

# The tariff sledgehammer smashing the global world order

Even though there's some relief, we are witnessing not a gentle reset or subtle changes in economic relationships but rather a wild sledgehammer, writes Carsten Brzeski. It's breaking down the global world order of the last 80 years. It is hard to watch



## This is hard to watch

Let me be clear: I love America. I grew up in the American sector of West Berlin, listening to AFN Berlin, getting my first marshmallows in the GI's grocery store on Truman Plaza before it was closed to locals after the La Belle attack, and watching American movies in the Outpost movie theatre. I grew up looking up to the US and Americans, studied US economic history and politics at the JFK Institute of the US-funded Free University of Berlin, and had countless stays in the country. I still listen to US (punk) rock, love their movies and TV series, and enjoy reading US scholars.

To me, the United States has always been the leader of the free world, no matter whether I agree with everything happening there. Above all, the US has always been a friend to me, a friend to Germany, and a friend to Europe.

This is why it is so hard to comprehend and watch how the US is taking a completely new role on

the global stage. What we are currently witnessing is not a gentle reset or subtle change in economic relationship but rather a wild sledgehammer, breaking down the global world order of the last 80 years.

## A self-inflicted economic shock

Sure, after the rollercoaster ride of the past couple of weeks, the worst-case scenario on tariffs seems to have been avoided. However, let's not forget there are still much higher tariff levels now than we had before 'Liberation Day', they're not as high, for most at the moment, than first revealed. A 10% universal tariff and sectoral charges on steel, aluminium, cars and potentially pharmaceuticals, too, will take their toll on the global economy. Even with the 90-day pause, the current escalation would bring global tariffs back to levels last seen in the early 1930s - the last episode of a global trade war initiated by a US president with the Smoot-Hawley Act. And we know how that ended.

It is general economic wisdom that there are no winners in trade wars, only losers, but some lose more than others. Right now, the impact of the announced tariffs will be clearly inflationary and possibly recessionary in the US. It is highly unlikely that both government revenues will increase, and manufacturing jobs will be brought back to the US.

A lot will depend on the Federal Reserve's willingness to counter and mitigate what I call a self-inflicted economic shock to the economy. And whether or not Donald Trump will eventually deliver the promised tax cuts. In Europe and many other US trading partners, the tariff shock is likely to be recessionary and disinflationary. The impact on an already weak export industry is pretty straightforward. What is more complicated to assess is the more indirect impact through confidence hits for both consumers and corporates.

With other countries trying to sell their products in the EU instead of the US, the risk of a disinflationary shock increases. For the European Central Bank, weaker growth and disinflation open the door not only to an April rate cut but also to further reductions over the summer.

## Europe can no longer hide in America's shadow

Admittedly, and as a big disclaimer to our forecasts this month, there is probably more that we don't know than we do. How long will these tariffs really remain in place? Will we get more exemptions or even a further downscaling of US threats? Will a US recession and further stock market corrections push the Trump Administration to reverse course? How will other countries react, both in terms of retaliation, negotiation and mitigating measures?

After the Art of the Deal, will we perhaps get the Art of the Defeat?

But there is much more to the developments of the last three months. Whether we like it or not, whether we keep our eyes closed or not, or whether we try to make sense of unprecedented economic and political moves or not, the US no longer wants to hold its so-called 'exorbitant privilege.' The international geopolitical world order is changing.

First, it was defence and security; now, it is trade and economics. Just another historical reminder: it was the US that led the initiatives for all post-World War II multilateral institutions such as the IMF, the World Bank, NATO, and the World Trade Organisation (or better yet, its predecessor, the

General Agreement on Tariffs and Trade). This created an international geopolitical world order in which one dominant power, the US, dictated the order that other countries followed.

This era seems to be over and looks set to be replaced by unilateral approaches.

The implications for the rest of the world and the global economy are hard to grasp. To bring in some historical comparison, there are two ways to see the current situation: comparable to 1989 or to the pandemic. The fall of the Berlin Wall in the late 80s changed Europe and the world for good. The pandemic was also regarded as a long-lasting structural shift to the global economy, which eventually faded away almost entirely, only a few years later (with a few exemptions, like hybrid working). The jury is still out on how long-lasting the impact of the current episode will be, but my personal view is clear.

For Europe, life in the shadow of the US is at an end. It is now up to Europe's leaders not to lament this development but rather to work on the continent's own 'strategic autonomy' and 'exorbitant privilege'. The way to do this should be more than well-known by now.

I stood on the Berlin Wall in 1989, unaware of the long-term consequences of this historic period. Today, I am fully conscious and aware of when Europe finally decides to write a new chapter.

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