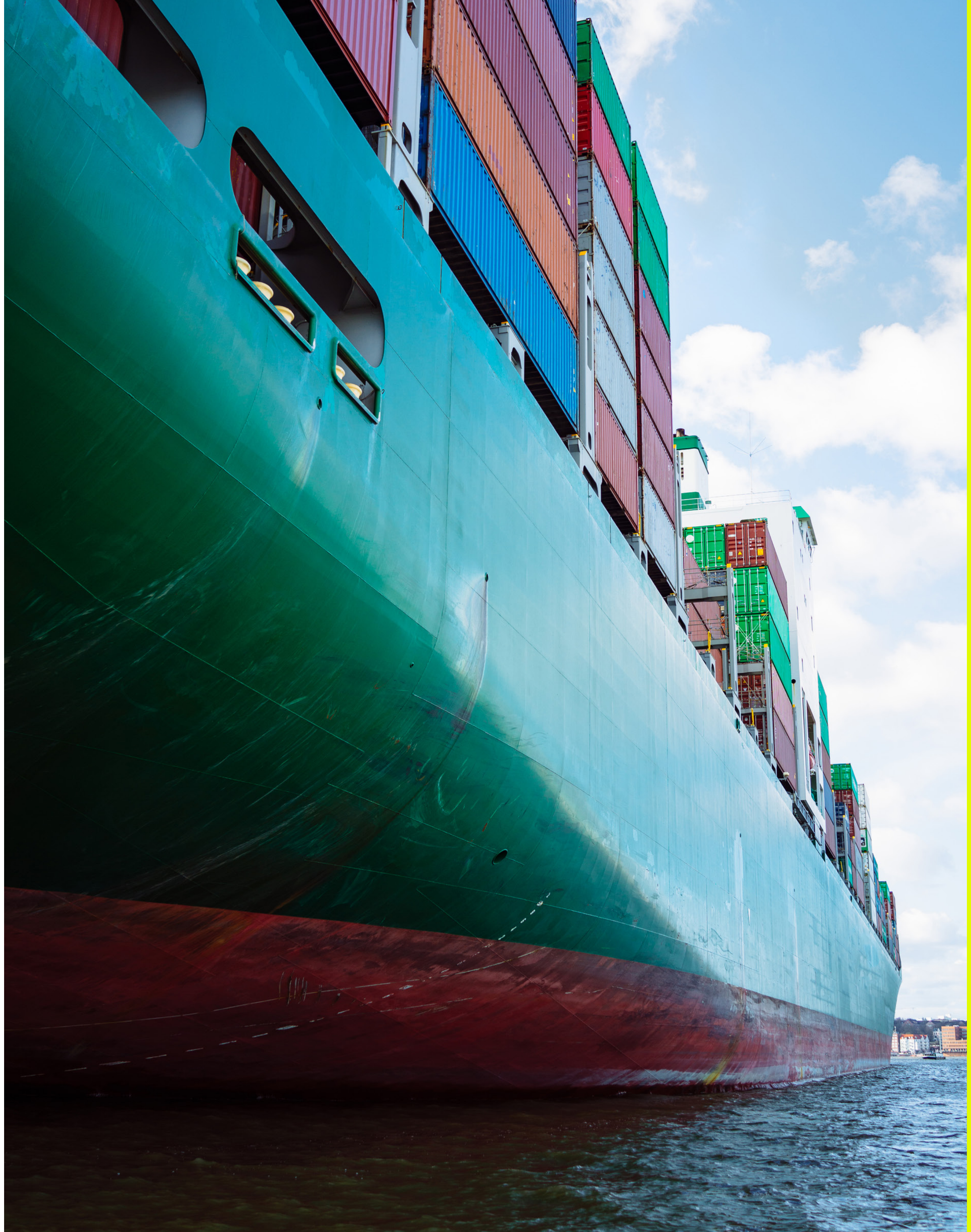
2025 MIDYEAR

Global policy outlook



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Global Overview

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We knew that the first 100 days of the second Trump administration would be a roller coaster, but no one could have anticipated how steep the dives or how hard the turns would be as he implemented an "everything, everywhere, all at once approach."

In his first 100 days in office, President Trump signed 143 executive orders, more than any other president has signed in his first 100 days. (Many of these are facing legal challenges.) To compare, Trump signed just 33 executive orders in the first 100 days of his first term.

Perhaps the most economically significant of the executive orders are those focused on trade and tariffs. Trump wasted no time implementing an "America First Trade Policy" agenda, punctuated with his April 2 "Liberation Day" tariffs (many of which were quickly paused). Since then, progress has emerged on talks with some global trade partners. As new trade deals are announced in the coming days, weeks, and months, it will be the ongoing negotiations to turn these frameworks into finalized bilateral trade agreements that are expected to take many months, and some cases years, to work through.

And, with midterm elections looming in November 2026, political analysts are trying to understand the risk to the Republican majorities in Congress as polls are proving that the tariffs have been generally unpopular with the American public.

Of course, tariffs aren't the only issue to watch in the second half of 2025.

