INTERNATIONAL TRADE: IT'S NOT ALL ABOUT THE UNITED STATES

US tariffs rose sharply in two stages: first in April, then following the signing of multiple trade agreements this summer. The impact of the first stage of this tariff increase is well known: trade flows to the United States were severely disrupted. However, global trade remains dynamic, particularly in Asia (a structural phenomenon) and Europe (which should benefit from internal momentum with the rebound of the German economy). The restructuring of trade flows (already underway with the rise of China) could accelerate as different countries seek elsewhere the opportunities lost in the United States.

US TARIFFS: A NEW WORLD

Since Donald Trump's return to the White House in January 2025, the US administration has increased its customs duties in two main phases. The first was a hike in sectoral tariffs (to 25% for cars and 50% for steel and aluminium) and the introduction of 'reciprocal' tariffs. The latter were temporarily reduced to 10% for most countries on 9 April, pending the outcome of negotiations with trading partners. This first salvo brought the average effective tariff on US imports of goods to nearly 10% in July 2025, compared with an average of 2.3% in 2024.

The completion of numerous bilateral agreements in July and August[1] and the application of higher tariffs for non-signatory countries marked the second stage, which takes the average tariff to 17.6% according to our estimates (see Chart 1). Products from China would continue to make the largest contribution (of the 17.6 percentage points, nearly 5.5 are linked to tariffs levied on Chinese products). However, among the main partners, it is the European Union and the USMCA countries that are seeing the biggest increase in their contribution to this tariff (notably due to the weight of trade between these two areas and the United States).

This sequence has caused significant volatility in the volume of goods imports into the United States. After rising by +11.0% q/q in Q1 2025, they fell by -10.1% in Q2. However, year-on-year, imports rose for the fourth consecutive half-year in H1 2025, up +4.7% from one half-year to the next (+11.8% y/y). This shows that the decline in Q2 (Chart 2) has not yet fully offset the sharp increase in Q1. The stability of the capital goods category – which accounted for 31% of imports in 2024 – in Q2 after the jump in Q1 (+10.5% q/q) explains this growth. Unsurprisingly (with customs duties raised to 25%), the automotive sector suffered a sharp decline in H1 2025 (-3.8% compared to the previous half-year) after a sharp decline in H2 2024 (-4.9%). Imports are also penalised by subsidies granted to manufacturers of cars produced in the United States, support from which imported vehicles do not benefit. As the trade agreements negotiated this summer come into force, trade flows to the United States could decline more sharply for the sectors concerned.

WHILE THE UNITED STATES IS IMPORTING LESS, OTHER REGIONS CONTINUE TO IMPORT MORE

The US tariff shock highlighted the adaptability of global trade flows. While imports declined in the US in Q2, they rose in other regions of the world (see Chart 2). This was particularly noticeable in the Eurozone, where imports rose by 2.5% q/q, a similar pace to Q1. Europe is one of China's most important substitution markets, as the structure of the European market is similar to that of the United States. Imports also increased in Latin America and Japan (up 3.8% q/q in Q2). In China, imports initially declined as the country retaliated by raising tariffs on the United States, but much of this decline was subsequently reversed.

EVOLUTION OF THE EFFECTIVE TARIFF RATE ON IMPORTS OF GOODS IN THE US (TOTAL IN %, NATIONAL CONTRIBUTIONS IN PP)

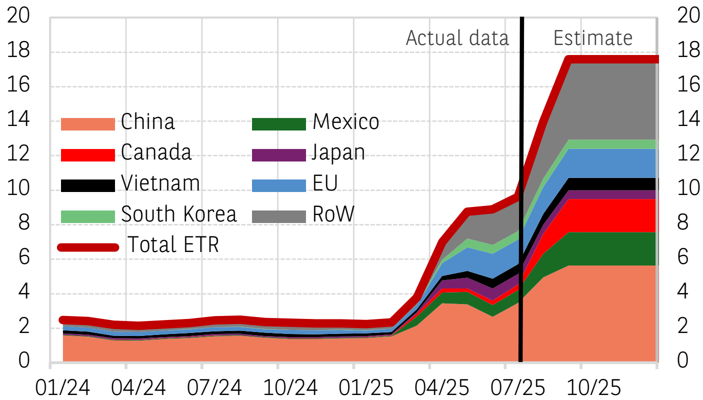


CHART 1 SOURCE: US CENSUS BUREAU, BNP PARIBAS CALCULATIONS

EVOLUTION IN IMPORTS SINCE DECEMBER 2024 (IN VOLUME, %)

