New US tariffs. Consequences for Central and Eastern Europe

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PRELIMINARY

Abstract

This paper examines the trade and welfare effects of the 2025–2026 US tariff regime on the European Union, with a particular focus on the Visegrad (V4) countries: Poland, the Czech Republic, Hungary, and Slovakia. Using the GTAP model, we simulate five scenarios spanning the full trajectory of US tariff policy, from the initially threatened reciprocal tariffs to the current uniform tariff. Despite substantial bilateral trade effects, the macroeconomic impact on V4 countries is modest, reflecting their limited direct trade exposure to the US. The primary vulnerability operates indirectly, through German-centered production networks. Under comprehensive global scenarios, V4 countries experience slight positive GDP effects driven by trade diversion from more heavily tariffed competitors. We also document a significant redirection of Chinese exports toward the EU.

Keywords: US reciprocal tariffs, Central and Eastern Europe, computable general equilibrium

JEL: F13, F14, C68

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1 Introduction

In 2025-2026, the United States' trade policy underwent its most dramatic transformation since the Smoot–Hawley Tariff Act of 1930. Beginning with targeted tariffs on China, Canada, and Mexico in early 2025, the policy escalated rapidly on April 2, 2025 — "Liberation Day" — when the US government invoked the International Emergency Economic Powers Act (IEEPA) to impose broad-based "reciprocal tariffs" on virtually all trading partners. A universal 10% tariff took effect immediately, with substantially higher country-specific rates — ranging from 20% to 50% calibrated to bilateral trade deficit ratios rather than actual trade barriers. Entire sectors were subject to additional tariffs under Section 232 of the Trade Expansion Act: 25% on motor vehicles and parts, and 50% on steel and aluminum. For many trading partners, the resulting tariff levels far exceeded both historical norms and the United States' WTO-bound rates, constituting a unilateral abrogation of commitments built over decades of multilateral negotiations.

The threat of full implementation of the reciprocal tariffs triggered intensive bilateral negotiations throughout the summer of 2025. The EU reached a framework agreement with the US in August 2025, capping the tariff on most EU goods at 15% - half the initially threatened rate - while the EU committed to eliminating tariffs on industrial goods imported from the US. Similar agreements were concluded with the United Kingdom, Japan, South Korea, Vietnam, and the Philippines. Tariffs on Canada and Mexico remained at 25% for non-USMCA-qualifying goods, with USMCA-compliant trade exempted.

The most recent and consequential shift occurred on February 20, 2026, when the US Supreme Court ruled that the IEEPA does not authorize the President to impose tariffs, holding that "regulating" imports does not encompass taxing them. The ruling invalidated all IEEPA-based tariffs, including the country-specific reciprocal rates and the fentanyl-related tariffs on Canada and Mexico. In response, the administration immediately imposed a 10% global tariff under Section 122 of the Trade Act of 1974 — a temporary authority valid for 150 days. Section 232 tariffs on steel, aluminum, and motor vehicles remained unaffected by the ruling. The resulting tariff landscape as of early 2026 is thus characterized by a uniform 10% baseline with sector-specific surcharges, a significant reduction from the peak tariff levels of mid-2025 but still well above the pre-2025 status quo.

This paper examines the trade and welfare effects of the evolving US tariff regime on the European Union, with a particular focus on the Visegrad (V4) countries — Poland, the Czech Republic, Hungary, and Slovakia. We employ the standard GTAP model with the GTAP 11c database, updating applied tariffs from 2017 to 2024 using the WITS TRAINS database. We construct five simulation scenarios spanning the key phases of the tariff regime: the initially

threatened reciprocal tariffs of mid-2025 (10 RCP), the post-agreement tariff structure of late 2025 (20 AGR), the current post-IEEPA uniform tariff under both short-run and long-run closures (30 UNI and 31 UNILR), and an isolated EU-only tariff shock (40 EU10) designed to disentangle the bilateral EU–US channel from the global trade diversion effects.

V4 countries occupy a distinctive position in this context. Their direct trade exposure to the US is limited. Gross export shares to the US range from 3.2% (Czech Republic) to 7.7% (Hungary). However, their deep integration into German-centered European production networks creates a substantial indirect transmission channel. V4 countries supply intermediate products - engines, automotive parts, electronic components, rubber, and plastics - that are embodied in German and other Western European exports to the United States. Higher US tariffs on German motor vehicles and machinery, therefore, propagate backward through the supply chain to V4 producers, even when V4 goods are not directly subject to US tariffs. We quantify this indirect channel through our general equilibrium framework, which captures the full input–output linkages across the EU.

We also examine a second indirect channel: the potential redirection of Chinese exports toward EU markets. When the US imposes substantially higher tariffs on Chinese goods than on EU goods — as in the 10 RCP and 20 AGR scenarios — Chinese exporters lose market share in the US and redirect supply toward other markets, including the EU. This "Chinese glut" effect could intensify import competition in V4 countries, particularly in electronics, electrical equipment, and miscellaneous manufacturing sectors where Chinese and V4 products compete directly.

Our paper contributes to the rapidly expanding literature on the economic effects of the 2025–2026 US tariff regime in three ways. First, we offer a comprehensive scenario analysis that covers the full trajectory of tariff changes - from the initial threat, through negotiated agreements, to the post-IEEPA legal transition - rather than examining a single tariff snapshot. Second, we focus specifically on the Central and Eastern European EU member states, a group that has received limited attention in existing CGE studies despite its deep integration into European production networks most affected by US tariffs. Third, we decompose the impact into direct bilateral, indirect supply-chain, and Chinese-redirection channels by comparing comprehensive global scenarios with an isolated EU-only tariff shock.

Our main findings are as follows. Bilateral trade effects are substantial: V4 exports to the US decline by 20–51% across scenarios, with the steel, non-ferrous metals, and motor vehicles sectors most severely affected. However, the macroeconomic effects on V4 countries are modest — GDP effects range from -0.08% to +0.03% — reflecting the limited direct trade exposure. In the comprehensive global scenarios, V4 countries even experience slight positive

GDP effects driven by trade diversion from more heavily tariffed competitors. The negotiated EU–US agreement (20 AGR) substantially mitigates the adverse effects compared with the threatened reciprocal tariffs (10 RCP). Chinese import redirection into V4 countries is most pronounced in the 20 AGR scenario, where imports from China increase by approximately 8.6–9.3%. Finally, the long-run closure reveals that the effects of even the moderate 10% uniform tariff compound over time as capital reallocates away from trade-exposed sectors, roughly doubling the export declines relative to the short-run results.

The paper is organized as follows. Section 2 reviews the chronology of US tariff changes from early 2025 to early 2026. Section 3 documents the importance of the US as a trading partner for V4 countries, using both gross trade statistics and value-added decompositions. Section 4 reviews the related literature. Section 5 describes the model, the data, and the five simulation scenarios. Section 6 presents and discusses the results. Section 7 concludes.

2 Evolution of US trade policy

Since taking office in January, President Trump has increased tariffs on China by 20%, implemented limited 25% tariffs on Canada and Mexico, and raised tariffs on steel and aluminum to 25%.

On February 22, 2025, President Trump finished his speech and signed an executive order enacting his reciprocal tariff plan. A 25% duty was imposed on imports from Canada and Mexico. The 25% tariff was justified by claims that the neighboring countries were failing to reduce the flow of drugs and crime into the U.S.

On April 2, 2025 (“Liberation Day”), Trump invoked the International Emergency Economic Powers Act (IEEPA) to impose "reciprocal tariffs" on imports from all countries not subject to other sanctions. A universal 10% tariff took effect on April 5.

In early June, USTR designated many countries for the so-called “reciprocal” duties, which would be applied. The formula for calculating “reciprocal” duties was based on the level of US bilateral trade deficit with named countries and was as follows:

$$\Delta\tau_i = \frac{x_i - m_i}{\epsilon * \varphi * m_i}, \tag{1}$$

where $\Delta\tau_i$ describes the change in the tariff rate, the ε represents the elasticity of imports with respect to import prices, and $\varphi > 0$ represents the pass-through from tariffs to import prices. $m_i > 0$ represents total imports from country i, and $x_i > 0$ represents total exports from country i. Assuming that offsetting exchange rate and general equilibrium effects are ignored, the U.S. Census Bureau selected parameter values for ε and φ. The price elasticity of import demand,

ε, was set at 4. The elasticity of import prices with respect to tariffs, φ, was set at 0.25. (based on the recent experience with U.S. tariffs on China, Cavallo et al, 2021). Thus, in practical terms, the “reciprocal tariff” formula reflects only the relative bilateral trade deficit.

The argument for applying reciprocal duties claimed that “trade deficits have many causes, with tariff and non-tariff economic fundamentals as major contributors. Regulatory barriers to American products, environmental reviews, differences in consumption tax rates, compliance hurdles and costs, currency manipulation, and undervaluation all serve to deter American goods and maintain distorted trade balances”. Many economists criticized this formula for being overly simplistic and having little relation to real trade barriers.

