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Overview

- Using the KITE model suite, we study the economic costs of the Trump tariff policy for Europe, and analyze the potential for trade diversion from China.
- If the current tariff regime stays in place, trade between the U.S. and China would fall dramatically, hurting mainly the U.S. and the Chinese economies. The direct economic impact for Europe appears limited.
- The expected rerouting of Chinese and U.S. exports to third countries is likely to intensify competition between European and Chinese producers in key markets. European consumers stand to benefit from lower prices.

Keywords: Tariffs, trade policy

- Mit dem KITE-Modell analysieren wir die wirtschaftlichen Kosten der Trump'schen Zollpolitik für Europa und untersuchen das Potenzial für Handelsumlenkungen aus China.
- Sollte das aktuelle Zollregime bestehen bleiben, würde der Handel zwischen den USA und China drastisch zurückgehen — mit negativen Folgen vor allem für die US-amerikanische und chinesische Wirtschaft. Die direkten wirtschaftlichen Auswirkungen auf Europa scheinen begrenzt zu sein.
- Die erwartete Umlenkung chinesischer und US-amerikanischer Exporte in Drittländer dürfte den Wettbewerb zwischen europäischen und chinesischen Produzenten auf wichtigen Märkten verschärfen. Europäische Verbraucherinnen und Verbraucher könnten von niedrigeren Preisen profitieren.

Schlüsselwörter: Zölle, Handelspolitik

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The consequences of the Trump trade war for Europe

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This paper investigates the likely economic consequences of the Trump administration's trade policies, alongside the announced Chinese countermeasures, including the retaliatory tariffs confirmed to take effect on April 9, 2025, as well as the partial exception for U.S. mobile phone imports and computer imports from China. Our focus is on the consequences for Europe, albeit there is no question that the U.S. and China will witness the strongest economic repercussions from almost prohibitively high tariffs on each others' exports. We assume that the current "truce" becomes the new normal in world trade and map the short-run consequences over the next year.

More precisely, we study a scenario where additional U.S. tariffs on imports are implemented as announced on April 9, 2025, which reduced previously announced country-varying supposedly "reciprocal", non-WTO-conforming tariffs imposed for most countries. Specifically, all countries' imports are subject to an additional 10pp. Different tariffs apply for automotives, steel & aluminum — where sectoral tariffs had previously been imposed – as well as exceptions for pharmaceutical and high-tech products — where sectoral tariffs are pending. In addition, we factor in the escalating tariff measures between the U.S. and China, reaching up to an additional 145pp or 125pp, respectively.

The economic effects are modeled using KITE, the Kiel Trade Policy Evaluation Model suite, which employs a computable general equilibrium (CGE) framework classified as a "New Quantitative Trade Model", as outlined in Hinz, Mahlkow, and Wanner (2025). This framework builds on the multi-sector Ricardian trade model developed by Caliendo and Parro (2015), itself rooted in the foundational work of Eaton and Kortum (2002). Trade policy is captured through changes in trade barriers, encompassing both tariffs and non-tariff measures.

Our analysis zooms in on the short-run, first-year implications of these tariffs for exports, output, and inflation in the United States, China, and Europe, as well as the potential rerouting of Chinese exports to alternative markets such as the European Union, as simulated in the KITE model.

Figure 1

1 Economic costs

The economic costs of the Trump tariffs are overall manageable for Europe. Since tariffs have been significantly raised against (almost) all countries, the impact on German, French and European total exports are likely to remain moderate in the short-run (Germany: -0.16%; France: +0.03%, EU: -0.01%, see Fig. 1). This partly reflects the fact that the imposed tariffs on China are considerably higher, so that European goods become an alternative in the U.S. market. Chinese exports will fall more strongly (-4.75%). Most strongly affected is the U.S. with an export drop of close to 17%. The key reason for the relatively low overall reduction in Chinese exports is that non-U.S. destinations will stay open.

The resulting output cost is likely to remain manageable (Germany: -0.21%; France: -0.07%, EU: -0.12%, see Fig. 2). The strongest effects can once more be expected in the U.S. (-1.63%).

Figure 2

A key reason is the design of the Trump tariffs that affect virtually all countries. This means that U.S. importers cannot easily switch to cheaper suppliers elsewhere and simply have to accept higher prices. As a result, the tariffs in their current form bring moderate trade effects but strong price effects in the U.S. A recession in the U.S. now seems more likely than not. For the Federal Reserve, it will be difficult to stabilize the economy through rate cuts at the time of a substantial rise in inflation as Jay Powell underscored in his speech on April 16 in Chicago.

