

Trade in the Political Crosshairs: Europe and Africa

Navigating Challenges and Opportunities in 2025

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Overview

Trade has reemerged as a dominant political and economic issue.

Some key themes:

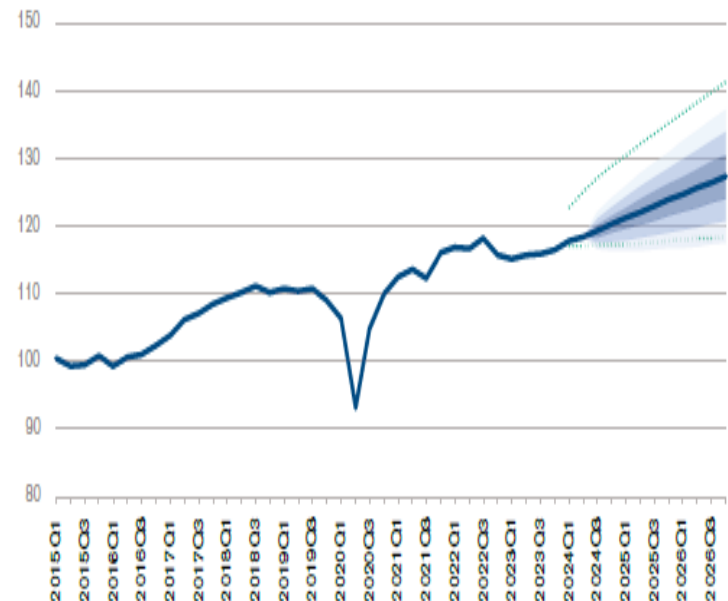
- Slowing trade growth between geopolitical rivals, but sustained overall trade growth?
- Micro economic impacts of tariffs likely small compared to macro-economic impact, and efforts to offset any negative impacts likely to aggravate macro impacts even more.
- Shifts in U.S. trade policy – tariffs, tariffs everywhere, increasing non-tariff measures (port fees), and sanctions?
- Reconfiguration of global value chains?

Global Trade Growth: Current Trends

- Key risks - geopolitical tensions, rising policy uncertainty, macro-economic head winds (inflation resilience, investment slowdown and consumer sentiment declining), interest rates remaining high, sanctions.

Chart 3: Volume of world merchandise trade, 2015Q1-2026Q4

Seasonally-adjusted volume index, 2015=100



Note: The shaded region represents both random variation and subjective assessment of risk. The dotted lines represent the confidence interval of the April 2023 trade forecast.

Sources: WTO and UNCTAD for historical data, WTO Secretariat estimates for forecasts.

WTO Regional Trade Trends

Table 1: Merchandise trade volume and GDP growth, 2020-2025 ^a

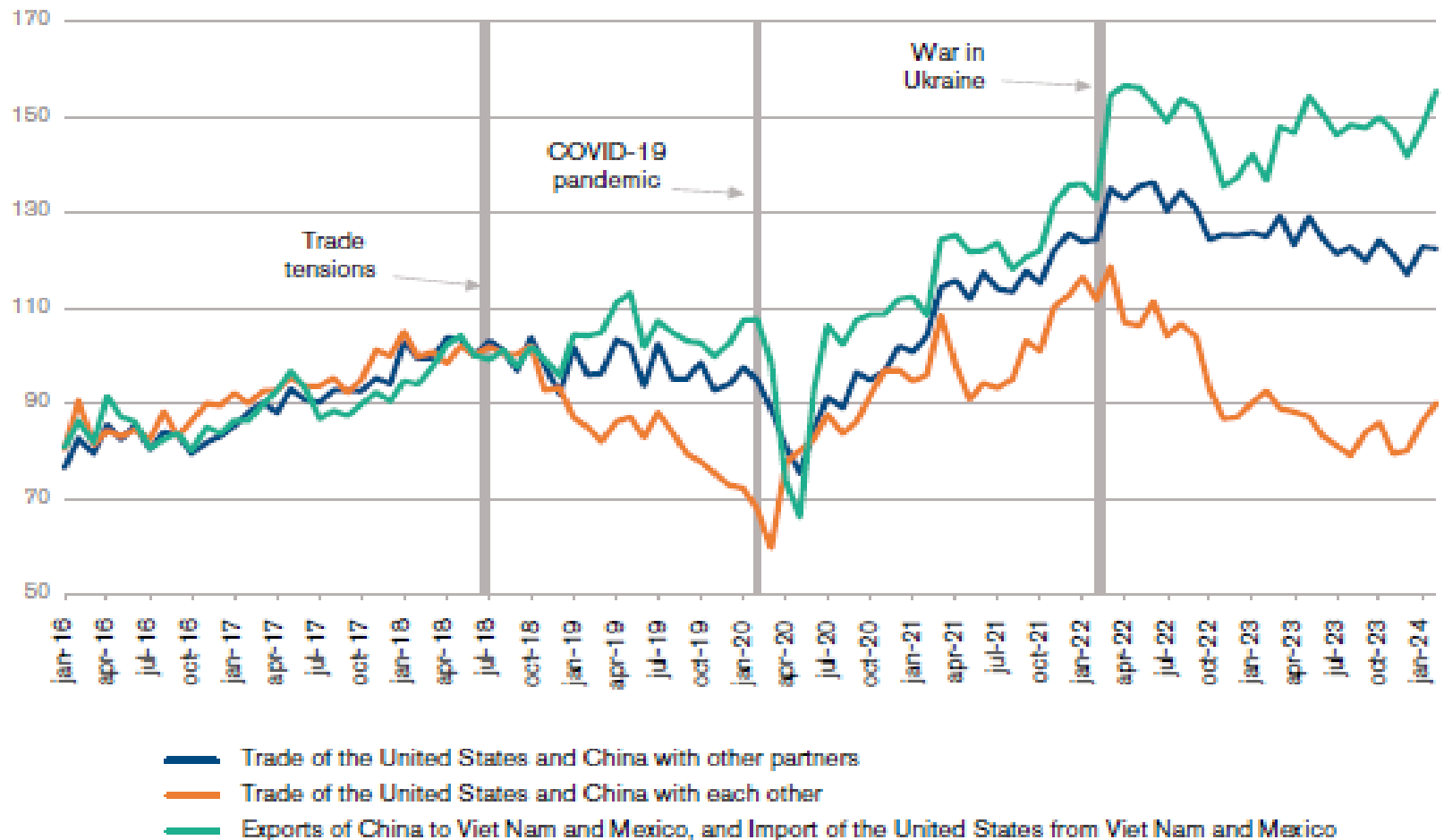
Annual % change

	2020	2021	2022	2023	2024	2025
World merchandise trade volume ^b	-5.3	9.0	2.2	-1.1	2.7	3.0
Exports						
North America	-9.2	6.4	3.9	3.7	2.1	2.9
South America ^c	-5.0	6.7	3.0	2.3	4.6	-0.1
Europe	-8.5	6.9	1.8	-2.6	-1.4	1.8
CIS ^d	-1.1	-0.8	-1.9	-4.5	4.5	1.7
Africa	-7.2	3.8	-2.5	4.3	2.5	2.2
Middle East	-6.4	-1.6	3.8	1.1	4.7	1.0
Asia	0.6	13.1	0.2	0.3	7.4	4.7
Imports						
North America	-5.2	11.9	5.7	-2.0	3.3	2.0
South America ^c	-9.9	24.9	4.1	-4.5	5.6	1.7
Europe	-8.2	7.5	4.4	-5.0	-2.3	2.2
CIS ^d	-5.2	9.4	-5.7	17.9	1.1	1.7
Africa	-13.9	5.8	6.5	0.1	1.0	1.1
Middle East	-8.7	12.9	10.5	8.5	9.0	-1.1
Asia	-1.0	10.3	-1.0	-0.7	4.3	5.1

