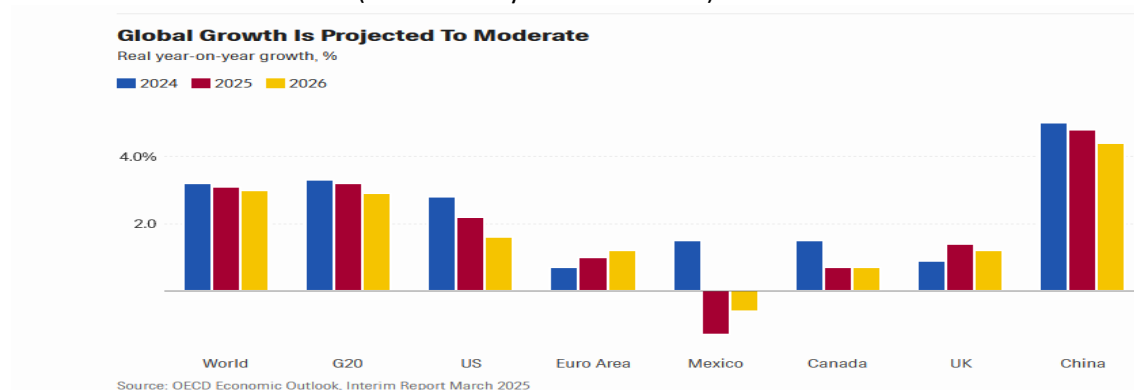


Effect of Tariffs/Trade Agreement on the Global Economy

The world economy is shakier now that Donald J. Trump has been re-elected. The strongly protectionist policies that President Trump ran on, such as a proposed 60% tariff on China, might have an impact on international commerce and macroeconomic conditions both domestically and internationally. A minimum 10 percent duty on all U.S. imports, plus higher tariffs on imports from 57 particular countries, was imposed by an executive order signed by President Trump on April 2, 2025. While taxes on imports from the 57 targeted countries, which ranged from 11 to 50 percent, went into force on April 9, the general tariff rate went into effect on April 5.

Economists criticized Trump's policy heavily even before the election because they believed it would cause inflation and hinder economic growth. Trump's economic platform is based on four key pillars: tariffs, deregulation, deficit balancing, and lower taxes. Trump is probably going to keep the tax cuts he implemented in 2017 and potentially lower them even more. According to the Congressional Budget Office, these tax cuts might result in a ten-year rise in the federal deficit of up to \$4.5 trillion. To counteract increases in the deficit brought on by tax cuts, Trump will also try to balance the federal budget and may employ policies like tariff revenues and expenditure cuts. The biggest effects on the world economy are probably going to come from Trump's tariff initiatives. While 25% tariffs on imports from Canada and Mexico are now on hold and 10% on imports from China are already in place, he has suggested a baseline tax of at least 10% on all imports to the US, with per-country rates. Nevertheless, the specifics of the tariff measures remain unknown, and it's possible that some rates were promoted as negotiating points. In 2024, the global economy grew 3.3%, while this year it grew 2.8%, according to the IMF. But at the same time, the IMF cut its prediction for U.S. growth from 2.8% in January to 1.8% this year. According to the international organization's January forecast, global economy would continue to accelerate at the same pace as the previous year. It is believed that tariffs will increase inflation, making it more difficult for central banks to stimulate economic growth by lowering interest rates. In the face of an incredibly unpredictable economic picture, back-and-forth news are causing doubt and caution.

With a severe blow to activity in the US, Canada, and Mexico, the Paris-based OECD reduced the outlook for global growth this year and next. It lowered its prediction for global GDP growth from 3.3% in 2025 to 3.1% in 2026 and from 3.3% in 2025 to 3.0% in 2026. The OECD projects that Mexico will be forced into a deep recession in 2025 and that Canada's GDP will grow by 0.7% in 2025 and 2026, reducing its previous estimate by 1.3 percentage points. These projections are based on the assumption that the US will confirm tariffs on Canada and Mexico (and that they will be bilateral).

