During the first year of President Trump's mandate, few decisions were taken involving the adoption of protectionist measures, despite the stress on this issue during the election campaign.[1] However, since March of this year, the US administration has been much more active in this area, and has adopted some markedly protectionist measures.

The first significant action, taken in March 2018, consisted in raising the tariffs on US steel and aluminium imports to 25% and 10%, respectively. South Korea, Argentina, Australia and Brazil were exempted from these tariffs under bilateral agreements. China, one of the countries affected, adopted retaliatory measures applicable to imports from the United States with a value of $3 billion. Meanwhile, Canada, Mexico and the European Union (EU) were temporarily exempt, until 1 June, when this exemption was revoked, prompting the announcement by their authorities of retaliatory measures affecting imports from the United States worth $23 billion. The amounts affected by these measures may seem large, but it is widely agreed that their direct impact will be relatively small, since the goods currently affected account for a low proportion of total trade flows (see Chart 1).[2] However, the indirect impact of the tariffs may be greater, since, among other reasons, when they are applied to intermediate goods used as inputs in the productive process, they may affect the shape of global production chains.

In mid-June, trade tensions soared when the US presidency announced the imposition of 25% tariffs on imports from China of 1,100 products worth $50 billion. The reason given for this measure was the alleged unlawful appropriation of US intellectual property by Chinese firms.[3] The Chinese authorities responded by announcing retaliatory measures with an equivalent value, involving the introduction of 25% tariffs on more than 650 US products.[4]

In Chart 2, the blue bars show the sectoral breakdown of the bilateral exports between the United States and China (as a percentage of their total bilateral trade flows) and the red bars the proportion of such exports that would be affected by the new tariffs. Overall, these measures (applied to trade flows worth $100 billion) would affect around 15% of bilateral trade flows. Within each sector, the new 25% tariffs would involve a significant increase in those currently in force (the diamonds in Chart 2), especially in the case of the tariffs faced by Chinese exporters.

In order to estimate the impact of this escalation of protectionist measures on the GDP and inflation of various economies, two simulations have been performed using the NIGEM global econometric model. The first one is a simulation of the effects of this recent increase to 25% in the duties applied to imports worth $100 billion ($50 billion in each direction of the bilateral trade between China and the United States). The second simulation also involves tariffs of 25% on Chinese imports from the United States worth $50 billion, with the amount affected in the other direction being much larger ($150 billion).[5] The results show that the US economy will be the most affected (see Chart 3). Specifically, its GDP, after four years, will be 0.2 pp lower than in the baseline scenario in the first simulation and more than 0.5 pp lower in the second. The adverse effects on China will be smaller, since the tariffs affect a smaller proportion of its total exports. As for third countries, the impact will be greatest in Canada and Mexico, given their close trade ties with the United States, and somewhat lower in the euro area, Japan and the rest of Asia. Moreover, since higher duties will push up the price level, the inflation rate is forecast to rise in all the economies, as seen in Chart 4.[6] These estimates may understate the total effects, as they are based on simulations that only consider the trade channel, and therefore ignore others, such as a possible negative impact on confidence or the generation of tensions in financial markets that may result in higher financing costs.

Looking ahead, there is great uncertainty surrounding the adoption of further measures. As regards the bilateral relations between the United States and China, the most likely scenario, following the latest decisions, is no longer one of agreement between these two economies, as appeared to be implied by the agreement in principle reached in May, with the commitment on the part of China to increase its imports of goods and services from the United States.

The future of trade relations between the United States and other economies is also uncertain, with the EU and Mexico and Canada having declared their readiness to respond to any protectionist measures that may be taken by the United States, such as those that may arise from the investigation commenced in mid-May by

---

1 The measures adopted during the first year of the president's mandate were primarily in the form of executive orders designed to increase purchases of US goods and services (such as the "Buy American, Hire American" order of April 2017, addressed to government agencies) or to investigate the effectiveness and consequences of international trade agreements of which the United States is a signatory.

2 Specifically, the US steel and aluminium imports subject to the new duties and the US exports affected by the reprisal measures amount, respectively, to only 1.8% and 1.7% of the total imports and exports of this country. In terms of the impact on US GDP, Barclays (2018), *The Trade-Offs of Free Trade* estimates that the new duties on aluminium and steel may reduce it by somewhat less than 0.2 pp in the short term, while Sposi and Virdi (2018) "Steeling the U.S. Economy for the Impact of Tariffs," *Federal Reserve Bank of Dallas Economic Letter*, estimate a reduction of 0.25 pp in the long term.

3 The new measures would affect the imports of high-technology goods, and electronic and chemical products, aircraft parts, medicines and machinery.

4 The products affected include soya (among other agricultural products), motor vehicles, chemical products and aircraft.

5 The reason is that the president of the United States has threatened to impose duties on an additional flow of $100 billion of imports from China, if China retaliates, which it has done.

