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U.S. trade policy and its effects on the EU economy

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Abstract

The academic and political debate over the tariffs implemented by the White House has been intense during 2025. Much has been said about this protectionist measure, why President Trump may favour it so strongly, and what the potential consequences of its implementation could be for the EU. The objective of this thesis is to provide the reader with a comprehensive and systematic analysis of the political and economic causes and consequences of the new U.S. trade policy, largely based on the use of tariffs and shaped during President Trump's first and second terms in office, with a focus on the European Union, a traditional economic and military partner of the United States.

Contents

Introduction

On April 2, 2025, the President of the United States of America, Donald J. Trump, announced a package of duties on the importation of goods into the U.S. from numerous countries. In his public statements, President Trump declared that this date would be remembered as the “Liberation Day” of the United States – the day on which the American economy would reclaim its freedom from what he described as a costly dependence on foreign-produced goods (Greenhouse 2025).

The stated objectives of this large-scale imposition of tariffs are numerous. According to President Trump, the tariffs are mainly intended to encourage firms that currently produce their goods abroad to relocate their production facilities back to U.S. territory. This, in turn, would lead to the creation of hundreds of thousands of new industrial jobs and to the revival of the manufacturing sector in the United States (Greenhouse 2025). Another motivation cited by the President in support of this protectionist stance is the repatriation of corporate tax revenues that American multinational enterprises currently pay to foreign jurisdictions (O’Carroll 2025).

The tariff announced against the European Union on “Liberation Day” was set at 20%, covering almost all European exports to the U.S. (O’Carroll 2025). At the time of writing (December 2025), this minimum tariff on most goods produced in the European Union has been reduced to 15% following lengthy negotiations. In late August, a joint statement entitled the “Framework for an Agreement on Reciprocal, Fair, and Balanced Trade” formalized a tariff truce between the EU and the U.S., laying the groundwork for further agreements (Dahl et al. 2025). Nevertheless, significant doubts remain regarding the long-term effects of these provisions on European economies.

This work aims to provide the reader with a comprehensive and systematic analysis of the causes and consequences of the new protectionist policy line adopted by the U.S. government. To this end, the thesis begins by establishing the theoretical framework of the analysis: it defines what a tariff is and outlines the expected effects of the imposition of heavy import taxation by a major player in the international trade system, such as the United States. In the same chapter (Chapter 1), the economic and political justifications

typically advanced by policymakers in support of this type of protectionist instrument are also examined.

The remainder of this work is organized as follows:

- In Chapter 2, a critical analysis of President Trump's official and unofficial statements regarding the alleged benefits of imposing tariffs on the EU is conducted, with the aim of identifying and assessing the main drivers of U.S. trade policy.
- Chapter 3 focuses on the short-term effects of this protectionist trade policy on the European Union – namely, the effects that had already materialized by the end of 2025, at the time of writing.
- Chapter 4 shifts the focus to the long-term effects of tariffs on the EU, as well as to the scenarios emerging for the future of its own trade policy and for the future of its relationship with the United States.

In the Conclusion, the main insights derived from the analysis are summarized, and possible future developments in U.S. trade policy are discussed.

Chapter 1: Theoretical background on tariffs

1.1) Tariffs: definition and theoretical effects[1]

The term tariff refers to a trade policy instrument consisting of a tax levied on the importation of a specific good. There are two main types of tariffs. The first is known as a *specific tariff*, as it consists of a fixed amount that is paid for each unit (in terms of weight or number of pieces) of a certain imported good. The second one is called an *ad valorem tariff*, since its value depends on that of the imported good, often as a percentage of its price. The logic behind tariffs is quite simple. For this reason, they are the most commonly used tool for a protectionist trade policy. Another concept that is often used as a synonym for tariff is the broader term *import duty*.

For the purpose of this thesis, we want to clarify the effects that the imposition of a tariff has on trade between two countries. To do so, we can imagine a simplified model with only two countries (A and B), trading a certain good, produced with the same characteristics in both countries, with A being the country that imports the good, and B being the exporting country. This means that producers in country B are not only able to satisfy completely the internal demand of their domestic market, but also to sell a part of their production in country A, offering the good at the same price as domestic producers in A.

If the government of A decided to impose a tariff (t) on imports from B, we would observe two fundamental phenomena:

- An increase in the price of the good in market A (country imposing the duty).
- A decrease in the price of the good in market B (country on whose exports the duty is imposed).

These consequences are caused by the following dynamics: starting from an equilibrium in which the two countries trade freely and the price is the same in both markets (the excess demand of A is satisfied by the excess supply of B, at a certain price level P), the tariff virtually nullifies trade between the countries. Producers in B will not be able to compete on market A and will completely lose their market share. Goods previously devoted to export will be sold in the domestic market, causing an excess in supply that will push the

[1] Where non differently specified, theoretical references contained in this section of the first chapter are taken from Krugman, Obstfeld and Melitz (2018). The ninth chapter of the manual "International Economics" is specifically devoted to the description of trade policy tools, with a particular focus on tariffs.

price down.

At the same time, the interruption of imports on behalf of market A will cause an excess in demand, pushing the price up to the point where the difference in price between the two markets will be equal to the value of the tariff, making trade possible again.

We can also predict that, for market A, the new price P_t will have a value between the old price *P* and the maximum price *T*, obtained by adding the value of the tariff *t* to *P*. P_t will be equal to the new price practiced in market B with the addition of the tariff. If the price in B remained the same, P_t would be equal to *T*. In other words, the new price in A would consist of the old price (still practiced in B), with the addition of *t*. Since we expect the price in B to decrease because of an excess of supply, then P_t will reach a value lower than *T*. Since country B basically represents the rest of the world for country A in our two-actor model, the price prevailing in B can be considered the *world price* offered by foreign producers.

The volume of trade between A and B will not return to its previous values, since the rise in price in A will push domestic producers to increase their supply, causing a decrease in the volume of imports. At the same time, the decrease observed in B will cause a productive contraction, leading to a decrease in exports.

As we will see in the second section of this chapter, the objective of a trade policy based on tariffs is often the protection of domestic producers against foreign competition. Since this protection comes at a cost, we need to investigate which actors end up paying for the increased surplus of domestic producers.

From a theoretical perspective, a portion of the total cost is usually borne by foreign producers, through the decreased value of their exports. Nonetheless, a portion of the cost ends up being paid by the consumers of the tariff-imposing country, who face higher prices for imported goods as well as goods produced domestically. Conversely, the consumers of the country whose exports are hit by the duty often benefit indirectly from the protectionist trade policy, because of the drop in price caused by the excess of internal supply. Of course, they will suffer indirectly the economic fallout of the tariff on the productive structure of their country, as well as the possible retaliation measures enacted by their own government.

An important variable for determining to what extent the social cost of a tariff is divided between foreign producers and domestic consumers is the relative size of the internal market (for that good) of the country imposing the duty. If the country does not have a sufficiently big market, its trade policy will not

affect the global demand for the good and foreign producers will not suffer any decrease in the world price. In this case, they are likely to simply continue their trade practices as usual. Conversely, if the market of the country imposing the tariff was responsible for a significant share of the global demand, foreign producers would face an excess supply which would drive prices downwards. In other words, a small country cannot affect the global demand of a good, thus its trade policy would not cause any decrease in the world price of the good. As a consequence, the social cost will be entirely paid by domestic consumers of the country itself, who will pay an increased price both for imported and for domestically produced goods.

The portion of consumer surplus that is lost in country A is partially recovered in the form of revenue for the government imposing the tariff. However, these trade policy tools create market inefficiencies due to the distortions they introduce compared to a situation of equilibrium and free trade. These distortions, which represent net losses in social welfare, can take two main forms, depending on the effect they produce:

- The *production distortion* reflects the incentive for domestic producers to supply a quantity of the good greater than the optimal one – that is, a quantity exceeding what they would be able to produce at the same price offered by their foreign competitors.
- The *consumption distortion*, on the other hand, reflects the incentive for domestic consumers to reduce their consumption of the good, compared to the level they would have reached if the price had not increased.

Only in the case where the country imposing the tariff is large enough to influence the global demand for the good can the tariff generate what are known as *gains in the terms of trade*. These gains represent net benefits and correspond to the portion of the tariff that is effectively paid by foreign producers to the government of the tariff-imposing country.

As explained above, these gains fall to zero if the world price of the good remains unchanged. The reasoning behind this is quite intuitive: if the price in market A (the country imposing the tariff) is simply the world price plus the tariff, foreign producers will not suffer any loss on the sale of a single unit of the good, since their profit margin remains unchanged. The revenue collected by the government of A will therefore come entirely from its own citizens.

Conversely, if the world price of the good were to fall due to a global excess of supply, foreign producers would see their profits shrink. This drop in price would benefit the government of A, which would capture the portion of value corresponding to the difference between the new world price and the

previously prevailing price in A's domestic market.

The reasoning presented so far is illustrated in the graphs below:

- The import demand curve of country A (*MD*) and the export supply curve of B (*XS*) are derived from the internal demand and supply curves of the two countries. For each price level, they reflect the difference between demand and supply in their respective domestic markets. The *MD* curve represents the excess demand in A, while the *XS* curve represents the excess supply in B, at each price level. Under equilibrium conditions, the two curves intersect, determining a world price *P*. The domestic price of the good in both markets will also be equal to *P*. In fact, if the price in A were higher than in B, exports from B would increase, causing the price in A to fall. Conversely, if the price were higher in B, exports would decrease, causing the price to rise.

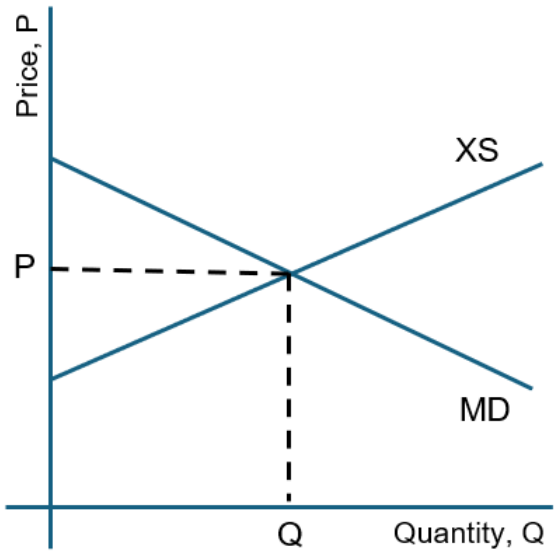

Image 1 – The MD and XS curves under equilibrium conditions

- When a tariff is imposed, a price difference is created between the two markets. As a result of the dynamics previously described, the condition of global market equilibrium no longer holds. The equilibrium price *P* is replaced in market A by the price P_t, which corresponds to the new selling price of the good in market B (*Pw*) plus the tariff *t* (equal to the difference between points 2 and 3 in the central graph below). As a consequence of the tariff, the quantity *Q* of goods traded on the global market decreases, dropping to Q_t. Overall, then, the volume of trade

between the two countries declines. It should be noted that the curves *XS* and *MD* in the central graph are derived from the difference between the supply and demand curves shown in the graphs to the left and to the right of the one labelled *Global Market*.

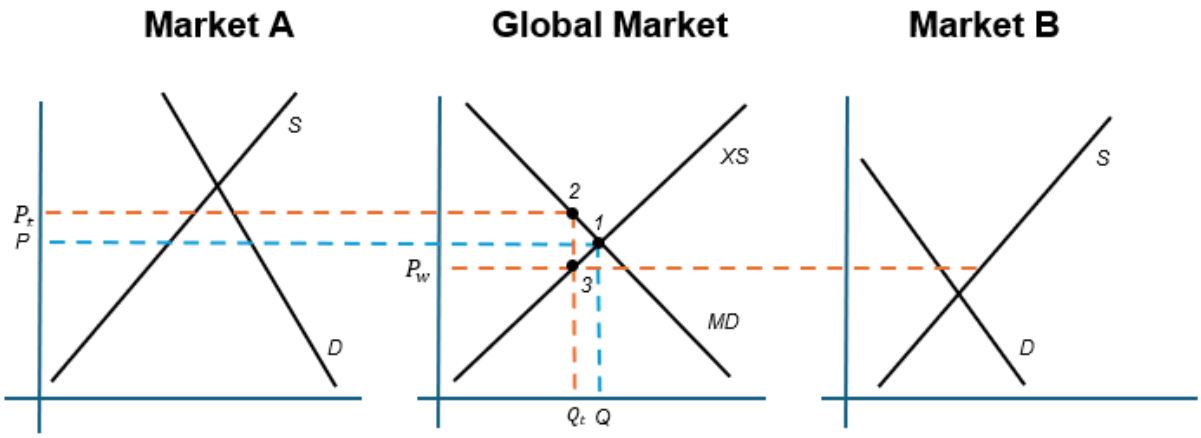

Image 2 – The MD and XS curves after the imposition of a tariff (t)

- If the price in market B does not fall (that is, if the excess production in B is not significant enough to alter B's internal equilibrium), P_t will simply be the previous price *P* plus the tariff. In this case, the world price *Pw* remains equal to the previous equilibrium price *P*. The profit made by producers in B on each unit sold does not change compared to the situation before the introduction of the tariff. Nevertheless, even in this case, the volume of exports falls from *Q* to Q_t.

Image 3 – The MD and XS curves after the imposition of a tariff (t) by a small country

- The social costs and benefits of the tariff for country A – when both net efficiency losses and terms-of-trade gains are present – are illustrated in the following graph.

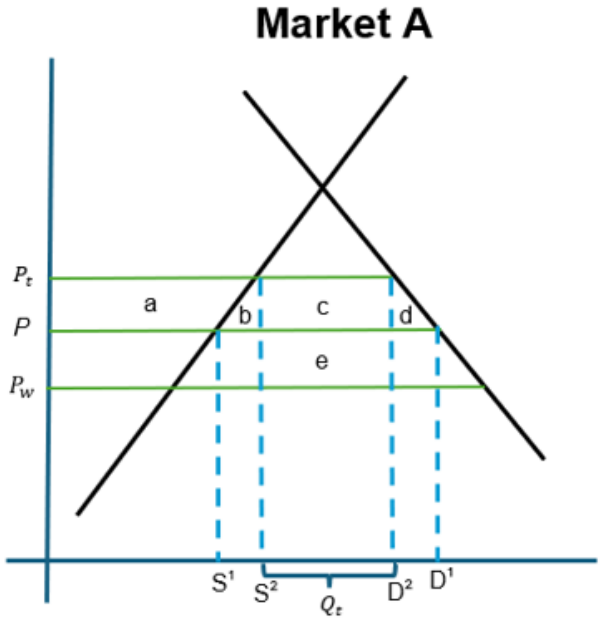

Image 4 – The demand and supply curves of A after the imposition of tariff t

Areas *a*, *b*, *c*, and *d* represent the loss in consumer surplus experienced by consumers in country A. Under equilibrium conditions, these areas would lie above the price level *P* and below the demand curve for the good. With the imposition of the tariff, these portions of social surplus are either reallocated to other actors or lost altogether. Specifically, area *a* represents the share of surplus captured by domestic producers, while area *c* represents a portion of the revenue collected by the government through the tariff. This is the part of the cost that is effectively paid by the citizens of country A themselves. Areas *b* and *d*, on the other hand, represent the net social welfare losses linked to the inefficiencies introduced by the tariff compared to a situation of equilibrium: *b* corresponds to the production distortion (production exceeds the optimal level), while *d* reflects the consumption distortion (consumption is lower than the optimal level). Area *e* represents the gain in terms of trade – i.e. the portion of government revenue that is actually paid by foreign producers. The total revenue

collected by the government therefore corresponds to the sum of areas *c* and *e*. As can be easily inferred, this value is given by multiplying the tariff (that is, the difference between P_t and *Pw*) by the quantity of imported goods, expressed in the following formula:

$$Government\ revenue = (P_t - P_w) \times Q_t$$

As in the previous graph, Q_t (that is, the difference between D^2 and S^2) represents the volume of trade between the two countries in the final scenario. As mentioned earlier, the quantity of goods exchanged has decreased compared to its original value *Q*, which corresponds to the difference between S^1 and D^1.

Having now clarified at a theoretical level what a tariff is and what its effects on international trade are, we might ask whether there exists an optimal level of tariff that a country – provided it is large enough to influence the world price of a good – can impose in order to maximize its social surplus. In other words, is there a tariff level for which the gain in terms of trade outweighs the net losses caused by market distortions?

Theory (Krugman et al. 2018) tells us that such a tariff does indeed exist, and it is defined as the *optimal tariff*. For large countries, this optimal tariff is greater than zero but lower than a certain threshold known as the *prohibitive tariff*. As shown in the following graph, national welfare increases as the tariff rises, up to the point where the optimal tariff is reached. Tariffs above that level, however, lead to a decline in social surplus, as the market inefficiencies they generate outweigh the gains from improved terms of trade. The prohibitive tariff represents the level of taxation that completely halts trade between the two countries.

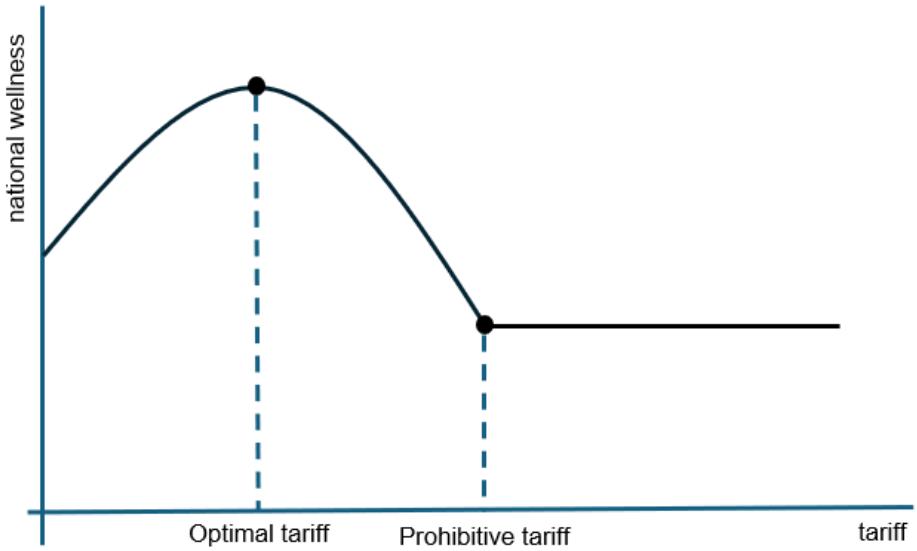

Image 5 - The optimal tariff and the prohibitive tariff

If we were to consider only the effects of tariffs on the domestic supply and demand curves of the countries involved, the conclusion would be rather straightforward: only large countries would have an incentive to adopt protectionist trade policies, as they are the only ones capable of influencing the world price of a good and therefore potentially benefiting from improved terms of trade. In contrast, small countries would always experience a net loss in social surplus due to the inefficiencies caused by tariffs, without enjoying any compensating gains. However, this reasoning does not reflect the reality of international trade dynamics, where even small or medium-sized economies often resort to protectionist measures. This suggests that additional factors must be at play in the decision-making process behind the implementation of tariffs. The next chapter will explore these underlying motivations, shedding light on the various economic, political, and strategic reasons that may lead a government to pursue a protectionist trade policy.

1.2) Why do governments impose tariffs?

So far, we have focused on the effects of a tariff on the internal supply and demand curves of the countries involved in trade. However, this type of analysis is not sufficient to fully explain why governments choose to adopt protectionist trade policies. In fact, if we only considered the effects of a tariff on trade volumes and prices, we would conclude that only large countries have an incentive to restrict trade. Yet, in practice, this is not what we observe. Protectionist measures are often adopted by countries regardless of their market size. This suggests that other motivations – political, economic, or strategic ones – may justify the use of tariffs. In the next sections, we will examine some of the main arguments used to support trade protection, starting with the most well-known economic justifications and then focusing on the political dynamics behind trade policy decisions.

