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One Year of America First 2.0: Assessing the Effects of Trump's Trade Policies

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This policy brief evaluates the trade policy of Donald Trump during the first year of his second presidential term. The administration pursued a strongly protectionist agenda, implementing new tariffs on a wide range of products and trading partners, including long-standing allies such as the EU, Canada, and Mexico, as well as strategic competitors such as China. The policy brief documents a substantial increase in U.S. economic policy uncertainty induced by tariff measures, reaching historical highs in 2025. Short-run economic effects include a depreciation of the U.S. Dollar, reduced import volumes, and modest pass-through to consumer prices, adding approximately 0.7 percentage points to U.S. inflation. For trade partners such as the EU and Austria evidence indicate declines in exports to the U.S. The policy brief concludes by outlining policy instruments available to the EU to mitigate economic losses, including alternative trade policy measures, initiatives to strengthen the common market's international competitiveness, and deeper plurilateral cooperation with likeminded economies.

1. Introduction

With the onset of Donald Trump's second term as U.S. president, tariffs once again assumed a central role in U.S. economic policymaking. The president announced and threatened new tariff measures across a broad range of products and trading partners worldwide. Unlike during Trump's first term, when tariff actions primarily targeted China as a strategic competitor, the current trade policy agenda extends to long-standing allies such as the European Union (EU), as well as partners with existing free trade agreements, including Canada and Mexico. This reflects a major shift toward a unilateral and non-cooperative U.S. approach to economic policy making.

Rules-based trade policy has been fully replaced by power-driven approaches that extend well beyond economic considerations. Recent cases illustrate this shift: Brazil has been treated with high tariffs following legal proceedings involving former president Jair Bolsonaro. Since August, India has faced higher tariffs as a form of secondary sanctions linked to its energy imports from Russia. Meanwhile, Russia itself has not been targeted with additional tariffs beyond the sanctions already implemented by the Biden administration until Donald Trump implemented targeted measures against two main Russian oil companies, Rosneft and Lukoil, in late October. These examples underscore the growing use of trade policies as instruments of geopolitical leverage rather than as tools embedded in a rules-based framework.

In economic policy terms, the Trump administration is combining high import tariffs with a domestic economic policy mix of expanded fossil-fuel production, deregulation, and investment incentives to raise the manufacturing industry's value-added share in the U.S. Tariffs are intended to shield domestic manufacturers by increasing costs for competing imports, while lower energy prices, achieved through policy support for fossil-fuel extraction, aim to reduce production costs for energy-intensive industries and digital services providers.

One year into Donald Trump's second presidential term, this policy brief examines the new administration's approach to trade policy. It first outlines the evolution of U.S. tariffs over the past year, discusses their legal justifications, and analyses the effects of these tariffs on economic policy uncertainty in the United States as well as on effective U.S. import tariff rates.

The second part provides a descriptive analysis of the short-run economic effects of the tariffs in 2025, as reflected in standard trade-related economic indicators such as imports, exports, and domestic

prices, with separate assessments for the U.S. and Austria. It also examines the impact of the protectionist trade policy on U.S. exchange rate movements in 2025 relative to other major international currencies. The policy brief concludes by summarizing the main findings and outlining potential economic policy instruments available to the EU and Austria, to mitigate the economic costs associated with the U.S. tariff measures.

2. The Evolution of Trump's Tariffs and the Current State of Affairs

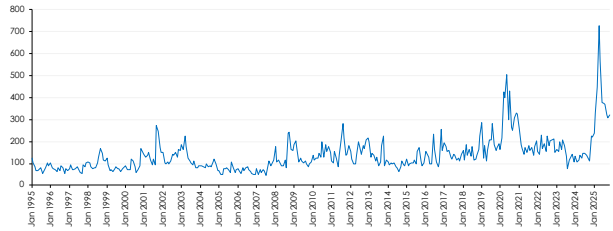
On January 20, 2025, Donald Trump returned to the White House for a second term, once again emphasizing his America First agenda and reaffirming his commitment to tariffs as his preferred economic policy tool. In his first weeks in office, Trump implemented new protectionist measures, including higher tariffs on key imports and renewed his efforts to reduce the U.S. trade deficit. The U.S. administration has launched trade conflicts with major partners such as Canada, Mexico, China, and the EU, heightening global trade tensions.

