Marubeni Institute
株式会社丸紅経済研究所

World Economic Outlook Update
Trump Tariff Scenarios

June 16, 2025
*Translated from the original Japanese version released at May 16, 2025 (slightly modified)

Summary

- **Uncertain Economic Environment Created by US Tariff Policies**: The outlook for the global economy remains extremely fluid due to large-scale tariff policies under the Trump administration, including the "reciprocal tariffs". The future outlook remains very uncertain, yet given the risk of rapid spillover effects through financial markets and other areas, it is highly important to consider the range of potential future scenarios to the extent possible.
- **Diverging Global Economic Scenarios**: If the trade war settles down, the global economy may move toward a soft landing (optimistic scenario), but if tensions intensify especially between the US and China, serious concerns about a global economic recession could emerge (pessimistic scenario).
- **Impact of Tariff Hikes**: US tariff hikes lead to higher import prices domestically, resulting in higher cost and supply chain disruption. For exporting countries, such as China and Japan, decrease in exports to the US will have a negative impact on their economies. Changes in competitiveness among exporting countries under new tariff rates can also alter international trade flows.
- **Certain Impacts of Increased Uncertainty**: The rise in uncertainty due to frequent US policy changes leads to restrained corporate investment, household consumption, as well as market turmoil. These effects will likely remain for a certain time of period.
- **Likelihood of "Sell America" is becoming relatively high**: The risk assessment of the U.S. market has significantly worsened due to the uncertainty surrounding Trump's tariff policies. While we do not see "Sell America" as the main scenario, it is important to consider and prepare for the possibility of changes in the U.S. market's position within the global economy.

World Economic Outlook

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World Economic Outlook

Background

Even after the announcement of the 90-day pause, uncertainty over U.S. tariff policies persists.

Nov. 2024 — Presidential Election Victory
- Reaffirmed the tariffs as a core policy tool
- Announced various tariff policy measures: such as an additional 60% tariff on China and an additional 10% tariff on all countries.

Jan. 2025 — Presidential Inauguration
- IEEPA tariffs over illegal immigration and fentanyl (China, Canada, Mexico)
- Section 232 tariffs （steel, aluminum)

China, Canada and EU vow retaliation

April 2 — "Liberation Day" Announcement
- Announced specific details of "reciprocal tariffs" : Additional tariffs on all countries on April 9 (tariff rates vary by countries and regions while a minimum tariff rate of 10% was introduced in advance on April 5).

Stock prices plummet, US dollar selling, fluctuation in the U.S. treasury market

April 9 — Announcement of 90-day pause
- Announced a 90-day pause on all the "reciprocal tariffs" (minimum 10% tariff remains in effect), with the exception of China.

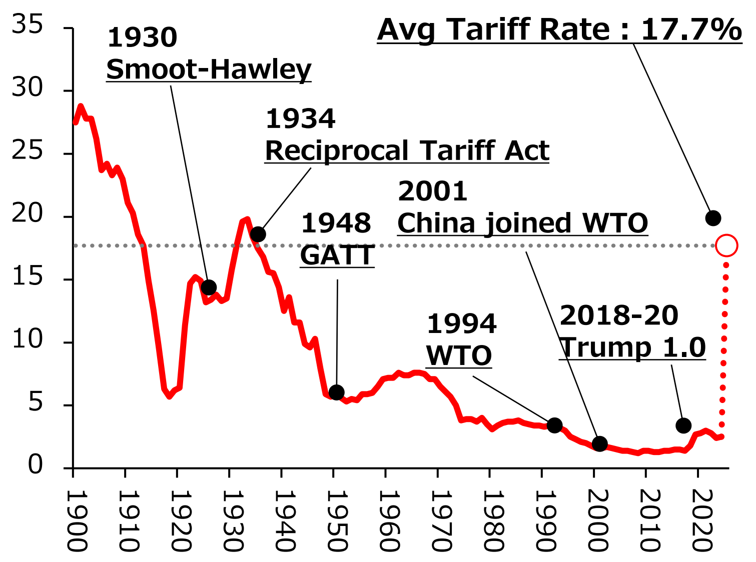
Partial easing of tariff measures (suspension of cumulative, additional tariffs on smartphones, PCs, & auto parts)
Financial markets monitoring the progress of tariff negotiations with the U.S.
US/UK Trade Deal（May 8）、US/China Agreement to Lower Tariffs（May 12)

July 9 — Postponement Deadline
- Uncertainty remains regarding postponed tariff measures, tariffs on China, tariff negotiations and possible retaliations, and 232 tariffs.

