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The tariff war and implications for the Philippines

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This Brief offers a summary of what is known, as of July 28, 2025, about the so-called "tariff war" initiated by the United States in 2025. The figures shown may need to be updated as new information arrives and trade deals with the United States are reached.

President Donald Trump announced on July 23, 2025 the results of his negotiations with President Ferdinand Marcos Jr. on the tariff rate to be imposed on Philippine imports: the standard tariff rate will be 19%, starting on August 1, 2025. This represents a 2 percentage-point increase over the 17% tariff rate (threat) announced on April 2, and a 1 percentage-point decrease over the tariff rate (also a threat) announced on April 7. On paper, this is a significant increase over the current tariff rate that Philippine products face when they reach the United States.

Table 1 documents how the tariff rates have changed since President Trump first announced the imposition of "reciprocal tariffs" under the International Emergency Economic Powers Act (IEEPA) on April 2, 2025. It is worth noting that the reciprocal tariffs announced on April 2, 2025 took effect for about a week, before being suspended for 90-days, starting April 9, 2025, and ending July 9, 2025. After the suspension, all countries instead faced a 10% tariff on all goods.[1] Prior to the end of the 90-day interim period, President Trump sent a series of letters to different countries, with revised (in most cases, higher) tariff rates, set to go into effect by August 1, 2025 unless a trade deal could be reached.

[1] The reciprocal tariffs do not cover some product exemptions such as for pharmaceuticals, semiconductors, and energy. The full list was specified in Annex II of Executive Order 14257. Reciprocal tariffs also do not apply to – nor add on top of – the existing (higher) tariffs imposed on aluminum, steel, and copper

Table 1. Reciprocal Tariff Rates on Select US Trading Partners, April-July 2025

Country	Reciprocal Tariff threatened by the US (April 2, 2025)	Reciprocal Tariff threatened by the US (July 7, 2025)	Amended Tariff Rate to be Imposed by the US on August 1, 2025	Date of Latest Negotiation / Trade Deal
Philippines	17%	20%	19%	July 23, 2025
Indonesia	32%	32%	19%	July 23, 2025
Malaysia	24%	25%	Negotiations on-going	
Thailand	37%	36%	Negotiations on-going	
Vietnam	46%	20%	20%	July 2, 2025
China	34%	34%	Negotiations on-going	
Japan	24%	25%	15%	July 22, 2025
South Korea	25%	25%	Negotiations on-going	
European Union	20%	30%	15%	July 27, 2025

Source: Annex I, Executive Order 14257 by the United States of America (2025);[2] Lowell et al. (2025)[3]

The Philippine tariff rate of 17% (April 2) was markedly lower than that of other ASEAN countries such as Vietnam, which initially faced 46%. In the July 7 letter, the threat increased to 20%. According to the final agreement reached with President Marcos, the Philippines would offer open-market access to the US in exchange for a 19% tariff rate on Philippine exports to the US. A similar agreement had been reached about the same time with Indonesia. As of July 23, the differential in tariff rates to be imposed on the Philippines and on the other ASEAN countries has thinned considerably – in April, the reciprocal tariffs on the Philippines were 10-20% lower than the tariffs on its neighbors; in July, the tariff rate faced by the Philippines is at par with that of Indonesia, and negligibly lower than that of Viet Nam. The differential compared to Thailand and Malaysia is also expected to thin once their trade deals with the US are finalized.