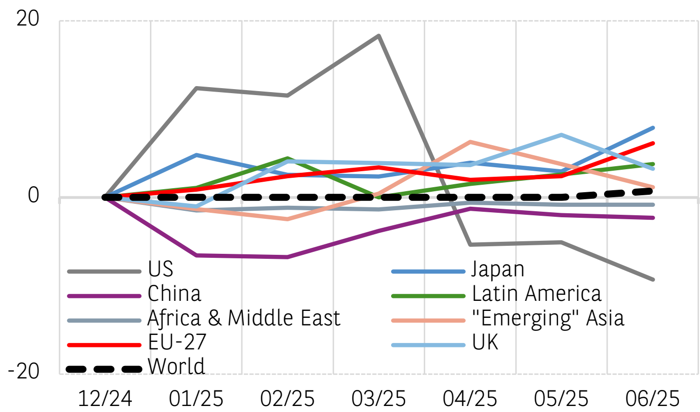


CHART 2 SOURCE: CPB, EUROSTAT, ONS, BNP PARIBAS

1 Notably with the European Union (15% tariffs), Japan (15%), South Korea (15%), Taiwan and ASEAN countries (19%-20%), the United States' main partners, while the 'truce' with China has been extended.

The United States continues to account for a significant share of global imports (around 14%), but Asia's share has continued to grow, supported by sustained high economic growth and effective regional trade partnerships. Emerging Asia[2], which accounts for 10% of global imports (an all-time high), has taken over from China. The latter has embarked on a policy of substituting imports with local production.

GLOBAL EXPORTS ARE HOLDING UP WELL DESPITE THE UNCERTAINTY SURROUNDING THE AMERICAN OUTLET

As such, the US tariff offensive only affects a minority of global trade (see Chart 3). Aggregate data from the Dutch Central Plan Bureau (CPB), which serves as a benchmark in this area, clearly shows that the upward trend in global trade has not been affected (see Chart 4). After rising sharply in Q1, exports declined moderately in Q2. Ultimately, global trade is currently continuing to grow at a rate close to that of 2024, i.e. +0.8% q/q. However, US tariffs have been detrimental to countries for which the United States is an important market and which have few alternatives. This is the case for Canada, whose exports declined throughout the first half of the year.

In Europe, developments differed greatly across sectors. In nominal terms, the surge in pharmaceutical exports (and other chemical products) in Q1 was not entirely offset in Q2. Compared with 2024, the growth in these exports in H1 2025 (+31%, or nearly EUR 55 billion) more than offset the decline in automotive exports (-6.9%, or EUR 9.7 billion). This evolution obviously leads to redistributive effects between countries (clearly positive for Ireland and Switzerland, less so for Germany). However, at the EU level, these effects are broadly offset.

This resilience in global trade can also be explained by the acceleration in the trade of electronic equipment around the world. Demand for these products, which are crucial for massive investment projects in artificial intelligence (AI), originates mainly in China and, more broadly, in Asia, where they are also largely produced. This underpins much of the strength of Asian countries' exports and, above all, the steep rise in exports from South Korea and Taiwan, two key countries in the manufacture of AI equipment. As semiconductors are not currently subject to US tariffs, trade continues to grow strongly driven by large-scale investments in this area, including in the United States. In addition, the United States and China remain dependent on each other in highly strategic sectors (rare metals exported by China, semiconductors exported by the United States). This gives cause for hope that customs barriers will not hinder this fast-paced development, as is the case in the aerospace industry, which benefits from zero customs duties under the US-EU agreement given the strong interdependence between the two major industrial players in the sector.