The U.S. tariffs on European products are somewhat more costly for European countries that export more to the U.S.. Although the simulated policy does not discriminate across EU countries and products, the cost is not equally born by different member states. More open economies like Germany pay a somewhat larger cost. The differential cost imposed to EU members is driven by reduced exports to the U.S., which is more costly for countries and sectors that are more exposed to the U.S. market. While the U.S. market represents 5.8% of Europe's total exports, this number

rises to 7.5% for Germany and 11.6% for Ireland (Source: Atlas of Economic complexity).

2 Price effects

Figure 3

A one-time deflationary impulse of up to 0.34 percentage points is expected for Germany and the EU (see Fig. 3), concentrated in sectors that export heavily to the U.S., such as automobiles and mechanical engineering. The disinflationary impulse may to some extent be counterbalanced by supply chain disruptions, but the combined effect of weaker growth, greater uncertainty and more good supply from China and other exporter may well open up room for faster interest rate cuts by the European Central Bank.

The strongest price effects will be seen in the U.S. with inflation topping 5% over the next months. Import tariffs are distortive and the cost is borne mainly by consumers. In the

extreme case scenario, domestic prices increase by the full amount of the tariff (full pass-through) and the impact on consumers' welfare depends on the pre-tariff share of foreign goods in domestic consumption, scaled by the price elasticity of demand. Contrary to Trump's repeated statements, this cost is high even when imports from the targeted country stop, as domestic producers of substitutable products adjust their price, too. These producers thus receive a positive rent.[1] Additionally, imported inputs for domestic production are also subject to these tariffs, making U.S.-based production more expensive as well. The opposite is expected to happen in China where the deflationary effect is pronounced (about -2.65%).

3 A Chinese export "glut"?

Due to trade diversion from China towards alternative markets, EU imports from China are expected to increase (see Fig. 4). A "glut" of Chinese exports going towards other countries is a much feared side-effect of the Trump tariff policy. If the resulting market distortions are severe, the introduction of sectoral safeguards is a risk that could result in much lower trade volumes between third countries.

Under the current scenario, trade between China and the U.S. is expected to decline by about 47% in the short term, while in the long run, the effects would be significantly higher (likely above 70%). Chinese exports to the U.S. currently stand at over $400 billion. The current exemption from tariffs for mobile phones and computers amounts to roughly 80 billion. As the remaining export volume falls by 40-50%, up to 150bn of Chinese goods could be diverted to the rest of the world. The EU accounts for about 15% of Chinese exports (in total the EU imports approx. $500 billion from China). If the increase in Chinese exports to the rest of the world follows these trade shares, exports to the EU would rise by up to 25 billion or roughly 5%. However, it is likely that a significant portion will also be absorbed domestically in China, which has an export-to-GDP ratio of about 20%. Therefore, 5% is probably an upper bound in the short term. More likely is a number in the 10-15 bn range. In the long term, however, the effects will be significantly stronger. Trade diversion to Europe will be greater, accentuating competitiveness challenges.

At the same time, effects could be more pronounced in certain sectors and product markets. In Fig. 5 we relate the likely volume of "missing" Chinese exports to the U.S. to the total global trade in these sectors and product groups. The higher the share of Chinese goods that are no longer absorbed by the U.S. relative to global exports in the category, the greater the potential for major dislocations

[1] Evidence from the 2018-2019 U.S.-China trade war show that U.S. tariffs were fully passed onto the U.S. (Fajgelbaum, Goldberg, et al., 2020). In the 2018 U.S.-China trade war, the cost born by U.S. consumers has been estimated at 0.61% of GDP or 114 billion USD, for a 15% average tariff targeting roughly 15% of U.S. imports or 2.5% of U.S. GDP (Fajgelbaum and Khandelwal, 2022).