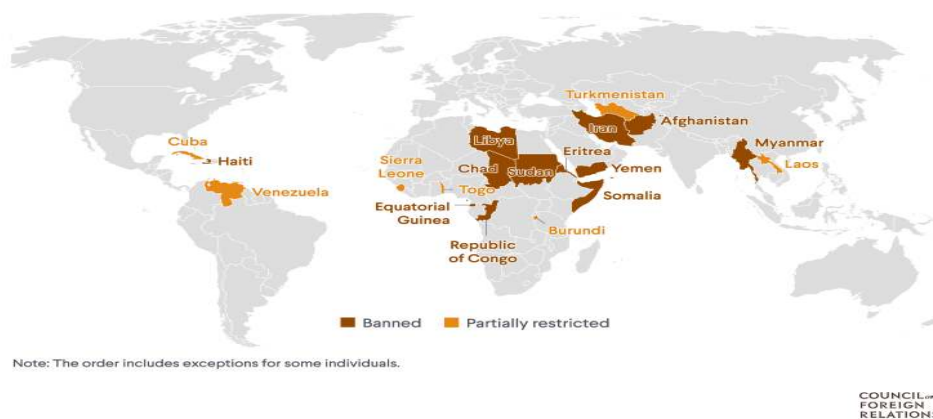


Prices for tariff-heavy sectors like flooring materials, home appliances, and audio equipment increased once more as expected; audio equipment saw a 1.6% increase following an 8.8% increase in April. Nevertheless, declining prices in other areas of the basket more than offset those increases. Prices for new and used cars fell 0.3% and 0.5%, respectively, highlighting the poor demand for expensive goods; airfares fell 2.7% for the fourth consecutive month, hotel rates fell 0.1%, and a variety of recreational

services continued to decline—all of which are classic indicators that households are cutting back on discretionary spending as they worry about their future financial security. Gasoline dropped 2.6%, which reduced overall energy by 1%. Higher electricity prices (+0.9%) and a 0.3% increase in grocery only partially countered this pull. Additionally, shelter inflation decreased, with owners' equivalent rent falling to 0.3% and primary-rent growth slowing to 0.2%. This brought the annual shelter increase down to 3.9%, the lowest level since late 2021. When everything is taken into account, the trade war has not yet caused inflation.

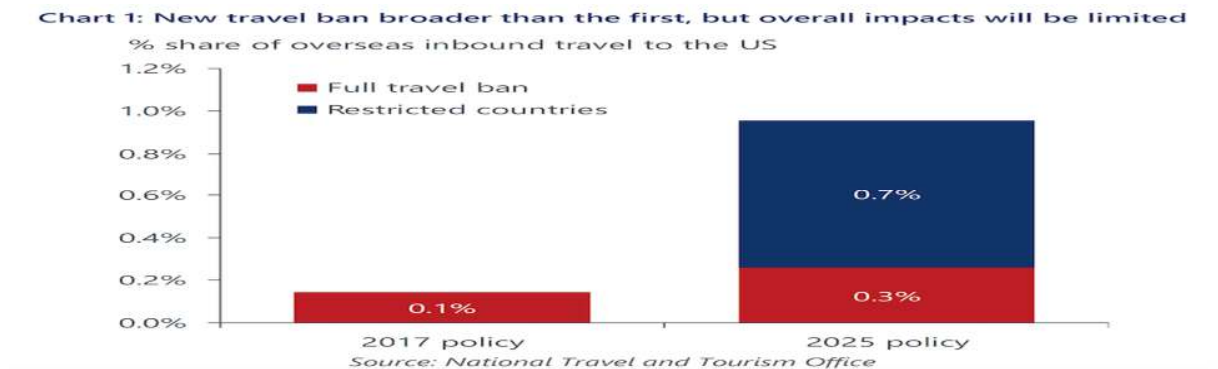
A travel ban proclamation that completely prohibits the entry of citizens of 12 countries and restricts the entry of citizens of seven other nations was signed by US President Donald Trump on June 4. Reduced travel from the impacted nations is anticipated to have little effect on total inbound arrivals, despite the fact that the recently announced travel ban is more expansive than the limitations put in place under the first Trump administration. The action represents a sharp increase in the president's assault on immigration, bringing back a tough strategy from his first term that led to airport mayhem and legal issues. This prohibition is more comprehensive, targets more countries, and is anticipated to be challenged in court. Under the restriction, travellers from these seven countries (Burundi, Cuba, Laos, Sierra Leone, Togo, Turkmenistan, and Venezuela) will not be able to enter the United States with specific visas, resulting in a partial travel suspension. In the majority of these cases, visa overstays are mentioned as the primary issue. Trump's declaration, however, accused Venezuela of not having a strong central authority to issue passports and of refusing to accept deportees from the United States, specifically targeting Cuba as a "state sponsor of terrorism." Trump asserted that "deficient" vetting procedures in some of the above countries could result in hazards to national security and visa overstays. Additionally, he singled out states that will not take in American deportees. The president said that the recent terrorist attack in Boulder, Colorado, highlighted the necessity of such a ban in a video that was shared on social media on Wednesday. (Egypt, which is not on the prohibited list, is the country of origin of the suspected Boulder attacker.)

