Mizuho Brief: Reciprocal Tariffs

Economics & Strategy | Asia ex-Japan

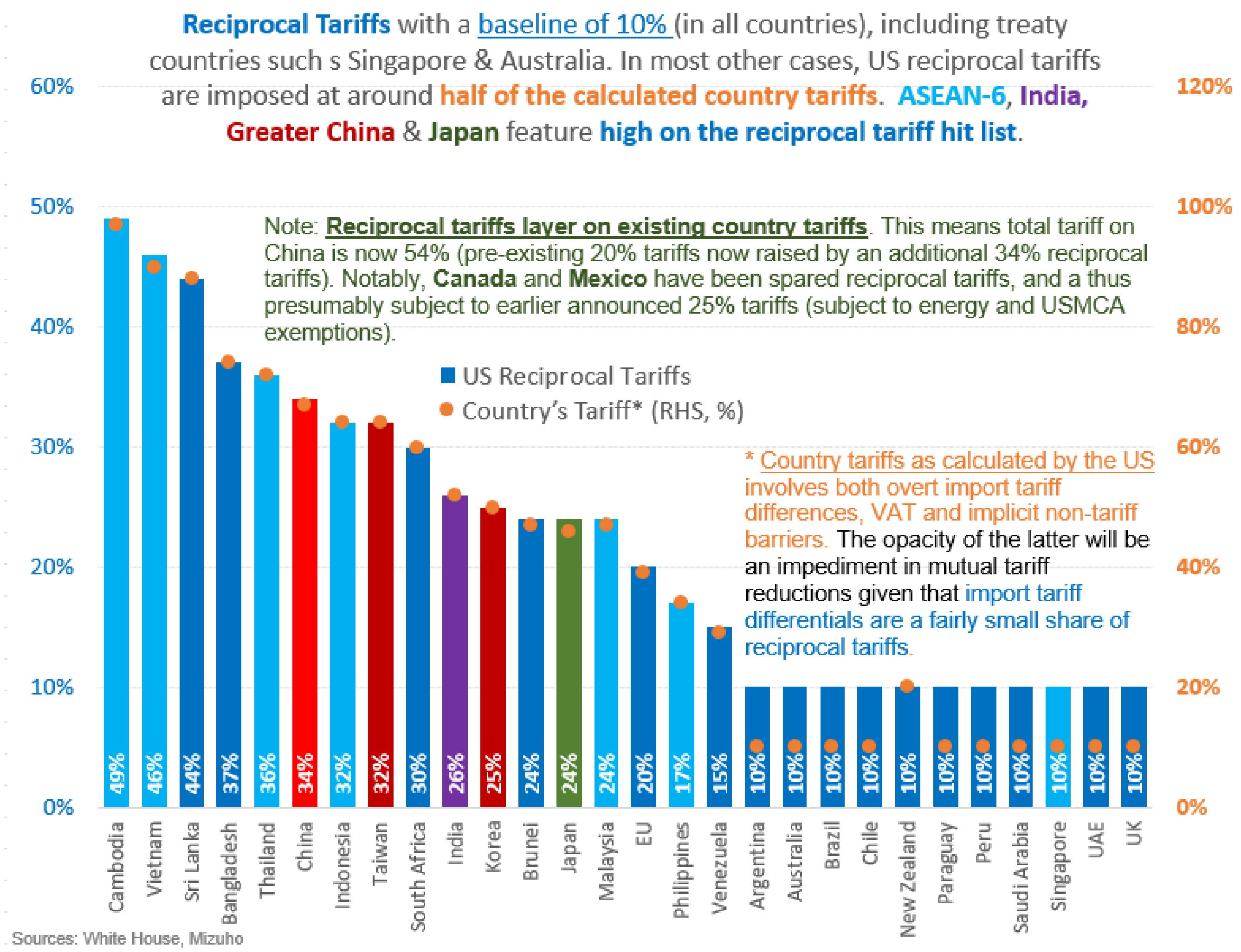
3 April 2025 |
Vishnu Varathan | Head Macro Research, Asia ex-Japan