Significant uncertainty persists regarding the consequences of tariff negotiations with the U.S. and the overall direction of the U.S. trade policies

(Source) Marubeni Institute

If tariff measures under the "reciprocal tariff" are fully implemented, U.S. average tariff rates will reach the highest level since World War II
<U.S. Average Effective Tariff Rate[(1)]>



<Trump Administration>
- Tariff as a policy tool
- Unilateral trade policies

(1) The ratio of tariff revenue to total import value (the figure of 2025 is an estimate based on 2024 import data. Changes in import value resulting from tariff measures are not taken into account). Details of the tariff measures are based on the Tax Foundation's assumptions (reflecting tariff measures announced as of April 2).
(Source) Tax Foundation

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Future Scenarios

The course of the global economy can change significantly depending on US tariff policies and negotiations

▽US Tariff Policy Scenarios

Common assumptions for all scenarios

Minimum additional tariff（10%）(1)
Section 232 tariffs（25% : steel、aluminum、autos）*copper、wood、semiconductors、pharmaceuticals are also expected to be implemented in 2025

Heightened uncertainty due to increasing risk of US policy changes (i.e. contraction in corporate investment and household consumption, market instability)

Assumptions for different scenarios

Additional tariffs by countries, regions	Pessimistic scenario	Middle scenarios		Optimistic scenario
	Full implementation of country, region-specific tariff measures	**Relaxation/exemption of tariffs for certain countries, regions**	**China**	**Complete removal of country, region-specific tariff measures**
*Including Canada & Mexico	*Additional tariffs on China are 54% (20%+34%) (2) =“Reciprocal tariffs” are implemented as announced on April 2nd	● Tariff measures may be relaxed or removed depending on each country’s negotiations with the U.S. ● Negotiation priority will be given to countries that can promise to import essential American goods or increase investment in the U.S. Countries/Regions subject to higher tariffs: Canada*, Mexico*, EU, Japan, South Korea, Taiwan, ASEAN, India etc. *Canada and Mexico are subject to tariffs on the grounds of illegal immigration and fentanyl	● The hurdles to complete removal of the additional tariffs on China are high due to factors including ①the size of the trade deficit ②the additional tariffs on the fentanyl issue and ③bipartisan support within the US for tough stance on China. ● Depending on negotiations between the US and China, the following may occur: (Optimistic) Tariff rate reductions and expansion of exempted items (Pessimistic) Tariff rate increases, stricter regulations on circumvented exports, financial sanctions	*Additional tariffs on Canada and Mexico are also removed

（1）As to Canada and Mexico, US announcement on April 2 said that “in the event the existing fentanyl/migration IEEPA orders are terminated, USMCA compliant goods would continue to receive preferential treatment, while non-USMCA compliant goods would be subject to a 12% reciprocal tariff” (not 10%).
（2）In the pessimistic scenario, the additional tariffs on China also use the tariff rates announced on April 2 for other countries and regions (the 145% tariff rate implemented in April–May was excluded on the grounds that it is not economically sustainable)
（Source）Marubeni Institute

Outlook for Economic Growth

The pessimistic scenario raises concerns about global recession

▽Real GDP growth rate forecast（YoY%）

Pessimistic scenario: Significant slowdown in growth

High tariffs, led by the United States, weigh on the global economy, causing its growth rate to slow significantly. Economic turmoil continues into 2026, with trade and investment contracting sharply. Commodity markets, including crude oil, fall sharply.

(1)	World Share 2023 (%)	2024 Estimate	2025 Forecast	2026 Forecast	Change from prev. forecast（%points） 2025	Change from prev. forecast（%points） 2026
World	**100**	**3.2**	**2.4**	**2.5**	▲0.6	▲0.4
Advanced Economies	**40.7**	**1.7**	**0.8**	**0.8**	▲0.8	▲0.6
U.S.	15.0	2.8	1.0	0.9	▲1.2	▲1.1
Euro Area	11.9	0.7	0.2	0.4	▲0.5	▲0.5
U.K.	2.2	0.9	0.4	0.4	▲0.5	▲0.5
Japan	3.5	0.2	0.4	0.4	▲0.7	▲0.2
Developing Economies	**59.3**	**4.2**	**3.6**	**3.5**	▲0.3	▲0.4
China	18.7	5.0	4.0	3.9	▲0.2	-
India	7.9	6.7	6.0	5.8	▲0.5	▲0.5
ASEAN-5	5.1	4.6	3.8	3.8	▲0.4	▲0.4
Central, Eastern Europe	7.8	3.2	1.6	1.6	▲0.4	▲0.6
Latin America	7.3	2.1	2.0	2.2	▲0.3	▲0.2
Middle East, Central Asia	7.3	2.4	3.1	3.0	▲0.6	▲0.7
Sub-Saharan Africa	3.2	3.6	3.5	3.7	▲0.5	▲0.4

Optimistic scenario: Soft landing

Turmoil over tariffs settles down during 2025. Avoiding a trade war, the Chinese economy improves compared to YoY expectations. Japan and EU's exports to the US decrease due to auto tariffs, but exports to China recover. The US avoids recession, but contraction in domestic investment and other effects continue even after 2026.

