ANALYSIS

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The economic impact of Trump's tariffs on Europe: an initial assessment

It is likely that Trump's tariffs will be a limited hit to Europe, though some regions and industries could suffer and may need protective measures

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President Donald Trump's tariffs clearly pose a profound challenge to the global rules-based trading system, marking a huge shift after decades of multilateral trade liberalisation that had left tariffs at near-historic lows. The economic impact on the European Union is much less clear, however. Evidence on the possible economic effects of Trump's tariffs suggests that the macroeconomic consequences for the EU could be significant but manageable and fear of trade diversion from China is likely exaggerated.

The transatlantic tariff wall

The EU and US do not have a free trade agreement (FTA) and until now have traded under the most-favoured nation (MFN) tariffs they offer to all World Trade Organisation members. Figure 1 shows the average tariffs rate on EU-US trade since 2000 (weighted by trade volumes) and the expected average level of the US tariffs on the EU announced by Trump[1] .

Before the trade war, the average US tariff rate on imports from the EU was 1.47 percent, while on EU imports from the US it was 1.35 percent. Based on 2023 trade volumes, full implementation of Trump's tariffs (Figure 1) would raise the average tariff rate on imports from the EU to 15.2 percent. Most of this comes from the 20 percent 'reciprocal' tariff on most products (9.7 of an increase of 13.7 percentage points), while tariffs on steel and aluminium (1.4 percentage points) and vehicles (2.6 percentage points) contribute relatively little[2] . Tariff exemptions at time of writing for some goods

(mainly pharmaceuticals and electronic products such as smartphones) reduce the average tariff rate somewhat.

Trump's 9 April announcement of a 90-day pause on full implementation of some of these tariffs has reduced the rate on most products from the EU to 10 percent[3]. Tariffs on steel, aluminium and vehicles remain in place. As long as the pause lasts, the average bilateral tariff is estimated to be 9.9 percent, or an 8.4 percentage point hike compared to 2023.

Impact on the European economy

The hit for the European economy will depend on the actual tariff rate the US settles on and on the EU's response[4]. The European Commission has formulated a response to the steel and aluminium tariffs, but on 14 April suspended this retaliation[5].

Figure 2 summarises findings from five studies that estimate the long-term impacts on the US and Europe of various tariff scenarios – a trade deal, unilateral US tariffs and US tariffs plus retaliation. The tariffs modelled by these studies range from 10 percent to 25 percent for all US trade partners, sometimes excluding Mexico and Canada. Most studies assumed a 60 percent tariff on China. Retaliation by trade partners was assumed to be in equal measure to the US tariffs.

Figure 2: Long-run impact estimates of tariff scenarios

Source: Bruegel based on Felbermayr *et al* (2024), Bouët *et al* (2024), Goldman Sachs (2024), Du and Shepotylo (2025) and McKibbin and Noland (2025). Note: colours represent scenarios: green = US-EU deal on manufacturing or agriculture; orange = unilateral US tariffs; red = retaliation by US partners.

While the scenarios in Figure 2 may differ from the tariffs the US will ultimately settle on, the impact estimates for the EU do not vary greatly between models and scenarios. These estimates thus support several conclusions.

First, the impact on trade would likely be significantly lower for the EU than for the US. US exports to the EU could drop by between 8 percent and 66 percent if no deal is reached, compared to a 0.6 percent to 1.1 percent decline for EU exports to the US. The greater impact on the US is explained partly by scenarios in which all US trading partners retaliate. For the US, this would reduce trade with all countries, but for all other countries it would reduce trade with only one partner – the US.

Second, the impact on GDP would likely be low, and the US would be impacted more heavily than the EU, mainly because of the US' reliance on imports of final-consumption goods and inputs to US manufacturing. In a no-deal scenario, US GDP could decline by 0.7 percent while EU GDP could contract by 0.3 percent, with all scenarios bar one calculating a drop between zero and 0.5 percent of GDP for the EU. The range of estimates is significantly larger for the US, especially in scenarios in which there is retaliation. Among the large European countries covered by most studies, the German economy could be particularly severely affected, with an average estimated GDP contraction of 0.4 percent.

