

US tariffs may drive global trade contraction this year: WTO

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India's exports are likely to face strong headwinds, with the World Trade Organization (WTO) on Wednesday sharply downgrading its forecast for global merchandise trade volume in 2025 — to a 0.2 per cent contraction from its earlier estimate of 2.7 per cent growth — after factoring in the 10 per cent baseline tariffs imposed by the US.

India's exports in value terms grew 2.6 per cent in 2024, while imports rose 6.6 per cent during the calendar year.

However, the multilateral body warned that the reintroduction of now-suspended country-specific reciprocal tariffs by the Trump administration, and spreading trade policy uncertainty, could lead to a 1.5 per cent decline in world merchandise trade in 2025.

In its *Global Trade Outlook & Statistics Report*, the WTO said the new estimate for 2025 is nearly 3 percentage points (points) lower than it would have been without recent policy shifts, and marks a reversal from the start of the year, when WTO economists had expected continued trade expansion.

The impact of recent trade policy changes varies sharply across regions. In the adjusted forecast, North America now subtracts 1.7 points from global merchandise trade growth in 2025, turning the overall figure negative. Asia and Europe continue to contribute positively, but less than in the baseline scenario, with Asia's contribution halved to 0.6 points. The contribution of other regions — Africa, Commonwealth of Independent States, including certain associate States, including certain associate States, and former member states, West Asia, and South and Central America

and the Caribbean — also declines but remains positive.

“The disruption in US-China trade is expected to trigger trade diversion, raising concerns among third markets about increased competition from China. Chinese merchandise exports are projected to rise by 4-9 per cent across all regions outside North America as trade is redirected. US imports from China are expected to fall sharply in sectors such as textile, apparel, and electrical equipment, creating new export opportunities for other suppliers able to fill the gap. This could open the door to some least developed countries to increase their exports to the US market,” the WTO said.

Services trade, though not directly subject to tariffs, is also expected to be adversely affected. The WTO said tariff-induced declines in goods trade weaken demand for related services such as

transport and logistics, while broader uncertainty dampens discretionary spending on travel and slows investment-related services.

“As a result, the global volume of commercial services trade is now forecast to grow by 4 per cent in 2025 and 4.1 per cent in 2026 — well below baseline projections of 5.1 per cent and 4.8 per cent,” it added.

WTO economists now expect world GDP at market exchange rates to grow by 2.2 per cent in 2025 — 0.6 points below the no-tariff-change baseline — before slightly recovering to 2.4 per cent in 2026.

“Tariff changes are forecast to have the largest impact on North America (minus 1.6 points), followed by Asia (minus 0.4 points) and South and Central America and the Caribbean (minus 0.2 points). While the imposition of reciprocal tariffs would have a limited effect on the global figure, a wider spread of trade

policy uncertainty could nearly double the GDP loss to 1.3 points relative to the baseline,” the report said.

India's rank among leading merchandise exporters (excluding intra-European Union/EU trade) dropped a notch to 14th in 2024 from the preceding year, though its share remained unchanged at 2.2 per cent. Its rank among major merchandise importers (excluding intra-EU trade) fell a notch to seventh, while its share remained at 3.4 per cent.

India's rank among exporters of commercial services (excluding intra-EU trade) dropped a notch to sixth in 2024 from the preceding year, with its share falling to 5.3 per cent from 5.4 per cent a year ago. India's rank remained unchanged at sixth among major importers of commercial services (excluding intra-EU trade) in 2024, though its share declined to 4.1 per cent from 4.2 per cent in the preceding year.

