# Trump's tariffs – who really loses out?

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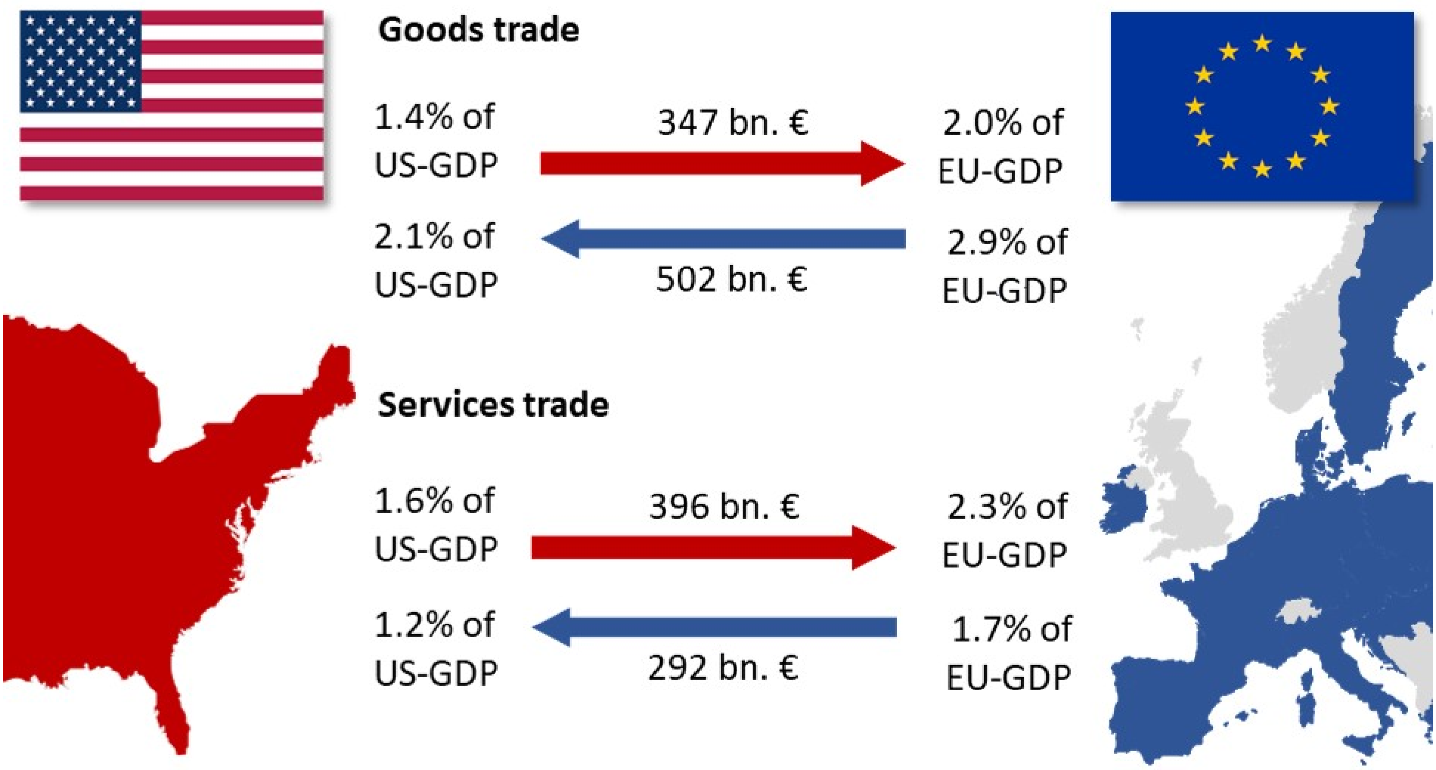
Donald Trump is threatening to impose new, drastic tariffs on imports to the US. We describe the most important direct and indirect channels of impact and calculate what Trump's plans would mean for the United States and the euro area. In the long term, the euro area is likely to suffer less than the US itself – not least because the tariffs would mainly fuel inflation in the US. A truly threatening scenario for the euro area economy, however, would be a global spiral of deglobalisation.

