

**FLOODED BY CHINA? TRADE DIVERSION
DUE TO US TARIFFS DURING TRUMP'S
FIRST MANDATE**

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Abstract

This paper investigates whether US tariffs on China diverted Chinese exports towards the EU, exploiting the first US-China trade war as a setting that permits clean identification of trade diversion effects. Applying difference-in-differences local projections to highly disaggregated tariff, import and unit value data, it shows that trade diversion occurred but was limited in size. For each dollar reduction in US imports from China, 9 cents were redirected to the EU market in real terms. The effects varied substantially across products and destination markets. Trade diversion was strongest for complex capital goods and homogeneous intermediate inputs, and was more pronounced in EU markets with greater import exposure to China and weaker competition from alternative suppliers. Products experiencing effective diversion also exhibited significant price declines, with competitive pressures concentrated in lower-price market segments. These findings suggest that tariffs of a magnitude comparable to those imposed by the United States in 2025 could redirect Chinese exports towards the EU, potentially contributing to a second “China shock” in Europe. While the aggregate effects are modest, diversion and price pressures may be considerably stronger in specific product categories and destination markets.

Keywords: trade diversion, tariffs, trade war, EU imports, import prices, China shock.

JEL classification: F14, F6, E31.

Resumen

Este trabajo analiza si los aranceles impuestos por Estados Unidos a China provocaron una desviación de las exportaciones chinas hacia la Unión Europea, aprovechando la primera guerra comercial entre ambos países como un contexto que permite identificar de forma rigurosa los efectos de desviación del comercio. Mediante la aplicación de proyecciones locales con estimadores de diferencias en diferencias a datos altamente desagregados sobre aranceles, importaciones y valores unitarios, se muestra que dicha desviación efectivamente tuvo lugar, aunque con una magnitud limitada. En términos reales, por cada dólar de reducción de las importaciones estadounidenses procedentes de China, aproximadamente nueve céntimos de euro se redirigieron al mercado de la Unión Europea. Los efectos variaron de manera sustancial entre productos y mercados de destino. La desviación comercial fue especialmente intensa en los bienes de capital complejos y en los insumos intermedios homogéneos, y resultó más acusada en aquellos mercados europeos con una mayor dependencia de las importaciones chinas y una menor presencia de proveedores alternativos. Además, los productos que experimentaron una desviación efectiva registraron descensos significativos de precios, concentrándose las presiones competitivas en los segmentos de mercado de menor precio. Estos resultados sugieren que unos aranceles de magnitud comparable a los aplicados por Estados Unidos en 2025 podrían desviar una parte de las exportaciones chinas hacia la Unión Europea, contribuyendo potencialmente a un segundo «*shock* de China» en Europa. Aunque los efectos agregados serían moderados, las presiones derivadas tanto de la desviación comercial como de la reducción de precios podrían ser considerablemente más intensas en determinadas categorías de productos y mercados específicos.

Palabras clave: desviación del comercio, aranceles, guerra comercial, importaciones de la Unión Europea, precios de importación, *shock* de China.

Códigos JEL: F14, F6, E31.

1 Introduction

The recent tariff measures announced in 2025 by the U.S. administration have generated considerable debate about their potential effects on global trade patterns. In particular, China faced a substantial increase in the tariff rates applied to its exports in the U.S. market. Despite a very recent, and likely temporarily decrease, for much of 2025 the effective U.S. tariff on Chinese exports exceeded 40% –up from the 11% imposed in 2024.¹ In this context, a key concern is that Chinese producers may redirect their exports towards other economies, and in particular towards European countries, especially in sectors where China has significant excess capacity. Such redirection could intensify competitive pressures on domestic producers and exert downward pressure on prices (Lagarde, 2025a). In response to these concerns, the European Commission has recently established an Import Surveillance Task Force with a mandate to monitor signs of incoming trade diversion and adopted measures to shore up the iron and steel sector.² On similar grounds, other advanced economies, such as Canada, have recently adopted import restrictions in the form of quotas in sensitive industries, with the aim of shielding domestic producers from a potential redirection of Chinese exports.³

Yet, several features of the current episode of tariff increases pose significant challenges to the causal identification of trade diversion effects. The tariffs introduced in 2025 are broad-based across products. This homogeneity is likely to weaken the identification of trade diversion effects (Schulte, Enders, Esser, and Stroebe, 2026). Moreover, specific developments in 2025 may have generated anticipation effects and introduced additional confounding factors (Emlinger, Mejean, Lefebvre, and Vicard, 2026). As one illustration, in May 2025, the so-called Geneva truce between the U.S. and China almost entirely reversed the April 9 tariff surge of 125 percentage points –a large, rapid reversal that could blur the estimation of the causal relationship between tariffs and trade flows. More generally, the literature has found evidence of widespread anticipation effects during the second trade war. As documented by Lu and Milkov (2026), Chinese firms started frontloading their exports to the U.S. as early as the second half of 2024, shortly before Trump’s election.⁴ Taken together, all these factors make the causal identification of trade diversion especially challenging in the current episode.

In this paper, we turn to the past and study the most similar episode available to date, in which the U.S. imposed tariffs on a broad range of Chinese exports: the first U.S.-China trade war, during President Trump’s first administration. Throughout that episode, tariffs displayed substantial cross-product variation, while trade flows were subject to fewer confounding factors, allowing for a cleaner identification of the causal effect of U.S. tariffs on Chinese exports to

¹At the time of writing, following the decision of the U.S. Supreme Court to abolish IEEPA tariffs, a 12.5% duty related to Section 301 tariffs over forced labor is in place for several economies including China, implying an effective U.S. tariff on Chinese products of 23%. In the coming months, additional country-specific tariffs may be imposed following the release of the still-pending results of the Section 301 investigation into structural excess capacity. See IMF/WTO Integrated Database and Consolidated Tariff Schedules.

²Methodological details are available in the Import Surveillance webpage.

³See Canada’s Department of Finance announcement.

⁴Another example is the U.S. “de minimis” clause on Chinese exports, temporarily suspended in February 2025 —three months prior to its official abolition— which may have also given rise to anticipation effects.

the European market. Our analysis addresses four main issues. First, we quantify the change in EU imports from China attributable to U.S. tariffs. Second, we examine whether Chinese exporters reduced their prices in the EU market to expand sales therein. Third, we investigate which product and market characteristics facilitated trade diversion to the EU. Finally, we assess where within the EU market this diversion is more likely to have intensified competitive pressures, distinguishing between low- and high-price market segments.

We use a panel comprising all EU member countries over the period 2017-2019 and apply a difference-in-differences methodology to bilateral import flow and unit value data at high level of disaggregation, namely the HS 6-digit product level. These data are combined with granular information on product-specific U.S. tariffs and their timing. Difference-in-differences (DiD) methods have been frequently used in the literature to estimate the impact of trade policy measures on trade flows.⁵ Our identification strategy detects evidence of trade diversion by comparing changes in EU imports from China of HS 6-digit products affected by U.S. tariffs with changes in imports of similar products within the same HS 2-digit sector that were not affected by U.S. tariffs. We also control for a range of sector- and product-specific factors that may influence import dynamics beyond tariff measures. Both static specifications and local projection DiD models (Dube, Girardi, Òscar Jordà, and Taylor, 2025) are used.

Our results show that trade diversion towards EU countries occurred, but was limited in magnitude. Across affected products, U.S. tariffs increased the volume of EU imports from China by 4.5% on average. Each one-dollar decline in U.S. imports from China was associated with a 9-euro-cent increase in real EU imports from Chinese suppliers. These quantity effects were accompanied by small downward price pressures, with U.S. tariffs reducing the price of EU imports from China by less than 2% on average across affected products.

Importantly, these effects were highly heterogeneous across sectors, depending on product and market characteristics. Capital and intermediate goods were more strongly redirected towards the European market and experienced more pronounced price pressures. Within capital goods, complex products, such as telecommunication equipment and optical instruments, were significantly redirected to the EU, while less complex goods, such as furniture and sewing machinery, were not – a pattern that could be due to the similarity between the U.S. and the EU market for highly sophisticated final products. Among intermediate goods, instead, homogeneous inputs were more easily redirected towards European production chains.

Pre-tariff exposure to Chinese imports also played an important role in shaping the extent of trade diversion. A significant market presence prior to the tariff shock facilitated the redirection of Chinese exports once tariffs took effect. Substantial trade diversion –corresponding to an increase in imports of more than 10% and an associated decline in import prices of around 5%– is estimated for markets where China already accounted for a high share of EU imports before tariffs, namely above 20% of total imports. Conversely, markets in which EU imports

⁵See Nagengast and Yotov (2025), Gasiorek and Tamberi (2023), Freeman, Manova, Prayer, and Sampson (2022), Cigna, Meinen, Schulte, and Steinhoff (2022), Dang, Krishna, and Zao (2023) and Nagengast, Rios-Avila, and Yotov (2025), among the others.

were initially concentrated in an alternative supplier did not experience significant diversion of Chinese products. Products for which China held strong market power at the global level were also significantly redirected towards EU markets, but that diversion required only limited price reductions by Chinese exporters.

Finally, within each market, we find that Chinese trade diversion was associated with price cuts in a specific segment –the low-price one. This suggests that diversion is likely to have intensified competition for exporters operating in that same segment, particularly exporters from emerging economies and low-end EU producers.

Contribution to the literature

This paper is related to the large body of work examining the impact of the first U.S.-China trade war on the U.S. economy (Amiti, Redding, and Weinstein, 2019; Fajgelbaum, Goldberg, Kennedy, and Khandelwal, 2020; Fajgelbaum and Khandelwal, 2022; Koloskova and Nicita, 2024; Alfaro and Chor, 2026), including studies of trade diversion towards the U.S. market from alternative source countries (Cigna et al., 2022; Dang et al., 2023). While our empirical approach builds on similar econometric methods and models, our analysis shifts the focus on the European market.

