FIRST IMPACT OF TRUMP'S TRADE POLICY ON THE EU

DANIEL GROS, NICCOLÒ ROTONDI

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Executive Summary

The unprecedented 'reciprocal' tariffs announced by US President Trump and then partially implemented since April have had little impact on trade flows so far.

US imports have stabilized after the rush in March to beat the tariffs, and the market share of the EU has remained constant, with EU exports to the US up about 40 billion euros during the first semester of this year.

The key reason for this is that the average effective US tariff rate has been around 9-10%, much below the rates one would expect given the focus of the media (and policy makers) on some products, like steel.

The recent EU-US 'framework agreement' has been widely criticized as a capitulation. But its implementation would only confirm the relatively advantageous position of the EU in terms of access to the US market, as the tariff rates facing EU exporters remain far below those of China and slightly below those facing other Asian competitors, such as Korea or Japan.

Only Canada and Mexico are in a significantly better position than the EU because most of their exports to the US remain still duty free. But these two economies are too small to constitute significant competitors.

Some reports have suggested that Trump has 'gone soft' on China and treats US allies worse. The data suggests otherwise. Average tariffs on China are around 40%, against less than 10% for the rest of the world.

Beyond the headlines: How to measure tariffs in (almost) real time

Trump's tariff policy consists of a bewildering succession of announcements of high tariffs, often followed by vague 'deals' with headline rates much lower than the 'reciprocal' tariffs announced on April 2nd. At the same time, it is often not clear whether announced rates are actually applied.

Given the rapid changes in rates, announced and implemented, it is difficult to obtain an overall picture of where US trade policy stands.

The US uses the globally Harmonized System of the WTO which, at the most detailed (10 digit) level, has about 20 thousand tariff lines. Moreover, as each of the over 150 US trading partners can now face different tariff levels there might be up to 3 million different tariff rates to consider.

To put together an overview of US tariff policy in the form of an average tariff one would have to combine the tariff lines with the data on bilateral imports, requiring potentially another 3 million pieces of information. Even calculating a simple average tariff rate for the US is thus no simple task.

Fortunately, there exists a much simpler approach to gauge the restrictiveness of US tariff policies.

One can simply divide tariff revenues by imports. This simple ratio of two numbers represents the average effective tariff actually applied – as opposed to announced tariff schedules. The US International Trade Commission publishes data on customs revenues and imports with a delay of about 6 weeks. This source can thus yield close to real time data.

The ratio of customs revenues to imports is sometimes called the effective tariff rate or the average collected rate. This measure yields often very different results than the average tariff rates estimated based on Trump's policy announcements.[1]

For example, the first (post 'truce') estimate of the Yale Budget Lab was for an average rate of 28%, the July estimate was around 17% and in August 7, the figure was 18.6%. However, the average rate collected in May, June and July remained (across all countries) at around 9 –10%.

Average rates versus dutiable rates

Most countries exempt a sizeable share of imports from paying duties. This is the case typically for raw material imports for which there are no domestic producers to protect.

Even Trump follows this pattern (the average rate on raw materials is less than 2%, except for China for which it is 40%). The importance of so-called non-dutiable imports should be considered when measuring the distortions caused by tariffs.

A useful variant of the effective rate is the average dutiable rate defined as customs revenues divided by dutiable imports. This rate is higher than the average tariff rate, with the difference between the

[1] Many estimates combine past import data with announced rates to calculate the average tariff rate. But both elements lead to overestimates. For the EU see Barata da Rocha, Madalena, Nicolas Boivin Niclas Poitiers 'The economic impact of Trump's tariffs on Europe: an initial assessment' Bruegel, 17 April 2025 Aphttps://www.bruegel.org/analysis/economic-impact-trumps-tariffs-europe-initial-assessment

two a function of the share of dutiable imports in overall imports. For Canada and Mexico this difference is essential to go beyond headlines.

A widely accepted general principle in economics implies that it is better to apply a moderate tax on the entire economy than to tax some sectors very heavily and exempt others.

