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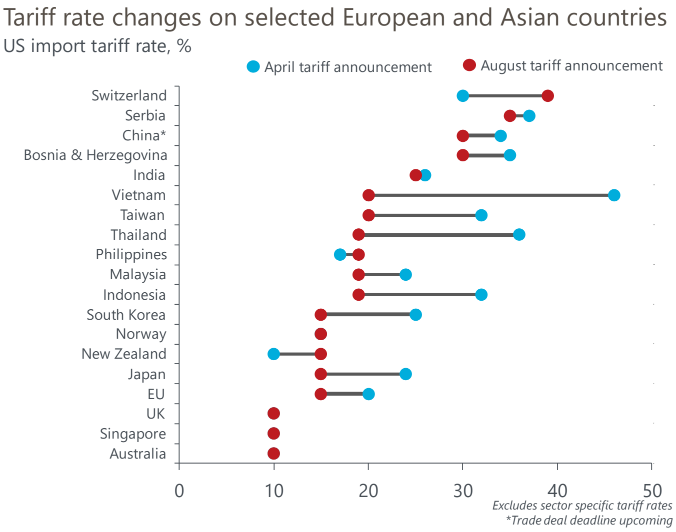
Research Briefing | Global

US tariffs and the uneven impact across cities in Europe and Asia

- **The tariff rates announced by US President Trump last week bring a measure of certainty to the near–term global trade landscape, even if that clarity comes in the form of historically high tariffs and downward pressure on global growth. For cities across our Europe and Asia Cities & Regions service the outlook is mixed.**
- **The EU will face a 15% tariff on most exports, and whilst this is high, it does lead to the EU getting one of the lowest rates among the US' key trading partners. The cities most at risk continue to be those with significant manufacturing bases and a higher reliance on US exports. Despite the reduction in auto tariffs, this still includes the automotive regions of Stuttgart, Upper Bavaria, and Bremen in Germany, as well as auto supply chain dependent regions across Austria, Slovakia, and Hungary given the large share of trade in these regions with the US.**
- **Uncertainty remains high for the EU's large pharmaceutical sector, as comments from President Trump and the ongoing Section 232 review means that the current 15% rate may increase. This will reduce domestic investment and trade in the sector and poses specific risk to regions such as Cork and Copenhagen. There was also no progress on alcohol and spirit tariffs, which exposes parts of southwest France. However, specific zero tariffs were secured for other industries, including semiconductor production equipment, which is positive for Eindhoven in particular.**
- **Like the EU, Japan and South Korea face a 15% tariff on most exports, including their important auto manufacturing sectors. This provides some relief to auto regions such as Aichi in Japan and Ulsan in South Korea. Higher rates of around 20% have been agreed across much of the rest of the Asia Pacific. This is likely to have varying effects across the region, impacting textile manufacturing provinces in Vietnam and Indonesia, and potentially pharmaceutical hubs like Hyderabad in India and semiconductor centres across Taiwan, Malaysia, and Thailand.**
- **For China, talks are ongoing and while a deal on magnet and rare earth has been announced, no decision has been made for electronic goods, which could be critical for the three largest exporting provinces to the US—Guangdong, Jiangsu, and Zhejiang. The interplay of tariff rates across Asia Pacific and China and the new transshipment levy will be important to watch as this may see less frontloading and reduced supply chain diversification away from China.**

Chart 1: Latest tariff rates across Europe and Asia Pacific



Source: Oxford Economics

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Tariffs confirmed for the majority of countries

Following months of negotiations and moving deadlines, the US has now set tariff rates for a host of countries. Whilst further changes are likely, the current tariffs bring the US up from an effective tariff rate of around 2% at the start of the year to around 20%, the highest since 1934—although lower than the expected rate of 28% following the "Liberation Day" announcement. In addition to country–specific tariff rates, there are also sector–specific rates on sectors deemed critical to national security. These are largely concentrated around automotives, aluminium and steel, with further announcements likely to be made on pharmaceuticals and semiconductors in the months to come.

