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Tit-for-Tat Battles: Any Chance for De-escalation?

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Trade dependence and retaliatory/compensatory measures

- 'Hit them where it hurts' – economically and politically
- But don't 'hit them in a way that hurts you'
- Generally, a difficult exercise – someone always have to pay, by direct tariffs or higher price for expenditures.
- What can be done?

Understanding the effect of tariffs...

- Bilateral trade dependence:
 - Can import be substituted?
- Type of good:
 - Final consumer good or intermediary good?
- Who imports?
 - Large entities or SMEs?

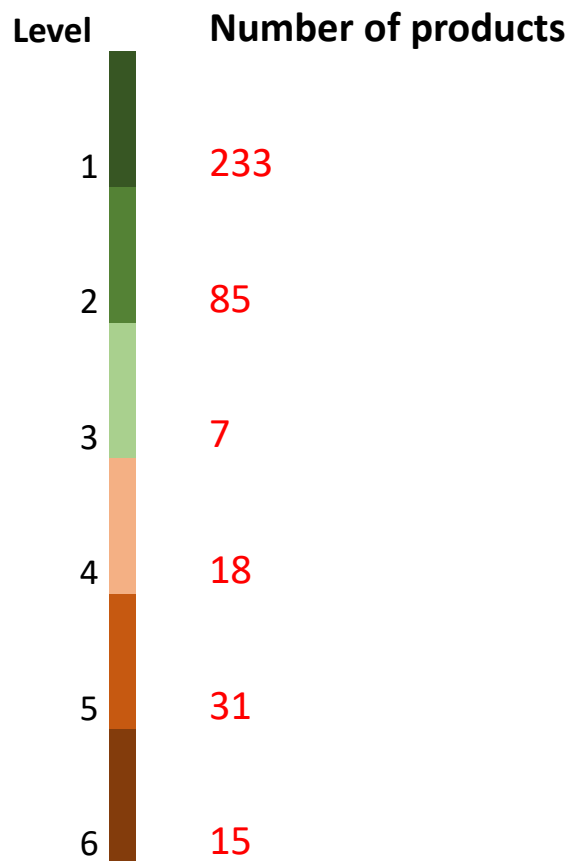
Dos and Don'ts

- Dos:
 - Select goods where bilateral trade is low and where many competing suppliers can substitute lost trade
 - Select consumer goods, not intermediary goods
- Don'ts:
 - Avoid goods where the other country exports more than 20 percent of all your (extra) imports
 - Avoid goods where the other country exports more than 10 percent of (all) imports
 - Avoid goods with few supplying countries globally

The EU product list: A First Approach

Level	Definition
1	US share of extra EU import <20% + US share of total EU import <10% + No. Of extra EU exporters >10
2	US share of extra EU import <20% + US share of total EU import <10%
3	US share of extra EU import <20%
4	US share of extra EU import >20%
5	US share of extra EU import >20% + US share of total EU import >10%
6	US share of extra EU import >20% + US share of total EU import >10% + No. Of extra EU exporters <10

Trade dependence and the EU product list



- 325 products in "green" categories; 64 products in "red" categories.
- 233 products in Level 1 – covers an amount of imports from the US that substantially exceeds the WTO award.
- "Green" categories substantially defined by consumer goods and agricultural intermediaries; in "Red" categories more common to find industrial intermediaries.
- There are exceptions to that rule – some industrial intermediaries in Level 1 as well.

General points

- Not difficult to make the right “economic” selection in trade relations that are deep – that covers many different goods.
- Research from previous episodes of retaliatory/compensatory measures suggest they should focus on consumer goods and not intermediary goods.
- GDP and jobs effect smaller when consumer goods are selected.