



## Full-blown trade wars weaken EU GDP by 2.5 percent

Potential full-blown US-China and US-EU trade wars could significantly impact European economies. In the short term, GDP decline by 2.5%, and by 1.7% over time, mainly due to productivity losses. The effects vary across EU countries, with those more exposed to China hit hardest as Chinese firms seek new markets.

### Threat of US-EU-China trade wars is growing

The threat of US-China-EU trade wars is growing, and tensions may escalate further after the US election. So far, tariff increases have targeted specific products, including solar panels, washing machines, steel, and aluminium under Trump, and recently, electric vehicles under Biden.

### Full-blown trade wars weaken EU real GDP by 2.5 percent

Change in real GDP and employment following trade wars



Notes: The Figure displays the drop in real GDP and employment following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.

Source: Calculations by Danish Industry based on Oxford Economics' global model.

**Full-blown trade wars imply drops in EU GDP on 391 billion EUR and 1.7 million jobs.**

If Trump wins the presidency, he has proposed significant tariff hikes: 10% on EU imports and 60% on Chinese imports has been suggested. This analysis, using Oxford Economics' global model, examines how these tariffs, implemented in 2025, would affect European economies. The impact is severe, with GDP expected to drop by as much as 2.5% by 2027. This corresponds to 391 billion EUR or 870 EUR per capita. Further, employment drops by 0.7% corresponding to 1.7 million jobs.

**Contractionary monetary policy and lower consumer confidence amplify short-run effects**

The short-term effects are more pronounced. It is assumed that the Fed and ECB maintain higher interest rates longer, fearing inflation from tariff-driven cost increases. Meanwhile, consumer confidence in both the US and EU declines, further depressing GDP.

**... But even in the long run, substantial drops in GDP persists**

By 2029, employment returns closer to baseline levels, but GDP remains 1.7% below baseline due to substantial productivity losses. These losses are largely driven by reduced international trade, which limits the efficiency gains from global production allocation.

**Countries with close ties to China and the US most severely affected**

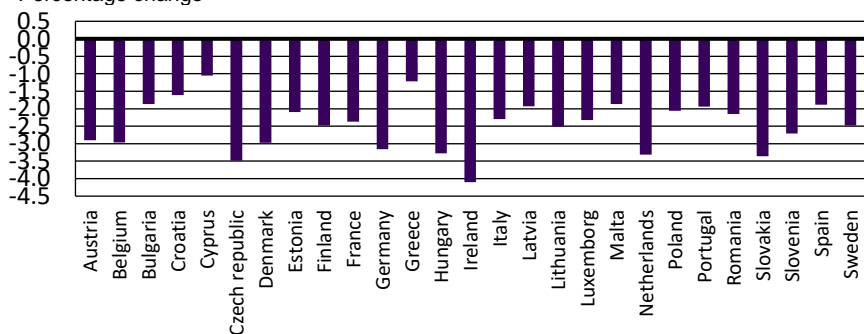
**All EU-countries loose – but to a very different degree**

There is significant variation in GDP declines across EU countries. The Czech Republic and Ireland are among the hardest hit, with GDP dropping by up to 4%. This is due to the Czech Republic's heavy reliance on trade with China and Ireland's strong ties to the US. In contrast, countries like Greece and Cyprus are less affected, with GDP falling by only 1%, as their exposure to Chinese imports is low.

**All countries loose - but the degree varies widely**

Change in real GDP in 2027 following full-blown trade wars

Percentage change



Notes: The Figure displays the drop in real GDP in 2027 following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.

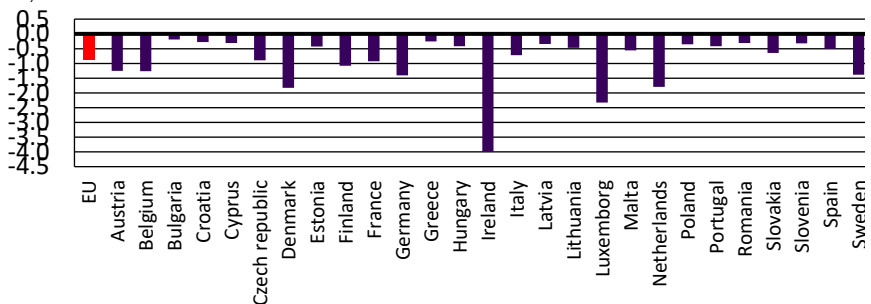
Source: Calculations by Danish Industry based on Oxford Economics' global model.

