

**Policy Analysis Focus 25-8**  
**Economic Impact of US Tariff Negotiations<sup>1</sup>**

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**I. Introduction**

The temporary suspension of the reciprocal tariff introduced by United States (US) President Trump has been extended to August 1. In the meantime, several economies have agreed tariff negotiations with the US: they would be subject to tariffs lower than those previously announced. 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. Meanwhile, announcements of hikes of additional US tariffs have continued against Canada, Mexico, the European Union (EU) and others.

This article quantitatively investigates the economic impact of US tariff negotiations under the introduction of US reciprocal tariffs, by means of simulation studies using a computable general equilibrium (CGE) model of global trade.<sup>2</sup>

**II. Macroeconomic impact**

The US has agreed tariff negotiations with the United Kingdom (UK), Indonesia, the Philippines, Viet Nam and Japan as of July 22. The UK would expand imports from the US by 5 billion US dollars (USD) (around 6%). On the other hand, the US would reduce to 10% the earlier additional 25% tariff imposed on imports of motor vehicles and

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<sup>1</sup> 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.

<sup>2</sup> 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).

parts from the UK. Indonesia, the Philippines and Viet Nam would remove tariffs on imports from the US and the US would reduce its reciprocal tariff on Indonesia from 32% to 19%, on the Philippines from 20%<sup>3</sup> to 19% and on Viet Nam from 46% to 20%. Meanwhile, Japan would allocate 550 billion USD (around 1.8% of US GDP) financing to promote investment in the US, and the US would reduce reciprocal tariffs from 25%<sup>4</sup> to 15% on Japan.

Table 1 presents estimates of the macroeconomic impact of new US reciprocal tariffs announced since April 2 and of the results of US tariff negotiations with the five economies discussed above (July 22), compared with impacts of initial reciprocal tariffs on April 2. US real GDP would still decrease by 4.7%, an adverse impact larger than that of initial reciprocal tariffs. There is concern that the adverse impact due to US additional tariff hikes against major trade partners<sup>5</sup> would be greater than the effects of export increases resulting from import expansion by other economies. US trade balance would improve by 76.5 billion USD, greater than the initial improvement, but would still not be

Table 1 Impact on trade and economy

	Real GDP (%)		Trade balance (USD B)		Consumption price (%)	
	April 2	July 22	April 2	July 22	April 2	July 22
Australia	-0.2	-0.2	-1.9	-2.3	-1.3	-1.3
New Zealand	0.4	0.3	-0.1	-0.1	-0.6	-0.6
China	-0.5	-0.1	-20.4	-26.7	-2.8	-1.7
Japan	-0.0	1.2	-0.3	-1.6	-1.5	0.4
Korea	-0.1	0.5	-2.0	-1.2	-1.5	-0.7
Chinese Taipei	-1.1	-0.6	-1.4	-1.3	-2.1	-1.4
ASEAN	-0.1	0.7	-4.1	-6.3	-1.8	-0.8
Indonesia	0.1	1.3	-2.2	-1.9	-2.3	-0.8
Philippines	1.5	1.8	-0.6	-1.3	-0.5	-0.3
Viet Nam	-2.0	1.6	1.5	-1.1	-3.7	-0.8
India	0.4	0.6	-0.2	-2.9	-1.3	-0.9
US	-4.1	-4.7	57.3	76.5	7.0	6.4
Canada	-3.2	-7.6	5.2	12.3	-3.2	-2.4
Mexico	-10.3	-12.1	-5.1	-6.6	-3.3	-4.6
EU	0.1	0.2	-6.1	-12.3	-1.0	-1.2
UK	0.4	0.5	-1.3	-1.6	-0.1	-0.7
Russia	0.3	0.5	-5.4	-5.8	-1.9	-1.9
World	-1.3	-1.4	-0.1	0.0	1.2	1.2

Source: Author's simulations.

<sup>3</sup> It was announced as 17% on April 2 but its revision to 20% was announced on July 9.

<sup>4</sup> It was announced as 24% on April 2 but its revision to 25% was announced on July 7.

