MARCH 2025

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STRATEGY FOCUS

The start of a trade war

SOCIETE GENERALE
Private Banking

The start of a trade war

SUMMARY

U.S. Moves to Tariffs Act (p3) While Trump had been clear during his campaign about his desire for a protectionist policy, he surprised by the speed, scale and extent of the tariff increases, both in terms of geography and goods covered. China, Canada and Mexico, as well as steel and aluminum have already been affected and there are strong threats of an extension to European goods from April.

A mapping of trade between the United States and Europe (p4) The US trade deficit has deteriorated significantly since Covid. It is high in particular vis-à-vis China, the European Union, ASEAN, the developed economies of Asia and Mexico. It mainly concerns consumer goods, capital goods and automobiles. The United States, on the other hand, has a trade surplus in services.

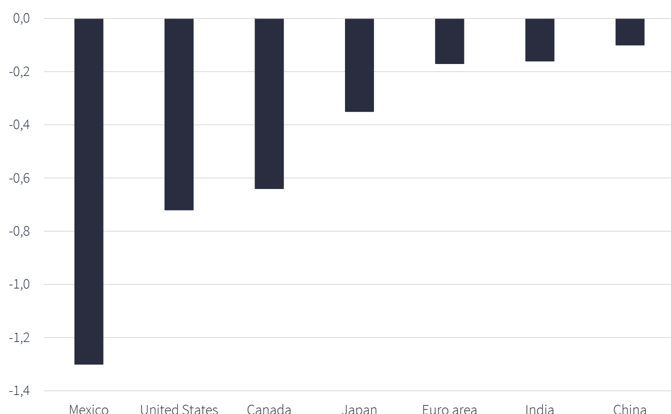
The euro area, as a whole, has a trade surplus. It appears to be in deficit only vis-à-vis China. France has a moderate deficit, mainly due to energy. France's exposure to US tariff increases is limited at the macro level but could weaken sectors such as aviation, pharmaceuticals and food.

Protectionism: if the objectives are multiple, effectiveness would remain limited (p5) The U.S. government has announced a number of reasons for its protectionist trade policy: to reindustrialize its economy, reduce its dependence on China, reduce the federal budget deficit, and rebalance some global imbalances. However, even a significant increase in tariffs is expected to have only a limited effect on its objectives.

A risk of more inflation and less growth (p6) For the US economy, the increase in customs duties would result in more inflation and weaker-than-expected growth at the beginning of the year, playing a role equivalent to an increase in consumption taxes. For the rest of the world, Canada and Mexico would experience a significant shock to growth given the importance of trade with the United States to their economies. For the euro zone, these measures should also have a negative effect on activity, but much more limited given the lesser weight of US trade.

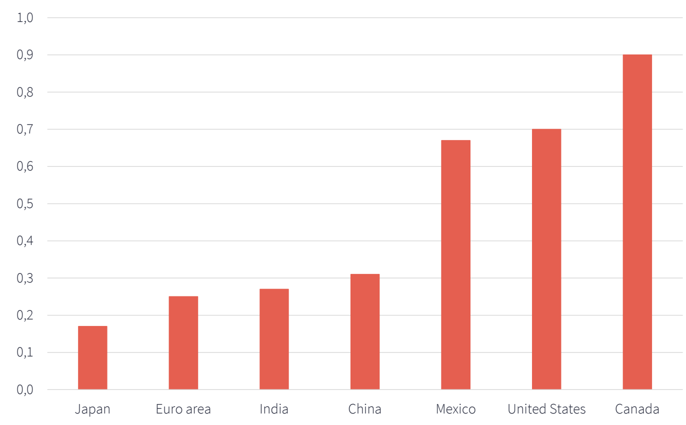
Effect of a 10-point increase in US tariffs with reciprocity on the level of GDP over 3 years

Source : OECD



Effect of a 10-point increase in US tariffs with reciprocity on average inflation over 3 years

Source : OECD



The United States takes action on customs duties

What is already effective. One of the first economic decisions of the new Trump administration was to add and increase some tariffs. While Trump was clear during his campaign about his desire for protectionist policies, he surprised by the speed, scale and scope of the measures, both in terms of geography and goods covered. To date, the U.S. government has implemented the following tariffs:

