Press Release

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Protectionism – Euler Hermes expects less than 0.5pp increase in world import tariffs

- Following Donald Trump's latest announcements regarding tariffs on US imports, Euler Hermes' economic research department defined three scenarios to evaluate the economic impacts of recent protectionist initiatives: "Trade Games", "Trade Feud" and "Trade War".
- The most likely scenario, "Trade Games", corresponds to a mild increase of the average world tariff by +0.5 pp.
- According to Euler Hermes' protectionism tracker[1], Electronic, Electric, Machinery and Equipment and Automotive are the most at-risk industries.

PARIS – 11th MAY Last March, Donald Trump decided to drag age-old protectionism out of the past, imposing tariffs on US imports. Retaliation from China – the main target – followed; Fears of a trade war resurfaced.

Beyond the fact that initial threats from the US were generally followed by negotiations and exemptions, the magnitude of the exports at risk, and the risks to derail the economic upswing sound like good reasons to take markets' anxiety with a pinch of salt.

Recently, global trade has actually done well: in volume it rose by an estimated +4.8% in 2017 while protectionist measures continued to pile up (+489 new measures in 2017 compared to 2016). The acceleration of global growth was strong enough to more than offset the dampening effects of new protectionist measures and push many countries to open up again to benefit from the synchronized acceleration in growth.

On a forward-looking basis, Euler Hermes' latest analysis on protectionism: "Trade Games, Trade Feud or Trade War?" evaluates the impact of higher US tariffs on global trade in 2018 and 2019. It defines three scenarios based on the rise of the average US import tariff and different levels of retaliation among major trade partners.

Most likely scenario: +0.5pp increase in world import tariff

First, our baseline scenario called "Trade Games", corresponds to a mild increase of the average tariff by +0.5pp from 3.5% today for the US, with negligible retaliation. This is the unfolding situation, following the announcements, and the scenario we consider to be the most likely.

This "Trade Games" scenario represents USD30bn per year of combined export losses for the US and China i.e. less than 0.1% of global trade of goods and services.

For the US, expected impacts on growth, inflation, trade are negligible (+/-0.1pp max) as well as on business insolvencies (less than +1pp) but twin deficits could increase by -0.6 (trade) and -1.1pp (fiscal).

Electronic, Electric, Machinery and Equipment and Automotive are the most at-risk industries

Electronic, Electric, Machinery and Equipment and Auto-motive are the most at-risk industries according to our protectionism tracker, based on the analysis of major contributors to US trade deficit. On a bilateral basis, imports of Electronic, Electric and Textile from China are the largest contributors

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[1] Euler Hermes' Protectionism Tracker : to anticipate protectionist announcements, [1] Euler Hermes calculates the bilateral trade balances with the US by country and sector.

to the US trade deficit; they correspond to the list of Chinese products targeted: Industrial and electrical machinery, Optical equipment, Vehicles (railway, aircraft), Chemicals (incl. pharmaceuticals) and Metals (steel and aluminum mainly). Conversely, to track retaliation by China, Agri-food (where import tariffs have been increased on EUR3bn products) ran the largest deficit. The recent Chinese retaliatory measures have targeted Aircraft, Cars, Chemicals and Agri-food products (of which Soybeans, Cereals, Beef). Outside China, Mexico, Germany, Japan and Canada are the largest contributors to US trade deficits with Automotive, Machinery and Equipment, Electrical and Electronic equipment.

Other scenarii are much less likely

Our second scenario ("Trade Feud") - which is unlikely - corresponds to an increase of +2.5pp for the US and rest-of-the-world import tariffs bumping them to 6% for the US and 8% globally (substantial retaliation).

Last, our "Trade War" scenario (very unlikely) corresponds to an increase of tariffs globally by +8.5pp i.e.to 12% in the US and 14% globally. The bilateral version of this scenario would mean a 45% tariff on all Chinese imported products, which echoes what President Trump used to say on the campaign trail. This situation has not happened since the mid-60s.

"*While less tweeted about, other forms of protectionism (Financial, Regulatory, Data, Currency, Environmental, Sanitary, Security, and Intellectual Property) could be even more disruptive. On the financial risks side, capital controls and currency manipulation should be monitored should tensions escalate between the US and China*", said **Alexis Garatti, Head of macroeconomic Research at Euler Hermes**.

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