HOW AMERICA'S TRADING PARTNERS ARE REACTING TO U.S. TARIFFS

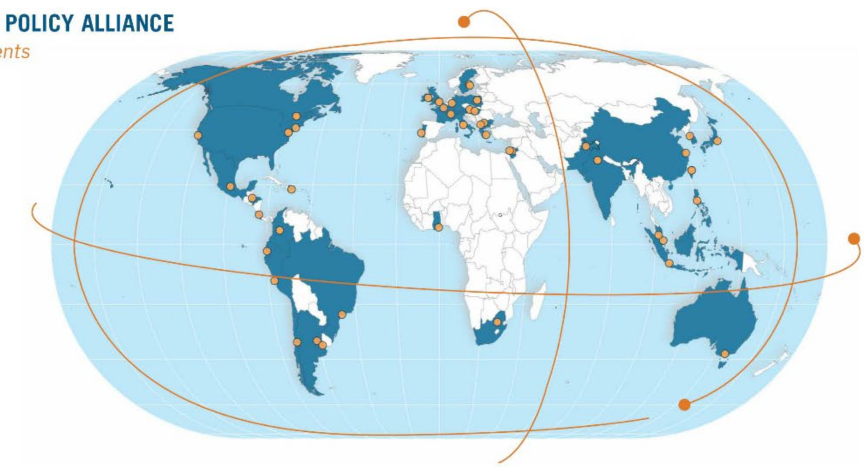
GLOBAL TRADE & INNOVATION POLICY ALLIANCE

ABOUT THE GLOBAL TRADE AND INNOVATION POLICY ALLIANCE

The Global Trade and Innovation Policy Alliance (GTIPA) is a global network of independent think tanks that are ardent supporters of greater global trade liberalization and integration, deplore trade-distorting "innovation mercantilist" practices, yet believe that governments can and should play important and proactive roles in spurring greater innovation and productivity in their enterprises and economies. Member organizations advocate and adhere to research and policy consistent with a core Statement of Shared Principles. The Alliance represents a network of like-minded think tanks who have opportunities to collaborate on events, research, and reports while enjoying a platform that highlights and cross-pollinates member organizations' work on trade, globalization, and innovation policy. Think tanks interested in joining the Alliance should contact Stephen Ezell, Vice President, Global Innovation Policy at the Information Technology and Innovation Foundation (ITIF), at sezell@itif.org.

THE GLOBAL TRADE AND INNOVATION POLICY ALLIANCE

Like-Minded Think Tanks on Six Continents



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INTRODUCTION

The global trade system has changed. As the world's economic relations are rebalancing, with an uncertain outcome, countries seek to protect their interests and existing partnerships. Unfortunately, the United States has been retreating from leading the global economic system, treating (and threatening) friends and foes alike. Additionally, the World Trade Organization (WTO) is not perceived as a sufficient intermediary for addressing trade negotiations and disputes.

China, on the other hand, wants to rewrite the global trade rules. High-income countries are concerned about Chinese overproduction and the pathway to becoming the "world's factory." Developing countries have an even-more pressing challenge, as Chinese subsidies are curtailing their local industries' growth path, and their innovations can create a technological path dependency.

These changes are unfolding in an already convoluted context. Each region of the world faces historical challenges, from the illegal invasion of Ukraine in Europe and extended conflicts in the Middle East to unprecedented internal migration in Latin America and developmental hurdles in Africa that compound one another, as well as the rise of middle powers, particularly in Asia and the Gulf. Moreover, the upcoming years will be crucial for the diffusion of artificial intelligence (AI).

In this context, members of the Global Trade and Innovation Policy Alliance (GTIPA) from 17 countries have come together to analyze how each economy is responding to this new cycle of global trade. The Information Technology and Innovation Foundation (ITIF), based in the United States, prepared a questionnaire with the following questions to assess how countries outside America are reacting to the trade war:

1. What is your country's strategy to face the ongoing blanket tariffs (and retaliatory tariffs if applicable) announced by the United States government? For your response, consider economic authorities and private stakeholders, including foreign companies investing in your country.
2. How have economic policy priorities shifted due to the trade war and tariff uncertainty?
3. How do you think the economic activity in your country will be affected by the ongoing trade war? Consider the short term (the remainder of 2025) and the medium term (next two to three years).
4. How do you see your country's trade partnerships and priorities shifting?
5. How do you envision China's presence in your region and country changing due to America's tariffs?
6. Is your country implementing extraordinary measures to reduce vulnerability to external trade shocks due to the ongoing trade war?

The think tanks participating in this analysis are based in Argentina, Australia, Bangladesh, Brazil, Bulgaria, Canada, Chile, Germany, Italy, Jordan, Mexico, North Macedonia, Pakistan, Peru, Poland, and South Africa. The responses were gathered between May 1 and June 6, 2025.

HOW COUNTRIES ARE REACTING TO THE TRADE WAR

Countries Are Negotiating with The United States While Reducing Their Economic Exposure to U.S. Trade Policies

Several common patterns were observed among the countries included in this analysis. Most countries prefer to prioritize trade negotiations with the United States over taking retaliatory measures, particularly U.S. allies and smaller economies. Some European Union members, such as Italy and Germany, appear willing to implement moderate retaliatory measures, while Canada, following its experience with the first Trump administration imposing tariffs on its steel and aluminum, appears prepared to retaliate if negotiations fail. Jordan and Peru seem to be less affected due to their economies' more limited exposure to U.S. trade.

At the same time, countries are adopting two distinct strategies to mitigate trade uncertainties: diversifying their export markets to reduce reliance on fluctuations in the United States and implementing internal economic policies to support sectors affected by the trade war and enhance self-reliance. For instance, Canada is explicitly encouraging its oil and gas exporters to explore Asian and European markets. Conversely, Australia is employing both strategies by launching a five-point plan that includes subsidies and antidumping rules while strengthening its relationships with the Association of Southeast Asian Nations (ASEAN) and India to broaden its export market alternatives.

Countries Are Prioritizing Economic Resiliency Measures

Many countries are adopting or at least considering policies to enhance trade resilience, such as investing in local sectors and exploring new markets for exports. The scope of these efforts depends on a country's trade exposure, demonstrated in the case of Argentina, or by fiscal constraints, as observed in Mexico. Moreover, some countries are recognizing that their local economic challenges are more pressing than the trade war, such as South Africa, which is prioritizing the energy sector and addressing labor regulatory constraints.

The countries promoting internal sectors to foster trade resiliency span all income levels. Bangladesh, for example, is encouraging investment to diversify its export dependence in the garment sector by upgrading its information and communication technologies (ICT) and pharmaceutical sectors. Germany, on the other hand, focuses its economic priorities on emphasizing competitiveness and productivity to counter the economic impact of investment uncertainty.

Additionally, countries are accelerating efforts to diversify their exports. Notably, some regional agreements appear to be gaining momentum, such as the Southern Common Market (MERCOSUR) and the EU free trade agreement (FTA), as well as South Africa's reaffirmation of its commitment to the African Continental Free Trade Area. In contrast, North Macedonia is taking a protectionist approach, moving away from the free trade paradigm.

A Bumpy Road in the Upcoming Years

Nearly all countries considered in this study anticipate being affected by the global economic slowdown resulting from the trade war in the short term. However, there is moderate optimism that countries will adapt to the new global trade environment in the years to come. Countries expect to benefit from boosting trade routes that are less dependent on U.S. trade and anticipate that their domestic adjustments will take effect within the next two to three years.

As expected, countries more exposed to U.S. trade—such as Canada, Germany, and Mexico—expect a significant downturn in the short term. However, changes in U.S. trade policy are also affecting destinations with little exposure, such as North Macedonia, Pakistan, South Africa, and South American countries, where their main trade partner is already China. U.S. tariff escalation can indirectly affect countries by decreasing commodity prices due to the global economic slowdown, increasing costs related to supply chain transitions, or causing a general decline in investment and consumption on a global scale uncertainty.

