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World Economy in 2025 – Unprecedented Risks and Challenges

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The world macroeconomic climate has recently deteriorated, an evolution mainly determined by the high level of uncertainty. Uncertainty has become a new normal following the COVID-19 pandemic, the war in Ukraine, and geopolitical tensions in the Middle East, however, it increased sharply in the context of the economic policy decisions at the beginning of the Trump 2.0 Administration in the United States. The decision to increase the trade tariffs would hurt the world trade flows in the short-run and seriously impact the trust between major actors in the long-run. In this paper, we resort to the literature review and use standard econometric tools and the databases of several institutions in order to assess the relation between the investment climate, on the one hand, and world trade and the real financing costs, on the other hand, in the USA, and Germany during January 2005 – March 2025. The results express unfavourable prospects for the investment climate in the short-run, given the negative outlook for world trade, and the high level of the real financing costs.

Keywords: *world trade, investment climate, real financing costs, economic policy*

Introduction

The key objective of the present paper is to underscore the most important categories of risks undermining the macroeconomic climate globally. In our opinion, the investment climate, the world trade environment, and the real financing costs are crucial. These are correlated with the geo-political tensions at a high level (including events in the Middle East) and the protectionist tariff policy in the United States under the Trump 2.0 Administration, as well as long-term effects of the pandemic. One can remark also a combination of effects of the above-mentioned categories (for instance, intensification of volatility in international financial markets, high inflation, or higher-for-longer interest rates), eroding buffers, and structural challenges in various countries' public finances.

The world macroeconomic climate has recently deteriorated, an evolution determined by the intensification of the uncertainty to record high levels, following the structural changes in terms of trade policy announced by the United States, the largest economy in the world, with a nominal dimension of almost USD 30tn in 1Q 2025, according to the estimates of the Bureau of Economic Analysis (BEA, 2025).

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The global economic policy uncertainty index hit a record high level in 2025, according to the statistics available on the site of the Federal Reserve from Saint Louis (2025a). The persistence of the uncertainty at record high levels represents a poison for the confidence of the investors and of the consumers, with negative impact for the investment climate.

In the USA the consumer confidence indicator estimated by the University of Michigan (2025) deteriorated in the past months, towards the lowest level since the summer of 2022 (the period when the annual pace of the consumer prices accelerated to over 9.0%, the highest level since the 1980s).

Furthermore, the indicator measuring the business climate across the small businesses in the USA declined in the month of April toward the lowest level since October 2024, according to the indicator estimated by the National Federation of Independent Businesses (NFIB, 2025).

We underline that the recent intensification of the uncertainty is not the only factor with negative contribution for the investment climate. In the past quarters, there was noticed an upward trend for the real financing costs (nominal financing costs adjusted by inflation) in the long-run in the USA, a barometer for the financing costs in the world economy.

Considering the above-mentioned factors, we emphasize that the deterioration of the monthly macroeconomic indicators has not been limited to the US economy.

In China, the second largest economy in the world, with a nominal dimension converging towards USD 19tn in 2024, according to the estimates of the National Bureau of Statistics from Beijing (2025), the economic activity rose for the 18th month in a row in April, but the growth pace decelerated to the lowest since January, as reflected by the Caixin PMI Composite barometer, the statistics being available on the platform Trading Economics (2025).

Last, but not least, the economy of Euroland (which contributes by around 85% to the formation of the GDP of the European Union) resumed contraction in the month of May, according to the PMI Composite barometer estimated by S&P Global (2025a).

In this context, the growth pace of the world economic activity decelerated in the month of April 2025, being recorded the weakest pace since November 2023, according to the PMI (Purchasing Managers' Index) Composite (manufacturing and services) estimated by S&P Global (2025b).

In this paper standard econometric tools are implemented and the databases of several institutions are used in order to analyse the relation between the investment climate and the evolution of the world trade and of the real financing costs.

We worked with both monthly and annual data in order to assess this relation in the USA (the largest economy in the world), and in Germany (the locomotive economy of the European Union, with a nominal dimension of over EUR 4.3tn in 2024, according to the estimates of Eurostat (2025a)).

On the one hand, we estimated the trend components for these indicators by applying the filter developed by Hodrick-Prescott (1997).

On the other hand, we implement the standard OLS regression to estimate the impact the world trade and the real financing costs have on the investment climate.

The results show a positive relation between the evolution of world trade and the investment climate in both the USA and Germany.

Furthermore, there is a negative relation between the investment climate and the real financing costs in both economies.

The rest of the paper has the following structure: the literature review is briefly presented in the next section; the methodology is described in the third section; the main results are interpreted in the fourth section; the conclusions are drawn in the last section.

Literature Review

All recent reports from major international organizations highlight a number of risks with a profound impact on regional and global economic activity (IMF, 2025a; OECD, 2025; European Commission, 2025; WTO, 2025; Asian Development Bank, 2025). The US American First Policy, with its complex and various impacts (in trade, investment, energy, technology, international relations, to mention several of the relevant fields), is the most evident risk at present. At the same time, uncertainty is increasing, borrowing costs and inflation remain high, and confidence between states is sharply decreasing.

