

# Disorder in the Trading System – Some Observations

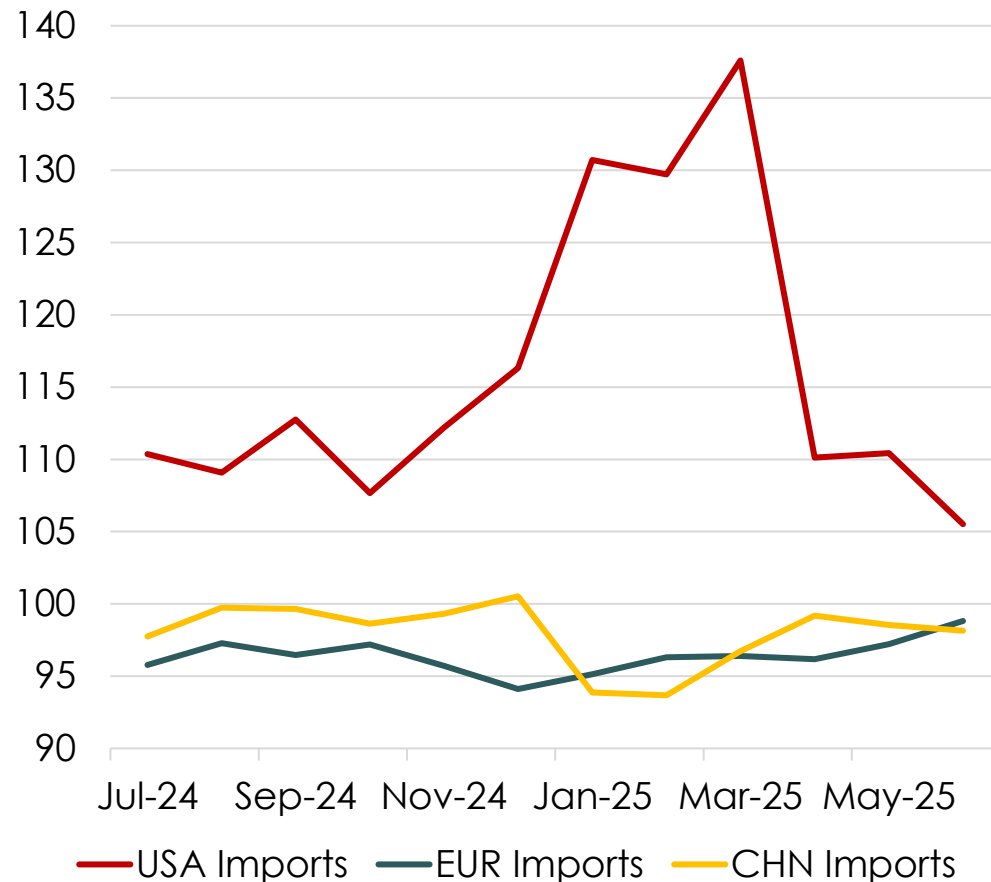
Gabriel Felbermayr

OeNB Talks on International and Climate Economics  
Vienna, Oct. 21, 2025

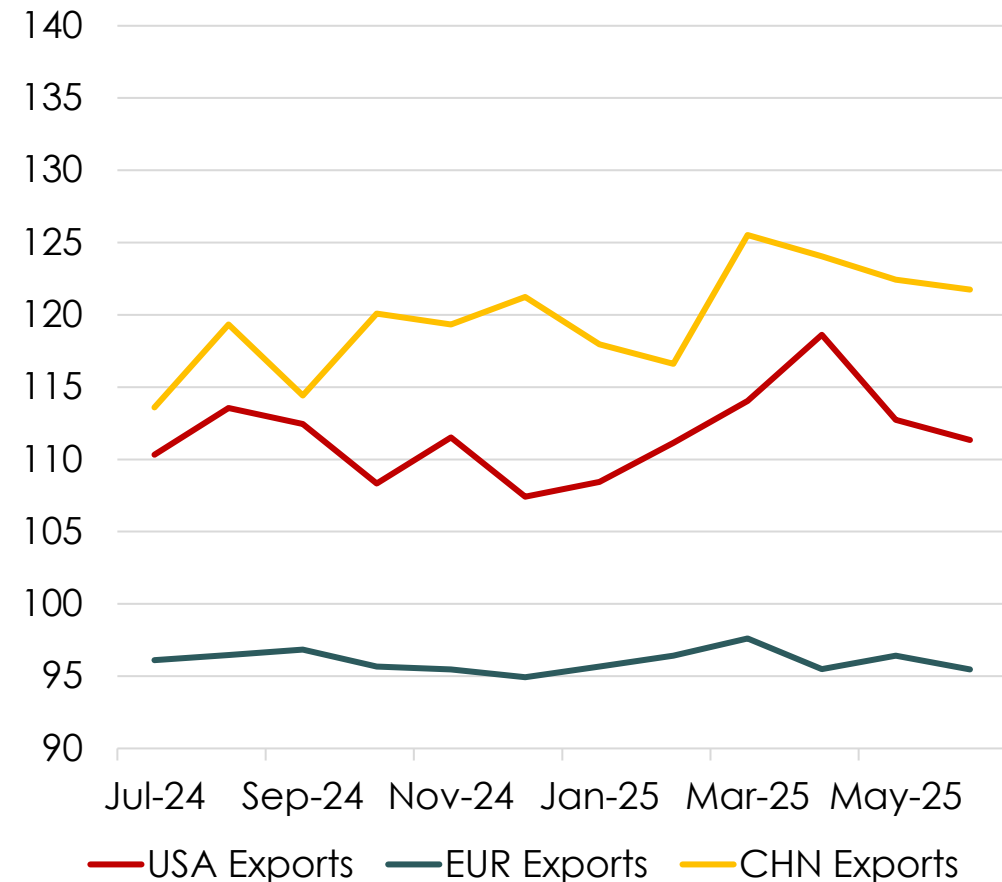
# Tariffs Bite Before they Hit: Expectations Matter

Quantity indices of trade flows (dec 2021=100). Last 12M (to 7/2025)

## Imports



## Exports



S: CPB, own calculations and illustration.

