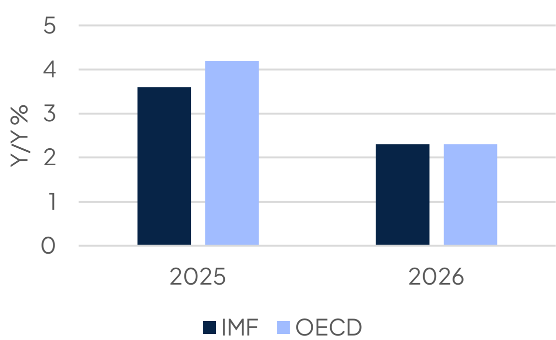
World trade expected to moderate in 2026

16 December 2025 – Global macroeconomics

- Global trade growth is expected to moderate in 2026, following a better-than-expected performance in 2025.
- Although continued AI-related trade and the rerouting of Chinese exports may continue to support trade in 2026 they are unlikely to fully offset the impact of the unwinding of tariff related front-loading, slowing global growth and continued uncertainty around US trade policy.

Growth in global trade is expected to moderate over the course of 2026, after showing remarkable resilience in 2025 in the face of material tariff-related headwinds. The most recent forecasts from both the IMF and OECD point towards trade volume growth slowing to 2.3% in 2026 from closer to 3-4% in 2025.

Global trade momentum set to slow



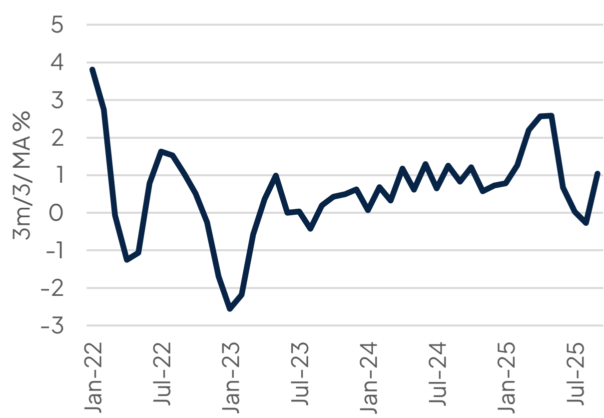
Source: IMF, OECD, Emirates NBD Research

Front-loading supported trade in H1 2025

The more subdued global trade outlook is driven by the convergence of three key headwinds. The first is the generally lackluster outlook for global growth, with most forecasters expecting growth to remain broadly stable or fall somewhat into 2026. The IMF expects growth to reach 3.1% y/y in 2026, down from 3.2% in 2025, while UNCTAD anticipates global growth will remain steady at 2.6% in 2026.

The second is the mechanical unwinding of a build in inventories that occurred in the first half of 2025 in response to the introduction of substantial tariffs by the Trump administration in April 2025. A 90-day pause in the application of higher-rated tariffs created an incentive for companies to front-load trade activity to avoid a deadline for higher tariff rates coming into effect. Data from the Netherlands Bureau for Economic Policy Analysis shows a sharp rise in the volume of goods trade on a 3m/3m moving average basis between April and June as companies increased trade activity to build inventories.

Goods trade volumes rose sharply in Q2



Source: Bloomberg, Emirates NBD Research

US trade policy is likely to remain a key source of uncertainty in 2026. In the short-term, an impending source of uncertainty could stem from a supreme court decision on the legality of tariffs imposed under the International Emergency Economic Powers Act (IEEPA). The possibility remains that even if the court declares the tariffs to be an over-extension of the President's powers, the administration could find other laws to reimpose them in some form. In addition, President Trump's use of tariffs as a negotiating tool arguably injects further uncertainty into the outlook, by blurring the line between long-lived trade policy and non-trade related geopolitical objectives.