- While the extension and expansion of Trump's 2017 tax reform is an important step in this administration's agenda to grow the US economy, an ambitious deregulation agenda is expected to be a significant focus as we enter the second half of this year.
- As of late, the Trump administration, led by special envoy Steve Witkoff, is focused on nuclear talks in Iran. While his administration's last attempt at talks in 2015 was not fruitful, this time around, Trump has signalled both renewed confidence in the current negotiations and a stern warning of future attacks if the talks break down.
- With unified Republican control in Washington, there has been an immediate shift in the approach to financial regulation. In Congress, the House Financial Services Committee and Senate Banking Committee are working diligently on their agenda to expand capital access in the public and private markets and craft a functional regulatory framework for digital assets.

Global view

United Kingdom. One of the UK government's key objectives in the second half will be successfully concluding 'reset' negotiations with the European Union to reduce frictions in goods trade and build linkages between UK and EU energy policies.

European Union. The first formal discussions on the next EU budget will begin in the summer, prompting a likely long-running debate about the proportion that can be allocated to defence and security initiatives, as well as how the EU will begin to repay c.€800 billion of COVID-19 era debt.

China: At the March 2025 National People's Congress, China set its official budget deficit target at a record-high 4% of GDP, signalling a shift toward more aggressive fiscal support that aims to stabilize the economy amid declining tax revenues and external pressures.

United States

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Political outlook

- As President Trump and his cabinet take full control of the executive branch, the Republican majority in the House of Representatives and the Senate are in an intense debate on how best to move the Trump tax, immigration, energy, and defense agenda through the legislative process.
- However, President Trump is not waiting for Congress to effectuate his agenda. In the beginning days of his administration, he has been moving expeditiously through executive orders, many of which are being held up by legal challenges. In fact, in the first 100 days in office, the president signed 143 executive orders, more than any other president has signed in his first 100 days. To compare, Trump signed just 33 executive orders in the first 100 days of his first term.
- Perhaps the most economically significant of the executive orders are those focused on trade and tariffs. On Inauguration Day, President Trump wasted no time implementing an expanded tariff policy by announcing his "America First Trade Policy" agenda, which led up to the April 2nd, also known as "Liberation Day," announcement of "reciprocal" tariffs on a long list of countries, along with a universal baseline tariff of 10 percent. The response internationally and in the markets was negative and swift, and one week later, a delay was announced by the White House.
- Subsequently, the polls are proving that the tariffs have been generally unpopular with the American public, and with the possibility of recession creeping up, political analysts are looking toward the mid-term elections (November 2026) to try to understand the risk to the Republican majorities in Congress.
- Of course, as it relates to the midterm elections, so much will be determined by where the US economy stands one year from today, along with the price of goods, mortgage rates, and the job market.

Fiscal outlook

- Republican lawmakers have set an aggressive timeline for the legislative package that aims to extend the 2017 tax reform, provide greater tax relief for social security recipients and the working class, and allocate additional spending on immigration, energy, and defense. This legislative package can be fast-tracked under a process known as "reconciliation."
- Reconciliation, as a legislative procedure, allows for expedited consideration of certain reforms of laws that align with spending, revenue, and the debt limit. While it is restricted to those three areas of policy, it allows for a simple majority for passage in the Senate instead of the 60 votes typically required. The reconciliation process is only politically realistic when both chambers of Congress and the presidency are politically aligned.
- While the extension and expansion of the president's 2017 tax reform is an important step in this administration's agenda to grow the US economy, the ambitious deregulation agenda is expected to be a significant focus as we enter the second half of this year. As Treasury Secretary Bessent has laid it out, deregulation, tax reform, and trade rebalancing coupled with energy dominance will be the focus of President Trump's economic agenda over his second term in office. Bessent has stipulated that this agenda is made of "interlocking parts of an engine designed to drive economic growth and domestic manufacturing."
- Time will tell whether the economic rebalancing from these policies will provide the benefit to US industries, workers, and consumers, and next year's midterm elections will be the first true test of public sentiment toward this policy agenda.

Geopolitical outlook

- President Trump took the world by storm in the beginning days of his presidency, immediately advocating for quicker resolutions to international conflicts. Trump initiated peace negotiations between Russia and Ukraine, courting the Russians to a certain degree while striking an economic partnership with Ukraine. He threw his full support behind Israel, vowing to take control of the Gaza Strip and taking a more aggressive approach to the Houthis in Yemen and the Red Sea.
- As of late, the Trump administration, led by special envoy Steve Witkoff, is focused on nuclear talks in Iran. While his administration's last attempt at talks in 2015 was not fruitful, this time around, Trump has signaled both renewed confidence in the current negotiations and a stern warning of future attacks if the talks breakdown.
- In May, President Trump took a historic trip to the Middle East, which resulted in significant economic and investment agreements to deepen US ties in the region, including $600 billion in agreements in Saudi Arabia, $243 billion in agreements in Qatar, and $200 billion in packaged deals in the United Arab Emirates.
- However, it is Trump's trade and tariff agenda that is causing the greatest consternation globally. After the April 2nd announcement, reaction in the markets, and the subsequent 90-day delay of the reciprocal tariffs, the US Trade Representative began technical talks with several foreign trading partners. After striking a US-UK trade framework, the US Trade Representative and Treasury Secretary announced a temporary deal with China backing off some of these steepest levies to date. As new trade deals are announced in the coming days, weeks, and months, it will be the ongoing negotiations to turn these frameworks into finalized bilateral trade agreements that are expected to take many months, and some cases years, to work through.
- Trump recently suggested that Taiwan should pay the United States for its defense, emphasizing that the US has been providing significant military support to Taiwan and that Taiwan should bear more of the financial responsibility for its security. This statement reflects his broader "America First" approach, which prioritizes reducing US involvement in foreign affairs while encouraging allies to contribute more to their own defense.

