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Shifting US trade policy: Implications for Japan

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US-Japan Economic Relations in a Changing Global Economy

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US trade policy: from rules-based design to surplus extraction

US tariffs – state of play before SCOTUS

	Current Rate (non-exempt)	Deal Status
Canada	35% on non-USMCA compliant	Stalemate
Mexico	25% on non-USMCA compliant	Negotiating
China	10+section 301	One year pause as negotiations continue
European Union	15%	Framework agreement
Vietnam	20% (40% on transshipped)	Framework agreement
Taiwan	20%	Annex 1
Japan	15%	Framework agreement
Korea	15%	Framework agreement
India	18%	Interim agreement
Brazil	50%	Stalemate

What else in promised in the frameworks?

New US investments	Differ by country. Complicated “deals” that have led to conflict. EU joint statement makes clear investments will be made by companies, not EU governments. Japan: US strategic sectors, loan guarantees, profit sharing.
Purchasing promises	US semiconductors, energy, defense equipment and materials prioritized.
Rules of origin	Commitments to reducing “third party” content in exports
Protection from upcoming tariffs	EU achieved commitment to link pharma tariffs to 15% despite outcome of Section 232 case;
Digital and other regulation that disadvantages US exports	Eliminate digital services taxes, prevent tariffs on electronic transmissions, cooperate on cybersecurity, some regulatory alignment

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What will tariffs look like after the SCOTUS decision?

President Trump invokes Section 122

- Section 122 of the Trade Act of 1974 grants the President the authority to quickly impose temporary import restrictions under specific conditions.
- Section 122 allows the President to impose duties of up to 15% for up to 150 days on imports from all countries, or selectively against countries that maintain unjustifiable or unreasonable restrictions on U.S. commerce.
- Aim is to address a “balance of payments” crisis, not a longstanding trade deficit.
- The US invoked Section 122 and applied a tariff rate of 10% to all partners, with primacy for Section 232 tariffs (no stacking). List of exempted products almost identical to the list for the IEEPA tariffs.
- Constraint on US bargaining power? -- Time limited, one rate, some scope for differentiation.

Trump's Growing List of 232 Tariff Cases

US imports of various raw materials and products are affected

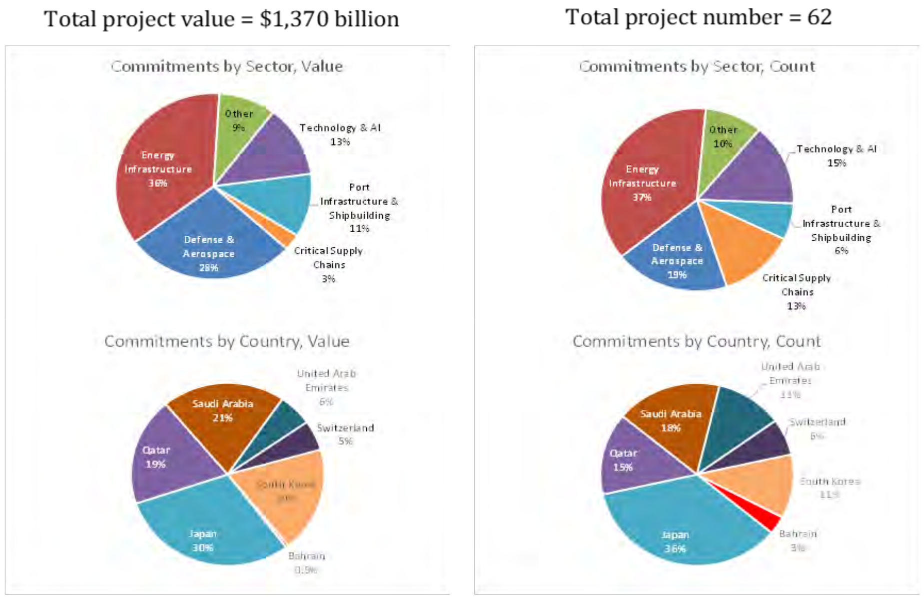
	Status	Tariff
Automobiles and auto parts	Effective May 3	25%
Steel and aluminum	Effective June 4	50%
Copper	Investigation started March 10	50%*
Timber and lumber	Investigation started March 10	
Semiconductos and chip making equipment	Investigation started April 1	
Pharmaceuticals and pharma ingredients	Investigation started April 1	200%*
Heavy trucks	Investigation started April 22	
Processed critical minerals and derivative products	Investigation started April 22	
Commercial aircraft and jet engines	Investigation started May 1	
Polysilicon and derivatives	Investigation started July 1	
Drones, parts and components	Investigation started July 1	

