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3 April 2025

Reciprocal tariff announcement

What has been announced?

On 2 April, President Trump held a press conference where he announced an executive order[1] invoking a series of reciprocal tariffs on a number of trading partners globally. The executive order invoked IEEPA[2] and declared a national emergency from "large and persistent annual US goods trade deficits" in order to rebalance global trade.

Starting at a minimum, baseline, 10% tariff on all imports to the US, President Trump also announced additional reciprocal tariffs on c.60 nations who have large trade imbalances with the US. The US administration considers these to be reciprocal, as they have calculated a tariff from these countries on the US. This tariff is calculated as the ratio of the US goods trade deficit with any particular economy to total goods imported from that country, cut in half.

China, the EU, Vietnam, Taiwan are towards the higher end of tariffs applied given they run some of the largest trade deficits with the US. Some smaller economies such as Cambodia, Madagascar, Myanmar and Lesotho have also been targeted with substantial tariffs.

Figure 1. US reciprocal tariff rates by country

Countries and Territories	Reciprocal Tariff	Countries and Territories	Reciprocal Tariff
Algeria	30%	Madagascar	47%
Angola	32%	Malawi	18%
Bangladesh	37%	Malaysia	24%
Bosnia and Herzegovina	36%	Mauritius	40%
Botswana	38%	Moldova	31%
Brunei	24%	Mozambique	16%
Cambodia	49%	Myanmar (Burma)	45%
Cameroon	12%	Namibia	21%
Chad	13%	Nauru	30%
China / Hong Kong / Macau	34%	Nicaragua	19%
Côte d`Ivoire	21%	Nigeria	14%
Democratic Republic of the Congo	11%	North Macedonia	33%
Equatorial Guinea	13%	Norway	16%
European Union	20%	Pakistan	30%
Falkland Islands	42%	Philippines	18%
Fiji	32%	Serbia	38%

[1] https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/

[2] The International Emergency Economic Powers Act (IEEPA) grants the U.S. president broad executive authority to regulate commerce in response to national emergencies that threaten national security, foreign policy, or the economy.

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Countries and Territories	Reciprocal Tariff	Countries and Territories	Reciprocal Tariff
Guyana	38%	**South Africa**	31%
India	27%	**South Korea**	26%
Indonesia	32%	**Sri Lanka**	44%
Iraq	39%	**Switzerland**	32%
Israel	17%	**Syria**	41%
Japan	24%	**Taiwan**	32%
Jordan	20%	**Thailand**	37%
Kazakhstan	27%	**Tunisia**	28%
Laos	48%	**Vanuatu**	23%
Lesotho	50%	**Venezuela**	15%
Libya	31%	**Vietnam**	46%
Liechtenstein	37%	**Zambia**	17%
		Zimbabwe	18%

Source: The White House. As of April 3, 2025.

When do these tariffs go into effect and how does it affect previously announced tariffs?

The universal 10% tariff will come into effect on April 5, with the higher rate tariffs on the 57 countries highlighted above becoming effective on April 9.[3] Importantly, there are exclusions for certain goods and our understanding is that reciprocal tariffs will not—for the most part—stack on top of other previously announced tariffs. For imports subject to the Section 232 tariffs (which currently includes the Steel/Aluminium tariffs and automaker tariffs) the reciprocal tariffs will not apply. Also, President Trump is keeping the Canada and Mexico tariffs unchanged at 25%, in addition to keeping in place the tariff-exemption for Mexican/Canadian USMCA-compliant goods. However, our understanding is that for Chinese imports, the tariffs will be cumulative. This means the 20% already announced will now rise to 54% (including the 34% reciprocal tariff).

The tariffs do not have an expiry date. The executive order referred directly to the tariffs remaining in effect until a time at which President Trump determines that the imbalances at hand are “resolved or mitigated”.

What comes next?

In the press conference, President Trump stated if a country does not like the tariffs proposed and wanted them cutting to zero, they should either buy US goods or invest in the US. This paints a clear picture that there is negotiating room for this US administration and that these tariffs are perhaps just the starting point.

This was further confirmed by Treasury Secretary Scott Bessent, who spoke with Bloomberg, following President Trump’s press conference, saying “we’ve got a ceiling. And then we can see if there is a different floor”. While some countries may look to negotiate, especially those with little economic leverage, others may meet these tariffs with retaliation.

[3] As per White House factsheet.