In trade policy this means that any unequal tariff structure that combines zero rates on some imports with very high rates on the remaining portion of imports will incur greater total efficiency costs than a uniform tariff that spreads the tax burden evenly across all imports.[2]

This is one of the reasons why the Smoot Hawley Act of 1930 was so destructive. It imposed tariffs of around 60 % on a variety of goods worth about one third of US imports at the time. The average tariff rate of Smoot Hawley is thus often reported as around 20%. However, the distortionary effect was much larger than a uniform tariff rate of 20%.

Gros, 2025 shows that one can approximate the distortionary effect of levying a high tariff on a fraction 1/n of all imports by multiplying the average tariff rate by the square root of n. In the case of Smoot Hawley, this means that its distortionary effects were equivalent to a uniform tariff rate of 20%*SQRT(3) or about 34%. Trump's tariffs remain so far much below this benchmark (except for China).

The sharp increase in customs revenues collected over the last month has attracted much attention. However, revenues collected have remained below 10 % of imports and, as of June/July 2025, slightly less than one half of US imports were subject to duties.

The average dutiable rate was thus at close to 20%, more than twice as high as the average effective rate. In July monthly tariff revenues increased to about 28 billion USD, still only about 10 % of imports (of goods of 288 billion USD for that month).

If one applies the above formula to calculate the distortionary effect of the present (20% rate on roughly one half of imports) on the US one arrives at the equivalent of a tariff rate of about 14% on all imports (10%*SQRT(2)).

Different trading partners get different treatments

Both the average effective rate and average collected rate on dutiable imports can also be calculated on a bilateral basis.

For a country that follows the Most Favored Nation principle of the WTO, there should be little difference in rates across trading partners.

However, Trump is blatantly disregarding MFN principles. There are thus large cross-country differences in the bilateral average tariff rate. The first difference is between China and the rest of the world. Over 80% of US imports from China are now subject to duties, with rates mostly around 40%.

Among the other trading partners, the dutiable rates are much lower, usually around 20%. But there are large differences in the share of their exports to the US subject to duties. About 60% of EU

[2] Gros (2025), 'The Cost of Trump's "Reciprocal" Tariffs', IEP Policy Brief n.40 - https://iep.unibocconi.eu/publications/policy-briefs/policy-brief-n40-cost-trumps-reciprocal-tariffs

exports to the US are dutiable, but for Canada and Mexico this share is below 20%.

Further differences in effective rates can arise from differences in the composition of trade. For example, imports from Gulf states consist mainly of petroleum products that are duty free, while imports from Bangladesh consist mainly of textile products that had already been subject to substantial tariffs in the past. With Trump these differences across countries have escalated by an order of magnitude.

Table 1 provides an overview of the two concepts of average tariff rates for the US, and, as a memorandum item the share of imports covered by duties at three points in time: 1933 (after the Smoot Hawley Act), 2015 (pre-Trump) and the latest available data.

Ten years ago, the difference between the rates faced by China and the rest of the world was about 2 percentage points, now it is close to 30 percentage points on both measures.

Table 1 Average effective and average collected rates (in %), US

	1933 Smoot Hawley	2015		2025 (latest available data)	
	World	R of W	China	R o W	China
Average effective rate	19,6	1,1	3,0	7	38
Average collected rate	59,1	4,0	6,8	15	43
Share of dutiable imports	33,2	27,5	44,0	44	86

Source: Own calculations based on US Treasury data.

The figures in table 1 suggest that China is already now facing tariff rates of the same order of magnitude as those of the Smoot Hawley tariffs.[3]

The main difference being that by now over 4/5th of al Chinese exports to the US are dutiable (Smoot Hawley had exempted 60% of imports from all tariffs). The average for the rest of the world remains much lower. But even here there are large differences across different countries.

[3] On the economic consequences of Smoot Hawley see Gros (2025) Can a Global Trade War Be Avoided? by Daniel Gros - Project Syndicate.