Countries Are Seeking to Boost Alternative Trade Routes

Many countries are leveraging their roles in multilateral and regional economic blocs to strengthen regional trade. As previously mentioned, the increasing negotiations regarding the MERCOSUR-EU FTA are driven by the trade war. Bangladesh is also planning to negotiate FTAs once it graduates from its status as a least-developed country in 2026. Bulgaria is prioritizing the Eurozone and its neighbor in the Balkans. Mexico, on the other hand, aims to gradually increase its presence in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to establish trade alternatives to its North American partners. North Macedonia is likely to seek increased collaboration with Western Balkan countries. Pakistan is also actively looking for regional integration with ASEAN, Central Asia, China, and the Middle East.

The U.S. Trade War Is Boosting China's Influence Worldwide

Many countries, particularly in the so-called Global South, are expanding their trade relations with China and attracting Chinese investments, while the United States is retreating from the global trade system. Some like-minded countries, including Canada, Italy, and Germany, are adopting a more cautious approach to China; however, this appears to be about seeking a 'pragmatic middle-ground' rather than limiting trade relationships with China. While China appears to be gaining a global footprint, many countries are expressing concerns about Chinese companies flooding their economies with cheap and subsidized manufactured products, thereby harming their local industries.

Chinese investments may help counter the economic downturn in certain countries, particularly those that are members of the Belt and Road Initiative (BRI). Bangladesh is leveraging its relationship with China as a means to pivot to the East in terms of exports. Chinese investments in Brazil are increasing, particularly in logistic infrastructure projects, as China is funding the Atlantic–Pacific trade corridor through South America. Pakistan-China economic relations are expected to expand due to the rerouting of supply chains. Chinese economic presence in Peru has been steadily growing for 15 years and is expected to continue, particularly in mining and infrastructure projects. Finally, China's investment in South Africa may help fill the gap left by the weakening of economic ties with the United States.

Despite a cautious approach, some U.S. allies are trying to maintain trade relations with both the United States and China. Australia, for example, anticipates that its trade with China will increase, helping to maintain stability, considering U.S. uncertainties. Italy also sees opportunities with China, as it is a key export destination for "made in Italy" goods.

Countries Are Taking Extraordinary Measures to Reduce Shock Volatility

Many countries are complementing their efforts to build economic resiliency through trade and productive diversification with fiscal and monetary interventions. Australia, for example, announced $1.7 billion in clean-energy manufacturing subsidies to reduce import dependence. Poland is utilizing EU recovery funds to enhance its domestic capacity and innovation, as well as to modernize certain aspects of its economy.

Some economies are promoting strategic stockpiling of goods and assets to act as an economic buffer. For example, Argentina is renegotiating debt and accumulating reserves, Australia is stockpiling strategic minerals and medical supplies, and Pakistan is stockpiling essential imports. In addition, other countries are reinforcing their monetary goals of stabilizing their currency and inflation targets to reassure investor confidence, as is the case in Mexico.

COUNTRY CASES

Argentina

Fundación Bases

Strategy for Addressing U.S. Tariffs

The Argentine government is aligned with U.S. policies and has not taken retaliatory measures. Instead, it has sought to negotiate a reduction in the tariffs imposed by the United States. Trade barriers have also been reduced, and companies are preparing for increased competition.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Argentina's priorities are centered on addressing internal issues, including inflation, high taxes, and the labor and pension systems. The country aims to streamline foreign trade and tap into new markets. The nation continues to explore ways to simplify foreign trade and broaden its reach into new markets.

Anticipated Changes in the Economy Over the Next Few Years

It is unlikely to have a substantial impact in the short or medium term because Argentina has maintained a very closed economy.

Expected Shifts in Trade Partnerships and Priorities

President Milei's government aims to enhance trade with other countries and economic blocs, reducing its reliance on China and MERCOSUR. However, this decision had already been made before the current trade war began.

China's Reaction in the Region and the Country

China's influence was already strong before the trade war. The major mistake by the EU and the United States has been permitting China to gain influence in Latin America and other regions. The trade war and the United States' tariffs only exacerbate this situation.

Extraordinary Measures to Reduce Shock Volatility

Argentina is working to renegotiate and enhance its debt profile, build reserves, and modernize its regulatory framework. This was already a planned course of action, but the current situation makes it even more critical.

Australia

IPAG Asia Pacific

Strategy for Addressing U.S. Tariffs

Australia's response combines targeted sectoral support with strategic trade diversification. The government unveiled a five-point plan, which includes AUS$50 million in immediate aid for affected industries, AUS$1 billion in zero-interest loans through the National Reconstruction Fund, and stricter antidumping laws for steel and aluminum. A Critical Minerals Strategic Reserve aims to leverage Australia's mineral resources (e.g., lithium, rare earths) to strengthen the country's influence in the global supply chain and insulate against future tariffs. Private sector stakeholders, such as the Australian Industry Group, warn that the 10 percent baseline tariff on AUS$22 billion of annual exports risks 0.8 percent of the gross domestic product (GDP) and disproportionately impacts advanced manufacturing (22 percent of high-value exports). Foreign investors in mining and agriculture face heightened uncertainty, though exemptions from critical minerals signal opportunities. The government is also pursuing WTO disputes and bilateral negotiations to mitigate retaliatory measures.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Australian policymakers are prioritizing economic resilience over economic growth by reallocating resources to buffer against trade shocks. The May 2025 budget emphasizes protecting households from inflation caused by tariffs (e.g., higher import costs for pharmaceuticals). Sectoral policies now focus on the following:

- **Domestic manufacturing**: Encouraging local production through "Buy Australian" procurement rules
- **Supply chain diversification**: Decreasing dependence on China (33 percent of manufactured imports) by broadening outreach to ASEAN and Indian markets
- **Strategic reserves**: Accumulating critical minerals to secure pricing power and ensure supply chain stability

Monetary policy remains cautious, with the Reserve Bank of Australia (RBA) acknowledging tariff-related risks to inflation and investment. Trade uncertainty has also spurred green energy investments, particularly in hydrogen and battery production, to align with Asian and EU demand.

Anticipated Changes in the Economy over the Next Few Years

In the short term, the direct impact on GDP is limited (less than 0.02 percent) due to diversified exports; however, targeted sectors are facing headwinds:

- **Steel/aluminum:** The announced 25 percent U.S. tariffs affect 0.2 percent of Australia's exports, though antidumping measures may protect local producers.
- **Agriculture:** Threatened beef bans and 10 percent tariffs risk rural economies dependent on U.S. markets.

In the medium term (2026–2027), increasing global trade barriers could reduce annual GDP growth by 0.3–0.5 percentage points. However, trade diversion from U.S.-China tensions may benefit Australia via redirected Chinese exports (e.g., electronics) and increased ASEAN investment. Inflationary pressures from disrupted supply chains and retaliatory tariffs remain a key risk.

Expected Shifts in Trade Partnerships and Priorities

Australia is strengthening its ties with China—which account for 25 percent of its exports—as well as ASEAN while cautiously engaging with the United States. The Critical Minerals Reserve enhances Australia's bargaining power with the United States, which relies on Australian lithium for 55 percent of its imports. FTAs with India and the United Kingdom aim to mitigate U.S. market risks, though progress is slow. Regional partnerships focus on climate-related exports (solar, hydrogen) to Southeast Asia and the EU. At the same time, "friendshoring" initiatives draw U.S./EU manufacturers looking for alternatives to Chinese supply chains.

China's Reaction in the Region and the Country

China's economic presence is expanding as Australia seeks stability amid U.S. trade volatility. Treasurer Jim Chalmers identified shielding Australia from U.S.-China tensions as a top priority, recognizing China's role as a stabilizer for exports (iron ore, education). While the United States remains a security ally, China's share of Australian trade is expected to increase, particularly in critical minerals and renewable energy. Regional infrastructure investments, such as the ASEAN-Australia Green Economy Pact, align with China's BRI, creating both competition and collaboration opportunities.

Extraordinary Measures to Reduce Shock Volatility

Australia is implementing the following:

- **Strategic stockpiling:** Critical minerals and medical supplies
- **Trade diversification:** AUS$183 million for ASEAN market access and India trade delegations
- **Domestic subsidies:** AUS$1.7 billion for clean energy manufacturing to reduce import reliance
- **Enhanced trade remedies:** Antidumping tariffs on steel and stricter rules of origin certifications

These measures aim to cut exposure to U.S.-China volatility while positioning Australia as a "safe haven" for green technology investment.

