SLOWDOWN AND RECONFIGURATION OF GLOBAL TRADE IN 2025: WHAT ARE THE IMPLICATIONS FOR EMERGING COUNTRIES?

The tariffs imposed by the Trump administration and the acceleration of the US-China decoupling will lead to a slowdown in global economic growth, a further reconfiguration of international trade, and the continued reorganization of value chains. These changes will have multiple consequences for emerging countries. All will suffer negative effects linked to the slowdown in their exports and increased competition from Chinese products. Some may also seize new opportunities to attract FDI and develop their export base.

TARIFF SHOCK FOR ALL

The increase in tariffs imposed by the United States and uncertainty over its trade policy are affecting all emerging markets. For China, the additional tariffs introduced by the Trump administration since January 20 total 30%. Taking into account sector-specific factors (higher tariffs and exemptions), the average effective tariff on US imports of Chinese products rose from 11% at the beginning of 2025 to nearly 35%. Tensions between Washington and Beijing have eased since June 9, but the truce remains fragile. We assume that the additional tariffs will remain at their current level in 2025 and that sectoral adjustments are possible.

For emerging markets (EMs), additional tariffs amount to 10%. In our central scenario, they will also be maintained at this level in 2025 (the "reciprocal" measures mentioned by Trump on April 2 would not be applied), and accompanied by sectoral tariffs – generally high, but negotiated downwards by some countries. Tariffs are already at 25% on automobiles and have just doubled to 50% on steel and aluminum. Taxes of up to 25% could hit the pharmaceutical, electronics and semiconductor sectors, which are currently exempt. The hydrocarbon sector will remain protected.

Current effective tariffs vary from country to country, mainly 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 effective tariffs are on emerging Asia (*see 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 that export manufactured goods that are still exempt (such as Singapore), Latin American countries, which mainly export commodities, and hydrocarbon producers. While future tariffs on currently exempted manufacturing industries remain uncertain, commodity exporters should remain sheltered from further tariff increases.

US TARIFF RATES, JUNE 16TH

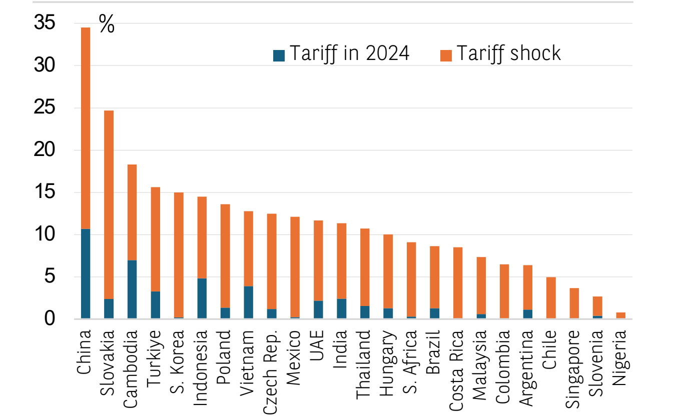

CHART 1 SOURCE: FITCH, BNP PARIBAS

RELIANCE ON GOODS EXPORTS AND US MARKET

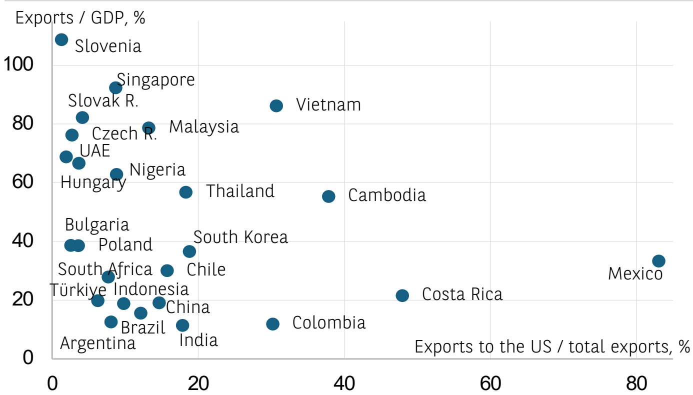

CHART 2 SOURCE: IMF, BNP PARIBAS

SLOWDOWN IN GLOBAL TRADE

The tariff shock will weigh on EM growth in the short term through a slowdown in US and global demand. Global merchandise trade volume growth 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 contraction of more than 10% in trade volumes in North America.

The economies most vulnerable to this slowdown are Mexico and Asian countries, given their high degree of trade openness and dependence on the United States (*see Chart 2*). Central European economies are very open, but their direct exposure to US demand is low. Even tariffs on automobiles should have only a limited direct impact on growth, except in Slovakia, where exports to the US are highly concentrated. Indirect effects via the slowdown in exports to Germany will be significant but could later be offset by the expected recovery in German growth.

