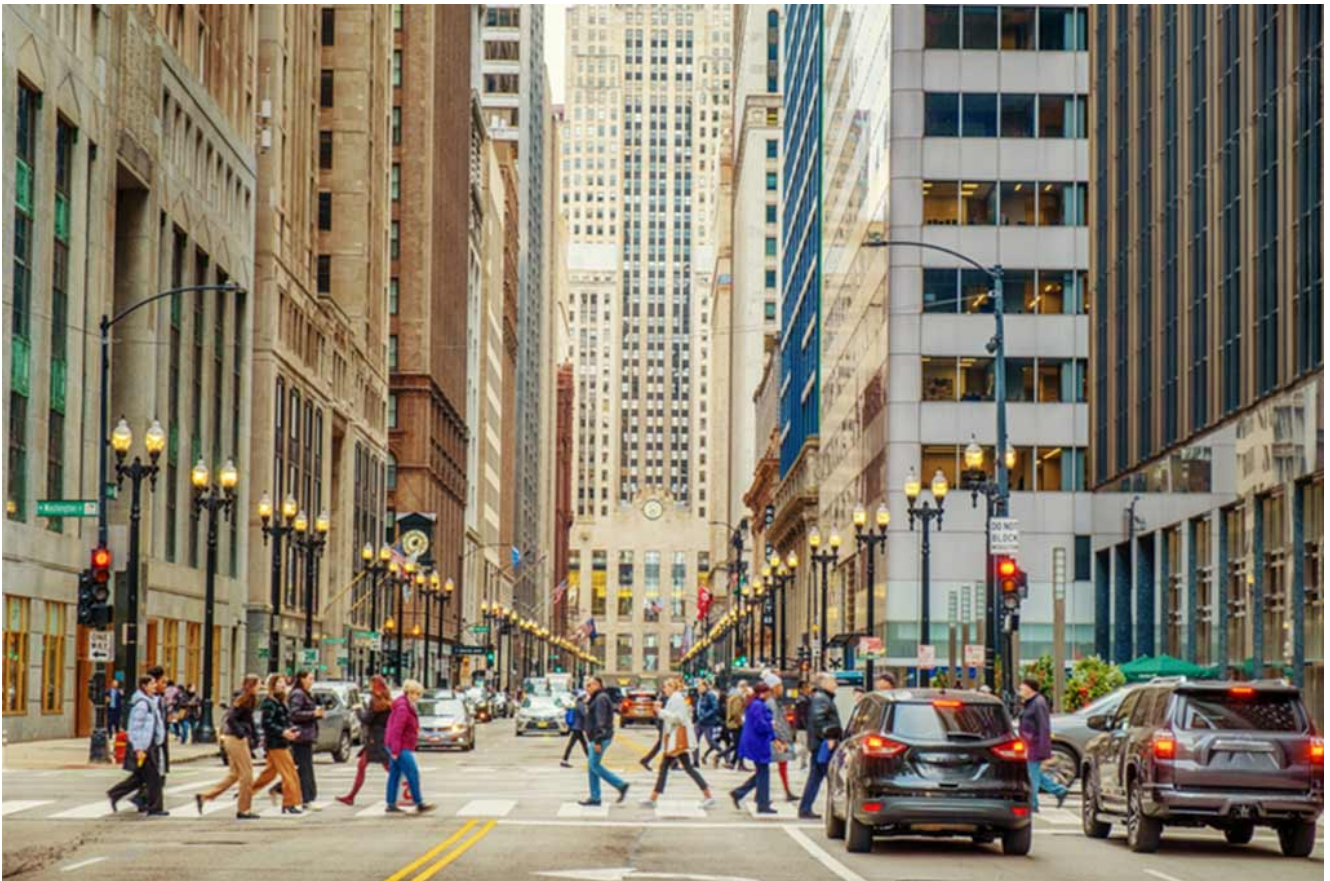


Economic outlook in the new Trump era

With the recent inauguration of Donald Trump, the world is preparing for economic and political changes that will redefine the rules of the game.



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The second arrival of Donald Trump marks the beginning of a new era in which the United States seeks to consolidate its economic and political influence globally. His administration, with its protectionist impulses and strategic use of the economy as a tool for power, poses important challenges for China and Europe. Economist [Jordi Gual](#) analyzed how this new

configuration could impact companies and economies around the world in a session at IESE Business School in January 2025.