The announced tariff rates ease recent pressure on business confidence, creating a somewhat more stable environment than in the past months. But uncertainty remains high and there is a likelihood of further changes to the tariff rate, particularly in the pharmaceutical sector, in the weeks and months ahead. This elevated uncertainty will continue to weigh on economic activity by constraining trade and investment decisions until a long–term policy regime is more established.

The two most exposed countries to tariff policies—Mexico and Canada—are still negotiating a deal. We have previously written about both countries' high exposure to potential automotive tariffs, and more generally how Canadian metros are expected to be negatively affected by tariff hikes. As the outcome of the negotiations is still uncertain, this report solely covers cities within our European and Asian cities and regions service.

Europe's cities facing a more stable and certain environment

For the EU, the announced tariff rates are slightly lower than those outlined in April, with a flat 15% tariff on most imports. This is an improvement on the 20% tariff announced on "Liberation Day" and lower than the 30% threatened last month. While there may have been limited change, the relative impact on the EU is likely to be slightly positive given the lower likelihood of a trade war and greater certainty on the near–term trade picture with the US. The EU also managed to get more favourable tariff rates relative to many global competitors, particularly in the automotive sector which was previously the subject of a proposed 27.5% tariff. This more favourable outcome may soften the blow to the EU's competitiveness in the US market.

Given the limited change in the EU's absolute terms, the places most exposed to the US tariffs are similar to our previous assessments with Ireland, Belgium, Slovakia, Germany, and the Netherlands leading the way due to the large share of their exports going to the US [Chart 2]. This is despite the improved picture for the automotive sector, and zero tariffs on aircraft and component parts, certain agricultural and chemical products, plus semiconductor–making equipment. However, the latter is particularly good news for Eindhoven and ASML—the chipmaking machine manufacturer which has been so important to recent growth in the local economy.

Steel and aluminium exports were not part of the announced deal and will remain at 50%, while there was no announcement on the alcohol industry. This leaves many parts of Europe exposed, including Charente in France—the home of the cognac industry—where US exports account for a relatively large share of the local economy. But it is worth noting that US exports comprise a relatively small share of GDP across Europe, with the EU average at just 3%. This means that while tariffs will be damaging, the negative impact on European economies will be much less pronounced than for peers such as Canada and Mexico, and that exposure is largely confined to specific cities with sectors impacted by the tariffs and a large share of exports going to the US.

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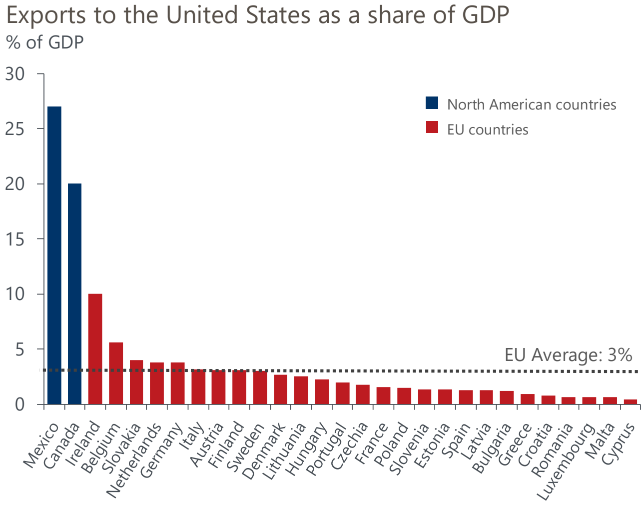
Chart 2: US exports form the largest share of GDP in Ireland, but this is still much smaller compared to Canada and Mexico.