	World Share 2023 (%)	2024 Estimate	2025 Forecast	2026 Forecast	Change from prev. forecast（%points） 2025	Change from prev. forecast（%points） 2026
World	**100**	**3.2**	**3.0**	**2.9**	-	-
Advanced Economies	**40.7**	**1.7**	**1.4**	**1.3**	▲0.2	▲0.1
U.S.	15.0	2.8	2.0	1.8	▲0.2	▲0.2
Euro Area	11.9	0.7	0.7	1.0	-	+0.1
U.K.	2.2	0.9	0.9	1.0	-	+0.1
Japan	3.5	0.2	1.1	0.6	-	-
Developing Economies	**59.3**	**4.2**	**4.0**	**3.9**	+0.1	+0.0
China	18.7	5.0	4.5	4.0	+0.3	+0.1
India	7.9	6.7	6.5	6.3	-	-
ASEAN-5	5.1	4.6	4.3	4.3	+0.1	+0.1
Central, Eastern Europe	7.8	3.2	2.1	2.3	+0.1	+0.1
Latin America	7.3	2.1	2.3	2.4	-	-
Middle East, Central Asia	7.3	2.4	3.8	3.8	+0.1	+0.1
Sub-Saharan Africa	3.2	3.6	4.0	4.1	-	-

（1）Composition of each group and region is based on that of the IMF. ASEAN-5 refers to Indonesia, Malaysia, Thailand, the Philippines and Singapore. Global share is calculated on a (PPP) basis.
The range of revision is based on comparison with our institute's forecast as of Feb., 2025.
（Source）Marubeni Institute（Actual figures are from the IMF and individual nation's government statistics. ）

Trump Administration's Trade Policy Initiative

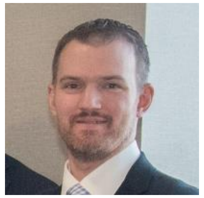
Against the backdrop of factions within the administration, multiple objectives are intertwined in the tariff policy.

▽Key figures and their different views on trade policy

Trade Hardliners | **China Hawks** | **Pro-economy**

President Donald Trump

Senior Advisor for Trade & Manufacturing Navarro



US Trade Representative (USTR) Greer

Secretary of Commerce Lutnick

Secretary of State Rubio

National Economic Council (NEC) Director Hassett

Secretary of the Treasury Bessent

▽Tariff Policy Goals

①Solve Economic Issues
Resolving trade imbalances, establishing a fair competitive environment, protecting domestic manufacturing, etc.

②Negotiating Leverage
Means of addressing issues not directly related to the economy such as illegal immigration, drug trafficking and national security.

③Increase Government Revenue
Amid challenges in securing financial resources to extend tax cuts, expectations for increased revenue are high

Conflicts Exist Among the Various Goals:
Example 1 : If imports decrease in order to reduce the trade deficit, tariff revenue will also decrease （① vs ③）
Example 2 : If tariffs are used as negotiation leverage, it is necessary to reduce or remove them whereas the objective of increasing government revenue assumes maintaining tariffs over the long term. （② vs ③）

（Ref.）Tinbergen Rule :
At least one independent policy instrument is needed for each policy objective intended to achieve.
（=It is difficult to achieve multiple policy objectives with a single instrument)

（Source）Marubeni Institute

Trade Negotiations Outlook

Hopes grow for easing of tariffs through negotiations / The biggest focus is on de-escalation between US and China

Section 232 Tariffs on (Steel, Aluminum) Illegal Immigration and fentanyl (China, Canada, Mexico) → Announcement of "Reciprocal Tariffs" (April 2) → Announcement of 90-day pause (April 9) → Postponement Deadline (July 9) →

Financial Market Disturbance

Partial easing of tariff measures

Negotiations between countries／Lobbying

Current State of Negotiations

Early Developments : Japan-US Ministerial Talks（April 17～Attended by President Trump), US/UK Agreement（May 8, First Trade Deal), US-China Ministerial Talks（May 10-11、Switzerland)

- ✓ (US/UK Trade Deal) **Established low-tariff automobile import quota**（10% tariff rate). President Trump stated, "We will not make the same deal with other countries".
- ✓ (US/UK Trade Deal) No US concessions were observed regarding the minimum additional 10% tariff. （※UK's minimum reciprocal tariff is 10%)
- ✓ (Japan-US Talks, US/UK Trade Deal) At present, there are no indications that issues such as **exchange rates or defense cost-sharing** are being included in negotiation demands or agreement terms.
- ✓ (US-China Talks) Both sides agreed to **lower tariffs for 90 days**. ※The 30% additional tariff (20% for the fentanyl issue and 10% reciprocal tariff rate) will remain in place.

	Additional Tariff Rates, Measures, etc.	Main points of tariff negotiations	Trade（US Customs、billion $、2024) Imports	Exports	Trade Balance
China	20%+125%=145% Retaliatory Action（Additional Tariffs, Critical Minerals Export Restrictions, Antitrust investigation of US companies, etc.)	(**US**) Tariff reductions depend on China's response / (**China**) Demands removal of all tariff measures →At the May 10-11 meeting, they agreed on a 90-day reduction of tariffs. Ongoing discussion was also agreed. (Remaining points of contention) ①Additional 30% Tariffs ②Other measures (China's critical minerals export restriction, etc.) ③US trade deficit with China	463	144	▲319
Canada	～25%（Partial exemptions) Retaliation (Additional Tariffs)	Adjustment of retaliatory measures, measures for illegal immigration and drug trafficking	422	349	▲73
EU	20% Retaliatory Postpone	Expansion of US imports（i.e., LNG), reduction of tariffs on manufactured goods, increased defense spending, etc.	618	371	▲247
Japan	24% Retaliatory Restraint	Expansion of US imports（LNG, agricultural products, autos, defense), cooperation in shipbuilding sector, etc.	152	80	▲72
India	26% Retaliatory Restraint	Tariff reductions（※There is ample room for reductions due to the currently high rates), increased investment in the US	91	41	▲50
ASEAN	10~49% Retaliatory Restraint	Strengthening regulations on circumvented exports, reduction of tariffs on agricultural products, etc.	365	125	▲240