Donald Trump's trade policy rests primarily on two pillars. Tariffs are either justified by a declared *national emergency* under the International Emergency Economic Powers Act (IEEPA) of 1977 or *by national security* concerns under Section 232 of the Trade Expansion Act of 1962. The IEEPA is used to impose trade-partner–specific U.S. import tariffs aimed at reducing the U.S. trade deficit. By contrast, Section 232 tariffs are industry-specific, targeting products such as pharmaceuticals (100% tariffs), steel and aluminum (50%), automobiles and auto parts (25%), and lumber and furniture (10-25%). Some tariffs, especially in the automotive sector, have been lowered to overall country-specific rates for economies that have settled on agreements with the U.S., such as the EU. In more targeted cases, such as Chinese semiconductor imports, the administration additionally invokes Section 301 of the Trade Act of 1974 to address unfair trade practices by trading partners. [1]

During his first presidency, Donald Trump already made use of Section 232 and Section 301 tariffs, whereas the application of the IEEPA to trade policy together with a declared national emergency due to trade deficits is both new and legally controversial. Under the U.S. Constitution, Congress holds the authority to set tariffs, as it is responsible for all forms of taxation. The U.S. Supreme Court is currently reviewing the legality of these country-specific tariffs. A ruling is expected soon, which could jeopardize the tariffs initially announced on "Liberation Day" and later negotiated with major trade partners such as the EU, Japan, South Korea and the United Kingdom.

The strong shift of the new U.S. administration towards a protectionist, executive-order–based trade policy has led to a substantial increase in policy uncertainty in the United States and among its major trade partners. Figure 1 displays the Economic Policy Uncertainty (EPU) index for the U.S. from 1995 through November 2025. Developed by Baker et al. (2016), the index is based on ten major U.S. newspapers and counts the scaled frequency of articles in which uncertainty-related terms appear alongside economic and economic policy-related terms. The scaling is based on the number of articles published by each newspaper. The resulting multi-paper index is re-normalized so that a value of 101.8 corresponds to the long-run average level of economic policy uncertainty over the period 1985–2009. Values above (below) this benchmark indicate higher (lower) perceived economic policy uncertainty relative to the long-run average.[2]

Figure 1: U.S. Economic Policy Uncertainty



Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

Figure 1 shows that economic policy uncertainty was relatively low and stable throughout much of the late 1990s and early 2000s in the U.S., with notable exceptions during the bursting of the dot-com bubble and the global financial crisis, when uncertainty spiked sharply. During the 2010s, the index became more volatile and reached its first historical peak at the outbreak of the COVID-19 pandemic. In May 2020, the index rose to just above 500, more than twice the level observed during the financial crisis. After an initial phase of erratic tariff announcements under Donald Trump, economic policy uncertainty increased further, peaking at a new historical high of 725 in April 2025 in the wake of the "Liberation Day" tariff announcement. By November 2025, largely driven by the conclusion of trade agreements with major partners such as the EU, Japan, and South Korea, the index declined to around 325. Nevertheless, this level still indicates economic policy uncertainty that remains higher than in almost all months since 1995.

The closely related Trade Policy Uncertainty (TPU) index developed by Caldara et al. (2020) mirrors this pattern,

[1] A regularly updated timeline of U.S. tariffs against trade partner and their legal basis is e.g., provided by the Peterson Institute for International Economics via https://www.piie.com/blogs/realtime-economics/2025/trumps-trade-war-timeline-20-date-guide.

[2] A more detailed methodological description for the construction of the monthly series can be access via https://www.policyuncertainty.com/us_monthly.html.

reaching historic highs in April 2025 before declining steadily through November 2025.[3] Despite the recent decline, the TPU remains exceptionally elevated, surpassing all levels recorded before the start of Donald Trump's second presidency.

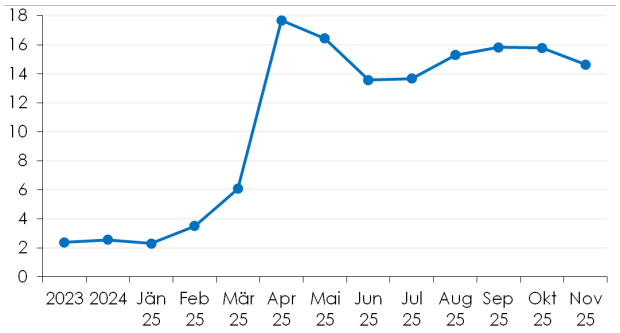
The legally non-binding nature of Donald Trump's trade agreements with major trade partners and the fragile relationship with China contribute to the persistently high level of economic policy uncertainty. This uncertainty is further reinforced by the pending U.S. Supreme Court ruling on the potential unlawfulness of the imposed IEEPA-based country-specific tariffs, with likely dampening effects on the U.S. real economy, especially in the manufacturing sector.

Baker et al. (2016) provide reduced-form evidence of a negative association between policy uncertainty and firm-level investment and employment in policy-sensitive industries and show that exogenous increases in uncertainty have significant forecasting power for declines in investment, employment, and output at the aggregate U.S. level. Kumar et al. (2023) complement these findings with causal evidence on the adverse effects of uncertainty on firms' real economic activity using information treatments, while Sebbesen and Oberhofer (2024) demonstrate that firm beliefs are transmitted and amplified through (international) input-output linkages. In a survey of 600 economists from EU member states and 100 U.S. economists, the respondents expect a negative cumulative growth effect of approximately -0.6% for the EU and -0.8% for the U.S. over the next five years, alongside reduced firm investments of -4.7% in the EU and -6.7% in the U.S. (Gréus et al., 2025).

