Chapter 2 Heightening uncertainty

The dramatic changes in trade policies and the heightening uncertainty since the beginning of 2025 have given the strong impression that the postwar rules-based global economic order is at a critical juncture. At the same time, undoubtedly, the fact that the postwar international economic order is facing various challenges has already started to become evident amid the changes in the international political and economic environments in recent years. In this situation, uncertainty over cross-border business activity is heightening.

The rules-based international economic order, which developed mainly in the Western countries in the postwar period, has expanded and developed depth globally since the end of the Cold War. The rules-based international economic order is very valuable not only in that it has lowered concrete trade and investment barriers through liberalization but also in that it has dramatically improved predictability for cross-border businesses by embodying the fundamental concept of "being rules-oriented."[5] However, the changes in the international situation in recent years are shaking the rules-based international economic order and heightening uncertainty.

This chapter provides an overview of trends and changes in recent years, focusing on (i) protectionism and trade conflicts, (ii) risks of overcapacity and overdependence, (iii) geopolitical risks and perceptions of economic security, (iv) shifting power balances involving Global South countries, and (v) diverse responses to digitalization and green transitions. It is important to study the uncertainty that is bringing about changes in the international environment in order to understand the international economic order at a time when it is at a critical juncture and to consider future global economic trends and prospects for trade and investment relationships.

Section 1 Protectionism and trade conflicts

1. Backgrounds to the trade conflicts in recent years

Uncertainty over trade policy has negative effects on trade, investment, and the domestic economy. The commitment to the WTO and FTAs/EPAs that the great majority of countries around the world has made after the Cold War has dramatically improved predictability for cross-border businesses and contributed to the expansion of trade and investment and economic growth.[6] That is an important value that the rules-based international economic order has provided.

When considering the impacts of the spread of protectionism and trade conflicts in recent years, it is essential to take into consideration not only the direct effects of tariff hikes and other trade measures but also the impact of the trade policy uncertainty on cross-border business activity. Looking back at the trends since the second half of the 2010s, it becomes evident that the escalation of trade conflicts, including the U.S.-China confrontation, has heightened the trade policy uncertainty (Table I-2-1-1). During the tenure of the first Trump administration of the United States, the United States and China engaged in several rounds of tit-for-tat tariff hikes, including the imposition of additional tariffs on

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[5] Ministry of Economy, Trade and Industry (2024)
[6] Morikawa (2025)

Chinese products by the United States under Section 301 of the Trade Act and the imposition of additional tariffs against U.S. products by China. In addition, the United States implemented additional tariffs on imports of steel and aluminum products based on Section 232 of the Trade Expansion Act, while the EU, China, India, Russia, and Turkey implemented countermeasures against the United States based on Article 8 of the Agreement on Safeguards. Canada and Mexico implemented countermeasures against the United States based on the provisions of NAFTA. Regarding the implementation of additional tariffs by the United States, prospects for the treatment of item-by-item and country-by-country exemptions remained uncertain.

The Biden administration, while placing emphasis on cooperation with allied countries and making some adjustments to the tariffs on steel and aluminum products, maintained the tariffs imposed against China under the first Trump administration and also strengthened export and investment restrictions against the country and stepped up moves to exclude Chinese products from supply chains in strategic sectors, including advanced semiconductors. In 2024, the Biden administration further expanded the scope of products subject to the restrictions, and in response, China launched measures such as strengthening the control of rare metal exports. As a result of those moves, the uncertainty over U.S.-China trade and related businesses remained high.

In addition, many countries have pointed to the possibility that the Inflation Reduction Act, which was enacted in the United States in August 2022, may be in violation of the WTO Agreements with respect to the requirements regarding tax credits. Indeed, China argued that the tax credits based on that law are discriminatory against Chinese products and requested consultation at the WTO. Later, this matter was examined by a dispute settlement panel. Those developments further heightened the uncertainty over trade-related policies.

Table I-2-1-1. Recent major trade measures and countermeasures against them

Major measures by the U.S.	Major measures by other countries
- The U.S. imposed steel and aluminum tariffs based on Section 232 of the Trade Expansion Act (March 2018)	- The EU, China, India, Russia, and Turkey successively implemented countermeasures against the U.S. based on Article 8 of the Agreement on Safeguards. Additionally, Canada and Mexico implemented countermeasures against the U.S. based on provisions under the NAFTA.
- The U.S. imposed additional tariffs on Chinese products totaling 250 billion dollars (total tariffs imposed during the first to third rounds) based on Section 301 of the Trade Act (July, August, and September 2018).	- China imposed additional tariffs on 110 billion dollars worth of imports from the U.S. (July, August, and September 2018).

