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Research Report

An alliance for open trade: How to counter Trump's tariffs

Kiel Policy Brief, No. 194

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Hinz, Julian; Head, Keith; Méjean, Isabelle; Ornelas, Emanuel; Schularick, Moritz (2025) : An alliance for open trade: How to counter Trump's tariffs, Kiel Policy Brief, No. 194, Kiel Institute for the World Economy (IfW Kiel), Kiel

This Version is available at:

<https://hdl.handle.net/10419/323230>

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KIEL POLICY BRIEF

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An Alliance for Open Trade: How to Counter Trump's Tariffs



Nr. 194 | July 2025

Overview

- Trump's renewed tariffs on allies (EU, Canada, Mexico, Brazil) mark a return to aggressive protectionism, ignoring WTO rules and threatening the global trade system.
- Individual retaliation is weak—only a coordinated coalition (EU, Canada, Mexico, Brazil, South Korea) can impose meaningful economic pressure on the U.S.
- A joint response would be WTO-compliant, targeted at politically sensitive U.S. sectors (autos, pharma, agriculture), and framed as a defense of free trade, not punishment.
- Time is critical: delaying action risks further fragmentation and lasting damage to the rules-based global trade order.

Keywords: US trade policy, tariff policy, trade war, free trade

- Trumps neue Zolldrohungen gegen enge Verbündete (EU, Kanada, Mexiko, Brasilien) stellen eine Rückkehr zum aggressiven Protektionismus dar – ohne Rücksicht auf WTO-Regeln und mit Gefahr für das globale Handelssystem.
- Individuelle Gegenmaßnahmen reichen nicht aus – nur eine koordinierte Koalition (EU, Kanada, Mexiko, Brasilien, Südkorea) kann echten wirtschaftlichen Druck auf die USA ausüben.
- Eine gemeinsame Antwort wäre WTO-konform, würde gezielt politisch sensible US-Sektoren (Autos, Pharma, Landwirtschaft) treffen und als Verteidigung des Freihandels statt als Strafe kommuniziert werden.
- Zeit zum Handeln ist jetzt – Zögern führt zu weiterer Fragmentierung und langfristigem Schaden für die regelbasierte globale Handelsordnung

Schlüsselwörter: US-Handelspolitik, Zollpolitik, Trump, Handelskrieg, Freihandel

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An Alliance for Open Trade: How to Counter Trump's Tariffs

Julian Hinz, Keith Head, Isabelle Méjean, Emanuel Ornelas, Moritz Schularick

The White House revived its favorite economic weapon last week, threatening to impose sweeping new tariffs on many of the United States' closest allies. The proposed duties — 30 percent on goods from the European Union and Mexico, 35 percent on those from Canada, 50 percent on imports from Brazil — signal a renewed embrace of aggressive unilateralism and misunderstood economics. The move follows a tense trade skirmish with China in April that saw tariffs spike to an unprecedented 145 percent before a fragile truce was reached, set to expire in mid-August. Disturbingly, and unlike in President Trump's first administration, the U.S. now does not even attempt to justify its violations of World Trade Organization rules or its own free trade agreements. Thus, the world is now on notice: the main architect of the postwar global economic order seems intent on dismantling it.

For leaders in capitals from Brussels to Seoul, this presents a daunting challenge. The impulse to de-escalate, or for each capital to seek its own separate accommodation with Washington, is strong. But appeasement or fragmented, go-it-alone retaliation would be a strategic error. Such actions would only embolden further protectionism and accelerate the erosion of the rules-based system. The only effective response is a coordinated one. The United States' allies must form a united front, demonstrating that the principles of free and fair trade are not theirs to abandon.

This moment calls for a strategic coalition, led by the EU and including Canada, Mexico, Brazil, and South Korea. Acting in concert, these powers can answer Washington's tariffs with a proportional, unified, and clearly communicated counter-response. The goal would not be to win a trade war, but to prevent one, by making the costs of American isolationism prohibitively high. In turn, this would help sustain the rules-based system — a key driver of global economic integration over the past 80 years.

