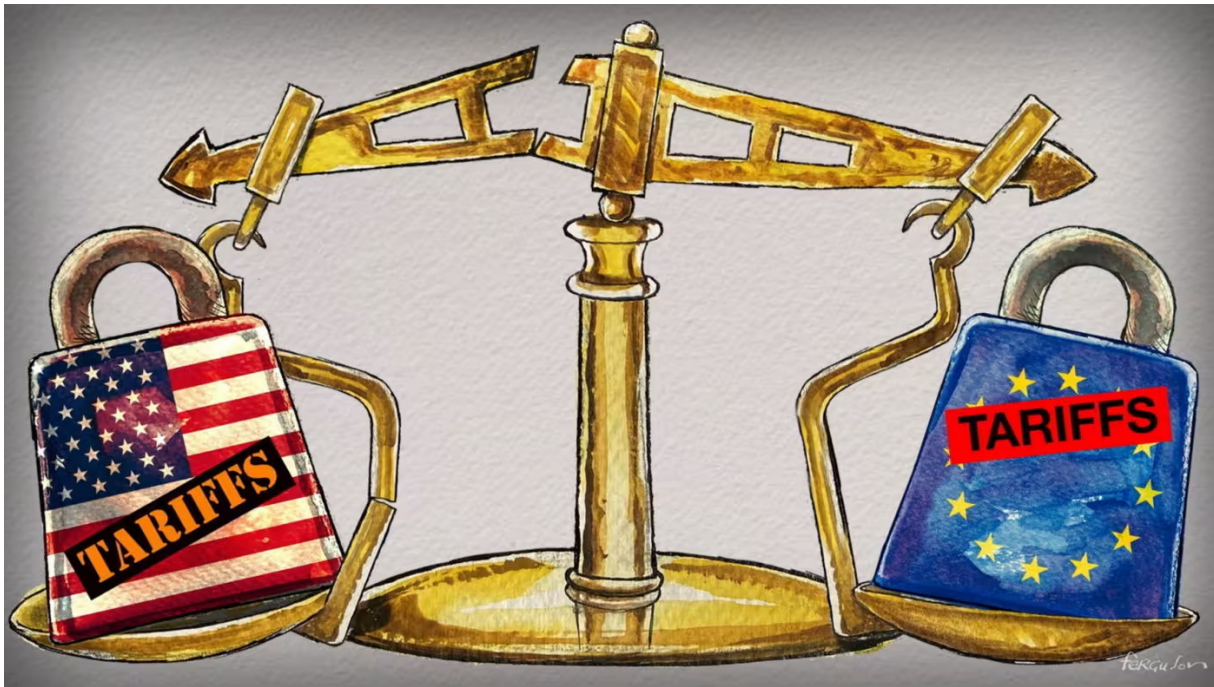


Opinion **US trade**

The economic costs of Trump's assault on the global order

America is trying to undo the very system of open trade that it created

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On March 3, Donald Trump made two highly significant decisions. One was to [impose tariffs](#) on Canada and Mexico at a rate of 25 per cent, as well as on Chinese imports at a rate of 10 per cent on top of the 10 per cent imposed last month. A [25. per cent tariff](#) on imports from the EU is expected to follow. Together, these four economies produce 61 per cent of US imports of goods. The other and more significant decision was to suspend US military aid to Ukraine, giving the beleaguered country what appears to be a Hobson's choice between surrender and defeat. Trump's friend Vladimir Putin must be ecstatic: the US president is tearing the west apart before his happy eyes.