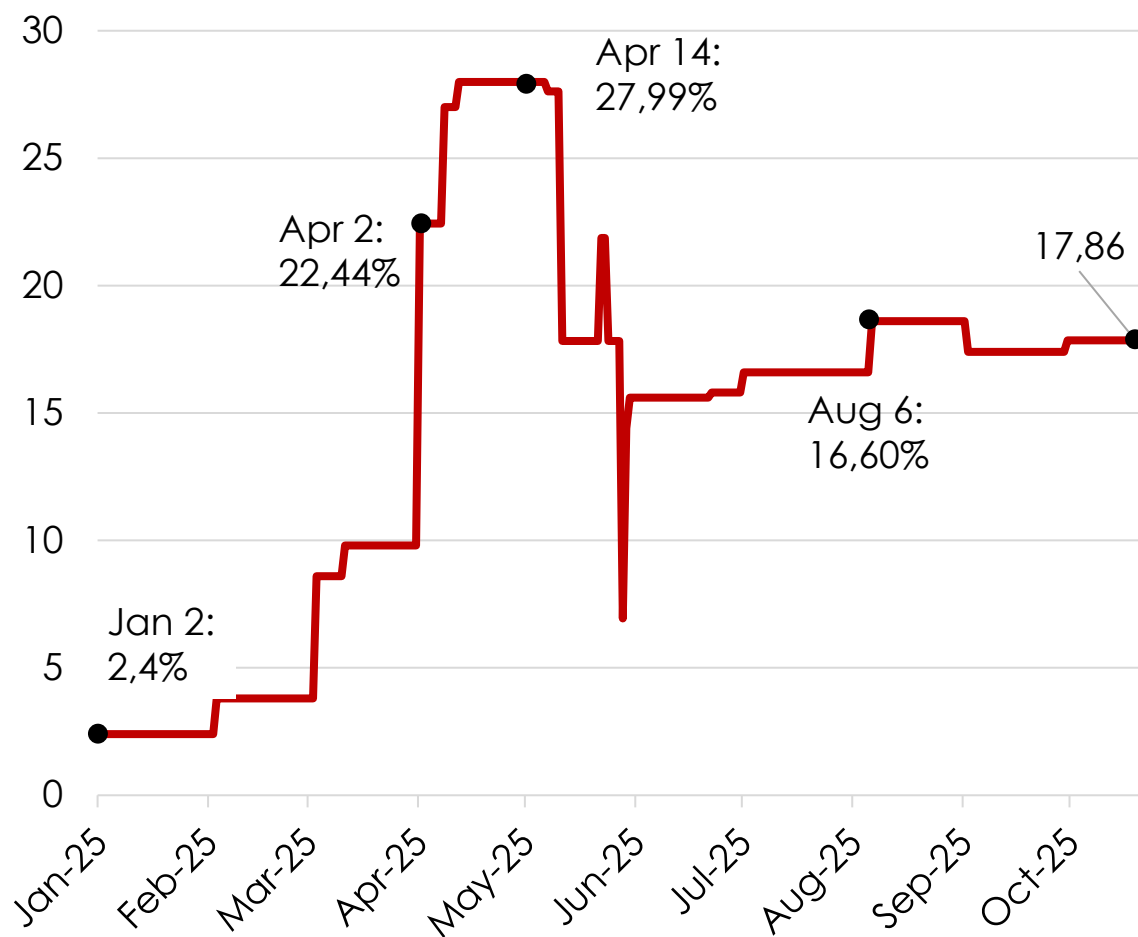
# Liberalization Day Apr 2, 2025: Basis: IEEPA (1977)