1.2.1) The infant industry argument

One of the main economic justifications for the imposition of tariffs is known as the *infant industry* argument. According to this view, protectionist policies can be used to support the development of a new industrial sector that is not yet able to compete with foreign producers.

As explained by Krugman et al. (2018), this argument is often used by governments of developing countries to justify protectionist trade policies, especially in the manufacturing sector. These countries, being generally rich in low-cost labour, are expected to have a comparative advantage in this type of production. However, they often face two types of market failure: capital market imperfections and the *problem of appropriability*.

The first type of failure refers to the lack of efficient financial institutions capable of channelling savings accumulated in traditional sectors, such as agriculture, towards investment in new sectors such as manufacturing. The second type of failure, on the other hand, is linked to the issue of externalities, which will be discussed in the next subsection.

According to the authors, the use of protectionist trade policies to address domestic market failures should be regarded as a second-best option. Ideally, governments should tackle the root causes of these failures more directly, for instance by improving the functioning of domestic financial institutions or by compensating firms for the intangible contributions they generate for society.

1.2.2) Market failures and externalities

The infant industry argument can be seen as a specific case within a broader line of reasoning that relates to market failures and the externalities generated by certain industries that produce social benefits for which they are not properly compensated. In this case, the goal of a protectionist policy is not to increase the short-term competitiveness of a sector, but rather to support those industries that generate positive effects for the broader economy (Krugman et al. 2018).

For example, a government may decide to protect a sector that produces strong technological spillovers, innovations, and knowledge that benefit other industries or the economy as a whole. In such situations, the private return obtained by a firm may fall short of the actual value it creates for society, which provides a rationale for public intervention. More generally, a tariff can be used as a policy tool to increase employment in a given sector, or to strengthen those industrial areas with a high potential for long-term development.

In all the cases mentioned above, the production of a given good generates a so-called social marginal benefit which is not reflected in its final market price. For this reason, policies aimed at increasing the market price and production quantity of such goods could generate collective benefits that, in some cases, may outweigh those of free trade.

However, the evaluation of these effects is typically complex, and the success of such policies depends heavily on how they are designed and implemented. Once again, as the authors point out, protectionist measures must be considered second-best policies, compared to more direct interventions aimed at correcting the underlying market failures – interventions which, however, may not always be feasible in practice. Moreover, it is not always easy for decision-makers to accurately identify the presence of market failures and translate them into appropriate policy action.

1.2.3) The import substitution theory

Another theoretical framework used to justify protectionist policies, particularly in developing economies, is the *import substitution theory*, as formulated by Raúl Prebisch in 1950 in his report on “The Economic Development of Latin America and Its Principal Problems”, written for the UN Economic Commission for Latin America. According to Prebisch, the structure of international trade systematically disadvantages peripheral economies (like Latin American ones) that specialize in the export of primary goods while

relying on the import of manufactured products from industrialized countries. Over time, these economies experience a deterioration in their terms of trade, as the prices of primary commodities tend to decline relative to those of industrial goods. This unequal dynamic prevents developing countries from achieving sustained economic growth through export-oriented strategies alone.
To address this structural imbalance, Prebisch suggested a policy of *import substitution industrialization* (ISI), through which developing nations would reduce their dependence on imported manufactured goods by fostering domestic industrial production. To do so, protective barriers such as tariff quotas were needed. Temporary protection could allow *infant industries* to develop productive capacity, technological know-how, economies of scale, and other positive externalities.

1.2.4) Political economy considerations

In many cases, protectionist policies are adopted not for reasons of efficiency, but because of the political dynamics that influence the underlying decision-making process. These dynamics are studied by a branch of the social sciences that lies between political science and economics, usually referred to as *political economy*.

As highlighted by Krugman et al. (2018), one of the key concepts in this field is the *problem of collective action*, developed by Mancur Olson in 1965. According to this theory, the political activity of a group is a public good, since the benefits of this activity are shared by all members, regardless of who takes action to defend its interests. This means that individuals are less likely to get involved when the group is large and the benefits are widely spread, as their personal gain from participating is relatively small. On the contrary, when the group is small or well-organized, individual incentives to act are stronger.

This helps explain why protectionist trade policies may be adopted even when they reduce overall social welfare: the losses are spread across a large and unorganized group (consumers), while the benefits are concentrated in a smaller, more organized group (producers), which is often able to influence policy more effectively.

A more detailed explanation of this mechanism is offered by the model proposed by Grossman and Helpman (1992), in which trade policy is influenced by lobbying activity. In this model, decision-makers – such as members of Parliament or the executive – respond both to voters and to interest groups that support them, financially or politically.

The model takes into account two main variables:

- The amount of support (especially in the form of campaign contributions) that politicians can expect from each lobby, depending on the type of trade policy they choose to implement.
- The political cost, for the same politicians, of choosing a policy that creates inefficiencies for the general public, and that they will need to justify to the electorate.

When lobbying is particularly strong or well-funded, the first factor may outweigh the second, pushing decision makers to adopt protectionist measures even in cases where the overall welfare decreases.

As pointed out by Irwin (2019), producers are often more organized than consumers and can influence elections not only through lobbying but also by providing jobs to voters. However, domestic producers are often not a politically homogeneous group: they differ according to the type of good they produce and are often concentrated in specific regions. For this reason, regional economic specialization tends to persist over time and can shape the political preferences of certain areas, especially with regard to trade policy. Producers that are more exposed to international competition are generally more likely to support protectionist policies, while export-oriented sectors tend to favor free trade and reciprocal tariff reductions.

1.2.5) National security concerns

Another common justification invoked by governments in support of protectionist trade policies in certain sectors is the identification of those same sectors as being strategically important for national security. In this context, even the reduction of dependence on foreign supply chains can be regarded as a positive externality generated by the development of the domestic industry.

Not surprisingly, security exceptions are explicitly mentioned even within the most important international agreement on trade liberalization – the General Agreement on Tariffs and Trade (which will be discussed in more detail in the following chapter). Article XXI of the agreement (WTO 2025b), in fact, states that no contracting party shall be prevented “from taking any action which it considers necessary for the protection of its essential security interests,” in relation to fissionable materials, military equipment, or other specific interests in times of war.

1.2.6) Retaliation and bargaining power

Trade barriers can also be imposed with the aim of influencing the trade policy decisions of other countries (Gawande and Hansen 1999). However, the effectiveness of such measures depends on a wide range of factors, including: the domestic political dynamics of the countries involved, the degree of intra-industry trade, and the counter-lobbying efforts of downstream actors, among others. One key element in determining the success of retaliation measures is whether they are perceived as temporary by the targeted government – that is, whether the measures can be avoided by adjusting the offending trade policy. Clearly, for these actions to achieve the intended effect, the threat of retaliation must also be credible in the eyes of its target.

Mattoo and Staiger (2020) argue that a declining hegemonic power – such as the United States – may have an incentive to use tariffs as a bargaining tool in order to pursue two distinct objectives:

- Towards other developed countries, it may seek a reallocation of the benefits generated by globalization over the previous decades – in other words, a redistribution of the gains that had been previously shared among participants in the international trade system. As the capacity of this system to generate new mutual benefits through reciprocal tariff reductions has diminished, what was once a positive-sum game has increasingly turned into a zero-sum game.
- Towards developing countries, and particularly those competing for global leadership – such as China – the goal may be to obtain lower trade barriers. Since these countries did not take part in the earlier rounds of multilateral liberalization, they now benefit from the low tariff levels maintained by developed economies without being bound to offer the same in return.

In both cases, the authors suggest that countries running large bilateral trade surpluses with the hegemonic power are the most likely to become targets of its protectionist policies, as they are more vulnerable to such pressure due to their economic reliance on access to its market. To use the authors' own words, the hegemonic power would seek to replace a global *rules-based* trading system with one that is *power-based* – where reciprocal tariff levels are no longer determined by the multilateral rules established within the GATT/WTO framework, but rather by the unilateral actions and strategic responses of the governments involved.

1.2.7) Revenue generation

Another reason that has been invoked to justify the imposition of tariffs is the need for the government to collect revenue (Krugman et al. 2018). This is particularly true for developing countries, where the domestic tax system is often inefficient or underdeveloped. In such cases, tariffs can represent an easy and direct way to obtain public funds. Unlike other forms of taxation, tariffs are relatively simple to enforce, since they are collected at the border, in specific and controllable locations, and are therefore less vulnerable to tax evasion.
While this function of tariffs has lost importance in most developed economies, it remains relevant in countries with limited administrative capacity or weak institutions.

1.2.8) Cultural/social protectionism

Let us finally mention the specific case of protectionist policies adopted by a country in order to safeguard its own production of cultural goods, which are often considered a defining element of national identity. This need is felt more strongly by some countries, such as France, which even coined a specific expression to refer to the differentiated treatment that cultural products should receive in the context of trade negotiations: *l'exception culturelle*. The underlying idea is that domestic cultural production must be protected from the standardization and homogenization caused by free market dynamics (Filipetti 2013). The concept was first introduced by France during the General Agreement on Tariffs and Trade (GATT) negotiations in 1993 (European Parliament 2014).

Chapter 2: Assessing President Trump's justification for tariffs

In this chapter, we examine the arguments presented by the U.S. President Donald Trump in support of imposing tariffs on the European Union. To do so, we will analyse public statements, official documents, and the broader economic and political context in which these measures were introduced. Understanding the rationale behind this shift is crucial, as it marked a notable departure from the long-standing U.S. commitment to trade liberalization, described in the first part of this chapter. By comparing the justifications provided by the White House with the arguments discussed in the previous chapter, we also aim to evaluate whether tariffs were used as a legitimate economic policy tool or primarily as a vehicle for political and ideological goals.

2.1) A brief history of U.S. trade policy

In order to fully understand the trade policy choices made by the Trump administration, it is essential to take a step back and examine the historical evolution of U.S. trade policy. Trump's approach did not emerge in a vacuum but rather marked a clear departure from a long-standing tradition of support for trade liberalization that had guided U.S. economic strategy for decades.

As described by Irwin (2019), since the establishment of the federal government, U.S. trade policy has aimed to achieve one or more of the following objectives:

- to increase federal revenue.
- to restrict imports and protect domestic industries.
- to negotiate trade agreements with foreign partners based on mutual tariff reduction.

These three goals are referred to by the author as the "three Rs" of U.S. trade policy: revenue, restriction, and reciprocity. According to Irwin, each of these objectives corresponds to specific historical phases of the American trade policy strategy.

In the early decades following the founding of the United States (1790–1860),

the main purpose of trade policy was revenue generation, as tariffs represented the most important source of income for the federal government.

Between the end of the Civil War (1865) and the mid-1930s, the main goal shifted to restriction, aimed at protecting the growing (infant) American industries from foreign competition. During this period, domestic taxes became more significant for the federal budget, gradually reducing the fiscal role of tariffs.

Finally, Irwin (2019) highlights how, from 1934 until the first term of President Trump, the focus has shifted to reciprocity. The year 1934 marked a turning point in U.S. trade policy, as Congress approved the Reciprocal Trade Agreements Act (RTAA), which gave the President the authority to negotiate bilateral trade agreements aimed at the mutual reduction of tariffs. The RTAA marked a significant institutional shift in American policymaking, transferring the authority to negotiate trade agreements from Congress to the President. This shift was also a reaction to the Tariff Act of 1930 (better known as the Smoot-Hawley Tariff), which had been enacted a few years earlier in response to the economic contraction and rising unemployment brought about by the Great Depression (1929-1933) but ultimately ended up worsening the crisis both in the United States and abroad.

Our historical overview will mainly focus on the most recent decades, starting from the end of the Second World War. Despite the methodological difficulties in calculating an exact average tariff level for each year (due to the combination of specific and ad valorem duties, and their interaction with price fluctuations), it is possible to affirm that this period has been marked by a general decline in U.S. import tariffs.
In the image below, the blue line shows the average tariff applied to dutiable imports, while the grey line reflects the average tariff when calculated over total imports, including those not subject to any duty.

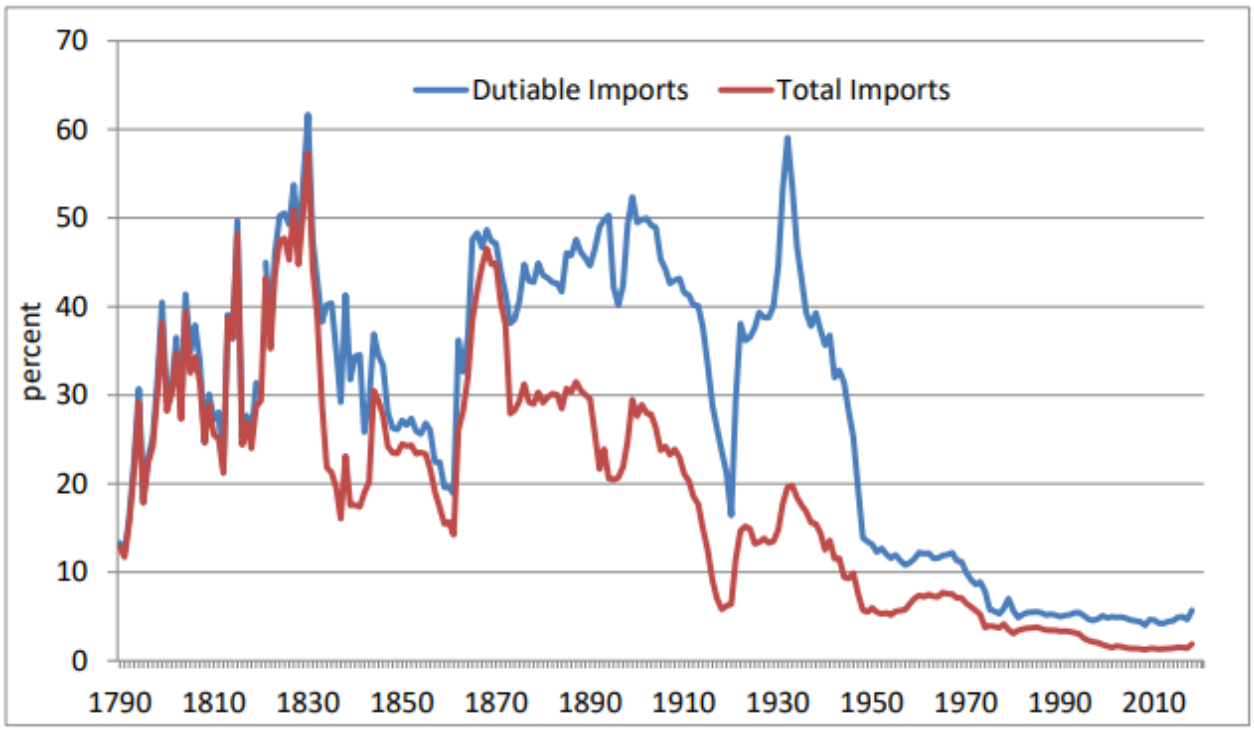

Image 6 - Average tariff on dutiable and total imports (Irwin 2019)

According to Irwin (2019), until the 1990s, U.S. trade policy was characterized by broad bipartisan support for trade liberalization. After the Great Depression, the Democratic Party gained political dominance for several decades. At the time, it placed great emphasis on the interests of the Southern states, whose economies were more export-oriented and thus had strong incentives to support reciprocal tariff reduction.

After the Second World War, even the Republican Party, which had its political strongholds in the North, gradually accepted this approach. At that point, American industry was fully developed and no longer feared competition from other developed economies in Europe and Asia, which had been devastated by the war. In addition, trade liberalization was seen as a useful foreign policy tool to support the economic recovery of U.S. allies and prevent the spread of communism.

As explained by Krugman et al. (2018), in order to promote multilateral negotiations aimed at a more systematic liberalization of international trade, the United States, together with other allied nations that had emerged victorious from the Second World War, supported the creation of the International Trade Organization (ITO). However, the ITO was never established, mainly due to internal divisions within U.S. politics.

In 1947, twenty-three countries signed a provisional agreement known as the

General Agreement on Tariffs and Trade (GATT), which ended up regulating international trade negotiations for the next fifty years. In 1995, the World Trade Organization (WTO) was created as a formal international organization, inheriting the role of the GATT while maintaining the same basic principles. According to Krugman et al. (2018), these principles include:

- Preventing tariff increases through the mechanism of *binding*, which means that once a tariff rate is agreed upon, it is fixed and can only be changed in the direction of a reduction.
- Encouraging reciprocal tariff reductions through *trade rounds*, in which countries negotiate either through bilateral or multilateral meetings. During the second half of the 20th century, these trade rounds contributed significantly to the reduction of average tariff levels: in the United States, Western Europe and Japan, average tariffs fell from 21.8% in 1947 to 3.1% in 1999.

As noted by Griswold and Freytag (2023), the economic and political motivations behind the American support for trade liberalization were numerous. One of the key reasons behind the American policy orientation towards free trade lay in the role played by the U.S. financial account surplus, which reflects the country's attractiveness to foreign investors. Indeed, Krugman et al. (2018) explain that there is a fundamental identity between a country's *current account balance* – defined as the net value of all transactions between that country and the rest of the world in goods, services, income, and unilateral transfers (Fox et al. 2024) – and its *financial account balance* – that is, the value of all transactions related to the purchase and sale of financial assets (such as equities, government bonds, and other securities). In other words, every dollar of trade deficit must be matched by a dollar of financial surplus, and vice versa (see image below). In this context, a liberal trade policy was not only tolerated by the U.S. but encouraged, as it supported the inflow of foreign capital that sustains U.S. investment levels. This inflow was largely driven by global confidence in the strength of U.S. institutions and the profitability of its large and open market.

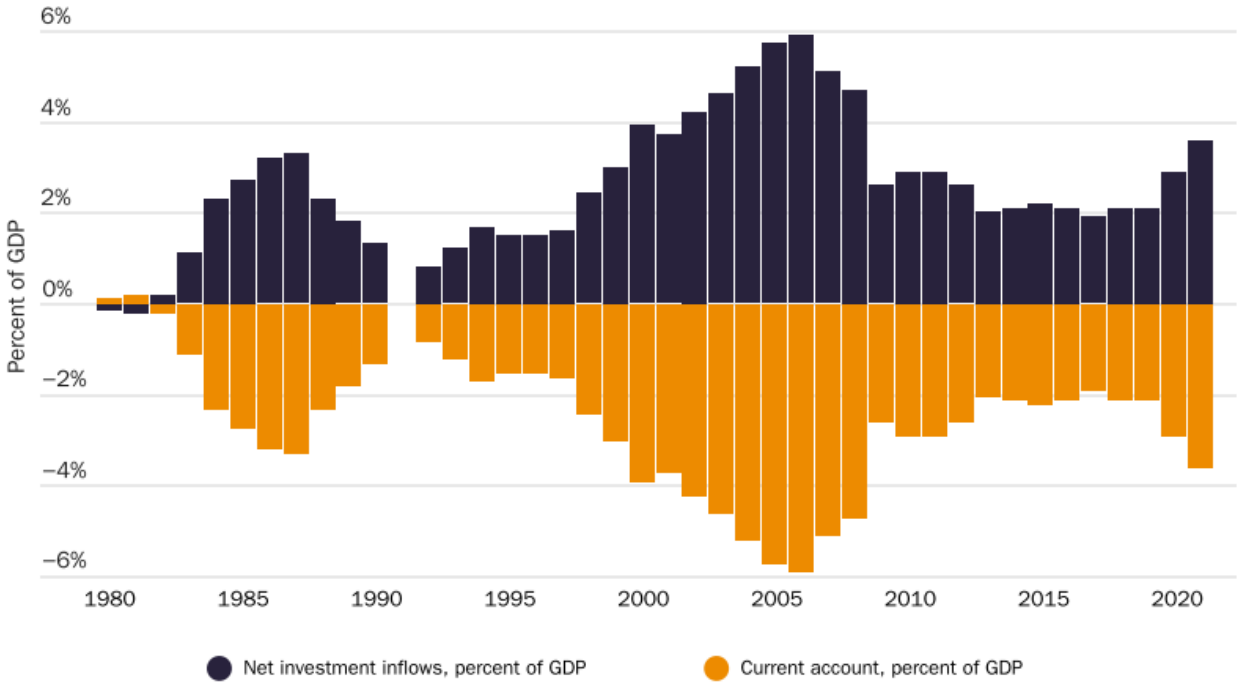

Image 7 – The annual size of the U.S. current account deficit is mirrored by the annual net inflow of foreign investment (Griswold and Freytag 2023)

Of course, the steady demand for U.S. financial assets has several consequences (Griswold and Freytag 2023): it causes the U.S. dollar to appreciate against other currencies, which makes imports cheaper and encourages their growth, while at the same time making exports more expensive and thus less competitive. Rather than trying to reverse this structural dynamic, U.S. trade policy has often accepted it as the price to pay for maintaining a globally attractive and investment-driven economy.