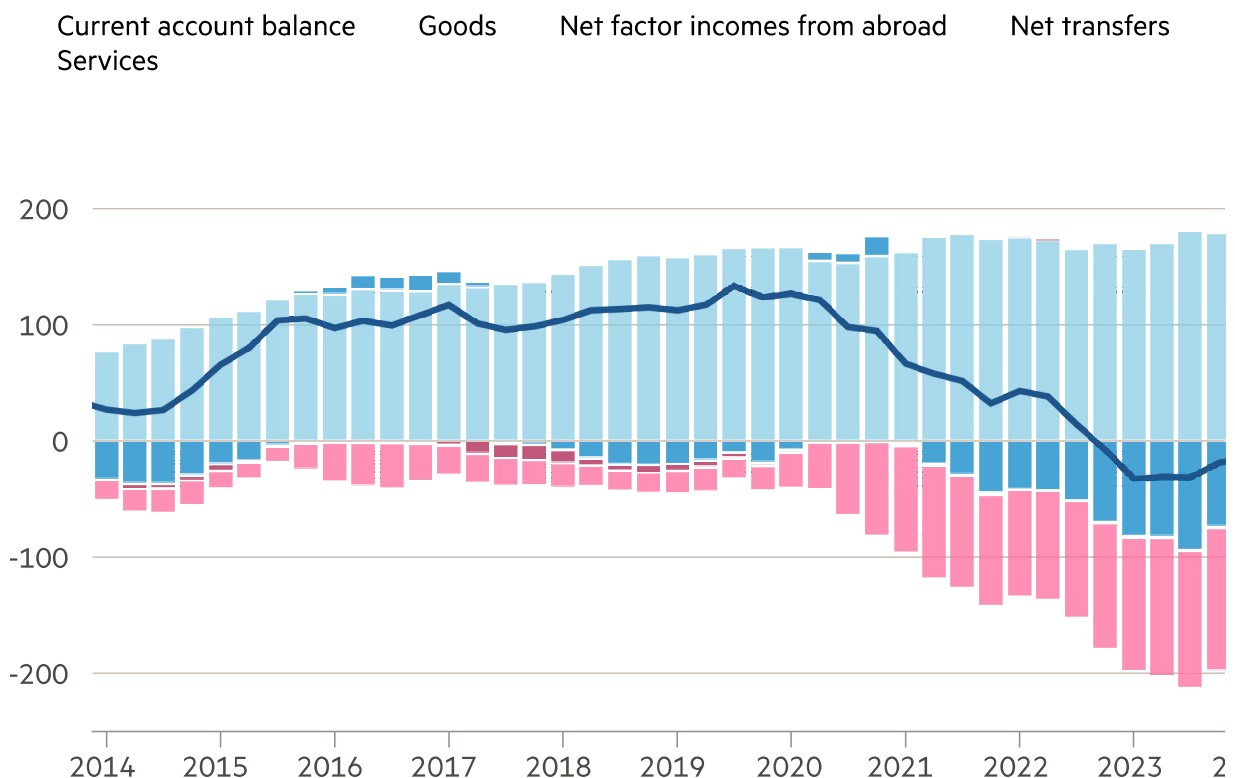
These are merely two sets of decisions in the whirlwind that has accompanied the second Trump presidency. But for the outside world, they are of huge significance. They represent the end of liberal, predictable and rules-governed trading relationships with the world's most powerful country and also the one that created the system itself. They also represent the abandonment by the US of core alliances and commitments in favour of a closer relationship with an erstwhile enemy. Trump clearly thinks Russia more important than Europe.

In both cases, he is sorely mistaken. As [Maurice Obstfeld](#), former chief economist of

the IMF, has noted, the US's trade deficits are not due to cheating by trading partners, but to the excess of its spending over income: the biggest determinant of America's trade deficits is its huge federal fiscal deficit, currently at around 6 per cent of GDP. The Republican-controlled Senate's plan to make Trump's 2017 tax cuts permanent guarantees that this deficit will persist for at least as long as markets fund it. Given this, attempts to close trade deficits with tariffs are like trying to flatten a fully-filled balloon.

The Eurozone's bilateral current account with the US is in balance

Eurozone current account balance with the US, with components (sum over four quarters, €bn)