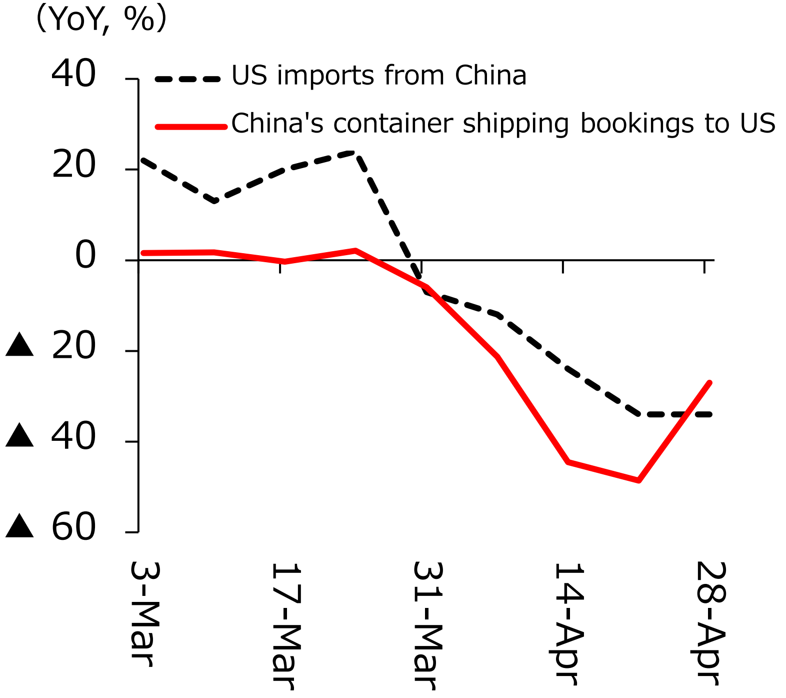
(Source) Marubeni Institute

U.S.-China Tariffs

Tariffs were significantly reduced for 90 days, but future negotiations remain uncertain.

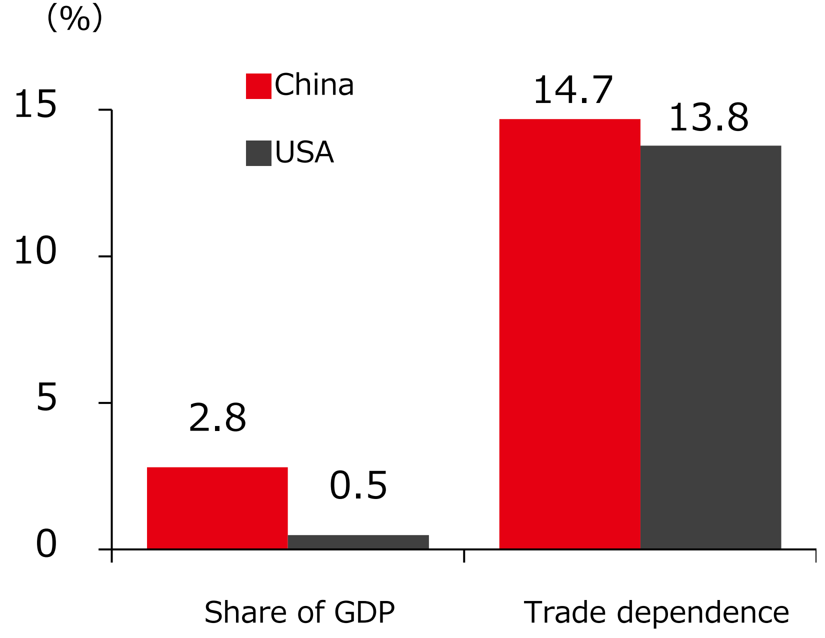
- With tariffs exceeding 100%, China's exports to the US and related container ship bookings have declined significantly. With about 15% of China's total exports going to the US and also making up a similar share of US imports, the impact is considerable. After a period of trade disruption, the US and China agreed on a significant reduction of tariffs for 90 days starting May 14.
- Encompassing the Trump tariffs is the view that US manufacturing was lost under the free trade system. In actual fact, while China's share of global manufacturing has risen to nearly 30%, the share in the US has dropped dramatically. While the US tries to restore manufacturing through tariffs and other measures, China has no choice but to continue exporting manufactured goods that exceed domestic demand. Thus, future negotiations remain highly uncertain.

