

BOX II.2:

Effects of trade tensions on global prices

The tariff changes imposed by the United States have raised its average tariff to an 80-year highest. Given the magnitude and asymmetry of these measures, significant and heterogeneous effects on trade flows and international goods prices are to be expected. This Box provides expected orders of magnitude for these effects, including an estimate for local prices in different economies, Chile among them.

Conceptual framework

The analysis is based on a multi-country, multi-sector multilateral international trade model developed in [Pustilnik et al., 2025](#). Three main channels through which tariffs affect trade flows and world prices are considered:

- a. Direct channel:** Tariffs imposed by the United States increase their domestic prices due to higher import prices.
- b. Global competition:** Affected countries redirect their exports to destinations with fewer restrictions. This reduces local prices in those destinations. In this environment of increased competition outside the United States, some countries less affected by tariffs could face increased demand from the United States, offsetting the disinflationary effect of increased supply.
- c. Local supply:** Part of the production not sold to the United States goes to local markets, reducing their prices.

The relevance of each channel depends on the magnitude of tariffs, the supply and demand elasticities of each product in each country, and the magnitude of bilateral trade flows prior to tariffs. [Pustilnik et al., 2025](#) consider elasticities estimated in the academic literature^{1/}, different tariff structures by product—consistent with the various announcements made by the United States—and the trade flows implicit in the OECD's global input-output tables^{2/}. The central scenario considers tariffs implemented by the United States until June 3rd, including 10% for all countries, 30% for China, 25% to Canada and Mexico for goods outside the USMCA, 25% to automobiles, and 25% to aluminum and steel^{3/}.

Results

Estimates show that tariffs raise import prices (after tariffs) in the United States, while they generate falls in the rest of the economies, in line with the greater global supply of goods (Figure II.12). Considering the current tariff scenario, Chile stands out among the countries with the greatest expected impact on their import prices, with an average price reduction of around 0.7%. This is largely explained by the high share of China in the Chilean import basket. The

^{1/} Elasticities of demand and substitution taken from [Fajgelbaum et al. \(2020\)](#) and [Fontagné et al. \(2022\)](#). Supply elasticities are taken from [Romalis \(2007\)](#).

^{2/} In line with [Kalemli-Özcan et al. \(2025\)](#) and [Rodríguez-Clare et al. \(2025\)](#), the Inter-Country Input-Output tables ([OECD, 2023](#)) are used. While there are data up to 2020, 2019 data are used to avoid distortions caused during Covid-19.

^{3/} Two alternative scenarios are also considered: i) The April 2nd scenario incorporates the reciprocal tariffs announced that day and those announced earlier, ii) The pause scenario reflects the 90-day suspension announced on April 9th, along with the new additional 125% tariff to China (totaling 145%).

impact on local prices operates mainly through the share of imports in inputs and final goods, with estimated drops in the local price level in the order of 0.3% (Figure II.13). For the purposes of the central scenario, this translates, all else constant, into a reduction in inflation of 0.3 percentage points cumulatively over the projection horizon^{4/}.

While in Chile the impact on prices occurs mainly via greater global supply (channel b—global competition), in other countries with similar total impacts, such as Mexico and Canada, the main effect comes from the redirection of their exports to their local markets (channel c—local supply) (Figure II.14).

It should be noted that these figures should be interpreted as an initial pressure on prices and not as an estimate of the impact of tariffs on inflation in the different countries. The final effects on inflation will depend on general equilibrium mechanisms, such as changes in aggregate demand, exchange rate movements, changes in corporate margins and monetary policy reactions, which are not considered in these estimates. Other effects not considered that could moderate the results are possible disruptions in global value chains, difficulties in redirecting exports and lost efficiency in production and resource allocation. Indeed, to the extent that trade conflicts spill over into bilateral relations beyond the U.S. with its trading partners—for example, through tariffs between China and its Asian trading partners, tradable goods production chains could be affected, decreasing production efficiency and exerting upward pressure on prices over longer time horizons.

Conclusions

A likely consequence of the ongoing trade tensions is that, in the short term, they generate upward price pressures in the United States and downward pressures in the rest of the world. For Chile, in the central scenario of this IPoM, these pressures are quantified as a 0.3 percentage point drop in the CPI accumulated over the projection horizon. However, the uncertainty associated with these estimates is high, so sensitivity scenarios where the effects are larger and smaller are considered. Both scenarios describe interest rate paths within the MPR corridor.