The unweighted average for deficit countries was 50 percent, while the global unweighted average is 20 percent. Reciprocal duties were to be imposed on major U.S. trading partners, including, among others: Canada, China (34%), the European Union (30%), India (26%), Indonesia (32%), Japan (24%), South Korea (25%), Malaysia (24%), as well as Mexico, Saudi Arabia, South Africa, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom, and Vietnam. These countries account for 88% of the U.S. total goods trade.

The White House announced a 90-day tariff “pause,” meaning the “tariff level will be brought down to a universal 10% tariff” during that period while “negotiations are ongoing.” Subsequently, the implementation of the duties was postponed several times. Although the pause on additional "reciprocal tariffs" was set to expire on July 8, the US Administration postponed it again to August 1, 2025. Before that date, several countries, including the EU and Japan, concluded negotiations with the US that were both quick and difficult. As a result, the U.S. reached a framework agreement with the EU, imposing a 15% import tariff on most EU goods - half the threatened rate - and averting a bigger trade war between the two partners.

The most recent shift in the US trade policy happened in February 2026. On February 20, 2026. The U.S. Supreme Court (2026) ruled that the International Emergency Economic Powers Act (IEEPA) does not authorize the President to impose tariffs. The Court held that "regulating" imports does not include taxing them, citing separation of powers and the major questions of doctrine. The Court emphasized that the Constitution grants Congress, not the Executive, the exclusive power to lay and collect duties. The ruling invalidated sweeping tariffs imposed under national emergency declarations (e.g., in the fentanyl crisis and reciprocal trade actions). Responding to the Supreme Court decision on February 20, 2026, President Trump said he would impose a 10% global tariff under Section 122 effective immediately. So, the current tariff rate is 10% across the board.

3 Trade exposure of V4 countries to the United States

This section documents the extent to which the four Visegrad countries - Poland, the Czech Republic, Hungary, and Slovakia - are exposed to US trade policy, both directly and through their integration into European production networks. The analysis proceeds in three steps: aggregate EU–US trade flows, bilateral export shares and product composition for V4 countries, and a value-added decomposition that captures indirect exposure through supply-chain linkages - particularly via Germany. The findings establish the empirical context for the simulation analysis in Sections 5 and 6.

3.1 Aggregate EU–US trade

The United States is one of the EU's largest trading partners. In 2024, EU exports to the US totaled 626.6 billion USD[1], while imports from the US amounted to 400.5 billion USD, yielding a substantial trade surplus. Over the preceding decade, bilateral trade expanded markedly — by approximately 175% for exports and 150% for imports — interrupted only by a temporary contraction in 2020 during the COVID-19 pandemic.

3.2 Direct trade exposure of V4 countries

The relative importance of the US as an export destination is considerably lower for V4 countries than for their Western European counterparts. In 2024, Germany directed 10.3% of its exports to the US, with Italy (11.1%), France (8.2%), and Austria (8.9%) recording comparable shares. By contrast, Hungary's share stood at 7.7%, Slovakia's at 5.9%, Poland's at 3.9%, and the Czech Republic's at 3.2%.

The composition of EU exports to the US is concentrated in a few product categories. The five largest, medicinal and pharmaceutical products, road vehicles, general industrial machinery and equipment, electrical machinery and appliances, and power-generating machinery and equipment, collectively accounted for 53.0% of total EU exports to the US in 2024. Participation by V4 countries in these categories is uneven. Their share is highest in power-generating machinery and equipment (12.1%) and negligible in medicinal and pharmaceutical products (0.2%). Germany dominates all five categories, with shares ranging from 17.2% (medicinal and pharmaceutical products) to 64.5% (road vehicles)

These gross export shares, however, understate the true dependence of V4 economies on US demand, because they do not capture the domestic value added that V4 countries contribute to third-country exports — above all, German exports — destined for the United States. A value-added decomposition addresses this limitation.

[1] All values from Eurostat was expressed in USD using annual average exchange rate for 2024.

3.3 Value-added exposure through production networks

Table 1 reports three measures of trade exposure derived from the 2022 OECD Trade in Value Added (TiVA) database: the share of gross exports directed to the US, the share of domestic value added (DVA) embodied in gross exports to the US, and the share of DVA embodied in US final demand. The third measure captures not only direct shipments but also value added that reaches the US indirectly — for instance, Czech automotive components exported to Germany and subsequently re-exported to the US in finished vehicles.

Table 1 Significance of Exports to the USA for Selected EU Countries (2022)

Sector	% of Gross Exports to USA					% DVA in Gross Exports					% DVA in US Final Demand				
	CZ	DE	HU	PL	SK	CZ	DE	HU	PL	SK	CZ	DE	HU	PL	SK
Overall	**3.8**	**9.3**	**5.8**	**4.3**	**6.8**	**4.1**	**9.4**	**5.9**	**4.4**	**5.5**	**7.2**	**12.9**	**9.0**	**7.4**	**8.3**
Manufacturing	3.4	9.4	5.6	4.1	7.8	3.5	9.5	5.6	4.0	6.5	6.8	13.0	8.9	7.3	9.1
Food, Beverages & Tobacco	1.8	3.7	1.7	3.2	0.6	1.8	3.7	1.7	3.2	0.6	3.7	5.6	3.8	4.6	2.3
Textiles, Apparel & Leather	4.3	4.7	3.6	2.0	3.7	4.3	4.7	3.6	2.0	3.7	6.5	7.3	5.8	3.8	5.5
Wood & Cork Products	5.7	14.7	2.3	3.1	0.7	5.7	14.7	2.3	3.1	0.7	8.0	15.7	6.3	6.7	5.7
Paper & Printing	3.4	7.2	2.1	1.7	1.0	3.4	7.2	2.1	1.7	1.0	7.1	11.4	6.5	5.9	4.9
Coke & Refined Petroleum	1.2	3.7	1.5	1.6	0.4	1.2	3.7	1.5	1.6	0.4	6.2	11.7	7.0	6.8	5.8
Chemicals & Pharmaceuticals	4.1	10.6	7.0	2.4	1.2	4.3	10.9	7.9	2.4	1.2	8.3	15.0	11.0	6.7	6.0
Rubber & Plastics	6.5	6.3	4.8	3.3	8.4	6.5	6.3	4.8	3.3	8.4	9.4	11.9	8.9	7.5	11.9
Non-metallic Mineral Products	4.9	8.4	5.1	4.4	3.6	4.9	8.4	5.1	4.4	3.6	7.0	11.3	7.4	6.7	6.8
Basic Metals	2.5	7.8	2.0	1.8	0.5	2.5	7.5	2.1	1.8	0.5	8.2	13.4	8.8	8.3	8.2
Fabricated Metal Products	4.2	6.2	5.3	3.4	2.3	4.2	6.2	5.3	3.4	2.3	7.3	11.6	9.0	7.2	7.2
Electronics & Electrical Equipment	4.6	9.6	5.9	5.6	4.0	4.6	9.6	5.9	5.6	4.0	7.9	13.6	9.4	9.3	7.5
Motor Vehicles & Transport Equip.	1.5	12.0	6.8	5.6	12.5	1.5	12.0	6.8	5.7	12.4	4.6	14.8	9.9	8.4	14.3
Other Transport Equipment	5.6	12.2	1.6	18.4	0.4	5.6	12.4	1.6	18.3	0.4	9.9	16.2	5.2	19.7	7.1
FurnitureJewelry & Misc. Manuf.	5.8	9.5	6.7	6.9	5.8	5.8	9.5	6.7	6.9	5.8	7.4	12.1	8.7	8.2	7.7

Source: OECD Trade in Value Added (TiVA) database. Note: DVA = Domestic Value Added. Values represent percentage shares × 100.

Across the four V4 countries, the DVA share in US final demand ranges from 7.2% (Czech Republic) to 9.0% (Hungary) — roughly double the corresponding gross export shares. This gap reflects the deep integration of V4 producers into European, and particularly German, supply chains. Germany itself registers a DVA share of 12.9%, with the most exposed sectors — other transport equipment, wood and cork products, chemicals and pharmaceuticals, and motor vehicles and transport equipment — each exceeding 15%.

Each V4 country exhibits a distinct sectoral specialization in its value-added linkages to the US. Poland, which contributes the largest DVA among the V4 countries, is most exposed through the transport equipment sector (19.7%) and electronics and electrical equipment (9.3%). In the Czech Republic, domestic value added is primarily driven by other transport equipment (9.9%) and rubber and plastics (9.4%). Hungary's exposure is concentrated in chemicals and pharmaceuticals (11.0%), a sector closely tied to the US through foreign direct investment, along with motor vehicles and transport (9.9%) and electronics and electrical equipment (9.4%). Slovakia's DVA is heavily weighted toward motor vehicles (14.3%) and rubber and plastics (11.9%). These sectoral patterns reflect the distinct industrial specializations that have developed across the region following post-communist economic transformation and deep integration into European production networks.

