Trade fragmentation and macroeconomic spillovers: Early evidence from the 2025 US policy shift

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Based on joint work with Marie-Sophie Lappe

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1. Motivation and key questions

- Sharp escalation of US tariffs: effective tariff rate rose from 2.5% (2024) to over 17% (Sept 2025), highest since the 1930s
- Aimed to reduce US trade deficit and generate budget revenues
- Combined with fiscal expansion, deregulation, challenges to the rule of law, and withdrawal from international commitments

- Key question:
  - How have US tariffs affected global trade flows and trade balances?
  - What are the early macroeconomic consequences for the US and its main trading partners?
  - How are global supply chains adapting to policy fragmentation?

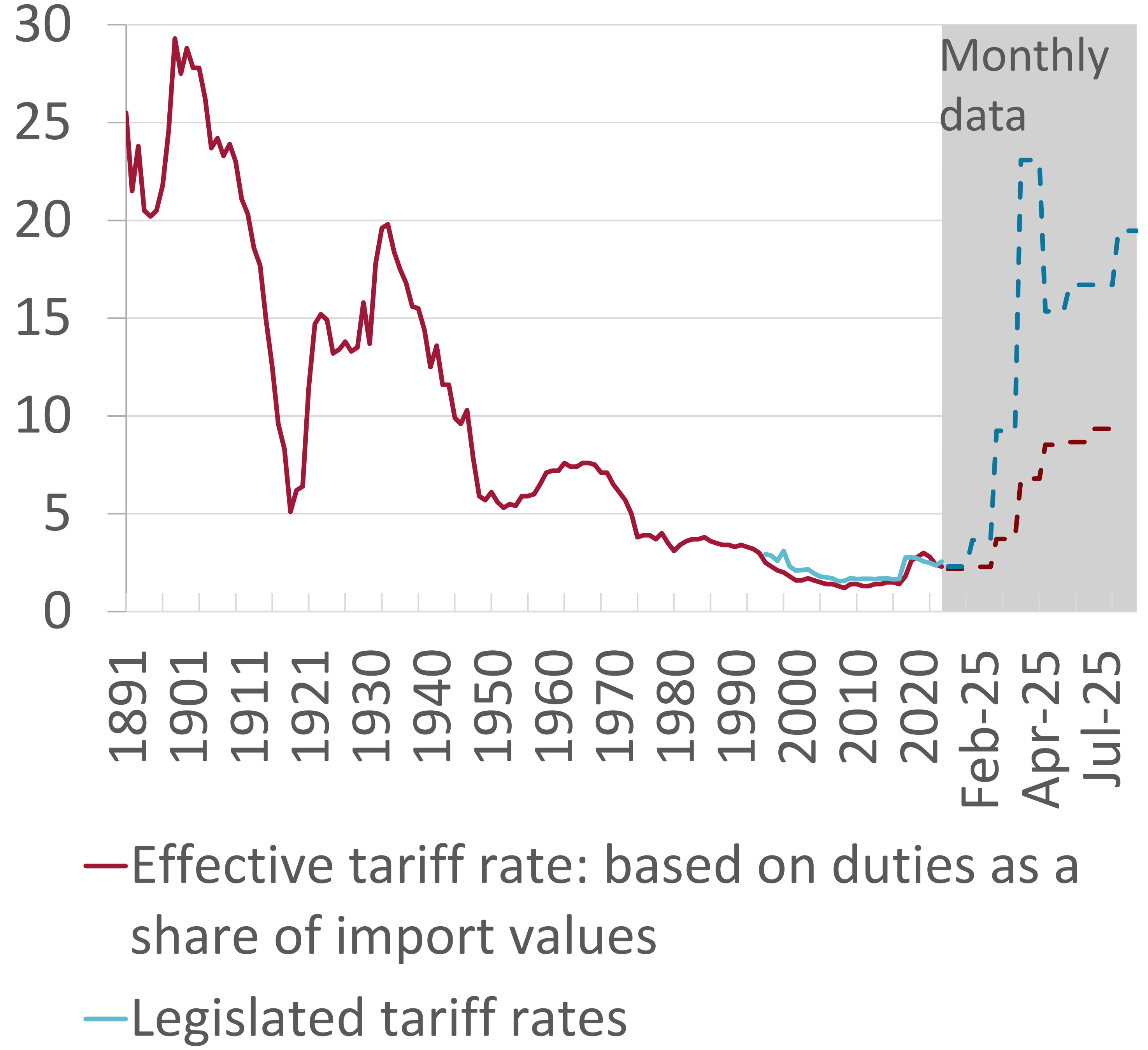
2. Data and methodology

- Monthly trade data through July/August 2025 (US, EU, China, Japan, UK, Canada, Mexico, rest of the world)
- Focus on total trade and three specific sectors: aluminium, steel, automobiles

- Market expectations for 2025 and 2026 GDP growth forecasts
- Model-based macro scenario analyses

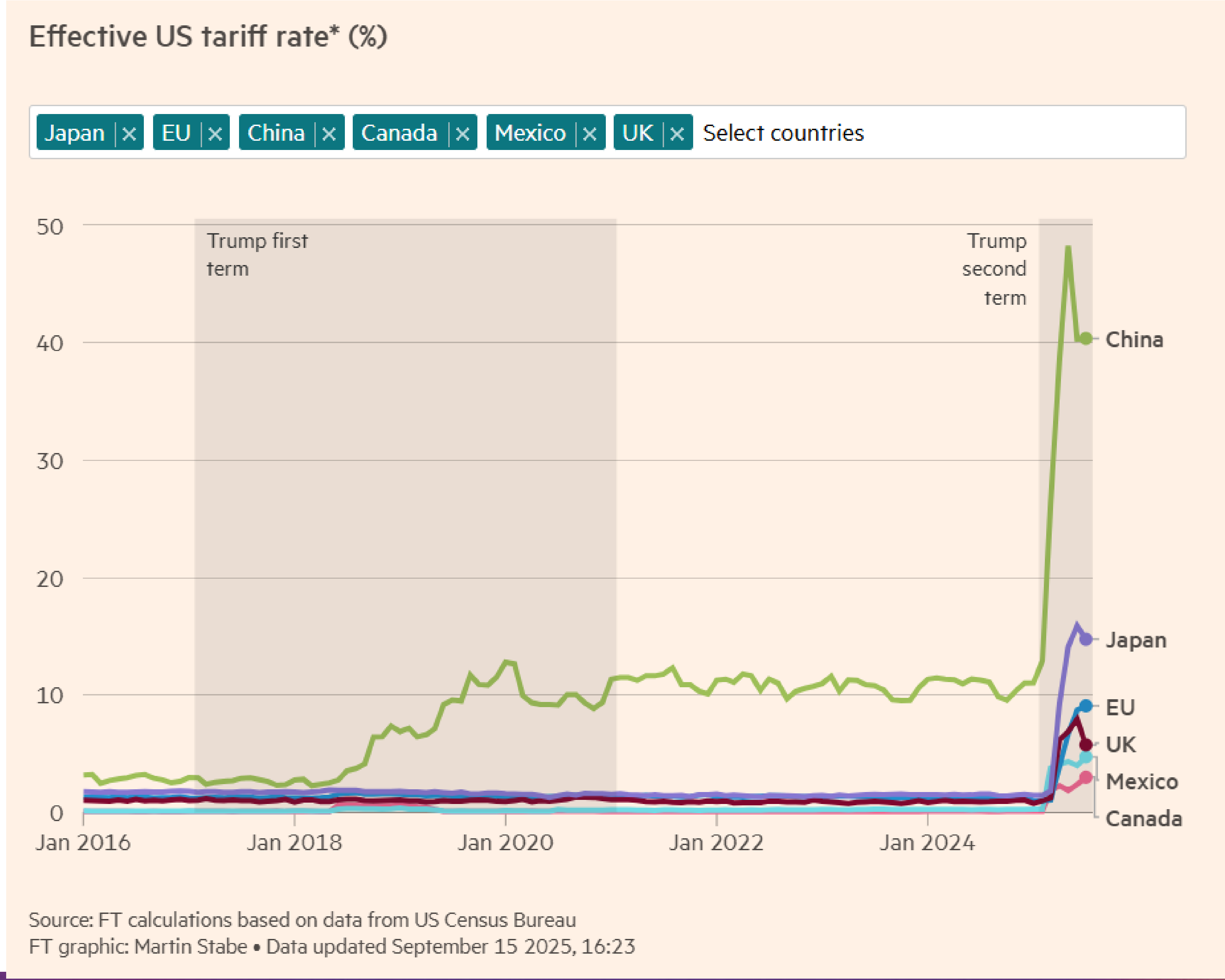
3. The 2025 US tariff hikes

US legislated effective tariff rate and tariff rates estimated as duty revenue as a share of imports (percent)



- Statutory rate: 17% (Sept 2025)
- Effective rate much lower at 9%, due to:
  - Front-loading of imports
  - Phase-in of tariffs
  - Transit exemptions and reclassification
  - Evasion and re-routing