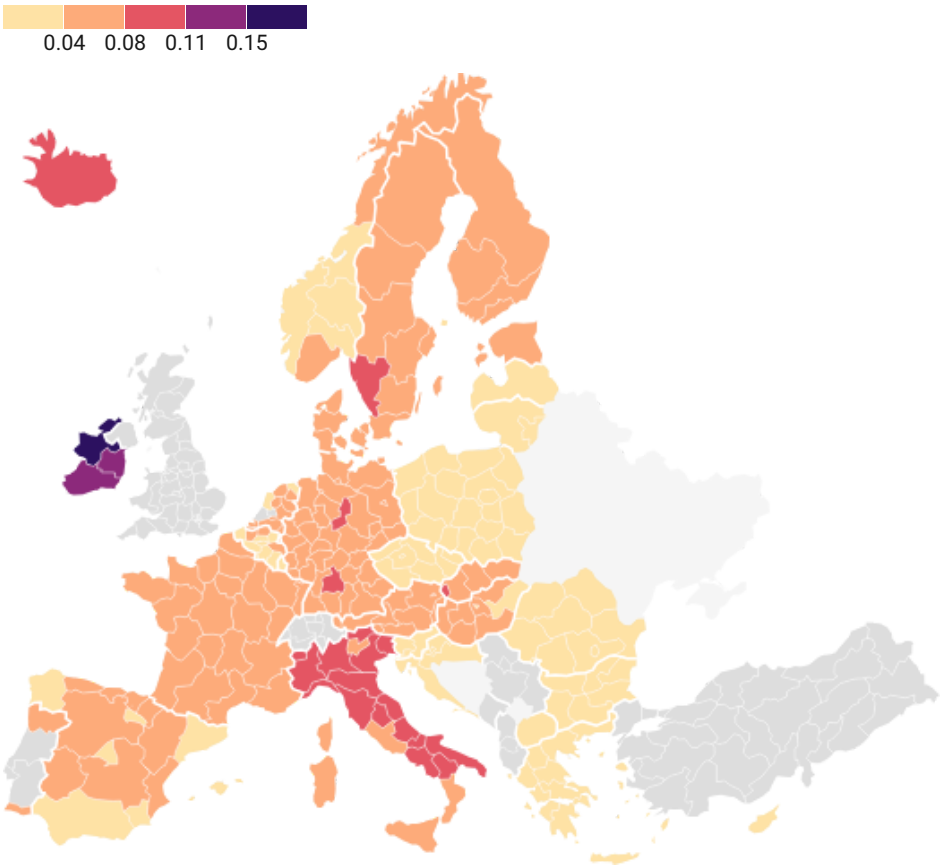
The short-run impact could be greater, but models that include both short- and long-term estimates foresee larger long-term impacts (Felbermayr *et al* 2024, McKibbin and Noland 2025). An overall GDP drop of about 0.3 percentage points is significant but unlikely to push the EU economy into a recession as the EU was expected to grow by 1.5 percent in 2025 before the tariffs. It should be noted that these models do not account for all effects, such as the risks posed by a financial crisis in the US.

This effect is small compared to other shocks (eg COVID-19: -5.6 percent; the energy crisis caused by Russia's invasion of Ukraine: -2.4 percent) because of the relatively limited exposure of the EU economy to trade with the US. While 21 percent of extra-EU exports go to the US, the EU value added embedded in them represented only about 2.9 percent of EU GDP in 2021. As most other economies will be equally affected by Trump's tariffs (and China much more severely), the main effect will be a suppression of US demand, rather than a negative competitiveness shock relative to other economies.

Regional exposure

While the macroeconomic effect for the EU appears manageable, it would nevertheless be problematic if the impact were concentrated in a few regions. Figure 3 shows an index for how exposed employment in EU regions is to US tariffs, with darker colours indicating more vulnerability.

Figure 3: EU, exposure of regional employment to tariffs



Source: Bruegel based on Eurostat structural business statistics (SBS) and the OECD trade in value added database (TiVA). Note: calculated by multiplying for each industry the value added embedded in exports to the US as a share of total value added at the national level by the share of employment in an industry in each region. A higher value indicates a greater vulnerability to US tariffs. Excludes pharmaceutical goods, which are at the time of writing mostly not subject to tariffs.

• Created with Datawrapper

Overall, the exposure is widely and relatively even spread. Ireland is by far the most exposed country, driven by its strong export orientation towards the US. Chemicals, transport equipment and repairs, and food and beverages have very high export value added and relatively large employment shares in Ireland. If pharmaceuticals were

included, the effect would be stronger still, given Ireland's large, US-geared pharma industry. Italy is the second most-exposed country, with a high exposure in transport equipment and a high level of exposed employment in fashion and car manufacturing. Italy would also have high exposure in pharmaceuticals.

Trade diversion from China

Beyond the direct impacts of the tariffs on EU GDP, the astronomical tariffs on China could lead to diversion of Chinese goods from the US to the EU, a pattern observed during the 2017-2019 US-China trade war (Evenett and Espejo, 2025). This could put domestic industries under high pressure. An inflow of Chinese goods would put pressure on domestic manufacturers insofar as the same goods are produced within the EU. However, even before Trump's latest tariff announcements there were already relatively high US tariffs on many Chinese products and only 13.5 percent of Chinese exports go to the US.

Figure 4 plots the relationship between Chinese exports to the US and the ratio of Chinese exports to the US to EU exports to the world, as a proxy for the extent to which Chinese goods that could potentially be redirected to EU are produced in the EU. The further to the right a product category is on the x-axis, the more disruptive the impact of a Chinese trade diversion to Europe. The higher a product category on the y-axis, the greater the value of the trade flow that could shift towards the EU.