President Trump Announced a New Travel Ban on Twelve Countries



In 2024, visitors from the twelve prohibited countries made up only 0.3% of all foreign visitors. This figure drops to just 1.0% when the seven countries with restricted entrance are taken into account. Although these limitations will have few direct repercussions, the most recent travel ban may have a further detrimental effect on inbound tourism by escalating anti-US sentiment around the world. Due to sentiment effects and heightened traveller fears, travel ban policies increase the downside risk to short-term prediction for US arrivals. However, a sharp drop in overall arrivals in 2025 of about 10% is being

seen. As per Reuters, the administration of U.S. President Donald Trump is thinking about drastically increasing its travel restrictions by perhaps prohibiting people of 36 additional countries from entering the country.



In a Geneva conference on May 12, 2025, both Chinese and American officials have pledged to lower tariffs for a duration of ninety days (90) in an effort to defuse trade tensions while they negotiate a more comprehensive agreement. China's additional tariffs on U.S. goods dropped to 10% (from 125%), and additional U.S. levies on Chinese imports dropped to 30% (from 145%) on May 14. As a result, stocks surged, with the Dow, S&P 500, and Nasdaq Composite recording their largest one-day increases in more than a month. The temporary tariff reduction's scope is more than anticipated. Positive results are welcomed, but risks are reciprocal. On the one hand, more tariff reductions are possible, particularly for the 20% fentanyl-related tax. Nevertheless, we shouldn't rule out the possibility of a return to tariff increases because the bar for a possible agreement between the United States and China is high and it might take considerably longer than ninety days.

On June 16, President Donald Trump signed a deal that officially reduced some tariffs on British imports as the two countries continue to negotiate a formal trade pact. The agreement, which was made public by Trump and British Prime Minister Keir Starmer during the G7 Summit in Canada, removed duties on the U.K. aerospace industry and confirmed quotas and tariff rates on British cars, but it does not address the steel and aluminium issues. Also, Pharmaceuticals and other important businesses were left out. The United States plans to put a quota on British steel and aluminium imports that would be free from 25% tariffs, but only if Britain shows that its steel supply lines and manufacturing facilities are secure. Britain might have faced higher tariffs beginning July 9 unless an agreement was reached to implement the tariff decrease, but it had avoided the U.S. imposing tariffs of up to 50% on steel and aluminium on other countries earlier this month. Tariffs on aircraft and parts for the UK aerospace industry are also removed by the deal. The United States lowered taxes on imports of steel, aluminium, and vehicles made in the United Kingdom, and Britain agreed to decrease tariffs on U.S. meat and biofuels. Britain was the first nation to agree to a deal for lower tariffs from Trump. The two heads of state reiterated their intention to allow British automakers to export 100,000 vehicles each year to the US at a 10% tariff rate, which is lower than the 25% tariffs that other countries must pay.

Bilateral trade has been seriously impacted by the trade tensions. As Trump's temporary 145% tariffs went into force, US seaborne imports from China fell 28.5% year over year in May, the biggest drop since the epidemic. China-origin imports decreased by 31.6% and 29.9% in Long Beach and Los Angeles, respectively, while overall US container imports down 7.2% in May to 2.18 million 20-foot equivalent units, with West Coast ports being most affected. Similar pressure was shown in China's export figures,

which showed shipments to the US dropping \$15.2 billion to \$28.8 billion in May over the same month last year. China's total export growth slowed to 4.8% in May as a result of the trade interruption.



