Is the Global Economy as Resilient as It Seems?

Oct 10, 2025 |**ESWAR PRASAD** and **CAROLINE SMILTNEKS**

ITHACA, NEW YORK – Although the global economy has proven surprisingly resilient in the face of US President Donald Trump's tariff war and other severe challenges, cracks in the foundation are beginning to appear. The October 2025 update of the Brookings-FT TIGER (Tracking Indexes for the Global Economic Recovery) reveals an economic landscape that seems benign in some ways, but unsettled in others, with household and business confidence weighed down by uncertainty about trade policy, political upheavals in many countries, and geopolitical volatility.
Advanced economies are grappling with rising debt burdens, aging populations, and political gridlock, while emerging-market economies, despite being helped somewhat by a weaker dollar (which alleviates financing pressures), are showing signs of strain.

Trump's tariffs, and the protectionist tendencies they have triggered, are rippling through labor markets and dampening consumer demand around the world, compounding structural weaknesses in trade-dependent economies. Meanwhile, financial markets, which were initially spooked by America's erratic trade policies, are forging ahead, with equity indexes across the world reaching new highs even as growth prospects weaken. In the United States, stock prices have been bolstered by exuberance about the potential benefits of AI.

Still, the US economic expansion is losing steam as the Trump administration's erratic economic policies, harsh immigration enforcement tactics, and cuts in social expenditures take a toll on growth and employment. While the probability of a recession in the US remains low, aggregate labor-market indicators (some of which had masked weakness in the manufacturing sector) now look less robust than they did a couple of months ago. Inflation remains in check, so far, but that will change when companies can no longer absorb the cost of Trump's tariffs and are forced to pass them on to consumers. The US Federal Reserve's room for maneuver is becoming increasingly constrained by the recent uptick in inflation, a weakening labor market, and explicit political pressures to cut policy rates.

In the eurozone, core economies are floundering, with Germany facing a potential third consecutive year of economic contraction. The German economy is confronting a loss of manufacturing competitiveness and skill shortages, and a revival of industrial production has done little to reverse the decline in job numbers or boost private spending. Meanwhile, France is on the brink of a fiscal crisis driven by excessive public spending, with political turmoil impeding essential reforms.

There are a few bright spots. Southern European countries, especially Italy, Spain, and Greece, have continued to improve their fiscal positions and benefit from robust service-sector performance and wage growth.
Elsewhere, growth in the United Kingdom has flatlined as a beleaguered Labour government struggles to deal with high living costs and strained public services, which have reduced confidence. In Japan, rising inflation has prompted a shift to hawkish monetary policy, despite the danger of a decline in global demand and the risks that tariff uncertainty pose to its export-oriented economy. South Korea is already confronting weak domestic household demand, and its export growth could soon be dented if high tariffs hit its automobile and chip exports.

The Chinese economy has maintained stable aggregate growth, but the expansion has become increasingly unbalanced. Weak household demand and cutthroat corporate competition ("involution") have resulted in persistent deflationary pressures, even as exports to non-US markets have continued to grow rapidly. While the Chinese government's anti-involution drive aims to restrain competition that is destructive to corporate profits, it has not been accompanied by policy stimulus or reforms to boost consumption demand. China's equity markets have surged, fueled by an AI boom and government measures aimed at encouraging retail investors to participate in stock markets. The housing market, though, is still unraveling and remains a drag on private-sector confidence.

India's economy continues to post strong growth, driven by a resilient urban consumer base and high levels of manufacturing investment. Falling inflation and disciplined fiscal policy have created room for monetary easing, if needed, to support growth. The challenge of creating jobs for its young and expanding workforce, however, has intensified following the sudden, unexpected turmoil in US-India economic relations. With this development, India may have lost some of its luster as a destination for foreign investors.

At the same time, soaring military outlays and falling energy prices have dampened Russia's growth prospects, following several years in which its economy had successfully weathered Western sanctions. And emerging markets in Latin America continue to contend with low growth and large current-account deficits. Brazil's economy is slowing, owing to lower household consumption and falling investment, while Mexico has fared better, with resilient exports and easing inflation supporting a modest expansion. That said, weak investment, policy uncertainty, and exposure to US tariff risks have tempered growth momentum.

In short, despite rising geopolitical risk and enormous uncertainty, economic growth has been surprisingly stable in most of the world. But as growth slows, even moderately, structural issues that have been simmering beneath the surface will become harder to ignore. For now, however, the divergence between growth prospects and equity market performance suggests a more benign outlook, perhaps buoyed by the transformative potential of AI and the hope of less uncertainty about trade, even if tariff barriers settle at a higher level than in the pre-Trump period.

Policymakers need to use this period of relative calm to push forward with reforms and disciplined policies. Doing so will improve their economies' resilience in the face of greater volatility engendered by the breakdown of the rules-based order.

ESWAR PRASAD

Eswar Prasad is Professor of Economics at Cornell University and a senior fellow at the Brookings Institution.

CAROLINE SMILTNEKS

Caroline Smiltneks is an undergraduate at Cornell University.