

# Mizuho Brief: Trump 2.0 Tariffs

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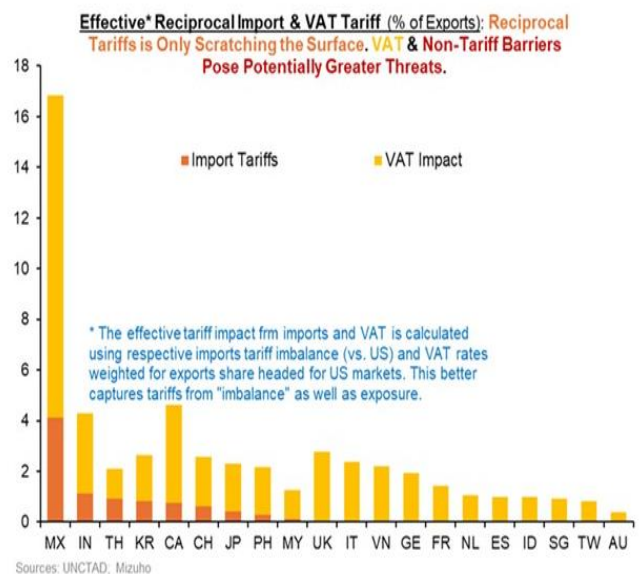
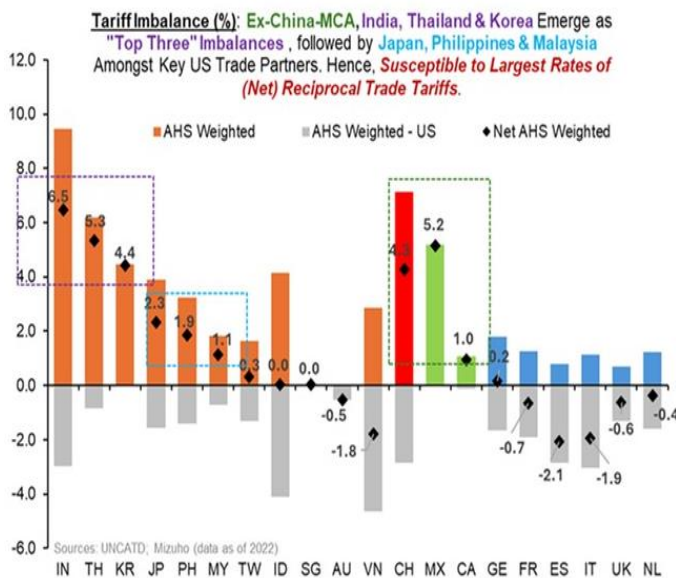
Vishnu Varathan | Head Macro Research, Asia ex-Japan

## Trump 2.0 Tariff Risks: Why Reciprocity is No Relief

“When you look at the dark side, careful you must be, for the dark side looks back.” – Master Yoda, Star Wars

### In a Nutshell:

- **Any relief** to be sought from built-in checks implied on the scale of reciprocal tariffs and/or the opportunity to dial-back on the principle of reciprocity are overly optimistic, if not dangerously misguided.
- For one, reciprocal tariffs are not just limited to bi-lateral import tariff imbalance but entails VAT and non-tariff barriers that threaten to be far larger in scale and severity.
- Second, the, effective, weighted, (net bilateral imports) tariffs understate risks across specific sectors and goods.
- Finally, the Trump Administration’s approach to tariffs is not confined to reciprocal tariffs. Instead, trade partners are confronted by mounting threats of highly disruptive layering of tariffs.
- The upshot being reciprocity is no relief for Trump 2.0 tariff threats.
- Trade-driven uncertainty and attendant volatility are as such set to mount, not durably recede, until negotiated compromises dampen additional risks further out.
- Consequently, the USD may be prone to retaining Trump tariff premium despite bumpy two-way adjustments along the way.



