldwide multi-region model rather than a single economy model is needed to estimate the economic impact.

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reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/

[4] https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-president-donald-j-trump-continues-enforcement-of-reciprocal-tariffs-and-announces-new-tariff-rates/

Table 2 presents the estimated impact of the new US-imposed reciprocal tariffs on real GDP, as shown in Table 1 (UPD) under a uniform 20% import tariff on other commodities, alongside a 50% additional tariff on imports of all metals including steel and aluminum and 25% on imports of motor vehicles and parts from the rest of the UK (10% on imports from the UK). Table 2 also presents the estimated impact of bilateral trade measures between the US and other economies, by US major trade partner, reflecting responses and retaliations of other economies based on tariff negotiations with the US alongside US imposition of additional tariffs on other economies.

It is estimated that US real GDP would further decrease, by 4.8%, as a result of the hikes of reciprocal tariffs; and that the risk of the US economy falling into negative growth would increase, under anticipated stagflation accelerated by inflation due to rising import prices prompted by US tariff hikes. By trade partner, the adverse impact due to mutual tariff hikes with China would be the largest, followed by adverse impacts of tariff hikes on Canada and its retaliation; and of tariff hikes on Mexico and the EU. US real GDP is also suggested to decrease if the US were to hike tariffs on Viet Nam and the UK, which have concluded US tariff negotiations.

Real GDP is estimated to decrease by 1.7% in China due to mutual tariff hikes with the US; that decrease would exceed the adverse impact on the US. That said, it is suggested that China's real GDP would not necessarily decrease to a large extent, given trade diversion effects resulting from US tariff hikes on Canada, Mexico and others.

On the other hand, it is estimated that real GDP would still decrease in Indonesia, Viet Nam and the UK (who have agreed tariff negotiations with the US) as a result of US tariff hikes on those three economies, but would increase overall due to trade diversion

Table 2 Real GDPimpact of US reciprocal tariffs

(%)

	UPD	CHN	JPN	IDN	VNM	CAN	MEX	BRA	EUM	GBR
US	-4.8	-1.2	-0.2	-0.0	-0.0	-0.7	-0.7	-0.1	-0.7	-0.0
China	-0.1	-1.7	0.1	0.0	0.0	0.3	0.3	0.0	0.2	0.0
Japan	0.4	0.6	-1.1	0.0	0.0	0.6	0.3	0.0	0.1	0.0
Indonesia	1.4	0.8	0.0	-0.9	0.1	0.4	0.2	0.0	0.1	0.0
Viet Nam	1.7	2.7	0.1	0.1	-2.6	0.3	0.3	0.0	0.1	0.0
Canada	-7.5	0.5	0.1	0.0	0.0	-8.1	0.4	0.0	0.4	0.0
Mexico	-11.6	4.1	0.8	0.0	0.2	2.0	-18.8	0.0	1.8	0.2
Brazil	-0.4	0.3	0.0	-0.0	0.0	0.2	0.0	-0.6	0.0	0.0
EU	0.3	0.3	0.0	-0.0	0.0	0.6	0.1	0.0	-0.9	0.0
UK	0.5	0.3	0.0	-0.0	0.0	0.3	0.0	0.0	0.1	-0.5
World	-1.4	-0.3	-0.0	-0.0	-0.0	-0.0	-0.3	-0.0	-0.2	0.0

Sources: Author's simulations.

effects. Meanwhile, real GDP would also increase on an overall basis by 0.4% in Japan and by 0.3% in the EU (neither of whom have agreed tariff negotiations with the US).

The adverse impact of US direct tariff hikes would be large in Canada, Mexico and Brazil, whose trade intensity with the US is higher than in other economies; that impact would not be offset by trade diversion effects with third economies. Real GDP decreases in Canada (-7.5%) and Mexico (-11.6%) would be greater than that in the US. In particular, motor vehicles and parts production would substantially decrease in Canada (-38.6%) and Mexico (-14.8%) as against the US (-10.6%): serious adverse impact would be a concern.

Some income effects and price effects would arise due to US tariff hikes. US tariff hikes on own economy would decrease exports to the US. On the other hand, tariff hikes on other economies would increase exporting competitiveness in the US market against other economies. The above estimation suggests that trade diversion effects would be quantitatively significant. As a matter of fact, US trade deficits with economies other than China have substantially increased as a result of the bilateral tariff hikes between the US and China under the first Trump administration.

IV. Concluding remarks

There is concern that exports to the US would decrease more since the magnitudes of US tariff hikes would be larger given the adverse economic impact of US tariff hikes. That said, it must be noted that the impact on other economies would be largely dependent on relations among those other economies, as well as trade diversion effects, rather than bilateral relations with the US alone. It will be necessary to study worldwide economic issues using appropriate economic models to investigate general equilibrium of multi-regions rather than partial equilibrium among specific economies.