

PRESS RELEASE

US 'reciprocal' tariffs: Trade war is declared

Hong Kong S.A.R, April 8th, 2025: On April 2nd, or the so-called *Liberation Day*, President Donald Trump announced a drastic increase in tariffs on all trading partners: at least 10% for all countries, and much higher for some. Whether or not these measures remain in force remains an open question, but they are already an unprecedented shock to the post-war global trading system.

A historic turn towards protectionism

The imposition of so-called 'reciprocal' tariffs of at least 10%, which will come into force this Saturday April 5th, marks a dramatic escalation of US trade policy, even surpassing the worst-case scenarios and campaign promises. Many other trading partners, such as China (34%), the European Union (20%) and Japan (24%), will face even higher tariffs from April 9th. Mexico and Canada are among the few countries to escape these 'reciprocal' tariffs, retaining duty-free access to the US market for goods that comply with the USMCA agreement¹. Energy and minerals not available domestically, as well as sectors already subject to specific tariffs (steel, aluminum, automotive) or which should be in the coming weeks, will also be exempt.

A break in world trade

According to our economists' estimates, this increase would bring the average effective tariff rate to 26.2% (compared to 2.3% in 2024), its highest level in over a century. It is also the most abrupt change since the Smoot-Hawley Act of 1930². These announcements represent a break with multilateral trade standards (including WTO rules) and threaten to trigger an escalatory spiral of protectionist measures. They also weaken supply chains and increase uncertainty for businesses at a time when the risk of geo-economic fragmentation is already high.

Differentiated impacts across regions

Asian economies (Vietnam, Cambodia, Taiwan, Malaysia and Thailand) - all highly dependent on US trade - will be the most affected and will see their exports heavily taxed. Some African (Lesotho, Madagascar) and Central American (Nicaragua, Honduras) economies will also be significantly impacted, although they are somewhat less dependent.

Among major economies, South Korea, Japan, China and India are expected to be hit hard. All EU Member States will face tariffs of 20%, with Germany and Italy particularly exposed.

¹ USMCA = United States–Mexico–Canada Agreement

² Act enacted on 17 June 1930 by President Herbert Hoover to impose average taxes of nearly 40% on some 20,000 types of imported goods.



Prospect of trade escalation

It will be difficult to find a favorable outcome in the short term. While the EU and China, among others, have already indicated their willingness to retaliate by taxing products imported from the United States, an escalation of trade tensions appears likely, even inevitable. In response, the EU could even use its new 'Anti-Coercion Instrument' for the first time since its adoption at the end of 2023.

In the medium term, the reconfiguration of trade flows will affect all economies: Asian exporters, for example, will be forced to seek new opportunities, possibly intensifying competition in other markets, particularly Europe.

