

Policy Analysis Focus 24-13
Impact of US tariff hikes on European economies¹

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I. Introduction

On February 1 United States (US) President Trump issued executive orders to impose an additional 25% tariff on imports from Canada² and Mexico and an additional 10% tariff on imports from China. On February 4 US tariff hikes on imports from Canada and Mexico were postponed a month, but China has implemented countermeasures against US tariff hikes. President Trump has also expressed his intention to hike tariffs by 10% to 20% on imports from all economies in the world.³

This article quantitatively investigates the economic impact of US tariff hikes on individual European⁴ economies by means of simulation studies using a computable general equilibrium (CGE) model of global trade.⁵ The impact on the member states of European Union (EU) is also analyzed individually.

¹ This is a supplementary report to Kawasaki (2024), “Economic Impact of Further US Tariff Hikes,” GRIPS Discussion Paper 24-12, GRIPS, December 2024, followed by Policy Analysis Focus 24-11 and 24-12, those studied the impact of US tariff hikes on African and Asian economies respectively. The views expressed in this article are the author’s own and do not represent those of GRIPS Alliance or other organizations to which the author belongs.

² A 10% tariff would be applied to imports of energy or energy resources from Canada.

³ On February 11 President Trump signed proclamations to impose an additional 25% tariff on imports of steel and aluminum from all economies.

⁴ Central Asian economies which were members of the former Soviet Union (FSU) are grouped here with other FSU members as is shown in Tables 1 and 2.

⁵ The framework of model simulations remains unchanged from that in Kawasaki (2024). The Global Trade Analysis Project (GTAP) 7 model (based on GTAP 11c Data Base) is solved using GEMPACK software referred to in Horridge, Jerie, Mustakinov & Schiffmann (2018), GEMPACK Manual, ISBN 978-1-921654-34-3, incorporating dynamic effects of capital and labor. The baseline data for GDP and population are updated to those for 2025 based on the World Economic Outlook (WEO) Database, October 2024, International Monetary Fund (IMF).

II. Impact on economy

The impact of additional 25% US tariffs on imports of all goods from Canada and Mexico and 10% on imports from China (CM25CN10) is estimated to decrease US real GDP by 1.17%⁶ as is shown in Table 1. The impact on Canada and Mexico would be serious. On the other hand, China's resultant real GDP decrease would be limited to 0.31%. Meanwhile, real GDP would increase in almost all European economies due to trade diversion effects, as in Japan. Total real GDP for the EU is estimated to increase by 0.52% and for Europe as a whole (as defined here) by 0.46%.

That said, if an additional 10% US tariff were applied to all goods imports

Table 1 Impact on real GDP

				(%)	
	CM25CN10	WR10		CM25CN10	WR10
US	-1.17	-1.51	Canada	-3.17	-1.27
Mexico	-14.11	-4.46	China	-0.31	0.03
Japan	0.79	-0.02	EU	0.52	-0.03
Austria	0.42	-0.02	Belgium	1.15	-0.27
Bulgaria	1.37	0.90	Croatia	0.31	0.20
Cyprus	0.33	0.11	Czechia	0.78	0.26
Denmark	0.33	-0.18	Estonia	0.44	0.20
Finland	0.47	0.09	France	0.31	-0.02
Germany	0.49	-0.05	Greece	0.50	0.24
Hungary	0.68	0.13	Ireland	0.94	-1.62
Italy	0.53	0.07	Latvia	1.34	0.04
Lithuania	0.90	0.02	Luxembourg	0.22	-0.29
Malta	1.19	0.44	Netherlands	0.65	-0.28
Poland	0.72	0.25	Portugal	0.48	0.21
Romania	0.62	0.25	Slovakia	0.95	0.31
Slovenia	0.49	0.03	Spain	0.37	0.14
Sweden	0.44	-0.02			
UK	0.34	-0.07	Iceland*	0.33	-0.27
Norway	0.15	-0.10	Switzerland	0.28	-0.41
Albania	0.38	0.17	Serbia	0.44	0.40
Belarus	0.35	0.41	Moldova	0.44	0.43
Russia	0.34	0.04	Ukraine	0.49	0.18
Kazakhstan	0.40	0.13	Kyrgyzstan	-6.22	-1.63
Tajikistan	1.17	0.68	Turkmenistan	0.31	0.43
Uzbekistan	0.30	0.30			

Note: Proxied by the composite region with Lichtenstein.

Source: Author's simulations.

⁶ This estimated result is not strictly equal to those in earlier studies as the aggregation of data by economy for model simulations is different from that in earlier studies.

globally (WR10), total European real GDP is estimated to remain broadly unchanged (a 0.04% decrease) but the real GDP of several European economies would turn to decrease to some extent. By economy, it is suggested that decreases in real GDP would be larger in Ireland (by 1.62%) alongside Kyrgyzstan (by 1.63%) than in other economies, followed by Belgium (by 0.27%), Luxembourg (by 0.29%) and Netherlands (by 0.28%).

