

Economic Research View:

The Announcement of the "US-Japan Trade Deal" and Reduction of Automobile Tariffs

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US President Donald Trump announced today the "US-Japan Trade Deal," establishing reciprocal tariffs with Japan at 15%. Although the specific terms of the agreement are not clear from his social media posts. According to the comments made at the press conference by the Economic Revitalization Minister Ryosei Akazawa, who was in charge of the negotiations, it could be a "positive surprise," with automobile tariffs in certain sectors reduced from 25% to 12.5% (which, when combined with the existing 2.5%, totals 15%).

Going forward, key points to watch include:

- (1) How negotiations by other countries with the US will unfold from a competitive standpoint (particularly regarding automotive tariffs, where South Korea and the EU are closely observed).
- (2) Prime Minister Ishiba's political future (reports say he will decide based on the outcome of Japan-US negotiations).
- (3) Whether the Democratic Party for the People will further tone down its stance on consumption tax cuts.
- (4) Whether the Bank of Japan will shift its communications toward advancing interest rate hikes.

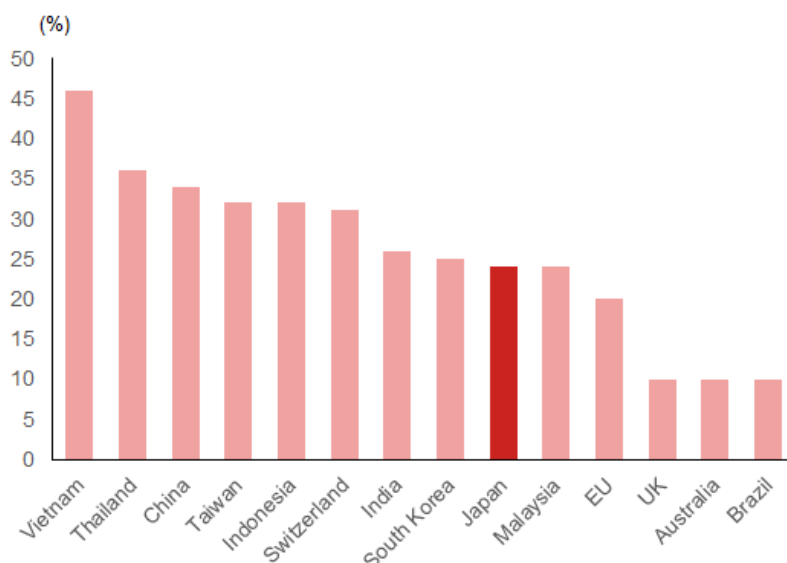
Announcement of the "US-Japan Trade Deal": The Economic Revitalization Minister Ryosei Akazawa who was in charge of the negotiations indicates automobile tariffs will also be reduced to 15%

Figure 1. The countries that the United States has announced trade negotiation agreements with

2025/5/8	UK	The UK-US agreement potentially includes the possibility that the UK will reduce tariffs on US beef, and regarding UK automobile exports to the US, instead of the additional 25% tariff imposed under Section 232 investigations, there will be a quota of 100,000 vehicles that can be exported to the US at a 10% tariff rate.
2025/7/2	Vietnam	A tariff agreement with Vietnam was announced, which includes "a 20% tariff on all items sent to the US and a 40% tariff on goods transported from third countries." Legal details and the schedule of tariff changes based on the agreement have not been immediately provided.
2025/7/15	Indonesia	A tariff agreement with Indonesia was announced, including a provision that "Indonesia will impose a 19% tariff on all items it exports to us." Legal details and the schedule of tariff changes based on the agreement have not been immediately provided.
2025/7/22	Philippines	A trade agreement with the Philippines was concluded and announced. The US will impose a 19% tariff on Philippine products, while the Philippines will impose zero tariffs on US products.
2025/7/22	Japan	A tariff agreement with Japan was announced. According to the comments posted by the US President Trump, Japan declared that it will invest \$550 billion in the US, with 90% of the profits going to the US, and claimed that the deal will create hundreds of thousands of jobs. Japan stated it will open market access, including automobiles, trucks, rice, and some agricultural products. (Reuters: Although President Trump's posts did not mention automobile tariffs, according to Economic Revitalization Minister Akazawa, there was an agreement to halve the automobile tariff from the newly introduced 25% in April to 12.5%. Combining this with the original 2.5% makes a total of 15%. In a speech at the White House afterward, President Trump also indicated that Japan and the US would jointly launch a project to support the Alaskan gas pipeline project his administration has been seeking.)