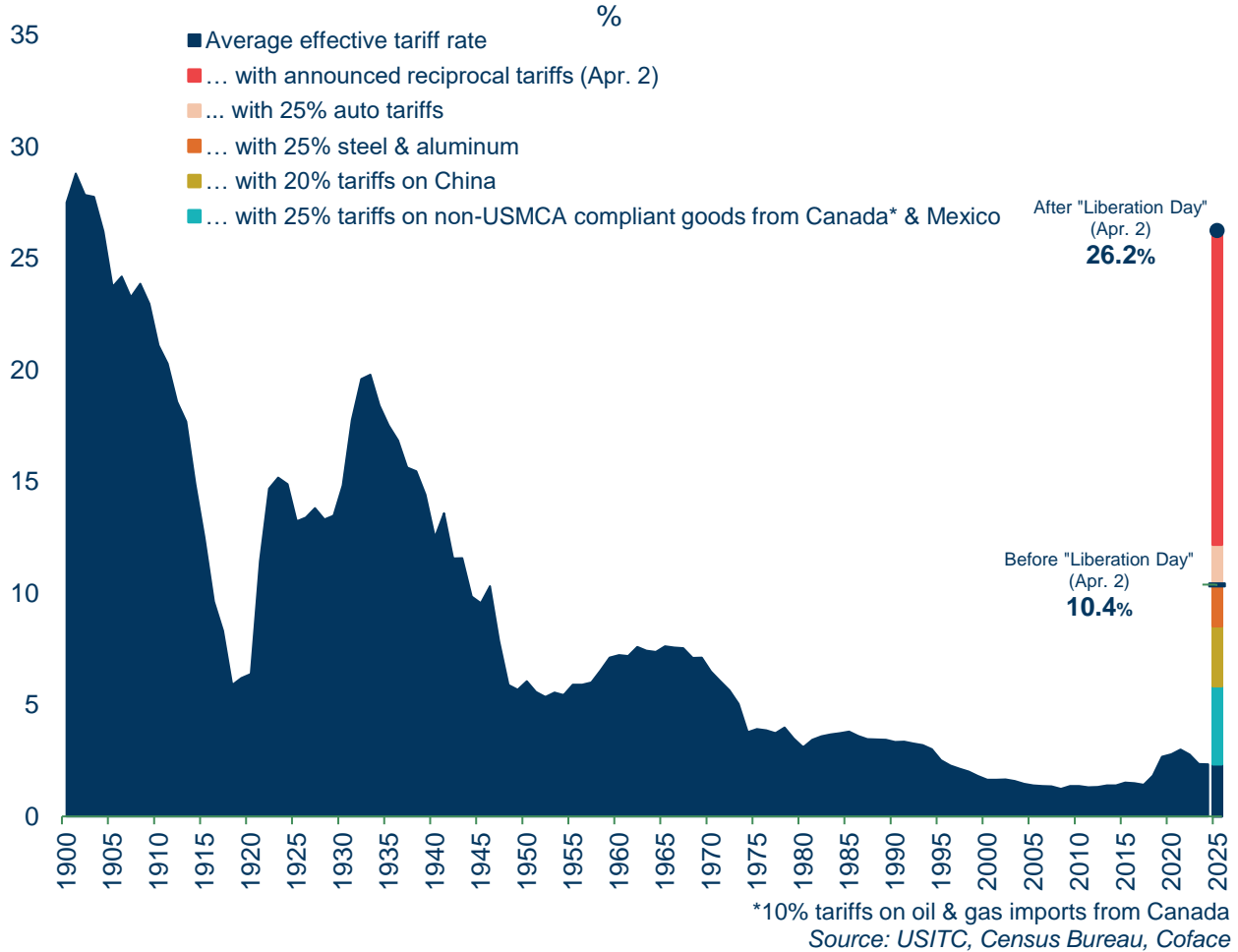
A weakened US economy

These tariffs will hit an American economy that was already showing signs of weakening, with household consumption at a low ebb at the beginning of 2025 (only 0.1% in February, after a contraction in January). The rise in costs resulting from the increase in import rates could also significantly slow down investment decisions for companies and purchasing decisions for consumers. The impact on inflation, projected to average of 2.8% in 2025 before this week's announcements, will be closely watched. Some estimates made during last year's campaign indicated that such tariff increases could add up to 2 percentage points to inflation this year. The increased risk of inflation in a period of possible recession will complicate the task of the Federal Reserve, which will have to proceed even more cautiously in its planned rate cuts.

Objectives with uncertain results

Although the Trump administration's objectives - rebalancing trade, relocating production, generating tax revenues and creating a bargaining lever - are politically attractive, it is not certain that tariffs can help achieve these objectives effectively. Trade deficits depend mainly on macroeconomic factors, not import taxes. Moreover, tariffs do not remove other structural barriers, such as labor costs and skills, which are necessary for relocation. In 2024, tariffs generated around 88 billion dollars, or only 1.5% of total federal revenue. Finally, hitting all countries hard and simultaneously risks encouraging trading partners to coordinate their responses, as Japan, South Korea and China have recently done, which could weaken the US's negotiating position.

US: Average effective tariff rate on imports



MEDIA CONTACTS

COFACE ASIA-PACIFIC

Karen Yik: +852 2585 9121- karen.yik@coface.com
 Leo Chak: +852 2585 9132 - leo.chak@coface.com

COFACE: FOR TRADE

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