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Tax alert
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Asia Pacific Trade & Customs Alert

U.S. announces Reciprocal Tariff details to Trade Partners in Asia Pacific - Are you ready for the changes?

Summary :

On July 7, 2025, the U.S. issued formal notices to 14 countries, followed by a further 8 on the 9th confirming the imposition of new reciprocal tariffs, effective August 1. This marks the conclusion of the 90-day pause on enforcement and solidifies the arrival of "Reciprocal Day."

While these measures will soon take effect for key trading partners, extensions have been granted for others, offering temporary relief. Exporters across the Asia-Pacific region should prepare for increased tariff exposure and renewed uncertainty in accessing the U.S. market.

Background

- On April 2, 2025, President Trump invoked the International Emergency Economic Powers Act (IEEPA) to impose a sweeping new tariff regime on virtually all U.S. trading partners. Branded as "reciprocal tariffs," the policy introduced a 10% baseline tariff on all imports into the United States, with higher, country-specific rates ranging from 11% to 50% targeted at nations with significant bilateral trade surpluses. The administration framed the move as a corrective measure to address what it described as longstanding asymmetries in global trade relationships.

- Just one week later, on April 9, the White House announced a 90-day suspension of the elevated, country-specific tariffs. This pause was designed to give the U.S. Trade Representative (USTR) time to negotiate new bilateral trade agreements that could justify exemptions or adjustments to the higher rates. During this window, all affected countries were subject only to the 10% baseline tariff, with the understanding that failure to reach a deal would trigger a reversion to the full reciprocal rates.

- The 90-day enforcement pause formally ended on July 9, 2025. In the absence of finalised agreements, the U.S. moved ahead with reciprocal tariff notices to 22 countries, triggering implementation as of August 1. The fast-approaching deadline intensified negotiations with affected trading partners—many of whom sought either permanent exclusions or temporary extensions. While extensions have been secured in select cases, the broader outcome underscores high-stakes implications for global supply chains, import costs, and the evolving direction of U.S. trade strategy.

APAC Tariffs Announced

Following the expiration of the 90-day suspension period, the White House issued formal letters to 22 trading partners confirming the imposition of reciprocal tariffs. This step marks a significant escalation in the administration's drive to rebalance bilateral trade relationships. The tariffs—set to take effect on August 1—are calibrated based on each country's trade surplus with the United States and reflect the administration's broader strategy of enforcing "fair and equal" market access.

The newly released tariff schedule introduces elevated country-specific rates for several key Asia-Pacific (APAC) economies, replacing the temporary 10% baseline tariff that had been in place since April. These rates were determined through a combination of trade data analysis and bilateral negotiations, with some countries securing reductions through last-minute agreements.

A summary of selected country applicable reciprocal tariffs rates is provided below:

Country	April Rate	Announced Rate (Effective Aug 1)
China	34%	(Paused extended to Aug 12)
Vietnam	46%	20%
India	27%	10% Extended
Thailand	37%	36%
Malaysia	24%	25%
Indonesia	32%	19%
Japan	24%	15%
South Korea	26%	25%
Philippines	18%	19%
Taiwan	32%	10% Extended

Rates as of 23 July 2025

KPMG insights

Room for Negotiation?

Although the letters have been sent, the tariffs have not yet been published in the Federal Register, leaving a narrow window for continued negotiations. This delay may be strategic, allowing for last-minute deals or adjustments before the August 1 implementation date.

Importantly, the U.S. government has clarified that no tariff-rate quotas (TRQs) are currently anticipated for steel or vehicles under this action. However, steel and aluminium imports from all countries—including those in APAC—remain subject to the separate 50% tariffs imposed under Section 232 of the Trade Expansion Act of 1962, which were increased on June 4, 2025. (25% for vehicles and parts).

Transhipping: New Tariff Clause

As part of the latest round of reciprocal tariff agreements, the U.S. has introduced a new tariff on goods deemed to be "transhipped" through an exporting country. While the term "transhipping" traditionally refers to the routing of goods through a third country without substantial processing, the scope of this provision remains deliberately ambiguous—raising significant compliance concerns for multinational exporters.