3.4 The indirect channel through Germany

The analysis above establishes that a purely bilateral perspective substantially understates V4 countries' exposure to US tariff shocks. The most important indirect transmission channel operates through Germany. All four V4 countries are deeply integrated into the German economy: a significant share of V4 exports to Germany consists of intermediate goods — engines, transmissions, wiring harnesses, electronic assemblies — that are subsequently embodied in German final products exported to the United States. A reduction in US demand for German goods, whether caused by higher tariffs or by the associated demand compression, therefore propagates backward through the supply chain to V4 producers.

Figures 1–5 illustrate the evolution of DVA shares in US final demand from 2010 to 2022, both at the aggregate level and for four key sectors. At the aggregate level (Figure 1), Germany and Hungary experienced a dynamic increase from 2010 to 2015 that subsequently plateaued, while Slovakia, Poland, and the Czech Republic followed a more gradual but sustained upward trajectory over the same period.

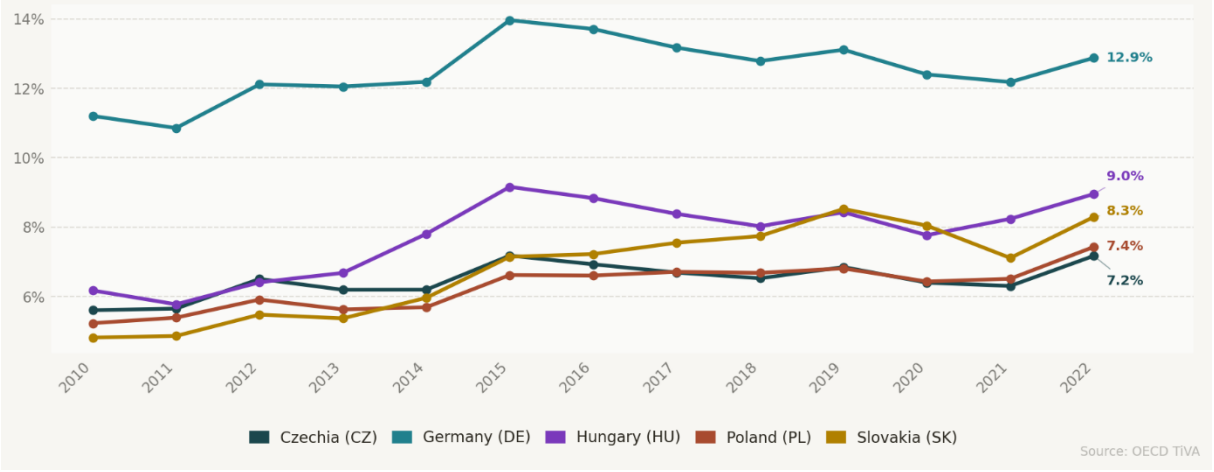
The sectoral patterns reveal important heterogeneity. In chemicals and pharmaceuticals (Figure 2), most countries exhibit a stable trend, with Hungary as a notable exception: its DVA share to the US increased sharply after 2020, reflecting the expansion of pharmaceutical manufacturing capacity linked to foreign direct investment. The motor vehicles and transport equipment sector (Figure 3) displays the most pronounced variation. Germany, Hungary, and Slovakia all experienced a rapid increase in DVA shares from 2011 to 2015, consistent with the expansion of German-centered automotive production networks into CEE. Hungary hosts

manufacturing facilities for Audi, Mercedes, and Opel,[2] while Slovakia's production base encompasses Volkswagen, Kia, Škoda, Peugeot, and Citroën.

The trend for Germany and Hungary reversed after 2015, coinciding with the Volkswagen emissions scandal ("Dieselgate"), which eroded consumer confidence in German diesel vehicles and triggered regulatory tightening in key export markets, including the United States. Slovakia, by contrast, continued to gain DVA share, a pattern consistent with its role as a lower-cost alternative production base within the German automotive supply chain and with the cost-driven vertical fragmentation of production documented in the theoretical literature (Antràs and Helpman, 2004).

In the rubber and plastics sector (Figure 4), Germany maintains the highest DVA share, but Slovakia's rapid growth after 2018 brought its share to a comparable level by the end of the sample period. In other transport equipment (Figure 5), Poland stands out as the leading V4 country, with a DVA share that expanded rapidly through 2013–2014 before stabilizing. By 2022, Poland and Germany recorded the highest DVA shares in this sector, while the Czech Republic's share declined relative to its mid-decade peak.

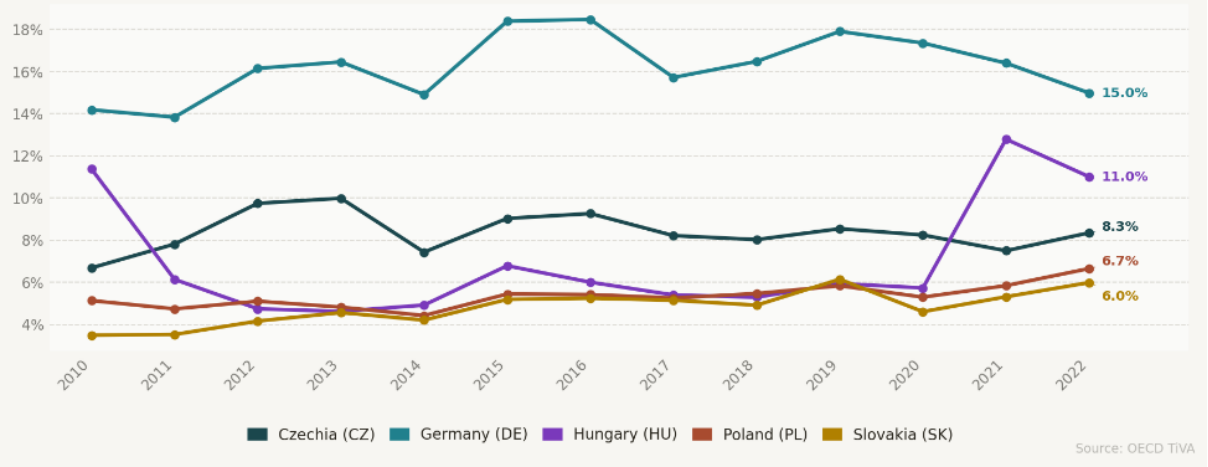
Figure 1: Domestic value added in the US final demand (%)



Source: Own elaboration based on TiVA (OECD)

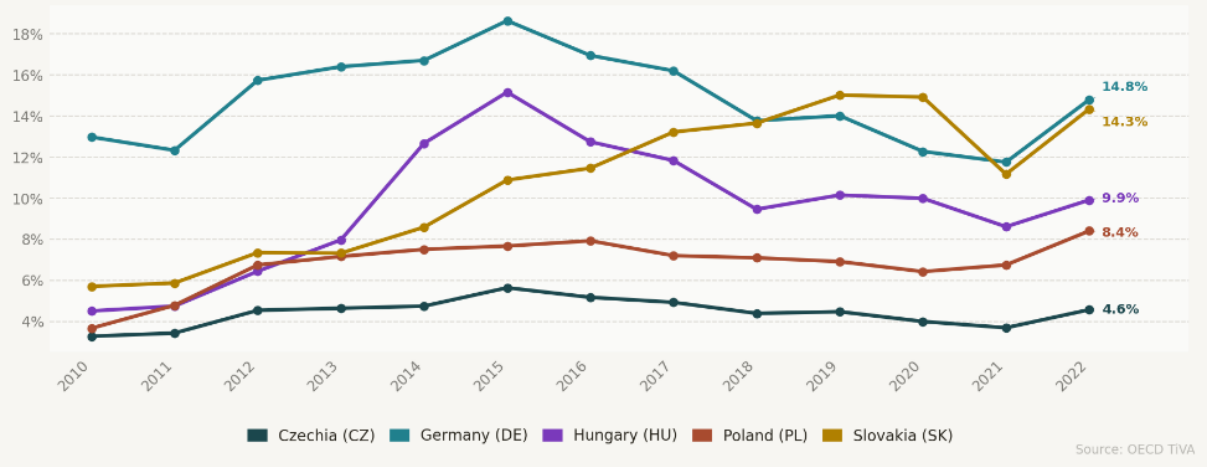
[2] In 2026, BMW commenced operations at its newly constructed manufacturing facility in Debrecen, Hungary, which is expected to further increase Hungary's DVA contribution in the motor vehicles sector in subsequent TiVA releases.