Figure 4

Table 1: Top HS6 Products by Increase in Supply on "Rest of the World" market

HS6 code	Impact China → USA	Description
950510	493.5%	Articles for Christmas festivities
160417	334.2%	Prepared or preserved fish, tuna
670210	297.8%	Artificial flowers, of plastics
630110	289.6%	Electric blankets
630140	260.0%	Blankets (excluding electric), synthetic fibres
293080	253.1%	Organo-sulphur compounds, nes
670290	246.5%	Artificial flowers, other materials
950590	234.1%	Festive, carnival or entertainment articles, nes
630253	214.0%	Table linen, man-made fibres, not knitted
360410	204.5%	Fireworks

Figure 5

Table 2: Top HS6 Products with at least 0.1% global share in trade by Increase in Supply on "Rest of the World" market

	Impact	
HS6 code	China → USA	Description
847130	87.6%	Portable digital automatic data processing machines
950450	84.3%	Video game consoles and machines
950300	71.7%	Toys, nes (including scale models, puzzles, etc.)
852852	49.5%	Monitors capable of directly connecting to a computer
851713	37.5%	Smartphones
851830	34.1%	Headphones and earphones, with or without microphone
850760	28.8%	Lithium-ion accumulators (batteries)
611030	24.4%	Pullovers, cardigans, etc., of man-made fibres, knitted
640299	22.7%	Footwear, not covering the ankle, nes
640419	16.4%	Sports footwear with outer soles of rubber/plastics, nes

in these markets. These in turn could serve as a reason to raise sectoral safeguards. As can be seen, the list is topped by "miscellaneous manufacturing" and other light manufacturing like textile and shoes. In bigger markets such as machinery, metals, chemicals, and transport equipment the value of Chinese exports that no longer go to the U.S. is generally below 5% of the global market in these

categories. However, it can also be seen that in some individual product categories the potential for market distortions is rather high.

Looking at the product level, the list presented in Table 1 gives some indication as to where the competitive pressure from rerouted Chinese exports is likely to be the strongest. We first look at all product groups where the additional supply will have the largest relative effects. The HS6 code most affected by the trade barriers between the U.S. and China will be Christmas decoration and other generally low value markets dominated almost entirely by Chinese producers. Focusing on major products in global trade — those accounting for at least 0.1% of the total value of all traded goods — Table 2 shows that consumer tech products (laptops, video game consoles, smartphones) are projected to experience significant increases in market supply.[2]

Table 3: Top Exporters by Exposure to Surplus Sectors from U.S.–China Trade Disruption

Country	Share of global exports (%)	Exposure to surplus sectors (%)
Vietnam	1.6	13.4
Cambodia	0.1	12.2
Bangladesh	0.2	8.1
Sri Lanka	0.1	7.7
Czechia	1.0	7.5
Pakistan	0.1	7.4
Hong Kong SAR China	0.5	6.5
Hungary	0.6	6.4
Myanmar (Burma)	0.1	6.0
Poland	1.2	5.7
Netherlands	2.4	5.5
Slovakia	0.5	5.1
Tunisia	0.1	4.9
Estonia	0.1	4.9
Dominican Republic	0.1	4.6
Mexico	2.3	4.3
India	1.8	4.3
Latvia	0.1	4.2
EU27	25.6	4.2
Germany	6.3	4.1

Finally, Table 3 summarizes which countries' exports are most exposed to the potential "glut" of Chinese products in global markets, computed as the countries' exports-weighted average increase in Chinese supply to non-U.S. markets. Table 4 shows which countries' consumers can expect a

[2]Tables 5 and 6 in the appendix show the respective top HS2 chapters and HS4 headings. In Table 7, we focus on the HS6 products within the HS sections for chemicals (chapters 28–38), metals & metal articles (chapters 72–83), machinery & equipment (chapters 84–85), as well as transport equipment (chapters 86–89). The biggest potential for market effects appears in the "Organic chemicals" product groups (HS Chapter 29).

significant windfall because of their exposure to cheaper imports from China.

On the export side, the main competitors that will have to cope with the effects of "surplus" Chinese goods in markets, are Vietnam, Cambodia, and Bangladesh. Among the European countries, the Czech Republic, Poland, and the Netherlands are most strongly exposed. For these countries, Chinese rerouting will constitute an increase in supply of about 5-7% for their global export market, where additional Chinese supply can be expected to have significant impact on prices and volumes traded.

On the import side, countries stand to gain if their import baskets are heavily exposed to products and sectors in which surplus Chinese exports will bring falling prices. The strongest effects here can be expected to materialize in economies that are closely intertwined with China in Central Asia, Latin America, and the Middle East. But Japan and a number of European countries will also see positive terms of trade effects from trade diversion.