Within the EU, countries are affected to a very different degree

The declines in GDP are likely to be felt by the citizens of Europe in terms of a lower income. On average, the decline in GDP corresponds to a drop in GDP per capita on 870 EUR in 2027. However, large variations within the EU exists ranging from a massive 4,000 EUR in Ireland to 200 EUR in Bulgaria.

### ... And serious drops in GDP per capita

Change in GDP per capita in 2027 following full-blown trade wars  
1,000 EUR



Notes.: The Figure displays the drop in real GDP per capita in 2027 following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.

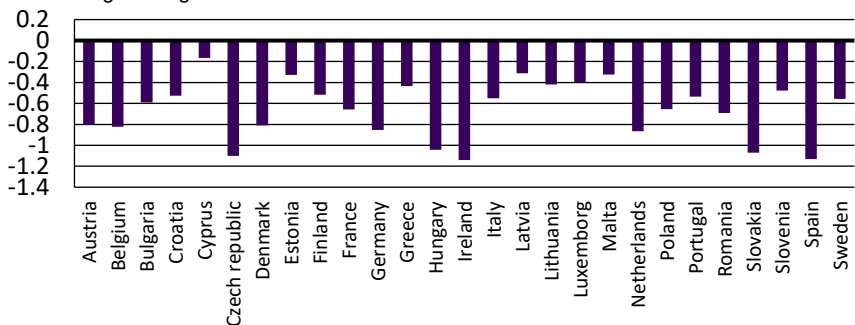
Source: Calculations by the Confederation of Danish Industry based on Oxford Economics' global model.

In the short run, trade wars imply serious drops in employment

The trade wars also lead to significant employment declines, though these vary widely across countries, with drops in 2027 ranging from 0.1% to 1.2%. The largest employment declines are short term, driven by contractionary monetary policies and reduced consumer confidence, resulting in lower consumption and job losses.

### Employment drops less than GDP

Change in employment in 2027 following full-blown trade wars  
Percentage change



Notes: The Figure displays the drop in employment in 2027 following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.

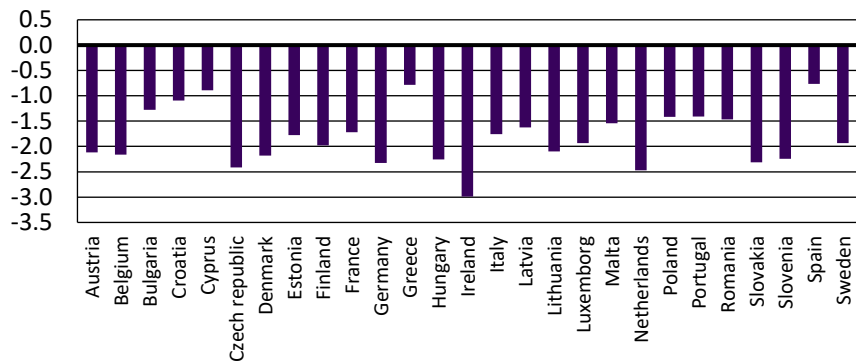
Source: Calculations by the Confederation of Danish Industry based on Oxford Economics' global model.

**In the long run, severe productivity losses of up to 3% persists**

By 2027, reduced international trade results in severe productivity losses of up to 3%, making productivity the primary driver of lower long-term GDP. In fact, the correlation between productivity declines and GDP drops across countries is a striking 0.97.

### Trade wars lead to serious drops in productivity

Change in productivity in 2027 following the trade wars  
Percentage change



Notes: The Figure displays the drop in productivity in 2027 following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.  
Source: Calculations by the Confederation of Danish Industry based on Oxford Economics' global model.

