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Global Economy Update: Tariffs in the Spotlight

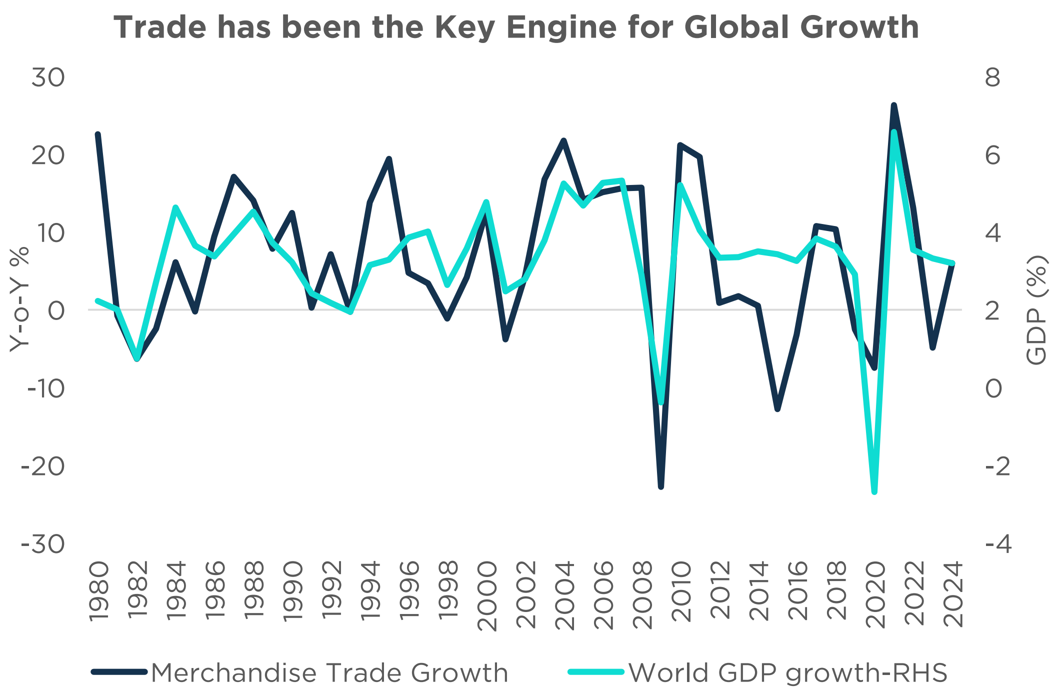
May 2025

Executive Summary

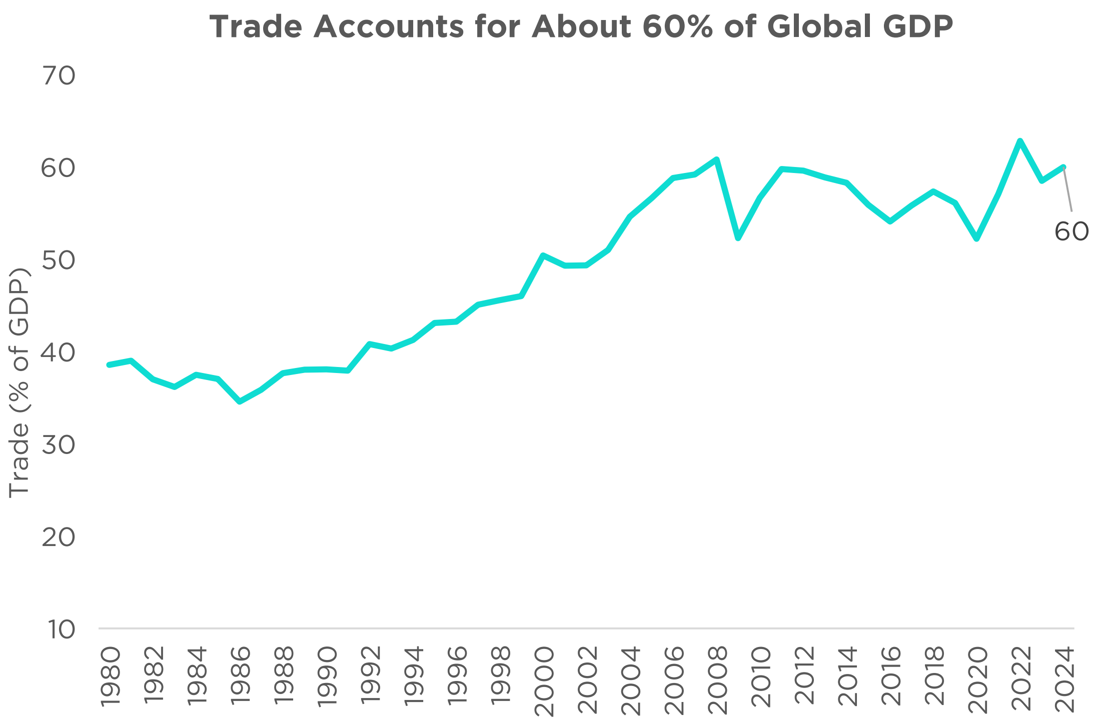
- Trade is a key engine for global growth, accounting for 60% of global GDP in 2024.
- Global trade growth averaged 2.3% between 2020 and 2024, due to subdued merchandise trade. Global services trade continued to record healthy growth.
- Global conditions have remained weaker since the first US-Sino trade war in 2018, with lower global GDP growth, weak manufacturing growth, and declining inward foreign direct investments.
- Risks of slower growth and higher inflation in the US have risen.
- Of the total foreign exchange reserves, the share of US dollars has come down to around 57.8% in 2024 vs 65.2% in 2014. Meanwhile, central banks have steadily increased their share of gold holdings.
- Though China’s trade surplus with the US has narrowed from USD 420 billion in 2018 to USD 250 billion in 2024, it continues to be a key supplier to the US.
- China’s share in US imports has declined from 22% in 2017 to 13% in 2024. Interestingly, Mexico’s share has risen in US imports to 15% (2024), overtaking China.
- China’s retaliation toolkit continues to be broad, including currency depreciation and restrictions on critical elements supplied to the US.
- Vietnam remains vulnerable due to high trade exposure to China and the US.

Trade has been the Engine for Global Growth

Trade has been a Key Contributor to Global Growth



Source: IMF October WEO, CGIL*
Note: Data is for merchandise trade by value.



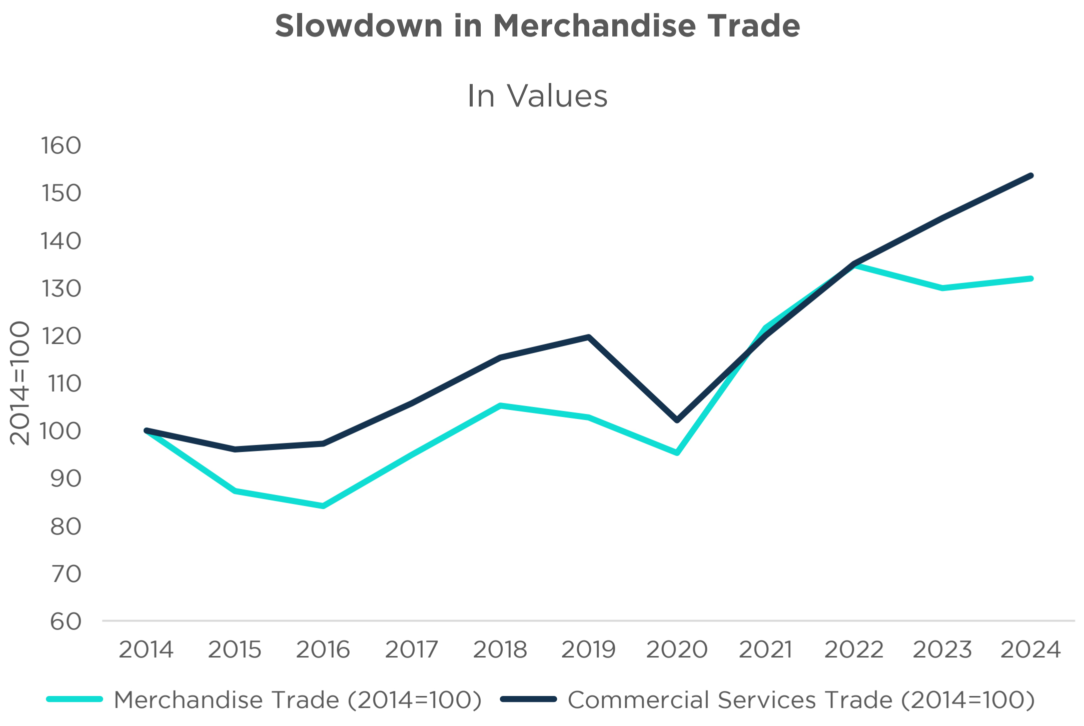
Source: World Bank, CGIL

- Trade accounted for 60% of the global GDP in 2024, up from 41% in the 1990s. Rapid expansion of global trade since the 1990s was a key contributor to the rise in global GDP.
- Trade also contributed to productivity growth across the world through the diffusion of technology and enabled the rise in per capita income.