Another reason for the reliance on foreign capital, according to the same authors, is the low savings rate among U.S. households, which is typical of a relatively young society by Western standards. As a result, both public and private economic actors often need to raise investment resources on international financial markets. This structural dependence on capital inflows naturally aligns with a trade policy that promotes open markets and capital mobility.

Moreover, the U.S. has been able to leverage this position to specialize in high-tech sectors such as aerospace, pharmaceuticals, and advanced medical equipment (see image below, showing U.S. exports in 2023 at a HS2[2] level of aggregation). In addition to this, the country is a global leader in

[2] The Harmonised Commodity Description and Coding System, commonly referred to as the Harmonised System (HS), is an international commodity classification system developed by the World Customs Organisation (WCO). It is a comprehensive classification system of approximately 5,000 six-digit product

the services sector, especially in finance, business consulting, and research and development. It is therefore not surprising that, between 2017 and 2021, the U.S. recorded the world's largest trade deficit in goods (−$907.91 billion), but also a substantial surplus in services (+$278.37 billion) and primary income (+$211.87 billion), including returns on capital and labour (Griswold and Freytag 2023).

United States' Exported Products (2023)

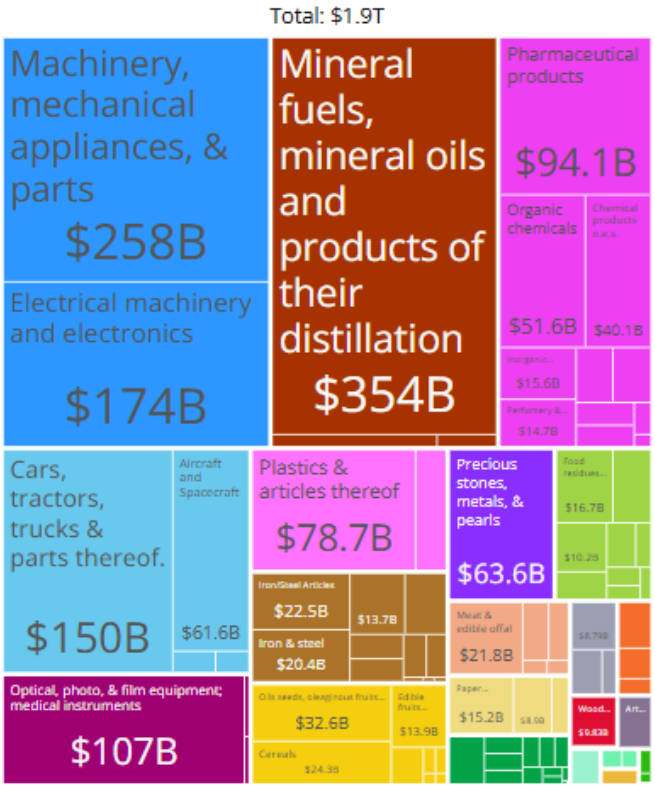

Image 8 – U.S. exported products in 2023 (The Observatory of Economic Complexity 2025b)

Finally, the authors argue that U.S. trade policy has also served broader geopolitical and strategic goals. Promoting free trade has helped strengthen American soft power, consolidating its role as a central hub in the global economy – both as a destination for foreign goods and as a top recipient of international investment. A crucial component of this influence is the global role of the U.S. dollar: as of 2023, 60% of known central bank reserves worldwide were held in dollars. The dominance of the dollar not only reflects

categories organised in a hierarchical structure by: sections, chapters (first two digits – HS2), headings (first four digits – HS4) and sub-headings (all six digits). For example, the HS6 code for cabbage lettuce is 0705.11, meaning that it falls under chapter 07 ("edible vegetables and certain roots and tubers"), heading 0705 ("lettuce and chicory") (European Commission 2025h).

the global trust in the U.S. economy but also reinforces its ability to shape international trade rules in line with its own interests.

Before delving into our analysis of President Trump's statements on tariffs, we want to highlight the fact that, during the time period considered in this chapter, some signs of protectionism in American trade policy can still be found, specifically during the 1980s (Wraight 2019). More than thirty years after the end of the Second World War, the economic dominance of the United States over its major trading partners – notably Japan and West Germany – had gradually declined, triggering a *crisis of competitiveness* in key traditional manufacturing sectors such as automotive and steel. In previous decades, the industrial policies adopted by these countries – including targeted subsidies and public procurement programs – had been largely dismissed by the United States as relatively insignificant initiatives, whose main effect would be a reduction in the price of exports to the U.S., ultimately benefiting American consumers. However, from the early 1980s onwards, fears began to spread that such policies might harm the U.S. economy by creating permanent competitive advantages for foreign industries. During President Reagan's second term (1984-1988), specific measures were adopted to counter what were perceived as unfair trade practices by other countries, with Japan being the primary target. Among these measures was the strengthening of the Office of the United States Trade Representative (USTR). The Reagan administration even went so far as to impose 100% tariffs on selected imports of strategic goods – such as Japanese semiconductors – in retaliation for Japan's failure to open its domestic market to American firms during bilateral negotiations known as Market-Oriented Sector Selective (MOSS) talks.

One way to interpret President Trump's so-called "neoliberal protectionism" (Wraight 2019) is to see it as a continuation of the precedent set by the Reagan administration. Notably, the Reagan administration was also the last to invoke Section 232 of the Trade Expansion Act of 1962 before the Trump era. This provision allows the President to impose restrictions on goods imports or enter negotiations with trading partners, if the U.S. Secretary of Commerce determines, following an investigation, that the quantity or other circumstance of those imports "threaten to impair" U.S. national security (Congressional Research Service 2025a).

2.2) From free trade to "America First"

Having outlined what has been, until about a decade ago, the prevailing orientation of U.S. trade policy, we now turn to its more recent developments. Given that the ultimate focus of this thesis concerns the EU, our analysis will concentrate on the measures adopted by President Trump against the European trade bloc from 2018 to the present. Below, we present the most important public statements made by the President regarding the tariffs threatened and imposed on European partners in this time period. Over the course of the analysis, we will attempt to relate these statements to one or more of the protectionist arguments outlined in the second part of the previous chapter.

The legal instrument through which, in March 2018, President Trump imposed ad valorem tariffs on American imports of steel (25%) and aluminum (10%) from the EU was the Section 232 of the Trade Expansion Act of 1962. On that occasion, the President tweeted the following (Cole 2018):

"*If the E.U. wants to further increase their already massive tariffs and barriers on U.S. companies doing business there, we will simply apply a Tax on their Cars which freely pour into the U.S. They make it impossible for our cars (and more) to sell there. Big trade imbalance!*"

The EU responded to these protectionist measures with tariffs on more than $3 billion worth of U.S. exports of Harley-Davidson motorcycles, bourbon, and other politically sensitive goods, as well as steel and aluminum (Bown and Russ 2021).

In June of the same year, during a campaign rally, Trump declared (Liptak et al. 2018):

"*You look at the European Union – they put up barriers so that we can't sell our Ford products in, and yet they sell Mercedes and BMW, and the cars come in by the millions, and we hardly tax them at all. They don't take our cars. And, if they do, the tax is massive. So, they're basically saying, 'We are going to sell you millions of cars. By the way, you're not going to sell us any.' Not going to work that way anymore, folks. Not going to work that way.*"

Particularly interesting are the statements made by the President during the press conference following the agreement reached in July with then-European Commission President Juncker, in which both parties committed to eliminating subsidies and trade barriers (tariff and non-tariff) on industrial goods unrelated to the automotive sector (Smith and Rushe 2018). Regarding the negotiations that were to follow the agreement, the President said that an executive working group of very intelligent people on both sides would make

trade fairer and reciprocal. On that same occasion, Trump also declared (Smith and Rushe 2018):

"*The European Union is going to start almost immediately to buy a lot of soybeans – a tremendous market – buy a lot of soybeans from our farmers in the Midwest primarily.*"

Still during his first term, in January 2020, President Trump returned to his threats of tariffs on European cars, using them as a bargaining tool to push France, Germany, and the United Kingdom to accuse the Iranian government of violating the terms of the nuclear deal signed in 2015, thus activating the mechanism for reinstating sanctions against Tehran. Moreover, President Trump threatened a 100% tariff on French wines to pressure French President Emmanuel Macron to delay the implementation of a digital services tax, which would primarily have targeted U.S. tech giants (Pramuk 2020).

These statements, along with others of a similar nature made over the years, offer important insights into the rationale behind the decision by the White House to target the European Union through its trade policy. Referring to the second part of the theoretical chapter, we can argue that in this phase, the most relevant arguments are those concerning retaliation and bargaining power, as described by Mattoo and Staiger (2020). Indeed, the main objective of tariffs in 2018 was to reallocate the benefits of international trade in a way that more strongly favours the U.S. and the American companies (such as big tech firms), as well as to force the European bloc to reduce both tariff and non-tariff barriers for them.

Particularly relevant are the political economy arguments, which clearly emerge in President Trump's statements highlighting the benefits of tariffs for specific interest groups in particular sectors (such as automotive and agriculture) or geographic areas (such as the Midwest).

A third group of arguments that also emerges as significant relates to national security concerns, as exemplified by the use of tariffs as a bargaining tool to push certain European governments to openly align with the U.S. position against the Iranian government on the issue of nuclear weapons. In this regard, it is important to note that the tariffs imposed by President Trump during his first term were implemented through Section 232 of the Trade Expansion Act of 1962, a legal provision that – as already mentioned – authorises the President to initiate investigations via the Commerce Department to determine whether "an article is being imported into the United States in such quantities or under such circumstances as to threaten to impair

national security" (Lincicome and Manak 2021). Under Section 232, if the Commerce Department issues a positive finding, the President may take the actions he deems necessary to remedy the identified threat, including the imposition of tariffs.

Although the legislative instrument used to introduce these tariffs was formally intended to safeguard national security, the statements quoted above reveal a clear intent to use tariffs to achieve broader political and economic objectives, signalling an improper use of Section 232 by the Trump administration.

We need to mention an additional element that contributed to shaping the trade tensions between the United States and the European Union during President Trump's first term, which is the long-standing dispute over subsidies to aircraft manufacturers, respectively Boeing and Airbus, within the framework of the World Trade Organization (WTO). The controversy, launched in 2005 following the failure of bilateral negotiations, concerned allegations of unfair government support granted by both parties to their respective aerospace industries. Over the years, the WTO issued a series of rulings alternately condemning the EU and the U.S. for maintaining the subsidies (Reuters 2021).

Particularly relevant for the purposes of this study are the developments that occurred between 2018 and 2020, which coincided with the most intense phase of the dispute and with the protectionist turn of U.S. trade policy. In May 2018, the WTO ruled that the EU had failed to withdraw all prohibited subsidies to Airbus, authorising Washington to adopt retaliatory measures. In October 2019, the WTO's arbitrators granted the U.S. the right to impose tariffs on up to $7.5 billion worth of European exports annually – the largest amount ever approved in the WTO's history. In compliance with this ruling, the Trump administration imposed a 10% tariff on Airbus aircraft and a 25% tariff on a broad range of European products, including wine, cheese, olives, and single-malt whisky (Reuters 2021). Although formally justified as a response to the Airbus case, these measures fit within the broader logic of economic nationalism and reciprocal bargaining that characterised the administration's overall trade policy towards the EU.

In October 2020, the WTO issued a symmetrical ruling in favour of the EU, authorising Brussels to impose tariffs on $4 billion worth of U.S. goods in retaliation for unlawful subsidies granted to Boeing. While the European

Commission expressed its willingness to suspend such countermeasures should the United States withdraw its own tariffs, no agreement was reached before the end of President Trump's term (Reuters 2021).

A change in tone occurred under President Biden, who, in June 2021, reached an agreement with the European Union to suspend for five years all tariffs related to the Airbus-Boeing dispute. This decision, announced at the U.S.-EU Summit that year, effectively ended a sixteen-year trade conflict and signalled a renewed commitment by both sides to cooperate in addressing the distortions caused by "non-market practices" and industrial subsidies in the aerospace sector, particularly those attributed to China (Reuters 2021).

Indeed, a shift in U.S. trade policy occurred with the transition to the Biden administration (Bown and Russ 2021). Nonetheless, while President Biden formally suspended the Section 232 tariffs on European steel and aluminum, he also reached an agreement with the EU in October 2021 through which the tariffs were replaced with a system of tariff-rate quotas (TRQs). Under this new arrangement, a fixed annual volume of EU-origin steel and aluminum (set by historical patterns and data) could enter the U.S. market duty-free. Imports exceeding the quota thresholds remained subject to tariffs, acting as a cap on the quantity of goods that can benefit from free-trade treatment. This system has replaced the previous tariff regime with a more flexible but still protectionist mechanism.

This partial liberalization highlights a broader trend in recent U.S. trade policy: even under administrations that promote multilateral cooperation, strategic considerations – such as industrial policy, supply chain resilience, and national security – continue to motivate the retention of selective trade barriers. In this context, the U.S. appears increasingly inclined to use market access as a bargaining tool, rather than granting it unconditionally, even with long-standing allies like the EU.

Turning to Trump's more recent declarations against the EU, starting from his 2024 presidential campaign, one can observe a substantial continuity with his first term. Already during a campaign rally in October 2024, the Republican candidate declared (Barnes and Cingari 2024):

"I'll tell you what, the European Union sounds so nice, so lovely, right? All the nice European little countries that get together. […] They don't take our cars.

They don't take our farm products. They sell millions and millions of cars in the United States. No, no, no, they are going to have to pay a big price."

The focus on the automotive sector appears also in subsequent declarations by Trump, in January 2025, after his second election to the White House (Reid 2025):

"From the standpoint of America, the EU treats us very, very unfairly, very badly […] They make it very difficult to bring products into Europe, and yet they expect to be selling […] They send cars to us by the millions. We have […] hundreds of billions of dollars of deficits with the EU […] we have some very big complaints with the EU."

Automotive, along with pharmaceuticals and chips, is precisely the subject of the President's first tariff threat against the EU in his second term. In February, Trump threatened a 25% tariff on European products in these three sectors. Concerning the automotive sector, one of the objectives was certainly to push the EU to lower its tariff on vehicle imports from its level of 10% to bring it closer to the American level of taxation (2.5%). During the same event, the president declared (Blackburn 2025):

"The EU has been very unfair to us […] We have a deficit of $350 billion […] They don't take our cars, they don't take our farm products, they don't take almost anything. They take very little. And we're going to have to straighten that out. And we will, I have no doubt about it."

It is important to mention that the figure on the U.S. trade deficit reported by Trump is contradicted by official data from the European Commission, which holds that, in 2023 (European Commission 2025d):

- The U.S. deficit in trade in goods with the EU amounted to €157 billion ($184 billion).
- The U.S. surplus in trade in services with the EU amounted to €109 billion ($128 billion).
- The U.S. deficit in trade in goods and services amounted to €48 billion ($56 billion), i.e. 3% of the overall trade volume between the European bloc and the North American country.

Later that same month, Trump declared (Ellyatt 2025) that "*the European Union was formed in order to screw the United States*" and that:

“They’ve really taken advantage of us ... They don’t accept our cars, they don’t accept, essentially, our farm products. They use all sorts of reasons why not. And we accept everything from them.”

The first major protectionist measure adopted by the second Trump administration in 2025 was the reinstatement of tariffs on all imports of steel and aluminum, including those of European origin. The 25% tariffs on both sectors, announced in February and entered into force in March, triggered a prompt response from the EU, which announced countermeasures amounting to a total of €26 billion, corresponding to the estimated damage caused by the tariffs to the EU economy. The entry into force of these countermeasures was scheduled for mid-April but was postponed by 90 days following the developments of early April and the suspension of U.S. tariffs on April 9 (European Commission 2025c).

In the introduction to this work, we have already noted the statements by the White House on the so-called “Liberation Day” (April 2), the day on which – according to President Trump himself – the American economy began its journey towards freedom from dependence on imports of foreign-produced goods (Greenhouse 2025). According to the White House, the main objective of all announced duties was to push firms that currently produce their goods abroad to move their production sites back to U.S. territory. According to the U.S. government, this would lead to the creation of hundreds of thousands of new industrial jobs and to the revival of the manufacturing sector in the United States (Greenhouse 2025).

An important source of information regarding the “Liberation Day” is the Fact Sheet issued by the White House on that occasion, from which the following points emerge as relevant for our analysis of the EU–U.S. trade relationship (The White House 2025):

- The legal instrument employed by President Trump on this occasion is not Section 232 of the Trade Expansion Act, but rather the International Emergency Economic Powers Act of 1977 (IEEPA), a provision – also developed during the Cold War years – providing the President with broad authority to regulate a variety of economic transactions following a declaration of national emergency (Congressional Research Service 2025b).
- With respect to the EU specifically, the emphasis is placed:

    - On the burden of European Value Added Taxes (VATs) on U.S. multinationals, described as “exorbitant” and estimated by the Trump administration at $200 billion per year.
    - On the difference between the tariff imposed by the U.S. on imports of EU automobiles (2.5%) and the reciprocal duty applied to American cars (10%).
- Regarding the broader objectives of U.S. protectionist policy toward other countries and trade blocs, we can observe:
    - The intention to restore a strong manufacturing base for the U.S. economy (including through the promotion of reshoring of American companies), with the aim of increasing middle-class employment and ensuring independence from foreign supplies and supply chain disruptions in strategic sectors such as defence.
    - The general aim of pushing all trading partners to reconsider their barriers – both tariff and non-tariff – on trade with the U.S.
    - The connection of trade policies to domestic political issues, such as the migration crisis or international fentanyl trafficking.
    - The protection of American intellectual property to safeguard the competitiveness of the U.S. economy from “counterfeit goods, pirated software, and theft of trade secrets.”

On April 2, President Trump announced the imposition of two different types of tariffs: the 10% minimum tariff, imposed on April 5 on nearly all U.S. imports, and a so-called “reciprocal” tariff, whose value was specified for each country or commercial bloc, even though the methodology used for its calculation was not clarified and caused widespread confusion (Majumdar 2025). The reciprocal tariff announced against the European Union on April 2 was set at 20%, covering almost all European exports to the U.S. Its entry into force was scheduled for April 9, but it was immediately suspended for 90 days, after several days of turmoil in financial and bond markets (Martin 2025).

A few days later, on the occasion of the visit of Italian Prime Minister Giorgia Meloni, the President declared that a deal between the EU and U.S. would *“100 percent”* be reached *“at a certain point”* but added that his administration was in *“no rush”* (Connor et al. 2025).

The tone heated up again about a month later. On the 23rd of May, Trump declared via Truth Social the following (Breuninger 2025):

“The European Union, which was formed for the primary purpose of taking advantage of the United States on TRADE, has been very difficult to deal with. Their powerful Trade Barriers, Vat Taxes, ridiculous Corporate Penalties, Non-Monetary Trade Barriers, Monetary Manipulations, unfair and unjustified lawsuits against Americans Companies, and more, have led to a Trade Deficit with the U.S. of more than $250,000,000 a year, a number which is totally unacceptable. Our discussions with them are going nowhere! Therefore, I am recommending a straight 50% Tariff on the European Union, starting on June 1, 2025. There is no Tariff if the product is built or manufactured in the United States. Thank you for your attention to this matter!”

