The impact of reciprocal tariffs

Projections & Analysis

March 2025

Our vision

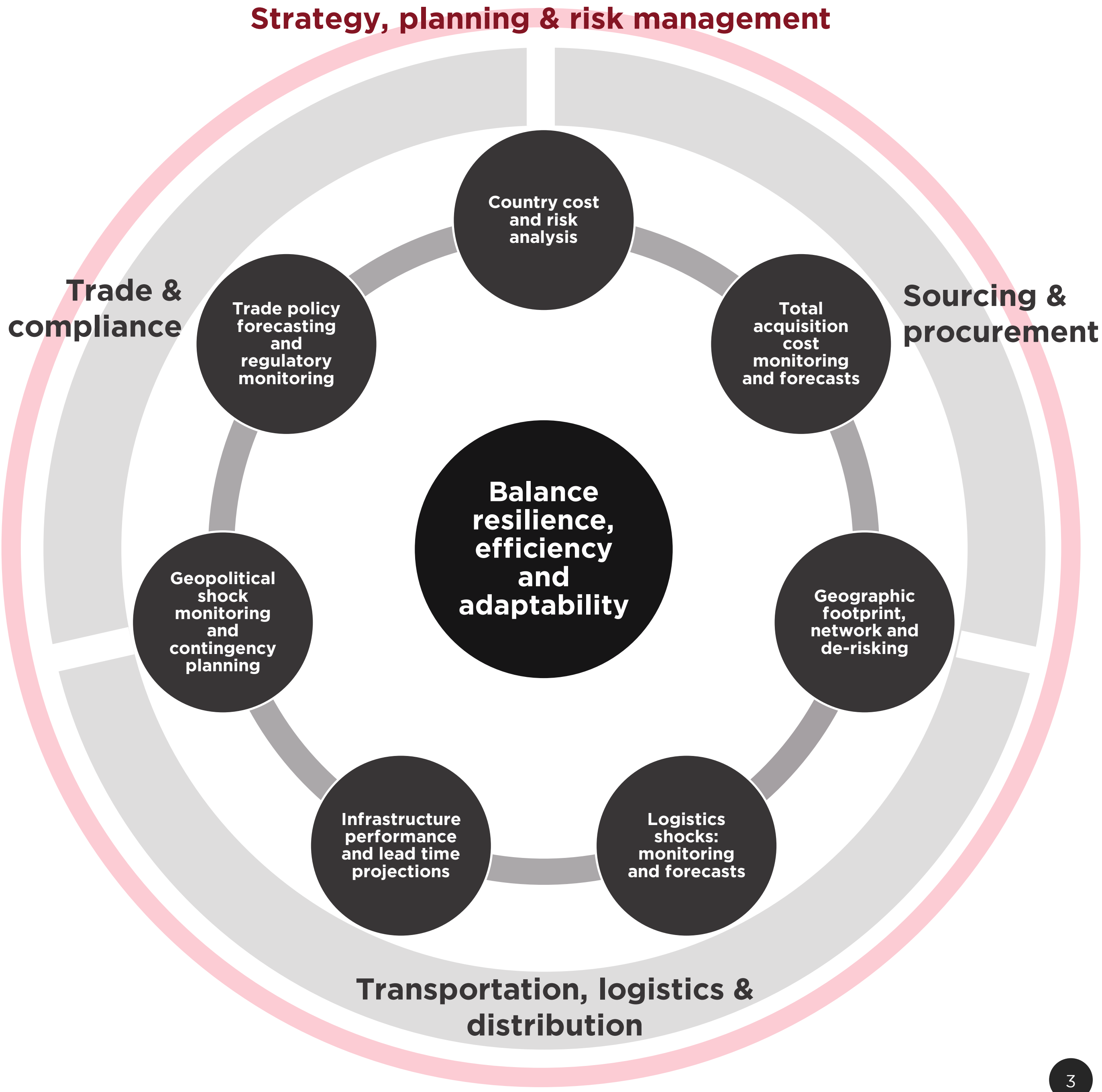
Help clients build more resilient, efficient and adaptive supply chains

…. focusing on geopolitical, economic and operational disruptors

… through advisory engagements and insights

Our service lines

Bringing together political and economic insights in service of global supply chains



Executive summary

The Trump admin is seeking to reset the rules of trade on many fronts

- The Trump admin is attempting to incentivize the knocking down of barriers and local regulation that they say prevent US market access at the risk of kicking-off a broad trade war
- The Trump admin faces constraints on action that point to investigations and negotiations lasting through 2025 and into 2026 with retaliation risks remaining high throughout
- Tools range from national security declarations to product-specific investigations

