

# IfM-Background Paper

## Mittelstand enterprises facing US tariffs

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## 1 Introduction

The foundations of the rules-based global trading system, which has produced huge gains in economic prosperity and efficiency worldwide since the Second World War, were largely laid by economic policymakers in the United States. For example, the origins of the rules on customs duties and the negotiation process that led to continuous tariff reductions over time can be traced back to the Reciprocal Trade Agreements Act, which was drafted in 1934 under US President Franklin D. Roosevelt. This piece of legislation also served as a template for the conclusion of the General Agreement on Tariffs and Trade (GATT) in 1947 and for the creation of the World Trade Organisation in 1995 (cf. WTO 2013; Krugman 2025).

Now, it is indeed the unilateral tariff policy of the current US administration with regard to the level of (threatened) tariffs and their application to almost all countries and industries that represents a serious departure from the rules-based global trading system. This proceeding is largely based on the economic views of Stephen Miran, Chairman of the Council of Economic Advisers to the President of the United States, who believes that the reduced competitiveness of US exports, the weakening of US industry and the growing socio-economic gaps in the industrial heartland of the US are due to structural imbalances in the global monetary system. He sees the role of the US dollar as the world's most important reserve currency as the main reason for this. Therefore, he advocates reconsidering the United States' long-standing commitment to a 'strong dollar' policy, as he believes that a weaker currency could revive domestic industry. At the same time, he considers tariffs to be helpful in putting pressure on global trade competitors and, above all, in urging large foreign companies to relocate their operations and investments to the US (cf. Miran 2024). Accordingly, US President Trump announced at the beginning of April that he would impose, among other measures, a 10% baseline tariff on all imports from the EU. A product-specific tariff of 25% has already been imposed on imports of certain products (e.g. steel products, motor vehicles) since 12 March 2025. In addition, there are so-called reciprocal tariffs of 20%, which are currently<sup>1</sup> still suspended. Certain products such as semiconductors, pharmaceutical products, copper, wood products,

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<sup>1</sup> On 12 July, US President Trump announced tariffs of 30% on goods from the European Union if no agreement is reached in the trade talks between the US and the EU by 1 August 2025.

some critical raw materials, energy and energy products are currently exempt from the baseline and the reciprocal tariffs (cf. vbw 2025; GTAI 2025).

The US administration justifies its tariff measures with existing trade deficits with many states and currency blocs, including the European Union (EU). However, this view ignores two aspects: First, the existing US surpluses in service trade are (deliberately) not mentioned. Second, it is general not a problem if the trade balances between states or currency blocs are not balanced (bilaterally) as long as they are balanced overall, i.e. across all trading partners. Although not strictly necessary in this sense, the total bilateral trade in goods and services between the EU and the US is in fact almost balanced: The surplus of EU exports to the US over US exports to the EU amounted to approximately EUR 48 billion in 2023, which corresponds to only 3% of the total trade volume of EUR 1.6 trillion between the EU and the US (cf. European Commission 2025). Nevertheless, the US dollar's role as a global reserve, investment and transaction currency – along the undeniable advantages this entails – also poses challenges for the US manufacturing industry in the form of persistent net capital imports into the US. The resulting high demand for the US dollar tends to lead to an appreciation (overvaluation) of the dollar, which impairs the price competitiveness of the US manufacturing sector and thus weakens the industrial base of the US.

Nevertheless, Stephen Miran, economic advisor to US President Trump, is aware that the success of his strategy depends largely on the absence of large-scale retaliatory measures on the part of US trading partners. He therefore sees the tariffs as merely a temporary means of exerting pressure to initiate renegotiations, rather than as an end in themselves. In this sense, the US administration has in the past concluded tariff agreements with China, the United Kingdom and Vietnam, for example. Furthermore, in recent months, the US administration has repeatedly been willing to postpone tariff announcements with individual countries and the European Union.

## **2 What US customs policy means for Mittelstand enterprises in Germany**

More than three quarters of all industrial companies (with at least ten employees) in Germany are active in foreign trade. A good half of them are involved in complex global value chains as 'two-way traders'. For them, foreign sales and procurement markets are of greater economic importance than for enterprises that only import or export. Due to global uncertainties and the increasingly restrictive behaviour of the Chinese government towards foreign companies, the

US has become Germany's most important trading partner in 2024. The US market is a very important export market, particularly for the pharmaceutical and medical technology industries, as well as for vehicle and mechanical engineering (cf. Statistisches Bundesamt 2025). The US is also one of the most important sales markets for German Mittelstand enterprises (cf. Pahnke et al. 2023). The protectionist tariff policy of the US administration affects (Mittelstand) exporters abroad in different ways. The tariffs and the customs formalities incurred when importing goods into the US have to be paid and carried out by importers in the US.<sup>2</sup> Exporting companies are not directly affected by this. However, they do experience various direct and indirect effects of US customs policy that change their competitive position and may require them to take adjustment measures.