Details on the exact terms and possible product exclusions in the new US trade deals have yet to be disclosed; hence, it is difficult – if not impossible – to properly estimate the full impact of the upcoming tariff imposition on August 1. For the Philippines, in particular, the 19% tariff rate comes in exchange for the following concessions: (i) open market

[2] Exec. Order No. 14257, Fed. Reg. (April 2, 2025).
[3] Lowell, M., Heeren, P., Angotti, J., Rodriguez-Johnson, L., Lowell, K., & Fisher, C. E. (2025, July 23). *Trump 2.0 tariff tracker.* https://www.tradecomplianceresourcehub.com/2025/07/23/trump-2-0-tariff-tracker.

access for US goods; (ii) zero tariffs on US automobiles; (iii) increased imports of US soy, wheat, and pharmaceuticals (Shalal and Hunnicutt, 2025).[4]

US Trade and Tariffs: An Update

While the US is a significant export market for the Philippines, the US major trading partners (and import sources) are Mexico, Cananda, and China – which supplied 41% of US imports and represent around 44% of the US trade deficit in 2024. In contrast, the Philippines Is a relatively small import source in the US market, representing around 0.43% of US imports and 0.41% of the US trade deficit in 2024.

Table 2. United States Import Sources and Trade Balance by Country, 2024

Partners	US Exports to Partner (US$ Billion)	US Imports from Partner (US$ Billion)	Trade Balance (US$ Billion)	Share of Partner in US Imports (%)	Share of Partner is US Trade Deficit (%)
World	2,064.52	3,359.31	(1,294.79)	**100.00**	**100.00**
Philippines	9.30	14.59	(5.30)	**0.43**	**0.41**
Indonesia	10.20	29.55	(19.35)	0.88	1.49
Malaysia	27.70	53.85	(26.14)	1.60	2.02
Thailand	17.72	66.01	(48.29)	1.97	3.73
Viet Nam	13.10	142.48	(129.38)	4.24	9.99
China	143.55	462.64	(319.09)	13.77	24.64
Japan	79.74	152.07	(72.33)	4.53	5.59
Korea, Republic of	65.54	135.46	(69.92)	4.03	5.40
Canada	348.50	422.17	(73.67)	12.57	5.69
Mexico	334.04	509.99	(175.94)	15.18	13.59

Source: International Trade Centre (2025); Authors

Prior to the reciprocal tariffs, most US imports from the key trading partners listed above faced a tariff below 10%, as summarized in Table 3, with at least 70% of imports from each country facing a tariff rate of less than 5%.[5] Of the $14.5 billion imported by the US from the Philippines in 2024, over $13.5 billion (or 94%) faced a tariff rate less than 5%.

[4] Shalal, A. and Hunnicutt, T. (July 23, 2025). *US-Philippines trade talks yield modest tariff shift after Trump-Marcos meeting. https://www.reuters.com/world/china/us-philippines-trade-talks-yield-modest-tariff-shift-after-trump-marcos-meeting-2025-07-22/*

[5] Tariffs reported are based on the weighted average applied tariffs at the HS 4-digit level, in 2023. This is the latest year available from the World Bank's World Integrated Trade Solution (WITS) database. The methodology for weighted average tariff rates may be found at: https://wits.worldbank.org/Bilateral-Tariff-Technical-Note.html

Hence, the 19% tariff could potentially represent a substantial increase in protectionism against products imported from the Philippines.

Table 3. Value of US Imports (2024) from each country, by Applied Tariff Rate (US$ Million)

Partner	Less than 5%	5%-10%	10%-15%	15%-20%	Greater than 20%	TOTAL
Philippines	13,668.68	333.46	425.02	57.72	108.53	14,593.41
Indonesia	21,834.04	1,976.19	3,519.63	1,798.96	420.62	29,549.44
Malaysia	51,358.71	2,230.99	219.68	24.55	15.54	53,849.47
Thailand	61,082.19	3,144.57	1,476.89	173.21	134.42	66,011.27
Vietnam	111,057.54	10,070.60	10,894.28	8,904.79	1,548.78	142,475.99
China	399,446.54	31,695.48	19,175.09	11,141.98	1,179.62	462,638.71
Japan	148,127.81	2,274.43	1,577.74	85.92	0.12	152,066.03
South Korea	135,441.36	-	-	-	19.98	135,461.34
Canada	421,747.66	422.36	-	-	0.01	422,170.02
European Union	581,293.24	28,708.35	6,058.13	1,715.92	129.87	617,905.52
Mexico	509,986.29	-	-	-	-	509,986.29

Source: International Trade Centre (2025); World Integrated Trade Statistics (2025); Authors

Table 4 shows the top 10 products imported by the US from the Philippines, which amount to $8 billion (55%). These products all faced zero tariffs prior to the reciprocal tariff imposition on April 2025 (except for HS 8544 – insulated wires, which faced 4% tariff).