Economic impacts range from bad to worse

- The global economy can absorb mild tariffs – growth and inflation would be marginally impacted
- The full scope of US reciprocal tariffs would push the global economy into recession and structurally change the US economy and global trade patterns
- Product-specific tariffs would not only be administratively challenging, they would have significant impacts on particular products from key sourcing locations

The US-EU dispute is likely to escalate quickly

- The US and China appear set on a *relatively* cautious course to prevent a worst-case-scenarios
- The EU is a key focus of these tariffs, seeking to force the block to change its regulatory posture and this is likely to result in rapid escalation
- The rest of the world is taking a wait-and-see approach while taking stock of their exposure, leverage, and tools

SECTION I

Reciprocal tariffs: political landscape

Current proposals represent a significant step up in duties

"Full burden" approach expands on initial notions of reciprocity and fairness, transforms baseline

RECIPROCAL TARIFF INPUTS

+	Tariffs	Various
+	Taxes, including VAT	+0-20%
+	Non-tariff barriers	+0-15%
+	Currency and cost suppression	+0-10%
+	Other structural impediments	Unknown
	Full burden reciprocal tariff	~22%

Source: White House, Onyx

RESETTING THE GLOBAL FRAMEWORK

- Pushing a new view of trade, putting a dollar amount the impact to the US of a country's policies and regulations
- Forces reconsideration of Most Favored Nation
- Lack of agreed methodology allows broad discretion

POLITICAL CONTEXT

- US messaging is aimed at negotiation, claiming a win/win of gaining greater market access or revenue
- Limited ability to challenge on meaningful timeline via legislature, courts, or WTO

… with unclear timeline for adoption

Implementation and investigations likely to last into 2026

VARIETY OF TOOLS AND TIMELINES

Immediate implementations:
- **Broad tariffs** ranging from simple to highly complex
- **Focused tariffs** are most likely to be set based on national security criteria with no meaningful delay in implementation

Mid-year into second half of 2025
- **Short, focused** investigations use existing studies on products and practices as basis with an immediate public comment period

CONSTRAINTS ON ACTION

- Technical implementation of highly complex system
- Scale of economic impact challenges Trump agenda
- Potential for overlapping, broad retaliation
- Administrative processes
- Strength of legal foundation
- Scale of circumvention

Ongoing
- **Rolling investigations** may be announced with reports due to the president as completed
- **Bilateral negotiations** may be held but limited bandwidth will slow process
- **Retaliatory tit-for-tat**, implementation delays, and posturing are the norm

Source: Onyx

Policy tools for reciprocal tariffs abound

IEEPA provides broadest powers, but relatively untested

Roadblocks

Low to High

<table>
<thead>
<tr><th>Tool</th><th>Process</th><th>Presidential powers</th><th>Speed</th><th>Public oversight</th><th>Legality</th></tr>
</thead>
<tbody>
<tr><td>IEEPA</td><td rowspan="3">Immediate executive action</td><td>Broad powers</td><td rowspan="3">Days or weeks</td><td>Congress needs 2/3rds majority</td><td rowspan="3">Untested</td></tr>
<tr><td>338</td><td>≤50%, product specific, import restrictions</td><td>Potential ITC oversight</td></tr>
<tr><td>122</td><td>15%, countries with trade deficit only</td><td>After 150 days</td></tr>
<tr><td>301</td><td>USTR investigation</td><td>Equivalent to harms</td><td rowspan="3">Length of investigation a key determinant</td><td rowspan="3">Comment period</td><td>Limited prior action</td></tr>
<tr><td>232</td><td>Commerce investigations</td><td>National security, product specific</td><td>Untested for broad application</td></tr>
<tr><td>201</td><td>ITC investigation</td><td>Product specific safeguards</td><td>Limited prior action</td></tr>
<tr><td>PNTR</td><td>Legislative</td><td>Potential legislation to increase powers</td><td>Months or years</td><td>Indirectly through representatives</td><td>Unlikely to face challenges</td></tr>
</tbody>
</table>