6 It is assumed in these simulations that the monetary authorities react to trade restrictions by changing interest rates in response to the rise in inflation and the reduction in activity.

the US Department of Commerce to determine whether vehicle imports pose a threat to national security. The results of this investigation may lead to the imposition of elevated duties on such imports, which would affect the EU (especially Germany and Italy) and Japan in particular. Canada and Mexico would also be severely affected, both directly and through the effects on the renegotiation of the terms of the North American Free Trade Agreement (NAFTA) which was initiated at the beginning of the current US presidency. Thus, in the present circumstances, a

further escalation in the adoption of protectionist measures, representing a risk to growth in trade and global activity, cannot be ruled out.[7]

7 ECB, *Economic Bulletin,* May 2018, Box 1 ("Implications of rising trade tensions for the global economy") contains simulations of scenarios in which protectionist measures spread, as a result of imposition by the United States of significant duties on imports from all countries and of equivalent retaliatory measures by the latter, with a pronounced impact on global activity.

Chart 1
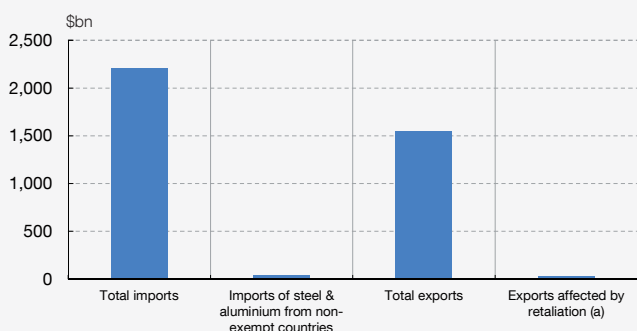**US TRADE FLOWS AFFECTED BY TARIFFS ON STEEL & ALUMINIUM AND RETALIATION (2017)**

Chart 2
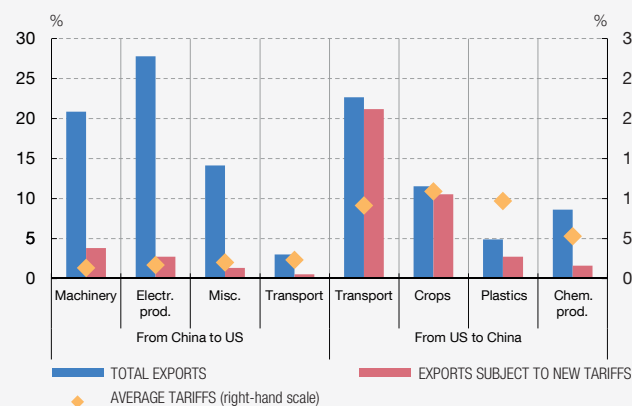**BILATERAL EXPORTS BY SECTOR AND AVERAGE TARIFFS (b)**

Chart 3
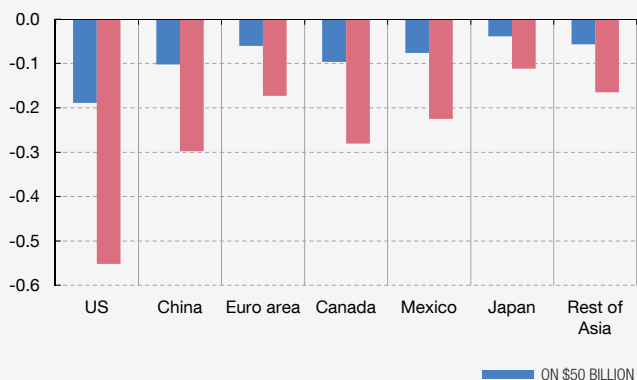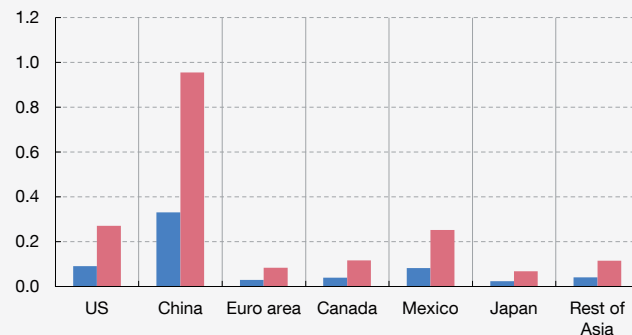**IMPACT OF TARIFFS ANNOUNCED BY US AND CHINA ON GDP (c)**

Chart 4
IMPACT OF TARIFFS ANNOUNCED BY US AND CHINA ON INFLATION (c)

SOURCES: US Census Bureau, IMF DOTS, Peterson Institute for International Economics, US International Trade Commission, WTO and BdE simulations using NIGEM.

a By China, Canada, Mexico and the EU.
b Exports of each sector: % of exports of each country.
c Maximum deviation from baseline scenario.