Source: Eurostat, Oxford Economics

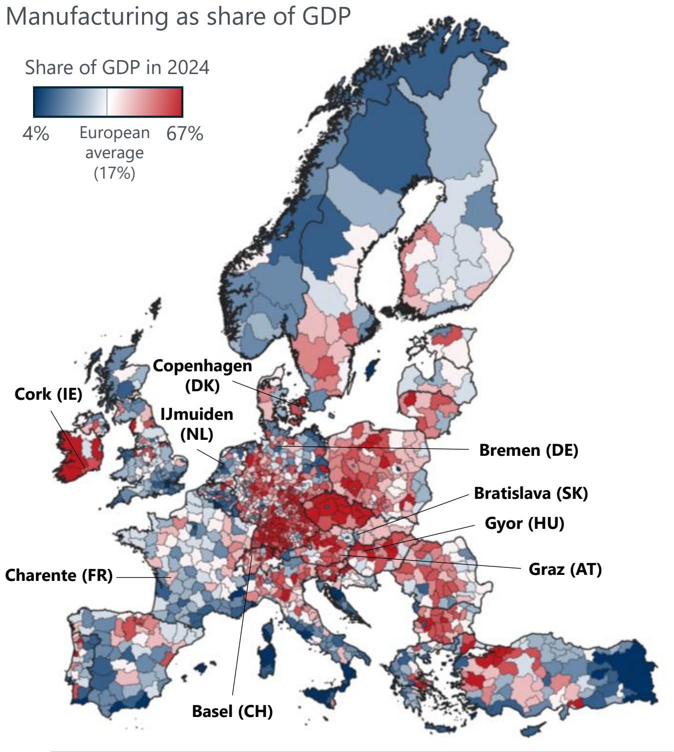
In Germany the places most at risk continue to be the automotive regions of Stuttgart, Upper Bavaria, and Braunschweig, as well as those places with large US export bases, including Bremen and Hamburg. In the Netherlands and Belgium, the most exposed are the important port cities of Rotterdam and Antwerp, as well as IJmuiden—which is home to one of Europe's largest steelmaking facilities—and regions such as Leuven with a large pharmaceutical presence.

Uncertainty surrounding the pharmaceutical industry is also key downside risk for Cork and southern Ireland as the region is heavily reliant on exports to the US. The same is also true of Copenhagen and the rest of Zealand in particular due to the large presence of pharmaceutical firm Novo Nordisk. While much of the production for drugs aimed at the US market takes place in the US, the Zealand region exports a significant amount of the active pharmaceutical ingredients used for drugs such as Ozempic and Wegovy.

Other parts of the Europe are less exposed but there are pockets of significant risk across Slovakia, Hungary, Italy, France, and Austria [Map 1]. These include regions which are well integrated into German supply chains such as Gyor in Hungary, and areas near Graz and Linz in Austria. Automotive producing hubs, such as Bratislava—which is home to a large Volkswagen plant—are also exposed. However, the degree of exposure depends on how important the US market is for exports. For example, Valenciennes near Lille is a major production hub for Peugeot and Toyota but it is predominantly geared towards the EU market, and so direct exposure to US tariffs is much lower than many of its automotive dependent peers.

Whilst relative impacts across the EU may be very similar to previous assessments, there are risks that continued uncertainty will deepen the challenges facing cities. In particular, the shadow hanging over the pharmaceutical industry is likely to lead to a reduction in investment within the EU as firms look to redirect that investment to the US to maintain market access. Moreover, firms across the globe may simply look to wait the tariffs out as they seek long–term policy clarity, deepening the global growth slowdown and adding further pressure to city outlooks.

Map 1: Manufacturing forms an important part of the local economy in many regions, leaving them exposed to potentially higher costs and weakened demand.



Source: Oxford Economics, national statistics agencies

In addition to the EU tariffs, further announcements have been made for the Swiss economy which is now subject to a tariff rate of 39%, amongst the highest in the world. The pharmaceutical sector is exempt from this, which is good news for the Basel economy due to its large pharma sector and heavy reliance on the US as a key export partner (77% of exports were destined for the US in 2024). Although the outcome of the Section 232 review could change this, so downside risks remain for the city.