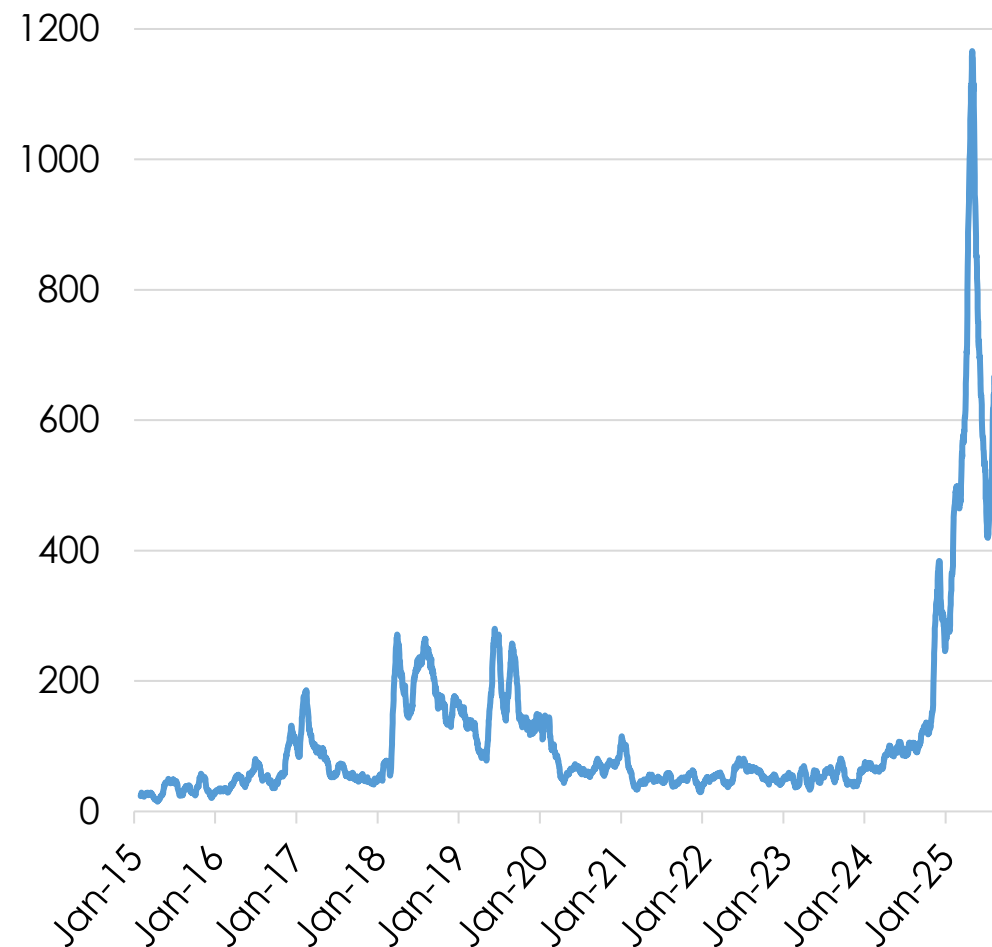
S: msn (Foto), USTR.

# „...utter chaos, arbitrary and willful” (K. Welch)

## Avg. effective tariff rate since Jan 25

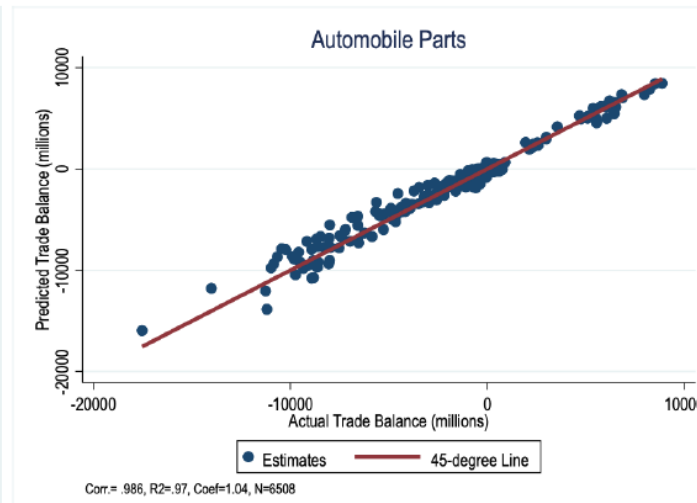
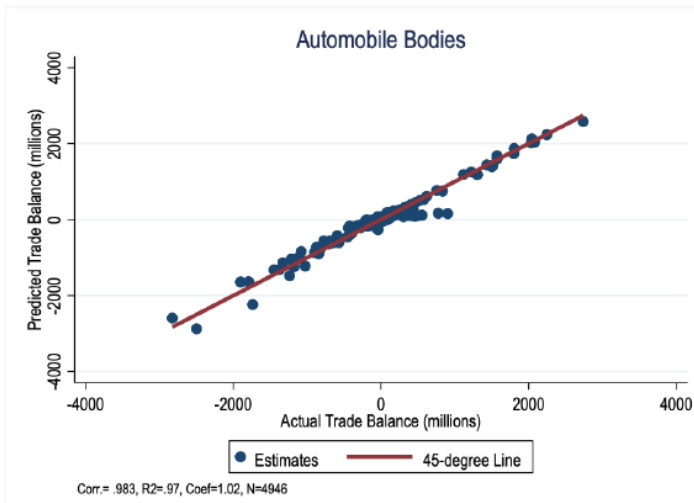
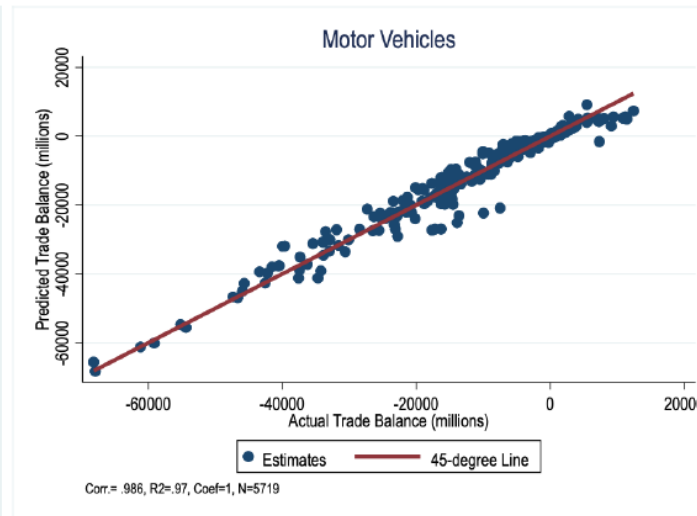
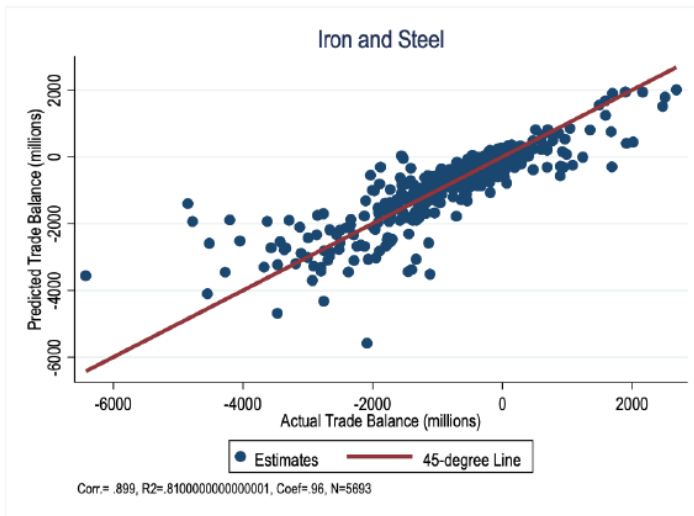