Figure 2: Chemicals and pharmaceutics



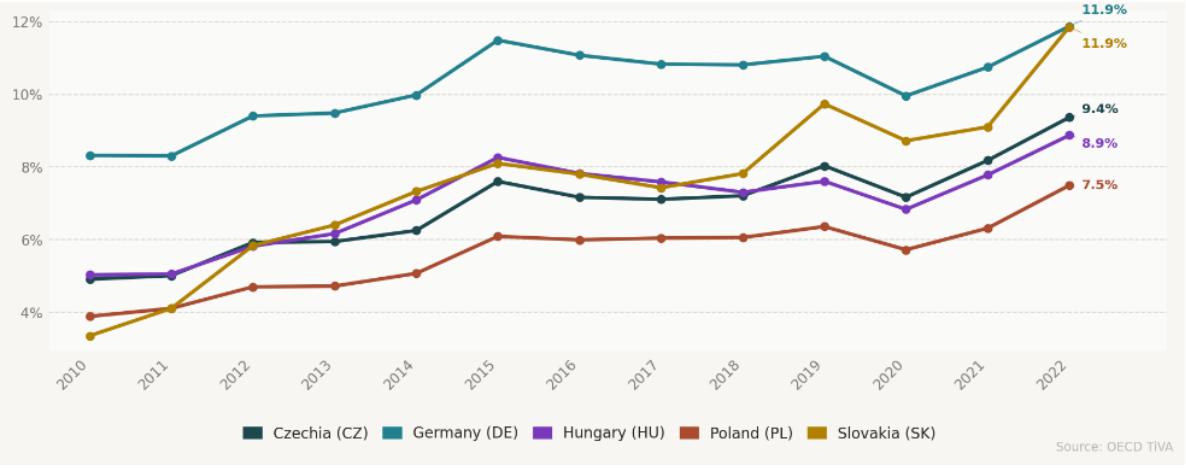
Source: Own elaboration based on TiVA (OECD)

Figure 3: Motor vehicles and transport equipment



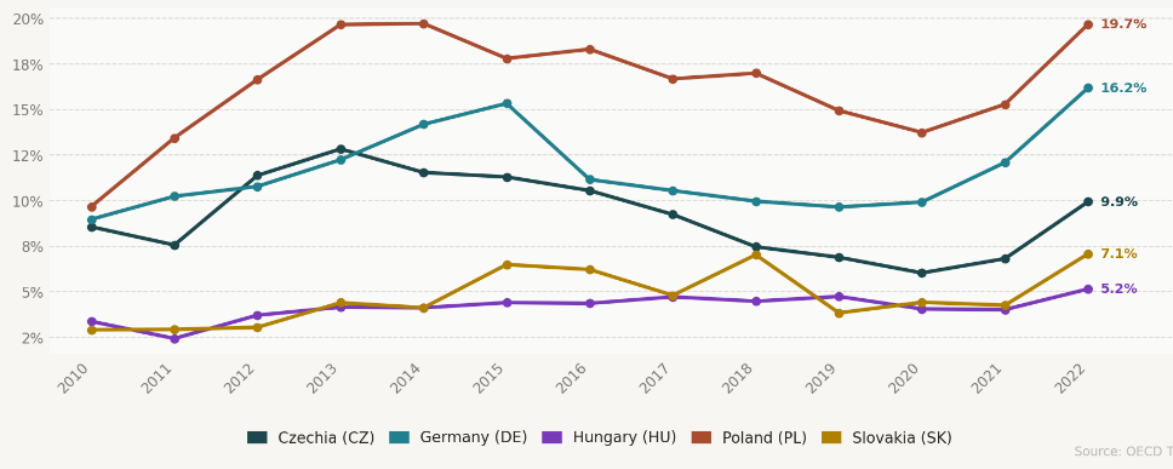
Source: Own elaboration based on TiVA (OECD

Figure 4: Rubber and plastic



Source: Own elaboration based on TiVA (OECD)

Figure 5: Other transport equipment



Source: Own elaboration based on TiVA (OECD)

3.5 Implications for the simulation analysis

The evidence presented in this section demonstrates that the exposure of V4 countries to US trade policy shifts extends well beyond what direct bilateral trade statistics suggest. While gross export shares to the United States remain modest — ranging from 3.2% for the Czech Republic to 7.7% for Hungary — a value-added decomposition reveals substantially deeper integration through German-centered production networks. The indirect channel is particularly pronounced in the motor vehicles and transport equipment sector, where Slovakia and Hungary carry the highest DVA concentration, and in chemicals and pharmaceuticals, where Hungary's exposure has grown markedly since 2020.

The tariff measures imposed by the United States in 2025–2026, therefore, pose a non-trivial indirect risk to the V4 region, operating primarily through demand compression in Germany, the V4 countries' single most important trading partner. The simulation scenarios presented in Section 6 are designed to capture both the direct bilateral channel and this indirect supply-chain transmission mechanism

4 Review of literature

The European Union faces major challenges following Donald Trump's re-election as U.S. President. The main threat to EU security stems from unilateral US actions that could undermine the importance of international organizations such as NATO, the Paris Agreement, and the World Trade Organization (WTO).

Furthermore, during the presidential campaign and after the election, Donald Trump threatened to increase tariffs on imports from the EU and many other economies (i.e., China).

The policy of raising tariffs could have harmful effects on the EU economy, both directly and by weakening US and global economic growth (Bercero et al, 2024).

The EU is very vulnerable to the trade policies of the second- and third-largest trading powers, the US and China. This can directly impact major economies like Germany and France, and indirectly influence countries such as Poland and the Czech Republic, which rely heavily on internal EU demand from the continent's top exporters.

Following Donald Trump's re-election, we observe an unprecedented shift in US trade policy, characterized by increased protectionism and a move towards unilateral negotiations. Trump's policy was based on “unfair” trade practices by nearly all trade partners. President Trump, who described himself as a “tariff man," imposed substantial tariffs on imported steel and aluminum under Section 232 of the Trade Expansion Act, citing national security concerns (Felbermayr et al., 2024).

A series of tariffs targeting a wide range of Chinese goods led to a tit-for-tat escalation, triggering a trade war that disrupted global supply chains and heightened market uncertainty. This prompted scholars to conduct numerous ex-post studies assessing the impact of the 2018-2019 tariffs on the US economy. On the one hand, a study by Autor et al. (2024) found that increases in tariffs had no significant effect on employment in affected sectors. In contrast, retaliatory tariffs had a considerably negative impact, especially on the agricultural sector. On the other hand, Fajgelbaum et al. (2020) examined trade and unit value data and found that world prices for products targeted by tariffs did not fall. Amiti et al. (2020) investigated the pass-through from global prices to domestic prices following the imposition of the 2018-19 tariffs in the US. They discovered that the effect was mainly borne by US households and businesses, with a few exceptions, such as the steel sector, where exporters absorbed about half of the shock. Fajgelbaum et al. (2020) also estimated a 0.04% decline in US real national income relative to GDP. York (2024) supported this finding, with results indicating that the long-term US GDP could decrease by 0.2%.

One of the (alleged) main goals of President Trump was to protect US employment and certain sectors from “unfair” competitors. However, Flaaen and Pierce (2019, 2024) found that Trump’s trade war negatively affected US employment in the short run and led to an increase in producer prices.

Another part of the literature offers ex-ante assessments of Trump’s proposals announced during the 2024 presidential campaign. The most common scenario involved a 10% universal tariff combined with an additional 60% tariff on imports from China. Most of the papers used a general equilibrium model approach. The results generally agree that this policy reduces US GDP. York (2024) estimated the impact at 0.8%, while Clausing and Obstfeld (2024) estimated

it as a 1.8% decrease. With reciprocal retaliation measures by all US trading partners, US GDP decreases by 0.6%, and the consumer price index rises by 1%.

In their study, Felbermayr et al., 2024, use the KITE model—a new quantitative trade model calibrated with detailed input-output and trade flow data—to evaluate the impact of three US policy scenarios: (i) the US imposes an additional 10% tariff on all non-FTA partners and a 60% tariff on imports from China, (ii) this is followed by retaliation from affected countries with the same levels of reciprocal tariffs changes, and (iii) the US additonaly imposes tariffs on FTA trading partners. The results show that in the first scenario, US exports decrease by 13.6%, US GDP drops by 0.6%, Chinese exports decline by 8%, and Chinese GDP falls by 0.7%. In the second scenario, the negative effects are consistently larger, particularly for the US, with a 21.9% reduction in exports and a 0.8% decrease in GDP. If FTA US partners are included in this trade war, China experiences slightly less impact; however, US exports still fall by 38.6%, and US GDP decreases by 1.2%. The effects of these scenarios on European countries are negative but moderate, with Germany more affected than France.

Bouët et al. (2025) simulated a trade war in 2025 using the MIRAGE-Power model, involving a 60% tariff increase on US imports from China, a 10% rise on other partners except Canada and Mexico, and reciprocal retaliation. Results show a 0.5% decline in world GDP and a 3.4% decrease in global trade, heavily impacting the US and China but benefiting Canada and Mexico. The simulation revealed a major reallocation of trade flows worldwide, with retaliation worsening US losses, especially due to Non-Tariff Measures (NTMs). If Canada and Mexico join, both face significant GDP and trade losses. The US cannot replace federal income tax revenue with tariffs, even with a revenue-maximizing tariff.

The US and the EU remain each other’s most important trade and investment partners, despite China’s rise. Together, they form the world's largest bilateral economic relationship. Investment ties are even more significant, with US total foreign direct investment (FDI) in the EU being three times higher than in Asia (Schneider-Petsinger, 2019).

