THE STATE OF GLOBAL TRADE ON THE EVE OF THE US PRESIDENTIAL ELECTION

The outcome of the US presidential elections on 5 November will decide the extent of the protectionist turn taken across the Atlantic. However, global exports have so far resisted the rise in tariff barriers. By the end of the decade, the IMF forecasts growth in goods exports similar to or even slightly higher than that of world GDP. Tighter protectionist measures will affect global growth, but the effects on international trade will be more nuanced.

If tariffs increase across the board – one of Donald Trump's campaign promises – and aside from China, which would see even greater tariff hikes, the countries most directly impacted will be those bordering or geographically close to the United States (see *table 1*). Canada and Mexico, which export more than half of their goods to the US, would see the greatest impact, followed by Central America (Honduras, Costa Rica) and then South America. The second worst-affected group of countries would be US major trading partners in Asia-Pacific – in particular Taiwan and South Korea, but also Australia and Japan – which export more than 10% of their goods to the US. In Europe, the proportion of goods exported to the US by Ireland, the Netherlands and the UK is above the world average, which sits between 8% and 9%. France, Spain and Germany are close to the European average (5.3%), while Eastern European countries are the ones least directly exposed within Europe.

Regionalisation and derisking will underpin global trade

Taking a step back, however, we can see that despite the increase in protectionism and geopolitical tensions around the world, global goods exports have continued to expand, supported by emerging markets and the resilience of US demand (see *chart 1*). Freight shipping costs have fallen significantly from levels seen in the middle of the summer and have provided additional support to trading volumes.[1] That said, trends are less positive within Europe because of the economic slowdown in the European Union (EU) and the decline in exports to China.

In their October 2024 forecasts, the IMF and the WTO agreed that global trade would continue to grow at a solid pace of at least 3% next year.[2] Even more significantly, the IMF expects goods exports to rise by 13.9% overall in real terms between 2026 and 2029, slightly more than its forecast of 13.2% for global GDP (see *chart 2*). At a time of growing protectionism around the world, these figures are remarkable. In addition, while the share of services exports in world trade is set to grow, its knock-on effects and complementarity with goods will fuel demand for the latter.[3]

As a result, rather than deglobalisation – which we would define as a retractation of international trade – the world economy seems to be heading towards greater regionalisation of trade.[4] In addition, the derisking policy being pursued by the US and the EU – which aims to diversify the commercial partners, while strengthening the production of strategic activities on the national territory (semiconductors, electric batteries and rare-earth elements) will help drive that regionalisation.

WORLD EXPORTS IN VOLUME

CHART 1 SOURCE: CPB, BNP PARIBAS

IMF ANNUAL GROWTH PROJECTIONS (OCTOBER 2024)

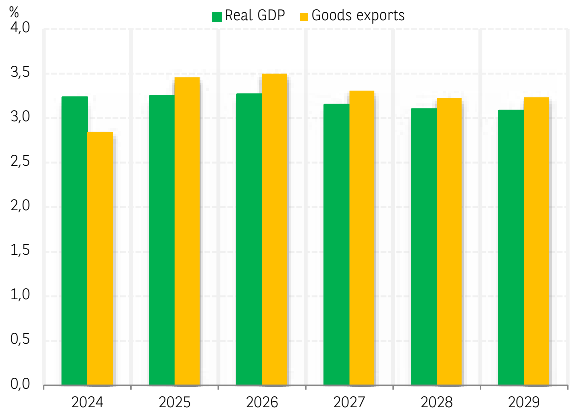

CHART 2 SOURCE: IMF WORLD ECONOMIC OUTLOOK

1 At the end of October, the Freightos index had fallen by 42% from its most recent high in mid-August. For more details, see BNP Paribas Ecoweek, *International trade: supported by emerging market countries, export momentum remains encouraging*, 15 October 2024.
2 The WTO and the IMF are expecting trade in goods to rise by 3.0% and 3.3% respectively in 2025.
3 See *Will trade in services continue to act as a buffer for euro area export growth?*, ECB Economic Bulletin, September 2024.
4 For a previous discussion of this topic, see BNP Paribas EcoConjoncture, *More resilient supply chains after Covid-19 pandemic*, 20 December 2021.

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In practical terms, this could strengthen current trends, with a stronger position in global supply chains for medium-sized industrial countries that are close to or integrated with the main regional economic centres and benefiting from relatively lower labour costs: India for Southeast Asia, Vietnam and Malaysia for East Asia, Poland and Turkey for Europe, Mexico for North America. In other words, the market share captured by these countries since 2018 – the year when US adopted tougher sanctions against China – from "traditional" industrial countries in Europe (Germany and the UK) and Asia (Japan, South Korea and Hong Kong) is set to increase (see *chart 3*).