## US-Trade Policy Uncertainty



Q: [https://www.policyuncertainty.com/trade\\_uncertainty.html](https://www.policyuncertainty.com/trade_uncertainty.html), Yale Budget Lab; jeweils eigene Darstellung.

# What Accounts for Bilateral Trade (Im)Balances?



## Econometric results (Felbermayr & Yoto, 2025)

- 88% of the variance in bilateral balances is explained by country-specific variables and geography.
- One does not need bilateral asymmetries in trade costs to match the data.

S: Felbermayr & Yotov, 2025.

# Revisiting the Old Optimal Tariffs Literature

## Henry Johnson (1953): Non-zero optimal tariffs

Assumption: „large“ country, trade partner remains passive

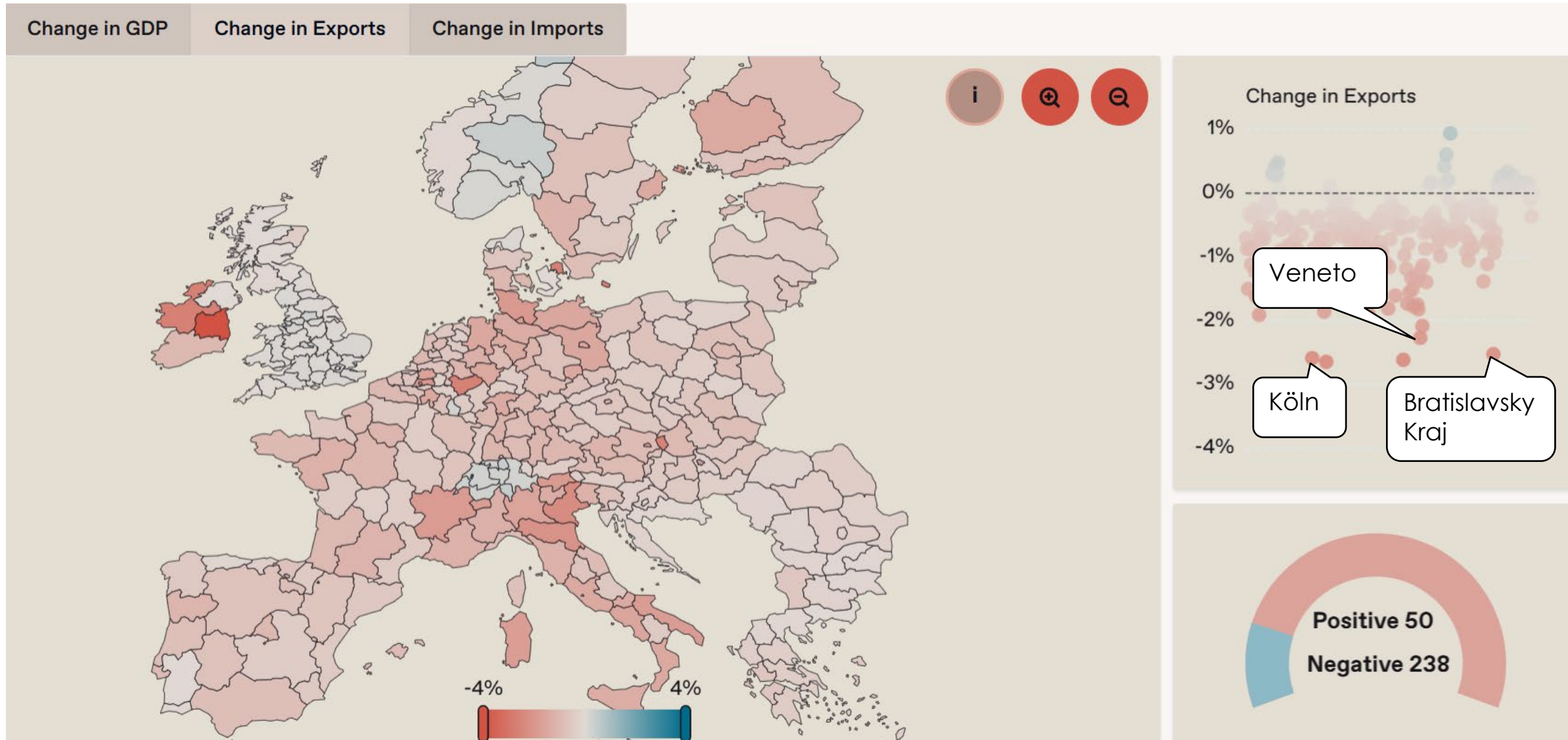
- **By manipulating terms-of-trade, countries extract rents from „partners“**
- **Quantitative application in the KITE-model:**
  - **US optimal tariffs on EU:** 3,2% for agri. and 7% for manuf. goods  
(Real income: -20 bn. \$ in EU, +10 bn. \$ in US)
  - **EU optimal tariffs on US:** 11,7% for agri. and 10% for manuf. goods  
(Real income: +10 bn. \$ in EU, -9 bn. \$ in US)
- **The observed US-tariffs are much too high ... Possibly even welfare-reducing**