Source: US Commerce Department
Note: *Rate according to Trump

Bloomberg

USTR says that framework deals remain

Figure 3: Distribution of America First Related Project Announcements
(Shares)



Note: Excludes the EU. Total project values reflect the sum of estimated expenditures in Table 4, when reported.

Source: Gregory Auclair and Adnan Mazarei, PIIE, 2026

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Can US policy reshape supply chains?

Three key features of “liberation day” tariffs

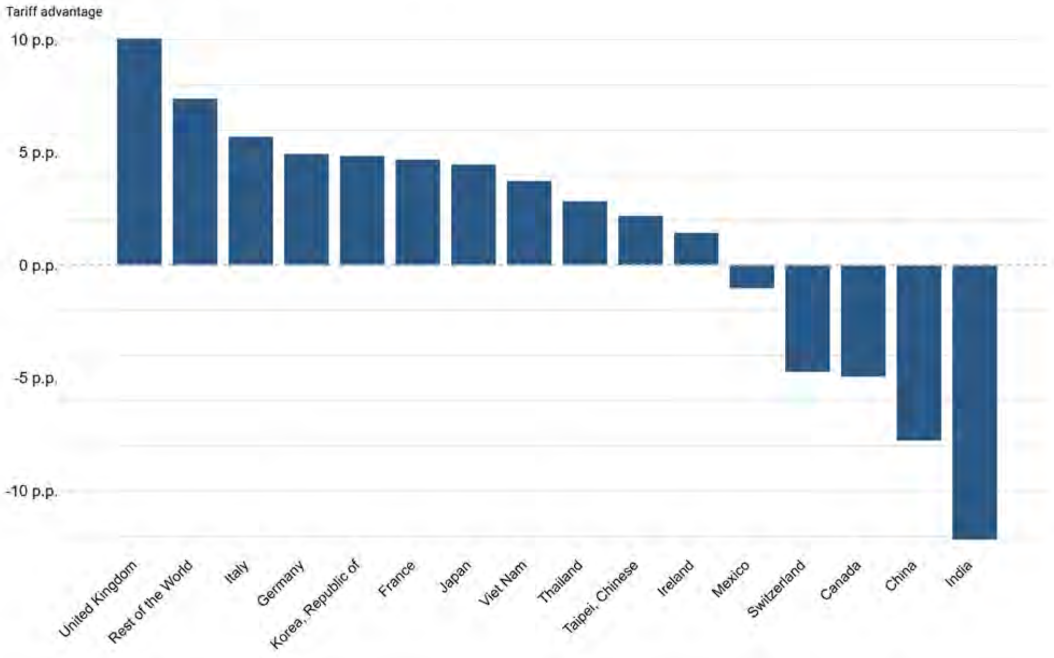
1. Variation by country
2. Variation by goods by country
3. Variation by goods by use
4. Framework agreements include language on foreign value added in exports, pledges to fight “dumping and unfair trade” by foreign invested enterprises.