Bangladesh

The Institute For Policy, Advocacy, And Governance (IPAG)

Strategy for Addressing U.S. Tariffs

Bangladesh has adopted a multipronged approach to respond to U.S. tariffs, especially on its ready-made garment (RMG) sector. The government has requested delays in tariff enforcement and pledged to increase imports of U.S. goods, such as cotton and soybeans. It has also approved major U.S. investments, including Elon Musk's Starlink, showing openness to tech partnerships. The private sector is adjusting supply chains and promoting sustainable practices to stay competitive. Additionally, Bangladesh is targeting new markets, including the EU, Japan, and the Middle East, to reduce its dependence on the United States. Regulatory reforms, tax incentives, and infrastructure upgrades led by the Bangladesh Investment Development Authority (BIDA) are intended to attract foreign investors and diversify trade.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Tariff pressures have accelerated Bangladesh's shift from a U.S.-focused export strategy to a more resilient and diversified model. Policymakers are expanding trade ties with East Asia, the EU, and the Middle East. Domestically, reforms are improving the business climate, streamlining customs, and encouraging investment in ICT, pharmaceuticals, and agribusiness. Workforce upskilling and sustainable production are being prioritized. These efforts aim to reduce export dependency, upgrade industries, and future-proof the economy through innovation and diversification.

Anticipated Changes in the Economy over the Next Few Years

In the short term, tariffs are likely to create significant disruptions in Bangladesh's export-oriented sectors, particularly the RMG industry, which accounts for most of the country's exports. Exporters may face a decline in U.S. demand, which could impact jobs and foreign exchange. The government may need to increase subsidies, which would put additional pressure on the fiscal budget.

However, over the next two years, Bangladesh's economy is expected to adjust and emerge more resilient. Structural reforms to improve the business climate and investments in infrastructure, digitalization, and workforce skills may attract new industries and higher-value investments. If successfully implemented, these changes could foster a more balanced and sustainable growth model. The shift toward value-added production, ethical sourcing, and technology adoption will also strengthen Bangladesh's position in global supply chains. While some sectors may continue to experience volatility, the broader economy is expected to recover and adapt by 2027.

Expected Shifts in Trade Partnerships and Priorities

Overall, Bangladesh's trade strategy is transitioning from volume-driven growth in a few sectors and markets to a more balanced, resilient model based on product and market diversification. Bangladesh's trade partnerships and priorities are undergoing a significant shift in response to global trade tensions. Historically reliant on a few key markets for its export earnings—most notably the European Union and United States—Bangladesh is now actively pursuing a strategy of trade diversification. The government is prioritizing deeper trade engagement with nontraditional partners such as Japan, South Korea, the Gulf Cooperation Council (GCC) countries, and regional neighbors including China and India. These markets offer alternative demand sources that can cushion the impact of market-specific shocks and provide new growth opportunities for Bangladeshi exports.

In line with this, Bangladesh is exploring and signing new preferential trade agreements (PTAs) and FTAs, particularly as its graduation from Least Developed Country (LDC) status in 2026 will phase out many of its current duty-free access benefits. Trade policy is becoming more proactive, focusing not just on securing market access but also on aligning product standards, improving compliance with international regulations, and enhancing trade facilitation.

China's Reaction in the Region and the Country

China's presence in Bangladesh has grown significantly in recent years, both economically and strategically, and this influence is becoming more pronounced in the context of rising U.S. trade barriers. In response to U.S. tariffs, Bangladesh is increasingly turning to China and other Asian economies for trade, investment, and infrastructure partnerships. China is already Bangladesh's largest trading partner and a major source of foreign direct investment (FDI), especially under the BRI. Amid growing U.S. trade restrictions, Bangladesh is likely to deepen its economic alignment with China by expanding exports of nongarment products, attracting more Chinese manufacturing investment, and integrating further into Chinese-led regional supply chains.

At the same time, Bangladesh is cautious about overdependence. The government is working to diversify trade and investment sources, including enhancing ties with ASEAN, the Middle East, the EU, and neighboring India. However, China's role is set to expand in areas where the United States is retreating—especially in technology, infrastructure, and financial cooperation. In effect, U.S. tariffs are accelerating Bangladesh's pivot toward the East.

Extraordinary Measures to Reduce Shock Volatility

Bangladesh is taking several extraordinary and strategic steps to reduce its vulnerability to external trade shocks caused by the ongoing global trade war, particularly the U.S. tariffs. Recognizing the risks of overreliance on a limited number of export markets and sectors, both the government and private sector are proactively working to strengthen economic resilience. One major measure is diversifying export markets by seeking new trade partnerships with countries in Africa, East Asia, Latin America, and the Middle East. In parallel, the country is investing in export diversification beyond the garment sector by providing fiscal incentives, tax breaks, and regulatory support for high-potential industries such as pharmaceuticals, ICT, light engineering, leather goods, and agro-processing.

Bangladesh is also taking institutional and regulatory steps to enhance its business environment and attract sustainable FDI. This includes modernizing trade logistics, digitizing customs systems, streamlining approvals, and expanding export processing zones to draw global manufacturers shifting away from China. Finally, Bangladesh is making efforts to build supply chain resilience, including local sourcing of raw materials and partnerships with alternative suppliers.

Brazil

Centro Mackenzie De Liberdade Econômica

Strategy for Addressing U.S. Tariffs

Although the Brazilian government has congressional authorization to apply retaliatory tariffs, it has decided to wait and negotiate. There are no retaliatory measures currently underway, nor are any being considered (by either the private or public sector).

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The strategy focuses on advancing the implementation of the MERCOSUR-EU FTA and deepening trade relations with China.

Anticipated Changes in the Economy over the Next Few Years

The expectation is that economic activity in 2025 will be slightly affected, with a reduction in exports to the United States and an increase in exports to China. Over the next two to three years, economic activity is projected to grow as exports are redirected to other partners, including China and the EU.

Expected Shifts in Trade Partnerships and Priorities

The trade war presents an opportunity to intensify efforts to finalize the FTA with the EU and to expand further trade relations with China, which have been growing over the past decade.

China's Reaction in the Region and the Country

China is expected to increase its presence, mainly through investments in logistics and transportation infrastructure across Brazil, with the goal of establishing an alternative route that connects the Pacific to the Atlantic without relying on the Panama Canal.

Extraordinary Measures to Reduce Shock Volatility

The current scenario reinforces an ongoing government policy known as Brazil's reindustrialization or neo-industrialization. This situation strengthens the narrative of both the government and the industrial sector being in support of such a policy.

Bulgaria

Applied Research and Communications Fund

Strategy for Addressing U.S. Tariffs

The Bulgarian government has not adopted a formal strategy or position in response to the U.S. tariffs. Instead, the government announced it would rely on negotiating a common EU position. There has been an increased focus on potential economic vulnerabilities, with a particular emphasis on the main export trading items: automotive parts, coins, medical and dental devices, sunflower products, and weapons and ammunition. According to Bulgarian national statistics, by January 2025, the United States made up 2.8 percent of Bulgaria’s exports, ranking ninth. In terms of total trade flows, the United States accounts for 2.3 percent, ranking 13th.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

There have been no shifts in the Bulgarian government's policy priorities regarding global trade wars and tariff uncertainty. Bulgaria has instead doubled down on accelerating its existing long-term strategy of deeper integration into the European market to build economic resilience, with several priorities:

- Eurozone accession on January 1, 2026.
- Leveraging EU Funds for infrastructure and public investments.
- Attracting nearshoring investments: Strategically positioning the country as an attractive destination for companies looking to move their supply chains inside the EU.
- Relying on the EU common market and trade policy: Focusing on helping Bulgarian businesses better utilize the EU's existing trade agreements rather than pursuing independent trade deals.

