

Economic Research View:

Suspension of US Additional Reciprocal Tariff: Impact on the Japanese Economy and Bank of Japan Monetary Policy Outlook

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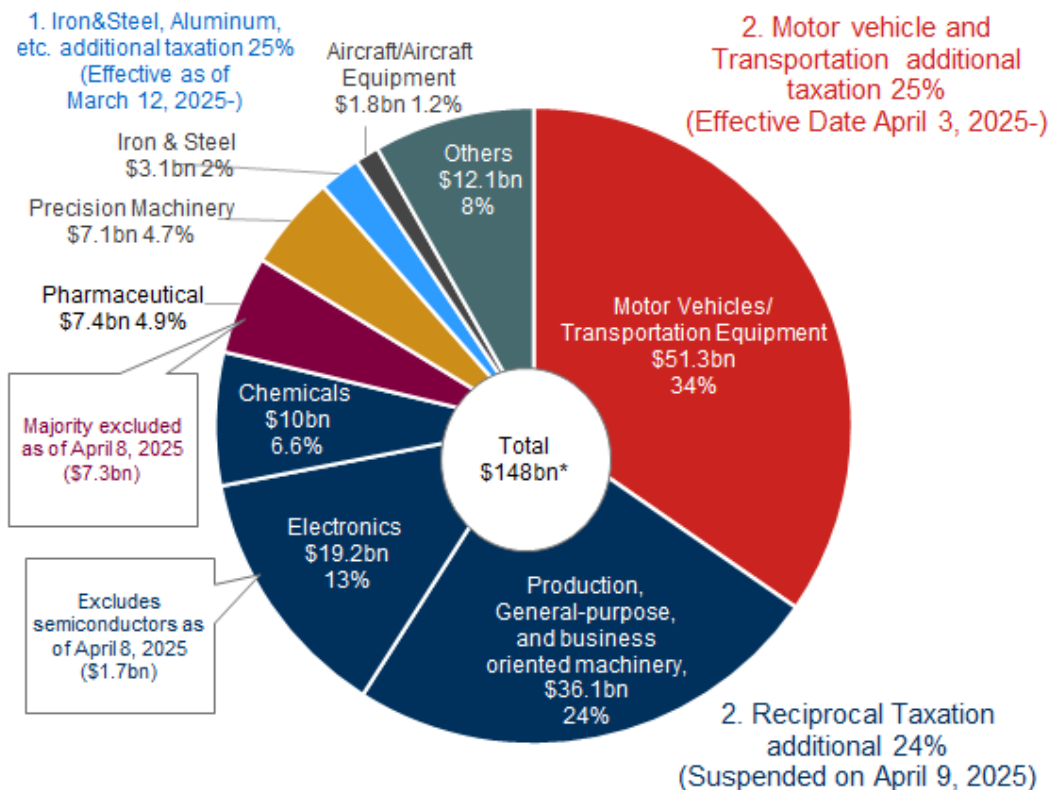
Rumi Kurumizawa, Chief Economist

The US reciprocal tariffs are set uniformly at 10%, with additional charges applied to countries and regions that have significant trade imbalances. This surcharge took effect on April 9th, but on the same day, US President Donald Trump announced a 90-day suspension of its implementation for countries and regions that do not take retaliatory measures. During this 90-day period, negotiations will likely occur between each country/region and the US to determine whether to reverse or partially reduce the surcharge.

In this article, we would like to consider the following points of interest: (1) Will the trade volume surge during the 90-day period? (2) Can Japan serve as a substitute for US-China trade? (3) Will a containment network against China be established? (4) Will there be an impact on the Bank of Japan's monetary policy?