# US-EU-“Turnberry-Deal“: *reciprocal, fair, balanced?*

**Jul 27, 2025**

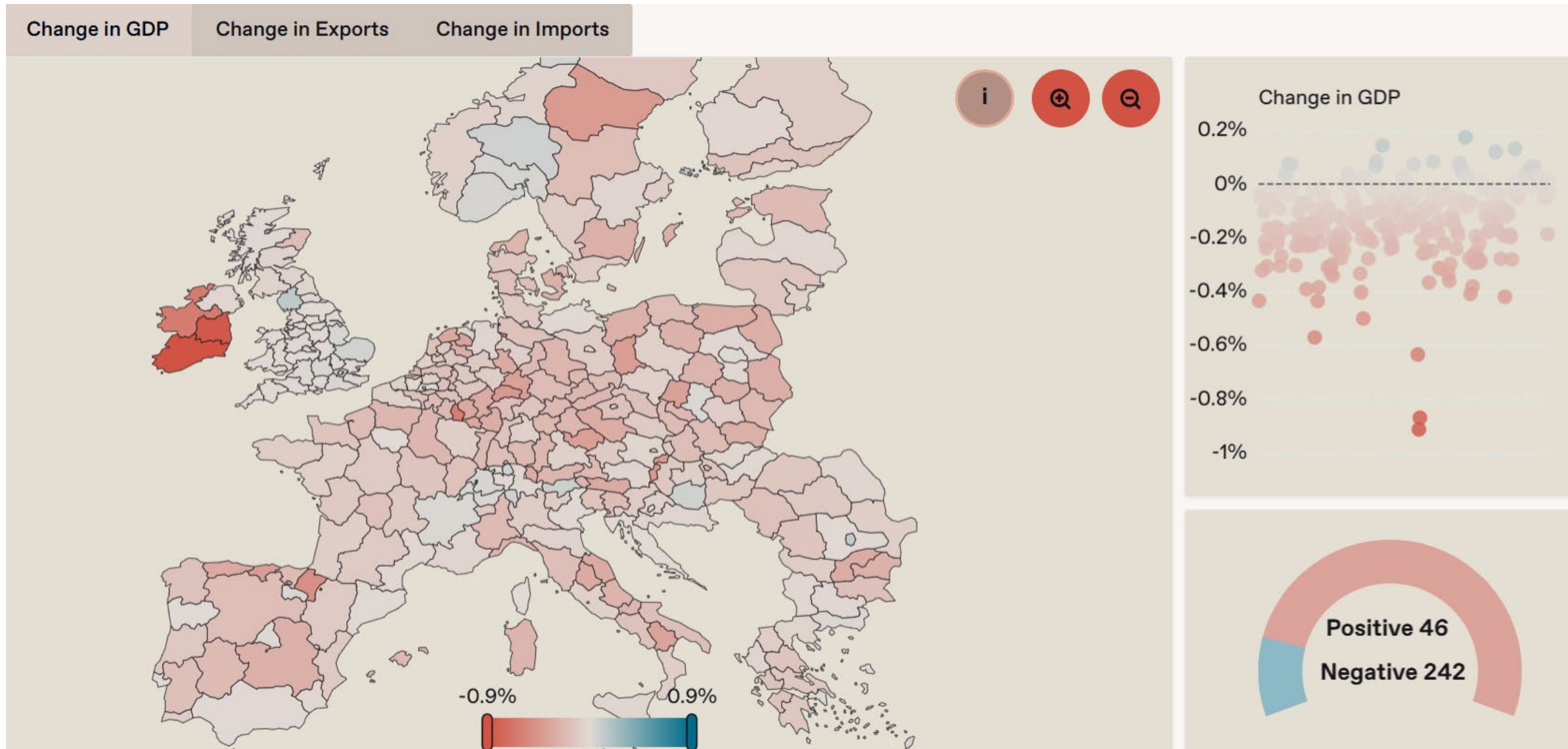
- **US increases tariffs**
  - according to  $\max\{15\%, MFN - rate\}$
  - exceptions: aircraft and –parts, generic pharma, steel & aluminum
- **EU promises**
  - to reduce manufacturing tariffs to zero
  - to ease market access elsewhere
  - To purchase energy (750 bn USD) and AI chips (40 bn USD), military equipment
  - to invest into strategic sectors (600 bn USD)
- **Evaluation**
  - The deal violates Art. I GATT (most-favored-nations clause), Art. II (tariff schedules) and Art. XXIV (preferential agreements)
  - Legitimizes the breach of WTO-law by the US
  - Does not eliminate uncertainty