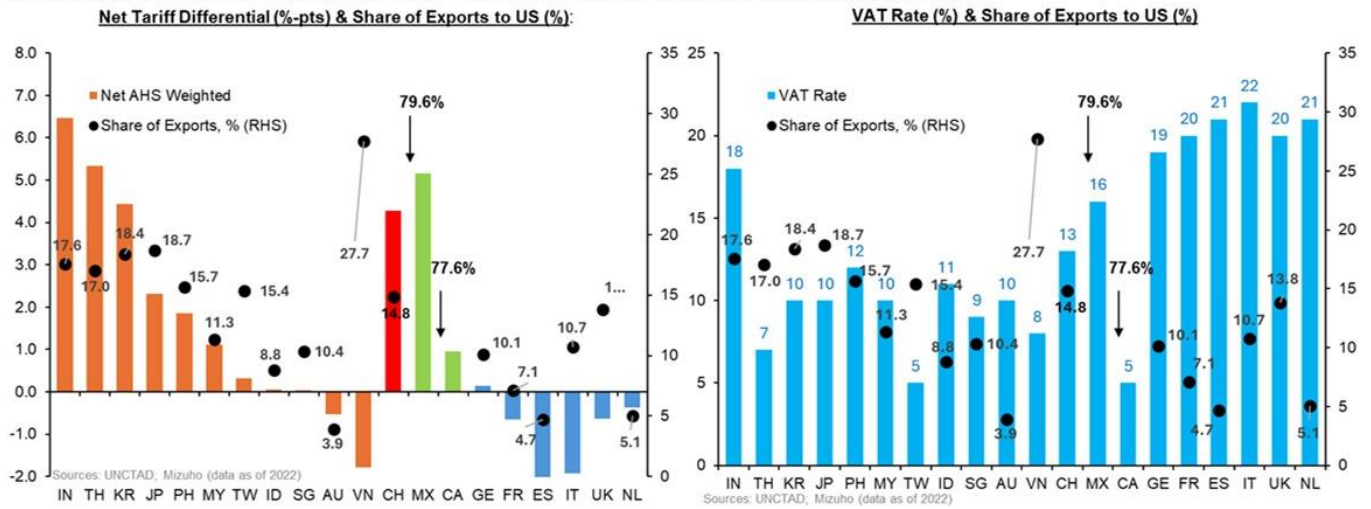
- Earlier **hopes that reciprocal tariffs inherently mitigate risks of an escalatory spiral**, *potentially even offering an off-ramp to reduce tariffs*, are **understandable, but dangerously misleading**.
- To be sure, **in contrast to sweeping and adverse unilateral tariffs**, the **“built-in” upside limit on reciprocal tariffs** ought to function as **guardrails that check unmitigated trade antagonism**.
- Specifically, given **reciprocal tariffs** are, by definition, **limited by the quantum of prevailing import tariff imbalance\***. So, not only are **potential first order trade shocks from US trade action mitigated**, but **second-order shocks any retaliatory response may also be dulled**.
- In fact, **forewarning of reciprocal tariffs** provides trading partners with **a window of opportunity to altogether avert US reciprocal tariffs by pre-emptively lowering/removing tariffs on US imports**.
- In which case, it is tempting to frame **reciprocal tariffs** as the **“half-full” iteration of Trump 2.0 trade threats**, where **mitigating the risk of on escalatory tit-for-tat tariffs** is the low bar, and **an off-ramp to lower tariffs the “best case”**. Point being, the **bi-lateral import tariff imbalance/risks\*\* across key Asian, North American and European trading partners** are, **in the grander scheme of things, limited**.
- So much so that even the “Top 5 Offenders” (India, Thailand, Mexico, Korea, and China) from these regions are merely liable to some 4% to 6.5% of reciprocal tariffs.
- **But import tariff reciprocity is relief only in its narrow** (bi-lateral import goods tariff imbalance) **form**.
- Whereas the **Trump Administration’s wide-ranging approach to reciprocal tariffs**, which includes VAT and non-tariff barriers, **entails far greater dangers**.
- The upshot is that the silver-linings involved in tariff reciprocity proves illusory once the appropriate, and far more adversarial, tariff lens are applied.
- First, **reciprocal tariffs do not stop at the import tariffs imbalance**. **Instead**, reciprocal US tariffs **encompass VAT and non-tariff barriers**, which **threaten to be far larger**.
- Fact is, once adjusted for dependency on US markets (using share of exports bound for US markets), and attendant vulnerability to reciprocal tariffs, **VAT accounts for a far larger share of potential tariff threats**.
- What complicates matters is that VAT is considered a domestic (consumption) tax applied evenly across all domestic and foreign goods. And so US targeting this complicates any potential response.
- Moreover, **non-tariff barriers**, which we are yet to be quantified, **potentially poses an even greater danger**.
- Especially given it involves highly debatable attempts to quantify (perceived) mercantilist currency policies, exports subsidies and wider industrial policies.
- Second, **effective, weighted, import tariff (imbalance) may understate risks in the aggregate, given significant variance in tariffs across goods/sectors**. So, **specific sectoral/goods focus by the US may amplify reciprocal tariff risks** for some.
- Finally, the Trump Administration has demonstrated that **reciprocal tariffs are not to the exclusion of other punitive tariffs**. The distinct danger is that various **tariffs may be additive, being layered on**.
- **Regardless of the extent of, relief from, reciprocal tariffs, wider tariffs may mount and scale along various dimensions**. As **has been the case with steel and aluminium**, and **possibly extended to autos** and beyond (to other strategic goods/industries) further out.
- The **upshot is that tariff threats are neither defined nor limited by reciprocity**.

- Accordingly, **tariff uncertainty and attendant volatility** are **primed to mount**, rather than durably recede, in coming weeks and months **before relative stabilization** (at more elevated levels of trade tensions) **later in the year**.
- This translates into the **Trump tariff premium being prone to remaining priced into the USD** until late-2025, *albeit with interim two-way variability*.

\* Defined as the difference between tariffs imposed on US imports (by trading partners) and the import tariffs (on trading partner) headed for US markets.

\*\* On an effective, weighted basis applied to imports into US.

Reference Charts for Net Import Tariff Imbalance and VAT weighted by Exports Reliance (% share of Exports Headed to the US)



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