A second strand of literature to which this paper relates studies trade diversion towards the EU during the first U.S.-China trade war. Our contribution to this literature is threefold. First, previous studies have reached mixed conclusions regarding the extent of aggregate export redirection to the European market. Gunnella, Stamato, and Kobayashi (2025), for example, find evidence of a limited diversion of Chinese exports towards the EU, with U.S. tariffs increasing EU imports from China by 3%. At the other end of the spectrum, Emlinger et al. (2026) find that U.S. measures led to a much larger increase in EU imports from China, exceeding 14%, implying that more than 30% of forgone U.S. imports were redirected to Europe. We contribute to this debate by providing a clean identification of aggregate diversion effects. This is achieved through the careful selection of tariff waves and estimation periods to exclude confounding factors —such as COVID-19 or the announcement of other tariff lists; and through an econometric specification that accounts for sector-specific shocks. Our identification strategy confirms the presence of limited diversion, pointing to a 4.5% increase in EU imports from China and implying that 10% of foregone U.S. sales were reallocated to the European market. Furthermore, we show that failing to control for sector-specific shocks can lead to an overestimation of redirection effects, potentially explaining findings in the literature that point to stronger diversion.

Second, we conduct a comprehensive heterogeneity analysis, providing novel evidence on how product and market characteristics shape the intensity of trade diversion and its associated price effects. Although diversion to the EU appears limited when considering all products affected by U.S. tariffs, sector-level effects can be substantially larger, depending crucially on the characteristics of the products involved and the features of the importing market.

Third, our analysis contributes to a more granular understanding of price effects during the

first U.S.–China trade war. To our knowledge, Emlinger et al. (2026) is the only other study to examine the response of EU import prices to U.S. tariffs, finding no significant price effects at the aggregate level. While our results similarly point to very limited downward price pressures when considering all affected products, we are the first to show that trade diversion was associated with significant declines in import prices for the products that were effectively redirected to the EU market. We further show that, within those markets, downward price pressures were largely confined to the low-end segment, likely intensifying competitive pressures for exporters operating therein.

Finally, our paper relates to a growing literature on the diversion of Chinese exports toward the EU during the current tariff episode. Despite the sharp increase in U.S. tariffs on Chinese goods in 2025, existing studies find little or no evidence of trade diversion to the EU (Schulte et al., 2026; Emlinger et al., 2026; Le Roux and Spital, 2026). However, several features of the current tariff episode –most notably the limited variation in tariff increases across products and the presence of substantial anticipation effects– render the identification of trade diversion particularly challenging.⁶ Our findings from the first U.S.–China trade war, a setting in which causal identification is easier, suggest that tariffs of a magnitude comparable to those implemented in 2025 can induce diversion of Chinese exports toward the EU market. From this perspective, some degree of trade diversion may already be underway, even if it remains difficult to identify causally in the current episode. Moreover, our results indicate that such diversion is likely to be modest in aggregate, while being substantially stronger for specific products and destination markets.

The paper is structured as follows. Section 2 describes the data used in the analysis and provides details on the tariffs imposed to Chinese imports by the first Trump administration. Section 3 describes the empirical strategy. Sections 4 and 5 present the main findings. Robustness checks are discussed in section 6. We provide some concluding remarks in section 7.

2 Data and descriptive evidence

2.1 Trade data

We use bilateral import flows from China of the U.S. and each of the EU countries, expressed either in local currency values or in volumes, from Trade Data Monitor (TDM), at the monthly frequency and at the HS 6-digit level of disaggregation. Import prices are approximated by unit

⁶Similar identification challenges arise when estimating the impact of 2025 tariffs on U.S. imports from China. While studies exploiting product-level variation find no or very limited effects, estimates based on cross-country variation are substantially larger (Emlinger et al., 2026; Le Roux and Spital, 2026; Fajgelbaum and Khandelwal, 2026). However, applying the latter approach to EU imports risks confounding tariff-induced trade diversion with China-originated shocks, such as those related to Chinese industrial policy or weak domestic demand, which have affected significantly EU imports from China in the last years, as shown by Aprigliano, Bencivelli, Borin, Conteduca, Corsello, Federico, Giordano, Leone, Mancini, Panon, Patrignani, and Pica (2026).

values of imports.

In order to mitigate the impact of measurement errors in reported import volumes, we clean both volume and price data in a stratified fashion by applying a 12-month rolling Hampel filter to unit values –flagging as outliers observations whose log-price deviates from the rolling median by more than three interquartile ranges (an outlier rule analogous to Tukey’s 3×IQR fence), and imputing in these cases the 12-month lagged median price and the implied corrected volume.⁷ We then trim observations exceeding the top and bottom 1% of year-on-year log growth of import volumes (prices) in order to limit the impact of extreme variations on our estimated coefficients.

Appendix B shows that our baseline results are robust to adopting the alternative cleaning technique of Amiti et al. (2019).

2.2 U.S. tariffs on China during the first trade war

As for U.S. tariffs on Chinese imports, we use detailed information on the HS codes of the products affected from the U.S. Trade Representative (USTR). Although the products are specified at the HS 8-digit level, we aggregate them to the 6-digit level.⁸

We focus on tariffs that exclusively affected U.S. imports from China, that is, on measures related to Section 301 investigation on unfair trade practices.⁹ The first 3 waves of Section 301 tariffs –known as List 1, List 2, and List 3–, came into effect in mid-2018, one month after the other. The final wave of Section 301 tariffs, List 4A, came into effect in September 2019 (Table 1). Although tariff rates were not identical across different lists, most products got applied a 25 percentage point increase above the MFN rate.

In the empirical analysis, to ensure the cleanest possible identification of diversion effects, we focus on the first three waves of Section 301 —Lists 1, 2, and 3. Accordingly, our sample period ends in July 2019, just prior to the announcement of List 4A. This is for two main reasons. First, only three months after List 4A entered into force, the COVID-19 shock occurred, implying that the latest date we can safely include in our sample is December 2019. This leaves very limited time for the effects of List 4A to materialize, making it difficult to compare its impact with earlier tariff waves, which had sufficient time to generate measurable effects prior to the pandemic. Second, the announcement of List 4A was accompanied by that of a parallel list,

⁷We detect extreme outliers in unit values at the importer-product level in the spirit of Gaulier and Zignago (2010), by applying a rolling Tukey filter (Tukey, 1977) similar to the standard detection procedure described in Cerasa (2024). Namely, for each importer-product dyad, we first compute the price deviation as the difference between the log unit value in month t and its rolling median over the previous 12 months. We then calculate the distribution of these deviations for each importer-product group. An observation is flagged as an extreme outlier if its deviation falls outside the "outer fences" of the distribution, defined, respectively, as the 25th percentile less 3 times the interquartile range (IQR) and the 75th percentile plus 3 times the IQR.

⁸The 6-digit level is the most granular classification harmonized across different reporters and for which conversion tables across different HS vintages are available.

⁹In some robustness checks, we also extend our analysis to non-China-specific tariffs, such as those applied to imports of solar panels, washing machines, and metal products. See section 6.

Table 1. U.S. Section 301 Tariff Lists on Chinese Imports

Tariff list	Tariff rate	Announcement date	Effective date
List 1	25%	Jun. 20, 2018	Jul. 6, 2018
List 2	25%	Aug. 16, 2018	Aug. 23, 2018
List 3	10%	Sep. 21, 2018	Sep. 24, 2018
	25%		May 10, 2019
List 4A	15%	Aug. 20, 2019	Sep. 1, 2019
List 4B	–	Aug. 20, 2019	Not implemented

Notes: The table reports the tariff lists implemented by the U.S. under the Section 301 investigation of Chinese trade practices. Tariff rates correspond to the initially announced rates. The tariff rate on products in List 3 increased from 10% to 25% on May 10, 2019. List 4B was announced but never entered into force.

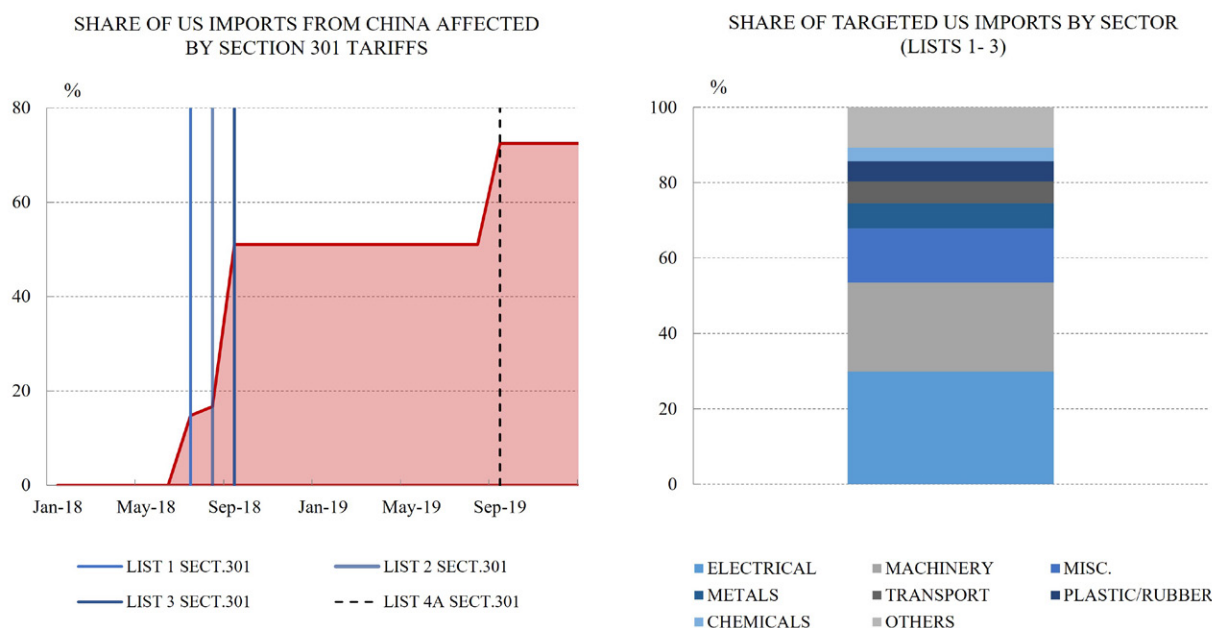
List 4B, which was scheduled to be implemented in December 2019 but ultimately never entered into force due to the U.S.–China trade agreement. The announcement of this additional list constitutes a confounding factor that may affect the identification of effects in the final months of 2019.