Alliance of the like-minded

On its own, any single country — or even the EU as a bloc — has limited leverage against the United States. The U.S. market is simply too large and important. Retaliatory tariffs from one partner, while painful, can be weathered through trade diversion. Washington can absorb the hit from one

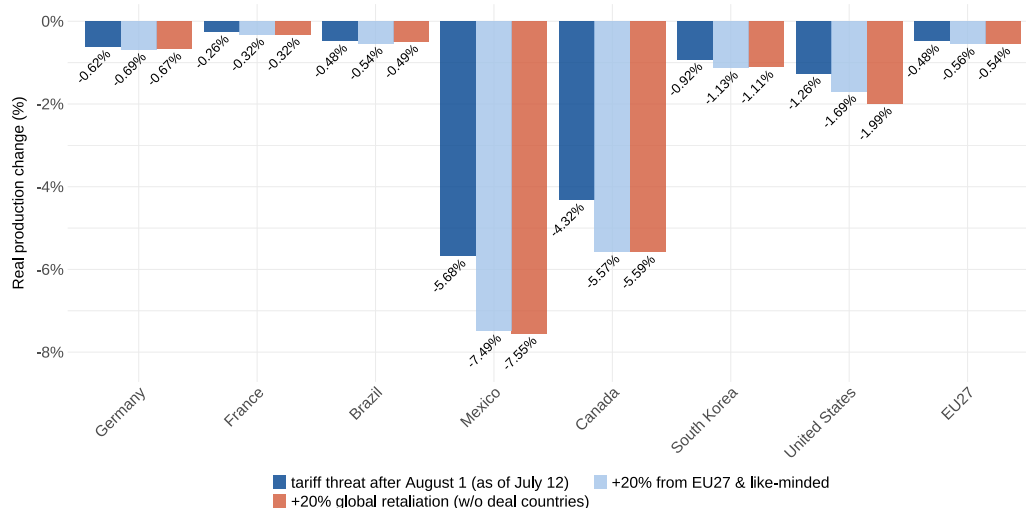
front while its trade with others continues, mitigating the overall economic damage and weakening the retaliator's resolve. This creates a classic collective action problem, where the fear of being isolated and economically damaged can lead to a race to the bottom, with countries undercutting one another to secure a better deal from Washington.

This is not a theoretical risk; it is already happening. Just this week, Japan agreed to a deal that sees its exports to the US fall under 15 percent tariffs while largely opening its own market to US exporters. Similarly, the Philippines agreed to a lopsided deal that subjects its own exports to 19 percent U.S. tariffs while eliminating its own duties on American imports entirely. Such an arrangement, which Vietnam also earlier in July agreed to, violates the bedrock WTO principle of non-discrimination and sets a disastrous precedent. It is a clear signal that, when acting alone, smaller economies will be pressured into deals that undermine their own interests and the global trading system itself. The recent U.S. bilateral deal with the United Kingdom, while less extreme, points in the same direction of appeasement through fragmentation — or viewed from the U.S. side of divide and conquer. This is not without historical precedent either; it closely resembles the bilateral deals forged in the 1930s, which proved highly detrimental to the global economy.

A coalition of like-minded countries, made up of the EU, Canada, Mexico, Brazil, and South Korea, would fundamentally alter the strategic calculus. Together, these economies are the destination for more than 50 percent of all U.S. goods exports. A unified retaliation from this group would therefore be impossible for Washington to ignore. Instead of facing scattered pockets of resistance, the United States would confront a single, massive economic bloc capable of imposing symmetric costs. Calculations show that a coordinated retaliation by this group of countries would account for over two-thirds of the costs that a hypothetical global retaliation would entail, wielding immense leverage.

The coalition's strategic advantage lies in a fundamental asymmetry of leverage. While the allied group accounts for the majority of U.S. goods exports, for most individual members, the United States represents a significantly smaller share of their export markets (with the notable exceptions of Canada and Mexico with US export shares of more than 75 percent). This imbalance gives the coalition a powerful lever. The U.S. economy is far more dependent on the coalition for its exports than most coalition members are on the U.S. market. Together, they can exert pressure that is impossible for any of them to apply alone.

Short-run changes in real production (in %)

Source: Hinz et al. (2025) — <https://kiel.institute/tariffs> — July 24, 2025

KITE Model

Note: The figure shows the short-run (first year) cost in terms of real GDP of different policy scenarios as simulated by the KITE Model. Dark blue denotes the scenario without any retaliation. Light blue denotes the scenario where the countries jointly impose a blanket 20 percent retaliatory tariff. Orange denotes the scenario where all countries except for those with a deal impose a blanket 20 percent retaliatory tariff.

