Special Bulletin

A Japanese Perspective on the International Energy Landscape (735) April 4, 2025

Trump 2.0 Rattling World with Reciprocal Tariffs to Turn Around Trade Policy

Ken Koyama, PhD
Chief Economist, Senior Managing Director
The Institute of Energy Economics, Japan

On April 2, U.S. President Donald Trump issued an executive order on the introduction of reciprocal tariffs that could historically turn around U.S. trade policy. Under the order titled "Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits," the United States will impose a 10% additional tariff on all imports from April 5 and higher reciprocal tariffs on imports from countries running large trade surpluses with the United States from April 9. Major reciprocal tariffs include 34% for China, 20% for the European Union, 24% for Japan, 25% for South Korea, 32% for Taiwan, 46% for Vietnam, 32% for Indonesia, 36% for Thailand, and 27% for India, far exceeding earlier expected levels.

In his address at the White House's Rose Garden on the day, Trump described April 2 as "one of the most important days, in my opinion, in American history," emphasizing that his "declaration of economic independence" will "make America great again." He also proclaimed the day as the much-awaited "Liberation Day." "April 2, 2025, will forever be remembered as the day American industry was reborn, the day America's destiny was reclaimed, and the day that we began to make America wealthy again."

The abovementioned executive order and Trump's address recognize huge U.S. goods trade deficits as indicating great problems and a national emergency, attribute the deficits to a lack of reciprocity in bilaterial trade relationships with foreign countries and to their disparate tariff rates and non-tariff barriers, and strongly demonstrate that reciprocal tariffs are required to rectify the deficits. They also threaten to further raise tariff rates if U.S. trading partners retaliate against the United States in response to the reciprocal tariff levy as a corrective action and to continue the reciprocal tariff levy until the U.S. trade deficits and subsequent problems are resolved or improved. The Trump address also vowed to introduce an additional 25% tariff on auto imports on April 3.

Reciprocal tariff rates have been explained as half the tariff rates imposed on the United States by its trading partners, which were calculated with non-tariff trade barriers taken into account. While the tariff rates calculated by the United States include 67% for China, 39% for the European Union, and 46% for Japan, how these rates were calculated in a manner to include non-tariff trade barriers is unclear. Some media reports view these rates as seemingly trade deficits divided by imports for each trading partner.

While President Trump had reiterated that the introduction of reciprocal tariffs would be important for improving and resolving trade deficits, his remarks on the matter had been viewed as exerting pressure on U.S. trading partners or indicating his strategy to cut deals with trading partners on the strength of reciprocal tariff threats. However, the April 2 announcement clarified that such a view was incorrect. In the future, the United States may have tough negotiations with each of its trading partners over reciprocal tariffs. However, it may be important to understand the reciprocal tariff introduction as an indispensable piece of the Trump administration's most important policy of realizing the "Make America Great Again" and "America First" slogans.

Although how the reciprocal tariff rates, including the baseline 10%, were calculated is still unclear, they are far higher than earlier expected and cover all goods. The announcement of such reciprocal tariffs came as a shocking event. Since the end of World War II, the United States has basically emphasized and promoted free trade, serving as the center of global economic development. By imposing the world's lowest tariffs on imports and opening its market to the rest of the world, the United States has expanded imports from the rest of the world to support global trade and economic development. However, the import expansion has brought about huge trade deficits and led manufacturing and other U.S. industries to lose competitiveness and jobs. While U.S. consumers have benefited much from cost and price drops caused by cheaper imports, dark side problems and their side effects have grown serious.

While free trade promotion has accelerated since the 2000s, as symbolized by China's accession to the World Trade Organization, the United States has faced China's rapid catch-up, which is shaking up the United States' position as the world's largest economy. As the division of the world has deepened, with nationalism rising under such circumstances, the belief in free trade has weakened. In the past, then U.S. President Barack Obama stated that the United States could no longer be the world's policeman regarding international security. Trump's reciprocal tariff announcement represents a historic turnaround in U.S. trade policy and may be signaling a dramatic change in the United States' role in international trade.

Of course, it is uncertain whether the reciprocal tariff introduction would encourage investment in the United States to expand and help revive U.S. industries as aimed at by President Trump. How the U.S. economy would benefit from a huge tariff revenue is unpredictable. Over the short term, however, the reciprocal tariff introduction is certain to cause huge economic unrest and exert strong downside pressure on the global economy. In the United States, which introduced the reciprocal tariffs, recession can be expected to be coupled with price hikes through the tariffs to cause stagflation. Sluggish international trade could combine with a recession in the United States, the largest economy in the world, and deal a severe blow to the global economy.

Under such circumstances, financial markets as an economic conditions barometer have been shaken up. On April 3, the Dow Jones average on the New York Stock Exchange suffered a daily loss of more than 1,600 points, the largest drop since June 2020 amid the COVID pandemic. Amid the global stock market decline, Japanese, U.S., and European stock markets lost 500 trillion yen in market capitalization in one day. In response to growing economic unrest, the key West Texas Intermediate crude futures contract plunged $4.76 per barrel to $66.95/bbl on April 3. As long as economic unrest continues under the impact of the U.S. reciprocal tariffs, financial markets as well as crude oil and other commodity markets may remain under strong downside pressure. This will be the largest focus of attention in analyzing the current international energy situation.

In response to the U.S. reciprocal tariff announcement, U.S. trading partners will have to consider countermeasures. They will have no choice but to negotiate with the United States to protect their respective economies. They will have to prepare bargaining chips for tough negotiations. They will also be urgently required to promote industrial and employment policies to support their economies. They may consider and implement retaliatory measures against the United States, which could become a double-edged sword to trigger further U.S. tariff hikes. U.S. trading partners will implement tough policies toward the United States as well as domestic policies, while watching how the reciprocal tariffs would impact the U.S. economy and how the economic impact would affect U.S.

public opinion and the Trump administration’s policy management.

Contact: report@tky.ieej.or.jp
The back issues are available at the following URL.
http://eneken.ieej.or.jp/en/special_bulletin.html