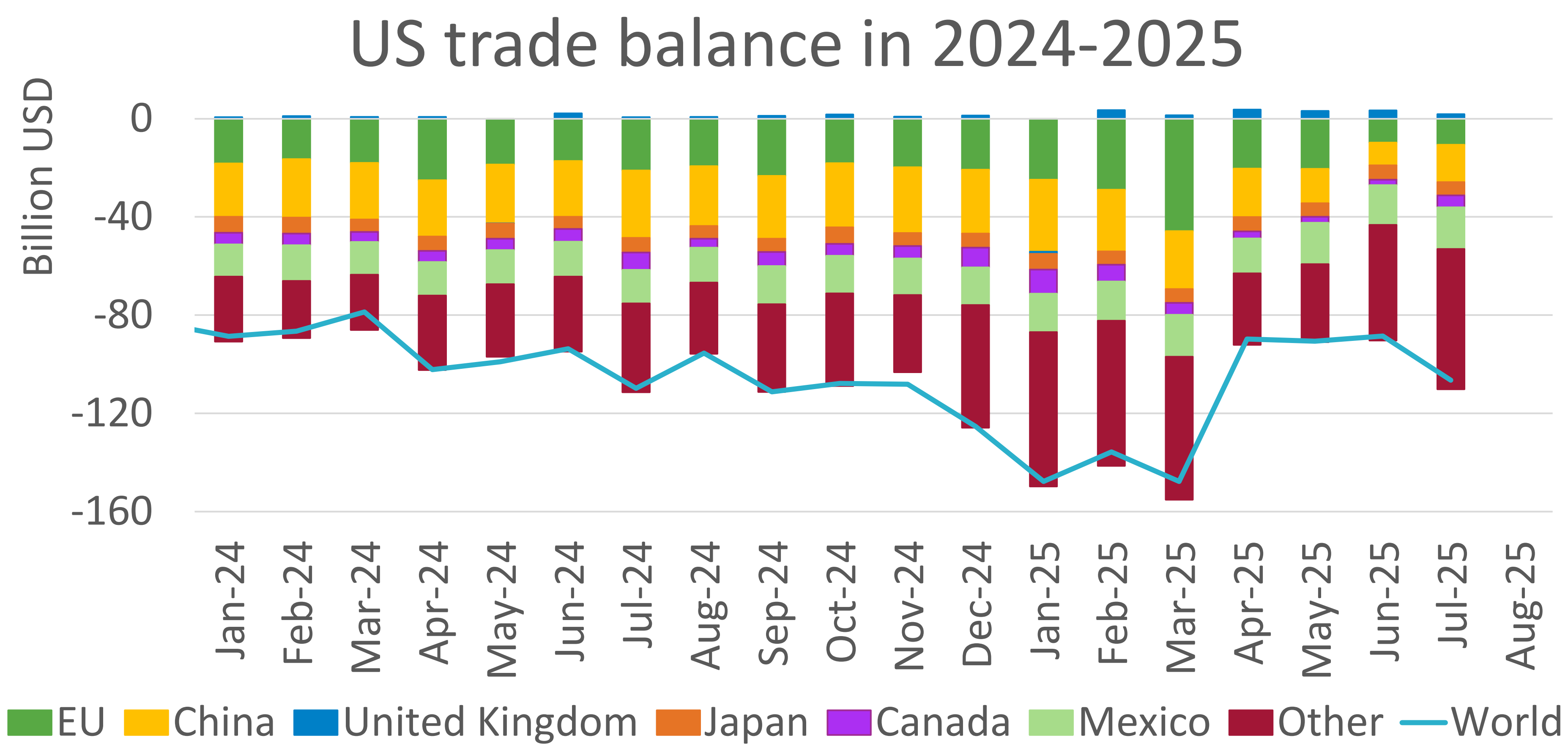
Effective tariff rates by country



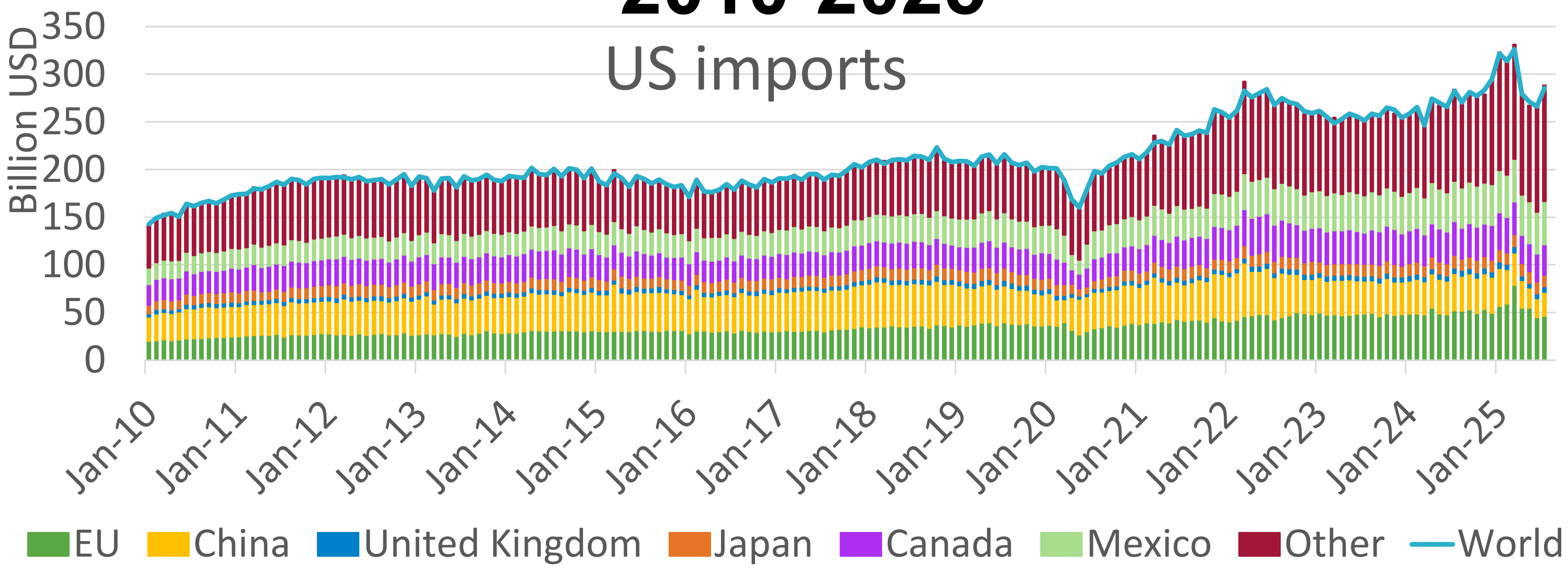
Source: OECD

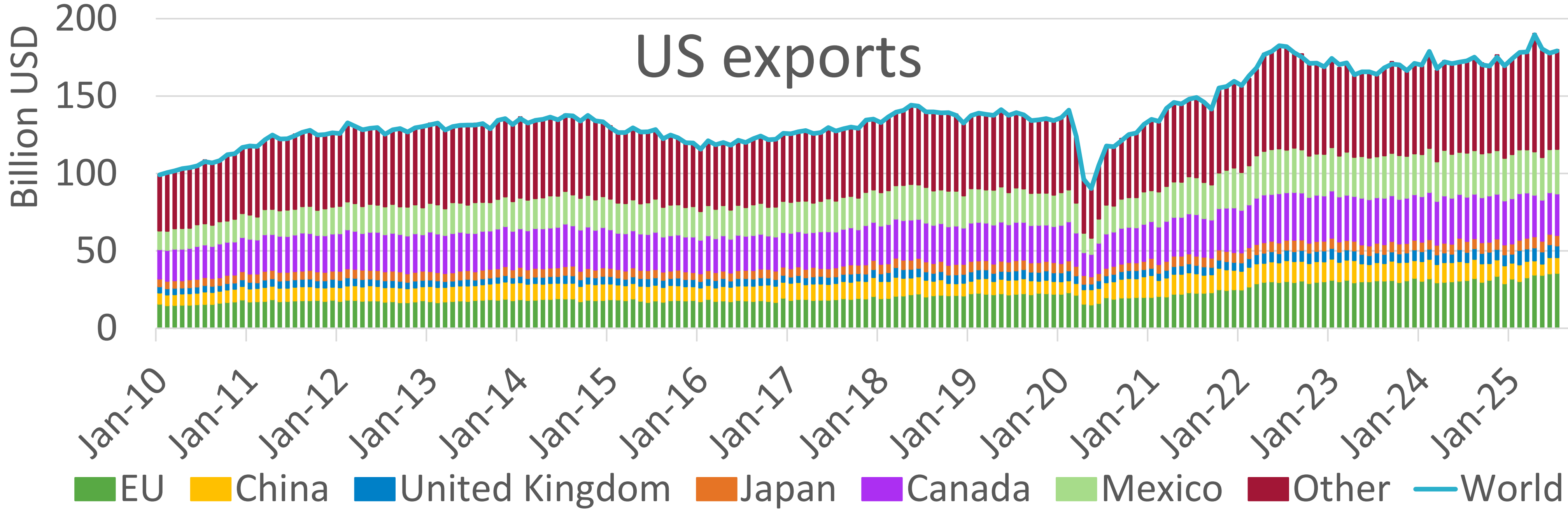
4. US trade trends

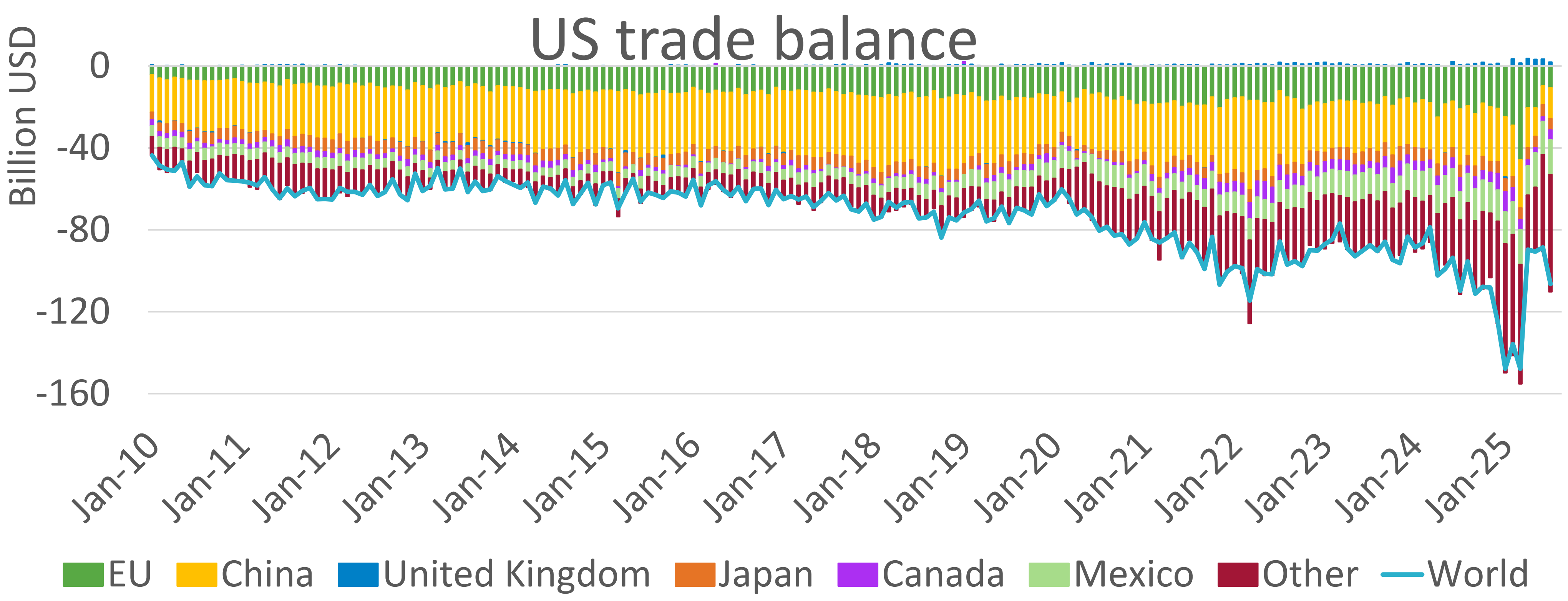
- March 2025: record $150 billion monthly deficit (stockpiling before tariffs)
- After April: imports fell sharply; deficit normalized
- Deficits with China and EU halved