- Vis-à-vis China: *20 points increase in customs duties on all imports* of Chinese goods between 2 February and 4 March. This increase is in addition to the already existing rates (at 19% on average) as well as non-tariff restrictions on certain goods, such as semiconductors, and bans on Chinese investments in various sectors of the US economy.
- Vis-à-vis Canada and Mexico: *imposition of customs duties of 25% on Mexican and Canadian goods (10% for energy goods)* that do not meet the criteria of the USMCA agreement, as of March 4. In 2024, 50% and 38% of Mexican and Canadian goods respectively met these criteria respectively and remain duty-free to date.
- On steel and aluminum: implementation of customs duties of 25% on all steel and aluminum imports, regardless of the country of origin, as of 12 March.

With these measures, the effective rate of US tariffs rises from about 3% to more than 8%, a level not seen since the Second World War. By comparison, during his first term in office, Trump had already initiated an increase in tariffs, but it remained much more limited by the number of goods concerned, its magnitude and the fact that it was much more gradual over time.

The threats to go further are real. In addition to these measures, the government has announced the following tariffs for April 2:

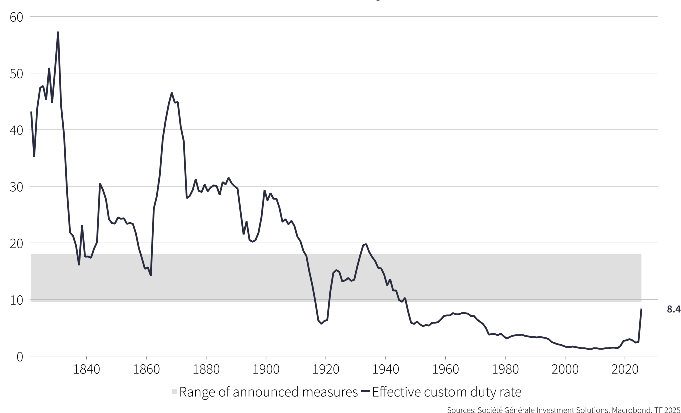
- European Union: 25% on all goods, up to 200% on agricultural goods and spirits.
- Cars, semiconductors, pharmaceutical and agricultural goods: 25% on the main exporters.
- Reciprocal tariffs: The U.S. government would implement tariffs equivalent to what other countries impose on U.S. goods, regardless of the category of goods and the country of origin. The U.S. authorities have announced that they will include the VAT rate of the country in question for the calculation of the rate of the new tariff rate.

In total, these measures would significantly increase the effective rate of tariffs in the United States, increasing the rate from nearly 3% to 18%, its highest level since the 1920s.

The European Union, Canada and China have already announced retaliatory measures. The EU will notably establish equivalent customs duties on imports of American steel and aluminum and increase customs duties on a basket of American goods (import value of 18 billion euros) from mid-April.

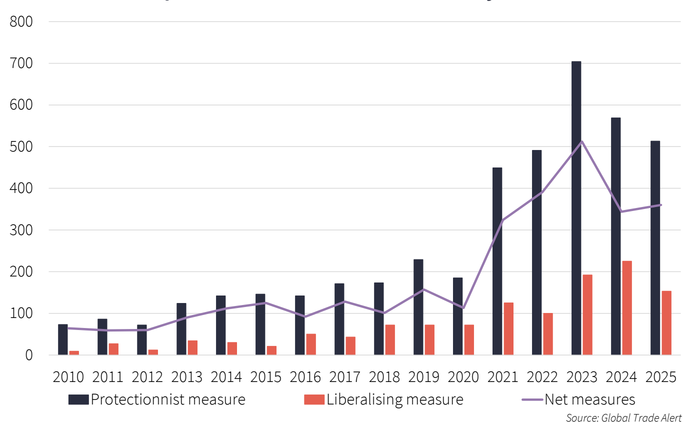
These tensions over tariffs are accelerating the protectionist trend that has begun since the 2007 financial crisis. Indeed, the number of restrictive measures (customs duties, stricter standards, trade bans and investments) has increased significantly compared to the 2000s in a context of rising geopolitical tensions. These restrictions are also a reaction to a Chinese economy that is increasingly competitive on world markets, with very large volumes of exports and an upscaling of their production.