*CGIL- CareEdge Global IFSC Limited

But Global Trade has been Slowing Driven by Merchandise Trade

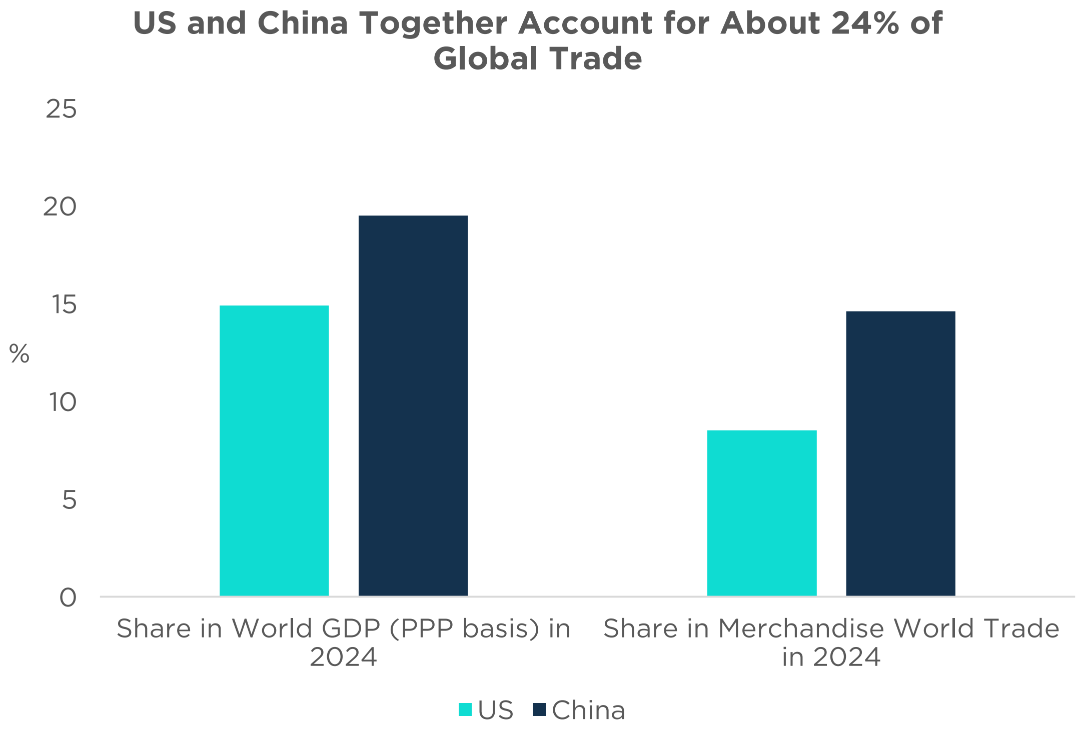
Source: World Bank, Barrons. Growth numbers are for trade values.



Source: WTO, CGIL

- Global trade grew by just 2.3% between 2020 and 24, the slowest half-decade performance since the 1980s.
- In 2024, global merchandise trade grew by just 2% in comparison to 9% growth in trade of global commercial services.

China and US have been Important Levers of Merchandise Trade Growth

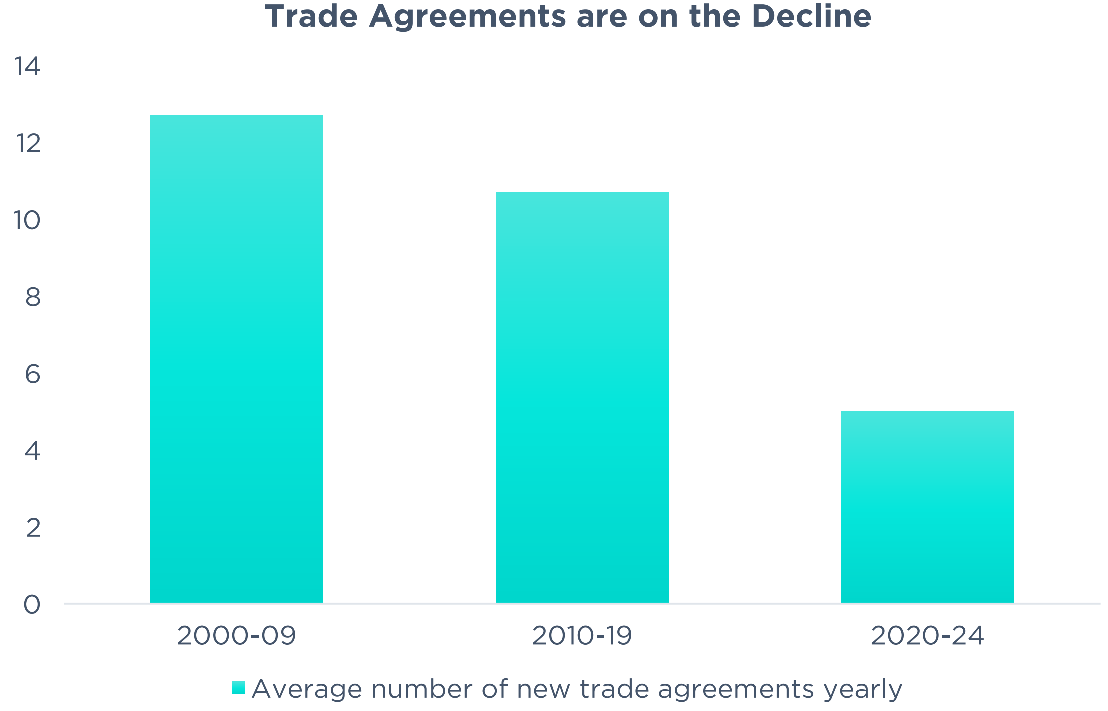


Source: IMF, UNCTAD, CGIL

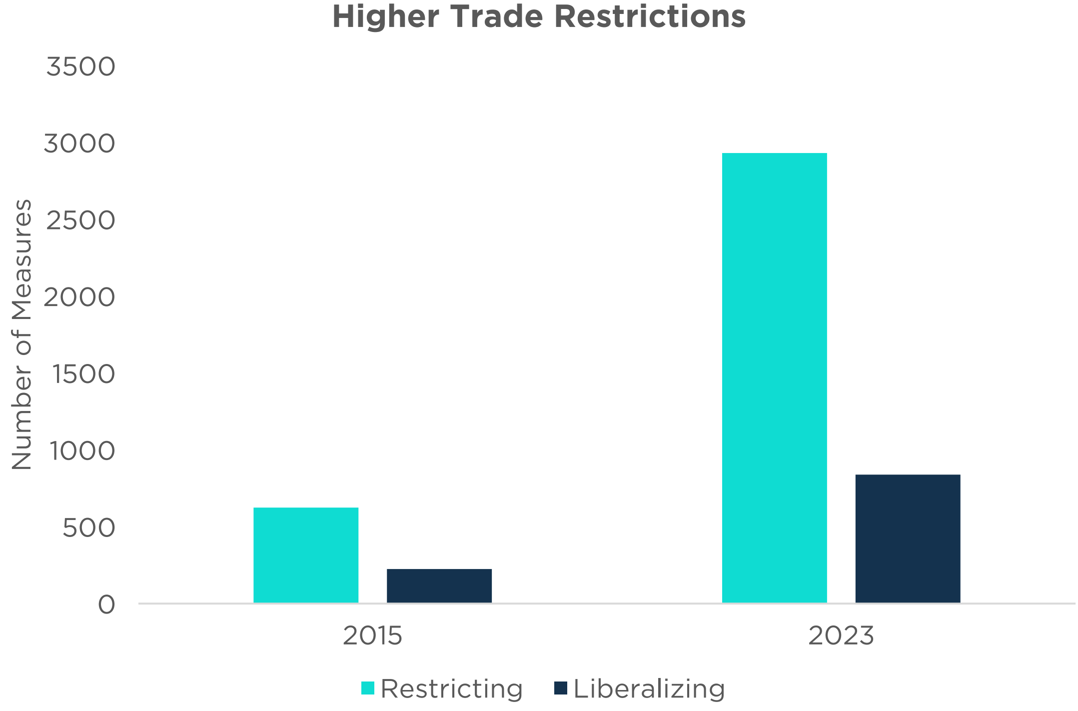
Source: IMF, WTO, UNCTAD, CGIL

- The US and China together accounted for about 35% of global GDP in 2024, up from 31.5% in 2014. Similarly, they accounted for 24% of merchandise trade in 2024, up from 21% in 2014.
- The US is the world's largest consumer, while China is the world's largest producer. Slowing merchandise trade growth in China has also put downward pressure on the global trade growth.

Trade Restrictions on a High



Source: World Bank, WTO, Barrons

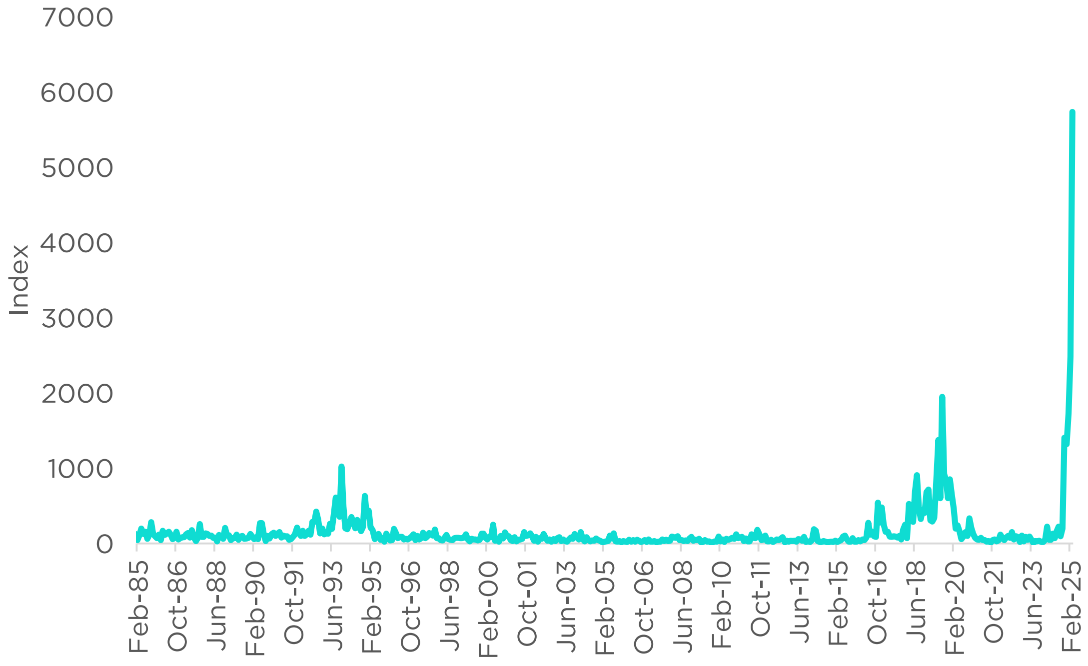


Source: Global Trade Alert, World Bank, Barrons
Note: Restricting (Liberalizing) measures are interventions that discriminate against (benefit) foreign commercial interests.