The selection of tariff waves and estimation windows designed to minimize the influence of confounding factors, such as the COVID-19 pandemic or tariff announcements that were never ultimately implemented, is a key element of our identification strategy.

Products affected by the tariffs included in our analysis accounted for a substantial share of U.S. imports from China –roughly 51% in 2018 and 2019 (Figure 1). Tariffs affected in particular machinery, electrical and electronic products, miscellaneous manufactures –such as optical and precision instruments, and furniture— vehicles, metals, plastic and chemicals. Products included in List 1, List 2 and List 3 also represented a relevant share of EU imports from China –around 49% in terms of 2017 import values (Figure A.1 in Appendix A).

Across the second quarter of 2018 and the last quarter of 2019, U.S. imports from China dropped by more than 12% in real terms. As the literature has shown, this decrease was entirely due to U.S. tariffs (Amiti et al., 2019; Cigna et al., 2022; Dang et al., 2023). During the same period, the volume of EU imports from China increased by some 5%, while their price rose by more than 10% (Figure A.2 in Appendix A). In the next sections, we turn to econometric analysis to understand to what extent these developments in the EU market were a by-product of U.S. tariffs.

Figure 1. U.S. Tariffs on Imports from China Related to Section 301 Investigation



Notes: Shares are computed based on 2017 import values. Own calculation based on TDM and USTR.

3 Empirical strategy

Our empirical strategy relies on a difference-in-differences (DiD) approach, following the regression frameworks of Fajgelbaum et al. (2020), Cigna et al. (2022), and Dang et al. (2023). The identification strategy consists in detecting signs of trade diversion if EU imports from China of products subject to U.S. tariffs increased more than imports of non-targeted products within the same HS-2 sector. This approach also controls for a range of sector- and product-level factors that may influence import dynamics beyond tariff measures. The same identification strategy is used to estimate the impact of U.S. tariffs on EU import prices from China. Both a static and a dynamic model are estimated.

Static difference-in-differences specification. In its static version, the panel data model takes the following form:

$$\log \left(Depvar_{i,p,t}^{CN} \right) = \beta \cdot \tau_{p,t}^{US} + \gamma_{i,t} + \gamma_{i,p} + \gamma_{s,t} + \gamma_{q,p} + \epsilon_{i,p,t}, \quad (1)$$

where the subscript i indicates the importing country, p the product at the HS 6-digit level, and t the month. Depending on the specification, the dependent variable is either the logarithm of the volume of imports from China or the logarithm of the price of imports from China of EU country i of product p in month t . The treatment variable, $\tau_{p,t}^{US}$, is a dummy equal to 1 after a tariff on product p has been imposed by the U.S.. β , our main coefficient of interest, captures the differential change in EU import volume or prices between tariffed and non-tariffed products —i.e., the percentage change in import volume or price attributable to U.S. tariffs across affected

products and EU importers.

We include importer-time fixed effects, $\gamma_{i,t}$, to control for country-specific, time-varying factors, such as exchange rates fluctuations or importer economic growth. Importer-product fixed effects, $\gamma_{i,p}$, account for country-specific preferences or time-invariant trade policies at the product level. Quarter-product fixed effects, $\gamma_{q,p}$, control for seasonality. Finally, sector-time fixed effects, $\gamma_{s,t}$, –where sectors are defined at the HS 2-digit level– control for shocks or trends affecting all the products in a certain sector. The inclusion of sector fixed effects is a key element of our identification strategy. Because EU imports from China were already growing rapidly in some sectors prior to the tariff increases, failing to account for these sector-specific trends could lead to attributing underlying import growth to trade diversion, thereby overestimating the effects of U.S. tariffs.

Standard errors are robust and clustered at the product level, as in Cigna et al. (2022).

Dynamic local projection difference-in-differences. We estimate the dynamic effect of the treatment by employing the identification approach proposed by Dube et al. (2025), which combines elements of the DiD framework with local projections. This approach has the advantage of being robust in the presence of staggered treatment adoption and heterogeneous responses. Adapting equation (1) to the linear projection framework amounts to estimating:

$$\Delta_h \log(Depvar_{i,p,t*}^{CN}) = \beta_h^{LP-DiD} \cdot \Delta \tau_{p,t*}^{US} + \gamma_{i,t*}^h + \gamma_{s,t*}^h + \varepsilon_{i,p,t*}^h, \quad (2)$$

where h is the local projection horizon and

$$\Delta_h \log(Depvar_{i,p,t*}^{CN}) = \log(Depvar_{i,p,t+h}^{CN}) - \log(Depvar_{i,p,t-1}^{CN})$$

$$\gamma_{it*} = \gamma_{it+h} - \gamma_{it-1}$$

$$\gamma_{st*} = \gamma_{s,t+h} - \gamma_{s,t-1}$$

The estimation sample is restricted to units that are either newly treated ($\Delta \tau_{p,t}^{US} = 1$) or never treated. In order to limit the extent of fixed effects in the more demanding dynamic regression framework, we adjust for seasonality through an auxiliary regression, that is, by regressing in a previous step the dependent variable on month-of-the-year#product fixed effects and then using the residuals as the dependent variable in equation (2).¹⁰

¹⁰Results are robust to internal seasonal adjustment.

4 The impact of U.S. tariffs on EU imports from China

4.1 Baseline results

The results from estimating the local projection model in equation (2) are shown in Figures 2 and 3. Table A.1 in Appendix A reports the results from the static specification in equation (1).

First, as a validation exercise, we estimate the impact of tariffs on U.S. imports from China (Figure 2). We confirm the well-established finding in the literature that tariffs had a sizable negative impact on U.S. imports, which declined by more than 40% across affected products. By contrast, the prices of imports from China did not decrease significantly, in line with the results of Fajgelbaum and Khandelwal (2022), Amiti et al. (2019) and Cigna et al. (2022).

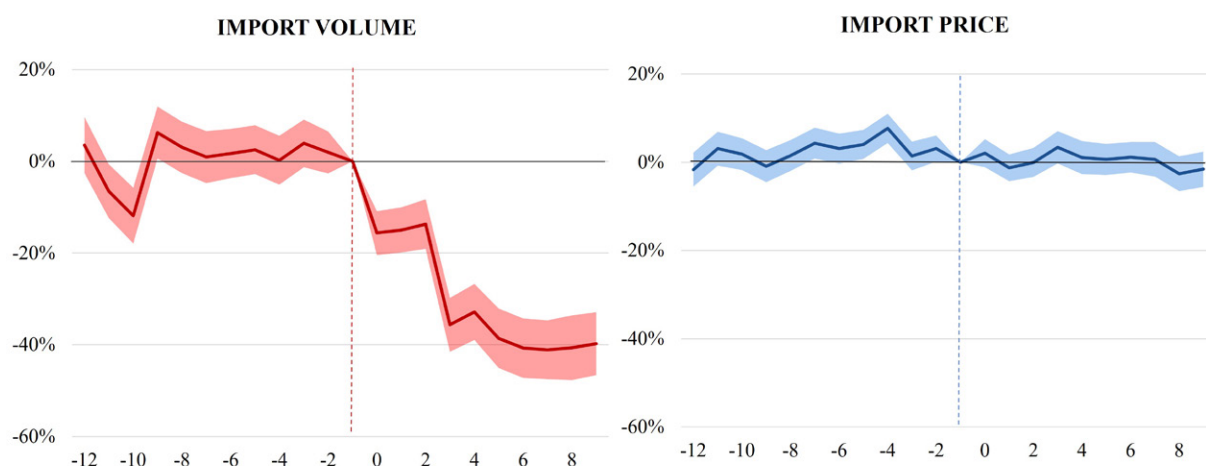
We next examine the impact of U.S. tariffs on EU imports from China. We find that tariffs had a positive and statistically significant, albeit modest, effect (Figure 3). In volume terms, EU imports from China of affected products increased by 6% on average three months after the imposition of each tariff wave, relative to non-targeted products (4.5% when averaged over all post-treatment periods). Back-of-the-envelope calculations, based on the estimated coefficients and the pre-treatment (2017) value of U.S. and EU imports of affected products, suggest that a one-dollar reduction in U.S. imports was associated with a 9-euro-cent increase in EU imports from China in real terms. EU import prices exhibit a very small, only marginally significant decline of around 2% in the post-treatment period.

These estimates imply that U.S. tariffs account for approximately 2 percentage points of the 7% increase in EU real imports from China observed between June 2018 and July 2019. Absent U.S. duties, EU import prices from China –which rose by some 6%– would have been about 1 percentage point higher.

As an aside, we estimate the local projection model in equation (2) without sector-specific fixed effects. Given the pronounced increase in Chinese exports to the European market in certain sectors, failing to control for sectoral shocks leads to an overestimation of trade diversion toward the EU, with estimated peak effects exceeding those in the baseline specification by up to 3 percentage points.¹¹

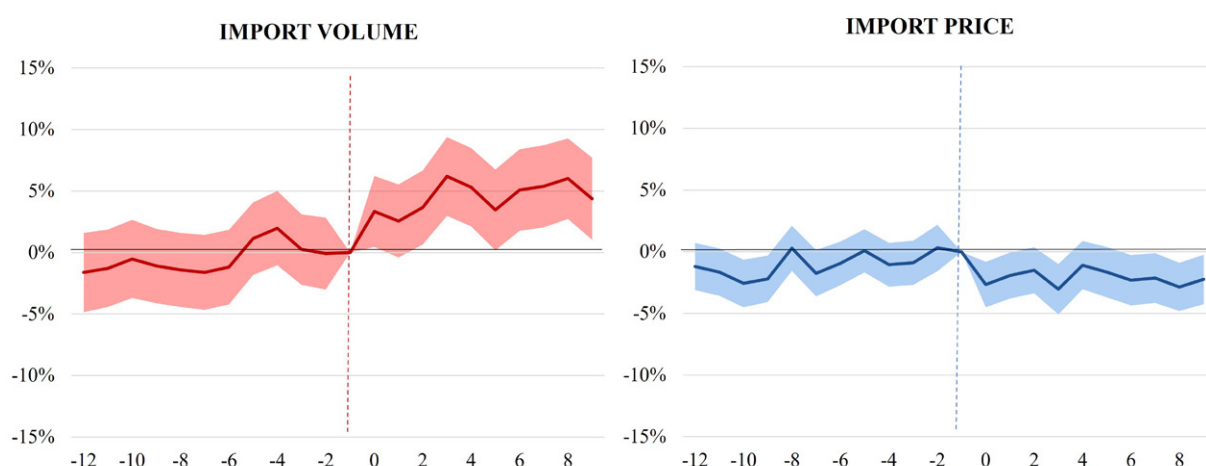
¹¹Results available upon requests.