Initially, the policy was introduced as a measure against Chinese exporters; however, it also ended up targeting the USA's allies, including Canada, Mexico, and the EU. President Trump rejected the previous administration’s plans for the TPP as his first act in office and launched a trade war with China (Felbermayr et al., 2024).

During Donald Trump's first term as president, the US government imposed tariffs on steel and aluminum in March 2018 under Section 232 of the Trade Expansion Act of 1962, citing US national security concerns. In response, the EU took three measures: launching legal proceedings against the US at the WTO, imposing retaliatory tariffs on US products, and initiating a safeguard investigation into potential damage caused by additional imports entering

the EU due to the expanded closure of the US market. Another area of transatlantic trade tensions was President Trump's repeated threat to impose tariffs of up to 25 percent on imports of cars and automotive parts. Fetzer and Schwarz (2021) explain how the EU employed these tools selectively against US counties that supported Trump politically: "counties that are more exposed to retaliatory tariffs had higher levels of support for Trump in the 2016 presidential election".

However, soon after the beginning of his second term in 2025, Trump reimposed import tariffs on the EU, declaring that "The European Union has treated us so terribly" (Starcevic & Ewing, 2025). This includes tariffs of 25% on aluminum and steel imports from the EU, effective March 12, 2025 (Swanson, 2025), marking the start of another chapter in the US-EU trade war. According to Evenett and Fritz (2025), early calculations show that the EU has over US$20.3 billion in exports at risk, where "at risk" is measured by the simple value of the USA's imports of these goods.

Economists modeled Trump's tariffs on the EU economy and policy responses, mainly using CGE models. Saussay (2024) analyzed the impact of the presidential campaigning proposal. The scenario used included a baseline 10% import tariff on all foreign-made goods, a targeted 60% import tariff on Chinese goods, and a 100% tariff on all imported cars. The simulation suggests that the proposal could reduce the United States' GDP by 0.64% and China's by 0.68%, while the European Union would face a more modest 0.11% reduction. Within the EU, the impacts would vary significantly: Germany could see a 0.23% drop in GDP, while Italy could see a negligible 0.01% decrease. The simulation results in the paper show that introducing retaliatory measures by China or the EU would likely worsen economic outcomes for all parties involved.

Boeters and Meijerink (2024), using the same scenario as Saussay (2024) examined the impact of US trade protectionism on the Dutch economy, which is the third-largest European exporter to the USA. They found that the overall effect on the Netherlands and the EU remains relatively small, although some manufacturing sectors are affected. The most affected sectors include machinery and equipment manufacturing (-6%), electronic and optical products (-5.7%), and vehicles (-5.3%), mainly due to decreased exports to the US. Meanwhile, the Dutch service sector benefits from higher US service costs, which boost its international competitiveness. For the EU, the effects are similar to those on the Netherlands, with larger declines seen in sectors such as vehicles (-6.1%) and pharmaceutical products (-4.9%). They also note that an EU retaliatory response is likely to have a minimal impact on the US economy but would raise prices and further restrict trade.

Several papers offer policy recommendations for the EU's response (Boeters & Meijerink, 2024; Saussay, 2024; Bercero et al., 2024; Naudé, 2025). Most of them suggest three possible approaches. First, the EU could explore alternative export markets to replace its current exports. Second, it should avoid, in particular, using its carbon border adjustment mechanism (CBAM) as a retaliation tool, as this would require an unrealistically high carbon price on the embodied emissions of US imports. This could undermine the acceptability of the border carbon tax among the EU's trade partners. Third, the EU could focus on building a coalition with other countries (like Japan) to reform the World Trade Organization (WTO)[3].

In the first half of 2025, some CGE studies were conducted, analyzing the likely implications of possibly higher duties "threatened" by the US Administration. Some of them also analyzed the introduction of retaliation duties by the affected countries. For example, Ai et al. (2025) analyze mainly US-China tariff relations, assuming 60% bilateral tariffs and 25% tariffs on imports from Canada and Mexico. They show that it would lead to a 0.5% reduction in China's GDP and a 0.2% reduction in the US's GDP. Bouet et al. (2025) in the main scenario of a 60 pp. tariff increase on all US imports from China, a 10 pp. tariff increase on all products from other partners (except Canada and Mexico) and reciprocal tariff retaliation show that world GDP and world trade would decrease respectively by 0.5% and 3.4%, with higher losses for the US and China.

There are also some CGE studies conducted in 2025 that analyze the possible implications of the "reciprocal duties" announced in April 2025. For example, Giesecke and Waschik (2025) analyze the long-run consequences of reciprocal duties for trade, GDP, and investment (2040). In the first scenario, the US imposes these tariffs, and in the second, other countries retaliate with the same levels of duties (except Australia). They show that, without retaliation, the US and Chinese GDPs would drop in the long run by 1.89% and 0.04%, respectively. In the case of retaliation, the GDP drops would be larger: 2.17 percent for the US and 0.13 percent for China.

Hinz et al. (2025) also examined the potential effects of the US "reciprocal" duties imposed on listed countries, as well as the rising tariff duties between the U.S. and China, which could increase by up to an additional 145pp or 125pp, respectively. In the short term, the impact on European countries would be moderate (Germany: -0.16% of GDP). This would be because the tariffs on China would be significantly higher, making European goods relatively more attractive in the U.S. market, while Chinese exports to the U.S. would drop sharply by 17%. As a result, the large surplus of Chinese products would be redirected toward Europe, creating a

[3] This actually has taken place:
https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1890 (access 25.07.25)

"Chinese glut." According to Hinz et al. (2025), China would export much more of miscellaneous manufacturing, including electronic goods, intensifying competition particularly for Czechia, Hungary, the Netherlands, and Poland.

The most recent CGE analysis of the implications of tariff reductions for the US economy, accounting for the invalidation of IEEPA, was conducted by the Congressional Budget Office in 2026. According to this study, effective tariff rates will be reduced to 9.3%, the increase in fiscal revenue will be equal to 1.4 US trillions, the prices will increase by 0.6%, the average household real income loss will be equal to 622 dollars, the GDP output will be reduced by 0.1% in 2026, and unemployment will increase by 0.3 percentage points.

Studies examining the impact of US policy on CEE countries are limited. Ambroziak (2020) examines the consequences of US trade policy for global value chains (GVC). He suggests that the 2019 trade conflict between the US and China will worsen demand for goods from both trading partners. This created space in the American market for EU-produced goods, improving the trade balance with the USA.

The impact of Trump on the Polish economy (the largest CEE country) was simulated by Sojka et al. (2025) from the Polish Economic Institute (PEI). They indicate that an increase in trade policy restrictiveness will negatively affect Poland, as the US is the second-largest destination for Polish value-added exports globally, after Germany. In 2023, final demand from the US accounted for 2.6% of Poland's GDP and around 3% of its employment. According to estimates by Sojka et al. (2025), current tariffs on steel and aluminum, along with those on all products from China and the retaliatory measures announced by China and the European Union, are expected to reduce Poland's GDP by 0.11% in the short term. The potential impact of these tariffs might be most severe for the mining and quarrying sector, where exports could fall by 4 to 5%. If tariffs were extended to the global automotive sector at a rate of 25%, the Polish economy would see only a slightly larger decline, with GDP decreasing by 0.12% without tariffs and by 0.15% if additional EU retaliatory measures are implemented. The authors also suggest that if the EU were to become involved in a trade war with the US, Poland's GDP could decrease by less than 0.5%.

The limited research on the impact of Trump tariffs in a broader set of CEE countries motivates us to address this gap in the literature. In the next section, we outline the data, methodology, and scenarios considered.

5 The model and simulation scenarios

In our simulations, we use the standard GTAP model with the standard closure. We also utilize the GTAP 11c database. We update the tariffs from 2017 to 2024 using the WITS TRAINS

database, which also manages our aggregation when calculating average applied tariffs. All scenarios are executed using the tms variable shocks, which are computed to add tariffs to the original applied tariffs.

Our scenarios reflect the changing situation between March 2025 and March 2026. We primarily rely on information from Lowell et al. (2025)[4] for our scenarios. They do not account for any retaliation elements in the EU.

