

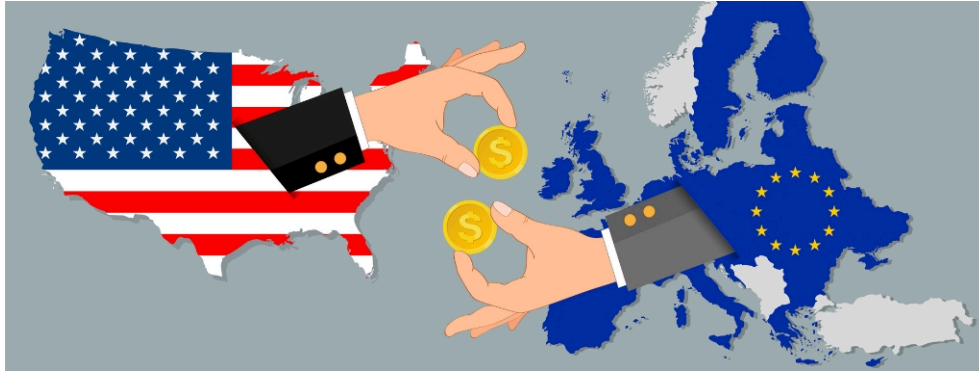
# US-Tariffs: Costs and threats for Europe

Under the tariff regime introduced by the first Trump administration, European exports development of steel and aluminium products to the US clearly lagged behind those to the rest of the world. Trump's demand for a 10% universal tariff on all goods imports would probably have a noticeable, but not decisive, impact on goods exports and GDP in the euro area. The biggest risk is that Trump's logic of universal import tariffs will become general policy and lead to a spiral of ever higher reciprocal tariffs.

*General tariffs have an immediate damaging effect and are harmful in the long run* **1**

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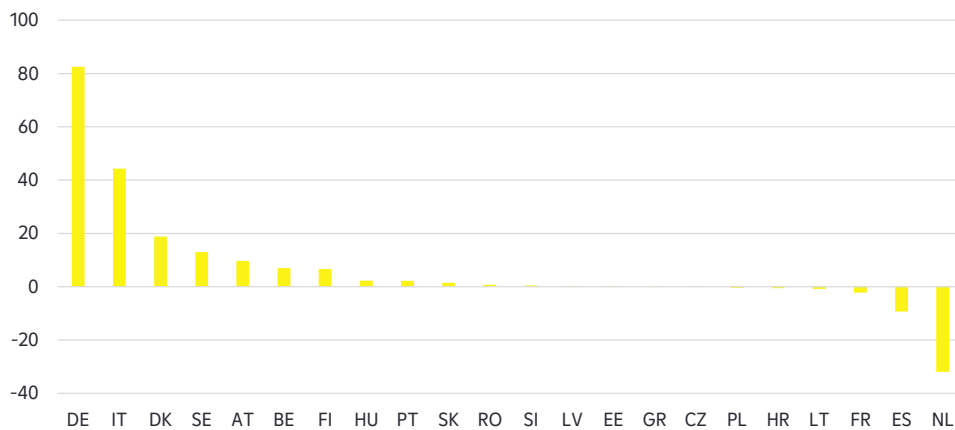
Analyst **8**



## General tariffs have an immediate damaging effect and are harmful in the long run

'Trump is back' and with him, the Republicans were able to secure a majority in both the Senate and the House of Representatives, which will make it much easier to implement election promises. The key intentions are general tariffs on imported goods, tax cuts, regulatory relief, a reduction in the cost of living and a significant restriction on immigration to the US. From a European perspective, the **demand by Trump for universal tariffs on all (?) European imported goods** in the amount of 10% (or even 20%) stands out. The argument is that the US has a significantly negative trade balance with some European countries, which is considered 'unfair'.

### Trade balance with the U.S. - goods (EUR bn.)



Source: Eurostat, RBI/Raiffeisen Research

However, this view does not take into account the service sector. In a holistic view – i.e. taking goods and services across the EU together and in relation to the size of the economy – the value of the mutual exchange of goods turns out only slightly to the disadvantage of the USA.

