

GLOBAL TRADE DIDN'T JUST SURVIVE "LIBERATION DAY"; IT CAME OUT STRONGER.

When Donald Trump ran and won in 2024 on a campaign to "make America Great Again" by building a tariff wall around the US, very few voices rose to defend free trade, outside of international organisations whose creed it is to defend it. After "Liberation Day", economic forecasters braced themselves for a global trade war. But nothing of the sort happened. Instead, 2025 ended up being an all-time record year for trade liberalisation measures. 2026 is not even two-month-old and has already seen several giga-trade deals signed, two of which by India, one of the countries with the highest tariffs in the world, and there are more signs that the tide is turning. Yet, looking more closely, this is more than a pendulum shift: unlike in the earlier waves of trade liberalisation, the goal is not just "more trade" but "smarter trade", preserving the gains and reducing the losses from earlier waves. This is good news for the global economy.

WHAT HAPPENED TO TRADE FLOWS?

Trade flows bumped around quite a lot from quarter to quarter as importers tried to front-run ever changing tariffs and then run down bloated inventories. But as the data through year end come in, the picture that emerges is one of unmistakable resilience, indeed vigour.

Global trade grew by a whopping 18% in value over the first 11 months of the year (see *Chart 1*), and a decent 5.5% in volume, well above the grim WTO April forecast of a net contraction. The geography of the flows changed somewhat under the hood, with China's exports to the US falling by nearly 20%, and exports to China from the US and Europe falling as well. But Europe saw a jump in intra-EU trade, and Asia ex-China a large increase in its exports to the US, partly reflecting re-rerouting of exports from China, but to a large extent also reflecting the boom in AI investment in the US, heavy in components imported from Asia.

WHY SUCH RESILIENCE?

It helped that the US climbed down from initial tariff threats, but its average effective external tariff still increased fivefold to 13% from 2.6% at the start of President Trump's second term. Rather, the main reasons for the resilience observed were twofold: first, governments' wisdom to resist the politically tempting urge to retaliate, and second—against the backdrop of this favourable environment—the remarkable adaptability of the corporate sector: as President Trump raised tariff barriers around the largest import market in the world, US suppliers and trading partners rushed to find substitution markets for their products.

This proved a crucial difference with the 1930s—when a tariff onslaught from the US led to a global trade war, collapsing trade flows, and ultimately the Great Depression. This time, instead, we saw a global frenzy of new trade negotiations being kicked off (e.g., EU-Indonesia), old ones being brought back to the front burner (e.g., EU-Mercosur, UK-India), efforts to deepen existing trade relations (EU-Canada, EU-UK, GCC, South Korea and others) and applications to join existing trade agreements (e.g. UK joining CPTPP, and several other applications under consideration). Remarkably, these efforts succeeded, with new trade deals (not including those with the US) covering over USD 2 Trillion of trade flows and 2025 marking an all time high for trade liberalisation measures, while harmful ones continued to recede (see *Chart 2*).

Even in the US, the tide appears to be turning. Two weeks ago, a Pew poll revealed that 60% of Americans disapprove of the 2025 tariff increases, including over 25% of Republicans. Last week, the Republican-controlled House of Representatives passed a law to overturn President Trump's tariffs on Canada, and a similar bill focused on tariffs on Mexico in the works (they can be vetoed by the President, but the

EXPORTS CONTINUED TO GROW IN ALL REGIONS

Nominal changes, January-November 2025 compared to January-November 2024

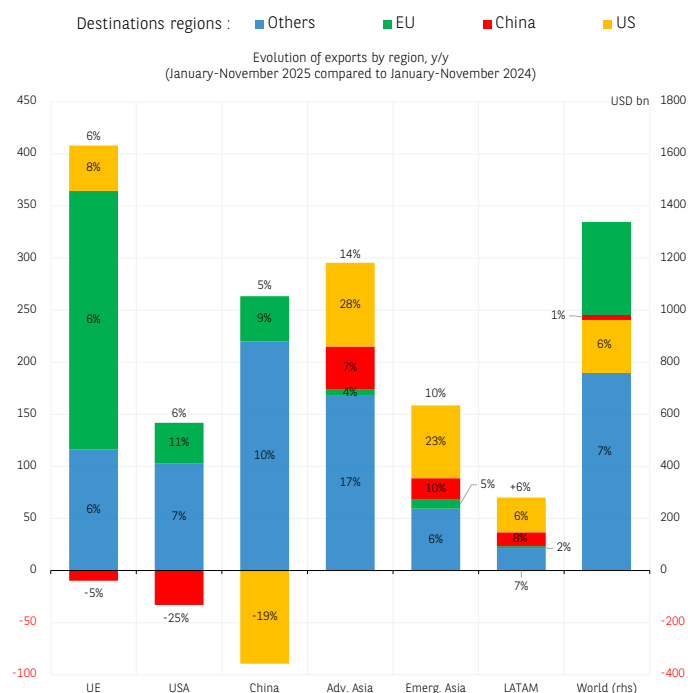


CHART 1

SOURCE: NATIONAL STATISTICS, BNP PARIBAS

signal is clear). As the week closed, the White House revealed it was considering reductions to the level and scope of tariffs on steel and aluminium derivative products.

What explains this change of heart? America's trade deficit has not shrunk; its industry has not stopped shedding jobs, nor has it experienced any signs of revival outside of data centers and other AI related investment; exporters of products to the US have only swallowed a minimal part of the costs from higher tariffs (around 10% according to recent analysis by the New York Fed); and while inflation has not exploded, neither has it come down meaningfully, particularly for goods prices. Indeed, as of January, goods prices ex food and energy are accelerating again, and around 40% of the cost increases faced by importers have yet to be passed through to consumers, according to



EDITORIAL

4

our research. With affordability being top of mind for US voters ahead of mid-term elections, lowering tariffs is not just a tempting but indeed entirely sensible option.