US TARIFFS: A MANAGEABLE SHOCK PROVIDED THEY STOP EVOLVING

There is still no data available to measure the impact of the trade agreements signed by the United States this summer. Furthermore, it is not guaranteed that US tariffs will not change again. Investigations are currently being conducted in the United States in sectors targeted for their significance (notably the pharmaceutical and semiconductor sectors, which are currently exempt from additional tariffs) under Section 232 of the Trade Expansion Act. The outcome of this investigation could lead to an increase in sectoral tariffs (the most vulnerable country for each sector considered is shown in Table 1). Furthermore, the review of the legality of the procedure used to implement 'reciprocal' tariffs has not yet reached a final verdict (the Supreme Court is expected to rule in November). A ruling against these tariffs could pave the way for an increase in sectoral tariffs. Furthermore, discussions between Washington and Beijing led to a provisional agreement on 12 May to reduce the level of bilateral tariffs from the high level reached in April. This provisional agreement has since been renewed and remains in force in the absence of a final agreement for the time being.

However, according to business climate survey data, most of the uncertainty shock created by the US administration in April has subsided, particularly in Europe. The PMI index for new export orders has recovered in most countries (see Chart 5): where figures are available for July (France), exports to Germany are rebounding; this phenomenon is expected to strengthen in the second half of 2025.

2 IMF terminology, covering 18 Asian countries (excluding China, Japan and South Korea).

US TARIFF OFFENSIVE IN RELATION TO TOTAL INTERNATIONAL TRADE (USD BN, 2024)

CHART 3 SOURCE: IMF, US CENSUS BUREAU, WHITE HOUSE, BNP PARIBAS

EVOLUTION IN WORLD EXPORTS (JAN. 2024=100)

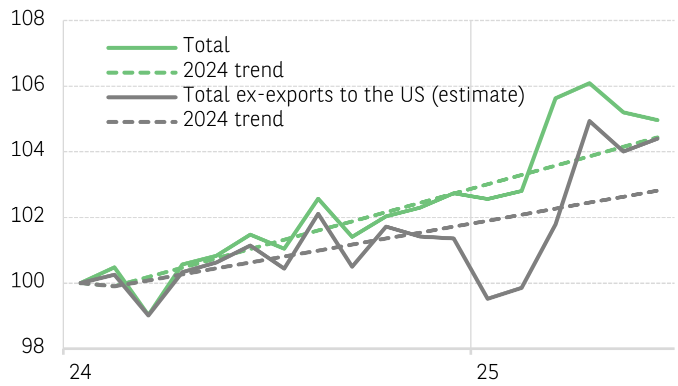
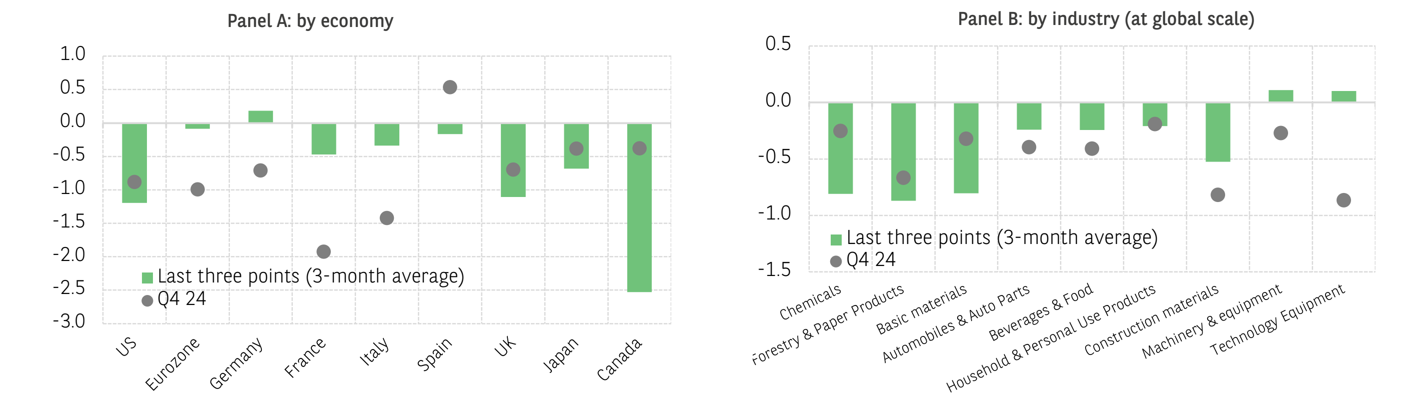


CHART 4 SOURCE: CPB, BNP PARIBAS CALCULATIONS

MANUFACTURING PMI NEW EXPORT ORDERS (Z-SCORE)



Z-score based on the 15-year average (August 2010–August 2025)
Sectoral PMIs cover more than 40 countries.