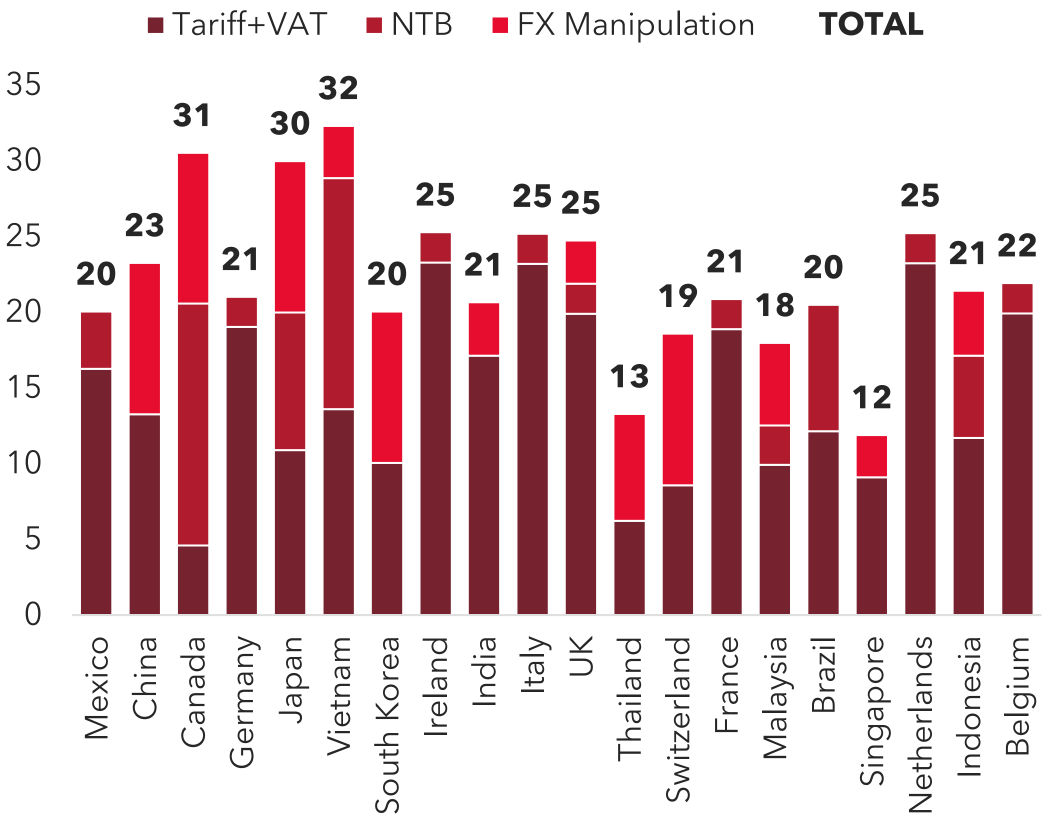
Source: PIIE, CSIS, STR, CRS, Onyx

SECTION II
Economic implications

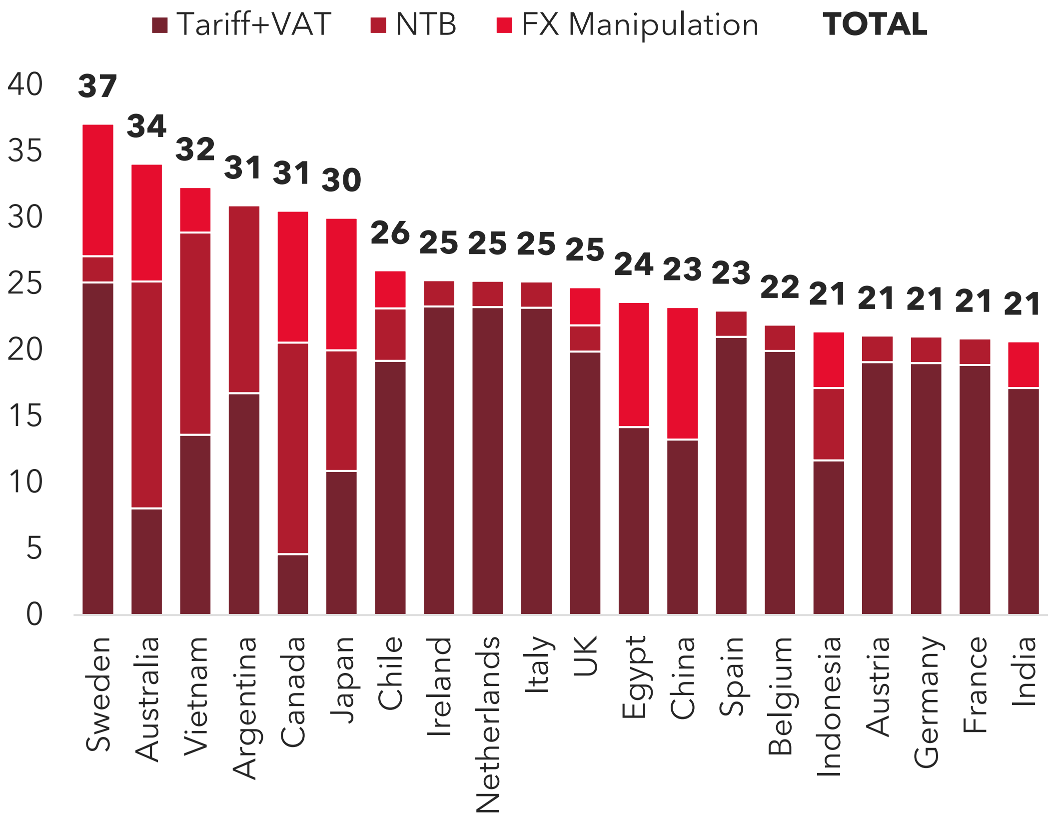
Average reciprocal tariff is ~22% for top trading partners