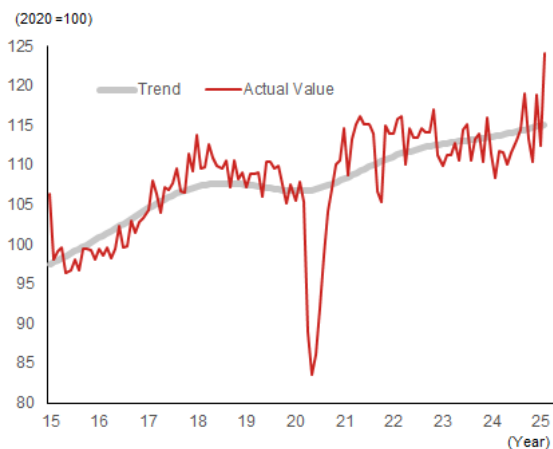
US reciprocal tariff surcharges suspended for 90 days.

Figure 1. Import items from Japan to the United States (2024) and the status of reciprocal tariff imposed or under suspension



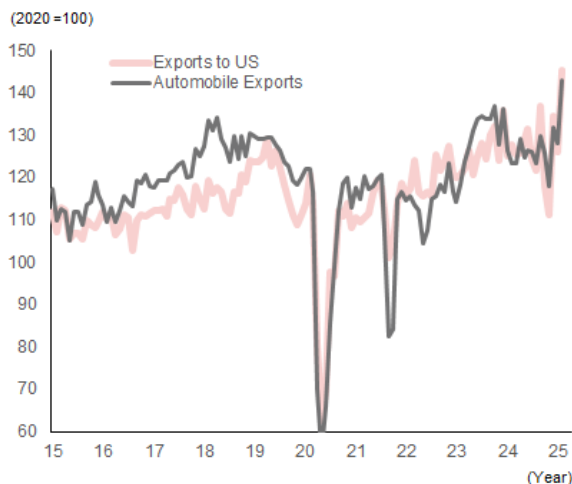
Source: Nomura Asset Management based on the materials from Ministry of Economy, Trade, and Industry (METI). METI data based on trading amount of products categorized in first two HS codes based on Statistics https://www.cas.go.jp/seisaku/tariff_measures/dai1/siryu2.pdf https://www.jetro.go.jp/ext_images/world/n_america/us/us-japan/us-jp.pdf *\$13.3bn excluded based on products categorized by 1st 2 digits of HS item code

Figure 2. Real Exports from Japan



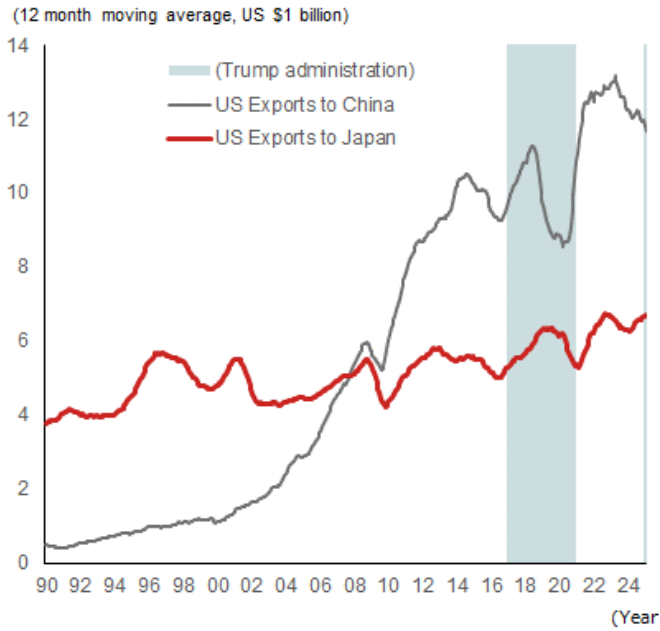
Source: Nomura Asset Management based on CEIC data From Jan. 2015 to Feb. 2025, monthly.