▽China's exports to US（2025）



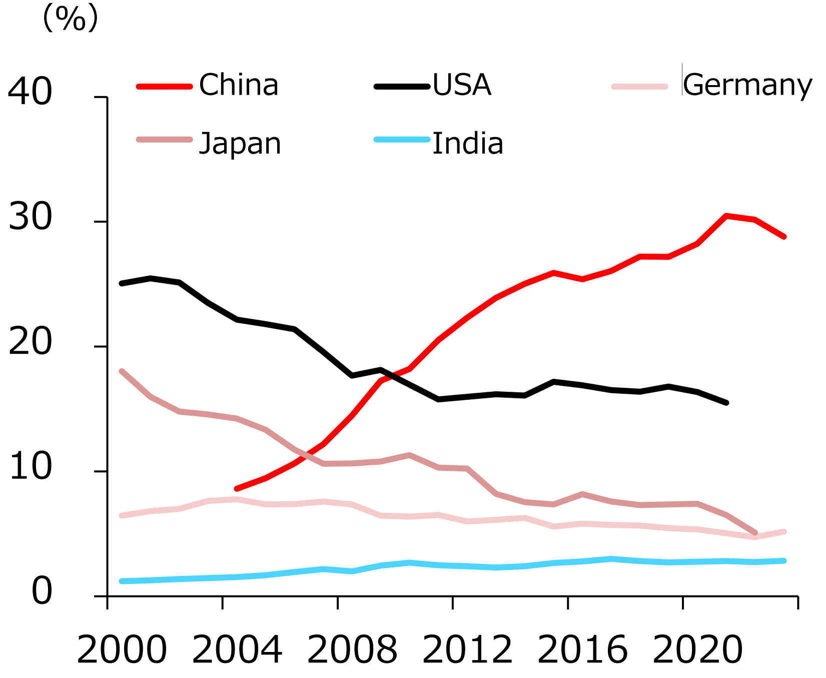
（Note）Import volumes from China based on proprietary data from project44
（Source）project44、VIZION

▽2024 US-China trade volume(1)



（1）*Bilateral US-China exports / nominal GDP
**China : US exports / total export value　US : China imports / total import value
（Source）ITC、IMF

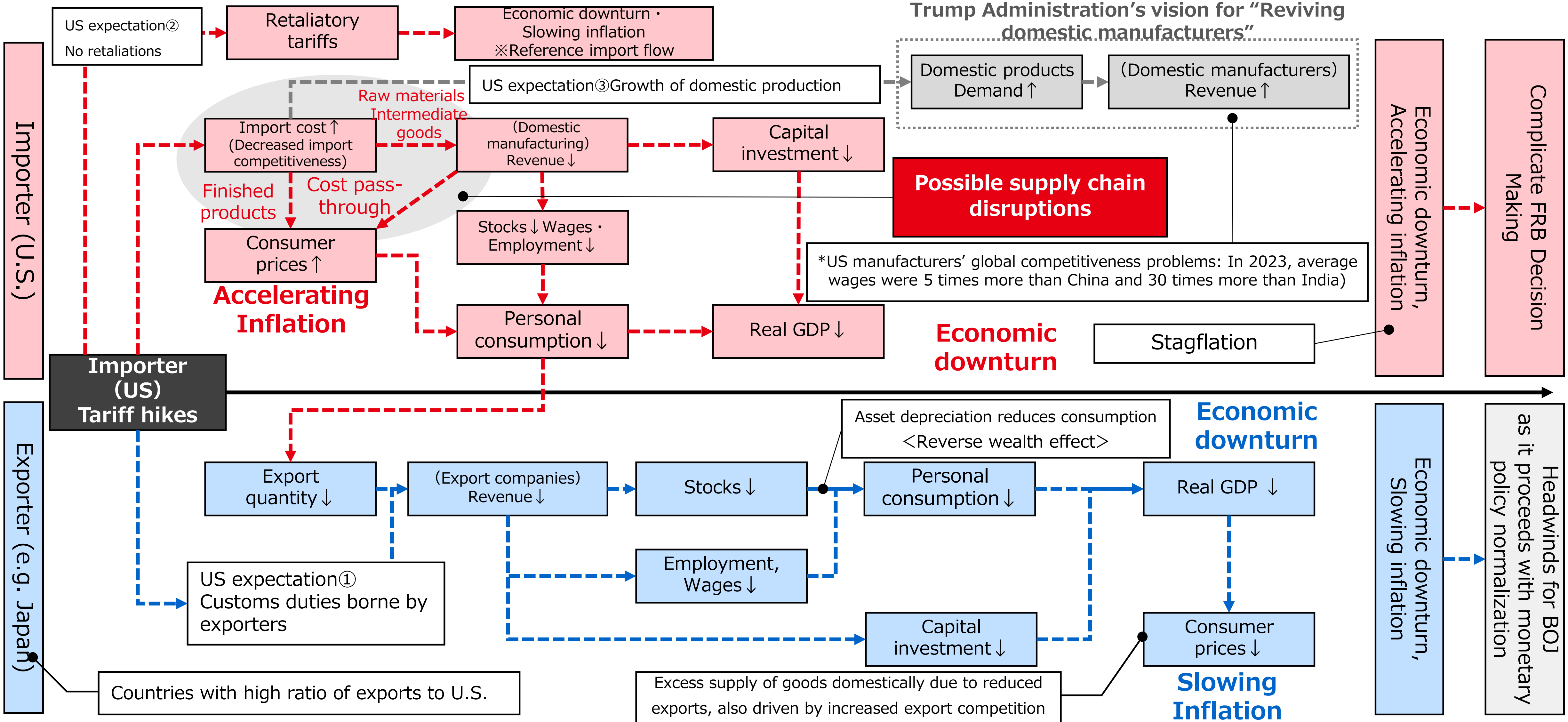
▽Global manufacturing share(1)



