## The European Union should not join a trade war

*Mainz, February 21, 2025* | *Dieter Wermuth*

The new American administration intends to introduce customs duties on imports from Europe because they feel the present system treats them unfairly. Evidence of this injustice is supposed to be the very large and rising European bilateral trade surplus – in 2024 it had reached an all-time high of almost 200 billion euros. The US, on the other hand, had run a surplus of something like 120 billion euros in services (the exact numbers will be published in a few months). This surplus is also rising rapidly. The aggregated European trade surplus vis-à-vis the US had thus been about 80 billion euros, or 0.4% of the EU's nominal GDP and 0.3% of America's, calculated on the basis of actual exchange rates, not purchasing power parities.

**EU – international trade in goods and services**

| | 2010 | 2017 | 2024 | 2010 | 2017 | 2024 |
|---|---|---|---|---|---|---|
| | *bn€* | | | *% of GDP* | | |
| | **with the US** | | | | | |
| exports of goods | 203 | 324 | 532 | 1.8 | 2.5 | 2.9 |
| imports of goods | 142 | 203 | 333 | 1.3 | 1.5 | 1.8 |
| *balance of trade in goods* | *61* | *121* | *198* | *0.6* | *0.9* | *1.1* |
| exports of services | 101 | 177 | 319*) | 0.9 | 1.3 | 1.9*) |
| imports of services | 119 | 203 | 427*) | 1.1 | 1.5 | 2.5*) |
| *balance of trade in services* | *-18* | *-26* | *-109*)* | *-0.2* | *-0.2* | *-0.6*)* |
| | **with China** | | | | | |
| exports of goods | 105 | 179 | 213 | 1.0 | 1.4 | 1.2 |
| imports of goods | 245 | 323 | 518 | 2.2 | 2.5 | 2.8 |
| *balance of trade in goods* | *-140* | *-144* | *-305* | *-1.3* | *-1.1* | *-1.7* |
| exports of services | 17 | 43 | 59*) | 0.2 | 0.3 | 0.3*) |
| imports of services | 16 | 29 | 43*) | 0.1 | 0.2 | 0.3*) |
| *balance of trade in services* | *1* | *13* | *16*)* | *0.0* | *0.1* | *0.1*)* |
| | **total extra-EU international trade** | | | | | |
| exports of goods | 1,436 | 1,994 | 2,584 | 13.0 | 15.1 | 14.2 |
| imports of goods | 1,471 | 1,772 | 2,434 | 13.3 | 13.5 | 13.4 |
| *balance of trade in goods* | *-35* | *222* | *150* | *-0.3* | *1.7* | *0.8* |
| exports of services | 560 | 965 | 1,427*) | 5.1 | 7.3 | 8.3*) |
| imports of services | 488 | 852 | 1,274*) | 4.4 | 6.5 | 7.4*) |
| *balance of trade in services* | *71* | *113* | *153*)* | *0.6* | *0.9* | *0.9*)* |

*) 2023
source: Eurostat, own calculations ©UR

Why should these imbalances be a problem? From an economic point of view they are actually more or less irrelevant. In spite its self-sufficiency with regard to oil and gas, the US is the world's major net importer of goods, not only from Europe but even more significantly from China, Japan and South Korea. At the same time, the country is the largest net exporter of services, way ahead of Europe and the rest of the world, especially in areas like social media, capital market and banking services, consulting, entertainment, research and development and secondary education.

Allow me to make a remark about bilateral trade balances at this point: they are neither good nor bad. A deficit means that the country is a net importer of capital which in turn means that it can grow its capital stock and thus its basis for future income streams faster than if it would only rely on domestic savings. This follows from the principles of national accounting. It is Economics 101, if you will. A large deficit could be a problem if the US would borrow in foreign currencies to pay for its imports, combined with a large depreciation of the dollar exchange rate. In such a case the debt service would require rising monetary transfers to foreigners and a reduction of disposable income at home. But this is not the case – the US is not Argentina. The country has no significant foreign currency-denominated debt.

If the US government is serious about slapping customs duties on goods imports from Europe, the EU should under no circumstances retaliate by raising tariffs on imports from America, especially not on such irrelevant products as Bourbon whisky or Harley Davidson motorbikes. Trump's government would be truly impressed – and would probably give up on the idea of customs duties on cars and luxury products – if Brussels, in a meaningful way, tightened the regulation of social media and collected more taxes on US profits which are generated in Europe. A few days ago the large tech companies had released the profits they made in 2024: they were all in the order of 100 billion dollars. This looked very much like monopolistic rents. The EU Commission might have a closer look at these markets.

In addition, the EU should seek discussions with the large industrial nations of East Asia, but also with Mexico and Canada, about free trade agreements along the lines of the recent Mercosur treaty. China in particular should appreciate such an idea because there is a genuine risk that the EU will not tolerate for much longer its huge bilateral trade deficits with China - and introduce trade barriers as well. Together with the UK, Switzerland and Norway, the EU is a market with about 530 million fairly rich customers. China should be urged to significantly step up its direct investments in Europe. In this way, the EU would indirectly participate in China's massive spending on research and development, most of all in areas where European countries have become hopelessly uncompetitive, such as alternative energy, batteries or self-driving electric vehicles.

Bottom line: a trade war on the basis of customs tariffs and counter tariffs is about the most senseless economic policy imaginable. It would hurt the international division of labor and thus lower the growth rates of productivity and general welfare. Europe must seek more profitable alternatives.

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