Given the expected negative effects on investment and growth, a closer look at the U.S. average effective import tariff rate helps to identify the trade policy measures driving this uncertainty. Figure 2 shows the evolution of the tariff rate, providing a direct measure of the trade policies implemented under Donald Trump. The estimated effective tariff rates are sourced from the OECD (2025) in their most recent Economic Outlook, published in December 2025, with statutory tariff rates by product and trade partner being weighted by import values from 2024.

The timing reported in Figure 2 aligns closely with the evolution of the EPU documented in Figure 1. Between 2023 and January 2025, the U.S. average effective tariff rate remained relatively stable, slightly above 2%. From February onwards, the first executive orders imposing tariffs on imports from China, Canada, and Mexico (citing illegal migration and the "fentanyl crisis") raised the rate to around 6% in March 2025. The Liberation Day announcement on April 2 of bilateral, country-specific "reciprocal" tariffs for all U.S. trade partners, with a universal minimum rate of 10% for countries with balanced goods trade, sharply increased the average effective tariff rate to almost 18%. Although Trump paused tariffs above 10% just one week later for initially 90 days, retaliatory tariffs from China triggered further escalation, ultimately resulting in U.S. import tariffs on Chinese goods reaching 145%.

Figure 2: U.S. average effective tariff rate



Notes: Monthly average 2025 estimated effective tariff rates, based on applicable rates to products and countries at the time they became effective, weighted by country-specific product shares of United States imports in 2024. Data for 2023 and 2024 are based on WITS average effective tariffs rates, corrected for section 301 actions on China undertaken between 2018 and 2024.

Source: OECD Economic Outlook, December 2025.

In May, the U.S. and China agreed on a 90-day tariff truce, during which both sides significantly reduced their tariffs. The U.S. cut its combined standard import tariffs to 30%, consisting of 10% reciprocal tariffs and 20% related to China's alleged role in the fentanyl crisis. Additional sector-specific Section 301 tariffs on certain Chinese imports remained in place. At the same time, exemptions, particularly rule-of-origin exemptions for Canadian and Mexican imports under the USMCA, and the conclusion of a first agreement with the United Kingdom further reduced the U.S. average effective tariff rate. By June and July, it had fallen below 14%.

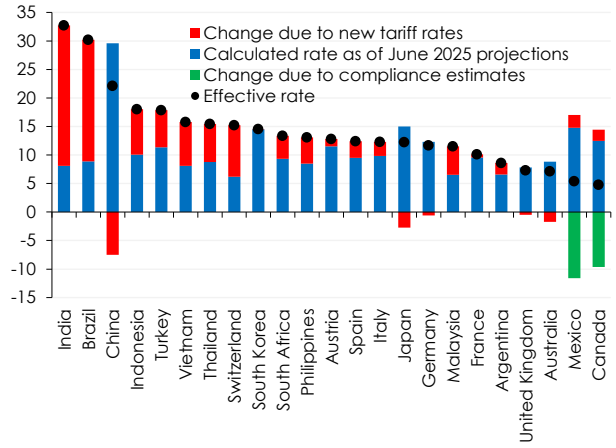
At the end of July 2025, three major U.S. trading partners, Japan (July 22), the EU (July 27), and South Korea (July 30), agreed to trade deals that effectively raised their reciprocal tariffs from the universal baseline of 10% to 15%, but still below the levels threatened by President Trump in the absence of an agreement. In May, the U.S. president had proposed tariffs of up to 50% on the EU, and in early July he hinted at 25% tariffs for Japan and South Korea. These three trade deals, followed by others with similar tariff rates, together with additional tariffs on imports from India and Brazil, pushed the U.S. average effective tariff rate back up to around 15% through November.

Figure 3 uses data from OECD (2025) to compare the effective U.S. tariff rates across selected U.S. trade partners and composes the overall rate into three components: (i) the baseline calculated tariff rate based on measures announced as of June 2025 (blue

[3] The TPU index can be accessed online via https://www.policyuncertainty.com/trade_cimpr.html.

bar), (ii) additional changes resulting from newly introduced or changed tariff rates due to trade agreements and other measures (red bar) and (iii) adjustments reflecting compliance with the USMCA free trade agreement (green bar). The black dots denote the resulting effective tariff rate for each of the reported trading partners.

Figure 3: U.S. effective tariff rate composition for selected countries



Notes: Estimates based on trade policy announcements as of 14 November 2025 and calculated using weights based on product level data for U.S. imports by country in 2024.

Source: OECD Economic Outlook, December 2025.