Figure 2. U.S.: Impact of Tariffs on Imports from China



Notes: Local projection point estimates of the impact of U.S. tariffs on U.S. imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). Sample: Jan. 2017–Jul. 2019.

Figure 3. EU: Impact of Tariffs on Imports from China



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). Sample: Jan. 2017–Jul. 2019.

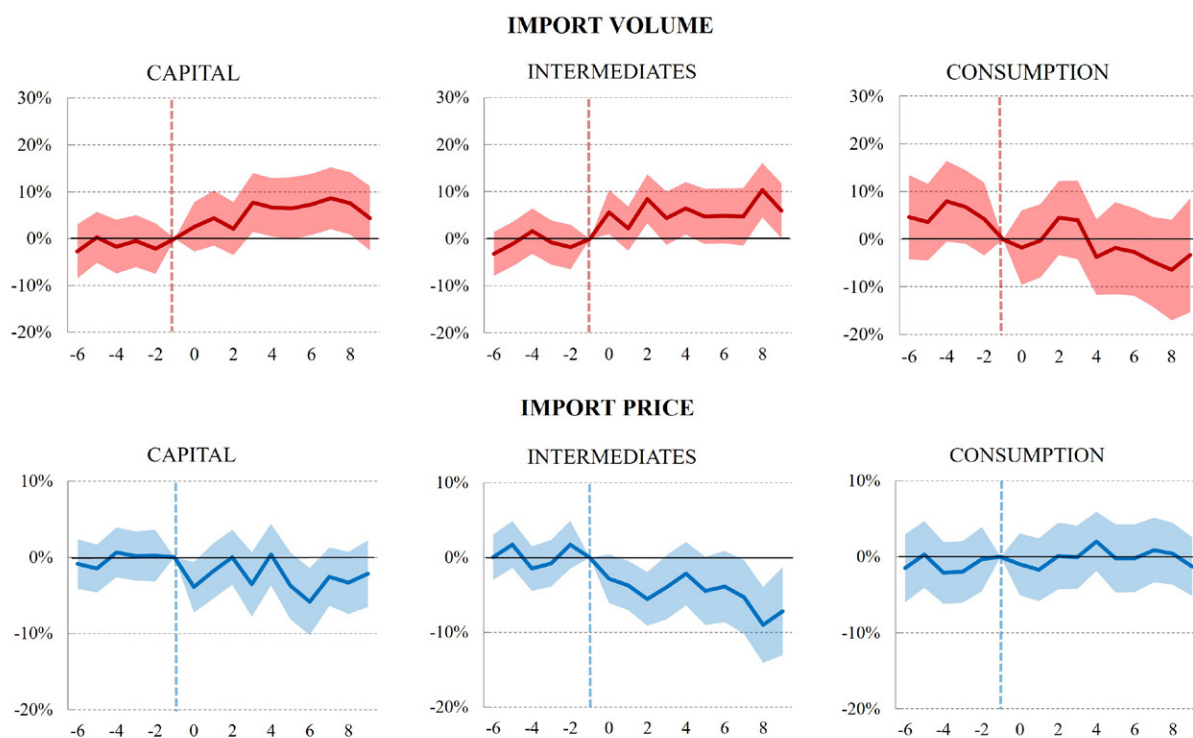
4.2 Product and market heterogeneity in trade diversion and price effects

Having established that U.S. tariffs caused moderate trade diversion of Chinese exports toward EU countries and a very small impact on import prices, we set to understand whether these effects were heterogeneous across product groups.

Product end-use. We begin by distinguishing products according to their Broad Economic Categories (BEC) end-use classification. U.S. tariffs resulted in trade diversion to the EU for

capital and intermediate goods. No EU-bound diversion is detected for consumption goods, despite their extensive exposure to tariffs (Figure 4).¹² This suggests that consumption goods –whose imports declined by more than 35% in the U.S. following the tariff increases– were either redirected to alternative markets or more easily rerouted to the U.S. through third countries, such as Vietnam or Mexico. Restricting the analysis to product categories that exhibit diversion toward the EU yields stronger quantity effects, with peak increases in EU imports from China of around 10% for both capital and intermediate goods. Consistent with these patterns, price effects are also more pronounced than in the aggregate, reaching peak declines of approximately 5% and 10% for capital and intermediate goods, respectively.

Figure 4. Impact of U.S. Tariffs on EU Imports from China by Product End-Use



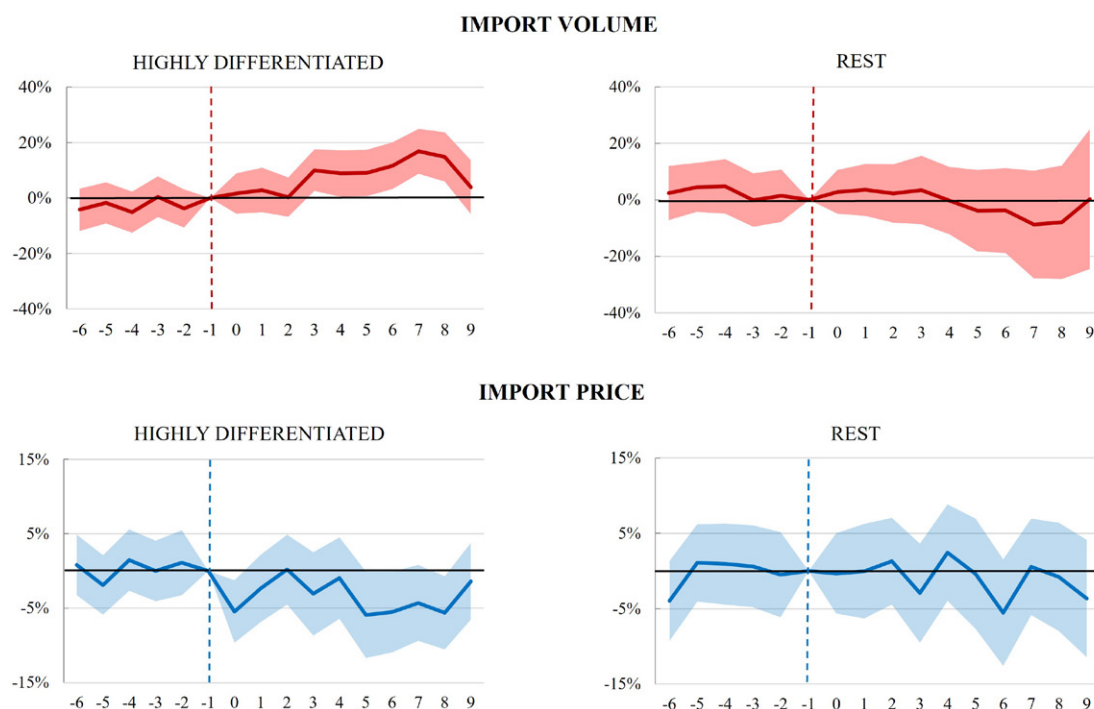
Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals, for different end-use product categories. Product end-use classification follows BEC rev.5. The LP specification for consumption import volumes and intermediate import prices includes a trend for targeted products. Dep. variable: log of import volume from China (upper panels); log unit value of imports from China (lower panels). Sample: Jan. 2017–Jul. 2019.

Homogeneous vs. differentiated products. We further partition capital and intermediate goods based on HS 6-digit level trade elasticities, as estimated by Fontagné, Guimbard, and Orefice (2022). We find that only differentiated capital goods –defined as those with below-median trade elasticities– such as telecommunications equipment or optical instruments, were redirected toward the European market, whereas more homogeneous goods, such as furniture or sewing machinery, were not (Figure 5). As shown in Appendix A (Figure A.3), a similar pattern emerges when capital goods are classified by complexity, as measured by the Product

¹²46% of products classified as consumption goods were targeted by U.S. tariffs. Consumption goods accounted for 22% of U.S. targeted import value in 2017.

Complexity Index.¹³ These findings may reflect the greater similarity between U.S. and EU markets for sophisticated capital goods. When reallocating highly diversified, complex products initially destined for the U.S., Chinese exporters may have favored the EU as a relatively close substitute in terms of final demand conditions compared with alternative destinations. Within intermediate inputs, by contrast, we find that more homogeneous products, such as organic and inorganic chemicals and base metals, were more easily redirected toward EU production chains (Figure 6). For this category, U.S. duties are associated with an average increase of around 11% in EU imports from China, with peak effects reaching 17%. At the same time, import prices declined by approximately 13% on average, with peak declines of up to 20%.