Scenario **10 RCP** involves threatened reciprocal tariffs as of mid 2025, before the agreements of August 2025 were reached. The tariffs on the analyzed countries are as follows:

- The European Union: 30%
- China 34%
- Canada and Mexico 25%
- Japan and Korea, EFTA, rest of Europe, MENA countries, Africa: 25%
- India 26%
- Vietnam 46%
- Rest of Asia: 28,5%
- Rest of America: the trade-weighted average with Brazil's tariff of 50% and 10% for the other countries.
- Australia & Oceania 10%
- Rest of the World 10%
-

Moreover, the following sectoral exceptions regarding tariffs imposed on:

- Motor vehicles and parts thereof: 25%
- Steel: 50% (and 25% applied to the UK)
- Aluminum and non-ferrous metals: 50%

The 20 **AGR** scenario covers tariffs as of the end of September 2025. It reflects the negotiated agreement between the EU and the US, under which the US sets maximum tariffs at 15 percent, and the Union eliminates tariffs on industrial goods imported from the US. The simulation also reflects US agreements concluded with the United Kingdom, Japan, South Korea, Vietnam, and the Philippines. US tariffs on goods imported from Canada and Mexico are 25 percent, and on goods from China, 20 percent. Reciprocal US tariffs apply to the remaining countries. We also account for the sectoral exceptions introduced. Tariffs on motor

[4] See: https://www.tradecomplianceresourcehub.com/2025/07/17/trump-2-0-tariff-tracker/

vehicles and their parts are 25 percent, on steel as well as on aluminum and non-ferrous metals are 50 percent, with concurrent sectoral tariff concessions for the EU and the United Kingdom.

The **30 UNI** scenario reflects the structure of tariffs stemming from the invalidation of IEPPA, setting a common 10% tariffs on all partners, except Canada and Mexico, where USMCA applies. This scenario also includes special tariffs for steel, aluminum, and motor vehicles and parts, similar to those in scenario **10 RCP**. Given the high level of compliance with USMCA, we assume there will be no tariff hikes on Canada and Mexico. **31 UNILR** includes the same tariff assumptions (but a long-run closure).

Our focus is on the impact on the EU, specifically the Visegrad group: Poland, the Czech Republic, Hungary, and Slovakia. To isolate the effect of imposing a tariff on the EU, we introduce a scenario, **40 EU10**, which includes the 10% tariffs levied solely on the EU. These scenarios also include special treatment for motor vehicles and parts (25%), steel, and aluminum (50%).

6 Results

The across-the-board increase in US tariffs against its trading partners is a significant policy change. Our simulations show that the effects on bilateral trade between the analyzed countries and the US are substantial, but it matters not only for the V4 countries and other EU economies but also for their major trading partners. In particular, with the initially threatened reciprocal tariffs reflected in 10 RCP (Table 2), where the tariff on the EU of 30% was relatively high compared to other partners, the simulated drop in bilateral trade ranges from approximately 31% to 51% for the V4 countries. Moreover, German exports to the US drop by 43, which could certainly be detrimental to V4 indirect exports of value added to the US.

Conversely, the bilateral agreement between the US and the EU (20 AGR), where the negotiated 15% was lower than the rate that was applied to many economies competing with the EU, including China, which dampened the 10 RCP bilateral trade effect for the V4 by half, with Slovakia actually expected to increase exports to the US.

The current tariff scenario (30 UNI), which is largely non-discriminatory, is expected to reduce bilateral exports by 20+% across the analyzed V4 countries and the rest of the EU. However, in the long-run scenario (31 UNILR), the reduction in exports is at least twice that in the short-run scenario. Lastly, in scenario 40 EU10, where we impose a uniform 10% tariff and sectoral tariffs only on EU countries, this isolated short-run effect is in fact similar to that of the comprehensive scenario 30 UNI.

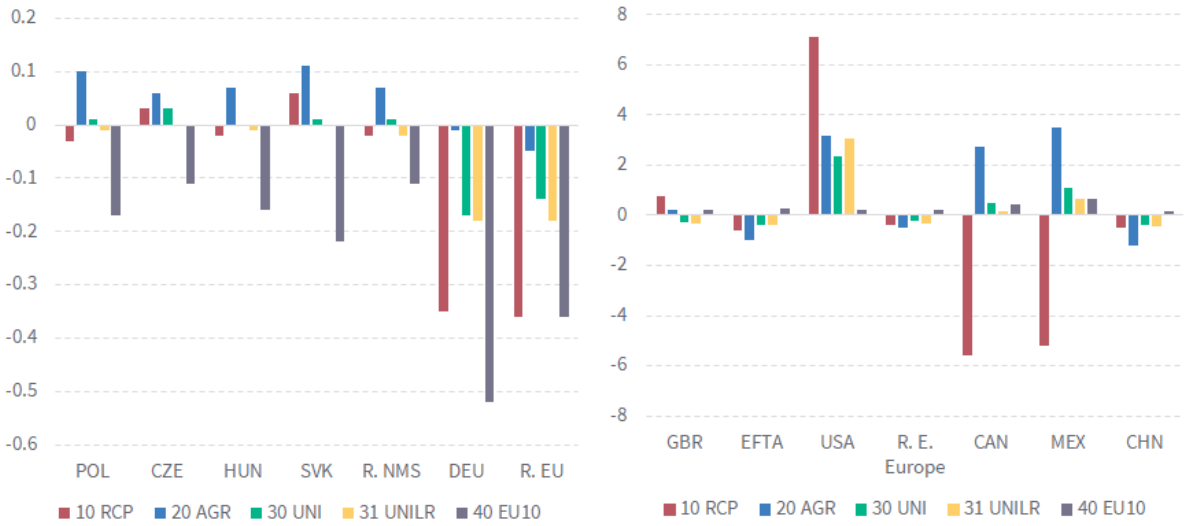
Table 2 Merchandise exports to the US

Exports	10 RCP	20 AGR	30 UNI	31 UNILR	40 EU10
POL	-51.1	-10.0	-23.0	-46.1	-21.7
CZE	-50.0	-10.7	-23.8	-48.9	-22.5
HUN	-42.0	-2.5	-22.3	-53.0	-21.0
SVK	-30.8	4.9	-22.2	-59.9	-21.0
R. NMS	-45.3	-2.7	-20.7	-43.8	-19.7
DEU	-42.9	-4.2	-21.8	-49.0	-20.6
R. EU	-45.9	-5.0	-20.7	-42.4	-19.5
Imports	10 RCP	20 AGR	30 UNI	31 UNILR	40 EU10
POL	-41.6	-18.9	-23.0	-6.4	-26.8
CZE	-40.9	-19.7	-22.6	-6.6	-26.7
HUN	-43.2	-22.2	-24.8	-7.8	-28.6
SVK	-45.7	-23.5	-26.5	-6.7	-30.1
R. NMS	-40.0	-19.8	-21.5	-5.7	-25.0
DEU	-39.6	-16.3	-22.8	-6.5	-26.4
R. EU	-37.4	-16.3	-19.7	-6.1	-23.4

Source: own simulations

As can be observed from Table 2, import changes are significantly diversified across scenarios, but in general, they are expected to decrease. The scale of the decrease depends on the relative effects of tariffs on exports of other countries (i.e. trade redirection) as well as the substantial changes in terms of trade. Concerning the latter, an increase in tariffs of the observed scale does substantially improve the US terms of trade (Figure 6) improving the overall welfare effect for the US (see later). In the analyzed EU countries, the effects are more nuanced. V4 countries do experience an improvement in terms of trade in the short run, which is the highest in the 20 AGR scenario, except in 10 RCP as well as when we consider the 40 EU10 isolated tariff shock on the EU exports.

Figure 6 Changes in the terms of trade



Source: own simulations

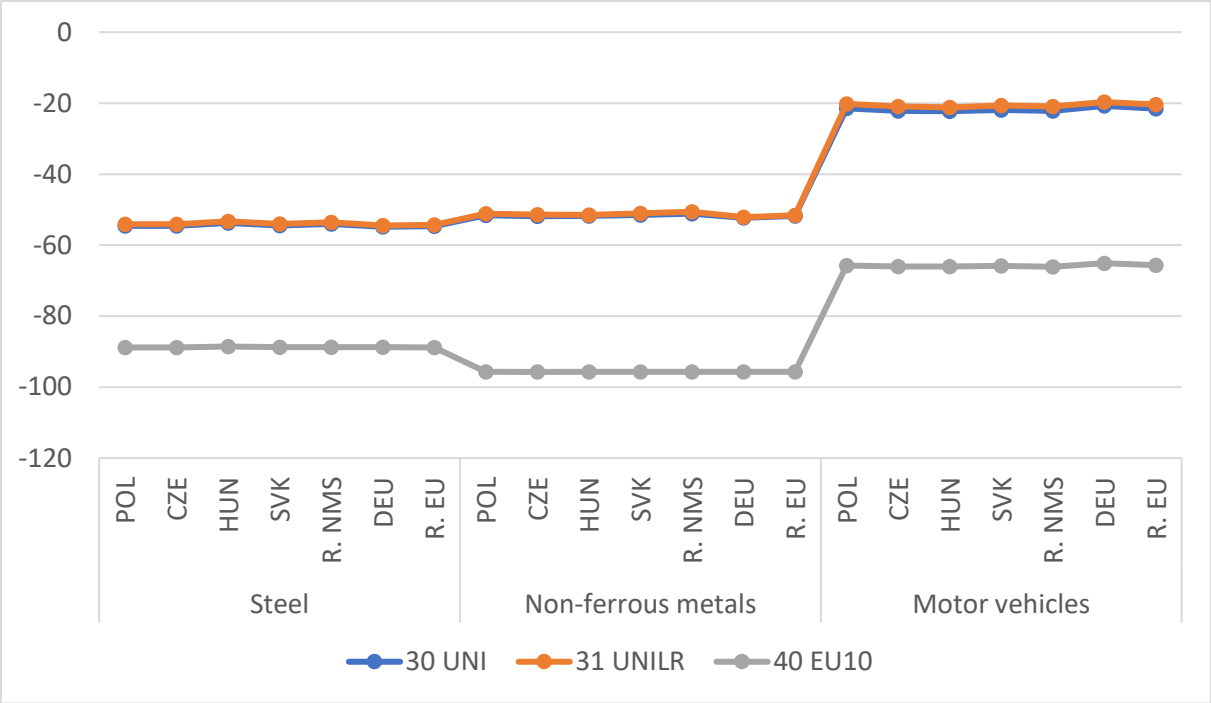
In sectors with the highest level of protection, the changes in export volumes to the US are particularly severe. Table 5 presents the simulated changes in EU exports to the US in steel, non-ferrous metals, and motor vehicles — the three sectors subject to additional Section 232 tariffs of 50%, 50%, and 25%, respectively. Even under the current post-IEEPA regime (30 UNI), where the general tariff rate is a relatively modest 10%, the sectoral tariffs on steel and non-ferrous metals virtually eliminate bilateral trade. Steel exports from V4 countries to the US decline by approximately 45–85%, with even larger drops for non-ferrous metals. Motor vehicle exports decline by roughly 25–35%, reflecting the compounding effect of the 25% tariff on a sector already characterized by significant non-tariff compliance costs.