Figure 3 reveals substantial cross-country heterogeneity in effective tariff exposure, driven primarily by differences in country-specific tariff rates imposed under the national emergency justification or other discretionary measures, as illustrated by the cases of India and Brazil. Large emerging economies such as India (32.7%), Brazil (30.2%) and China (22.1%) face the highest effective rates, reflecting the continued use of trade policy as a strategic tool targeting perceived trade imbalances and geopolitical rivals. In the case of Brazil, the tariffs are intended to change domestic legislation and court rulings against the former president Jair Bolsonaro. The Busan Agreement between Donald Trump and Xi Jinping, signed on November 1, lowered China's effective import tariff rate by nearly 7.5 percentage points, as indicated by the red bar. In return, China committed to easing export controls on rare earths and critical minerals and to reopening its markets to U.S. agricultural imports, most notably soybeans.

Several other Asian economies, including Vietnam (15.8%), Thailand (15.4%) and South Korea (14.6%), also experience notably high effective tariff rates that they agreed on in the respective deals with the U.S. In contrast, for countries such as Mexico and Canada, the USMCA agreement provides partial protection against U.S. tariffs. Compliance with USMCA rules of origin lowers their effective tariff rates by 11.6 percentage points for Mexico and 9.6 percentage points for Canada. As a result, the effective tariff rates stand at just 5.4% for Mexico and 4.8% for Canada, the first and third largest U.S. import partners as of 2024.

Austria's exports face U.S. effective import tariffs of around 12.8%, which is higher than for the other EU member states shown in Figure 3. This reflects the composition of Austrian exports to the U.S. Germany (11.7%), for example, benefits from reduced tariffs on cars and car parts, as indicated by the negative contribution of post-June tariff measures. Following the agreement reached in late July, tariffs on these products were lowered from 25% to 15%. Austrian car parts producers also benefit indirectly, as they supply intermediate inputs to German car manufacturers, which then export the final cars directly from Germany to the U.S. Compared to Austria, Spanish and Italian exports face slightly lower but broadly comparable U.S. import tariffs, with effective rates of 12.4% and 12.3%, respectively.

3. Early economic effects

Building on the preceding analysis of the evolution of U.S. tariff measures during 2025, this chapter examines their early economic effects. It focuses on impacts on the U.S. Dollar exchange rate, U.S. import dynamics and inflation, as well as on relative price developments between the EU and the U.S. We further discuss the effects on Austrian exports and their composition across major export destinations.

3.1 Economic effects in the U.S.

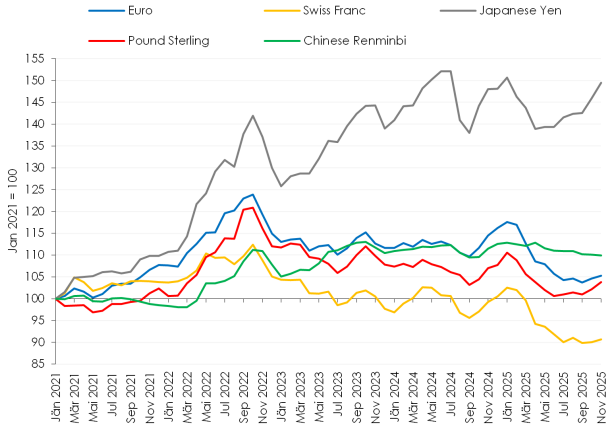
A notable effect associated with Donald Trump's protectionist trade policy is the depreciation of the U.S. Dollar relative to other major international currencies. Figure 4 shows the nominal exchange rate of the U.S. Dollar relative to the Euro, Japanese Yen, Chinese Renminbi, Swiss Franc, and British Pound from January 2021 to November 2025. All exchange rates are expressed in direct quotation, i.e., the amount of a foreign currency per one U.S. dollar. Accordingly, a rising (falling) index indicates an appreciation (depreciation) of the U.S. Dollar against the respective currency.

The U.S. Dollar's exchange rates against the five reported international currencies showed some variation over the last five years. The Dollar appreciated particularly during the first one and a half years covered in Figure 4. After peaking in September 2022, it gradually depreciated against the Euro, Renminbi, Swiss Franc, and British Pound. Only against the Japanese Yen did the Dollar continue to appreciate from 2023 onwards. In the run-up to the U.S. election and after Donald Trump's victory, the Dollar again appreciated against all five currencies and peaked in January 2025.

After this, the U.S. Dollar depreciated again against all five currencies, with stabilization occurring only in the latter months of the year. From January to November,

the Dollar lost approximately 12% against the Euro and the Swiss Franc, 7% against the British Pound, 2.7% against the Chinese Renminbi, and 1.2% against the Japanese Yen. Depreciation was most pronounced during periods of heightened uncertainty (see Figure 1) and came to a halt once trade tensions eased somewhat.

Figure 4: Nominal U.S. dollar exchange rates against major world currencies



Notes: Exchange rates are expressed as national currencies per U.S. dollar. A rising (falling) index indicates an appreciation (depreciation) of the U.S. dollar.
Source: WDS - WIFO-Data-System, Macrobond.