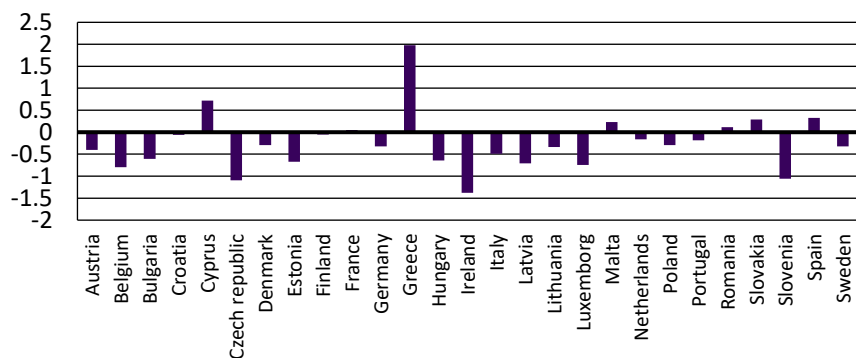
**Most countries experience a declining trade balance**

### Change in trade balance is a good predictor of productivity losses

Most countries see a decline in their trade balance, especially those heavily reliant on imports from China. When the US imposes higher tariffs on Chinese goods—17% of which are exported to the US—China will seek new markets, particularly in the EU. This increases

### Some countries increase their trade balance, others do not

Change in trade balance in 2027 in percentage of GDP  
Percent of GDP



Notes: The Figure displays the change in trade balance in 2027 following full-blown EU-US and China-US trade wars. Measured relative to the baseline with no trade wars.  
Source: Calculations by the Confederation of Danish Industry based on Oxford Economics' global model.

competition for European firms as Chinese goods may be sold below market value. However, some countries, like Cyprus and Greece, could improve their trade balance, as they primarily source imports from Europe and Turkey, where tariffs remain unchanged.

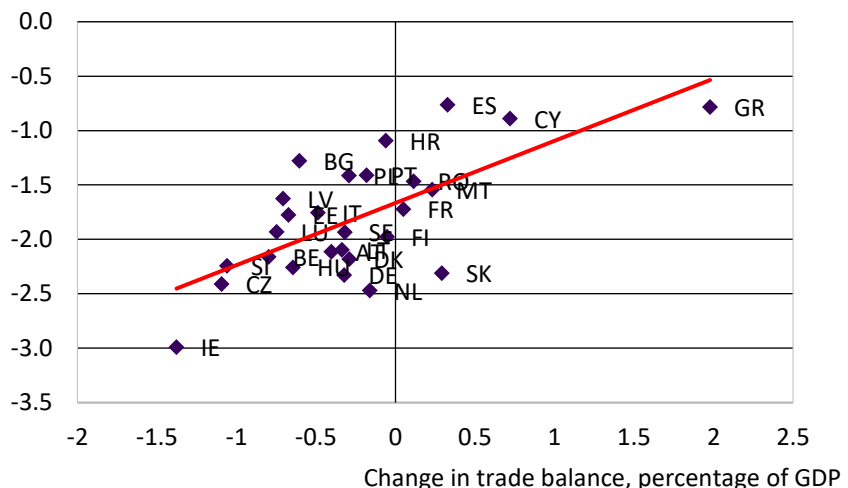
**... And significant productivity losses driven by lower international trade**

Countries with significant declines in their trade balance also face sharp productivity losses. The correlation between changes in trade balance and GDP across countries is 0.67, underscoring the crucial role trade plays in driving productivity gains.

**Change in trade balance strong predictor of productivity**

Change in productivity against change in trade balance in 2027

Percentage change in productivity



Notes: The Figure displays the correlation of change in productivity in 2027 following full-blown EU-US and China-US trade wars against change in trade balance in percentage of GDP. Measured relative to baseline with no trade wars. Source: Calculations by the Confederation of Danish Industry based on Oxford Economics' global model.

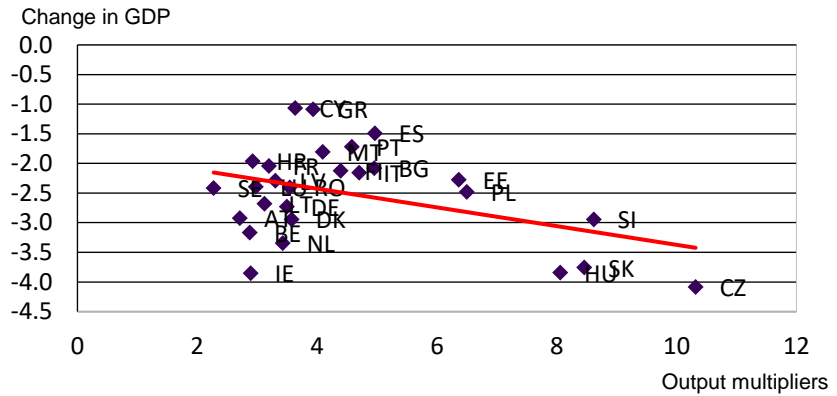
**Countries exposed to imports from China most adversely affected**

**Countries exposed to exports from China more affected**

Higher US tariffs make it harder for Chinese firms to compete, prompting them to seek new markets, especially in the EU. EU countries most exposed to Chinese imports, measured by their output multiplier, experience the largest GDP declines in the longer run. This underscores the competitive pressure from Chinese firms entering EU markets.