The figure above shows this through the lens of simulation results from the KITE Model: Together, the coalition can impose a significantly higher cost on the U.S. (34 percent higher than without retaliation), and almost 60 percent of what a global coalition of countries could achieve. Individually, the cost of unilateral retaliation is similarly high (in most cases even higher), but with far less impact on the U.S. economy. Noteworthy is of course the economic cost for Canada and Mexico, due to their extensive links with their neighbor.

Importantly, a coordinated, proportional retaliation is not an act of aggression but a legitimate, WTO-compliant tool for trade defense. By invoking these rights as a bloc, the EU and its partners would be making a powerful statement: the rules-based global trading system is worth defending. Such a clear demonstration of leadership is essential. It would signal to smaller countries around the world that they do not have to capitulate to damaging bilateral deals. Seeing the major trading powers act in concert to uphold international law would embolden them to join the alliance, understanding that while their individual retaliation may be insignificant, their collective participation strengthens the front and reinforces the legitimacy of the cause.

The counter-tariffs should be targeted for maximum political impact. The coalition represents the dominant export market for some of the most visible and politically influential U.S. industries. Consider the automotive sector: a large share of U.S.-made vehicles and auto parts are exported to Canada and Mexico, integrated into a deeply interconnected North American supply chain. Likewise, the EU is a primary destination for American aircraft and pharmaceuticals and medical products (50 percent of US pharmaceutical exports in 2023). Key agricultural exports, such as soybeans and corn, are also heavily reliant on these combined markets.

By jointly targeting these sectors, the coalition would create powerful domestic constituencies within the United States with a vested interest in returning to freer trade. The pain would not be abstract or diffuse; it would be concentrated in industries and regions with significant political weight, demonstrating that economic nationalism comes with a steep domestic price.

Restoration, not retribution

Crucially, the coalition's actions must be framed not as a punishment but as a necessary remedy designed to bring the United States back into the fold. The messaging must be unified, public, and unambiguous. Through joint statements, the leaders of the coalition countries should declare that their countermeasures are a direct, proportional response to U.S. actions. They should be clear: *"We do not want tariffs. We believe in open markets and a rules-based order. Our measures follow the WTO guidelines for proportional retaliation, are temporary, and will be lifted the moment the United States rescinds its tariffs and returns to the path of cooperation."*

This approach offers Washington a clear off-ramp. It turns the tables, casting the coalition as the defender of the international system and the United States as the rogue actor. Providing this de-escalation mechanism is vital. It signals that the goal is not to initiate a perpetually escalating conflict but to restore the status quo ante. This message would also provide political cover for leaders within the coalition, allowing them to justify the short-term economic pain to their own populations by framing it as a principled stand for long-term stability and prosperity.

The logic is analogous to the effective use of economic sanctions, where the broadest politically feasible coalition is assembled to maximize pressure on the target state and close off avenues for evasion. Here, the target is not an adversary but an errant ally. The goal is persuasion, not collapse. But

the mechanism is the same: collective action to demonstrate that unilateralism has unbearable costs.

The world cannot afford to wait and see how far Washington will push its protectionist agenda. Historical episodes teach us that reducing existing tariffs is lengthy and unpopular, thus the need to act swiftly. There is also strong evidence that trade policy uncertainty imposes significant costs on the global economy. Moreover, hesitation will be read as weakness, inviting even more disruptive policies. The threat is here and the time to build a united front is now. By forming a strategic tariff coalition, the United States' allies can defend their own economic interests while upholding the very principles of the global trading system that the U.S. itself championed for generations. It is not a call to confrontation for its own sake, but a resolute, collective invitation for the United States to rejoin the order it helped to create.

IMPRESSUM

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Leibniz Center for Research on Global Economic
Challenges is an independent foundation under
the public law of the German federal state of
Schleswig-Holstein.

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Value Added Tax Id.-Number:

DE 251899169

Photo:

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Responsible Supervisory Authority:

Ministry of General Education and Vocational
Training, Science, Research and Culture of the
German federal state of Schleswig-Holstein
Jensendamm 5, 24103 Kiel



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