Figure 3. Real exports to the United States and Automobile Exports



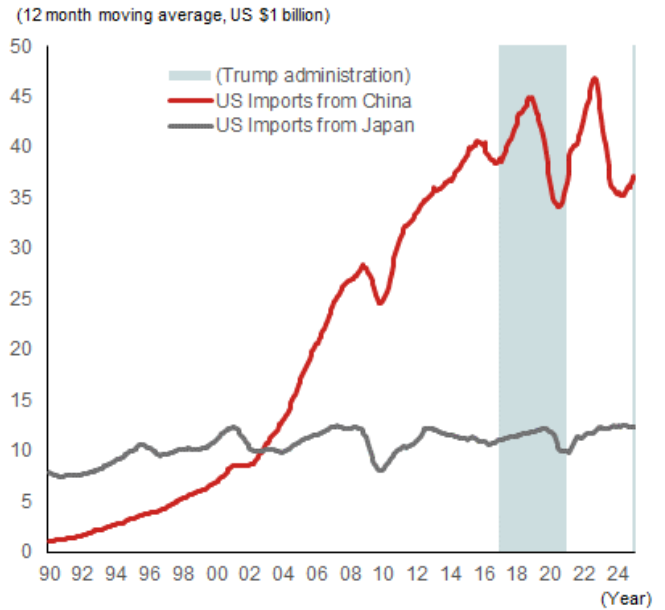
Source: Nomura Asset Management based on CEIC data From Jan. 2015 to Feb. 2025, monthly.

Figure 4. US exports to China and Japan



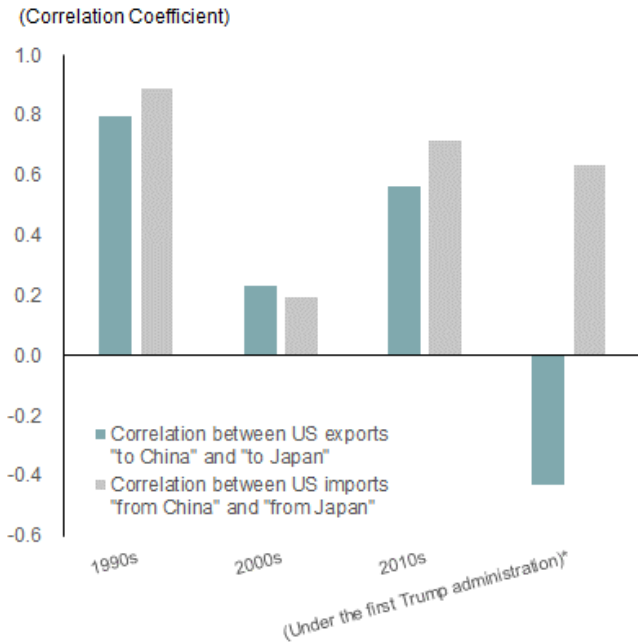
Source: Nomura Asset Management based on CEIC data.
From Jan. 1990 to Feb. 2025, monthly.

Figure 5. US imports from China and Japan



Source: Nomura Asset Management based on CEIC data.
From Jan. 1990 to Feb. 2025, monthly.

Figure 6. Japan-US-China trade correlation



Source: Nomura Asset Management based on CEIC data.
*From Jan. 2017 to Dec. 2020, monthly.

Figure 7. Changes in Imports from the US (2018 to 2019)