- Yet overall deficit in mid-2025 ≈ unchanged from 2024



2010-2025



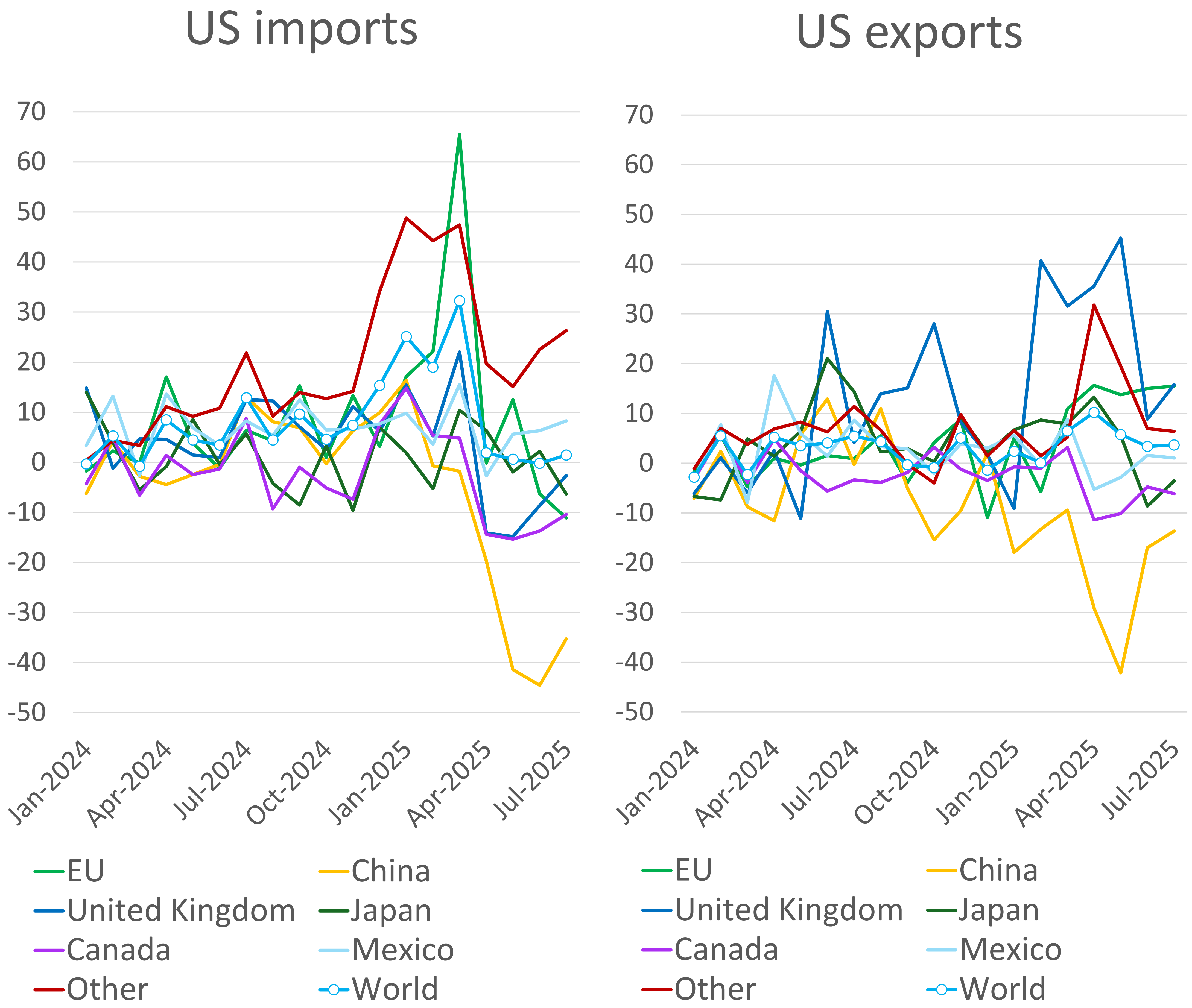




5. Trade diversion patterns

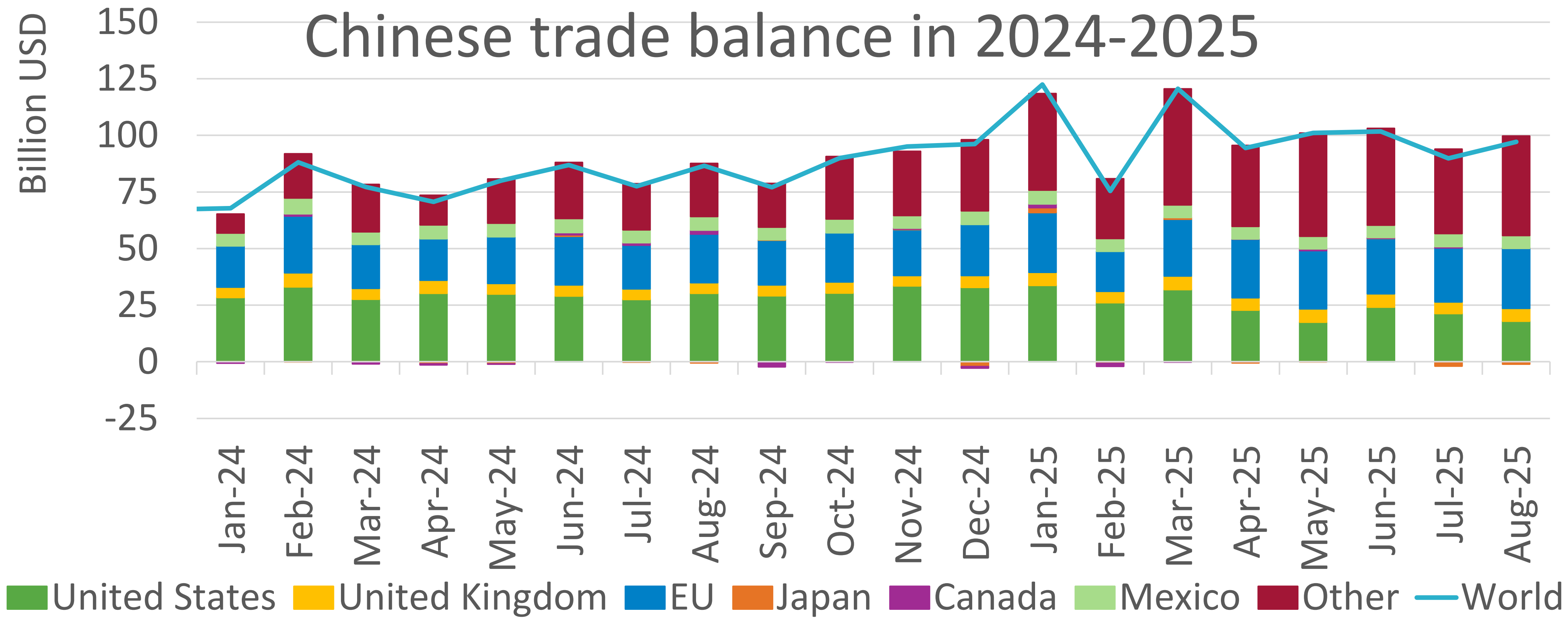
- US imports from China: −40% YoY (May–July 2025)
- US exports to China also fell → accelerated decoupling
- EU: US imports ↓, US exports ↑ → partial reshuffling, not full decoupling
- Canada and Japan: both US imports and exports declined modestly

