# Trump, tariffs, and trade: our predictions for the coming months

Global trade is witnessing strong growth even as it navigates significant hurdles. With the looming threat of US tariffs, the path ahead for international trade is likely to be uneven

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By Ruben Dewitte and Inga Fechner

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

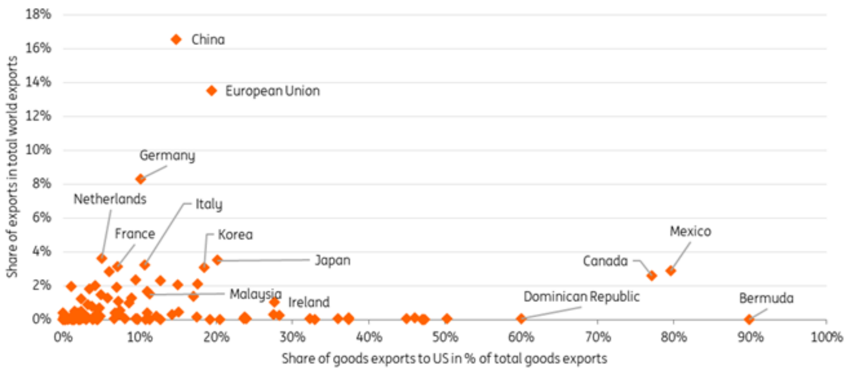
Global trade is experiencing solid growth despite facing significant challenges. Trade tensions, geopolitical risks, and economic nationalism are key factors shaping the landscape for the foreseeable future. With tariffs remaining a constant threat, the journey for world trade is expected to be bumpy

## 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.

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# Exploring new trade deals amid rising protectionism

Despite trade challenges and tariff threats, there are also some positive developments. The EU is actively pursuing new trade agreements, and nearly all African Union members have joined the African Continental Free Trade Area. The Trans-Pacific Partnership is also considering new applicants, with Costa Rica a likely candidate in the coming years


Despite all the doom and gloom about trade, there are some positive developments in the form of trade agreements. The EU has been actively pursuing new and renewed trade deals, while the African Continental Free Trade Area (AfCFTA) is progressing, with 54 out of 55 African Union members signing the agreement as of 2025. Similarly, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is considering new applicants, with Costa Rica likely to join in the coming years.

## EU strengthens global trade ties with new and renewed agreements

The EU has been particularly busy forging new trade deals or renewing old ones over the last couple of months, namely:

- **EU-Mercosur**: A new partnership between the EU and Mercosur (Argentina, Brazil, Paraguay, Uruguay). The European Commission is expected to submit proposals for Council decisions to sign and conclude the agreement by mid-2025.
- **EU-Switzerland**: Completion of negotiations on a broad package of agreements between the EU and Switzerland. The formal signing is scheduled for spring 2025, with Swiss parliamentary approval expected after 2025.
- **EU-Mexico**: Modernisation of the EU's Global Agreement with Mexico. Negotiations concluded on 17 January 2025. The modernised agreement will replace the current one once ratified.
- **EU-Malaysia**: Relaunch of an EU-Malaysia free trade agreement. Negotiations were relaunched on 20 January 2025, after being on hold since 2012.
- **EU-Chile**: The EU-Chile Interim Trade Agreement (ITA) came into force on 1 February 2025. It will be replaced by the Advanced Framework Agreement once all EU Member States complete their ratification processes.

## But which of those agreements will be successful if implemented?

1) Already in force/few obstacles:

- **EU-Chile and EU-Mexico**: The former agreement has already entered into force as of 1 February 2025, while the modernised agreement between the EU and Mexico is expected to be ratified without major obstacles, as it builds on an existing framework.

2) Some obstacles:

- **EU-Switzerland**: While there is a strong economic incentive for both the EU and Switzerland to ratify these agreements – the agreements are intended to significantly facilitate trade once again, level the playing field for companies on both sides and allow Switzerland seamless access to the EU single market – there is opposition within Switzerland, reflecting concerns about Swiss sovereignty and the implications of closer ties with the EU.