# Turnberry: Simulated Change in Exports (Tariffs Only)



S: WIFO-IfW study for Stiftung Familienunternehmen  
([www.familienunternehmen.de/en/infographics/us-tariff-agreement-affects-regions-in-different-ways](http://www.familienunternehmen.de/en/infographics/us-tariff-agreement-affects-regions-in-different-ways))

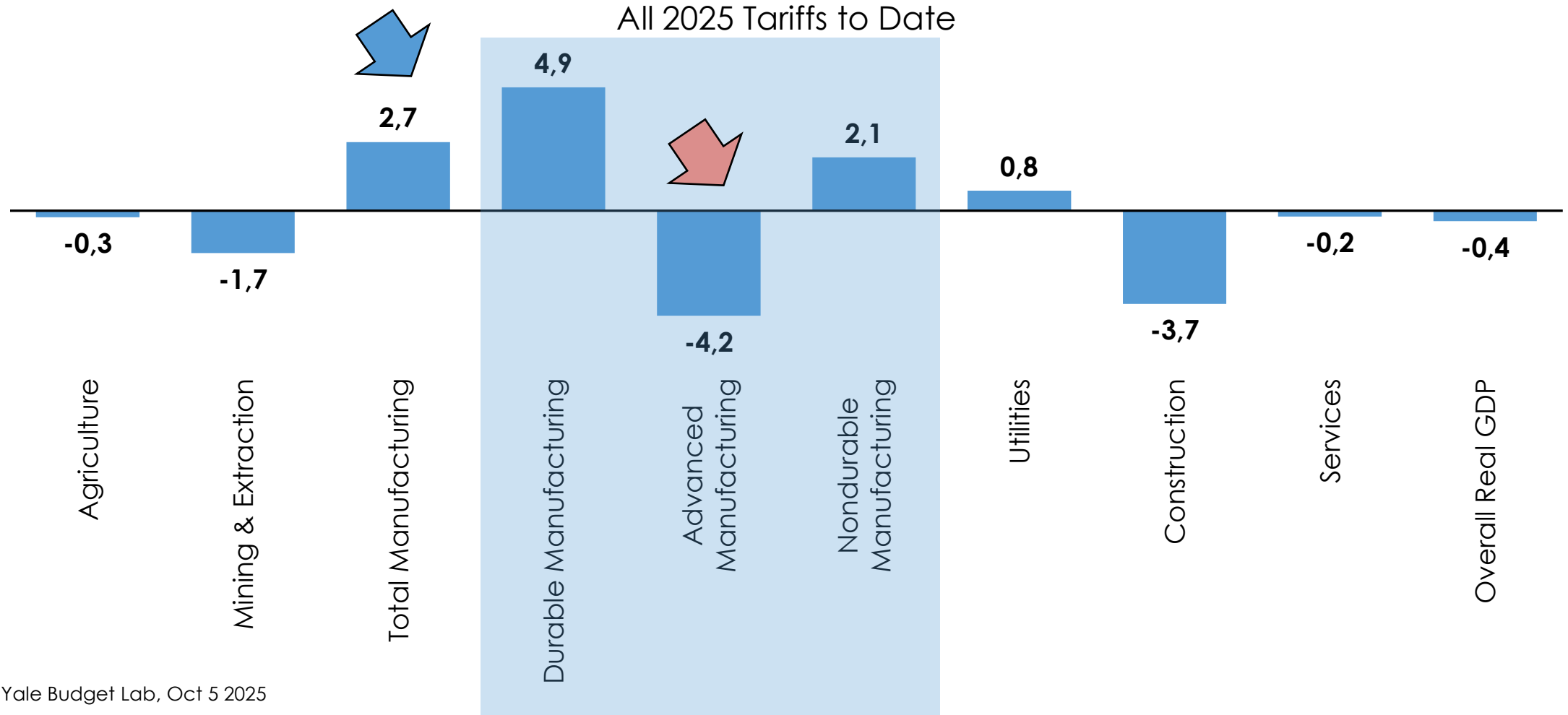
# Turnberry: Simulated Change in real GDP (Tariffs Only)



S: WIFO-IfW study for Stiftung Familienunternehmen  
([www.familienunternehmen.de/en/infographics/us-tariff-agreement-affects-regions-in-different-ways](http://www.familienunternehmen.de/en/infographics/us-tariff-agreement-affects-regions-in-different-ways))