SOURCES : MARKIT, BNP PARIBAS CALCULATIONS

GRAPHIQUE 5

The customs duties imposed on US imports from the EU have been raised to 15%, but this includes pre-existing customs duties. The appreciation of the euro is a second brake on competitiveness (nearly 10%). The overall shock is similar to that experienced by companies in 2007-08 (linked solely at the time to the sharp depreciation of the dollar). While this remained manageable in terms of volumes (which were relatively resilient), it had a greater impact on companies' prices and margins. This time, Europe is not the only region to suffer from increased customs duties (whereas the shock of the strong euro was specific to it in 2007-08), which could once again limit the ultimate impact on trade volumes.

The countries closest to the United States, which cannot rely on finding alternative markets for their trade, will be hardest hit by the tariff increases. The trend in Canada's new export orders index is particularly striking in this regard.

From an industrial sector perspective, according to PMI surveys, the outlook is good for capital goods (technology, machinery and equipment) and is improving for the automotive sector, which is now less heavily taxed. This is not the case for the chemical industry, where basic materials (including metals) are both more heavily taxed and increasingly subject to competition, particularly from China.

WHAT REMAINS UNKNOWN BUT WILL BE DECISIVE: WILL THERE BE AN ACCELERATION IN THE RESTRUCTURING OF TRADE FLOWS?

Trade flows were already changing before the increase in US tariffs. Will this restructuring accelerate due to the relative loss of the US market? It is possible, but not certain:

- In Asia, China now appears to be a paradoxical winner, as its close neighbours in ASEAN are also experiencing a tariff shock (the effective tariff applied to US imports of Chinese goods rose from 10.7% at the end of 2024 to 41.4% at the end of August, and the average tariff for ASEAN-5 from 2.5% at the end of 2024 to 17% at the end of August). In addition, the 40% tax on Chinese goods transiting through third countries (envisaged by the Trump administration, but which will be difficult to implement) could reduce its ability to use these "connector" countries to circumvent US tariffs, as it has done until now.

VULNERABILITY OF COUNTRIES TO POTENTIAL NEW SECTORAL TARIFFS ON SEMICONDUCTORS AND PHARMACEUTICAL GOODS

Rank	Semiconductors	Pharmaceutical
1	Taiwan	Singapore
2	Malaisie	Suisse
3	Israël	Israël
4	Thailand	India
5	South Korea	Canada
6	Mexico	EU
7	Vietnam	UK
8	Japan	South Korea
9	Singapore	Japan
10	Indonesia	Australia

Ranking of countries according to their vulnerability to new sectoral tariffs on semiconductors and pharmaceutical goods. Countries are ranked in accordance with the importance of the considered sector in their respective GDP. The colour code illustrates each country's respective share in aggregate imports of semiconductors and pharmaceuticals into the United States.
The European Union is over-represented in US imports of pharmaceutical goods (60% of the total in 2024), but Ireland accounts for a significant share and vulnerability is significantly lower for most other European countries.

TABLE 1 SOURCE: US CENSUS BUREAU, NATIONAL SOURCES, BNP PARIBAS

- With regard to Europe, growing competition is not something that began with the introduction of US tariffs. This is particularly true with regard to trade between Germany and China, with the latter gradually (and particularly since the Covid-19 pandemic) shifting from being an outlet to a competitor. This appetite is likely to grow and spread to other sectors, with more exports and more investment in the EU in order to circumvent barriers to entry. This phenomenon could increase with the decline of the American market, given that China, with its structural overproduction, has no choice but to find new markets, while its domestic market is not sufficiently taking over (see Ecoweek's editorial on this subject).

Furthermore, the world will not stop rotating. The acceleration of negotiations between states, with the aim of concluding or strengthening trade agreements, shows that free trade retains solid foundations, despite being under attack from the American protectionist strategy. And Europe will not stop moving forward either. While reform of the internal market is taking time, the implementation of a common defence effort should help to create new momentum. More broadly, the revival of investment in Germany should quickly have an impact on intra-zone trade. Finally, even if it is futile to hope to replace lost market share in the United States or China, this should encourage the European Union to redouble its efforts to win new markets (EU-Mercosur agreement).

Article completed on 16 September 2025

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