Table 2 Average effective and collected tariffs EU versus competitors

	IMPLICIT AVERAGE TARIFF: DUTIES as % of imports	IMPLICIT COLLECTED AVERAGE TARIFF: DUTIES % DUTIABLE IMPORTS	Share of imports dutiable
China	37,4%	43,5%	85,8%
Canada	2,4%	29,0%	8,2%
Mexico	4,0%	24,8%	16,1%
Japan	15,3%	18,2%	84,0%
EU	8,0%	13,1%	60,8%
UK	7,9%	12,7%	61,8%
India	7,9%	14,4%	54,6%
South Korea	12,0%	17,9%	67,1%
Vietnam	8,6%	15,9%	53,8%
Others	6,6%	12,8%	51,3%
Total	8,9%	18,9%	47,0%
RoW – China	6,7%	15,2%	44,0%

Source: US Treasury

The cross-country differences are much higher for average rates than for dutiable rates. For example, Canada and Mexico still face very low average effective rates (2 – 4%, respectively) because most of their exports to the US are exempted from duties.

The high headline figures on some specific products like steel do not change this average that much because the share of these sectors in the trade with the US is limited. The rates on those products that are dutiable are relatively elevated (over 20% in both cases). Public attention focuses naturally on these high rates, but their overall impact should be limited.

Somewhat surprisingly, the share of Japan's export to the US that is dutiable is at 80 % similar to that of China, but the rates are much lower (on average about 15%).

For the EU one can observe a similar, but much more attenuated phenomenon: The average rate on dutiable products is 13%, but the overall effective rate only 8% because of the still relatively large proportion of exports to the US that are not dutiable (e.g. pharmaceuticals).

The difference between the EU and the UK is minor, but the data might not yet reflect the impact of the UK-US agreement. More in general, the EU seems to face easier market access in the US compared to its major developed Asian rivals, Japan and South Korea.

Moreover, EU producers have a very large advantage relative to their most important rival, namely China, that faces an average effective rate about 30 percentage points higher.

These relative tariff rates suggest that Mexico and Canada will be the main beneficiaries of Trump's trade policy as exporters from these two countries should be able to capture additional market shares in the (so far not shrinking) US import market. This applies also to the car sector, where the US has imposed a tariff 25%. But this special auto tariff does not apply to most of imports from Canada and only one half of those from Mexico.

EU exporters should be able to hold their market shares in the US as they gain relative to China, moreover, increased Canadian and Mexican exports to the US might well require more machinery and other inputs from Europe.

Impact on trade flows

Some of Trump's tariffs have been in force for several months. One should thus be able to see the first impact. The very short run data is difficult to interpret because during the month of March imports increased considerably in an attempt to beat the looming tariffs.