United States

- Trump's views on Iran are marked by a hardline stance, emphasizing that his administration does not seek regime change but sees Iran as a major source of instability in the Middle East. He has repeatedly expressed that Iran should not develop nuclear weapons but also hinted at giving Israel the green light to strike Iran's nuclear facilities if necessary. However, relations could be marred by Iranian agents' reported plot to kill the president-elect before the election.
- One of the first cabinet-level appointments, Elise Stefanik (R-NY), a staunch ally of Donald Trump in the House, has been nominated to represent the United States at the United Nations.

Financial services reform and deregulation

With unified Republican control in Washington, there has been an immediate shift in the approach to financial regulation. In Congress, the House Financial Services Committee and Senate Banking Committee are working diligently on their agenda to expand capital access in the public and private markets and craft a functional regulatory framework for digital assets.

Banks

Meanwhile, US Treasury Secretary Scott Bessent has stated the administration's intent to re-examine "all bank regulation." In a recent speech to the American Bankers Association, Secretary Bessent outlined the administration's intent to "drive a more tailored regulation to the community bank model," suggesting there would be "strong cases for categorical exemptions of community banks." Additionally, the Secretary spoke directly to the Basel III endgame standard, stipulating that the US must "take a different approach… and not outsource decision making for the United States to international bodies." He also addressed other policy initiatives that the administration will want to develop, such as ensuring the leverage capital functions as an appropriate backdrop, revisiting the role of the Federal Reserve (Fed) discount window and the Federal Home Loans Banks in providing liquidity, and working with Congress to consider deposit insurance reforms.

Digital assets

Given President Trump's embrace of the crypto community during the election, it is unsurprising that the biggest policy shift has been on the regulation of digital assets. The White House has issued multiple crypto-related executive orders and established the President's Working Group on Digital Asset Markets. Meanwhile, the Securities and Exchange Commission ("SEC") has dropped numerous lawsuits against crypto companies, including Coinbase, Kraken, and Robinhood, and established a Crypto Task Force to bring much-needed regulatory clarity. Congress has also been active on the crypto front, with a Congressional Review Act resolution to undo a Biden-era IRS crypto rule passing Congress with broad bipartisan support, and both the House and Senate are currently working to advance bipartisan stablecoin legislation.

Environmental, social, and governance ("ESG")

With Chairman Paul Atkins taking the helm at the SEC, an outspoken critic of ESG investing, there will be a notable shift in approach to ESG issues, including rules governing proxy voting and engagement.

The SEC announced in March that it voted to end its legal defense of its climate disclosure rules, effectively walking away from its regulation requiring companies to report on climate risks and greenhouse gas emissions, questioning "the statutory authority of the Commission to adopt the Rule, the need for the Rule, and the evaluation of costs and benefits."

Second, the SEC issued Staff Legal Bulletin No. 14M, making it easier for issuers to exclude ESG-related shareholder proposals. Finally, the SEC issued guidance clarifying that a passive investor recommending that an issuer "undertake specific actions on a social, environmental, or political policy" can, in certain circumstances, lead to that investor no longer being a passive investor.

Private markets

Rather than focusing solely on the risk of the private markets, policymakers are now focusing on their benefits and how to provide more retail exposure to the asset class. In his first speech as Acting SEC Chairman, Uyeda stated that he has "directed the Commission staff to explore regulatory changes that enable greater retail investor participation in the private markets, whether through modifications to the accredited investor definition or otherwise, while continuing to ensure that those investors are protected against fraud and bad actors." He added that "[i]n exploring ways to allow for greater retail investing in private companies . . . consideration should also be given to changes under the Investment Company Act that would permit more retail investors to invest through private funds."

Reconciliation – tax, energy, and defense

In April, the Republican-controlled Congress passed a budget resolution, initiating a reconciliation process to advance President Trump's multi-trillion dollar domestic policy agenda, including tax cuts, defense, and border spending increases, as well as a significant policy aimed at energy production. The bill also includes an increase in the debt ceiling, which the Secretary of Treasury has stated is on track to be breached as early as August.

On May 22, the House of Representatives passed their version of the reconciliation package by a narrow vote of 215 to 214. On May 18, President Trump visited the House Republican conference to help end internal debates and the pressure mounted on conservatives to pull back from harsher Medicaid cuts and moderates from resisting the proposed state and local income tax (SALT) deduction cap.

Ultimately, the House bill made the 2017 tax cuts permanent, including specific provisions to address the President's priorities of no tax on tips, overtime pay, and car loan interest, as well as providing additional tax relief for seniors. The bill would significantly modify the excise tax on the net investment income of private colleges and universities. It would end over $500 billion in IRA tax credits.

The bill makes considerable reforms to Medicaid, mandating work requirements for able-bodied adults without dependents above the poverty line. It reduces funding to states that allow for Medicaid coverage of undocumented immigrants.