But other regions in the country remain vulnerable. In terms of export reliance, the cantons which rely most on the US as a trading partner (except from Basel) are Nidwalden (the US was the destination of 47% of total exports in 2024), Neuchâtel (25%), and Aargau (23%). The country's large watchmaking sector, which is also heavily dependent on US consumers, is also vulnerable to the higher tariff rate. This will mostly impact the cantons of Neuchâtel, Geneva, Jura, Bern, and Vaud, although given the luxury nature of the market demand will be less sensitive to changes in demand which is likely to soften the blow somewhat. Zurich, however, should fare better due to a more limited manufacturing sector and lower reliance on the US as an export partner (just 11% of total exports).

Elsewhere in Europe, higher US tariffs have also been imposed on Bosnia & Herzegovina and Serbia. While US bound trade represents only a small portion of exports for both countries, the high 30% (Bosnia & Herzegovina) and 35% (Serbia) tariffs imposed by the US could have an impact on large manufacturing regions such as Vojvodina, which is to the north of Belgrade. Whilst for Norway and Iceland, tariff rates were set to the baseline 15% rate plus sector specific rates, and the UK negotiated an early trade deal at the 10% baseline tariffs with exemptions and preferential commitments for key sectors.

Limited wins across Asia Pacific

For countries across the Asia Pacific, new reciprocal tariff rates have been announced for the majority with the new rates coming in on 7 August, except for China which has a slightly later deadline of 12 August. There are no simple relative winners and losers for APAC's economies, with flat direct tariff rates varying from 10% to 25%, and China's effective rate of 40% still in place from earlier negotiations.

The main changes compared to Liberation Day are that the tariff rates negotiated across southeast Asian countries such as Vietnam, Indonesia, Thailand, Malaysia, and the Philippines have settled at around 20%. This is historically very high but lower than the April announcement. As well, these economies are at risk of 40% tariffs on transshipment and assumed country of origin involving Chinese goods. Moreover, India has received a particularly high tariff of 25% with potential for further increases to this.

In contrast, Japan and South Korea's ability to negotiate a 15% tariff rate, suggested to be the lowest that Trump is willing to go for Asia, takes some pressure off its most important exports to the US, particularly in the auto sector. Also, new tariff rates across Asia Pacific are now closer to China's current rates. Depending on the outcome of US–China negotiations, this could reduce China's relative disadvantage.

Map 2: Tariff progress across Asia Pacific as of 1 August with the key cities and regions highlighted

Source: Oxford Economics

China

Prospects for a China–US deal are positive with the US keen for access to Chinese markets and consumers. The current effective tariff rate is around 40%, which includes the 34% blanket rate plus higher rates on steel and aluminium. Despite the volatility and extremely high rates at one point during the trade war, China's economy has proved resilient, with evidence of frontloading and stockpiling keeping growth afloat. Prices of Chinese smartphones exported to the US fell substantially compared to the previous year, showing how suppliers are absorbing tariffs to prioritise market share.

In June, the US administration announced a deal on magnets and rare earth metal with China—of crucial importance for the US economy. What is more important for China is striking a favourable deal for their electronic goods. Currently, tariffs on smartphones and other electrical and electronic items are not subject to new or additional rates, so remain at 20% for China. If this remains, it means that we do not expect large revisions to our forecasts for China's coastal provinces of Guangdong, Jiangsu, and Zhejiang, the three largest exporters to the US and which combine to account for over 50% of all China's exports in electronics.

Asia Pacific

Across the Asia Pacific there have been varying degrees of success from the tariff negotiations. Indeed, most of East Asian and Southeast Asian economies have agreed rates between 15% and 20%, whilst certain countries did not come to an agreement (New Zealand at 15%, Taiwan at 20%, India at 25%), and Australia and Singapore's rates remained at 10%. Given the lack of clarity around many of the agreements, we anticipate further negotiations will take place.