Table 1 shows those products for which Chinese exports to the US represent more than 10 percent of EU exports to the world (to the right of the red dashed line in Figure 4). Since the EU and China have quite distinct comparative advantages, there is little overlap of exports, with only 21 of 94 product categories above this 10 percent threshold. Most represent very small trade flows, with the three most exposed categories (umbrellas, wickerwork and toys) each representing less than 0.05 percent of EU exports.

The most concerning product category for the EU is 'electrical machinery and equipment and parts and thereof', for which Chinese exports to the US were worth approximately $124.8 billion in 2023. Smartphones and lithium-ion batteries account for 31 percent and 10 percent of this category, respectively. The EU produces virtually no smartphones but wants to increase its share of global battery manufacturing. There will be certainly other products for which EU producers will face greater competition,

but the risk overall seems limited and deflationary forces from trade diversion to the EU might end up being beneficial.

Conclusion

The US is withdrawing from global value chains and decoupling from China. The tariffs imposed on imports from the EU are extortionate, even at reduced rates, but the economic impact on the EU appears manageable. European policymakers have many instruments to compensate for the effects: strengthening domestic demand through fiscal policy, signing FTAs with third countries and implementing single market reforms (eg Demertzis *et al*, 2024). The likely deflationary effect of declining global demand should also offer leeway for monetary easing in the EU.

While the effects on some regions could be very significant, the overall limited macroeconomic impact should make it possible to use redistributive policies to cushion the blow for the most affected. The same holds true for greater competition from Chinese exports diverted to the EU. Most Chinese exports to the US are not in direct competition to European production or are not of threatening magnitude. For industries for which this is not the case, World Trade Organisation rules allow safeguard measures to protect industries at risk from sudden surges in imports.

Table 1: Product categories exposed to Chinese trade diversion (2023 data)

Product Name	China's exports to US / EU exports to the world	China's exports to US ($ millions)	Percen of EU t exports
Electrical machinery and equipment and parts thereof	0.18	124779	9.70%
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings	0.29	30655	1.50%
Toys, games and sports requisites; parts and accessories thereof	0.84	29355	0.50%
Articles of apparel and clothing accessories, knitted or crocheted	0.27	18904	1.00%
Articles of apparel and clothing accessories, not knitted or crocheted	0.17	12911	1.10%
Other made-up textile articles; sets; worn clothing and worn textile articles; rags	0.64	10139	0.20%
Footwear, gaiters and the like; parts of such articles	0.17	9465	0.80%
Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	0.16	6614	0.60%
Miscellaneous manufactured articles	0.26	5384	0.30%
Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	0.18	4623	0.40%
Miscellaneous articles of base meta	0.14	4597	0.50%
Glass and glassware	0.11	4072	0.50%
Ceramic products	0.13	2956	0.30%
Headgear and parts thereof	0.33	1424	0.10%

Carpets and other textile floor coverings	0.15	810	0.10%
Musical instruments; parts and accessories of such articles	0.22	575	0.00%
Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	0.88	572	0.00%
Lac; gums, resins and other vegetable saps and extracts	0.11	387	0.00%
Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.73	385	0.00%
Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	0.19	377	0.00%
Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	0.12	323	0.00%

Source: Bruegel based on WITS and UN COMTRADE. Note: the product categories included present a China's exports to US / EU exports the world ratio greater than 10 percent.

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Endnotes

1. Trump has announced – and paused – various tariffs on the EU including a baseline 10 percent tariff, a protective tariff and so-called 'reciprocal' tariffs. See Ignacio García Bercero, 'Trump's tariffs need a strategic response from the EU and others', First Glance, 15 April 2025, Bruegel, https://www.bruegel.org/first-glance/trumps-tariffs-need-strategic-response-eu-and-others

2. For a summary of Trump's tariffs, see Michael J. Lowell, Philippe Heeren, Justin Angotti, Lizbeth Rodriguez-Johnson, Kirsten Lowell and Courtney Fisher, 'Trump 2.0 tariff tracker', Reed Smith Trade Compliance Resource Hub, 16 April 2025, https://www.tradecomplianceresourcehub.com/2025/04/16/trump-2-0-tariff-tracker/.

3. See White House Executive Order of 9 April 2025, 'Modifying Reciprocal Tariff Rates To Reflect Trading Partner Retaliation and Alignment', https://www.whitehouse.gov/presidential-actions/2025/04/modifying-reciprocal-tariff-rates-to-reflect-trading-partner-retaliation-and-alignment/.

4. Niclas Poitiers, 'Five reasons why Europe must retaliate against Trump's tariffs', First Glance, 10 April 2025, Bruegel, https://www.bruegel.org/first-glance/five-reasons-why-europe-must-retaliate-against-trumps-tariffs.

5. European Commission press release of 14 April 2025, 'EU pauses countermeasures against US tariffs to allow space for negotiations', https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1036.

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