



Trump strikes again! Will geopolitical fragmentation be different?

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Summary

Key question: What will be the effects of the rise in import tariffs in the US (and the reciprocal moves) for the US, China, EU, and other economies?

Methods:

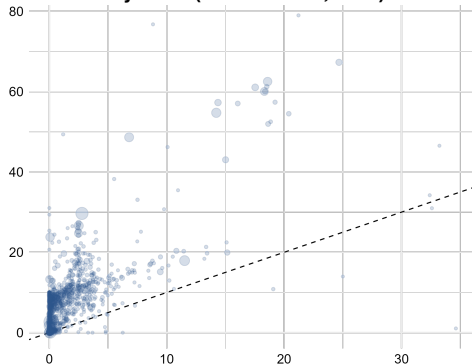
1. Simulations using KITE model (application of [Caliendo and Parro \(2014\)](#) New Quantitative Trade Model-type framework)
2. Calibration of model parameters based on multi-country and multi-sector I-O tables and detailed bilateral trade and applied tariffs data.

Key message:

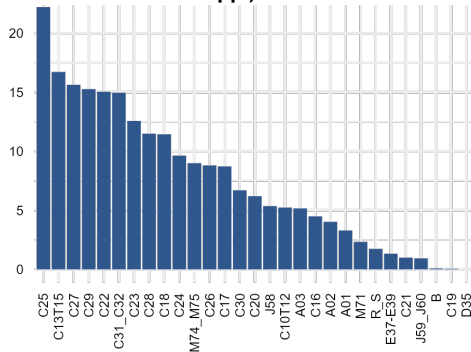
1. The tariff shock acts as a negative supply shock for the US, Canada and Mexico and a negative demand shock for China, EU and ROW.
2. Tariff-driven trade adjustments reinforce geoeconomic fragmentation, particularly within the Western bloc.

Motivation

Implied tariffs in 2024 (horizontal axis, in %) vs. in May 2025 (vertical axis, in %)



Change in US import tariffs, industry averages (in pp.)



Note: the calculated tariffs are based on US Census trade data for 10-digit HS imports.

Model

- We use the KITE (Kiel Institute Trade Policy Evaluation) model, see [Hinz et al. \(2025\)](#)
 - ▶ implementation of [Caliendo and Parro \(2014\)](#) in R
 - ▶ which itself is an extension of a New Quantitative Trade Model framework, pioneered by [Eaton and Kortum \(2002\)](#), additionally accounting for input-output linkages
- Features:
 - ▶ multi-country (45 countries + ROW) & multi-sector (60 industries) model of a world economy
 - ▶ Ricardian Comparative Advantage due to differences across countries in technological efficiency in producing specific goods
 - ▶ parameters of the productivity distributions across countries reflect the observed trade shares
 - ▶ trade costs due to tariffs and potentially transport costs
 - ▶ perfect competition
 - ▶ the model yields a gravity-like relationship
- The model is solved using "exact hat algebra" method introduced by [Dekle et al. \(2008\)](#).

Calibration and scenarios

3-step calibration of model parameters:

- **Input-output tables-based parameters** - we use Eurostat FIGARO multi-country and multi-sector input-output tables (45 countries, 60 industries).
- **Initial bilateral tariffs** - we use MAcMap-HS6 (data on disaggregated and bilateral measurement of applied tariff duties as of 2019) and BACI (data on bilateral trade flows) - both datasets are provided by CEPII.
- **Trade elasticities** - we use estimates from [Fontagné et al. \(2022\)](#).

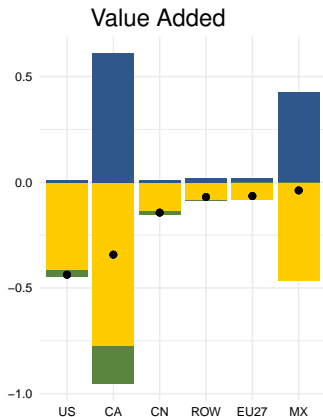
We simulate 3 scenarios:

1. **Baseline** - captures the situation as of mid-May 2025.
2. **US-China trade war** ("1st alternative") - reflects the situation as of late-April 2025.
3. **Empirical** ("2nd alternative") - we make use of highly detailed US Census trade data on imports (10-digit HS level).