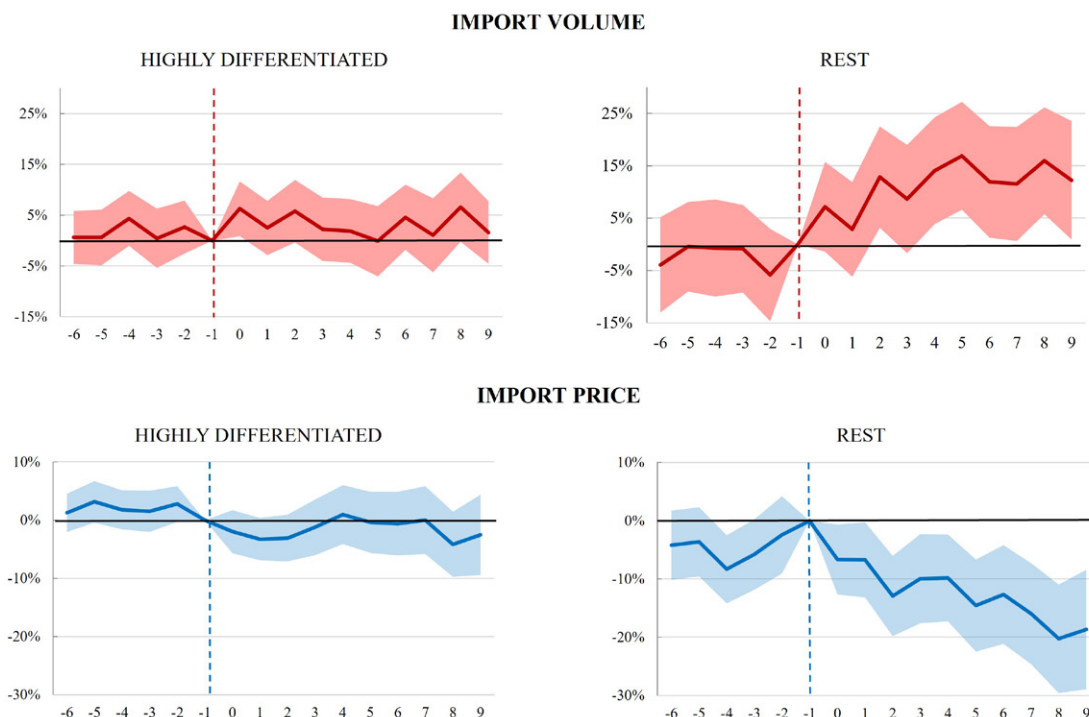
Figure 5. Capital Goods: Impact of U.S. Tariffs on EU Imports from China



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China of capital goods and 90% confidence intervals, for different value of the trade elasticity. Highly-differentiated goods: below-median trade elasticity. The LP specification for import volumes of low-elasticity goods includes a trend for targeted products. Product end-use classification follows BEC rev.5. Dep. variable: log of import volume from China (upper panels); log unit value of imports from China (lower panels). Sample: Jan. 2017–Jul. 2019.

¹³The Product Complexity Index, published by the Observatory of Economic Complexity, captures the relative knowledge intensity of a product. Because the 2017 index restricts the set of products available for analysis, we rely on the more standard trade elasticity classification in the baseline results.

Figure 6. Intermediate Goods: Impact of U.S. Tariffs on EU Imports from China

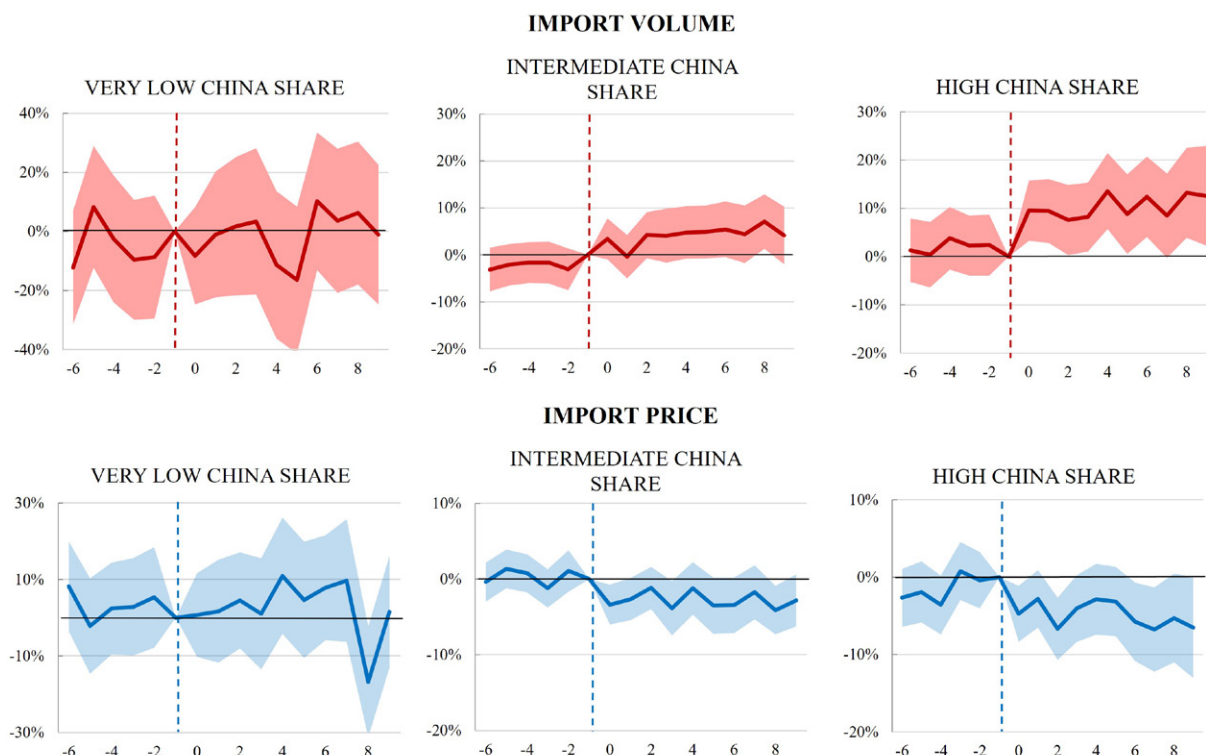


Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China of intermediate goods and 90% confidence intervals, for different value of the trade elasticity. Highly-differentiated goods: below-median trade elasticity. The LP specifications for import prices include a trend for targeted products. Product end-use classification follows BEC rev.5. Dep. variable: log of import volume from China (upper panels); log unit value of imports from China (lower panels). Sample: Jan. 2017–Jul. 2019.

Pre-tariff EU import exposure to China. We next focus on intermediate and capital goods only, being these the ones that were significantly redirected to the EU. Within this subset, we distinguish product-importer dyads based on China’s pre-tariff (2017) share in total (intra- and extra-EU) imports.¹⁴ Markets with a very low initial share of Chinese imports (below 0.5% in the first column of Figure 7) did not experience significant diversion following the implementation of U.S. tariffs. By contrast, diversion effects were substantial –amounting to an increase of around 10% in EU imports from China– in markets where China’s initial presence was already high (above 20% in the third column of Figure 7). This suggests that a significant presence of China in a certain market in the pre-tariff period facilitated trade diversion of Chinese products to that market once tariffs were imposed.

¹⁴The chosen thresholds isolate 20% of observations in both the lower and upper tails of the distribution in our sample.

Figure 7. Impact of U.S. Tariffs on EU Imports by Import Exposure to China



Notes: Local projection point estimates of the impact of US tariffs on EU imports from China and 90% confidence intervals, for different value of 2017 share of China in total imports. Very low China share: product-importer combinations with 2017 share of China lower than 0.5%. High China share: product-importer combinations with 2017 share of China higher than 20%. Only capital and intermediate goods. The LP specifications for import volumes and prices of markets with high China share include a trend for targeted products. Dep. variable: log of import volume from China (upper panels); log unit value of imports from China (lower panels). Sample: Jan. 2017–Jul. 2019.

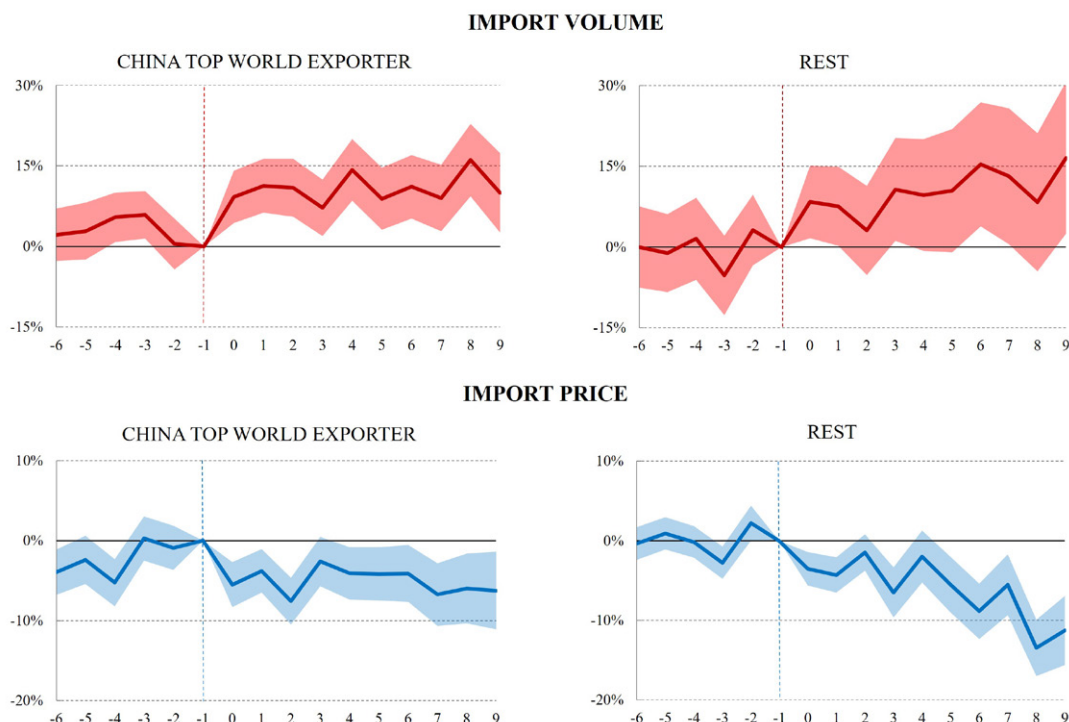
Import concentration in non-China dominated markets. We now focus on markets with a significant pre-tariff presence of China in which, however, China was not the dominant exporter. Our objective is to assess whether a higher concentration of EU imports among alternative suppliers may have constrained the diversion of Chinese products. To this end, we consider product–importer combinations characterized by an intermediate Chinese import share, as illustrated in Figure 7, while excluding markets in which China was the main supplier in 2017. We then partition these observations according to the degree of concentration of EU imports across suppliers. Markets are classified as highly concentrated when the 2017 Herfindahl–Hirschman Index of concentration (HHI), computed over EU country’s import shares across all providers, exceeds its median value.¹⁵ The results indicate that, in highly concentrated markets that were not dominated by China, trade diversion was lower (Figure A.4). The presence of strong incumbent supplier(s), as captured by higher concentration, appears to have reduced the scope for trade diversion involving Chinese products.

