

59th FIW lecture

BMWET, Vienna, 22 May 2025



FIW

Forschungsschwerpunkt
Internationale Wirtschaft

(Customs) Unity as Strength: How the EU and Its Partners Can Respond to Tariff Threats

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Reciprocal Tariffs		
Country	Tariffs Charged to the U.S.A. (including duties on U.S. goods and U.S. services)	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	23%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
	10%	10%
	60%	30%
	10%	10%
	74%	37%
	10%	10%
	33%	17%
	34%	17%
	10%	10%
	10%	10%
	58%	29%
	10%	10%
	88%	44%
	10%	10%



The Trump administration's tariff calculation, annotated

$$\Delta \tau_i = \frac{x_i - m_i}{\cancel{\varepsilon \cdot \varphi} \cdot m_i}$$

Change (Δ) in tariff rate (τ)

Trade deficit

A country's total exports to the U.S.

A country's total imports from the U.S.

Extra symbols that don't affect the calculation

Defined as 1

Total imports

In plain language:

$$\text{Reciprocal tariff} = \frac{\text{Trade deficit}}{\text{Imports}}$$

Source: [United States Trade Representative](#); Graphic: Kavya Beheraj/Axios



PRESIDENTIAL ACTIONS

Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits

Executive Orders | April 2, 2025

US 10 year Treasury

US10YT

YIELD

4.54

TODAY'S CHANGE

↑ 0.056 / 1.24%

1 YEAR CHANGE

↑ +2.78%

Data delayed at least 20 minutes, as of May 21 2025 13:29 BST.

Summary

Charts

1D

1W

10D

1M

3M

6M

9M

YTD

1Y

3Y

5Y

10Y

MAX

2 Apr, 2025



to 21 May, 2025



View



Draw



Open: 4.40 Close: 4.40 High: 4.40 Low: 4.40



NOW

PRESIDENT TRUMP AND THE FIRST LADY PARTICIPATE IN A BILL SIGNING, MAY 19, 2025

WATCH NOW

PRESIDENT TRUMP AND THE FIRST LADY PARTICIPATE IN A BILL SIGNING, MAY 19, 2025

WATCH NOW

PRESIDENT TRUMP AND THE FIRST LADY PARTICIPATE IN A BILL SIGNING, MAY 19, 2025

PRESIDENT DONALD J. TRUMP

The WHITE HOUSE

PRESIDENTIAL ACTIONS

MODIFYING RECIPROCAL TARIFF RATES TO REFLECT TRADING PARTNER RETALIATION AND ALIGNMENT

Executive Orders

April 9, 2025

Trump's Love for Tariffs Began in Japan's '80s Boom

[Share full article](#)

