Policy Analysis Focus 24-12
Impact of US tariff hikes on Asian economies[1]

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I. Introduction

The United States (US) has begun to take tariff hike actions under the second Trump administration. On February 1 President Trump ordered the imposition of a 25% additional tariff on imports from Canada and Mexico and a 10% additional tariff on imports from China. President Trump has also expressed his intention to hike tariffs by 10% to 20% on imports from all economies in the world.

Economies and industries targeted by US tariff hikes and the development of US trade negotiations with other economies[2] would be a primary concern for global trade policy making. This article quantitatively investigates the economic impact of US tariff hikes on individual Asian economies by means of simulation studies using a computable general equilibrium (CGE) model of global trade.[3]

II. Impact on economy

The impact of additional 25% US tariffs on imports from Canada[4] and Mexico and 10% on imports from China (CM25CN10) is estimated to decrease US real GDP by 1.19% as is shown in Table 1, and that impact on Canada and Mexico, where trade

[1] This is a supplementary report to Kawasaki (2024), "Economic Impact of Further US Tariff Hikes," GRIPS Discussion Paper 24-12, GRIPS, December 2024, followed by Kawasaki (2025), "Impact of US Tariff Hikes on African Economies," Policy Analysis Focus 24-11, GRIPS, February 2025. The views expressed in this article are the author's own and do not represent those of GRIPS Alliance or other organizations to which the author belongs.
[2] US tariff hikes on imports from Canada and Mexico were postponed a month on February 4.
[3] The framework of model simulations remains unchanged from that in Kawasaki (2024). The Global Trade Analysis Project (GTAP) 7 model (based on GTAP 11c Data Base) is solved using GEMPACK software referred to in Horridge, Jerie, Mustakinov & Schiffmann (2018), GEMPACK Manual, ISBN 978-1-921654-34-3, incorporating dynamic effects of capital and labor. The baseline data for GDP and population are updated to those for 2025 based on the World Economic Outlook (WEO) Database, October 2024, International Monetary Fund (IMF).
[4] A 10% tariff would be applied to imports of energy or energy resources from Canada in effect.

Table 1 Impact on real GDP

(%)

	CM25CN10	WR10		CM25CN10	WR10
US	-1.19	-1.49	Canada	-3.16	-1.26
Mexico	-14.08	-4.39	EU	0.47	0.03
Australia	0.06	-0.20	New Zealand	0.24	-0.05
China	-0.28	0.05	Hong Kong, China	0.17	0.19
Japan	0.80	0.01	Korea	0.71	0.06
Mongolia	0.19	0.01	Chinese Taipei	0.84	-0.24
Brunei	0.04	-0.21	Cambodia	1.30	-0.21
Indonesia	0.61	0.16	Lao	0.47	0.18
Malayisia	1.23	-0.07	Myanmar*	0.20	-0.01
Philippines	1.09	0.09	Singapore	0.61	-0.76
Thailand	1.47	0.10	Viet Nam	1.56	-0.04
Afghanistan	-0.02	-0.20	Bangladesh	0.42	0.02
India	0.58	0.22	Nepal	0.46	0.82
Pakistan	0.88	0.27	Sri Lanla	1.24	0.12
Armenia	0.32	0.10	Azerbaijan	0.02	-0.02
Georgia	0.41	0.32	Bahrain	0.92	0.28
Iran	0.14	-0.13	Iraq	0.06	-0.59
Israel	0.46	-0.30	Jordan	1.39	-0.08
Kuwait	0.08	-0.15	Lebanon	0.08	0.00
Oman	0.22	-0.11	Palestine	0.15	0.09
Qatar	0.29	0.05	Saudi Arabia	0.24	0.30
Turkey	0.78	0.35	UAE	0.56	0.30
Yemen	0.26	0.16	Asia total	0.26	0.02

Note: Proxied by the composite region with Timor-Leste.
Source: Author's simulations.

dependency on the US is high, would be serious. On the other hand, China's resultant real GDP decrease would be limited to 0.31%. Meanwhile, real GDP would increase in almost all Asian economies due to trade diversion effects, as in the European Union (EU). Total real GDP for Asia excluding China is estimated to increase by 0.52% and by 0.26%.

That said, if an additional 10% US tariff were applied to all goods globally (WR10), China's real GDP would not necessarily decrease but the real GDP of several Asian economies would turn to decrease. Total Asian real GDP is estimated to remain broadly unchanged (a 0.02% increase). By economy, it is suggested that decreases in real GDP would be larger in Iraq (by 0.59%) and in Israel (by 0.30%) than in other economies, alongside Singapore (by 0.76%) and Chinese Taipei (by 0.24)

The export dependency of Asian economies on the US varies to some extent (coefficient of variation 0.65), but a negative correlation between changes in real GDP and US export dependency of Asian economies is not necessarily found (correlation

coefficient -0.10). On the other hand, for Asian economies, weak negative correlation (correlation coefficient -0.30) appears between changes in real GDP and per capita GDP. It is suggested that income gaps among Asian economies would not be amplified by US tariff hikes, similar to the case of African economies.