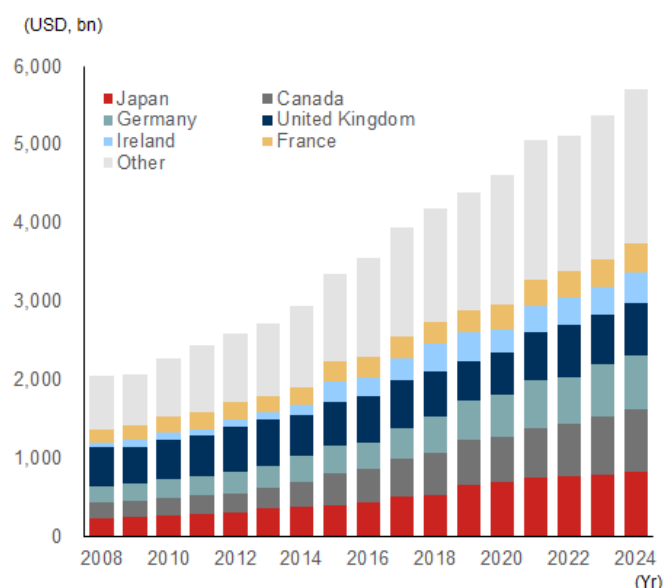
Source: Prepared by Nomura Asset Management based on the data from various sources including PIIE and Reuters.

Figure 2. Reciprocal Tariffs Against Major Countries and Regions (Announced on April 2, 2025)



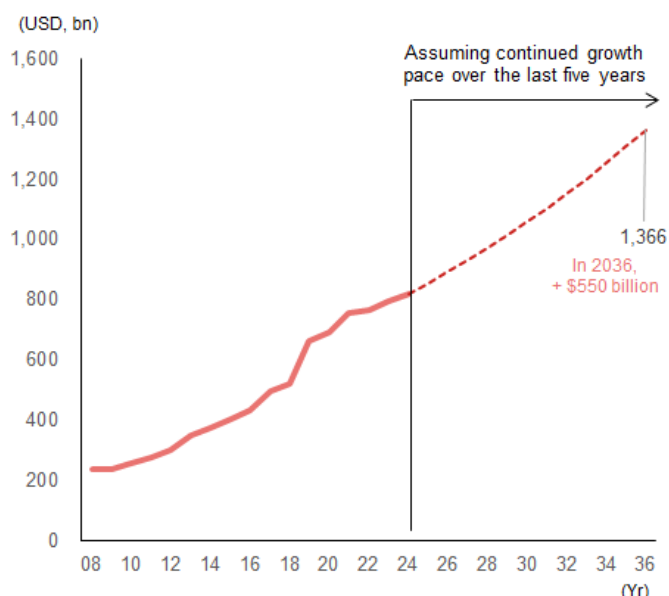
Source: Prepared by Nomura Asset Management based on the materials released by the White House.

Figure 3. Trends in Outstanding US Inward Direct Investment



Source: Prepared by Nomura Asset Management based on the data from Bureau of Economic Analysis, US Department of Commerce.

Figure 4. Japanese Investments in the US



Source: Prepared by Nomura Asset Management based on the data from Bureau of Economic Analysis, US Department of Commerce.