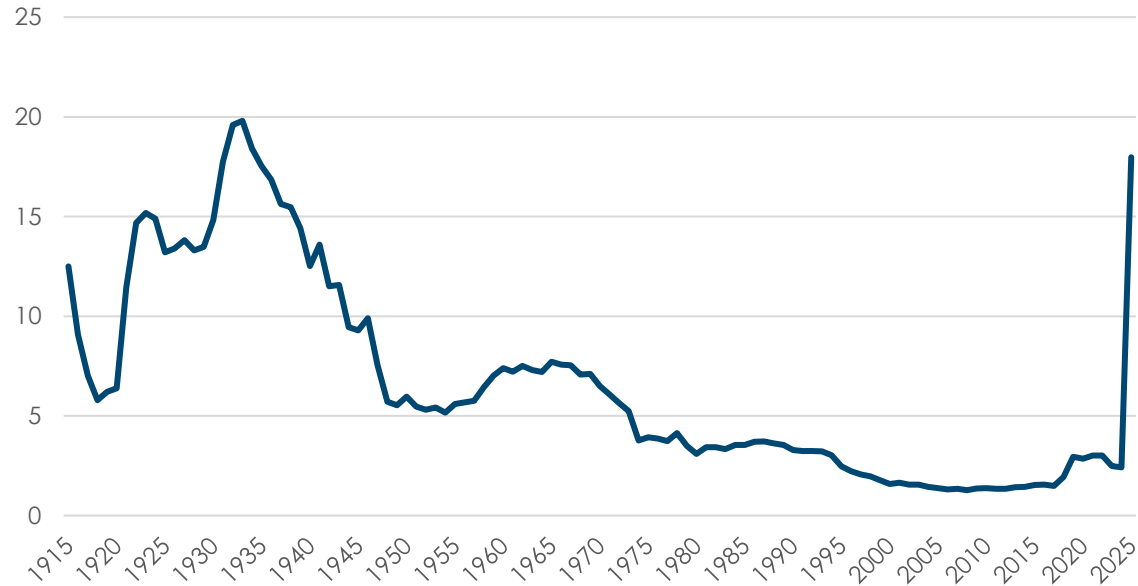
79



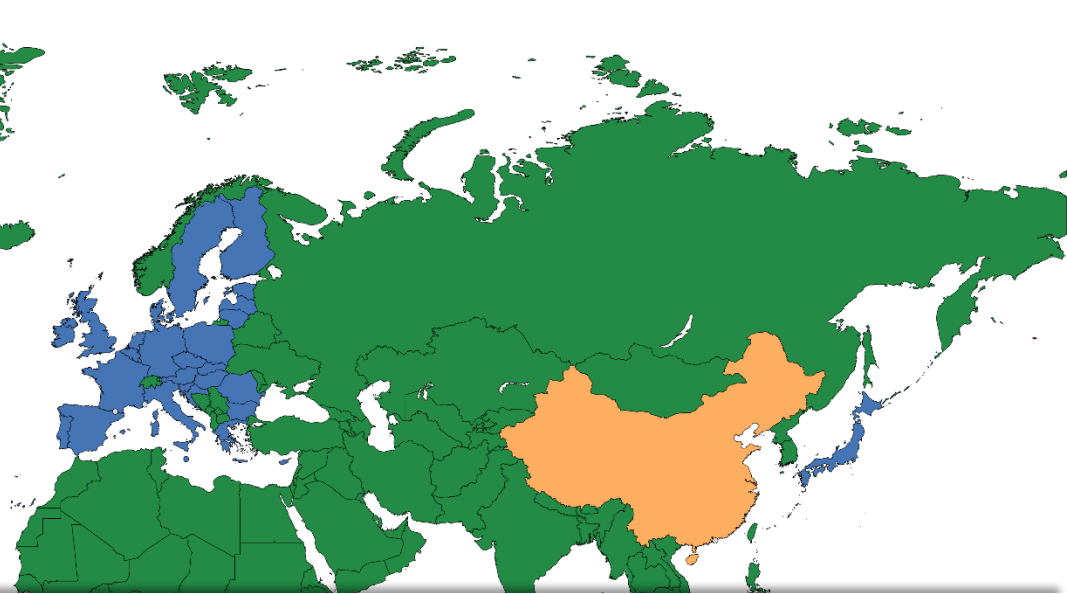
Donald J. Trump in 1987. Allies and historians say that his admiration of tariffs is one of his longest and most deeply held policy positions. Joe McNally/Getty Images

Trump has ended decades of U.S. advocacy for free trade, reminding us of the last U.S.-led global trade war during the 1920s and 1930s

U.S. average effective tariff rate, 1915-2025, in %



Source: The Budget Lab at Yale, 15 April 2025.



The New York Times

Global Economy

[I.M.F. Raises U.S. Forecast](#)

[Japan's Stagnation Ends](#)

[China's 2024 G.D.P.](#)

[Reviving Germany's Economy](#)

One Response to Trump's Tariffs: Trade That Excludes the U.S.

A growing number of countries, including American allies, are striking trade deals as the Trump administration erects a higher fence around its global commerce.

Simulation Tool

 Custom Query

The WITS Global Tariff Cuts and Trade Simulator, is an analytical tool that enables you to perform the following:

- **Tariff Cuts**

In Tariff Cuts module, users can cut the applied tariff rates using prescribed formulas. Available formulas include specification of new rate or new maximum rate, linear percentage cut or Swiss formula. Any number of different formulas (or same formula with different parameters) may be applied for different products and countries. Both pre- and post-tariff cut rates are reported for every importer-exporter combination and for each product at HS 6-digit level.

