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TARIFF SHOCK: HOW THE NEW U.S. DUTIES COULD CUT PHILIPPINE EXPORTS BY USD 2.2 BILLION

Annette Balaoing-Pelkmans, PhD

EXECUTIVE SUMMARY

On August 7, 2025, the United States imposed a uniform 19 percent tariff on most Philippine exports, pursuant to US Executive Order No. 14257 and subsequent bilateral negotiations. While this tariff excludes some high-value sectors, notably electronics and machinery, it still affects approximately one-third of total Philippine exports to the U.S., particularly labor-intensive goods such as garments, footwear, and tobacco. The new U.S. measure marks a turning point in global trade relations, signaling a preference for bilateral leverage over multilateral discipline.

Using detailed 2024 trade data and product-level elasticities, this policy brief simulates the short-term impact of the new tariff regime. Results suggest a projected fall in Philippine exports to the U.S. from USD 14.6 billion to USD 11.5 billion, leading to a projected trade loss of USD 2.2 billion in the latter half of 2025 alone. While some product lines may benefit from a reduced tariff relative to their previous Most Favored Nation (MFN) rates, these are marginal and do not offset losses in major product categories.

This analysis provides empirical grounding for urgent policy decisions. It also highlights the need for strategic adaptation through domestic procurement reform, industrial upgrading under the Tatak Pinoy Strategy, and regional coalition-building. This brief is the first in a series. A forthcoming companion note will explore the broader strategic implications of large economies exercising optimal tariff strategies and the risks this poses to global trade stability.

BACKGROUND: A SHIFT IN GLOBAL TRADE STRATEGY REFERENCES

The new U.S. tariff on Philippine exports is part of a broader realignment of American trade policy. US Executive Order No. 14257, issued on April 2, 2025, authorizes “reciprocal tariffs” on selected partners deemed to “benefit” from asymmetric trade relations. While nominally framed as a response to policy misalignment, the measure serves a deeper purpose: realigning trade flows around U.S. investment security priorities and national interest (White House 2025a).

The Philippines is certainly not alone. Laos and Myanmar face tariffs of up to 40 percent under the same framework, while Japan secured sector-specific carve-outs such as a 15 percent ceiling on auto imports. Nomura (2025) has described this as a dual-track strategy: punitive tariffs for some and negotiated relief for others, reflecting the U.S. preference for bilateral, interest-based arrangements over multilateral commitments.

For the Philippines, whose export portfolio is heavily concentrated in electronics and labor-intensive consumer goods, this policy shift presents a dual risk. On one hand, preferential treatment for high-value sectors like semiconductors was preserved. On the other, exposed segments face severe competitive pressure from regional suppliers not subject to similar tariffs.

SECTORAL SCOPE AND TARIFF COVERAGE

While early reporting suggested the 19 percent tariff would apply across the board, U.S. Customs guidance and Annex II of E.O. No. 14257 clarify that several strategic sectors are exempt. These include electronics, chemicals, fuels, metals, and machinery, primarily those under Harmonized System (HS) Chapters 27 and 72 to 85 (White House 2025b).

After accounting for exemptions, approximately 30 percent of 2024 Philippine exports to the U.S. remain covered by the full 19 percent rate.[1] The most affected products are garments, tobacco, leather goods, and footwear. These sectors are highly labor-intensive and represent longstanding Philippine strengths in low- to medium-value manufacturing.

In a limited number of cases, the tariff shock results in a lower applied rate than the pre-existing MFN. Several tobacco and apparel lines previously faced duties exceeding 25 percent. These now benefit from the flat 19 percent rate and record minor gains. However, these effects are narrow and outweighed by substantial losses elsewhere.

METHODOLOGY AND SIMULATION DESIGN

This simulation estimates the short-term trade impact of the U.S. tariff using 2024 baseline data. The model is a static partial equilibrium framework based on the following inputs:

Data sources include:

- HS6-level bilateral trade data (Philippines–U.S.) from the World Bank World Integrated Trade Solutions database (USD 14.59 billion total exports in 2024)
- MFN base tariff rates from the 2022 Harmonized Tariff Schedule of the U.S. (WITS database) (on 5,268 HS6 products)
- Product-level price elasticities of export demand from CEPII's 2022 trade elasticity database (Fontagné et.al., 2022).

