Policy Analysis Focus 25-6
Economic Impact of Revised US Reciprocal Tariff[1]

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Kenichi Kawasaki
Professor, GRIPS Alliance, National Graduate Institute for Policy Studies (GRIPS)

I. Introduction

The reciprocal tariff introduced by United States (US) President Trump on April 2 was suspended until July 9 for some economies. In the meantime, as a result of negotiations between the US and the other economies, new tariff rates for 14 economies[2] were announced on July 7 and the suspension was extended to August 1. Under a uniform 10% tariff on US imports from the world, lower tariffs than those previously announced would be applied to several economies with which negotiations had been agreed. On the other hand, high tariffs (similar in scale to April reciprocal tariffs) would be applied to other economies whose US negotiations have not reached agreement.

This article quantitatively investigates the economic impact of a few alternative scenarios of US reciprocal tariffs by means of simulation studies using a computable general equilibrium (CGE) model of global trade.[3]

II. Macroeconomic impact

As a result of tariff negotiations between the US and other economies, the United Kingdom (UK) would expand imports from the US by 5 billion US dollars (around 6%).

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

[3] 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).

On the other hand, the US would reduce to 10% an additional 25% tariff imposed earlier on imports of motor vehicles and parts from the UK. China would impose an additional 10% tariff on imports from the US, but an additional 30% US tariff on China would be lower than the initial US reciprocal tariff (34%). Viet Nam would eliminate tariffs on imports from the US and the US would reduce its 46% reciprocal tariff on Viet Nam to 20%. On the other hand, Japanese negotiations with the US have not reached agreement: a 25% additional tariff, similar to the initially announced 24% reciprocal tariff, would be imposed. Meanwhile, Canada has implemented retaliatory tariffs against the US.

The US has implemented an additional 50% tariff on imports of steel and aluminum, and 25% on motor vehicles and parts—in addition to the 20% imposed on China and the 25% imposed on Canada and Mexico. Based on the scenario where an additional 10% tariff would be applied to other economies (TEMP), Table 1 shows the estimated impact on trade and economy where initial reciprocal tariffs would be applied (ORG) and where new reciprocal tariffs would be applied alongside responding measures by other economies against the US (UPD). If reciprocal tariffs were implemented, decreases in US exports (-36.7%) and real GDP (-4.2%) would be larger than in the above temporary scenario. It is suggested that the impact of policy measures aimed at expanding US exports to other economies would be limited.[4] Improvement in the US balance of

Table 1 Impact on trade and economy

(%)

	Exports to US			Exports			Real GDP		
	TEMP	ORG	UPD	TEMP	ORG	UPD	TEMP	ORG	UPD
Australia	2.0	22.3	16.1	0.5	0.9	0.8	-0.2	-0.2	-0.0
New Zealand	-0.5	18.6	12.5	-0.1	0.4	0.4	0.2	0.4	0.5
China	-37.2	-49.5	-45.8	-2.3	-3.0	-3.2	-0.2	-0.5	-0.4
Japan	-5.7	-18.0	-25.0	-0.6	-1.6	-1.4	0.4	-0.0	0.2
Korea	-2.9	-22.4	-29.3	-0.1	-1.3	-0.8	0.5	-0.1	0.3
Chinese Taipei	3.0	-40.5	-46.5	0.0	-2.7	-2.1	0.3	-1.1	-0.7
ASEAN	11.5	-27.3	-14.3	1.0	-1.0	0.1	0.8	-0.1	0.3
India	-1.2	-21.0	-25.7	-0.6	-2.1	-2.1	0.6	0.4	0.4
US	-	-	-	-27.0	-35.6	-36.7	-3.0	-4.1	-4.2
Canada	-33.0	-25.8	-37.4	-9.4	-8.6	-19.1	-3.4	-3.2	-6.9
Mexico	-36.1	-24.5	-27.1	-20.7	-15.2	-14.9	-13.2	-10.3	-9.8
EU	-2.0	-8.3	-13.5	0.0	-0.4	-0.1	0.3	0.1	0.4
UK	-0.9	17.1	22.4	-0.4	0.2	2.0	0.1	0.4	0.8
Russia	-19.6	5.4	-0.3	0.5	0.9	0.9	0.2	0.3	0.5
World	-16.4	-21.6	-23.8	-3.8	-5.1	-5.1	-0.9	-1.3	-1.3

Source: Author's simulations.

[4] US real GDP is estimated to decrease by 0.3% as a result of responding policies of other economies and by 3.9% as a result of US own tariff hikes.

trade in goods and services would be around 0.2% of GDP.

