Impact of Trump Tariffs

Implications for Global Economies and Financial Markets

April 11, 2025

Economic Research Department,
Dai-ichi Life Research Institute

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Executive Summary

- **Current Situation:**
  - The U.S. has announced reciprocal tariffs on various countries. (1) 10% across the board, (2) additional tariffs on specific countries.
  - A 90-day grace period was announced on April 9 for countries other than China regarding (2). Negotiations with the U.S. on tariff reductions will follow.

- **Impact on National Economies:**
  - The U.S. will experience cost-push inflation. Neighboring countries will be directly affected by reduced exports to the U.S., increased policy uncertainty, and negative wealth effects.
  - A 24% reciprocal tariff rate was proposed to Japan. Additional 25% tariffs on automobiles will continue even during the grace period. The impact on the real economy through exports will become apparent.
  - Asian countries will be significantly affected, especially Vietnam and Cambodia, with high dependence on exports to the U.S. and high reciprocal tariff rates.
  - Europe's main exports are pharmaceuticals and automobiles. Ireland, Denmark, and Belgium have high dependence on exports to the U.S.

- **Impact on Financial Markets:**
  - Initial reaction: Risk-off, falling stock prices, lower interest rates, and a weaker dollar. Subsequently, rising pressure on long-term U.S. interest rates may have prompted Trump's 90-day grace period decision.
  - The impact on USD/JPY is mixed. Considering the direction of central banks in Japan and the U.S., along with fundamentals (Japan's shrinking trade surplus), the yen is likely to weaken in the long run.

- **Medium- and Long-Term Impact:**
  - Considering the impact of tariff measures on supply chains, the negative pressure on the global economy could reach -0.7pt. If countries respond with retaliatory tariffs, the impact could increase to -1.2pt.
  - Reorganization of global supply chains and the advancement of economic blocs may lead to reduced economic efficiency and increased inflationary pressure.

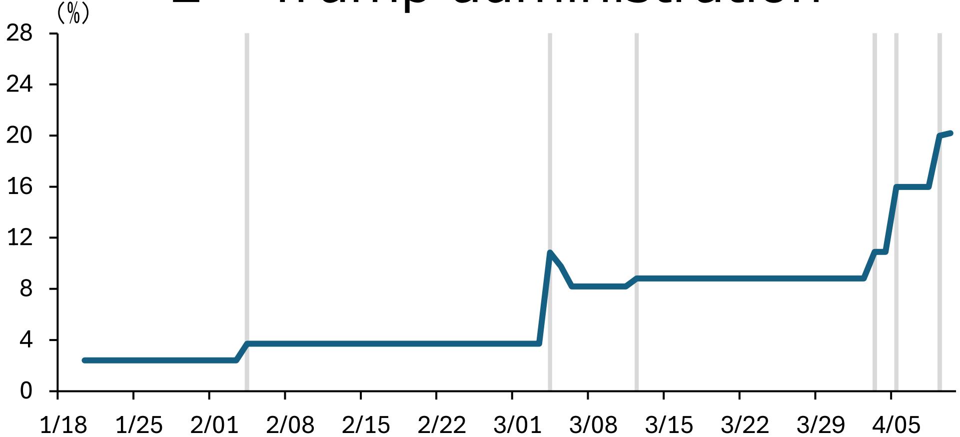
Trump tariff timeline

November 25, 2024	Announced that a 25% tariff on imports from Mexico and Canada, and a 10% tariff on imports from China will be imposed on Inauguration Day (January 20) as measures against illegal immigration and fentanyl
January 20, 2025	Although the tariffs were not implemented on Inauguration Day, it was announced that tariffs on Mexico, Canada, and China would be imposed on February 1. Additionally, an investigation into the causes of trade deficits, unfair trade practices, and currency manipulation by each country was announced, with a deadline set for April 1.
February 1	Signed an executive order imposing additional tariffs—25% on Mexico and Canada (with a 30-day suspension announced on the 3rd) and 10% on China—effective from February 4."
February 4	The 10% tariff on China was implemented as previously announced.(In response, China filed a complaint with the WTO and, on the 10th, imposed retaliatory tariffs of up to 15% on U.S. energy imports and other goods. Additionally, China strengthened export controls on critical minerals.)
February 10	Signed an executive order imposing an additional 25% tariff on steel and aluminum starting March 12, ending exemption measures for major countries.
February 13	A memorandum of understanding has been signed directing the introduction of “reciprocal tariffs” that impose the same level of tariffs as trading partners, and the study is expected to be completed in the next few weeks to months.
February 21	USTR signed a memorandum directing the US Trade Representative to consider retaliatory measures against European countries for imposing a digital services tax (DST) on U.S. Big Tech (a measure under Section 301 of the Trade Act, which addresses unfair trade practices).
February 25	Signed a Presidential Executive Order directing the Department of Commerce to conduct an investigation in anticipation of additional tariffs on copper imports (a measure under Section 232 of the Trade Act to address security threats)
February 27	Announced on March 4 that it would impose an additional 10% tariff on China; announced on April 2 that it would introduce reciprocal tariff measures
March 1	Signed a presidential directive directing the Department of Commerce to conduct an investigation in anticipation of additional tariffs on imports of lumber and related products (a measure under Section 232 of the Trade Act to address security threats)
March 4	Additional tariffs of 25% against Mexico and Canada (10% on Canadian energy) and 10% against China (20% in total after the inauguration) (China: retaliatory tariffs of up to 15% on agricultural and other imports from the U.S. on January 10. Canada: on the 4th, 25% retaliatory tariffs on CAD30 billion worth of food and other imports; the tariff target will be raised to CAD155 billion worth after 21 days)
March 6	Exemption of additional duties on all imports compliant with the U.S.-Mexico-Canada Agreement (USMCA) over tariffs against Mexico and Canada until April 2 (share of imports from the two countries [in 2024]: 43.6%).
March 12	Enactment of additional 25% tariffs on steel, aluminum and related products (increase in aluminum tariff rates, elimination of exemptions for major countries and regions, and expansion of items subject to tariffs. Canada: 25% retaliatory tariffs on imports worth CAD29.8 billion, including steel and aluminum products, on April 13; EU: 25% retaliatory tariffs on imports worth up to €26 billion, including motorcycles, to be imposed from April).
April 2	The tariff rates will be raised in approximately 60 countries/regions on January 9 (Japan: 24%, EU: 20%, China: 34%). China: 34%, EU: 20%, China: 34%. China: 34% retaliatory tariffs on all imports from the U.S. on the 10th). Continued tariff exemptions for imports compliant with the U.S.-Mexico-Canada Agreement (USMCA), which expired on the same day.
April 3	Additional 25% tariff on auto imports (vehicles compliant with USMCA will be exempted based on the ratio of U.S. parts, to be expanded to imports of engines and other parts on May 3)
April 5	10% reciprocal tariff
April 8	In response to China's retaliatory measures, announced a further 50% increase in tariffs against China starting on January 9 (104% cumulatively since inauguration; China: 50% more tariffs against the U.S. to 84% as a countermeasure). China: in response, it will add 50% more tariffs on the U.S. and raise its tariff rate to 84%).
April 9	Although the second round of reciprocal tariffs (additional tariff rate increases) on approximately 60 countries and regions was implemented, the additional tariffs on non-China were suspended for 90 days on the same day. Additional 21% tariffs were added against China, bringing the cumulative total to 125%.
April 10	Revised the tax rate on tariffs with China from 125% to 145%.

