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Mizuho Economic Outlook & Analysis

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Tariff risks hit Japan as its competitiveness declines

Trump auto tariffs estimated to lower GDP by 0.3%

< Summary >

◆ Exports in US dollars in 2024 declined 1.4% year-on-year. Exports to the US, China, and Europe decreased by -2.2%, -1.4%, and -10.8%, respectively. Export declines are notable for items such as automobiles and general machinery.

◆ China is expanding its global market share by boosting its competitiveness and driving up exports as Japan loses ground. Given the ongoing trade environment, Japan's exports will likely remain sluggish in the near term.

◆ Trump tariffs pose a further downside risk to exports. We estimate that auto tariffs will have the largest impact, pushing GDP down by 0.3%, and that a total ban on exports of semiconductor manufacturing equipment to China will lower GDP by up to 0.1%.

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1. The Trump administration continues to use tariffs in its transactional diplomacy

As was largely expected, Donald Trump, who regained the US presidency on January 20, is engaging in transactional diplomacy as "Tariff Man." In the wake of the January 26 announcement of a 25% tariff on Colombia over the deportation of immigrants, the Trump administration has leveraged its hardline stance, signing an executive order to impose additional tariffs of 25% on imports from Mexico and Canada and 20% on imports from China, as well as hinting that a 25% tariff on imports from the European Union may be announced soon.

As pointed out by Mizuho Research & Technologies (2025) and Matsuura et al. (2025), President Trump has shifted his policy focus from "strengthening immigration and antidrug measures" to "correcting trade imbalances," using tariffs as a bargaining chip. The United States is expected to go beyond bilateral deal-making diplomacy with its trading partners to a comprehensive tariff policy for all trading partners. As of this report's writing, the country has announced 25% import tariffs on steel and aluminum (to be applied from March 12), automobiles, pharmaceuticals, and semiconductors, and there are reports of the introduction of new import tariffs on copper products (**Chart 1**).

President Trump's tough America-first policy could have a significant impact on the Japanese economy. Raising tariffs on export items to the US will weigh down Japanese exports, and the impact of the decline in exports will spread to other industries through lower production and other factors. For example, the large amount of steel used for automobile bodies and parts means that a decline in automobile exports will weaken the demand for steel and negatively impact the steel industry. In this report, after reviewing the main scenario for the outlook for exports, we examine how the Trump policy risks affecting the Japanese economy, starting with a decline in exports.

Chart 1: Products on which US tariffs will be raised

Products	Target countries	Tariff rates
All products	China	20%
All products	Canada, Mexico	25%
All products	EU	25%
Steel, aluminum	All countries	25%
Automobiles	All countries	25%
Pharmaceuticals	All countries	25%
Semiconductors	All countries	25%
Copper products	Unknown	Unknown

Note: Tariff increase range for China; tariff rates after the increase for others. Orange: already applied, others: not yet applied.[1]
Source: Made by MHRT based on various media reports.

[1] Regarding tariffs on Canada and Mexico, the additional tariff on Canadian energy is 10%, not 25%. At the time of this writing, it is being reported that compromise tariff agreements with Canada and Mexico may be reached.

2. Japan's exports likely to remain sluggish even if the "Trump risk" does not materialize

(1) Exports in 2024 contracted in dollar terms, with notable declines in automobiles and general machinery

Before considering the Trump risk, let us first summarize our view of the main scenario for future exports. Our conclusion is that exports are likely to remain lackluster in 2025 as China's share of global exports continues to expand, in conjunction with the slowdown in the US and Chinese economies.

Exports in yen terms in 2024 grew significantly, increasing by 6.2% year-on-year, but in dollar terms they were actually softer at -1.4% year-on-year as the yen's depreciation against the dollar boosted exports. By country and item, exports to the US (exports in US dollars year-on-year: -2.2%) of automobiles, general machinery, and other products declined (**Chart 2**). Exports to China (-1.4% year-on-year) gained substantially in semiconductor production equipment as the Chinese government moves toward in-house production of semiconductors, while electrical equipment and automobile exports were weak. Exports to Europe (-10.8% year-on-year) fell sharply, due in part to the economic slowdown in the region, with notable declines in automobiles and general machinery.

