



Flossbach von Storch
RESEARCH INSTITUTE

MACROECONOMICS 09/04/2025

Trumponomics: Apocalypse no

by AGNIESZKA GEHRINGER & THOMAS MAYER

Summary

For the rest of the world, US customs policy could be less of a burden in the medium term than many currently fear.

Zusammenfassung

Für den Rest der Welt könnte die US-Zollpolitik mittelfristig weniger belastend sein als gegenwärtig vielfach befürchtet.

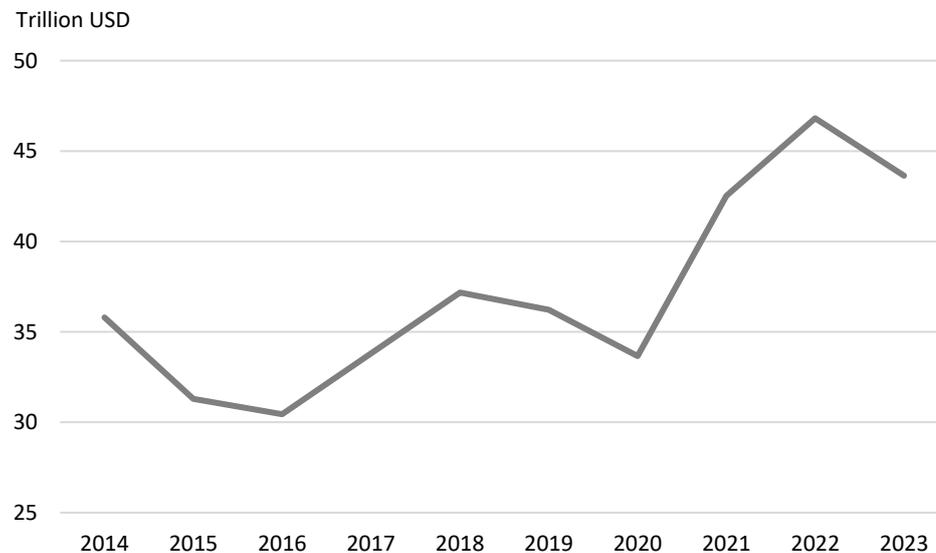


Donald Trump's "Liberation Day" has shaken the world. It was not only the level of the announced tariffs that shocked, but also their bizarre derivation. The stock markets have collapsed, the US Treasury market has been shaken by an earthquake and the US dollar is weakening. "Trumponomics" has the potential to plunge the US economy into recession. For the rest of the world, however, the US tariff policy could be less of a burden in the medium term than many currently fear.

The USA and world trade in goods

In 2023, the volume of global trade in goods (expressed as the sum of exports and imports) totalled around 44 trillion US dollars (Fig. 1). The USA's share was 12 per cent. The European Union and China accounted for 31 and 14 per cent respectively (Fig. 2).¹ The aim of the Trump administration's tariff policy is to equalise all bilateral and thus the entire US trade balance. In 2023, the trade deficit (according to UN data) was around USD 1 trillion. In the same year, the USA accounted for 15 per cent of the world's total imports and 9 per cent of its exports. Little has changed in these ratios for years (Fig. 3).

Figure 1: Global trade in goods (sum of exports and imports), 2014-2023

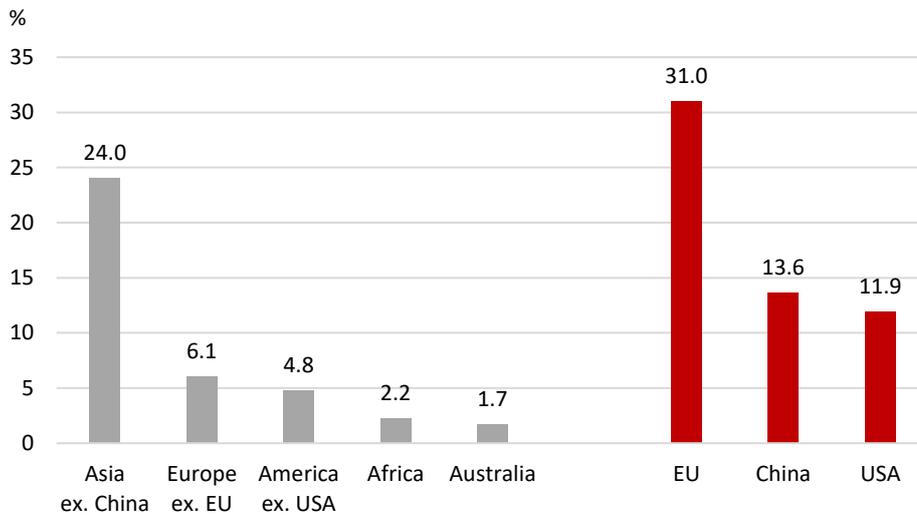


Source: Flossbach von Storch Research Institute's own presentation based on the UN Comtrade database

¹ The EU data includes trade within the EU.