Anticipated Changes in the Economy over the Next Few Years

For the remainder of 2025, the direct impact of the trade war on Bulgaria's economic activity is expected to be modest. As the United States is not a primary export destination, the immediate negative effect would be minimal. However, the major short-term risk lies in the indirect effects from trading partners. The Bulgarian economy is closely linked to other EU economies, with about two-thirds of its exports going to the bloc. Since tariffs impact the German automotive and manufacturing sectors, a slowdown in demand from these partners will ripple through to Bulgarian suppliers. Key sectors are at risk in the short term include:

- Automotive Components: This industry exemplifies Bulgaria's supply chain integration within the EU. Reports show that nine out of ten cars in Europe contain Bulgarian-made parts, so any disruption to German car exports to the US will quickly decrease orders for Bulgarian factories.
- Metals Industry: Although Bulgaria's steel production isn't heavily dependent on direct US exports, producers of value-added products like aluminum components face more immediate challenges. Companies such as "Alkomet" in Shumen, which had been actively developing the US market, will find it more difficult to compete.

Looking ahead two to three years, the impacts of a sustained trade war become more complex and structural. The most significant medium-term challenge is a potential restructuring of global value chains. If European manufacturers reduce production due to ongoing trade barriers, Bulgarian suppliers of intermediate goods could experience a prolonged period of decreased demand, potentially leading to less investment and job creation in the industrial sector.

Expected Shifts in Trade Partnerships and Priorities

Bulgaria's trade partnerships and priorities are shifting further toward strengthening existing relationships with EU partners and intentionally moving up the value chain. The core of this strategy is to enhance economic resilience in the face of global uncertainty through several actions:

- Prioritizing deeper European integration, focusing on the Eurozone (common EU currency) and Schengen (borderless travel) as key economic trade partners.
- Strengthening trade and investment ties with neighboring countries, both inside and outside the EU. Trade with Turkey, Romania, and Greece accounts for 25 percent of Bulgaria's trade relations and exports.
- Shifting from Exporting Goods to Exporting Value: A key priority change is moving from supplying raw materials and basic parts to exporting higher-value, more complex products.
- Moving Up the Value Chain: The government and industry focus on developing sectors like high-tech manufacturing, automotive components (especially more complex systems), ICT, and value-added food processing.
- Nearshoring Hub: In response to global supply chain disruptions and tariff uncertainty, Bulgaria is positioning itself as an ideal location for nearshoring—where global companies relocate their production closer to their final markets in Europe. This approach aims to attract investment that will, in turn, generate high-value exports from Bulgaria to the rest of the EU.

China's Reaction in the Region and the Country

China has a strong presence in the Western Balkans, especially in infrastructure projects in Greece, North Macedonia, Serbia, and Hungary. While its influence in Bulgaria is not as extensive, it is already a key trading partner, ranking sixth in total trade volume. Its presence is particularly notable in agriculture. There appears to be no significant shift in this influence due to U.S. tariffs. However, one major expected impact of U.S. tariffs could be on Chinese renewables exports. These exports might become less competitive in the United States and could be redirected to the EU and Bulgaria, which already prioritize the adoption of such technologies. Lower prices in Europe would temporarily benefit EU countries, especially those in Central and Eastern Europe, by allowing them to source components at a lower cost. However, this could lead to an overreliance on Chinese suppliers. Such a shift could weaken EU domestic production of clean tech components, making it more difficult for European manufacturers to compete on price.

By increasing the EU's dependence on Chinese renewables, Beijing gains significant political leverage over Europe's energy transition. With a larger share of Europe's clean tech supply chain under its control, China can potentially influence not only prices and access to technology but also political decisions in Brussels and national capitals, including Sofia.

Extraordinary Measures to Reduce Shock Volatility

Bulgaria is not implementing extraordinary measures, such as direct subsidies or relief funds, specifically to counter the effects of the ongoing trade war. Instead, the country's strategy focuses on accelerating its existing long-term economic policies to build systemic resilience against all external shocks.

Canada

Macdonald-Laurier Institute

Strategy for Addressing U.S. Tariffs

Canada's initial strategy is to negotiate a comprehensive defense and economic agreement with the United States that would result in the current tariffs being dropped. If that fails, Canada will likely impose retaliatory tariffs on U.S. products, as it did during the first Trump administration when tariffs were placed on Canadian steel and aluminum. Canada aims to do this well in advance of the United States-Mexico-Canada Agreement (USMCA) renewal discussions planned for next year.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

There is now a stronger emphasis on bolstering the Canadian economy, which includes reducing domestic trade barriers and diversifying trade away from the United States by building pipeline infrastructure to enable energy exports to Europe and Asia.

Anticipated Changes in the Economy over the Next Few Years

An economic slowdown is expected in the short term due to tariffs on steel and autos, as well as the broader economic uncertainty created by the Trump administration's policies. In the long term, investment will be significantly impacted, as foreign investors will no longer view Canada's access to the U.S. market as secure. If retaliatory tariffs are implemented, they will contribute to inflation over the next 12 to 24 months.

Expected Shifts in Trade Partnerships and Priorities

Canadian consumers are already shifting away from U.S. products, and, of course, retaliatory tariffs will accelerate this trend. Exporters are seeking new markets, particularly for oil and gas, where Canada could receive a significantly better price from foreign countries than from the United States; this will necessitate the construction of new infrastructure, which the government appears determined to undertake.

China's Reaction in the Region and the Country

The relationship with China largely depends on whether Canada can reach an agreement with the Trump administration. Such an agreement would likely require Canada to maintain high tariffs on Chinese electric vehicles (EVs) and other products, such as steel, where China is clearly abusing the international trading system. However, if the Trump administration maintains high tariffs on key Canadian exports, Canada may be compelled to permit a significantly greater Chinese presence—both in imports and investment—to enable Canadian exporters to access the world's second-largest economy.

Extraordinary Measures to Reduce Shock Volatility

Currently, no extraordinary measures are in place; however, it is highly likely that a package of initiatives, including subsidies for affected industries and workers, will be implemented if U.S. tariffs persist.

Chile

Libertad Y Desarrollo

Strategy for Addressing U.S. Tariffs

The Chilean government has coordinated a strategy to address U.S. tariffs, with Chile-U.S. bilateral meetings taking place.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The government has removed a tax reform from its agenda and is now focused on the bilateral agenda.

Anticipated Changes in the Economy over the Next Few Years

Economic growth projections are being revised downward.

Expected Shifts in Trade Partnerships and Priorities

The current Chilean administration is not favorable to Trump, so this issue has sparked a new impetus to join BRICS (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran, and the United Arab Emirates).

China's Reaction in the Region and the Country

There is a significant debate about establishing an investment board in Chile to counter Chinese investment.

Germany

German Economic Institute

Strategy for Addressing U.S. Tariffs

The German strategy is still being developed, partly due to the formation of a new German government. This new government appears ready to support retaliatory EU measures within certain limits while focusing on achieving a negotiated agreement with the United States that promotes conciliation.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Germany's new government will prioritize enhancing the economy's performance. While this is a goal in itself, greater competitiveness is also aimed at bolstering resilience against a potential trade war with the United States. Private firms are currently delaying investment plans due to significant uncertainty regarding the future tariff system for trade with the United States. In the long run, larger firms might be more willing to invest in the United States, especially if the United States lowers corporate taxes and eases regulatory burdens.

Anticipated Changes in the Economy over the Next Few Years

Germany has a highly open and export-oriented economy, and the United States is Germany's largest export market, accounting for over 10 percent of German exports. Thus, the economic impact of high U.S. tariffs would be significant. The German Economic Institute has estimated that the "Liberation Day" U.S. tariffs could reduce German GDP by 1.2 percent on average during the period from 2025 to 2028.

Expected Shifts in Trade Partnerships and Priorities

Germany is expected to reinforce further the EU's goal of concluding new FTAs with emerging markets. The EU-MERCOSUR trade agreement needs to be passed soon by the Council and the European Parliament. The new German government will likely strongly persuade other European governments to secure this vote by the required qualified majority. Moreover, Germany will likely advocate for a more pragmatic approach from the European Commission in ongoing negotiations with Asian partner countries, such as India or Indonesia, arguing for less emphasis on sustainability criteria that have become high priorities in FTA negotiations for the European Parliament and the Commission.