(2) Rise of Chinese companies is one reason for declining export competitiveness

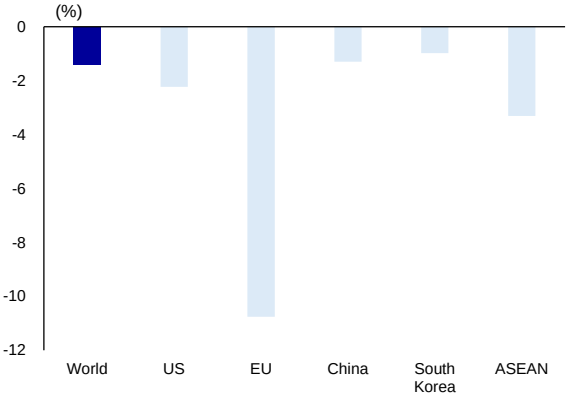
The global economy is slowing moderately but generally remains firm, while export growth is sluggish due partly to the growing global share of Chinese firms in Japan's traditional mainstay industries. **Chart 3** compares the export shares of Japan and China by item for 2019, before the COVID pandemic, and 2023.[2] The chart shows that 54.2% of all items (based on 2-digit HS codes, 96 items in total) are located in the second quadrant (upper left). The second quadrant (upper left) contains the items where China's share of exports has increased while Japan's share has fallen, and the large number of items in the second quadrant (upper left) indicates that Japanese firms are losing ground to Chinese companies. In particular, many of Japan's traditional mainstay industries, such as automobile-related, machinery-related, and electrical equipment, have been undermined by this situation, underscoring the significant impact on Japan's exports.

Two factors are seen as the main reasons behind the expanding share of Chinese exports. One is the drive to export through unit price devaluation. China's real estate recession and other negative factors have weakened domestic demand, resulting in an excess of inventories. Consequently, manufacturing industries are exporting supply surpluses at low

[2] Most recent data available at the time of this writing.

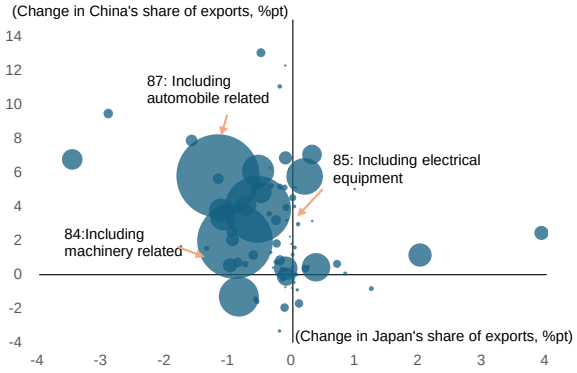
prices to clear away inventories. This corporate behavior is viewed as driving the expansion of Chinese products' share of exports. The second factor is the stronger competitiveness of Chinese firms. As Tsukioka and Kamata (2025) point out, the technological capabilities of Chinese companies are dramatically improving, thanks partly to support through the national policy of "Made in China 2025." This is especially true for items such as automobiles and home appliances. The "low-price strategy" will eventually come to its limit, as corporate profits are sacrificed to create room for price reductions, while improved competitiveness is a structural change, that in the long run will likely continue to grab market share from Japan. Under these circumstances, Japanese exports are likely to remain sluggish.

Chart 2: Percentage change in exports (in US dollars) by region



Note: Percent change from the previous year in 2024. Exports in US dollars are estimated using the official customs exchange rate.
Source: Made by MHRT based on the Ministry of Finance, *Trade Statistics*.

Chart 3: Change in Japan and China's share of exports by product category



Notes: 1. Japan and China's share of global exports by item in 2019 and 2023 (based on 2-digit HS codes, 96 items in total).
2. Bubble size indicates the value of Japan's exports (2023).
Source: Made by MHRT based on UN Comtrade.

3. Risk of a broad range of contentious issues, including tariffs as well as non-tariff barriers and restrictions on exports to China

With exports expected to lack strength even in the main scenario, further downward pressure will be exerted if the Trump risk materializes. The risks considered in this report are (1) that tariffs will actually be raised on items threatened with higher rates (as of this writing), and (2) a total ban on semiconductor manufacturing equipment from Japan to China.