China’s market power as a global exporter. Finally, we acknowledge that Chinese

¹⁵This corresponds to an HHI of 0.3, slightly below the threshold used by the European Commission to identify highly concentrated markets at the HS 6-digit level; see Arjona, Connell, and Hergehelegiu (2023).

providers are the leading world exporters of several products, implying substantial market power at the global level. We examine the implication of this feature for diversion and price effects. We focus on markets with a high Chinese presence –specifically, those in which China’s import share exceeds 20% in 2017 (the third column in Figure 7). We then distinguish observations according on whether Chinese firms also held strong market power at the global level. For products for which China was the leading global exporter, smaller price reductions were sufficient to place these product in the EU market (Figure 8). This suggests that global market power influenced the magnitude of the price adjustments associated with trade diversion.

Figure 8. Impact of U.S. Tariffs on EU Imports by China’s Global Market Power



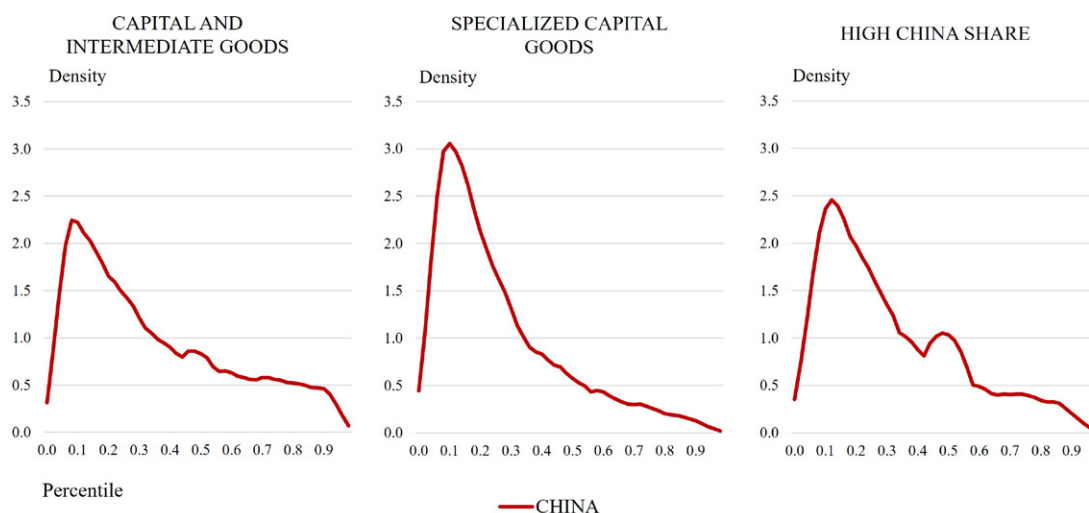
Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 68% confidence intervals. Only capital and intermediate goods. Product-importer combinations with a 2017 share of China above 20%. China top world exporter: products for which China was the leading global exporter in 2017. All LP specifications include a trend for targeted products. Dep. variable: log of import volume from China (upper panels); log unit value of imports from China (lower panels). Sample: Jan. 2017–Jul. 2019.

5 Supplier price distribution in affected markets

We next study the implications of these diversion and price effects for competition in EU markets, with particular attention to their distribution across price segments. The analysis focuses on sectors in which trade diversion toward the EU was strongest –namely, capital and intermediate goods, highly differentiated capital goods, and markets with a high share of Chinese imports. For each product–importer combination, we assess the position of Chinese export prices within the distribution of import prices from all origins prior to the imposition of tariffs. Specifically, in each market we identify the percentile of the price distribution in which Chinese export

prices were located in 2017. Figure 9 reports the density of Chinese prices across percentiles of the global price distribution within each market. The evidence indicates that, before the introduction of tariffs, Chinese export prices were concentrated at the lower end of the price distribution.¹⁶ In other words, in the markets most affected by trade diversion, Chinese exporters predominantly served the low-price segment. Consequently, tariff-induced price adjustments were also concentrated in this segment, leading to a stronger increase in competitive pressure at the lower end of the market. To identify the exporters most affected by these price dynamics, we examine the distribution of export prices for non-Chinese suppliers. Figure 10 presents the corresponding density of export prices across percentiles. Given that competitive pressure intensified primarily in the low-price segment, the effects are likely to have fallen on other emerging Asian exporters, whereas leading European exporters and other advanced economies (such as the U.S. and the U.K.) appear to have been less exposed.

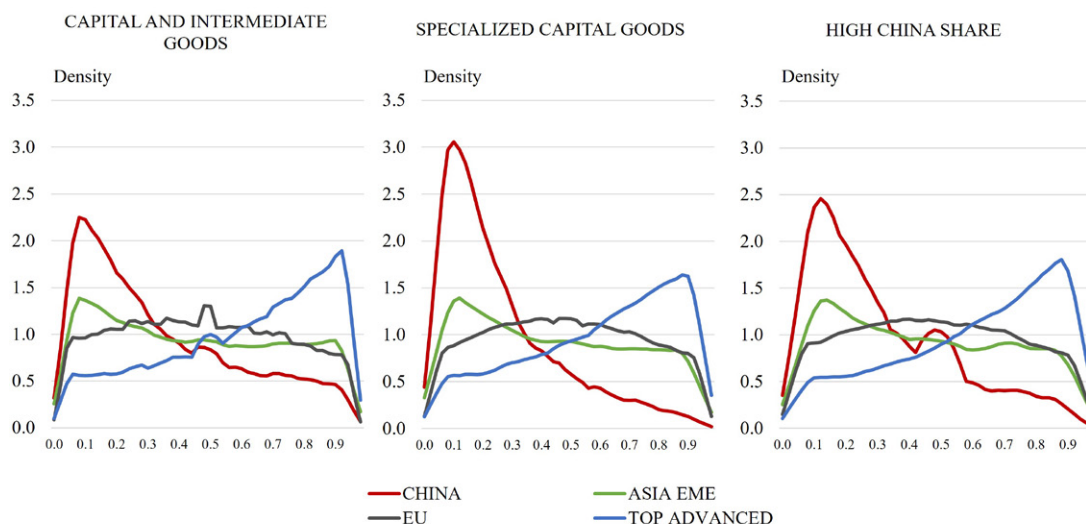
Figure 9. Chinese Export Prices by Percentiles of the Global Price Distribution



Notes: Kernel density of percentile ranks in the global price distribution of EU import prices from China, within each importer-product dyad. 2017 annual data.

¹⁶This is true for both capital and intermediate goods, although the distribution appears more skewed for capital products.

Figure 10. Export Prices by Percentiles of the Global Price Distribution



Notes: Kernel density of percentile ranks in the global price distribution of EU import prices from different origins, within each importer-product dyad. Asia EME: India, Indonesia, Vietnam, Thailand, Malaysia. Top advanced: U.S., U.K., Switzerland, Norway, Canada. 2017 annual data.

6 Robustness

Results are robust to a battery of checks, all reported in appendix B.

Alternative data cleaning procedure. We first assess the robustness of our results to the data cleaning strategy by applying the alternative procedure of Amiti et al. (2019), which drops volume and price observations exhibiting year-on-year changes greater than 110% in absolute value. Relative to our baseline approach, this procedure discards a much larger number of observations –a feature that makes it less suitable for local projection analyses, which require continuous time series. The resulting impulse responses are therefore more volatile and less precisely estimated. Nevertheless, the main patterns remain unchanged, with an estimated average impact of tariffs on import volumes and prices of, respectively, 3% and -1.7%, in line with our baseline findings (Figure B.5).

Earlier 2018 tariffs. In the first months of 2018, the U.S. imposed tariff measures that did not exclusively target imports from China. These included the Section 201 safeguard tariffs on solar panels and washing machines, implemented in February 2018 and imposing duties of up to 30% on most covered products, as well as the Section 232 national-security tariffs on steel (25%) and aluminum (10%) imports, which took effect in March 2018. Because these measures applied to imports from nearly all U.S. trading partners, their trade-diversion effects on European markets may differ from those generated by China-specific tariffs. We therefore exclude these tariff waves from the treatment definition in our baseline specifications.¹⁷ Nonetheless, including

¹⁷ Argentina, Australia, Brazil, Canada, Mexico, South Korea and the EU were initially exempt from the Section 232 tariffs. Exemptions for Canada, Mexico and the EU were lifted in June 2018. Importantly, although some products covered by these earlier measures were subsequently targeted by the China-specific Section 301 tariffs,

the earlier 2018 tariff waves in the treatment leaves our baseline results virtually unchanged (Figure B.6). Similar results obtain when we instead exclude from the baseline analysis all products previously affected by these measures (Figure B.7).

Controlling for April 2018 anticipation effects. In April 2018, shortly after the conclusion of the Section 301 investigation into unfair trade practices, the USTR released a proposed list of products subject to potential tariffs. While some of these products were subsequently included in the implemented List 1 tariff wave, roughly one third were ultimately excluded and never tariffed. In our baseline specification, we follow the standard approach in the literature and consider only effectively implemented tariffs (Amiti et al., 2019; Fajgelbaum et al., 2020; Cigna et al., 2022). Although our baseline results provide little evidence of anticipation effects, we assess their importance by excluding from the sample all products included in the April 2018 proposed list, regardless of whether they were ultimately tariffed. While the smaller sample leads to more volatile impulse responses and generates some significant pre-treatment coefficients, the estimated differences between the average pre- and post-tariff coefficients remain economically and statistically significant. For import volumes and prices, these differences amount to 3.5% and 1%, respectively, and are closely aligned with our baseline estimates (Figure B.8).

7 Concluding remarks

The sustained increase in EU imports from China throughout 2025 —culminating in a 16% year-on-year rise in import volumes and a roughly 7% decline in import prices in December— has fueled concerns among policymakers about a potential second "China shock" and its implications for Europe's trade balance and the competitiveness of domestic producers (Sefcovic, 2025; Lagarde, 2025b). Several factors may be underlying these developments, including Chinese industrial policies and excess capacity, subdued domestic demand in China, and trade diversion from the U.S. market following the 2025 wave of tariff increases (Aprigliano et al., 2026).