Consequently, The World Bank drastically lowered its 2025 global growth prediction to 2.3% on June 10th, citing persistent trade volatility as the main cause. With the exception of recessions, this is the slowest growth forecast since 2008. Emerging market and developing countries (EMDEs) are expected to make insufficient progress in eliminating extreme poverty and bridging the per capita income gaps with advanced economies, according to the World Bank's Global Economic Prospects report. The future is mostly dependent on how trade policy develops internationally. As a 90-day halt on reciprocal tariffs ends on July 8, Trump told the media he would be sending letters to trading partners explaining new duty rates, which caused the dollar to plummet to a three-year low on June 12, according to the Financial Times.

With regional affiliations and broken trading blocs, the global trade winds will blow differently in 2025. Prioritizing bilateral trade agreements above multilateral ones could exacerbate export tensions between the West and other nations, like as China and Russia. Changes in manufacturing, regional trade agreements, and the effects of geopolitical unpredictability around the world are being adapted by companies. In an effort to reduce their dependency on China as a result of tariffs, businesses are increasingly diversifying their supply chains and looking for alternate sourcing regions, which might help Southeast Asia and Africa. Businesses are adjusting to new production sites. According to Reuters, VTech intends to relocate all US market production out of China by 2026, while Apple is reportedly moving the majority of its iPhone production headed to the US to India. The U.S. government levied 26% taxes on Indian imports in April, which was significantly less than the almost 100% duty China was then subject to. Through 2025, the technological "Cold War" that began during Trump's first term and is centered on AI, 5G, and semiconductors will persist, changing the character of innovation ecosystems and the flow of international investment. The market and geopolitical risks associated with tech investments will rise. Although 75% of ChatGPT users are personal, corporate adoption still lags behind personal consumption. The \$1.5 trillion investment made so far demonstrates great promise but few real short-term profits. Although AI is still a young, intriguing technology that is developing quickly, many people have yet to see its practical applications. Small-state IFCs may have additional opportunities to act as intermediaries and leverage regional trade agreements as a result of disruption. It may be difficult for traditional financial systems to adapt to the demands of the new economy. Smaller IFCs will benefit from the growth of digital trading centres, which are becoming more popular in areas like the Middle East, Africa, and Southeast Asia where rising economies are encroaching on traditional trade channels.

Trade agreements, like those between the UK and India and the EU with other countries, are making commerce easier and encouraging cooperation. Global economy is at danger due to trade fragmentation, which is fuelled by elements like tariffs and policy uncertainty. For businesses like Optiplan and Finha Trading, the EU's numerous trade agreements with countries like South Korea and Moldova streamline commerce and paperwork. India and the UK signed a historic Free Trade Agreement (FTA) on May 6, 2025, marking a major milestone in their bilateral relationship. The Indian government described this historic agreement as "ambitious" and "transformative," with the goal of greatly increasing employment, exports, and national prosperity for both countries. An estimated £4.8 billion (US\$6.4 billion) in economic benefits are anticipated for the UK by 2040 as a result of the FTA, which permits the removal of tariffs on 90% of UK tariff lines, covering approximately 100% of trade value, and eliminating duties on 99% of Indian tariff lines. Textiles, leather, agriculture, IT services, jewellery, engineering goods, auto parts, engines, and organic chemicals are some of the important industries in India that stand to gain. The beverage, automotive, advanced manufacturing, and life sciences sectors might all gain in the UK. Professional mobility in services is also supported under the UK-India Free Trade Agreement 2025.

Additionally, trade finance will continue to evolve in 2025. Demand for more safe, transparent trade finance solutions will be fuelled by the move to digitalized trade and ongoing political unrest, which small-state IFCs are well-positioned to provide. With the help of a pro-crypto U.S. president and a more lenient regulatory framework, the rest of this decade will be crucial for the establishment and integration of everything crypto. Significant changes in international events, commerce, and investment are anticipated in 2025. Donald Trump's return to the White House will bring his brand of protectionism, nationalism, and a more transactional approach to international affairs, all of which will have a big impact on how the financial markets develop. In a world of technological disruption, geopolitical risk, and shifting tax and trade paradigms, strategies will need to be rethought.