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CHALLENGES TO GLOBAL TRADE GROWTH IN 2025

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KEY MESSAGES

- Global trade has undergone an extraordinary transformation over the past five decades. However, a succession of shocks has profoundly altered global trade dynamics, exposed vulnerabilities in supply chains, shifted policy priorities, and fuelled geopolitical frictions that now threaten the foundation of the rules-based trading system. Recent protectionist measures are leading to further tension and fragmentation of global markets and may lead to long-term structural shifts.
- Sub-Saharan Africa and parts of South-East Asia face the highest exposure to trade disruptions. The current trade landscape is especially challenging for least developed countries.
- The exploration of alternatives to the reliance on the US dollar for trade responds to concerns of many developing countries but also introduces new risks and uncertainties.
- The absence of a unified tax framework exacerbates challenges in mobilizing domestic revenue. Unilateral carbon taxation measures are shifting the burden of climate change mitigation to producers in developing countries, particularly Africa, without offering meaningful support for low-carbon industrial transitions.
- The rapid rise of artificial intelligence (AI) is challenging long-standing intellectual property frameworks, disrupting traditional valuation models and raising fundamental concerns about how innovation is measured and protected.
- Addressing these challenges requires coordinated policy responses and a renewed commitment to multilateral cooperation to ensure inclusive economic growth. Without decisive intervention, trade disruptions could reinforce global inequalities and hinder economic development, particularly in regions that depend heavily on stable trade relationships.

Global trade has undergone an extraordinary transformation over the past five decades, propelled by structural shifts, technological advancements, and policy reforms that have progressively deepened economic integration. Since the establishment of the World Trade Organization (WTO) in 1995, the momentum of trade liberalization has accelerated, facilitating a period of exponential growth. Several factors have driven this expansion, including the rise of global manufacturing hubs, particularly in China and Southeast Asia, the super commodity cycle that fuelled resource-rich economies, and an unprecedented surge in services trade enabled by technological innovations.

China's emergence as the world's manufacturing powerhouse has redefined global trade patterns, serving as a critical link in supply chains across industries ranging from electronics to heavy machinery. China's share of global manufacturing output rose from 3% in 1990 to nearly 30% by 2020, underscoring its central role in global production networks. Simultaneously, Southeast Asian nations such as Vietnam, Thailand, and Malaysia have integrated into the global supply network. Vietnam, for instance, saw its exports grow from $14 billion in 2000 to over $280 billion in 2020, reflecting its integration into global value chains.

The super commodity cycle, marked by soaring prices of oil, metals, and agricultural goods, provided resource-rich economies in Africa, Latin America, and the Middle East with substantial trade surpluses. For example, Brazil's exports surged from $55 billion in 2000 to $280 billion

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in 2022, driven by commodities like soybeans and iron ore. The rapid digital transformation further catalysed trade in services, with fintech, cloud computing, and digital platforms breaking down barriers that had traditionally constrained cross-border transactions. The global market for digital services expanded from $1.2 trillion in 2005 to over $3.8 trillion in 2020, illustrating the sector's rapid growth. Collectively, these forces have reshaped economic structures and deepened interdependence among nations.

However, the current trade landscape presents an increasingly complex and uncertain picture. A succession of shocks over the past 15 years—beginning with the 2008–09 financial crisis, followed by the COVID-19 pandemic and the war in Ukraine—has profoundly altered global trade dynamics. These crises have exposed vulnerabilities in supply chains, shifted policy priorities, and fuelled geopolitical frictions that now threaten the foundation of the rules-based trading system.

The war in Ukraine, for instance, exacerbated supply chain disruptions, particularly in energy and food markets, triggering inflationary pressures and prompting trade policy adjustments worldwide. Global energy prices spiked by over 50% in 2022 due to supply constraints, impacting production costs across various industries. Rising tensions between major economic powers, notably the United States, the European Union, and China, have created an environment of heightened uncertainty. Recent policy shifts in the United States have intensified these tensions, with escalating tariff measures and unilateral trade actions reshaping traditional alliances. The European Union has grown increasingly concerned about China's dominance in high-tech sectors, particularly electric vehicles and renewable energy, leading to calls for policy adjustments. These disruptions represent the most significant reordering of global trade since the establishment of the WTO, marking the beginning of a new cycle in the world economy characterized by unilateral rule-setting as multilateral cooperation declines.

