

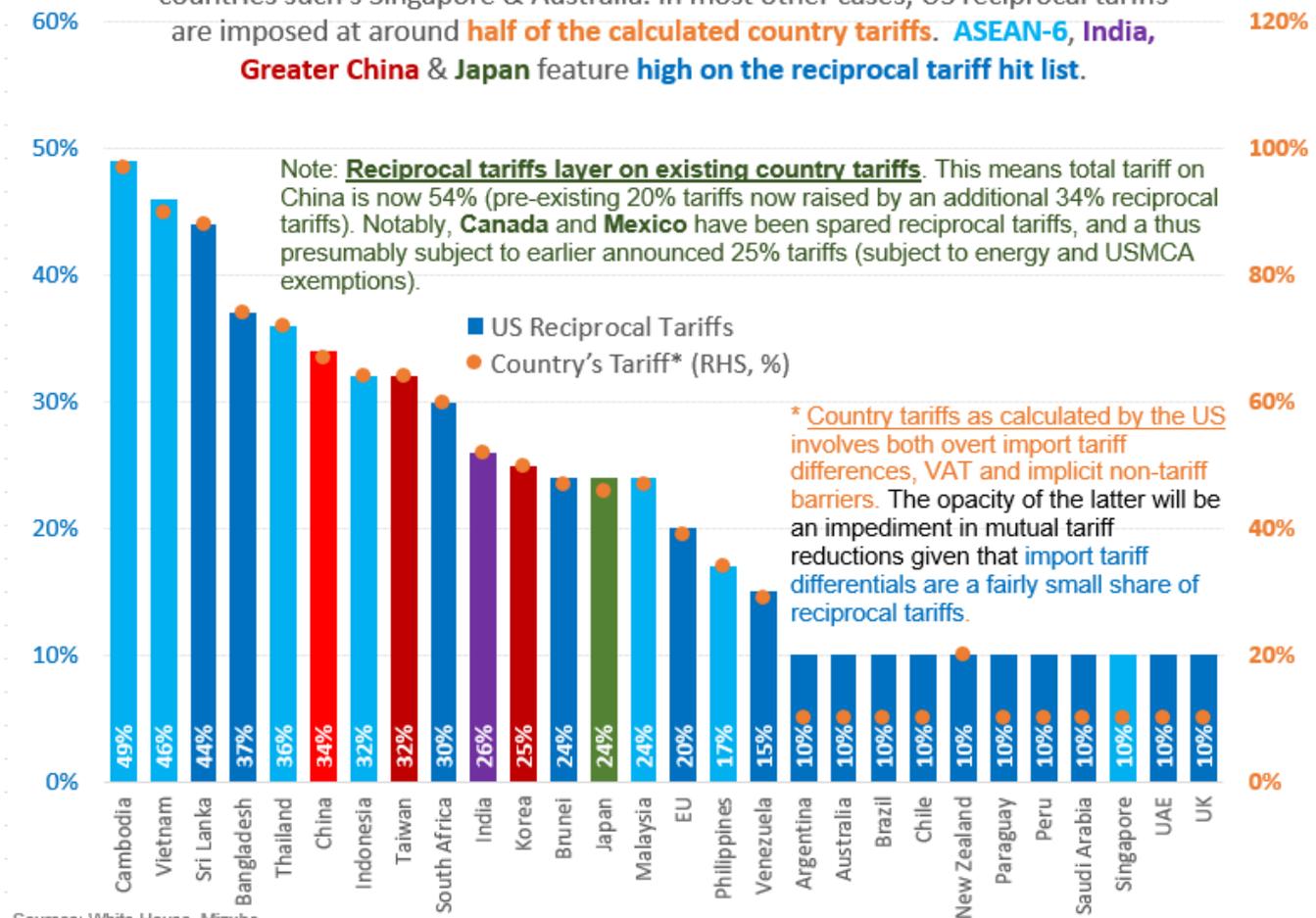
Reciprocal Tariffs: Revealed, Not Resolved (on Liberation Day)