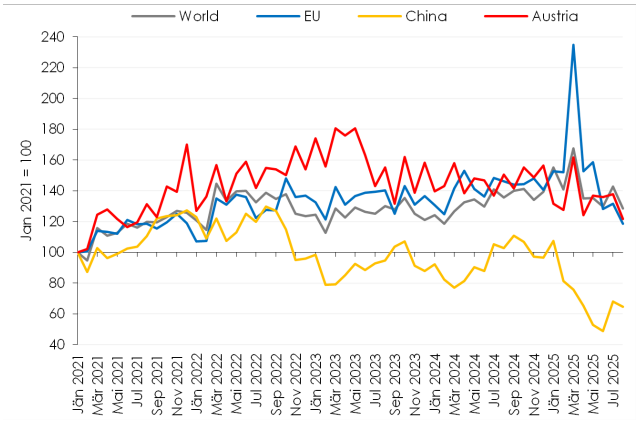
The U.S. Dollar depreciation is somewhat surprising, as increases in tariffs should lead to an appreciation of the domestic currency. Higher tariffs make imports more expensive, reducing demand for foreign goods and for foreign currency. This improvement in the trade balance tends to increase the value of the domestic currency. Additionally, if investors perceive protectionist policies as strengthening domestic industries, capital inflows may further support currency appreciation.

However, several other factors can counteract this effect, leading instead to currency depreciation. First, tariffs can increase production costs for domestic firms reliant on imported inputs, reducing competitiveness and slowing economic growth. Second, heightened trade tensions create global uncertainty, prompting investors to move capital into other perceived safe-haven currencies such as the Japanese Yen or Swiss Franc, rather than the U.S. Dollar. Third, retaliatory tariffs from trading partners can worsen the trade balance, offsetting the initial import reduction. Finally, market expectations and sentiment play a critical role. If markets anticipate that protectionist measures will trigger inflation, reduce foreign investment, or provoke wider geopolitical risks, depreciation pressures may dominate as seems to be the case for the new Trump tariffs from 2025.

The depreciation of the U.S. Dollar against the Euro adds an additional negative effect on the competitiveness of European exporters, lowering Euro-denominated prices for goods in sectors with strong domestic competition. Empirical evidence, however, indicates that exchange rate movements have only a limited impact on aggregate exports. Export activity is concentrated among the most productive firms, which tend to absorb exchange rate fluctuations in their markups (Berman et al., 2012). For Austria, Glocker et al. (2025) estimate that a 10% real appreciation of the bilateral exchange rate reduces exports by approximately 2.7% when using CPI-deflated real exchange rates, and by up to 4.6% when using producer price deflators. Ertl & Wende (2025) analyze the overall currency composition of Austrian exports and conclude that exposure to exchange rate risk is relatively limited.

Standard international trade theory predicts that higher tariffs reduce import volumes and exert upward pressure on domestic prices in the tariff-imposing country. Figures 5 and 6 present early descriptive evidence on the effects of President Trump's tariff policy on these two measures. Figure 5 shows the evolution of U.S. imports, measured in CIF U.S. Dollars, from the world, the EU, China, and Austria between January 2021 and August 2025, with January 2021 as the reference point.

Figure 5: U.S. imports from selected regions and countries



Source: WDS - WIFO-Data-System, Macrobond.

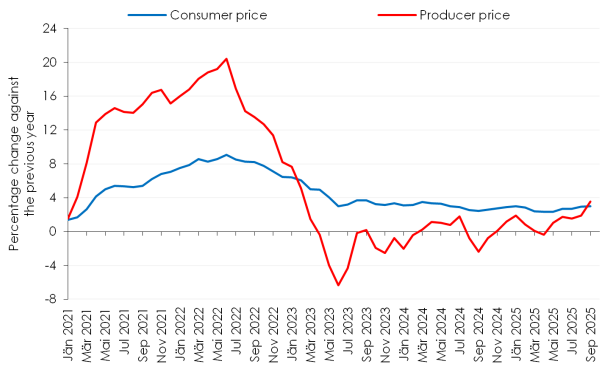
While monthly import data are relatively volatile and exhibit pronounced seasonal patterns, several general trends can be identified. Imports from China have shown the weakest growth path over the past 4.5 years and, as of January 2025, remained broadly at the levels observed four years earlier. Following the introduction of the first tariffs on Chinese goods by President Trump in early 2025, imports from China declined sharply, reaching a level of less than 50% of their January 2021 value in June 2025. Although imports recovered slightly in the final two months of the sample period, they remained below two-thirds of their January 2025 level.
Total world imports, as well as imports from the EU and Austria, remained relatively stable since summer 2023, following typical seasonal patterns, although with increasing trends for total U.S. imports and imports from

the EU. In March 2025, imports from all three regions experienced a sharp one-time increase, with EU imports peaking by about a plus of 80%. Austria's exports to the U.S. also rose sharply in the same month, increasing roughly by 35% compared to previous months. These surges were driven by uncertainty over future tariffs, as discussed in Section 2, and allowed U.S. importing firms to stock up their inventories.