It is relevant, in this case, to highlight the explicit reference by the President to non-tariff barriers that prevent American firms from operating freely within the EU. Once again, however, the figures on the U.S. trade deficit with the European bloc seem unfounded. The entry into force of the 50% tariff was then postponed from June 1 until July 9 (Kim 2025). At the beginning of July, the deadline was pushed further to August 1, and the threatened reciprocal tariff on EU goods was lowered to 30% (Majumdar 2025).

On June 3, President Trump decreed that the level of tariffs imposed on all imports of steel and aluminum (except for those imported from the UK) should be raised from the previous 25% to 50%. The executive order explained that the new tariffs “*will more effectively counter foreign countries that continue to offload low-priced, excess steel and aluminum in the United States market and thereby undercut the competitiveness of the United States steel and aluminum industries*” (Jones and O’Carroll 2025).

The subsequent turning point in the matter occurred on July 27, days before the tariff deadline, when a first agreement between the U.S. and the EU was reached, fixing the level of taxation on most American imports of European origin, automobiles included, at 15%. The EU, for its part, agreed to purchase $750 billion in energy sources from the U.S. and to invest $600 billion in the North American country by 2028. On the occasion, Trump stated that the Union had agreed to “purchasing hundreds of billions of dollars’ worth of military equipment” (Doherty and Kiderlin 2025).

From the following “Joint Statement on a U.S.-EU framework on an agreement”, issued at the end of August, some interesting points emerge (European Commission 2025i). The EU indeed committed to the removal of

its tariffs on U.S. industrial goods and to guaranteeing market access in Europe to a series of U.S. agro-food products ("*a wide range of US seafood and agricultural goods, including tree nuts, dairy products, fresh and processed fruits and vegetables, processed foods, planting seeds, soybean oil, and pork and bison meat*"). The 15% tariff on most American imports from the EU was confirmed. Some exceptions to this general rule were: "*unavailable natural resources (including cork), all aircraft and aircraft parts, generic pharmaceuticals and their ingredients and chemical precursors*." For these goods, only the tariff based on the Most Favoured Nation rule, as previously established in GATT/WTO agreements, would apply.

For the automotive sector, the application of the 15% tariff by the U.S. was linked to the introduction by the EU of "*the necessary legislative proposal to enact the tariff reductions*" in compliance with the agreement. As of the time of writing (December 2025), the reduction of tariffs to 15% has also entered into force for the automotive sector and has been applied retroactively to cover the period starting from August 1. Steel and aluminum currently remain excluded from the framework agreement, and the tariff applied to these sectors remains at 50% (Corlin 2025).

The EU also committed to purchasing $750 billion in energy sources and $40 billion in AI chips from the U.S., to ensuring adequate military spending for strengthening NATO, and to make sure that its environmental sustainability standards did not impair trade with American firms.

Both the commercial bloc and the North American country, finally, committed to mutually recognizing some standards in the automotive and agro-food sectors (European Commission 2025i).

This agreement between the U.S. and the EU contributed to reducing the level of uncertainty faced by European firms operating across the Atlantic, although many of them now have to deal with a 15% minimum tariff. Nevertheless, for some specific categories of goods, the months following the agreement were marked by renewed tensions and uncertainty. An example is the pasta industry, for which the U.S. Commerce Department proposed a new tariff (in addition to the existing 15% duty) amounting to 92%, in order to counter alleged dumping practices by certain Italian firms. Between late December 2025 and early January 2026, the threatened tariff was reportedly reduced to a range between 24% and 29%. The final level of the tariff is

expected to be announced in March 2026, upon completion of the anti-dumping investigation by the Department (Buchwald 2026).

Based on the developments described so far, the American trade policy in Trump's second term appears to be in substantial continuity with his first term (and, to a lesser extent, even with President Biden's administration). The motivations behind the use of tariffs as instruments of trade policy seem to be similar as well. As previously discussed, for the current U.S. President, tariffs are primarily a negotiating tool used to extract concessions from trade partners in both commercial and non-commercial domains. A clear example of this phenomenon is the use of both threats and reassurances for the purpose of pushing European countries to lower their tariff and non-tariff barriers to trade. This dynamic contributes to the perception of tariffs as temporary measures that can be avoided by complying with Trump's requests; as mentioned in the theoretical chapter of this work, this perception is a key element in determining the success of retaliation measures, according to Gawande and Hansen (1999).

Motivations tied to retaliation and bargaining power are interwoven with other strategic concerns, such as national security – as demonstrated by the explicit reference to NATO included in the late-August "Joint Statement". The use of the International Emergency Economic Powers Act of 1977 (IEEPA) for the imposition of tariffs, similarly to the use of Section 232 during Trump's first term, can be interpreted as further evidence of this concern. Nonetheless, also in this case, tariffs are clearly used to achieve political and economic objectives that are beyond American national security needs.

President Trump's repeated emphasis on the need for European countries to increase their imports of U.S. automobiles and agricultural products may also reflect an effort to respond to the demands of specific domestic interest groups, following the logic typically analysed in the field of political economy. The enduring protection specifically of the steel and aluminum industries points in the same direction.

Finally, it is worth highlighting the Trump administration's aim to boost U.S. exports in certain strategically important sectors – such as energy – or in industries with high technological value, such as AI chips. Drawing once again on the theoretical chapter of this thesis, this strategy can also be interpreted through the lens of the positive externalities generated by key

sectors of American industry, especially in terms of national security and long-term competitiveness (Krugman et al. 2018).

A conclusion that can be drawn from the analysis carried out in this chapter is that current economic and political-economy theories struggle to provide a unified and comprehensive explanation for the trade policy choices adopted by U.S. administrations over most of the past decade. An attempt to account for this phenomenon is offered by Richard Baldwin in "The Great Trade Hack: How Trump's Trade War Fails and the World Moves On*"* (2025). According to the author, President Trump's trade offensive does not have genuine economic motivations but rather represents an effort to "hack" the global trading system – to subvert its rules based on what Baldwin calls the "Grievance Doctrine." This doctrine consists of a set of beliefs "*based on a myth of betrayal, humiliation, and wreckage*" allegedly suffered by the United States. Populist movements in the U.S. have used this theory to attribute to external causes the social issues perceived by the American middle class. The founding myth of the "Grievance Doctrine*"* rests on the idea that the United States' trading partners have benefited from globalization through unfair practices – tariff and non-tariff barriers, monetary manipulation, intellectual property theft, and so forth – with the complicity of the American political elite, which is said to have *"sold out the middle class to make a buck."* According to Baldwin's thesis, therefore, U.S. trade policy choices should be understood less as driven by genuine economic interests and more as motivated by a desire for revenge and retribution.

An alternative, yet complementary, perspective is offered by Di Tommaso and Aggarwal (2025), who interpret the tariffs imposed by the U.S. administration as an instrument of industrial policy – one that seeks to provide a simple and immediate response to complex challenges related to the rapid technological, economic, and political transformations experienced in recent decades by the United States, its competitors (mainly China) and its partners (such as the European Union). In this sense, tariffs can be seen as part of a long-standing tradition, described in detail by the authors, whereby the U.S. government has actively promoted the economic and political conditions most favourable to the success of its largest firms and strategic industries.

The authors argue that the current priority of U.S. leadership is to restructure the global value chains of specific sectors – such as artificial intelligence, pharmaceuticals, and semiconductors – in order to safeguard national

security, ensure technological sovereignty, and protect key segments of domestic manufacturing. This approach marks a clear departure from the policies that, in the decades following the collapse of the communist bloc, favoured deindustrialization and servitization of the American economy, through market expansion and the offshoring of low-value-added manufacturing. According to the authors, the rupture introduced by the two Trump administrations is, at least in part, a consequence of the political and social tensions (between regions, social classes, ethnic groups, etc.) generated by the U.S. economic development model during the era of globalization, as well as by China's rise to the status of a global power.

The analysis conducted in this chapter has highlighted the key motivations behind the return of American protectionism, particularly under the leadership of President Trump. As has been shown, tariffs are not only employed as a tool for correcting trade imbalances, but also as a broader strategic instrument, used to extract concessions, protect national interests, and respond to domestic political pressures. Within this context, the European Union has found itself at the centre of intense trade negotiations with the U.S., aimed at avoiding or mitigating the economic damage caused by the tariffs. In the following chapter, we examine the short-term impact of the U.S. tariffs in the context of the transatlantic trade relationship, whose historic evolution we will briefly illustrate.

Chapter 3: The U.S.-EU trade relationship and the impact of tariffs

Having examined the main motivations that led the U.S. government to adopt a more protectionist stance, we now turn to the consequences of this shift for transatlantic trade. Following a structure symmetrical to that of the previous chapter, we will begin by outlining the broader context within which our economic and political analysis must be situated, providing a concise historical overview of transatlantic trade relations from the post-war period to the beginning of the first Trump administration.

Subsequently, we will recall the political measures adopted by the U.S. government against the European bloc, as well as the countermeasures implemented by the latter either to mitigate their impact or as acts of retaliation. We will then analyse the observable economic effects of the tariff turn introduced by President Trump. Given the limited time that has elapsed between the imposition of these tariffs and the writing of this thesis (December 2025), these are necessarily short-term effects.

3.1) The trade relationship between the U.S. and the EU

As already mentioned in the previous chapter, in February 2025 the newly elected President Trump stated that "*the European Union was formed in order to screw the United States*" (Ellyatt 2025). According to an alternative historical reconstruction, more widely accepted at the academic level, the integration of European states was in fact encouraged by the U.S. starting from the end of the Second World War, as a tool to strengthen Western Europe in the context of the Cold War.

Lundestad's "empire to integration" thesis (Coppolaro 2006) argues indeed that the U.S. supported European integration in its early stages with the aim of keeping Western Europe within its sphere of influence, containing both the potential strength of Germany and the threat of a Soviet expansion towards the West. Moreover, a customs union in Europe could foster economic prosperity and thus political-military stability, as well as the creation of a unified outlet market for American exports. A united European continent, however, would serve American geopolitical interests only on the condition that it would not become an alternative centre of power for the West vis-à-vis Washington. To prevent such an outcome, the U.S. promoted the creation of a military system (through NATO) and an economic one (through GATT) that

would ensure the interdependence of the two transatlantic actors.

Coppolaro (2006) notes that the establishment of the European Economic Community (EEC), the forerunner of today's European Union, in 1958 was supported by U.S. President Eisenhower, but that already during the so-called Kennedy GATT Round (1963-1967) the U.S. pushed for greater integration between European economies and the American one, in order to maintain firm economic control over its allies. The EEC was, in fact, a regional trade agreement which, in accordance with the exceptions specifically provided for by GATT, allowed the six governments involved to agree on preferential tariff regimes exempt from the Most Favoured Nation (MFN) rule. This is a GATT clause requiring each contracting party to extend to all others the lowest level of taxation applied to any single one of them, for each category of goods. On imports from third countries such as the U.S., however, the six EEC countries shared a single taxation regime.

According to the author, the main objective of the U.S. during the mid-1960s GATT Round was precisely to prevent possible protectionist drifts on the part of the newly formed European trade bloc. In this respect, it is believed that the U.S. achieved partial success: the reciprocal reduction of tariffs on industrial goods did indeed help facilitate the integration of the EEC into transatlantic trade; however, American negotiators failed to undermine EEC protectionism in the agricultural sector, embodied by the CAP (Common Agricultural Policy). The CAP consisted of a set of policies aimed at protecting European farmers, primarily through a system of guaranteed prices financed by Community funds, and it discriminated against products of non-European origin.

Still according to Coppolaro, the Kennedy Round marked a decisive moment in the history of transatlantic trade relations, because it demonstrated the ability of the EEC to defend its economic interests cohesively vis-à-vis the U.S., despite the strength and relevance of the North American partner for European governments both from a commercial and a military perspective. Not surprisingly, in the years following the Round, the enlargement of the EEC and the entry of the United Kingdom into the Community (1973) marked a deterioration in relations between the EEC and the U.S.

In the following years, the issue of the CAP remained the main source of commercial conflict between the EEC and the U.S. (Coppolaro 2006, Sbragia 2010). Furthermore, the progressive enlargement of the Community, which became the European Union with the Maastricht Treaty in 1992, further increased its bargaining power vis-à-vis the U.S., including within GATT (Breuss 2007). In the subsequent Rounds, in fact, the EU and the U.S. confronted each other on an equal footing both on the matter of liberalising the European agricultural sector and on the decision to establish the World

Trade Organization (WTO) in 1995 (Sbragia 2010).

With the establishment of the WTO, the resolution of disputes between the EU and the U.S. was generally entrusted to an international body of experts specifically created for this purpose, as already described in the previous chapter in connection with the Boeing-Airbus case. Below we report some examples of other well-known cases of trade disputes between the EU and the U.S. brought before the WTO Dispute Settlement Body between the second half of the 1990s and the early 2000s (Breuss 2007):

- The “Hormone case”: concerned the ban imposed by the EU on the import of meat produced using certain growth hormones. These hormones were used by the U.S. meat industry (and others) as they were considered harmless for final consumers. In this case, the WTO Panel ruled in favour of the U.S., deeming the EU’s import ban unsupported by scientific evidence.
- The “Bananas case”: concerned the European regime for imports of bananas, based on a complex tariff-quotas system considered discriminatory against the U.S. and South American producers, in favour of other countries, mainly former European colonies in Africa, the Caribbean or the Pacific islands. Also in this case, the WTO ruled in favour of the U.S. and the other countries that had denounced the discrimination introduced by European policies.
- The “Foreign Sales Corporation (FSC) case”: concerned certain tax exemptions granted in the U.S. to exporting companies, considered by the EU as a form of subsidy incompatible with WTO rules. In this case, the Panel sided with the EU, ruling that the FSC was in conflict with the relevant international treaties.
- The “Steel case”: concerned the tariffs (up to 30%) imposed by the U.S. on steel imports from most countries, including the European trade bloc, the world’s leading producer in the sector. The measures adopted by the U.S. were largely found to be incompatible with WTO rules, as argued not only by the EU, but also by China, Japan, Switzerland, Brazil and other members of the organisation.

In the “mini-trade wars” (Breuss 2007) such as those just described, we can identify moments of crisis in the relations between the European trade bloc and its North American partner. They show that the EU and the U.S. are two actors pursuing distinct and sometimes conflicting objectives, in an effort to protect specific sectors of their respective economies. Nevertheless, we can also observe how, each time, the disputes were resolved in order to ensure compliance with the rules established by the WTO, recognised by both parties as the highest authority in matters of trade disputes.

As already explained in the previous chapter with regard to the Boeing-Airbus

dispute (2005-2021), the WTO is also entrusted with the power to authorise the injured party to adopt retaliatory measures proportional to the damages caused by the offender: this is the case for all the disputes mentioned above, whose final resolution involved the imposition of retaliatory measures. The only exception is represented by the “Steel case”, which was resolved thanks to the withdrawal of tariffs by the Bush administration in 2003, before the entry into force of the European countervailing measures.

As explained by Breuss (2007), the most significant example of retaliatory measures was the “Foreign Sales Corporation case”, in which the EU was authorised in 2003 to impose sanctions amounting to more than $4 billion, equivalent to 2.5% of its imports from the U.S. However, the Union opted for a gradual and relatively slow application of the sanctions, which were implemented only to a limited extent before being permanently suspended in 2005, coinciding with the beginning of the U.S. regulatory adjustment process.

At the commercial level, the EU and the U.S. have often pursued conflicting objectives also in their relations with third markets. Sbragia (2010) employs the concept of “competitive interdependence” to characterise their relationship, meaning that each of the two seeks to promote its own economic interests through a combination of bilateral, regional and multilateral agreements. However, in doing so, each must also duly take into account the policies pursued by the other, both to maintain its own positioning in key markets that the other aims to access, and to secure privileged access to new markets before the other does.

In particular, the author focuses on the period between 1995 and 2009 to demonstrate how the EU, in an initial phase, promoted a process of “managed globalisation” through multilateralism – namely through the institutions of the newly created WTO – aimed at containing the most negative effects for society stemming from the opening of new markets to international trade. In doing so, however, it is argued that the EU lost ground relative to the U.S., which had abandoned multilateralism in favour of a policy of “competitive liberalisation”, that is, accelerated opening of new markets through bilateral or regional agreements, in particular Free Trade Agreements (FTAs). The first and most important of these FTAs is undoubtedly the North American Free Trade Agreement (NAFTA), which entered into force in 1994. According to Sbragia, this shift in U.S. trade strategy triggered a parallel reaction by the EU, which from 2006 onwards began negotiating FTAs both in Asia and in Latin America, illustrating the relationship of “competitive interdependence” linking the two transatlantic partners.

Although the EU and the U.S. have often clashed in the past on matters of trade policy, and although they have long been one another’s main

commercial competitors, by the beginning of the first Trump administration they were also each other's main trading partner, both in terms of goods and services exchanged and in terms of foreign investment.

Schneider-Petsinger (2019) explains that, despite China's rise in the global economic landscape, in 2017 the value of trade in goods and services (exports and imports) between the EU and the U.S. exceeded $1.1 trillion. Moreover, in 2016, American FDI in the EU reached $3.2 trillion, while European investment in the United States was estimated at $2.3 trillion. For these reasons, the transatlantic relationship constitutes the most important trade relationship in the world, for which the creation of a formal framework was attempted, starting in 2013, through the negotiations of the Transatlantic Trade and Investment Partnership (TTIP). Since late 2016, negotiations have been suspended due to profound divergences between European and American representatives on issues such as agriculture, public procurement, and sanitary and environmental standards.

The author highlights that in 2017 the U.S. recorded a deficit of $101.2 billion in its bilateral current account balance with the EU: the American goods trade deficit amounted to $152.6 billion (of which $64.1 billion with Germany alone), while the surplus in trade in services with the Union totalled $51.4 billion (with Germany and Italy, the U.S. registered a slight deficit also in trade in services). This bilateral trade deficit represented the second largest overall for the U.S., after the one with China ($335.7 billion).
The role played by the German economy in transatlantic trade relations is undoubtedly significant (as illustrated in the image below), to the point that the International Monetary Fund (IMF) in 2018 identified the German trade surplus – primarily due to the undervaluation of the euro relative to the dollar – as one of the main causes of trade tensions (Schneider-Petsinger 2019).

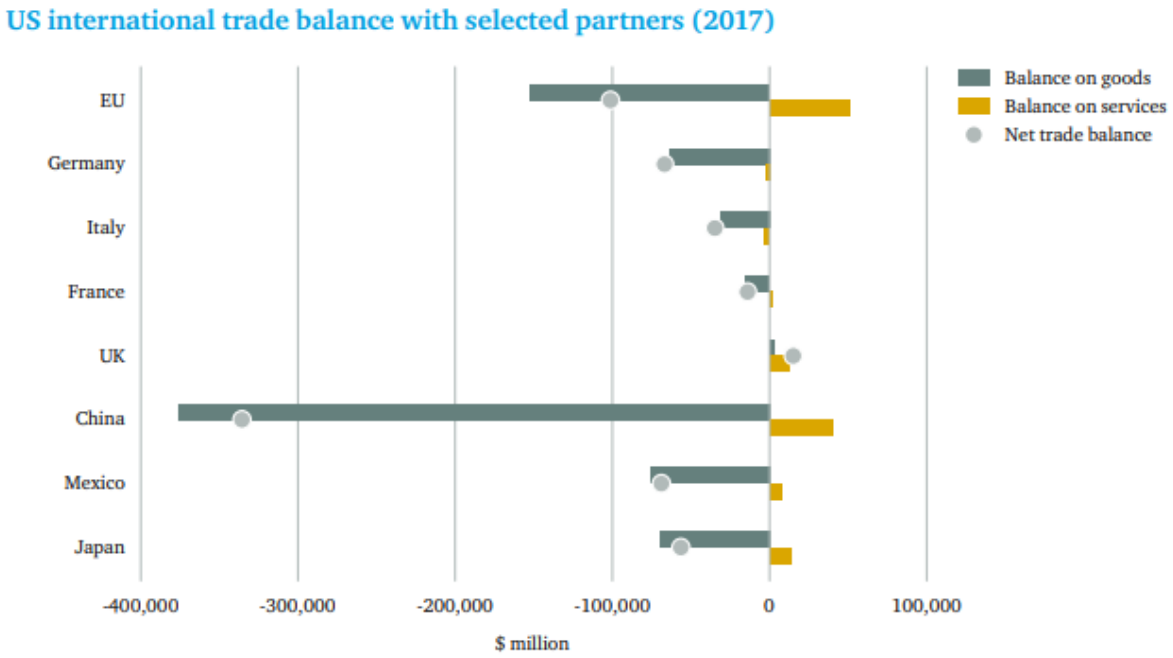

Image 9 – U.S. International trade balance with the EU and other selected partners in 2017 (Schneider-Petsinger 2019)

Despite these tensions, the author also notes that the U.S. views the EU as its main ally in countering China's trade practices and in promoting a comprehensive reform of global trade through the WTO. Since the two actors are China's main trading partners, their joint action could indeed exert pressure on Beijing to modify its commercial practices.