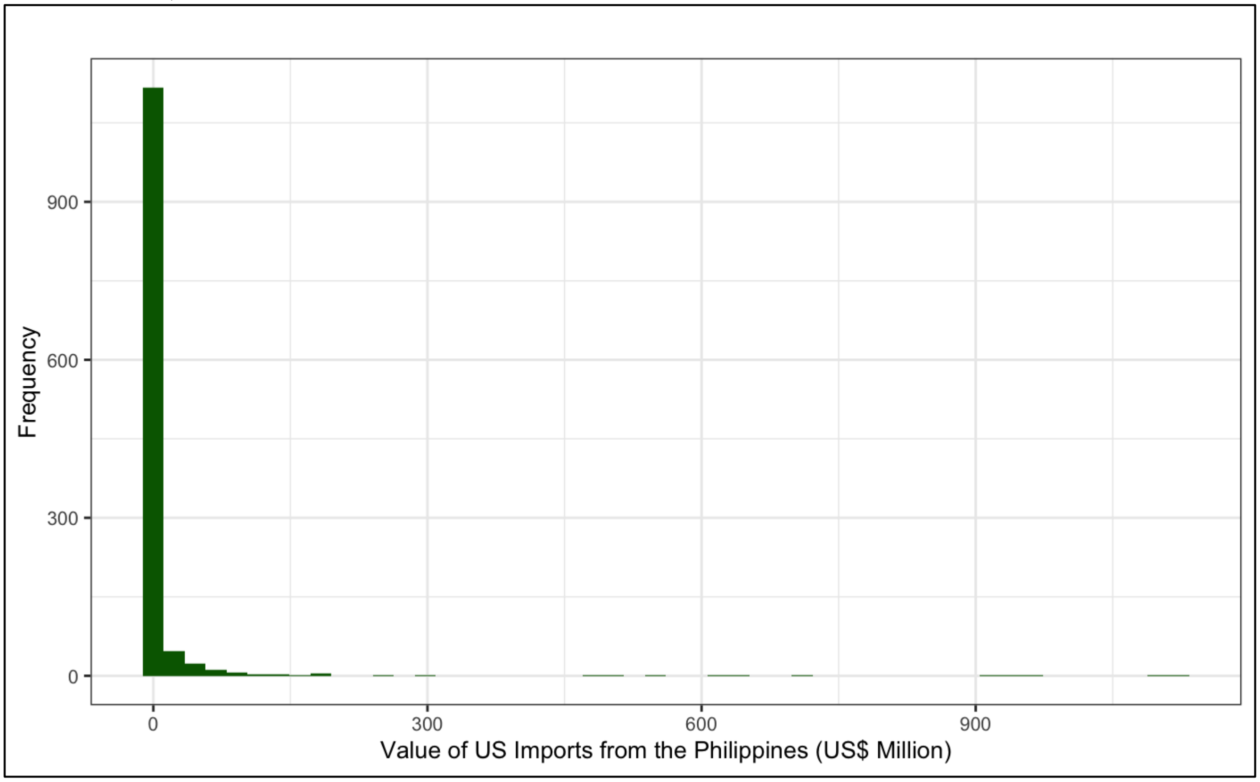
Table 4. Top 10 Products Imported by the US from the Philippines with an Applied Weighted Average Tariff Rate below 10%, 2024