3) Many obstacles:

- **EU-Mercosur:** The EU-Mercosur agreement has faced a long and complex negotiation process, spanning over 20 years. There are still significant concerns regarding environmental standards, deforestation, and adherence to the Paris Agreement, which is why EU member states, with France at the forefront, have expressed strong reservations, making the ratification process more uncertain. If the trade agreement is signed in its current form, i.e., a 'mixed' agreement including both trade and non-trade measures, it would necessitate approval from the European Parliament as well as all national parliaments. It would also require ratification by all 27 EU member states. While the EU can negotiate trade agreements on behalf of its members with a qualified majority, any agreement involving shared competence between the EU and its member countries must be ratified by each member state. Remember that the Canadian-European Trade Agreement (CETA) has not yet been ratified by all member states. This adds complexity and increases the chances of failure.

**EU-Malaysia**: The resumption of negotiations has just started, meaning a lengthy process will follow. Yet, restarting negotiations after a long hiatus indicates a renewed commitment from both sides.

## Strengthening national security and securing critical raw materials

In addition to general trade agreements, several countries are actively working on securing critical raw materials to ensure a stable supply. These strategic minerals include:

- Lithium.
- Cobalt.
- Nickel.
- Rare earth elements.
- Graphite.

These minerals are essential for the green and digital transitions, supporting industries such as clean energy, digital technologies, defence, and aerospace.

## European Commission initiatives

The European Commission has initiated several partnerships on critical raw materials to support the green and digital transitions. Following the Action Plan on Critical Raw Materials and the Critical Raw Materials Act, agreements have been signed with various countries over the years:

- **2021**: Canada and Ukraine.
- **2022**: Kazakhstan and Namibia.
- **2023**: Argentina, Chile, Zambia, the Democratic Republic of Congo, and Greenland.
- **2024**: Rwanda, Norway, Uzbekistan, and Australia.

## Global efforts

- **United States**: The US has been working on securing critical minerals through partnerships and agreements, such as those with Australia and Canada. Additionally, the potential for a critical minerals agreement between the US and Ukraine highlights the lengths to which nations will go to secure valuable mineral resources.
- **Japan**: Japan has been actively securing critical raw materials through agreements with countries like Australia and Kazakhstan.
- **Australia**: As a major supplier of critical raw materials, Australia has signed agreements with countries like Japan, South Korea, and the United States to ensure a stable supply chain.
- **China**: China remains a dominant player in the critical raw materials market, controlling a significant share of the world's supply. Additionally, China has secured its supply chains through investments and partnerships in Africa and South America.

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# Soaring services trade: why service trade barriers are a potential retaliation tool

While global trade in goods often captures the spotlight, trade in services has been steadily growing, outpacing goods trade. However, services trade remains smaller due to non-tariff barriers. The US maintains a significant surplus in services, especially with the EU, Canada, and China. Retaliation in services may therefore yield better results

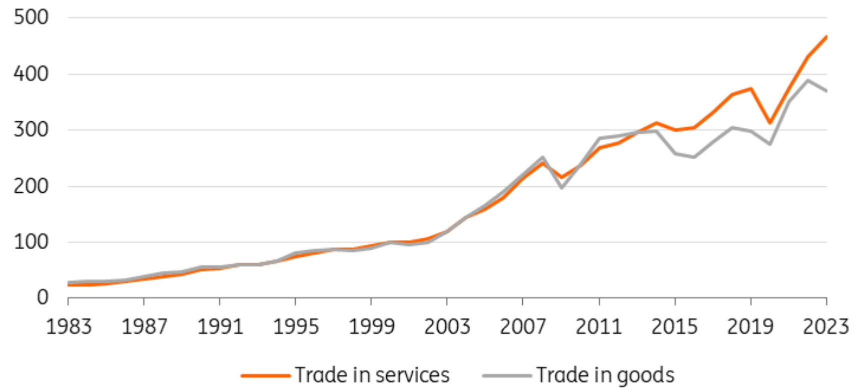
## The steady rise of global services trade: outpacing goods amid 'slowbalisation'

While global trade in goods often captures the spotlight, trade in services has been quietly but steadily achieving remarkable growth. Unlike goods trade, where tangible items cross national borders, trade in services involves the exchange of intangibles between countries. This includes sectors such as tourism, transport, financial services, intellectual property, information and communication technologies (e.g., software development, data processing), as well as online courses, consulting, entertainment, media, and sports events.