To conclude this section of the dissertation, intended to describe the economic and political context within which U.S. trade policies of the past decade are situated, we provide a number of snapshots of U.S. imports of goods in 2016, the year of Donald J. Trump's first election to the U.S. presidency.

We begin with an illustration of the main countries of origin of American imports. As shown in the chart made available by The Observatory of Economic Complexity (2025b), the largest supplier of goods to the U.S. was by far the People's Republic of China (21.4%), followed by the two NAFTA partners, namely Mexico (13.3%) and Canada (12.5%).

United States' Import Origins (2016)

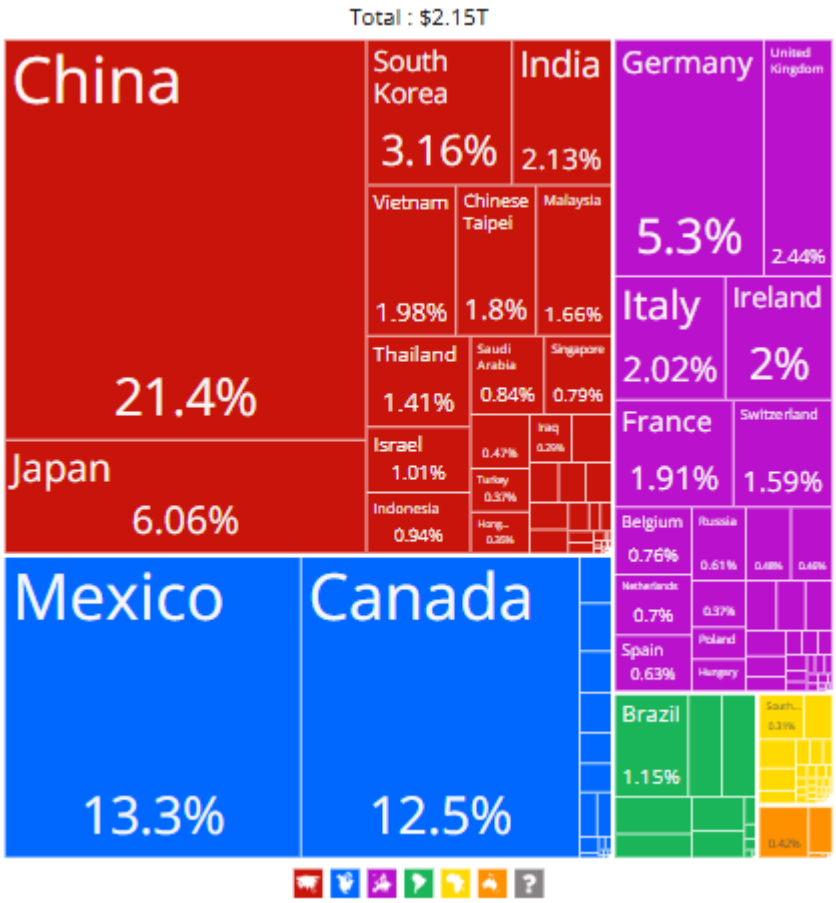

Image 10 – Countries of origin of U.S. imports in 2016 (The Observatory of Economic Complexity 2025b)

The data relating to European partners are disaggregated by country, but we can easily deduce the overall weight of the EU through a simple elaboration of the figures: as illustrated in the following chart, the value of U.S. imports of goods from the European continent amounted to $457 billion (21.3% of the $2.15 trillion total U.S. imports); slightly less than a quarter of these goods originated from non-EU European countries (the UK, Switzerland, Russia, Norway, Ukraine, Iceland, Serbia, Belarus, etc.), which together accounted for roughly 5% of total U.S. goods imports. Based on these data, therefore, we can state that the EU was the second largest supplier of goods to the U.S. in 2016, accounting for approximately 16.3% of total U.S. imports.

United States' Import Origins (2016) – Europe

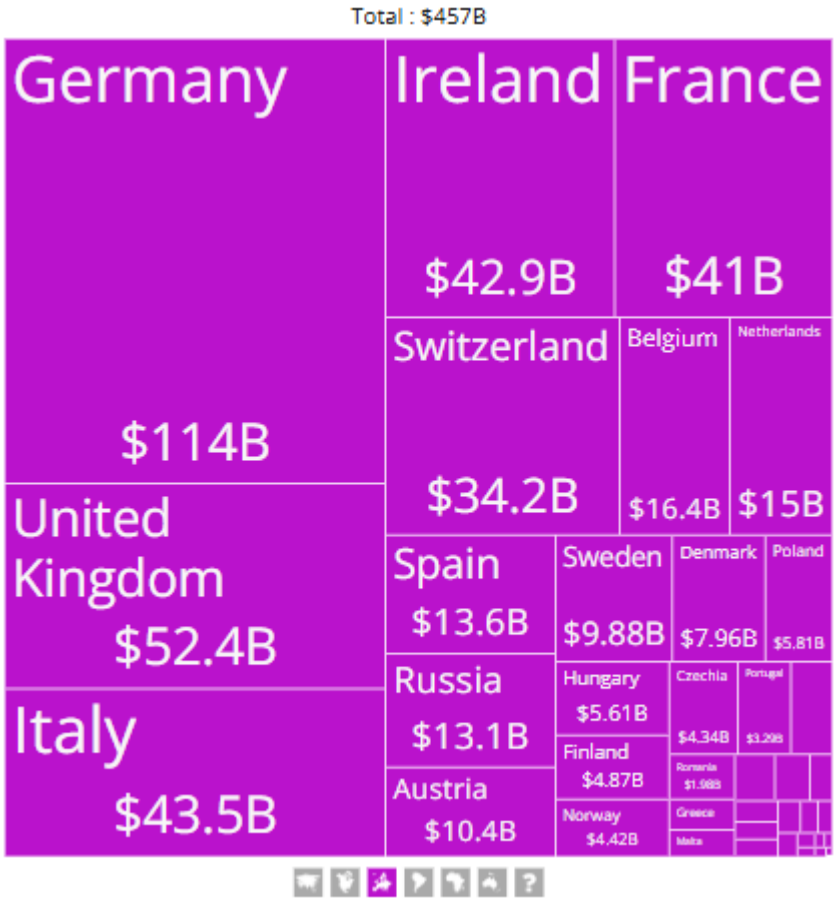

Image 11 – European countries of origin of U.S. imports in 2016 (The Observatory of Economic Complexity 2025b)

From the previous image we can also observe that four EU members were responsible, collectively, for more than 11.2% ($241.4 billion) of all U.S. imports, equivalent to approximately 69% of all EU exports to the U.S. These are Germany, Italy, Ireland and France, for which we report below the respective export mixes to the U.S. The data are provided at the HS2 level of aggregation[3].

[3] See note 2

United States' Imported products (2016)

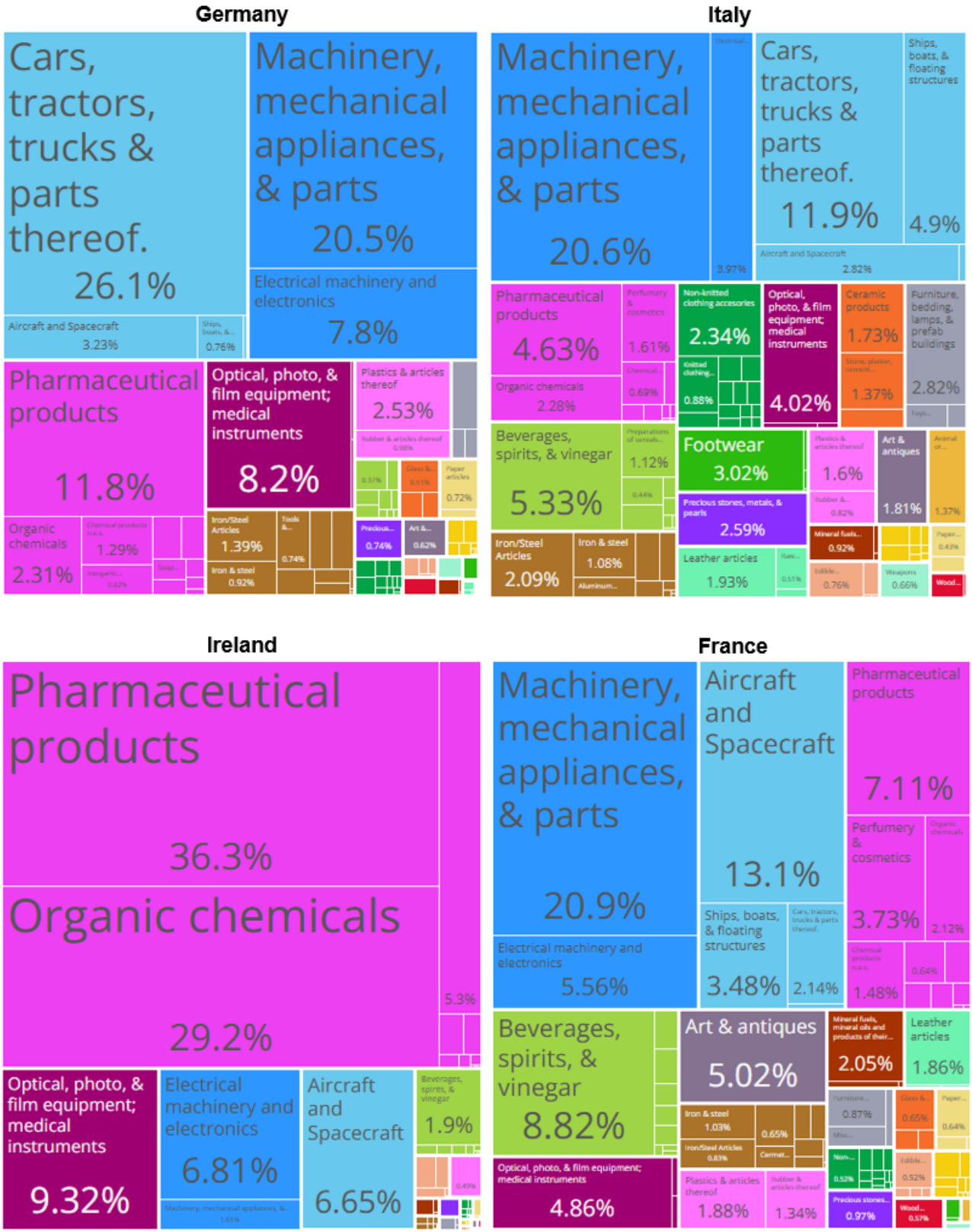

Image 12 – United States' imported products in 2016 – Germany, Italy, Ireland and France (The Observatory of Economic Complexity 2025b)

The four export mixes reported above are useful in illustrating the main product categories to which the majority of imported goods from within the EU belonged in 2016.

For Germany, the automotive sector (Cars, tractors, trucks & parts thereof) and mechanical engineering (Machinery, mechanical appliances & parts) were by far the most relevant, followed by pharmaceuticals and electronics. These four sectors accounted for roughly two-thirds of all German exports to the U.S.

The Italian export mix was generally more diversified, yet rather similar to the German one, with significant shares in mechanical engineering, automotive, pharmaceuticals, but also in beverages (Beverages, spirits & vinegar) and shipbuilding (Ships, boats & floating structures). French exports were likewise concentrated in the same sectors (mechanical engineering, beverages, pharmaceuticals, electronics) and also displayed a good degree of diversification.

In addition to these macro-sectors, which were relevant across all three economies mentioned above, each country stood out for significant shares of exports in specific sectors: scientific and medical instruments (Optical, photo & film equipment; medical instruments) for Germany; footwear (Footwear), furniture (Furniture, bedding, lamps & prefab buildings) and jewellery (Precious stones, metals & pearls) for Italy; perfumery and cosmetics (Perfumery & cosmetics), aerospace (Aircraft and spacecraft) and art (Art & antiques) for France.

The case of the Republic of Ireland was markedly different, as it exhibited export volumes to the U.S. comparable to those of Italy and France, despite having an economy of considerably smaller size. In fact, Irish exports to the U.S. were overwhelmingly concentrated in two sectors: pharmaceuticals and organic chemicals.

A useful insight into the causes of this phenomenon is provided by Polyak (2022), who explains that, since the 1980s, the Irish model of economic development has been largely based on attracting FDIs (mainly from the U.S.) and on export-led growth. In the author's words: "*A substantial share of Irish exports is made up by intermediate inputs, traded within the GVCs of US-owned multinationals, which often means an export transaction from Ireland to the US, the next country along the value chain.*"
Ireland has become the preferred destination of U.S. multinationals primarily thanks to the country's low corporate tax rates, enabling American companies – especially in "big pharma" – to implement strategies of aggressive tax optimisation through profit shifting. The same applies to the so-called American "big tech" companies, although their weight in the Irish economy

does not appear in the chart above, as they trade primarily in services rather than goods.

With this brief historical reconstruction, we have sought to describe how trade relations between the United States and the aggregation of European states formerly known as the European Economic Community and subsequently as the European Union have evolved from the end of the Second World War to the eve of the first Trump administration. As anticipated in the introduction to this chapter, in the following section we will proceed to systematically organise the episodes that marked the escalation of political tensions between the two transatlantic partners over the past decade.

3.2) The political consequences of the “America First” trade policy

This section of the dissertation aims to present, in chronological order, the main political consequences of the trade policy measures adopted by the White House towards the EU over the past ten years. Unlike what was done in Chapter 2, where these measures were described by focusing on the motivations invoked to justify them, the historical reconstruction presented in this chapter seeks to analyse their most significant political consequences. This analysis is functional for the presentation of the expected economic resulting from the most recent developments in transatlantic trade relations, which will be discussed in the subsequent section of this chapter.

Once again, our analysis begins with President Trump’s first term, marked by the introduction in March 2018 of tariffs on U.S. imports of steel (25%) and aluminum (10%). On that occasion, the EU’s response to the tariffs was threefold (Schneider-Petsinger 2019): first, it initiated dispute settlement proceedings within the WTO, as it had done in the past in response to the steel import tariffs imposed by President Bush (see previous section); second, it introduced retaliatory measures on U.S.-origin products worth around $3 billion (Bown and Russ 2021); finally, the European Commission launched a preventive investigation into the potential damage caused by the diversion of steel produced in third countries from the U.S. market to the European one.

The damage estimated by the Commission for European production of steel and aluminium amounted to €6.4 billion (European Commission 2018a). The U.S. goods targeted by the retaliatory measures included iconic products such as Harley-Davidson motorcycles and bourbon whiskey, whose U.S. states of origin coincided with those represented by some of the most influential Republican politicians in Congress (Schneider-Petsinger 2019).

The investigation launched by the Commission into the effects of trade diversion was motivated by the fact that, as explained in the theoretical chapter of this dissertation, the imposition of a tariff by a large country (such as the U.S.) prompts all major suppliers affected by the tariff to seek new outlets for their exports. Consequently, an excess supply emerges at the global level, leading to a reduction in the world price of that good.

To prevent this from occurring within the EU, in July 2018 the Commission provisionally imposed a Tariff Rate Quota (TRQ), with a 25% tariff on imports of steel exceeding the average quantities imported in the previous three years. The aim was to keep trade flows towards the EU open, while ensuring price stability for European steel producers (European Commission 2018b).

In January 2019, these provisional measures were converted into permanent ones, with some slight modifications (European Commission 2019a).

Also in July 2018, President Trump and the President of the European Commission, Claude Juncker, reached an understanding in which the two parties committed to resolving the dispute through bilateral negotiations (Schneider-Petsinger 2019). One year after the Joint Statement between the EU and the U.S., the negotiations had led to an increase in European imports of products such as LNG (liquefied natural gas) and soya beans; however, both the U.S. tariffs and the retaliatory measures adopted by the EU remained in force (European Commission 2019b). Indeed, the withdrawal of U.S. tariffs and of the EU retaliatory measures occurred only at the end of 2021, under the presidency of Joe Biden. In the same period, the EU requested the closure of the WTO dispute it had initiated (European Commission 2021).

It is noteworthy that the so-called safeguard measures, introduced to avoid a trade diversion effect from the U.S. market to the European one, remain in force today following several revisions over the years (European Commission 2025b). Likewise, as already noted in the previous chapter, the U.S. tariffs on steel and aluminium abolished by the Biden administration were replaced with a system of tariff-rate quotas (TRQs), which imposed a cap on the volume of European steel that could enter the U.S. with free-trade treatment (Bown and Russ 2021).

During President Trump's first term, the suspension of the activities of the WTO Appellate Body also occurred, caused by the U.S. blockage of the appointment of new judges. The main body of the WTO dispute settlement system – often involved in resolving trade disputes between the EU and the U.S. over the past thirty years (as described in the previous section) – ceased its operations in 2020. The blockage of judicial appointments was justified by U.S. representatives as a rejection of the Appellate Body's expansive interpretations of WTO rules. The Appellate Body was accused of "*ignor[ing] existing rules and writ[ing] new rules*", thereby attempting to replace member states in the organisation's internal legislative process (U.S. Mission to Internation Organizations in Geneva 2018).

The political consequences of the "America First" trade policy adopted by the White House during President Trump's first term (2016-2020) demonstrate that the protectionist strategies of a major trading actor such as the U.S. can substantially and permanently alter the environment in which they take place. The introduction, first temporary and then permanent, of European safeguard measures in the steel sector can be interpreted as a partial protectionist shift generated by the change in the U.S. trade policy posture. However, it can also be seen as the EU's response to the very same issue that had prompted

the U.S. to impose steel and aluminum tariffs – namely the "*massive global overcapacity in steel and aluminum*", the responsibility for which was attributed to third actors, China above all (U.S. Mission to Internation Organizations in Geneva 2018). It is no coincidence that, in the communication announcing the conversion of safeguard measures from provisional to permanent, the Commission emphasised that, at the moment the U.S. tariffs were imposed, European steel producers were *"still in a fragile position due to persistent overcapacity in the global steel market and an unparalleled number of unfair trade practices by certain trading partners*" (European Commission 2019a).

Several countries, in fact, were accused by both the U.S. and the EU of producing far more steel than their economies required, with the aim of competing with the heavy industries of Western countries. This claim appears to be corroborated by the chart below (The Observatory of Economic Complexity 2025a), which illustrates how in 2018 the U.S., Germany and Italy were among the major net importers of iron and steel products, while the largest Asian economies (China, Japan and South Korea) were the main net exporters, alongside some emerging economies such as Brazil, Russia and South Africa.