WTO evidence of geopolitical decoupling

Chart 19: Trade between the United States and China and with other partners

Index, June 2018=100



Global Value Chain (GVC) Evolution

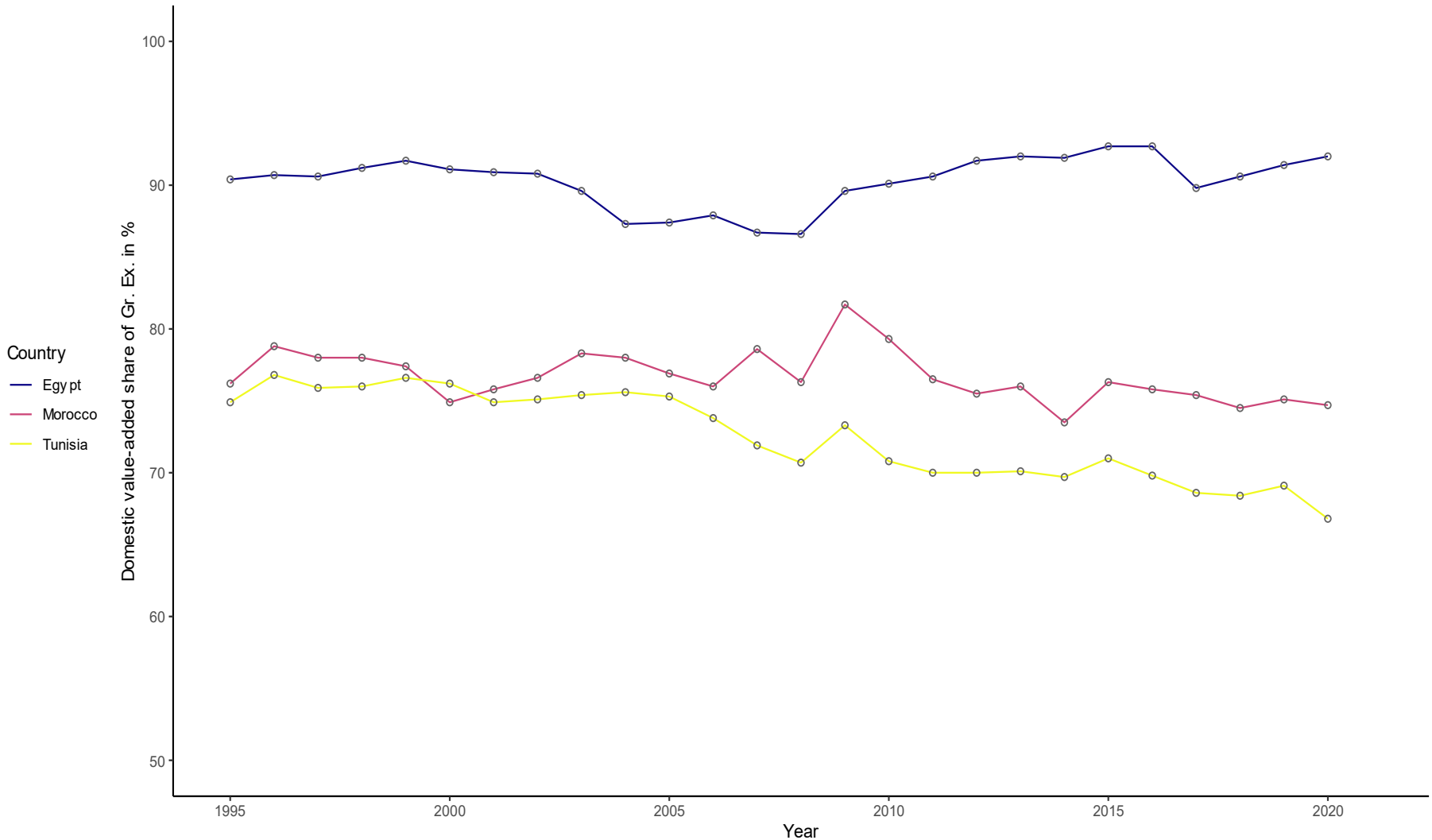
Shift toward regional supply chains
(nearshoring, friendshoring).

Firms relocating away from China to Mexico,
SEA, and Africa.

Africa leveraging AfCFTA for self-reliance.

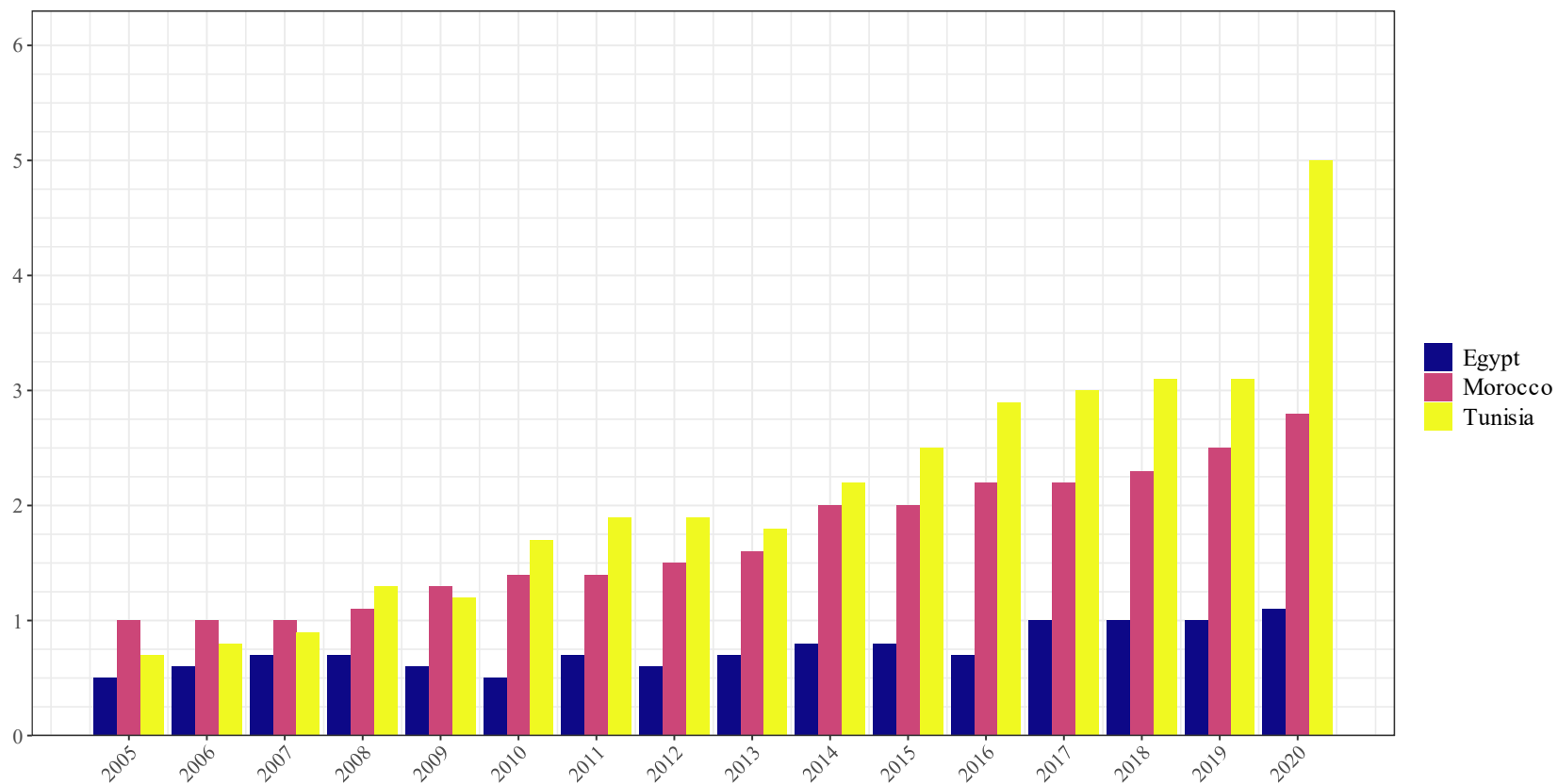
Recent developments in DVA in global value chains.

Change in domestic value added from 1995 to 2020 in North Africa across all sectors



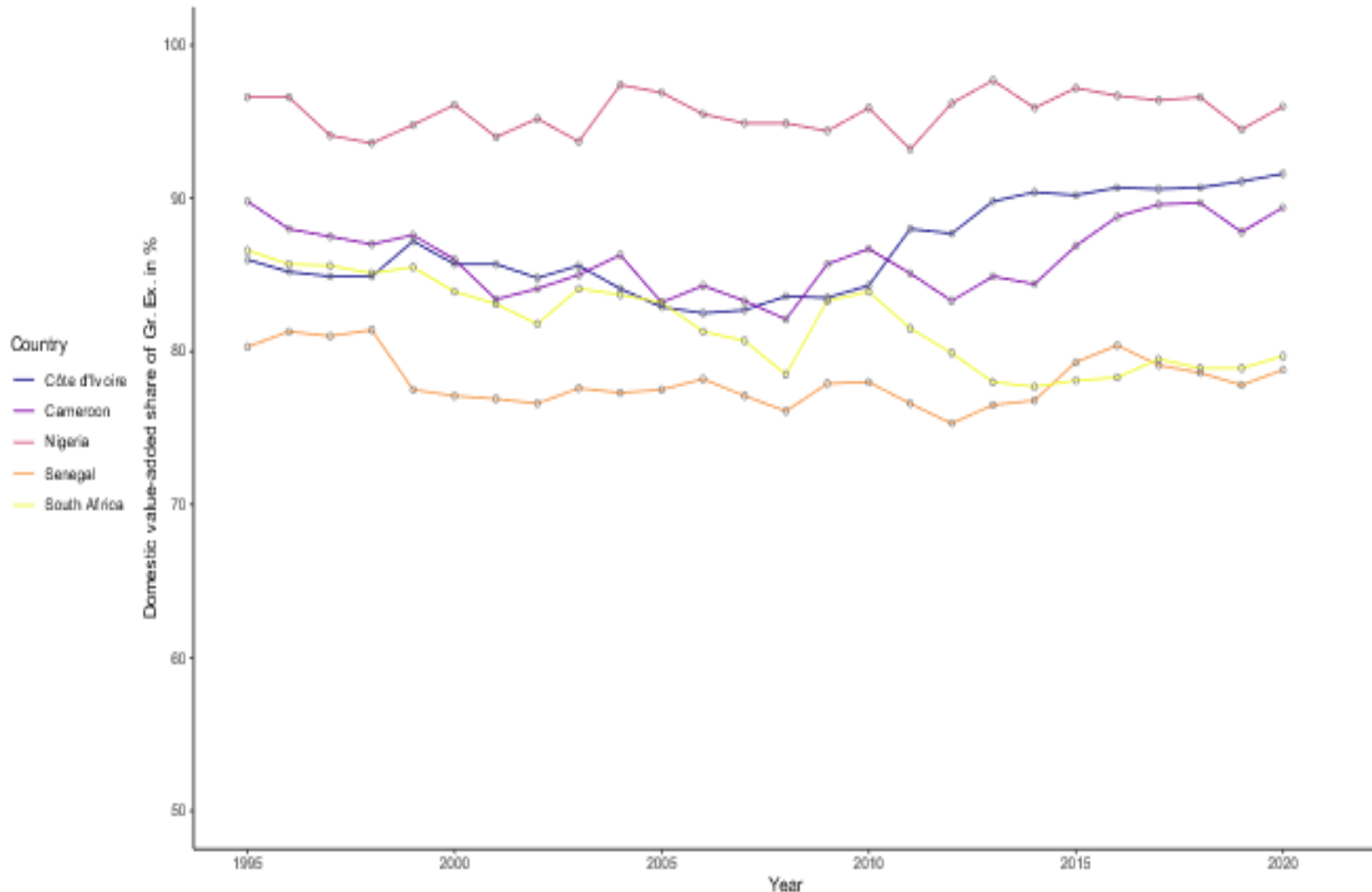
Percent of Chinese Foreign VA in gross EX