The protectionist stance by the Trump 2.0 administration has sharply accentuated the uncertainty in the global economy.

Although the sustained trade protectionism implies long-term structural changes such as supply chain reconfiguration, technological adaptation, or industrial policy realignments, the framework of this paper is too limited in order to capture its potential impact. The trade deals concluded until now between the United States and trade partners such as the United Kingdom (with tariffs of 10% for their exports to the American market), Japan (15%), the European Union (15%), the Philippines, Indonesia, and Vietnam (19% for the first two and 20% for the last mentioned member of the Association of the Southeast Asian Nations) underscore the US trade partners' inclination towards concessions. The losses in terms of competitiveness are evident for the US trade partners. Commitments of the EU as a whole in terms of large investments in the United States indicate a new trend, namely that of replacing a part of the trade flows by direct production in the US, however that might be tempered by the decision makers in the private sector, who might incline towards strengthening cooperation with other partners, less protectionist than the US at present.

Asian Development Bank (2025) synthesizes the current situation as follows: ***"risks mount as tariffs escalate"***. Elevated financial risks are also present, leading to higher borrowing costs. Among the looming risks are negative spillover from the evolving geoeconomic and geopolitical situation as well as a potential disruption to oil export routes. In our opinion, the global trade war is at present the highest challenge of all.

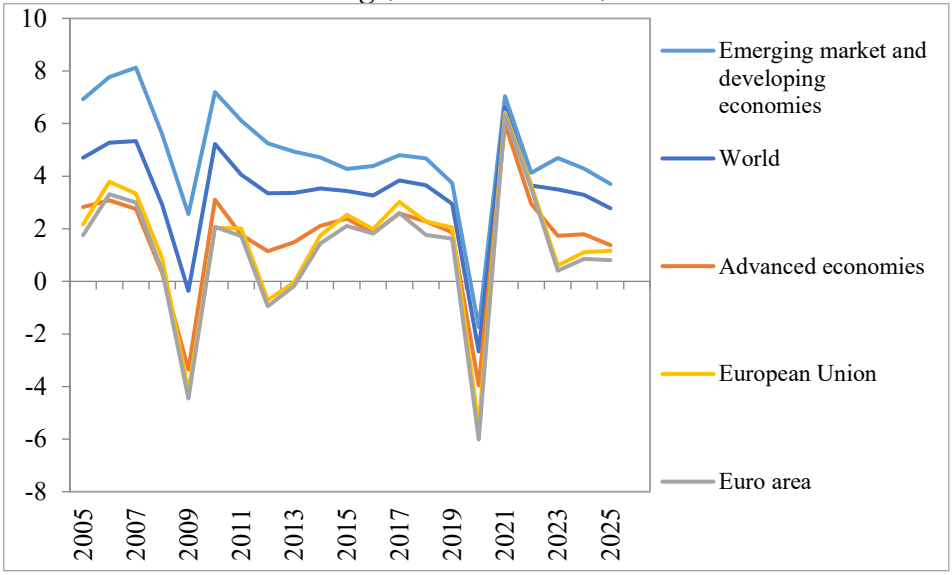
The US administration's decision on April 2, 2025, to increase tariffs has contributed to heightened trade tensions and led to an increase in uncertainty to levels not seen in decades. The global economy is currently facing a new major test,

after being affected over the past five years by the Covid-19 pandemic (the most severe global health crisis in the last century), the paradigm shift from a geopolitical perspective, and their consequences, including the inflationary surge that prompted central banks to significantly increase key interest rates. The intensification of uncertainty has an unfavourable impact on investor and consumer confidence and immediate implications for economic and financial stability, both in developed countries and in emerging and developing countries.

In this context, the IMF experts have revised downward their forecasts for the annual growth rate of international trade (with unfavourable implications for global economic activity) and upward their forecasts for annual consumer price dynamics in 2025 (IMF, 2025a; 2025b).

Thus, in the macroeconomic scenario recently updated by the IMF, global GDP is forecast to grow at a yearly rate of 2.8% in 2025, revised downward by 0.5 percentage points. The following Chart reflects the GDP growth rates at global level, in the two major groups of countries (developed and developing/emerging), as well as in the EU and the Eurozone.

Chart 1. *GDP Percent Change, Constant Prices, 2005-2025*



Source: Authors' representation, based on IMF (2025b).

This revision was driven by the estimated impact of new tariffs, as well as the consequences of the wave of uncertainty. The volume of international trade in goods and services is estimated at a yearly rate of only 1.7% in 2025, revised downwards by 1.5 percentage points.

In his second term as President, Donald Trump continues the policies from his first term in office (from 2017 to 202), including his 'America First' policy – with higher tariffs, subsidies and fierce competition (Stehrer, 2024). His approach is even more assertive, as demonstrated by his executive orders (The White House, 2025).

The latest report by the World Trade Organization (WTO, 2025) shows that global trade in goods is expected to decline by 0.2% in 2025 after a growth rate of 2.9% in 2024. Moreover, if tariff policies become even more protectionist, the

decline could be even more drastic, reaching 1.5%, as uncertainty surrounding trade policy could be "a brake on global growth".