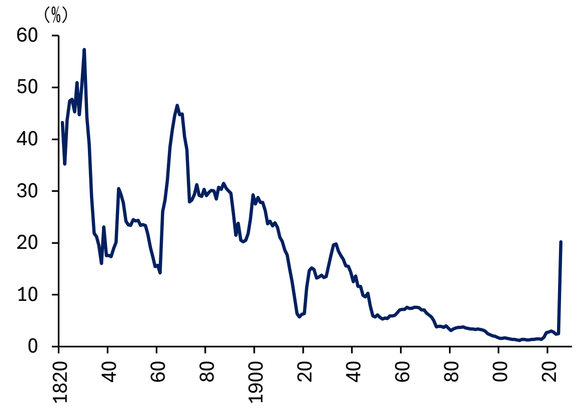
Note: Unless otherwise specified, actions are by Trump administration. Source: White House, Dai-ichi Life Research Institute

U.S. Effective Tariff Rate Trends

2nd Trump administration



(Long-term trends)



Tariff list

Effective dates	Feb 4	Mar 4		Mar 12	Apr 3	Apr 5	Apr 9 (90-day pause)
subject to	China	Mexico	Canada	Iron and aluminum	Auto and parts	All countries excluding Mexico and Canada	60 countries and areas
Additional tariff rates	+10% Mar 4:+20% Apr 10:+145%	+25%	+25%	+25%	+25%	+10%	+1%～+40%
Share of U.S. Imports	13.4%	8.0%	7.9%	2.8%	10.8%	40.3%	
Impact on effective rates	+7.7%pt	+1.8%pt	+1.4%pt	+0.6%pt	+2.5%pt	+4.1%pt	+2.5%pt
Legal basis	IEEPA			Section 232 of the Trade Expansion Act		IEEPA	

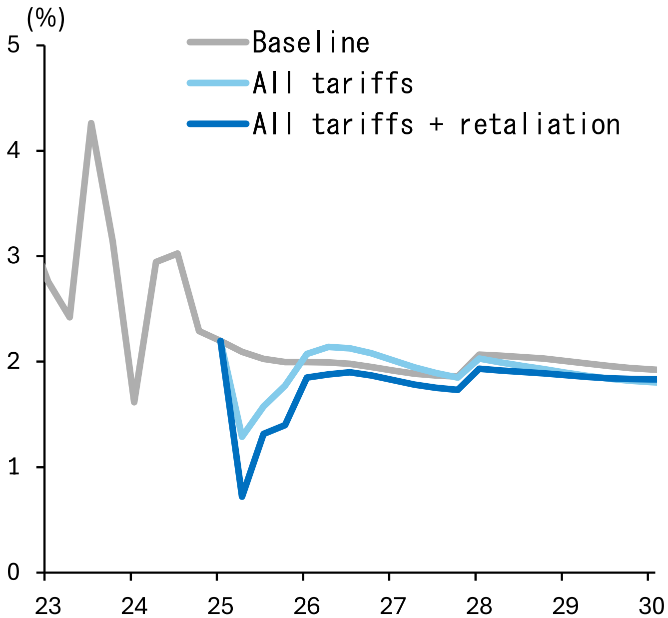
Note: Figures are based on estimates as of April 11. Source: White House, BEA, Tax Foundation, Dai-ichi Life Research Institute

U.S.: Impact on the Real Economy

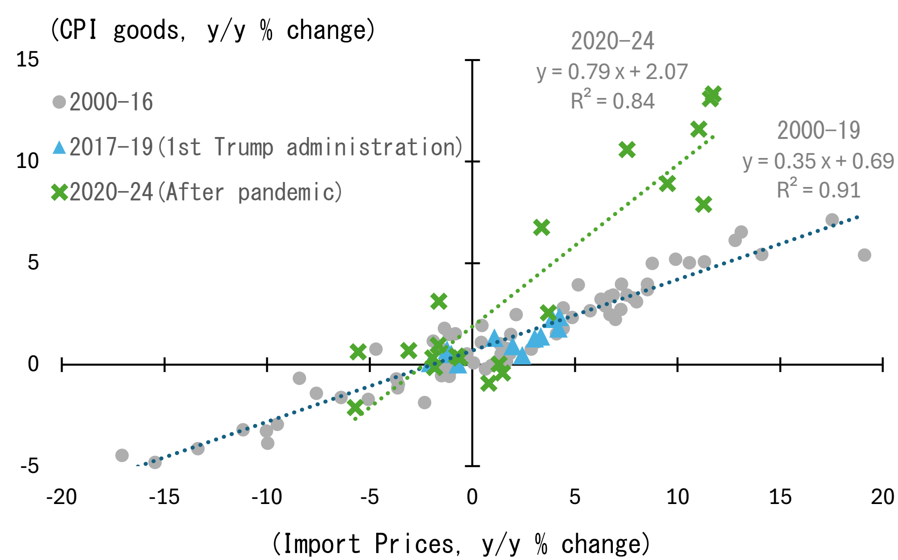
Short-Term Economic Impact

	Effective tariff rates	PCE inflation	GDP growth
As of April 13	+17.5%pt	+1.91%pt	-0.85%pt

Impact of GDP growth
(FRB/US model simulations)



Correlation between import prices and CPI goods



Note: PCE inflation impact calculated from import elasticity since 2000. Real GDP impact (assuming reciprocal tariffs) is based on FRB/US model.
Source: Dai-ichi Life Research Institute

Japan: Reciprocal Tariff Rate is 24%

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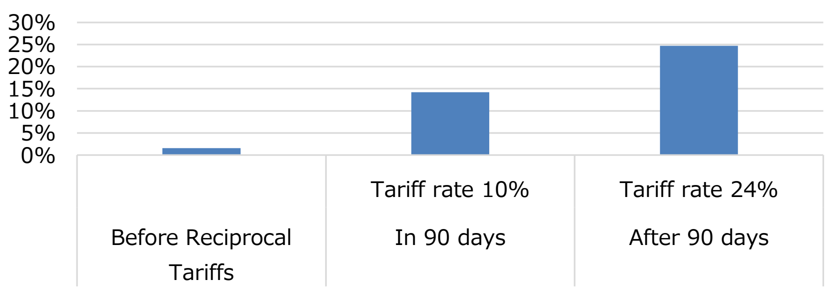
Reciprocal Tariffs on Japan

- **Tariff Rate is 24%**
  - Applied to most U.S.-bound exports.
  - Japan has high tariffs on agriculture but low tariffs on industrial products.
  - Trade surplus with the U.S. is the justification.
- **Full implementation: Weighted average tariffs on exports to the US will increase to 25%**
  - Weighted average tariff rate on U.S.-bound exports will increase to 25% after the grace period (including auto tariffs).
  - Full implementation could push down GDP by about -0.8%pt in the short term.
  - Additional +25% tariffs on automobiles during the 90-day grace period.
  - Even the tariffs during the grace period are a significant burden.

