

TRADE RECKONING

Stalled trade integration and rising tariffs are testing global economic resilience

FOR DECADES, world trade expanded rapidly as countries lowered tariffs and embraced globalization. Tariff rates fell dramatically worldwide, converging toward the low levels of the United States.

But progress has stalled. Since the 2008 financial crisis, trade openness has stopped rising and global imports have leveled off at about a third of GDP. Trade tensions have escalated this year, and some major economies are reversing course, with US tariffs in April reaching the highest level in over a century. Other countries have responded.

This new trade landscape has serious consequences for the global economy. Many smaller, trade-reliant countries are more exposed to these shifts in trade patterns. Trade policy uncertainty is off the charts, making it harder for businesses everywhere to plan ahead.

The best strategy for economies to navigate uncertainty and improve growth potential is to strengthen resilience and competitiveness at home. This means fortifying macroeconomic fundamentals by rebuilding fiscal buffers, maintaining price stability, and ensuring financial soundness. Reforms to boost productivity, lower barriers to private enterprise, and attract investment can help economies adapt.

It is equally important to address internal and external imbalances, particularly large deficits and surpluses, which have contributed to the rise in tensions.

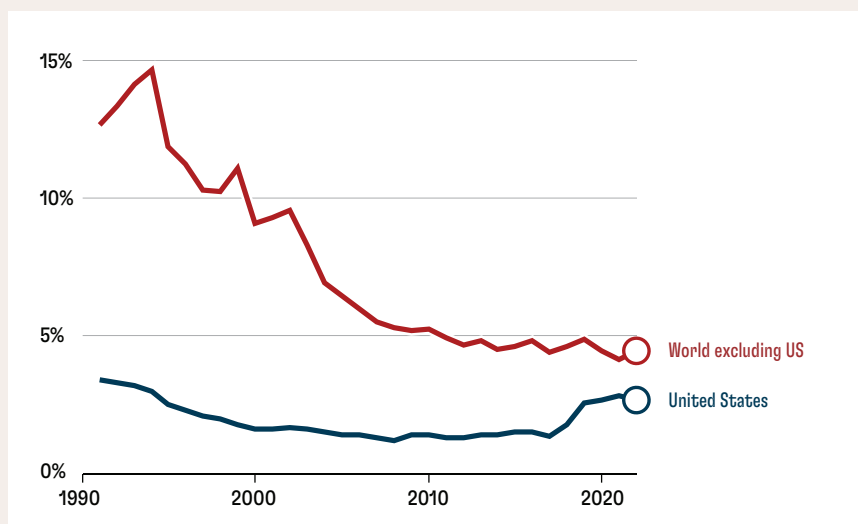
The task now is not to preserve the old but to build something new—a global economy that is more balanced and more resilient. **F&D**

This article draws on an April 17, 2025, speech by IMF Managing Director

KRISTALINA GEORGIEVA.

Stalled descent

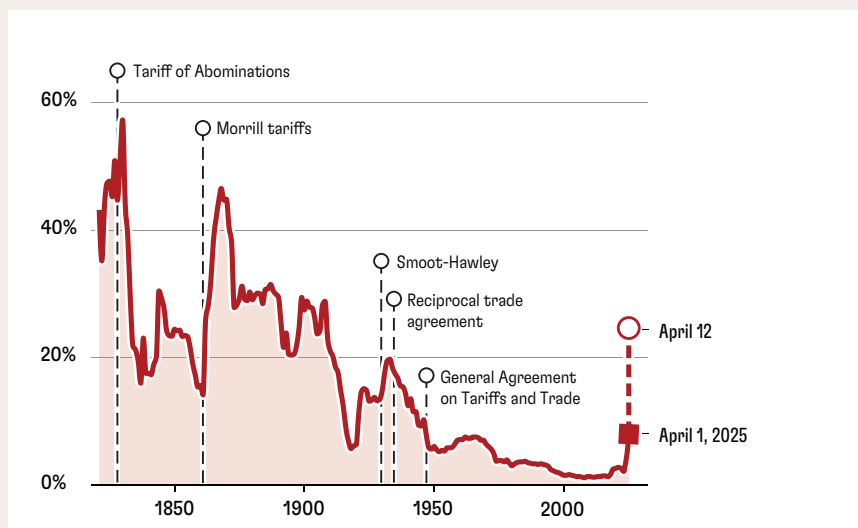
The global effective average tariff rate for decades declined toward the US level, but it has long since stalled.



SOURCES: World Bank; and IMF staff calculations.

Tariff rebound

The US effective average tariff rate has hit a century high.