The OECD estimates ***"suggest that in the medium-term global trade volumes should fall by close to 2% when the United States raises bilateral tariff rates by 10 percentage points on imports from all trading partners and all countries retaliate by raising bilateral tariff rates on imports from the United States by 10 percentage points. In all, such tariff changes affect approximately 8.2% of total world trade in goods and services. At the sectoral level, trade would fall relatively sharply in many manufacturing sectors, particularly motor vehicles and parts and machinery and equipment"***. Overall, consumers face much of the burden of higher tariffs, with household real incomes estimated to decline, while productivity is also forecast to be strongly affected (OECD, 2025).

According to IMF, ***"tariffs are a negative supply shock for the economy imposing them, as resources are reallocated toward the production of noncompetitive goods, with a resulting loss of aggregate productivity, lower activity, and higher production costs and prices. Moreover, in the medium term, by reducing competition, tariffs increase the market power of domestic producers, decrease incentives to innovate, and create multiple opportunities for rent seeking. For trading partners, tariffs constitute mostly a negative external demand shock, driving foreign customers away from their products, even if some countries could benefit from the rerouting of trade flows"*** (IMF, 2025a). Nevertheless, fiscal support in some cases (for instance, China, Eurozone) offsets some of the negative growth impact (IMF, 2025a).

The April 2, 2025 is the date proclaimed by President Trump as "Liberation Day", which he considers the day of the "declaration of economic independence" of the United States, with the following stated objectives:

1. pursuing reciprocity to rebuild the economy and restore national and economic security;
2. taking back national economic sovereignty;
3. reprioritizing U.S. manufacturing, as increased domestic production is essential to U.S. national security;
4. addressing trade imbalances.

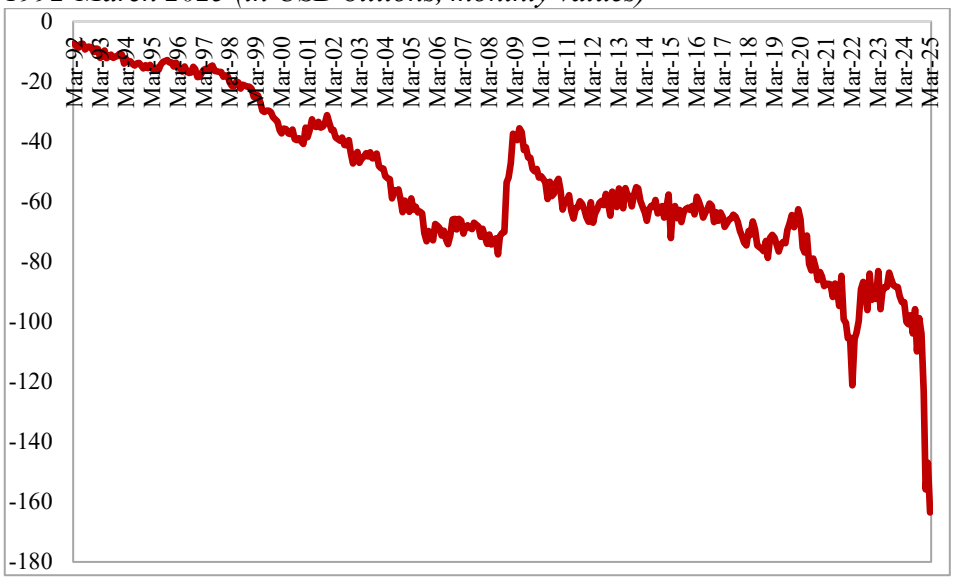
However, the negative effects for businesses and consumers are evident, and it can be prefigured inflation rise, potential input shortages, lower employment and output. On the official White House website, the fact sheet on the declaration of national emergency states that "foreign trade and economic practices have created a national emergency", which imposes response tariffs to strengthen the US international economic position and protect American workers.

According to the White House, the motivations for increasing tariffs are the following. "Large and persistent annual U.S. goods trade deficits have led to the hollowing out of our manufacturing base; resulted in a lack of incentive to increase advanced domestic manufacturing capacity; undermined critical supply chains; and rendered our defence-industrial base dependent on foreign adversaries". Main tariffs invoked are: Section 301 tariffs that seek to tackle the unfair trade practices and

Section 232 tariffs related to national security concerns (mainly on steel, aluminium, and automobiles).

The data reflect a tripling in the monthly value of the U.S. trade deficit over the past 10 years, from about $40 billion in January 2015 to $131 billion in January 2025 (Chart 2). Since 2020, each year the average monthly deficit has exceeded $50 billion, approaching $80 billion in 2022, before falling to $65 billion in 2023 and rising to $76 billion in 2024 (Chart 2).