- In 2020, an average of just five trade agreements were signed each year, less than half the number in the previous decade.
- Restrictive measures have increased more than liberalizing measures across the world. Policy instruments like import tariffs, high excise duties, and anti-dumping can be classified as restricting measures, while production subsidies, labor market access, and state aid are considered liberalizing measures.

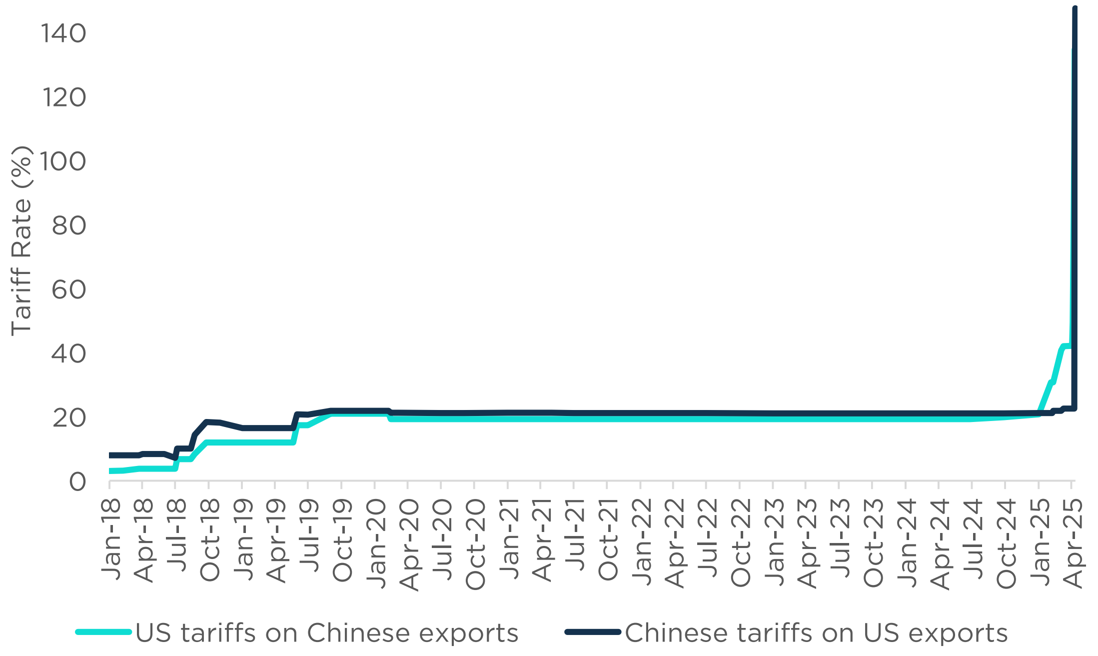
Renewed Trade Tensions under Trump 2.0

US Trade Policy Uncertainty Surges



Source: Economic Policy Uncertainty, CEIC

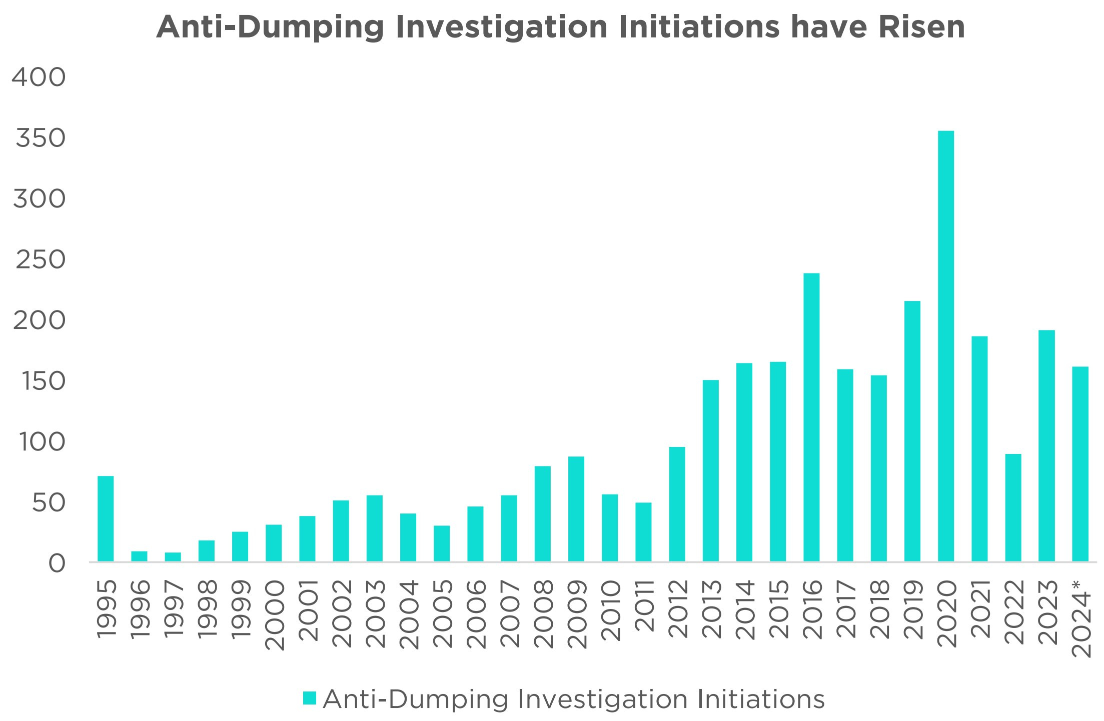
Tariffs imposed by US-China on Each Other Rises to Unprecedented Levels



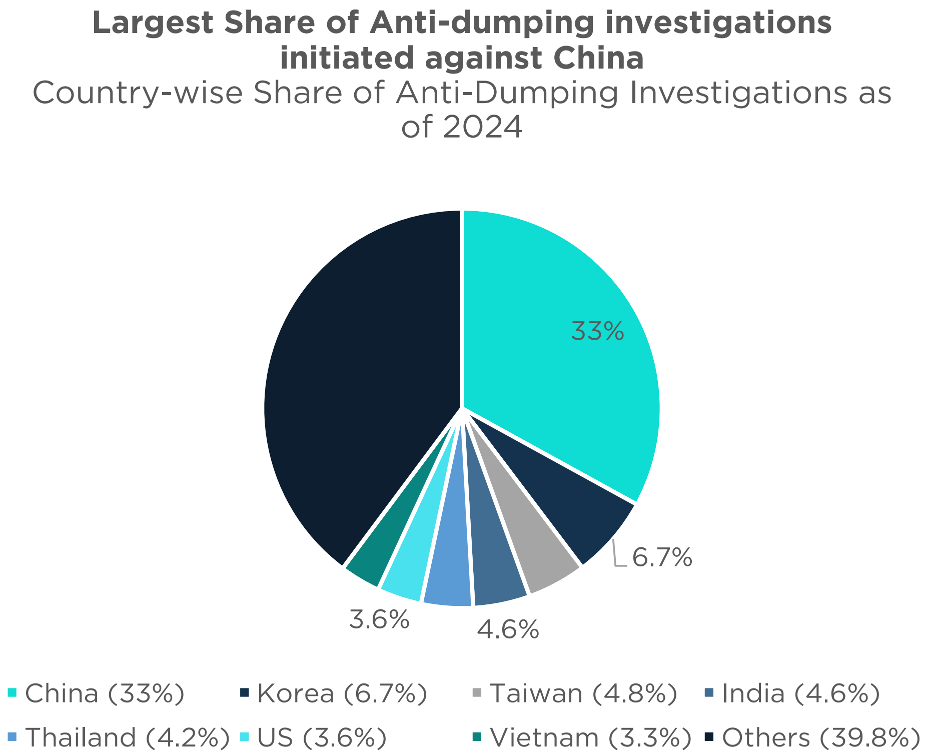
Source: Peterson Institute of Economics
Data as of 12 April

- US trade policy has become more unpredictable under Trump 2.0, with tariffs imposed and paused across trade partners (except China, Mexico and Canada).
- Tariffs imposed by the US and China this time are much higher than during the first trade war.
- Recent US actions, like curbs on AI chip exports to China, have further strained relations and dented market sentiment.