Assumptions and implementation:

- The 19 percent tariff is applied only to non-exempt products. Products listed in US E.O. No. 14257 Annex II are excluded from the shock.
- For products with MFN rates below 19 percent, the tariff change is positive. For those above 19 percent, the tariff change is negative.
- Price pass-through is assumed to be complete (100 percent baseline estimation), meaning the full tariff increase is reflected in final prices faced by U.S. buyers.
- Trade values are adjusted using the elasticity formula: $\Delta Q/Q = -\sigma * \Delta P/P$, where σ is the product-specific elasticity and ΔP is the percentage price change due to the tariff.
- The 19 percent tariff is modeled as a mid-year shock, applied from August to December 2025. This structure approximates the actual implementation date and allows for partial anticipation effects, recognizing that some firms may adjust orders or shipments in advance of the policy's entry into force.
- Electronics exports are penalized with a 15 percent value adjustment to reflect supply chain fragility linked to U.S.–Japan investment diversion and Chinese component reliance (based on analysis of Nomura 2025).

1 Exempted sectors are identified in Annex II of Executive Order 14257 and include products under the following HS chapters: Chapter 27 (Mineral fuels, oils, and distillation products); Chapters 28–38 (Chemicals); Chapters 72–83 (Base metals and articles of base metal); Chapters 84–85 (Machinery and electrical equipment); Chapter 90 (Instruments and apparatus); and Chapter 98 (Special classification provisions, including returned goods and government imports). These sectors are exempt from the 19% tariff and retain MFN or zero-duty treatment under existing U.S. trade regulations.

The simulation was conducted in Stata-16 and covers 1,442 matched product lines with available data on trade value, elasticity, and tariff.

Table 1. Simulation Results

METRIC	VALUE (USD)
2024 Export Baseline	14.59 billion
Simulated Exports (2025)	11.47 billion
Estimated Trade Loss	2.22 billion
Retained Export Share (relative to 2024 trade values)	78.0 percent

Losses are concentrated in apparel, tobacco, and footwear. These products are price-sensitive and face intense competition from suppliers in countries not targeted by the U.S. tariff policy. Electronics, medical devices, and machinery remain largely unaffected. The simulation assumes full (100 percent) tariff pass-through, where the entire cost of the tariff is reflected in the price paid by U.S. buyers. This likely places the results at the higher end of possible outcomes. Some of the tariff burden could be absorbed by Philippine exporters through margin adjustments, or by U.S. retailers and importers through price compression or supply chain reconfiguration. If so, the resulting trade contraction may be less severe than estimated.

Table 2. Top 10 Export Losses by Product

HS CODE	PRODUCT DESCRIPTION	ESTIMATED LOSS (USD)
620342	Men's or boys' cotton trousers	220.4 million
240120	Unmanufactured tobacco	188.1 million
640399	Leather footwear, not covering ankle	156.3 million
610910	Knitted shirts and blouses	143.6 million
240220	Cigarettes containing tobacco	118.9 million
420221	Leather handbags	91.7 million
620520	Men's or boys' shirts of cotton	87.3 million
620463	Women's trousers of synthetic fibres	83.4 million
640391	Footwear with rubber soles and leather	79.2 million
610990	T-shirts, knitted or crocheted	74.8 million

Table 3. Products with Small Estimated Gains

HS CODE	PRODUCT DESCRIPTION	ESTIMATED GAIN (USD)
240130	Tobacco refuse	+8.1 million
620431	Women's jackets, synthetic fibres	+5.7 million
621710	Clothing accessories	+4.9 million
611020	Pullovers and cardigans of cotton	+3.2 million
420310	Belts and bandoliers of leather	+2.6 million

These gains arise in product lines where the previous MFN tariff exceeded 19 percent and are now subject to the lower, flat 19 percent rate, resulting in a net reduction in applied duties.

POLICY IMPLICATIONS

The simulation results point to clear priorities for short-term mitigation and long-term strategic response. Five interlinked policy tracks emerge:

1. Immediate Adjustment Support for Affected Sectors

Labor-intensive export segments such as garments, tobacco, and footwear face the most immediate disruption. These sectors might require short-term relief in the form of export financing facilities, Small and Medium Enterprises (SME) transition funds, worker retooling programs (e.g., through Technical Education and Skills Development Authority), and facilitation of market access to non-U.S. destinations. Without such support, these sectors may struggle to reorient production or preserve employment.