# Lerner Symmetry: Squeeze Imports, Cut Exports

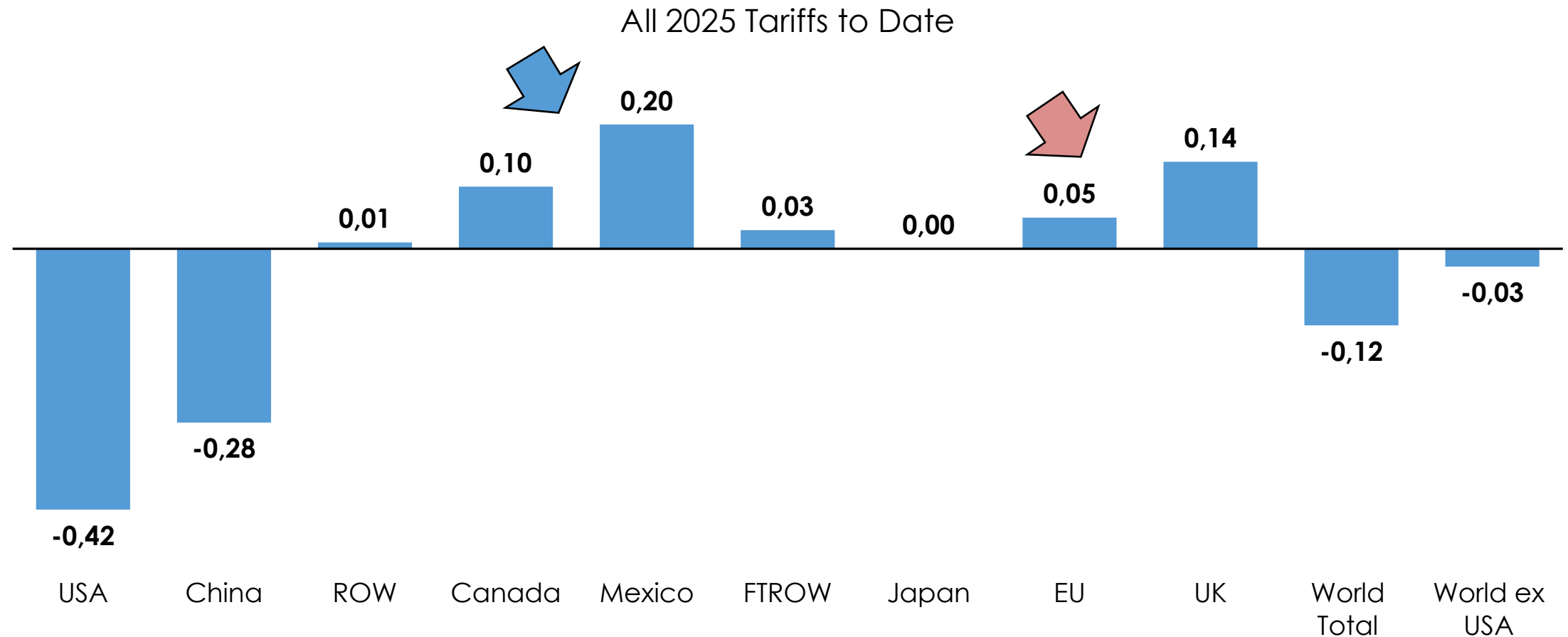
Simulations: net importing sectors expand, net exporting sectors shrink



S: Yale Budget Lab, Oct 5 2025

# Trade Diversion: What Matters Are Relative Positions

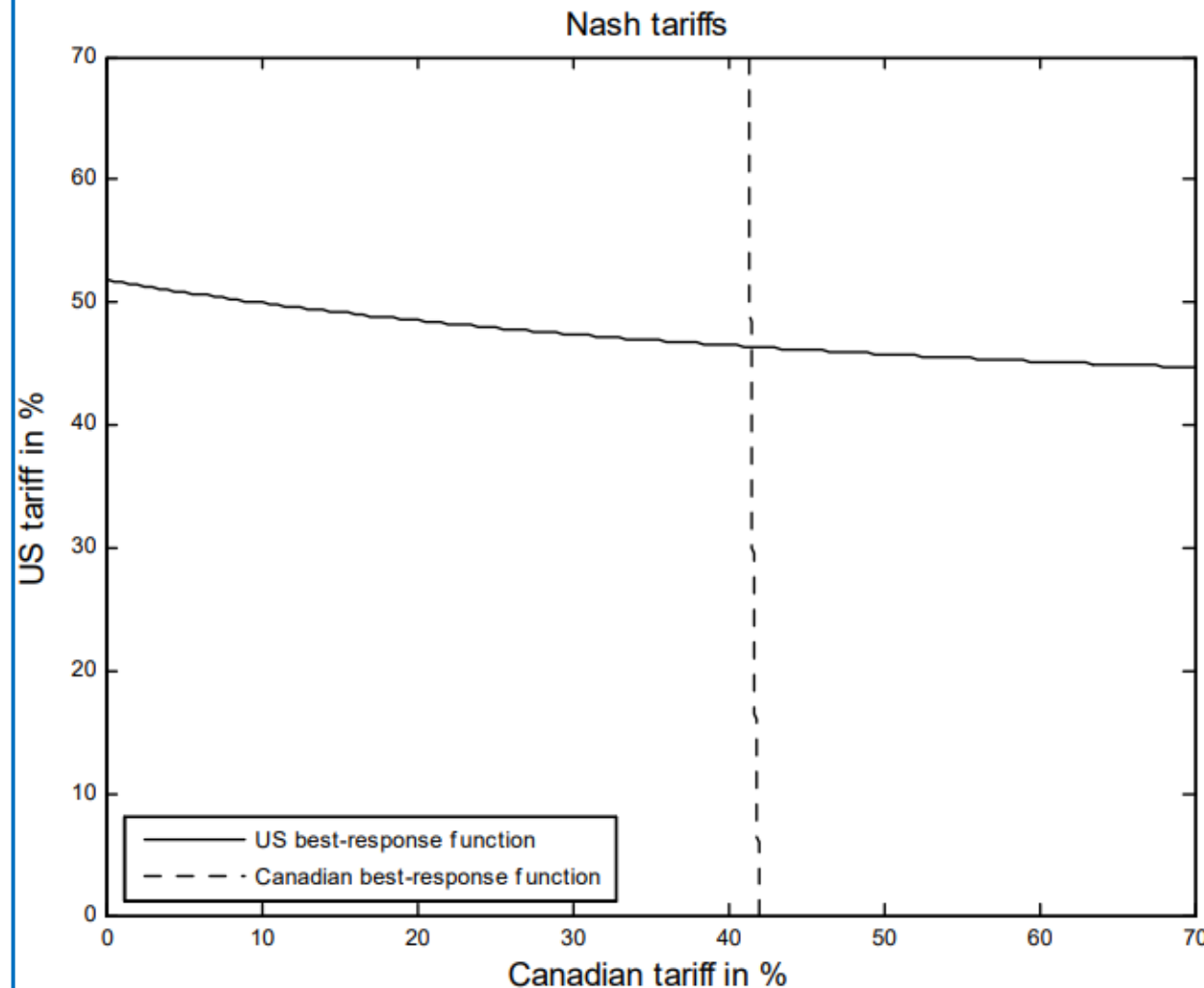
Simulations: All in all, many US trade partners may actually benefit