<sup>5</sup> It has been announced that additional tariffs would be hiked from 25% to 35% on Canada, from 25% to 30% on Mexico and from 20% to 30% on the EU.

large, less than 0.3% of GDP. On the other hand, US consumption prices would still rise by 6.4% and the US economy would fall into serious stagflation.

Real GDP is generally estimated to increase in the economies that have agreed tariff negotiations with the US. It would increase more in Japan (1.2%), Indonesia (1.3%), the Philippines (1.8%) and Viet Nam (1.6%) than in the UK (0.5%). Japan's real GDP increase would expand by 0.3% point as a result of reductions of additional US tariffs on imports of motor vehicles and parts from Japan.

On the other hand, adverse real GDP impact would be mitigated in China and real GDP increase would rise in the EU, but serious adverse impact on real GDP would be much worse for Canada and Mexico. That said, it must be noted that the impact on third economies alongside economic impact on major economies would change depending on developments regarding further tariff negotiations.

### III. Impact by industry

The impact of US tariff hikes on US industries would not change substantially, as is shown in Table 2. US production of agriculture, forestry and fisheries (which are

Table 2 Impact on production by industry

	(%)					
	Agri, forestry & fisheries		Textiles & apparel		Motor vehicles & parts	
	April 2	July 22	April 2	July 22	April 2	July 22
Australia	-0.0	0.4	-0.6	0.3	2.2	2.9
New Zealand	-0.6	-0.1	-1.9	-1.8	0.5	2.1
China	-0.0	0.2	-2.2	-2.6	1.4	1.6
Japan	0.3	0.0	-3.1	-3.8	-1.4	8.9
Korea	0.1	0.1	-3.4	-1.7	-0.5	-1.4
Chinese Taipei	0.1	0.1	-4.6	-1.0	-1.0	-1.5
ASEAN	0.0	0.1	-9.8	1.7	2.5	2.4
Indonesia	0.1	0.2	-6.7	5.9	3.6	2.7
Philippines	0.2	0.1	7.6	2.7	-1.0	1.0
Viet Nam	-0.1	-0.3	-17.2	3.6	3.2	1.3
India	0.0	0.1	-1.4	-1.7	1.2	1.5
US	-2.9	-3.3	11.3	6.3	-6.2	-11.6
Canada	-0.2	0.6	3.0	-19.5	-22.8	-41.6
Mexico	-2.0	-1.6	-1.8	-9.3	-18.3	-18.0
EU	-0.2	-0.2	-2.8	-2.0	0.1	1.5
UK	-0.3	-0.3	-3.2	-2.7	-4.9	9.9
Russia	0.3	0.6	-0.4	1.6	1.8	2.6
World	-0.4	-0.2	-1.5	-1.6	-2.1	-2.0

Source: Author's simulations.

internationally competitive) is estimated to decrease. On the other hand, US production of textiles and apparel (which are not internationally competitive) is estimated to increase. The decrease in US production of motor vehicles and parts would be much greater than its initial decrease.

There has been concern that motor vehicles and parts production would decrease under initial reciprocal tariffs in Japan and the UK, but it is estimated to increase substantially due to reductions of uniform additional 25% tariffs on motor vehicles and parts as a result of tariff negotiations agreed with the US. That said, the substantial decrease in motor vehicles and parts production would remain unchanged in Canada and Mexico alongside that in the US. Adverse impact on national income due to decreases in overseas local production would be an ongoing concern in Japan and the UK as well.

The adverse impact on textiles and apparel production in North America would rise but textiles and apparel production is estimated to increase in Indonesia and Viet Nam, despite the decrease under initial reciprocal tariffs. Comparative advantage and international competitiveness would in principle appear to be due to more efficient resource allocation resulting from trade liberalization.

#### IV. Concluding remarks

US tariff negotiations would not necessarily result in macroeconomic benefits for the US itself, but benefits would be expected in trade partners who have agreed negotiations at both the macroeconomic and industry levels. That said, in the future the economic impact of US additional tariffs would change as a result of US tariff negotiations with other economies. It will be useful to continue quantitative investigation of the economic impact of various scenarios by means of simulation studies using appropriate economic models.