

Trump Shaking World Further with 90-day Tariff Pause and 125% Levy on China

Ken Koyama, PhD

Chief Economist, Senior Managing Director

The Institute of Energy Economics, Japan

On April 9, when U.S. President Donald Trump imposed reciprocal tariffs on U.S. trading partners running large trade surpluses with the United States, he announced a 90-day pause on the tariffs for U.S. trading partners that had not taken retaliatory measures against the new U.S. tariffs. The news of the sudden 90-day pause quickly traveled around the world, severely shaking the global economy and the international situation, as symbolized by a record one-day surge on the New York stock market. Indeed, the latest Trump Theater development has rattled the world again.

As cited in my previous essay “A Japanese Perspective on the International Energy Landscape (735),” Trump earlier announced that he would levy a 10% additional tariff on all imports from April 5 and higher reciprocal tariffs, including 34% on China, 20% on the European Union, 24% on Japan, 25% on South Korea, 46% on Vietnam, and 27% on India, from April 9 under an executive 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 additional 10% tariff was levied from April 5 as scheduled, before the reciprocal tariffs took effect and were mostly suspended on April 9.

As a result of widespread market speculation that the United States, which has been regarded as the free trade leader, might have made a major trade policy shift and begun to thoroughly realize “Make America Great Again” and “America First” slogans with the reciprocal tariffs under President Trump, a global stock market crash came in a manner to trigger a fear that the global economy could fall into a severe recession. Under these circumstances, crude oil prices fell sharply, as described later. The key West Texas Intermediate crude futures contract slipped below \$60 per barrel to a four-year low. The impact of the U.S. decision to introduce reciprocal tariffs was tremendous.

Leading up to the imposition of the reciprocal tariffs on April 9, President Trump repeatedly stated that he would firmly maintain his basic policy of introducing reciprocal tariffs even as stock prices crashed and global economic unrest grew. He thus gave the world the impression that he was determined to hold fast to the policy. Therefore, the 90-day pause came as a big surprise. Regarding the reason for the pause, President Trump explained that it was important to assess the state of uncertainty in the market and respond flexibly. With these points in mind, he reportedly consulted with Treasury Secretary Scott Bescent and Commerce Secretary Howard Lutnick, leading to the decision on the pause.

Under these circumstances, global financial markets have been shaken up severely. In a symbolic response to the reciprocal tariff announcement, the Dow Jones Industrial Average on the New York Stock Exchange plunged from 42,225 on April 2 to 40,546 on April 3, losing more than 1,600 points in a day. It basically continued to decline later, sinking to 37,646 on April 8. From April 2 to 8, the stock average lost 4,580 points or 10.8%. Naturally, the decline in stock prices spread to Japan, Europe, Asia, and other parts of the world, leading to a global stock market crash that shook

the global economy. However, the news of the 90-day pause on reciprocal tariffs caused the Dow Jones Industrial Average to rebound to 40,608 on April 9. The day's gain of 2,963 points was the largest in history.

Amid growing fear of a recession, President Trump said that he decided to suspend the tariffs for 90 days under a temporary measure for countries that took no retaliatory measures against the United States, as more than 75 countries already sought talks with the United States on tariffs. Although the suspension was temporary and failed to cover all U.S. trading partners, the reciprocal tariff postponement gave the market a breather, indicating that the impact of the reduction of extreme anxiety for the time being was significant. This demonstrates how enormous the impact of the reciprocal tariffs is.

As noted above, however, the suspension is set to last only for 90 days and does not cover all U.S. trading partners. As reciprocal tariffs alone are subject to the suspension, the uniform 10% tariff on all U.S. trading partners has taken effect since April 5. In addition, tariffs for specific items, such as the earlier-introduced 25% auto import tariff, remain intact. In this sense, tariff rates have been raised significantly in international trade since President Trump took office in January. While further severe economic deterioration has been averted for the time being, serious challenges still exist, including global economic deterioration factors and the serious impact of the auto import tariff on the Japanese economy.

Another important factor that should not be overlooked is a further increase in tariffs on China. While the 90-day suspension is conditioned on the absence of retaliatory measures against the United States, China has so far taken resolute retaliatory measures to counter U.S. tariff hikes. The United States has imposed an additional 84% on China since April 9, bringing the cumulative tariff rate to 104%. In response to the tariff hike, China announced a retaliatory measure to raise the tariff on the United States by 50 percentage points from 34% to 84%

In a manner to counter the Chinese tariff hike, President Trump has vowed to increase tariffs on China to 124%. While announcing the 90-day pause on reciprocal tariffs on many U.S. trading partners, Trump raised tariffs on China, escalating the trade war between the world's first- and second-largest economies. The intensification of the U.S.-China trade war will lower U.S. and Chinese economic growth and seriously affect the global economy. In the future, we will have to closely watch trade talks between the United States and most of its trading partners during the 90-day pause, as well as the fate of the U.S.-China trade war.

The crude oil futures market has shown violent developments in line with U.S. reciprocal tariff developments and wild stock market fluctuations. The benchmark WTI crude oil futures price on the New York market plunged from \$71.71/bbl on April 2 to \$66.95/bbl on April 3 and continued to fall later, slipping below \$60/bbl to \$59.58/bbl on April 8. This is the first time in four years that the WTI has fallen below \$60/bbl since early April 2021, when oil prices were still weak due to the COVID-19 pandemic.

Following the news of the 90-day pause on reciprocal tariffs, however, the WTI rebounded from above \$60/bbl to \$62.35/bbl on April 9. Nonetheless, with increasing oil production by the OPEC-plus group of oil-producing countries and economic unrest in China, known as a major oil importer and consumer, the oil market has been weak. Without the announcement of the 90-day reciprocal tariff pause, crude oil prices might have come under even stronger downside pressure. Trump's decision to suspend reciprocal tariffs for 90 days temporarily curbed excessive global

economic unrest, exerting some impact on sentiment in crude oil and other international energy markets.

However, the future situation remains completely unpredictable. As noted earlier, tariff rates have remained high in international trade as a whole. While the United States and its trading partners around the world are expected to negotiate tariff issues during the 90-day reciprocal tariff pause, the outcome of the negotiations is unpredictable. It is quite conceivable that reciprocal tariffs will be introduced again after the temporary pause. Furthermore, the U.S.-China trade war may become more serious, making the international situation and the global economy even more turbulent. The future global economy and international energy situation are extremely uncertain, with significant economic risks existing. In the meantime, the impact of geopolitical risks, such as the Ukraine war and the Middle East situation, including Iran nuclear talks, cannot be overlooked. Trump 2.0 will continue to affect all of them.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL.

http://eneken.ieej.or.jp/en/special_bulletin.html