（1）US dollar value-added basis
（Source）Marubeni Institute based on World Bank data

Impact of tariff hikes

Importer（US）Accelerating inflation, Economic downturn; Exporter (e.g. Japan) Economic downturn, Slowing inflation



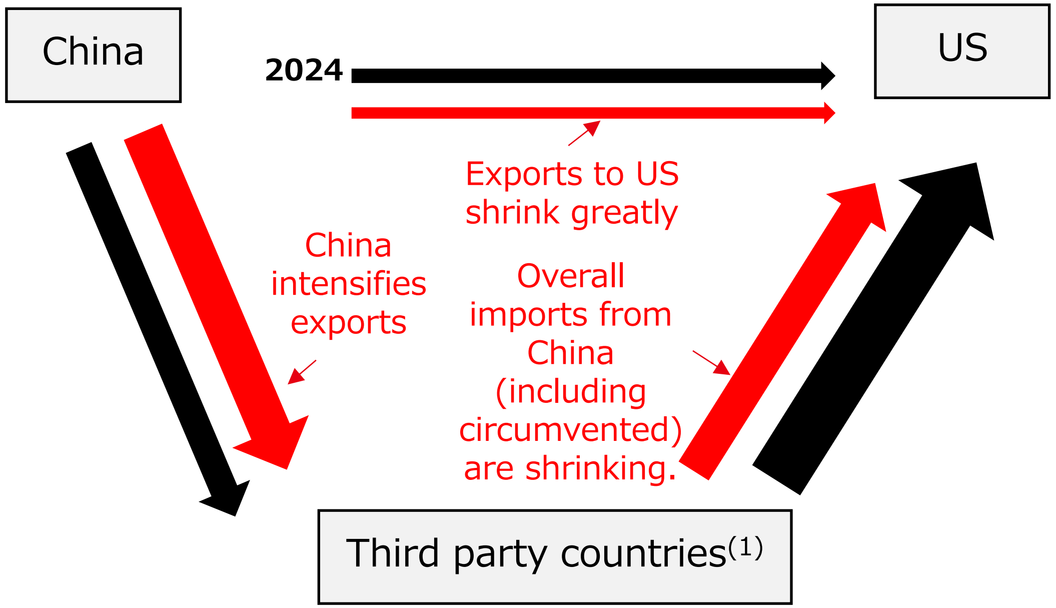
(Source）Marubeni Institute

Changes in the flow of trade

China's "Deflation Exports" expand in the near term

- Even though US tariffs on Chinese goods were significantly reduced on May 14, cumulative tariffs of 30-55% since the 1st Trump Administration remain. This is continuing to put pressure on China's exports to the US and China is compensating for the negative impact of declining US exports by increasing domestic demand and boosting exports to other markets. The growing oversupply in the near term is likely to further intensify deflationary pressure.
- Exports to the U.S. from third party countries are increasing as they substitute for China's reduced exports, but if the postponed U.S. tariffs are imposed, these exports may shrink significantly. In addition, while circumvented exports from China to the U.S. remain to some extent, they are likely to become increasingly difficult as the U.S. and intermediary countries step up their vigilance

▽Primary changes in the flow of trade



(1) Third party countries : US Exporting Countries Top 10, 2024 (sans China) : Mexico, Canada, Germany, Japan, Vietnam, Korea, Taiwan, Ireland, India

(Source) ITC

▽Major US imports from China（2024、USD billion）(1)

HS Code	Leading Products	US imports from China（US$1B）	China's total exports share	Trump Tariffs
8517	Smartphones	515	22%	—
8471	PCs	367	26%	—
8507	Rechargeable batteries	181	25%	30%
9503	Three-wheelers	144	26%	30%
8708	Auto parts	101	20%	25%
9401	Seats	75	26%	30%
9504	Game consoles	72	35%	30%
8516	Electric water heater	70	24%	30%
8528	Monitors・TV	70	20%	30%
3926	Other plastic products	69	26%	30%
3924	Plastic household goods	69	31%	30%
8473	Machine Parts	67	13%	—
9403	Furniture other than seats	66	26%	30%
3004	Pharmaceuticals	61	18%	—
8518	Microphone, Speakers	55	19%	30%

(1) Leading 15 products not including low-value goods. Additional tariffs reflected according to the US government announcement (as of May 12)