China's Reaction in the Region and the Country

It remains unclear how Germany's stance toward China will evolve. Some voices from the corporate sector are advocating for less criticism of China and renewed cooperation. However, the new government still needs to establish its position on this issue. Additionally, concerns have been raised in Germany that the domestic market may be flooded with Chinese goods redirected from the United States to the EU.

Italy

Competere & I-COM

Strategy for Addressing U.S. Tariffs

Italy, as a member of the EU, follows the EU's collective strategy to counter U.S. blanket tariffs. The EU has imposed retaliatory tariffs on certain American goods and has initiated disputes through the WTO. Italian stakeholders, including manufacturers and exporters, collaborate closely with EU institutions to mitigate economic impacts. The focus is on maintaining dialogue, fostering resilience, and exploring alternative markets to lessen dependency on the affected sectors. Additionally, Italian trade associations actively advocate for measures to support businesses facing tariff-related challenges.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

In response to the trade war and tariff uncertainty with the United States, Italy has adjusted its economic priorities by focusing on market diversification and supporting businesses that have been affected. Through the National Recovery and Resilience Plan (PNRR), funds have been allocated to boost exports and enhance competitiveness. The government also promotes diplomatic dialogue with the United States and reviews internal policies to ensure economic resilience.

Anticipated Changes in the Economy over the Next Few Years

Italy's response to the trade war and tariff uncertainty focuses on short-term mitigation and long-term strategy. In the short term, a high level of uncertainty and volatility poses significant challenges to export-oriented businesses. To address this, Italy leverages the PNRR to support affected sectors and maintain competitiveness. In the medium term, Italy prioritizes market diversification, reduces dependence on U.S. trade, and strengthens ties with non-EU partners. At the same time, the government actively lobbies to enhance global appreciation of Italian products, aiming for more favorable trade conditions.

This dual approach balances immediate support with strategic international advocacy, fostering economic resilience and safeguarding Italian exports.

Expected Shifts in Trade Partnerships and Priorities

Italy will focus on promoting its high-quality Made in Italy products to maintain competitiveness in global markets if U.S. tariffs remain high. The country will prioritize diversifying trade partnerships, especially with non-EU regions such as Asia and Africa, to reduce dependency on the United States. Strengthening intra-EU trade and leveraging diplomatic efforts to secure stable agreements will also be key strategies.

China's Reaction in the Region and the Country

China's presence in Italy remains significant, particularly in manufacturing, textiles, and logistics. Despite Italy's formal withdrawal from BRI in 2023, interest in maintaining economic ties with China remains strong. The recent Double Taxation Agreement, effective February 2025, reflects ongoing bilateral engagement aimed at facilitating trade and investment.

The imposition of high U.S. tariffs on Chinese goods has raised concerns in the EU about a potential redirection of Chinese products to European markets. However, a recent 90-day tariff reduction between the United States and China has temporarily alleviated these fears. Still, the risk of trade distortion persists, especially if tariffs remain elevated.

In this context, Italy's strategy involves balancing its relations with both the United States and China. Although the withdrawal from the BRI indicates a strategic shift, Italian businesses still view China as a crucial market, particularly as China seeks alternative suppliers due to strained U.S. relations. However, opportunities with China differ from those with the United States due to the distinct economic structures and strategic priorities. Italy seeks to maintain a pragmatic approach by leveraging China's ongoing economic presence while exploring diverse trade opportunities.

Extraordinary Measures to Reduce Shock Volatility

As a member of the EU, Italy's approach to reducing vulnerability to external trade shocks primarily aligns with the EU's collective strategy. The EU has implemented measures to support affected industries, including financial aid through mechanisms such as the European Globalization Adjustment Fund (EGF). Italy, in particular, utilizes funds from the PNRR to enhance economic resilience by promoting innovation and diversifying exports. Additionally, Italian trade associations actively engage in dialogue with EU institutions to advocate for protective measures and support sectors most impacted by tariff changes.

Jordan

Jordan Strategy Forum

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The trade war's impact is not considered significant.

Anticipated Changes in the Economy over the Next Few Years

Jordan might be affected if the U.S. dollar continues to depreciate against other major currencies. This is because Jordan's currency is pegged to the dollar, although Jordan's main imports come from the EU.

China's Reaction in the Region and the Country

China is increasing its influence in Jordan and throughout the region.

Extraordinary Measures to Reduce Shock Volatility

Jordan is pursuing increased diversification and complexity in its exports.

Mexico

Fundación Idea

Strategy for Addressing U.S. Tariffs

Mexico has responded cautiously to U.S. tariff uncertainty, recognizing its deep trade ties with the United States—its largest trading partner in 2024, with $510 billion in bilateral trade. A key response is leveraging the USMCA framework. In 2026, Mexico will undergo a treaty review, including key chapters on labor and e-commerce, under high-stakes conditions as tariff tensions escalate.

The convergence of new U.S. tariffs and the upcoming USMCA review has created significant uncertainty, complicating Mexico's trade negotiations and dampening investor confidence. In response, industries such as automotive and electronics, given their integration across Mexico, the United States, and China, are adjusting supply chains and production strategies.

Authorities have avoided retaliation, maintaining institutional continuity and dialogue to preserve market access. Overall, Mexico's strategy reflects pragmatism—balancing geopolitical risks with its role in regional manufacturing and nearshoring.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Mexico's 2025 federal budget remains focused on social programs, limiting flexibility for industrial or trade-focused policies. Nearly half of programmable spending supports welfare and education, while only 13 percent goes to economic infrastructure, transport, communications, and energy, restricting Mexico's ability to respond to nearshoring opportunities or tariff shocks.

Mexico's government plans to reduce the fiscal deficit from 5 percent to 3.2 percent of GDP, with the public debt projected to stabilize at 51.4 percent of GDP, leaving little room for large-scale investment. However, public-private partnerships (PPPs) offer some flexibility, with 68.6 billion pesos allocated for strategic projects. These PPP resources may be mobilized to support infrastructure or strategic industrial upgrades, indirectly contributing to trade competitiveness.

At the state level, budget constraints also limit responses, although some regions are utilizing their industrial bases and private sector partnerships to enhance competitiveness. Overall, social spending priorities and fiscal rigidity restrict Mexico's ability to adjust its economic strategy in response to trade disruptions.

Anticipated Changes in the Economy over the Next Few Years

Mexico's short-term economic outlook has deteriorated. In 2025, GDP is projected to grow by only 0.2 percent, as internal fiscal constraints and U.S. tariff threats hinder industry and investment. The industrial sector, particularly the automotive and electronics industries, faces supply chain delays and increasing input costs.

In the medium term, Mexico's trajectory will depend on the 2026 USMCA review and broader trade dynamics. A collaborative process could stabilize investments, while friction might deter expansion. Key agricultural exports, such as avocados and berries, also face risks from potential border restrictions.

Inflation near 4 percent limits monetary flexibility and may restrict the central bank's ability to implement monetary stimulus, placing additional constraints on domestic consumption and credit expansion. Despite existing trade risks, Mexico stands to benefit from the United States' gradual economic decoupling from China. In this context, the recent stability of the dollar-peso exchange rate over the past two months may indicate a new phase of macroeconomic stability, potentially reinforcing investor confidence and regional competitiveness.

Expected Shifts in Trade Partnerships and Priorities

Mexico remains highly dependent on USMCA partners, which accounted for 84 percent of exports in 2024. Mexico has deeply integrated into the North American value chain, particularly in the automotive, electronics, and agriculture sectors. However, diversification efforts are gaining momentum. Mexico's CPTPP membership (1.9 percent of total exports) and partnerships with the EU (5.2 percent of total exports) and Latin America (2.5 percent) are smaller in scale, but these relationships provide platforms for diplomatic and commercial expansion.

Importantly, local and regional governments are playing a growing role in enabling trade diversification. One prominent example is the development of liquefied natural gas (LNG) terminals in Baja California and the Gulf of Mexico, which aim to position Mexico as a critical export hub for U.S. natural gas to Asia and Europe. Local actors lead these projects, representing a significant step toward integrating Mexico into global energy markets.

While North America remains central, local strategies are gaining traction, supporting Mexico's gradual transition to a more diversified and resilient trade profile amid rising global uncertainty. The current export structure underscores the urgency of this transition: diversification is both a long-term necessity and a strategic response to geopolitical and market-driven vulnerabilities.