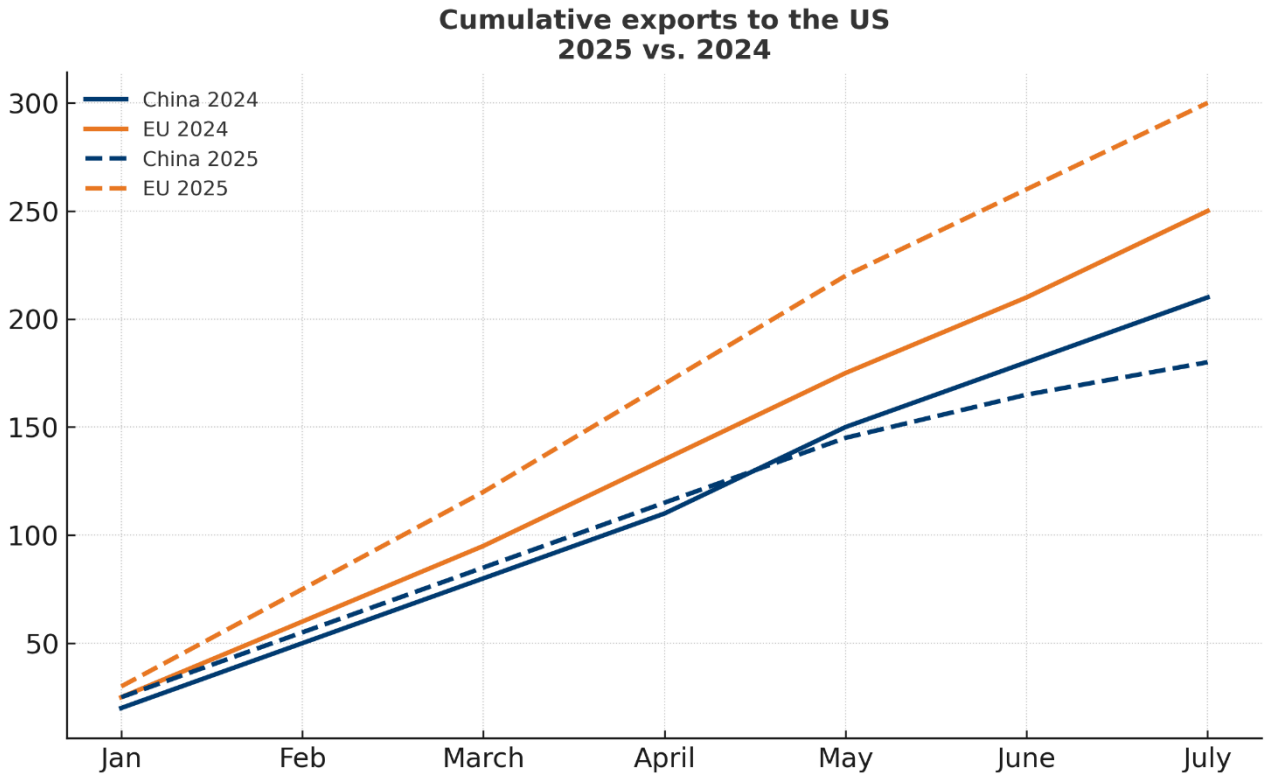
However, this 'hump' should now have been offset by lower imports as traders draw down their inventory. However, somewhat surprisingly, this has not happened yet.

The total imports for the first half of 2025 are still somewhat above the value of last year. The main reason for this low impact of the tariffs on imports might be the fact that, as documented here, average tariffs have so far remained much below the very high values announced in early April.

However, the differences across countries are much larger than the average (average around 10%, but China close to 40% against EU below 10%).

One would thus expect that there should be substantial shifts in market shares, even given mostly unchanged imports. This is indeed what one observes for China, whose share in US imports has dropped considerably, (from around 14% to 7%), whereas that of the EU has remained roughly constant at 14%.

Figure 1 below shows the evolution of the divergence in cumulative exports to the US by the EU and China.