HS4 Product Code	Product Description	Value (US$ Million)	Share in US Imports from the PH (%)	Applied Weighted Average Tariff by the US (%)
8473	Parts and accessories (other than covers, carrying cases and the like) suitable for use solely or principally with machines of heading 8469 to 8472, n.e.s.	1,122.17	7.69	0.00
8544	Insulated "incl. enamelled or anodised" wire, cable "incl. coaxial cable" and other insulated electric conductors	1,105.00	7.5	3.96
8542	Electronic integrated circuits; parts thereof	954.25	6.54	0.00
8523	Discs, tapes, solid-state non-volatile storage devices, "smart cards" and other media for the recording of sound or of other phenomena	938.31	6.43	0.00
8471	Automatic data-processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, n.e.s.	919.28	6.30	0.00
8517	Telephone sets, incl. smartphones and other telephones for cellular networks or for other wireless networks	703.60	4.82	0.00
8504	Electrical transformers, static converters, e.g. rectifiers, and inductors; parts thereof	645.73	4.42	0.00
1513	Coconut "copra", palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified	626.75	4.29	0.00
8443	Printing machinery; other printers, copying machines, and facsimile machines, whether or not combined; parts thereof	552.53	3.79	0.00
9999	Commodities not elsewhere specified	514.79	3.53	0.00
		8,082.43	**55.38**	**0.00**

Source: International Trade Centre (2025); World Integrated Trade Statistics (2025); Authors

Figure **1** shows the frequency distribution of US imports of Philippine products. =We note that these imports are very concentrated in a few products. The Figure shows that out of a total of 1,229 product categories (HS-4 classification), there are 667 categories with a relatively small import value. Moreover, the first highest bar corresponds to the interval US$ 0-11.45 million. There are 1,117 products in this interval. The rest are concentrated in 112 products. As indicated in Table 4, the highest import category corresponds to HS 8473 (7.69% of the total).

Figure 1. Distribution of US Imports from the Philippines (Value in US$ Million), HS-4 Products, 2024



Source: International Trade Centre (2025); Authors

Tariff Exemptions

Executive Order No. 14257, Section 3(b) clearly specifies that goods listed in Annex II shall not be subject to the reciprocal tariffs.[6] This includes (but it is not limited to) products such as aluminum and steel, which already have higher tariffs, pursuant to Section 232 of the Trade Expansion Act of 1962 (also known as the Section 232 tariffs), automobile and automobile parts, pharmaceuticals, minerals, and semiconductors. After the publication of EO 14257 on April 2, 2025, President Trump released memorandum to

[6] Exec. Order No. 14257, Fed. Reg. (April 2, 2025).

expand the initial list in Annex II, to include products and parts of some electronics (smartphones, computers) to the list of exempted products to the reciprocal tariffs.[7] Some notable inclusions in the April 11 memorandum are all products in HS 8471 and HS 8542, and some products in HS 8517 and in HS 8523. Collectively, products on the exclusion list account for about 33% of US imports from the Philippines (Table 5).

Table *5* provides the share of the exempted products in US imports from each country. Among the ASEAN-5, almost half of US imports from Malaysia in 2024 are made up of products exempted from the reciprocal tariffs. The 33% of US imports from the Philippines (around $4.9 billion) of exempted products is a slightly higher share those of Thailand (31%, $20 billion) and Viet Nam (29%, $41.4 billion).

Table 5. Share of US Imports (2024) from each country exempt from reciprocal tariffs (%)

Partner	Value of US imports (US$ Billion)	Share in US Imports (%)
Philippines	4.86	33.29
Indonesia	2.92	9.89
Malaysia	24.67	45.82
Thailand	20.53	31.10
Viet Nam	41.36	29.03
China	123.36	26.66
Japan	21.25	13.97
Korea, Republic of.	30.72	22.68
Canada	168.33	39.87
Mexico	88.67	17.39

Source: International Trade Centre (2025); Annex II, Executive Order 14257 by the United States of America (2025); Authors

Provided that these exemptions continue to hold after August 1, a point of optimism lies in how some of the US top imports from the Philippines (read: the Philippines' strongest exports to the US) will be exempt from the 19% tariff, and will continue to face tariffs of 0-5%.