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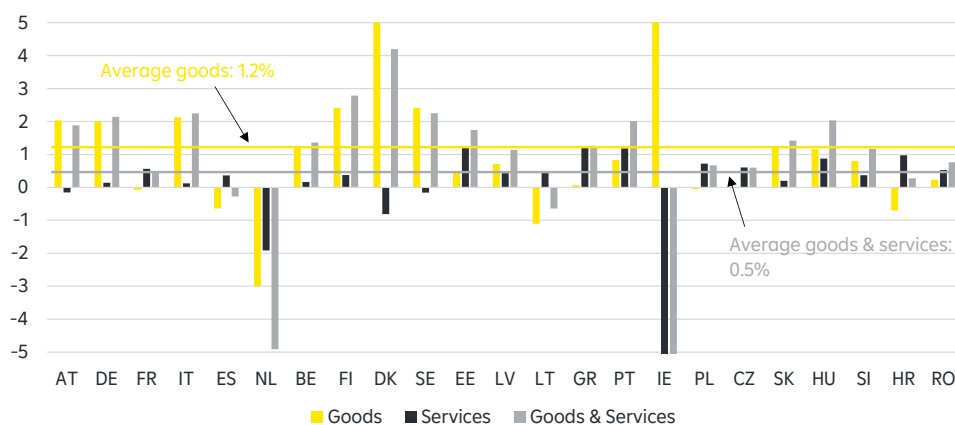
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### Trade balance with the U.S. (% of GDP)

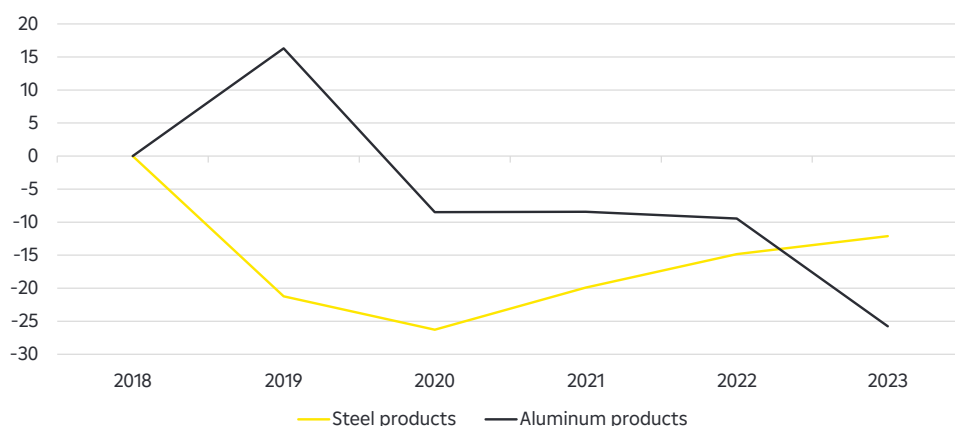


Source: Eurostat, RBI/Raiffeisen Research

In any case, Trump's primary motivation for imposing tariffs is not to compensate for unfair conditions, but rather to create the best possible starting position for domestic producers (and their employees) (= America first). It can therefore be assumed that the extent and scope of the tariffs will still be negotiated in the context of general economic interests (keyword: purchase of liquefied gas). Nevertheless, we have assumed a tariff rate of 10% on goods exports to the USA in our **new GDP forecasts** (see **Playbook Trump 2.0 - Forecasts & Industry Trends**). To assess the implications of US tariffs on European goods exports for the European economy, we analysed the development of exports of steel and aluminium products in the years in which tariffs were imposed.

The first Trump administration introduced a **tariff of 25% on steel** in June 2018, which was extended to steel products in 2020. The **tariff on aluminium** and, later, aluminium products was **10%**. These tariffs were partially suspended at the beginning of 2022. **Exports of these goods to the US grew much more slowly than to the rest of the world** until 2021. The following chart shows the development of EU exports of steel and aluminium from 2018 onwards (indexed with 2018 = 100), with the change in exports to the US minus export momentum to the rest of the world. The export volume of steel products lagged around 20 percentage points behind the general export trend until 2021, the underperformance for aluminium products was just over 8 percentage points.