United States : effective custom duty rate



Sources: Société Générale Investment Solutions, Macrobond, TF 2025

Number of net protectionist measures taken by countries



Source: Global Trade Alert

The start of a trade war

A mapping of trade between the United States and Europe

US trade mapping

The United States has a deficit in the trade balance of goods and services of USD 907 billion in 2024, weighed down by the goods deficit of USD 1,270 billion in 2024.

- By geography: most of the trade deficit in goods reflects the deficit with China (USD 295 billion), the EU (USD 235 billion), ASEAN (USD 227 billion), Korea, Japan and Taiwan (USD 208 billion) and Mexico (USD 172 billion). Moreover, it is likely that the large deficit with ASEAN countries reflects re-exports of Chinese goods, as these countries are not currently subject to specific customs tariffs.
- By goods: most of the deficit reflects a deficit on consumer goods (USD 547 billion), capital goods (USD 320 billion) linked in particular to the import of semiconductors, and automobiles (USD 305 billion)

On services, the United States posted a surplus of USD 295 billion, reflecting the surplus in financial services, business services and intellectual property exports.

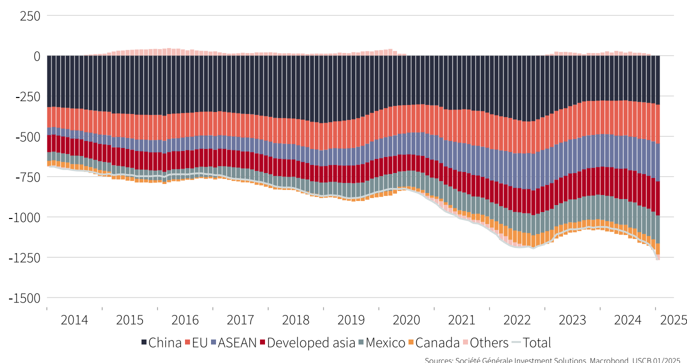
Finally, despite very high nominal figures, the US economy is the most closed in terms of trade among the major economies, with an openness rate (exports plus imports to GDP) of only 21% (compared to 54% in Europe and 37% in China).

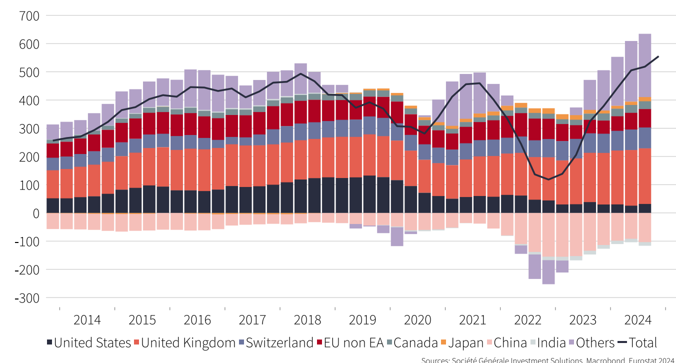
Euro area trade mapping

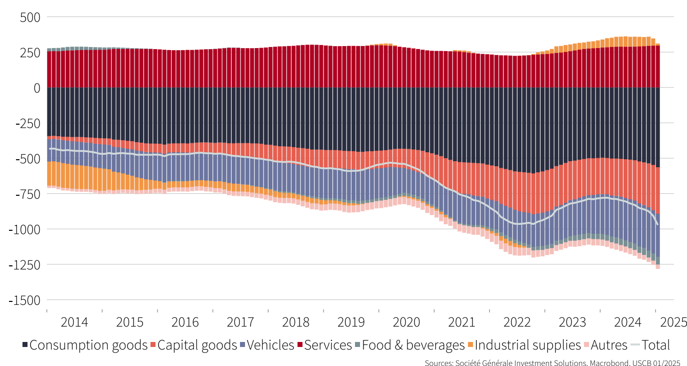
In 2024, the euro area posted a surplus in the trade balance in goods and services of EUR 555 billion, of which EUR 391 billion was for goods and EUR 164 billion for services.