Following this temporary increase, imports from all regions fell below their January 2025 levels and remained low until the end of the sample period. By August 2025, imports from Austria, for example, had returned to levels last observed in September 2021. The months following President Trump's first announcement and implementation of the Liberation Day tariffs provide early evidence of the negative trade effects of these measures for U.S. imports.

Figure 6 illustrates the evolution of U.S. consumer and producer price inflation, as measured by the CPI and PPI, over the same sample period. CPI reflects price developments faced by households, while PPI captures price dynamics at earlier stages of the production chain. PPI reflects upstream cost pressures and typically responds more quickly to changes in input prices than CPI. Tariffs can theoretically affect both indices by increasing the cost of imported intermediate and final goods. Higher input costs tend to raise producer prices first, while pass-through to consumer prices depends on market structure, competitive conditions and firms' market power.

Figure 6: U.S. consumer and producer price inflation



Source: WDS - WIFO-Data-System, Macrobond.

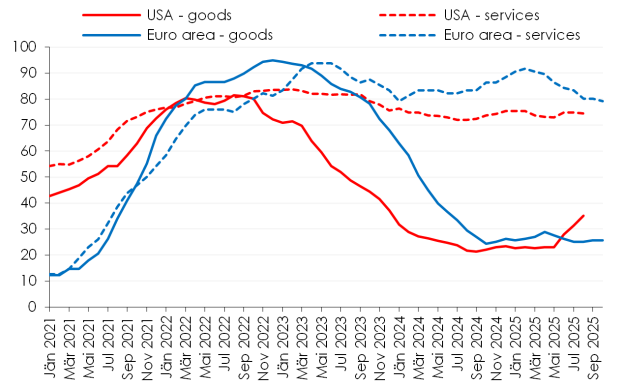
During the first two years shown in Figure 6, the global energy price crisis clearly dominated the picture, confirming the theoretically expected differences in shock response times between PPI and CPI discussed above. PPI reacted more rapidly and strongly than CPI, peaking in June 2022 with annual producer price inflation exceeding 20%. CPI increases were a bit more muted, reaching a maximum of around 9% also in June 2022, but remained relatively persistent afterwards. CPI stayed just below 3% even when PPI turned negative in some months.

From summer 2024 onwards, CPI recorded a steady decline, moving inflation toward the U.S. Federal Reserve's 2% target. Over the same period, PPI remained more volatile, fluctuating around 0% for most months. In April 2025, CPI reached 2.3%, the lowest annual inflation rate since February 2021, partly driven by the massive one-time import increase observed in the preceding month (see Figure 5). From April onward, CPI increased each month until the end of the sample period in September 2025. Producer price inflation also picked up, reaching around 3.5% in September 2025.

The obvious question is how much Donald Trump's tariffs contributed to this rise in U.S. inflation? Cavallo et al. (2025) use high-frequency retail microdata, linked to tariff rates and country of origin, to quantify the effect of these tariffs on consumer prices. They find a modest but measurable pass-through: imported goods' prices rose more than domestic products, with an estimated retail tariff pass-through of around 20%. Aggregated to the CPI, these tariff-induced price changes added about 0.7 percentage points to U.S. inflation by September 2025, reflecting a meaningful, though incomplete, transmission of tariff costs to consumers. In the absence of tariffs, the CPI would have been roughly 2.3% in September, much closer to the Federal Reserve's policy target.

Figure 7 adds to the preceding discussion by comparing inflation rates between the U.S. and the Euro area, separately reporting the shares of goods and services in each region for which consumer price inflation exceeds 2%. The data are sourced from OECD (2025) and calculated using three-month moving averages. This comparison provides insights into inflation differentials that could influence the long-term international competitiveness of the two regions, when abstracting from short-term exchange rate effects.

Figure 7: Share of goods and services with CPI inflation above 2%



Notes: Figures Expressed in % and calculated as a three-month moving averages.

Source: OECD Economic Outlook, December 2025.

Figure 7 clearly shows that the Euro area has lost relative price competitiveness since early 2022, whereas in 2021 the share of goods and services with inflation above 2% was higher in the U.S. By 2025, the share of goods with inflation exceeding 2% converged between the two regions at around 25%. This share

remained relatively stable in the Euro area, while in the U.S. it increased to about 35% by August 2025. The rising share of goods with inflation above 2% is associated with U.S. tariffs, as these protectionist measures targeted only these products. For services, the shares of products with inflation above 2% has been systematically much higher than for goods in both regions since November 2023 but remained stable in 2025, with the U.S. share staying consistently below that of the Euro area. This suggests that non-tariffed services have not experienced the same inflationary pressures as tariff-ridden goods.

3.2 Economic effects in Austria

For U.S. trade partners, their primary concern lies in the economic impact of higher U.S. tariffs, particularly given the limited scope of retaliatory measures. Except for China, most partners refrained from retaliation in response to the Trump administration's tariff policy. Instead, the EU and several other economies even agreed to eliminate tariffs on many U.S. manufacturing imports, reducing them to zero.