North Africa



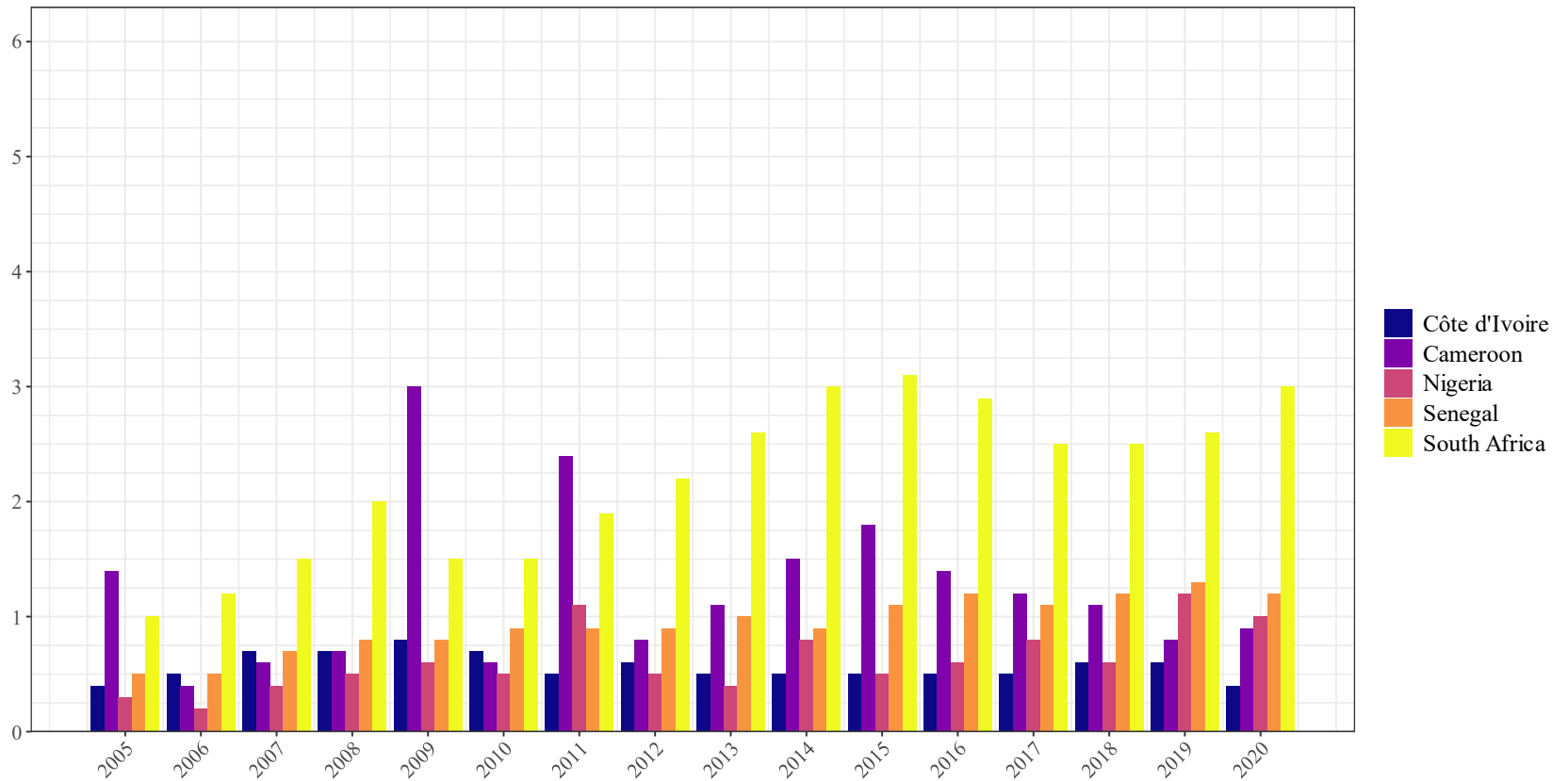
Recent developments in DVA in global value chains.

Change in domestic value added from 1995 to 2020 in Sub-Saharan Africa across all sectors