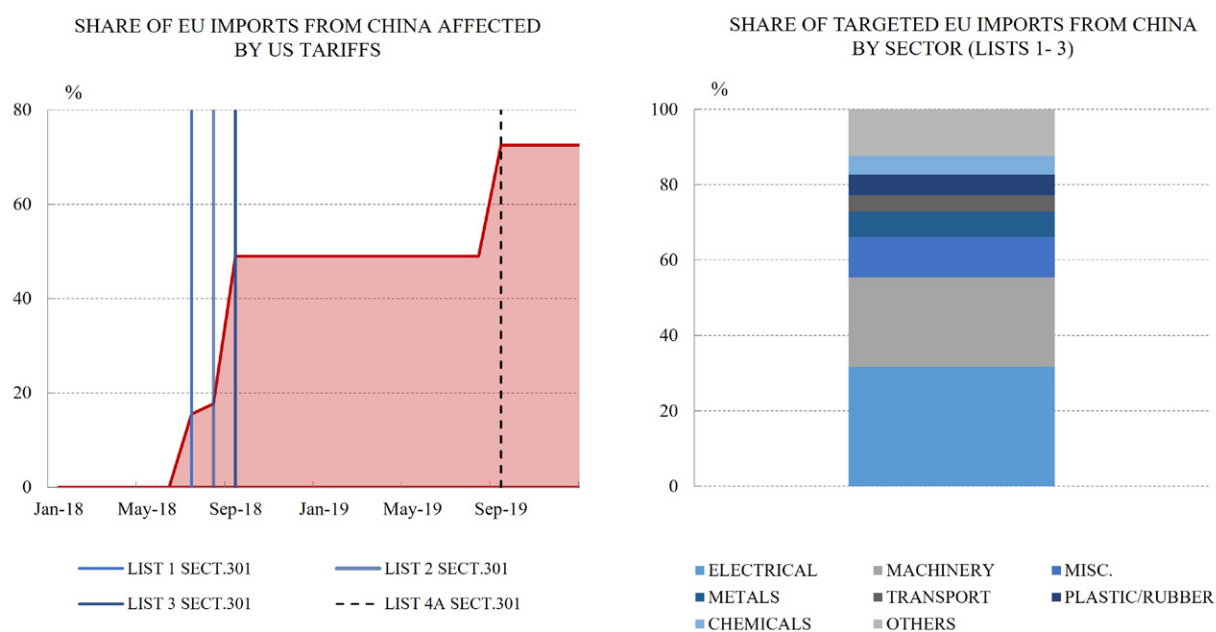
Recent assessments of the 2025 tariff episode conclude that U.S. tariffs on China have generated extremely limited, if any, trade diversion toward the EU (Schulte et al., 2026; Emlinger et al., 2026; Le Roux and Spital, 2026). Yet the identification of such effects is complicated by the broad-based nature of the tariff increases and by substantial anticipation effects.

Our findings from the first U.S.–China trade war show that tariffs of a similar magnitude can redirect Chinese exports toward the European market. These results suggest that some trade diversion may already be underway, although its causal effects remain difficult to isolate in the current episode. While the aggregate effects are likely to be modest, they may be considerably larger for specific products and destination markets.

duties were cumulative across tariff waves.

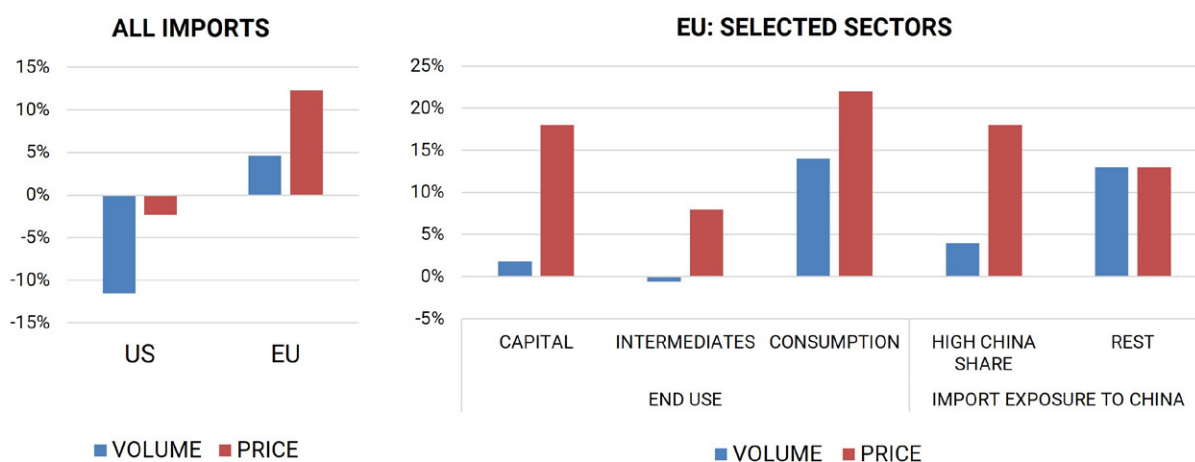
A Appendix: Other results

Figure A.1. EU Imports from China of Products Affected by U.S. Tariffs Related to Section 301 Investigation



Notes: Shares are computed based on 2017 import values. Own calculation based on TDM and USTR.

Figure A.2. Change in Imports from China across Pre and Post-Tariff Period



Notes: Pre-tariff period: 2018 Q2. Post-tariff period: 2019 Q4. Own calculation based on FRED, Eurostat and TDM. End-use classifications follows BEC rev.5. High China share: product-importer combinations with a 2017 share of China in total imports above 20%.

Table A.1. Baseline results: Impact of US tariffs on imports from China

Panel A: U.S.

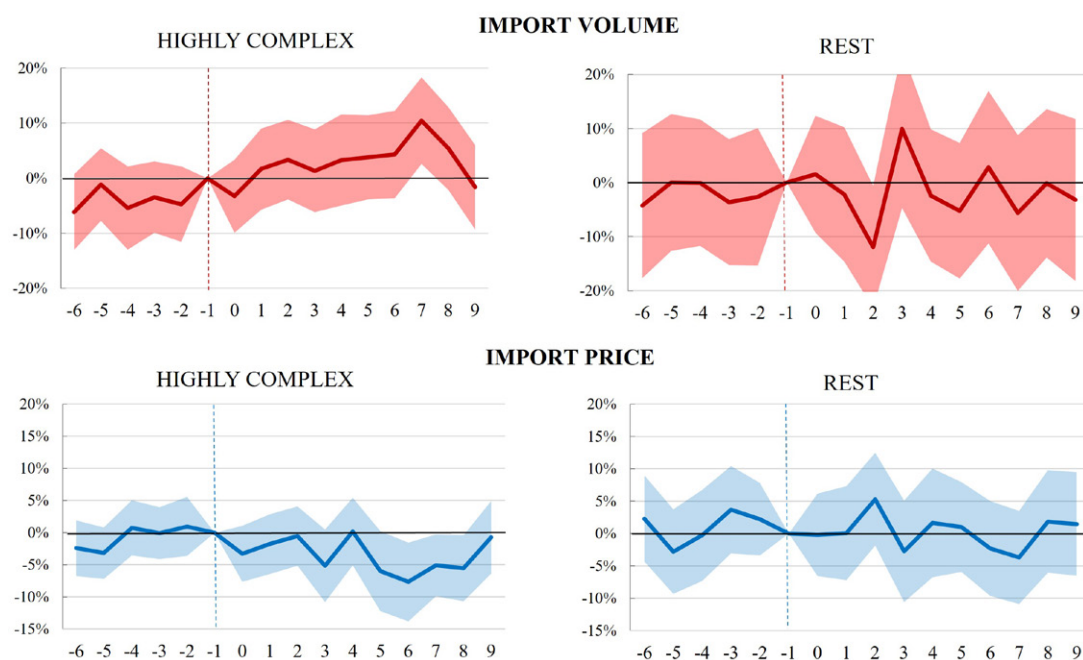
	VALUE	VOLUME	PRICE	PLACEBOS		
	(1)	(2)	(3)	(4)	(5)	(6)
US tariff dummy	-0.325*** (0.026)	-0.307*** (0.032)	0.006 (0.02)	0.139 (0.087)	0.064 (0.125)	0.017 (0.082)
Constant	13.473*** (0.006)	10.857*** (0.008)	2.443*** (0.005)	13.448*** (0.018)	10.924*** (0.026)	2.375*** (0.017)
Observations	117,399	98,057	98,061	44,598	37,072	37,066
R-squared	0.929	0.951	0.965	0.957	0.970	0.980
Fixed Effects						
Time	Yes	Yes	Yes	Yes	Yes	Yes
Prod.	Yes	Yes	Yes	Yes	Yes	Yes
Quarter-prod.	Yes	Yes	Yes	Yes	Yes	Yes
HS2 sector-time	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: EU

	VALUE	VOLUME	PRICE	PLACEBOS		
	(1)	(2)	(3)	(4)	(5)	(6)
US tariff dummy	0.038*** (0.010)	0.039*** (0.01)	-0.001 (0.005)	-0.029 (0.046)	-0.023 (0.050)	0.005 (0.021)
Constant	9.914** (0.002)	5.240*** (0.002)	4.746*** (0.001)	9.945*** (0.009)	5.300*** (0.010)	4.713*** (0.004)
Observations	1,809,396	1,740,787	1,736,630	679,435	653,627	651,909
R-squared	0.827	0.911	0.965	0.851	0.924	0.971
Fixed Effects						
Importer-time	Yes	Yes	Yes	Yes	Yes	Yes
Importer-prod.	Yes	Yes	Yes	Yes	Yes	Yes
Quarter-prod.	Yes	Yes	Yes	Yes	Yes	Yes
HS2 sector-time	Yes	Yes	Yes	Yes	Yes	Yes