^{4/} The model does not have a dynamic structure. The estimated effects are those of the new equilibrium, after tariffs.

FIGURE II.12

Change in import price index (1)
(percent)

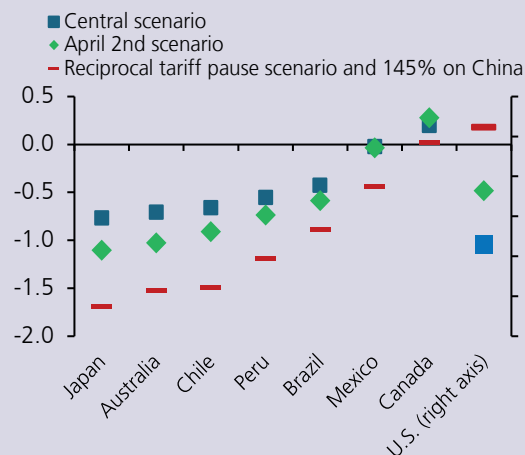
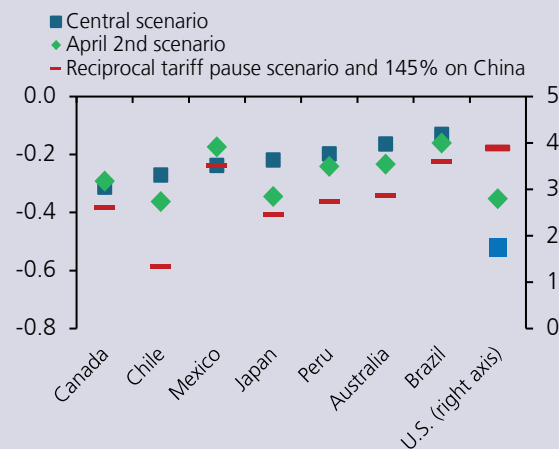


FIGURE II.13

Change in consumer price index (2)
(percent)



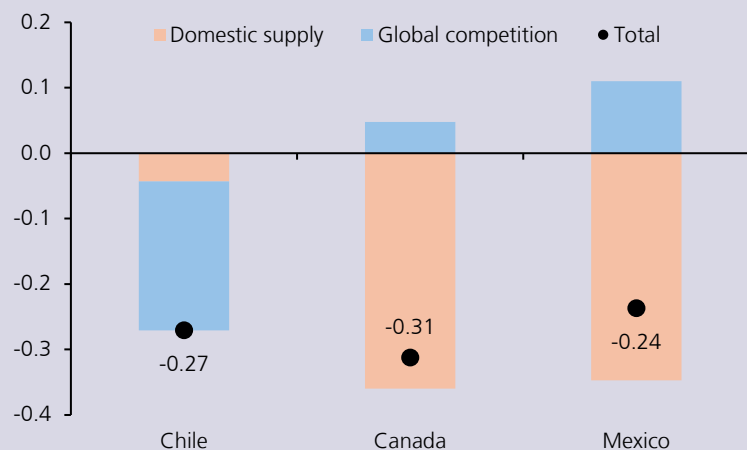
(1) Average change in the price of the import basket, according to the scenarios considered. A partial equilibrium multilateral trade model is used, with bilateral data and high sectoral disaggregation (ISIC Rev.4). The model is calibrated with shares in trade flows, and elasticities of supply and demand taken from the literature, and the tariffs announced by country and product. The central scenario considers tariffs implemented by the United States through June 3, 2025, including 10% for all countries, 30% for China, 25% for Canada and Mexico for goods outside the USMCA, 25% for autos, and 25% for aluminum and steel. The April 2 scenario incorporates all reciprocal tariffs announced that day and those announced previously, and the pause scenario reflects the 90-day suspension announced on April 9, along with the new additional 125% tariff on China (totaling 145%).

(2) Average change in the CPI in the scenarios considered.

Source: [Pustilnik et al. \(2025\)](#).

FIGURE II.14

Decomposition of the effects of tariffs on the CPI (*)
(percent)



(*) Decomposition of the expected impact on the CPI under the central scenario (see note to Figure II.12). The decomposition is obtained by sequentially removing the different channels from the model. Domestic supply reflects the redirection of exports to the domestic market of the countries affected by tariffs. International competition corresponds to the additional impact when these countries redirect their supply and demand to other markets. The sum of the components corresponds to the total effect. For further details of the model, see [Pustilnik et al. \(2025\)](#).

Source: [Pustilnik et al. \(2025\)](#).