### Countries exposed to China have larger drops in GDP

Change in GDP in 2028 against exposure to China (output multiplier)



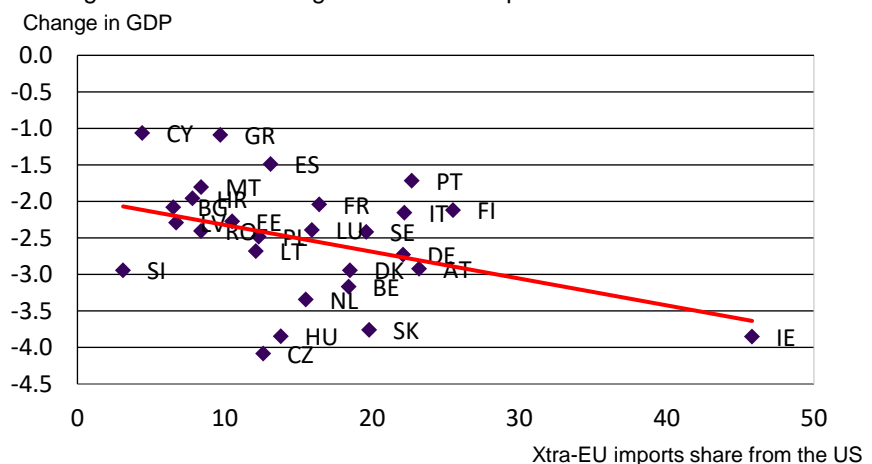
Notes: The Figure displays the correlation of change in GDP in 2028 following full-blown EU-US and China-US trade wars against the output multipliers of Chinese imports. Measured relative to baseline with no trade wars. Source: Calculations by the Confederation of Danish Industry based on the global economic model from Oxford Economics. Output multipliers constructed using data from Eurostat and IMF.

Countries with exports to the US slightly more adversely affected by the trade wars

Countries with significant exports to the US are also more adversely affected by increasing tariffs on EU exports. However, this correlation is not as strong as that observed with US-China tariffs, primarily due to the larger scale of the US-China trade war.

### Countries exporting more to the US most affected

Change in GDP in 2028 against xtra-EU exports in 2023 to the US



Notes: The Figure displays the correlation of change in GDP in 2028 following full-blown EU-US and China-US trade wars against the xtra-EU exports shares of the US. Measured relative to baseline with no trade wars. Source: Calculations by the Confederation of Danish Industry based on the global economic model from Oxford Economics. Xtra-EU exports from Eurostat.

## Methodology

In this analysis, the effects on the European economies under various trade war scenarios are calculated using Oxford Economics' Global Economic Model. The model is a global forecasting model for the world economy. It is particularly well-suited to analyze how individual countries, such as the USA, influence the global economy, including EU. This means it allows for assumptions to be made about a possible scenario, such as a change in tariffs. Based on this, the direct impact on the European economies is calculated, as well as the indirect effects through global trade patterns.