Heightened Risks of Dumping from China Pose a Threat to Global Trade



Source: WTO Remedial Database, * Numbers are only from the period of Jan-Jun for 2024

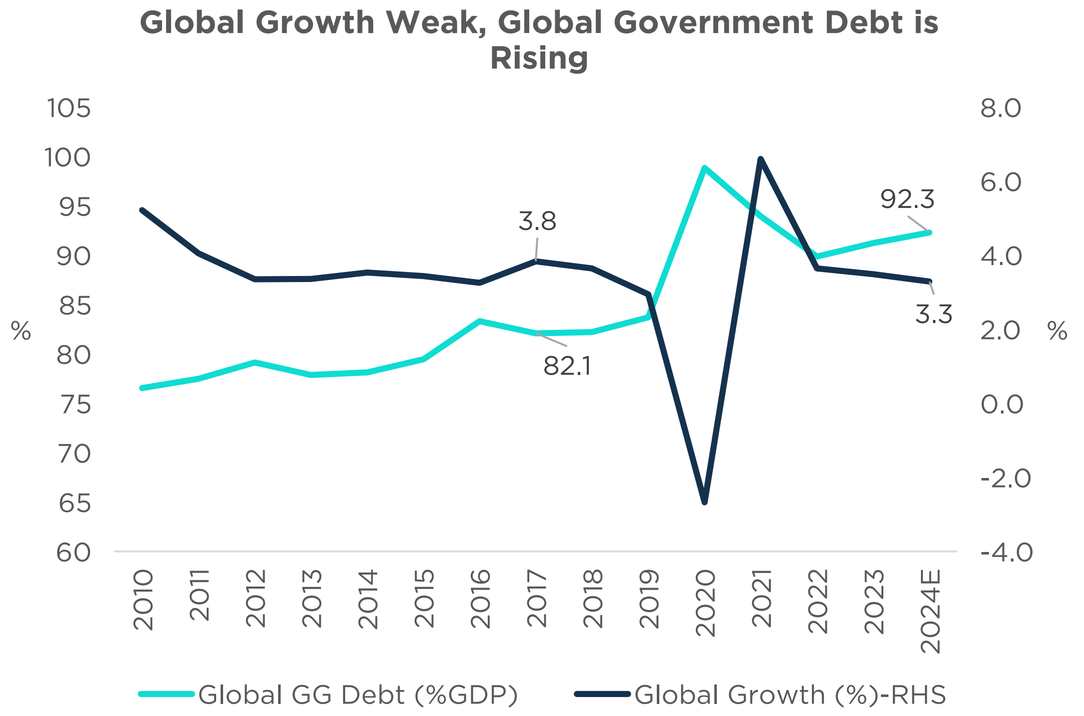


Source: WTO Remedial Database

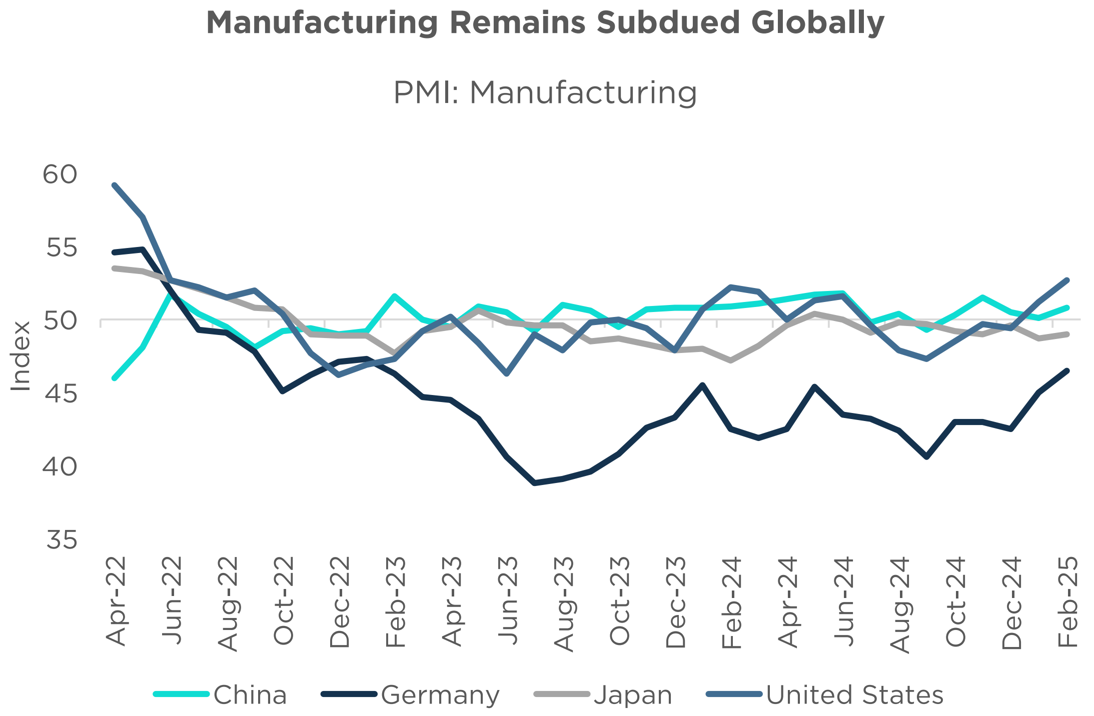
- 33% of anti-dumping investigations have been initiated against China. With higher US tariffs imposed on China, there are heightened risks of disruptions in the global supply chain owing to dumping from China.
- Base metals, chemicals, plastic and rubber materials account for about 60% of anti-dumping investigations.

Global Conditions are Weaker

Global Growth Weak, Manufacturing Remains Subdued



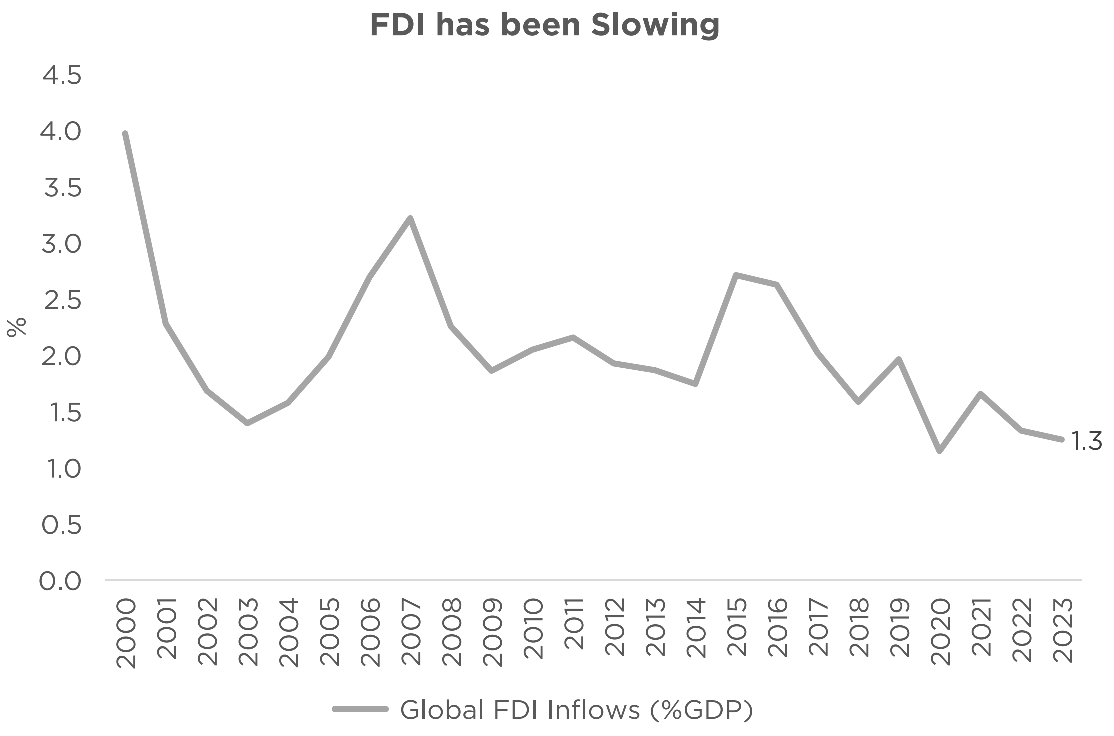
Source: IMF WEO April 2025, CGIL
GG=General Government, E=Estimates



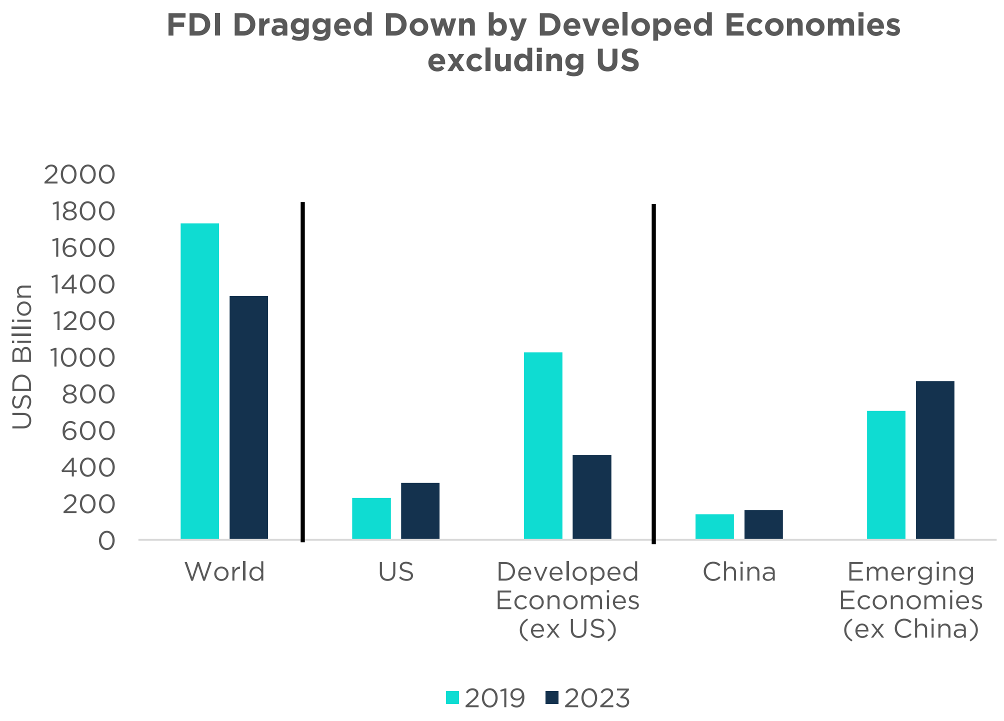
Source: CEIC, CGIL

- Global growth was weaker at 3.3% in 2024 compared to 3.8% in 2017 before the first US-China trade war.
- Global government debt (% of GDP) rose substantially post pandemic to 92.3% in 2024 from 82.1% in 2017 due to fiscal stimulus by countries to mitigate the Covid shock.
- Global manufacturing has slowed since 2022 amid greater policy uncertainties and de-globalization.

