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Opinions

2025 KIEP World Economic Outlook: Intensifying Trumpism, Deepening Growth Divergence

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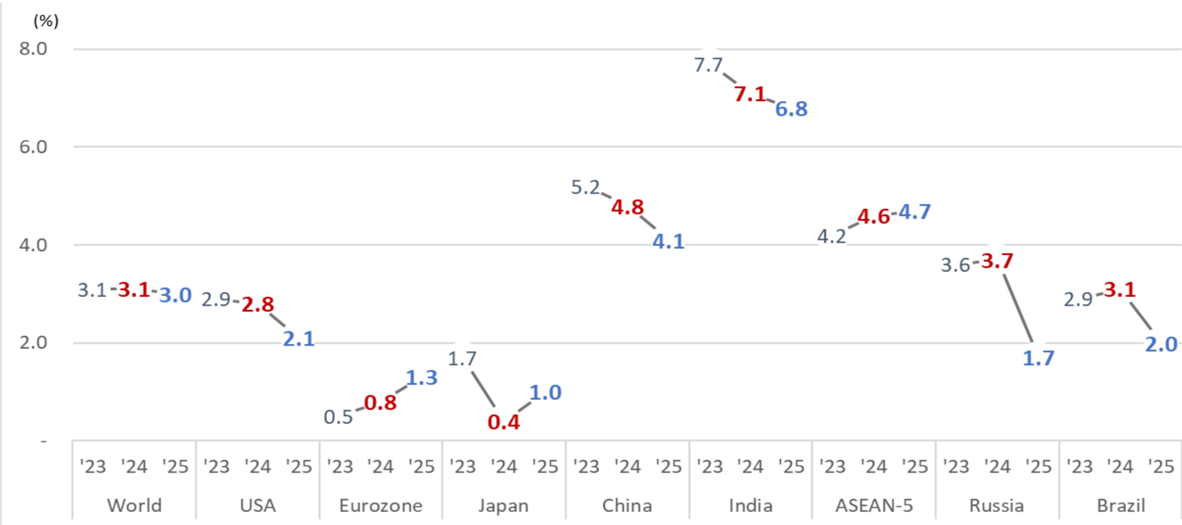
In its "World Economic Outlook" released on November 14, 2024, the Korea Institute for International Economic Policy (KIEP) forecasts global economic growth at 3.0% in 2025, slightly lower than the 3.1% growth projected for 2024. For reference, both the IMF in October and the OECD in September forecast growth rates of 3.2% for 2025. Several factors contributed to this downgrade: the potential continuation of protectionist policies under a second Trump administration, including possible tariff hikes, and the persistent restrictive nature of interest rates, despite cuts by major central banks. These factors, combined with global debt pressures, are expected to weigh heavily on global economic growth.

The 3.0% global growth forecast for 2025 is notably lower than the pre-pandemic five-year average of 3.4% (2015–2019). This divergence is particularly pronounced in China and the Eurozone, where growth rates are forecast to reach 4.1% and 1.3%, respectively, compared to their pre-pandemic averages of 6.7% and 2.0%. However, the United States, India, and the ASEAN-5 are projected to show growth rates of 2.1%, 6.8%, and

4.7%, respectively, close to their pre-pandemic averages, indicating relatively strong performance in these regions. This highlights the growing fragmentation of the global economy post-pandemic and the evolving geopolitical risks that continue to shape the global economic landscape.

By country, KIEP forecasts U.S. economic growth to slow to 2.1% in 2025 from 2.8% in 2024. Strong consumer spending, buoyed by a robust labor market and rising asset prices, will likely support growth. However, the momentum in consumer spending is expected to slow due to restrictive interest rate levels despite anticipated rate cuts. Policy uncertainty under a re-elected President Trump poses risks, particularly from potential tariff hikes, tax reforms, and environmental policy rollbacks. Rapid tax cuts, however, could stimulate growth.