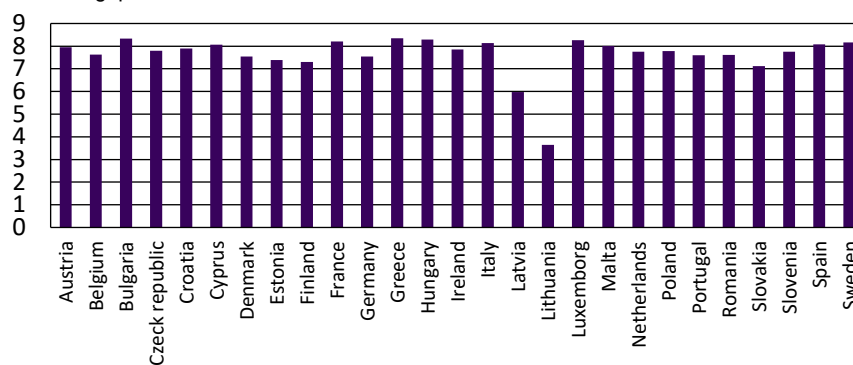
We consider a scenario where, a universal 10 percent import tariff on all imports from the EU to the US is introduced gradually during 2025. It is assumed that the EU fully retaliates. Note that as the product composition of each country's imports and exports from the US differ, the change in tariffs will be perceived differently in the EU countries (see Figures in the Appendix). Additionally, a 60 percent import tariff is imposed on all goods imported from China to the US, with China responding by implementing a 40 percent tariff on imports from the US. U.S. consumer confidence is assumed to drop by one-third of the decline seen during the financial crisis, and the Federal Reserve is expected to keep interest rates steady from the fourth quarter of 2025 to 2028. Consumer confidence in the EU drops by half the rate of the decline in the US, and interest rates are marginally raised compared to the baseline scenario. This scenario might be considered in the context of Trump winning the election and gaining a majority in Congress.

## Appendix

### Tariff change in the EU on the US

Change in EU tariffs on US goods following a EU-US trade war

Percentagepoint

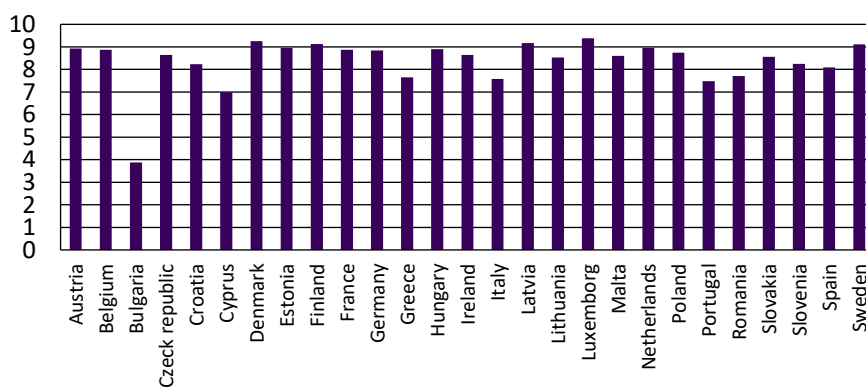


Source: Calculations by the Confederation of Danish Industry based on the global economic model from Oxford Economics.

### Tariff change in the US on EU-countries

Change in US tariffs on EU goods following a EU-US trade war

Percentagepoint



Source: Calculations by the Confederation of Danish Industry based on the global economic model from Oxford Economics.



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### Decline in GDP and employment in 2027

Country	GDP, billion EUR	GDP per capita, 1,000 EUR	Employees, 1,000 persons
EU	-390.60	-869.80	-1704.75
Austria	-11.89	-1250.68	-38.40
Belgium	-16.11	-1264.69	-43.48
Bulgaria	-1.30	-186.92	-19.99
Croatia	-1.29	-277.88	-9.12
Cyprus	-0.31	-312.93	-0.78
Czech republic	-11.61	-895.16	-54.89
Denmark	-11.12	-1824.44	-29.59
Estonia	-0.67	-433.83	-2.31
Finland	-5.21	-1076.49	-13.97
France	-56.21	-930.49	-203.32
Germany	-103.78	-1407.59	-394.49
Greece	-2.31	-251.79	-18.25
Hungary	-4.81	-422.19	-49.74
Ireland	-21.70	-4001.51	-32.92
Italy	-40.13	-725.13	-132.63
Latvia	-0.74	-340.26	-2.66
Lithuania	-1.44	-469.82	-5.72
Luxemborg	-1.74	-2326.08	-2.16
Malta	-0.33	-560.79	-1.07
Netherlands	-33.39	-1797.75	-85.37
Poland	-15.84	-356.24	-113.75
Portugal	-4.02	-420.15	-27.33
Romania	-6.54	-308.68	-58.80
Slovakia	-3.95	-641.96	-27.68
Slovenia	-1.61	-320.45	-4.36
Spain	-19.90	-506.32	-250.80
Sweden	-14.64	-1386.90	-30.39

Source: Calculation by the Confederation of Danish Industry based on the global economic model from Oxford Economics.

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