



**TRADE WARS AND TURBULENCE: HOW SHOULD  
GOVERNMENTS AND BUSINESS PREPARE?**

**Presentation to the Eesti Pank**

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## What I Will Talk About

- How EU Trade Policy Is Made, and how it has changed over the last decade
- The New trade landscape: Making America Great Again?
- How the EU Should Respond to the Trump Tariff Reciprocity Plan
- How Business Should Prepare itself.

# How EU Trade Policy Is Made

***“the public ought not to see how Laws and sausages are made” - Bismarck***

- **European Commission has sole right of initiative – eg to launch an FTA, to table a proposal in the WTO, or to take anti dumping measures against China...**
- **The Commission is the sole negotiator of all agreements**
- **The Council (EU MS acting collectively) decide the negotiating mandates and approve all final trade agreements.**
- **The European Parliament since 2010 has “co-decision” powers: to consent to or oppose trade agreements (up or down vote, no right to amend). EP has no role in launching negotiations.**



# Changes in EU Trade Policy 2010-2025

- **Abandonment of the Doha Round WTO negotiations in favour of Free Trade Agreements & unilateral measures**
- **Using trade agreements to export the Green Deal.**
- **From “Trade for All” to Strategic Autonomy: reducing dependencies, protecting the EU market from unfair competition.**
- **New European Commission: industrial regeneration, competitiveness & derisking the new drivers of trade policy.**
- **A more populist and protectionist, less green European Parliament.**
- **Continued pursuit of FTAs as a diversification tool**





## US Trade Policy under Trump 2.0: Method In the Madness?

**Core Objective: 'Make America Great Again'**

### **Objectives:**

- Economic growth.
- Corporate tax cuts.
- Reshoring of manufacturing into the rust belt.
- Strengthening of economic and national security so as to cement US global political hegemony over China.





## US Trade Policy under Trump 2.0: Strengthening National Security

*“Persistent trade deficits have hollowed out the US’s industrial base, and removed incentives to increase domestic manufacturing capacity, and rendered the defense-industrial base dependent on foreign adversaries” –*

from the 2 April Executive Order invoked under the International Emergency Economic Powers Act of 1977