The average export dependency of European economies on the US is roughly 8 to 9% but varies by economy (coefficient of variation 0.70). A negative correlation between changes in real GDP and US export dependency is found for the EU member economies in particular (correlation coefficient -0.80), which suggests that the larger the US export dependency, the larger the adverse impact. On the other hand, for EU member economies, a negative correlation (correlation coefficient -0.71) also appears between changes in real GDP and per capita GDP. Income gaps among European economies would be reduced by US tariff hikes.

III. Impact on industry

There is a concern that tariff hikes would deteriorate free trade and distort resource allocation efficiency. If the US imposed an additional 10% tariff globally, it is estimated that US agriculture, forestry and fisheries production (AFF), which has international competitiveness, would decrease by 0.98%, but on the other hand non-competitive textiles and apparel (TXL) production would increase by 2.31%, and motor vehicles and parts (MVH) production would decrease by 2.08% as is shown in Table 2.

Meanwhile, production of European economies as a whole is estimated⁷ to increase in motor vehicles and parts (0.08%) but decrease in textiles and apparel (0.69%) and other light manufacturing (0.52%), and to a lesser extent in agriculture, forestry and fisheries (0.09%), mining (0.26%), processed foods (0.20%), metals (0.32%), chemical products (0.18%), electronic products (0.26%) and other machinery and equipment (0.07%).

That said, there are large income gaps even among the EU member economies. Production of industries with high productivity in high income economies would be affected adversely, to a larger extent than that of other industries. According to estimates presented here, textiles and apparel production would decrease less in the FSU (by 0.18%) than in the EU (by 0.70%) but motor vehicles and parts production would increase more

⁷ Estimated results for impact on production in individual economies (not shown in Table 2); other estimates are available upon request to the author, where appropriate.

Table 2 Impact on production of major industries

	AFF	TXL	MVH		AFF	TXL	MVH
							(%)
US	-0.98	2.31	-2.08	Canada	0.05	-1.76	-10.37
Mexico	-0.46	-1.87	-7.67	China	0.01	-0.55	0.43
Japan	0.12	-0.46	-1.08	EU	-0.13	-0.70	0.11
Austria	-0.11	-0.39	0.28	Belgium	-0.19	-1.14	-0.21
Bulgaria	-0.05	-0.77	0.90	Croatia	-0.06	-0.49	0.42
Cyprus	-0.04	-0.48	0.96	Czechia	-0.04	-0.58	0.82
Denmark	-0.02	0.05	1.04	Estonia	-0.03	-0.45	1.02
Finland	-0.09	-0.53	-2.27	France	-0.15	-0.76	0.50
Germany	-0.09	-0.37	-0.16	Greece	-0.12	-0.45	-0.40
Hungary	-0.04	-0.66	0.21	Ireland	-0.49	-0.67	-1.56
Italy	-0.12	-0.71	-0.08	Latvia	-0.01	-0.07	1.60
Lithuania	0.00	-0.37	-0.05	Luxembourg	-0.15	-1.14	-0.24
Malta	0.01	-0.19	0.77	Netherlands	-0.15	-1.12	-0.59
Poland	-0.03	-0.44	0.77	Portugal	-0.10	-0.97	0.67
Romania	-0.02	-0.81	0.75	Slovakia	-0.04	-0.58	0.13
Slovenia	-0.08	-0.16	0.97	Spain	-0.24	-0.91	0.41
Sweden	-0.14	-0.52	-0.17		-0.27	0.24	1.41
UK	-0.15	-1.06	-0.95	Iceland*	-0.42	-0.90	-1.57
Norway	-0.03	0.14	1.05	Switzerland	-0.25	-0.53	0.95
Albania	-0.03	-0.51	0.70	Serbia	-0.09	-0.78	0.58
Belarus	-0.01	-0.35	0.53	Moldova	-0.11	-0.67	0.42
Russia	0.12	0.55	0.60	Ukraine	-0.07	-0.21	0.64
Kazakhstan	-0.01	0.01	0.48	Kyrgyz	-0.40	2.40	2.06
Tajikistan	0.10	0.18	1.59	Turkmenistan	-0.03	-2.67	0.72
Uzbekistan	0.01	-0.76	0.39				

Note: Proxied by the composite region with Lichtenstein.

Source: Author's simulation.

in the FSU (by 0.57%) than in the EU (by 0.08%).

IV. Concluding remarks

If US tariff hikes were extended to all economies, international free trade would deteriorate, and the adverse macroeconomic impact would be larger in European economies, where per capita income levels are higher. Income gaps could be reduced but there is a concern that resource allocation among industries would become inefficient. There would be a need for investigation of the economic impact of trade policy including tariff hikes at both the macro and sector levels, and in that regard utilization of quantitative simulation studies employing economic models would be useful.