It is estimated that under reciprocal tariffs, exports from China to the US and to the world would further decrease, and from Mexico to a lesser extent. That said, exports to the US would substantially decrease both from China (-45.8%) and Mexico (-27.1%). Meanwhile, China's decrease in exports to the world would be limited to -3.2% but the decrease in Mexico (-14.9%) would be substantial. Real GDP decrease would also be much smaller in China (-0.4%) than in the US, but would be far larger in Mexico (-9.8%) than in the US. If Canada retaliated against US actions, Canada's exports to the world (-19.1%) and real GDP (-6.9%) would further decrease. Adverse impact of retaliatory measures on own economy is suggested.

Exports to the US and to the world are estimated to increase in the UK, and UK's real GDP would increase by 0.8%, exceeding the increase under initial reciprocal tariffs. Meanwhile, Viet Nam's real GDP would also increase by 1.3% under the new reciprocal tariffs. On the other hand, it would be suggested that Japan's real GDP would not necessarily decrease. The adverse impact of a reciprocal tariff greater than 10% on Japan could be offset by trade diversion effects resulting from retaliation by Canada and others.[5]

III. Impact on industry

There is a concern that if tariffs were hiked, resource allocation among sectors would be less efficient, and the economy would be adversely affected. Meanwhile, that impact would be larger at the industry level than the macroeconomic level. It is estimated that textiles and apparel production would increase in the US but agriculture, forestry and fisheries production (in which the US has international competitiveness) would decrease, as is shown in Table 2. Meanwhile, if additional tariffs were imposed on other commodities alongside motor vehicles and parts, it would be suggested that motor vehicles and parts production would decrease further due to rising production costs under tariff hikes.

It is also estimated that motor vehicles and parts production would not necessarily decrease in China, whereas textiles and apparel production (in which China has international competitiveness) would decrease. Motor vehicles and parts production would significantly decrease in Canada and Mexico. If Canada retaliated, the magnitude of that decrease would increase further. It would be noted that decreases in overseas local production due to foreign direct investment of other economies are included in the

[5] Japan's real GDP is estimated to increase due to retaliation by Canada (0.3%) and China (0.1%).

Table 2 Impact on production by industry

(%)

	Agri, forestry and fisheries			Textiles and apparel			Motor vehicles and parts		
	TEMP	ORG	UPD	TEMP	ORG	UPD	TEMP	ORG	UPD
Australia	0.2	-0.0	0.3	-0.2	-0.6	0.1	2.0	2.2	2.0
New Zealand	-0.4	-0.6	-0.0	-1.4	-1.9	-1.5	1.4	0.5	0.6
China	-0.0	-0.0	0.2	-1.7	-2.2	-2.5	0.8	1.4	1.6
Japan	0.1	0.3	0.3	-1.4	-3.1	-1.9	-4.7	-1.4	-0.2
Korea	0.1	0.1	0.1	-0.6	-3.4	-2.2	-4.2	-0.5	0.5
Chinese Taipei	0.0	0.1	0.1	-0.6	-4.6	-1.6	-2.9	-1.0	-0.6
ASEAN	0.0	0.0	0.0	2.9	-9.8	-2.5	0.9	2.5	2.5
India	0.1	0.0	0.1	-0.4	-1.4	-1.7	0.8	1.2	1.4
US	-2.0	-2.9	-3.4	1.4	11.3	7.1	-1.5	-6.2	-8.3
Canada	1.0	-0.2	0.2	-12.1	3.0	-9.9	-20.5	-22.8	-40.4
Mexico	-1.4	-2.0	-2.0	-11.9	-1.8	-5.2	-14.9	-18.3	-15.0
EU	-0.2	-0.2	-0.1	-1.5	-2.8	-2.0	-0.8	0.1	1.0
UK	-0.1	-0.3	-0.3	-2.0	-3.2	-3.5	-3.7	-4.9	8.1
Russia	0.4	0.3	0.6	0.5	-0.4	0.5	1.7	1.8	2.1
World	-0.2	-0.4	-0.3	-0.9	-1.5	-1.4	-0.8	-2.1	-2.1

Source: Author's simulations.

decreases in motor vehicles and parts production in North America and would generate adverse impact on national income of those economies.

Motor vehicles and parts production is estimated to increase in the UK as US auto tariffs would be lower on the UK than on other economies. Meanwhile, decreases in motor vehicles and parts production would decrease in Japan, Korea and Chinese Taipei as a result of the implementation of reciprocal tariffs greater than 10%. If reciprocal tariffs were imposed widely alongside motor vehicles and parts, the adverse impact of additional US tariffs on motor vehicles and parts would be mitigated.

IV. Concluding remarks

The adverse economic impact of US tariff hikes would generally be greater in the US, and in Canada and Mexico as well, than in other economies. That said, the impact on individual economies would depend on policy measures in the form of tariff reductions and retaliation against the US alongside the relative magnitudes of US additional tariffs by sector and economy. It will be useful to consider the potential impact of tariff hikes by means of quantitative study using multi-region and multi-sector economic models from global perspectives not limited to bilateral relations with the US.