Update to the study "Transatlantic Cooperation instead of Trade War"

Isolation with 50% tariffs hits the US itself hardest

There appears to be no end in sight to the erratic tariff announcements by US President Trump. After suspending the reciprocal tariffs that had been announced on "Liberation Day" for a period of 90 days with effect from 9 April, US President Trump declared on 23 May that he would impose tariffs of 50% on all European imports from 1 June 2025. This move comes amid escalating tensions in the transatlantic trade dispute after negotiations between the US and the EU stalled. The US government has even gone so far as to call these additional tariffs of 50% a "deal".

The uncertainty surrounding trade policy has thus reached new heights, as just two days later, US President Trump agreed to postpone the planned tariffs until 9 July. The blanket tariff of 10% on almost all imports, including those from the EU, will remain in place, as will sector-specific tariffs on motor vehicles, steel and aluminium. However, as announced, US import tariffs on steel and aluminium have meanwhile been doubled to 50% with effect from 4 June. Given the rapidly changing course of US tariff policy, it is difficult to predict with any degree of accuracy how EU-US trade relations will develop in the future, although various scenarios have been put forward.

The study "Transatlantic Cooperation instead of Trade War" uses the KITE simulation model to examine the economic consequences of various trade policy scenarios between the EU and the US, ranging from a trade war to a trade deal. In view of how things were looking in mid-May, with the trade dispute between the US and China easing up and both sides temporarily lowering their tariffs, no one was expecting the tariff hikes to be as steep as 50%.

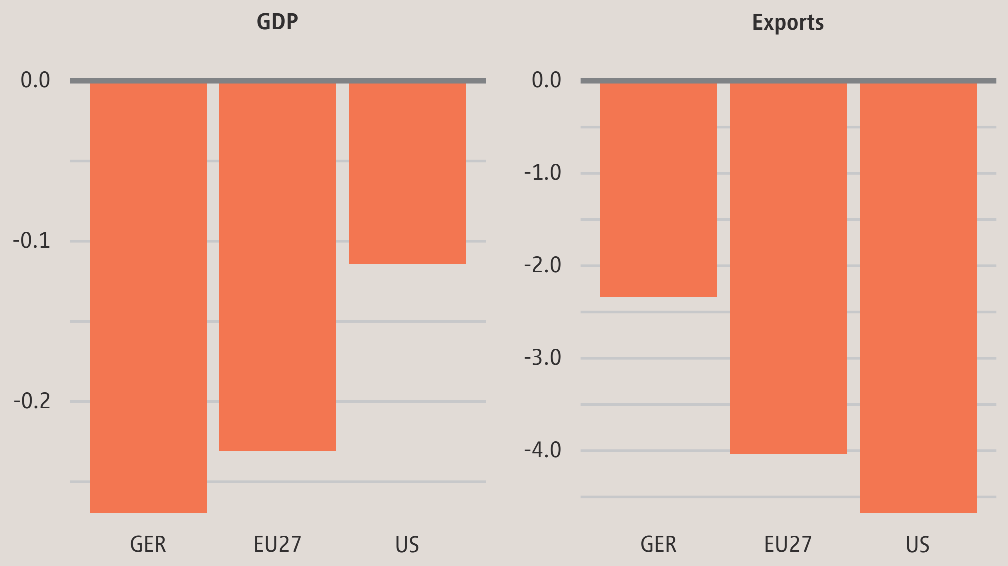
For example, in the "Trade war – 25%" scenario, the study takes into account blanket additional tariffs of 25% on all goods imported from the EU, which were then supplemented in further sub-scenarios with corresponding counter-tariffs by the EU. The "US isolation" scenario with 50% tariffs recently announced by US President Trump represents a marked escalation of transatlantic trade tensions. In contrast to the "Trade war – 25%" scenario, the "US isolation" scenario assumes that additional tariffs of 50% will be levied on goods imported from the EU. No counter-measures by the EU are assumed, as these have not yet been communicated. The key impacts of this escalation in the EU-US trade dispute on the real economy are outlined below.

Impacts of US isolation with 50% tariffs

The impacts of 50% tariffs on European imports highlight how vulnerable European economic relations with the US are, with Germany's export-oriented economy being hit particularly hard.

