Trade at a Crossroad

The global trade landscape is on the brink of significant disruption as the United States and the European Union prepare for a potential trade war. Protectionist sentiments are intensifying in the United States, with the President-elect prioritizing economic measures that could dramatically reshape international commerce. This potentially impending conflict, for which the U.S. elections were just the prologue, presents complex challenges for CEOs of international companies operating across these regions. To navigate these uncertain scenes, it is imperative to exercise caution and develop strategic responses to prepare and future-proof your business.

To keep ahead of what is coming, companies should build a geopolitical watch to its strategic management, covering all regulatory, trade, sanctions and export controls angles. Developments should be monitored closely and comprehensive risk assessments should be run to evaluate exposure to U.S. – EU trade tensions, with the idea of possibly diversifying markets and suppliers to mitigate dependency on affected regions. But, now that the prologue has ended, let's try to determine how the situation could unfold in the coming weeks and months.

Act One: A High Likelihood of U.S. Tariffs

The President-elect has placed protectionist measures at the forefront of his economic agenda, surrounded by advisors who reinforce these positions. There is a high likelihood that new tariffs will be imposed, possibly targeting specific sectors and countries to create divisions within the EU.

France, in particular, may find its automobiles, aeronautics, luxury goods, and wines and spirits under scrutiny. Historical precedents, such as the 25% tariffs on French cognac, rum, and vodka from October 2019 to June 2021 during the Boeing-Airbus dispute, underscore the seriousness of this threat.

Act Two, Scene One: The EU's Reaction Challenge: Coordination Amidst Division

While the European Commission, who has launched a "Trump Task Force", have previously stated their plans to "retaliate quickly and retaliate hard", it seems that coordinating a unified response among EU member states will be difficult. Diverse national interests and political dynamics make consensus challenging. Economic dependencies vary greatly among EU nations, and countries with significant exports to the U.S. may well be more cautious in agreeing to take substantive action.

Let's look at the individual situations

Whilst France has historically advocated for the use of tariffs and is likely to support strong countermeasures, Germany is traditionally more cautious – though with the upcoming election, potential leadership change and the heightened importance of economic interests, this traditional stance may shift over time.

Italy, who is under a leadership ideologically closer to the U.S. President-elect, may hesitate to take action that could disrupt positive relationships between the two countries. Similarly, Eastern European countries might prioritize NATO protection over economic considerations, adding further complications to unified action.

And the UK?

The United Kingdom, now outside the EU, adds further complexity. The U.S. President-elect economic advisor Stephen Moore has urged the UK to align with the U.S.,while the Labour leadership might prefer to keep the link with the EU more alive. All this creating further uncertainty.

Despite the European Commission's plan, the difficulty in coordinating a unified EU response cannot be underestimated. Member states' varying priorities may hinder swift and decisive action. It is possible that the U.S. will play to these divisions and target specific sectors of the most vocal advocates of a strong response as well as preserving the sectors with the more passive EU players.

Act Two, Scene Two: Diversification as a Possible Strategic Response

To reduce reliance on the U.S. market, the EU may accelerate free trade agreements with other regions, such as Mercosur, India, and South Korea. This diversification aims to mitigate the impact of U.S. tariffs and strengthen the EU's global trade relationships. Nevertheless, internal national politics might play against this mitigation, we have seen in France President Macron has been strongly opposed to the Mercosur agreement in order to socially stabilize the farmer's protest. It seems unity will be difficult to obtain, with the EU-Mercosur free trade agreement still lacking unanimous support after 25 years of talks.

Act Three: The U.S. Counter Reaction: Seeking a Deal

Facing reactions from the EU and other affected parties, the President-elect might pursue a deal to demonstrate that he acted decisively and swiftly.. This could happen quite early on in the six to nine months following any potential tariffs being implemented, partly because of the inflationary pressures that could affect the U.S. resulting from the protectionist measures, which could then reduce consumer demand over time.

This approach allows him to showcase his effectiveness in negotiating and achieving favorable outcomes for the U.S. A similar strategy could emerge concerning NATO, where U.S. participation will be a key negotiation element in all future discussions with the EU. The President-elect may leverage NATO commitments to extract concessions, further complicating the transatlantic relationship

Epilogue: Strategic Considerations for CEOs

Market uncertainty due to fluctuating trade policies creates an unpredictable business environment and can complicate strategic planning – with the possibility of new and increased tariffs posing a particular risk for CEOs of international companies. Supply chain disruptions can lead to increased costs and delays, affecting profitability and operational efficiency. The potential for the U.S. President-elect to seek a deal at any moment adds another layer of complexity, highlighting the need for vigilance and adaptability in international business operations.

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