Chart 2. *Evolution of the US Trade Balance, Trade in Goods and Services, March 1992-March 2025 (in USD billions, monthly values)*



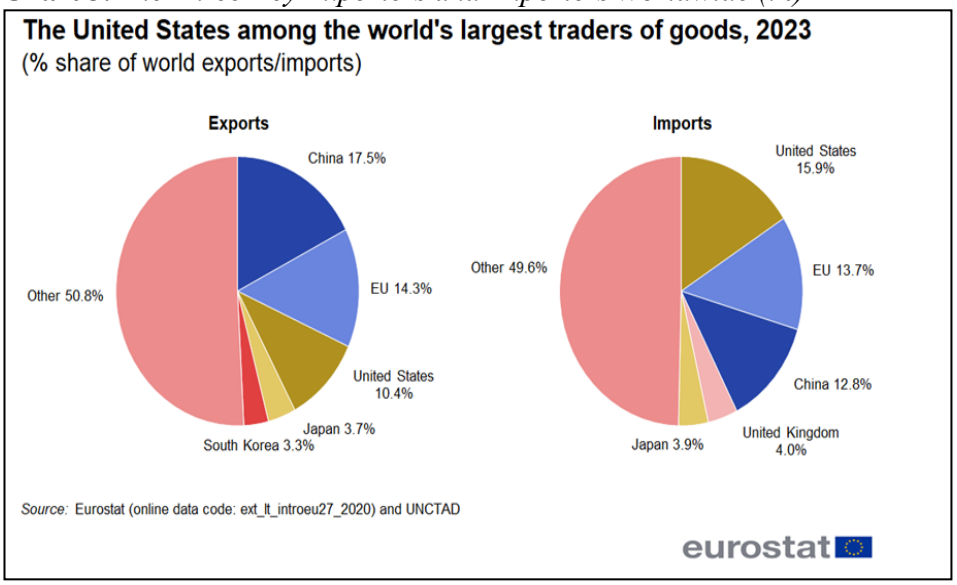
Source: Authors' representation, based on Federal Reserve Bank of St. Louis (2025b).

President Trump has invoked his authority under the International Emergency Economic Powers Act of 1977 (IEEPA). Consequently, there were imposed "basic" tariffs on all imports into the US. The level was set at 10% and took effect from April 5. Imports from a number of countries are subject only to basic duties, namely the UK, Singapore, Brazil, Australia, New Zealand, Turkey, Colombia, Argentina, El Salvador, the United Arab Emirates and Saudi Arabia (The White House, 2025).

Specific ("personalized", individualized) reciprocal tariffs were also imposed on about 60 of the "biggest offenders" (meaning countries with which the US has the biggest trade deficits). Initially these should have taken effect from April 9, however with the exception of China, the others have been postponed in order to stimulate negotiations on a bilateral basis. Among the main trading partners subject to these tariffs are: the European Union (with an initial level of 20%, reduced to 15%), China (faced by an evident escalation of a trade war in April, followed by de-escalation in May), Vietnam (initially 46%, later reduced to 20%), Thailand (36%), Japan (24%, reduced to 15% after negotiations), Cambodia (49%), South Africa (30%) and Taiwan-China (32%) (The White House, 2025). China is the first target of the global trade war initiated by the US in April 2025 (with collateral victims, including here the Asian Tigers). The EU is the second major target (Oehler-Șincai, 2025). China and the EU are the first and the second largest exporters worldwide,

followed by the US, while the EU and China are the second and the third largest importers, as shown in the following Chart.

Chart 3. *The Three Key Exporters and Importers Worldwide (%)*



Source: Eurostat (2025b).

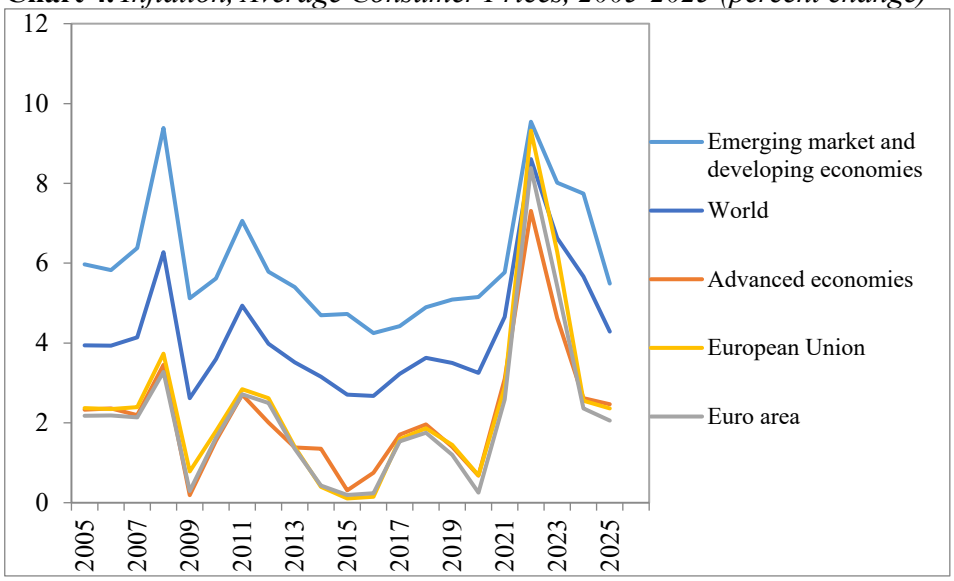
In recent weeks, the US has launched negotiations with 18 of its major trading partners, as these are considered very important for the United States. These are not free trade agreements in the classic, traditional sense, but rather a basis for easing trade tensions. However, uncertainty remains for businesses, consumers, and investors alike.

