

Policy Analysis Focus 24-17
Economic Impact of Japan's Response to US Reciprocal Tariffs¹

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I. Introduction

Since his inauguration in January 2025, United States (US) President Trump has issued several presidential orders to hike tariffs on imports of steel and aluminum and tariffs on imports from China, Canada and Mexico. The US has imposed an additional 20% tariff on imports from China as well as an additional 25% tariff on imports from Canada and Mexico and aims to hike tariffs on imports of steel and aluminum by 25%. Moreover, on February 13 President Trump signed a presidential memorandum and ordered development of a “fair and reciprocal [trade] plan.” The policy response by US trade partners to US reciprocal tariffs would be pivotal.

This article quantitatively investigates the economic impact of a few options for Japan's policy response to US reciprocal tariffs, by means of simulation studies using a computable general equilibrium (CGE) model of global trade.² Japan's trade surplus with the US has for some time ranked around fourth in size, following those of China, Mexico and Viet Nam.

¹ This is a follow-up report to Kawasaki (2025), “Economic Impact of US Reciprocal Tariff,” Policy Analysis Focus 24-14. 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 The framework of model simulations remains unchanged from that in Kawasaki (2024a), “Economic Impact of Further US Tariff Hikes,” GRIPS Discussion Paper 24-12. 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). Tariff reduction schedules are incorporated in the baseline tariff data based on major trade agreements entered into force by 2022 including the US-Japan Trade Agreement (USJTA) provided by Market Access Map, International Trade Centre (ITC). Rice, wheat, sugar, meats and dairy products, imports of which Japan has protected as sanctuary commodities, have individually been disaggregated from agriculture, forestry and fisheries sector and processed foods sector as per Kawasaki (2024b), “Economic Impact of USJTA Renegotiation,” Policy Analysis Focus 24-10.

II. Macroeconomic impact

The US would request that its trade partners reduce their tariffs to balance tariffs between the US and trade partners alongside US tariff hikes. That said, in principle those economies would not be allowed to reduce their tariffs on imports from the US alone to comply with the World Trade Organization (WTO) agreement: WTO member economies are required to apply uniform tariffs to other member economies under most favored nation (MFN) treatment when reducing tariffs on imports from the US. Meanwhile, it is required that preferential tariff reductions cover “substantially all the trade” under free trade agreements (FTAs) as exceptional treatment. The US would also be required to reduce tariffs under those FTAs.

The US does not import much rice, meat and other goods for which Japan’s tariffs are higher than US tariffs (Kawasaki, 2024b). If the US hiked tariffs on imports from Japan to match Japanese tariff levels, real GDP is estimated to decrease for both the US and Japan, as is shown in Table 1, but by limited magnitudes. On the other hand, if Japan reduced tariffs on imports from the US to US tariff levels, real GDP is estimated to increase for both the US and Japan. It is indicated that tariff hikes would deteriorate trade and adversely affect the economy, but tariff reductions would expand trade and benefit the economy.³

If Japan reduced tariffs on imports from all economies in the world⁴ alongside the US, it is estimated that due to trade diversion effects the resulting US real GDP increase (by 0.01%) would be smaller than the impact of Japan’s tariff reductions on

Table 1 Impact on trade and economy

(%, *: billion USD)

	Trade balance *			Real GDP		Employment		Private price	
	US with Japan	US	Japan	US	Japan	US	Japan	US	Japan
US hikes on Japan	0.20	0.01	-0.00	-0.00	-0.01	-0.00	-0.00	0.00	-0.00
Japan cuts on US	5.44	-0.58	-0.04	0.04	0.47	0.02	0.23	0.02	-0.28
Japan MFN cuts	-0.06	-0.19	-0.27	0.01	0.89	0.00	0.44	0.00	-0.52
Bilateral removals	-1.15	-1.24	-0.23	0.11	1.02	0.05	0.49	-0.01	-0.19

Sources: Author's simulations.

³ If the US simultaneously hiked tariffs on imports from major trade partners, real GDP would decrease in Japan and other economies whose tariffs are lower than those in other economies, due to trade diversion effects, as is discussed in Kawasaki (2025). Meanwhile, if major US trade partners simultaneously reduced tariffs on imports from the US, real GDP would decrease in Japan and others due to similar trade diversion effects.