Effective Tariff Rates for exports from JP to US

(Estimated value: trade weighted average)



Source: WTO, MOF, Dai-ichi Life Research Institute.

Government Response

- **Negotiations with the U.S.**
  - Prime Minister Ishiba and President Trump held talks and agreed to negotiate.
  - Secretary of the Treasury Bessent: "Japan is prioritized."
- **Uncertainty about how much concession Japan can get.**
  - Japan's cards: Agricultural tariffs, Auto regulations, Production expansion in the U.S., Currency (Yen strengthening).
  - Japan is distant from retaliatory measures.

Corporate Response

- **Reconsidering U.S. exports, considering production transfers to the U.S.**
  - A game company: Delaying reservations.
  - An auto company: Considering relocating production from Japan to US.
- **Possibility of constructing supply chains using low-tariff countries.**
  - China, which already faces high tariffs, is reducing its tariff burden by exporting goods in a roundabout route from China to Mexico to the United States, etc.

Japan: Impact on the Real Economy

- **Exports (down):**
  - Estimated ¥5 trillion tariff burden (24% + auto tariffs).
  - Exports weaken, hurting GDP growth.
  - Significant impact via the auto sector.

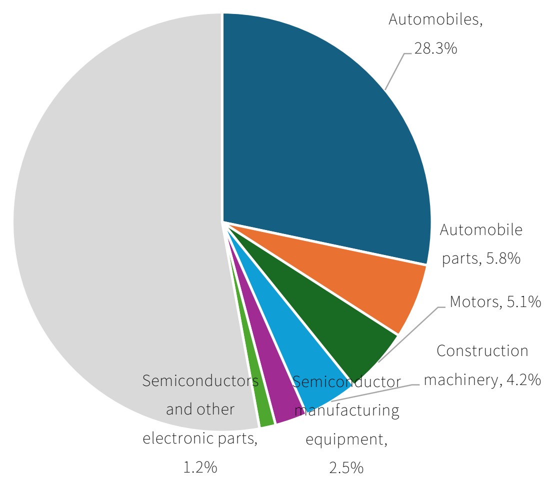
- **Capital Investment (down):**
  - Global uncertainty and policy risks reduce investment.
  - Lower profits due to weaker exports and stronger yen.
  - Production shifts to the U.S. depress domestic investment.

- **Personal Consumption (down):**
  - Falling stock prices and a stronger yen create negative wealth effects.
  - Expanded NISA* increases potential negative impact.

- **Prices (up and down):**
  - Reduced exports lead to increased inventory & lower production (down).
  - Impact of financial markets on domestic demand(down).
  - Stronger yen lowers import prices (down).
  - Supply chain disruption increases inflation (up).
  - Tariffs => U.S. inflation => Yen depreciation => Increased import costs (up).
  - Retaliation increases import costs (up).
    - Key imports from U.S. include LNG, Medicines, feed grains, and aircraft.

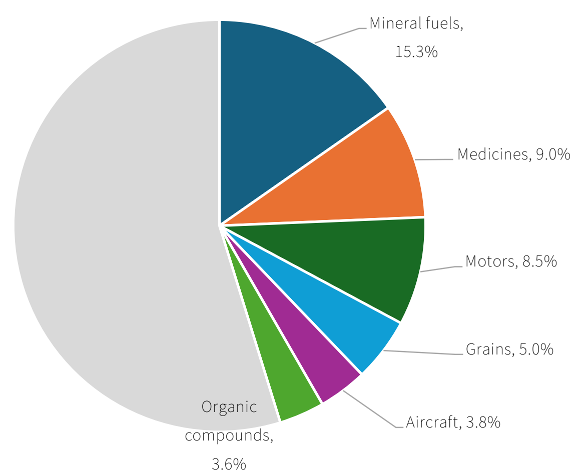
Share of Japanese export items to the US

(Total export value in 2024: 21.3 trillion yen)



Share of Japanese imports to the US

(Total import value in 2024: 12.7 trillion yen)

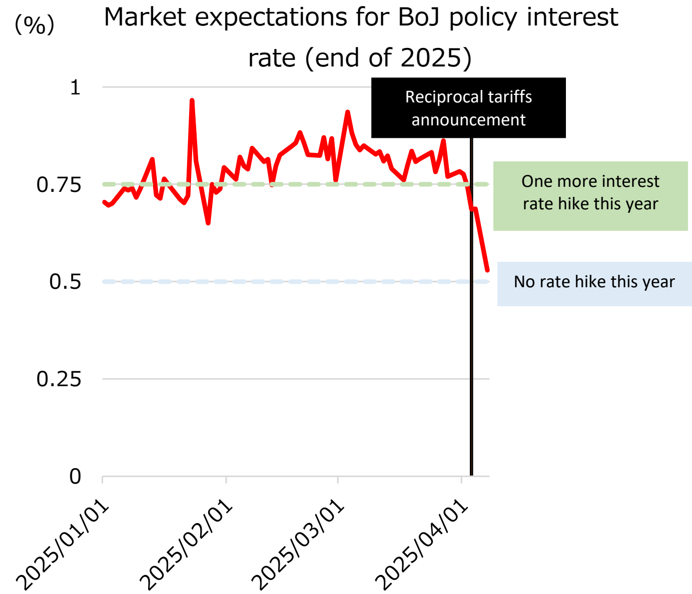


* NISA is a tax-free investment system for individuals in Japan. It was launched in 2024 and is becoming more widely used. Source: MOF, Dai-ichi Life Research Institute

Japan: Financial, Fiscal, & Other Policies Impacts

Monetary Policy

- **BOJ: Wait and see**
  - Size of tariffs and impact on the global economy.
  - High degree of uncertainty due to potential retaliation and financial market instability.
  - Expectations for interest rate hikes have faded.
- **The BOJ will carefully assess the global impact.**
  - Governor Ueda: "Tariffs increase economic uncertainty. We will monitor the situation closely."



Source: Bloomberg, Dai-ichi Life Research Institute.

Fiscal Policy

- **Stimulus measure likely**
  - Prime Minister Ishiba considers the situation an "economic emergency."
  - Potential policy options include employment protection, subsidies, tax cuts.
- **Fiscal Consolidation Delayed**
  - Expectations for fiscal expansion.
  - Weaker economic conditions combined with a stronger yen will reduce tax revenue.