The EU and the U.S. maintain the world's largest bilateral trade relationship, which makes the EU economy particularly exposed to the tariffs recently imposed by the Trump administration. Within the EU, Austria is classified as a small to medium-sized open economy, making it especially dependent on well-functioning, rule-based international and European trade relations.

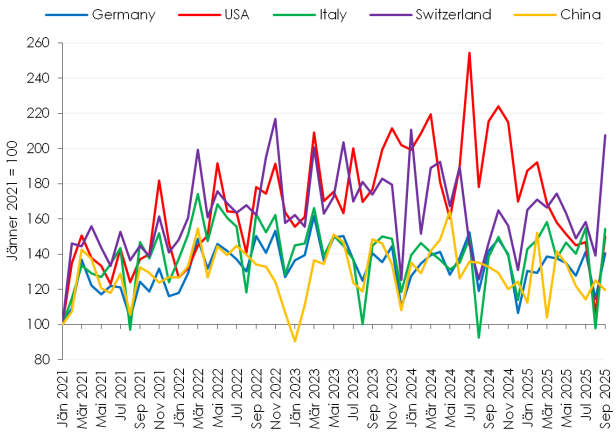
The announcement of new U.S. tariff measures against EU member states has triggered a series of ex ante assessments of their potential economic effects, with a particular focus on exports, GDP, and inflation. Although these evaluations are based on different models and future scenarios, they generally yield broadly comparable quantitative results.

Christen et al. (2025), for example, apply KITE[4], a new quantitative trade model, and estimate that trade policy uncertainty translates into effective U.S. import tariffs of around 10%, which reduces EU exports to the U.S. by approximately 10%. Wolfmayr et al. (2025) assume a uniform 10% decline in exports from each EU member state to the U.S. and estimate the resulting GDP effects using a multi-region input output framework capturing direct and indirect effects. The indirect effects arise from a country's integration into global value chains and from tariffs on final goods that rely on its exports of intermediate inputs. Their results indicate that Ireland is the most adversely affected country, with a 10% export reduction to the U.S. lowering GDP by around -1.6%. For Austria, the estimated GDP effect amounts to roughly -0.4%, with about one third attributable to indirect effects arising from Austria's integration into global value chains and U.S. tariffs imposed on other countries.

Schneider and Sellner (2025) use detailed product-level export data for Austria combined with a global input output model to simulate the potential GDP effects of U.S. tariffs across Austrian sectors. Their simulations suggest substantial heterogeneity across manufacturing industries, with the strongest GDP effects estimated for pharmaceutical products and the automotive industry, including cars and car parts.

Figures 8 and 9 provide descriptive evidence on the early realized export effects of Donald Trump's tariffs for Austria. Figure 8 presents monthly Austrian export values to the four main export destinations, Germany, the U.S., Italy and Switzerland, together with China, covering all months from January 2021 to September 2025. Export values in January 2021 are normalized to 100, which allows us to track relative developments over time. Similar to the pattern observed for U.S. imports in Figure 5, Austrian exports display pronounced seasonal fluctuations, while remaining above their January 2021 levels for most destinations in the majority of subsequent months.

Figure 8: Austrian exports to the Top 4 export markets of 2024 and China



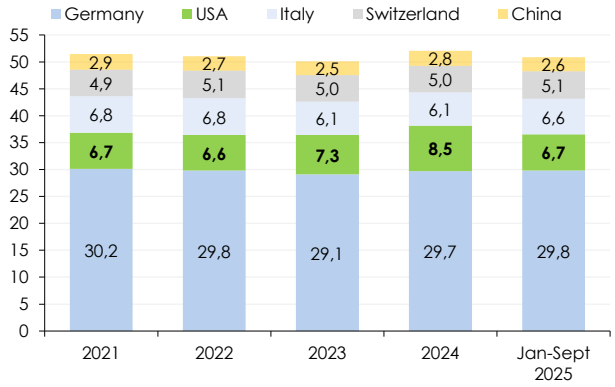
Source: WDS - WIFO-Data-System, Macrobond.

Figure 8 illustrates a marked increase in exports in early 2021, followed by a relatively flat trend for most reported destination economies. Exports to Switzerland and the United States continued to increase thereafter, although monthly volatility is particularly pronounced for exports to Switzerland. In the last two quarters of 2024, exports to all reported destinations except the U.S. show a declining trend. Austrian exports to the United States exceeded double their January 2021 level in July, September, October, and November 2024. This increase in exports in late 2024 was followed by a relatively sharp decline from April 2025 onwards, coinciding with the entry into force of the first tariff

[4] Hinz et al. (2025) provide a comprehensive overview of the model setup and its theoretical foundations.

measures, providing descriptive evidence of their export-deterring effects.

Figure 9: Shares of Austrian exports to the Top 4 export markets in 2024 and China



Source: WDS - WIFO-Data-System, Macrobond.