US imports and exports: percent change from the same month of the previous year (in $ terms)

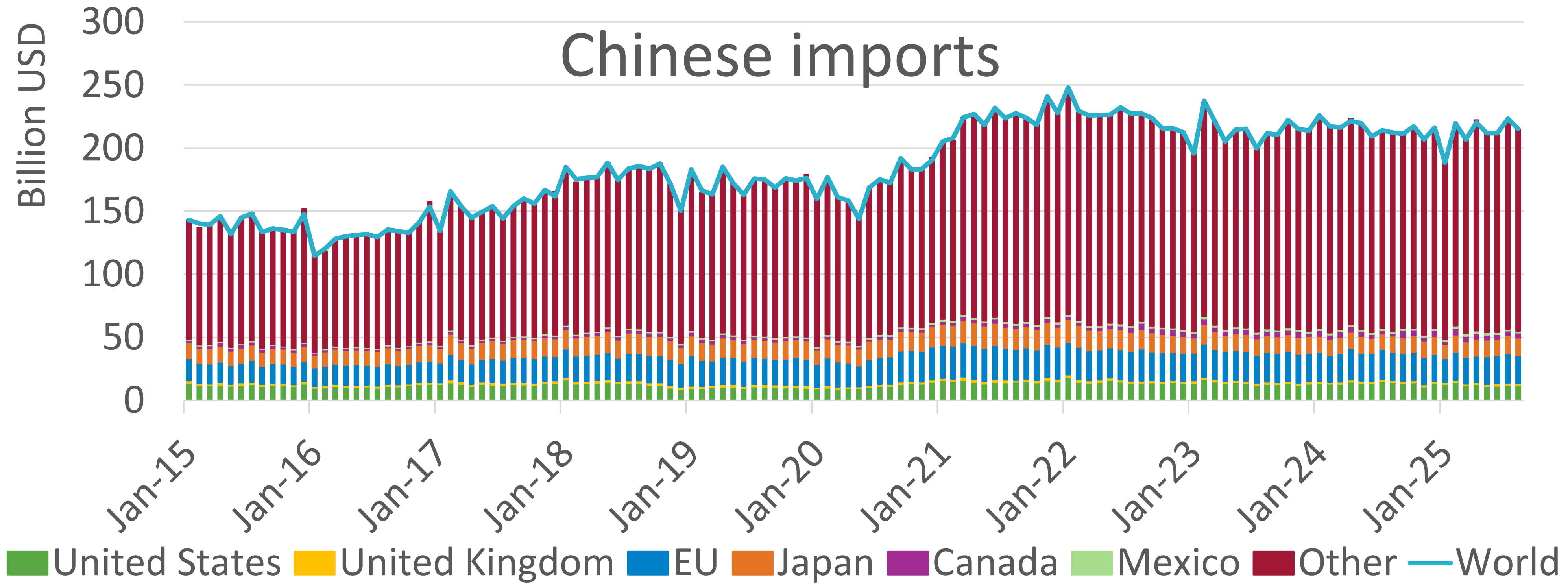


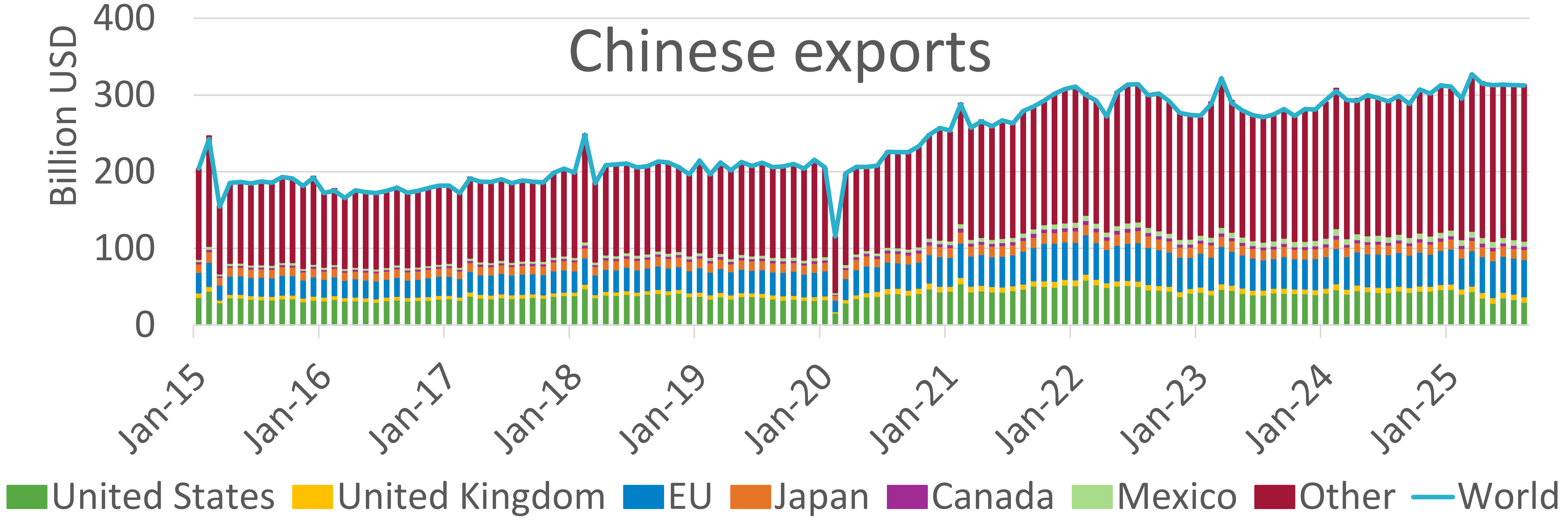
6. China's response

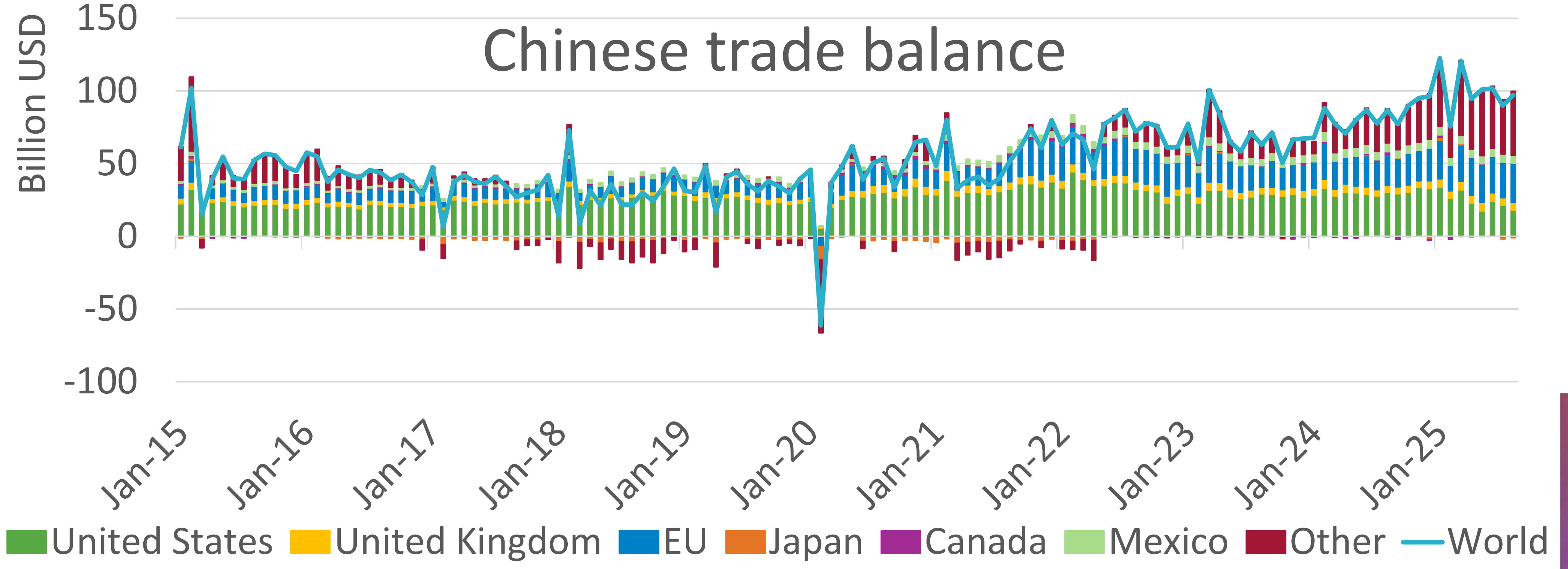
- Despite reduced US trade, total Chinese exports ↑ 4.4% (Aug 2025 YoY)
- Imports ↑ 1.2% → surplus widened
- Exports to EU & UK ↑ 10%; to ROW ↑ 13%
- Trade surplus dominated by US and EU till 2021; other countries account for more than one-third of 2025 total trade surplus
- Reflects successful diversification strategy and supply-chain resilience



