National Insurance Alliance Limited

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Tariffs, Tariffs, Tariffs: A Global Economic Outlook Under Trump 2.0 (Part 3)

In our previous article, NIACE gave readers a deep dive into the impacts of the trade war on the top three trading partners of the US. In the fourth and final part of this running series, we will analyse and share with readers the spillover effects on the raging trade war on other trading partners of the US and “bystander” nations.

Europe

The possibility of higher tariffs from the US presents Europe with serious economic challenges and uncertainty. Even though the EU is ready to strike back and look for other trading partners, there may be a significant effect on inflation, growth, and particular industries. An important pillar of the world economy, the Transatlantic trade link, might be seriously disrupted.

The Eurozone's growth momentum in the upcoming year may be weakened by the fallout from the US's trade war with her main trading partners, particularly if consumer spending and corporate investments do not rise. The EU is preparing for possible US tariffs as it has a trade deficit of almost $200 billion with the US. Even comparatively low tariffs of 10% might have a significant effect, possibly stalling economic recovery by lowering EU growth by almost 0.25% to 0.8% in 2025. Consequently, Eurozone GDP projections for 2025 and 2026 have been lowered by 0.2% to 0.3% as a result of increased trade uncertainty brought on by possible US tariffs. It is anticipated that higher tariffs will raise Eurozone inflation projections by roughly 0.1% annually. With more than €500 billion (20% of exports), the US is the largest market for EU exports, surpassing even China. It is anticipated that the US-EU relationship will continue to be unstable, with EU leaders dealing with a combination of cooperation and intimidation under a "Trump 2.0" foreign policy. Every year, $9.5 trillion in transatlantic industry is at risk due to a US-EU tariff dispute. In 2024, this partnership reached all-time highs, with $2 trillion in trade in goods and services. It should come as no surprise that the EU is becoming increasingly concerned about the trade dispute possibly getting worse.

Due to their greater trade surpluses with the US, Germany, Ireland, and Italy are the EU nations most vulnerable to possible US tariffs, although France and Spain are thought to be more protected. The US trade restrictions may be especially detrimental to the German automotive industry owing to its dependence on the North American market and the flow of parts and components, the European automobile industry is thought to be particularly vulnerable to possible tariffs. For instance, Porsche AG does not produce in the US and more than 25% of its sales are in North America. On both sides of the Atlantic, the beverage industry will be severely impacted. Chinese actions have already harmed French cognac producers, and US tariffs will make matters worse. A "final nail in the coffin" is what the European steel sector thinks fresh US tariffs could be. A considerable decline in EU exports to the US resulted from the first US tariffs on European steel in 2018, some of which subsequently made their way into the EU market. The new policies appear to have a greater impact since they are more comprehensive.

The EU may think about ways to reduce the possibility of a more extensive trade war in order to handle the consequences of the current one. Although the conclusion is unknown, some EU leaders could wish to engage in negotiations in an attempt to satisfy President Trump's demands. To lessen the trade surplus in the medium run, the EU may agree to purchase more defense hardware and LNG from the US. In an effort to lessen its reliance on the US, the EU, like China, is probably going to try to expand its network of bilateral and regional trade deals. The EU is keeping the possibility of a deal with the US open while prioritizing unity among its member states. Though unsure if the US wants a deal, Brussels is willing to haggle.

In response to the US imposing more extensive tariffs, the EU may use its new "anti-coercion instrument" to retaliate more firmly, but it has not yet done so. The Trump administration may be forced to engage with the EU directly as a result of the EU's countermeasures.

Countries with substitute exports and the capability to rapidly increase production of those substitutes experience substantial export growth.

One global wildcard that could shift the dynamics of the trade war is the "China+1" strategy, where companies diversify their supply chains outside of China, intensifying under a scenario of increased US tariffs. Asian firms are already looking towards new capacity expansion in locations such as Vietnam, Indonesia, Malaysia, and Thailand, which could benefit these bystander nations through increased foreign direct investment and the development of local supply chains. India and Vietnam have previously benefited from the redesign of global supply chains due to US tariffs and are positioned to potentially benefit further. For example, the US might try to reduce its reliance on China, countries like Vietnam and India are seen as potential beneficiaries of companies looking to relocate their production and would benefit significantly from reshoring. Unsurprisingly, the imposition of tariffs leads to a reorientation of trade away from the directly involved nations. Bystander countries have increased their exports to the United States and to the rest of the world in products with higher US-Chinese tariffs. This signifies a transformation in globalization rather than its end, with trade shifting to other countries that seize the chance to boost their global presence

Conversely, while many bystander and emerging market economies would stand to gain considerably from the ongoing trade war through increased trade, these very same nations also face heightened uncertainty and anxiety due to the elevated trade tensions. There is a fear that they could be the next targets of tariffs. This uncertainty can make them less certain of how reliable the global trading system is. The US is now viewing all its trading partners as potential targets. Careful and astute navigation would be required for these nations if they desire to emerge from the uncertainty unscathed.

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