On May 8, a first deal, with the United Kingdom, was announced. Under the agreement between the US and the UK, most goods imported by the US will continue to be subject to a basic customs duty of 10%. However, the US president believes that the UK has "made a good deal," given that the 10% rate remains the lowest that will be applied by the US, and many other trading partners will face much higher final customs duties (Wingrove et al., 2025).

On the one hand, the escalation of protectionism on the part of the US has led to intensified negotiations between other partners towards the liberalization of their trade. On the other hand, it has given the US an advantageous position in negotiations with both allies and adversaries. An argument in support of the first statement above is as follows. On May 6, the UK concluded a free trade agreement with India, considered "the biggest trade deal since Brexit." Negotiations had been launched in January 2022, with trade tensions with the US stimulating the conclusion of an agreement. In fact, since leaving the EU on January 31, 2020, the UK has made considerable efforts to strengthen/expand trade relations with its major partners.

As regards inflation, the IMF estimates reflect a general decreasing trend (IMF, 2025b), as long as the highest announced tariffs are not implemented, but kept as a negotiation tool.

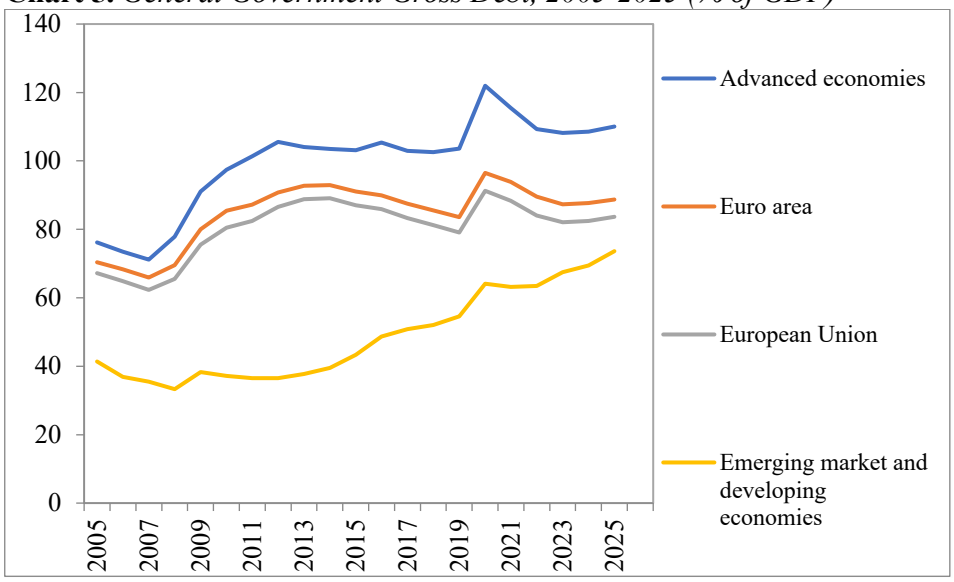
Chart 4. *Inflation, Average Consumer Prices, 2005-2025 (percent change)*



Source: Authors' representation, based on IMF (2025b).

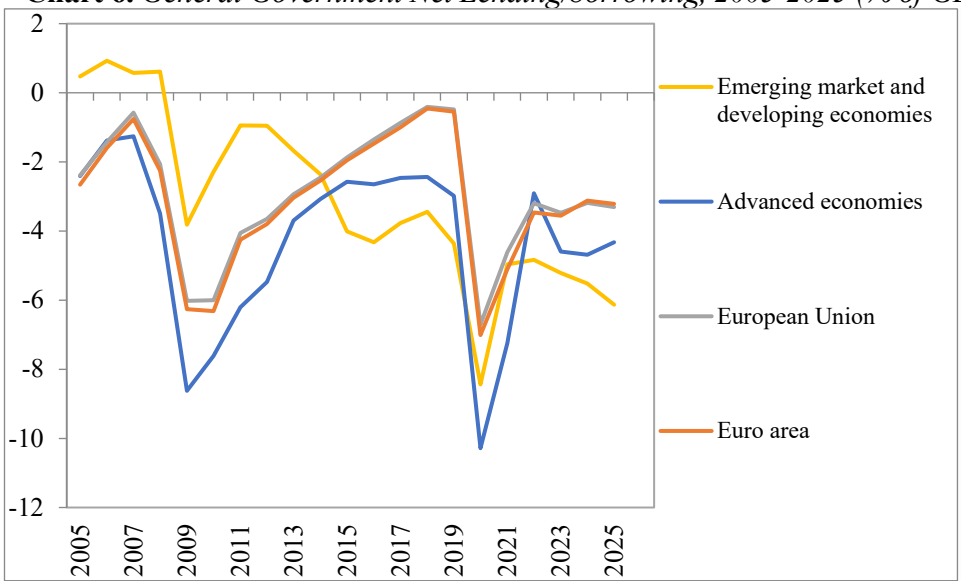
According to IMF (2025a; 2025b), a significant risk facing all the countries worldwide is the rising debt, in the context of lower growth and rising financing costs. Besides, new spending pressures accentuate the fiscal fragility. Emerging market and developing economies are most affected, both in terms of debt and fiscal deficit (Charts 5 and 6).