The Trump administration in the US initially announced on April 2 that reciprocal tariffs with Japan would be set at 24%. Later, on July 7, it announced a new tariff rate of 25% to be applied from August 1. Amid reports of stalled trade negotiations, following Treasury Secretary Bessent's visit to Japan and the ruling coalition losing its majority in the House of Councillors election, Economic Revitalization Minister Akazawa visited the US, leading to the sudden announcement of the "Japan-US Deal." According to President Trump's post on Truth Social, the deal consists of three major points:

- (1) Japan will invest \$550 billion in the US (no specific deadline given), with 90% of the profits going to the US, and the deal is claimed to create hundreds of thousands of jobs
- (2) Japan will open market access including automobiles, trucks, rice, and some agricultural products
- (3) The new reciprocal tariff rate will be set at 15%.

Regarding automobile tariffs, which are separate sector-specific tariffs, no explicit statement was made. However, according to Economic Revitalization Minister Akazawa, there was an agreement to halve the tariff from 25% to 12.5%, which when combined with the original 2.5%, totals 15%. For rice, the minimum access quota will be maintained, within which a larger proportion of imports will effectively come from the US. While there had been expectations that reducing automobile tariffs would be difficult even if other reciprocal tariffs were lowered, this would be considered a positive surprise.

■ Background behind the agreement

Amid rising political uncertainty in Japan and the possibility of a change in government, the US side may have judged that it is better to reach an agreement with the current administration. Although the US set a deadline of August 1, negotiations with numerous countries are still far from completion. Alternatively, it is possible that a general agreement had already been reached earlier but its announcement was delayed due to Japan's election circumstances. If that is the case, the extent of market access liberalization agreed upon remains a point of interest.

■ Expansion of investment in the US

550 billion US dollar in investment to the US from Japan appears to have been promised; however, President Trump's post on Truth Social did not specify a timeline for achieving this. Japanese investment in the US has been on an upward trend, averaging about 4.4% growth. 550 billion US dollar increase could be reached in approximately ten years, suggesting that it is not an especially difficult target to achieve. Additionally, at a press conference, President Trump stated that Japan and the US will launch a joint project to support the Alaska gas pipeline, which could also play a significant role in expanding investment to the United States.

■ Points to watch going forward

- (1) From a competitiveness perspective, it will be important to see if there will be tariff rate differences with other countries that export many automobiles to the US. Attention should be paid to how negotiations with South Korea and Germany (EU) will be concluded.
- (2) The situation may also impact Japan's political landscape. Today, the Yomiuri Shimbun reported that Prime Minister Ishiba has decided to "carefully observe the progress of Japan-US talks regarding US tariff measures and intends to decide soon on whether to continue in office or resign, having communicated this to his surroundings." The press reported that, once the outcome of negotiations becomes clear, he might hold a press conference to announce his intentions. A scenario in which he resigns claiming the "success" of the Japan-US negotiations is possible.
- (3) The Democratic Party for the People may further distance itself from calls for consumption tax cuts. Party leader Tamaki stated that consumption tax cuts as an economic stimulus may be considered in cases such as if there is a 25% tariff on all exports. Unless this worst-case scenario arises, they may take the stance that consumption tax cuts are unnecessary. If so, concerns about Japan's fiscal deterioration could subside somewhat.
- (4) The Bank of Japan's monetary policy stance might also be influenced. Many believed the 25% automobile tariff would remain unchanged, but as a result of the agreement reached, caution about economic downturn risks from US tariffs could ease. Reduced pressure on corporate earnings in manufacturing, including automakers, might increase the Bank of Japan's confidence in the sustainability of wage increases. Minister Akazawa was accompanied by Vice-Minister of Finance for International Affairs Atsushi Mimura on his US visit, and it is possible that correcting the weak yen was also discussed. Attention should be paid to whether the Bank of Japan shifts its communications toward an earlier rate hike, sooner than I had previously expected.

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

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