Table 4: Top Importers by Exposure to Surplus Sectors from U.S.–China Trade Disruption

Country	Share of global imports (%)	Exposure to surplus sectors (%)
Kyrgyzstan	0.1	11.8
Paraguay	0.1	11.1
Russia	0.8	9.1
Kazakhstan	0.3	8.8
Ghana	0.1	8.7
Iran	0.1	8.5
United Arab Emirates	1.4	8.0
Czechia	0.9	8.0
Iraq	0.3	7.8
Belarus	0.1	7.7
Australia	1.1	7.6
Philippines	0.5	7.2
Canada	2.1	7.0
New Zealand	0.2	6.9
Slovakia	0.4	6.9
Peru	0.2	6.8
Japan	2.8	6.8
Poland	1.3	6.8
Libya	0.1	6.8
Netherlands	2.8	6.7

4 Conclusions

The economic dislocations caused by the current tariff war can be substantial in certain sectors and product groups. The overall output effects for the European economy appear manageable, according to KITE model. On the price side, Europe will likely see a modest deflationary impulse, barring major disruptions in production chains.

The more open the (non-US) rest of the world economy remains, the lower the costs of the Trump tariffs will be for Europe and for all other countries. The EU's main task is to act as a leading power to keep the world economy open and to limit second-round effects that could harm rules-based trade—such as through special bilateral "deals." The EU should take a clear stance, for example toward Cambodia and Vietnam to adhere to WTO principles when striking special "deals" with Trump. Toward third parties, the EU should present itself as a reliable partner that does not raise barriers and instead promotes more free and rules-based trade. This will help keep costs low for Europe and avoid a downward spiral of global trade as in the 1930s.

It seems unlikely that the tariffs can be fully negotiated away, and the open U.S. economy will not return anytime soon. Trump appears determined to fundamentally reshape the country's integration into the global economy. At the heart of the recent turn in American foreign economic policies lies a fundamental skepticism toward globalization itself, championed by Donald Trump and his team. More precisely, the recent inward shift in U.S. foreign economic policy was driven by four core motives: securing electoral support in key manufacturing swing states; a certain nostalgia for an bygone era of robust American industrial power; advancing national security arguments that emphasize the need for greater domestic industrial capacity in the face of strategic rivalry with China; and finally, creating fiscal space to make the 2017 tax cuts permanent by raising revenue through trade measures. Trump will thus not make a 180-degree turn. However, if domestic political difficulties for him increase, compensatory agreements in other areas might be conceivable—areas that are less ideologically charged. For example, Europe could accept the tariffs due to their relatively low cost, in exchange for security guarantees and a bigger say in Ukraine negotiations, hence taking the negotiations to areas where Europe's interests are more vital and threatened more directly than by the imposition of a 10% import tariff by the U.S..

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Table 5: Top HS2 Chapter by Trade Impact (US-China Tariffs)

	Impact	
HS2 code	China → USA	Description
67	96.2%	Prepared feathers, artificial flowers
66	70.9%	Umbrellas, walking-sticks, whips
95	61.8%	Toys, games, sports requisites
63	27.4%	Other made-up textile articles
65	21.4%	Headgear and parts thereof
46	19.2%	Manufactures of straw, basketware
94	16.2%	Furniture, bedding, lighting
96	14.4%	Miscellaneous manufactured articles
92	10.9%	Musical instruments, parts and accessories
36	9.9%	Explosives, pyrotechnics, matches

Table 6: Top HS4 Headings by Trade Impact (US-China Tariffs)

	Impact	
HS4 code	China → USA	Description
9505	349.2%	Festive, carnival or other entertainment articles
6702	273.8%	Artificial flowers, foliage and fruit
9617	190.2%	Vacuum flasks and other vacuum vessels
6301	143.0%	Blankets and traveling rugs
8306	117.9%	Bells, gongs, statuettes, ornaments of base metal
6704	110.4%	Wigs, beards, eyebrows and similar articles
8513	107.5%	Portable electric lamps
9615	100.8%	Combs, hair-slides and similar hair accessories
4903	94.0%	Children's picture, drawing or coloring books
3604	89.8%	Fireworks and other pyrotechnic articles

Table 7: Top HS6 Products by Trade Impact (US-China Tariffs) in Machinery, Transport, Metals, and Chemicals Sectors

	Impact	
HS6 code	China → USA	Description
293080	253.1%	Organo-sulphur compounds, nes
360410	204.5%	Fireworks
732119	198.1%	Gas cookers and appliances (non-electric), nes
290347	186.2%	Trichloroethylene
293492	168.4%	Antibiotics, nes
841451	148.7%	Fans (table, floor, wall, etc.), with a motor
830629	145.2%	Base metal fittings for furniture, doors, etc., nes
853952	142.2%	LED lamps
291462	127.4%	Glutamic acid and its salts
290372	132.9%	Perchloroethylene (tetrachloroethylene)

IMPRESSUM

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