Foreign Investments have been Falling Too



Source: UNCTAD investment Report 2024, IMF, CGIL

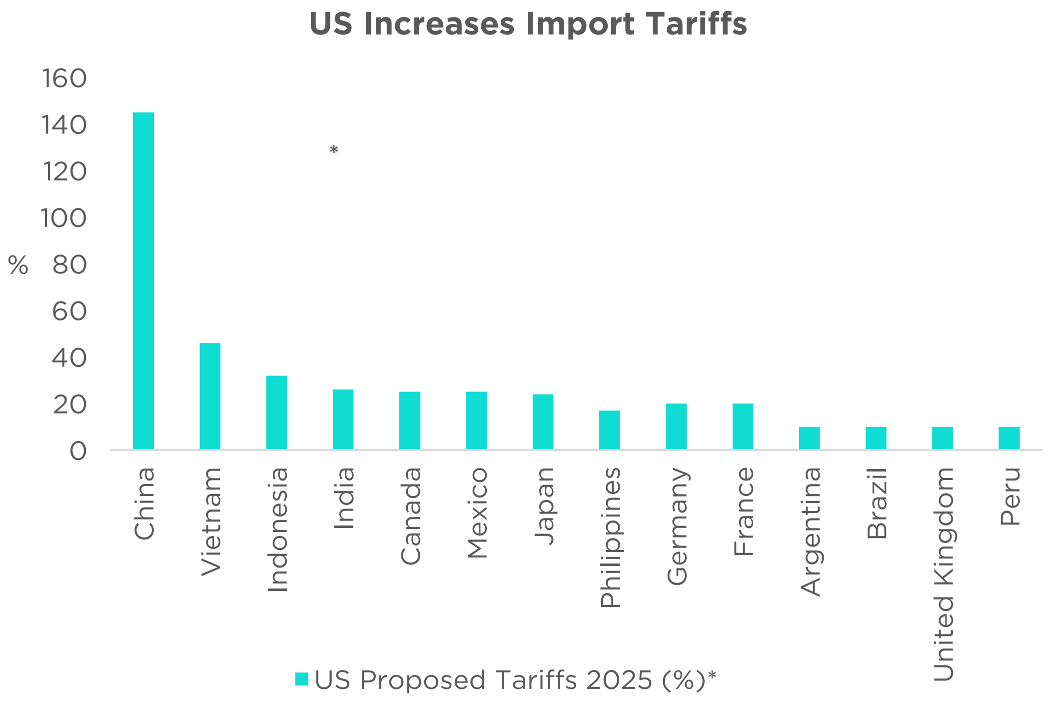


Source: UNCTAD investment Report 2024, CGIL

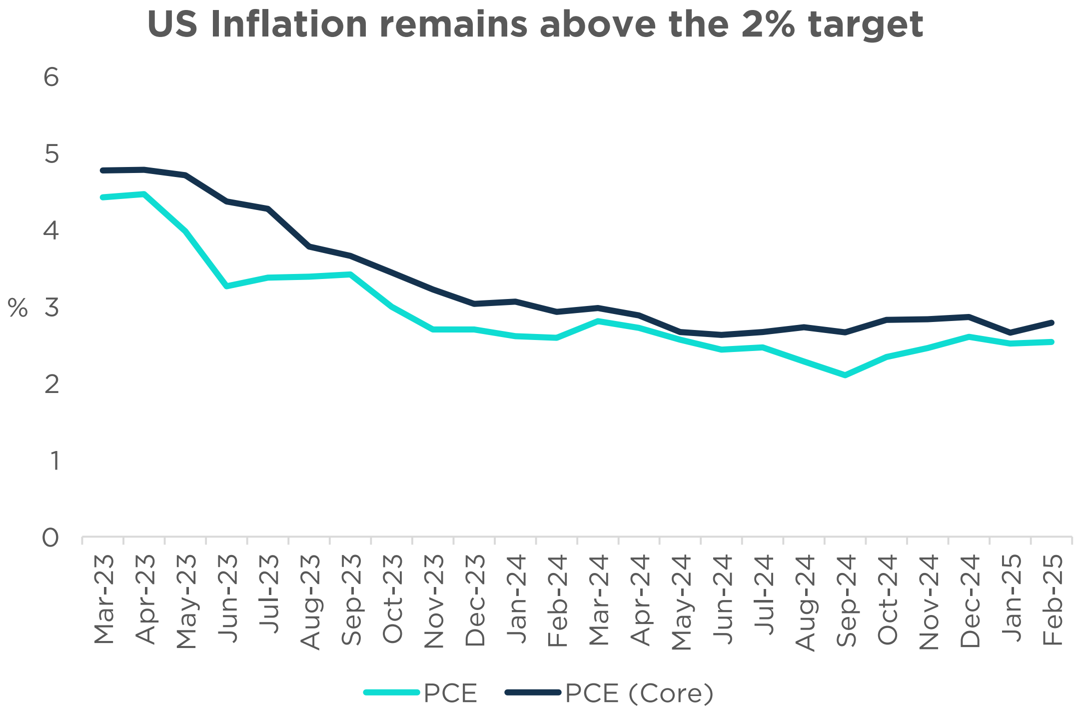
- Inward FDI (% global GDP) fell from 2.7% in 2015 to 1.3% in 2023, mainly led by weak investment conditions in developed economies, excluding the US.
- Between 2019 and 2023, the inward foreign direct investments fell by about 14% (CAGR) for developed economies ex US, mainly due to weak growth in the EU. Corporate tax cuts and better growth prospects led to increased investments in the US.
- Crises, protectionist policies and regional realignments are disrupting the world economy, undermining the stability and predictability of global investment flows.

Growth and Inflationary Concerns Rise in the US

Inflationary Expectations in the US Increases as Tariffs Shoot Upwards



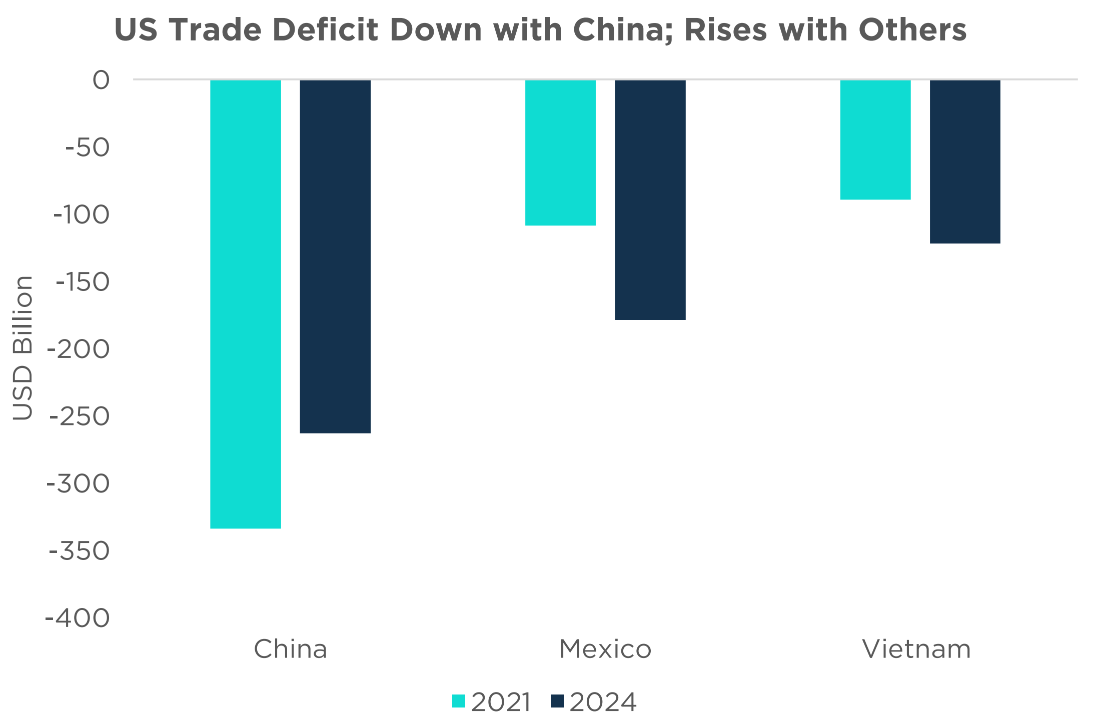
Source: USTR, CGIL,
*Reciprocal tariff imposed on Apr 2nd except on Mexico and Canada. Tariff on China is at 245% on some goods. Reciprocal tariffs are on hold for 90 days beginning from Apr 9, 2025.