2015-2025

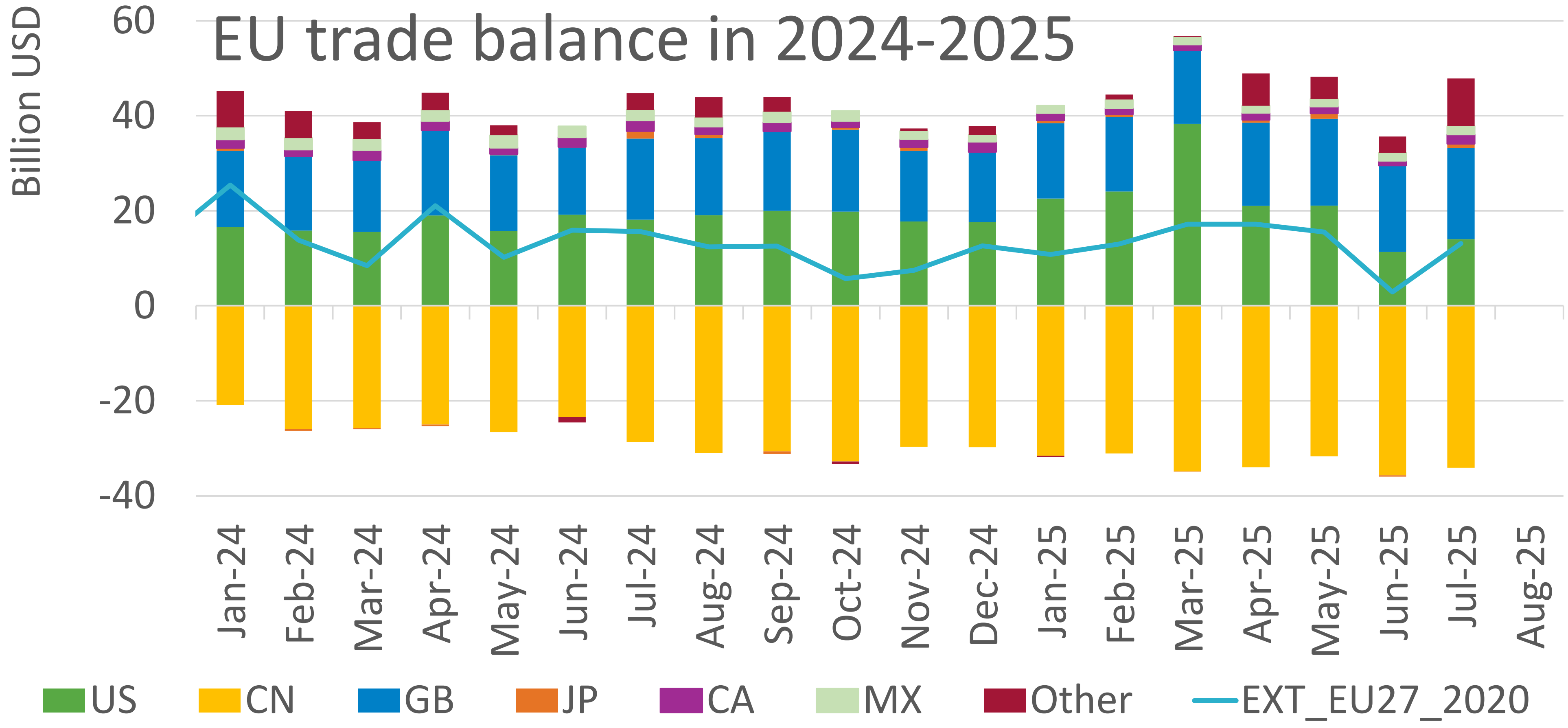






7. EU trade adjustment

- EU exports to US ↓, but overall exports reached record high in $ (July 2025)
- Strong growth to UK, Mexico, ROW (+10% YoY)
- Imports from China ↑ 12%, Japan ↑ 12%