- The U.S. imposes broad restrictions on exports of advanced semiconductors to China (October 2022).	- China introduces export restrictions on rare metals, including gallium and germanium (August 2023).
- The U.S. announced a significant tariff increase on Chinese EVs, semiconductors, solar panels, etc., based on Section 301 of the Trade Act (May 2024). => It imposed those tariffs sequentially from September 2024.	- China announced export controls on manufacturing equipment and software in the fields of aircraft and aerospace (May 2024).
- The U.S. enhanced export controls on advanced semiconductors against China (December 2024).	- China announced that it would basically prohibit exports of gallium, germanium, and antimony to the U.S. (December 2024).
- The US imposed an additional 10% tariff against China based on the International Emergency Economic Powers Act (IEEPA) (February 2025).	- China imposes additional tariffs on U.S.-made coal, natural gas, crude oil, agricultural machinery, etc. (February 2025).
- The U.S. imposed a 25% additional tariff against Canada and Mexico (10% on some products) based on the IEEPA (excluding imports under the United States-Mexico-Canada Agreement (USMCA)). - It eliminated country-specific exemptions, product-specific exemptions, etc. from the 25% additional tariffs that it had imposed on steel, aluminum, and their derivative products from all countries, based on Section 232 of the Trade Expansion Act. - It further increased the additional tariffs against China by 10% based on the IEEPA. (All measures were taken in March 2025.)	- Canada imposed additional tariffs on U.S.-made products worth 30 billion Canadian dollars (e.g., rubber pneumatic tires, cosmetics, etc.). (It subsequently announced that it would also impose additional tariffs on U.S.-made products worth 125 billion Canadian dollars.) - Canada imposed tariffs on U.S.-made products worth 29.8 billion Canadian dollars (e.g., iron, aluminum products, computers, display monitors, etc.). - China imposed additional tariffs on U.S.-made chicken, corn, soybeans, pork, beef, etc. (All measures were taken in March 2025.)
- The U.S. imposed a 25% additional tariff on imports of automobiles from all countries based on Section 232 of the Trade Expansion Act (as for automobiles subject to the preferential tariff rates under the USMCA, only the value of non-U.S. parts was subject to the tariff). - Based on the IEEPA, it imposed a uniform 10% "reciprocal tariff" on all products (excluding products already subject to tariffs under Section	- Canada imposed a 25% additional tariff on automobile imports from the U.S. (e.g., automobiles not covered by the preferential tariff rates under the USMCA). - China imposed a 34% additional tariff on all U.S.-made products, eventually increasing the tariff rate to 125%. (All measures were taken in April 2025.)

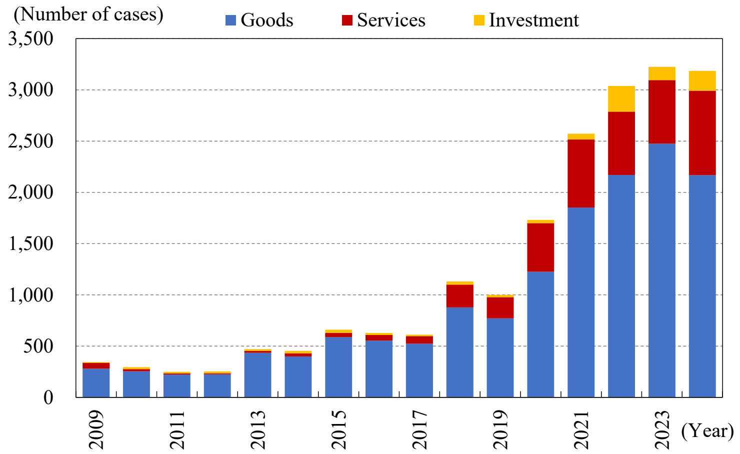
232 of the Trade Expansion Act, products that may become subject to such tariffs in the future, etc.) imported from all countries (excluding Canada and Mexico) and also imposed country-specific reciprocal tariffs up to 50%. (However, the imposition of the additional rates was suspended for 90 days.) - It increased additional tariffs against China to 145% in total. (All measures were taken in April 2025.)	

Sources: Data from a variety of the press, issued by the authorities, and published by the Peterson Institute for International Economics.

Moreover, in recent years, concerns about acts of economic coercion have grown. A statement issued at the G7 Trade Ministers' Meeting in Osaka-Sakai in October 2023 made the following reference to that issue: " We reiterate our shared concerns regarding coercive economic measures and threats thereof, which interfere with the legitimate sovereign choices of another government, and are disturbed by the growing recurrence of such measures." Acts of economic coercion are a factor that heightens uncertainty for businesses by significantly undermining confidence in rules-based trade relationships.