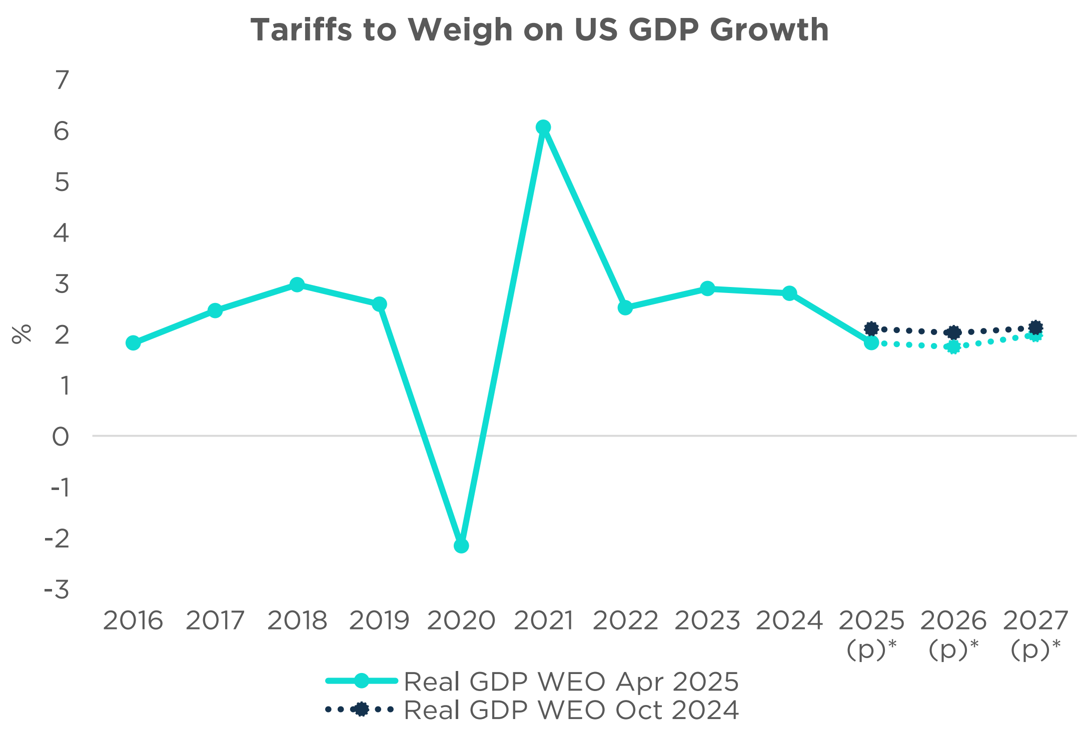
Source: CEIC, CGIL

- The increase in import tariffs with key trading partners is expected to increase inflation in the US.
- March 2025 Survey of Consumer Expectations (by Federal Reserve Bank of New York) shows the median inflation expectations over one year at 3.6%, higher than the central bank's 2% target.

Tariffs are Expected to Disrupt Trade Flows, with Risk to Growth



Source: CEIC, CGIL



Source: CEIC, IMF WEO Database, CGIL, P= Projections

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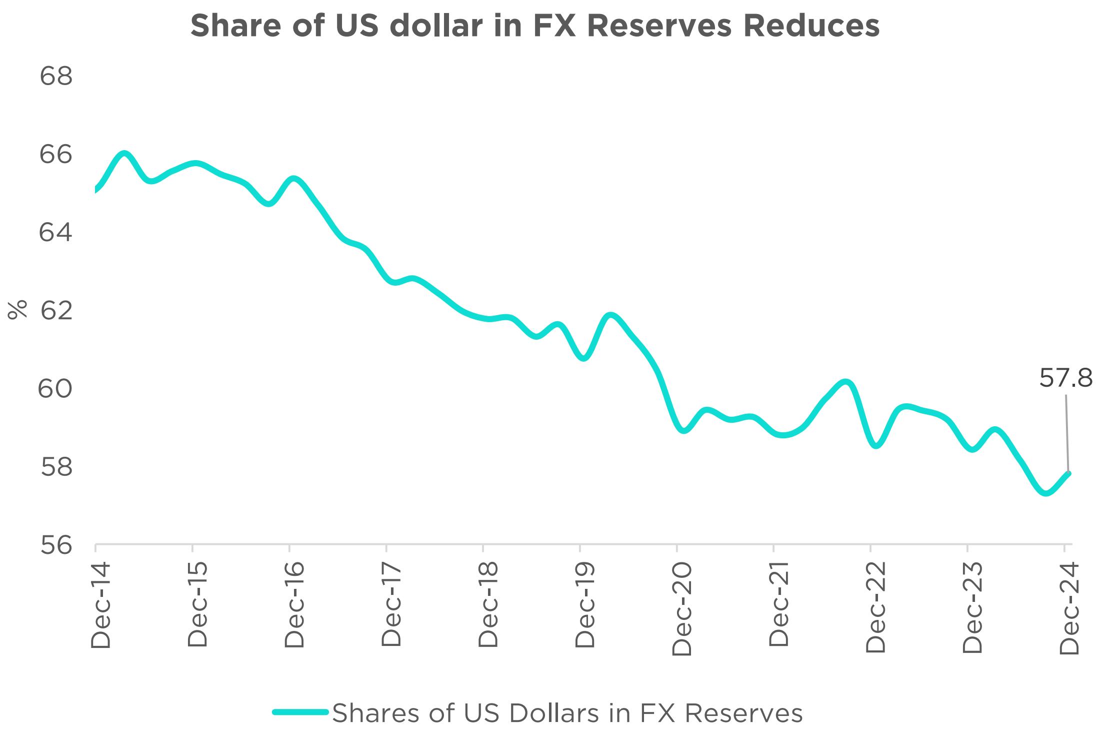
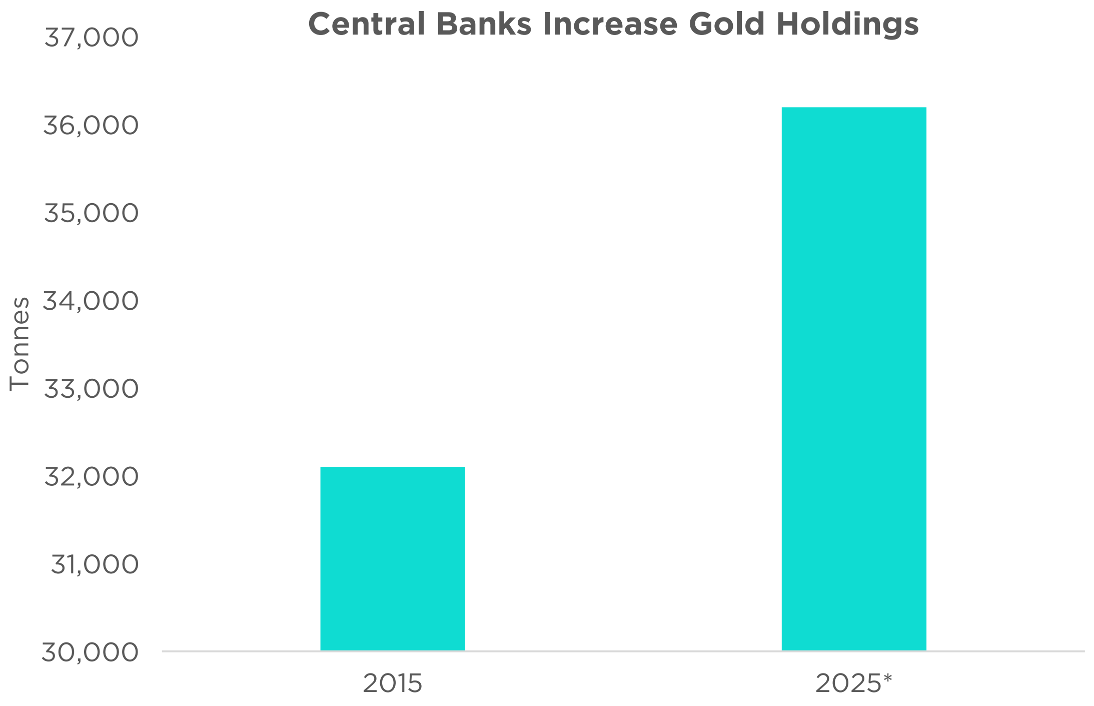
- Since 2021, the US trade deficit with China has reduced while that with Mexico and Vietnam has increased.
- As per the March FOMC Summary of Economic Projections, the US Fed expects 2025 growth at 1.7% while the IMF WEO (April 2025) expects growth at 1.8%.

Central Banks Prefer to Hold Gold due to Heightened Uncertainty



Source: CEIC, CGIL

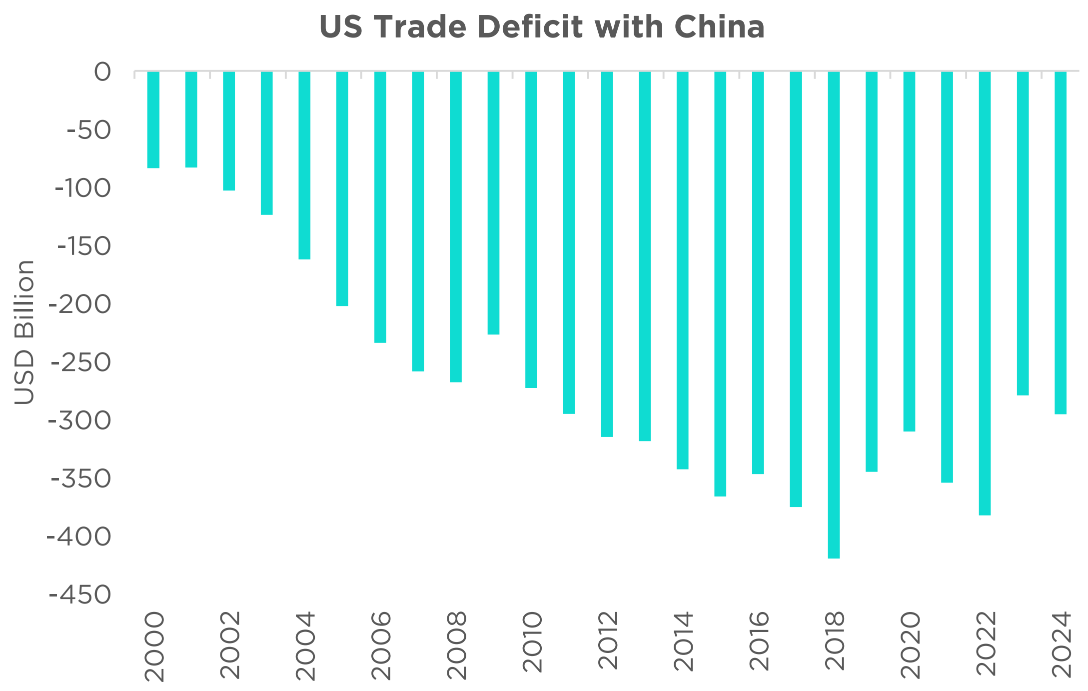


Source: World Gold Council, CGIL; Note: Data as of Apr-25

- Of the total foreign exchange reserves, the share of US dollars has come down to around 57.8% in 2024 vs 65.2% in 2014.
- Central banks have steadily increased their investment in gold to hedge against the uncertainty.
- Central Banks of China, India, Russia and Japan have increased their gold holdings over the past few years.