- **Global Simulation**

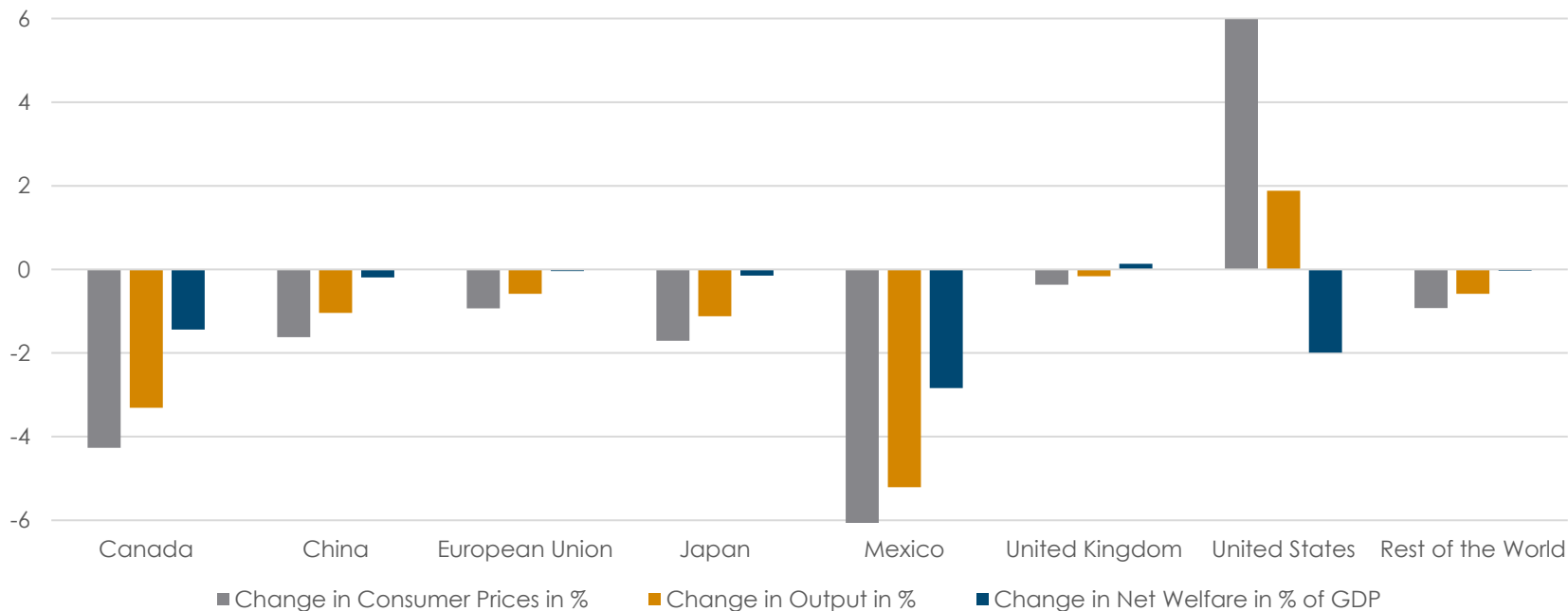
The Global Simulation model is developed by Professors Joseph Francoise and Keith Hall. The model is a partial equilibrium analysis of global trade policy changes at the industry (product) level. The framework employs national product differentiation, and allows for the simultaneous assessment of trade policy changes, at the industry level, on a global, regional, or national level. Results allow the assessment of importer and exporter effects related to trade values, tariff revenues, exporter (producer) surplus, and importer (consumer). For more information on Global Simulation Methodology, [click here](#)

- **SMART with Users' Own Data**

In this module, users can export the template, populate it with their own data, import it to the module and run the SMART simulation. If only a part of the data elements are available with the users, they can download the data from the SMART module within WITS and use only the missing elements to be combined with the own data. For more information on SMART Simulation Methodology, [click here](#)

Upper baseline scenario: Disruptive effects of full “reciprocal” tariffs

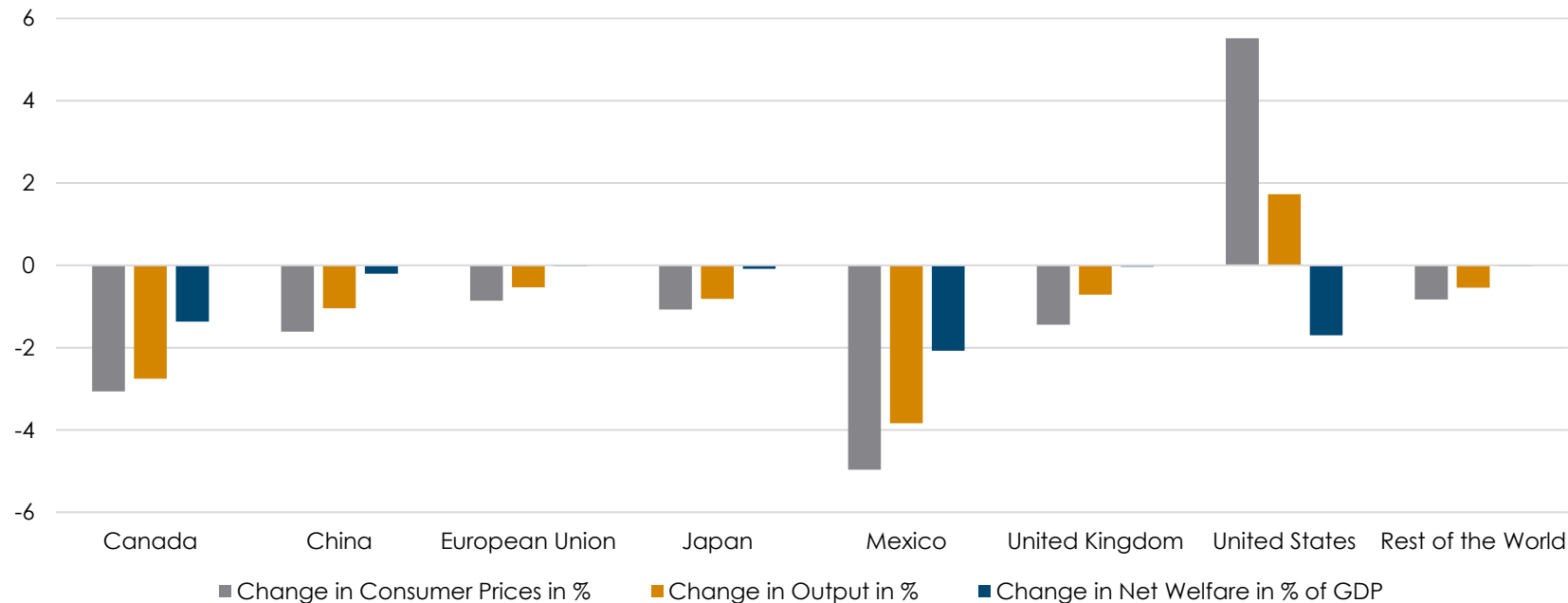
Simulated trade war effects in terms of inflation, output and net welfare, upper baseline scenario