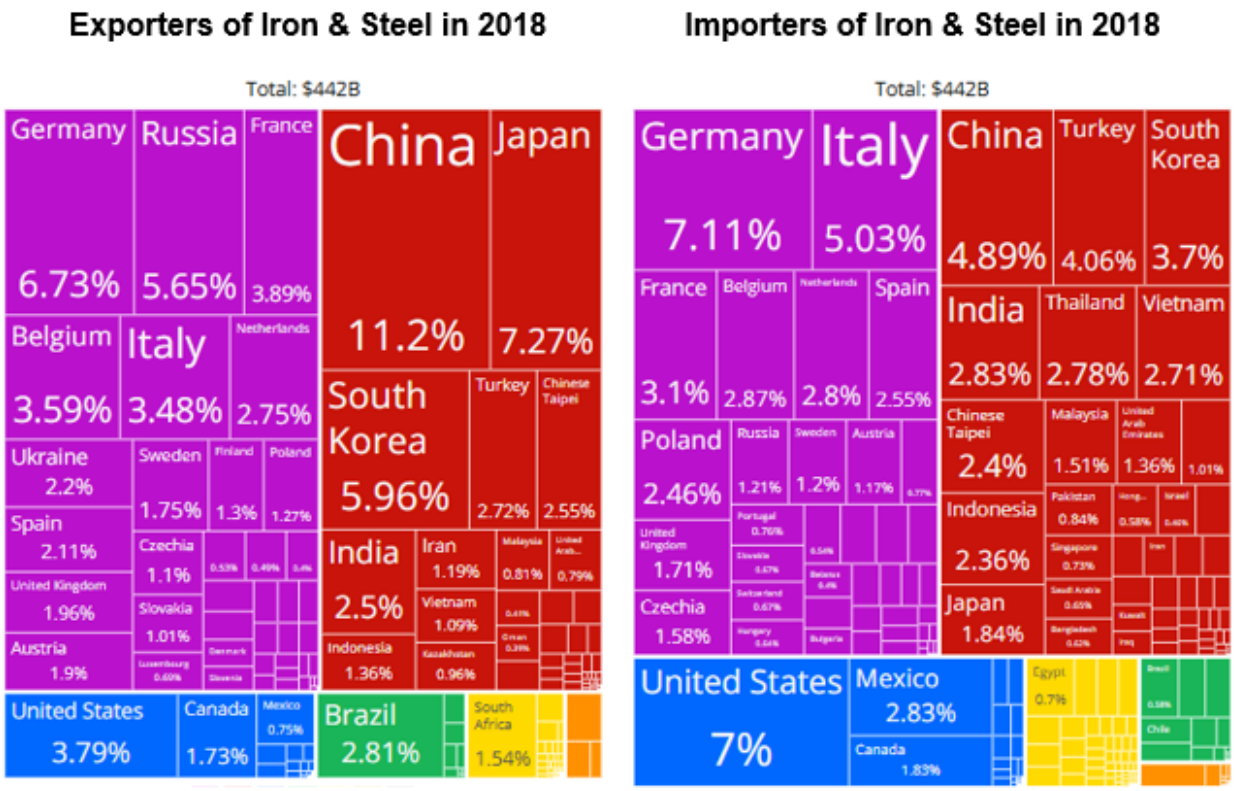

Image 13 – Exporters and importers of Iron & Steel products in 2018 (The Observatory of Economic Complexity 2025a)

With regard to the tariffs imposed by the EU and the U.S. between 2019 and 2020 following the respective WTO rulings in the context of the Boeing-Airbus dispute, it was precisely the willingness to present a common front against China's trade practices (implicitly included in the group of so-called "non-market actors") that facilitated the complete suspension of the dispute in 2021. In this respect, the agreement reached under the administration of President Biden followed a partial opening by the United States that had already emerged during the final months of President Trump's first term, voiced by U.S. Trade Representative Robert Lighthizer (Reuters 2021).

The U.S. decision to block the appointment of judges to the WTO Appellate Body, which has been maintained over the years despite political alternation between Republicans and Democrats in the White House, has contributed to delegitimising the organisation's role as guarantor of the proper functioning of the global trading order. More specifically, the "America First" trade policy has partially hindered the proper functioning of the organisation's dispute settlement system, as illustrated by the chart below (WTO 2025a). After the peak reached in 2018 in both initiated proceedings (preliminary consultations,

in blue) and established panels (first-instance proceedings, in red), WTO members have gradually made less use of the dispute settlement mechanism, despite a general increase in protectionist measures worldwide. The only indicator that has remained constant compared to previous decades is the number of disputes referred to the Appellate Body (second-instance proceedings, in green). However, these disputes will not be resolved within the WTO system until new judges are appointed.

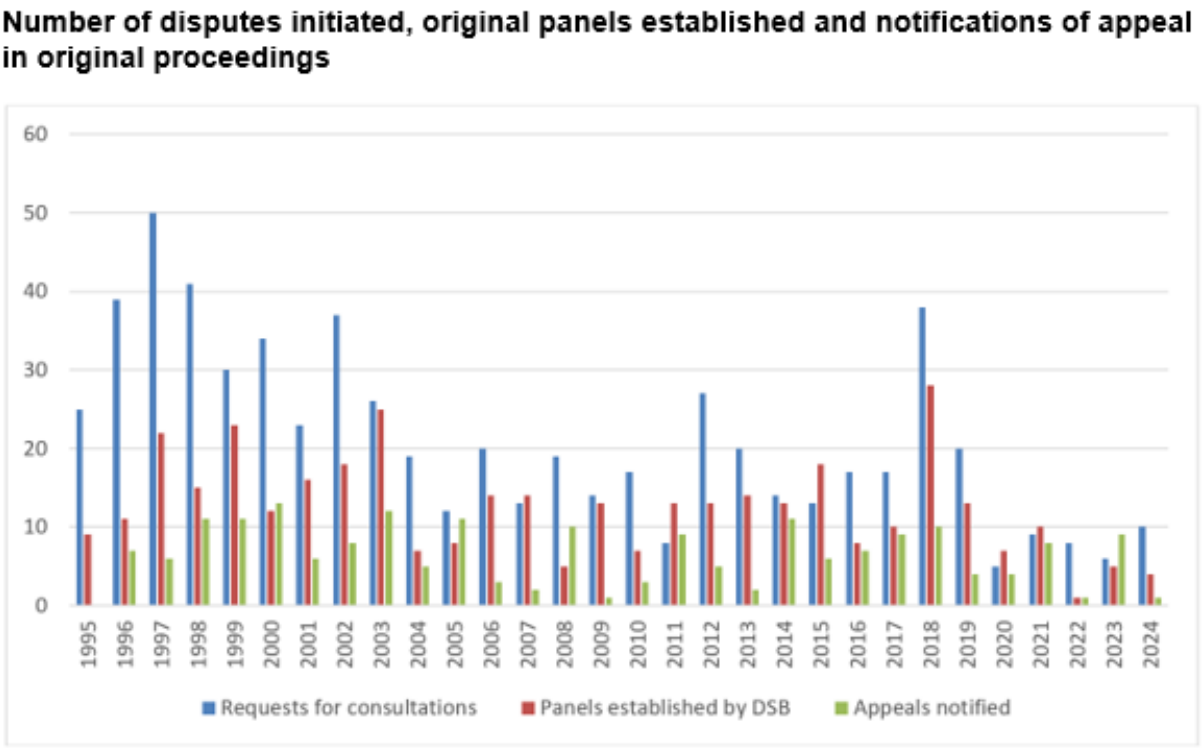

Image 14 – Number of disputes initiated, original panels established and notification of appeal in original proceedings (WTO 2025a)

Turning to President Trump's second term, it is first necessary to clarify the chronological order of the main events that have shaped transatlantic relations since the beginning of 2025 (European Commission 2025c; Majumdar 2025; Jones and O'Carrol 2025; Doherty and Kiderlin 2025):

- February 10: the U.S. announces a 25% tariff on all imports of steel, aluminium, and derivative products, thereby reinstating and partially increasing the tariffs imposed during President Trump's first administration.

- March 12: the 25% tariffs on steel and aluminium come into effect; the EU announces new countermeasures, similarly to what occurred in 2018.
- April 2: on the so-called “Liberation Day”, President Trump announces a 10% baseline tariff on imports from almost all countries, including the EU, along with a specific “reciprocal” higher rate for dozens of countries with significant trade deficits with the U.S.; the “reciprocal” tariff for the EU is set at 20%.
- April 5: the 10% baseline tariff enters into force.
- April 9: the 20% “reciprocal” tariff is implemented but immediately suspended for 90 days. The suspension aims at creating a first deadline for an agreement between American and European negotiators. The other tariffs (the baseline rate and those on steel and aluminium) remain in force.
- April 10: the EU temporarily suspends the retaliatory measures it had announced in response to U.S. tariffs on steel and aluminium.
- May 23: frustrated by the limited progress of negotiations with the EU, President Trump announces that the “reciprocal” tariff will be raised to 50% and scheduled to take effect on 1 June, one month earlier than originally planned.
- May 26: the implementation of the 50% tariff is postponed from 1 June to 9 July, restoring the previously announced 90-day suspension period.
- June 3: tariffs on steel and aluminium imports are increased from 25% to 50% for all countries (except the UK), including EU member states.
- July 9: the entry into force of the “reciprocal” tariff is further postponed to 1 August.
- July 13: President Trump announces that the “reciprocal” tariff on the EU will be set at 30%.
- July 27: the EU and U.S. reach a political understanding on the overall maximum level of tariffs on U.S. imports, set at 15% where the MFN-based rate is lower. The agreement also defines exempt product categories (such as generic pharmaceuticals, cork, aircraft components) and includes specific European commitments to invest in strategic sectors (AI, defence, and energy sources).

The implementation of the agreement between the European Commission and the White House took place over the following months. At the time of

writing (December 2025), the maximum tariff cap has not yet been extended to the steel and aluminium sectors, for which the tariff rate remains at 50% (Corlin 2025).

In essence, EU-U.S. trade relations in 2025 have been shaped by two main parallel trade disputes. The first, concerning steel and aluminium imports, can be seen as a continuation of the dispute initiated during Trump's first term and suspended under the Biden administration. The second, launched during the "Liberation Day" measures in early April, represents a novel development compared to previous episodes.

As of December 2025, the steel and aluminium dispute remains unresolved, although both sides have made a political commitment to address it in the near future. European countermeasures designed to respond to U.S. tariffs have never been implemented. To date, the European steel and aluminium sectors continue to bear the effects of U.S. protectionism. This situation largely results from the overlap of the first dispute with the second, which is far more significant in terms of trade volumes and the number of sectors affected by U.S. tariffs.

The economic consequences of the agreement will be analysed in the following chapter. From a political point of view, however, the agreement represents a clear victory for the White House, as it legitimised the U.S. intention to renegotiate the terms of its trade partnerships through bilateral agreements. From the chronology of events outlined above, it is evident that the tariffs threatened and imposed by the Trump administration were only marginally related to the U.S. national security concerns invoked by the President (see previous chapter) and were enforced in open violation of GATT/WTO rules, functioning purely as negotiating tools.

In other words, the first consequence of the EU-U.S. trade disputes in 2025 is the further delegitimization of multilateralism, and the WTO in particular, in international trade. This is also reflected in the fact that, unlike in 2018, the EU did not initiate a formal WTO dispute against the U.S., fully aware that the paralysis of the Appellate Body would render any attempt at resolution in that forum ineffective.

3.3) The short-term economic effects of U.S. tariffs on the EU

Having clarified the main political consequences of the “America First” policy in the field of international trade, we now move on to identify and examine the economic effects that resulted from the imposition of tariffs by the U.S. on the EU in 2025. Given the limited amount of time that has elapsed since the introduction of the tariffs, these can be considered short-term economic effects. In the next chapter we will move on to study the possible long-term political and economic consequences of this U.S. protectionist stance.

In the first part of the theoretical chapter of this work, we explained how the imposition of tariffs on a specific category of goods is typically associated with the following economic effects:

1. An increase in the price of the good within the country imposing the tariff, which leads to a reduction in imports and, as a consequence, in consumer surplus in that market. This occurs to the advantage of domestic producers – who can now sell their goods at a higher price – and of the government, collecting revenue through taxation.
2. A decrease in the global price of the good across other national markets, caused by global overproduction. This effect is only observed if the country imposing the tariff is large enough to influence global demand. In such a case, foreign producers experience a loss in surplus, which essentially benefits consumers in all countries, except for the country imposing the tariff.

Given that the U.S. is one of the largest consumer markets in the world, both economic effects were expected to unfold after the introduction of the tariffs. In the following pages, we will assess the extent to which these theoretical outcomes are observable in the current global context and evaluate their potential consequences for the EU economy.

We start by reporting some key insights drawn from the October 2025 edition of the Global Trade Outlook and Statistics published by the World Trade Organization (WTO 2025c).

According to data provided in the document, the volume of world merchandise trade did not decline during the first half of 2025. On the contrary, it recorded a sharp year-on-year increase both in the first (+5.5%) and second (+4.3%) quarter. In the first half of the year, merchandise exports experienced a year-on-year growth in most of the macro-regions into which

the WTO divides the world, namely Asia (+10.4%), North America (+3.0%), South and Central America and the Caribbean (+7.4%), Africa (+6.3%) and the Middle East (+3.7%). One notable exception is Europe, whose exports remained broadly stable, with a slight decrease compared to 2024 levels (-0.3%). During the first half of 2025, the increase in the volume of world merchandise trade was led mainly by importers in South America (+14.7%), Africa (+13.7%) and North America (+9.4%).

These figures contradict the forecasts made in previous editions of the report (April 2025) and are attributed mainly to a phenomenon known as frontloading – that is, the anticipation of purchases by firms and households in view of the expected rise in tariffs. This argument is corroborated by the chart below, where we can observe that imports by North American countries spiked in the first quarter of 2025 and decreased sharply (-13.9%) in the second one.

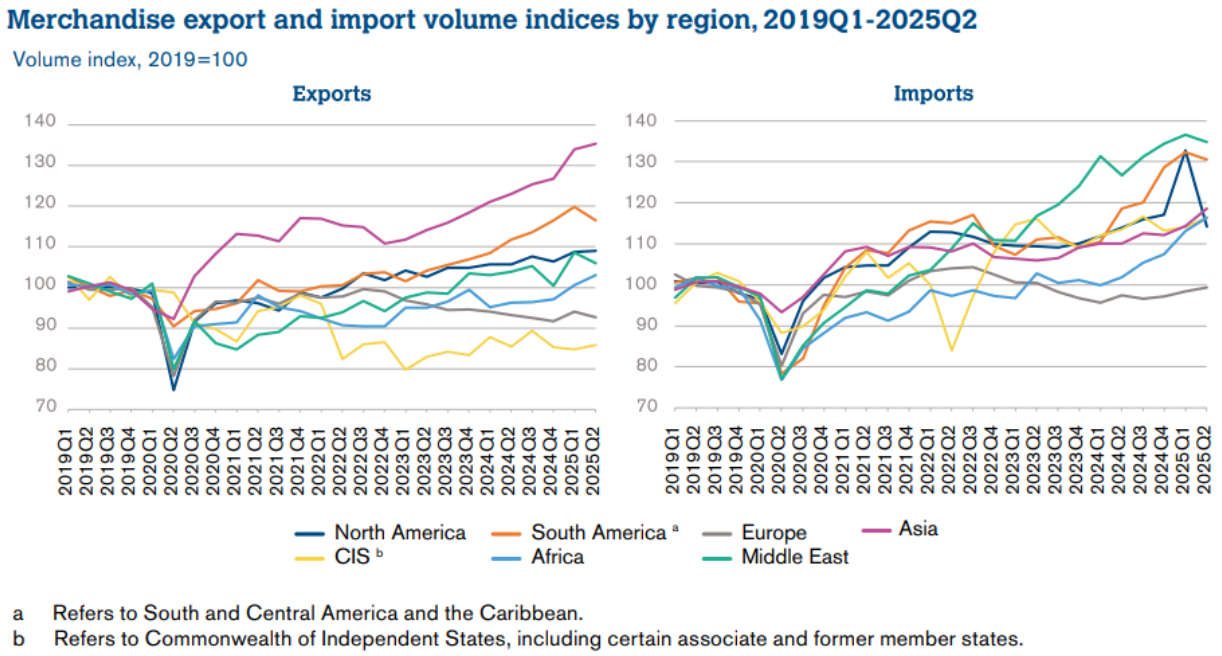

Image 15 – Merchandise export and import volume indices by region (WTO 2025c)

This phenomenon reflected a preventive stockpiling by companies, aimed at safeguarding supply chains from the disruptive effects of tariffs, at least during the initial implementation phase. Supporting this interpretation, an increase was recorded in the inventory-to-sales ratios of North American

companies operating in several sectors, including machinery, automotive, construction, precious metals, electronics, and pharmaceuticals. According to the report, the EU also experienced a rise in imports from North America in March (before the entry into force of the “Liberation Day” tariffs), with firms attempting to safeguard their supply chains by increasing their inventories, particularly in the pharmaceutical sector.

Additional macroeconomic factors appear to have contributed to the relative stability of global demand for goods until the third quarter of 2025, such as a decline in inflation, expansionary fiscal policies, and robust labor markets.

However, a downturn in global demand is expected in the second half of the year and, more significantly, in 2026. In the report, it is claimed that *“[s]everal indicators, including prices of inputs in production and slower trade shipments, suggest that inflation could pick up in the second half of 2025 as inventories are drawn down in economies and sectors where tariffs have been increased and supply chain exposure is high. The initial reaction to tariffs was a period of price absorption and reduced profits by firms. Typically, economic models predict a “pass-through” of tariffs to final goods prices*” (WTO 2025c).

According to the most recent forecasts, the increase in the global volume of trade is projected to gradually decelerate from +2.8% in 2024, to +2.4% in 2025, and down to just +0.5% in 2026. For the purpose of our analysis, we focus on the export figures for the European macro-region (a proxy of the EU), which are expected to grow by +0.7% in 2025 and +2.0% in 2026 – both figures revised downward compared to the April edition of the report (respectively +1.0% and +2.5%). On the other hand, imports by the North American macro-region (a proxy of U.S. imports) are projected to decline by -4.9% in 2025 and by -5.8% in 2026. In this case, forecasts were revised by the WTO to account for the delay caused by the temporary suspension of tariffs and the massive frontloading by U.S. firms. Indeed, in the April edition of the report North American imports were expected to fall by -9.6% in 2025 and by -0.8% in 2026.

According to the “PMI New Export Orders” index published by S&P – which tracks the evolution of foreign demand for goods across 44 countries, based on monthly surveys completed by selected companies’ purchasing managers – global exports appear to be shrinking. For this index, values below 50 indicate trade contraction, while those above 50 signal trade expansion. The

global new export orders of merchandise goods stood at 48.7 in August, a deterioration from the value of 49.4 observed in January. In fact, over the same period, the index worsened in many major manufacturing economies, including Canada, Mexico, the U.S., the UK, India, China, Japan, and South Korea. One major exception is Italy, for which the value recorded in August was 49.2: although this figure still signals trade contraction, it shows a notable improvement from the value 42.5 recorded in January.

The main insight that we can get from the WTO report is that the current global scenario is marked by a high degree of uncertainty. For this reason, in many cases, the April 2025 edition of the Global Trade Outlook differs significantly from the most recent one discussed above (October 2025). In this context, even the economic effects of tariffs studied in the literature and outlined in the theoretical chapter cannot be taken for granted.

Concerning inflation and decreased imports in the U.S. – the first of the effects described in the theoretical chapter and recalled above – the report mentions the possibility that, once the stockpiles accumulated by North American companies in recent months are depleted, prices may begin to rise not only in the U.S. but also globally. This would especially apply to sectors whose supply chains are particularly exposed to U.S. tariffs or countries whose economies are heavily dependent on U.S. value chains. However, up to October, this has not occurred, mainly because importing firms frontloaded their purchases and exporting companies have partially absorbed the added costs by reducing their profit margins, in an effort to preserve their relationships with foreign clients. Similarly, the decline in U.S. imports of goods – including those of European origin – has so far been mitigated by frontloading and by the strategies adopted by exporting firms, but it is expected to materialize in the coming months.