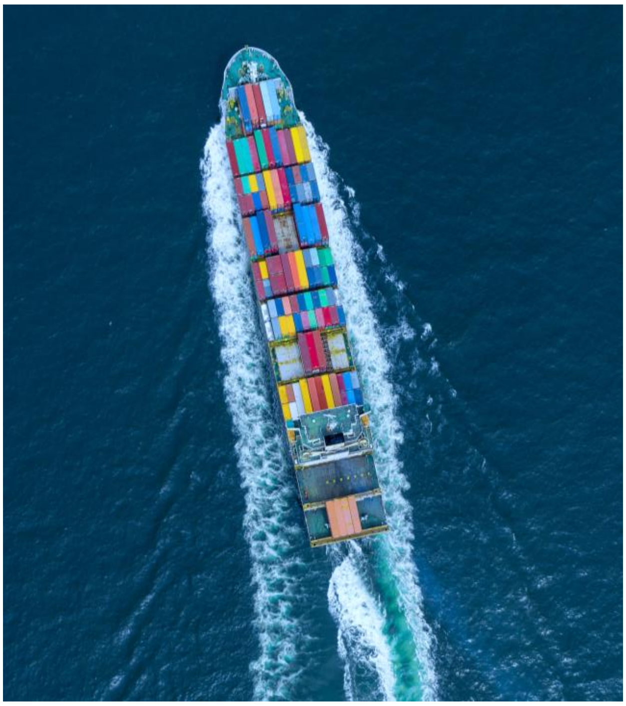
Early statements from the administration suggest that the rate may apply not only to goods that are merely re-routed, but also to products assembled in the exporting country that fail to meet U.S. origin requirements. If interpreted broadly, this could have far-reaching implications for global supply chains, particularly in Asia, where many manufacturers rely on regional assembly hubs to serve the U.S. market.

It is critical to note that U.S. origin determinations are governed by the "substantial transformation" standard, which may differ significantly from local non-preferential rules of origin, or the criteria used to issue certificates of origin in the exporting country. A product that qualifies as originating under the exporting countries rules, for example, may still be treated as non-originating under U.S. law—triggering the punitive transshipment tariff.

This development places a heightened compliance burden on exporters and their U.S. importers. Companies must now:

- Conduct rigorous origin analyses to ensure that goods meet U.S. substantial transformation thresholds;
- Review supplier declarations and certificates of origin for consistency with U.S. customs standards;
- Prepare for increased scrutiny from U.S. Customs and Border Protection, including potential audits and enforcement actions.

Given the lack of formal guidance on how the transshipment clause will be enforced, businesses are advised to adopt a conservative interpretation and proactively document origin determinations. The risk of misclassification is no longer theoretical—it now carries a direct 25 – 40% cost.



List of 232 Tariff Cases	Status	Announced Rate (Effective Aug 1)
Automobiles and auto parts	Effective May 3	25%
Steel and aluminium	Effective June 4	50%
Copper	Investigation started March 10	
Timber and lumber	Investigation started March 10	
Semiconductors and chip making equipment	Investigation started April 1	
Pharmaceuticals and pharma ingredients	Investigation started April 1	
Heavy trucks	Investigation started April 22	
Processed critical minerals and derivatives.	Investigation started April 22	
Commercial aircraft and jet engines	Investigation started May 1	

Beyond July 7: Sectoral Tariffs and Escalation Risks

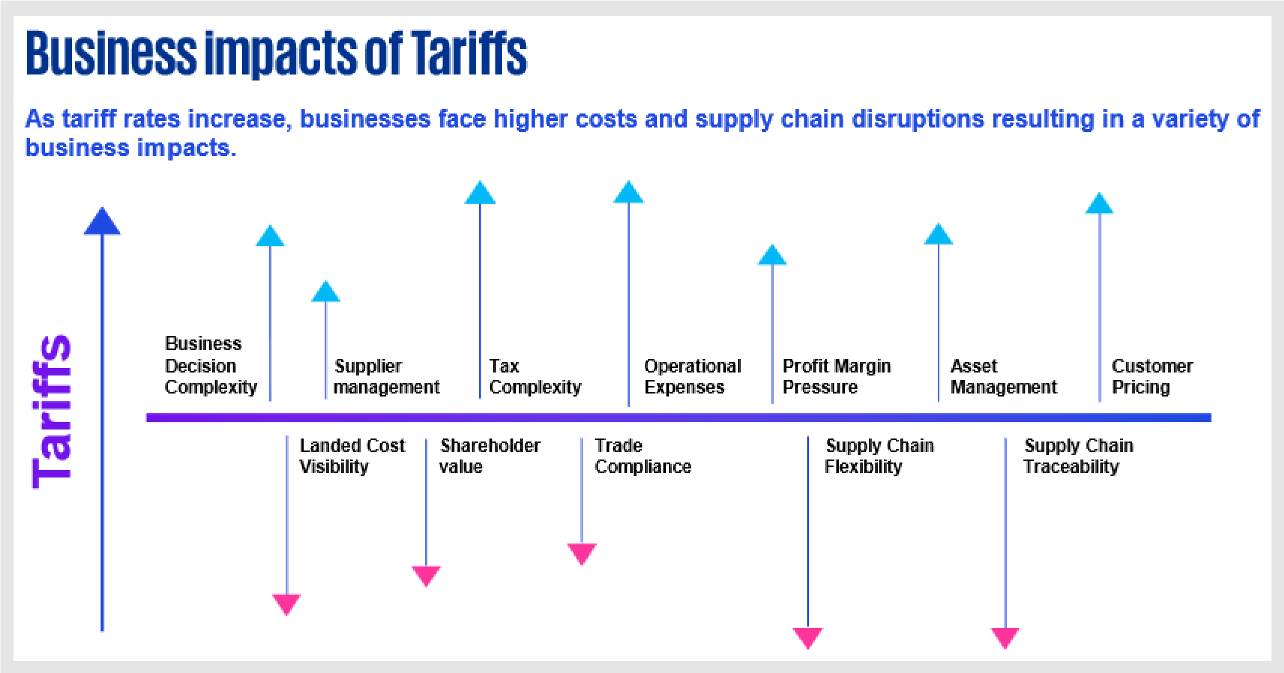
On July 7 and 9th, the White House issued letters to over 22 trading partners notifying them of impending reciprocal tariffs, while simultaneously extending the tariff reimposition deadline from July 9 to August 1 via Executive Order. Although this extension provides a temporary reprieve, the broader trade landscape remains volatile. Businesses should prepare for a new wave of sector-specific tariff actions that may proceed independently of the reciprocal framework. These measures are being driven by ongoing U.S. investigations into national security vulnerabilities and supply chain dependencies, particularly under Section 232 of the Trade Expansion Act.