Source: Own calculations using the partial equilibrium GSIM model.

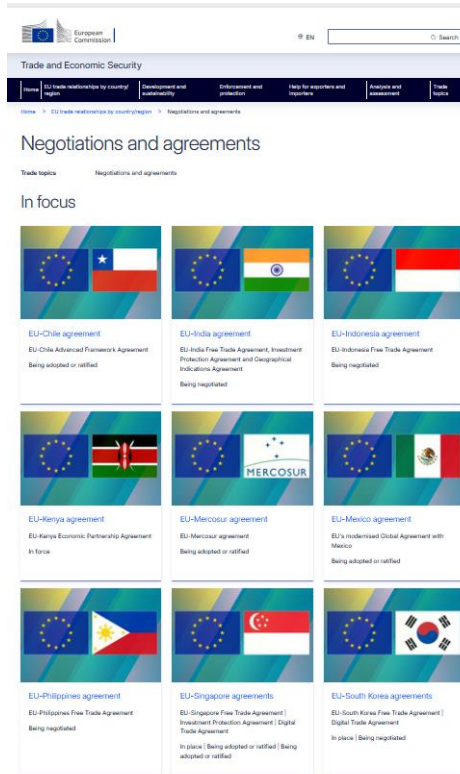
Upper cooperation scenario: Trade surplus economies benefit

Simulated trade war effects, upper CA-EU-JP-MX-UK cooperation scenario



Source: Own calculations using the partial equilibrium GSIM model.

An EU customs union with major trade partners would also complement ongoing trade agreement negotiations and ratifications



The screenshot displays the European Commission's website for Trade and Economic Security. The main heading is "Negotiations and agreements". Below this, there is a section titled "In focus" which lists nine trade agreements in a 3x3 grid. Each entry includes the flags of the EU and the partner country, the name of the agreement, and its current status.

Agreement	Status
EU-Chile agreement EU-Chile Advanced Framework Agreement	Being adopted or ratified
EU-India agreement EU-India Free Trade Agreement, Investment Protection Agreement and Disputes Settlement Mechanism Agreement	Being negotiated
EU-Indonesia agreement EU-Indonesia Free Trade Agreement	Being negotiated
EU-Rwanda agreement EU-Rwanda Economic Partnership Agreement	In force
EU-Mercosur agreement EU-Mercosur agreement	Being adopted or ratified
EU-Mexico agreement EU's modernised Global Agreement with Mexico	Being adopted or ratified
EU-Philippines agreement EU-Philippines Free Trade Agreement	Being negotiated
EU-Singapore agreements EU-Singapore Free Trade Agreement Investment Protection Agreement Digital Trade Agreement	In place Being adopted or ratified Being adopted or ratified
EU-South Korea agreements EU-South Korea Free Trade Agreement Digital Trade Agreement	In place Being negotiated

Policy recommendation: A call for more cooperation at every level

- **EU common market perspective:** EU budget, Eurobonds, investment in European public goods, capital market integration
- **EU extended enlargement perspective:** Accelerate EU enlargement also for new potential candidates e.g. IS, NO, GL, ...
- **EU close partnership perspective:** Invite key *like-minded* global partners – such as UK, CA, JP, MX – to form a customs union
- **EU global neighbourhood perspective:** Broaden concept of *neighbourhood* to a global scale, strengthening ties with e.g. IN ...

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Thank you for your attention

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