➢ Potentially powerful distortions to sourcing based on fundamentals

Differential tariffs can impact sourcing & investment

Tariff Advantage of Top Exporters in the US Market

Tariff advantage in All products



Source: ITC Trade Briefs (tradebriefs.intracen.org), using data from ITC Trade Map and Market Access Map (2025)

Note: Tariff advantage measures the difference between the US trade-weighted average tariff applied to all partners, and the tariff faced by an exporter in the same product, averaged at the sector level. Positive values indicate a tariff advantage, negative values a disadvantage. Calculations include MFN, preferential, IEEPA, and Section 232 tariffs as of August 2025; Section 301 and trade remedies are excluded.

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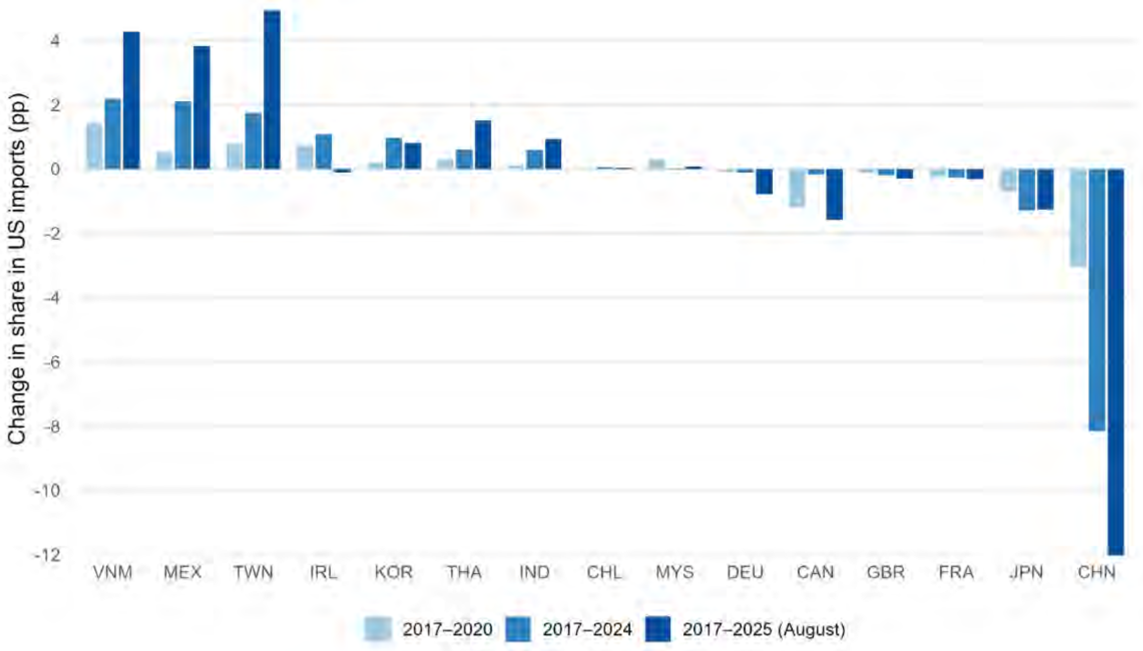
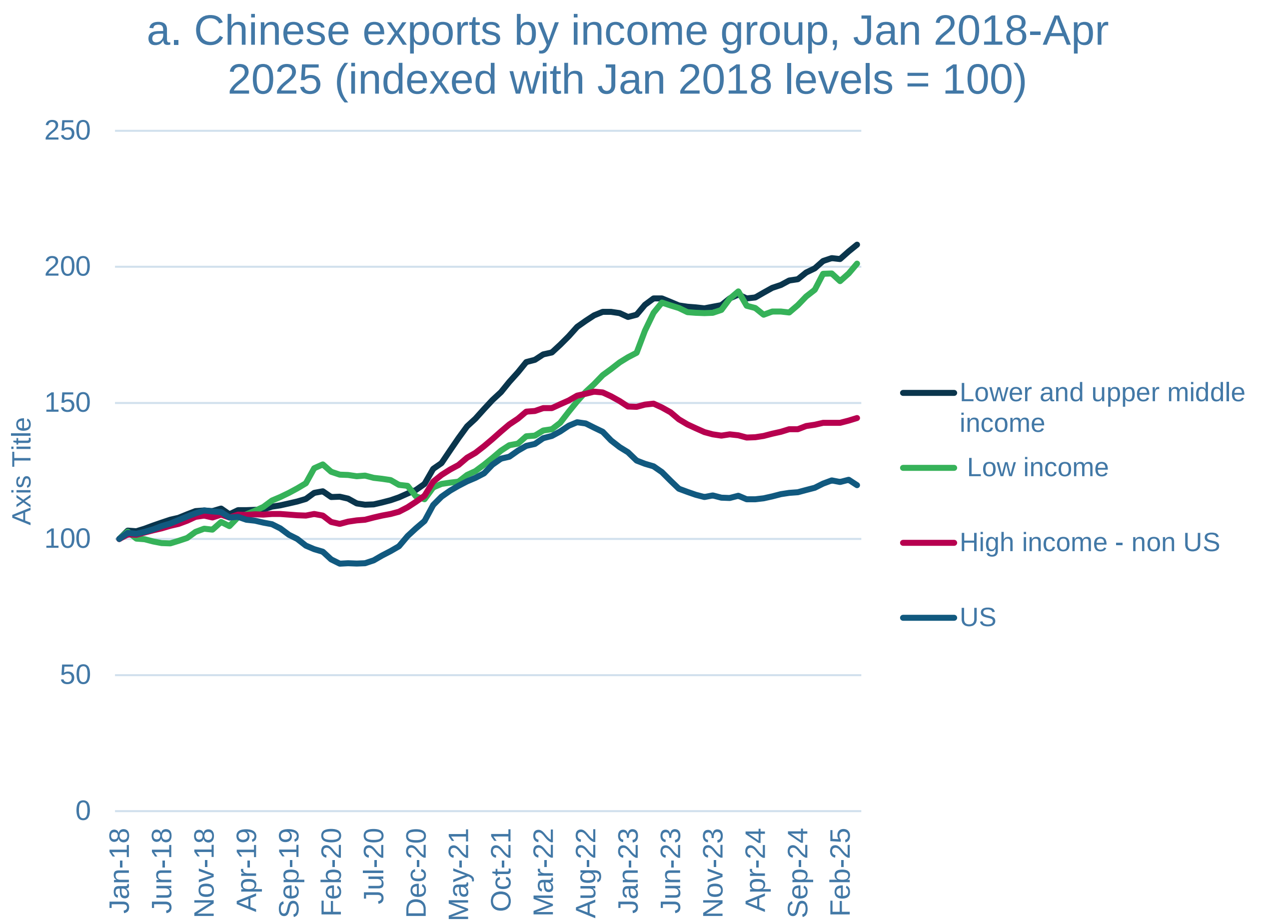
Which countries are gaining US market share?

Figure 2 Changes in US import shares across trade partners since 2017



Source: Laura Alfaro and Davin Chor, An update on the great reallocation in US supply chain trade, 2026.

Chinese exports deflected to middle and low-income countries



Sources: Calculations by PIIE, using data from China Customs

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Implications for US-Japan commercial relations

US – Japan to big to be pushed aside

- Japan among top US investors.
- Japan will continue to work with US on new investment deals.
- Japan must safeguard its relative tariff status with the US.
- Japan should monitor US-China dealmaking closely.

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Hedging risk from US policy uncertainty

- Move away from US exports?
- Pursue both import substitution (“deglobalization”) and deeper integration outside US?
- Impetus to new and deeper bilateral and plurilateral agreements (expansion of CPTPP; EU +; Canada + Asia; majority vs consensus in WTO rulemaking)
- Create strategy to meet US demands for lower Chinese content in exports.

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