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.*

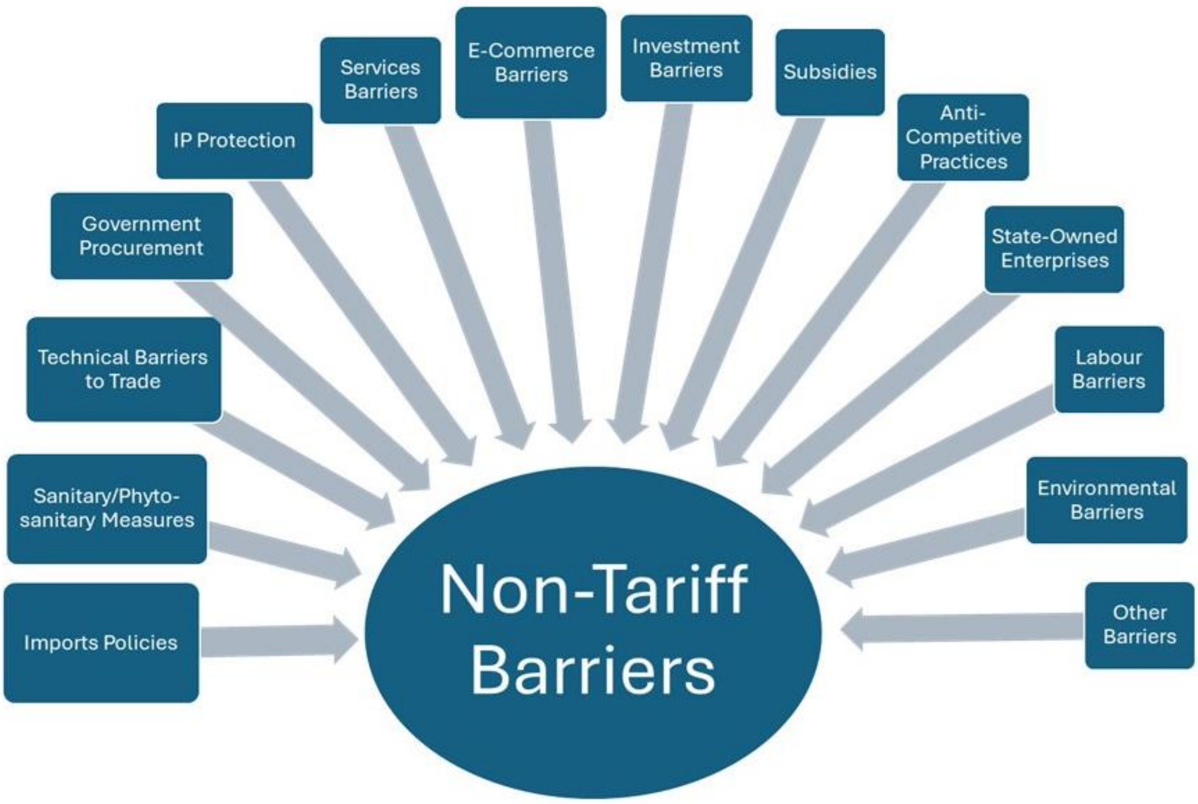


Sources: White House, Mizuho

- **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 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** i**nadvertently 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**.

Guatemala: This document does not constitute an offering under the rules of the Ley del Mercado de Valores y Mercancías (Stock Exchange Act, Decree 34-96 of the Congress of the Republic of Guatemala), and any of its amendments, including without limitation, Decree 49-2008 of the Congress of the Republic of Guatemala, and its applicable regulation (Governmental Accord 557-97). The document will not be registered for public offering with the Securities Market Registry of Guatemala (Registro del Mercado de Valores y Mercancías), because the products will not be offered or sold: (1) to any person in an open market, directly or indirectly, by means of mass communication; (2) through a third party or intermediary to any individual person or entity that is considered an institutional investor, including entities that are under the supervision of the Guatemalan Superintendency of Banks (Superintendencia de Bancos), the Guatemalan banking regulator, the Guatemalan Social Security Institute (Instituto Guatemalteco de Seguridad Social) and its affiliates; (3) through a third party or intermediary to any entity or vehicle used for purposes of collective investment; or (4) to more than 35 individual persons or entities.

Hong Kong: This document, when distributed in Hong Kong ("**HK**"), is distributed by MHSA or MBHK, depending of the Mizuho entity which you are a client of.

Japan: This document is intended only for certain categories of persons to whom a foreign securities broker is allowed to carry out regulated activities under the relevant articles of the Financial Instruments and Exchange Act (the "**Act**") and the subordinate legislative instruments (as amended), including but not limited to Financial Services Providers who are engaged in an Investment Management and certain Financial Institutions subject to conditions and limitations in Article 17-3(i) of the Order for Enforcement of the Act. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. This document is solely for the purpose of supplying general information and shall not constitute any investment or financial advice in relation to any products or services.

Malaysia: These documents shall be distributed solely to existing subscribers or clients of Mizuho Securities, and do not constitute an invitation, offer, or recommendation to subscribe for or purchase any securities mentioned therein. These materials also do not, whether directly or indirectly, refer to a prospectus in respect of securities of a corporation; in the case of a unit trust scheme or prescribed investment scheme, a prospectus in respect of any unit of the unit trust scheme or prescribed investment scheme, as the case may be; an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities; or another notice that refers to a prospectus in relation to an issue, intended issue, offer, intended offer, invitation or intended invitation in respect of securities. Whilst there may be statements concerning securities and/or derivatives of a certain corporation or entity in these materials, we wish to highlight that these do not constitute, whether directly or indirectly, any form of advice, recommendation, encouragement, promotion, analysis, report or inducement to take any action , i.e., to buy, sell, or hold any securities and/or derivatives, nor is it a form of inducement for the reader to take any position regarding a particular class, sector, or instrument in relation to the securities and/or derivatives so mentioned.

