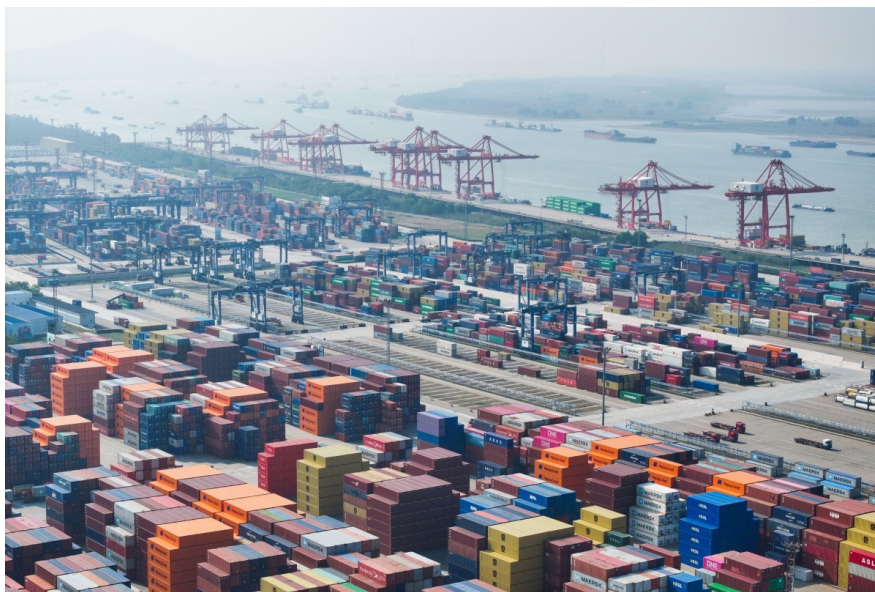


Three calls for trade: All the known unknowns

Strategic moves by the new US administration could boost 2025 trade, with potential escalations and global impacts on trade dynamics



Trump's tariffs are still very much an 'unknown known'

1 Call 1: US administration's strategic tariff tactics will boost global trade

Everyone's talking about US tariffs, not least Donald Trump. But when might they come in, and how comprehensive will they be? It's the multi-billion-dollar question. Trump's threats of 25% tariffs on goods from Mexico and Canada and 10% on goods from China on inauguration day indicate the new administration's commitment to fulfilling campaign promises. Our best guess right now is that we'll see some sort of implementation from the second quarter of 2025 onwards.

By then, investigations will target company activities in third countries and goods passing through Chinese-operated ports, with the EU, Japan, and Korea potentially facing car tariffs. Additional 5-10% tariffs may be introduced to level the playing field. If negotiations fail by the end of 2025, major trade escalations and we could see blanket tariffs of up to 20%.

That said, we expect the US administration to use targeted tariffs to gain concessions, possibly delaying implementation, as tariffs will negatively impact US consumers and the economy.

Despite disruptions, trade in goods is projected to grow by 2.5% year-over-year in 2025, driven by heavy front-loading in the first quarter and increased intra-continental trade throughout the year.

2 Call 2: US tariff strategy will prompt global concessions and isolate China

Due to the importance of the US sales market, countries targeted by potential US tariff action make significant concessions, ultimately improving trade relations between the US and the rest of the world.

As China is perceived as the largest geopolitical threat to the US, American policies will extend beyond trade with China to include investment, social media, and technology cooperation, also involving indirect trade impediments. For example, the US administration might pressure European companies to reduce their business with China if they wish to invest in the US.

This strategy could further isolate China and reshape global trade dynamics, emphasising the geopolitical stakes involved. As a result, trade in goods will perform even better in 2025, driven by strategic concessions and realignments, but faces potential volatility in the following years due to ongoing geopolitical tensions.

3 Our bold call: Europe follows the US and becomes increasingly protectionist

Europe is setting aside intra-member country differences and turning increasingly inward, advancing with the Critical Raw Materials Act, the Strategic Compass for Security and Defence, and the Green Deal Industrial Plan, among others.

By focusing on intra-EU trade, Europe significantly reduces its reliance on external sources and long-haul imports, ultimately leading to a more resilient but largely inflationary trade landscape. The extraction of critical minerals in some member countries is proceeding despite environmental concerns to enhance strategic autonomy.

All trade deals with other countries, such as Mercosur (Argentina, Bolivia, Brazil, Paraguay and Uruguay), are put on hold while Europe rigorously retaliates against protectionist measures from other nations. This triggers further protectionism, plunging global goods trade into a full-blown trade war. Trade volumes plummet to levels seen at the height of the Covid-19 pandemic, halting the era of the global goods trade and ushering in widespread deglobalisation.

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