(1) Reports of tariff increases on items such as automobiles; non-tariff barriers and currency movements could also be contentious

Regarding (1), it has been reported that tariffs of around 25% may be imposed on

automobiles, steel and aluminum, pharmaceuticals, and semiconductors. There are also reports that the US is investigating reciprocal tariffs, with tariffs imposed at the same rate as those of its trading partners, but details such as how reciprocal tariffs will be applied are unclear and beyond the scope of this paper. Japan has high tariff rates on some agricultural products, while tariffs are low or non-existent for many other items, especially industrial products. If the same tariff rates are applied to the same products, even if certain high-tariff products such as meat[3] become an issue, the overall impact on the Japanese economy will likely be negligible. Nevertheless, the memorandum of understanding for the introduction of reciprocal tariffs signed by President Trump on February 13 calls for countries to reduce not only their tariffs but also a wide range of barriers, including non-tariff barriers and value-added taxes. Thus it is necessary to consider the possibility that Japan will be asked to make concessions in areas other than tariffs. President Trump has in the past criticized Japan's automotive sector for its high barriers to entry due to strict environmental, safety, and other standards, and he has also blamed the yen's depreciation on government efforts to "induce a weaker currency."

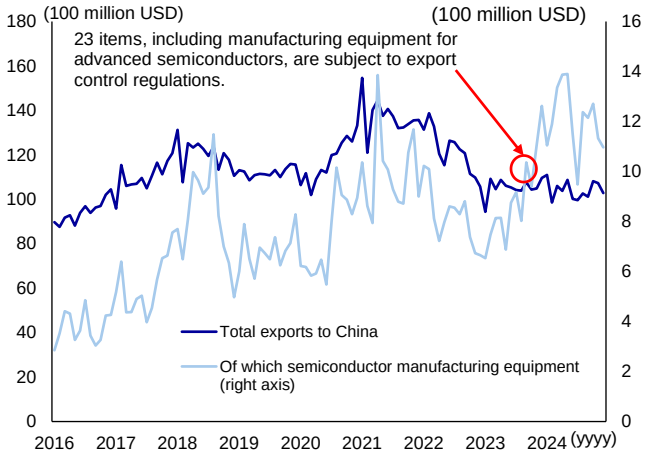
(2) Risk of the request for tighter export control regulations on China

Regarding (2), although not directly related to tariff policy, the Trump administration may demand voluntary export restraints on semiconductor manufacturing equipment to China. Japan added 23 items, including manufacturing equipment for advanced semiconductors, to its export control regulations in 2023, which is effectively an export control measure targeting China. In October 2022, the US tightened export controls on advanced semiconductors, supercomputers, and semiconductor production equipment from a national security perspective, and Japan's export controls in 2023 are a follow-on measure taken in response. However, even after export controls were tightened, exports of semiconductor production equipment to China rose, and in 2024, the value of exports in dollar terms, excluding the impact of the yen's depreciation, rose a substantial 33.2% over the previous year (**Chart 4**). One of the factors behind this rise is the sharp increase in demand for semiconductor production equipment amid the trend toward in-house semiconductor production in China. Against this backdrop, in October 2024, a bipartisan group of Democrat and Republican members of the US Congress sent a letter to the Japanese ambassador requesting tighter restrictions on the export of semiconductor production equipment to China. The letter also referred to the possibility of the United States imposing its own regulations on Japanese companies or preventing Japanese companies exporting to China from receiving US semiconductor subsidies. Under the

[3] Beef: 38.5% maximum, processed: 50% maximum.

Trump administration, the risk of continued restrictions on semiconductor equipment exports to China will remain, as the administration is expected to continue calling on key allies to tighten regulations on the Chinese semiconductor industry. However, it should be noted that the strong assumption made here is the risk of an embargo (i.e., zero yen in exports).

Chart 4: Exports to China and semiconductor manufacturing equipment exports



Source: Made by MHRT based on the Ministry of Finance, *Trade Statistics*.

4. The Trump risk's biggest threat is auto tariffs, which are estimated to pull down GDP by 0.3%

Chart 5 shows estimates of the impact on Japan's GDP and GDP by industrial sector of a 25% tariff on automobiles, steel and aluminum, pharmaceuticals, and semiconductors, as well as the suspension of Japanese exports of semiconductor manufacturing equipment to China, using an input-output table. The heaviest impact will be automobile tariffs. If we assume that Japanese manufacturers are forced to suspend exports of low-unit-price models (and switch some to local production) due to the increase in automobile tariffs, and that automobile exports to the US decline by about 40%, exports will be -537.5 billion yen, the domestic production spillover effect will be -1.2896 trillion yen, with a total impact of -1.827 trillion yen. This translates into a 0.33% reduction in nominal GDP, a commensurate downward pressure on trade (more than 10% of the value-added produced by transportation machinery would be lost). Since automobiles are assembled from many parts, the domestic production ripple effect will be large, affecting not only transportation machinery but also many other industries, including steel, electrical machinery, nonferrous metals, metal products, and information and telecommunications equipment.