## Trump threatens historically high tariffs

Donald Trump has threatened to increase US import tariffs on Chinese imports to 60% and to raise tariffs on imports from all other countries to 10%. This would be yet another significant tightening of his trade policy compared to his first term in office. Back then, the average US tariff had risen from below 2% to around 3%. Now, it would multiply to around 15%, reaching levels of the 1930s (title chart). The higher US tariffs would obviously make it more difficult for European firms to export goods to the US, a trade volume that represents 2.9% of the EU's gross domestic product (Chart 1).

**Chart 1 - Overview of trade flows between the US and the EU**




Quelle: Eurostat, Office of the Trade Representative of the USA, Commerzbank Research

## In the short term, the tariffs will weigh on the European economy

Political discussions tend to focus on two effects that would weigh on the European economy. For example, foreign goods on the US market will become more expensive, causing US consumers to shift their demand from imported goods to domestically produced US goods. European exports to the US would therefore fall. In addition, competition would intensify in other markets: Chinese companies, in particular, would be looking for other markets for the products they can no longer sell in the US. They would increasingly – and at discounted prices – push into other markets, thereby intensifying competition for German products outside the US market. Both effects together would initially slow down the economy in Europe.

## In the medium term, however, other effects will balance this out

There are some effects that are being ignored in the discussion about the impending US tariffs and which, in themselves, have a positive impact on the EU economy:

1) **China will be harder hit than the EU.** Since the tariffs on Chinese imports will probably be higher than those on European imports, European products will become more competitive in the American market compared to Chinese products. This competition has become more important in recent years as China has caught up technologically and is increasingly exporting technologically advanced machinery and electronics.

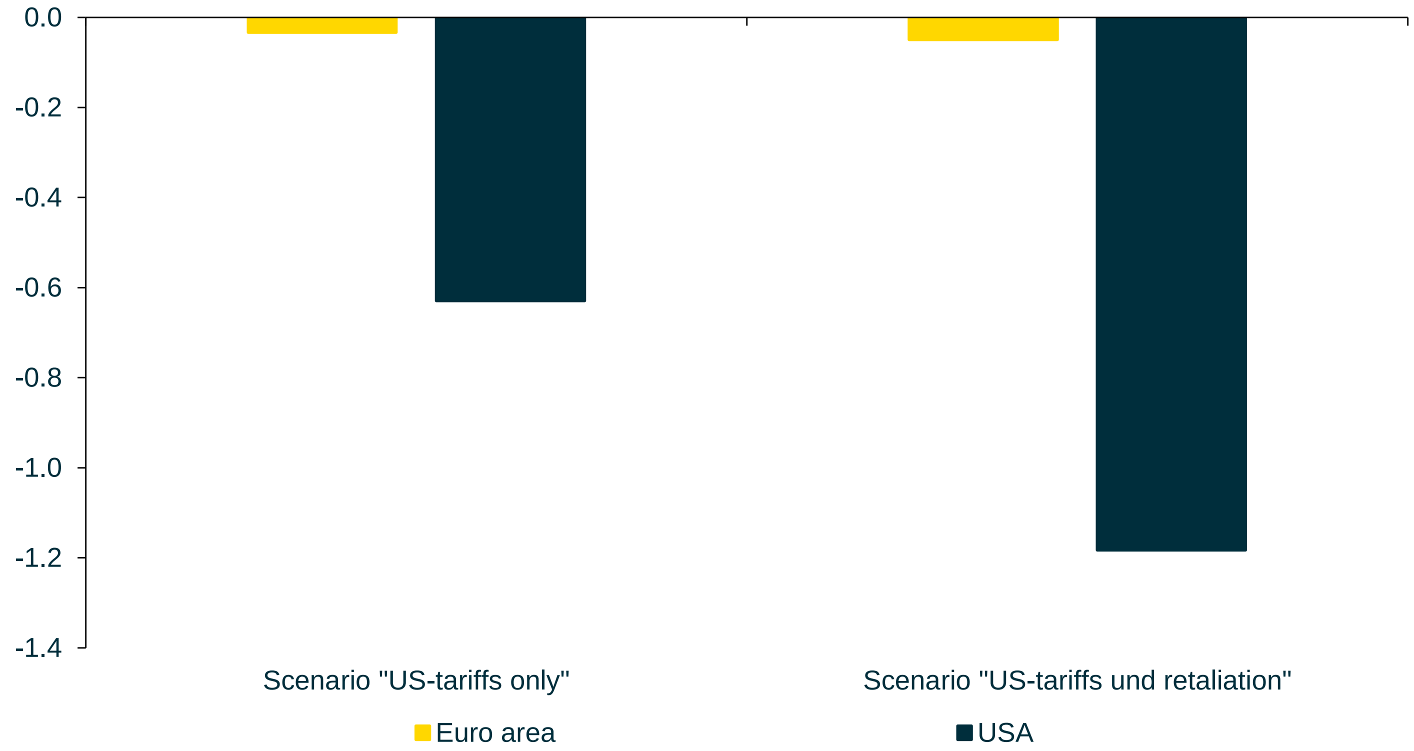
2) **The US dollar is appreciating.** Due to the tariffs, the US is demanding fewer goods on the world market. Consequently, American importers exchange fewer US dollars for foreign currencies, which reduces the supply of US dollars and causes the US dollar to appreciate against foreign currencies. The stronger dollar makes EU imports more affordable for Americans, thus partially offsetting the negative effect of tariffs.