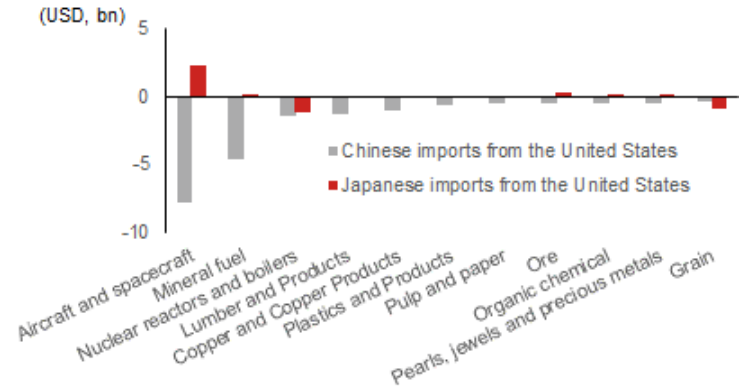
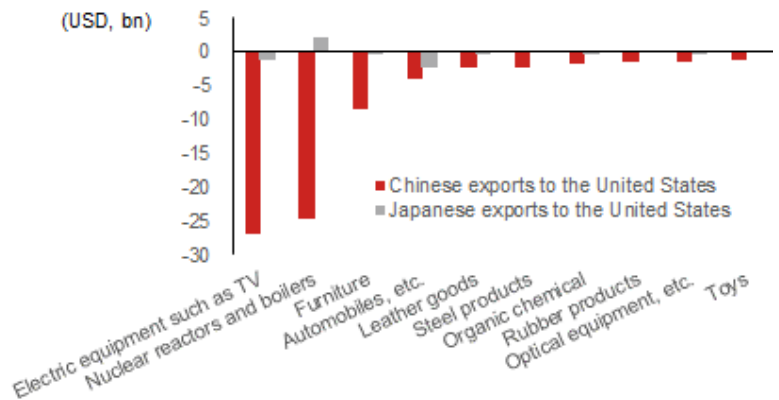


Figure 8. Changes in Exports to the US (2018 to 2019)



Source: Nomura Asset Management based on CEIC data.

Background: The US Trump administration announced reciprocal tariffs on April 2nd, setting a uniform rate of 10% for all countries, with additional surcharges based on the bilateral trade balance of each country/region. The uniform 10% reciprocal tariff took effect on April 5th, and the surcharges were implemented on the 9th, bringing Japan's reciprocal tariff to 24%. On the same day, however, President Trump announced a 90-day suspension of the surcharge for countries that do not take retaliatory measures. It has been suggested that this decision was influenced by the desire for over 75 countries to negotiate, along with a sharp rise in volatility in the financial markets. At the same time, it was also announced that the United States would raise the additional tariffs in response to China's retaliatory measures to 125% and later made an adjustment to a total of 145%. These announcements confirm that President Trump has been reacting to financial market developments.

Key Watch points Ahead of Policy Implementation: Over the next 90 days, negotiations will take place between each country/region and the US to determine whether to reverse or reduce the additional charges over the 10%. According to Treasury Secretary Scott Bessent, Japan is reportedly in a position close to the top of the negotiating table. Whether it will be Japan or another country is uncertain, but the negotiating materials to gain the US's approval will be in focus during the next two to three months. Additionally, if determined difficult to lower the uniform 10% reciprocal tariff, there is a possibility of a surge in last minute trades before the policy becomes active. The following are four key points to watch going forward:

1. **Will the trade volume surge during the 90-day period?** → Assuming the answer is "Yes," global trade volume and production activities will rise towards mid-year, and even if tariff rates are not raised again in the second half of the year, a slowdown in trade and production is anticipated.
 - Japan's real exports in February upswing from the historical trend, which can be considered, in part, as a move to prepare for the risk of higher tariffs. This trend was similarly observed in exports to the US with respect to products such as automobiles.
 - Even if the negotiation leads to a reduction, the resulting tariff rate will likely be between 10 and 24%. Therefore, if tariff rates are seen as likely to be higher than recent levels, a further rush of trade may follow and the subsequent reactionary decline could be significant.
2. **Can Japan serve as a substitute for US-China trade?** → Based on statistics from the first Trump administration, it seems unlikely that Japan can significantly compensate for the decrease in China's exports to the US and expand its market share. Conversely, Japan has been increasing its imports from the US during the phase when China's imports from the US are declining. In the Japan-US negotiations, attention may turn to increasing imports of aircraft and energy in response to further reductions in Chinese purchases.
 - Since the start of the Trump administration in 2017, trade friction between the US and China has intensified, leading to declines in exports from the US to China and vice versa. Looking at trend of trade between Japan and the US during this period, it appears Japan somewhat compensated for the decline in US exports to China. That said, there were not many positive economic effects in compensating for the decrease in China's exports to the US.
 - When assessing the correlation of US-Japan trade with US-China trade by decade, the correlation was generally positive aside from the first Trump administration years. Under the first Trump administration, there was a negative correlation between exports