Interlinkages between US & China

China is a Key Supplier to the US



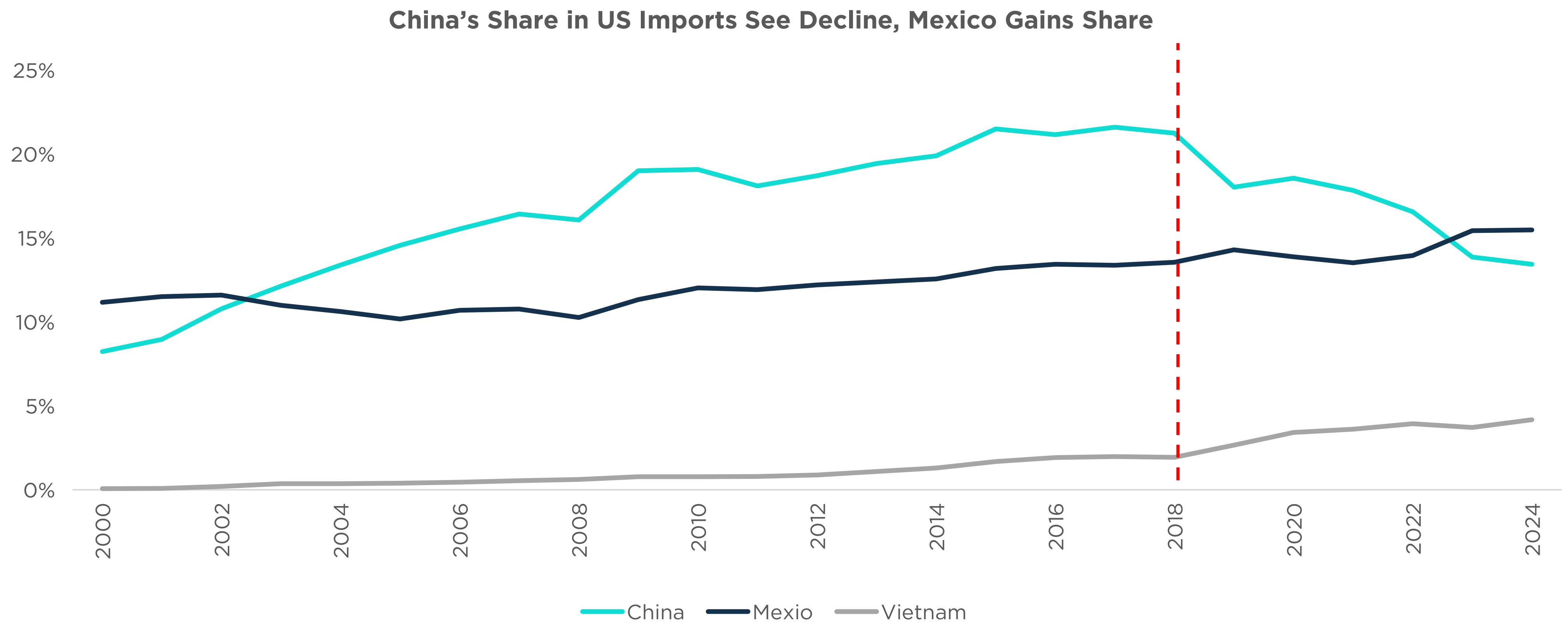
Source: US Census Bureau, CEIC

US Imports from China (as of 2024)		
	USD Billion	**% share in US imports from China**
Computer & Electronic Products	122.7	28.0
Electrical Equipment, Appliances & Components	56.2	12.8
Miscellaneous Manufactures	48.8	11.1
Machinery, Except Electrical	32.1	7.3
Fabricated Metal Products	25.0	5.7
Chemicals	23.4	5.3
Transportation Equipment	19.3	4.4
Plastics & Rubber Products	19.2	4.4
Apparel & Accessories	18.0	4.1
Furniture & Fixtures	12.7	2.9
Others	61.7	14.1
Total	**438.9**	**100.0**

Source: International Trade Administration, CEIC, CGIL

- The US runs the largest trade deficit with China (USD 295 billion as of 2024), though down from 2018.
- Computers & electronics (28% share), electrical equipment (13%) and miscellaneous manufactures (11%) are the top US imports from China.

Shift in US Trade Patterns Since First Trade War



Source: US Census Bureau, CEIC

- China's share in US imports has fallen to 13% in 2024 from a peak of 22% in 2017.
- Meanwhile, US imports from other economies have surged – Mexico now accounts for 15% of US imports (more than China), and Vietnam 4%.

China’s Trade Profile Stayed Strong Through the First Trade War

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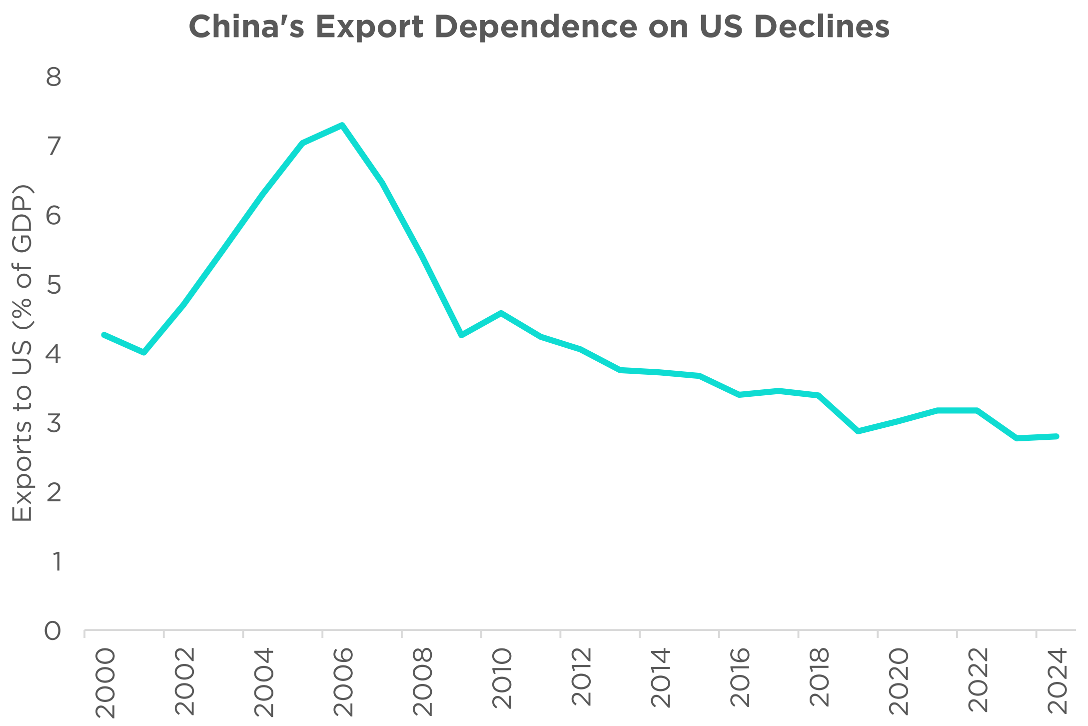
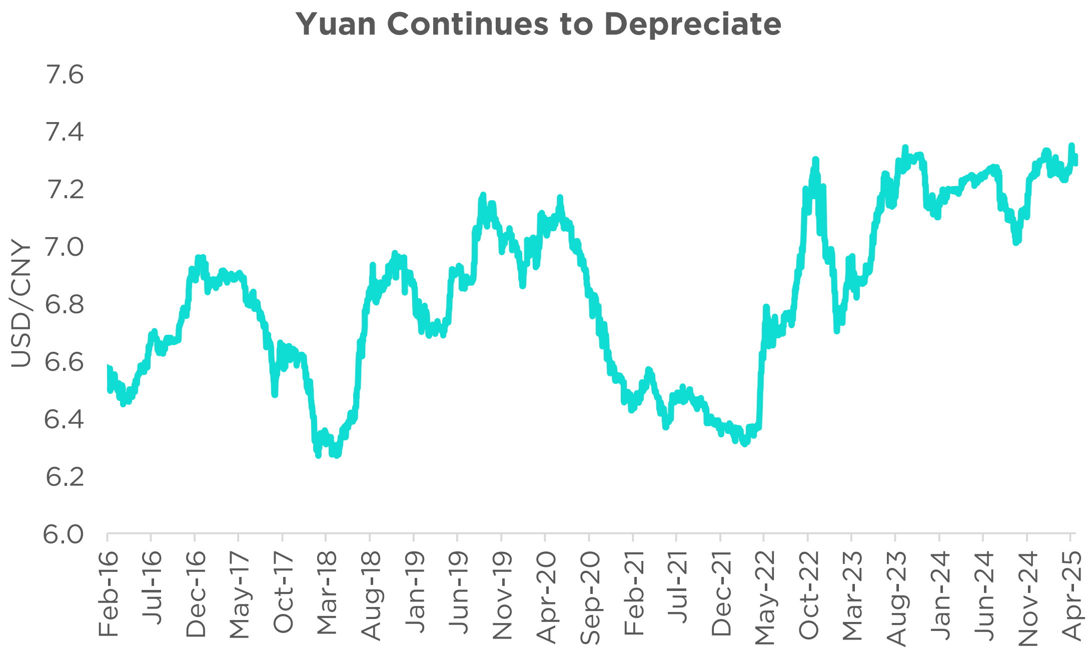