3) **US products are losing competitiveness.** Since US companies have to pay tariffs on imported intermediate products, their final products become more expensive. In particular, on markets outside the US, this makes goods 'made in the USA' more expensive in relation to European ones. This would create a (relative) advantage for European products over American products in all markets worldwide. This effect would be further reinforced by the fact that the greater domestic demand for US products would also increase the demand for labour and thus likely cause wage costs to rise more sharply.

## Overall, the tariffs would have only a minor impact on the euro area...

Simulations of two models [1] show that the three effects above will largely neutralise the negative impact of the tariffs on the euro area economy in one to two years after the tariff increase (Chart 2). This would hardly change even if the EU's and the US's other trading partners were to retaliate in kind, i.e. if China was to impose a tariff of 60% and the other countries were to impose a tariff of 10% on US imports. This is because imports of goods from the US play a relatively minor role for Europe, and countervailing duties imposed by third-party countries on the US would further improve the competitiveness of European companies vis-à-vis their American rivals on the global market.

**Chart 2 - Trump's tariff plans will have a greater impact on the US economy than on the EU economy in the medium term.**
Medium term effects on the real economy vs. a scenario without additional tariffs, in percent, results of model simulations




Quelle: Kiel Institute, Peterson Institute for International Economics, Commerzbank Research

