2025: The year of the trade tempest

The US is redefining global trade policy landscape

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Looking back at a year marked by a capricious and discriminatory use of trade policy instruments, the following trends stand out.

Reciprocal tariffs came and stayed: True to his campaign promise, President Donald Trump announced reciprocal tariffs on "Liberation Day", a little over two months after assuming office. With some modifications, several exceptions and exemptions, the reciprocal tariffs were implemented in August. The power of the President to impose reciprocal tariffs has since been challenged before the United States Supreme Court. However, the fact that some trade deals (US-South Korea, for example) have in-built provisions for protection against potential substitute tariffs (under section 232, for example) indicates acceptance of the fact that unfair trade policy unilateralism set in motion by the US may be here to stay.

STRAIGHT TALK

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The much-feared, widespread retaliation by other countries has not been evident thus far. Mexico's announcement, earlier this month, that it will impose up to 50 per cent tariffs on a broad range of imports from its non-free-trade agreement trade partners (in Asia, effectively the non-Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade partners such as Thailand, Indonesia, South Korea, India and China) could spur a trend of unilateral, retaliatory trade policy action from affected countries. This is especially so as the World Trade Organization (WTO), whose primary objective is to promote freer and fairer trade, has so far been a quiet bystander.

US trade deals happened, unravelled, happened again : The US is redefining the trade agreement landscape with its trade deals. Finalised under Executive Orders, bilateral trade deals negotiated by the US over this year have largely been non-reciprocal in nature. Reduction in reciprocal tariffs by the US has been made conditional upon partner country commitments in areas other than trade and concessional market access provisions. Since these trade deals are not legally binding, they are also being frequently undone by the US.

The US-China trade deal, for example, had several false starts, first in Geneva in May and then in London in June. A framework deal was finalised only at the end of October after several months of negotiations. This framework deal includes, *inter alia*, a reduction in reciprocal and the so-called fentanyl tariffs in return for a pause from China on export controls on rare earth elements (REEs) and assured purchase of soybeans. However, the concessions have been extended for only one year, reflecting a possibly short-lived US-China trade truce with significant unpredictability.

The US-Japan trade deal was announced in July but it unravelled in the face of implementation ambiguities regarding the stacking of Most-Favoured Nation tariffs with reciprocal tariffs. The provision relating to a ceiling of 15 per cent tariff on US imports from Japan came through only in September, although with retrospective effect. The US-European Union (EU) deal, accomplished in July, has been under constant threat of unravelling, with the US openly expressing its concerns over what it considers "discriminatory" regulations impacting American tech companies operating in the EU.

Pax silica: New alliance for GVC diversification: The global value chain (GVC) diversification process, which has long been in motion, acquired a new kind of salience this year with China's worldwide implementation of export restrictions on REEs. In response to Trump's tariffs, China enforced export restrictions on REEs and related technologies and equipment (magnets) in two phases — in April and October. Given China's near-monopoly hold on REE processing capabilities, the export control measures had a crippling effect on major defence, energy and automobile firms in the US. In an attempt to secure the supply chain from critical mineral mines to semiconductors to frontier artificial intelligence (AI) models, the US has initiated Pax Silica — an alliance with its trusted allies such as Japan, South Korea, the Netherlands, the United Kingdom, the UAE, Israel, and Australia.

While the objective of this new alliance is to neutralise trade weaponisation by China, given their strong control over global access to REEs, clearly also, the Biden-era Indo-Pacific Economic Forum (IPEF) supply chain resilience agreement for critical supply chains seems to have been relegated to the sidelines.

China remains the top global exporter: Data for the first 11 months of 2025 shows that despite being confronted with numerous challenges — including multiple, overlapping high tariffs and tech barriers imposed by the US and domestic market limitations — China continues to be the largest exporter in the world with an increasing proportion of high-tech, AI and sustainability-driven products in its export basket. Asean remains the top importer for China followed by the US, though with a lower share than in previous years. Asean also continues to be the predominant indirect trans-shipment route for Chinese exports to the US. The lack of well-defined rules of origin (RoOs) has clearly rendered the higher tariffs announced by the US ineffective (40 per cent in the trade deal with Vietnam, for example) on goods rerouted from China. While the new 50 per cent tariffs announced by Mexico on imports from Asian countries will block the trans-shipment channel for some Asean members (Thailand and Indonesia) from the start of next year, it will leave it open for those that are CPTPP members, such as Vietnam.

CPTPP: The sought-after mega-regional trade agreement: With the diminished relevance of the WTO in its present form, the CPTPP seems to be emerging as an alternative platform for rules-based trade. The CPTPP membership continues to be on a path of expansion. At its November ministerial meeting, the CPTPP members decided to commence the accession process for new members — Uruguay this year, followed by Indonesia, the Philippines, and the UAE in 2026. Trade and Investment Dialogues with Asean and the EU were also launched at this meeting. The shared high standard (WTO++) trade and investment commitments of the two blocs —the EU and the CPTPP — can provide potential convergence possibilities to create an appropriate rule-book for global trade in the near future. Also, if combined with flexible and extended cumulation of RoOs, the dialogue partnerships can significantly enhance the scope for GVC integration, resilience, and security for member economies. This would be hugely beneficial in a world likely to see continued and heightened trade policy uncertainty.

Finally, with the US not showing any signs of reversing track on its trade policy, it will be important for the rest of the world to not fall in line but come together in alternative, cooperative formulations to shape a stable global trade, investment and regulatory landscape.

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