**Policy Analysis Focus 25-9**
**Economic Impact of New US Reciprocal Tariffs[1]**

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## I. Introduction

United States (US) President Trump issued Executive Orders on July 31 announcing new reciprocal tariffs on imports from 69 economies (the European Union (EU) as one economy),[2] to be applied seven days later. Economies including Japan, Korea, Indonesia, the Philippines, Viet Nam, the EU and the United Kingdom (UK) agreed that US tariff negotiations would be reduced versions of the reciprocal tariffs announced on April 2. A baseline 10% tariff on all economies would be maintained. Additional tariffs would be maintained on China (30%) and on Mexico (25%) but raised to 50% on Brazil and to 35% on Canada, resulting in a world average of around 24%.

This article investigates the economic impact of US reciprocal tariffs to date and in the future by means of quantitative comparison via simulation studies using a computable general equilibrium (CGE) model of global trade.[3]

## II. Macroeconomic impact

A blanket additional 50% tariff on steel and aluminum would be maintained but the uniform 25% tariff on motor vehicles and parts would be reduced in a manner similar

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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/presidential-actions/2025/07/further-modifying-the-reciprocal-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).

to reciprocal tariffs on imports from the UK (to 10%) and from Japan, Korea and the EU (to 15%). Table 1 presents estimates of macroeconomic impact in the case[4] of implementation of agreed measures by several economies according to the results of tariff negotiations with the US alongside new US reciprocal tariffs as of July 31. The impact of reciprocal tariffs as of April 2 and that of "further" reduced reciprocal tariffs on China, Canada and Mexico to 15% are shown here as reference cases.

It is estimated that the impact of new US reciprocal tariffs and others on US real GDP (-4.0%) would not change much relative to the initial impact. Total world real GDP would also decrease, by 1.1%. That said, world total real GDP excluding that of the US would decrease only by 0.1%, even including the substantial decreases in Canada (-7.7%) and in Mexico (-11.2%). The adverse impact of US tariff hikes appears to be concentrated on North America including the US.

As a matter of fact, real GDP would be suggested to increase in Japan (0.9%),

Table 1 Impact on trade and economy

| | Real GDP (%) | | | Trade balance (USD B) | | | Consumption price (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | April 2 | July 31 | Further | April 2 | July 31 | Further | April 2 | July 31 | Further |
| Australia | -0.2 | 0.0 | -0.3 | -1.9 | -1.9 | -1.5 | -1.3 | -0.8 | -1.1 |
| New Zealand | 0.4 | 0.4 | -0.1 | -0.1 | -0.1 | -0.1 | -0.6 | -0.4 | -0.8 |
| China | -0.5 | -0.4 | 0.2 | -20.4 | -25.4 | -13.7 | -2.8 | -1.9 | -1.1 |
| Japan | -0.0 | 0.9 | 0.0 | -0.3 | -1.7 | -0.3 | -1.5 | 0.0 | -0.9 |
| Korea | -0.1 | 0.8 | 0.0 | -2.0 | 0.5 | -1.0 | -1.5 | 0.0 | -0.8 |
| Chinese Taipei | -1.1 | 0.0 | -0.9 | -1.4 | -0.8 | -1.1 | -2.1 | -0.7 | -1.4 |
| ASEAN | -0.1 | 0.9 | -0.2 | -4.1 | -4.6 | -2.7 | -1.8 | -0.7 | -1.4 |
| Indonesia | 0.1 | 1.0 | 0.2 | -2.2 | -1.8 | -1.8 | -2.3 | -0.9 | -1.6 |
| Philippines | 1.5 | 1.4 | 0.2 | -0.6 | -0.9 | 0.3 | -0.5 | -0.5 | -1.3 |
| Viet Nam | -2.0 | 0.8 | -0.6 | 1.5 | -0.6 | 0.6 | -3.7 | -1.1 | -2.1 |
| India | 0.4 | 0.4 | 0.0 | -0.2 | -2.4 | 1.1 | -1.3 | -1.0 | -1.8 |
| US | -4.1 | -4.0 | -2.7 | 57.3 | 61.4 | 41.7 | 7.0 | 5.3 | 4.8 |
| Canada | -3.2 | -7.7 | -2.2 | 5.2 | 13.0 | 3.7 | -3.2 | -3.0 | -1.8 |
| Mexico | -10.3 | -11.2 | -7.3 | -5.1 | -6.1 | -3.4 | -3.3 | -4.4 | -1.8 |
| EU | 0.1 | 0.7 | 0.0 | -6.1 | -7.0 | -6.8 | -1.0 | -0.3 | -1.0 |
| UK | 0.4 | 0.7 | 0.3 | -1.3 | -4.1 | 0.0 | -0.1 | 0.1 | -0.6 |
| Russia | 0.3 | 0.5 | 0.0 | -5.4 | -4.0 | -4.8 | -1.9 | -1.3 | -1.6 |
| World | -1.3 | -1.1 | -0.9 | 0.0 | 0.0 | 0.0 | 1.2 | 1.1 | 0.8 |
| (excluding US) | -0.3 | -0.1 | -0.2 | -57.3 | -61.4 | -41.7 | -1.5 | -0.9 | -1.2 |

Source: Author's simulations.

[4] Removals of tariffs on imports from the US and import-expanding measures by other economies are included. On the other hand, impact of possible financing by Japan for investment in the US and impact of investment in the US by the EU and Korea are not considered.

Korea (0.8%), Indonesia (1.0%), the Philippines (1.4%), Viet Nam (0.8%), the EU (0.7%) and the UK (0.7%), all of which have agreed tariff negotiations with the US. If higher US additional tariffs on other economies were maintained, the contribution of trade diversion effects would be large.