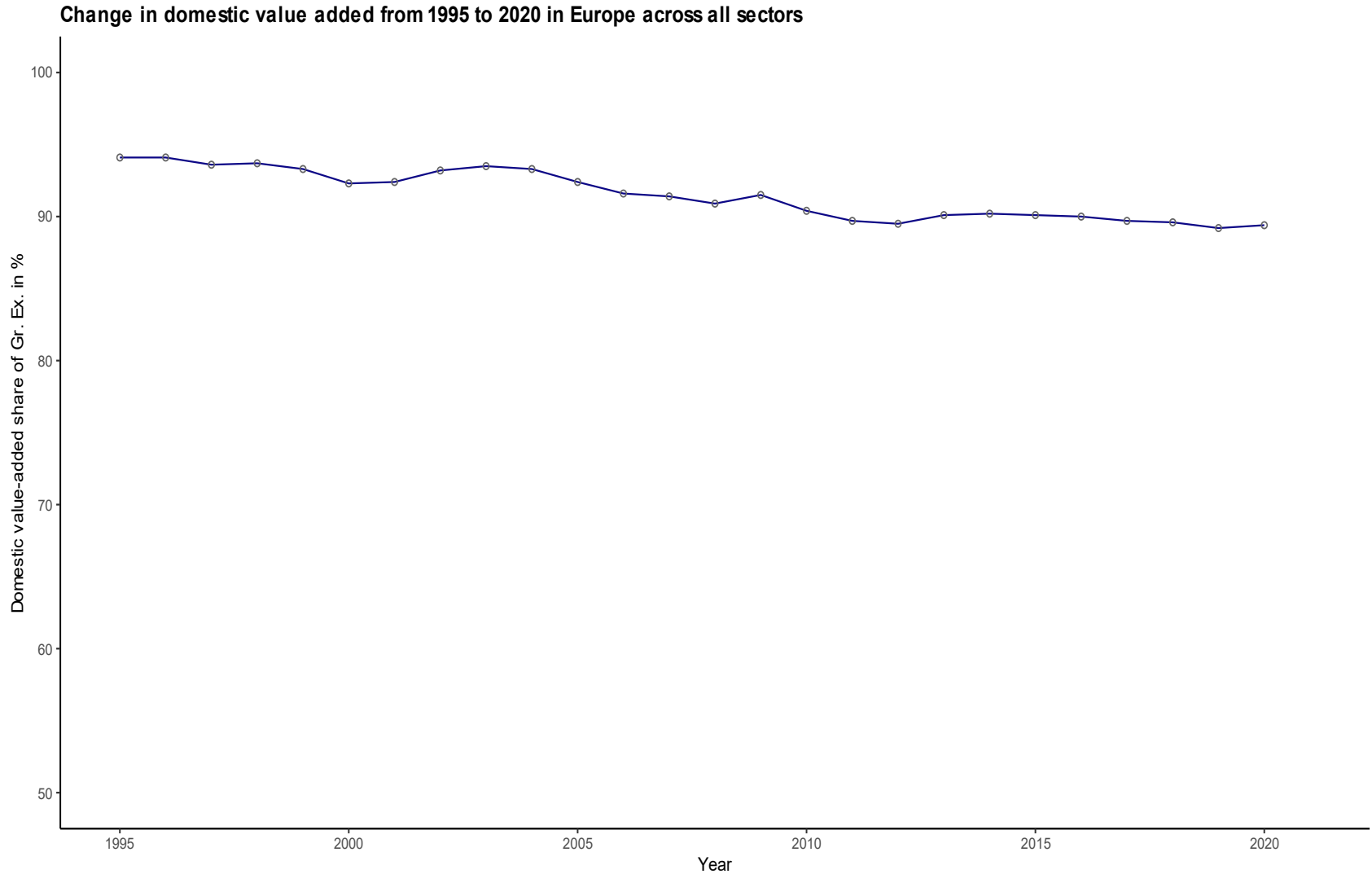


Percent of Chinese Foreign VA in gross EX

Sub-Saharan Africa

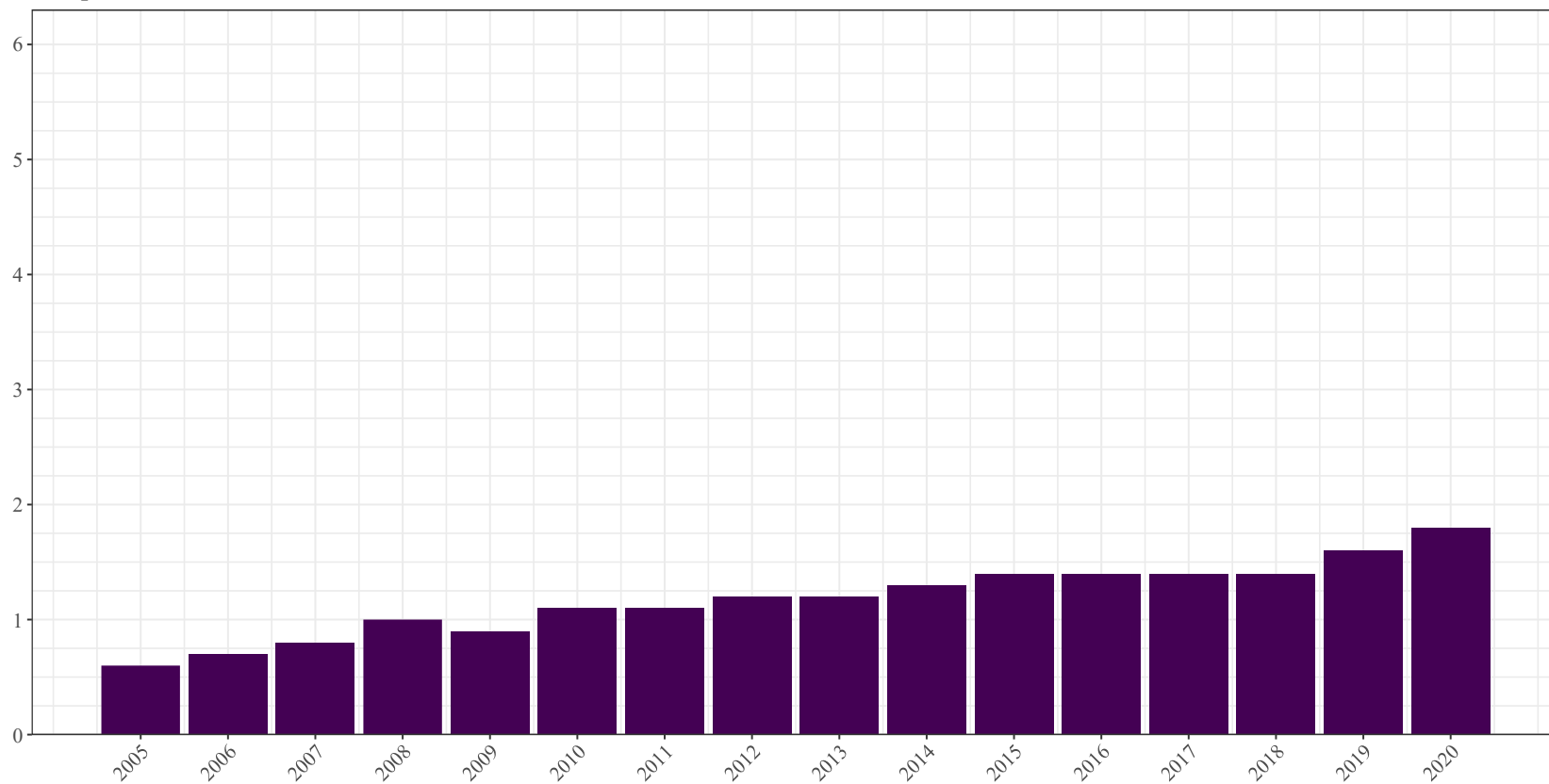


Recent developments in DVA in global value chains.



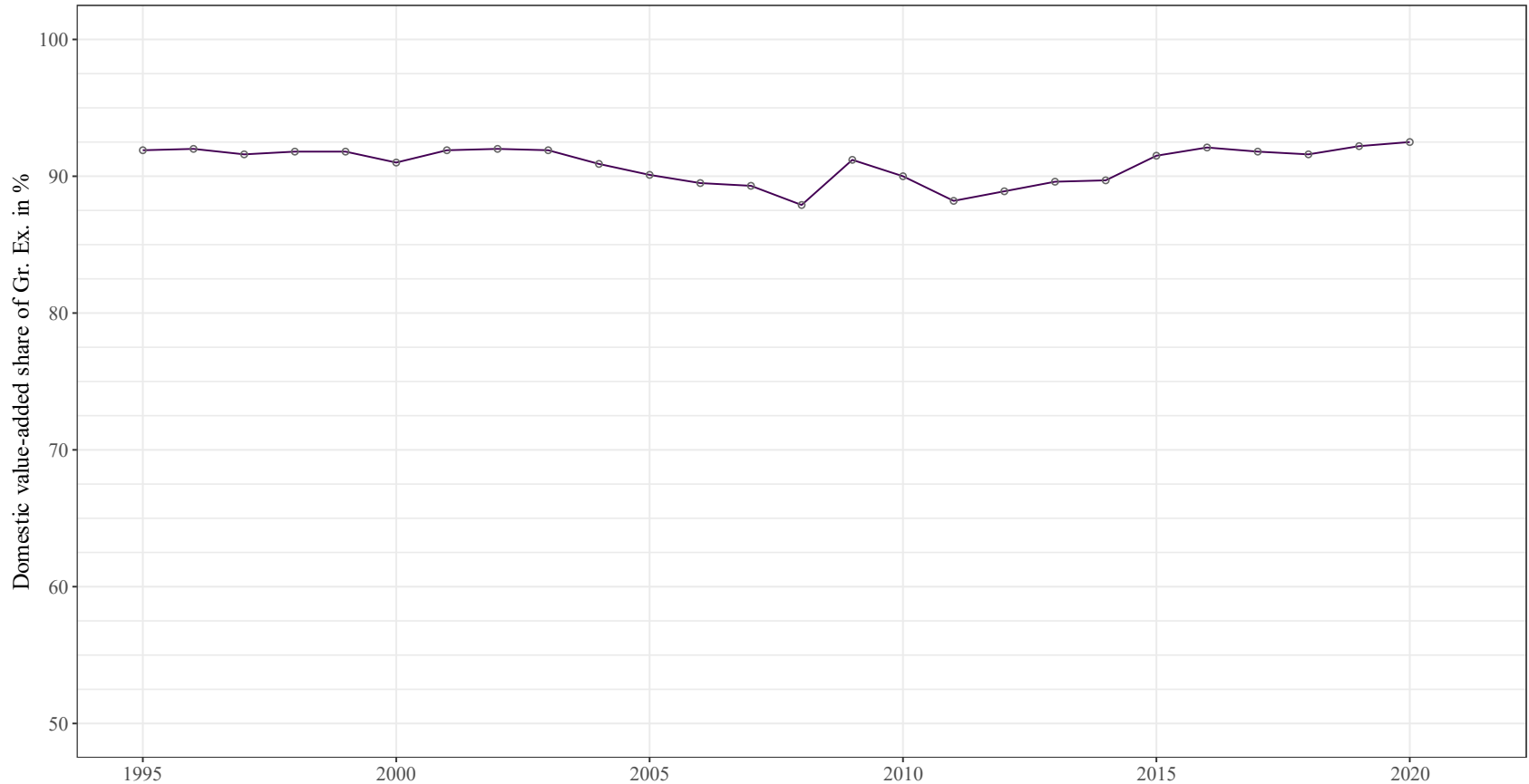
Percent of Chinese Foreign VA in gross EX