The House version provides $90 billion for border security, including $46.5 billion to significantly expand and modernize the southern border. It provides close to $100 billion for increased national defense, including $35 billion for Shipbuilding and the Maritime Industrial Base to expand the size and enhance the naval fleet, $25 billion for the President's announced "Golden Dome," and $21 billion to restock the US arsenal of munitions.

United States

Additionally, the reconciliation contains several energy provisions, including reforms to NEPA (National Environmental Policy Act) and modifications to clean energy tax credits. It would mandate at least 30 lease sales in the Gulf over the next 15 years, reinstate quarterly onshore oil and gas lease sales and require geothermal lease sales, resume leasing for energy production in Alaska and the Arctic National Wildlife Refuge, and increase timber sales on federal lands, among other reforms.

The House reconciliation bill is now in the hands of the Senate, where they will undoubtedly put their imprint on the package. The Senate chamber must deal with the "Byrd Rule", which is a process of ensuring that every provision follows the chamber's more restrictive reconciliation guidelines. Republican leadership in Congress is trying to meet an aggressive, self-imposed timeline of July 4 to get this to the president's desk. Ultimately, whatever is passed out of the Senate will have to clear the House again before a final package is sent to the president.

Trade

President Trump has famously described tariffs as "the most beautiful word in the dictionary" – viewing them not merely as revenue-raising mechanisms but as strategic weapons to achieve broader policy objectives. In his calculus, tariffs provide leverage, creating uncertainty that keeps both allies and adversaries in a reactive position.

During his first term, President Trump fundamentally altered America's trade posture, transitioning from "free trade" to "free but fair trade." He imposed tariffs under Section 232 of the Trade Enforcement Act on global steel and aluminium while applying Section 301 powers of the Trade Act of 1974 for targeted tariffs on Chinese goods. His administration also renegotiated the North American Free Trade Agreement (NAFTA) into the US-Mexico-Canada Agreement (USMCA) to modernize North American trade relationships.

The current Trump administration has wasted no time implementing an expanded tariff policy. On Inauguration Day, the President announced his "America First Trade Policy" agenda, which aims to return the United States to a "production economy" with a strong middle class and robust national defense. This comprehensive framework directs USTR and other agencies to investigate the "large and persistent causes of annual trade deficits" while thoroughly examining economic relations with all countries.

On March 6, President Trump announced adjusted tariffs on Canada and Mexico that reflect a nuanced approach to addressing perceived imbalances:

- Goods that do not satisfy USMCA rules of origin now face a 5% tariff.
- Canadian energy products outside USMCA preference are subject to a 10% tariff.
- Potash imports from both Canada and Mexico that do not qualify for USMCA preference face a 10% tariff.
- Goods qualifying for USMCA preference remain tariff-free.

On March 12, the 25% tariffs on both steel and aluminium imports under Section 232 went into effect, removing the steel exemptions and raising the aluminium levy.

On April 2, President Trump announced the result of the investigation into tariff and non-tariff barriers for US exports, unveiling his "Liberation Day" tariffs, setting a universal tariff of 10% on every nation, as well as nation-specific reciprocal tariff rates. After significant market tumult, the president announced a 90-day pause on the reciprocal tariff rates, except those levied against China, while keeping the 10% universal tariff in place. Under this new tariff regime, tariffs against China were as high as 145%.

Of course, in the mind of the administration, the whole purpose of this 90-day pause was to bring US trading partners to the negotiating table in an effort to rebalance US trade relationships through bilateral agreements. Weeks later, those discussions began to bear fruit. On May 8, President Trump announced a US-UK trade framework. The deal is expected to provide new market access in the UK for American agricultural products like beef, chemicals like ethanol, machinery and many other industrial products. Shortly thereafter, talks between senior representatives from China and US Treasury Secretary Bessent and USTR Rep Jamieson Greer in Geneva resulted in a temporary agreement to reduce tariffs for 90 days and continue negotiations. Under this temporary agreement, the US would reduce the tariff on Chinese imports to 30 percent from 145 percent. In exchange, China lowered its tariffs on US imports from 125 percent to 10 percent.

In the next several weeks and months, additional frameworks are expected to be announced. However, it is important to note that formal trade agreements take an average of 18 months to complete and up to two years to implement, so the practical shifts in trade may still be years away.

United Kingdom

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Political outlook

- We expect UK politics to continue to be dominated by a combination of global (Trump 2.0, trade negotiations with the EU, and the war in Ukraine) and local (fiscal challenges, immigration and the rise of the Reform Party) factors.
- While there is an expectation that President Trump's focus may shift to domestic reforms in the second half of the year, the unpredictability of events across the Atlantic means the government's agenda – and its ability to control the domestic media agenda – will continue to be impacted by the White House. A mooted state visit to the UK in the Autumn will create a moment of political jeopardy for a prime minister determined both to hug the US president closely while seeking closer ties with the European Union.
- Indeed, one of the government's key objectives in H2 will be successfully concluding 'reset' negotiations with the European Union to reduce frictions in agri-goods trade and link the UK and EU energy markets. Having agreed ahead of terms in May, the UK will push hard for a conclusion of negotiations in time to deliver an uplift to official UK GDP forecasts published in the autumn.
- However, a difficult Spending Review in June – setting out further planned cuts to government budgets – will presage a challenging budget in the autumn, in which the chancellor is likely to have to announce changes to her fiscal rules or further tax rises, or both. Spending cuts and tax rises will open up greater division among backbench Labour MPs, particularly those threatened by the rise of Nigel Farage's Reform Party. As such, the government will give greater focus to tackling 'right of centre' issues such as legal and illegal migration while searching for further regulatory measures that could help stimulate economic growth.