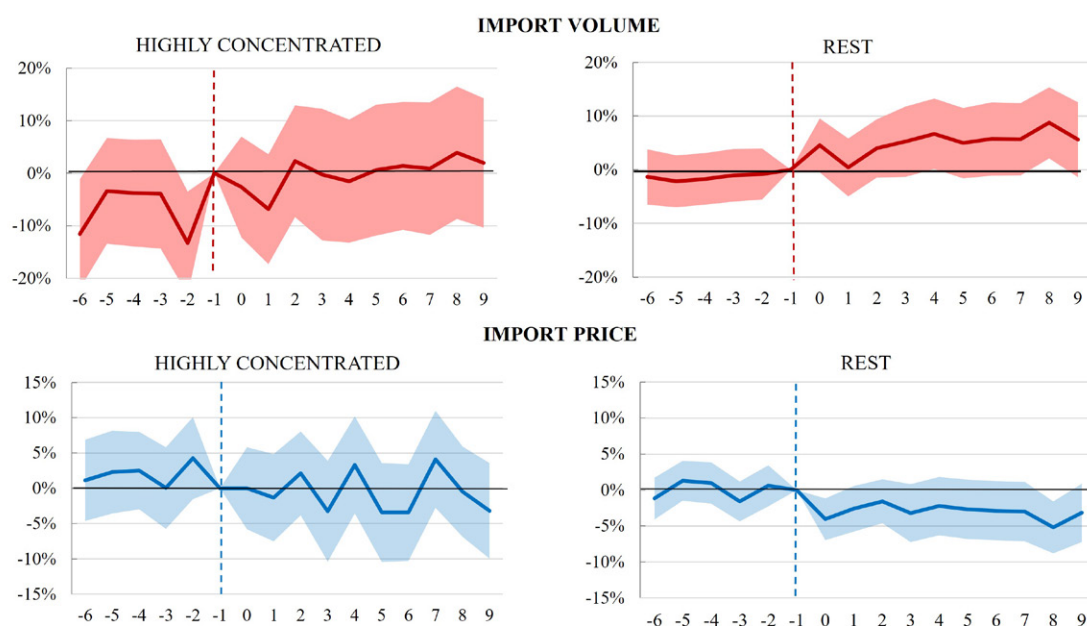
Notes: Dep. variable: log of import value from China (columns 1 and 4); log of import volume from China (2 and 5); log unit value of imports from China (3 and 6). Baseline sample: Jan.2017–Jul.2019. Placebos are run on 2017 data using 1-year lagged treatment dates as Cigna et al. (2022). Trend*targeted: linear trend for targeted HS codes. Robust SE in parentheses: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Figure A.3. Impact of U.S. Tariffs on EU Imports from China of Capital Goods by Product Complexity



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Highly complex: capital goods with a Product Complexity Index (PCI) above the median. PCI data refer to 2017 and are sourced from the Observatory of Economic Complexity. Dep. variable: log of import volume from China (upper panel); log unit value of imports from China (lower panel). Sample: Jan. 2017–Jul. 2019.

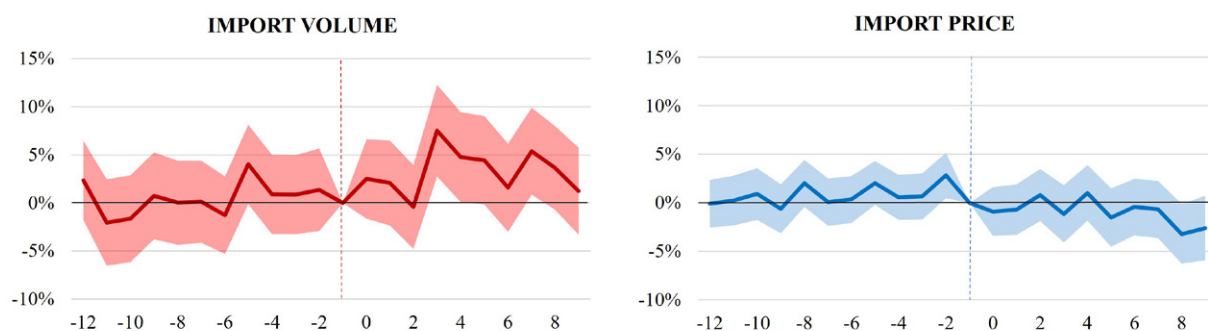
Figure A.4. Impact of U.S. Tariffs on EU Imports from China by EU Market Concentration



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Highly concentrated: product-importer combinations with a 2017 Herfindahl–Hirschman Index of import concentration (HHI) above the median. Dep. variable: log of import volume from China (upper panel); log unit value of imports from China (lower panel). Sample: Jan. 2017–Jul. 2019.

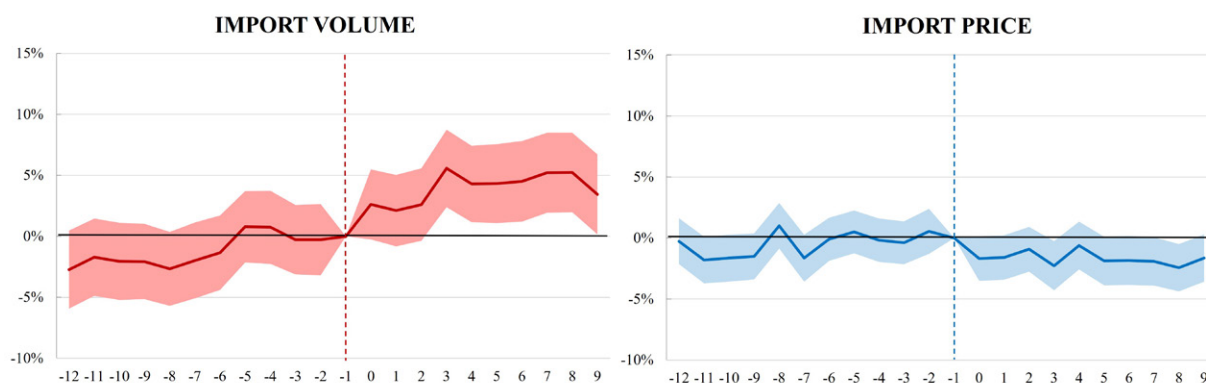
B Appendix: Robustness checks

Figure B.5. Impact of U.S. Tariffs on EU Imports from China: Alternative Cleaning Procedure



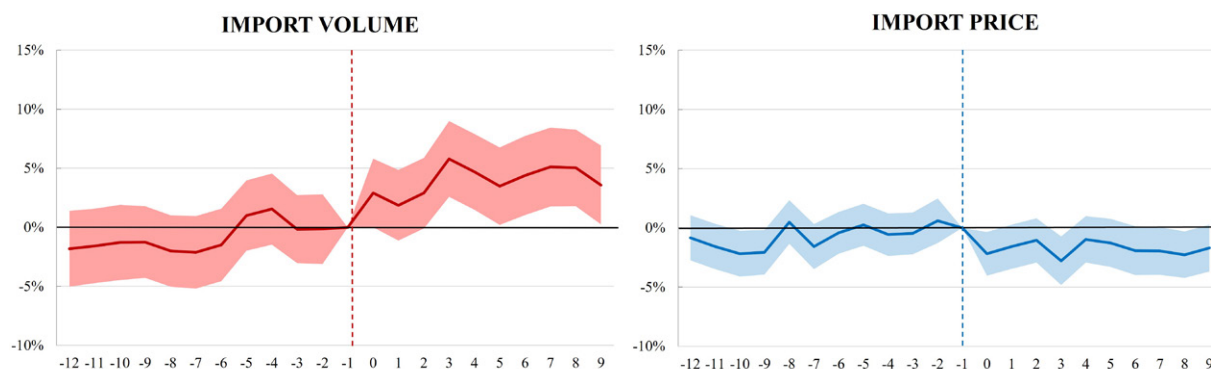
Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). Data cleaned following Amiti et al. (2019). Sample: Jan. 2017–Jul. 2019.

Figure B.6. Impact of U.S. Tariffs on EU Imports from China: Extended Treatment Including Solar and Steel Tariffs



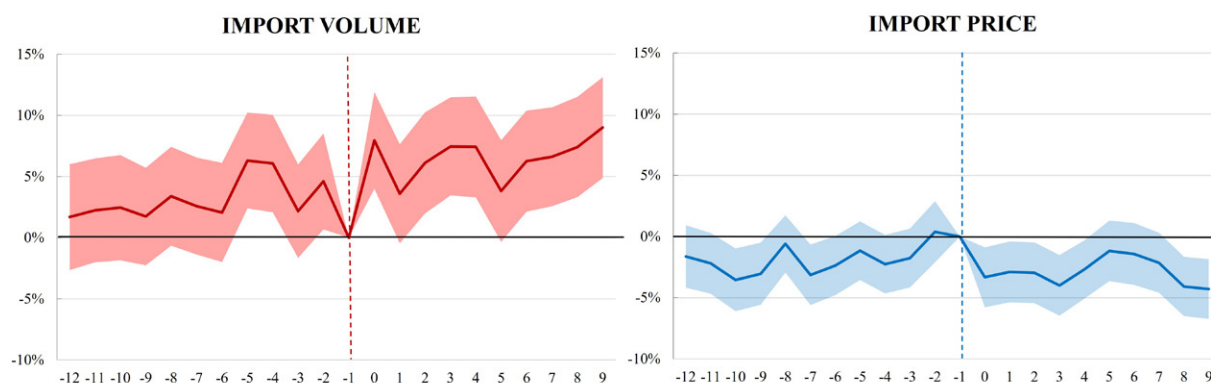
Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). Treatment includes tariffs on solar panels, washing machines, and metals that became effective in February and March 2018. Sample: Jan. 2017–Jul. 2019.

Figure B.7. Impact of U.S. Tariffs on EU Imports from China: Excluding Products Subject to Solar and Steel Tariffs



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). The sample excludes products that were also affected by the solar-panel, washing-machine, and metal tariffs. Sample: Jan. 2017–Jul. 2019.

Figure B.8. Impact of U.S. Tariffs on EU Imports from China: Excluding April List Products



Notes: Local projection point estimates of the impact of U.S. tariffs on EU imports from China and 90% confidence intervals. Dep. variable: log of import volume from China (left panel); log unit value of imports from China (right panel). The sample excludes products in proposed tariff list published in April 2018. Sample: Jan. 2017–Jul. 2019.

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