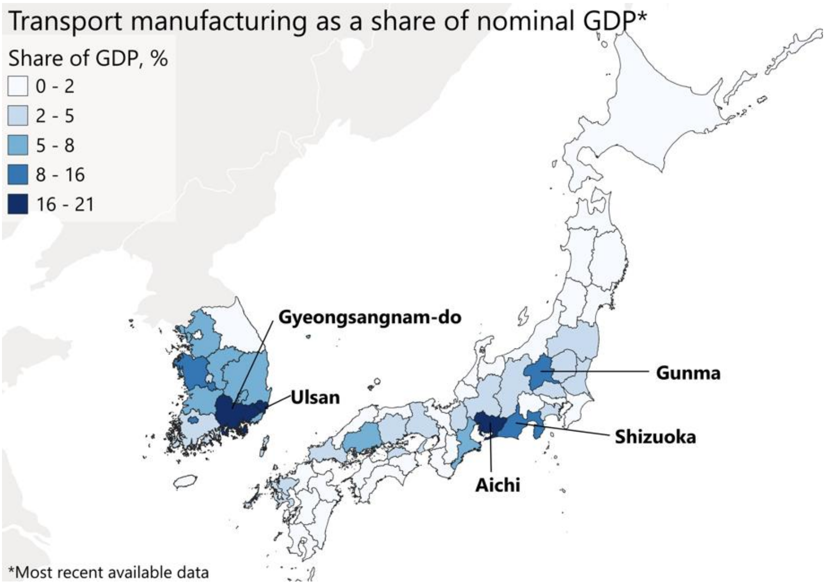
A big change has been the introduction of a transhipment levy. Whilst the overall impact of this levy depends on the definition of transshipment—particularly whether it includes all goods that contain a share of Chinese inputs—it will put further downward pressure on exports to the US and reduce intra–regional trade flows. In particular, this will impact Vietnam's manufacturing hubs that rely on Chinese inputs, and Singapore as a key logistical trading hub for the region.

A key difficulty is the lack of specificity on coverage. In particular, it is unclear if electronics are included, which is important for regions including Bac Ninh in Vietnam, Penang in Malaysia, Hsinchu, Kaohsiung, and Tainan in Taiwan, South Korea's Gyeonggi–do province, and Bangkok, Chonburi, Rayong, and Ayutthaya in Thailand. There is also uncertainty around pharmaceuticals, which could be damaging for India given the large–scale pharma production in Hyderabad (Telangana) and Goa, as well as smaller producing states like Himachal Pradesh and Sikkim, where pharma accounts for at least 70% of total state exports.

However, some key sectors and regions are clearly impacted, such as key garment, textile, and footwear manufacturing hubs, including West Java, Central Java, East Java, and Banten in Indonesia, and Vietnam's Ho Chi Minh City, Binh Duong, and Dong Nai. Tariffs for these products have effectively doubled. New Zealand's meat and dairy manufacturing regions such as the Waikato, Taranaki, and West Coast regions, are also exposed as the US is an important market. This could see weaker medium–term manufacturing GVA forecasts for these regions as the US is both countries' largest importer of such items.

On the other hand, regions that could see smaller downside risks than expected from the Liberation Day tariffs are those where specific sectoral tariffs have been alleviated, such as for cars and auto parts. Most importantly, Japan and South Korea's auto manufacturing tariffs have almost halved from the previously announced rates to 15%, which is significant as the US is Japan's largest exporting partner overall and both Japan and South Korea's largest international car market. This provides a major upside to our previous downgrade to GVA in Japan’s auto manufacturing regions Aichi (Toyota), Shizuoka (Suzuki), and Gunma (Subaru), as well as Ulsan (Hyundai) in South Korea. Similar to the EU, the relatively lower tariff rates on this key sector will help maintain these countries' competitiveness in the US market.

Map 3: Japan and South Korea's auto–manufacturing hubs have a high degree of exposure to US tariffs



Source: Oxford Economics

Overall, such developments dull the outlook across Asia Pacific, with higher tariff rates, a slowdown in frontloading, and more burdensome transhipping expected to depress exports. Greater stability and certainty, the avoidance of a damaging trade war, and relatively lower tariff rates provide some upside to the EU, but the settled rates are still high and will have localised impacts across major manufacturing and exporting regions. Across Europe and Asia, a wait and see approach to the tariffs will continue, particularly in the electronic and pharmaceutical sectors, and this will continue to put downward pressure on trade, investment and regional economic growth.