Europe



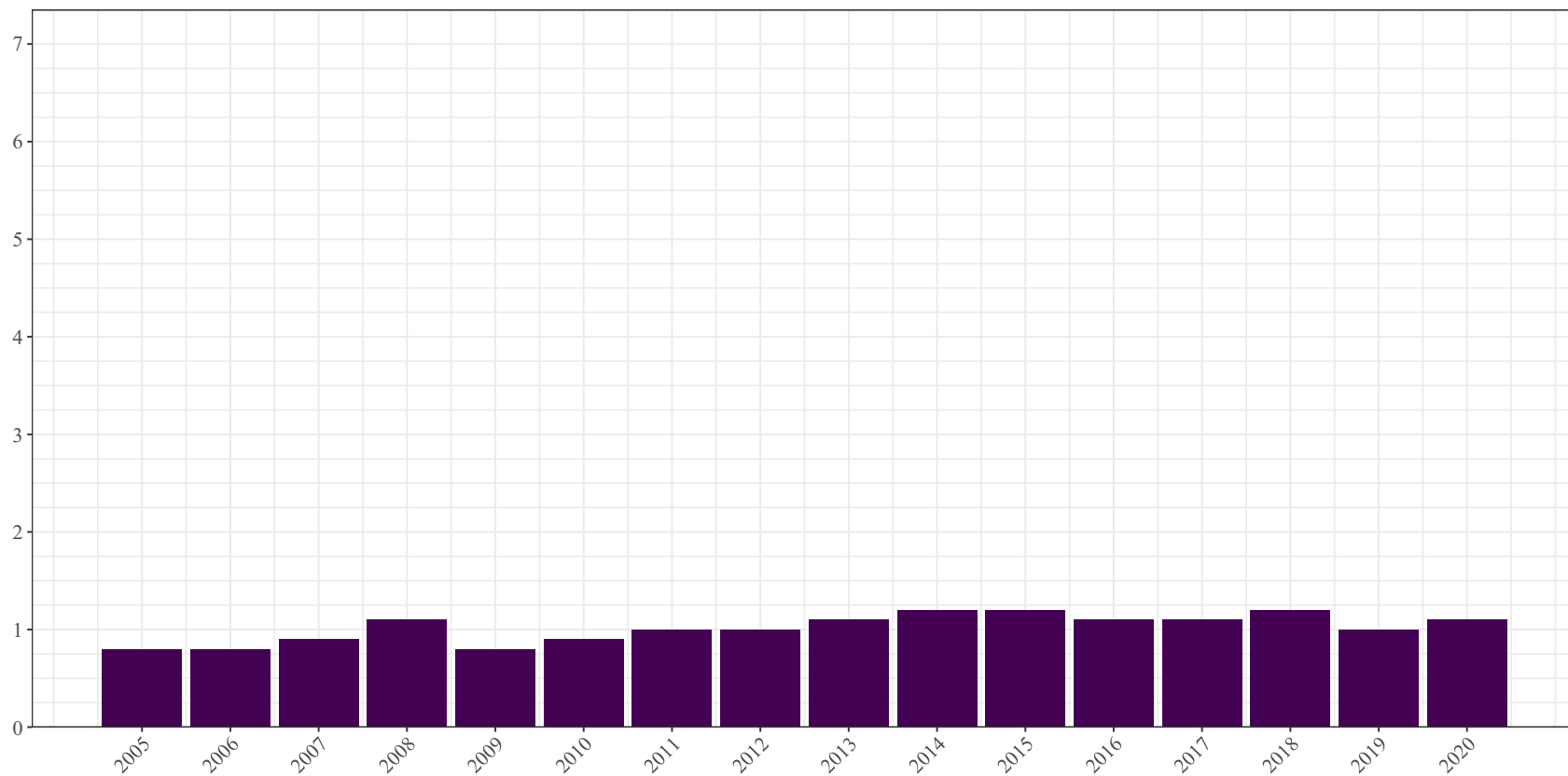
Recent developments in DVA in global value chains

Change in domestic value added from 1995 to 2020 in the U.S. across all sectors



Percent of Chinese Foreign VA in gross EX

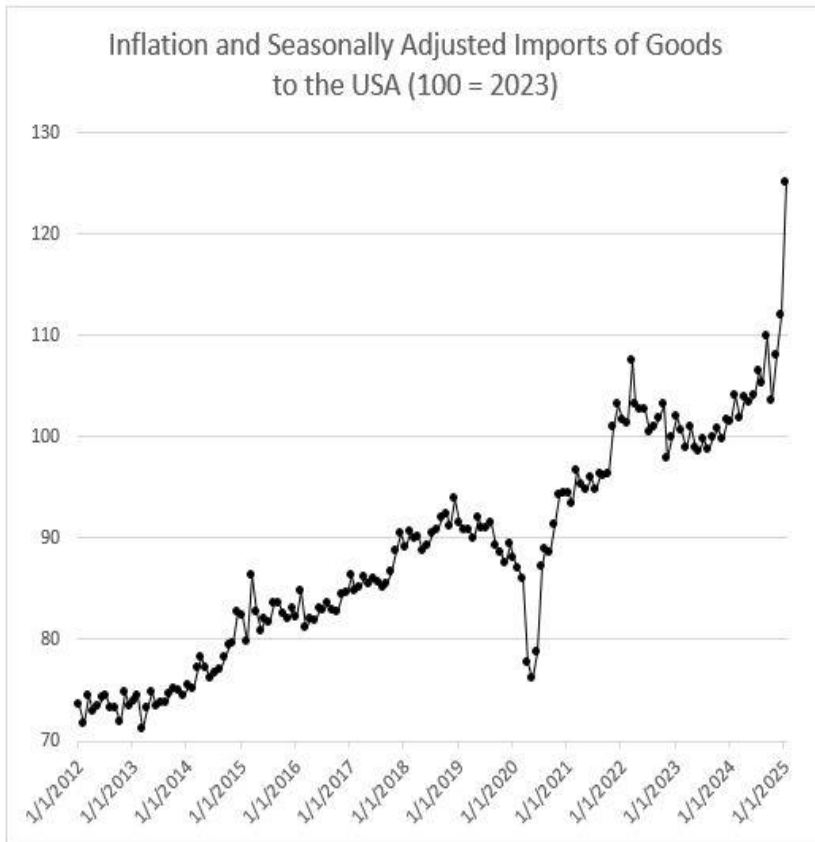
United States



Africa & Europe's Response

- Africa: Expanding regional production networks under AfCFTA.
- Europe: Strengthening supply chain diversification and industrial autonomy.

Evidence of tariff frontloading in US

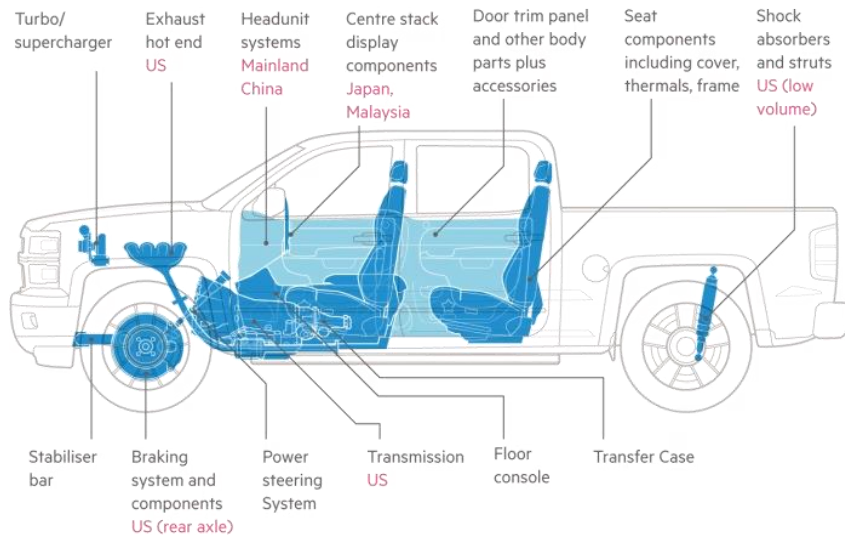


- “Seasonally adjusted imports of industrial supplies surged in January (they were up 32.7% from December), suggesting importers bringing in intermediate inputs ahead of tariffs. We can expect this will show up in inventories data for various sectors (e.g., manufacturing and wholesaling) in January and February.”
- Jason Miller, MSU

Financial Times images of complex global and regional supply chains

Silverado components manufactured in Mexico

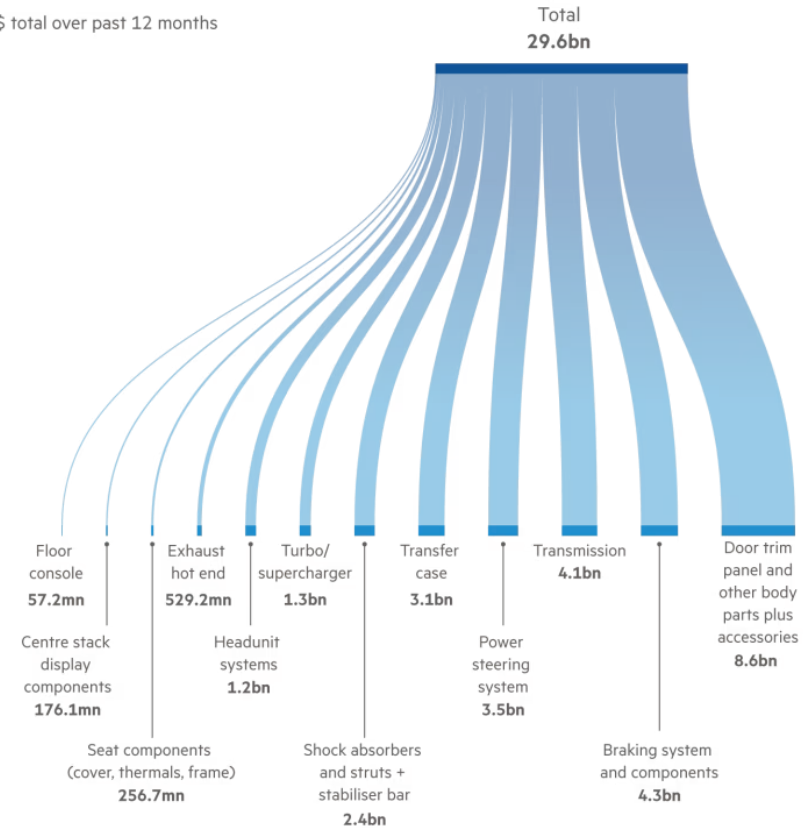
Other countries where those components are manufactured shown in red



Source: S&P Global Mobility Components Sourcing Analysis; FT research
© FT

Mexico-to-US exports of car parts used in Silverado production

\$ total over past 12 months



Sources: Export Genius; FT research
© FT

More on Macroeconomic Risks

- Demand side challenges:
 - Policy uncertainty and impact on investment
 - Interest rates remaining elevated due to inflation expectations
 - Consumer sentiment falling.
- Supply side challenges:
 - Rising costs due to tariffs, disrupted supply chains (search costs), reduced economies of scale, and reduced technological spillovers/learning by doing.
 - Geopolitical risks from sanctions and export restrictions.
 - Decline in global rules-based trade and financial systems reducing foreign direct investment?
- Commodity price volatility affecting trade balances.