GEOPOLITICAL FACTORS

The United States has intensified its tariff measures since January 2025, leading to increased trade frictions. The recent escalation in tariff policies has affected key trading partners, causing ripple effects across global markets. The imposition of a 10% tariff on Chinese goods and 25% tariffs on steel, aluminum, and automotive imports from allies such as Canada, Mexico, and the European Union signals a more protectionist approach to trade. These measures have raised the average U.S. tariff rate from 2.5% in 2024 to an estimated 13.8% in 2025, marking the highest level since 1939. In response, China is preparing countermeasures targeting U.S. agricultural exports, including soybeans, meats, and grains, which could have severe repercussions for global trade and the economy.

Meanwhile, the European Union has introduced countervailing duties on certain Chinese exports, arguing that state subsidies distort competition. While these measures aim to protect domestic industries, they also risk further fragmentation of global markets. The BRICS initiative to introduce an alternative currency has generated concerns over shifts in global financial architecture, with the U.S. administration expressing opposition to moves that might weaken the dollar's role in global trade.

These tensions influence investment flows and trade policies, requiring a reassessment of existing alliances and economic cooperation mechanisms. Developing countries, particularly Least Developed Countries (LDCs), find themselves caught in an increasingly complex web of trade restrictions, limiting their access to key export markets and raising the cost of imports essential for development.

LOGISTICS AND TRADE ROUTES

Sanctions against South Africa have increased the cost of alternative trade routes, impacting the viability of traditional shipping lanes. The recent debate over potential shifts in control over the Panama Canal has introduced uncertainties for global shippers, raising concerns about potential disruptions to one of the world's most critical maritime corridors. The cost of shipping through alternative routes has increased by over 20% due to longer transit times and higher fuel expenses. Freight costs have surged by over 15% in certain regions, increasing trade costs and reducing supply chain efficiency. Rising costs are particularly evident in container shipping, where major carriers have introduced surcharges to mitigate risks associated with disrupted trade lanes.

Adding to these concerns, disruptions in the Red Sea due to regional conflicts have pushed insurers to raise premiums for ships transiting through the Bab el-Mandeb Strait. Many shipping firms have responded by rerouting vessels around the Cape of Good Hope, adding weeks to transit times and increasing costs. The knock-on effects of these rising logistics costs disproportionately impact developing economies, where higher transport prices hinder export competitiveness and slow industrialization efforts.

MARITIME SECURITY

The Suez Canal remains a vital artery of global commerce but continues to face security risks due to ongoing conflicts in Yemen and regional instability. Attacks on commercial vessels have heightened security risks, contributing to soaring maritime insurance premiums, which have risen by over 25% for ships passing through high-risk areas. Beyond the Suez Canal, piracy concerns have resurfaced in key shipping zones, particularly beyond the Gulf of Guinea, disrupting traditional trade routes. Insurance premiums for shipping in high-risk zones have risen by approximately 20% to 25% over the past year, reflecting the growing uncertainty in maritime trade. These developments have led to increased use of armed security personnel on vessels, further adding to operational costs.

The consequences for LDCs, especially those dependent on maritime trade, are profound, as security threats make imports more expensive and reduce the attractiveness of these economies for foreign investment.

DEFIANCE TO US$ DOMINANCE

Sanctions imposed on Russia have reignited discussions on the reliance on a US dollar-centric financial system, prompting some economies to explore alternative trade settlement currencies. The introduction of alternative currency mechanisms within the BRICS bloc has accelerated these discussions, with several countries exploring diversification strategies. Trade between China and Russia conducted in yuan has grown by over 60% in the past year, reflecting this trend. Meanwhile, India has increased its trade settlements in rupees with key partners in an effort to reduce reliance on the US dollar. While the dollar remains the dominant global reserve currency, accounting for approximately 60% of global foreign exchange reserves, the emergence of alternative financial arrangements highlights the shifting landscape of trade settlement mechanisms. For developing economies, this shift introduces new risks and uncertainties, as fluctuating exchange rates and competing financial systems create volatility in trade financing

GLOBAL TAXATION

The fragmentation of global taxation is becoming increasingly problematic as unilateral tax reforms by various countries create inconsistencies that complicate compliance for multinational corporations and undermine efforts toward a cohesive international system. The OECD's proposal for a global minimum tax and a new approach to taxing Big Tech was intended to curb profit shifting and level the playing field, but its implementation has been slow and uneven, leading some nations to pursue unilateral measures that further fragment the landscape.