New Zealand: This document is intended only for persons who are "wholesale investors" and "wholesale clients" under the Financial Markets Conduct Act 2013 ("**FMCA**"), as persons who are an "investment business", meet relevant investment activity criteria, are "large" or are a "government agency", in each case within the meaning of clauses 37 to 40 of Schedule 1 of the FMCA. It is not intended for, and should not be reproduced or distributed in any form to any other person in New Zealand. This document is distributed in New Zealand by MHSA or MHSS, which are licensed in their respective jurisdictions but are not registered as overseas companies or financial service providers in New Zealand or licensed under the FMCA. Nothing in this document constitutes or is supplied in connection with a regulated offer nor an offer to the public within the meaning of the FMCA.

Singapore: This document is distributed in Singapore by MBSG or MHSS, a holder of a capital markets services licence and an exempt financial adviser regulated by the MAS. Nothing in this document shall be construed as a recommendation, advertisement or advice to transact in any investment product mentioned herein.

Where the materials may contain a recommendation or opinion concerning an investment product, MHSS is exempted from complying with sections 34, 36 and 45 of the Financial Advisers Act 2001 of Singapore. This document is only intended for distribution to "institutional investors", "accredited investors" or "expert investors", as defined under the Financial Advisers Regulations, and is solely for the use of such investors. It shall not be distributed, forwarded, passed or disseminated to any other person.

South Korea: This document is distributed in South Korea by Mizuho Securities Asia Limited, Seoul branch solely acting as a broker of debt securities under the Korea Financial Investment Services and Capital Markets Act.

Switzerland: This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or to adopt any investment strategy mentioned in this document. The information contained on this document shall not be construed to be an advertisement for any of the financial instruments or services mentioned herein.

Taiwan: This document distributed via MHSA or MHSS from outside Taiwan shall not be re-distributed within Taiwan and does not constitute recommendation of, and may not be used as a basis for recommendation of, securities within Taiwan. This document may not be distributed to the public media or used by the public media without prior written consent of MHSA or MHSS (as the case may be).

Thailand: This document does not constitute any investment or financial advice or any general advice in relation to any products or services and, when distributed in Thailand, is intended only for "institutional investors", as defined in the Notification of the Office of the Securities and Exchange Commission No. Gor Thor. 1/2560 Re: Provision of Advice to the Public which is not classified as the undertaking of Investment Advisory Business dated 12 January 2017 (as amended). It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. The distribution of this document to such institutional investors in Thailand, is solely for the purpose of supplying general information, without charge. It neither constitutes any intention to conduct, or any engagement in any securities business, service business, investment or financial advisory business, or any other business in Thailand, for which Thai licensing is required, nor marketing, offering, solicitation or sale of any products, securities, or services to customers, potential customers or any person in Thailand.

United Arab Emirates (excluding the Dubai International Financial Centre and the Abu Dhabi Global Market): This document is intended only for persons who qualify as professional investors as defined in the Securities and Commodities Authority ("**SCA**") Rulebook. It is not intended for or should not be passed on, directly or indirectly, to other classes of persons/investors in the United Arab Emirates. The contents of this document have not been reviewed or approved by, or deposited with, the Central Bank of the United Arab Emirates, SCA or any other regulatory authority in the United Arab Emirates. If you do not understand the contents of this document you should consult an authorised financial adviser.

United Kingdom / Germany / European Economic Area: This document is being distributed in the United Kingdom by Mizuho International plc ("**MHI**"), 30 Old Bailey, London EC4M 7AU. MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. This document may be distributed in the European Economic Area by MHI or Mizuho Securities Europe GmbH ("**MHEU**"), Taunustor 1, 60310 Frankfurt, Germany. MHEU is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("**BaFin**"). For the avoidance of doubt this report is not intended for persons who are Retail Clients within the meaning of the FCA's or the BaFin's rules. Details of organizational and administrative controls for the prevention and avoidance of conflicts of interest can be found at https://www.mizuhoemea.com.

United States: This document is being distributed in the United States by Mizuho Securities USA LLC ("**MSUSA**") and is the responsibility of MSUSA. The content of publications distributed directly to US customers by non-US members of Mizuho Securities is the responsibility of such member of Mizuho Securities which distributed it. US investors must affect any order for a security that is the subject of this document through MSUSA. For more information, or to place an order for a security, please contact your MSUSA representative by telephone at 1-212-209-9300 or by mail at 1271 Avenue of the Americas, New York, NY 10020, USA. MSUSA acts as agent for non-US members of Mizuho Securities for transactions by US investors in foreign sovereign and corporate debt securities and related instruments. MSUSA does not guarantee such transactions or participate in the settlement process.