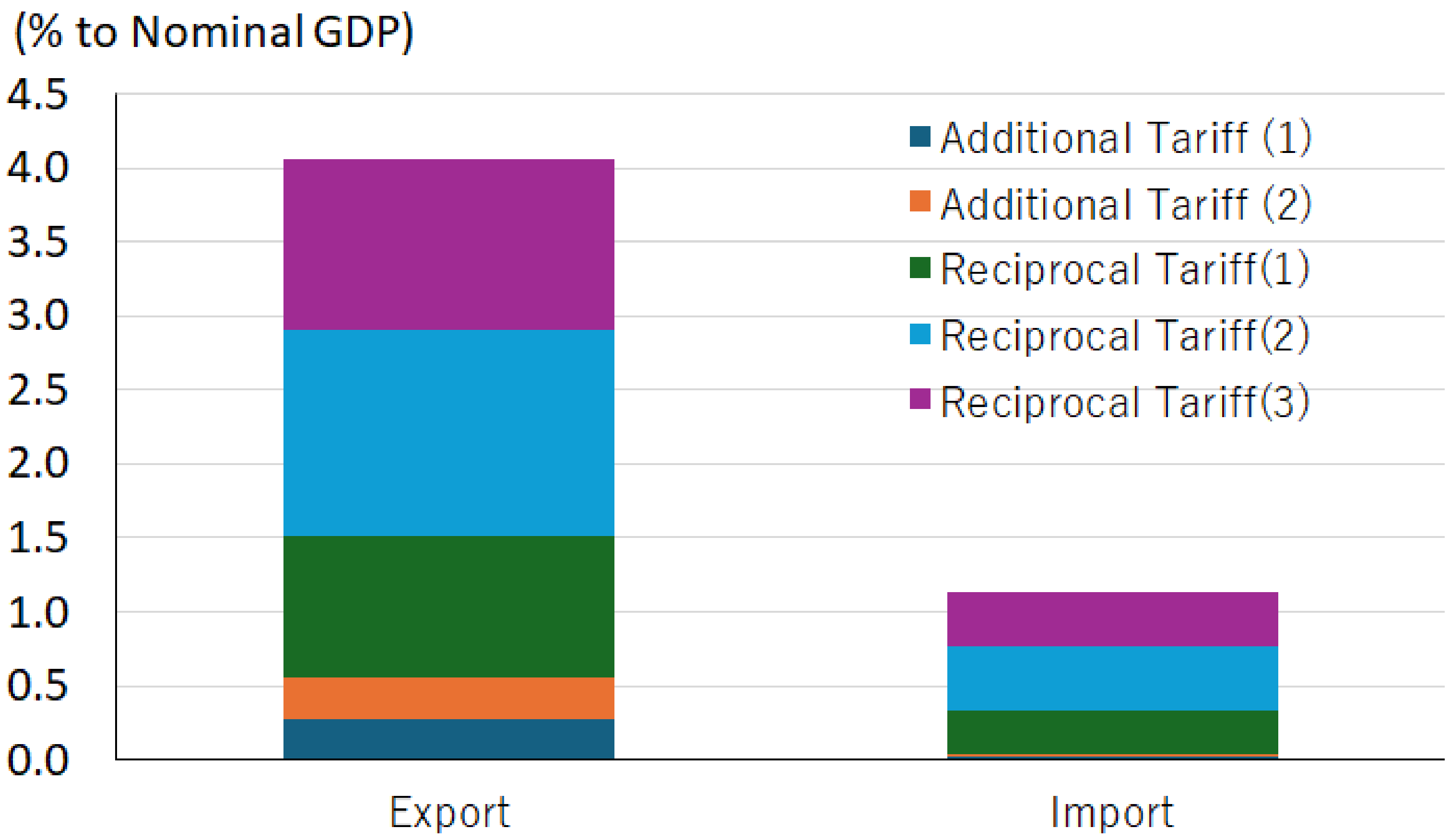
Other Policy Impacts & Challenges

- **Potential for EU-US Decoupling**
  - EU may pursue countermeasures, increasing the risk of transatlantic tensions.
  - Japan must carefully navigate a complex geopolitical landscape.
- **Increased Competition for Key Industries**
  - Tariffs incentivize domestic production in the U.S.
  - This intensifies global competition for industries.
- **Security Issues**
  - Japan relies on the US for security.
  - There is a possibility that an increase in defense spending will be considered again.

China: Tariff Retaliation

- **Key Points: Retaliatory tariffs drive China's burden to over 4% of nominal GDP**
  - With US tariffs implemented, China retaliates, bringing average tariffs to 84%.
  - US excludes China from 90-day grace period, leading to further escalations

Direct Impact of tariffs (labeled accordingly)