“Losing all hope was freedom” – Fight Club

In a Nutshell:

- **President Trump revealed reciprocal tariffs** with a *baseline* (minimum for any country) of **10%**. **Allies and adversaries alike have been hit with 10-50% in tariffs.**
- This is **far from a resolution** of elevated tariff risks and trade uncertainty that **threaten to hurt aggregate demand.**
- For one, **pipeline tariffs could still prove to be additive** despite some welcome exemptions (e.g. steel, aluminium, energy, autos, USMCA) to reciprocal tariffs.
- And *China's* case, **reciprocal tariff announced (34%) layers on pre-existing 20% to make for 54% tariffs.**
- What's more, as warned by Treasury Secretary Bessent, **retaliation** from any trade partner **could easily lead to an escalatory spiral.** Notably, this prominently features **mounting US-China antagonism beyond just trade** that threatens wider spillover.
- Moreover, the **opaque derivation of reciprocal tariffs involving** not only **import tariff imbalances** but also **VAT and highly complex non-tariff barriers make it even harder to resolve and/or dial back.**
- The upshot is that **reciprocal tariffs may not only persist as a source of economic headwinds** but could be **inadvertently compounded, exacerbating vulnerabilities to adverse demand shocks.**
- **Asia is particularly hard-hit**, with Cambodia, Vietnam, Thailand and Indonesia featuring (partly as China proxies); with received **wisdom about ASEAN as “China + 1” hedge now challenged.**
- Allies such as Taiwan, Korea, Japan, India, and EU have not been spared either. UK, Australia and Singapore with 10% are least impacted (directly).
- AXJ Pressures May Persist: Consequently, **AXJ pressures could persist even with a softer USD**, as *direct tariff hit, China spillover drag, FDI holdback and interim dovish divergence* (vis-à-vis the Fed) conspire.
- UST Curve Temporarily Flatter & Sticky: *UST yields may be flatter initially* on considerations of **front-loaded price shocks for US being followed by adverse income drag.** Accordingly, **initial Fed restraint giving way with a lag** could lead to more *distinctly softer yields only further out.*

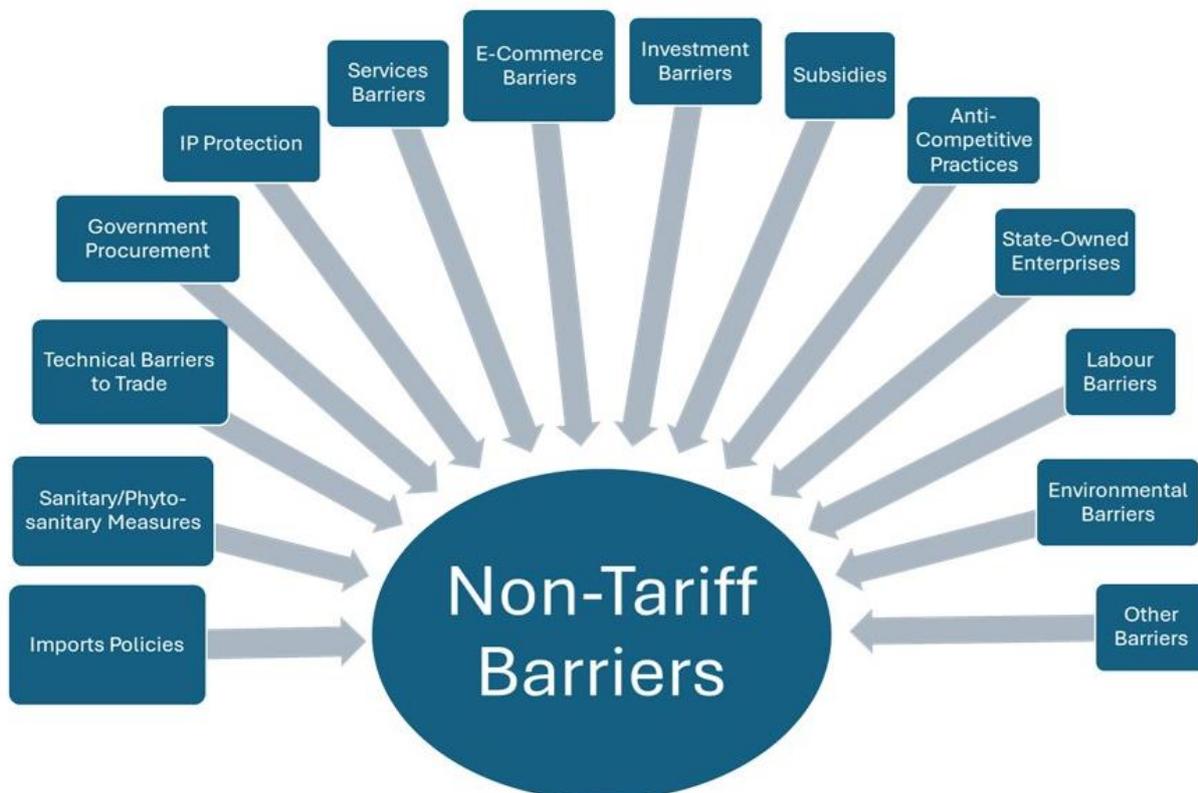
Reciprocal Tariffs with a **baseline of 10%** (in all countries), including treaty countries such as Singapore & Australia. In most other cases, US reciprocal tariffs are imposed at around **half of the calculated country tariffs**. **ASEAN-6, India, Greater China & Japan** feature **high on the reciprocal tariff hit list**.