If we focus on the economic effects of tariffs on the European economies, we can refer to the Regional Economic Outlook for Europe published in October 2025 by the International Monetary Fund (IMF 2025).

Following the political developments that marked transatlantic trade relations between February and August 2025, described in the previous sections of this work, the estimated weighted average effective U.S. tariff rate on EU goods stands at 16.3%, representing an increase of fifteen percentage points compared to the level recorded in 2024 (see figure below). According to IMF projections, the adverse trade policy stance and the uncertainty it has generated are expected to dampen European economic growth by

approximately 0.5 percentage points over the 2026–27 biennium.

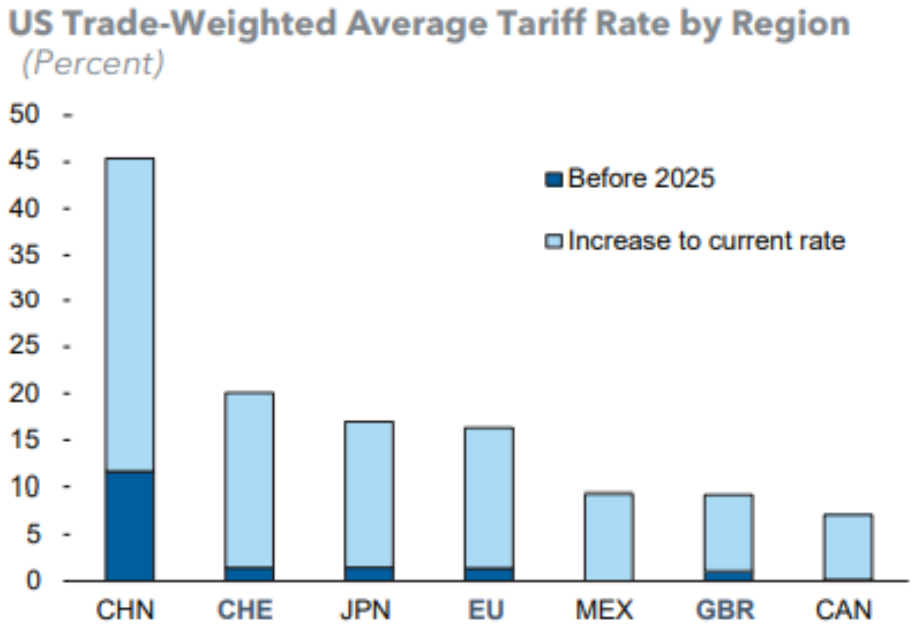

Image 16 – U.S. trade-weighted average tariff rate by region (IMF 2025)

Regarding the evolution of European financial markets in 2025, the Outlook reports that *"[f]irms with higher trade exposure to the United States and those with higher sensitivity to uncertainty have experienced significantly larger stock price declines since April 2."* In the following image, we can observe the shock generated in financial markets by the main events described in the previous section. The initial tensions related to steel and aluminium exports (February-March) were followed by the so-called "Liberation Day" (first dashed line), which marked a sharp decline in stock values for both firms with high U.S. trade exposure (blue line) and – to a lesser extent – those with low U.S. trade exposure (light blue line). After the "Pause Day" (April 9, second dashed line), a slow but progressive recovery was observed until the "Deal Day" (July 27, third dashed line), when returns reverted to their pre-shock levels.

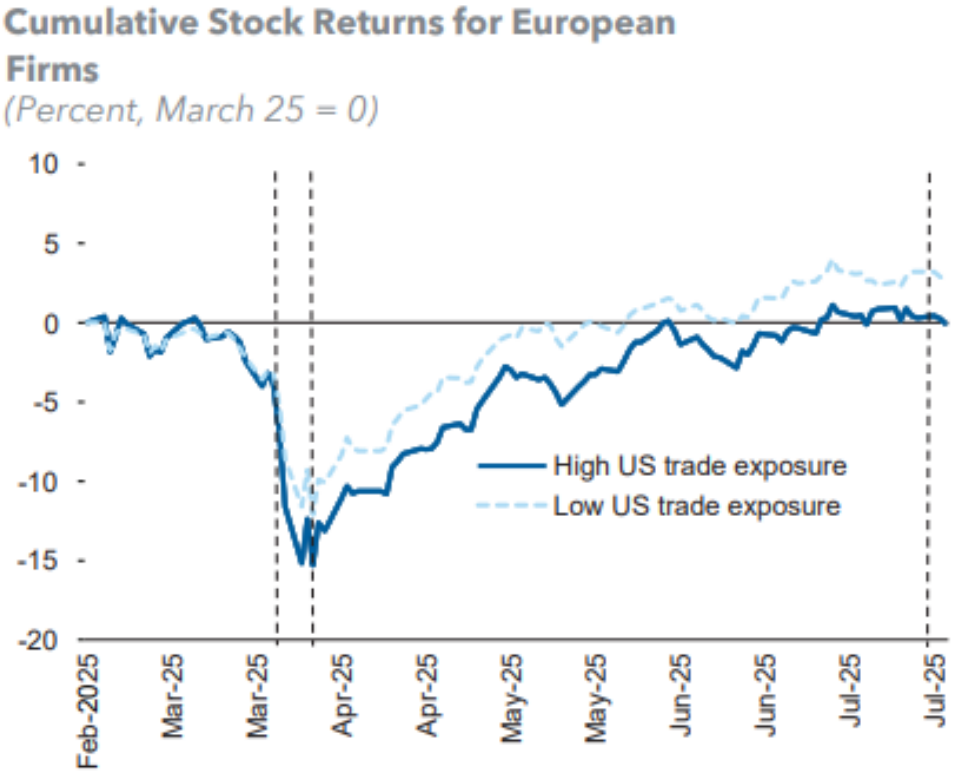

Image 17 – Cumulative stock returns for European firms (IMF 2025)

Another relevant economic phenomenon observed in the euro area in 2025 can be partly interpreted as an indirect consequence of the protectionist policies announced and implemented by President Trump: the European currency appreciated by 7.1% from March 2025 (the onset of trade tensions between the U.S. and the EU). As shown in the figure below, over the same period the U.S. dollar and the Chinese yuan weakened. According to the report, this development appears to stem from the high level of uncertainty generated by the policies adopted by the White House, which strengthened the euro's "safe haven" status relative to the dollar. The appreciation of the European currency makes EU exports less competitive and imports more affordable, as already discussed in the second chapter with reference to U.S. trade policy in the second part of the last century.

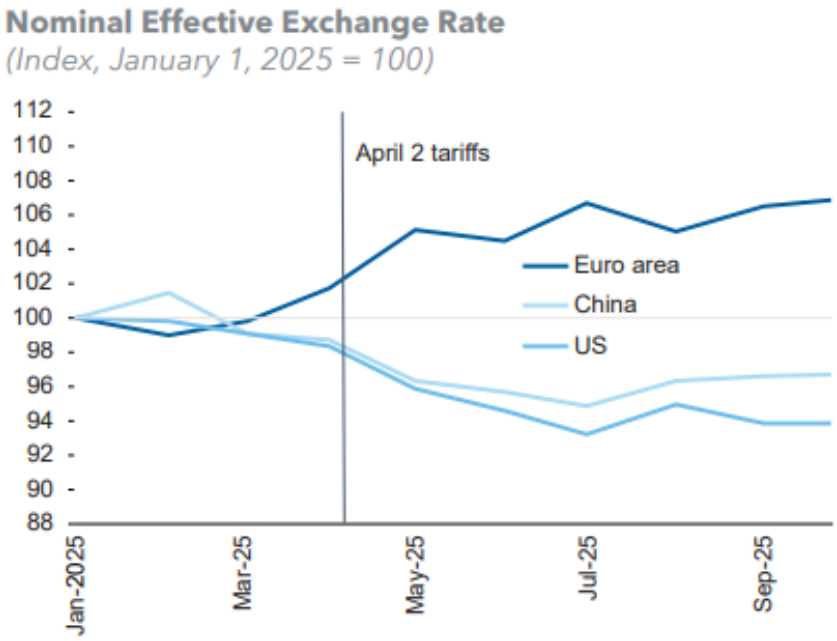

Image 18 – Nominal effective exchange rate in the Euro area, China and the U.S. (IMF 2025)

Moreover, the strengthening of the European currency is expected to contribute to a temporary decline in inflation in the euro area, bringing it slightly below the 2% target in 2026. The report also highlights the risk of a further reduction in inflation resulting from the diversion of Chinese exports away from the United States and towards Europe.

This latter dynamic would be consistent with the second economic effect described in the theoretical chapter and recalled at the beginning of this section. Indeed, goods produced in China and in other major manufacturing economies currently serving the U.S. market could be redirected towards the EU, generating excess supply and exerting downward pressure on prices, potentially pushing inflation well below the 2% target. However, as shown in the following figure, this phenomenon did not materialize in the months following the introduction of tariffs by the White House, either for the euro area (EA, light blue) or for the EU as a whole (blue): neither China’s export growth rates nor China’s share of EU imports exhibited significant changes in the months up to July 2025.

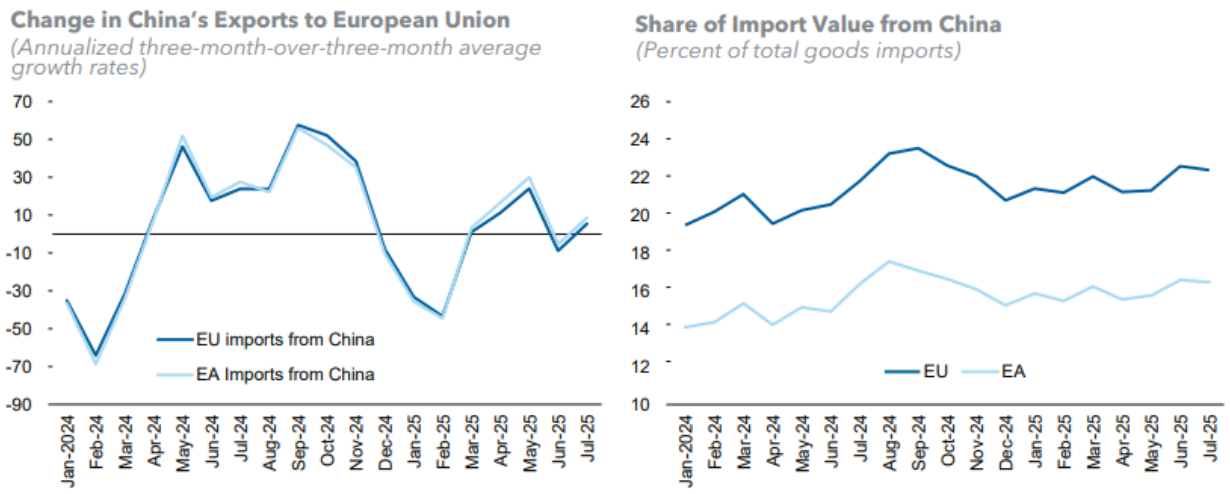

Image 19 – China's exports to the EU – Growth rates and share of total good imports (IMF 2025)

Overall, the evidence discussed in this section suggests that the economic effects of U.S. tariffs on the EU observed during 2025 have so far been partial and uneven, reflecting both the short period of time since their introduction and the presence of adjustment mechanisms.

On the one hand, the theoretical effects outlined in the first chapter – namely higher domestic prices and reduced imports in the tariff-imposing country, alongside downward pressure on global prices – have not fully materialized in the short run. The extensive use of frontloading strategies by firms, preventive stockpiling, and temporary price absorption by exporters have mitigated the immediate impact of tariffs on trade volumes, inflation, and supply chains.

On the other hand, several indirect and anticipatory effects are already observable. These include heightened uncertainty in the global trading system, significant stock market volatility for European firms with high exposure to the U.S. market, and a marked appreciation of the euro, which has implications for the competitiveness of EU exports and the inflation outlook in the euro area. At the same time, concerns regarding trade diversion – particularly from China towards the EU – remain possible at this stage, but no substantial changes in import growth or market shares have been detected in the months following the introduction of tariffs.

Taken together, these findings point to a global economic environment characterized by delayed adjustment and considerable uncertainty, in which

the short-term effects of protectionist measures are partly concealed by firms' strategic responses. In the following chapter, we will move beyond the immediate developments of 2025 and seek to outline possible future scenarios, assessing the potential medium- and long-term economic consequences of U.S. tariffs for the European Union.

Chapter 4: The long-term effects of U.S. tariffs on the EU

After having described the political and economic effects of the tariffs imposed by the White House on European exports in 2025, we now turn to the possible scenarios that may emerge for the future of the transatlantic trade relationship.

To this end, we resume our analysis of the already mentioned Regional Economic Outlook drafted in October 2025 for the European continent by the International Monetary Fund (IMF 2025), focusing on the medium- and long-term economic prospects for Europe, and for the EU in particular.

As explained in the previous chapter, in 2026 the economic effects predicted by the tariff literature are expected to materialise. In particular, the IMF forecasts an adverse shock to the demand for European goods, which will reduce euro area GDP growth by -0.2%. The negative impact increases by a further -0.1% when the adjustment following the massive frontloading of purchases by U.S. importing firms is also taken into account. Although modest in absolute terms, the negative impact of tariffs contributes to slowing the development of European economies, whose estimated growth rates are already particularly low. For the group of advanced European economies, these are estimated by the IMF at +1.3% in 2026 and +1.5% in 2027.

In the section of the report specifically devoted to possible future trade policy scenarios for Europe, two main development paths to address the damage caused by the deterioration of transatlantic trade relations are identified for the EU:

- Deepening the European Union's single market further.
- Intensifying trade with other partners.

Indeed, according to a recent analysis reported by the IMF, "*lowering implicit intra-EU barriers to trade (that is, tariff equivalents of the remaining obstacles to the free movement of goods within the European Union) by about 1¼ percentage points or lowering external trade barriers to the rest of the world by 3½ points could offset the effects of tariffs on EU exports introduced by the United States.*" The figure below illustrates the other possible combinations of percentage reductions in intra-EU or extra-EU trade barriers that would allow the EU to achieve the same outcome.

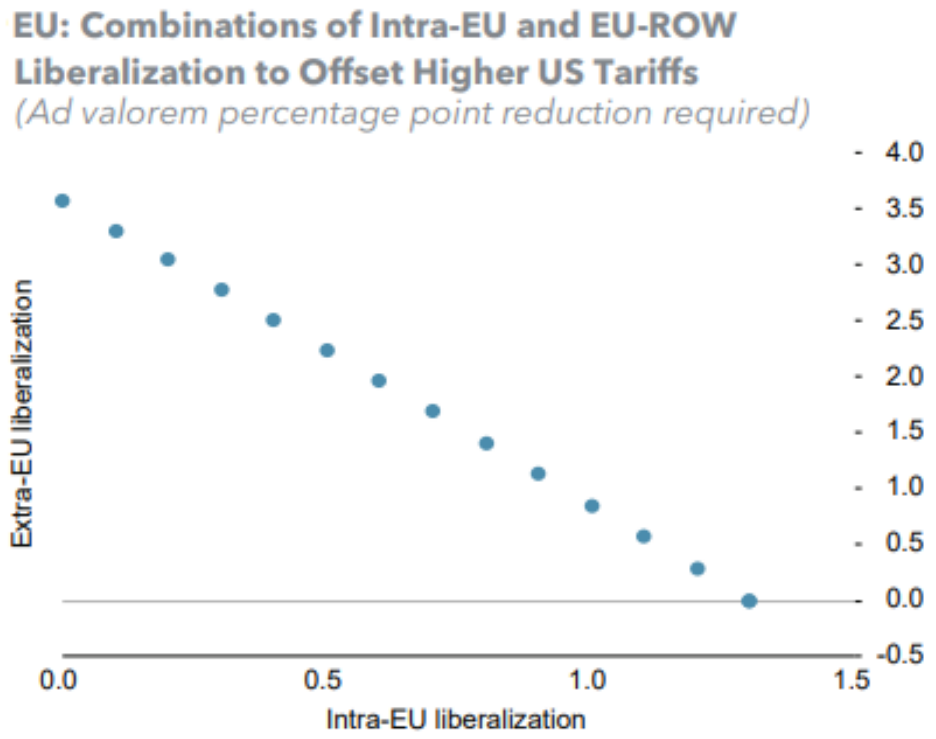

Image 20 – Combinations of intra-EU tariff equivalent reduction and tariff reduction with the rest of the world (ROW) allowing the EU to offset the impact of U.S. tariffs (IMF 2025)

According to the Outlook, in 2020 intra-EU trade barriers in the manufacturing sectors represented an obstacle comparable to an average estimated tariff of 44%. A reduction of 1.25 percentage points in this tariff equivalent is thus considered an achievable target.

With regard to the EU's trade relations with other countries and trade blocs, the report identifies several partners that could partially offset the decline in U.S. import demand: Mercosur, Switzerland, the United Kingdom, the United Arab Emirates and other Gulf Cooperation Council countries, as well as ASEAN member states.

It should be noted that the figures reported above concerning the effects of intra- or extra-EU trade liberalisation result from an aggregate synthesis of the values recorded for individual EU member states. Consequently, they do not reflect the degree of openness required for the most exposed economies, such as Germany or Italy, to achieve adequate compensation. Country-level disaggregated data are presented in the figure below. The value for the Republic of Ireland (not shown in the figure) exceeds five percentage points for the reduction of intra-EU tariff equivalents and ten percentage points for the reduction of tariffs vis-à-vis the rest of the world.

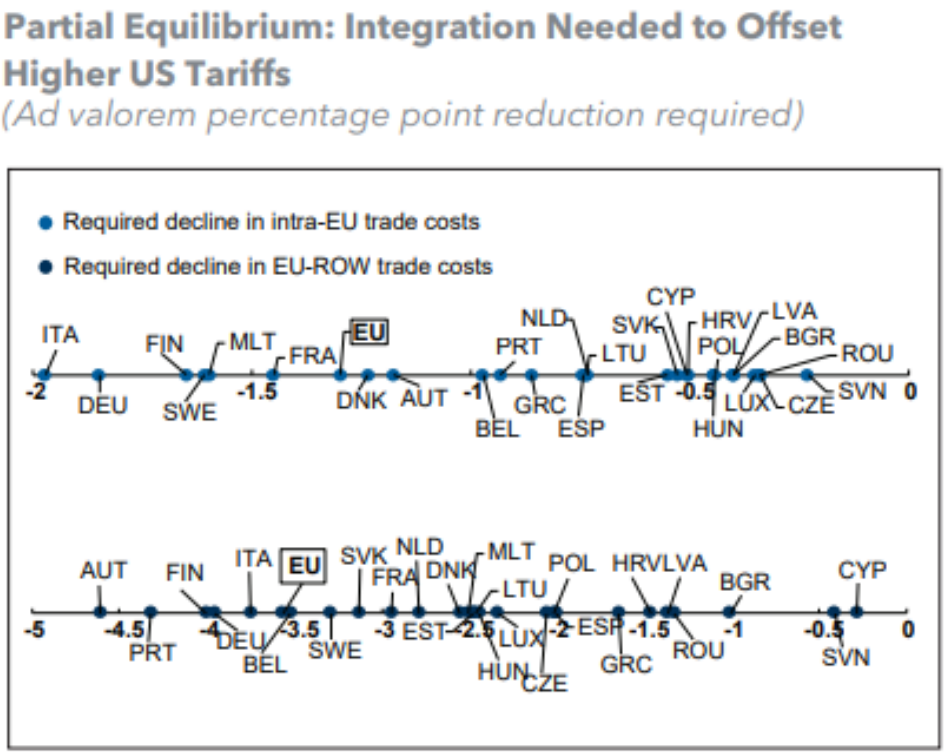

Image 21 - Intra-EU tariff equivalent reduction and tariff reduction with the rest of the world (ROW) allowing each EU member to offset U.S. tariffs (IMF 2025)

With regard to the Italian case specifically, recent studies (Bottoni et al., 2025) suggest that the shock introduced by U.S. tariffs will have a significant impact on the turnover expectations of firms operating in the U.S. market, particularly those with a low level of diversification in their export destinations. Nineteen percent of all Italian firms anticipate a substantial negative impact of tariffs on their turnover. This percentage rises to 36% when considering only firms that currently export to the U.S. Furthermore, Benecchi et al. (2025) suggest that 3.2% of total revenues generated by the Italian economy are exposed – either directly (1.4%) or indirectly (1.8%), through domestic supply chain linkages – to shocks in the U.S. market. However, this exposure appears to be uneven at the sub-national level as well, varying across firms of different sizes, across economic sectors, and across regions.