Tariff differentials plus VAT make up about 65% of the total reciprocal tariff

RT'S FOR US TOP 20 TRADING PARTNERS
PERCENT



TOP 20 HIGHEST RECIPROCAL TARIFFS
PERCENT



Source: Onyx

Reciprocal tariff scenarios range from mild to extreme

As of mid-March, Scenario 2 looks the most likely

SCENARIO 1: NEGOTIATED DEAL

- Tiered approach: China treated as one-off, other reciprocal tariffs equal to tariff differential plus VAT
  - China: 20%
  - EU: 17%
  - Advanced Markets: 8%
  - Developing Markets: 14%
- No retaliation from other countries

SCENARIO 2: LARGE ECONOMIES PUSH BACK

- Same US tariffs as Scenario 1
- China, Canada, EU retaliate with commensurate tariffs on US imports

SCENARIO 3: US MAX PRESSURE

- US tariffs on all countries according to five reciprocal tariff criteria
  - China: 25%
  - EU: 19%
  - Advanced Markets: 26%
  - Developing Markets: 23%
- China, Canada, EU retaliate with commensurate tariffs on US imports

Factors to Consider

Scenario 1:

- One-time hit to inflation, real income, and growth
- US economy adjusts over time
- Does not lead to structural shifts in the economy

Scenario 2:

- Retaliation by other countries has compounding effects
- Confidence/volatility effects could ripple across markets

Scenario 3:

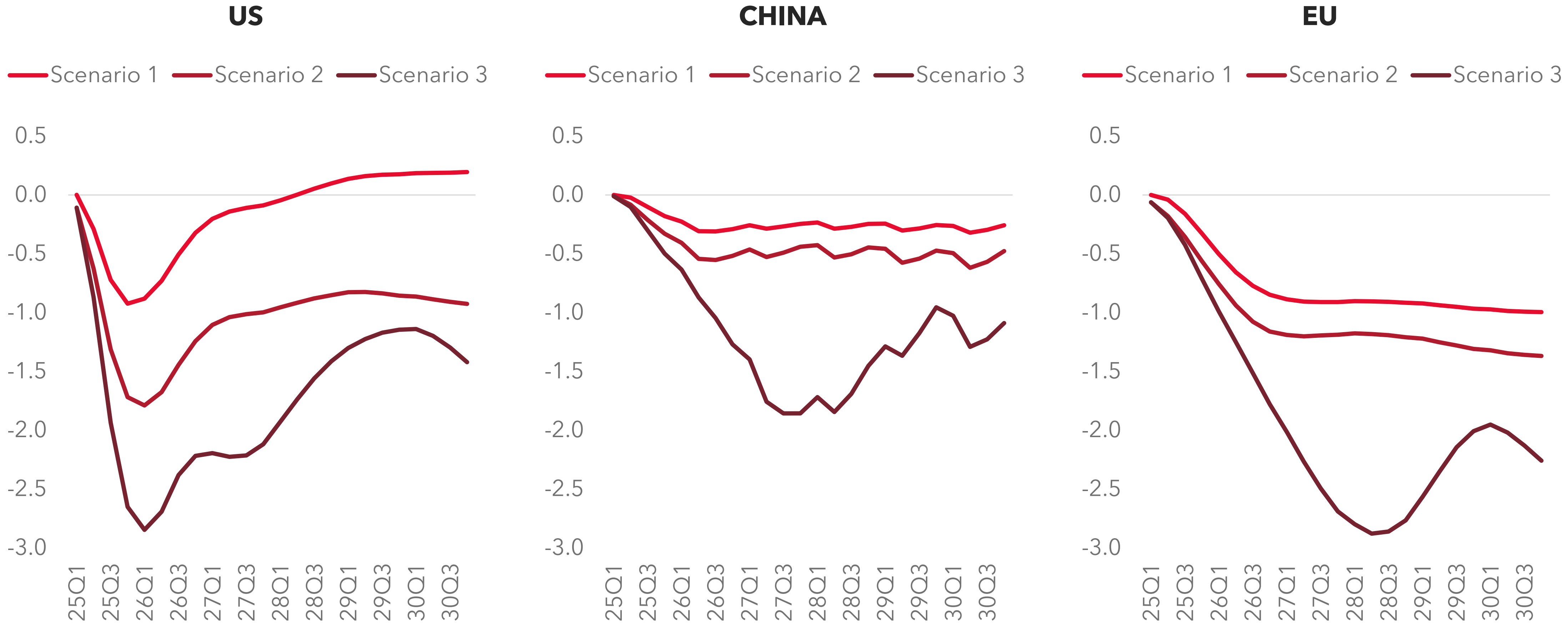
- Magnitude and breadth of tariffs could lead to structural changes in the US economy
- For example: lower productivity growth, lower ROIC as capital is less optimally allocated
- Retaliation compounds effects