- **Reciprocal tariffs have been revealed, but elevated tariff uncertainty has not been resolved.** This includes the **scale of economic damage from tariffs** that remains highly fluid.
- For one, sweeping **reciprocal tariffs** on all countries, **do not necessarily preclude layers of additional tariffs**, be it based on products/industries or targeted at countries more specifically.
- Admittedly, **exemptions of reciprocal tariffs on some goods** (already subject to tariffs) such as steel, aluminum, autos/auto parts, energy and other minerals not available in the US is **welcome relief that tariffs will not compound**.
- But **tariffs can, and have, been layered on**. *China's 34% reciprocal tariffs add to pre-existing 20% tariffs, bringing total tariffs on China to 54%* (as clarified by Treasury Secretary Bessent).
- And while **China** is the main target, it **may not be the only one subject to additive tariffs**. Especially with Trump stressing that trade and security are inextricably intertwined.
- Second, **whether reciprocal tariffs lead to a de-escalation of negotiated compromises that eventually lower tariffs** all around, **or a retaliatory spiral that sinks global trade** is also **difficult to determine**.
- **Treasury Secretary Bessent has warned trade partners not to retaliate, implying an escalatory response from the US.**

- While the intellectual desire of most US trade partners is for the former, the **speed and scale of Trump 2.0 tariffs alongside US’ dismissive disregard for rules-based international dealings** inadvertently raise the risk of **more adverse and undesirable outcomes from unfortunate diplomatic miscalculations**.
- Notably, the **threat of mounting US-China trade antagonism, well beyond just bi-lateral trade as security considerations feature, with serious spillover of risks simply cannot be ignored** (see Box Feature below).
- Finally, it may be **harder** (than is widely appreciated) **to rectify and rollback reciprocal tariffs given the opacity and complexity of reciprocal tariff computation** (by the US).
- Point being, the **easy-to-acquiesce part of (transparent) import tariff imbalance** is the **smallest component of reciprocal tariffs**. And even the **VAT component**, while larger, is not the main source of risk.
- Instead, the **overwhelming share of non-tariff barrier computations** are **opaque, determined on a suite of considerations** (Figure 2) that **is neither easily quantified nor quickly unwound** (in a targeted, effective manner).
- Crucially, given the **given the power/leverage asymmetry vis-à-vis the US**, highly debatable **US assumptions/perceptions couched as hard facts**, will unfortunately be **hard to refute for trade partners**.
- Especially, the **complex suite of factors that have gone into calculating non-tariff barriers may not be so easy for most EM nations to unravel** as many of these factors *involve entrenched and structural economic conditions*.