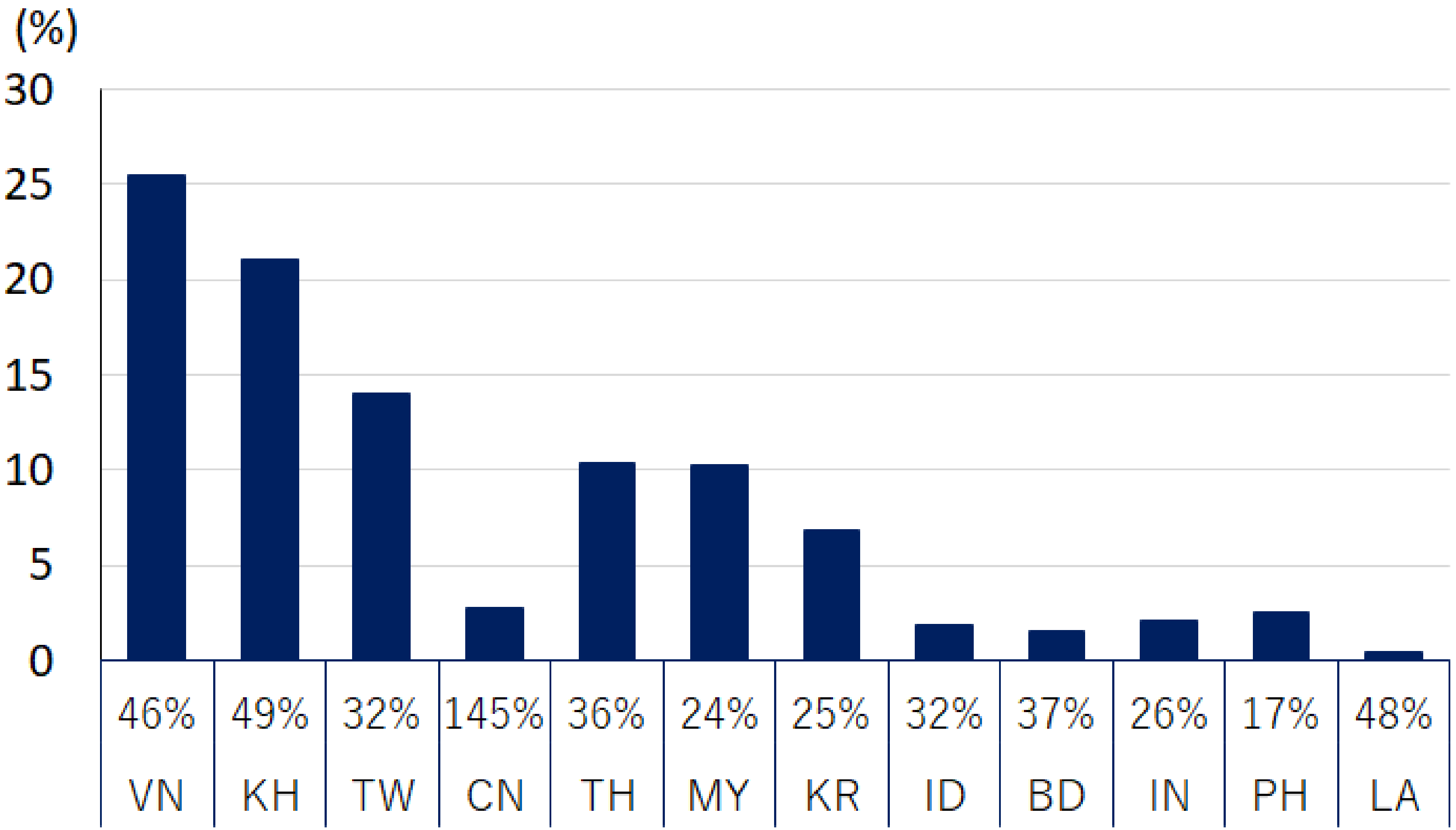


Source: Dai-ichi Life Research Institute

Impact on Asian & Emerging Economies 1

- **Key Point: Vietnam (VN) & Cambodia (KH) Heavily Impacted Beyond China (CN)**
  - Taiwan (TW) and Thailand (TH) also show high reliance on export to the U.S.

Export to GDP Ratio on Asian Emerging Countries

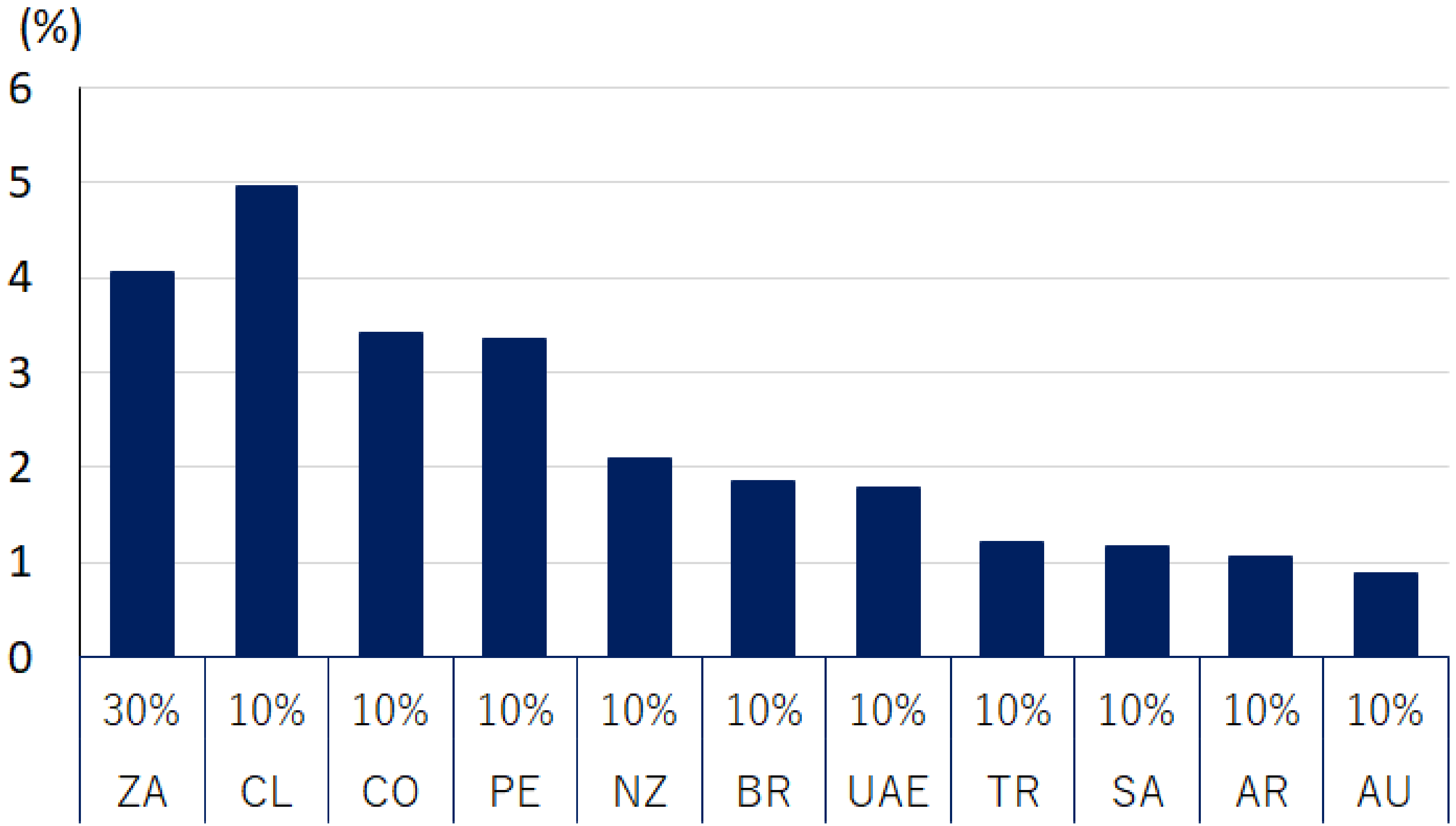


Note: Numbers stand for tariffs rate. From the left side, the degree of influence is higher.
Source: Dai-ichi Life Research Institute

Impact on Asian & Emerging Economies 2

- **Key Point: Resource-Rich Nations (Australia (AU), Saudi Arabia (SA)) Face Lower Direct impact**
  - South Africa (ZA), with high political tension, faces greater effect

Export to GDP Ratio on Other Emerging Countries



Note: Numbers stand for tariffs rate. From the lift side, the degree of influence is higher.
Source: Dai-ichi Life Research Institute

Europe: 20% Tariff to EU, 10% to UK

<Reciprocal Tariffs>

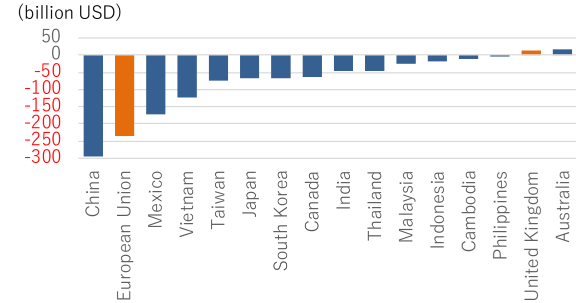
- **20% on imports from EU**
  - Concession proposals failed to avoid high tariff
  - A major blow along with 25% tariffs on steel, aluminum, cars
- **10% on imports from UK**
  - Lower than EU, but higher than expected
  - Aim for swift, tariff-free US trade deal
- **Why are tariff rate higher for Japan than for EU?**
  - Despite Trump dislikes EU and EU trade surplus is larger.
  - Mechanical calculation. Nothing to do with diplomatic efforts.