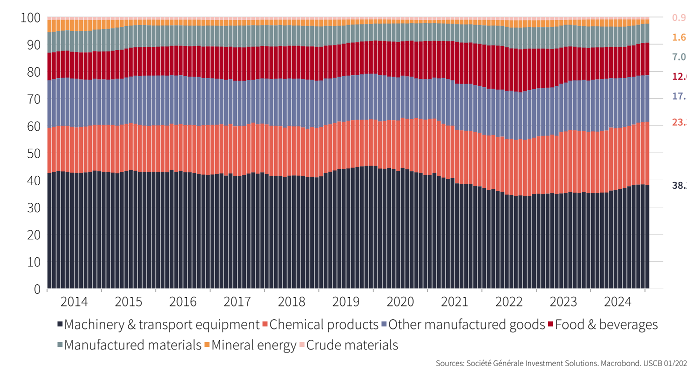
- By geography : the euro area has a surplus of EUR 31 billion with the United States on goods and services, a surplus of EUR 197 billion with the United Kingdom and a deficit of EUR 100 billion with China.
- By goods : the euro area has a large surplus in manufactured goods, particularly machinery and equipment transport as well as chemical products. On the other hand, it has a deficit in energy goods.

As for France, the trade balance in goods and services shows a slight deficit of EUR 10 billion in 2024 and it mainly corresponds to energy. In 2024, it posted a surplus of EUR 48 billion for services, reflecting financial services and tourism. Among the major economies in the euro area, France has less direct exposure to trade with the United States. Total exports of goods and services represent 3% of GDP, compared to 4.5% in Germany. However, given the interdependence of European economies, French exports would slow down if the German economy slows down. By sector, aeronautics, pharmaceuticals and luxury goods would be the most affected by the increase in US tariffs.









Protectionism: if the objectives are multiple, effectiveness would remain limited

Protectionism with multiple objectives and limited effectiveness. The U.S. government has given several reasons for the tariffs, ranging from the desire to boost local employment to geopolitical considerations.

Reason #1: reindustrialization of the economy. The US trade deficit in goods, which has widened significantly since the Covid crisis, corresponds almost entirely to a deficit in manufactured goods. The imposition of high tariffs would thus aim to relocate the production of goods in a context where the share of manufacturing employment represents only 8% of total employment compared to 16% in 1990.

Reason #2: Decoupling from China. Chinese goods have seen the largest increase in tariffs, with an average effective rate expected to be above 30%. These increases are in addition to non-tariff restrictions such as trade and investment bans in strategic sectors and changes in standards. Overall, this policy (which began under Trump but continued by Biden) corresponds to a desire by the American authorities to make their economy less independent vis-à-vis China in a context of geopolitical tensions between these two countries.

Reason #3: Improvement of public accounts. The Trump administration is touting its willingness to implement tariffs as a way to raise tax revenue, allowing it to cut income and corporate taxes. It should be noted, however, that customs duties brought in USD 86 billion for the federal government in 2024 compared to USD 2,716 billion for income tax.

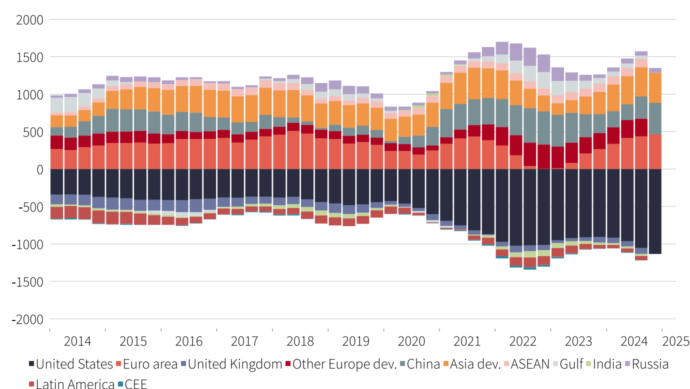
Reason #4: Rebalancing global imbalances. In a more structural way, the US government aims to reduce the current account deficit (which, in addition to goods, also includes trade in services and income from financial assets). Indeed, the United States has a large and growing external deficit. This deficit reflects both strong domestic demand and increased dependence on the rest of the world. Thus, the rest of the world appears to be more and more "necessary" to meet the demand for goods and services of Americans but also to finance this excess demand. The United States is therefore absorbing the excess savings of the rest of the world, with strong global demand for American assets, whether in sovereign debt, corporate bonds, bank deposits or equities. These imbalances are also a consequence of the "exorbitant privilege" granted to the United States by the dollar's status as a reserve