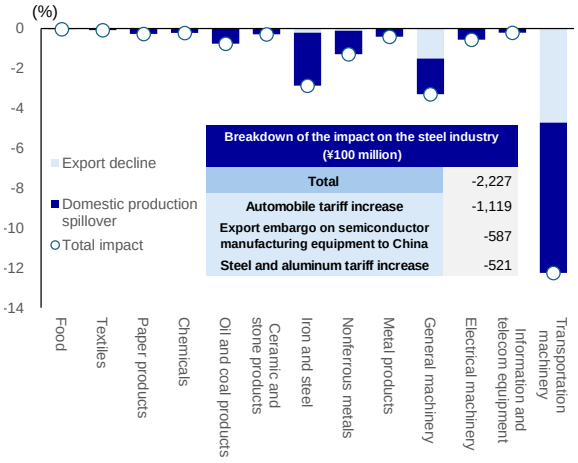
The next largest impact is the export embargo on semiconductor manufacturing equipment to China, which combined with the domestic production ripple effect will be -683 billion yen, or a 0.12%pt decline in nominal GDP. Exports of steel and aluminum, pharmaceuticals, and semiconductors to the US are not huge in relative terms, pushing down nominal GDP by only 0.01%pt, so the direct impact on GDP would be limited. Of the risks mentioned so far, in terms of their impact on the Japanese economy, we need to pay close attention to the automobile tariffs and export restrictions on semiconductor

manufacturing equipment, which will also have a widespread ripple effect on domestic production. For example, looking at the impact on the steel industry, the steel and aluminum tariffs are estimated to have a negative impact of -52.1 billion yen, while the impact of the automobile tariffs is -111.9 billion yen, and the impact of a semiconductor manufacturing equipment embargo against China is -58.7 billion yen, exceeding the impact of the steel and aluminum tariffs.

Note that these estimates do not take into account the downward swing of the US economy due to Trump's tariff hikes. If demand in the United States shrinks as a result of higher consumer prices on the back of stiffer import tariffs, downward pressure on exports from Japan will certainly rise. In addition, the imposition of high tariffs on countries such as Mexico, Canada, and Europe may adversely affect the consolidated earnings of Japanese companies operating in those countries and reduce exports from Japan to local companies. In particular, automakers with operations in Mexico and Canada enjoy large sales with the United States. There are also concerns that Japanese companies may become more cautious about capital investment and wage hikes may be curtailed due to the increased uncertainty arising from President Trump's tariffs. The Japanese economy could be directly affected not only by tariffs on exports but also through various channels.

Chart 5: Impact on Japan's GDP and GDP by industry from higher tariffs and tighter export restrictions on semiconductor manufacturing equipment to China

	Total impact (% of GDP)	Total impact (¥100 million)	Exports decline (¥100 million)	Domestic production spillover (¥100 million)
Total	-0.49	-26,851	-8,261	-18,591
Automobile tariff increase	-0.33	-18,271	-5,375	-12,896
Export embargo on semiconductor manufacturing equipment to China	-0.12	-6,830	-2,302	-4,528
Steel and aluminum tariff increase	-0.01	-693	-205	-489
Pharmaceutical tariff increase	-0.01	-677	-236	-441
Semiconductor tariff increase	-0.01	-381	-144	-237



Notes: 1. Assuming a 25% tariff on exports of automobiles, steel, and aluminum to the US, and a ban on exports of semiconductor manufacturing equipment to China.
2. Assuming that exports of low-unit-price vehicles, whose profitability will be negatively impacted by the imposition of tariffs, will be curbed and that only exports of high-unit-price vehicles will continue.
3. Data for the input-output table are for 2022; data for GDP and exports are for FY2023.

Source: Made by MHRT based on the Cabinet Office, *SNA Input-Output Table*, the Ministry of Finance, *Trade Statistics*, and the WTO.

We maintain the view that the Japanese economy will continue to recover moderately, mainly driven by domestic demand, with personal consumption maintaining a gradual but upward trend due to continued high wage increases and other factors. However,

materialization of the Trump risk will heighten concerns that the recovery trend in the Japanese economy will falter. Thus we need to continue closely monitoring President Trump’s policy management and trends in the Japan-US negotiations.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.
https://www.mizuho-rt.co.jp/publication/2025/pdf/insight-jp250305.pdf