Fiscal outlook

- Having restored headroom against her fiscal rules through additional budget cuts in the spring, opposition within her own party means Chancellor Rachel Reeves is approaching the political limits of her ability to cut spending further to meet her fiscal rules in the autumn.
- The impact of lower growth as a result of President Trump's tariffs, combined with a possible downgrade to the Office for Budget Responsibility's long-term projections for UK productivity growth, means the chancellor will likely have to take further action in the autumn budget to avoid breaching her fiscal rules.
- Consequently, we are likely to see sustained speculation about budget tax rises through the summer and early autumn in a repeat of 2024. In the meantime, the government will hope that a combination of a new Industrial Strategy and National Infrastructure Plan (both to be published in June), recent trade deals combined with the prospect of reduced trading frictions with the EU may persuade the Office for Budget Responsibility to take a more positive view of UK economic growth prospects.

Geopolitical outlook

- Following a successful UK-EU Summit in May, the UK government will seek to force the pace on negotiations with the EU covering future alignment on rules covering agri-foods, emissions trading and carbon border taxes, aiming to reach an agreement in the early autumn. The successful summit demonstrates that after 7-8 years of volatility, UK-EU relations have now entered a more stable, constructive phase.
- With the Trump administration, apparently reducing its focus on securing peace in Ukraine, the government will look to continue to play a leading role within Europe to strengthen financial and military support efforts, both in support of Ukraine and as a bolster to its efforts at a reset in EU relations.
- The Government will also publish the results of the long-awaited Strategic Defence Review over, the summer, setting out how the UK plans to prioritise managing geopolitics. The review's assessment of China, in particular, will be keenly scrutinised as an indication of the government's future appetite for wider economic engagement, as will any indications of when the government plans to increase defence spending towards 3% of GDP.

Policy and regulatory outlook:

Financial services

- In alignment with its broader growth mission, we expect the government to publish its Financial Services Growth and Competitiveness Strategy in mid-July. The strategy will focus on a range of objectives, including maintaining the UK's position as a global centre for financial services, increasing financial services exports, as well as making the UK a leading centre for sustainable finance.
- Building on the recent Mansion House Accord – under which 19 defined contribution (DC) pension providers committed to investing 10% of default funds into private market assets, of which half in the UK – the government will publish the final report of its Pensions Investment Review (Phase 1). The review is expected to outline the phasing in of a minimum scale for DC default funds from 2030, as well as a 'backstop power' to enable the government to mandate funds to invest in UK assets.

United Kingdom

Sustainable Finance

- While the financial Services Strategy will aim to make the UK a leading centre for raising ‘green’ capital, we expect the government to continue the approach of the previous administration in relation to sustainable finance regulation – principally adhering to global standards where possible.
- As such, we expect the government to confirm it does not plan to introduce a mandatory UK Green Taxonomy in the near future but to move ahead with introducing corporate sustainability disclosures aligned with ISSB global baseline standards.
- Similarly, we expect HM Treasury and the FCA to continue to put on hold plans to apply the UK’s sustainability product labelling regime to offshore funds, pending further information on EU reforms to the Sustainable Finance Disclosure Regulation (SFDR).

Private markets

- Continuing the policy of the previous administration, the government has updated the 2023 Mansion House Compact with the 2025 Mansion House Accord – committing DC pension provider signatories to invest in private market assets.
- The government is also expected to take further action to encourage mandate local government pension schemes to increase their investments in private market assets, including in UK assets, as part of its broader drive to increase levels of private investment in the UK.

European Union

Michael O'Shea
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EU Public Policy

Political outlook

- As the new College of Commissioners works towards its one-year anniversary in December, its agenda will continue to be dominated by geopolitical instability, the rightward shift of the political pendulum in many member states, and efforts to boost European security and economic competitiveness.
- In response to US tariffs, the EU will continue to present a willingness to negotiate but also to retaliate if necessary, emphasising that a continued tariff war would be mutually detrimental. Ultimately, we expect the EU and US to agree on the headlines of a 'deal' over the summer, before protracted negotiations on the technical details begin.
- Concurrently, the commission will continue to progress plans to bolster European defence spending and capabilities through additional fiscal flexibilities and the use of EU loans. However, common debt issuance to finance further defence spending is likely to face continued opposition from countries such as Germany.
- After a bumpy start, new German Chancellor Friedrich Merz will need to demonstrate the stability and durability of his coalition with the SPD, particularly through the smooth passage of domestic budgets for the remainder of 2025 and 2026.
- Meanwhile, in France, once the one-year anniversary of the June/July legislative elections has passed, the risk of the French government's collapse increases with the possibility of a further election in the autumn if Prime Minister Bayrou's government fails to pass the 2026 budget.

