

Highest US Tariffs Since the 1930s Redraw the International Trade Map.

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(Bloomberg Businessweek) -- Canada is importing more cars from Mexico than from the US. China has snubbed American soybean farmers at harvest time and is buying from South American growers instead. India and China are resuming direct flights between the two countries and trading rare earths, ending years of frozen relations.

The new contours of global commerce are starting to emerge as governments redraw trade alliances and companies seek other markets to avoid the highest US tariffs since the 1930s.

Smaller economies are also adapting to a world where US consumers and companies are costlier to reach. Peru is seeking buyers in Asia for its blueberries, and Lesotho, a textile producer, is pivoting to Asia, Europe and the rest of Africa. A group of 14 countries that includes New Zealand, Singapore, Switzerland and the United Arab Emirates has formed a partnership to boost trade and investment.

The global economy has defied expectations of a recession triggered by a tit-for-tat retaliation against President Donald Trump's tariffs. Instead, America's turn toward protectionism has demonstrated the durability of the 85% of global trade that occurs outside the US. In October, the World Trade Organization (WTO) revised its forecast for merchandise trade growth in 2025 from 0.9% to 2.4%, in large part because of the effects of so-called front-loading ahead of tariffs. The IMF's latest World Economic Outlook, released today, noted that while this dynamic helped support trade volumes this year, it expects growth to drop to an average of 2.9% over 2025-26, rather than the 3.3% it had predicted a year ago.

"Quite clearly there are new attempts to form new alliances, to deepen existing relationships and to create new ones," says Cecilia Malmström, the former European commissioner for trade who's now a fellow at the Peterson Institute for International Economics.

Shipping companies, port operators and other cargo handlers have a front-row seat to the changes. In the face of US trade barriers, Chinese manufacturers are actively prospecting for alternative markets, says Christian Gonzalez, executive vice president at International Container Terminal Services Inc., a port operator in Manila whose shares are up almost 30% this year. "There is the potential for it to be very positive for us," he says of the remapping of commerce. "Global trade will continue flowing."

The shifts in the flow of goods around the world are more subtle than seismic for now, but they're starting to show up in data. China's export growth in August was the weakest in six months, with shipments to the US plunging 33%. Its exports to the 10-nation Southeast Asian trading bloc, however, rose almost 23% for the month, while those to the European Union climbed 10% and those to Africa were up 26%. These figures indicate that the world's No. 2 economy is still on track to post a record \$1.2 trillion trade surplus this year.

Clarksons Plc, a provider of data on the maritime industry, has forecast an almost 3% contraction in shipping volumes this year in the transpacific corridor, the main conduit for US-China commerce. But all other shipping lanes are seeing growth, albeit more moderate than in 2024.

"It's very clear that we are redrawing the map of international trade," says Ina Simonovska, an associate professor of economics at the University of California at Davis. "We're going to see a lot more bilateral trade agreements between countries" and subgroups of countries, she predicts.

European Commission President Ursula von der Leyen has said she and other officials in Brussels are laser-focused on expanding the bloc's list of 76 trade partnerships, including by fast-tracking negotiations that had dragged on for years. European countries are in the process of ratifying a proposed pact with Mercosur, a common market of South American countries with 780 million consumers—a deal 25 years in the making. And in September the EU inked a free-trade agreement with Indonesia, the largest economy in Southeast Asia, after almost a decade of talks. Similarly, negotiations on an EU-Australia pact, underway since 2017, got a jump-start in June. "There's been a shot in the arm for ongoing trade negotiations

and getting some of them across the line," says Simon Evenett of IMD Business School in Lausanne, Switzerland, who tracks trade developments around the world.

Despite signs of resilience, Eswar Prasad, an economics professor at Cornell University and an expert on trade, cautions that the scramble to seal bilateral or regional pacts threatens to squeeze out smaller economies, which have relied on a rules-based system that the WTO has helmed. "The shift from a system in which all countries abide by a common set of rules to one where it's every country for itself will be a much harsher world for countries that lack the economic heft of the US," Prasad says.

One wonders, for instance, how the tiny nation of Timor-Leste, the WTO's newest member, will fare. With a population of only 1.4 million people and a gross domestic product per capita of around \$1,300, the Southeast Asian nation endured years of instability after gaining independence from Indonesia in 2002. Despite the Trump administration's best efforts to render the 30-year-old WTO obsolete, including by gutting its funding, António da Conceição, Timor-Leste's representative to the United Nations Office in Geneva, is still hopeful that membership will help his country diversify its oil-dependent economy by opening new markets for its coffee, vanilla and fruit. "We are a country that can start to learn from others," says da Conceição, who initiated accession talks while serving as minister of commerce from 2012 to 2015.

Trump's trade war is having repercussions closer to home. Ben Knepler runs True Places, a company in Wallingford, Pennsylvania, that designs outdoor chairs which are manufactured in Cambodia. He's stopped importing his product into the US, because tariffs have made his business model unviable. Instead he's scouting for customers overseas in the hope of keeping True Places afloat. "It's a bit of an absurd situation that we're even considering this," Knepler says. "But here we are thinking about being a US company and not operating in the US." —With Brendan Murray and Jorge Valero

(Updates with forecasts from the IMF's World Economic Outlook in the fourth paragraph.)

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