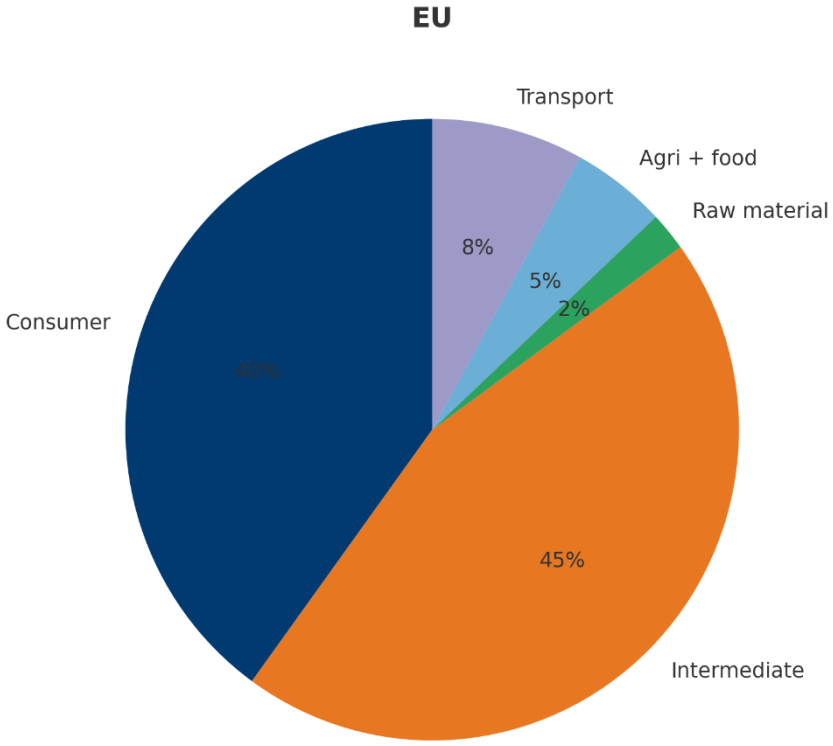


Source: US Treasury

Tariffs along the value chain

Traditionally tariffs escalate up the value chain as recently confirmed by UNCTAD with rates lowest for raw materials, then intermediate goods and finally consumer goods. The reason for this tariff escalation is that high tariffs on intermediate goods discourage domestic production of final goods.

Trump's tariffs do not fully follow this pattern. Raw materials are largely non-dutiable even under the 'reciprocal' tariffs. But intermediate and consumer goods face about the same tariff level of 10%.



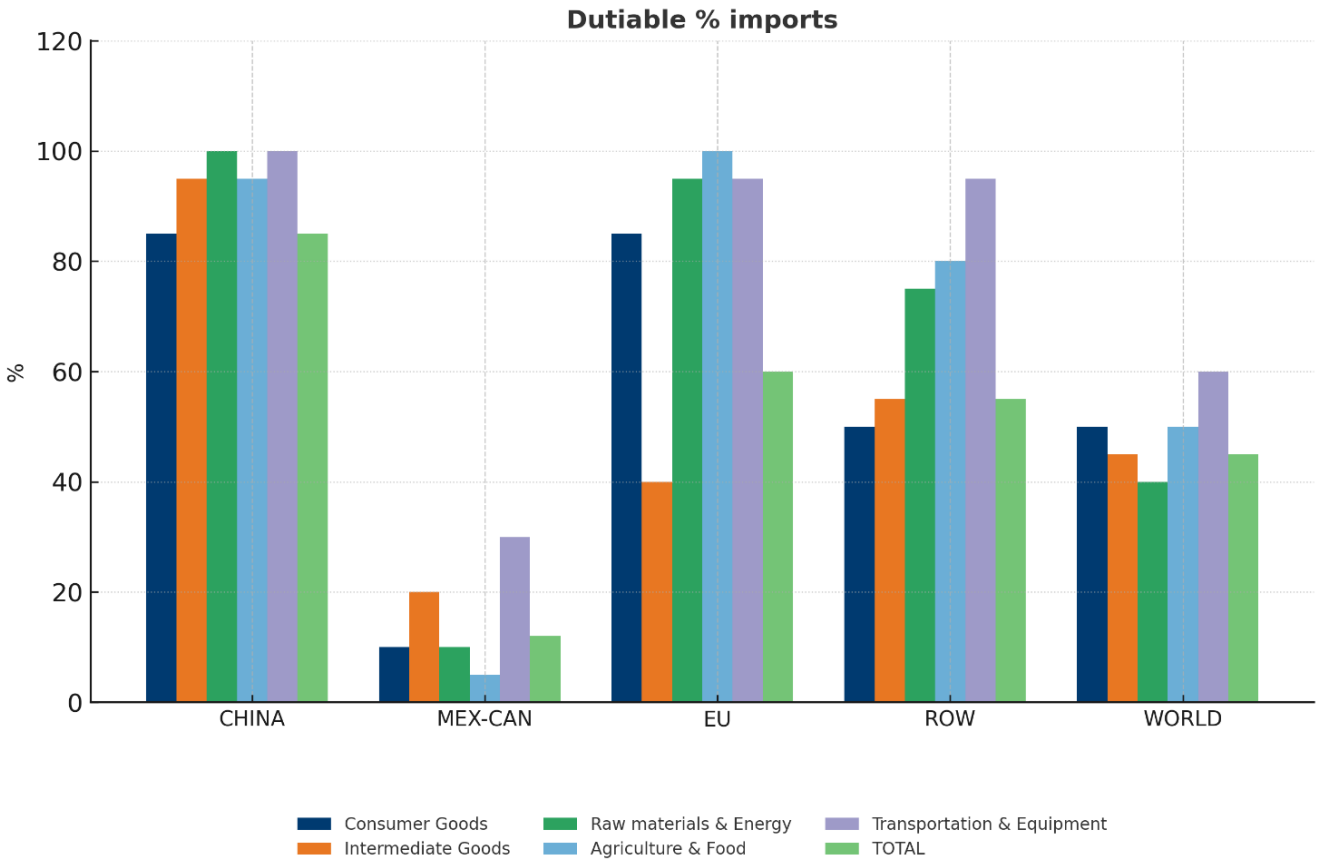
While the tariff rates are the same, one would still expect large differences in how trade is affected by tariffs depending on different kinds of goods.