China's Reaction in the Region and the Country

China's presence in Mexico and the broader Latin American region is expected to continue expanding. In Mexico, bilateral trade with China has grown substantially over the last two decades. As of 2024, China remained Mexico's second-largest trading partner after the United States. However, this trade relationship is heavily imbalanced: Mexico imports over $100 billion annually from China but exports less than $10 billion, primarily in minerals and raw materials. Mexico has not formally joined BRI, and its political resistance, influenced by its proximity to the United States and sensitivity to American geopolitical preferences, has led to a more cautious approach to Chinese engagement.

Chinese firms are seeking alternative routes to access the North American market in the context of U.S. tariff policies, particularly those that penalize Chinese goods or target Chinese investment in strategic sectors such as semiconductors and AI. This has led to a growing trend of indirect exports through Mexico, including transshipment strategies and Chinese investments in Mexican assembly operations, particularly in northern border states. Mexican customs authorities and media reports have highlighted instances of triangulated exports—products of Chinese origin entering Mexico and then being re-exported to the United States under Mexican certification, although this practice faces increasing scrutiny.

Chinese capital is selectively entering Mexico. Chinese firms are involved in automotive assembly (e.g., EV production), logistics hubs, and infrastructure development. These investments demonstrate a strategic intention to move closer to the U.S. market within value chains while minimizing the direct impact of U.S. tariffs.

North Macedonia

Center for Research and Policy Making

Strategy for Addressing U.S. Tariffs

North Macedonia is taking a proactive approach to address the trade war. Recently, the country announced plans to reduce its tariffs on U.S. goods to zero in response to the United States' 33 percent reciprocal tariff hike imposed on the country. This gesture aims to encourage reciprocity from the United States. Also, North Macedonia continues its efforts to initiate dialogue with the Trump administration toward a potential bilateral agreement.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The trade war and tariff uncertainty are causing a significant shift in economic policy priorities, moving away from the free trade paradigm toward a more protectionist and domestically oriented approach. This shift is driven by various factors, including supply chain disruptions, concerns about competitiveness, and the need to protect national interests. In North Macedonia, economic policy priorities have shifted toward mitigating the impacts of trade wars and tariff uncertainty, with a focus on attracting foreign investment and diversifying export markets. The steps taken by the government to reduce its tariffs on U.S. goods to zero were framed not only as solutions to the immediate crisis but also as long-term opportunities to improve trade relations with the United States and foster more dynamic economic and tourism exchanges.

Anticipated Changes in the Economy over the Next Few Years

North Macedonia, with its open economy and reliance on key trading partners, has been especially affected by the overlapping crises. Economic growth could be significantly weakened by high trade policy uncertainty. Although direct trade with the United States accounts for less than 1 percent of its total trade volume, the potential consequences extend far beyond the immediate rise in export prices. The most direct impact is anticipated in sectors such as automotive components, outsourcing services, wine, and textile exports. However, experts warn that the greater threat lies in the indirect effects: reduced competitiveness, weakened investor confidence—especially among the diaspora—and economic instability triggered by potential disruptions in EU-U.S. trade relations. Given the country's limited direct trade with the United States, the critical factor will be how EU-U.S. trade relations evolve and how the broader ripple effects of the Unted States' tariff policy unfold in global markets.

Expected Shifts in Trade Partnerships and Priorities

With over 70 percent of Macedonian exports directed toward EU markets, any decline in Europe, particularly in Germany, would have significant repercussions for domestic production and employment. North Macedonia's economy is heavily dependent on the EU and its trade agreements with the European Free Trade Association (EFTA) and Central European Free Trade Agreement (CEFTA) countries. These relationships are expected to persist; however, there is a growing emphasis on diversifying export destinations and products. Macedonia's trade partnerships are likely to evolve toward a more balanced approach, integrating regional collaborations with Western Balkan countries, diversifying export destinations—especially toward emerging markets—and prioritizing value-added exports while still being significantly influenced by its EU ties and integration efforts.

China’s Reaction in the Region and the Country

U.S. tariffs are likely to complicate the situation in the Western Balkans, particularly in North Macedonia, as they may dampen economic activity and growth in the region, potentially affecting investments and projects from China. China may adjust its strategies to navigate these challenges and seize new opportunities. The U.S. tariffs could lead to a decrease in demand for Chinese goods in America, which might prompt China to diversify its exports and explore alternative markets, potentially in other parts of Europe or the Western Balkans. China might refocus on sectors in the Western Balkans that are less vulnerable to the impact of U.S. tariffs, such as infrastructure, energy, or technology. Furthermore, the U.S. tariffs could heighten dependency on China, especially if Western Balkan countries seek to diversify their economic partnerships and find new sources of investment and trade. This shift might alter China’s focus, increase its reliance on BRI projects, and raise concerns regarding the region’s prospects for EU accession. China may prioritize BRI projects in Macedonia, including the China-Europe Land-Sea Express Route (LSER), to enhance trade and investment between China and Europe. China’s growing involvement could create challenges for North Macedonia’s ambitions to join the EU, as it may raise concerns about alignment with EU values and standards, along with potential risks associated with an overreliance on China for economic growth.

Extraordinary Measures to Reduce Shock Volatility

North Macedonia has strong banking and trade ties with Europe and is therefore vulnerable to the economic developments of its European partners. Studies have found that foreign shocks are key drivers of volatility in economic output, inflation, interest rates, and real exchange rates in the country. Consequently, it was identified that trade (export demand) and financial (FDI, remittances) channels were the primary mechanisms for spillovers. North Macedonia has taken steps to address potential vulnerabilities to external trade shocks and has implemented a mix of policies aimed at mitigating these risks and strengthening its economic resilience. According to the Ministry's 2024–2028 Fiscal Strategy, the Macedonian Ministry of Finance has established a mechanism to reallocate capital expenditure funds, encouraging efficient spending and ensuring that resources are directed where needed. Furthermore, the Macedonian Assembly adopted the “Unfair Trading Act” to address rising prices and mitigate the effects of global economic trends. This act aligns with EU standards and aims to ensure fair trading practices within the supply chain of agricultural and food products. Additionally, supported by the World Bank, North Macedonia is working to implement a single national window for trade to align with international standards, improve trade facilitation, and reduce administrative burdens. Lastly, regional initiatives such as the CEFTA, Open Balkan, and the Berlin Process are designed to foster intra-regional trade and collaboration.

Pakistan

Islamabad Policy Research Institute (IPRI)

Strategy for Addressing U.S. Tariffs

Pakistan is adopting a measured and pragmatic approach in response to the recent announcement by the United States to impose 29 percent retaliatory tariffs on Pakistani exports. Recognizing the United States as a key trading partner with substantial influence on Pakistan's trade volume, the government has prioritized maintaining diplomatic engagement while safeguarding national economic interests. The Ministry of Commerce is actively monitoring the evolving situation and has opted to assess the full scope and impact of these tariffs before initiating broad countermeasures. Pakistan also plans to offer concessions to U.S. companies to invest in its mining sector.

Prime Minister Muhammad Shehbaz Sharif has announced that Pakistan will dispatch a high-level delegation to Washington to engage in negotiations. This delegation, comprising senior officials from the ministries of Commerce, Finance, and Foreign Affairs, will seek not only to address the imposed tariffs but also to reinforce Pakistan's commitment to open and fair trade with the United States. Economic authorities are working with private sector stakeholders, including foreign investors operating in Pakistan, to ensure a coordinated and consultative response. These stakeholders have been engaged in dialogue through various business forums to voice their concerns and propose policy options. In parallel with these efforts, Pakistan is exploring opportunities for market diversification and regional integration to reduce its vulnerability to future trade disruptions.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The trade war has prompted a debate in Pakistan's economic policy circles, shifting the focus from consumption-led growth to export competitiveness and import substitution. Policymakers are aiming to enhance the productivity of export-oriented sectors, including textiles, agriculture, and information technology. Strategic focus has also shifted toward local value addition, reducing local industry protection, and decreasing the trade deficit.