Figure 2: Non-Tariff Trade Barriers



- The **upshot is that reciprocal tariffs lead shocks may prove to be far more durable than optimists countering on a compliance-based unwind may be hoping for**.
- Worse, not only will **persistent reciprocal tariffs exert sustained stress on trade** but may **inadvertently be**

compounded by further US tariffs/retaliation, exacerbating vulnerabilities to adverse demand shocks.

The Worst-Hit: A baseline of 10% reciprocal tariffs

- In **ASEAN**, *Cambodia (49%)* and *Vietnam (46%)* are **hardest hit**, with Vietnam ramifications threatening to be amplified by hefty investment/FDI channels. *Thailand (36%)* and *Indonesia (32%)* also feature prominently, followed by Malaysia (24%) and the Philippines (17%).
- In **Greater China**, *Taiwan (32%)* is **worst-hit** with China obviously the key target (as 34% layers on 20% earlier to make for 54%). *Korea is not off the hook either at 25%*.
- **Allies:** Notably, *despite close diplomatic relations, Japan is not spared a 24% hit*, nor is **EU a 20% knock**. Notably, *despite PM Modi's close relations with Trump* (and his recent diplomatic visit), **India is hit with 26% in reciprocal tariffs**.
- **Baseline 10%:** The **UK, Australia and Singapore** have **skirted the worst, with "only" 10%**, which is the *baseline reciprocal tariff* (the lowest any country could enjoy), with existing treaties with the latter two likely to have helped.
- **USMCA:** **Canada and Mexico** have been spared (additional) reciprocal tariffs under USMCA exclusions. But pre-existing 25% tariff liabilities (save for some exclusions/concessions on energy and compliant autos) apply and may be the subject of USMCA re-negotiations.
- Asia Demand Shocks & "China + 1" Challenged: Notably, **Asia has been badly hit by of reciprocal tariffs**. Critically, **assumed benefits for ASEAN from "China + 1" hedge** strategies for global manufacturers are severely **challenged**. Consequently, **adverse income shocks** will **far overshadow inflationary risks**.
- As Opposed to Mixed/Lagged US Demand Impact: For the **US**, **stagflation-type outcomes may precede what may ultimately still be more of an income shock**.
- Fed-Asia Policy Tensions: Consequently, **greater Fed restraint amid worries of inflation resurgence** may be a **sharp contrast against EM/Asia central banks bracing for adverse economic shocks**.
- Attendant AXJ Risks: In turn, the risk is that this will **pressure AXJ** as (dovish) policy divergence vis-a-vis the Fed, direct tariff hit, China proxy effects and FDI/investments curtailed conspire; albeit likely **differentiated for tariff hit and wider risks**.
- Underperforming Even Tailwinds from Softer USD: Crucially, it is **complacent, if not flawed, to assume AXJ will benefit equally and unambiguously from a weaker USD**.
- Flatter UST Curve Knee-jerk: There could be a **mild flattening bias** owed to **front-loaded price shock that gives was to income shocks**.
- Softer Yields, Steeper Curve Further Out: For now, yields may be sticky (on the way down), limiting the depth of initial declines. But **further out, more distinct downside could emerge on evidence of overriding economic headwinds**. Along with this, a **re-steepening of the curve** as Fed cuts feature.
- **Liberation Day, indeed!** On the **receiving end**, the **experience is despair, if not despondency** as the weight of **US' new world order sinks in**. The *Fight club quote is apt*. Perhaps, the rest of the world **"losing all hope** (in global trade is) ... **freedom (liberation)" for the US**.

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