### EU-Export volume to the U.S. vs. rest of the world (since 2018, percentage points)



Source: Eurostat, RBI/Raiffeisen Research

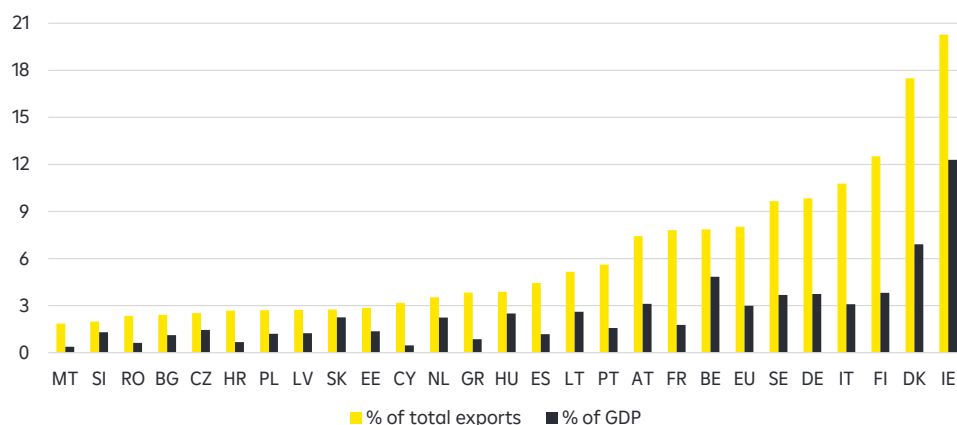
Tariffs alone certainly do not explain all of the relative development. For example it is noticeable that steel exports to the US were already clearly weaker in 2019 and that this trend was even more pronounced in 2020, while aluminium exports to the US only started

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to lag behind the general trend in 2020 and then fell significantly again in relative terms in 2023. Nevertheless, the trend observed can be used to conclude that **one percentage point of customs duties on steel and aluminium products reduced export volumes by around 0.8 per cent**. Generalising the results, it can be roughly estimated that a **Trump tariff regime of 10% could reduce EU exports to the US by eight percent compared to a scenario without tariffs**. This must be seen as an upper limit. After all, simple steel and aluminium products are more substitutable than specialised machinery, unique components or a highly sought-after pharmaceutical product for weight loss (see Denmark's exports), the demand for which should thus show significantly less price sensitivity.

The **direct GDP effect** of this rough estimate for the development of goods exports **for the euro area would be around 0.3%**. This conceals the fact that countries with stronger trade ties with the US (Germany!) would be hit much harder.

### Goods exports to the U.S. (2023)



Source: Eurostat, RBI/Raiffeisen Research

However, when making statements at the country level, the distribution effect along the production process must be taken into account, too. After all, in the highly integrated EU single market, the entire production process for a product usually does not take place in a single country. So while a country is an exporter to the US, the (possibly reduced) value added is actually spread across several countries. Furthermore, **indirect effects** are not taken into account. **Employment effects** (lower sales reduce the demand for labour), for example, could also have a negative impact. A possible reduction in profitability or a competitive disadvantage for an European location for products in demand in the US could also **weigh on investment decisions** in the medium term. By contrast, a continued strength of the US dollar dampens the negative impact on European exporters. Since the end of September, the euro has lost around 5% of its value vs the USD. In our revised assumptions, we expect the EUR/USD exchange rate to remain low. The exchange rate channel thus compensates for part of the tariff disadvantage.

**Tariffs of 10%** on all exports of goods to the US would probably have a **noticeable but not decisive** impact on the **development of total goods exports and GDP in the euro area**. This is consistent with the observation that, in the past, the European export industry was able to absorb significant exchange rate fluctuations, which, like tariffs, can quickly change sales prices or margins.

The greatest **danger** is that Trump's **logic of universal import tariffs** will become generally accepted and lead to a spiral of **ever higher reciprocal tariffs**. The starting point of this (mercantilist) trade policy is not to secure the domestic production of individual goods based on well-defined interests (e.g. balancing external dependencies for essential goods). Furthermore, the compensation for unfair conditions (subsidies of the exporting country, low standards of social norms or environmental protection in the country of production)

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apparently does not play the decisive role either. Rather, the motivation is to be to give domestic production a general head start or to attract investment into the country. Moreover, the additional government revenue from tariffs can be distributed to a selected clientele. The price for this is often paid by domestic consumers, but – if discounts are given – also by foreign companies. However, if both trading partners pursue this 'beggar thy neighbour' policy, the **redistribution attempts by means of tariffs come at the expense of the efficiency and prosperity of all trading partners**. In the current context, a Republican-led US government – note the irony given the traditional economic policy orientation of this party – could be the trigger for rising general trade barriers between the three largest global trade blocs, the US, the EU and China. Not fairly distributing the gains of globalisation, but indifferently scaling them back, is **deglobalisation at its worst**.

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