Moreover, tariffs have created uncertainty and reinforced the need to enter into preferential trade agreements within the region and beyond, including leveraging opportunities under the BRI. Monetary policy has seen adjustments to protect the economy. The State Bank of Pakistan, the country's central bank, is once again gradually reducing the policy rate after having cut it previously. Authorities have maintained vigilance over inflationary pressures resulting from potential supply chain disruptions.

Anticipated Changes in the Economy over the Next Few Years

Pakistan's economy may feel the ripple effects of the escalating U.S.-China trade war, both in the short and long term. One significant concern is that if both Pakistan and China face higher U.S. tariffs, China could endeavor to dump its products elsewhere and hack away at Pakistan's market share there if it were unable to enter the United States. This influx of Chinese goods into markets such as the European Union could undercut Pakistani exports, particularly in the textile sector.

Pakistan is exploring strategies to mitigate the potential impact by diversifying its export markets, enhancing competitiveness in key sectors, and strengthening economic ties with other regions to reduce dependency on traditional markets affected by the trade war. However, the situation remains fluid, and Pakistan's economic resilience will depend on its ability to adapt to the evolving global trade landscape. Indirect effects such as currency volatility, disrupted global supply chains, and uncertainty in capital flows may weigh on investor sentiment.

In the medium term, the shift in international trade dynamics may create export opportunities for Pakistan in markets where U.S. or Chinese firms are withdrawing. However, success in capitalizing on this depends on Pakistan's ability to maintain competitive quality and delivery standards. If effectively pursued, this could gradually stimulate industrial activity and job creation.

Expected Shifts in Trade Partnerships and Priorities

Pakistan aims to move toward regional integration, particularly with ASEAN, Central Asia, China, and the Middle East. The Special Investment Facilitation Council (SIFC), a key institutional mechanism, is playing an instrumental role in this transition, serving as a unified platform to coordinate between federal and provincial governments. Through the SIFC, Pakistan is engaging with GCC countries to attract strategic investments in key sectors, including energy, agriculture, IT, and minerals.

Moreover, the China-Pakistan Economic Corridor (CPEC) remains central to this regional orientation. CPEC functions not only as an infrastructure and connectivity initiative but also as a platform to deepen trade, industrial cooperation, and regional integration. The government is further exploring closer economic ties with Central Asian republics, such as Kazakhstan and Uzbekistan, alongside broader engagements with Middle Eastern economies, including Saudi Arabia. This strategy represents a purposeful shift away from excessive dependence on traditional Western markets, while encouraging South-South cooperation.

Additionally, digital trade and services exports have begun receiving attention due to their potential to overcome physical trade barriers. In this context, Pakistan's forthcoming national AI policy, which is currently in its final stages of approval, is expected to play a transformative role. The policy aims to harness AI technologies to enhance productivity, streamline governance, and create new avenues for digital services exports.

China's Reaction in the Region and the Country

China's presence in Pakistan and the broader South Asian region is experiencing a significant transformation. However, it is part of China's larger economic plan, which is not driven by the recent imposition of U.S. tariffs.

A cornerstone of the Pakistan-China relationship is the advancement of the CPEC into its second phase, known as CPEC 2.0, which focuses on industrialization, the development of Special Economic Zones (SEZs), clean energy initiatives, agricultural development, and livelihood projects. In practical terms, this collaboration has led to tangible investments and agreements.

If the U.S.-China trade war intensifies, China's economic presence in Pakistan is likely to deepen strategically as Beijing seeks to reconfigure its global supply chains and reduce dependency on Western markets. In this scenario, Pakistan could become an even more crucial node in China's regional strategy, potentially leading to deeper economic integration between the two countries. However, there is also the possibility of increased competition between China and Pakistan, which necessitates careful strategic planning and effective governance.

Extraordinary Measures to Reduce Shock Volatility

Rather than retaliating, Pakistan is still waiting for the actual outcome of the tariffs. In parallel, discussions are underway regarding the strategic stockpiling of key imports, diversifying suppliers, and encouraging local substitution of imported goods through incentives and fiscal support. These efforts, while still evolving, reflect a growing recognition of the importance of trade resilience in a volatile global environment. Additionally, there is a focus on foreign reserves diversification in Pakistan. The country is moving toward the development of its crypto and digital asset landscape. The regulatory framework in Pakistan is also at work. There is growing public interest and institutional discussion surrounding blockchain technology and digital currencies and their role in promoting financial inclusion and facilitating cross-border transactions. These developments are part of broader conversations about future-proofing the economy through technological adaptation and alternative financial infrastructure.

Peru

MACROCONSULT

Strategy for Addressing U.S. Tariffs

The United States has imposed a 10 percent tariff on Peruvian exports—the minimum rate announced for all trade partners. Given the relatively low rate, Peruvian economic agents have shown little concern. In fact, textile exporters view the measure as an opportunity, as some of their competitors—particularly in Asia—have faced higher retaliatory tariffs.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Based on all available information, the trade war is expected to have only a minimal impact on the Peruvian economy. Consequently, economic policy priorities have largely remained unchanged.

Anticipated Changes in the Economy over the Next Few Years

Given all available information, the trade war is expected to have a minimal impact on the Peruvian economy in both the short and medium term.

Expected Shifts in Trade Partnerships and Priorities

China is Peru's primary trading partner and the country most impacted by the tariff hikes implemented under the United States' trade policy. In this context, Peru is concerned about a possible slowdown in the Chinese economy, as it could lead to a global decline in imports—including those from Peru. In response to this potential slowdown, China may look to boost its exports globally by aggressively reducing prices. This could restrict market opportunities for Peruvian exports and put pressure on domestic production.

China's Reaction in the Region and the Country

China has been steadily increasing its presence in Peru over the past 15 years, making significant investments in mining, power generation and distribution, and port infrastructure—most notably the recently inaugurated Chancay Port. While there is no official policy from the Peruvian government against Chinese investment, concerns are growing about potential retaliatory tariffs due to China's expanding influence, particularly regarding the strategic importance of Chancay Port.

Extraordinary Measures to Reduce Shock Volatility

There have not been extraordinary measures due to Peru's implicit policy of openness. In fact, a significant share of its economic growth in recent years has been driven by exports.

Poland

THINKTANK

Strategy for Addressing U.S. Tariffs

The Polish government's position on the tariffs imposed by the United States in 2025 is pragmatic. Prime Minister Donald Tusk emphasized that although Poland is not a large exporter of steel and aluminum to the United States (aluminum exports amount to only 411 tons per year), the government is analyzing the potential effects of these tariffs on the Polish industry, especially in the context of the impact on prices and trade within the EU. Minister of Finance Andrzej Domanski has noted that potential disruptions in global trade could negatively affect the Polish economy; however, Poland is less exposed to these effects than are other countries, thanks to its diversified economic growth engines, which are based on consumption and the domestic market.

The Polish government has declared its cooperation with the EU to develop a common yet balanced response to the actions of the United States. Prime Minister Tusk has noted that a trade war with the United States would be a "cruel paradox" and emphasized the importance of European solidarity in this context. Foreign companies operating in Poland are closely monitoring the effects of tariffs imposed by the United States, particularly on the subsidiaries of European companies within Poland's automotive sector.

Although direct exports from Poland to the United States account for a small portion of trade (around 3 percent), many firms are part of global supply chains, which means they experience the indirect effects of these actions. According to research conducted by the Polish Economic Institute, over 40 percent of Polish companies anticipate a significant impact of U.S. customs policy on their operations. The greatest concerns are voiced by companies in the transport, forwarding, and logistics sector, as well as small and medium-sized enterprises. Some companies are increasing orders from other countries, such as China, to secure their inventories and minimize the risk of potential trade disruptions.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

The United States' tariff policies have not directly affected Poland, but they have reshaped strategic economic thinking. The focus has shifted toward resilience, diversification, EU solidarity, and stabilizing domestic demand. Poland views these trade tensions as a warning sign and a necessity to strengthen its economic fundamentals and decrease vulnerability to future geopolitical shocks. A stronger alignment with the EU on trade defense and common retaliatory measures is being considered.

