

Press Release

CFS survey: German financial industry expects trade dispute between the US and China to escalate further / EU will have to make concessions in future negotiations with the US

FRANKFURT, 19 April 2018. The US has decided to impose punitive tariffs on steel and aluminium imports, principally from China. For its part, China is showing little willingness to give in and make concessions. According to a recent survey by the Center for Financial Studies, the majority of the German financial industry expects the trade dispute between the two countries to escalate further. 75% of the respondents agree on this point.

The EU and other countries are not directly affected by the trade dispute for the time being. However, US punitive tariffs on steel and aluminium imports from China could lead to Chinese surpluses in these products, which would then be pushed onto other markets, including the EU. The financial sector is divided on the question of whether the EU will also have to increase its tariffs on imports from China sooner or later. While 46% consider this development quite probable, 45% consider it unlikely and 5% consider it very unlikely.

Interpreting the results, Professor Volker Brühl, Managing Director of the Center for Financial Studies, comments: "The survey highlights the high level of uncertainty among market participants about the future development of the trade dispute and its possible consequences for Europe. I therefore assume that the volatility on the European stock markets will increase."

The EU is also preparing for difficult negotiations with the US, where the current tariff structure of the EU as a whole is expected to be on the agenda. The German financial industry is largely in agreement (83%) that the EU must make concessions in future negotiations with the US (e.g. by reducing import tariffs on other US products) in order to rule out punitive US tariffs on steel and aluminium imports from the EU.

"I believe that the trade policy of the Trump administration has the potential to significantly change the architecture of the European customs union, since Europe will have to make considerable concessions to the US," Brühl continued. "Ultimately, it is inevitable that transatlantic trade relations between the US and the EU will have to be redesigned."

In light of current developments, 55% of respondents believe that negotiations on a Transatlantic Trade and Investment Partnership (TTIP) should be resumed in order to form a new basis for trade between the US and the EU. 39%, on the other hand, are against a resumption of TTIP negotiations.

Dr. Lutz Raettig, President of Frankfurt Main Finance e.V., emphasises: "Trade wars are poison for the economy. The uncertainties and heightened risks lead to reluctance."

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The results are based on a quarterly management survey of around 400 companies in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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