Fiscal outlook

- First formal discussions on the next EU budget (the Multi-Annual Financial Framework – MFF) will begin in the Summer, prompting (likely long-running) debate about the proportion that can be allocated to defence and security initiatives, as well as how the EU will begin to repay €800 billion of COVID-19 era debt. The next MFF is due to cover the period 2028-2034.
- So far, 16 EU member states have indicated they will take advantage of additional flexibility for defence spending in the EU's tight fiscal framework. However, despite this additional flex, there is a risk that the infrastructure and defence spending plans of the new German government could be constrained without further tweaks to the Growth and Stability Pact – a tension that could come to the fore as the German government sets out its detailed spending plans.
- Defence spending will also be under the spotlight at the NATO summit in the Hague in June when the formal NATO target to spend 2% of GDP on defence could be increased significantly. With the exception of Germany, few of the larger member states have the fiscal space to make further substantial spending hikes, which could prompt renewed debate about further EU common debt issuance. Furthermore, many southern member states will struggle to gain domestic support for increased defence spending beyond the current 2% target.

Geopolitical outlook

- Amidst heightened global uncertainty, preserving EU unity across issues such as the response to US tariffs, support for Ukraine, EU defence and security and trading relations with China will be the main geopolitical challenge for EU leaders.
- Uncertainty over the US's continued commitment to supporting Ukraine, combined with ambiguity about its continued support for NATO, will continue to drive further EU defence and security efforts, including continued moves to seek to build out Europe's defence manufacturing base.
- If the US seeks to move towards a normalisation of relations with Russia and to unwind sanctions, the EU may struggle to maintain agreement among member states in favour of maintaining sanctions, particularly given a small number of MS continue to resist Commission proposals to phase out imports of Russian gas.
- In the face of continued US tariffs, the EU will likely continue to moderate its position towards China and seek greater engagement to avoid fighting two trade wars at the same time. However, the Commission is alive to the risk that Chinese products hit by US tariffs may be diverted to Europe and will likely continue its anti-dumping and anti-subsidy investigations against certain Chinese products.

Policy and regulatory outlook

Financial services reform

- Having launched proposals to deliver a new Savings and Investment Union at the start of the year, the commission is working at pace to crystallise plans to develop the EU's capital markets and channel more of EU citizens' savings to European companies by Christmas.
- Headline proposals are likely to be the promotion of a blueprint for national-level tax-efficient savings and investment accounts to incentivise greater retail participation in the capital markets. Proposals to increase the take-up of occupational and personal pensions will also feature, although strong debate is expected regarding initial commission plans to enable greater pension fund investments in private market assets.
- We also expect significant further political debate about moves towards a single European supervisor in financial services sectors. Early moves towards a single supervisor in new sectors, such as crypto, may succeed, but proposals for sectors in which national supervisors have already developed specialisms – such as asset management – are likely to focus on facilitating greater coordination and harmonisation alongside a beefed up role for the European Securities and Markets Authority (ESMA).

European Union

Sustainable finance

- Commission President Ursula Von der Leyen has made a rollback of sustainable finance reporting burdens one of the core elements of her plan to boost EU competitiveness. However, plans to reduce the scope and breadth of corporate sustainability reporting could face significant opposition in the Parliament. Maintaining the original level of ambition will be an important test of ambition for the new commission.
- The (currently retained) extraterritorial application of the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) will likely feature in trade talks with the US, with the White House likely to push for the commission to water down its requirements for group-level reporting where the subsidiaries of US-headquartered firms operate in the EU.

Asia Pacific

Iris Zhang
Senior Legal Counsel

Political outlook

Australia

Australia: Australia's federal election on 3 May saw the Labor Party, led by Prime Minister Anthony Albanese, achieve a landslide victory with 93 seats in the 150-seat House of Representatives compared to 43 for the Liberal-National coalition. Notably, Labor's victory, gaining seats in all six states and securing four additional Senate seats, strengthens its legislative position. Albanese is the first Australian leader in more than two decades to win consecutive terms. The defeat of opposition leader Peter Dutton, who also lost his own seat, means Albanese's second term of government will be very different from his first. Labor's strengthened majority gives the government greater licence to pursue its policy agenda with more confidence, though reforms will likely remain incremental. Key focus areas highlighted by Labor following its win include managing through global economic uncertainty, US-China tensions, housing, energy transformation, and Australia's fiscal deficit – most of which received limited scrutiny during the election campaign.

Singapore

On 3 May, Singapore's general election saw the ruling People's Action Party (PAP) retain its parliamentary supermajority. The PAP achieved its highest margin of victory in over a decade with 65.6% of the popular vote – up from 61.2% in 2020. The PAP secured 87 out of 97 seats, maintaining the status quo in Parliament. While the overall result was not in doubt, the increase in the PAP's vote share solidified Wong's leadership after he took on the role of prime minister in May 2024. However, the Workers' Party (WP), despite not expanding its parliamentary presence, consolidated its position in the constituencies it held – securing 50% of the vote share across the eight constituencies it contested against the PAP. Given the relative strength of the WP, the government is expected to maintain its consultative, whole-of-society approach to policymaking. PM Wong and his team have emphasised the importance of trust, co-creation, and inclusive governance. Businesses should expect that the window for policy influence remains open, particularly for those able to align their contributions with national priorities such as fostering a dynamic economy that creates opportunities for all – an objective reflected in the PAP's 2025 manifesto.