At the same time, a growing debate within the United Nations, spearheaded by the African Group is pushing for a shift in global tax governance to the UN, arguing that current frameworks disproportionately favour wealthier nations and exclude the voices of developing economies. This move could fundamentally reshape international taxation by placing decision-making in a more representative forum, though it has faced resistance from OECD countries seeking to retain their influence over tax policy.

For Least Developed Countries (LDCs), these developments carry profound implications. The absence of a unified tax framework exacerbates challenges in mobilizing domestic revenue, as LDCs often lack the institutional capacity to effectively tax multinational corporations operating within their borders. The push to place global tax discussions under UN oversight could grant LDCs a stronger negotiating position, but without clear enforcement mechanisms, they risk being sidelined on trade, once again. Additionally, digital taxation remains a contentious issue, as major tech firms continue to generate significant revenues from LDCs without a proportionate contribution to their tax bases. If global tax reform efforts fail to account for these disparities, LDCs may continue to suffer from revenue losses that could otherwise support development and infrastructure improvements.

CARBON TAXATION

Efforts to incorporate carbon taxation as a mechanism for emission reduction have sparked significant controversy, particularly with the European Union's Carbon Border Adjustment Mechanism (CBAM). Intended to ensure that imports meet the same environmental standards as domestic production, CBAM has been criticized for disproportionately shifting costs onto European consumers rather than holding global producers accountable. While framed as a climate policy tool, CBAM's design risks functioning more as a trade barrier, effectively penalizing certain exporters—particularly those in Africa—without offering meaningful support for low-carbon industrial transitions.

A joint study by the London School of Economics (LSE) and the African Climate Foundation highlights the potential negative impact of CBAM on African economies, which rely heavily on carbon-intensive exports such as steel, cement, and fertilizers. The study emphasizes that CBAM could exacerbate economic inequality by imposing additional costs on African producers who lack access to affordable green technologies, rather than incentivizing investment in sustainable industrialization. It also argues that CBAM's approach assumes a level playing field that does not exist, as European firms benefit from subsidies and carbon pricing mechanisms that are not equally available in many African countries. Instead of a one-size-fits-all carbon tax, the study advocates for a more cooperative approach, including targeted financial and technical assistance to help developing economies transition to greener production methods. Without such measures, CBAM risks deepening existing economic divides rather than fostering a truly global green transition

INTELLECTUAL PROPERTY REGIMES

The rapid rise of artificial intelligence is challenging long-standing intellectual property frameworks, disrupting traditional valuation models and raising fundamental concerns about how innovation is measured and protected. AI-driven advancements blur the lines between human and machine-generated creativity, making it difficult to apply conventional productivity metrics to modern knowledge production. Existing IP laws, which were built around distinct notions of authorship and invention, now struggle to accommodate AI-generated outputs that do not fit neatly into traditional categories of ownership. The acceleration of AI's capabilities is also creating imbalances in global trade, as firms with advanced AI tools gain competitive advantages that established IP systems were never designed to regulate. If left unaddressed, these shifts could lead to an implosion of the legal and economic foundations that have long governed innovation and commerce. As AI continues to redefine value creation, policymakers and legal institutions must rethink intellectual property rights to ensure that they remain relevant and effective in an era where machines are increasingly central to the creative and productive economy.

EXPANDING TRADE GROWTH AND ECONOMIC IMPACT

Global trade reached a record high of nearly $33 trillion in 2024, marking a $1 trillion increase from the previous year. This 3.3% annual growth was largely driven by a 7% rise in services trade, contributing $500 billion to the overall expansion. However, escalating trade barriers threaten to undermine this growth. Additionally, protectionist policies may lead to long-term structural shifts, causing certain industries to relocate supply chains and increase costs across multiple markets.

The World Bank has warned that the current fragmentation of global trade could reduce global GDP by as much as 5% over the next decade if major economies persist with decoupling strategies. Meanwhile, the IMF projects that emerging economies reliant on export-driven growth will see the most significant slowdown, with sub-Saharan Africa and parts of Southeast Asia facing the highest exposure to trade disruptions.

CONCLUSION

These challenges underscore the evolving nature of global trade. The successive shocks—financial crises, pandemics, geopolitical conflicts, and regulatory shifts—have fundamentally altered the trade landscape. For LDCs, the confluence of these factors represents a perfect storm, further marginalizing their trade prospects and compounding vulnerabilities. Addressing these challenges requires coordinated policy responses and a renewed commitment to multilateral cooperation to ensure inclusive economic growth. Without decisive intervention, trade disruptions could reinforce global inequalities and hinder economic development, particularly in regions that depend heavily on stable trade relationships.