Under the initially threatened reciprocal tariffs (10 RCP), the combination of the 30% general tariff on the EU with the sector-specific surcharges effectively shuts down EU metal exports to the US, with declines exceeding 85% for steel and 95% for non-ferrous metals. Motor vehicle exports fall by approximately 60–65%. The negotiated 20 AGR scenario moderates these effects substantially for motor vehicles, owing to the sectoral concessions embedded in the EU-US agreement, but the steel and non-ferrous metals sectors remain heavily affected because the Section 232 tariffs apply regardless of the bilateral agreement.

Comparing the short-run (30 UNI) and long-run (31 UNILR) closures, the long-run capital reallocation amplifies the sectoral trade effects, particularly for motor vehicles, where the reduction in exports to the US deepens as investment gradually shifts away from export-oriented automotive capacity in the EU. The isolated EU tariff scenario (40 EU10) produces sectoral export declines very similar to those in 30 UNI, confirming that for these heavily

protected sectors, the bilateral EU–US tariff channel dominates over third-country trade diversion effects.

Figure 7 Simulated changes of exports to the US in selected sectors



Source: own simulations

An important dimension of the tariff shock is the potential redirection of Chinese exports toward EU markets. Table 4 (shown earlier) reports the simulated changes in the volume of imports from China across scenarios. In the 10 RCP scenario, with higher but differentiated tariffs across partners, Chinese imports into V4 countries increase by approximately 2.0–3.0%. The effect is considerably larger in the 20 AGR scenario (approximately 8.6–9.3%), where the negotiated EU–US agreement gives the EU preferential access to the US market, while Chinese exports, subject to a 20% tariff in the US, are redirected toward the EU. Under the current post-IEEPA regime (30 UNI), with a uniform 10% tariff, the trade diversion effect is more modest (1.7–2.3%), as the non-discriminatory tariff structure limits the scope for differential redirection. In the long run (31 UNILR), Chinese imports into V4 countries actually decline (-4.2% to -5.5%), as the capital accumulation response shifts global production patterns and partially reverses the short-run redirection.

Table 3 Changes in the volumes of imports from China

Imports	10 RCP	20 AGR	30 UNI	31 UNILR	40 EU10
POL	2.5	8.7	1.9	-4.7	2.2
CZE	3.0	8.7	2.2	-4.3	2.7
HUN	2.0	8.7	1.7	-5.5	2.2
SVK	2.4	8.6	1.8	-4.2	2.3
R. NMS	2.4	9.1	2.0	-4.9	2.1
DEU	3.1	9.3	2.3	-4.5	2.7
R. EU	3.2	9.5	2.5	-4.7	2.8

Source: Own simulations

Sectoral output changes vary across countries and scenarios (Table 4). Under the current tariff regime (30 UNI), the most negatively affected manufacturing sectors in V4 countries are textiles, apparel, and leather, as the general increase in US protectionism diverts competitive pressure from Asian suppliers toward European markets. Steel output declines moderately in the Czech Republic (-1.5%) and Germany (-1.1%), reflecting their larger direct exposure to US steel demand. By contrast, several V4 countries experience mild positive output effects in chemicals, pharmaceuticals, electrical equipment, and machinery sectors where the EU's preferential access relative to China and other heavily tariffed partners generates trade diversion in the EU's favor.

The long-run closure (31 UNILR) amplifies both the negative and positive sectoral effects. Pharmaceuticals in particular show a notable positive response in V4 countries (Poland +0.8%, Czech Republic +0.6%, Hungary +0.5%, Slovakia +0.7%), as the long-run reallocation of capital reinforces the comparative advantage shift induced by the tariff-driven contraction in German pharmaceutical exports to the US (-1.1%). Motor vehicle output in Germany declines further in the long run (-1.1% vs. -0.9% in the short run), with indirect negative effects on Hungary (-0.3%) and Slovakia (-0.6%), reflecting their deep integration into the German automotive supply chain.

Table 4 Sectoral changes in real value added.

	30 UNI					31 UNILR					40 EU10				
	POL	CZE	HUN	SVK	DEU	POL	CZE	HUN	SVK	DEU	POL	CZE	HUN	SVK	DEU
Food	-0.3	-0.3	-0.2	-0.1	-0.2	-0.3	-0.2	-0.2	-0.1	-0.2	-0.3	-0.2	-0.2	-0.1	-0.2
Beverages & Tob.	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.1
Textiles	-0.7	-0.8	-0.9	-0.8	-0.5	-0.7	-0.9	-0.9	-0.8	-0.7	-0.7	-0.9	-0.9	-0.8	-0.7
Apparel	-0.9	-0.9	-1.1	-1.1	-0.4	-1.0	-1.0	-1.2	-1.1	-0.6	-1.0	-1.0	-1.2	-1.1	-0.6
Leather	-0.8	-1.2	-1.1	-1.0	-0.6	-0.9	-1.1	-1.2	-1.0	-0.7	-0.9	-1.1	-1.2	-1.0	-0.7
Wood	-0.3	-0.1	-0.4	-0.1	-0.2	-0.4	-0.1	-0.5	-0.1	-0.4	-0.4	-0.1	-0.5	-0.1	-0.4
Paper	-0.1	-0.3	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	0.0	-0.2	-0.1	-0.2	-0.2	0.0	-0.2
Petroleum	0.1	-0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Chemicals	0.1	-0.3	0.0	0.2	-0.2	0.4	0.1	0.3	0.5	-0.1	0.4	0.1	0.3	0.5	-0.1
Pharma	0.2	-0.1	0.1	0.1	-1.6	0.8	0.6	0.5	0.7	-1.1	0.8	0.6	0.5	0.7	-1.1
Rubber & Plastic	-0.2	-0.5	-0.6	-0.5	-0.3	-0.2	-0.4	-0.6	-0.3	-0.4	-0.2	-0.4	-0.6	-0.3	-0.4
Minerals	-0.2	-0.4	-0.3	-0.2	-0.1	-0.2	-0.4	-0.5	-0.2	-0.4	-0.2	-0.4	-0.5	-0.2	-0.4
Steel	-0.2	-1.5	-0.3	-0.6	-1.1	-0.2	-1.4	-0.4	-0.5	-1.3	-0.2	-1.4	-0.4	-0.5	-1.3
Other metals	1.7	1.4	1.8	2.0	0.0	2.4	1.9	2.2	2.7	0.4	2.4	1.9	2.2	2.7	0.4
Metal Products	0.1	-0.4	-0.2	0.0	0.0	0.0	-0.4	-0.3	0.0	-0.2	0.0	-0.4	-0.3	0.0	-0.2
El. Equipment	0.3	0.1	-0.5	0.8	-0.2	0.7	0.5	-0.2	1.2	0.0	0.7	0.5	-0.2	1.2	0.0
Electronics	0.0	-0.2	-0.2	0.1	0.3	0.0	-0.2	-0.4	0.1	0.1	0.0	-0.2	-0.4	0.1	0.1
Mach. & Eq.	0.1	0.2	0.0	0.6	0.3	0.1	0.2	-0.1	0.7	0.1	0.1	0.2	-0.1	0.7	0.1
Motor vehicles	0.6	0.7	-0.3	-0.6	-0.9	0.6	0.7	-0.3	-0.6	-1.1	0.6	0.7	-0.3	-0.6	-1.1
Other transport	-1.3	-0.4	0.5	1.0	0.2	-0.7	-0.3	0.6	1.1	0.3	-0.7	-0.3	0.6	1.1	0.3
Mfcs nec	0.0	0.2	0.0	0.1	-0.1	0.2	0.3	0.0	0.2	-0.2	0.2	0.3	0.0	0.2	-0.2

Source: own simulations

The macroeconomic results are summarized in Figure 8. The GDP effects on V4 countries are modest across all scenarios, consistent with their limited direct trade exposure to the US. Under the EU-only scenarios (40 EU10), GDP effects for V4 countries range from approximately -0.03% to -0.08%, with the Czech Republic and Hungary somewhat more affected than Poland and Slovakia. Under the comprehensive global scenarios (10 RCP, 20 AGR, 30 UNI), the GDP effects are less negative or even slightly positive for some V4 countries (ranging from -0.04% to +0.03%), reflecting the beneficial trade diversion effects that partially offset the direct trade losses. The long-run scenario (31 UNILR) shows somewhat larger negative GDP effects as capital reallocation amplifies the adjustment.