Source: Onyx

Impact on GDP ranges across scenarios and regions

Scenario #1 is manageable, #2 borderline-recession in the US, #3 broadly recessionary

REAL GDP: PERCENTAGE POINT DIFFERENCE FROM BASELINE GDP GROWTH

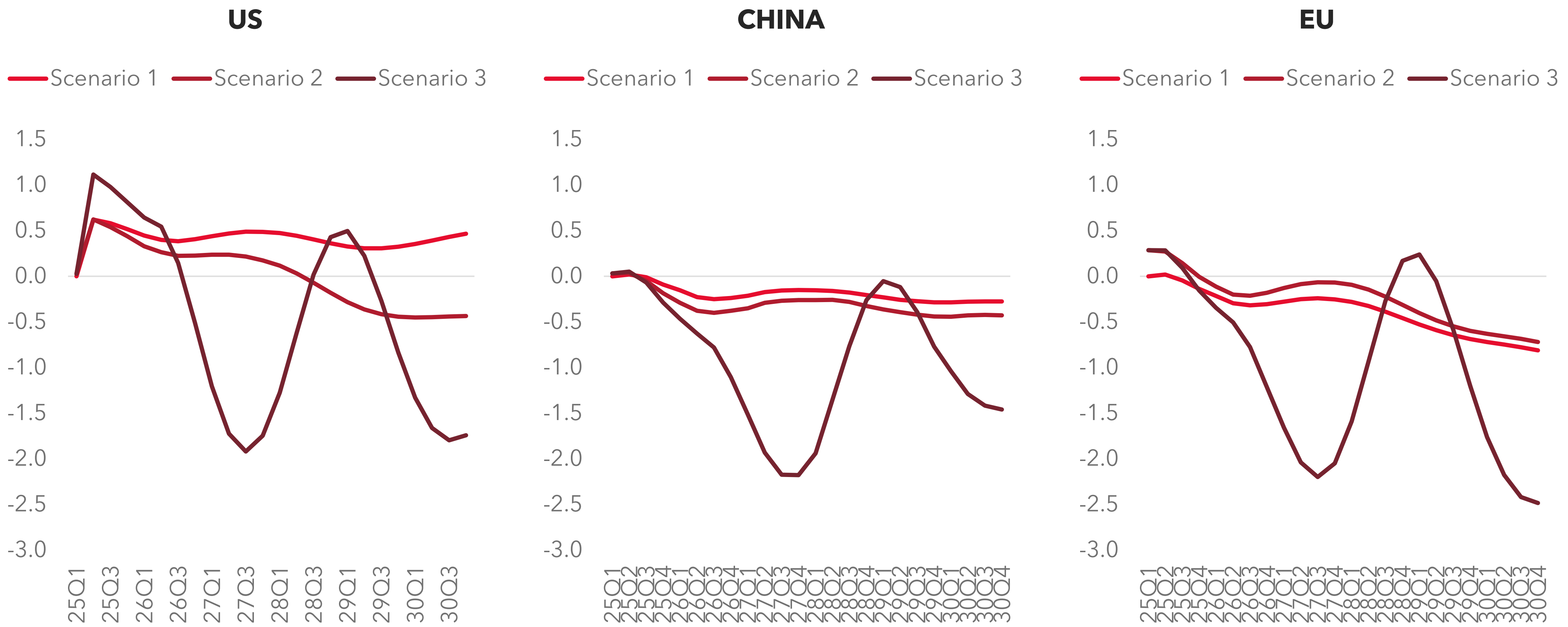


Source: Onyx

In most cases, US prices rise but decline elsewhere

More extreme scenarios have a whipsaw effect on prices due to demand destruction

CONSUMER PRICES: PERCENTAGE POINT DIFFERENCE FROM BASELINE GDP GROWTH



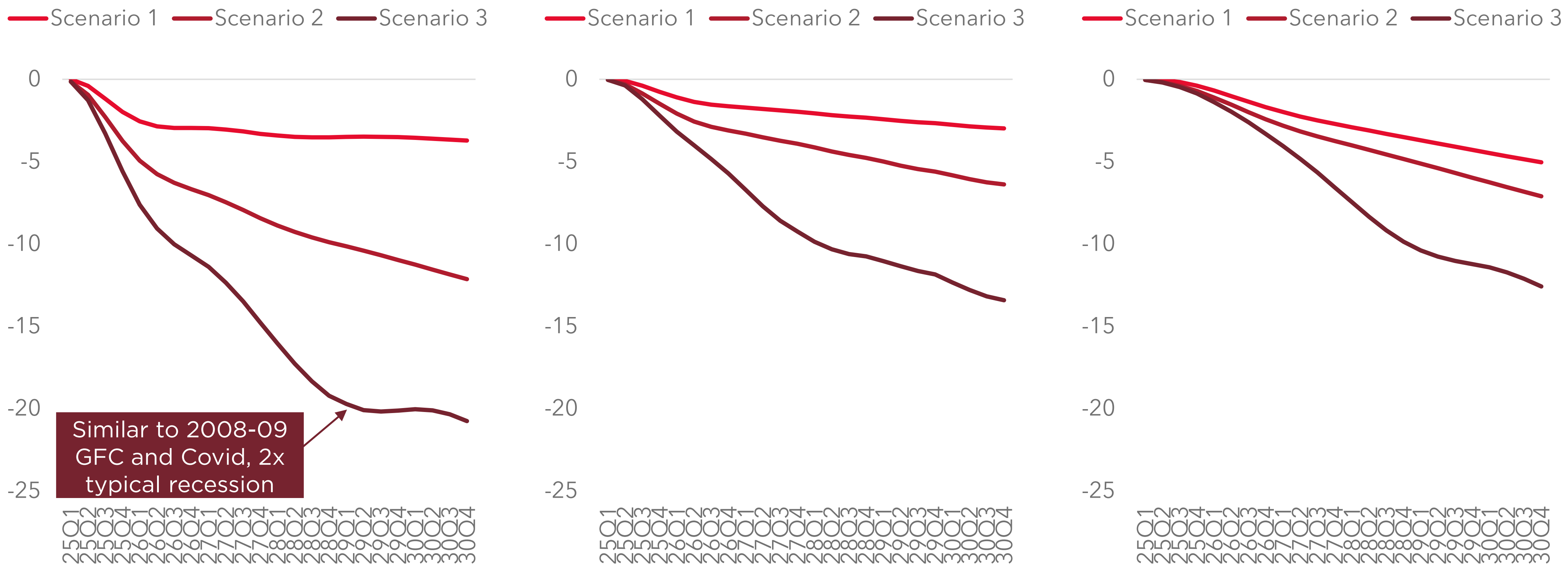
Source: Onyx

Aggregate trade impact is significant across countries

5-10% decline in trade is on-par with typical recessions

TRADE IN GOODS: PERCENTAGE POINT DIFFERENCE FROM BASELINE GDP GROWTH

US – GOODS IMPORTS | **CHINA – GOODS EXPORTS** | **EU – GOODS IMPORTS**

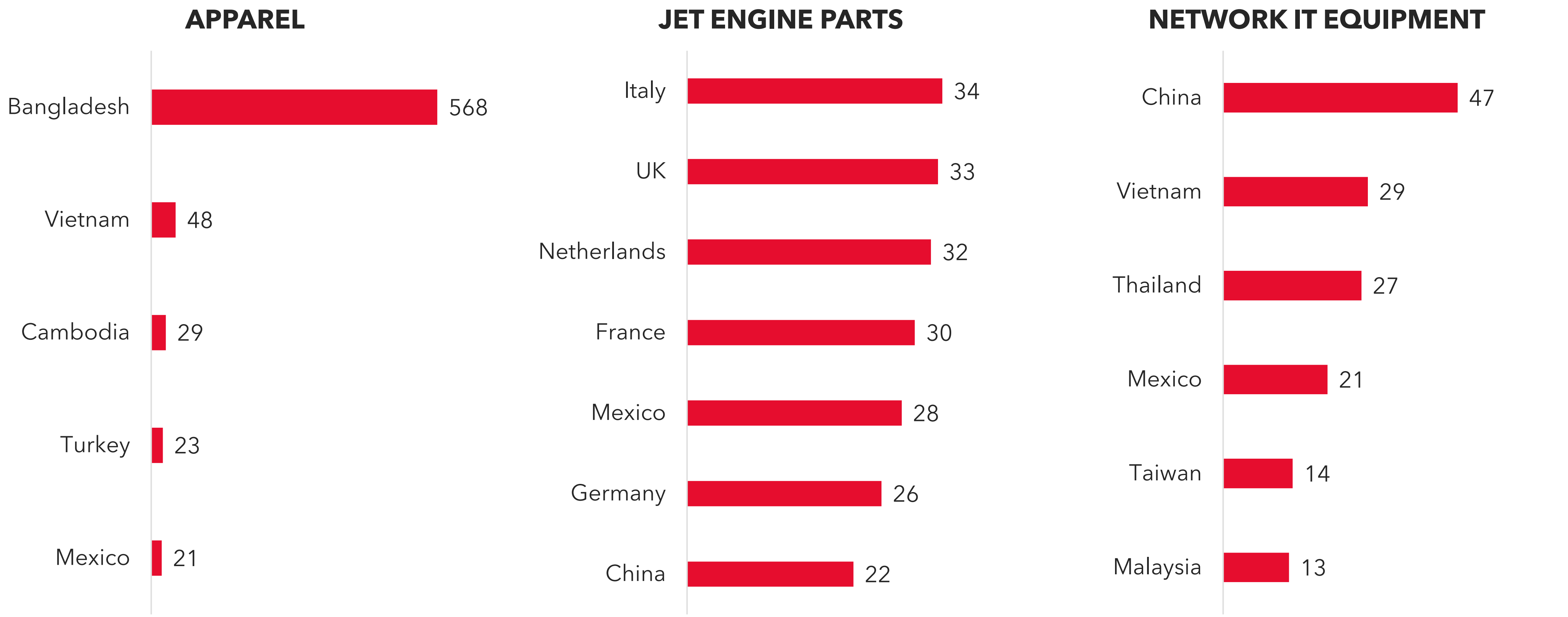


Source: Onyx

The impacts are exacerbated if tariffs are applied at a product level

In particular, places where multiple duties have a compounding effect