## … but high losses for the US economy

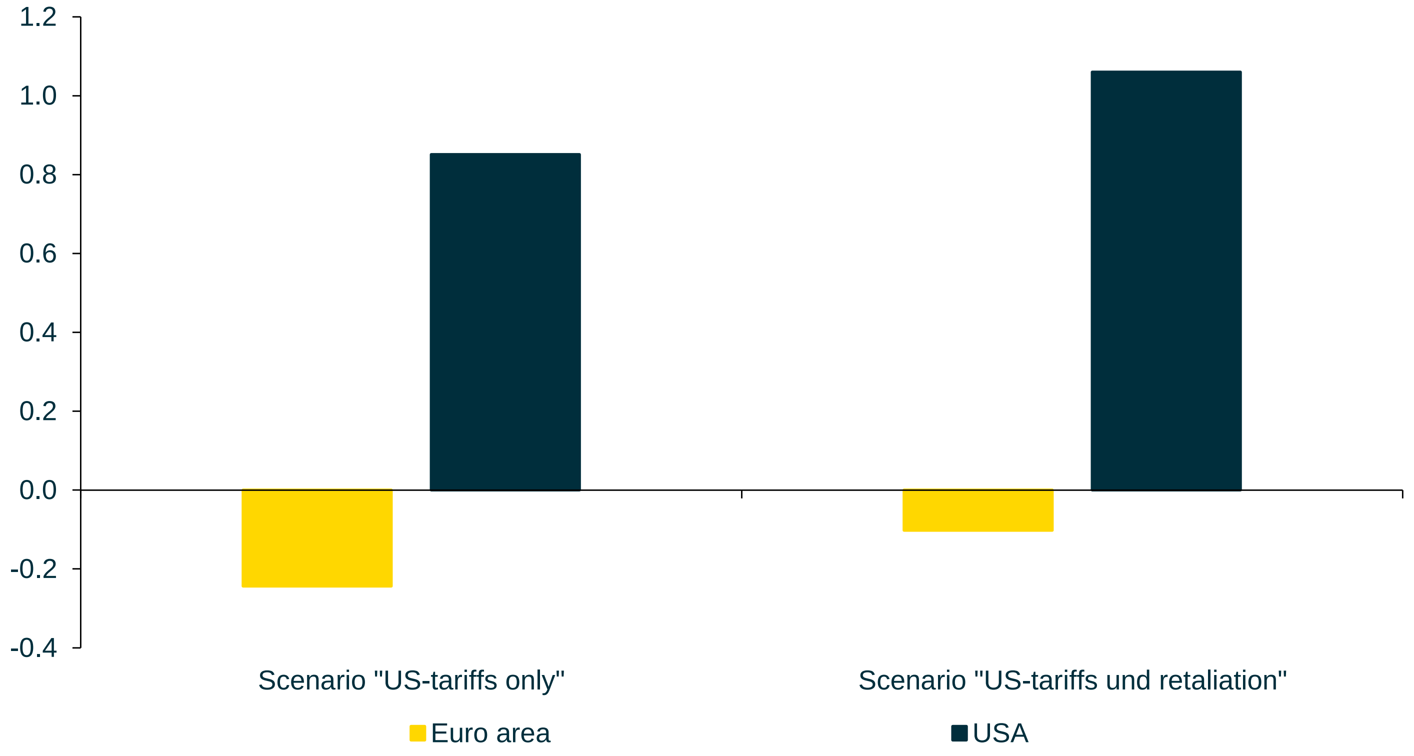
It may also come as a surprise that the models conclude that the US economy will suffer more from higher US tariffs than the EU economy in the medium term [2]. The explanation is obvious, however: the US economy will block itself from benefitting in the international division of labour, while the EU economy will only be affected in its trade with the US. Consequently, the positive productivity effects achieved through foreign trade are lost to a greater extent in the USA than in the EU. Thus, of all things, the US companies that are most affected by the tariffs are those that are most efficient and have so far been able to survive on the world market. By contrast, import tariffs also protect those domestic companies that have so far had problems competing with foreign rivals. If, for example, the steel industry in the USA was no longer competitive in the past, it makes no sense to rebuild this industry from an efficiency perspective. In this way, labour and resources are diverted in the long term from a productive industry (with a 'comparative advantage' on the world market) to an unproductive industry by US standards (without a 'comparative advantage' on the world market).

## The tariffs could increase inflation in the US…

The more pronounced negative effect of tariffs on the US economy is also partly due to the fact that the Fed will face higher inflation in this scenario and is therefore likely to pursue a more restrictive monetary policy (Chart 3). This is because all effects point in the same direction with regard to inflation in the US: prices are likely to rise even faster. In the short run, the reason for this is that not all imports can be replaced. This applies particularly to commodities and specialised intermediate products in manufacturing, but to a lesser extent it also applies to a wide range of consumer products. Many products will continue to be imported, with tariffs driving up prices for consumers and companies. Even if the US economy is able to manufacture products itself over time, these will be more expensive than imports. This is because if US companies were able to produce more cheaply than on the world market, the corresponding products would not currently be imported.