Globally, trade-restrictive measures are increasing. According to the Global Trade Alert, a database of national policies that affect global trade and investment, trade-restrictive measures implemented around the world have increased steeply since the second half of the 2010s. Since 2022, the number of measures in place has continued to be higher than 3,000. The database also shows that the scope of items targeted by trade-restrictive measures is expanding beyond goods to include services and investments as well (Figure I-2-1-2).

Figure I-2-1-2. Number of global trade-restrictive measures



Note: The number of the measures is based on counts reported by Global Trade Alert, adjusted for reporting delays. The 2025 data covers measures counted up to April 14.

Source: *WEO* (April 2025) (IMF).

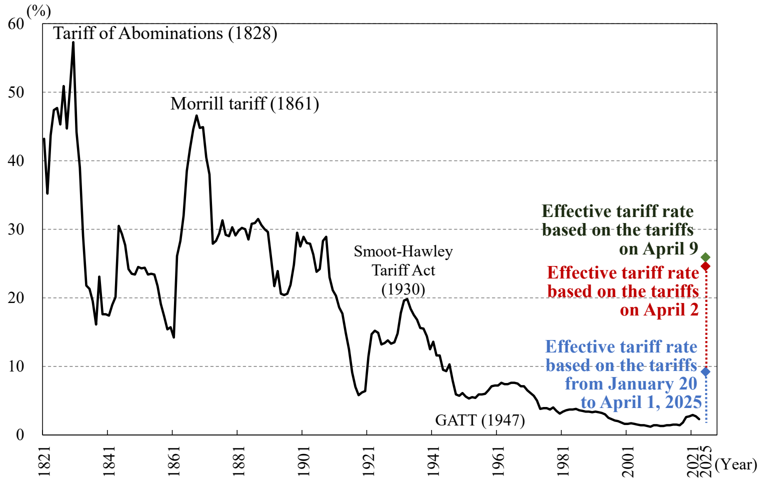
2. Trends in 2025

Since the inauguration of the second Trump administration in the United States in January 2025, the trade policy uncertainty has dramatically heightened. In February, the Trump administration implemented a 10% additional tariff on Chinese products based on the International Emergency Economic Powers Act (IEEPA), holding China accountable for the inflows of synthetic narcotics into the United States. On the other hand, China immediately decided to impose an additional tariff on LNG imports from the United States as a countermeasure. In March, based on the IEEPA, the Trump administration implemented a 10% additional tariff on Chinese products, while China decided to impose additional tariffs on imports of poultry, wheat and soybeans, among other products, from the United States. Against Canada and Mexico, holding them accountable for the entry of illegal immigrants and smuggling of synthetic narcotics into the United States, the Trump administration implemented 25% additional tariffs on imports from both countries (the additional tariff rate is 10% for some products) based on the IEEPA after a one-month delay (however, products imported based on the USMCA were exempted). In addition, regarding the 25% additional tariffs imposed on steel and aluminum products and their derivatives imported from the rest of the world based on Section 232 of the Trade Expansion Act, country-by-country and item-by-item exemptions were abolished.

What has decisively heightened the trade policy uncertainty is the series of developments that has occurred since April. On April 2, based on the IEEPA, the United States announced “reciprocal tariffs,” which include a universal tariff of 10% against all countries except Mexico and Canada and country-specific tariff rates of up to 50% against countries with which it had large trade deficits. The next day, the United States implemented a 25% additional tariff on automobiles based on Section 232 of the Trade Expansion Act, which had already been announced. Afterwards, following a series of changes and revisions, 25% additional tariffs on steel and aluminum products and automobiles were implemented and additional tariffs totaling 145% against China were announced by April 9. Meanwhile, as for reciprocal tariffs applicable to countries other than China, a 90-day pause from April 10 in application of planned hikes in country-specific tariffs was announced (while a 10% universal tariff was maintained). The United States also started an investigation related to products such as semiconductors and pharmaceuticals based on Section 232 of the Trade Expansion Act. In response, other countries showed various reactions, including the implementation by China of a 125% additional tariff against the United States. As a result, on the whole, there is a high level of uncertainty over trade policy.

The imposition of tariffs under the second Trump administration has sharply raised the effective U.S. tariff rate. As of April 9, the effective U.S. tariff rate was higher than the level seen at the time of tariff hikes under the Smoot-Hawley Tariff Act of 1930 (Figure I-2-1-3). The fact that the series of tariff measures were implemented through decision-making by the government based on the IEEPA and underwent frequent changes and revisions is another factor that is heightening uncertainty.

Figure I-2-1-3. Effective tariff rate in the U.S.