Customs duties that are not expected to meet their objectives. We believe that the increase in tariffs should have only a limited effect on the objectives sought. As far as the reindustrialization objectives are concerned, one of the main consequences is an increase in production costs for American industries integrated into value chains (automotive or aviation, for example). Moreover, examples of reindustrialization policies through import substitution without stimulating exports (Latin American economies) between the 1970s and 1990s have not been successful.

As far as the improvement of the public accounts is concerned, the substitution of income and corporate taxation seems unrealistic given the respective amounts. Moreover, these two objectives seem to be opposed: the desired reduction in imports could neutralize the potential increase in tax revenues.

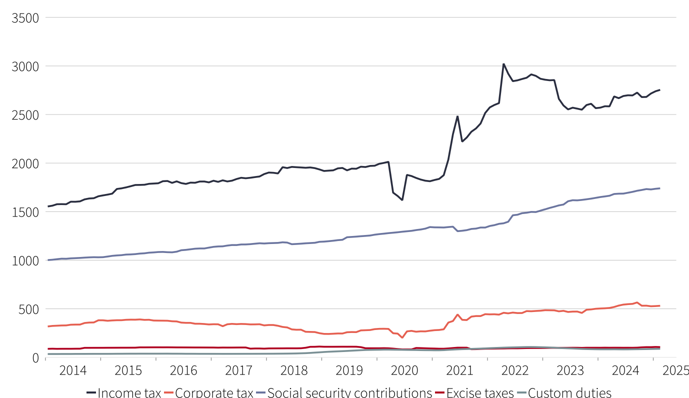
Finally, tariffs have generally had little effect on reducing current account deficits, which are more the result of discoveries of scarce resources or a contraction of the economy. Taxing capital flows should reduce the US current account deficit but would have important consequences for the dollar's reserve currency status and would probably result in a significant increase in volatility in financial markets.

Current account balances of main economies
USD bn, 4q sum



Sources: Société Générale Investment Solutions, Macrobond, ABS, IMF, SAFE, ECB, Statistics Denmark, RBI, BOJ, BANXICO, QCB, CBRF, SAMA, BOK, SSB, SCB, SNB, BOT, TCMB, ONS, BEA, Central Bank of Taiwan, Central Bank of Chile, CNB, MNB, NBP, BNR 2024 Q4

United States: Federal government revenues
USD bn, 12m sum



Sources: Société Générale Investment Solutions, Macrobond, U.S. Treasury 02/2025

A risk of more inflation and less growth

Trade tensions that would increase inflationary pressures and slow growth. The increase in customs duties initiated by the United States as well as retaliatory measures from the rest of the world would result in an increase in inflationary pressures, a slowdown in growth and greater volatility on the financial markets. Indeed, the confidence indices of households and companies already show a decline in spending and investment expectations. The increase in tariffs, which corresponds to a negative supply shock, would also result in higher prices of goods, forcing central banks to remain vigilant.

Impact on the US economy: more inflation and a slowdown in growth. The increases in customs duties would initially have an inflationary effect. Indeed, this increase is significant and comes in a regime of inflation already higher than during Mr. Trump's first round of tariff hikes in 2016. Secondly, it is unlikely that American companies will be able to produce and quickly replace all the goods targeted by the customs duties. These new tariffs will thus be equivalent to an increase in taxes for American consumers and businesses. It can be noted that the tariffs on Mexico and Canada will have a greater impact on inflation, and in particular on agricultural and durable goods, as the production chains between these three countries are highly interconnected. In particular, in the current manufacturing process, some cars cross the borders between Canada, Mexico and the United States five times. Today, we see that inflation expectations are already well on the rise. Thus, the OECD estimates that a 10-point increase in customs duties on all American imports (with equivalent retaliatory measures from all trading partner countries) would increase inflation by 0.7 on average over the next three years in the United States (see chart p.2). The Federal Reserve also raised its inflation forecast for 2025 from 2.5% to 2.8% on its March forecasts.