Chart 5. *General Government Gross Debt, 2005-2025 (% of GDP)*



Source: Authors' representation, based on IMF (2025b).

Chart 6. *General Government Net Lending/borrowing, 2005-2025 (% of GDP)*



Source: Authors' representation, based on IMF (2025b).

Methodology

In this paper, we implement standard econometric tools (the HP filter and OLS regression). The main goal is to estimate the relationship between the investment climate, on the one hand, and the evolution of international trade in goods and long-run financing costs, on the other hand, in the USA and Germany.

We worked with both monthly and annual data from several sources: International Monetary Fund (the annual pace of international trade) (IMF, 2025b), Netherlands Bureau for Economic Policy Analysis (the annual rate of international trade in goods) (CPB, 2025), Federal Reserve of Saint Louis (the 10-YR real financing costs, and the indicator measuring the business climate in the New York region) (FED St Louis, 2025c), Bureau of Economic Analysis (the annual pace of the gross fixed capital formation in the USA) (BEA, 2025), Destatis (the annual rate of the gross fixed capital formation in Germany) (Destatis, 2025), and IFO Institute from Germany (the indicator measuring the business climate in the largest economy in Europe) (IFO, 2025).

In this paper, all the econometric estimates were done by using the EViews software.

First of all, we estimated the trend components for the following indicators: the annual pace of world trade, the annual rate of world trade in goods, the business climate in the New York region, the business climate in Germany, and the 10-YR real financing costs in the USA (a benchmark for the financing costs in the world economy).

To estimate the trend component for the above-mentioned indicators, we applied the Hodrick-Prescott filter, one of the most widely used methods in the literature to distinguish between the structural and cyclical components of macroeconomic variables.

This simple and transparent method is best described by the following relation:

$$\textbf{Min}\sum_{t=1}^{T}(\ln Y_t - \ln Y_t^*)^2 + \lambda \sum_{t=2}^{T-1}((\ln Y_{t+1}^* - \ln Y_t^*) - (\ln Y_t^* - \ln Y_{t-1}^*))^2 \quad (1),$$

in which Y_t, Y_t^* and λ represent the macroeconomic indicator, its trend, and a smoothness parameter.

In this paper we used values for this smoothness parameter of 100 when working with annual data, and 14400 while working with monthly observations, as recommended by the developers of this filter.

On the other hand, we used the trend component of the indicators and estimated several OLS regressions, as described in the following lines.

While working with monthly observations we estimated two OLS regressions for the period January 2005 – March 2025:

A. NYBCTR =C(1)+ C(2)*WTGTR+C(3)*USRFCTR (2),

where NYBCTR is the trend component of the indicator measuring the business climate in the New York region, WTGTR represents the trend component for the international trade in goods, while USRFCTR is the trend component for the 10-YR real financing costs in the USA;

B. DEBCTR=C(1)+C(2)*WTGTR+C(3)*USRFCTR (3),

in which DEBCTR represents the trend component of the indicator measuring the business climate in Germany (we used the IFO indicator), WTGTR is the trend component for the international trade in goods, while USRFCTR represents the trend component for the 10-YR real financing costs in the USA.

While working with annual data we estimated two OLS regressions for the period 1992 – 2024:

A. USGFCFTR = C(1)+C(2)*WTTR+C(3)*USRFCTR (4),

where USGFCFTR represents the trend component for the annual pace of the gross fixed capital formation in the USA, WTTR is the trend component for the annual rate of world trade, and USRFCTR is the trend component for the 10-YR real financing costs in the USA;

B. DEGFCFTR = C(1)+C(2)*WTTR+C(3)*USRFCTR (5),

in which DEGFCFTR represents the trend component for the annual pace of the gross fixed capital formation in Germany, WTTR is the trend component for the annual rate of world trade, and USRFCTR is the trend component for the 10-YR real financing costs in the USA.

Interpretation of the Results

According to the results (represented in the following tables), there is a positive relation between the business climate in the New York region and the international trade in goods (trend components), the estimated coefficient being 3.52. In other words, the advance of the international trade in goods by 1% Y/Y contributed to the increase of the indicator measuring the business climate in the New York region by 3.52 points during the period January 2005 – March 2025.

On the other hand, the econometric results show a negative relation between the business climate in the New York region and the 10-YR real financing costs in the USA (trend components), the estimated coefficient being -12.44. Therefore, the increase of the long-term real financing costs in the USA by 1pp determined the decline of the indicator measuring the business climate in the New York region by 12.44 points during the interval January 2005 – March 2025, as can be noticed in the following table (Table 1).