These sectoral actions may be introduced unilaterally, without the need for bilateral negotiations or congressional approval. In parallel, the risk of retaliatory tariffs from affected trading partners remains elevated, particularly from the European Union and Canada, both of which have signalled readiness to respond in kind.

Companies with exposure to these sectors should prepare for a dynamic regulatory environment. This includes monitoring for:

- Targeted duties and tariff rate increases
- Export controls on sensitive technologies
- Investment restrictions or inbound screening measures

The U.S. government has not ruled out further escalation, and officials have emphasised that tariff policy will remain a central tool in advancing national security and industrial competitiveness. Businesses are advised to conduct scenario planning and engage with trade counsel to assess exposure and mitigation strategies.



Implications for APAC Exporters

The reimposition of elevated reciprocal tariffs is poised to deliver a sharp shock to exporters across the Asia-Pacific region. For many, the shift from a uniform 10% baseline to country-specific rates ranging from 25% to 40% represents a sudden and substantial increase in landed costs. This escalation threatens to erode already-thin margins, disrupt pricing strategies, and force difficult decisions on contract renegotiations and market prioritisation.

Beyond the headline tariff rates, compliance risk is expected to rise sharply. U.S. Customs and Border Protection has signalled a more aggressive enforcement posture, particularly around rules of origin, valuation practices, and transshipment schemes. Exporters relying on third-country routing or minimal transformation to circumvent duties may find such strategies increasingly untenable under heightened scrutiny.

Compounding the challenge is the absence of tariff-rate quotas (TRQs) or other volume-based relief mechanisms. Unlike past trade actions that allowed for limited duty-free access within quota thresholds, the current framework offers no such flexibility. High-volume exporters especially in sectors like electronics, automotive components, and consumer goods will face the full brunt of the new tariff regime, with few policy off-ramps available.

In this environment, APAC-based manufacturers and traders must move swiftly to reassess their exposure. This includes evaluating alternative sourcing models, exploring U.S. Foreign Trade Zone (FTZ) utilisation, and engaging with KPMG to ensure documentation and valuation practices are audit ready. The July deadline marked the start of a more fragmented and enforcement-heavy era in U.S.-APAC trade relations.

China Focus: Strategic Repositioning Underway

With the United States granting a temporary extension of reduced reciprocal tariffs on Chinese imports through August 12, 2025, Chinese exporters are racing to recalibrate their global strategies amid intensifying trade headwinds. The 90-day reprieve downshifting tariffs from 145% to +50% has provided short-term breathing room, but uncertainty over the post-August regime is prompting a wave of strategic repositioning across China's export sector.

In response, Chinese manufacturers are actively pursuing offshoring and diversification strategies to mitigate long-term exposure to U.S. tariffs. Southeast Asia and Mexico have emerged as preferred destinations, offering lower-tariff access to the U.S. market through favourable trade agreements and geographic proximity. Companies are conducting detailed assessments of labour availability, infrastructure capacity, utility costs, and fiscal incentives in these jurisdictions to determine operational viability.

At the same time, many firms are delaying capital expenditures and greenfield investments until greater clarity emerges on the future of U.S.-China trade relations. This investment pause reflects broader concerns about regulatory volatility and the risk of further escalation, particularly in sectors already targeted by U.S. national security reviews.