Philippine imports from the United States

The US is one the Philippines' main import sources (Table 6), supplying about 6% - or $3.2 billion – of total Philippine imports. Of this value, nearly $2 billion (60%) of Philippine imports from the US are concentrated in ten products (Table 7).

[7] White House. (2025, April 11). Clarification of Exceptions Under Executive Order 14257 of April 2, 2025, as Amended. https://www.whitehouse.gov/presidential-actions/2025/04/clarification-of-exceptions-under-executive-order-14257-of-april-2-2025-as-amended/

Table 6. Philippines Imports by Partner. May 2025

	Value (US$ Billion)	Share (%)
China	15.31	28.42
Japan	4.40	8.17
Indonesia	4.34	8.05
Korea, Republic of.	3.91	7.25
United States of America	3.27	6.07

Source: Philippine Statistics Authority (2025); Authors

Table 7. Top 10 Products Imported by the Philippines from the US, May 2025

HS4 Product Code	Product Description	Value (US$ Million	Share (%)
8542	Electronic integrated circuits	510.49	15.61
2304	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil.	435.67	13.33
1001	Wheat and meslin.	276.88	8.47
9802	Materials, accessories and supplies imported on consignment basis for the manufacture into finished products	236.01	7.22
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol. or higher; ethyl alcohol and other spirits, denatured, of any strength.	122.34	3.74
9030	Oscilloscopes, spectrum analysers and other instruments and apparatus for measuring or checking electrical quantities, excluding meters of heading 90.28; instruments and apparatus for measuring or detecting alpha, beta, gamma, X-ray, cosmic or other ionising radiations.	116.83	3.57
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter.	86.26	2.64
8541	Semiconductor devices (for example, diodes, transistors, semiconductor-based transducers); photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes (LED), whether or not assembled with other light-emitting diodes (LED); mounted piezo-electric crystals.	83.66	2.56
0207	Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen.	64.22	1.96
3004	Fish fillets and other fish meat (whether or not minced), fresh, chilled or frozen.	36.58	1.12
TOTAL		1,968.94	60.22

Source: Philippine Statistics Authority (2025); Authors

The concessions in the July 23 negotiation between President Trump and President Marcos include the open-market access of the US to the Philippines – notably the elimination of tariffs on US automobiles, and the increased importation of soy, wheat, and medicines. While automobiles are not a major import of the Philippines from the US, soy and wheat (HS 2304 and HS 1001) comprise over 20% of Philippine imports from the US in May 2025 (Table 7), and this may grow in light of the new trade deal with the US.

Data from the International Trade Centre (2025) also shows that HS 87 (Vehicles other than railway or tramway rolling stock, and parts and accessories thereof) represent around $100 million out of the $9 billion imported by the Philippines from the US, or around 1.14% of total imports of the Philippines from the US. This might increase, given the elimination of tariffs on imports of automobiles from the July 23 trade deal. Until now, automobiles face an applied tariff rate (customs duty) of 30%. To this rate, one has to add 15% to 100% ad-valorem tax, depending on engine displacement (piston capacity), plus 12% value-added tax.

An unfair treaty but it will not cause Armageddon

It is impossible to estimate the overall effect of this trade deal and the reciprocal tariffs on Philippine exports and Philippine GDP growth. More information is needed as the August 1, 2025 deadline approaches, and as more details about the most recent trade deal are revealed. Yet, we believe that the American push will not lead to a world crisis triggered by a collapse in world trade, like in the 1930s. Policy makers, including Mr. Trump, know that there will be no winners. Moreover, the world Depression ended with WWII. The US Administration is pushing everybody to the edge but will not push them down the cliff.