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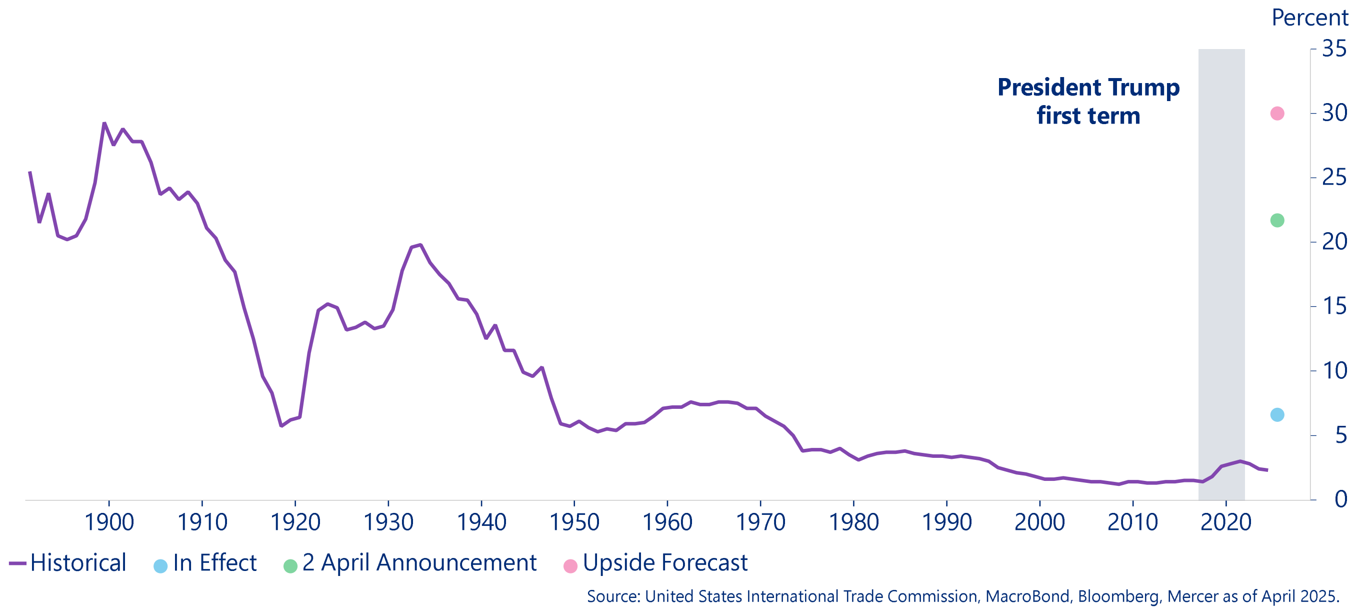
Ursula von der Leyen, president of the European Commission, has already said the EU was "prepared to respond" and China's commerce ministry has said it would retaliate. Tariffs and tightening global trading conditions may present a meaningful risk to the global economic growth outlook, potentially raising the risk of recession.

Latest developments are also likely to trigger a jump in inflation, although in all likelihood the boost to price level may be a one-off. In our view, the longer tariffs and retaliatory tariffs remain in place, the larger downside risks to growth and upside risks to inflation become.

Figure 2. US average tariff rate on total imports



Source: United States International Trade Commission, MacroBond, Bloomberg, Mercer. As of April 2025.

What has the market reaction been?[4]

The market reaction has been negative. Equities are moving sharply lower, at the time of writing, US equities are down ~4% and broader equity markets globally are down a smaller amount ~1-3%. Bond yields are also taking a leg down. US 10-year yields have declined close to 20bps over the past trading day and have fallen through 4%. Shorter dated bond yields are declining more than longer dated yields, leading to a modest steepening of the yield curve.

Bond markets are now pricing in an increased amount of rate cuts by the Federal Reserve as a result of the growth shock these increased tariffs may impose on the US economy. Credit spreads are widening. The US dollar is declining versus all major currencies, particularly versus the Swiss franc and the Japanese yen. Commodity markets are also not immune from these reverberations. Oil is sharply lower, partly due to the weaker global growth prospects, but also as a result of an OPEC supply hike announced for May. Gold is marginally lower.

[4] All market commentary as at 10am ET, April 3, 2025.

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Mercer view

While our expectations ahead of these announcements was for substantial tariffs to be introduced, these country-by-country tariffs are larger than many—including ourselves—expected. There are numerous estimates circulating around the effective average US tariff rates, ranging from 20% - 25% with some forecasting as high as 30%.

The tariffs act as a big fiscal tightening with the collected revenues leading to an improvement in the US fiscal deficit. There is considerable uncertainty as to how long these tariffs will last, how much of them will be negotiated and substantially lowered/eliminated. Our initial assessment is that should these tariffs get implemented as planned and absent a notable fiscal stimulus—which seems unlikely in the near term—we are of the view that they will cause a US recession in the near term.

However, it is worth noting that given these tariffs were higher than most people expected, there is room for positive surprises if they are negotiated away. Notwithstanding, the complex interplay of second order effects from these policies.

In summary, at the time of writing, latest developments have skewed global growth risks to the downside and inflation risks to the upside. Against such a backdrop we believe there is likely to be further downside for equities and risk assets more generally. We will release a more comprehensive view of what these mean for the global economy over the coming days.

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