Table 1. *The Results of the OLS Regression in the USA, Monthly Data*

Dependent Variable: NYBCTR
Method: Least Squares
Date: 06/01/25 Time: 14:08
Sample(adjusted): 2005:01 2025:03
Included observations: 243 after adjusting endpoints
NYBCTR =C(1)+ C(2)*WTGTR+C(3)*USRFCTR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	9.978613	0.681580	14.64042	0.0000
C(2)	3.524513	0.186209	18.92773	0.0000
C(3)	-12.44688	0.630411	-19.74407	0.0000

R-squared	0.684825	Mean dependent var	7.357687
Adjusted R-squared	0.682198	S.D. dependent var	9.934846
S.E. of regression	5.600663	Akaike info criterion	6.295916
Sum squared resid	7528.181	Schwarz criterion	6.339040
Log likelihood	-761.9538	Durbin-Watson stat	0.004588

Source: Authors' representation based on the results of the OLS regression generated by the implementation of the EViews software based on the methodology described above

In the case of Germany, the results show a positive relation between the indicator measuring the business climate (IFO) and the evolution of the international trade in goods (trend components) - estimated coefficient at 0.56 during January 2005 – March 2025. In other words, the advance of the international trade in goods by 1% Y/Y contributed to the increase of the indicator measuring the business climate in Germany by 0.56 points in this period.

However, there can be noticed a negative relation between the indicator measuring the business climate in Germany (IFO) and the evolution of the 10-YR real financing costs in the USA (trend components) in the interval January 2005 – March 2025, the estimated coefficient being -3.94. In other words, the increase of the long-term real financing costs in the USA by 1pp determined the decline of the indicator measuring the business climate in Germany by 3.94 points during the period January 2005 – March 2025, as reflected in Table 2.

Table 2. *The Results of the OLS Regression in Germany, Monthly Data*
Dependent Variable: DEBCTR
Method: Least Squares
Date: 06/01/25 Time: 14:08
Sample(adjusted): 2005:01 2025:03
Included observations: 243 after adjusting endpoints
DEBCTR=C(1)+C(2)*WTGTR+C(3)*USRFCTR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	98.00912	0.427550	229.2345	0.0000
C(2)	0.558026	0.116807	4.777315	0.0000
C(3)	-3.940273	0.395452	-9.963976	0.0000
R-squared	0.293114	Mean dependent var		95.73812
Adjusted R-squared	0.287223	S.D. dependent var		4.161332
S.E. of regression	3.513251	Akaike info criterion		5.363229
Sum squared resid	2962.304	Schwarz criterion		5.406354
Log likelihood	-648.6324	Durbin-Watson stat		0.002496

Source: Authors' representation based on the results of the OLS regression generated by the implementation of the EViews software based on the methodology described above

On the other hand, the results of the econometric analysis developed by employing annual observations are represented in the following tables.

In the case of the USA there is a negative relation between the gross fixed capital formation and the world trade (for the trend components), an estimated coefficient of -0.98 for the period 1992 – 2024. This, in turn, can be explained by the fact that the openness degree of the US economy is very low, around 25%, according to the platform TheGlobalEconomy (2025).

Furthermore, in the case of the USA the results of the econometric analysis point to a positive relation between the gross fixed capital formation and the long-term real financing costs (for the trend components), with an estimated coefficient of 2.65 during the period 1992 – 2024, as reflected in the following table. This result is counterintuitive, as the increase of the real financing costs is normally negative for the investments.

Table 3. *The Results of the OLS Regression in the USA, Annual Data*
Dependent Variable: USGFCFTR
Method: Least Squares
Date: 06/03/25 Time: 10:15
Sample(adjusted): 1992 2024
Included observations: 33 after adjusting endpoints
USGFCFTR = C(1)+C(2)*WTTR+C(3)*USRFCTR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	4.024151	0.573605	7.015549	0.0000
C(2)	-0.979819	0.200466	-4.887702	0.0000
C(3)	2.650079	0.342571	7.735856	0.0000
R-squared	0.725573	Mean dependent var		3.524245
Adjusted R-squared	0.707277	S.D. dependent var		1.651286
S.E. of regression	0.893409	Akaike info criterion		2.698964
Sum squared resid	23.94539	Schwarz criterion		2.835010
Log likelihood	-41.53290	Durbin-Watson stat		0.154704

Source: Authors' representation based on the results of the OLS regression generated by the implementation of the EViews software based on the methodology described above

However, in the case of Germany, the econometric analysis shows a positive relation between the gross fixed capital formation and world trade (trend components), with an estimated coefficient of 0.47 during the period 1992 – 2024. In other words, the increase of world trade by 1% Y/Y contributed to the advance of the gross fixed capital formation by 0.47pp in the interval 1992 – 2024.

On the other hand, there is a negative relation between the gross fixed capital formation in Germany and the long-term real financing costs in the USA (trend components), with an estimated coefficient of -0.99 for the period 1992 – 2024. In other words, the increase of the long-term real financing costs in the USA by 1pp contributed to the decline of the gross fixed capital formation in Germany by almost 1pp in the analysed interval, as can be noticed from Table 4.