### **3 Direct impact of US tariff policy on Mittelstand enterprises**

The most immediate risk for exporting German Mittelstand companies is that customs-induced price increases will reduce demand and thus sales volumes and the achievable (net) price. Whether and to what extent this will actually happen depends on the individual case. Many Mittelstand enterprises benefit from the fact that they have built up close, long-standing relationships with their customers, especially in the B2B sector, and are able to generate significant benefits for them with innovative and tailor-made solutions (cf. Holz et al. 2016). Therefore, Mittelstand enterprises that dispose of these specific, difficult-to-copy advantages will be able to keep their sales relatively stable as long as the tariffs imposed are not excessively high. The baseline tariff of 10% that has been in force since April should still be manageable for many Mittelstand enterprises, but the threatened tariffs of 30% on EU companies are likely to be less so (cf. VDMA 2025). In general, Mittelstand enterprises that offer largely standardised products will have more problems with US customs policy. These companies must expect reductions in both the prices they can achieve and their sales volumes.

However, this effect may be partially mitigated by exchange rate developments, which are influenced by many different factors: e.g., if US imports decline as a result of the tariff increase, this could lead to an appreciation of the US dollar. This would tend to increase the sales revenues of Mittelstand exporters on the US market expressed in euros and mitigate the negative effects of the tariff

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<sup>2</sup> However, this may also include subsidiaries of German enterprises based in the US, such as their own production, service or sales facilities.

increase. Regardless of the specifics of the US tariff policy, its erratic and unpredictable manner is also having a negative impact on foreign business activities of (Mittelstand) enterprises: In an environment already characterised by multiple, increasing economic and geopolitical uncertainties, this makes enterprises' (future) export, location and investment decisions even more difficult. At the same time, the functioning of well-established value chains is impaired.

All these consequences tend to hit Mittelstand enterprises harder than, for example, large corporations, as Mittelstand firms are often unable to implement de-risking strategies to the same extent as large companies due to their more limited resources. Moreover, they are also less broadly diversified regionally. Once (smaller) Mittelstand enterprises have left a foreign market, the hurdles for re-entering that market are significantly higher than for large companies.

#### **4 Indirect effects of US tariff policy on Mittelstand enterprises**

In addition to the direct effects described above, US tariff policy also has indirect effects that affect Mittelstand companies. These effects can be both positive and negative. For example, if the trade conflict between the US and China escalates, a sharp decline in Chinese deliveries to the US is to be expected. On the one hand, this freed-up market volume opens up additional market and sales opportunities in the US for German Mittelstand enterprises. On the other hand, it could lead – at least in the short term – to a diversion of Chinese products to the EU or other markets, which would be accompanied by increasing competitive pressure in these markets.

Furthermore, German Mittelstand enterprises could benefit from a declining competitiveness of US suppliers: since US customs policy provides for import duties on almost all countries worldwide, input costs for companies from the US will tend to rise.

#### **5 Summary assessment of current US tariff policy**

- An escalating trade war would destroy the advantages of the international division of labour, also for US enterprises, and ultimately leave all stakeholders worse off – the economy, consumers and states – whether in the US, Europe or Germany. However, the US itself would likely be hit hardest: empirical studies based on the tariff policy during US President Trump's first term show that the import tariffs imposed were largely borne by US importers (cf. Amiti et al. 2019; Cavallo et al. 2021).

- Finding appropriate solutions is made more difficult when the debate between the political actors involved is highly emotionally charged. The same applies when tariff issues are linked to power and security policy demands or attempt to exert political influence (e.g., threats of high tariffs against Brazil due to the court proceedings against former President Jair Bolsonaro).
- Regardless of this, the following applies: The more German companies do business with countries with low economic and trade policy risks (e.g. EFTA), the more diversified their product range is and the more flexibly they can adjust quantities and product characteristics, the less the erratic US tariff policy will affect Mittelstand enterprises in Germany (cf. Holz/Ptok 2019). Accordingly, smaller Mittelstand enterprises, whose resources for foreign activities are more limited, should be made more aware of the need for geopolitical and product policy diversification.
- However, the most important procurement and sales market for enterprises in Germany remains the EU single market – not least because it offers a high degree of legal certainty and reliable framework conditions (cf. Pahnke et al. 2023). In view of the confrontational US tariff policy, a ‘second-best’ solution would be for the EU to conclude more free trade agreements with other countries and groups of countries that also intend to offer their enterprises and consumers reliable, trade-facilitating framework conditions. In a world characterised by uncertainty and increasing antagonism, the EU could, in the best-case scenario, prove to be a reliable ‘island of stability’ geared towards a fair balance of interests.

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