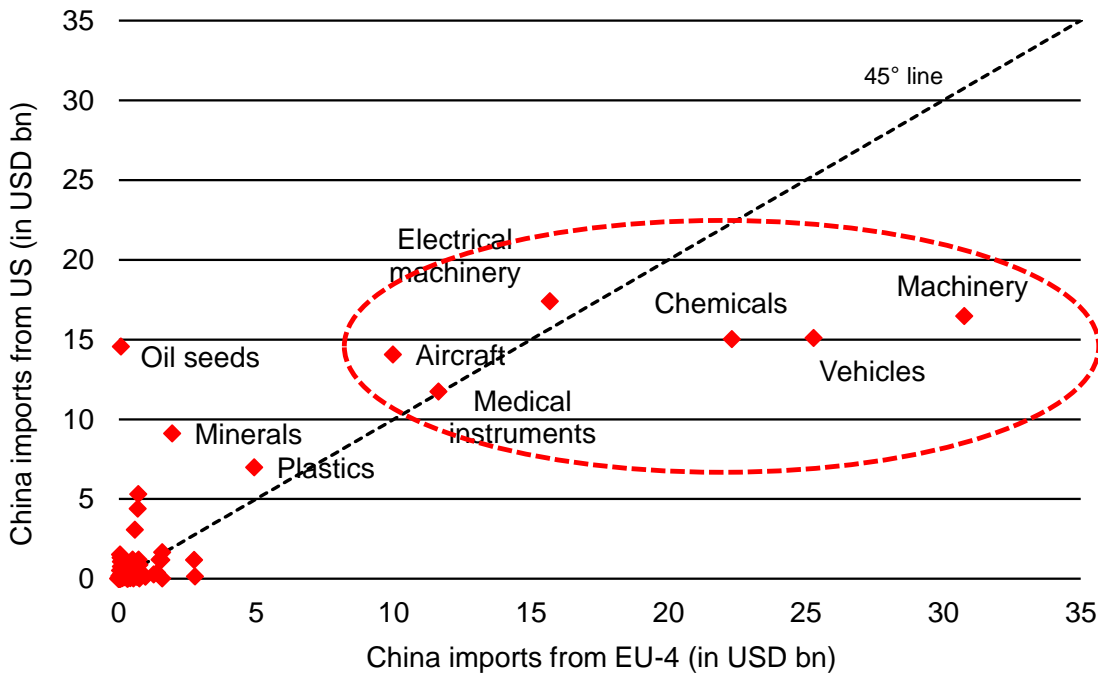


Rising US-China trade tensions could divert trade to Europe



Note: EU-4 is defined here as Germany, France, Italy and Spain.
Source: UN Comtrade, UniCredit Research

- Trade talks between the US and China will soon resume. According to the Peterson Institute, the already announced tariff increases would result in average US tariffs on imports from China being nearly nine times higher than before the trade dispute started. They would rise from a low 3% in January 2018 to 27% at year-end 2019. Average Chinese tariffs on imports from the US would be three times higher, from 8% to 25%. This tit-for-tat on trade policy is posing a significant threat to global growth and hence also to the EU economy. However, US-China tensions may also lead to trade diversion, which some European sectors could benefit from.
- Our *Chart of the Week* looks at the potential trade-diversion benefits for EU sectors from Chinese tariffs on US imports. Goods imported from the US become more expensive in China due to the additional tariffs, while prices of European goods remain unchanged. As a result, the relative price changes could lead Chinese firms to source imports from the EU instead of the US. Such a redirection of trade flows may be easier to implement for goods that are already imported at large volumes from the EU, as it suggests that supply chains for these goods are already well established. This is the case for goods including machinery, vehicles and chemicals, amongst others (see chart).
- Consider chemicals, for example. China imported about USD 15bn of chemical products from the US in 2017, while it imported around USD 22bn from the EU-4 (Germany, France, Italy and Spain). In the event of a significant increase in Chinese tariffs on chemical imports from the US (e.g. in retaliation for new US tariffs), this could lead China to shift part of its imports of chemicals originally sourced from the US to the EU, which would benefit the European chemicals sector.

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