<Retaliation and Policy Responses>

- **US positions**
  - Further hike if retaliate, reduce if significant measures taken
  - Reciprocal tariff over 10% suspended for 90 days
- **EU Response**
  - Negotiate or retaliate? Disagreements between member states
  - Retaliation against steel/aluminum suspended for 90 days
  - Counter tariff and services sector sanctions are among the list
  - Safeguards against inflow of Chinese goods facing high US tariff
  - German fiscal expansion. A hurdle for EU defense spending
  - ECB continues rate cuts to levels below neutral
- **UK Response**
  - Prioritize trade negotiations and distance from retaliation
  - Little room for fiscal expansion. BOE continues rate cut

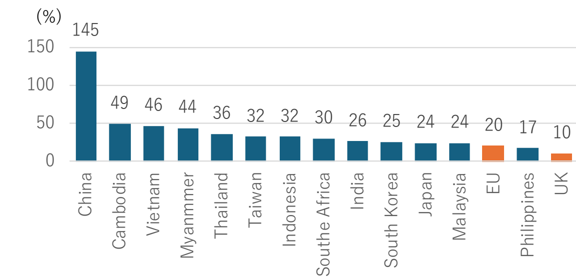
Source: Dai-ichi Life Research Institute

US Trade Balance by Country/Region (2024)



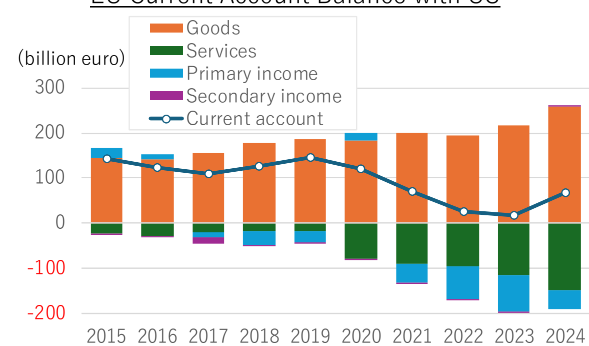
Source: US Census, Dai-ichi Life Research Institute

US Reciprocal Tariff Rates



Note: Retaliatory duties on top of the 20% already imposed for China
Source: US Government, Dai-ichi Life Research Institute

EU Current Account Balance with US



Source: Eurostat, Dai-ichi Life Research Institute

Europe: Potential Impacts and Channels

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<Impacts on the Economy>

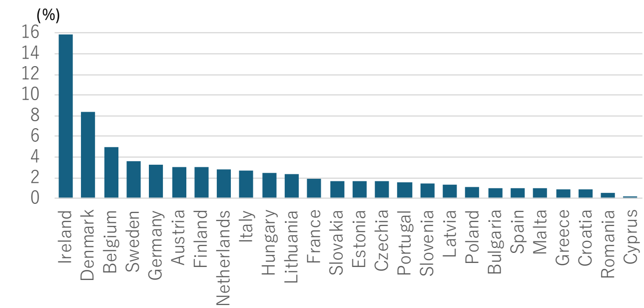
- **Trade Channel**
  - Deteriorations in competitiveness and lower exports to US
  - High tariffs on Asia also cools exporting markets for Europe
  - UK tariff is lower, but its share of exports to US is higher
- **Sentiment Channel**
  - Growing uncertainty over retaliations and trade frictions
  - Global stock market sell off worsens household sentiment
- **Pushing Down the Economy**
  - Model estimates that tariff cuts EU/UK GDP by around 0.5ppt
  - The impacts may get larger with high degree of uncertainty
  - Pharmaceuticals, cars, chemicals, machinery are top sellers
  - Ireland, Denmark, Belgium, Sweden, Germany are most hit

<Impacts on Prices>

- **Supply and Demand**
  - Supply chain disruptions = tight supply/demand
  - Inflows of Asian products = easing supply/demand
- **Foreign Exchanges**
  - Risk of US recession and lower policy rates = weaker USD
  - Higher prices makes it harder to cut rates = stronger USD
- **Mixed Impacts on Prices**
  - Retaliatory tariff increase vs. lower demand
  - Supply chain disruptions vs. inflows of Asian products
  - Rise in the short-term, fall in the medium term?

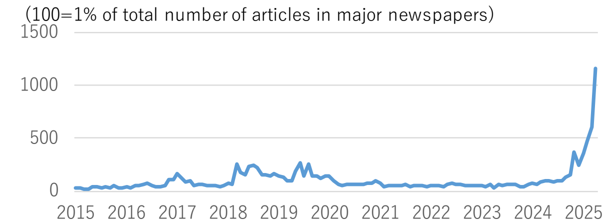
Source: Dai-ichi Life Research Institute

EU countries' exports to the US as % of GDP (2024)



Source: Eurostats, Dai-ichi Life Research Institute

Trade Policy Uncertainty Index

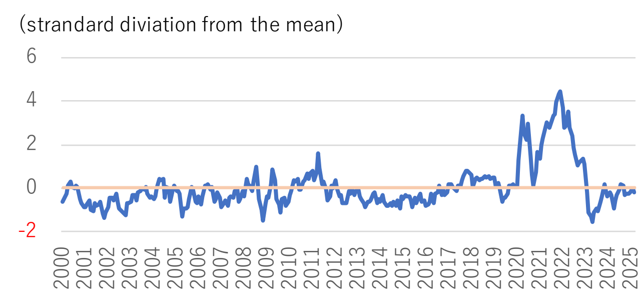


Note: April 2025 is average for April 1 to 4.

Source: Caldara et al. (2020), "The Economic Effects of Trade Policy Uncertaint

Journal of Monetary Economics, 109, pp.38-59.

Global Supply Chain Pressure Index



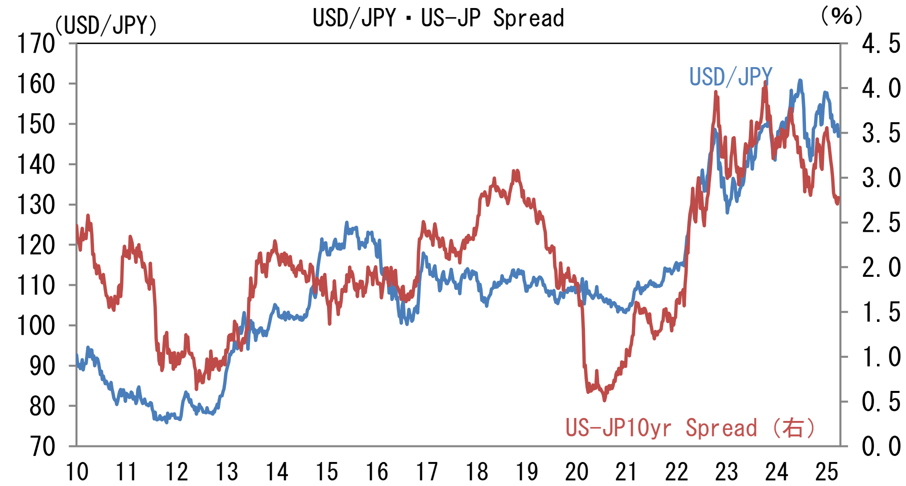
Note: PMI supply chain related data for major countries.