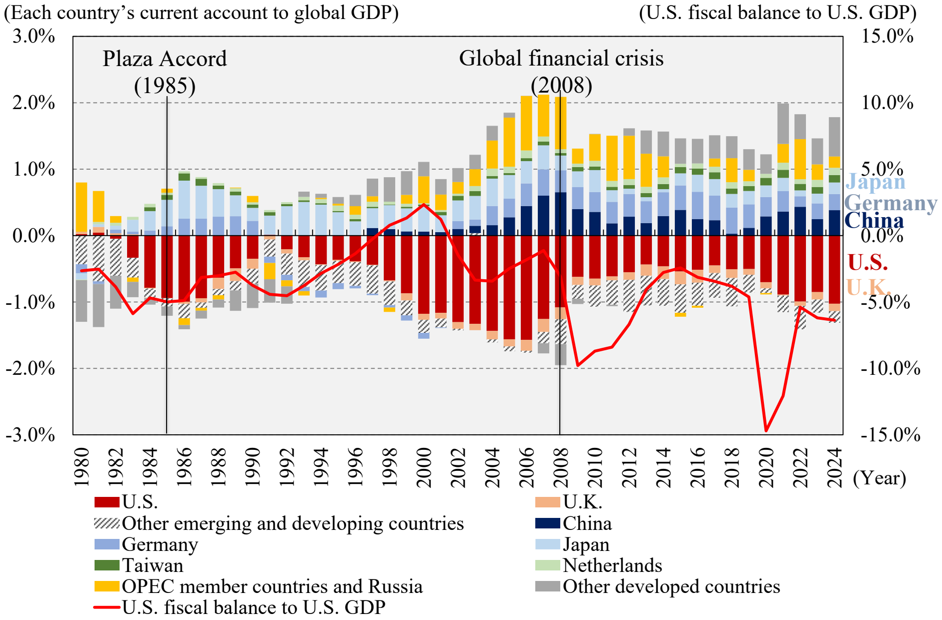
Note: The tariffs from January 20 to April 1, 2025, include a 20% tariff against China, a 25% tariff on steel and aluminum, a 25% tariff against Mexico and Canada, and a 10% tariff on energy imports from Canada. The tariff data is based on the assumption that the USMCA carve-out would halve the increase in the effective tariff rates against Canada and Mexico. The April 2 tariffs include the tariffs on the automobile sector and country-specific tariffs, applying exemptions provided in Annex II of the Executive Order issued on the same date. The April 9 tariffs include an increase in the tariffs against China to 145% and a reduction of other country-specific tariffs to 10%. It also includes tariff exemptions for some electronic products announced on April 11.

Source: *WEO* (April 2025) (IMF) (based on the *Historical Statistics of the United States: 1789-1945* (United Sates Census Bureau) and IMF estimates).

One factor behind the series of tariff measures is the second Trump administration's view of U.S. bilateral trade deficits as problems. However, it is not necessarily clear how relevant policy goals, such as resolving trade deficits, reshoring manufacturing industries, creating jobs, promoting economic security, securing tax revenue and correcting the excessive strength of the dollar, are connected with each other, how the policy goals are prioritized, or how they are related to tariff hikes. In addition to tariff hikes themselves, policy ambivalence is also heightening the uncertainty over U.S. trade policy.

Here, let us look at the status of the current account balances (as a proportion of global GDP) of countries around the world (Figure I-2-1-4). Currently, China and Germany are enjoying large current account surpluses. In recent years, Japan has recorded a goods and service trade account deficit, but its current account has been in surplus due to a surplus in the primary income balance. The United States has most recently accounted for most of the global current account deficit. Although the deficit amount is lower than the level seen around the time of the global financial crisis, it has risen to a level similar to the one observed around the time of the Plaza Accord. At the same time, the U.S. budget deficit is expanding as a trend. Although the budget deficit amount as a proportion of GDP is smaller than the levels seen after the global financial crisis or during the pandemic, it has exceeded the level seen around the time of the Plaza Accord. The United States has fallen into a so-called twin-deficit situation, in which both current account and budget deficits are expanding. As a general rule, an excessive imbalance of the current account is considered to be unsustainable. It is necessary to keep close watch on this situation as a background factor of the ongoing trade conflicts.

Figure I-2-1-4. Current account balance to global GDP by major country and region and U.S. fiscal balance to U.S. GDP



Note: The current account balance reflects the rate of each country's current account balance to global GDP, where negative values indicate a current account deficit. Target countries were selected based on the 2024 cross-section data, choosing those with values exceeding 0.1% or falling below -0.1%.

Sources: *WEO* (April 2025) (IMF), U.S. Department of Commerce, CEIC.