Until the global financial crisis, services and goods trade grew at similar rates, but their paths soon began to diverge. As the growth of goods trade slowed, often termed 'slowbalisation,' services trade continued its upward trajectory with no peak in sight. In 2024, goods trade saw modest growth of 2%, while services trade increased by 7%, resulting in an overall trade growth rate of 3.3%, according to UNCTAD data.

## Services trade leaving goods trade in the dust since 2007

World goods and services trade (Index 2000=100)



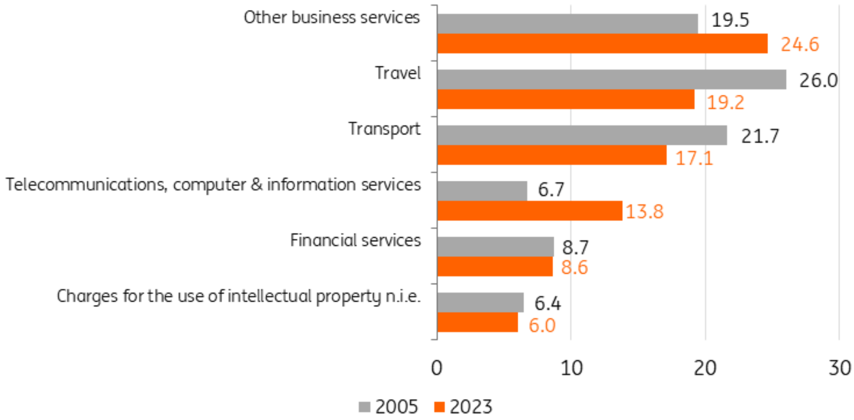

Source: LSEG Datastream, ING

## Digitalisation a key driver of services growth

The divergence in goods and services trade can be attributed to several factors, including the increasing digitalisation of economies. Digitalisation has transformed how services are produced, delivered, and consumed. The advent of digital tools and platforms has enabled service providers to reach global markets more efficiently and cost-effectively. Telecommunications, computer and information services are key in supporting this digital evolution, with advances in telecommunications infrastructure, such as high-speed internet and mobile networks, facilitating connectivity. Professional and management consulting services, categorised under `other business services', have particularly benefitted from these advances.

Travel and transport services, on the other hand, have declined in relative importance. The global financial crisis initially impacted travel and transport services, traditionally linked to goods trade, and the Covid-19 pandemic further exacerbated this decline. Looking ahead, however, the increasing use of artificial intelligence, blockchain technology, and the growing importance of sustainability speak in favour of a further rise in services trade.

## Sectoral service exports as a % of total service exports




Source: UNCTAD, ING Research

## Barriers to services trade – the untapped potential

Yet, despite the diverging growth patterns, services trade remains significantly smaller in size compared to goods trade. Even though services constitute a larger share of GDP than goods, trade in goods is much larger than trade in services. In 2023, world trade in goods amounted to 46% of GDP, compared to just 14% for services. Why is services trade punching below its weight?

## World goods and services trade

(in % of GDP)


Source: LSEG Datastream, ING Research

Part of the answer can be found in a term currently generating a lot of discussion: 'non-tariff barriers'. As services cross a border in an intangible manner, it is near impossible to impose tariff barriers on them. Barriers to services often manifest as domestic regulations that impact both local and foreign providers, such as requirements for professional licensing and certification. As a result, service trade has benefited significantly less from the proliferation of Preferential Trade Agreements (PTAs) compared to goods trade over the past decades.

Liberalising such regulations within bilateral trade agreements remains rare, and policy restrictions in the service sector remain significantly larger than in the goods sector. According to the OECD, these restrictions translate into trade costs with average multilateral ad valorem equivalents (AVEs) of approximately 16% for communication services, 20% for business services, 23% for transport services, 190% for insurance services, and 211% for financial services. AVEs represent the additional costs of the existence of non-tariff measures (NTMs), calculated as a percentage of the import price of the product.

Mario Draghi, former president of the European Central Bank, recently emphasised the high internal barriers and regulatory hurdles as important impediments to within-EU trade. Effectively acting as tariffs, these barriers reduce the EU's growth potential as European service companies can insufficiently scale their activities in the absence of a true common market for services.