Demand for consumer goods (except luxury items with strong brand loyalties) reacts more strongly to price increases than intermediate goods that are often specific to different production processes and are therefore more difficult to substitute. This differential impact is borne out by the data available so far.

For consumer goods the impact of the large differences in tariffs across countries has had the strongest and quickest impact. The share of China in US imports of consumer goods has fallen dramatically in the space of a few months, falling from about 18% in January of 2025 to less than 9% in June.

In early 2025 China was by far the largest supplier of consumer goods to the US market (despite the tariffs imposed by the Trump 1 administration starting in 2016). By June it was only the fourth largest (behind Mexico, the EU and Vietnam).

The composition of the exports of the EU is highly skewed towards intermediate goods, that account for 40% of total EU exports to the US, whereas this category amounts only to about 20% of total US imports.



Source: own elaboration based on US Treasury data

Conclusions

On April 2nd, 2025 President Donald Trump announced a system of unprecedented 'reciprocal' tariffs. These tariffs were potentially unconstitutional, the assertion that they were just responding to foreign trade barriers has no factual basis, and they clearly violated WTO rules.

The original 'reciprocal tariffs' announcement led to a strong stock market reaction that motivated a partial retreat one week later with the reciprocal tariffs 'paused' for 90 days, apart from a baseline tariff of 10% to be applied to all goods.

The pause did not apply to China with whom tariffs escalated in a tit-for-tat to over 100 % before the US and China agreed to a standstill which left US tariffs around 45% (and China's much lower).

Trump's tariffs clearly violate all global trading rules. One might thus fear that the entire global trading system would suffer if 'might is right' overrides these rules. However, this has not happened so far.

The basic reason is that imposing a tariff is mostly an act of self-harm. The overreach of Donald Trump has driven this point home around the world. Very few countries are inclined to follow his example.

This economic analysis of the EU-US trade deal thus implies that the EU has acknowledged the will of the US to restrain its foreign trade without, wisely, doing the same.

Different Member States have different exposures to the US. Germany has the biggest exposure, with exports to the US accounting for almost 3.5% of GDP, followed by the other major manufacturing nations, Italy, with 3% of GDP. For France (1.8% of GDP) and for Spain the US market is even less important accounting for about 1% of GDP. One can observe a tight correlation between the importance of exports to the US and the reaction of national policy makers to the EU-US trade deal. In countries with little exposure to the US, like France and Spain, the reaction has been much more negative than in Germany and Italy which have the highest exposures.

Given the initial strong stock market reaction, the media attention[4], and its political symbolism; it is worthwhile to pause and analyze the impact these tariffs had on the ground. So far one sees very little.

Global trade is continuing to expand and US imports have slightly increased despite these tariffs. One key reason for this is that tariffs have so far been on average moderate, around 9-10%.

Exports of the EU have also increased as the EU has maintained its market share. This is not surprising given that EU exporters face much lower tariffs than their Chinese competitors.

All in all, one must conclude that the bark has been worse than the bite.

[4] Richard Balwin calls this the 'merchant rug effect'.