Source: CEIC

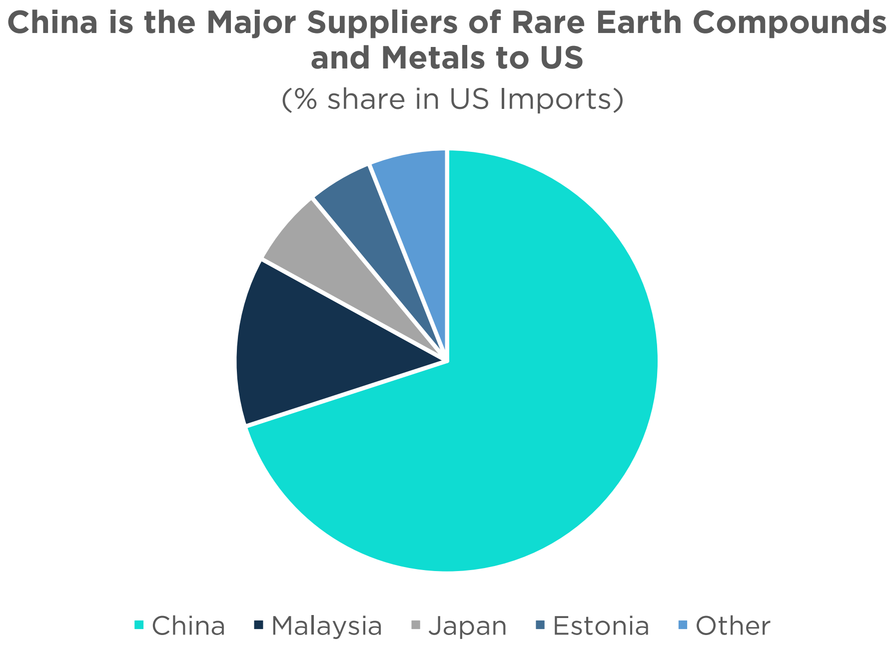
Source: General Administration of Customs, CEIC

- China’s exports to the US now account for 2.8% of China’s GDP (2024), down from 3.5% (2017).
- While China’s trade surplus with the US has moderated, its overall trade surplus has surged, reaching a record of nearly USD 1 trillion in 2024.
- This increase in trade surplus is supported by China’s expansion to new markets and its advancement up the value chain, focusing on high-tech exports like electric vehicles, lithium-ion batteries, and solar panels.

China has a Broad Retaliation Toolkit



Source: Refinitiv



Source: US Geological Survey

- USD/CNY has depreciated by around 4.2% since October 2024. While further weakening may occur to offset the tariff impact partially, it is expected to be gradual, as Chinese authorities have emphasized currency stability.
- China has restricted exports of rare earth elements, where it dominates the US supply.
- As the second-largest holder of US Treasuries, China may also use bond sales strategically.
- Chinese policymakers have ramped up monetary and fiscal policy support to cushion the economy. However, the IMF has revised down China’s 2025 growth forecast by 60 bps to 4%, reflecting ongoing external and domestic challenges.

Who can Fill China’s Shoes?

US Import Patterns Show Diversification Away from China

Change in US Import Shares by Select Country and Product Category (between 2018 and 2024, in Percentage Points)										
	Computer & Electronics	Electricals	Misc. Mfg.	Machinery, Except Electrical	Fabricated Metal Products	Chemicals	Transport Equipment	Plastics & Rubber Products	Apparel & Accessories	Furniture & Fixtures
China	-23	-11	-3	-8	-9	-3	-2	-9	-12	-28
Mexico	2	0	3	2	2	0	5	3	-1	4
Vietnam	8	3	2	2	2	0	0	4	4	16
Canada	0	1	0	0	0	-2	-3	0	0	1
Taiwan	10	0	0	1	0	0	0	-1	0	0
South Korea	0	1	0	2	1	1	4	-1	0	0
India	2	1	-1	1	1	1	0	1	1	1
Thailand	2	2	0	1	0	0	0	1	0	1
Philippines	0	0	0	0	0	0	0	0	0	0
Malaysia	-1	1	0	1	0	0	0	0	0	1

Source: International Trade Administration, CGIL

- China's share in many US import categories has dropped sharply over the past five years - furniture (28pp), computer and electronics (23pp), apparel (12pp) and electricals (11pp). This reflects some diversion in sourcing away from China.
- Mexico has seen a notable increase in import share for transport equipment (5pp).
- Vietnam is a key gainer, with strong gains in furniture (16pp) and computer and electronics (8pp).

Despite Shifts, China Still Dominates Key US Import Categories

US Import Shares by Select Country and Product Category (2024, %)

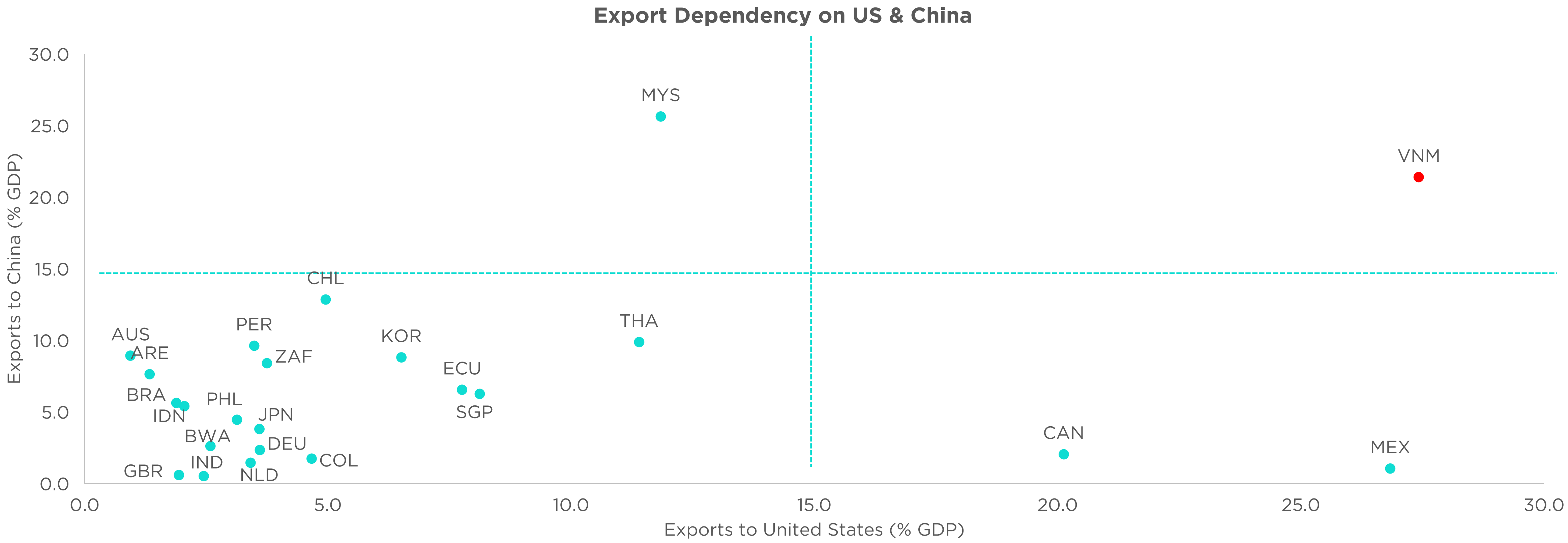
	Computer & Electronics	Electricals	Misc. Mfg.	Machinery, Except Electrical	Fabricated Metal Products	Chemicals	Transport Equipment	Plastics & Rubber Products	Apparel & Accessories	Furniture & Fixtures
China	22	29	31	13	25	6	4	25	22	29
Mexico	18	23	10	13	14	2	35	13	4	10
Vietnam	11	4	3	2	3	0	0	6	18	27
Canada	1	4	2	8	8	8	14	14	1	8
Taiwan	14	2	2	3	7	1	1	3	0	2
South Korea	4	6	1	6	4	3	9	4	0	1
India	2	1	8	2	4	5	1	2	6	2
Thailand	5	3	2	2	1	0	1	6	1	2
Philippines	1	1	0	0	0	0	0	0	1	0
Malaysia	6	2	2	1	1	1	0	1	0	3

Source: International Trade Administration, CGIL

- Since the first trade war, US sourcing has shifted away from China, with Mexico and Vietnam gaining ground. However, China still holds the largest share of US imports in several product categories due to its unmatched competitive advantage.

Exposure to Tariff Shocks

Navigating Dependencies: US and China Export Reliance



Note: VNM: Vietnam, MEX: Mexico, CAN: Canada, MYS: Malaysia, THA: Thailand, SGP: Singapore, ECU: Ecuador, KOR: Korea (Republic of), CHL: Chile, COL: Colombia, ZAF: South Africa, DEU: Germany, JPN: Japan, PER: Peru, NLD: Netherlands, PHL: Philippines, BWA: Botswana, IND: India, IDN: Indonesia, GBR: United Kingdom, BRA: Brazil, ARE: United Arab Emirates, AUS: Australia.

Source: ITC Trade Map, CGIL

- Vietnam remains most vulnerable to the current tariff shocks due to high exposure to both US and China.
- Mexico, and Canada show the highest export dependence on the US, making them relatively more exposed to shifts in US demand or trade policy—whereas Malaysia and Chile are notably reliant on China, reflecting strong integration into China-led value chains.
- Most advanced economies (Germany, Japan, UK) have modest exposure to both US and China in GDP terms, suggesting diversified trade profiles.

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CGIL Portfolio of 39 Countries is Well Spread Across the Rating Scale

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BBB+	**BBB**	**BBB-**	**BB+**	**BB**	**B+**
Botswana India Philippines	Indonesia Italy Mauritius	Mexico Morocco Peru	Brazil Colombia Greece Vietnam	South Africa	Turkey
B	**B-**	**CCC+**	**CCC**	**D**	
Nigeria	Ecuador Egypt	Bangladesh	Argentina	Ethiopia	

Note: As on April 4, 2025; Unsolicited Ratings; Rating Outlook – Positive | Stable | Negative | Outlook to be assigned

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