US China trade war: What's in it for Europe?

Opportunities and threats for EU firms from the escalating trade war between the US and China

US Trade Representative Robert Lighthizer, left, and Treasury Secretary Steven Mnuchin after talks with the Chinese Vice Premier Liu He in Washington

After last minute trade negotiations between the US and China broke down, the US raised tariffs from 10% to 25% on $200 billion of American imports from China. This move will affect EU economies, particularly because China is likely to retaliate. Although we still expect a deal, the situation may get worse before it gets better.

Taking into account which European companies already have a strong presence in US and Chinese markets, our study has identified European machine makers, producers of fine instruments and chemical industries as sectors that are likely to benefit from tariffs between the US and China. However, the tariffs may also hurt European firms, as demand from the US and China for each other's products will be supressed, with the excess supply possibly dumped on the European market. This potentially eats away at the margins of European producers.

Reduced demand and increasing uncertainty in the US and China will also suppress business investment, which will diminish the chances of European companies exporting capital goods. On top of this, European producers of parts processed in the imports by the US from China, or by imports by China from the US may be hurt as well.

The US had been expected to announce a decision next week on whether to impose tariffs on imported cars and auto parts, which is likely to increase EU-US tensions. Reports suggest that decision may be delayed but even so, the escalation of the conflict between the US and China will take its toll on Europe.