That said, benefits for third economies among the above economies would disappear if the US agreed tariff negotiations with major trade partners including China, Canada and Mexico and reduced additional tariffs. Inflationary pressure in the US would be smaller to some extent. On the other hand, the magnitude of US real GDP decrease would largely be reduced.

III. Impact on auto industry

Developments regarding the impact of US tariff hikes by industry would be watched alongside that at the macroeconomic level. It is estimated that exports to the US, exports to world and domestic production of motor vehicles and parts would generally decrease in Japan, Korea the EU and the UK under initial additional tariffs, but would be suggested to increase if the US reduced auto tariffs, as is shown in Table 2. Additional tariffs would still be imposed on the above economies, but at lower rates than those on

Table 2 Impact on auto industry

(%)

| | Exports to the US | | | Exports to world | | | Production | | |
|---|---|---|---|---|---|---|---|---|---|
| | April 2 | July 31 | Further | April 2 | July 31 | Further | April 2 | July 31 | Further |
| Australia | -21.5 | -37.0 | -51.2 | 2.7 | 1.0 | -2.6 | 2.2 | 2.1 | 1.1 |
| New Zealand | -26.2 | -39.1 | -52.8 | -0.8 | 1.5 | -0.6 | 0.5 | 2.0 | 0.8 |
| China | -16.3 | -33.5 | -6.8 | 4.3 | -0.6 | 0.5 | 1.4 | 1.2 | 1.0 |
| Japan | -20.8 | 13.0 | -7.7 | -2.4 | 7.3 | -0.5 | -1.4 | 5.1 | -0.1 |
| Korea | -22.1 | 12.5 | -8.5 | -1.9 | 8.3 | -0.4 | -0.5 | 5.7 | 0.2 |
| Chinese Taipei | -20.4 | -38.2 | -51.3 | -3.3 | -11.1 | -17.4 | -1.0 | -2.8 | -5.4 |
| ASEAN | -20.0 | -37.8 | -51.5 | 5.9 | 3.1 | 1.5 | 2.5 | 2.0 | 0.5 |
| Indonesia | -19.1 | -37.2 | -50.8 | 7.2 | 4.3 | 2.9 | 3.6 | 2.8 | 1.7 |
| Philippines | -26.6 | -38.9 | -51.9 | -3.5 | 1.0 | -1.5 | -1.0 | 1.1 | -0.4 |
| Viet Nam | -13.7 | -36.3 | -49.6 | 11.0 | 3.8 | 0.8 | 3.2 | 0.4 | -1.7 |
| India | -21.1 | -35.8 | -49.6 | 4.8 | 3.4 | 2.2 | 1.2 | 1.2 | 0.5 |
| US | − | − | − | -39.1 | -44.9 | -22.9 | -6.2 | -9.4 | -5.8 |
| Canada | -31.5 | -59.8 | -16.7 | -29.8 | -58.0 | -16.0 | -22.8 | -43.9 | -11.9 |
| Mexico | -27.2 | -36.0 | -13.8 | -22.3 | -26.4 | -11.7 | -18.3 | -21.6 | -10.0 |
| EU | -23.6 | 14.6 | -7.4 | -0.1 | 3.5 | 0.4 | 0.1 | 2.9 | 0.3 |
| UK | -26.6 | 27.8 | 4.1 | -6.1 | 7.2 | 1.5 | -4.9 | 5.9 | 1.2 |
| Russia | -20.8 | -36.4 | -50.8 | 6.5 | 6.4 | 4.7 | 1.8 | 2.2 | 1.3 |
| World | -25.5 | -22.7 | -12.4 | -8.1 | -7.7 | -4.4 | -2.1 | -1.9 | -1.4 |
| (excluding US) | -25.5 | -22.7 | -12.4 | -3.8 | -2.5 | -1.8 | -1.3 | -0.2 | -0.4 |

Source: Author's simulations.

other economies. Similar impact to that of reduction of tariffs would be expected. That said, if additional tariffs were reduced on major US trade partners, the adverse impact on the above four economies would reappear and motor vehicles and parts exports to the US would decrease, though less than the initial impact.

Economic impact of US tariff hikes would be dependent on changes in the behavior of firms and economic agents.[5] If economic agents were to take erroneous actions based on inappropriate economic analyses, there is concern that an economic downturn would actually be caused. Appropriate information must be sourced from economic analysis experts.

Multi-national and multi-sector CGE models are global standard analytical tools for the study of the economic impact of tariff hikes. Macroeconomic models are not appropriate for analyzing developments by industry including auto. Single country models can study bilateral relations including the competitiveness of auto exports to the US, but they cannot capture global relations among economies including price competitiveness of auto in the US market vis-à-vis other economies. It must be noted that the impact would vary by economy and industry[6] since US tariff hikes are not uniform across economies and sectors.

## IV. Concluding remarks

US reciprocal tariffs have been renewed in line with tariff negotiations to date. That said, US tariff negotiations with major trade partners would continue. If the US changed its additional tariffs on certain economies, economic impact on other economies alongside those economies would change, not just in terms of magnitude but also direction (positive or negative). It is essential to study economic impacts using appropriate economic models as a laboratory of social science.

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[5] Japan's export values to the US decreased by around 11% (YoY) in May and June 2025 according to Trade Statistics, Ministry of Finance. That said, that decrease could mostly be attributed to declining export prices, which have appeared to reflect firms' efforts to avoid the increases in export prices resulting from additional tariffs. On the other hand, Japan's total export volumes to world still increased, supported by increases to Asia and the EU.

[6] The Organisation for Economic Co-operation and Development (OECD) has indicated the impact of a US uniform 10% tariff on the US, other OECD, non-OECD and world (OECD Economic Outlook, Volume 2025 Issue 1) but the impact on individual OECD member economies would be variable, reflecting differences in trade and industry structures among economies.