"from US to China" and "from US to Japan," indicating that as the former decreased, the latter increased. Conversely, there is a positive correlation between exports "from China to US" and "from Japan to US," suggesting both decreased together in a declining scenario.

- During the first Trump administration, China significantly decreased imports of aircraft and spacecraft, as well as mineral fuels from the US, while Japan increased imports of items mentioned to some extent. In contrast, the US significantly reduced imports of televisions, electrical equipment, reactors, and furniture from China, but did not increase imports from Japan (though exports of nuclear reactors slightly increased). Additionally, both Japan and China saw a decrease in automobile exports.

3. **Will a containment network against China be established?**

In his paper last year, Chairman Stephen Miran of the CEA claimed they "can put pressure on other countries to participate in raising tariffs against China". Therefore, it is possible for such discussions to take place during the negotiations with various countries.

- While major countries may want to successfully negotiate with the US, it is unlikely that they would openly align to single out China. However, if exports from China to the US decrease, China may look to expand exports to other countries by reducing prices. In this situation, those countries could justify applying anti-dumping duties on the grounds that "China is exporting unfairly cheaply, causing harm to its companies".
- By actively employing such measures, it may in effect go along with US wishes, potentially becoming a bargaining chip in negotiations.
- That said, if China were to export by reducing prices, it could exert downward pressure on import prices for those countries and further widen the inflation rate gap between the US and other countries/regions that do not implement retaliatory measures.

4. **Will there be an impact on the Bank of Japan's monetary policy?**

If (1) no additional negative factors arise outside of US-China issues during the 90-day period, and (2) in the US-Japan negotiations, if the past depreciation of the yen becomes an issue, and if the United States points out that Japan's accommodative monetary policy is the main cause of yen's weakness, then an early interest rate hikes may be urged.

- It is likely that the acceleration of yen depreciation during this negotiation period is politically undesirable, making it difficult for the Bank of Japan to communicate in a dovish manner.
- Conversely, if negotiations do not go well during the 90 days and the likelihood of the reciprocal tariffs being implemented as is increases, or if additional sectoral tariffs are decided on items excluded from reciprocal tariffs such as pharmaceuticals and semiconductors, the risk of financial market instability will increase. The 90-day suspension should end around mid-July, and if the tariff policies are fully implemented, the investor sentiment is likely to turn risk-off. In this scenario, it may lead to a decrease in seats for the ruling party in the upcoming Japanese upper house election and may force the BOJ to defer its policy rate hike beyond the July meeting.

Figure 9. US Trade Policy and Japan's Response, Officials' Statements, etc.