The first of the two issues raised by the Outlook – namely the reduction of intra-EU trade barriers – is addressed in another recent IMF internal study, which identifies four main areas of intervention to improve the efficiency of the European single market (Arnold et al. 2025). The authors focus on reforms that would enable the "*cross-border scale-up of firms*" and thus an increase in productivity within the EU. The free movement of goods across European borders is a prerequisite for this desired development. We can therefore briefly mention these reforms as a possible European response to the

protectionist stance adopted by the U.S., even though they are more closely related to EU internal policy than to its trade policy. The four areas of intervention identified are:

- Fragmented regulation regarding standards and consumer protection rules, increasing firms' compliance costs.
- Inefficient financial intermediation and a fragmented financial market, imposing barriers on productive firms seeking to scale up and expand across borders.
- Insufficient labour mobility due to language barriers, differing professional qualification requirements, and a lack of coordination in social security and pension rights.
- A fragmented energy system, with high and volatile energy prices deterring cross-border investment.

The second option presented by the Outlook – namely the development of alternative trade partnerships by the EU – would be far more consequential for the future evolution of transatlantic political and economic relations than a restructuring of the EU's internal single market. New or renewed trade partnerships could imply, in the long run, a geopolitical distancing of the EU from the American sphere of influence, likely in the direction of greater autonomy for the European bloc.

As already discussed, the EU and the U.S. share the most important trade relationship in the world, with a volume of trade in goods and services that reached €1.6 trillion in 2023 (European Commission 2025d). Transatlantic trade interdependence reflects an economic-military system created in the context of the Cold War and developed over decades to ensure a balance between U.S. hegemony in the West and the economic development of European countries. The imposition of tariffs by the United States signals the hegemonic power's willingness to overturn this balance and to establish a new one that more clearly favours its own interests. This issue was already addressed in the second chapter of this thesis, where Richard Baldwin's "Grievance Doctrine" was presented as one of the main explanations for the U.S. protectionist turn of the past decade.

In its relations with third partners, the EU responded to the shift introduced by President Trump during his first term with a change in strategic paradigm, announcing as early as 2021 – through its main decision-making bodies – its intention to pursue an *open strategic autonomy* (OSA) in its external action (Steinberg 2024). Although the adoption of this paradigm was motivated by a broader set of geopolitical challenges, including China's rise as a global

power, the progressive deterioration of transatlantic trade relations can certainly be included among its main drivers, at least with regard to the economic dimension of its application.

According to the most recent literature (Martins et al. 2025), the concept of OSA emerged as an evolution of an earlier notion – strategic autonomy – developed at the end of the last century to define the need for European countries to avoid over-dependence on the U.S. Over the past decade, strategic autonomy has become a prominent guiding principle of EU external action, while being enriched by an important nuance: the concept of *openness*. This reflects the EU's intention to continue presenting itself as an actor committed to multilateralism and to the respect for distinctive values such as the promotion of an economic model based on embedded liberalism, the protection of human rights, and the full transparency of its decision-making processes. Another concept adopted by the EU from the mid-2010s onwards is that of *principled pragmatism*, namely the idea that the Union should orient its choices according to the challenges and opportunities presented by the world "as it is", while striving to remain faithful to its founding principles (Martins et al. 2025).

OSA is a concept that encompasses both the Union's military defence needs and the economic aspects of European external action. With regard to the economic domain, which is the focus of this thesis, the tariffs imposed by the U.S. in 2025 can be expected to contribute to a further consolidation of OSA as a European strategic paradigm in the long run. Among the core principles of OSA is the need for the EU to diversify its trade partnerships in order to promote strategic de-risking and to avoid further weaponisations of its economic interdependencies (Steinberg 2024).

The main implication of OSA in the trade sphere is the EU's new preference for bilateral, interregional, or mini-lateral (with a limited number of "like-minded" partners) agreements over multilateral ones. Within these agreements, OSA requires a difficult balance between the promotion of free trade in goods and the need to pre-emptively protect against the negative effects of economic interdependence; for this reason, the dual objective pursued through OSA may at times lead to outcomes that appear contradictory (Martins et al. 2025).

A clear example of this dynamic is provided by the negotiations for the EU-Mercosur Association Agreement. The partnership agreement finalised in December 2024 includes both elements typical of openness to free trade and elements of closedness aimed at protecting European interests (Martins et al. 2025). At the time of writing (December 2025), the signing of the agreement by EU member states is scheduled for January 2026, following a delay caused by protests from farmers in several countries – most notably Italy and

France – who have called for greater protection from international competition for their products (Bonini 2025).

On the one hand, the agreement is of strategic importance for the EU, as it allows for the diversification of supplies of critical raw materials that are essential for the green and digital transitions but for which Europe currently depends on China (Martins et al. 2025). Moreover, it strengthens the EU's commercial presence in South America, granting products from sectors such as automotive, machinery, chemicals and pharmaceuticals privileged access to one of the world's largest consumer markets. The combined population of Mercosur countries amounts to approximately 270 million people (Commissione Europea 2025). In this sense, the conclusion of the agreement can also be interpreted as an opportunity for European exporters to diversify their destination markets following the deterioration of transatlantic trade relations.

On the other hand, the EU has simultaneously sought to safeguard its interests in environmental protection by unilaterally establishing, through the Deforestation Regulation (EUDR), binding standards for the placing on the European market of products linked to deforestation and forest degradation. This element of partial closure of the European market to goods originating from high-deforestation-risk areas (such as Mercosur countries) illustrates how the OSA approach in the economic sphere seeks to strike a balance between trade liberalisation, the protection of the Union's strategic interests, and consistency with its guiding principles, among which environmental sustainability also features prominently (Martins et al. 2025).

As already outlined in the Regional Economic Outlook of the IMF, the EU is currently negotiating additional trade agreements beyond the one with Mercosur. Without entering into the details of each agreement - whose content is either similar to that of the agreement discussed above or still under definition – we conclude this chapter by presenting them as possible trajectories for the development of European trade policy in the coming months and years. Within the OSA paradigm, and as a consequence of the policies implemented by the White House in 2025, the economic and strategic relevance of these agreements can be expected to increase both for the EU and for the partners involved, who have also been affected, to varying degrees, by the U.S. protectionist turn. The information below is updated to the end of 2025:

- EU-India Free Trade Agreement: negotiations were launched in 2022, and their conclusion was expected by the end of 2025, with the aim of removing existing barriers to European exports in one of the fastest-growing markets in the world. European goods exporters are already present in the Indian market, where they sold goods worth €123 billion

in 2023. The European automotive sector is particularly interested in the agreement, both for the expected increase in exports and for the investments in India that would be enabled by a specific side deal, which is also under negotiation (European Commission 2025e; Torbidoni 2025).

- EU-Indonesia Comprehensive Economic Partnership Agreement: after a decade of negotiations, the agreement with ASEAN's largest economy, home to 280 million people, was finalised in September 2025 and provides for the removal of 98.5% of Indonesian tariffs on European products such as automobiles, machinery, chemicals and pharmaceuticals. As in the Mercosur agreement, the EU has made market access for Indonesian products (including textiles, fisheries and agri-food goods) conditional on compliance with certain ESG standards. Ratification of the agreement is expected in 2026 (European Commission 2025g; ASEAN Briefing 2025).

- EU-Mexico Modernised Global Agreement (MGA): this agreement revises a long-standing trade partnership previously governed by a 2000 agreement. Negotiations were concluded in January 2025, and its signing has been scheduled in parallel with that of the Mercosur agreement (European Commission 2025f).

Other agreements currently under negotiation are bilateral in nature and concern EU partnerships with the United Arab Emirates and with other ASEAN countries, namely Malaysia, the Philippines and Singapore (European Commission 2025j).

Overall, by analysing the medium- and long-term consequences of the U.S. tariffs imposed in 2025 for the European Union, we showed that, although their direct macroeconomic impact is relatively limited, they nonetheless weigh on already weak growth prospects and reinforce the need for strategic adjustment. Drawing on IMF projections, the analysis has identified two main responses available to the EU: the further deepening of the single market, through the reduction of internal trade barriers, and the intensification of trade relations with alternative partners. While the former option primarily concerns internal structural reforms, the latter has broader geopolitical implications and is closely linked to the EU's shift towards the paradigm of open strategic autonomy (OSA). Recent and ongoing trade agreements with partners such as Mercosur, Indonesia, India and others illustrate this approach, combining elements of openness to trade with safeguards aimed at protecting strategic interests and core values, including environmental sustainability.

In this sense, the U.S. tariff turn of 2025 can be interpreted not only as a trade shock, but also as a catalyst accelerating both a longer-term

reorientation of EU trade policy towards a more autonomous role in the global economic system, and the development of new strategic trade partnerships between the EU and countries endowed with fast-growing markets.

Conclusion

In this thesis, we tried to provide the reader with an overall perspective on the main causes and consequences of the event that most significantly shaped the evolution of the international economic environment in 2025, focusing in particular on the effects that U.S. protectionist policies have had, and continue to have, on the economy of the European Union.

Our analysis began by defining the concept of tariffs and the dynamics that, according to the literature, are associated with their imposition by a large economy such as that of the United States. We explained why this protectionist instrument is expected to lead to the creation of price differences between domestic and foreign markets, a reduction in trade volumes, and distortions in production and consumption in the tariff-imposing country. We also described how the social costs of a tariff are shared between domestic consumers and foreign producers, while part of the benefits is captured by the government through tariff revenues and, potentially, through gains in the terms of trade.

In examining the main arguments typically advanced by governments to justify the imposition of tariffs, we described motivations that often extend beyond simple market efficiency, encompassing the protection of infant industries, the correction of market failures, or the support of sectors that generate positive externalities for the broader economy. Political and strategic considerations are also central: well-organized producer groups can influence policy through lobbying, and tariffs may be justified for reasons of national security, revenue generation, or to enhance a country's bargaining power in international trade negotiations. Finally, tariffs can reflect specific cultural or strategic objectives, such as the protection of domestic cultural goods or the promotion of industrialization in developing economies through import substitution.

In Chapter 2, moving from theory to practice, in an effort to understand which of these logics underpin the "America First" trade policy, we first explained how it departs from the traditional U.S. orientation in favor of international trade liberalization.

To study the protectionist shift occurred in the last decade, we analysed the official and unofficial statements made by President Trump over the past decade regarding tariffs against the EU, and we concluded that these measures, although formally justified on national security grounds (under Section 232 and the International Emergency Economic Powers Act), have been used primarily as instruments of retaliation, negotiating pressure, and protection of specific domestic interests, such as those of the automotive, agricultural, and steel sectors. Thus, we identified at the core of the “America First” trade policy toward the EU a combination of what we defined in the theoretical chapter as motivations related to retaliation and bargaining power, political-economy dynamics, and – albeit to a lesser extent – national security concerns.

As for the trade policy pursued during President Trump’s second term, which began in 2025, we observed substantial continuity in the types of arguments used to support the protectionist measures implemented. To those already mentioned, we only noted the addition of implicit references to the positive externalities generated by certain strategic sectors of U.S. industry, such as AI chips, whose growth is considered to require protection and support from the U.S. government.

Finally, we also reported the analyses – distinct yet in some respects complementary – offered by Baldwin and by Di Tommaso and Aggarwal on this same issue. According to the former, Trump’s trade offensive would not be driven by genuine economic interests, but by the so-called “Grievance Doctrine”, based on a perceived sense of betrayal and humiliation experienced by the United States. In this perspective, tariffs would serve to punish trading partners and satisfy domestic populist pressures, attributing the social and economic difficulties of the American middle class to external actors. Di Tommaso and Aggarwal, by contrast, interpret these same measures as part of the U.S. industrial policy: tariffs are seen as economic tools to protect strategic sectors, ensure national security, and restructure global value chains, in response to the challenges posed by the rise of emerging powers such as China and by international technological competition.

In addition to the events already discussed in Chapter 2, we can report that, during the first weeks of 2026, the Trump administration has continued using the threat of tariffs as a tool for bargaining with other countries on non-trade

related matters, such as national and international security: on February 6, the President has signed an executive order threatening to impose a 25% additional tariff on countries that continue to trade with the Islamic Republic of Iran (Wilson 2026).

In Chapter 3, we turned to the analysis of the consequences of the protectionist policies implemented by the White House. In order to fully grasp the implications of the “America First” trade policy for the present and future of transatlantic relations, we first defined the political and economic context in which these policies took shape, by describing the historical evolution of the transatlantic trade relationship since the end of the Second World War.

The second part of the third chapter examined the short-term political consequences of the “America First” trade policy toward the European Union. The analysis focused on the tariff measures adopted by the United States and on the responses implemented by the European institutions, starting from President Trump’s first term. We described how, following the introduction of U.S. tariffs on steel and aluminium in 2018, the EU reacted by resorting to the WTO, adopting retaliatory measures, and introducing safeguard measures aimed at preventing trade diversion toward the European market. These measures, initially temporary, were later made permanent, reflecting the adaptation of the EU to a more protectionist international economic environment and the persistence of distortions in the global steel market, characterized by chronic overcapacity attributed to third countries. We also highlighted how the U.S. trade policy contributed to weakening the multilateral system, in particular through the blocking of the WTO Appellate Body, thereby reducing the effectiveness of dispute-settlement mechanisms traditionally used in transatlantic relations.

With reference to President Trump’s second term, which began in 2025, the analysis reconstructed the escalation of generalized and “reciprocal” tariffs on European imports, culminating in a political agreement that set a 15% maximum cap on tariffs applied to a wide range of products, while leaving unresolved disputes in the steel and aluminium sectors. The main insight of this section devoted to the political effects of the “America First” trade policy concerns the legitimisation of the U.S. intention to renegotiate the terms of its trade partnerships through bilateral agreements and by employing negotiating tactics that openly violate GATT/WTO rules. The further delegitimization of multilateralism by the United States is also reflected in the fact that, unlike in

2018, the EU did not initiate a formal WTO dispute against the U.S. in 2025, fully aware that the paralysis of the Appellate Body would render any attempt at resolution in that forum ineffective.

In the final part of the third chapter, the short-term economic effects of U.S. tariffs on the European Union in 2025 were analysed, considering both the theoretical predictions discussed in the first chapter and the available empirical evidence. The section shows that, in the short term, the economic impact of U.S. tariffs on the EU has been partial, largely mitigated by firms' adjustment strategies and a context characterized by high uncertainty. According to data from the WTO's Global Trade Outlook, global merchandise trade did not contract in the first half of 2025, but instead recorded significant growth, mainly due to the phenomenon of frontloading – firms and consumers anticipating imports ahead of the tariffs' entry into force.

The analysis highlights that, in the short term, firms' adjustment mechanisms – such as stockpiling and temporarily absorbing tariff costs through lower profit margins – have dampened the immediate effects of the tariffs on prices, trade volumes, and global value chains. Consequently, the theoretically expected effects, including higher domestic prices in the United States and reduced imports, did not fully materialize in 2025 but are expected to become more evident in the following period.

Regarding the impact on the European economy, the IMF's Regional Economic Outlook indicates that U.S. tariffs are expected to have a negative effect on EU growth in 2026-2027. In the short term, however, the main observable consequences have been concentrated in financial markets and exchange rates: European firms most exposed to the U.S. market experienced significant stock price volatility, while the euro appreciated markedly, reflecting heightened global uncertainty. Finally, although the literature suggests that tariffs can induce trade diversion and deflationary pressures in third markets, no significant evidence emerged in 2025 of increased Chinese exports to the EU or major changes in the composition of European imports.

In the final chapter (Chapter 4), the analysis focused on the possible medium- and long-term consequences of U.S. tariffs for the European Union, with particular reference to the projections contained in the IMF's Regional Economic Outlook of October 2025. The chapter shows how the tariffs

imposed by the United States in 2025, while having a limited direct macroeconomic impact, may nonetheless contribute in the long run to strengthening a structural re-orientation of European trade policy, accelerating both the debate on the completion of the single market and the pursuit of greater strategic autonomy through new international partnerships.

According to IMF estimates, in 2026 the economic effects predicted by the tariff literature are expected to materialize more fully, through a reduction in U.S. demand for European goods and a consequent slowdown in euro area GDP growth. Although the direct impact of tariffs is quantitatively limited, it occurs in a context of already weak growth in European economies, thereby worsening their medium-term outlook.

In light of this scenario, the chapter identifies two main adjustment paths for the European Union. The first consists in a further deepening of the single market, through the reduction of internal trade barriers that remain particularly high in manufacturing sectors. The second concerns the intensification of trade relations with partners alternative to the United States, in order to offset the loss of access to the American market. The analysis shows that both strategies could, in principle, mitigate the negative effects of tariffs, albeit with differentiated impacts across Member States depending on their degree of exposure.

It was further highlighted that the diversification of trade partnerships has implications that go beyond the purely economic dimension, fitting into the broader EU orientation toward the paradigm of open strategic autonomy. This approach, which has emerged over the past decade, is also interpreted as a structural response to the deterioration of transatlantic trade relations and to the growing uncertainty of the global trading system.

Within this framework are the most recent trade agreements concluded or at an advanced stage of negotiation, including those with Mercosur, Indonesia, India, Mexico, and other partners. These agreements reflect a balance between openness to external markets, the protection of European strategic interests, and respect for core principles of the European Union.

Providing an update to the events already analysed in Chapter 4, we can conclude by reporting that:

- The approval EU-Mercosur Agreement came on January 17, 2026, but the deal was later referred by the European Parliament to the EU Court of Justice for a judicial verdict on its compatibility with EU treaties, significantly delaying and potentially suspending its application (Genovese and Corlin 2026).
- On January 27, 2026, the EU and India concluded the negotiations on the terms of their FTA, reaching a political agreement on the deal, whose ratification is set to take place in months (Palit 2026).
- On February 12, 2026, during the so-called “Informal EU leaders’ retreat 2026” in Alden Biesen, the President of the European Commission Ursula Von der Leyen announced that European leaders are going to discuss a roadmap for the completion of the single market by 2027. The main objective of this roadmap, also known as the “One Europe, one Market” strategy, is the enhancement of the EU competitiveness, which would be achieved mainly by adopting a common procedure for creation of new businesses, by allowing the emergence of “European champions” through mergers and acquisitions of national firms, and by unifying the energy, the telecommunication and the capital markets (Romano 2026, Bonini 2026).

The main limitation of this paper is that it focuses exclusively on the economic and political causes and consequences of tariffs, without addressing the legal complexities underlying their imposition. However, as of early 2026, the legal dimension appears to be a factor of primary importance in the developments described above and warrants further investigation in future research.

On February 20, the Supreme Court of the United States ruled that the use of the International Emergency Economic Powers Act (IEEPA) to impose the “Liberation Day” tariffs was unlawful, suggesting an abuse of power by the White House in the field of trade policy (Valsania 2025).

The ruling opens up several possible scenarios, including: an unlikely decision by President Trump to refrain from using tariffs as a tool of trade and foreign policy; a renegotiation of the trade agreements reached in recent months between the U.S. and its trading partners, including the late-August “Joint Statement” with the European Union; the immediate or eventual imposition of new tariffs through legal instruments other than the IEEPA (such as Section 232 of the Trade Expansion Act); and multi-billion-dollar

compensation claims by U.S. and foreign companies that bore the cost of the tariffs during 2025.

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