Welfare effects, measured by equivalent variation as a percentage of GDP, follow a similar pattern but are larger in magnitude than the GDP effects. In the EU-only scenario (40 EU10), welfare losses range from -0.10% to -0.25% of GDP for V4 countries. In the comprehensive scenarios, welfare effects are more heterogeneous: the 20 AGR scenario, which gives the EU preferential access, produces the smallest welfare losses for V4 countries, while the 10 RCP scenario with the high 30% EU tariff produces the largest. Germany consistently bears a larger welfare loss than the V4 countries, reflecting its greater direct trade exposure to the US.

For the United States, the welfare effect is unambiguously positive under the standard closure, driven by the substantial improvement in the US terms of trade documented in Figure 6. However, this result should be interpreted with caution, as it does not account for the dynamic efficiency losses from misallocation, the costs of trade policy uncertainty, or potential retaliatory measures. For China, the welfare effects are negative in all scenarios, particularly in the 10 RCP and 20 AGR scenarios, where the tariff differential between China and the EU is largest.

Figure 8 Macroeconomic results, GDP, and Equivalent Variation (% of GDP)

Source: own simulations

7 Conclusions

The shift in US trade policy since early 2025 represents a fundamental challenge to the rules-based multilateral trading system established under the GATT in 1947 and subsequently reinforced by the WTO. The imposition of broad-based "reciprocal" tariffs under IEEPA, followed by their judicial invalidation and replacement with Section 122 tariffs, has violated core principles of the system: non-discrimination (MFN), tariff bindings reflecting decades of multilateral negotiations, and the predictability of trade costs upon which cross-border investment and supply chain decisions depend. The US has also effectively overridden its commitments under USMCA in its treatment of Canada and Mexico, although the high rate of USMCA utilization has mitigated the practical impact. The concept of bilateral "reciprocal" duties, calibrated to bilateral trade deficits rather than actual trade barriers, contradicts standard trade theory, which emphasizes multilateral — not bilateral — trade balance equilibria and the welfare-enhancing properties of non-discriminatory liberalization.

The new trade policy regime introduces an unprecedented degree of uncertainty and unpredictability into international trade costs. The rapid succession of tariff announcements, pauses, negotiations, court rulings, and new legal bases - from IEEPA to Section 122, with Section 232 tariffs running in parallel - has created a policy environment in which firms cannot reliably forecast the tariff rate they will face even a few months ahead. This uncertainty is arguably more damaging to trade and investment than the tariff levels themselves, as it undermines the long-term contractual arrangements upon which global value chains depend. Moreover, the pattern of bilateral negotiations has revealed the role of bargaining power: larger economies with significant market leverage, the EU, Japan, and the United Kingdom, have secured substantially lower tariff rates through bilateral deals, while smaller economies with limited bargaining power face the full force of "reciprocal" duties. The gap between the 10-15% rates negotiated by the EU, Japan, and the UK and the 25–50% rates initially imposed on countries such as Vietnam, Cambodia, Laos, and Brazil illustrates this asymmetry.

Our analysis, based on five simulation scenarios, has focused on the trade and welfare implications for the Visegrad (V4) countries — Poland, the Czech Republic, Hungary, and Slovakia — in the context of broader effects on the EU and the global economy. The results can be summarized along several dimensions:

The impact on EU-US bilateral trade is substantial across all scenarios. Under the initially threatened reciprocal tariffs (10 RCP), with a 30% tariff on the EU, V4 exports to the US decline by 31–51%, with German exports falling by 43%. The EU–US agreement (20 AGR), which caps the tariff at 15%, moderates this effect considerably - export declines for V4 countries are reduced to 3–11%, and Slovakia benefits from trade diversion with a 5% increase. Under the

current post-IEEPA uniform 10% tariff (30 UNI), V4 exports to the US fall by approximately 20-24%, a reduction that is similar across V4 countries and the rest of the EU. The long-run closure roughly doubles these export declines, as capital reallocation amplifies the initial trade shock. The isolated EU tariff scenario produces export declines very close to those in 30 UNI, confirming that, for the EU, the bilateral tariff channel is the dominant factor.

The sectors subject to additional Section 232 tariffs — steel (50%), non-ferrous metals (50%), and motor vehicles (25%) — bear the heaviest burden. Even under the relatively moderate 30 UNI scenario, steel and non-ferrous metal exports to the US are reduced drastically, while motor vehicle exports decline by approximately 25–35%. The sectoral output effects within V4 countries are more nuanced. Traditional labor-intensive sectors (textiles, apparel, leather) experience negative output effects driven by increased import competition from Asian suppliers redirected away from the US. By contrast, chemicals, pharmaceuticals, and electrical equipment show mild positive output responses, particularly in the long run, as the EU's preferential market position relative to more heavily tariffed competitors generates trade diversion in its favor. The motor vehicle sector is negatively affected in Hungary and Slovakia — both deeply embedded in the German automotive supply chain — while Poland and the Czech Republic see small positive effects, reflecting their somewhat more diversified manufacturing base.

A significant finding is the potential for Chinese exports to be redirected toward EU markets — the so-called "Chinese glut" effect. This effect is strongest in the 20 AGR scenario, where Chinese imports into V4 countries increase by approximately 8.6–9.3%, driven by the combination of relatively high US tariffs on China (20%) and preferential EU access to the US market, which frees Chinese supply capacity to target Europe. Under the current 30 UNI scenario, the Chinese redirection effect is more modest (1.7–2.5%), as the uniform tariff limits the scope for differential diversion. Interestingly, in the long-run closure (31 UNILR), Chinese imports into V4 countries actually decline, as the restructuring of global production patterns partially reverses the short-run redirection effect.

The GDP effects on V4 countries are modest across all scenarios, consistent with the relatively limited direct trade exposure to the US documented in Section 3. In the EU-only scenario (40 EU10), GDP effects range from approximately -0.03% to -0.08%. In the comprehensive global scenarios (10 RCP, 20 AGR, 30 UNI), the GDP effects for V4 countries are less negative or even slightly positive (ranging from -0.04% to +0.03%), as beneficial trade diversion from more heavily tariffed competitors partially offsets the direct trade losses. Germany consistently bears a larger GDP and welfare loss than the V4 countries, reflecting its substantially greater direct trade exposure to the US. Welfare effects, measured by equivalent variation as a percentage

of GDP, are larger in magnitude than the GDP effects, ranging from -0.05% to -0.25% for V4 countries, depending on the scenario.

Several caveats apply to our analysis. First, we do not model any EU retaliatory tariffs, which, if implemented, would worsen the outcomes for both the EU and the US. If the EU were to impose retaliatory taxes on US-supplied services - an area where the US holds a significant surplus - the bilateral trade and macroeconomic effects could be substantially amplified. Second, our simulations capture comparative static (or long-run steady-state) effects and do not account for the transition dynamics, adjustment costs, or the macroeconomic consequences of trade policy uncertainty. Third, the standard GTAP model does not capture firm heterogeneity, extensive margin effects, or the disruption to established just-in-time supply chain relationships, all of which are likely to magnify the short-run costs beyond what the model predicts. Fourth, the rapid evolution of US trade policy - IEEPA to Section 122, with the 150-day expiry of Section 122 authority approaching in July 2026 - means that the tariff landscape may shift again before the effects of the current regime are fully realized.

Despite these limitations, our findings carry clear policy implications. For V4 countries, the direct impact of US tariffs is limited, but the indirect transmission through German-centered production networks - particularly in the automotive sector - represents the primary vulnerability. The EU–US bilateral agreement (reflected in 20 AGR) substantially moderates the adverse effects and highlights the value of negotiated outcomes over unilateral tariff escalation. The risk of Chinese export redirection toward EU markets is real, particularly under scenarios where the EU secures preferential US access while China faces higher tariffs, and should inform EU trade defense policy toward Chinese imports. Finally, the divergence between the short-run and long-run results underscores that the current tariff regime, even at the relatively moderate 10% level, will have compounding effects over time as capital reallocates away from trade-exposed sectors, particularly in the automotive industry.

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