Anticipated Changes in the Economy over the Next Few Years

There are four possible short-term consequences:

- Export uncertainty and slower trade growth. Poland exports very little directly to the United States, but many Polish firms supply components to larger EU exporters (e.g., Germany).
- Tariffs on EU goods can reduce demand for Polish intermediate goods. At risk are automotive, electronics, industrial machinery. There is also an inflation risk, as tariffs can

increase global prices for raw materials (e.g., steel and aluminum), which raises production costs in Poland. There may also be upward pressure on consumer prices.

- Business sentiment and investment hesitation may cause companies to delay capital expenditures and expansion plans.
- Financial market uncertainty, e.g., Polish currency volatility.

In addition, there are four possible medium-term consequences:

- Supply chain reorientation (primarily toward Asia) and increased trade with countries less affected by tariffs.
- Nearshoring, as a parallel strategy, is driving growth in sectors such as logistics, advanced manufacturing, and IT outsourcing.
- Polish exporters are reducing their dependency on the United States.
- EU cohesion and policy: Poland may take a more active role in shaping EU trade policy to strike a balance between openness and greater strategic autonomy.

Expected Shifts in Trade Partnerships and Priorities

Poland is not a direct target of most U.S. tariffs, but it is impacted through its integration into European supply chains and its dependence on global trade stability. EU markets comprise over 75 percent of Polish exports, making intra-EU stability and solidarity vital, along with greater bargaining power in disputes with the United States or China. The emphasis is shifting from liberal trade policy to a framework of more strategic autonomy, which involves enhancing resilience in areas such as critical raw materials, food security, defense, and energy equipment.

China’s Reaction in the Region and the Country

The United States’ tariffs against the EU are creating economic instability and pressuring Poland to reevaluate its relationships with both the United States and China. This necessitates a more cautious distance from China, as rising U.S.-China tensions make alignment with Beijing riskier for EU countries. However, Poland still seeks Chinese capital for infrastructure (ports, logistics), energy transition (solar panels, EVs), and consumer goods, but on more Polish or EU terms, with greater scrutiny. There is a possibility of rebalancing toward relatively more trusted markets, such as ASEAN, India, Japan, and South Korea, as these are viewed as less politically risky than China and more aligned with Western values.

Extraordinary Measures to Reduce Shock Volatility

Poland is taking some indirect measures to reduce its vulnerability to external trade shocks. Although these measures are not explicitly framed as emergency actions in response to the ongoing U.S.-led trade war, they represent a deliberate policy aimed at enhancing economic resilience. These measures involve expediting the utilization of EU recovery funds to enhance domestic capacity and innovation, modernize infrastructure, support green and digital transformation, and increase productivity in local industries. Additionally, there are incentives for companies to move production from Asia to Poland or Central and Eastern Europe (CEE), as well as support for logistics hubs. The aim is to diversify exports and reduce dependence on the EU and the United States.

Generally, Poland's limited response to the tariff war stems from the nature of its economy and its positioning within the EU and the North Atlantic Treaty Organization (NATO).

South Africa

Centre For Risk Analysis

Strategy for Addressing U.S. Tariffs

South Africa's Minister of Trade, Industry and Competition, Parks Tau, is leading government efforts to create a "package of trade measures" for engaging with the United States. Part of this package aims to address nontariff barriers in South Africa that affect U.S. pork, poultry, and beef. Sectors and businesses in South Africa that will be most impacted by higher U.S. tariffs, specifically agriculture and automotive, have engaged with the South African government through various associations and are actively lobbying and pursuing other initiatives in Washington DC. South Africa as a whole will strive to maintain some semblance of the African Growth and Opportunity Act (AGOA), along with the tariff-free access to U.S. markets from which South African exports have benefitted.

Economic Policy Priorities Shift Due to the Trade War and Tariff Uncertainty

Significant changes in South Africa's economic policy priorities have yet to occur. South Africa did not rush to the United States to address concerns and allegations raised by the Trump administration; however, President Ramaphosa has appointed a special envoy, and three ministers have been tasked with developing a trade package for potential deal-making or more substantive engagements with the United States later in 2025. Given the country's domestic economic challenges in areas such as electricity, logistics, and labor markets, the Government of National Unity is currently more focused on these matters. Regarding trade policy priorities, the government has maintained its preference for initiatives such as Localisation Master Plans.

Anticipated Changes in the Economy over the Next Few Years

Generally, elevated global trade uncertainty has a particularly negative impact on emerging market economies. South Africa entered 2025 following a 0.6 percent GDP growth rate in 2024 (compared with a 1.3 percent population growth rate) and an average GDP growth rate of 0.8 percent from 2012 to 2023. South Africa and the new Government of National Unity need to achieve growth and investment wins quickly. In the short term, the ongoing trade war is expected to suppress global growth and likely dampen demand for South African commodities, which are a reliable source of tax revenue. Over the medium term, South Africa could benefit from shifting trade flows and phenomena such as friendshoring and nearshoring, but only if it manages to improve its domestic trade infrastructure and policies.

Expected Shifts in Trade Partnerships and Priorities

South Africa will likely continue to advocate for initiatives such as the African Continental Free Trade Area (if not in action, at least in rhetoric). Twenty-five percent of South Africa's exports to the United States benefit from AGOA, and the United States and the EU are two of South Africa's largest trading partners, along with China—although the latter primarily focuses on raw materials and commodities. Overall, South Africa will probably strive to maintain beneficial trade terms with the United States (or at least minimize the punitive impact wherever possible), given their significance for trade and investment in South Africa. However, there will certainly be a desire to strengthen enhanced trading agreements with other countries and explore new opportunities with so-called “middle powers” such as Türkiye and the United Arab Emirates (UAE).

China’s Reaction in the Region and the Country

China’s presence in South Africa has been notably different from its engagements in other African countries. Chinese automobile manufacturers, such as the GWM group and BYD, have already made significant inroads into South Africa; their offerings and potential investments are likely to increase. Regarding foreign aid, South Africa’s ongoing battle with HIV, coupled with the loss of U.S. funding in this area, provides ample opportunities for Chinese engagement and support. In terms of rhetoric, the Chinese government has consistently expressed support for South Africa's G20 presidency; this rhetoric and “embrace” are expected to grow throughout 2025. For South Africa and other countries that export to the United States, the possibility of higher U.S. tariffs is likely to encourage them to explore increased trade with China, invest in infrastructure, and support initiatives such as the African Continental Free Trade Area (AfCFTA).

Extraordinary Measures to Reduce Shock Volatility

There are no extraordinary measures at the time of this writing. In 2025, the South African government is operating under increased fiscal strain—a third national budget was scheduled to be presented on May 21, following the first, which was set aside by Parliament, and the second, which was challenged by litigation. This fiscal squeeze limits the direct support the government can provide through tools such as subsidies. Considering the risk of increased imports of Chinese goods into South Africa (if the United States maintains higher tariffs against China), entities such as the Department of Trade, Industry, and Competition, along with other government bodies, will likely enhance their monitoring of imports and may impose new tariffs or raise existing ones.

CONCLUSIONS

U.S. global tariffs are affecting countries worldwide, prompting them to reassess their economic and trade strategies. As the global trade system shifts toward an uncertain future, countries—regardless of their region or income level—are implementing a combination of policies to boost their domestic economies and to reinforce or seek new trade options, thereby lessening their dependence on U.S. trade. Some countries view this as a good opportunity to enhance their economy's competitiveness and resilience. However, economic growth is being revised downward in the short term, and uncertainty arises as a common challenge stalling capital expenditure.

As the United States temporarily retreats from global trade, China is gaining relative influence. Countries participating in the BRI are benefiting from a surge in investment, particularly in infrastructure projects. As the second-largest economy, China is viewed as an export alternative to counter America's inward-looking trade policy. However, many countries—regardless of region or income level—are voicing concerns about the effect of Chinese predatory practices, such as the dumping of artificially cheap products, on their local industries.

The drive to build economic resilience is creating a paradox: countries are considering both protectionist measures to shield their economies from trade disruptions and proactively pursuing new trade agreements. This paradox underscores the uncertainty surrounding the new global trade system under development. After trade negotiations conclude, the world could shift toward either a protectionist, transactional economy or a scenario wherein rules-based trade persists, especially at the intra-regional level, in the face of predatory trade practices.