S: Yale Budget Lab, Oct 5 2025

# To Retaliate or not: Best-Responses and Nash Equilibria

## Ossa, 2016: US-CAN trade war



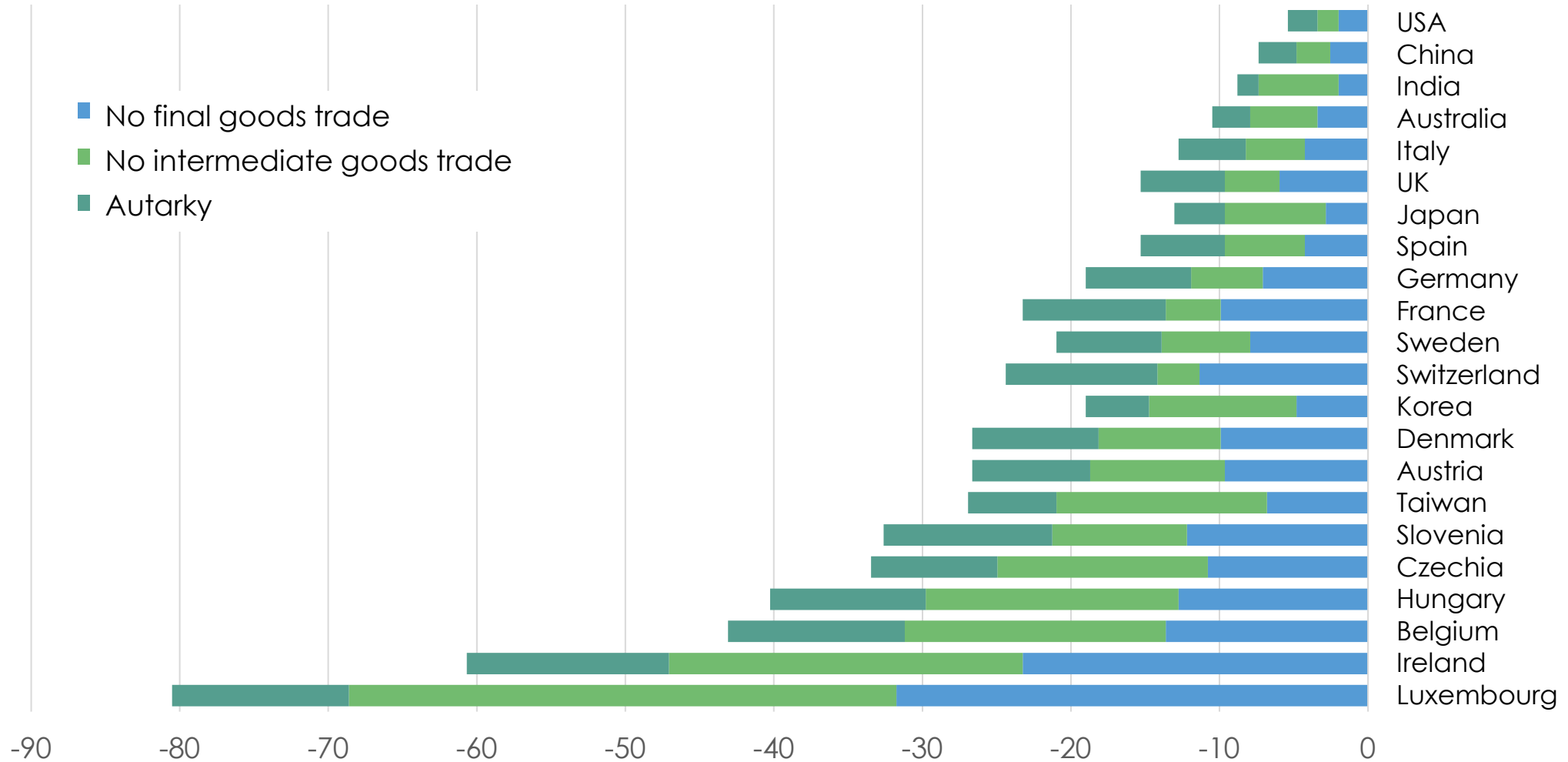
## KITE model: EU-US trade war

Nash equilibrium

- USA: additional tariffs of 3,2 on agricultural and 7% on manuf. goods
  - EU: additional tariffs of 10% on agricultural and manuf. goods
- Insight: **Retaliation is optimal, but best-response functions have almost zero slope**

# In a Trade War, Size Is Beautiful

Long-run loss in real GDP per capita from a move to autarky, % of baseline



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