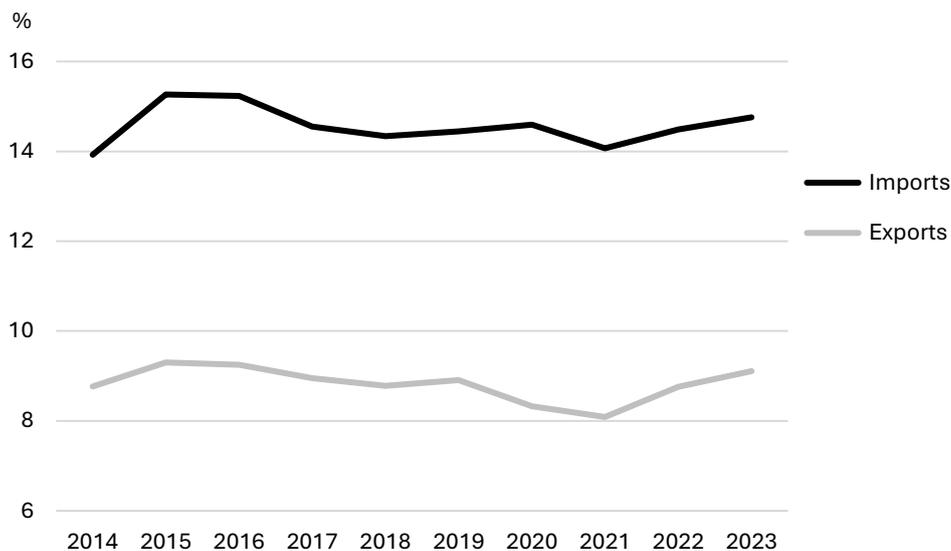


Figure 2: Shares of individual regions in global trade in goods in 2023



Source: Flossbach von Storch Research Institute's own presentation based on the UN Comtrade database

Figure 3: Shares of US goods exports and imports in the respective global totals, 2014-2023



Source: Flossbach von Storch Research Institute's own presentation based on the UN Comtrade database

A sample calculation for the trade effects

In all likelihood, it will not be possible to equalise the trade balance by reducing imports to the existing level of exports. As some imports are necessary for the production of export goods, exports will also be affected by import restrictions. For our example calculation below, we assume that this affects 20 per cent of exports. As a result, exports fall by 0.4 trillion US dollars to 1.6 trillion. If the trade balance is to be balanced at this level of exports, imports must fall by USD 1.6 trillion. Taken



together, this results in a decline in US trade flows of 2 trillion US dollars. This will reduce total global trade in goods by a manageable 5 per cent. At the same time, it can be assumed that some of the goods not sold in the USA will be diverted to other regions of the world (at more favourable prices). "Trade destruction" and "trade diversion" correspond to the phenomena of trade creation and trade diversion known in the economic literature that arise when a customs union is created.

For our example calculation, we assume that trade diversion can compensate for half of the trade loss. The bottom line is that total global trade in goods would fall by just 2 per cent, or less than one trillion US dollars. Given the magnitude, global trade could easily cope with this.

Financial markets could relax again in the medium term

However, the reaction of the financial markets to "Liberation Day" was far more serious than our sample calculation suggests. There were probably two main reasons for this. Firstly, the markets rightly fear that the uncertainty created by Donald Trump will plunge the US economy into recession. Secondly, they fear that the countries affected by the US tariffs will respond with counter-tariffs, leading to a trade war. Memories of the Smoot-Hawley Tariff Act passed in June 1930 have been awakened. In response, many of the USA's trading partners introduced retaliatory tariffs. World trade shrank by around 60 per cent, exacerbating the Great Depression of the early 1930s. Export-orientated countries such as Germany and Canada were particularly affected. US farmers and industries also suffered from counter-measures from abroad.

However, a repeat of this development can be avoided if the countries affected by the US tariffs refrain from escalation. In particular, the negative trade effects of the US tariffs could be mitigated by greater trade integration in the rest of the world. The adjustment costs triggered by the US tariff shock are hardly avoidable in the short term. In the medium term, however, the US could be the only major loser from Donald Trump's tariff policy. As soon as this realisation reaches the financial markets, they are likely to relax again.



LEGAL INFORMATION

The information contained and opinions expressed in this document reflect the author's judgement at the date of publication and are subject to change without notice. Forward-looking statements reflect the views and expectations of the author. The opinions and expectations may differ from estimates presented in other documents of Flossbach von Storch SE. The articles are provided for information purposes only and without any contractual or other obligation. (This document does not constitute an offer to sell, buy or subscribe to securities or other instruments). The information and assessments contained herein do not constitute investment advice or any other recommendation. No liability is accepted for the completeness, timeliness and accuracy of the information and assessments provided. **Historical performance is not a reliable indicator of future performance.** All copyrights and other rights, titles and claims (including copyrights, trademarks, patents and other intellectual property rights as well as other rights) to, for and from all information in this publication are subject without restriction to the respective valid provisions and ownership rights of the respective registered owners. You do not acquire any rights to the content. The copyright for published content created by Flossbach von Storch SE itself remains solely with Flossbach von Storch SE. Reproduction or use of such content, in whole or in part, is not permitted without the written consent of Flossbach von Storch SE.

Reprints of this publication as well as making it publicly accessible - in particular by inclusion in third-party websites - and reproduction on data carriers of any kind require the prior written consent of Flossbach von Storch SE

© 2025 Flossbach von Storch. All rights reserved.

IMPRINT

Publisher Flossbach von Storch SE, Research Institute, Ottoplatz 1, 50679 Cologne, Telephone +49. 221. 33 88-291, research@fvsag.com; *Managing Directors* Dr Bert Flossbach, Dr Tobias Schafföner, Dr Till Schmidt, Marcus Stollenwerk; *Chairman of the Board of Directors* Kurt von Storch; VAT ID DE 200 205 205; Commercial Register HRB 120 795 (Cologne Local Court); Responsible supervisory authority Federal Financial Supervisory Authority (BaFin). Till Schmidt, Marcus Stollenwerk; *Chairman of the Board of Directors* Kurt von Storch; VAT ID DE 200 075 205; *Commercial Register* HRB 120 796 (Cologne Local Court); *Responsible supervisory authority* Federal Financial Supervisory Authority, Marie-Curie-Straße 24 - 28, 60439 Frankfurt / Graurheindorfer Str. 108, 53117 Bonn, www.bafin.de; *Author* Prof. Dr Agnieszka Gehringer & Prof. Dr Thomas Mayer *Copy deadline* 09 April 2025