Given the exemptions to the reciprocal tariffs (applied to the most important Philippine exports), perhaps a reduction in GDP and exports is not a guaranteed outcome. The ultimate impact will also be the result of the deals with the most important trading partners, China and the European Union (EU), in particular, with much more muscle to negotiate than the Philippines. Yet, we just learned that the EU has succumbed to American pressures and accepted not only a 15% tariff rate on European products but also to buy from the United States US$750 billion worth of energy, agree on additional investment (beyond what is investing currently) into the US worth US$600 billion, and to purchase "a vast amount of military equipment". American products will be subject to a 0% tariff rate in the European Union. So much so for the announced EU retaliatory package of tariffs amounting to over 100 billion US dollars, if the negotiations failed. The negotiations were about much more than tariff rates. They are about imposing a new world order. Let's see what happens with China.

It is very unlikely that the current tariff war leads the world to a situation like that of the 1930s. This would only happen if economies retaliate against the United States, as it happened in the 1930s. So far, they have not done it. For the time being, neither the EU nor small economies have decided to retaliate. The Philippines is a tiny trade partner for the US (Philippine imports represent 0.4% of US total imports; and the US trade deficit with the Philippines accounts for only 0.4% of the overall US trade deficit). The current average tariff rate applied to US exports when they reach the Philippines is below 8% (the US tariff rate on Philippine exports is almost 4%). Given this, there was no reason to retaliate against the Philippines and claim that the US suffers from an “unfair” trade relationship and a “significant trade deficit.” Mr. Trump accused the Philippines of maintaining tariff and non-tariff barriers that make the trade relationship “far from reciprocal” and “unsustainable,” positioning the deficit as a national security threat to the US. This is a hyperbole. Mr. Trump has other more important businesses in mind (e.g., China), much more important for the US than the tiny trade deficit with the Philippines. The images shared on TV about the meeting between the two Presidents in the White House indicate that the two mandataries talked about security issues, also a much more important question than the tariffs. That is, like with the European Union, the conversations were about much more than tariff rates. Nevertheless, the letter sent to President Marcos reflects a broader shift from multilateral cooperation toward bilateral coercion, where the cost of resistance is isolation, and the price of compliance is the loss of sovereignty. Despite this, we do not anticipate a significant impact on the Philippine economy (direct impact from the bilateral negotiations). As argued above, the impact could be bigger if world trade collapses.

It is important to note that the US has a persistent global trade deficit, not just with the Philippines. The bilateral trade deficit between the US and the Philippines is relatively modest compared to that with other countries, such as China, Mexico or Vietnam. Moreover, the US imbalance is not necessarily due to “unfair” trade practices, but rather to structural economic forces, including consumption patterns, global value chains, and capital movements --the capital account is the mirror image of the current account. Indeed, the US trade deficit might be regarded as the consequence of rational market forces diverting capital to where investment returns are highest, as opposed to being the result of unfair trading practices. Another key factor to understand the deficit with countries like China is that it also obeys to the desire of the latter to accumulate US dollars. The only way to do this is to export to the US. The counterpart of these exports was a flood of relatively cheap products that American consumers benefited from. Why complain? The US would never have any problem paying for these imports in US dollars (its own currency).

In any case, what can (should) the Philippines do if the worst-case scenario materializes? It is important to remember that the increase in the tariff rate will have a direct impact on the price of Philippine exports. The first effect will be felt by American consumers because they will face higher prices. What happens afterwards will depend on their reaction to the higher prices: will their consumption of these products decline or not? If yes, then everyone will be worse off, Philippine exporters because their exports will decline and American consumers because their consumption of the products in question will decline.

A second option may be that consumption does not decline (or may decline by much less than the increase in price). All this is in the air as of this moment. On the other side of the Pacific Ocean, Philippine consumers, especially the upper-middle classes, will be better off because American products, including automobiles, will face zero tariff in the Philippines. The Bureau of Internal Revenue will feel the pinch as it will collect fewer taxes on incoming American products.