AI and trade rerouting remain bright spots

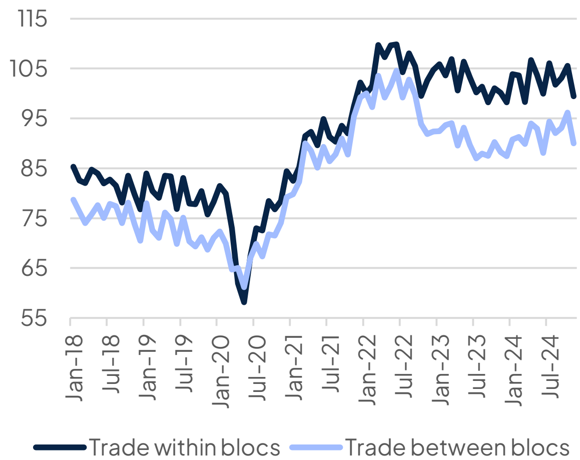
Nonetheless, some trade-related bright spots do remain, both of which supported trade volumes in 2025. The first is the boost to global trade provided by a surge in AI investment. Analysis by the World Trade Organization (WTO) suggests that trade in goods related to AI was responsible for a little over 40% of the overall 6% rise in the value of merchandise trade in H1 2025. Much of the growth in AI-related trade appears to have come from Asia, which accounted for over two-thirds of growth in H1 2025, followed by the US which was responsible for a further 20% of the growth over the same period. The WTO also noted that both Saudi and the UAE saw an increase in AI-related trade. With a substantial runway of AI-related investment remaining, this appears likely to be a continued source of trade activity into 2026.

The second is the rerouting of supply chains in response to the US tariffs. Data from the Chinese Customs Authority shows that between February and November 2025 exports to the US fell 22% relative to 2024. Despite this marked fall, Chinese exports in aggregate rose a little over 4% y/y over the same period, suggesting that China has had success in developing other export markets. The most recent Chinese trade balance data, in fact, shows that in the year to November, the country achieved a surplus exceeding USD1trn, a new record. In part this development was likely supported by a weakening in the Renminbi on a trade-weighted basis, allowing Chinese exporters to reduce prices in markets outside of the US, despite the Renminbi appreciating against the dollar.

There have been noteworthy increases in Chinese exports to Africa, South-East Asia and the European Union in 2025. Of the 4.3% growth seen in aggregate Chinese exports between February and November 2025, ASEAN countries accounted for 2.6ppts, Africa accounted for 1.5ppts, and the EU accounted for a further 1.2ppts. Within ASEAN countries the rise in Chinese exports to Vietnam is particularly marked.

The rise in exports to non-US partners might reflect a direct rerouting of Chinese exports (third countries import goods from China, and then re-exports to US markets), as well as indirect rerouting (third countries use more Chinese goods, leaving a larger share of their own production for export to the US), but it arguably also builds on a pattern of growing trade fragmentation. Starting in 2022, data from the World Trade Organization showed that countries within the same geoeconomic bloc began conducting a larger share of trade with each other, while the share of trade conducted between blocs has declined. In the long run this should reduce Chinese dependence on the US as a key market.

Trade increasingly occurring within blocs



Source: WTO, Emirates NBD Research

Downside risks to trade dominate in 2026

Potential risks to the outlook are arguably weighted to the downside. The coming year could see a more material ramping up in trade conflict as a direct response to US tariffs, although not necessarily targeting the US itself. We have already seen an example of this, with Mexico recently announcing the imposition of tariffs as high as 50% on Chinese exports to appease US concerns about rerouting of trade. The Trump admiration could also elect to hike tariffs further on select trade partners. A further risk may be a more generalized rise in market anxiety about whether the current spending spree on AI is reaching bubble territory. Any pullback in this spending will dent trade prospects.

In contrast, upside risks to the outlook could come in the form of further trade deals being struck between the US and key trading partners. At least a portion of the better-than-expected 2025 trade performance is likely attributable to the 90-pause allowing a handful of major economies, including the European Union, United Kingdom, Japan, Vietnam, Indonesia and South Korea to conclude trade agreements with the US before the deadline.

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