# EU-US-China Trade Balance in Goods and Services

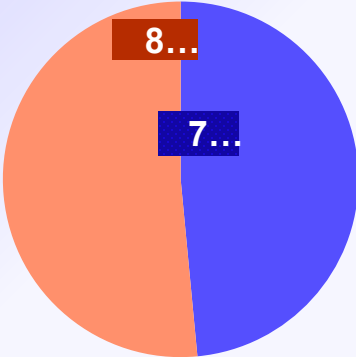
## US-China Trade 2023



■ US Imports ■ US Exports

US trade deficit of EUR  
267.1 Billion

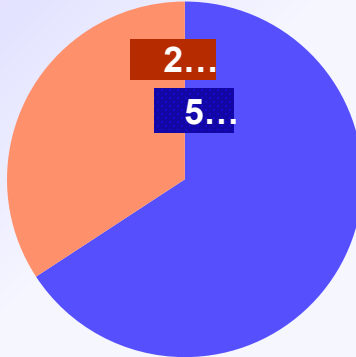
## EU-US Trade 2023



■ EU Imports ■ EU Exports

US trade deficit of EUR  
48 Billion

## EU-China Trade 2023

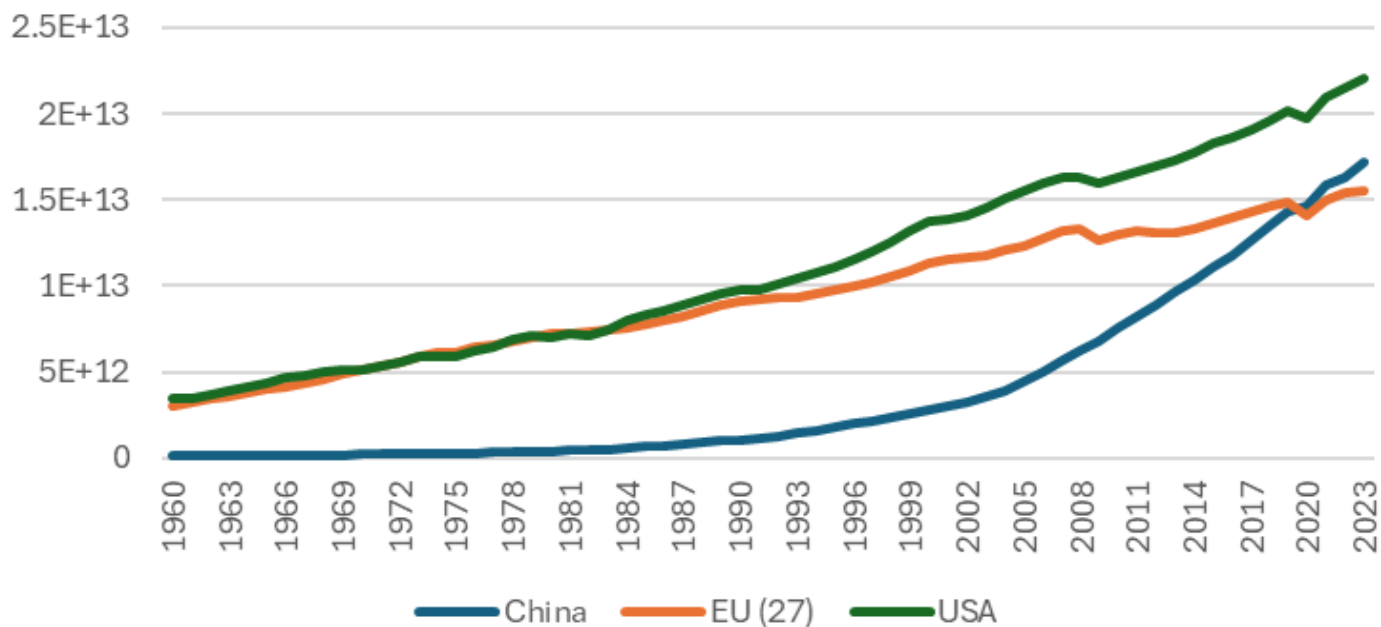


■ EU Imports ■ EU Exports

EU trade deficit of EUR  
268.3 Billion

# Changes in Global GDP 2002-2022

China, EU(27) and USA GDP  
in constant 2015 dollars





# Specific Trade & Security Objectives of “America First”

- Eliminate trade deficits (esp. China, EU).
- Incentivise or force manufacturing relocation to US (tech, cars).
- Open markets overseas to US goods and services (incl. **agrifood** & cars).
- Address countries’ distortive trade, NTB, subsidies, procurement, currency manipulation and tax practices (incl. fines on BigTech).
- Stop IPR theft and technology transfer (esp. to China) incl. through export restrictions and FDI screening.
- Leverage trade to secure supply chains and access to critical technologies and raw materials: Ukraine, Panama, Greenland, Taiwan.
- Weaken the European Union and China

# Specific US Tariff Actions

- The ***America First Trade Policy*** of January: review of trade deficits and make recommendations incl. imposition of tariffs, by 1 April 2025. USTR **NOT** in the lead.
- **25% tariff on all steel and aluminium imports** on 12 March, no exemptions. **25% tariff on imported autos and parts** – wef from 2 April
- March 2025: imposition of a **25% tariff on Canada and Mexico & 20% tariff on Chinese goods** (immediate retaliation by Canada and China).
- Threat of **200% tariff on EU wines and spirits.**
- **“Liberation Day” – April 2** EO to impose variable tariffs on different countries (EU 20%, UK 10%, China 34%, Cambodia 49%, Lesotho 50% etc. Suspended for 90 days for all countries **EXCEPT CHINA** purportedly to give time for countries to negotiate..



# Impacts So Far of the US's tariff policies

- US 6tn \$ Stock market losses, selling of US Bonds, 5% decline in value of US\$.
- Impact of stock market losses on the real economy: pension funds, local government liquidity, companies' loss of capital for investment.
- Inflation in the USA
- Companies suspending investment decisions, in particular relating to expanding production in the USA. Some layoffs already including in the US auto sector
- Significant decoupling from China. 90% drop in container shipping from China to US ports...
- Goldman Sachs estimate a 45% likelihood of economic recession, even higher if global consumer sentiment turns against buying American... JP Morgan – 65% likelihood.
- This has resulted in some humiliating U-turns on the part of Trump.

# How Should Countries React? Overview of Options

- **Retaliate** (as Canada and China have done; as EU may do)
- **Negotiate** – take in more US imports, remove non-tariff barriers to US goods and services, invest in manufacturing in the US
- **Litigate** – attack US measures in the WTO.
- **Capitulate** – accept the US's demands.
- **Diversify** – derisk from the US as much as possible and negotiate FTAs with others



## US – EU Relations

- 25% tariff on steel, aluminium and cars
- April 2: US plans a 20% tariff on all goods from the European Union. Suspended for 90 days.
- All EU exports subject to a “residual” 10% tariff.
- Threat of a 200% tariff on EU wines and spirits.
- EU has prepared retaliation lists. ACI being readied to target US goods, services, data platforms and IPR. Coordination with other countries will be important.
- Open to negotiate if possible. In the meantime diversifying esp via FTAs: Mercosur, Mexico, India, ASEAN countries. Coordination with countries?



## EU – China Relations

- EU and China more interdependent than US is vis a vis China.
- Significantly more de-risking unlikely.
- China needs EU market even more as US market closes. Some trade diversion from US to EU is possible.
- EU has the trade instruments to cope with undue trade diversion.
- EU-China Summit: agreement to coordinate response to US pressures?



# Conclusion: A New and Unpredictable Trade World

- Economic and National Security, and **the struggle for hegemony**, increasingly drives trade policy.
- The Washington Consensus is all but dead.
- End of the Rules Based International Order (RBIO?). The WTO and other multilateral **institutions are being weakened** - countries are disregarding their obligations. Traditional **alliances are breaking**.
- Industries and global supply chains are **being reshaped by tariff wars**, de-risking policies, reshoring actions, and the struggle for critical raw materials and high-tech
- Trade and economic activity is **now seen as a zero-sum game**, not one of mutual benefit



## Implications for Business

- The new global trade environment is becoming more unpredictable.
- Businesses face increased unpredictability and disruptions throughout their supply chain.
- Increased tariffs and trade defence measures add to the cost of doing trade.
- Each sector, each product, each input, each service provider may be differently affected by trade restrictions.

# How can business prepare?

Run a **risk analysis** of potential exposure of your business to tariffs and other restrictive measures: each product, input, tariff line, service supplier.

Map the location and nationality of your suppliers and your service providers eg shippers... Is there a case to move production?

**Consider action through trade defense instruments (TDI)**

**Exploit the** potential of **existing or new FTA's** to be leveraged with the European Commission.

**Join forces** with your sector federation or other actors in your supply chain: create coalitions of companies affected by the trade measures.

**Argue for the maintenance of the rules based trading system** as a public good.

# Thank You! And Follow Up

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