

MARKETS INSIDER

A new study says Europeans aren't getting too hurt by Trump's tariffs, instead American are the ones who could be paying the price

Gina Heeb

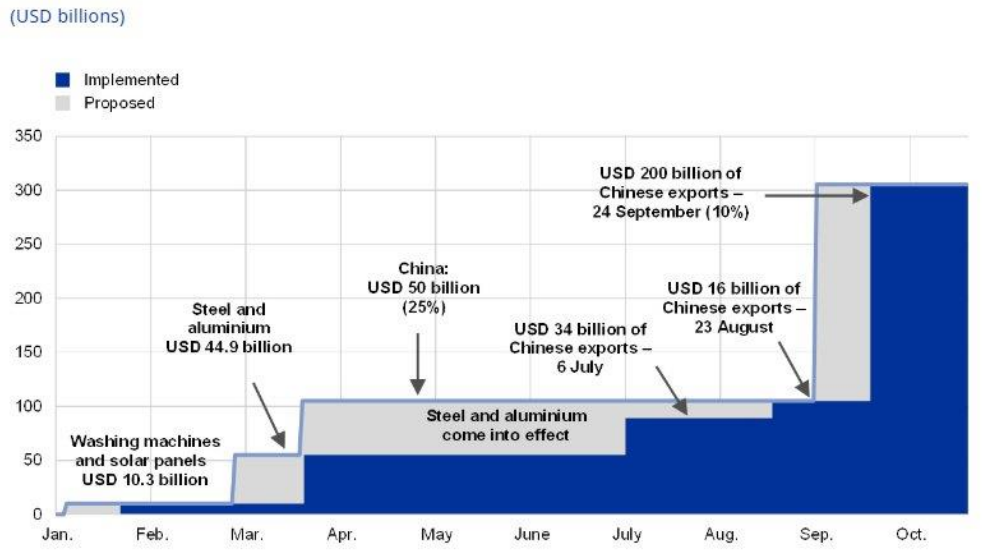
April 24, 2019

President Donald Trump's trade policies have so far had a mild impact on countries across the Atlantic even as they have cast a cloud of uncertainty over global growth, according to the European Central Bank.

The Trump administration last year placed sweeping tariffs on imported metal, including from Europe. But those and the retaliatory measures that followed have posed "only a modest adverse risk" to the bloc, said Vanessa Gunnella and Lucia Quaglietti, the ECB economists who authored the new report released Wednesday.

That could be in part thanks to ongoing trade tensions between the US and China, which have made the EU more competitive in some markets. Higher tariffs make US and Chinese goods more expensive, the study said, raising demand for some imports from Europe.

And because companies have limited suppliers to turn to for certain types of steel and aluminum typically imported from Europe, some American companies and consumers have been forced to absorb the 10% to 25% tax.



Sources: Peterson Institute for International Economics, United States Trade Representative and ECB calculations.
 Notes: The values of imports affected by the tariffs on washing machines and solar panels, and steel and aluminium refer to estimates produced by the Peterson Institute for International Economics. The percentages in brackets indicate the size of the applied tariffs.

ECB

"If the US expands its tariffs to cars, that will have a much bigger impact on European producers, and there will be some economic pain," said Simon Lester, a trade policy analyst at the libertarian Cato Institute.

Trump has threatened to slap tariffs on cars from the European Union, which is home to companies like Volkswagen, Daimler, and BMW. The global economy is expected to take a **hit** if the US expands its trade war to the auto sector, but the study said effects on European producers would be limited relative to other countries.

"It is estimated that the impact on the euro area as a whole would be small, even when the magnifying effects of global supply chains are taken into account," the ECB study said. "However, the consequences of an increase in car tariffs may weigh significantly on some countries."

The proposed tariffs would cost auto sectors in Japan and the EU around 10% and 4%, respectively, the economists estimated. Meanwhile, other research has shown vehicle prices in the US would rise.

European manufacturers in the US could alter their supply chains to include more US parts at the expense of production, said William Reinsch, a former US trade official who is now a senior adviser at the Center for Strategic and International Studies. But for companies, switching and certifying new suppliers can be costly and take up to years.

"If that is typical, the changes the tariffs will force will either take place over the long term and be expensive," he said. "Or the companies may decide to wait the tariffs out and do nothing, hoping they go away at some point in the future. That would also be expensive."

Prolonged uncertainty around trade policy could add to strains for the auto sector.

"Confidence effects or the effects of uncertainty with regard to the car industry that have not been taken into account could have a more negative impact on the world economy," the ECB economists said.

The US could fare worse than other countries over time in the case of further escalations, the study estimated.

"Tariffs harm the domestic economy in addition to those we are imposing them on, so it is difficult to really damage major trading partners significantly without doing a similar amount of economic damage at home," said Adam Ozimek, an economist at Moody's Analytics.