Source: FRB New York, Dai-ichi Life Research Institute

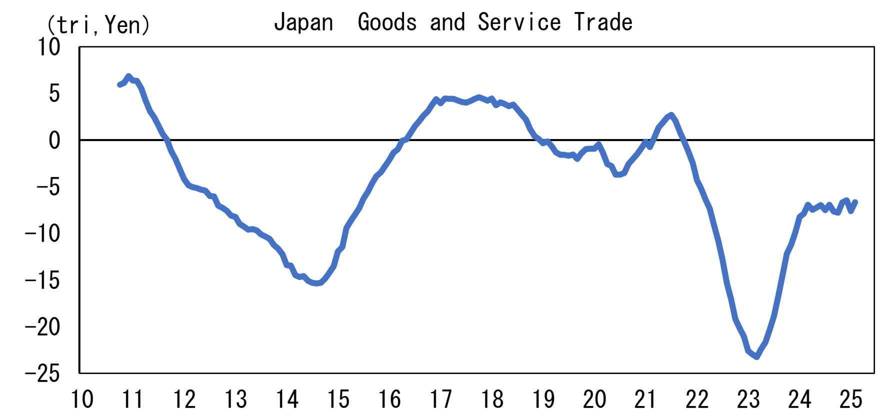
Japan-U.S. Bond Spread May Widen Slightly

How Will the Japan U.S. Bond Spread Move?

- BOJ Factors
  - The BOJ's pace of rate hikes is expected to be slow. The likelihood of "one hike every six months" is low.
  - Expected terminal rate appears to be converging around 1%.
- Fed Factors
  - The Fed is cautious about aggressive rate cuts, given the lesson learned from misjudging inflation as "transitory" in 2021.
  - Unless the risk of recession becomes more imminent, it is hard to expect more than four rate cuts within this year, despite current market pricing.
- Trade and Services Balance
  - If Japan's auto exports decline, the trade and services balance is likely to deteriorate further.



(Source) Bloomberg

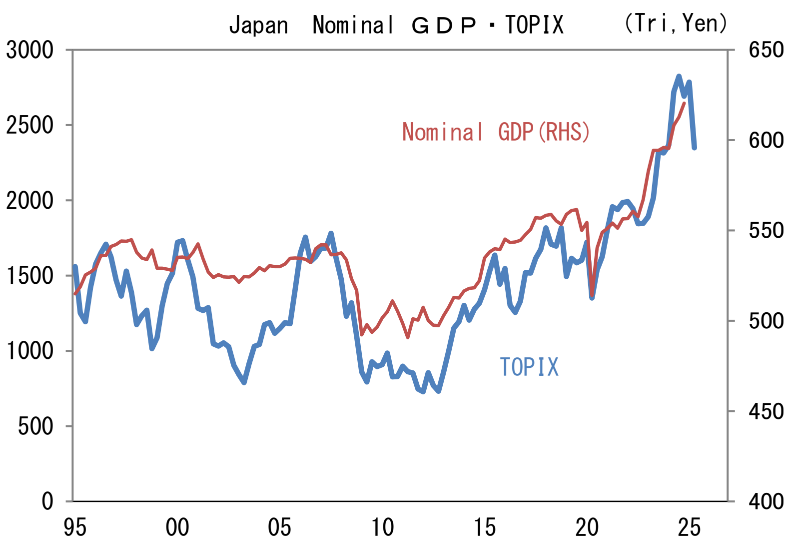


(Source) BOJ

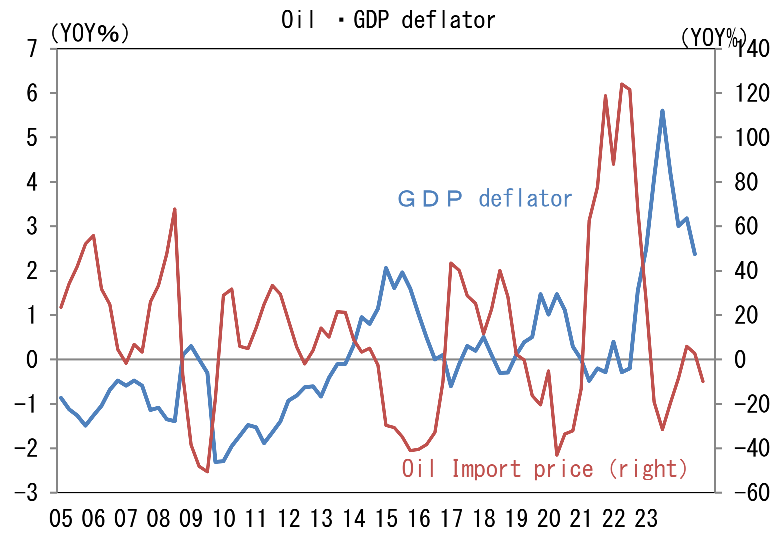
Equities: Can Nom GDP Maintain Its Growth?

Nominal GDP is expected to expand moderately, supported by lower crude oil prices.

- For stock prices, which are nominal values, nominal GDP — including inflation — is particularly important.
- While falling crude oil prices put downward pressure on consumer prices, They contribute to an increase in the GDP deflator.
- Even if real GDP turns negative, nominal GDP is expected to continue expanding, supported by factors such as rising domestic wages.
- Once the impact of the Trump tariffs subsides, stock prices are expected to gradually bottom out and start rising.



(Source) Cabinet Office TSE



(Source) Cabinet Office、BOJ

Medium-term Impact on the Global Economy

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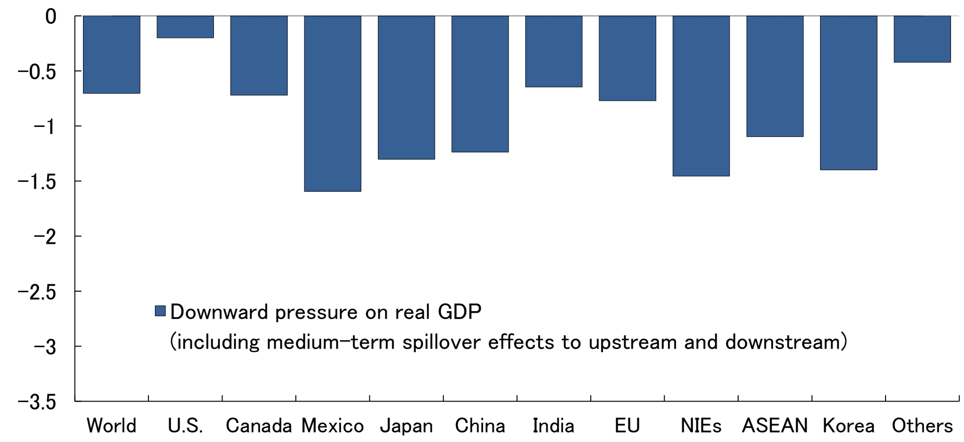
- **Trump's Tariffs push down economic growth**
  Real GDP will be pushed down in Mexico (-1.6%) and Canada (-0.7%), mainly due to declining exports of automobiles, steel, and aluminum. Reciprocal tariffs may also put downward pressure on real GDP, mainly in Japan (-1.3%), South Korea (-1.4%), and Taiwan (-0.9%), which account for a large share of exports to the US, and Vietnam (-0.6%), which is subject to high tariff rates (upper right chart).
- **US-China trade war will further slow down global economy**
  If tariffs are raised in the U.S. and China due to retaliatory tariffs, not only will real GDP in both countries be pushed downward, but the decline in production will spill over through the supply chain and expand the downward pressure on real GDP in each country (below right chart).