| Date | Entity/Person | Contents |
|-----------|---|---|
| 12-Mar-25 | US Gov't | • Adoption of additional tariffs of 25% on steel and aluminum products and their derivatives |
| 3-Apr-25 | US Gov't | • Additional tariffs of 25% on automobiles will begin to be applied (additional tariffs on automobile parts will begin to be applied on May 3). |
| 3-Apr-25 | Japan - the Ministry of Economy, Trade and Industry | • Comprehensive Response Headquarters for US Tariff Measures was established. Japan announced the establishment of a special consultation window, relaxation of safety net lending requirements, consultation to public and private financial institutions, and support for raising funds through the Nippon Export and Investment Insurance (NEXI). |
| 5-Apr-25 | US Gov't | • Commencement of application of a reciprocal tariff of 10% |
| 7-Apr-25 | Prime Minister Shigeru Ishiba | <ul style="list-style-type: none"> • The recent tariff action by the United States is extremely regrettable. • He told the President that Japan has been the world's largest investor in the United States for five consecutive years, and that he was strongly concerned that the US tariff measures would reduce the spare investment capacity of Japanese companies. • He added that Japan and the United States should pursue wide-ranging cooperation in the interests of both countries, including increased investment, rather than unilateral tariffs. • President Trump expressed a candid understanding of the current situation for the United States in the international economy. • The two leaders confirmed that they will continue to have frank and constructive discussions with each other. • Based on the exchange between the leaders today, both sides have decided to nominate ministers in charge and continue consultations. • Through these consultations, Japan will strongly urge the United States to review its measures. • Tomorrow morning, the "Comprehensive Task Force on Tariff Measures by the United States" will be held with the participation of all Cabinet members to discuss future measures. |
| 8-Apr-25 | US Secretary of the Treasury Scott Bessent | <ul style="list-style-type: none"> • After a very constructive phone call with the Japanese government, President Trump instructed me and Representative Greer to begin negotiations with the Ishiba administration to realize the President's vision for a new golden age of global trade. • Japan remains one of the United States' closest allies and looks forward to future constructive talks on tariffs, non-tariff barriers, currency issues and government subsidies. We thank the Government of Japan for its commitment and careful approach to this process. • About 70 countries are now approaching us, hoping to support us in restoring the balance of world trade. On behalf of the Trump administration, I am pleased to join with USTR Representative Greer in discussions with Japan to realize the President's vision for a new golden age of global trade. • The US President Trump's ultimate goal is to bring jobs and manufacturing back to the United States, raise wages, boost earnings and revive the American dream. I am proud to work with him on behalf of the American people as we correct the mistakes of years of global trade imbalances. |
| 8-Apr-25 | Japan Gov't | • The Headquarters for Comprehensive Measures against US Tariff Measures was established. |
| 8-Apr-25 | Chief Cabinet Secretary Yoshimasa Hayashi | <ul style="list-style-type: none"> • Japan announces that economic revitalization minister Ryosei Akazawa has been named as a cabinet minister for talks with the United States. • The prime minister is considering a visit to the United States at the most appropriate time and a face-to-face meeting with Trump, while monitoring the progress of the talks among the ministers in charge. • As confirmed at the Japan-US summit meeting in February, Finance Minister Katsunobu Kato and US Secretary of the Treasury Scott Bessent will continue to closely discuss exchange rates. |
| 8-Apr-25 | A government official (reported) | • The Japanese side proposed that both sides nominate ministers in charge. The decision means that the US side has room to negotiate. |
| 8-Apr-25 | US Secretary of the Treasury Scott Bessent | <ul style="list-style-type: none"> • Japan is at the forefront of countries willing to negotiate. It is given priority because Japan approached the United States early to seek negotiations and because of its importance as a military and economic ally of the United States. • As negotiations begin, we will see what our trading partners propose. In the negotiations, for example, there has been talk of Japan, possibly South Korea, and even Taiwan getting involved in the big energy deal in Alaska and taking much of its output. |
| 8-Apr-25 | USTR Representative Jamieson Greer | • "We feel that we can expand and improve market access for agricultural products through negotiations with Japan on tariff measures. We will discuss these in the coming weeks. |
| 9-Apr-25 | United States | • Reciprocal Tariff starts, Japan's tariff rate rises to 24% |
| 9-Apr-25 | United States | • 90 day suspension of reciprocal tariffs by country and region |

Source: Prepared by Nomura Asset Management based on various reports from the White House, the Cabinet Secretariat, the Ministry of Economy, Trade and Industry, the Prime Minister's Office, CNBC, Bloomberg, etc.

The commentary is based on personal views and does not necessarily reflect the house view.

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