Japan

Fifty percent of the upper house of the Diet will go to the polls by 22 July. These elections are expected to be challenging for the governing Liberal Democratic Party (LDP) following elections to the House of Representatives in October last year, which saw the governing LDP-Komeito coalition lose its majority. Furthermore, recent polls have shown support for the LDP has fallen below the key threshold of 30% - the "danger zone" for PM Ishiba's administration. The opposition is using the limited progress in trade negotiations to attack the government. The LDP's standing has been further damaged by revelations earlier this year that Ishiba's office handed out gift vouchers worth ¥100,000 ($674) each to 15 LDP lawmakers. Previous PMs Kishida and Abe were also revealed to have done the same. Drawn-out negotiations over the 2025 fiscal budget have highlighted another facet of Ishiba's political weakness, as LDP and other party upper house lawmakers joined together to force the government to reverse its reduction in the level of government subsidy on medical costs, leading to a change in the budget for an unprecedented second time.

South Korea

Korea will hold a presidential election on 3 June, following the Constitutional Court's unanimous verdict in April, which upheld the National Assembly's decision to impeach President Yoon Suk Yeol in mid-December. South Korea's government is currently split, with the executive led by the conservative People Power Party (PPP), while the Democratic Party of Korea (DPK) is the largest party in the National Assembly. This has led to significant gridlock in legislation. For the presidential election, there are seven candidates in contention, but realistically, the competition is between the DPK candidate Lee Jae-myung and PPP candidate Kim Moon-soo. A centrist conservative wildcard (Reform Party leader Lee Jun-seok) is running independently and could siphon conservative votes. The campaign has focused little on specific policy issues, instead centering on ex-President Yoon, impeachment debates, and the internal conflicts within the PPP. Current polls put Lee Jae-myung more than 11 points ahead of Kim, but televised debates ahead of the election could still shift sentiment. Lee has faced legal challenges related to corruption charges, but a recent court ruling has delayed the case until after the election, removing a major obstacle to his electoral success.

Asia Pacific

Geopolitical outlook

US-China: The US-China relationship is now more challenging than it has been for decades, but the breakthrough in trade talks in Geneva delivered the first tangible de-escalation in Trump's second term. Importantly, the standing consultation mechanism led by Chinese Vice-Premier He Lifeng and US Treasury Secretary Scott Bessent establishes a channel for high-level dialogue between the countries. Near-term dialogue may stabilise sentiment, but strategic flashpoints such as advanced semiconductors, critical minerals, and perceived Chinese state-directed subsidies remain unresolved. Additionally, the risk of US allies aligning with the US on their policies towards China adds further tension to bilateral relations. For example, China criticised the recent UK-US trade agreement, warning that cooperation between countries "should not be conducted against the interests of third parties". Looking ahead, the volatility in relations could accelerate a deeper decoupling.

China's relations with other APAC countries: China is actively seeking alternative partners and markets. Shortly after the Liberation Day tariff announcements, Xi made high-profile visits to Southeast Asian countries (e.g. Malaysia, Cambodia, and Vietnam) to enhance economic ties with other countries. For example, China and Malaysia signed 31 bilateral cooperation agreements covering areas such as digital innovation, artificial intelligence, green technology, and manufacturing. Japan and China held their first economic dialogue in six years in March, aimed at reducing tensions as both countries face trade pressure from the US. The warming of relations between Japan and China is likely to continue but will likely be limited to economic cooperation. China's moves in APAC are aligned with its efforts to expand or improve relationships more broadly – such as recent high-level meetings with EU leaders.

US-Japan relations: Prime Minister Kishida has a difficult balancing act: Ensuring fair negotiations with the US on trade without rupturing the US-Japan partnership that underpins Japan's foreign and security policy. To that end, Japan has led with diplomacy, signalling a readiness to make economic concessions in exchange for tariff relief. Japan will have taken some comfort from the positive tone of bilateral meetings on trade with US interlocutors. In relation to the question of the US's broader commitment to APAC security guarantees, the picture has been more mixed – but US Defence Secretary Pete Hegseth's visit to Japan in late March may have provided some small reassurance.

India–Pakistan: Relations between the two countries have sharply deteriorated in recent months, culminating in the most severe military escalation since 2019. The crisis was triggered by the 22 April Pahalgam attack in Indian-administered Kashmir, where 26 civilians, primarily Hindu tourists, were killed. India attributed the attack to the Resistance Front, a group it links to Pakistan-based Lashkar-e-Taiba, though Pakistan denies any involvement. In retaliation, India launched "Operation Sindoor" on 6 May, executing missile strikes on nine targets in Pakistan and Pakistan-administered Kashmir, which it identified as terrorist infrastructure. Four days of retaliatory air and artillery exchanges followed. Diplomatic ties have frayed, with mutual expulsions of diplomats, visa suspensions, and Pakistan closing its airspace to Indian aircraft. India has also suspended the Indus Waters Treaty, accelerating hydroelectric projects in Kashmir, which Pakistan views as a threat to its water security. A US-, China- and Saudi-backed diplomatic push yielded a cease-fire announced on 10 May. The fragile truce has mostly held to date, but both sides are likely to stay on heightened alert along the Line of Control (in Kashmir), and another mass-casualty attack could rapidly undo the agreement.