**Chart 3 - Trump's tariffs increase inflation in the US**

Impact on inflation in 2026 compared to a scenario without additional tariffs, in percentage points.




Quelle: Kiel Institute, Peterson Institute for International Economics, Commerzbank Research

## … and even decrease slightly in Europe

By contrast, inflation in the euro area is more likely to be dampened, even allowing the ECB to pursue a somewhat looser monetary policy. The reason for this is the additional supply of goods that, due to the US tariffs, are no longer sold in the US and are therefore crowding into the European market, thereby depressing prices there. Retaliatory tariffs would dampen this negative effect on price developments, as imports from the US would become more expensive. According to the model simulations, however, inflation in this scenario would still be lower than without the tariff changes, although the effect of 0.1 percentage points would be barely noticeable.

## Is it coming to that?

Trump has already proven in the past that he is not afraid of a trade conflict with China. During his first term in office, he had already introduced tariffs of up to 25% on a large portion of imports from China. He also imposed tariffs on European steel and aluminium. On the other hand, President Trump also entered into 'deals' that did not further increase trade barriers with China ('Phase One') and with Europe (e.g. on cars). We assume that Trump will initially use the tariffs on Europe as a bargaining chip, which is why the European Commission is preparing not only a conflict scenario but also an offer to the US. Such an offer from the EU could conceivably take the form of a promise to import more natural gas from the US or even to conclude a free trade agreement for certain sectors. [3] On the other hand, the European Commission could (as in the past) threaten to increase taxes on services provided by American companies in the EU. This could affect the big tech companies, for example. Indeed, the US exports a large amount of services to the EU, totalling almost 400 billion euros (Chart 1).

Even if the above simulation results do not show any negative effects for the EU in the medium term, such negotiations make perfect sense. After all, the results are based on the assumption that other countries (such as Japan, South Korea or the United Kingdom) will also be hit by tariffs. If these countries reach an agreement with the US, but the EU does not, the damage for the EU could be greater than simulated. This is because the competitiveness of German products on the US market would deteriorate not only in relation to US products, but also to products from many other countries. It could even come to a race to be the first country to reach an agreement with Trump.

## Worst case scenario deglobalization

The real danger of the emerging trade policy of a Trump administration is that it could be the starting signal for a worldwide increase in barriers to international trade. Even if the US is the world's largest economy, it would be much more serious if all countries in the world were to erect or increase trade barriers with all other countries. In that case, the real economy in the EU and especially in Germany, which is heavily integrated into global supply chains, would suffer significantly more. About one third of Germany's economics welfare is due to its integration into world trade – a considerable proportion of that would be at risk [4]. Consumer prices would then no longer be depressed, but would instead be pushed up very sharply, as imports would no longer become cheaper, but more expensive.

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[1] We use two models: the Kiel Institute for the World Economy's trade model, which covers 160 countries and 65 sectors (see study **US elections: WTO collapse could hit EU economy 4x harder than US tariff wars | Kiel Institute**) and an extensive macroeconomic model with additionally modelled monetary policy and exchange rates from the Peterson Institute for International Economics (see study **Working Paper 24-20: The International Economic Implications of a Second Trump** Presidency ) (back to text)

[2] This does not mean that the US economy would necessarily grow more slowly than the eurozone economy if these tariffs were imposed, but only represents the effect of the tariffs. These simulations also do not take into account the fact that a Trump administration could, under certain circumstances, implement tax cuts and other supply-side measures that would in themselves likely boost growth. (back to text)

[3] A free trade agreement that only covers one sector would, strictly speaking, not be compatible with WTO law. A corresponding offer would thus be a sign of the WTO's eroding influence. (back to text)

[4] The value for Germany can be derived from theoretical trade models with many sectors and intermediate goods. (See Handbook **Trade Theory with Numbers: Quantifying the Consequences of Globalisation**) (back to text)

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