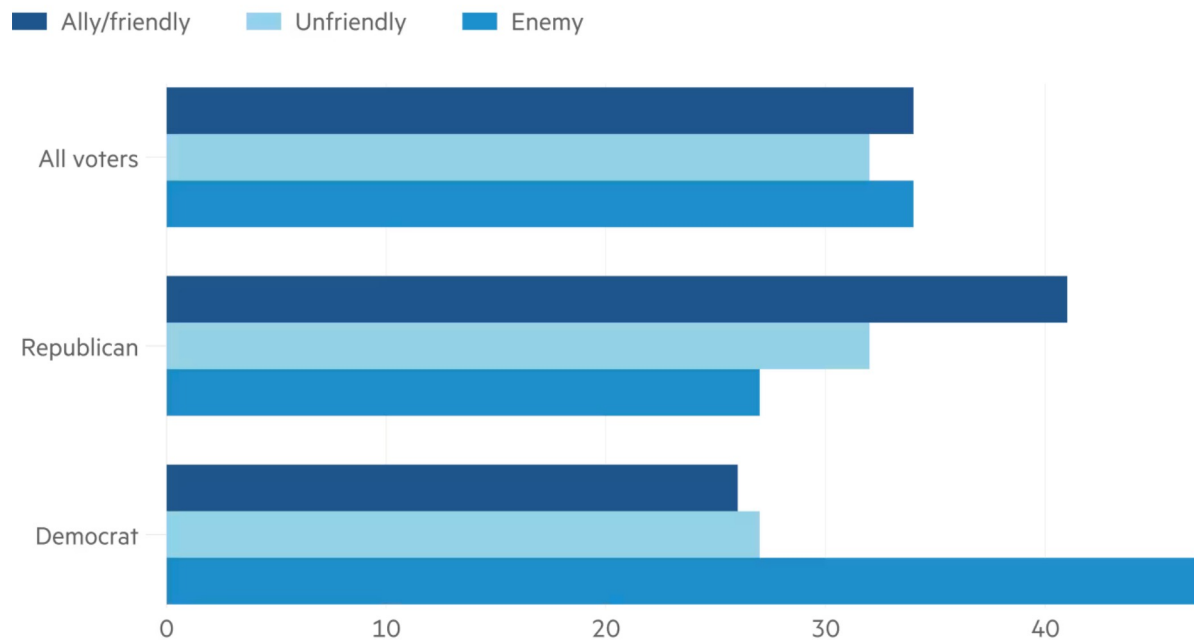
To understand this would require some knowledge of macroeconomics, which Trump lacks altogether. But this is not his only folly. Trump also says: “Let’s be honest, the European Union was formed in order to screw the United States. That’s the purpose of it. And they’ve done a good job of it.” Moreover, he has said of Europe: “They don’t take our cars, they don’t take our farm products, they take almost nothing and we take everything from them.”

Both complaints are silly. The EU was formed to bring prosperous economic relations and political co-operation to a continent devastated by two horrific wars. The US long

and political co-operation to a continent devastated by two horrific wars. The US long understood and actively promoted this sensible response. But that was, alas, a very different US from today's self-pitying blunderer.

Many Republicans now view Russia as friendly or even as an ally

US voters' views on Russia, by party (%)



Source: CBS/YouGov poll, Feb 26-28

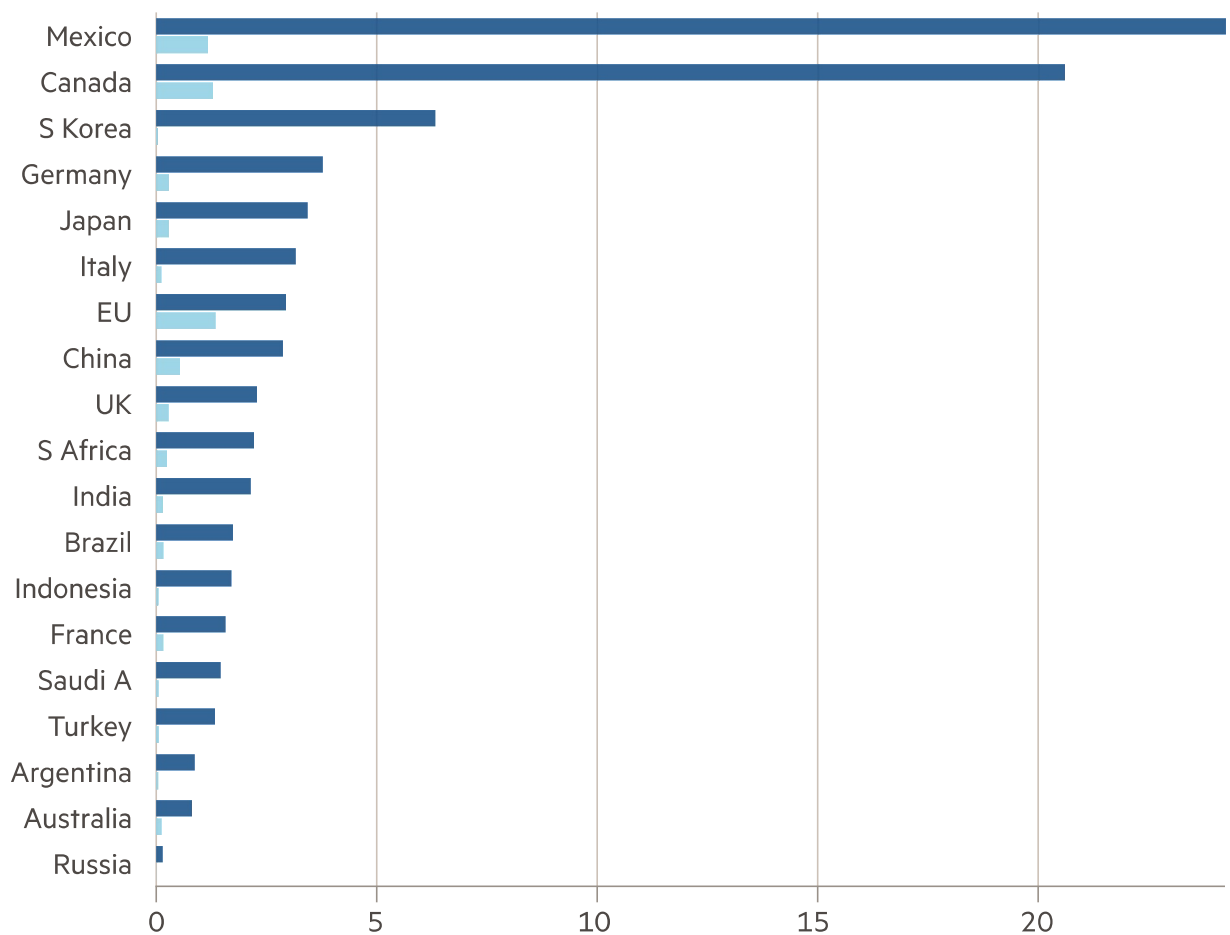
Moreover, as the Danish economist, [Jesper Rangvid](#) notes in his blog, Trump looks only at bilateral trade in goods, ignoring trade in services and earnings from capital and labour. It so happens that the income the US derives from its exports of services at least to the Eurozone and the returns on capital and the wages of labour it has exported there offset its bilateral deficits in goods. The overall Eurozone bilateral current account balance with the US is close to zero, not that even this matters. But bilateral balances in goods alone are less significant even than overall bilateral balances. Given how he earns his money, Trump has been running a big deficit in goods all his life. It hardly seems to have done him much harm. (See charts.)

