Why Europe must embrace tariffs

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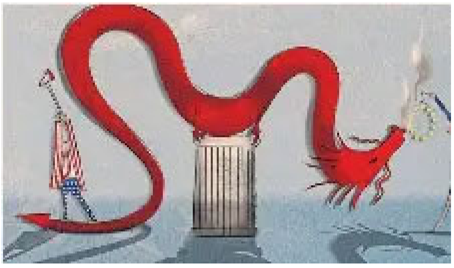
I spent years feeling smug, criticising the Trump administration for blowing up the rules-based trading system. It seemed clear that China's economic model was causing problems elsewhere, but equally clear that chaotic unilateralism was the wrong approach. Better to join with allies and file a big, boring dispute at the World Trade Organization, accusing China of foul play.



It's time to move on. Sadly, navigating today's era of economic conflict by appealing to the rule book is like turning up to a knife fight with a Scrabble manual. You might feel principled complaining that "stabbing your opponent" isn't fun and certainly won't deliver 50 bonus points. But you'll still lose. Since the game has changed, so must the strategy. Which for the EU means turning to trade barriers — and tariffs.

Europe's challenge is both tumbling German industrial production since 2018 and, more recently, particularly soggy Euro area exports. No doubt expensive energy and cumbersome EU regulation have played a part. But so has China's mighty export machine.

In a recent paper, Sander Tordoir and Brad Setser point out that Chinese export outperformance has been matched by Euro area underperformance. In industries where China's export market share has risen over the past few years, German output has been particularly weak. China's overall imports have barely grown over the past five years and, since mid-2025, it has been selling more capital goods to Germany than it has been buying.

In the short term, China's export surge benefits consumers in the form of cheap stuff. But there are at least three reasons to worry. First, there is the political risk associated with massive job dislocation. Second, a shrivelled industrial base could be harder to expand in a military emergency. And third, the Chinese don't appear to be interested in the safety of mutual interdependence. So relying on their manufacturers could leave Europe vulnerable to coercion.

The case for trade barriers is as a signal to companies and consumers that buying so much from one place is risky. Proposals are already swirling in advance of a European Commission meeting on May 29. They include regulations to push companies towards a more diverse set of suppliers, or quotas or duties where supply is too concentrated. The Industrial Accelerator Act being negotiated could also limit access for Chinese companies to public procurement or discriminate against them when handing out subsidies. Tordoir and Setser themselves suggest a US-style European "Section 301" power, which would allow the EU to investigate and lash out against China's "economy-wide distortions". They also proposed that any revenue from new tariffs could go to trade-war victims.

Some — most notably the Germans — aren't yet convinced that they should be resorting to the violence of trade barriers so wholeheartedly. Part of that is undoubtedly because of pressure from multinational companies eager to benefit from China's export platform. (In a trade war, combatants don't always co-operate.)

Critics can also point to America's battle wounds. Tariffs raise prices for importers and consumers, and harm manufacturers by restricting access to cheap inputs. Uncertainty over trade barriers can crush investment; narrowly applied restrictions can reorganise supply chains without affecting fundamental economic dynamics. ("I know the instructions are in Mandarin but it's from Vietnam, promise!") Most ominously, as they have threatened, the Chinese could retaliate.

Learning the right lessons from the Trump administration means applying trade barriers calmly, methodically and in co-ordination with others. My own preference would be to tie any tariffs to import surges or high import concentration, rather than a Trumpstyle trade investigation. And if possible, stay open to trusted trading partners while making it clear that they need to act too, to prevent diversion of Chinese supply to third markets. (Or maybe I'm just a wimpy Scrabble player.)

The problem of retaliation is nastiest, though the EU may have ways of defending itself — if it can muster the political will. A paper by Tobias Gehrke outlines ways the EU could hit back, which include restricting China's access to speciality industrial inputs, or restricting Chinese ownership of EU port terminals.

Again, it's grubby and there's a good chance it backfires spectacularly. But sweltering in a knife-proof vest is meant to be less fun than engaging in wordplay. What's the alternative? The EU could well conclude that it can't act because the short-term costs are too high. In which case it will have given in to coercion both now and later.