- EU surplus stable: $13.1 bn (Jul 2025) vs. $13.4 bn (2024 avg)



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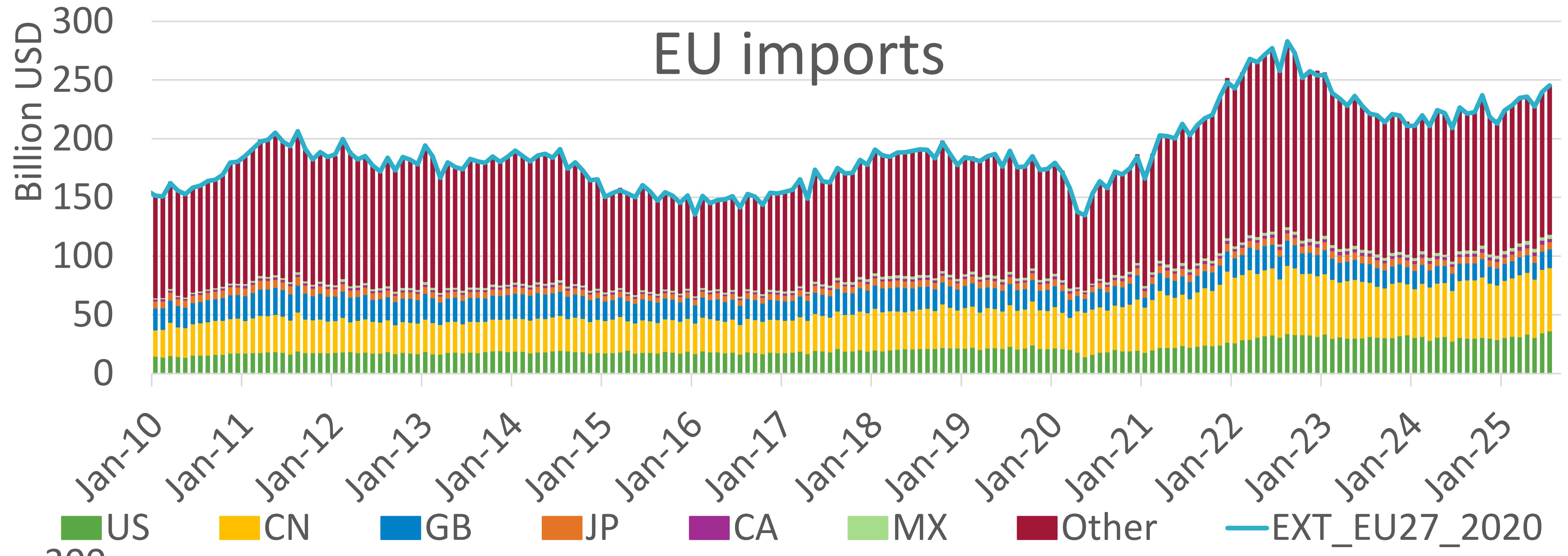
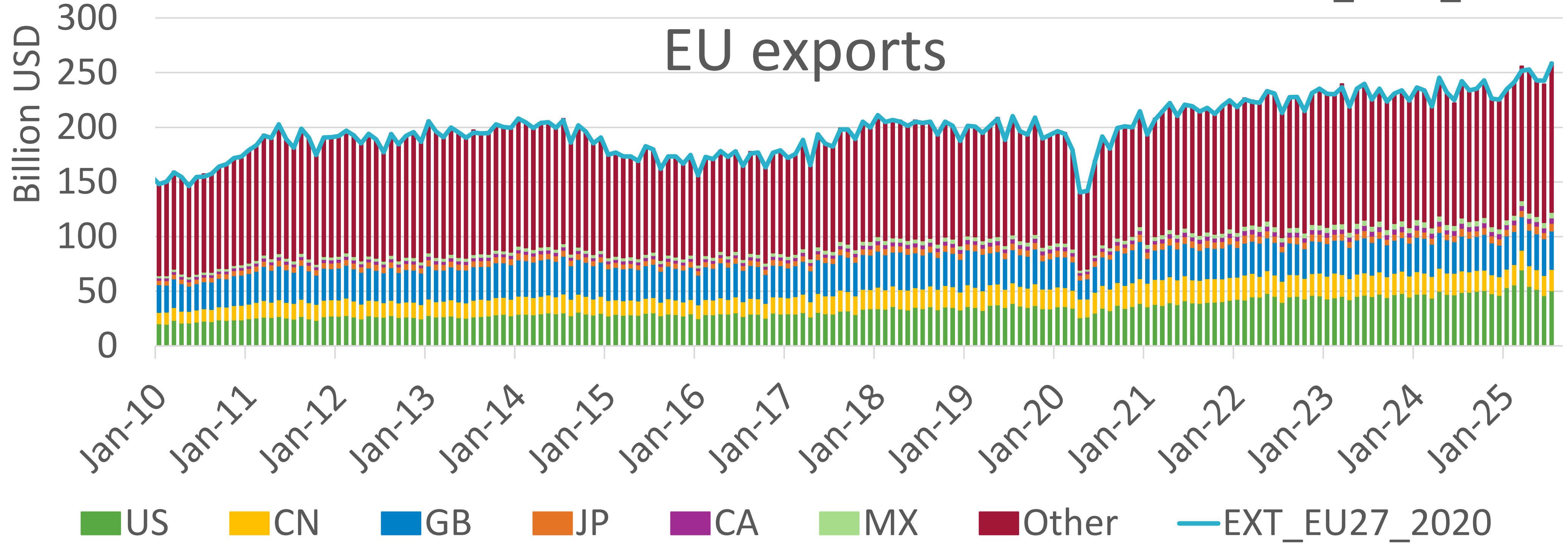
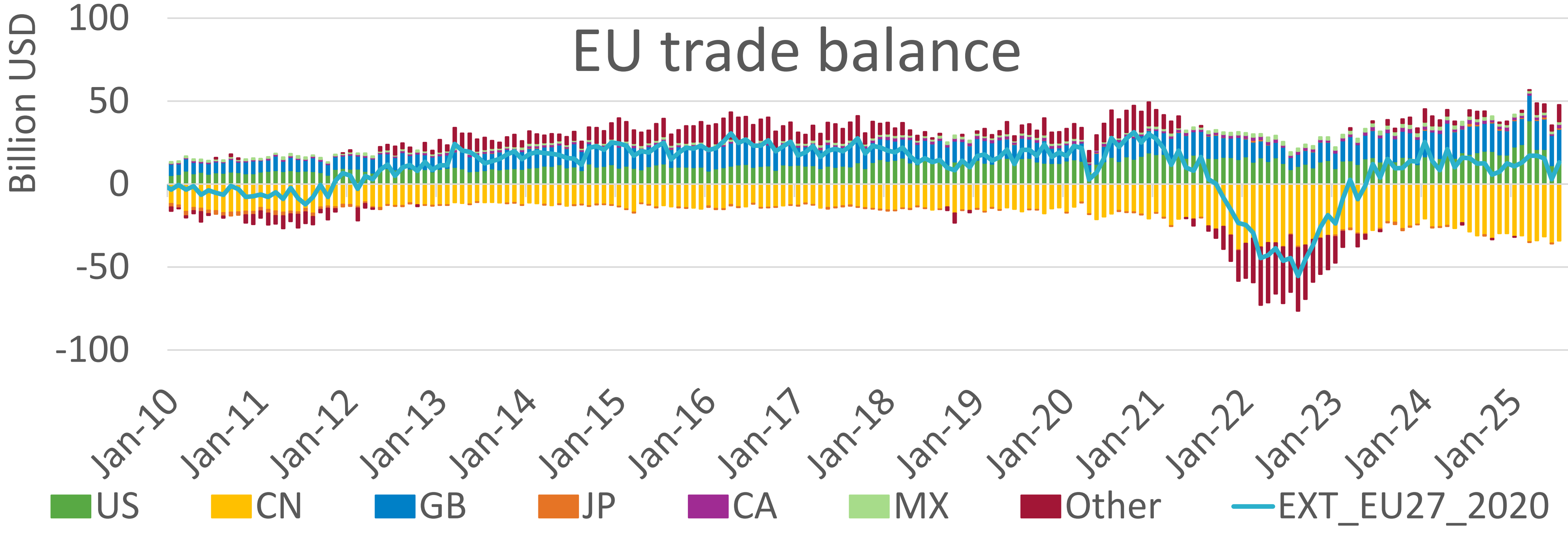
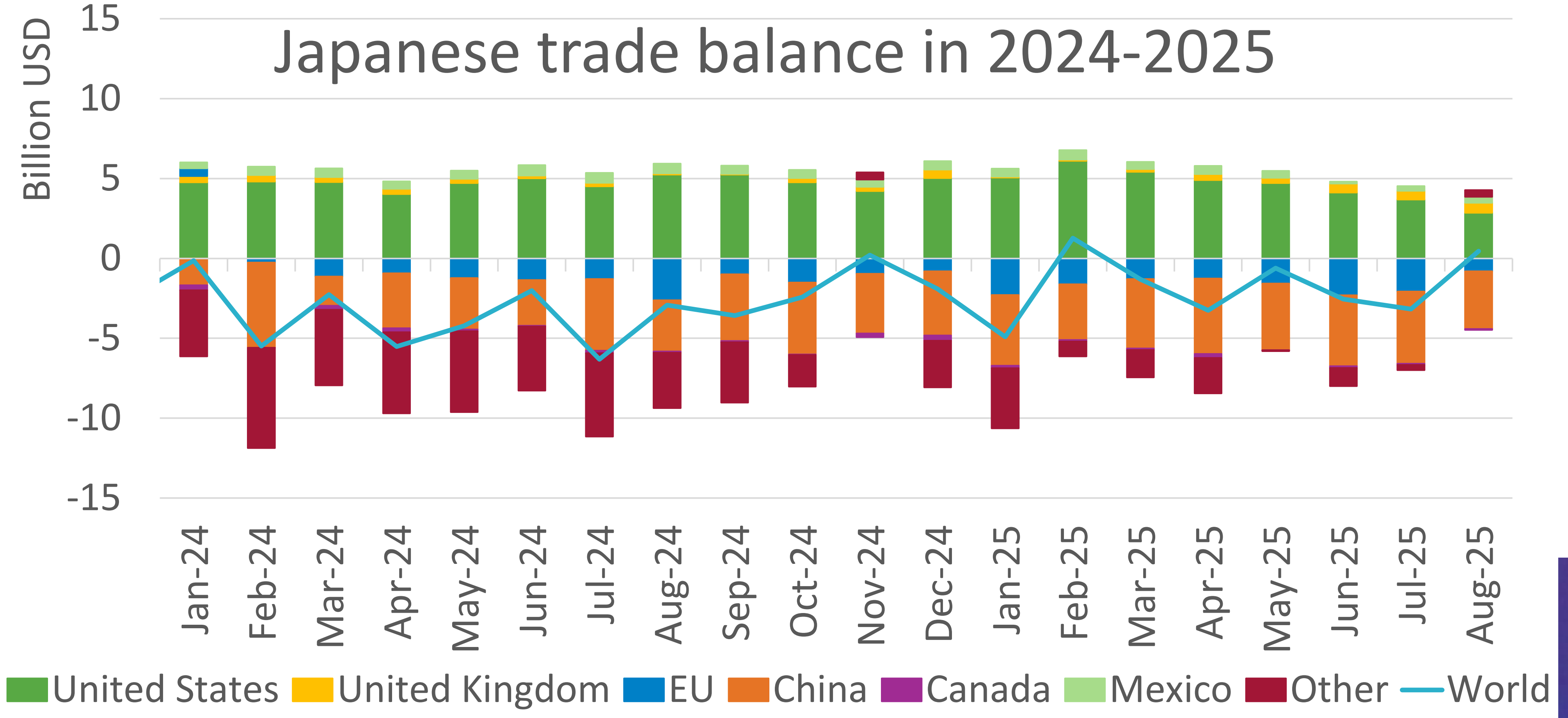