Higher tariffs are also expected to have an impact on growth. These tax increases will weigh on household consumption, especially the lower-income households in the short term, which are those with the greatest propensity to consume. On the business side, these tax increases as well as the high uncertainty and unpredictability of economic policy would weigh on investment decisions. The effect of the retaliatory measures is expected to remain more moderate, however, as exports have a moderate weight in US GDP. Thus, the OECD estimates that a 10-point increase in customs duties on all goods (with equivalent retaliatory measures from all trading partner countries) would reduce the level of US GDP by 0.7% over the next 3 years. The Federal Reserve also revised its growth forecast downwards for 2025 from 2.1% to 1.7%. In this context of more inflation and weaker growth but without recession, we believe that the Federal

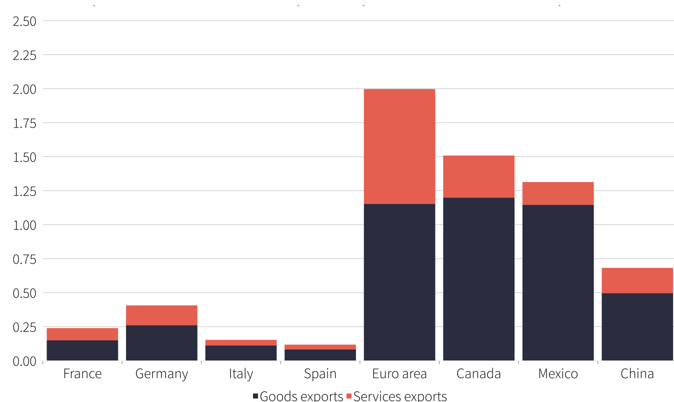
Impact on the rest of the world: significant on Canada and Mexico, more moderate on China and the European Union. Outside of the United States, the main economies that would be affected by these measures are Canada and Mexico. Indeed, their economies are highly exposed to the economy, with exports of goods to the United States accounting for 18% of GDP for Canada and 27% of GDP for Mexico. As a result, it is likely that activity will contract in 2025 for these two economies.

China would also suffer a shock to growth, but more moderately. Indeed, direct exports to the United States represent only 2.3% of Chinese GDP in 2024. The loss in GDP is estimated at -0.1% over 3 years by the OECD in a scenario of a 10-point increase in customs duties.

In Europe, Germany and Italy are the most exposed economies, with their exports to the United States accounting for 3.5% and 3.4% of their respective GDPs. The impact on the level of European GDP of a 10-point increase in US customs duties is estimated at -0.2% over 3 years by the OECD. However, in China as in Europe, these effects could be offset (at least in part) by the recently announced stimulus packages.

United States: Exports by countries

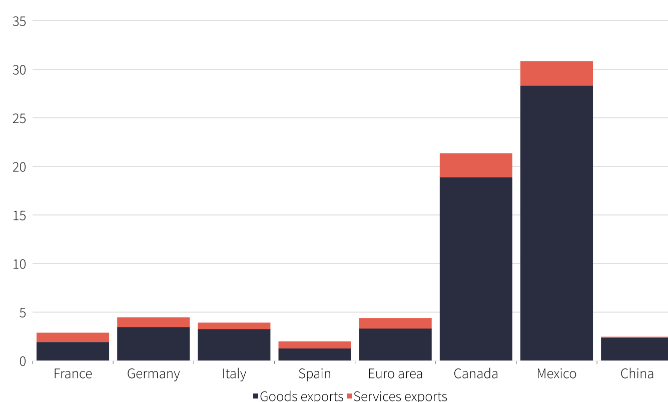
As % of GDP



Sources: Société Générale Investment Solutions, Macrobond, BEA 2024 Q4, 2024 Q4

Rest of the world: Exports towards the United States

As % of national GDP



Sources: Société Générale Investment Solutions, Macrobond, BEA, StatCan, NBS, Eurostat, INEGI 2024 Q4, 2024 Q4

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