2. Industrial Policy Anchored in Tatak Pinoy Strategy

While the exemptions preserved market access for high-value sectors like electronics and machinery, the overall shock highlights the need to build resilience through stronger domestic demand for tradables. The Tatak Pinoy Strategy[2] can serve as the institutional anchor for this shift. Public procurement can be used as a tool to stimulate local supplier capability,

2 The Tatak Pinoy Act (Republic Act No. 11981), enacted in 2024, establishes the legal foundation for a national industrial policy in the Philippines. It mandates the formulation of the Tatak Pinoy Strategy, a multi-year, whole-of-government industrial development framework that leverages innovation, infrastructure, financing, workforce development, and government procurement to enhance domestic production capabilities. Under the strategy, public procurement is positioned as a key policy instrument to support local supplier development, foster industrial upgrading, and expand the country's participation in high-value segments of global and regional value chains.

encourage innovation, and scale production of goods such as electronic components, medical devices, and industrial inputs.

3. Coalition-Building with Similarly Affected Countries

   The Philippines should explore regional collaboration with countries facing similar tariff pressures, such as ASEAN countries (e.g.,Vietnam, Thailand, Indonesia), and South Korea. Joint responses, whether through production-sharing agreements, coordinated engagement with multilateral institutions, or rule-setting coalitions, can help rebalance asymmetric negotiating power and preserve long-term policy space for middle-income economies.

4. Continued Bilateral Engagement with the United States

   Philippine negotiators may still seek product-level exemptions, temporary suspensions, or broader cooperation frameworks to reduce the severity or duration of the tariff. Strengthening investment ties could also help realign interests and stabilize bilateral trade expectations.

5. Accelerated Export Diversification

   The longer-term priority remains diversification, both in product mix and market destinations. Expanding trade with ASEAN-China-South Korea-Japan, the European Union, and the Middle East should be fast-tracked as a hedge against future tariff exposure, while also opening new paths for industrial upgrading.

FUTURE REFINEMENTS AND STRATEGIC EXTENSIONS

These simulations are based entirely on publicly available data, including product-level export values, U.S. MFN tariff schedules, and the sectoral exemptions specified in Annex II of E.O. No. 14257. While care has been taken to apply the most accurate available assumptions, there may be nuances or provisions in the final implementation of the U.S.–Philippines agreement that are not reflected in public documents. Moreover, the trade and policy environment remain fluid, and further modifications to tariff coverage, exemption rules, or bilateral arrangements may occur. As such, results should be interpreted as indicative rather than predictive, and serve as a starting point for policy calibration and further empirical validation.

While this brief provides a quantitative foundation, further refinements are under way. A follow-up simulation will include:

1. Comparative ASEAN Benchmarking: The model will simulate ASEAN and other third-country tariff hikes to assess relative vulnerability (e.g. trade diversion).

2. Forward Scenarios: Two projections will test escalation to 25 percent in 2026 and rollback to 10 percent.

3. Multi-Year Adaptation: Trade impact will be extended to 2030 using elasticities that dampen over time to reflect firm-level adjustment.

4. Retaliatory Options: Although not current policy, a scenario will explore limited Philippine tariffs (5–10 percent) on selected U.S. imports. While World Trade Organization rules (notably General Agreement on Tariffs and Trade Articles XXIII and XXVIII) allow for retaliatory measures when bound tariffs are unilaterally raised without compensation, this may not apply in the present case, as the Philippines formally agreed to the 19 percent U.S. tariff under a bilateral arrangement. The retaliation scenario in this simulation is therefore illustrative only, intended to support strategic planning rather than reflect any current policy or legal position.

This report constitutes the first part of the analysis, focusing on quantitative trade simulations. A follow-up qualitative note will explore the broader strategic implications of the United States exercising its optimal tariff option, including the systemic risks posed by large economies recalibrating bilateral trade relations in their favor.

CONCLUSION

The Philippine export sector faces a significant shock under the revised U.S. tariff regime. While exemptions help protect high-value sectors, the remaining coverage is enough to inflict meaningful damage. The country's response must be multi-pronged, combining short-term adjustment, domestic industrial reform, and proactive regional diplomacy. The Tatak Pinoy Strategy offers a framework for doing so, if supported with timely, data-driven policy action.

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UNIVERSITY OF THE PHILIPPINES
CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES
Lower Ground Floor, Ang Bahay ng Alumni, Magsaysay Avenue
University of the Philippines Diliman, Quezon City 1101

cids.up.edu.ph

Telephone (02) 8981-8500 loc. 4266 to 4268
(02) 8426-0955

Email cids@up.edu.ph
cidspublications@up.edu.ph

Website cids.up.edu.ph