Philippine firms should work along two axes. One is to increase productivity so as to limit the impact of the price increase. With an increase in productivity, Filipino exporters would be able to lower their prices so that when the higher tariff rate is applied, the price American consumers pay would not be significantly different from the previous one with a lower tariff rate. The second axis is to move up to different products, more complex and less price sensitive. These products would compete on quality and non-price characteristics. This requires a substantial change in the structure of the economy.

A Note on the US dollar

The weakness of the US dollar has become the norm during 2025. After a brief appreciation in June, coinciding with the increase in the tensions in the Middle East, the dollar has depreciated again. The permanent attacks by the White House undermining the independence of the Fed, and the uncertainty created by the tariff war, have prevented the appreciation of the dollar. What is interesting is that this situation has not caused great concern. In fact, President Donald Trump has celebrated it, even though he has always defended the opposite. He has acknowledged that even though he has always defended a strong dollar, a weaker dollar benefits exports and tourism. Could this be the solution to Mr. Trump's current account headache?

Although a weaker dollar implies importing inflation, Mr. Trumps sees the advantages of a cheap dollar. Against the euro, it has accumulated a depreciation of over 13% since January, up to about 1.17 $/euro. His comments are in line what has started being known as the "Mar-a-Lago Agreement", whose objective is to weaken the dollar to gain price competitiveness. Although there is no official document underlying such an Agreement, the markets remember the historic Plaza Agreement of 1985, when the US, Japan, West Germany, France, and the U.K., intervened their currencies in the foreign exchange markets to force a depreciation of the US dollar.

A few days before the expiration of the truce given to its main trading partners, and of the upcoming decision by the Fed, investors are cautious about the US dollar. The reality is that it continues being the world's reserve currency, although its primacy is not as clear as it was years ago. Right or wrong, market observers in investment houses argue that the dollar faces two main challenges: first, the domestic economy shows signs of fatigue and the fiscal deficit is increasing. Second, the tax reduction approved by the Trump administration last July will force the Treasury to increase the issuance of bonds in a context of high real interest rates. This situation could lead to an increase in the fiscal deficit to over 7% in the medium term. We do not entirely agree with these arguments (we believe that the fiscal deficit and the issuance of bonds are not a problem for the American economy) but market sentiment (right or wrong) matters.

Very few analysists think that the dollar will appreciate. The market consensus is that the White House's erratic trade policy, together with the attacks on the Fed, have negatively affected the trust in the US dollar and in the US bonds as safety assets.

A clear sign of this decreased trust is that, under the current situation of higher interest rates, one should see a strong dollar. However, the American currency has been on a downward trend since the arrival of Mr. Trump to the White House; in particular since April 2, when he announced the highest increase in tariff rates since the Great Depression.

The upcoming Fed meeting serve as a thermometer to evaluate the reputational damage that the US dollar suffers. The tensions between Mr. Trump and the Fed President, Jerome Powell, are evident.

Beyond the decision about the interest rates, investors are paying attention to Mr. Trump's reaction to the increasing debate within the monetary committee, where two of its members (Christopher Waller and Michelle Bowman) have shown sympathy towards the idea of cutting interest rates, in line with the White House. A vote to lower rates by these two governors would question the credibility (i.e., a divided Fed) of the Fed in a context huge political pressure

The threat against the independence of the central bank (considered a pillar of the global financial system) is, in fact, one of the biggest preoccupations among fund mangers and investors. Any attempt to fire Jerome Powell, would seriously undermine the credibility of the institution. Under these circumstances, the interest rate offered by the sovereign debt would have to be higher to compensate the perceived risk.

In a scenario of political pressures, lower interest rates (as defended by Mr. Trump), could add further doubts on the role of the US dollar as the global reserve currency. Some analysts argue that the dollar could hit 1.20 per euro.

Despite the lower trust in American assets, the consensus is that it will be very difficult to dethrone the US dollar as the global reserve currency. There is no clear competitor and it is still the reference currency in international trade. Yet, it is possible that its share as reserve currency may continue declining slowly. Many central banks, especially in Asia, are diversifying their portfolios, and gold seems to be the preferred asset.