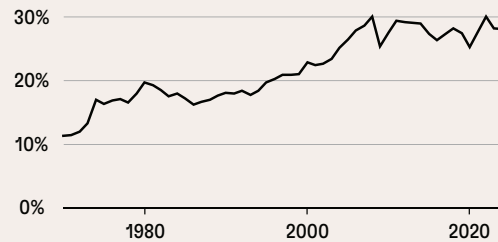


SOURCES: The White House; US Bureau of Economic Analysis; and IMF staff calculations.

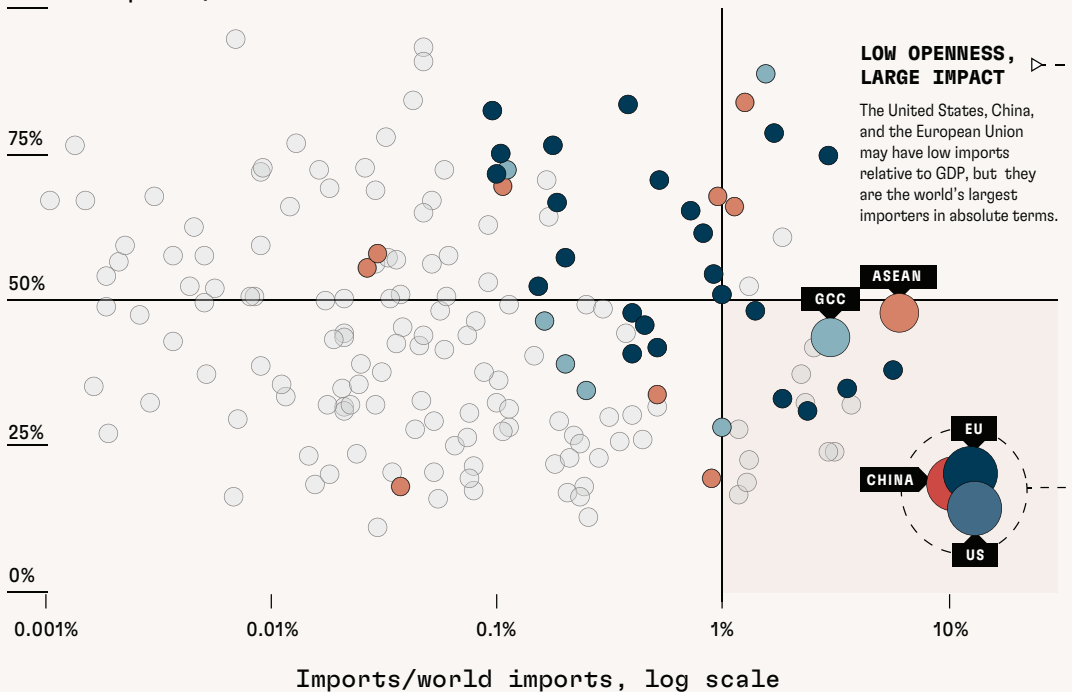
Under pressure

Trade openness seems to have peaked and is poised to decline amid unprecedented tariff policy uncertainty. Despite being relatively closed economies, the United States, China, and the European Union are the world's largest importers. Shifts in their trade patterns create significant spillovers. By contrast, smaller advanced economies and most emerging markets are more open to trade and rely on it more for growth.

Global imports as a share of GDP

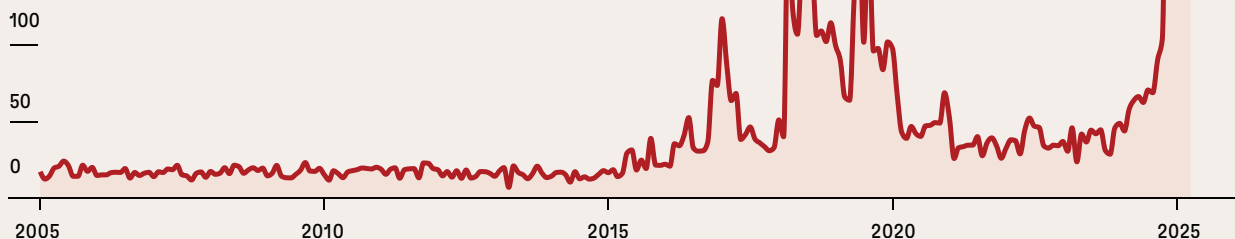


100%: Imports/GDP



Off the charts

The Trade Policy Uncertainty Index has skyrocketed.



SOURCES: ASEANstat; Eurostat; IMF; Caldara and others. 2020. "The Economic Effects of Trade Policy Uncertainty"; and IMF staff calculations.

NOTE: The scatter plot uses 2024 data. Association of Southeast Asian Nations (ASEAN), EU, and Gulf Cooperation Council (GCC) imports exclude intra-bloc imports. ASEAN intra-bloc imports are based on latest available data for 2023. Trade Policy Uncertainty Index uses monthly data; April reflects average to April 14. October 2024 = 100.