From geopolitics to geoeconomics

Recent economic history can be divided into stages. The post-Cold War period from 1989 to 2016 was marked by financial deregulation and the rise of international trade, culminating in China's entry into the World Trade Organization (WTO). This era benefited both the United States and China, consolidating them as the world's leading economies.

Since 2016 things have changed. We have entered a new stage characterized by protectionism and rivalry between the two powers. Reminiscent of Cold War tensions, this has transformed global capitalism from a liberalized model toward greater state intervention.

The new Trump administration represents this transition to a "geo-economy," where the economy not only finances military power, but becomes a political instrument in itself. Instead of an agreed international framework, the strongest will prevail — in this case the U.S., closely followed by China. As in past empires, peripheral countries act as satellites to the great powers.

The economic power of the big blocs — the U.S., China and to a lesser extent Europe — depends on: domestic market size and purchasing power; market share in strategic sectors such as technology, energy and life sciences; whether their companies have global presences or not; and their dominance in capital markets, where the U.S. is the clear frontrunner due to its ability to attract funds from all over the world and the dollar's role as international reserve currency.

The Trump administration has intensified its use of economic measures as a tool of political power, says Gual. This has included first-term restrictions on [Chinese telecommunications giant Huawei](#), as well as threatening tariffs to protect key sectors of the U.S. economy. China has used similar measures, leveraging its position in the WTO to access foreign markets while protecting its domestic market.

Europe is facing significant challenges: still dependent on third parties in the critical energy and tech sectors, and lacking alignment between its trade, industrial, defense and foreign policies. Gual stresses that the only viable way for Europe to be competitive is to move toward greater integration, forming in essence a "United States of Europe" to defend itself against external pressures.

The global economy

We're in a time of transition. Uncertainties remain about inflation and how Trump's policies will affect global trade. Though both the Federal Reserve and the European Central Bank had planned to cut rates in 2025, continued protectionist and expansionary measures could complicate this.

The IMF projects that global growth will remain at around 3.3%, but with marked differences between developed economies (1.8%) and emerging economies (4.2%). The Indian economy is dynamic, while China faces a prolonged slowdown due to its real-estate bubble. The U.S. continues to grow above its potential, thanks to a high fiscal deficit — worse than the average of recent decades, at 6% — which stimulates demand.

In Europe, the situation is less optimistic. Although underlying inflation has moderated, the region faces anemic growth and a lack of political cohesion that hinders a coordinated response to global challenges.

Snapshots: future scenarios

Gual looks at the evolution of various economies based on whether they have positive or negative growth and how high inflation is.

- **The United States.** The U.S. economy is in a situation of fiscal dominance. It continues to grow above potential, driven by a fiscal deficit that allows it to maintain high levels of investment and consumption. Trump's recent pledge to extend the 2018 tax cuts could sustain demand but also deepen the deficit. Although inflation has moderated, it remains above the Fed's 2% target. In the short term, this situation could generate turbulence in financial markets that are experiencing moments of euphoria, especially if interest rates rise rather than fall.
- **China.** Facing a deflationary situation, with oversupply, weak domestic demand and many companies in difficulty, the Chinese government's ability to intervene and its network of global trade relations nevertheless offer some stability. Fiscal support from the central government and the depreciation of the yuan could sustain exports but risk provoking an even greater confrontation with the U.S.
- **Europe.** Close to recession, the region is facing anemic growth and moderate inflation. Germany has been in stagflation (recession with inflation still high), while southern European countries are faring better post-pandemic. Although the

European Central Bank has shown an inclination to lower interest rates, this would lead to a depreciation of the euro against the dollar if U.S. rates remain high.

- **Spain.** Despite 3.1% growth, there has been no improvement in productivity. The upward fiscal pressure and the lack of private investment are worrisome. Despite this, increased export competitiveness and the attraction of foreign investment following the 2012 euro crisis have helped to reduce the country's net indebtedness. Like the United States, the country is experiencing a moment of fiscal dominance. However, unlike the U.S., Spain does not have a powerful currency that it can issue at will.

What happens next, says Gual, will depend on how each region deals with these challenges. While the U.S. seems bent on continued fiscal expansion and China is relying on its capacity to intervene, Europe is in urgent need of political unification to strengthen its position.

SOURCE: Jordi Gual gave a session on Economic Perspectives in the New Trump Era as part of the [continuing education program](#) offered by the IESE Alumni Association to its members.



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