Figure 1. 2025 KIEP World Economic Outlook



Notes: 1) Based on PPP, 2) ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
Source: KIEP World Economic Outlook (November 2024)

The Eurozone's economy is expected to grow by 1.3% in 2025 from 0.8% in 2024. Growth will be driven by recovery in private consumption, supported by improved real wages and financial conditions. However, the persistent economic difficulties in Germany, which accounts for nearly 30% of the Eurozone's economy, coupled with the implementation of fiscal penalties due to excessive deficits, are expected to prevent a strong recovery.

Japan's economy is forecast to grow by 1.0% in 2025, compared to 0.4% in 2024. Modest recovery is expected from new policies, increased investment in AI and decarbonization, and base effects from weak growth in 2024. Risks include weaker exports as the yen's depreciation impact fades, slower corporate earnings, and possible new tariffs under the upcoming second Trump administration.

China's growth is expected to slow to 4.1% in 2025 from 4.8% in 2024. While various stimulus measures have helped stabilize the economy, they have not been sufficient to fully reverse the economic downturn. Additional tariffs or sanctions from the U.S. could mount further pressure on its export-driven growth. If China's economy slows sharply, it is anticipated that the government will introduce more aggressive stimulus measures to support growth.

India is forecast to maintain robust growth near 7% in 2025, slightly below the estimated 7.1% for 2024. Increased public and private investment and rising domestic consumption under Prime Minister Modi's policies will continue to drive expansion.

The ASEAN-5 countries are projected to grow by 4.7% in 2025, up from 4.6% in 2024. Growth will be fueled by strong private consumption, foreign investment, recovery in the tourism sector, and infrastructure projects. While protectionist risks, including tariffs, remain, ASEAN's geopolitical importance should mitigate their impact.

Russia's growth is expected to slow to 1.7% in 2025 from 3.7% in 2024, constrained by reduced production capacity due to labor shortages. Brazil's growth is projected to slow to 2.0% in 2025, down from 3.1% in 2024, reflecting the impact of tight monetary policies aimed at controlling inflation and the likelihood of gradual fiscal tightening.

KIEP has identified "*Intensifying Trumpism, Deepening Growth Divergence*" as the defining theme for the global economy in 2025. The trajectory of the global economy and major nations will largely hinge on how and when Trumpism—rooted in the "America First" approach—is implemented.

KIEP has also highlighted three major risks that could further downgrade the global economic outlook for 2025. The first is *America First Policies and Intensifying Protectionism*. The second Trump administration may escalate protectionist measures, such as tariff hikes and trade pressures, targeting not only China but also U.S. allies. These actions could trigger retaliatory measures and trade disputes, disrupting global trade dynamics and weakening economic growth.

The second is *China's Structural and External Challenges*. Domestically, China faces structural issues, including a sluggish real estate market, mounting local government debt, and a shrinking population. Externally, declining foreign direct investment and stiffer U.S. sanctions pose additional threats to China's growth. If these risks materialize, they could significantly disrupt global trade and investment flows, further straining the global economy.

The third is *Financial Market Volatility amid Monetary Policy Shifts*. In the U.S., fiscal and trade policies under a new administration—such as tax cuts and tariff increases—may drive inflation expectations higher, potentially slowing the Federal Reserve's pace of rate cuts. Meanwhile, Japan faces the possibility of additional interest rate hikes due to rising inflation. These monetary policy changes are likely to amplify financial market volatility, increasing debt burdens and the potential for disruptive market adjustments.

In conclusion, as we look ahead to 2025, it is clear that the global economy is entering a year of heightened risk and uncertainty. The potential for further fragmentation and rising geopolitical tensions, particularly under a second Trump administration, is likely to slow global trade growth. Capital flows are expected to increasingly focus on the U.S., intensifying financial market disparities. In this challenging landscape, nations are likely to adopt "every country for itself" strategies, both individually and within their alliances.

For South Korea, a nation deeply reliant on international trade and financial openness, the external environment has grown increasingly difficult. It is essential for South Korea to closely monitor the policies of the second Trump administration and assess their implications for both domestic and global economies. Proactively developing timely and effective strategies to address these evolving risks is now a matter of utmost importance. KIEP