Summary Table: The Economic Effects of Trade Isolation and Possible Offsets

Effect	Standard Economic Model	With Scale Economies, Spillovers, & Network Complexity
Tariffs and Trade Barriers	Modest increase in prices, small efficiency losses (~0.1–3% of GDP).	Amplified through supply chains → cascading cost increases, nonlinear productivity losses. GDP decline can reach 3–5% in extreme cases.
Supply Chain Disruptions (Network Complexity)	Some firms can substitute inputs over time, keeping losses small.	Fragile supply chains cause larger disruptions → losses propagate across industries (e.g., semiconductor shortages slowing auto production). Harder to adjust than classical models suggest.
Lost Economies of Scale	Firms face slightly higher production costs, but some domestic substitutes emerge.	High fixed-cost industries suffer most (e.g., aerospace, pharma, semiconductors). Loss of large markets raises per-unit costs 5–10%. Reduces competitiveness.
Lost Knowledge Spillovers	Slower innovation due to reduced exposure to global best practices, but local R&D can partly compensate.	Severe long-term drag on productivity (~5–10% GDP loss over time). Loss of international R&D collaboration and embedded knowledge in imports.
Inflation	Small rise in prices due to tariffs, but mostly manageable with monetary policy.	Inflation risks are nonlinear. Supply chain bottlenecks & cost-push effects magnify inflation beyond initial estimates. Stimulus efforts can worsen inflation.
Fiscal Stimulus Effectiveness	Government spending can replace lost demand, with GDP multipliers of 0.8–1.5.	Less effective if supply-side disruptions persist. If firms lack access to key inputs, stimulus leads to higher prices, not higher output.
Tax Cuts Effectiveness	Can stimulate consumer spending and business investment, offsetting some trade losses.	Lower multipliers if firms face supply constraints. If costs rise due to trade barriers, tax cuts may not restore competitiveness.
Monetary Policy Effectiveness	Lower interest rates can boost investment and weaken the dollar, making exports more competitive.	Limited impact if supply constraints persist. If inflation rises due to bottlenecks, Fed has less room to cut rates without worsening price pressures.
U.S. Treasury Market & Foreign Investment	Strong foreign demand for Treasuries keeps borrowing costs low.	Foreign capital inflows could decline if the U.S. economy weakens due to trade isolation. Potential for higher Treasury yields, raising borrowing costs.
Long-Run U.S. Competitiveness	Tariffs protect some domestic industries, but at a moderate cost.	Severe decline in competitiveness if key industries (tech, pharma, aerospace) lose global scale. U.S. could fall behind in advanced manufacturing and innovation.

Key Takeaways

1. Trade isolation amplifies economic damage beyond initial tariff estimates.

Network fragility, supply-chain disruptions, and higher input costs make losses larger and more persistent than standard models predict.

2. Economies of scale and knowledge spillovers are critical for U.S. competitiveness.

Losing global market access and R&D collaboration imposes a long-term productivity penalty that cannot be easily offset with stimulus.

3. Macroeconomic policy (fiscal & monetary) has limits.

Fiscal stimulus cannot replace lost productive capacity, and monetary easing is less effective if inflation rises due to supply constraints.

4. Inflation risks are nonlinear.

A moderate tariff hike might only raise prices slightly, but supply chain bottlenecks can trigger disproportionate inflation that is difficult to control.

5. The U.S. Treasury market may face pressure.

If foreign investors reduce purchases of Treasuries, the U.S. could see higher borrowing costs and rising fiscal pressures.

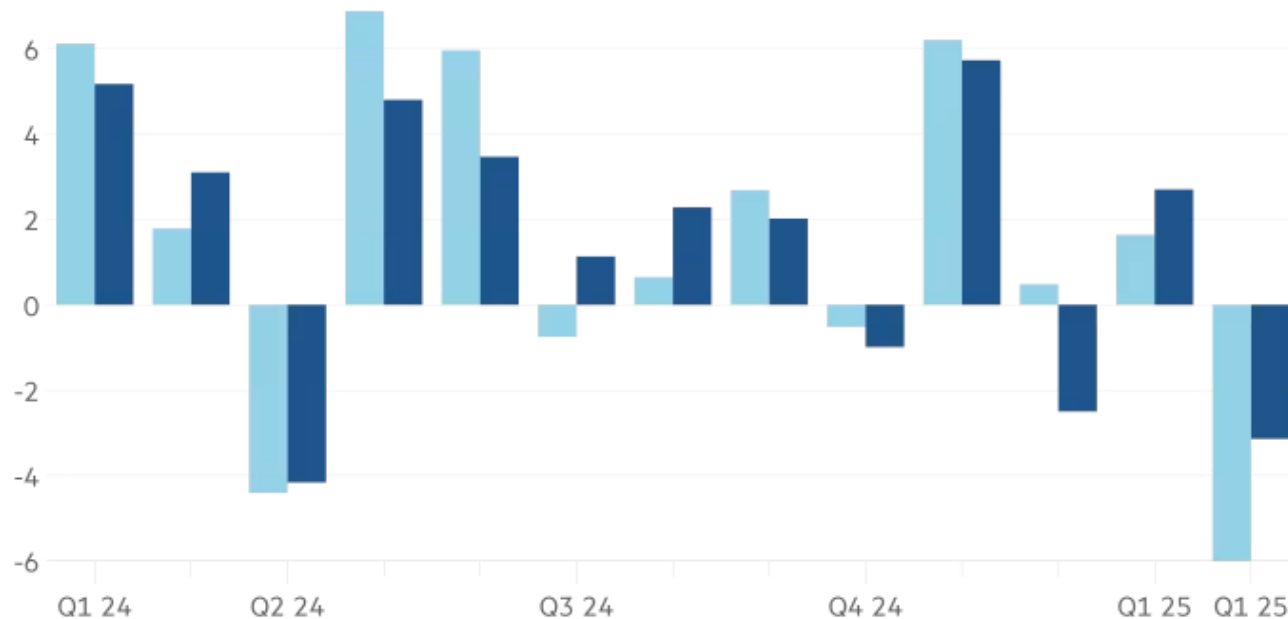
Policy uncertainty impacting US stock markets

US stocks suffer heavy losses in February

Monthly performance (%)

■ S&P 500

■ Nasdaq Composite



Source: LSEG via markets.ft.com

Shift in U.S. Trade Strategy

Trump administration returns to aggressive unilateral trade measures.

- Higher tariffs on China, Mexico, and EU – often using the International Economic Emergency Powers Act (IEEPA) that unlike most trade related laws doesn't require consultation with stakeholders.
- Use of non-tariff measures – such as “service fees” for Chinese and “China Affiliated” maritime transport operators
- Reduced WTO engagement

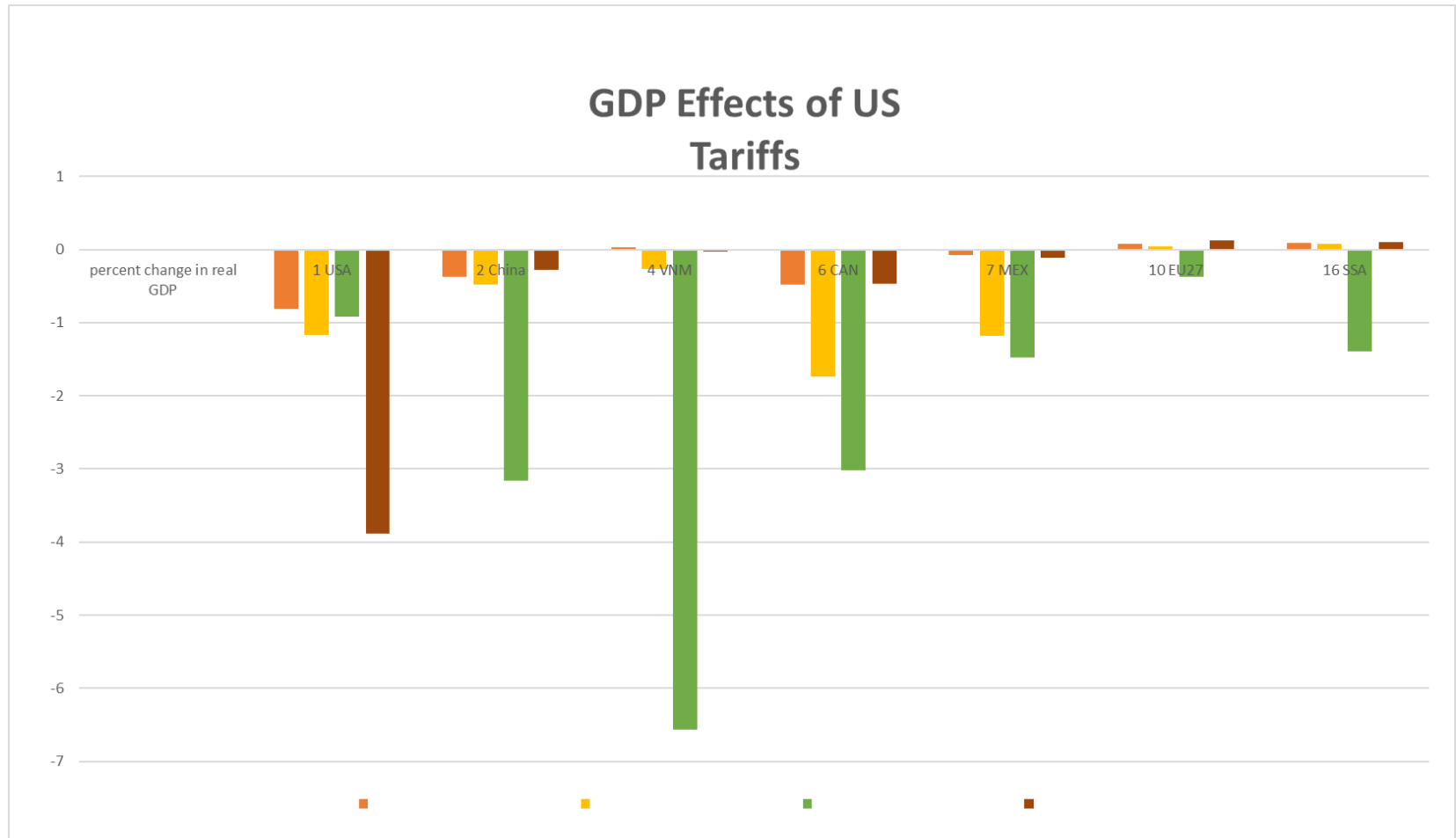
Tracking the Trump Administration's Tariff Policies