8. Japan trade realignment

- Exports to US ↓ sharply; imports from US ↑ → bilateral surplus halved
- Overall exports almost unchanged (↓ 1%); imports ↓ 6% (Aug 2025 YoY)
- Trade deficit improved in 2025, despite a lower surplus with the US → diversification success



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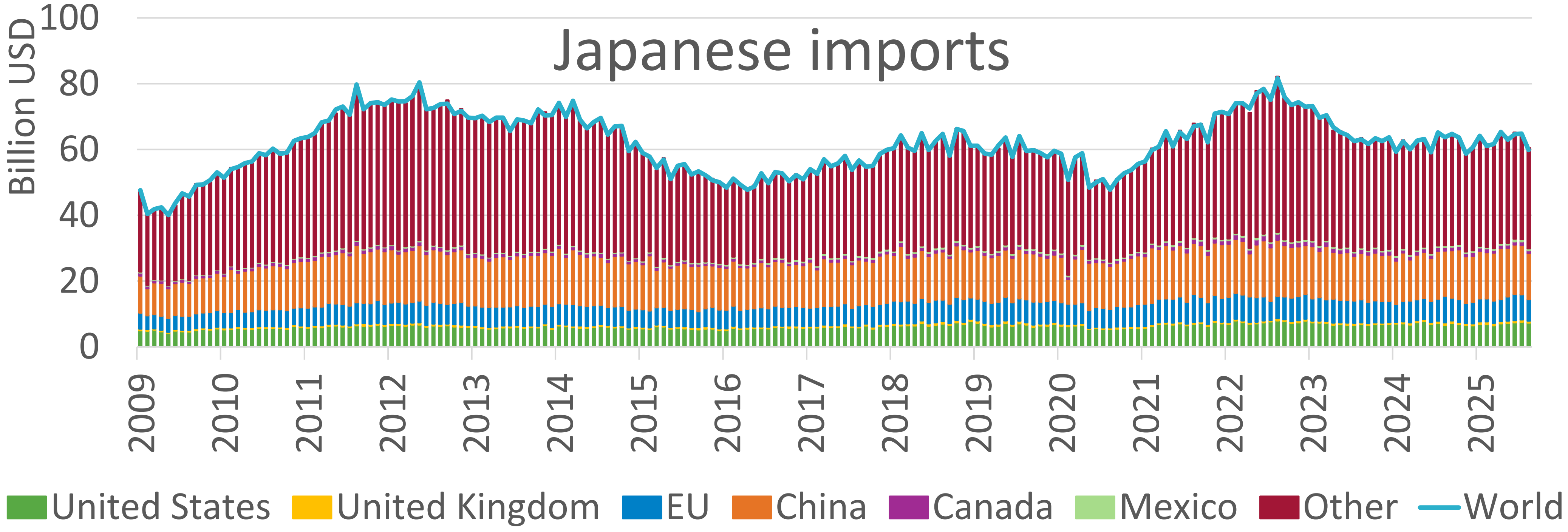
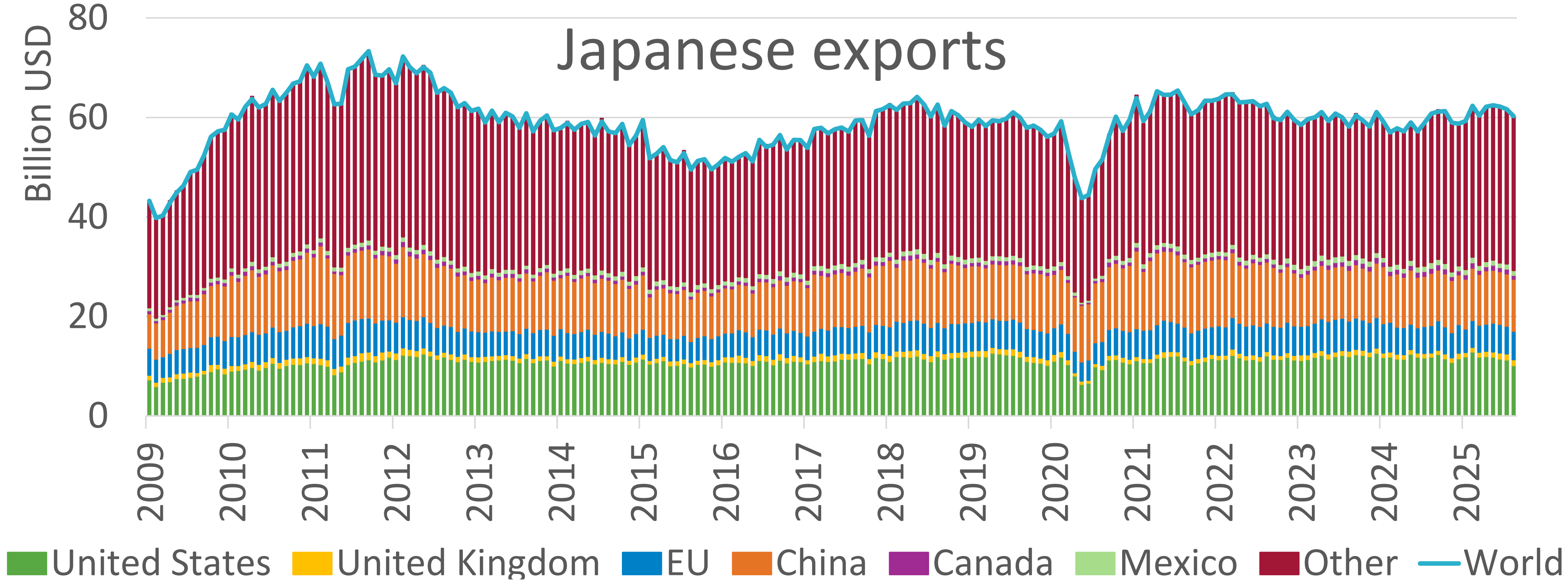
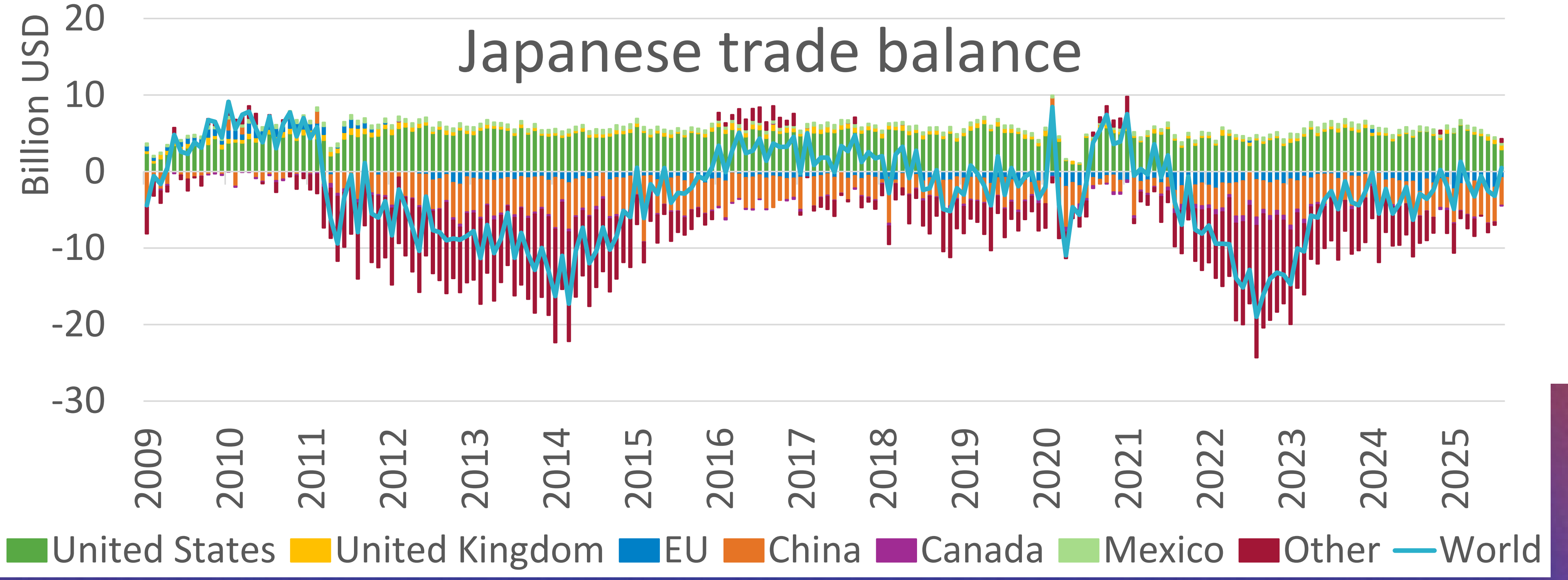