For Mexico and Canada, the economic costs of these tariffs will be high, since their exports of goods to the US were 27 per cent and 21 per cent of GDP respectively, in 2023. EU exports of goods to the US were only 2.9 per cent of its GDP in 2023. For it, therefore, the impact of the 25 per cent tariff would not be that great. Yet it would still be an act of unjustifiable, indeed economically illiterate, economic warfare. The EU would have to retaliate. Transatlantic relations would be permanently damaged.

The US economy is far less reliant on its exports to its partners

than the latter are to the US

G20 exports to the US as a % of each country's GDP, 2023
US exports to each G20 country as a % of US GDP, 2023



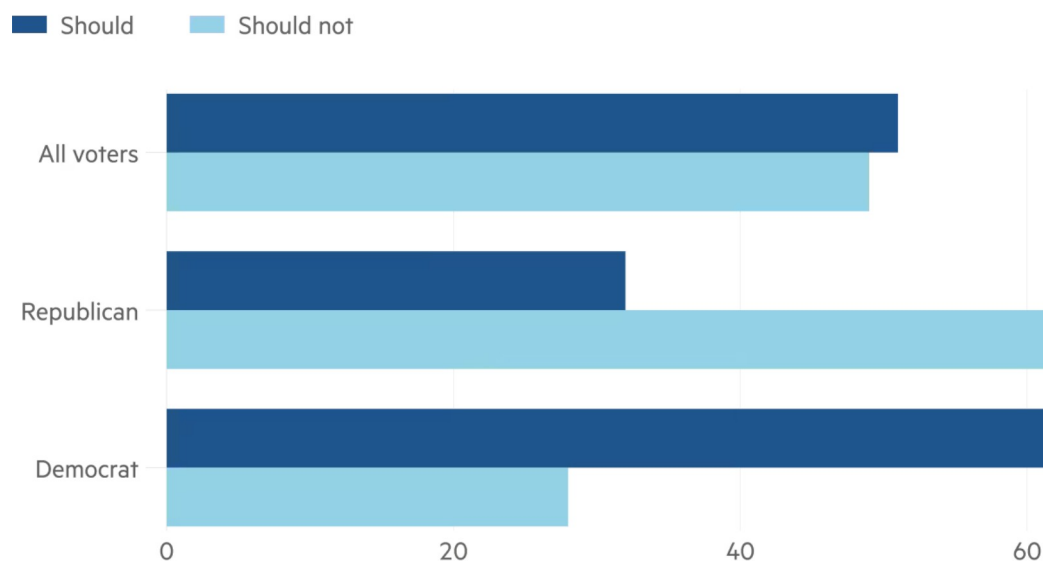
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Source: IMF; US Census Bureau; BEA

Even the trade war, outrageous though it is, [pales by comparison with the ambush of Volodymyr Zelenskyy in the Oval Office](#) by the US president and vice-president last Friday and the subsequent suspension of military aid to Ukraine. The aim may be to force Zelenskyy to sign the minerals deal. But the bigger problem is that Zelenskyy distrusts Putin, for good reason, and now has no grounds to trust Trump either. Also Trump may want a “peace deal”, but why would Putin agree to a genuine one if Ukraine is his for the taking?