III. Impact on industry

There are a variety of Asian economies: industrialized and developed economies, emerging and developing economies, and energy-resource rich economies. Impact by sector would be larger than the impact at the macro level, as reflected by differences in macroeconomic impact among economies. There is a concern that tariff hikes would deteriorate free trade and distort the efficiency of resource allocation. If the US imposed an additional 10% tariff globally, US agriculture, forestry and fisheries production, which has international competitiveness, is estimated to decrease by 0.95%, but non-competitive textiles and apparel (TXL) production would increase by 2.46% as is shown in Table 2.

Table 2 Impact on production of major industries

(%)

	MNG	TXL	MVH		MNG	TXL	MVH
US	-0.21	2.46	-2.06	Canada	-0.47	-1.82	-10.33
Mexico	-0.32	-1.89	-7.61	EU	-0.48	-0.83	0.12
Australia	-0.40	0.31	1.29	New Zealand	-0.39	-0.60	0.74
China	-0.30	-0.59	0.45	Hong Kong, China	-0.29	-0.03	0.70
Japan	-0.66	-0.55	-0.95	Korea	-0.70	-0.94	-0.87
Mongolia	-0.23	0.17	0.02	Chinese Taipei	-0.71	-0.51	-0.81
Brunei	-0.29	-0.22	0.60	Cambodia	-0.25	-0.81	2.48
Indonesia	-0.33	-1.16	1.12	Lao	-0.83	0.06	0.68
Malayisia	-0.39	-0.98	-0.02	Myanmar*	-0.26	0.01	0.15
Philippines	-0.56	-2.07	0.09	Singapore	-0.27	-1.75	-0.97
Thailand	-0.44	-0.89	1.00	Viet Nam	-0.27	-1.40	0.81
Afghanistan	-0.89	-0.24	3.56	Bangladesh	-0.21	-0.40	0.32
India	-0.36	-0.71	0.51	Nepal	-0.53	-1.37	1.39
Pakistan	-0.40	-0.53	0.52	Sri Lanla	-1.51	-1.64	0.69
Armenia	-0.58	-0.29	0.97	Azerbaijan	-0.35	0.90	4.82
Georgia	-0.29	-1.57	2.42	Bahrain	-0.30	-1.11	1.59
Iran	-0.44	0.09	0.02	Iraq	-0.27	0.24	1.41
Israel	-0.45	-0.63	1.05	Jordan	-0.46	-3.69	3.26
Kuwait	-0.30	-0.02	0.62	Lebanon	-1.71	-0.60	1.49
Oman	-0.28	-0.76	0.59	Palestine	-1.18	0.00	0.33
Qatar	-0.22	0.12	-0.29	Saudi Arabia	-0.35	-0.05	0.44
Turkey	-0.51	-0.43	0.68	UAE	-0.29	-0.43	0.90
Yemen	-0.57	-0.14	0.95	Asia total	-0.33	-0.64	0.14

Note: Proxied by the composite region with Timor-Leste.
Source: Author's simulation.

Production of Asian economies as a whole would not change to a large extent in agriculture, forestry and fisheries, and processed foods. On the other hand, total Asian production is estimated[5] to increase in metals (0.24%), chemical products (0.33%), motor vehicles and parts (MVH) (0.14%) and other machinery and equipment (0.17%), but decrease in mining (MNG) (0.33%), textiles and apparel (0.64%), other light manufacturing (0.95%) and electronic products (0.37%).

Mining production would see decreases in all Asian economies, ranging from 0.21% to 1.71%, and mining production decreases in the members of the Gulf Cooperation Council (GCC), which produce and export large crude oils, would not necessarily be smaller than the average decrease in Asian economies. Textiles and apparel production decreases in the Association of Southeast Asian Nations (ASEAN), which has comparative advantage in labor intensive industries (by 1.21% on average), would generally be larger than the average decrease in Asian economies. Meanwhile, motor vehicles and parts production would be highlighted to decrease in Japan, Korea, Chinese Taipei and Singapore, which are auto producing economies with high per capita income. It is indicated that tariff hikes would make resource allocation inefficient; this could have an adverse macroeconomic impact in Asian economies as well.

IV. Concluding remarks

If US tariff hikes were extended to all economies, international free trade would deteriorate, and resource allocation among industries would become inefficient in individual economies; this would give rise to adverse macroeconomic impact. For some time developments in global trade policy, including retaliation by individual economies, would be a key concern alongside possible tariff hikes under the second Trump administration. Policy analysis vis-à-vis the economic impact of trade policy would be useful for policy makers needing to know what would happen ex-ante rather than what happened ex-post. In that regard, routine conduct of quantitative simulation studies employing economic models would be expected.

[5] Estimated results for impact on production in individual economies (not shown in Table 2); other estimates are available upon request to the author, where appropriate.