This is all the more likely as Chinese companies intend to increase their direct investments in these territories, precisely in order to strengthen their local positions and circumvent the export barriers they are facing. It is not just advanced economies that are taking a tougher line on Chinese exports. A growing number of emerging economies are introducing similar measures, for the same purpose of protecting their industrial sectors against greater competition from Chinese manufacturers. For example, in June 2024, Turkey introduced a 40% tariff on vehicles imported from China. Brazil also introduced new tariffs on various imports (iron, steel, fibre optic cables) in October, which, although it is not explicitly aimed at China, particularly affect the latter.

For these countries, the rise in customs barriers between the major economic powers are an opportunity to attract foreign investment and develop their economies, as witnessed by the drastic increase in Chinese foreign direct investment flowing into Hungary. However, this could also lead to greater political tension within each economic bloc, and particularly within the EU. A balance must be struck between economic growth, industrial development and economic sovereignty.

So far, greater trade tensions have not resulted in a shortening of global supply chains but rather a lengthening, the reason being the emergence of new countries (those mentioned previously) which interposed themselves in the production chain linking the major economic powers in "direct conflict".[1] This is leading to more exports of intermediate goods – which make up approximately half of global goods exports – and, *in fine*, more exchanges overall.[2] Although the increase in protectionist measures around the world is negative for global growth, their impact on international trade is not as clear-cut as it might first appear.

Guillaume Derrien

CHANGE IN WORLD EXPORTS SHARE SINCE JANUARY 2018

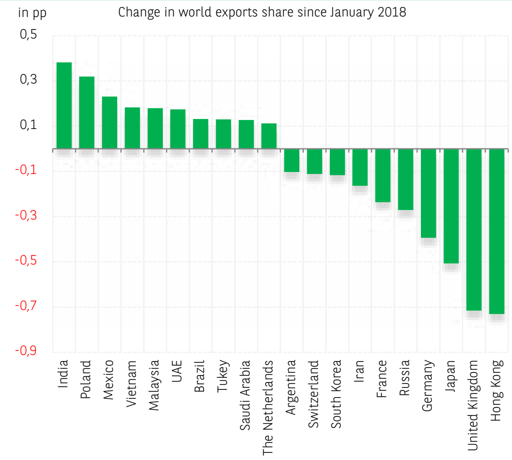

CHART 3 SOURCES : IMF DIRECTION OF TRADE STATISTICS, BNP PARIBAS CALCULATIONS

SHARE OF EXPORTS TO THE US FOR SELECTED COUNTRIES* (JUNE 2024)

Share of exports to the US > 50%			
	% GDP		% GDP
Mexico	25,06	Canada	17,54
Share of exports to the US 30-49%			
	% GDP		% GDP
Honduras	27,81	Costa Rica	14,30
Jamaica	18,64	Guatemala	11,19
El Salvador	15,46	Colombia	5,60
Share of exports to the US 20-29%			
	% GDP		% GDP
Ecuador	6,93	Chile	5,58
Paraguay	7,43	Peru	5,10
Share of exports to the US 10-19%			
	% GDP		% GDP
Panama	17,08	Ireland	3,19
Singapore	10,69	Qatar	2,65
Netherlands	8,34	Uruguay	2,69
Taiwan	5,41	Brazil	2,73
Korea, Rep.	3,67	United Kingdom	2,37
Israel	3,05	Australia	2,20
Share of exports to the US 5-9%			
	% GDP		% GDP
Belgium	5,78	Switzerland	3,41
United Arab Emirates	6,30	Morocco	3,12
Malaysia	6,13	Philippines	2,41
Lithuania	3,62	Luxembourg	2,03
Thailand	3,37	*Germany/France/Italy/Spain*	< 2
Share of exports to the US <5%			
	% GDP		% GDP
Hong Kong	7,77	Malta	2,33
Viet Nam	2,82	Latvia	2,16

TABLE 1

* COUNTRIES WHERE THE SHARE OF EXPORTS TO THE US REPRESENTED AT LEAST 2% OF THEIR NATIONAL GDP.
NOTE: DATA USED ARE 2023 NOMINAL GDP IN US DOLLAR TERMS.
EXPORTS DATA AS OF JUNE 2024 (12 MONTH-MOVING TOTAL)

SOURCE: IMF DIRECTION OF TRADE STATISTICS, WORLD BANK, BNP PARIBAS CALCULATIONS

1 Two recent articles by the IMF and the Bank for International Settlements (BIS) come to the same conclusion. See *Changing Global Linkages: A New Cold War?*, IMF Working Paper, April 2024. *See also Mapping the realignment of global value chains,* BIS Bulletin, October 2023.
2 info_note_2023q2_e.pdf (wto.org).