

Another global trade war in 2025? By Klaus F. Zimmermann

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Flourishing trade relationships between countries are crucial to the international division of labor and welfare. With forthcoming political changes in the United State and Europe, the trade disputes between China, the US and the European Union may become a closely watched global issue.

But will this conflict culminate in another global trade war by 2025, potentially triggering a major economic crisis? Or can a balance between cooperation and confrontation be achieved?

Recent political shifts in the US and the EU, particularly in Italy, France and Germany, have rendered the “Western” world more conservative, nationalistic, and less focused on globalization. Political agendas are overshadowing economic logic. Consequently, China is frequently viewed as a trade powerhouse endangering economic well-being. Incoming US president Donald Trump has proposed significant tariffs on Chinese and EU imports to reduce US trade deficits with these economies.

The EU is urged to increase its oil and gas imports from the US. Regarding China, targeted industries encompass those vital to national security, such as semiconductors, rare earth minerals, and pharmaceuticals, with additional measures controlling sensitive technologies, including artificial intelligence and quantum computing.

Revoking China’s “most favored nation” status in the US, termed Permanent Normal Trade Relations, could be a significant initial move.

Trade disputes between China and the EU are mainly focused on the electric vehicle sector, with Europe, particularly Germany, losing its dominance in the car industry. The EU accuses China of unfair trade practices, including company subsidies.

Latin America is another area of trade competition and dispute. The EU-Mercosur treaty, signed by EU Commission president Ursula von der Leyen in early December, is a major trade agreement involving the EU and Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). This treaty aims to reduce tariffs and trade barriers, anticipating welfare gains for both regions.

China has funded a new deep-water port in Chancay, Peru, under its Belt and Road Initiative. Inaugurated in the presence of President Xi Jinping, this port is expected to significantly boost trade between South America and Asia, while also facilitating trade into South America.

As for Trump, he has warned Panama that the Panama Canal, a crucial route for global sea freight, should not fall into the “wrong hands”. Additionally, the US is displeased with the Mercosur agreement, as it intensifies competition with the EU.

Anticipating trade conflicts in 2025, China aims to boost domestic demand and industrial upgrading while avoiding structural reforms to mitigate new economic risks while EU might counter US tariffs by diversifying energy sources, increasing tariffs on US goods and services (such as the Digital Service Tax on imported software services), and pursuing trade partners in regions like Mercosur, Africa, and the “Indo-Pacific. EU countries need to swiftly ratify the Mercosur treaty, though internal criticism persists as Spain, Germany, and the Netherlands stand to benefit more than France and Belgium.

Investing in negotiations to minimize or avoid trade war damages is beneficial for global welfare. Respecting national cultures, strategies, and borders is essential to prevent political dominance and achieve these gains. Balancing security and economic policy objectives has grown increasingly important. Failing this, greater autonomy, diversified supply chains, and a focus on trading with allied nations would be the only alternative. With this common understanding, a global agreement among major trade players appears feasible.

Why is such a deal profitable? Tariffs and trade barriers raise prices for consumer and investment goods in countries implementing these policies, leading to inflation, unemployment, and a lower standard of living in the US or Europe. Additionally, these measures impact European and American businesses operating from China or Europe.

Trade wars can harm beyond trade by diminishing investor confidence, increasing economic uncertainty, and hindering the exchange of ideas, skilled labor, and technology, as well as hindering climate change mitigation and efforts towards a sustainable global economy.

Current public debates on trade policy may mark the start of negotiations seeking a viable compromise to avert harmful trade wars. The willingness to engage in trade wars, if required, can serve as a deterrent.

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