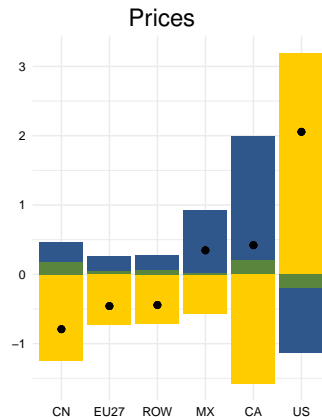
Baseline results

Country	VA	Prices	GO	Welfare	Exports	Exp. share
baseline scenario						
USA	-0.44	2.06	-0.2	-0.13	-24.65	-2.008
China	-0.14	-0.79	-0.4	-0.2	-7.42	-0.361
EU27	-0.07	-0.46	-0.27	-0.07	-1.61	1.024
Canada	-0.34	0.42	-1.25	-0.16	-6.6	-0.046
Mexico	-0.04	0.35	0.01	0.03	-1.2	0.089
World	-0.18	0.08	-0.31	-0.11	-4.99	-
1 st alternative scenario (China-US trade war scenario)						
USA	-0.52	2.2	-0.29	-0.31	-26.96	-2.208
China	-0.2	-0.9	-0.54	-0.31	-9.71	-0.635
EU27	-0.06	-0.44	-0.27	-0.07	-1.58	1.183
Canada	-0.33	0.47	-1.23	-0.15	-6.42	-0.027
Mexico	-0.01	0.44	0.18	0.06	-0.35	0.12
World	-0.21	0.1	-0.36	-0.17	-5.46	-
2 nd alternative scenario (empirical scenario)						
USA	-0.43	1.7	-0.16	-0.18	-21.15	-1.708
China	-0.16	-0.78	-0.46	-0.22	-8.36	-0.597
EU27	-0.05	-0.33	-0.2	-0.05	-1.2	0.94
Canada	-0.19	0.8	-0.4	0.02	-2.96	0.038
Mexico	-0.07	0.21	-0.83	-0.05	-2.96	0.031
World	-0.17	0.07	-0.26	-0.11	-4.32	-

Decomposition of changes - baseline scenario



exclusions retaliations US tariff



exclusions retaliations US tariff

Implications for the trade fragmentation

1. Estimates of changes in the value of trade flows between and within blocs (in %)

Exporter	Importer	Baseline
East	East	-3.3
East	Others	2.0
East	West	-21.5
Others	East	-3.9
Others	Others	-0.2
Others	West	-3.4
West	East	-17.4
West	Others	-7.2
West	West	-4.7

2. Estimates of changes in the value of trade flows (in %)

		Importer					
		CAN	CHN	EU27	MEX	ROW	USA
Exporter	CAN	-	-16.6	-6.9	0.5	-8.7	-4.8
	CHN	14.2	-	2.1	6.5	2.1	-68.1
	EU27	13.4	-3.5	-	9.6	0.0	-15.7
	MEX	20.7	-11.6	-7.6	-	-8.4	0.8
	ROW	12.7	-4.3	-0.4	7.5	-	-9.9
	USA	-30.7	-56.2	-19.9	-14.1	-20.3	-
		World	-6.6	-7.4	-2.9	-1.2	-3.6

3. Changes in the partner's share in the country's imports (in pp.)

		Exporter					
		CAN	CHN	EU27	MEX	ROW	USA
Importer	CAN	-	3.0	2.4	1.4	5.1	-11.9
	CHN	-0.2	-	1.0	0.0	3.7	-4.5
	EU27	-0.1	0.8	-	-0.1	1.8	-2.5
	MEX	0.1	1.8	1.2	-	2.0	-5.1
	ROW	-0.1	2.4	1.3	-0.1	-	-3.5
	USA	2.0	-9.2	0.5	2.4	4.4	-

Conclusions

- The US trade policy changes (and reciprocal moves) are expected to have the most significant impact on value added in the US (-0.44%), followed by Canada (-0.34%). The impact on VA in China and EU is relatively modest (-0.14% and -0.07%).
 - ▶ the effects are mostly due to tariffs levied in the US, with a substantially smaller, negative effects of retaliations.
- In case of prices, the effect will be more heterogeneous:
 - ▶ inflationary in the US (+2.1%), Canada and Mexico (+0.4%),
 - ▶ deflationary in China (-0.8%) and EU (-0.5%),
 - ▶ retaliations and exclusions mitigate the effect of US tariffs.
- Results are quite consistent across scenarios, especially between baseline and empirical.
- Relevant implications for trade fragmentation:
 - ▶ The US isolates itself within the Western bloc, weakening trade linkages with EU and Canada.
 - ▶ Increasing trade dependence of US allies on China.