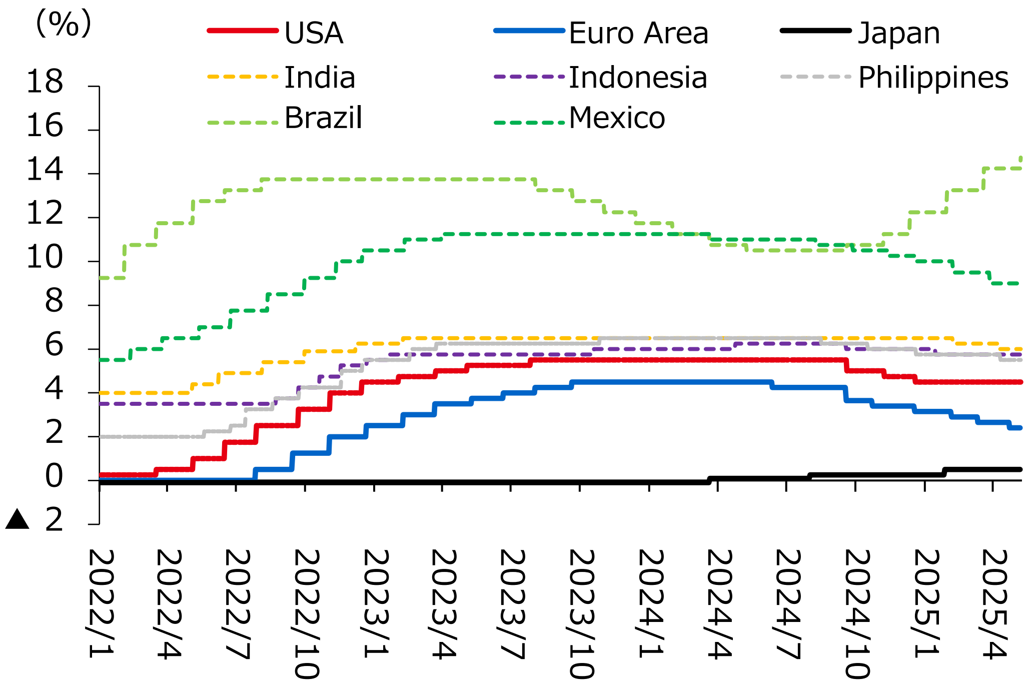
(Source) ITC

Financial Regulators Response

Trump tariffs increase uncertainty, confronting different challenges for central banks

- U.S. : There are concerns that tariff policies will lead to higher prices and an economic downturn in the US（stagflation）, which raises concerns about intensifying Fed's "Dual Mandate" dilemma.
- Europe : Tariff policies and economic slowdown in the US and China will also deal a blow to the economy in the EU, forcing further monetary easing.
- Japan : The worsening domestic economy due to tariffs and the economic slowdown in the US and China will be a headwind for the Bank of Japan's plan for monetary policy normalization.
- Developing Countries : In many countries, easing inflation and economic slowdowns are creating an environment conducive to monetary easing. From an external perspective, concerns remain strong that US tariff policies and a global economic slowdown could put downward pressure on developing nations' currencies, disrupting policy decision making.

▽Policy Rates



（Source）CEIC

▽Trump tariffs raise concerns for central banks

		US	Euro Area	Japan	Developing Countries
	Baseline	▼ Interest rate cut	▼ Interest rate cut	▲ Interest rate hike	▼ Interest rate cut
Impact of Trump tariffs	Economy	Economic slowdown	Economic slowdown	Economic slowdown	Economic slowdown
	Inflation	Inflation concerns	Slowing inflation	Slowing inflation	Slowing inflation
	Currency Exchange	—	—	—	Currency depreciation concerns
	Overall Evaluation	▬ Wait and see	▼ Continue rate cuts	▬ Wait and see	▬ Wait and see

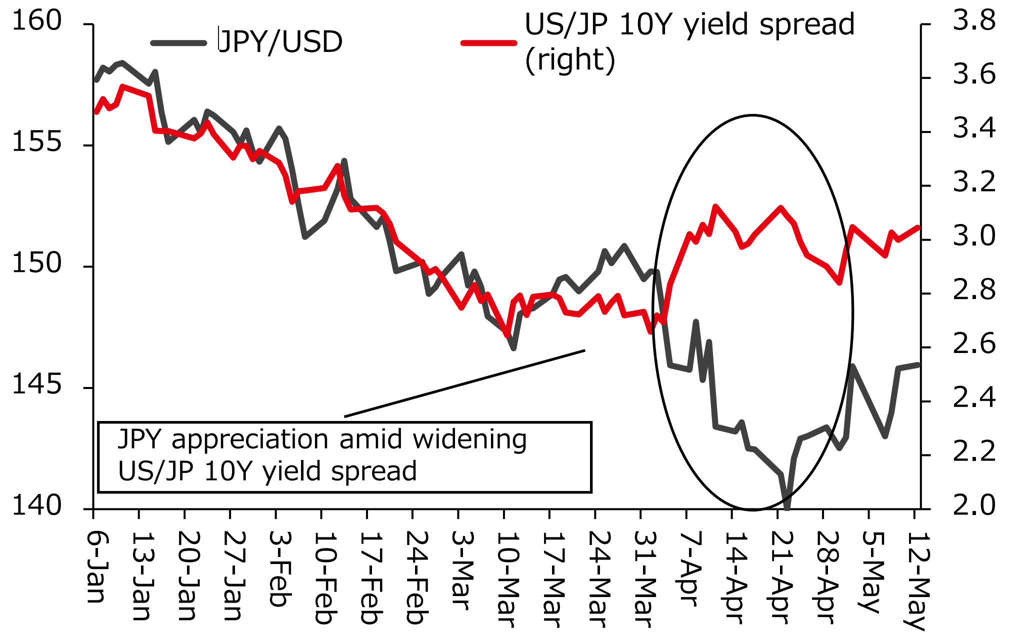
（Source）Marubeni Institute

FX Market (JPY/USD)