WHAT'S DIFFERENT ABOUT THE LATEST WAVE OF TRADE LIBERALIZATION EFFORTS?

The new trade deals signed or pursued since Liberation Day have not been motivated by blind and naive faith in the virtues of free trade, but rather as a solution to specific problems and with suitable guardrails to avoid creating unnecessary collateral damage.

By and large, while new trade liberalisation efforts have generally been marketed as key to “open new markets” against the backdrop of reduced access to the US market, in practice they have come in two forms:

1/ Agreements between broadly similar economies, with a focus on increasing the scale of the accessible market. Examples include the “zero for zero” parts of the deal with the EU and the US, notably for aeronautics, or the removal of non-tariff barriers on agricultural products under finalisation between the EU and UK.

2/ Agreements between economies whose exports are complements rather than substitutes, such as those between the EU and the MERCOSUR or India.

The goals pursued feature a combination of old and new: as in classic trade theory, a key expected benefit is to increase the scale of the addressable market for domestic producers, and thereby generate increased demand and productivity gains (a producer-focused rationale).

But in a world where supply constraints have become much more front and center, including as a driver of inflation, the new generation of trade deals is heavily focused on increasing and diversifying access to goods not produced at home, at the cheapest cost, a more consumer-centric rationale. Hence the zero-tariff exemptions liberally provided in trade deals by the Trump administration to an ever-growing list of items, ranging from foods to consumer electronics and semi-conductors¹. A key benefit of focusing of such goods is that, by design, they create much more winners than losers in the importing country. In theory, this is also the case for trade agreements focused on scale and productivity gains; however, in practice, with losers very concentrated in specific sectors and geographies, and insufficient policy support for the reconversion of negatively impacted communities, these agreements have widely come to be blamed in many advanced countries for deindustrialisation, increasing polarisation, and a range of adverse economic and social outcomes.

Recent trade deals have also tended to have a much more pronounced geopolitical orientation, by including chapters on collaboration in areas going well beyond trade, such as foreign direct investment, environmental protection, security collaboration, or even labour mobility (notably the agreements between India and the UK or EU). It could even be said that geopolitics is bringing the US back to playing a leading role in organizing a multilateral collaboration effort in trade and investment in critical materials—to break the overwhelmingly dominant position built by China in the mining, refining and processing of rare earths and rare earth magnets. This is trade liberalization with a purpose.

WHAT'S NEXT FOR GLOBAL TRADE?

The US will likely continue for now to make its own rules, but the imminent Supreme Court ruling on tariffs imposed by the White House

¹ Cf. [Modifying The Scope of Reciprocal Tariffs and Establishing Procedures for Implementing Trade and Security Agreements](#) – The White House, Annex II, which runs to 109 pages at the time of writing.

2025: A GREAT YEAR FOR TRADE LIBERALIZATION

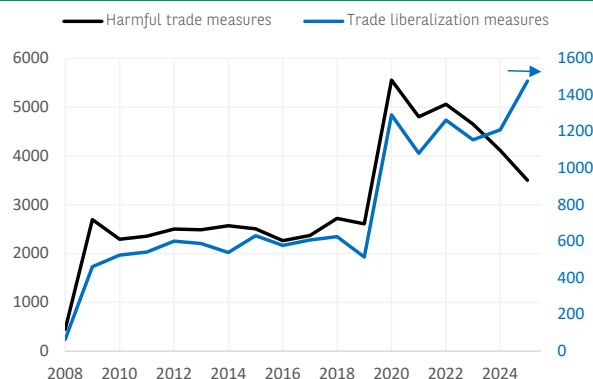


CHART 2

SOURCE: GLOBAL TRADE ALERT, BNP PARIBAS

under the International Economic Emergency Powers Act (IEEPA) could well further accelerate the unilateral disarmament we have started to witness. Many trade experts expect the Supreme Court to rule at least partially against the bulk of the tariffs imposed last year. While other legal bases could be used for the reasons mentioned above, the White House may well proceed without haste in reimposing the tariffs.

At the multilateral level, the old rules-based trading system is shattered. Many provisions of the trade deals concluded under duress with the US are not WTO compliant. The institution itself is widely regarded as no longer fit for purpose. And there is growing frustration around the world at the seemingly never-ending rise of the Chinese surplus in manufactured goods, seen as *prima facie* evidence of “not playing fair” even when hard evidence of breaching any rule is hard to come by.

But most countries appear still to regard rules-based trade as superior to trade without rules and there is in fact growing momentum behind a reform of the WTO. This could include in particular a review of its rules, notably the Most Favored Nation; the ability for subgroups of members to conclude deals without needed full membership unanimity; and the dispute resolution process. It is noteworthy that the US itself has included references to WTO terms in a number of the trade deals concluded recently and has not included the WTO among the over 65 international organizations from which it pulled out last month. Recently, the EU trade commissioner publicly shared further reform ideas². The upcoming WTO General Assembly Meeting in Yaoundé in late March will be a litmus test of the political will of global policy makers to preserve, even by re-invention, a global rules-based trading system.

The battle is not won. Some constituencies, not least in France, remain deeply skeptical of trade liberalisation. How China decides to meet the increasingly acute concerns of its trading partners, notably the EU, will be key to determine where global trade goes in coming years. But in this era of fast changing geopolitical and industrial terrain, where ageing populations are both a headwind to growth and a source of higher public spending burdens, expanding global trade, in a balanced, fair, and deliberate way, can deliver better growth opportunities while helping secure, rather than undermine, economic sovereignty.

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² See “The WTO Needs an Overhaul”, by Maroš Šefčovič, Financial Times, 21 January 2026.



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