The announced 50% tariff would reduce GDP in the EU and Germany by just over 0.2% and just under 0.3% respectively, compared with 0.1% in the US (see Figure 1).[1]

Figure 1: Change in real GDP (left) and total exports (right) relative to the status quo (2019)



Source: Own calculations.

Total exports are set to decline more sharply for the US (-4.7%), as European exporters (-4.0%) and German exporters (-2.3%) will be able to offset the steep declines in bilateral exports to the USA (EU: -44.8%; GER: -50.4%) in the long term by redirecting their trade flows to other trading partners within and outside the EU (see Figure 1). Meanwhile, the high US tariffs are driving up production costs for US companies that rely on imported intermediate goods. This in turn reduces their competitiveness and, as a result, US exports.

A regional analysis shows that the effects of the 50% tariff escalation vary greatly between different regions of Europe, revealing both winners and losers (see Figure 2). The regions of Southern Ireland and Eastern Ireland will feel the impact most acutely, with real GDP falling by 1.7% and 1.6% respectively under the "US isolation" scenario.

1 By comparison, if the EU were to impose WTO-compliant tariffs of 25% on both goods and services from the US – as in the "Trade war – 25%" scenario – GDP would fall by 0.2% in the EU and Germany and by 0.1% in the US.

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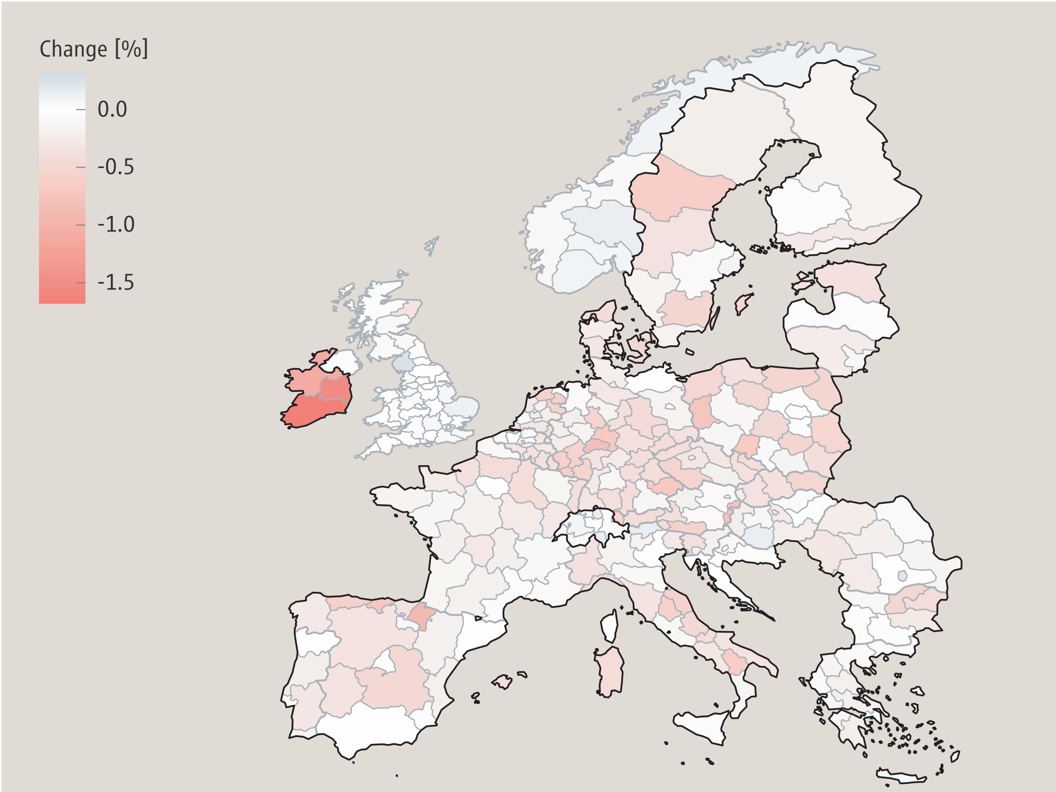
Figure 2: Change in real GDP in regions of Europe relative to the status quo (2019)



Source: Own calculations.

The data is taken from the study **"Transatlantic Cooperation instead of Trade War"** prepared by a team of researchers led by Prof. Gabriel Felbermayr, PhD, for the Foundation for Family Businesses.

The impact on all regions in Europe, based on four different scenarios, is illustrated in this interactive graphic:

To the German study:

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