Table 4. *The Results of the OLS Regression in Germany, Annual Data*

Dependent Variable: DEGFCFTR
Method: Least Squares
Date: 06/01/25 Time: 14:17
Sample(adjusted): 1992 2024
Included observations: 33 after adjusting endpoints
DEGFCFTR = C(1)+C(2)*WTTR+C(3)*USRFCTR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.170944	0.506139	0.337741	0.7379
C(2)	0.474866	0.176888	2.684556	0.0117
C(3)	-0.988220	0.302278	-3.269239	0.0027
R-squared	0.267221	Mean dependent var		0.897639
Adjusted R-squared	0.218370	S.D. dependent var		0.891675
S.E. of regression	0.788328	Akaike info criterion		2.448704
Sum squared resid	18.64385	Schwarz criterion		2.584750
Log likelihood	-37.40361	Durbin-Watson stat		0.097674

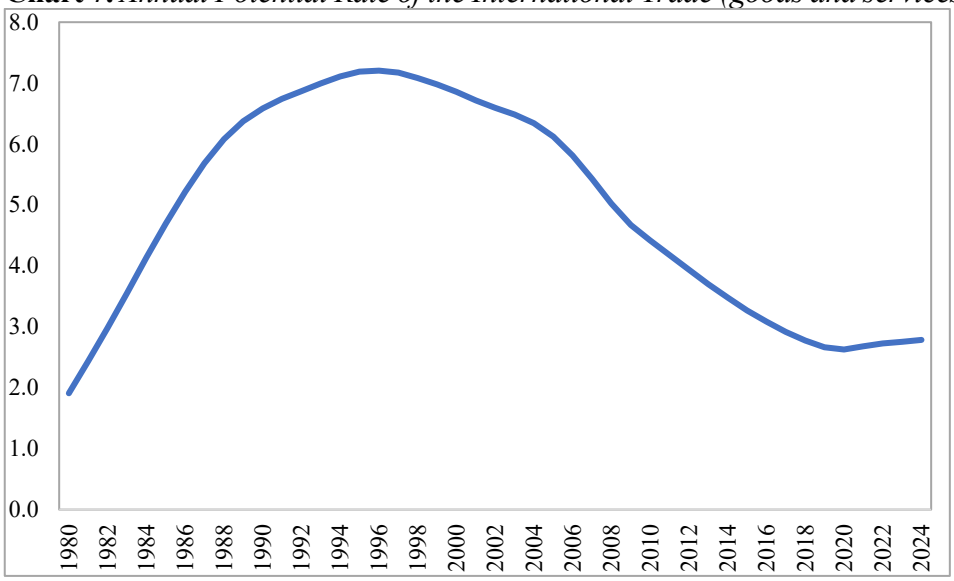
Source: Authors' representation based on the results of the OLS regression generated by the implementation of the EViews software based on the methodology described above

Conclusions

The recent changes in terms of trade policy in the USA would have a negative impact for the evolution of world trade in goods and overall, for the international trade (goods and services) in the coming quarters. While the USA imposes tariffs for trade in goods, the EU (with a significant deficit in trade in services with the USA) may retaliate also in the field of trade in services.

Unless negotiations among the main economic blocks in the world intensify, in order to remove the tariffs announced by the USA since the beginning of the year, there is the risk for the annual potential rate of the international trade to deteriorate to record low levels in the coming years in our view. In fact, according to our econometric estimates this indicator is already close to the lowest levels since the beginning of the 1980s, as can be noticed in the following chart.

Chart 7. *Annual Potential Rate of the International Trade (goods and services) (%)*



Source: Authors' representation, based on the results of the econometric estimates

The negative outlook for world trade corroborated with the high level of the real financing costs in the largest economy in the world (a benchmark for the financing costs in the world economy) express unfavourable prospects for the evolution of the investments in the real side of the economy in the coming quarters, either in the USA or in Germany, according to the results of the econometric analysis developed in this paper.

In this respect, we point out that the results of the analysis with annual data express the fact that investment flows would be more severely hit in Germany than in the USA, as the openness degree in the largest economy in the world is lower.

On the other hand, we emphasize that the recent measures announced at the EU level (including the Competitiveness Compass and the ReArm EU program) may counterbalance the impact of the changes in trade policy in the USA in the case of the German economy.

Therefore, as a future research direction we identify the assessment of the impact of the changes in terms of trade policy in the USA, but also the impact of the retaliatory measures, either in the EU, or in China. The trade deals already reached by the United States with the United Kingdom, Japan and other Asian countries, as well the EU limit the margin of retaliation. However, uncertainty and lack of trust among relevant trade partners persist.

The main limitation of this analysis is the extrapolation of the case study results to the whole world economy. Other similar case studies could strengthen the study results.

The results of this analysis are relevant for the policymakers in the world. The US protectionism has not cancelled the commitment of other major players to multilateralism. Both developed and developing/emerging economies (including the ten members and partners of the BRICS – Brazil, Russia, India, China, and South Africa) remain committed to multilateralism, the international cooperation in terms

of trade, investments, and development. These elements are essential for durable peace, improvement of prosperity, and a sustainable planet in the long-run.

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