EDITORIAL

TARIFF SHOCK : WHAT EFFECTS ON GLOBAL TRADE AND WHAT CONSEQUENCES FOR EMERGING COUNTRIES?

Under the impact of the Trump administration's tariff policy and the acceleration of US-China decoupling, global economic growth is expected to slow, international trade to reconfigure and the reorganization of value chains to continue. These changes will have multiple effects on emerging countries. Their export growth will slow and competition from Chinese products will increase. Some countries could nevertheless take advantage of new opportunities to attract FDI and develop their manufacturing base.

HIGHER US TARIFFS…

The increase in tariffs imposed by the United States and uncertainty over its trade policy are affecting all emerging countries. For China, the additional tariffs introduced by the Trump administration since January 20 amount to 30%. Taking into account sector-specific factors (higher tariffs and exemptions), the effective tariff rate on US imports of Chinese products rose from 11% at the beginning of 2025 to nearly 35%. The current truce between Washington and Beijing remains fragile, but we assume that the additional tariffs will remain at their current level in 2025. Sectoral adjustments are possible.

For other emerging countries, additional tariffs currently stand at 10%. In our central scenario, they will also be maintained at this level in 2025 (the "reciprocal" measures mentioned by Trump on April 2 will not be applied). They will be accompanied by sectoral tariffs, which are likely to be high, but some countries may be able to negotiate a decrease. Tariffs are already at 25% on cars and have just been doubled to 50% on steel and aluminum. Taxes of up to 25% could hit the pharmaceutical, electronics, semiconductor, and copper sectors, which are currently exempt. The hydrocarbon sector will remain protected.

Current effective tariff rates vary from country to country, depending on the structure of their exports to the US. They will evolve in the coming weeks in line with US sectoral policies and bilateral negotiations. For the time being, the highest average effective tariffs are affecting emerging Asia (*Chart 1*). Central Europe is also penalized due to the weight of the automotive industry in its exports. Conversely, the lowest tariffs apply to: countries exporting manufactured goods that are still exempt (such as Singapore), Latin American countries that mainly export raw materials, and hydrocarbon producers.

EFFECTIVE TARIFF RATES, 20 JUNE

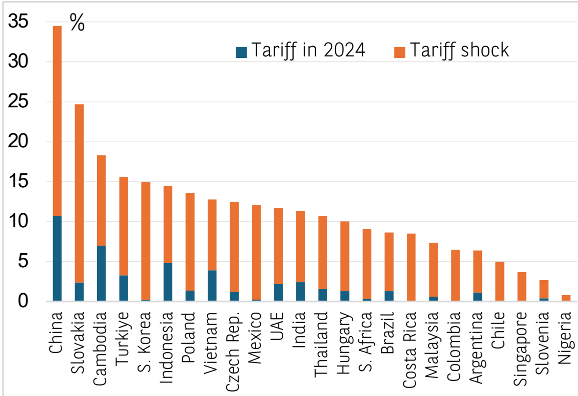

CHART 1 SOURCE: FITCH, BNP PARIBAS

The main Latin American economies (excluding Mexico) are neither highly open, nor substantially dependent on US demand, and are subject to relatively moderate tariff rates. The direct effects on their growth should therefore be limited. Some countries could even benefit from higher prices for their raw material exports (agricultural products, critical metals).

… AND A SLOWDOWN IN GLOBAL TRADE: A NEGATIVE SHOCK FOR EVERYONE

The tariff shock will hamper the growth of emerging economies, initially through a slowdown in US and global demand. Growth in global trade volumes in goods is expected to slow from 2.9% in 2024 to just 1.1% in 2025, according to the World Economic Outlook (WEO) published in early April by the IMF – well below the average for the last ten years (2.5% per year). In mid-April, the WTO even anticipated a slight decline in global trade in goods in 2025 (-0.2%), driven by a more than 10% drop in trade in North America.

The Mexican and Asian economies are the most vulnerable to this slowdown, given their high degrees of trade openness and dependence on the United States (*Chart 2*). Central European economies are very open, but their direct exposure to US demand is low. Even tariffs on automobiles are expected to have limited direct impact on growth, except in Slovakia (see *page 21*). However, indirect effects via the slowdown in exports to Germany will be significant for several Central European countries, but could subsequently be offset by the expected recovery in German growth.

INTENSIFIED CHINESE COMPETITION

Chinese companies will redirect their exports to other markets to partially offset the drop in sales to the US (a 20% decrease in 2025 would represent around USD 100 billion in Chinese goods, or 0.4% of total global exports). This trend was already visible in the spring. The aim is to route goods through third countries in order to circumvent US tariffs and find new outlets.

The momentum observed in recent years is therefore likely to continue. China has continued to increase its global market share (14.7% in 2024 compared with 12.8% in 2017) thanks to low prices and competitive products in many sectors. This strategy will continue, but it is expected to be more difficult to implement. On the one hand, Chinese exporters will find it tougher to lower their prices (see *page 5*). On the other hand, countries facing Chinese competition on their domestic markets will continue to take measures to protect struggling sectors. Beijing must avoid protectionist reactions at a time when it is attempting to strengthen its ties outside the US. Against this backdrop, the European Commission introduced a mechanism to monitor Chinese imports in early April, in agreement with China.