ALL-IN RECIPROCAL TARIFFS PLUS EXISTING DUTIES AND FEES (PERCENT)



Source: Onyx

SECTION III

Retaliation and other responses

US & China test limits, build toolsets, and proceed with caution

Baseline view: both sides fear rupture, but conflict will continue to escalate

DATES FOR SELECT US ACTIONS	
March 24	Maritime industry hearings
April 1	Section 301 tariffs review
	Phase 1 deal compliance review
	National security studies on impact of trade deficits
	Enhanced export control system study
April 2	Reciprocal tariff announcement
TBD	De minimis exception removal
	Legacy semiconductors Section 301 investigation

	US	CHINA
Goals	Continued trade of critical materials on more favorable terms	Prevent irreparable rift, but maintain control of domestic policy
Tools	Broad toolset with focus on tariffs	Drive political, economic impacts with pressure on US firms
Approach	Increasing tariffs cautiously to find limits	Retaliate but avoid escalation
Risk	Trump's limited time, discipline, and political capital may push towards maximalism	Domestic pressure, economic reality places limits on Xi

Source: GTA, Onyx

Stage appears set for rapid escalation in coming months

EU fears US desire for deep reforms while US commitment remains unclear

DRIVERS OF ESCALATION

1. Scale of reforms required by US
2. Policy issues to remain at forefront through the end of 2025, including:
   - Ukraine-Russia conflict
   - Digital Markets Act (DMA)
   - Carbon Border Adjustment Mechanism (CBAM)

POTENTIAL ARRESTORS, UNKNOWNS

1. Scale of economic impact
2. Domestic political constraints
3. Resolve of Trump admin to pursue reform

EXAMPLE PATHWAYS AND OUTCOMES

EU sees concessions as unacceptable risk while US stays firm in commitment	No settlement as tariffs and response become "new normal"
Rapid escalation in 1H 2025 of trade war and negotiation, potentially lasting into 2026	Negotiated settlement with fundamental policy shifts
US pressure for fundamental reform wavers, resulting in settlement in 2025	De-escalation of tensions with limited changes