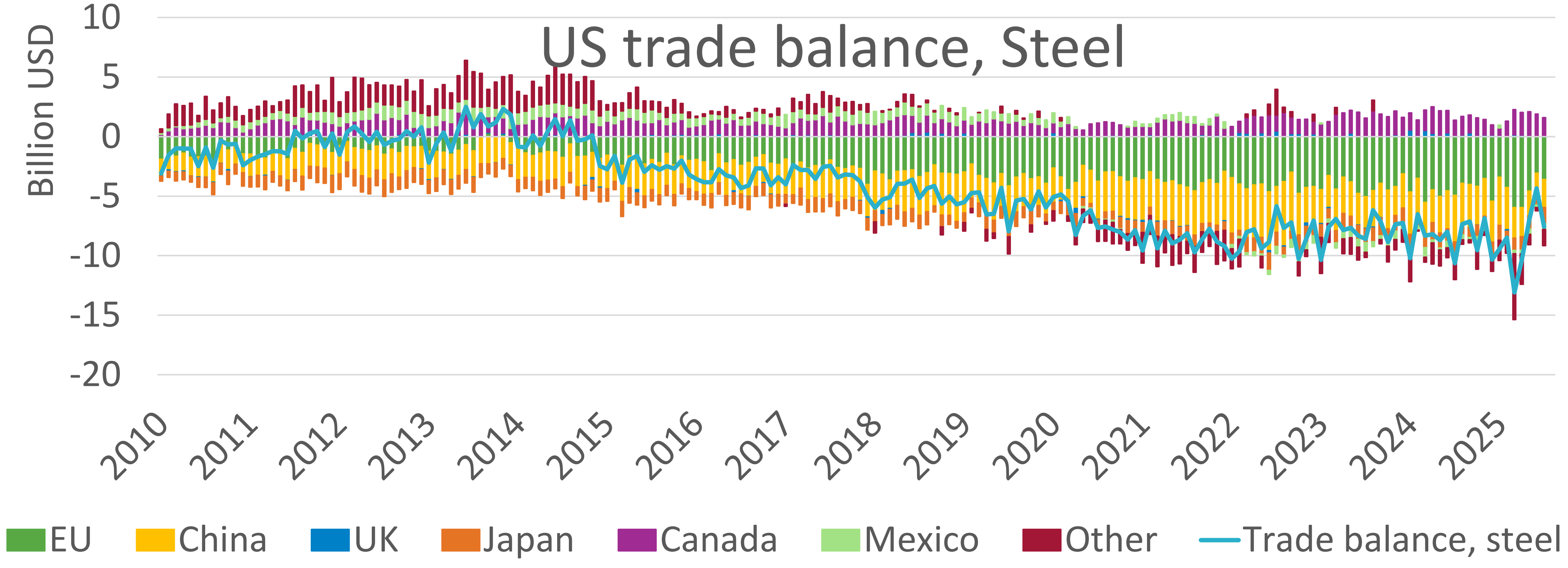


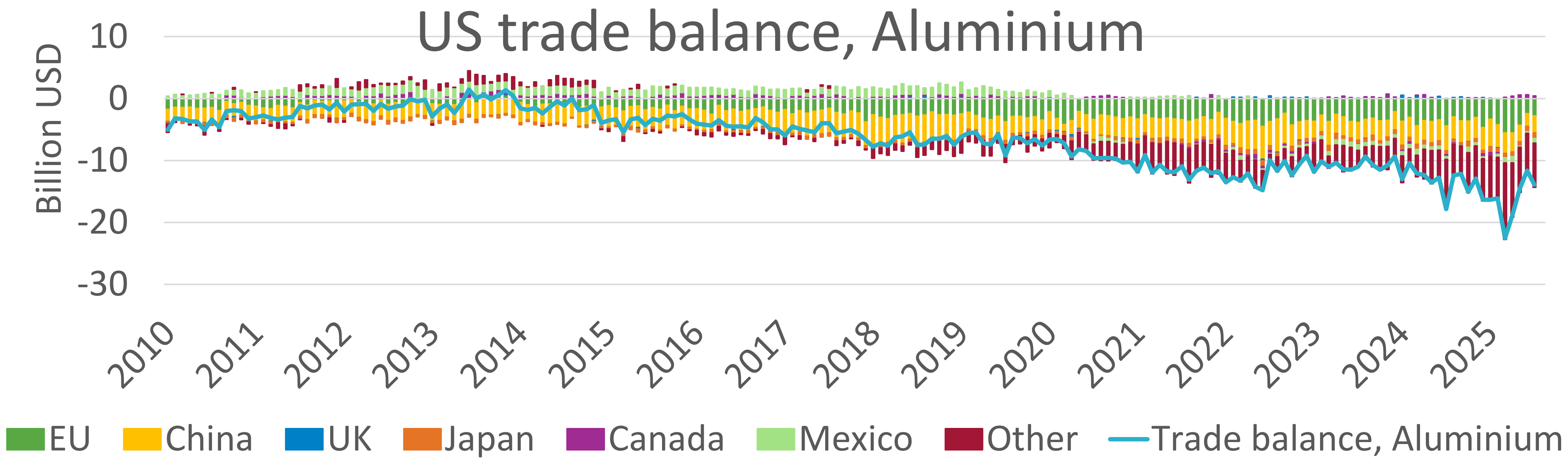


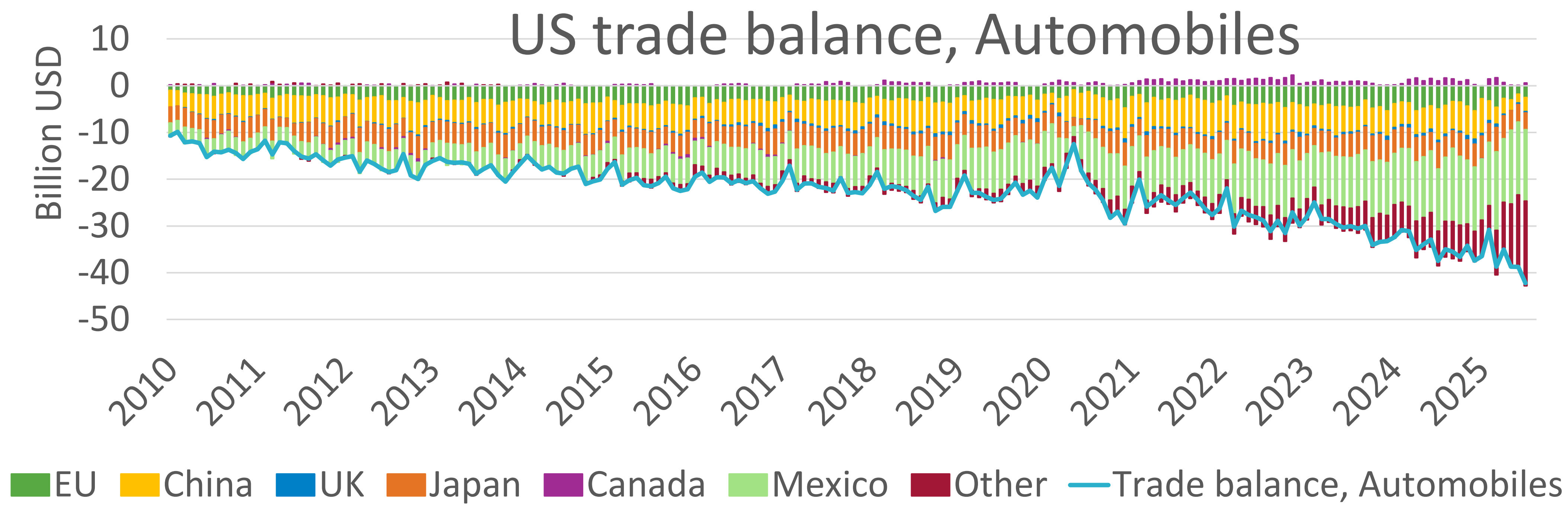
9. Sectoral insights

- Front-loading visible across all goods prior to April 2025
- Steel & aluminium imports ↓ (7.5% and 10.8% YoY)
- Automobile imports ↑, driven by Mexico
- Metals: limited substitution from other countries
- Autos: shrinking imports from EU and China were replaced by other countries

2010-2025



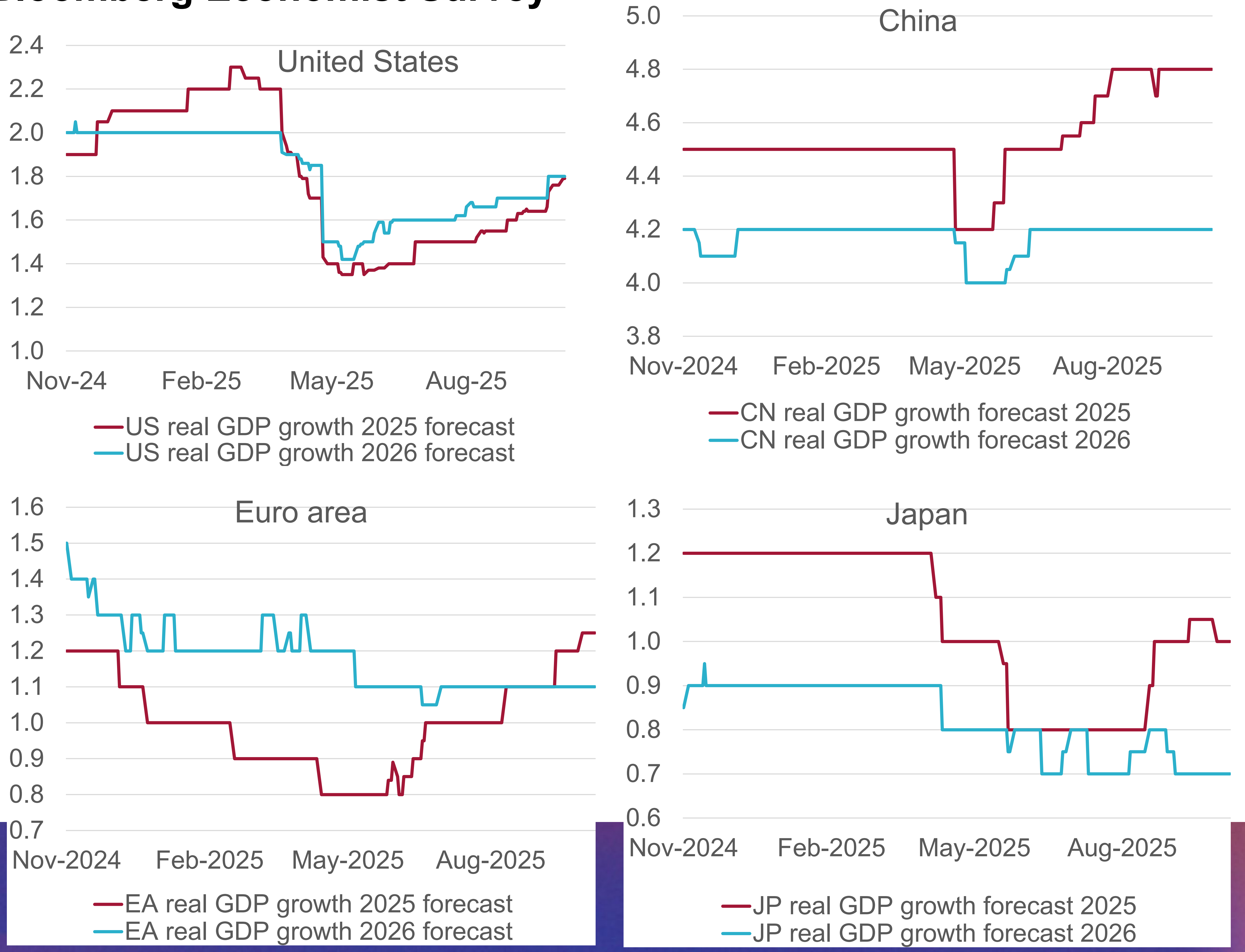




10. Macroeconomic impacts – Survey evidence

- Bloomberg Economist Survey:
- Initial Trump optimism: US 2025: 1.9% (Nov 2024) → 2.25% (Mar 2025)
- Then sharp downgrade in 2025 US growth forecasts:
  - 2.25% (Mar) → 1.35% (May)
  - China, EU, Japan, UK: smaller downgrades (0.2–0.5 pp)
- Partial recovery as tariffs softened, yet US remains below pre-election values, China and Euro area are above

Forecasts for 2025 and 2026 real GDP growth by the Bloomberg Economist Survey



11. Model-based assessments

- McKibbin et al. (2025) and Kawasaki (2025): US GDP suffers more than China, while small positive impacts on EU, UK and partly Japan
- Positive impacts: partly reflect less adverse US market access through new trade agreements with the US, and partly substitution effects as third countries redirect trade flows away from the US market to other countries
- Other estimates are qualitatively similar

McKibbin, Noland, and Shuetrim (2025) - Estimated GDP level impact of US tariffs (percentage point deviation from baseline)

	2025	2026	2027	…2035
US	-0.23	-0.85	-0.68	-0.21
Germany	-0.39	-0.15	-0.01	-0.04
France	0.89	0.16	0.1	0.07
Italy	0.03	0.08	0.12	0.09
Rest of euro area	0.03	0.05	0.09	0.01
Euro area	0.08	0.02	0.07	0.02
UK	0.05	0.16	0.2	0.1
Japan	0.01	-0.24	-0.18	-0.36
Canada	-0.18	-0.79	-0.77	-0.52
Mexico	-0.06	-0.24	-0.38	-0.54
China	-0.08	-0.51	-0.48	-0.31

12. Key takeaways

- US tariffs disrupted trade but failed to reduce US trade deficit (so far)
- Global trade adapting, not collapsing
- EU & China mitigated US export losses via export diversification
- Supply chains reoriented rather than dismantled
- Asymmetric macro impacts: US loses most, some countries even benefit from the US tariff shock
- Overall, the 2025 tariff shock reveals structural limits of protectionism
- New trade barriers and bilateral trade deals incompatible with World Trade Organisation rules can erode the multilateral trade system
- Diversification and regional agreements can increase resilience

Thank you!

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