Target	Applicable Rate	Dates	2024 Import Level	Aut
Canada	25% non-energy; 10% energy	Announced Feb 1; scheduled Feb 4; delayed to March 4	\$292 billion non-energy; \$120 billion energy	IEE
Mexico	25%	Announced Feb 1; scheduled Feb 4; delayed to March 4	\$504 billion	IEE
China	10% initially; increased to 20%	Announced Feb 1; effective Feb 4; increasing March 4	\$430 billion; plus de minimis	IEE
European Union	25%	Announced Feb 26	\$598 billion	Unk
Steel and Aluminum	25%	Announced Feb 10; effective March 12	Ending steel exemptions \$29 billion; ending aluminum exemptions \$12 billion; expanding derivatives \$44 billion	Sec 232
Autos	25%	Announced Feb 12; effective April 2	Motor vehicles \$224 billion; motor vehicle parts \$83 billion	Unk
Copper	Unknown	Investigation initiated Feb 25; report due Nov. 22	\$17 billion	Sec 232
Reciprocal	Unknown	Announced Feb 13; recommendations due April 1	Unknown	Unk
Semiconductors and Pharmaceuticals	25%+	Announced Jan 27; rate specified Feb 18; effective date unknown	Unknown (products and categories have not been specified)	Unk

Source: Tax Foundation research.

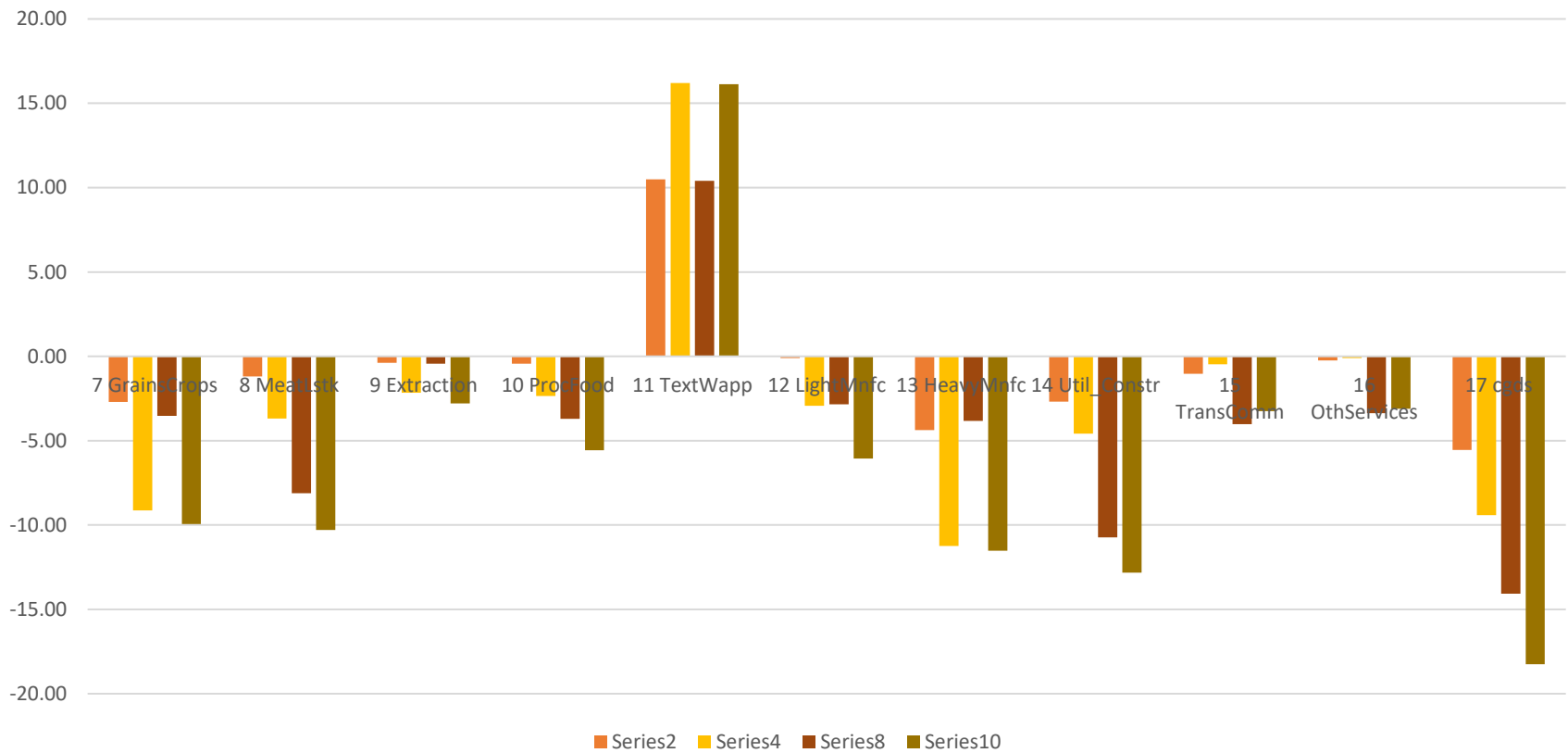
Koopman and Tsigas forthcoming – US loses all around, tightly integrated markets also.

Diversified trading partners helps



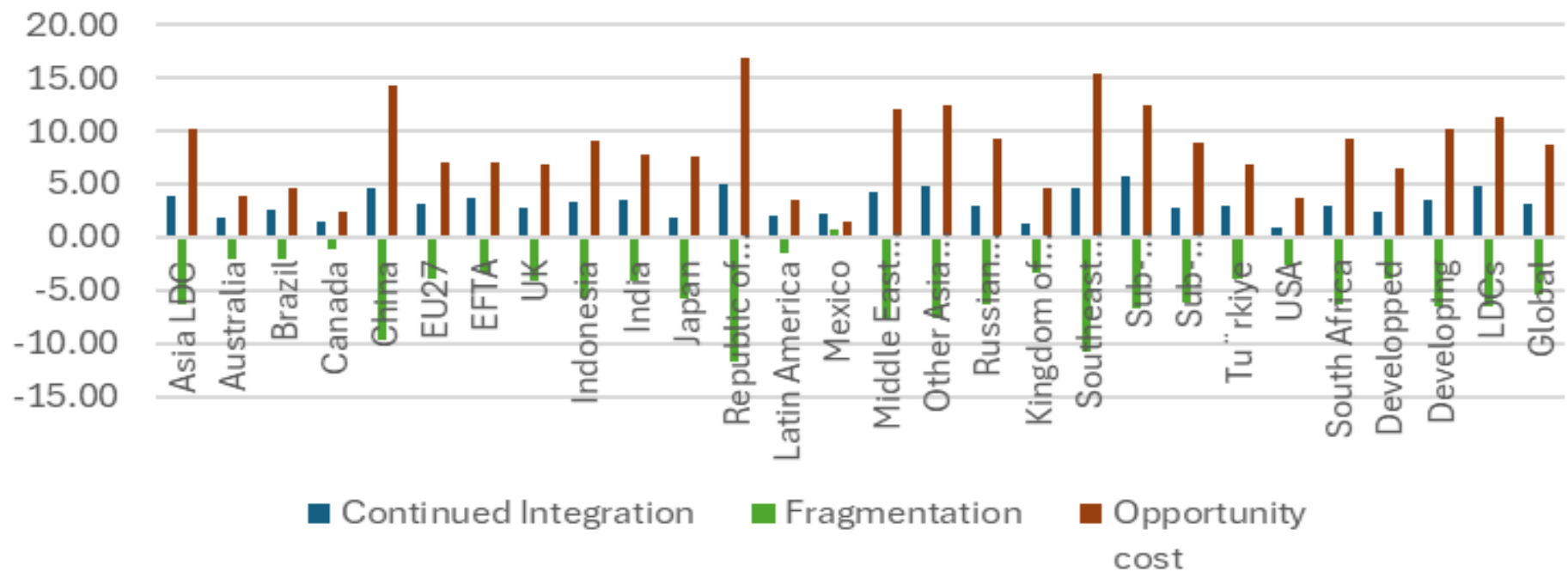
Koopman and Tsigas forthcoming – let's make domestic textiles and apparel great again?