Figure 9 complements this picture by presenting the share of Austrian exports to the four main export markets and to China, based on annually aggregated data for 2021 to 2024 and for the period from January to September 2025. The figure shows that Germany remains by far the most important destination market for Austrian exports, with export shares just below 30%. The second position has been more contested, and in 2023 the U.S. overtook Italy as the second largest export destination. In 2024, exports to the U.S. increased further, while exports to several other destinations declined, resulting in a historically high export share of 8.5% of total Austrian goods exports. With tariffs in place, this share declined to 6.7% in the period from January to September 2025, making it likely that Italy re-emerges as the second most important export destination after Germany in the annual data for 2025. Export shares to Switzerland remained relatively stable over the entire sample period, while exports to China lost some relative relevance.

4. Summary and A Way Forward

This policy brief presented the main cornerstones of the protectionist trade policy implemented by Donald Trump in the first year of his second term as U.S. president. The aggressive and largely unpredictable use of tariffs as a primary economic policy instrument substantially increased economic policy uncertainty, with already visible initial negative economic effects in the U.S. and globally.

While U.S. inflation increased by about 0.7 percentage points until September 2025 due to the imposed tariff measures, the U.S. is still growing faster than the EU. Recent developments in the U.S. labor market do not provide a clear picture of the economy's trajectory into the new year. Notably, the quality of the main U.S. economic indicators has been affected by the government shutdown, and stronger backward revisions of GDP growth and labor market outcomes cannot be ruled out.

However, by not retaliating against the U.S. with counter-tariffs, trade partners have most likely allowed the U.S. to reduce the domestic damage of the tariffs. Recent evidence by Ignatenko et al. (2025) shows that without retaliation and given the overall U.S. trade deficit, optimal U.S. import tariffs could reach up to 19% if applied uniformly across all trade partners. Although the U.S. administration continues to favor bilateral-specific tariffs and China has retaliated to some extent, the currently applied effective U.S. import tariff rate of around 14% may not be far from the unilateral optimal tariff that maximizes U.S. welfare.

For the full consequences of the tariff policy to materialize, half a year of implementation of the most important country-specific tariffs may be too short for the full adverse effects to become visible. A recent study by Känzig and den Besten (2025), using 185 years of historical data, concludes that after the introduction of largely unexpected tariffs, imports fall sharply, exports decline with a lag, and output and manufacturing production are persistently reduced. The first months of Donald Trump's tariffs indicate that imports have already dropped, while exports have remained relatively stable to date. For 2026, the findings of Känzig and den Besten (2025) might suggest that a decline in U.S. exports may begin, accompanied by negative effects on output and manufacturing production.

In any case, the evidence from Känzig and den Besten (2025) indicates that U.S. trade partners are negatively affected by declining exports and trade diversion, resulting from general equilibrium effects triggered by the large size of the U.S. economy and the substantial volume of exports no longer entering the U.S. These exports are diverted to other markets, increasing pressure to implement safeguard tariffs for domestic industries, as already e.g., proposed by the European Commission in the case of steel imports into the European common market.

Instead of multilateralizing protectionist trade policies through safeguard measures, negatively affected economies in general, and the EU in particular, have alternative policy tools available to compensate for the economic losses caused by the U.S. tariffs. These tools focus on trade policy as a natural means to strengthen trade relationships with other countries, as well as on measures to increase the competitiveness of the domestic economy. The latter enables firms to better absorb tariffs and other protectionist measures in trade with the U.S. and makes the economy more attractive for future investments.

With respect to the rule-based trade system, Baur and Flach (2025) note that the U.S. accounts for only 13% of global merchandise trade, implying that all other WTO members are responsible for the remaining 87%, therefore sharing a joint interest in maintaining clear and transparent rules in bilateral trade relationships to simultaneously benefit from the economic gains of

trade. Without the U.S., these gains are obviously smaller, but still significant. In addition, Bauer et al. (2025), Holzner (2025), and Felbermayr et al. (2026) provide alternative model-based estimates of the trade and welfare effects of new trade agreements. Their analyses also focus on deeper plurilateral trade policy cooperation among like-minded market economies, particularly on the reduction of non-tariff barriers to trade. Across the different policy initiatives and trade agreements considered, the estimates suggest that, if implemented among a relatively large group and being ambitious in terms of reducing non-tariff barriers, such initiatives could fully offset the losses experienced by the EU and other trade partners because of U.S. tariffs.

In addition to trade policy initiatives, the European Single Market in any case needs to address the issue of its global competitiveness, especially with respect to China and the U.S. A more competitive and resilient market would make the EU and Austria less vulnerable to economic shocks and/or less cooperative economic policy making from both other large world economies. The policy measures that would help to strengthen the competitiveness of the European Single Market are discussed in length by two famous and publicly debated reports from former Italian Prime Ministers (Draghi 2024; Letta 2024) and should be implemented as quickly as possible by leading European policy makers.

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