For emerging countries, China's redeployment adds an indirect negative effect to the direct impact of the tariff shock by strengthening competition from Chinese goods both on their domestic markets and on their export markets. In recent years, Chinese products have competed with local products on their export markets in Central Europe, particularly in the automotive and other medium- to high-end sectors. In Asia, Chinese competition has weakened local production in sectors such as textiles and automobiles, particularly in Indonesia and Thailand (see *p. 9*). That said, China has also increased its exports of intermediate goods to certain countries, thereby fueling an industrial upgrade.

THE CONTINUED RECONFIGURATION OF GLOBAL VALUE CHAINS COULD BENEFIT SOME EMERGING COUNTRIES

In fact, China's strategy in response to US protectionism may also have a positive effect on some emerging countries. Between 2018 and 2024, Mexico and Asian countries benefited from US-China trade tensions and increased their market share in the United States. Mexico and Vietnam, in particular, have developed a "connector" activity: a growing share of goods from China transited through these countries to be exported to the US after value was added. This dynamic was accompanied by an increase in FDI and the development of their manufacturing base.

These dynamics are likely to be interrupted in 2025 under a tighter US trade policy. In addition, on the one hand, the Trump administration supports the relocation of factories to the United States and is likely to slow down the FDI projects of US companies. On the other hand, the US administration is stepping up its monitoring of the origins of imported goods. For example, 10% tariffs may only be maintained subject to measures limiting the rerouting of Chinese goods. US pressure should therefore mitigate, at least in the short term, FDI projects in connector countries – particularly in Mexico (see *p. 13*).

However, in the medium term, Chinese companies and other multinationals will continue to reorganize and diversify their production chains. Assuming that the US maintains uniform reciprocal tariffs between emerging markets (which remains uncertain), FDI will flow to countries offering the best conditions for investors in terms of labor (wages, skills, productivity), taxation, trade openness, manufacturing sector development and integration into value chains, and the quality of infrastructure and logistics services. Geographic and geopolitical proximity apply as additional criteria.

In Asia, Vietnam remains well positioned with respect to many criteria (relatively low wages, proactive strategy to attract FDI, integration into value chains, geographical location, multi-alignment foreign policy). However, it needs to invest heavily in infrastructure, and the country is one of the most exposed to further US tariff increases. Thailand, Malaysia, and India (see *p. 7*) can also boast strengths (education levels, infrastructure, and integration into global trade for the first two, low wages and tax incentives for investment in manufacturing for India). These three countries seem best positioned to benefit from new Chinese FDI and boost their market shares, particularly in the US.

Central Europe can attract FDI from companies wishing to move closer to the European market. Since 2018, Hungary has been the leading recipient of Chinese FDI (see *p.19*). The Czech Republic and Poland are also well positioned. These countries are part of the European Union, and they also have a solid manufacturing base, relatively attractive tax systems, a skilled workforce and wages that are still competitive despite rising rapidly in recent years.

RELIANCE ON GOODS EXPORTS AND US MARKET

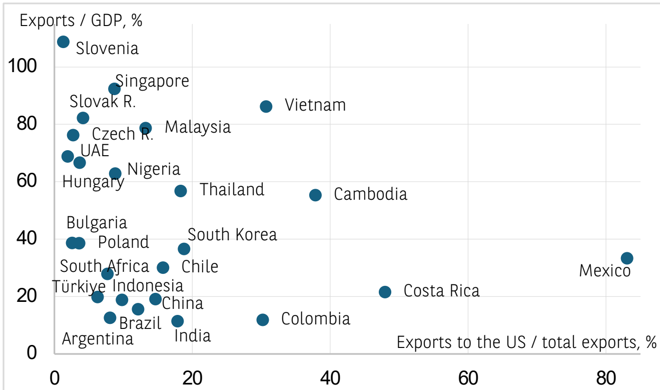

CHART 2

SOURCE: IMF, BNP PARIBAS

WHAT ACCESS TO THE CHINESE MARKET?

Finally, Latin America has a huge asset to attract Chinese FDI: its natural resources (see *p.15*). Furthermore, Latin America could increase its market share in China by replacing the United States in the agri-food sector. Brazil, whose main exports to China are similar to those of the United States (e.g., soybeans, meat, cotton, and oil), has increased its exports to China in recent years and is expected to continue doing so (see *p. 11*). Latin American countries (excluding Mexico), which are less directly exposed to the tariff shock, could therefore also benefit from the US-China trade war by boosting their market shares in China in the mining and agricultural sectors.

Conversely, it will be more difficult for Asian and European countries exporting manufactured goods to improve their market shares in China: even if China manages to boost private consumption, its imports are likely to be limited by Beijing's strategy of strengthening the country's self-sufficiency in industrial sectors. These countries will attempt to diversify their trading partners. For instance, Malaysia and Thailand have recently begun negotiations with the European Union with a view to rapidly establishing free trade agreements.

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