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What lies ahead in global trade: solid growth despite Trump's tariffs

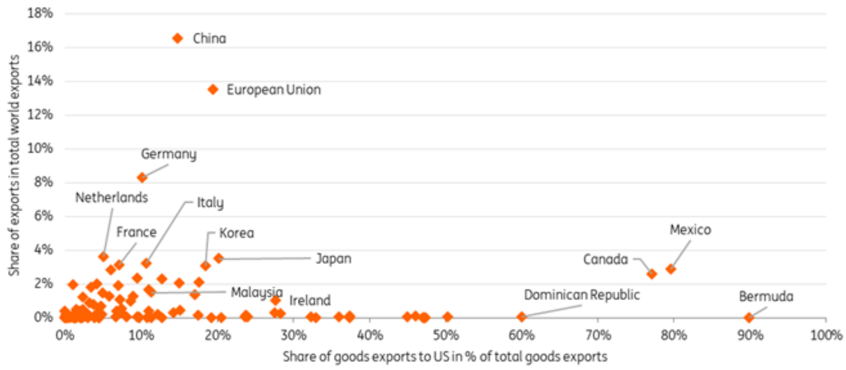
Global trade is experiencing solid growth despite facing significant challenges. Trade tensions, geopolitical risks, and economic nationalism are key factors shaping the landscape for the foreseeable future. With tariffs remaining a constant threat, the journey for world trade is expected to be bumpy

Solid growth amid significant challenges

The global trade outlook for 2025 is marked by solid growth amid significant challenges, many of which can be traced back to the policies proposed by US President Trump. His 'America First' agenda, characterised by aggressive tariff impositions and a push for reciprocal trade agreements, will leave a lasting impact on international trade dynamics. With tariffs remaining a constant threat, the path ahead for world trade is fraught with uncertainty.

Still, we project trade in goods to grow by 2.5% year-on-year in 2025, driven by heavy front-loading in the first quarter and increased intra-continental trade throughout the year. While it is true that some countries heavily depend on the US market, such as Canada and Mexico, global trade is far more diverse and does not solely revolve around the United States. According to the WITS data, which cotains trade data among 122 countries, the US accounts for 13.6% of total global exports. Additionally, the reliance on raw materials and critical intermediate products that cannot be substituted, as well as new alliances and potential trade deals speak for continued trade in goods.

Share of total goods exports and exports to the US by country/union (%)



Source: WITS/UN Comtrade, ING

Strong start, uncertain future

We expect a strong performance in the first quarter of the year, driven in part by the weak baseline in the first half of 2024 and strong front-loading amid tariff threats. According to the January goods trade report, the goods trade deficit already widened to a record deficit of $153.3bn in January from $122.0bn in December with imports surging 11.9% MoM. In the second half of the year, trade tariffs will weigh down growth, while increased intra-continental trade throughout the year, especially between Asia, could somewhat cushion this effect.

In terms of regional developments, we expect that:

- Despite tariffs, US goods imports remain solid this year. The surge in front-loaded first quarter imports should be sufficient to boost overall figures. However, economic nationalism and potential tariff hikes pose significant risks.
- Chinese trade numbers are expected to show minimal growth, not only due to the exceptional growth rates in 2024, which statistically depress this year's growth rate, but also because of domestic economic pressures and tariffs impacting exports. Nonetheless, increased intra-Asian trade will partially mitigate the effects of US tariffs. Additionally, re-routing goods to other final destinations and using connector countries with lower tariffs might help improve trade numbers.
- Although the European economy is likely to face continued challenges this year, the low trade base in 2024, coupled with increased intra-European trade and higher defence spending, could help achieve a 2% year-on-year growth in goods trade, compared to a likely decline of 2.6% in 2024.

Our base case assumptions for trade and tariffs: higher tariffs but no full-blown trade escalation

The biggest risk to the trade outlook is uncertainty because it is toxic for companies and their investment decisions. Will tariffs come or will they not? And for how long will they be around? Although President Trump avoided implementing unilateral tariffs on his first day in office, we now face the possibility of a significant transformation in the trade landscape as of April.

This is in addition to the 25% tariffs on Mexican and Canadian goods, 10% tariffs on energy products from Canada, and 20% universal tariffs on Chinese goods effective as of 4 March 2025. China and Canada were quick to retaliate. Furthermore, steel and aluminium tariffs will come into effect on 12 March, with potential tariffs on cars, semiconductors, pharmaceuticals, and agricultural products starting 2 April. Last but not least, don't forget about the section 301 and section 232 investigations: the ongoing investigation into China's dominance in the shipping sector, a copper, and a lumber and timber investigation.

After the 1 April reports, probably on 2 April, reciprocal tariffs will be announced. With President Trump's administration looking not only into reciprocal tariffs, but also into non-tariff barriers such as value-added tax (VAT) systems, digital trade barriers, exchange rates, or other unfair market access limitations in general, an avoidance of tariffs as of Q2 2025 is highly unlikely.

Given the significant effort required to gather the necessary information from these investigations, we anticipate one of three outcomes:

1. China, the EU (particularly Germany and Ireland), Vietnam, Japan, South Korea, Taiwan, and India will be the initial targets for specific tariffs on products like cars, electronics, or pharmaceuticals.
2. Unilateral rather than reciprocal tariffs may be imposed if the administration determines that the process is too complex to complete within this extremely tight deadline. Argentina, Australia, Brazil, Canada, China, the European Union, India, Indonesia, Japan, Korea, Malaysia, Mexico, Russia, Saudi Arabia, South Africa, Switzerland, Taiwan, Thailand, Türkiye, United Kingdom, and Vietnam, covering 88 percent of total goods trade with the US, will be in scope here.
3. A combination of both: 10%-25% universal tariffs combined with higher tariffs for certain products such as:
    1. 15.5% tariff on ethanol from Brazil
    2. 34% on agricultural goods from India
    3. 8.5% to 30% including the VAT average on cars from the EU

Regarding announcements and media statements, outcome three is the most likely scenario: So, a combination of universal tariffs combined with (higher) tariffs for certain products. This means that entering Q2, we will very likely see higher tariffs. Retaliation will follow.

Nevertheless, despite the events unravelling over the last weeks, there is still opportunity for trade deals, which is why we do not project a full-blown trade escalation with every US trade partner this year. Positive comments towards Australia, China's measured tariff response, diplomatic efforts from India and Japan, and potential consultations between the EU and the US could still result in a watered-down tariff approach. That tariffs will be avoided altogether is not a realistic expectation in the current global trade environment, however.

Navigating the future of trade

While the global trade outlook for 2025 presents a landscape of solid growth, it is not without its challenges. The interplay of tariffs, geopolitical tensions, and economic nationalism will continue to shape the trade environment well beyond this year.

Author

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

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