The main Latin American economies (excluding Mexico) are not very open, are not very dependent on US demand and are subject to relatively moderate customs duties. The direct effects on their growth should therefore be limited. Some countries could even benefit from higher prices for some of their exports of agricultural products and critical metals.

RISING COMPETITION FROM CHINA

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

The trend observed in recent years is therefore likely to continue: China has gained global market shares (14.7% in 2024 compared with 12.8% in 2017) thanks to low prices and competitive products, in a wide range of sectors. However, this strategy will now be more difficult to pursue. On the one hand, Chinese exporters may find it harder to lower their prices, and the evolution of the yuan will be decisive in this regard. On the other hand, countries suffering from Chinese competition on their domestic markets will continue to take measures to protect sectors in difficulty. Beijing will need to avoid these protectionist reactions at a time when it is seeking to strengthen its ties outside the US. In this context, the European Commission introduced a mechanism to monitor Chinese imports in early April, in agreement with China.

For emerging countries, China's rerouting of exports adds an indirect negative effect to the direct impact of the US tariff shock by strengthening competition from Chinese goods both on their domestic markets and on their export markets. Since 2018, this competition has particularly affected Asia and Central Europe. For Central European countries, Chinese products are competing with local products on their export markets, particularly in the automotive and other medium to high-end sectors. In Asia, Chinese competition is weakening local production in sectors such as textiles and automobiles, particularly in Indonesia and Thailand. That said, China has also increased its exports of intermediate goods to certain countries, thereby fueling the expansion and the upgrading of their industries.

CONTINUED RECONFIGURATION OF VALUE CHAINS

In fact, EMs, particularly Mexico and Asian countries, benefited from US-China trade tensions between 2018 and 2024, thereby increasing their market share in the US. 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 expansion of their manufacturing base.

In 2025, these dynamics are likely to be interrupted by the tightening of US trade policy and the very high level of uncertainty surrounding it. In addition, on the one hand, the Trump administration supports the relocation of factories to the United States and is likely to oppose some FDI projects of US companies; on the other hand, it is stepping up its monitoring of the origin of imported goods. It could make the maintenance of 10% tariffs conditional on measures limiting the rerouting of Chinese goods. US pressure should therefore limit, at least in the short term, FDI projects in connector countries – particularly in Mexico.

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 EMs (which remains uncertain), FDI will flow to countries offering the best conditions for investors in terms of labor (wages, skills, productivity), taxation, economic openness, manufacturing sector development, integration into global value chains, and quality of infrastructure and logistics services. Geographic and geopolitical proximity are additional criteria.

In Asia, Vietnam remains well positioned on many criteria (relatively low wages, proactive strategy to attract FDI, integration into value chains, geographic location, multi-alignment foreign policy). However, it needs to invest heavily in infrastructure (water and energy networks, protection against climate risk), and the country is one of the most exposed to further increases in US tariffs. Thailand, Malaysia, and India also have strengths (education levels, infrastructure quality, business climate, and integration into global trade for the first two, low wages and tax incentives for manufacturing investment for India). These three countries appear to be best positioned to benefit from new Chinese FDI and gain market shares, particularly in the United States. Indonesia, on the other hand, lags behind in terms of development of its manufacturing base and the quality of its workforce and infrastructure.

Central Europe has assets that make it attractive to FDI from companies seeking to move closer to the European market. Since 2018, Hungary has been the leading recipient of Chinese FDI. The Czech Republic and Poland are also well positioned. While integrated into the European Union, these countries have a solid manufacturing base, relatively attractive tax systems, a skilled workforce and wages that remain competitive despite their rapid increase in recent years.

DIFFERENTIATED ACCESS TO THE CHINESE MARKET

Finally, Latin America has a major asset to attract Chinese FDI: its natural resources. Argentina, Peru, Bolivia, and Chile, for example, have extensive mineral resources. In addition, Latin America could gain new 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 US (*e.g.*, soybeans, meat, cotton, and oil), has already increased its exports to China since 2018 and is expected to continue doing so.

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 further strengthening their ties with China and gaining market shares in the mining and agricultural sectors. Conversely, it will be more difficult for Asian and European countries that export manufactured goods to gain market shares in China: even if China manages to boost private consumption, its imports are likely to remain limited by Beijing's strategy of increasing the country's self-sufficiency in industrial sectors.

We will discuss this subject again with more details in our next issue of EcoPerspectives – Emerging Economies, which will be published in June 2025.

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