There is a big US partisan divide on whether to give Ukraine military assistance

Opinion poll responses: Do you think the US should or should not send weapons and military aid to Ukraine?



Source: CBS/YouGov poll, Feb 26-28

Both men are underestimating the will of Ukrainians to be a free people. But if that aim is to be achieved, Europe will have to take up the burden of both securing its own defence and underpinning that of Ukraine. Friedrich Merz, the next chancellor of Germany, was right when he said that his “absolute priority will be to strengthen Europe as quickly as possible so that, step by step, we can really achieve independence from the USA.” Those steps must also be taken quickly. One will be to accelerate the transfer of the more than [€200bn in seized Russian reserves to Ukraine](#). Another will be a huge defence build-up now that the US commitment to Nato has collapsed.

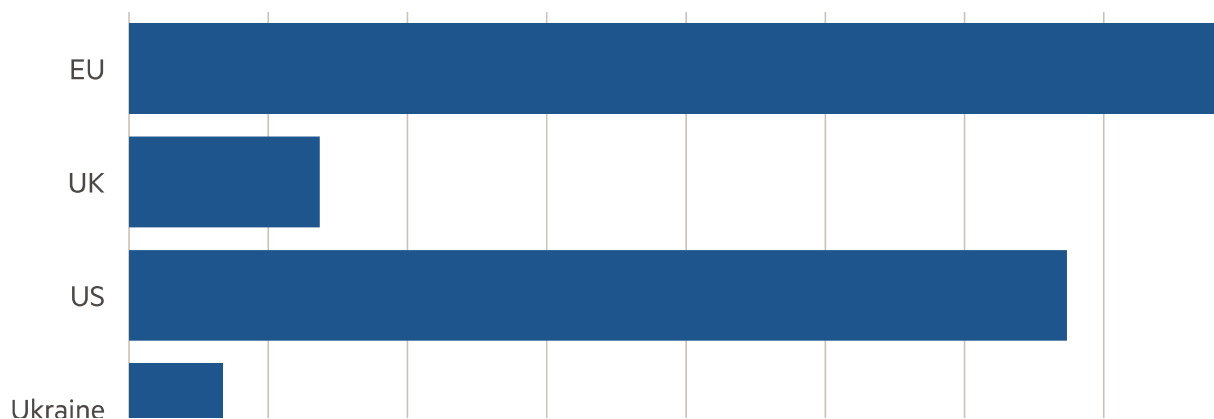
The EU plus UK dwarf Russia demographically and economically

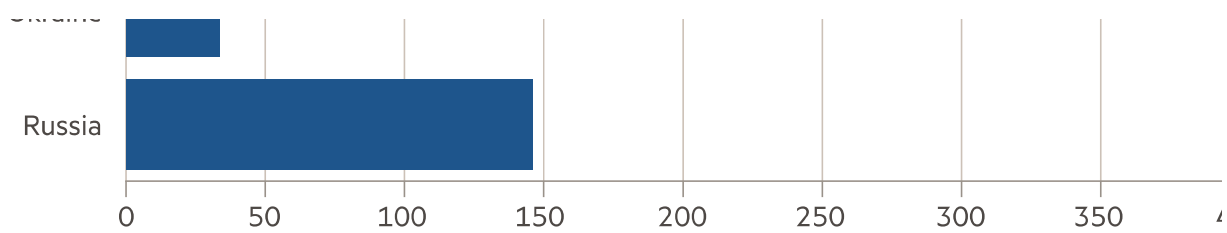
Comparative population and GDP in 2024

Select series

Population mn

GDP at PPP (\$tn)





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Source: IMF

The EU plus UK has a combined population 3.6 times Russia's and a GDP, at purchasing power, 4.7 times larger. The problem, then, is not a lack of human or economic resources: if (a big if) Europe could co-operate effectively it could balance Russia militarily in the long run. But the difficulty is in the medium run, since [Europe is unable to make some crucial military equipment](#), on which it and Ukraine depend. Would the US refuse to supply such weapons if Europeans bought them? Such a refusal to supply would be a moment of truth.

Trump is waging economic and political war on US allies and dependants. But the resulting collapse in trust of the countries that used to share its values will end up very costly for the US, too.

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