<Assumptions>

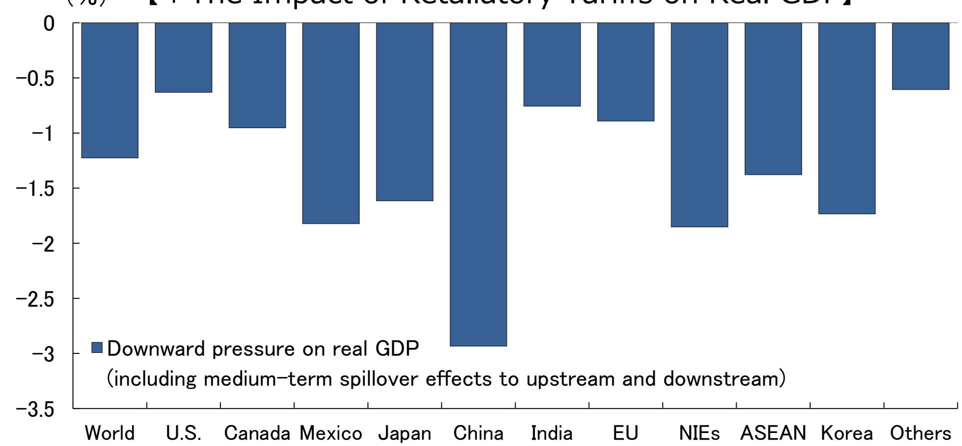
- Estimates are based on ADB-MRIO, using 2023 data (real values based on 2010 prices) published in October 2024.
- The estimates cover individual tariffs on China, tariffs on steel and aluminum, tariffs on automobiles, and reciprocal tariffs(as announced on April 2)
- Assuming that all additional tariffs are passed on to prices, exports to the U.S. decrease by the amount of the price increase, and production in each country decreases by the amount of the decrease in exports to the U.S.(not taking into account the revision of supply chains for exports to the U.S., alternative exports to third countries outside the U.S.).

(Source) Created by Dai-ichi Life Research Institute based on data from ADB-MRIO

【The Impact of Trump's Tariffs on Real GDP】



【+The Impact of Retaliatory Tariffs on Real GDP】



Note1 : Both are the downward pressures relative to real GDP in 2023. The downward pressures include medium-term spillovers through the supply chain. NIEs are based on the four countries/regions of Korea, Taiwan, Singapore, and Hong Kong; ASEAN is based on the six countries of Indonesia, Thailand, the Philippines, Malaysia, Vietnam, and Bangladesh.
Note2 : Above chart shows the impact of tariffs on China, steel and aluminum tariffs, auto tariffs, and reciprocal tariffs (as announced on 4/2). The below chart shows the impact of China's retaliatory tariffs (additional 84% tariffs on the U.S.) and further U.S. retaliatory tariffs (additional 91% tariffs on China from the above chart, 54% → 145%) in addition to the above.

Is This a Turning Point for Globalization?

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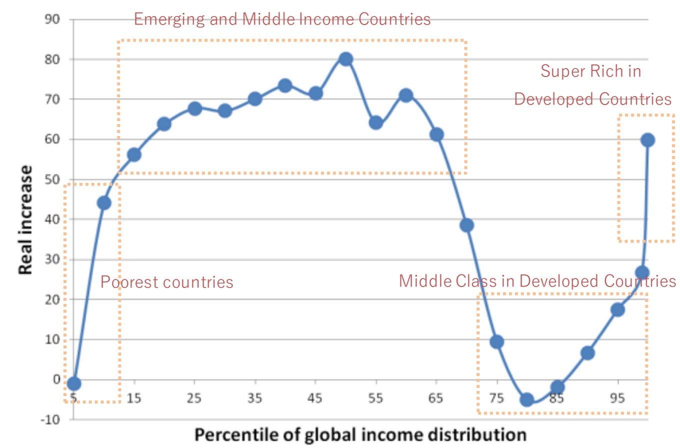
- **Changes in the US Society**
  - Decline of Mfg (Rust Belt) & working-class discontent
  - Fall of middle class and emergence of super-rich
  - Distrust of Wall St, political elites, established media
  - Social divisions (urban/rural, liberal/conservative)
  - Easy message (MAGA) & create adversaries
  - Spread of social media (fake news, eco-chamber)
  - These trends might continue after Trump

- **The Madman Theory Upsets Us**
  - Tariff is a bargaining tool to extract favorable terms
  - It is also economic policy to revive Mfg & create jobs
  - Desire for a deal = stricter on China & 90-day deferral
  - Many countries negotiate (economic, military power)
  - Problem is that it upsets financial markets
  - Backlash from supporters when serious downturns

- **Globalization & International Economic Order Shaken**
  - US distancing from intl cooperation & free trade
  - Growing nationalism and protectionism around world
  - Even pro-free trade EU aims strategic independence
  - Changes in global supply chain & global orders
  - Globalization Setback & block economy
  - Reduced efficiency & increased inflationary pressure
  - Economic conflicts, political tensions, security risks

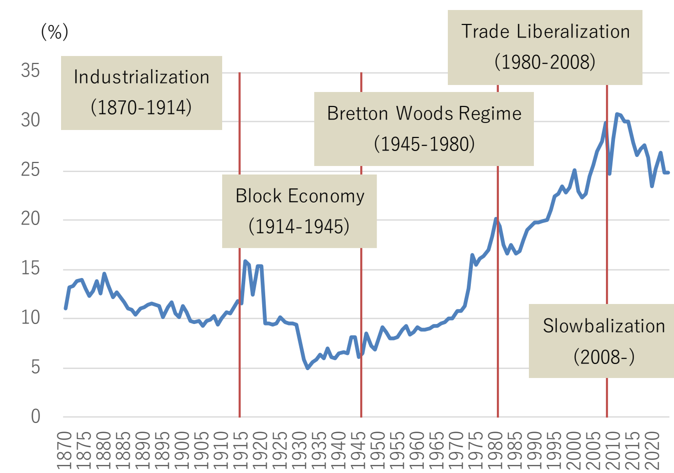
Source: Dai-ichi Life Research Institute

Global Income Inequality (The Elephant Chart, 1988-2008)



Source: Milanovic (2012),"Global Income Inequality by the Numbers: in History and Now", Policy Research Working Paper No. 6259

US Trade Openness (Exports + Imports as % of GDP)



Source: Macrohistory Database, US Commerce, Dai-ichi Life Research Institute

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