US Domestic production, percent change



Metivier et al – trade policy and technological spillovers. The taller the red bar the more you lose

GDP Effects Integration vs Fragmentation of trade with knowledge spillover effects in 2050



McKibbin et al, Peterson Institute

Table 3 Estimated cumulative changes in GDP and consumer prices in selected economies and in production in US sectors from policies promoted by Trump, 2025-28

Item	Deportation of unauthorized immigrant workers		Additional 10 pp increase in US tariffs on all trading partners		Additional 60 pp increase in US tariffs on China		Revoking Fed independence	Combination of policies	
	1.3 million	8.3 million	No retaliation	With retaliation	No retaliation	With retaliation		Low scenario	High scenario
GDP (billions of 2018 US dollars)									
United States	-\$812	-\$5,101	-\$283	-\$721	-\$129	-\$327	-\$304	-\$1,506	-\$6,399
Japan	-\$3	-\$16	-\$37	\$9	\$5	\$45	\$183	\$147	\$212
Germany	\$0	-\$1	-\$18	-\$25	\$17	\$24	\$55	\$51	\$49
Canada	\$2	\$12	-\$32	-\$60	\$5	\$9	\$46	\$20	\$5
China	\$2	\$13	-\$102	-\$69	-\$644	-\$770	\$341	-\$296	-\$356
Mexico	-\$1	-\$8	-\$28	-\$53	\$12	\$12	\$16	-\$4	-\$36
US production (billions of 2018 US dollars)									
Energy	-\$29	-\$182	-\$80	-\$156	-\$77	-\$72	\$102	-\$71	-\$297
Mining	-\$7	-\$43	-\$14	-\$26	-\$16	-\$23	\$14	-\$20	-\$75
Agriculture	-\$19	-\$119	-\$55	-\$102	-\$61	-\$124	\$77	-\$48	-\$246
Durable manufacturing	-\$597	-\$3,750	-\$649	-\$1,402	-\$526	-\$862	-\$712	-\$2,397	-\$6,583
Nondurable manufacturing	-\$106	-\$668	-\$233	-\$462	-\$145	-\$255	\$118	-\$342	-\$1,224
Services	-\$604	-\$3,802	-\$181	-\$492	-\$11	-\$146	\$89	-\$704	-\$4,326
Change in consumer price index by 2028 (percent)									
United States	1.5	9.1	0.8	1.8	0.7	1.1	11.0	13.9	22.8
Japan	0.0	0.1	0.3	0.2	0.0	-0.2	-0.6	-0.4	-0.4
Germany	-0.1	-0.4	0.0	0.1	-0.3	-0.3	-0.6	-0.9	-1.3
Canada	0.0	0.2	1.0	1.9	-0.1	-0.1	-0.4	0.5	1.6
China	0.1	0.5	-0.6	0.6	0.2	1.9	3.4	3.1	6.1
Mexico	0.1	0.8	1.6	3.3	-0.5	-0.4	-0.5	0.8	3.2

pp = percentage points

Source: Authors' calculations.

Rethinking Global Trade - Miran's Vision a Trump trade policy philosophy?

Key Challenges & Policy Proposals

Overvalued U.S. Dollar & Trade Deficits - The dollar's role as a reserve currency leads to chronic overvaluation.

Persistent trade deficits weaken U.S. manufacturing competitiveness.

Tariffs as a Policy Tool - Proposed: 60% tariffs on China, 10% global tariffs linked to national security.

Miran argues tariffs can be used without inflationary impact if currency adjustments offset costs.

Shifting Trade Strategy - U.S. is pivoting from multilateral trade agreements to unilateral action.

Economic and defense policies are increasingly intertwined, requiring allies to share costs of trade restrictions.

Financial Market Risks - A sharp yuan devaluation could disrupt global financial stability and undermine U.S. monetary policy.

Retaliatory tariffs from China, Europe, and others could disrupt supply chains, raise costs, and shift trade flows.

Challenges to This Vision

Effectiveness of Tariffs & Currency Adjustments - Currency shifts do not always fully offset tariff costs, leading to higher consumer prices and business disruptions.

Exchange rate pass-through varies by sector, with some industries facing unavoidable price hikes.

Trade Deficits & Structural Factors - Deficits result from low U.S. savings rates and global investment flows, not just dollar strength.

A strong dollar reduces borrowing costs and stabilizes global markets, benefits often overlooked.

Risk of Inefficiency & Retaliation - Protectionist policies often raise domestic costs and misallocate resources.

Past tariff policies (e.g., Smoot-Hawley, Nixon surcharges) led to stagnation or unintended economic consequences.

Limits of Unilateralism - While the U.S. remains a dominant trade force, global power is shifting, with China and other economies diversifying trade ties.

Over-reliance on unilateral tariffs may isolate the U.S. and weaken its long-term influence in global trade governance.

Jennifer Hillman - why IEEPA for tariffs likely illegal

1. Congress, Not the President, Controls Tariffs - Constitution (Art. I, Sec. 8) gives Congress the power to regulate trade and impose tariffs.

Presidents can impose tariffs only through specific laws (e.g., Section 232, 301, 201).

2. IEEPA Does Not Authorize Tariffs IEEPA (50 U.S.C. § 1701) regulates sanctions & economic restrictions, not tariffs.

IEEPA lacks any mention of “tariff,” “duty,” or “tax”, unlike trade laws that explicitly authorize them.

3. Major Questions Doctrine (MQD) Blocks This Move - Supreme Court ruling (West Virginia v. EPA) requires clear congressional approval for major economic policies.

IEEPA does not explicitly authorize tariffs, so courts would likely strike this down?

4. Balance of Payments Emergency? Still Not Legal - Nixon used tariffs under Trading With Enemies Act (IEEPA’s predecessor), but Congress removed that power when it passed IEEPA.

Trade Act of 1974 (Section 122) explicitly allows tariffs for balance of payments issues, but limits them (15% max, 150 days).

5. Historical Use of IEEPA Confirms This - IEEPA has only been used for sanctions, asset freezes, & financial restrictions—never broad tariffs.

Courts require a clear link between the declared emergency and the economic action—Trump’s tariffs lack such a link.

Proposed Action: USTR Section 301 Investigation on China's Maritime, Logistics, and Shipbuilding Sectors

Stated Objective to address China's state-led efforts to dominate maritime, logistics, and shipbuilding, which undermine U.S. competition and economic security.

Key Measures:

Service Fees: Fees on Chinese and China-affiliated maritime transport operators entering U.S. ports (up to \$1.5M per vessel).

Restrictions: Gradual mandates for U.S. exports to be transported on U.S.-flagged vessels.

Digital Security Actions: Limits on Chinese shipping data platforms like LOGINK.

Allied Coordination: Potential negotiations with partners to reduce reliance on China.

Process & Timeline

1. Feb 21, 2025: Public comment period opens.
2. Mar 10, 2025: Deadline for requests to testify at the public hearing.
3. Mar 24, 2025: Deadline for written comments; USTR public hearing in Washington, D.C.
4. 7 Days Post-Hearing: Rebuttal comments submission deadline.
5. Final Decision & Action: USTR reviews input and determines implementation no fixed date.

WTO in just released USTR 2025 Trade Policy Agenda

WTO at 30: U.S. Perspective

Systemic Failures - WTO has not delivered expected benefits, struggling with enforcement and adaptation. Counterfactual vs. ideal?

China's Trade Practices - WTO has failed to discipline China's non-market policies, distorting global trade. True challenge, but China not the only one blocking moving on such policies and US adopting similar policies now.

Negotiation Stalemates - No major trade liberalization deals due to abuse of special treatment by advanced economies. Not a China issue, mainly an India and South Africa and allies' issue.

Dispute Settlement Issues - WTO rulings often undermine U.S. sovereignty and trade enforcement. WTO DSU findings cannot and do not require change is US law.

Reform Roadblocks - U.S. efforts for greater transparency and fairer rules have been obstructed. Yes, but US has also not been particularly constructive.

Diminished Relevance - Alternative trade frameworks may be more effective than WTO-led negotiations. This has been evident in the FTA surge – and will likely continue unless WTO members can come together. Potential for plurilaterals?

Policy Moving Forward - U.S. will push for reforms but remains skeptical of WTO's future role. Seems like US has not been invested in moving WTO forward for awhile. But it seems happy to accept the foundational benefits.

Closing Thoughts: Trade in 2025

Key uncertainties:

- How much will the U.S. escalate trade tensions?
- What are the likely micro and macro economic impacts of these significant economic policy shifts?
- Can regional agreements such as AfCFTA stabilize trade? Will other countries continue global and regional integration – lowering trade costs while US raises its trade costs?
- What role will WTO and multilateralism play?

Thank you, and...

- Next, we explore how Africa, Europe, and firms doing business in these regions might navigate these shifting dynamics in our two panels.