⁴ Japan’s tariffs have been lower for selected economies than US tariffs due to preferential tariffs based on existing trade agreements. It is assumed here that tariffs would not be changed on imports from those economies to which Japan’s (lower than US tariff rates) have been applied.

imports from the US (by 0.04%). The US would benefit more from bilateral tariff reductions than multilateral ones. On the other hand, Japan would enjoy a larger real GDP increase from multilateral tariff reductions (by 0.89%) than from bilateral tariff reductions (by 0.47%).

If remaining tariffs between the US and Japan under USJTA were removed, real GDP is estimated to increase more in both the US (by 0.11%) and Japan (by 1.02%) than from the above two impacts of Japan's tariff reductions. It is suggested that both the US and Japan would enjoy larger economic benefits given larger mutual tariff reductions. The rate of increase in US real GDP would be around a tenth of that in Japan, reflecting the size difference between the two economies, but the absolute value of the US real GDP increase would not be much smaller than that for Japan.

The impact on trade balances would be limited. It is estimated that the US trade balance with Japan would improve by 5.44 billion US dollars (USD) if Japan reduced tariffs on imports from the US. That said, that impact is less than a tenth of US trade deficit with Japan and less than 1% of the overall US trade deficit. Meanwhile, the US overall trade deficit would not necessarily improve due to trade diversion effects.

The impact on US employment and prices would be limited similar to that on real GDP. On the other hand, Japan's consumption price is estimated to decline by 0.52% due to Japan's tariff reductions on imports from all economies, and by 0.19% due to tariff removals between the US and Japan. That could account for the meaningful magnitude of the impact from the perspective of the Bank of Japan's "Price Stability Target" of 2%.

III. Impact by industry

There is concern that impact on production by industry would be larger than macroeconomic impact. That said, if the US hiked tariffs, material impact would not appear in industry production in either the US or Japan, as is shown in Table 2.⁵

If Japan reduced tariffs, US rice production would substantially increase but Japan's rice production would substantially decrease. US rice production is estimated to

⁵ It is estimated that the ad valorem equivalent of non-tariff measures (NTMs) in Japan's motor vehicles and parts would be around 11.1% according to Kawasaki (2023), "Spillover effects of NTM Reductions," Policy Analysis Focus 23-5. If the US hiked tariffs on imports of motor vehicles and parts from Japan by that magnitude, it is estimated that motor vehicles and parts production would increase in the US (by 0.8%) but decrease in Japan (by 8.8%), and real GDP would decrease in both the US (by 0.07%) and Japan (by 0.70%).

Table 2 Impact on production by industry

	Rice		Meat		Textiles & apparel		Motor vehicles	
	US	Japan	US	Japan	Japan	US	Japan	US
US hikes on Japan	0.0	-0.0	0.0	-0.1	0.0	-0.3	-0.0	0.0
Japan cuts on US	20.0	-29.1	0.8	-3.4	-0.0	0.7	-0.0	0.6
Japan MFN cuts	16.3	-35.8	-0.2	-14.2	0.0	1.5	-0.0	1.1
Bilateral removals	21.4	-30.8	1.1	-4.6	0.2	1.8	-0.1	2.6

Sources: Author's simulations.

increase by 20.0% if Japan reduced tariffs on imports from the US, and to a similar extent if tariffs between the US and Japan were removed, but less than above (by 16.3%) if Japan reduced tariffs on imports from all economies. On the other hand, Japan's rice production is estimated to decrease by 29.1% if Japan reduced tariffs on imports from the US, and more than that (by 35.8%) if Japan reduced tariffs on imports from all economies. Japan's rice production would also decrease under tariff removals between the US and Japan by a magnitude similar to that under Japan's tariff reductions on imports from the US.

US meat production would not necessarily increase, but Japan's meat production would largely decrease if Japan reduced tariffs on imports from all economies by more than its tariff reductions on imports from the US and tariff removals between the US and Japan. Motor vehicles and parts production is estimated to increase in Japan and decrease in the US, but at most by 0.1% due to tariff removals between the US and Japan. Textiles and apparel production is estimated to increase the most in the US and Japan under tariff removals between the US and Japan, but by magnitudes smaller than that of the changes in rice and meat production.

The US could expect expansion of rice production without concern about a material decrease in auto production, but large decreases in production of rice and meats would be of concern for Japan.

IV. Concluding remarks

The US would likely request that its trade partners reduce tariffs when the US introduced reciprocal tariffs. Response in compliance with the WTO agreement would be required for each economy. US introduction of a reciprocal tariff realizing fair tariffs would position the world economy on a historic saddle point. It is expected that quantitative policy analysis employing economic models would provide evidence useful for trade policy making.