Source: European Commission, Trademap, Onyx

To date, most countries are striking a cautious note

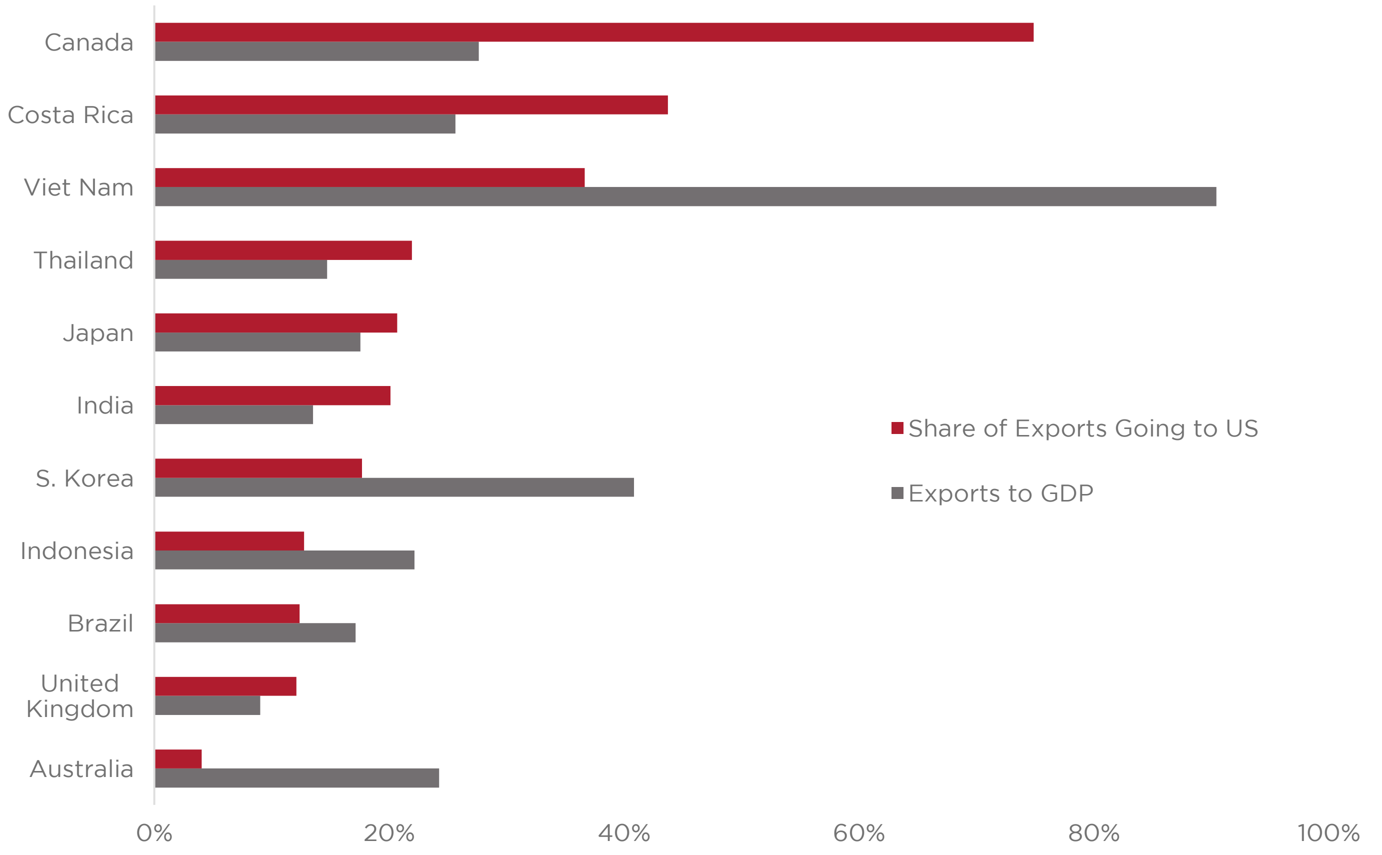
Trade exposure a key factor in country's options for response to tariff threat

APPROACHES TO DATE

- **India provides a signal that bilateral negotiations are possible** after it unilaterally removed trade barriers
- **Canada stands out in aggressive response**
- **Mexico has intentionally delayed** its response until April but still faces stiff tariffs
- **A variety of countries chose not to respond directly to steel tariffs,** including Australia, Japan, Brazil, and the UK

DEPENDENCE ON EXPORTS TO THE US

EXPORTS AS A % OF GDP, SHARE OF EXPORTS TO US TO TOTAL



Source: Onyx

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