Strong dollar/weak yen trend had continued due to US-Japan yield gap; Now US policy uncertainty is putting pressure on the dollar

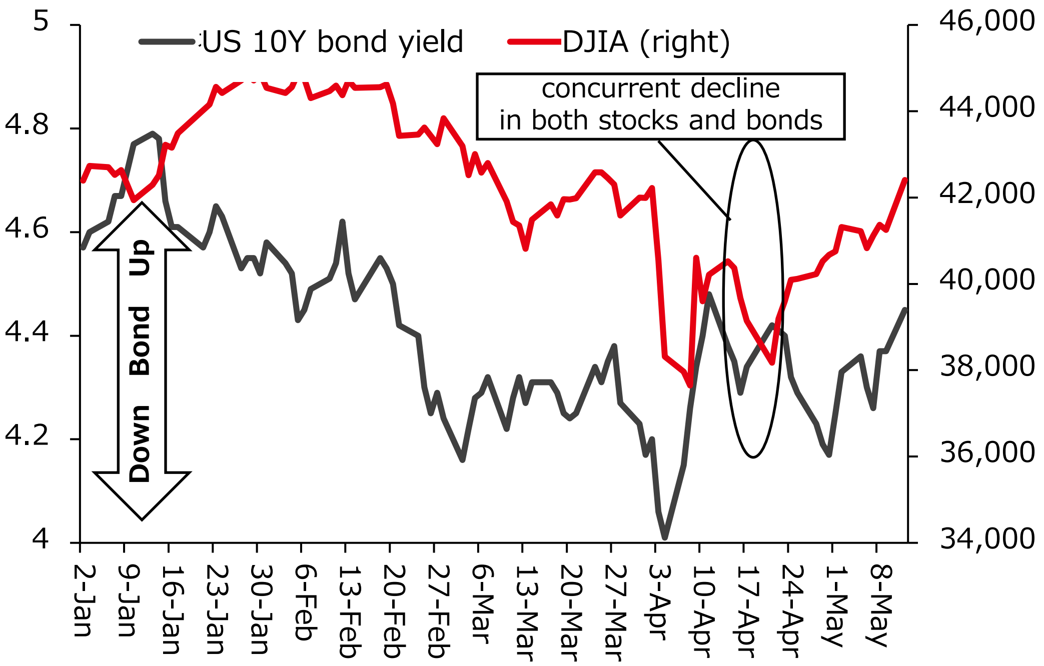
- Uncertainty surrounding the Trump Administration's policies has generated downward pressure on the dollar, signaling a potential shift from the previous trend of a strong dollar and weak yen driven by the US-Japan interest rate differential.
- While US tariff hikes had been expected to strengthen the dollar – based on associations with improvements in the current account balance and a halt to interest rate cuts due to inflation concerns – the uncertainty of policy is now outweighing these effects. Normally, during periods of risk aversion, such as a sharp decline in stock prices, there is a "flight to quality," where government bond prices rise (yields fall), and low-interest funding currencies (such as the yen) tend to rebound. However, immediately after the Trump tariffs were implemented, there was a "triple decline" in which stocks, the dollar, and U.S. government bonds all fell in value. As long as policy remains unstable, the correlation between exchange rates and interest rate differentials is expected to weaken.

▽JPY/USD & US/JP 10Y Yield Spread



(Source) St. Louis FRB, Bank of Japan

▽US Govt. Bonds & Stocks



(Source) St. Louis FRB

Summary

The course of the global economy can change significantly depending on US tariff policies and negotiations

- Frequent policy changes by Trump administration, especially changes to tariff rates, have significantly increased uncertainty surrounding international trade, thus making it necessary to consider a wider range of scenarios than usual. If the trade war settles down, the global economy could move toward a soft landing (optimistic scenario) but if tensions intensify, especially between U.S. and China, concerns about a global economic recession could arise (pessimistic scenario).

Ripple Effects Expected from Tariff hikes

- U.S. tariff hikes increase prices of imported goods, possibly leading to domestic supply chain disruption. The exporting countries, on the other hand, face the downward pressure on their economies due to the decline of the exports to the U.S. Particularly, in China, this is expected to further exacerbate the already apparent problem of production overcapacity, leading to effects from changes in trade flows such as domestic deflation and increased exports to regions other than the US.

Certain Impacts of Increased Uncertainty

- While there is considerable uncertainty surrounding U.S. tariff policies, it is at least clear that frequent U.S. policy changes will disrupt financial markets as well as weaken corporate investment and household consumption. These effects will likely remain for a certain time of period.
- While the risk of a serious systemic crisis remains relatively modest for the time being, developments in vulnerable sectors, particularly Non-Bank Financial Institutions (NBFIs), should be watched carefully.

"Sell America" is not the main scenario, but should be paid attention to

- The perception of the market risk in the U.S. has significantly worsened due to the uncertainty surrounding Trump's tariff policies. In particular, the Treasury market may remain volatile for a certain period of time.
- The Trump Administration's rejection of the postwar free trade system could also dramatically change the position of the US market in the global economy. Although we consider it as a risk scenario at present, it is necessary to prepare for circumstances that could arise in the medium to long term.

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