Chinese exporters are also reevaluating their long-term market access strategies, with renewed interest in ASEAN and Latin American trade blocs. Free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and bilateral pacts with countries like Chile and Peru are being leveraged to diversify export destinations and reduce overdependence on the U.S. market.

This strategic pivot underscores a broader shift in China's trade posture from volume-driven exports to value-added, regionally integrated supply chains. While the August 12 deadline looms large, the realignment now underway may have lasting implications for global trade architecture and the future of U.S.-China economic engagement.

Strategic Steps for APAC Businesses

With the imposition of tariff's, on selected countries, businesses across the Asia-Pacific region must act decisively to mitigate exposure and preserve commercial continuity. The return of elevated reciprocal tariffs ranging from 25% to 40% for many APAC economies demands a shift from reactive compliance to proactive strategic planning. The following measures are emerging as critical pillars of resilience:

1. **Quantify landed cost exposure under multiple tariff scenarios.**
   Companies should conduct detailed scenario modelling to assess the financial impact of tariff rates at 10%, 34%, and 46%. This includes recalculating landed costs, margin compression, and potential pass-through pricing strategies. Visibility into cost structures is essential for informed decision-making and customer negotiations.

2. **Prioritise nearshoring and tariff engineering in treaty-aligned jurisdictions.**
   With tariff rates tied to country of origin, businesses are accelerating efforts to shift production or final assembly to jurisdictions with preferential trade agreements with the United States. Southeast Asia, Mexico, and select Middle Eastern countries are being evaluated for their treaty coverage, labour competitiveness, and infrastructure readiness.

3. **Reassess origin strategies to ensure trade agreement eligibility.**
   Rules of origin under agreements like USMCA, KORUS, and CPTPP are under renewed scrutiny. Firms must ensure that their supply chains meet the minimum transformation thresholds and documentation requirements to qualify for preferential treatment. Missteps here could trigger audits, penalties, or retroactive duties.

4. **Engage U.S. customers to renegotiate commercial terms.**
   Tariff costs are increasingly being shared across the value chain. APAC exporters should initiate early discussions with U.S. buyers to adjust pricing, delivery schedules, or cost-sharing mechanisms. Transparent communication and joint scenario planning can help preserve relationships and avoid contract disputes.

5. **Maintain agility amid political and legal uncertainty.**
   Even where bilateral relief has been granted, such measures are likely to be temporary and subject to shifting political winds. Businesses should avoid overcommitting to any single mitigation strategy and instead build flexibility into sourcing, pricing, and logistics models to adapt to further escalation or policy reversals.

Optimising for Tariff uncertainty

Managing disruption from tariffs requires a multifaceted approach. By leveraging short- and long-term duty mitigation strategies, companies can optimise tariff liabilities and promote supply chain resiliency while enhancing their competitive edge in the global market.

First sale for export	Reduce duty costs by declaring customs value based on manufacturer's initial sales price rather than final price paid by the importer.	**Strategic Tariff Classification**	Ensure precise and strategic classification to avoid overpayment and capitalise on favourable tariff treatments.
Foreign Trade Zones	Defer duty payment until foreign merchandise leaves the FTZ for US Consumption.	**Valuation: Post Importation Refunds**	Obtain duty refunds from retroactive downward transfer price adjustments which results in a reduced customs value.
Country of Origin Management	Strategically plan and manage the country of origin of goods to maximise opportunities under preferential trade agreements and minimise duty exposure. Implementation of rigorous calculation and accurate determination of origin—to unlock reduced duty rates, enhance compliance, and gain a competitive edge in global trade.	**Duty Drawback**	Claim 99% refund of duties, fees and taxes paid on goods imported into the U.S. that are ultimately exported or destroyed (certain Tariffs are excluded.
Cost Unbundling	Removing or “unbundling” elements from the declared customs price to facilitate a reduction in customs duties.	**Other Strategies**	Bonded warehouses, Temporary Importation Bonds, Chapter 98.

How KPMG can Assist

1. Assess Company’s tariff exposure using our Tariff Modeler Analytics Tool.
2. Work with Company to develop cost-saving strategies to mitigate tariff impacts.
3. Develop an approach to balance cost, quality, and availability through scenario planning and execution.
4. Create a phased plan to prioritise high-impact areas.
5. Support implementation of sourcing shifts or tariff mitigation initiatives.
6. Origin Management Solution

Why KPMG?

KPMG Trade & Customs APAC COE Services are designed to help you navigate the complexities of global trade with confidence. Our comprehensive suite of services covers all aspects of trade and customs, from risk management and compliance to cost savings and operational efficiency. Partner with KPMG to help ensure your business is well-equipped to succeed in the global marketplace.

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