However, the higher the initial barriers to trade, the greater the potential gains from reducing those barriers. The service sector, in particular, holds significant potential for economic growth. Increased competition in this sector can lead to lower prices and economies of scale. And these benefits extend beyond final consumers, as the manufacturing industry heavily relies on intermediate services. In fact, services accounted for 25.5% of value-added in the European Union's manufacturing sector in 2022, and for 21.6% in non-EU countries, according to the FIGARO input-output tables. Liberalising trade in services positively impacts manufacturing sectors that use these services as intermediate inputs, enhancing productivity within the manufacturing sector, according to economists from the WTO.

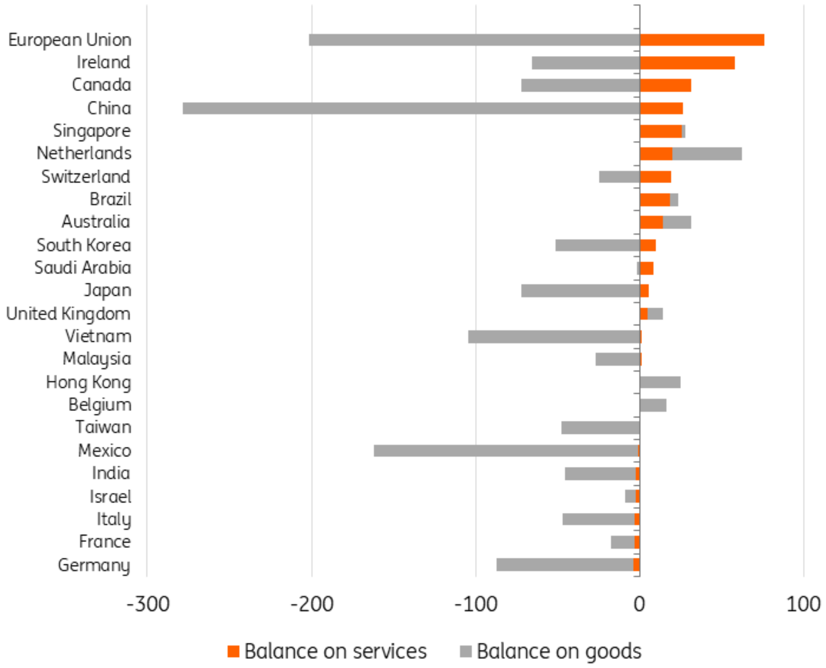
In this context, the progress towards reduced restrictions to services trade within the EU, led by the Single Market Enforcement Taskforce (SMET), appears slow. SMET has been working on various projects to address specific barriers, such as eliminating process barriers for renewable energy installations, tackling IBAN discrimination, and reducing administrative burdens for cross-border service providers. The pace of these efforts, however, has been gradual and significant challenges remain.

Meanwhile, the EU's first-ever digital trade agreement with Singapore, with negotiations formally concluded in 2024, marks a significant milestone for extra-EU trade. This agreement aims to facilitate digital trade by reducing administrative burdens and increasing legal predictability, ensuring cross-border data flow. The future of services trade holds immense potential, but decisive action is needed to fully unlock its benefits and drive economic growth.

## The overlooked trade surplus: services in the US trade balance

While US President Trump is giving much attention to the US's trade deficits in goods, there's a significant yet often overlooked aspect: the trade surplus in services. Despite running large deficits with its major trading partners in goods, the US consistently maintains a positive trade balance in services with almost all of its trading partners, especially with the European Union (Ireland, Netherlands), Canada, and China. The US is the largest exporter of services in the world, followed by the United Kingdom and Germany.

## The US's balance on goods and services in $bn (2023)




Source: US Bureau of Economic Analysis; ING

In 2023, the US exported services worth more than $1 trillion, contributing to a services trade surplus of $278.4bn. This surplus is driven by sectors such as financial services, intellectual property, and travel. Yet, the data hides one caveat: that trade in high-end services seems to be especially pronounced with low tax jurisdictions such as Ireland, a major hub for US software services, business consulting or R&D services. Targeting tax havens to reduce incentives for companies to shift profits to these jurisdictions might therefore soon be next on Trump's never-ending wish list.

For trading partners, though, focusing on services rather than goods to combat Trump's tariff agenda could potentially create a more balanced and strategic framework for trade negotiations. Threatening retaliation in the services sector might therefore yield better results than escalating trade tensions in goods.

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