Fiscal outlook

- **China:** At the March 2025 National People's Congress, China set its official budget deficit target at a record-high 4% of GDP, signalling a shift toward more aggressive fiscal support. The government plans to issue nearly ¥12 trillion in new debt, including ¥300 billion in ultra-long special bonds aimed at stimulating consumption through trade-in subsidies for consumer goods. In May, ahead of trade talks with the US, China implemented monetary measures, including a ¥1 trillion liquidity injection via reserve requirement cuts and interest rate reductions. These actions aim to stabilize the economy amid declining tax revenues and external pressures.
- **Japan:** The country is projected to reduce its central government borrowing in 2025, reflecting a shrinking budget deficit and increased revenue. The fiscal 2025 budget anticipates higher revenues that offset planned spending increases, allowing for decreased borrowing compared to fiscal 2024.
- **India:** Central government borrowing is expected to increase in 2025, contributing to the overall rise in Asia-Pacific sovereign debt. The central government fiscal deficit shrank from 5.5% of GDP in FY2023 to an estimated 4.7%. Fiscal policy will continue to focus on consolidation but at a slower pace. The central government's FY2025 budget targets a reduction of the fiscal deficit to 4.4% of GDP from 4.7% in FY2024. This will be achieved by containing expenditure growth to only 7.4%, primarily by lowering expenditure on subsidies, pensions, and statutory grant transfers to states.
- **Hong Kong:** The government budget remained in deficit, dampened by falling taxes on property transactions. With the property market still weak, government revenue fell by an estimated 11.6% in fiscal year 2024 (which ended 31 March 2025) as revenue from land premiums and stamp duties on property transactions fell short of expectations. As a result, the budget showed a deficit equivalent to 2.7% of GDP — about 13% lower than the deficit in FY2023 but still wider than expected. The fiscal deficit is projected to narrow to 2.0% of GDP in FY2025, driven by increasing earnings and profits tax, but also an expected 55.3% rebound in land premiums. More sales of government land to developers are expected through the Land Sale Program, while revenue should also rise from stamp duties as the property market starts reviving.

Asia Pacific

Trade and tariffs

- **US tariffs shock the region:** The "Liberation Day" tariff announcement by the US has caused significant concern across Asia Pacific, but the current 90-day pause in reciprocal tariffs for all markets except China gives governments a window to negotiate with the US. Over the past month, governments have launched a flurry of policy responses – from diplomatic overtures and trade concessions to domestic stimulus – to navigate the volatile trade landscape. Key emerging themes include stronger regional cooperation, efforts to diversify trade partners, and a push for domestic self-reliance.
- **China:** The US has singled out China as a main target of its trade policies. China has spent the last seven years preparing for the pressure it is now under, and its toolkit of regulatory responses (e.g. Anti-Foreign Sanctions Law, Unreliable Entity List) to external decoupling pressure is now significant. It has deliberately reduced its export dependency on the US (US as a percentage of total exports decreased from 19.2% in 2018 to 14.7% in 2024). China has also avoided succumbing to pressure to deliver a significant fiscal stimulus over the past 18 months, which should leave it with some fiscal headroom. A breakthrough on 14 May temporarily eases tensions following US-China trade negotiations. Washington agreed to cut the tariff rate on most Chinese imports to 30% for 90 days (10% tariff baseline from reciprocal tariff plus 20% fentanyl tariff), while Beijing suspended duties and non-tariff measures, retaining a matching 10% levy for the same period. Other US tariffs – Section 301 duties (e.g. 100% on EVs) and Section 232 measures on autos, steel and aluminium – remain in place. Additionally, the US cut the de-minimis duty on low-value Chinese parcels to 54%. Both sides will use the 90-day window to set up a working mechanism for longer-term negotiations on tariff architecture and sector-specific issues. Domestically, China is doubling down on self-reliance: policymakers are urging consumers to spend more domestically with consumption stimulus (e.g. subsidising low-interest consumer loans) and accelerating plans to pivot export-oriented businesses to the domestic market.
- **Japan:** Ahead of the 2 April "Liberation Day" tariff announcements, Tokyo pledged up to US $1 trillion in US investments (e.g. in manufacturing) to demonstrate goodwill. It had also ruled out leveraging its status as the largest holder of US Treasuries in negotiations. Even though Japan is one of the priority countries selected by the US for negotiations, progress has been limited. The auto sector failed to win an exemption from the 25 percent import tariff that took effect on 3 May. Following the latest round of Japan-US trade negotiations on 1 May, significant gaps remain: Japan is seeking a comprehensive deal covering all duties (reciprocal tariffs, product-specific tariffs such as those on automobiles), while the US wants to confine negotiations to reciprocal tariffs. In a notable shift, Finance Minister Katsunobu Kato has since called Japan's large Treasury portfolio a potential bargaining "card", stepping back from earlier assurances that it would not be used. Potential Japanese concessions include increased imports of US agriculture and revisions to inspection standards for imported automobiles.
- **South Korea:** Beyond the now-paused 25% reciprocal tariffs, South Korea is also heavily impacted by the 25% tariffs on steel and auto imports to the US. Analysts warn US tariffs could significantly dampen economic activities, with the IMF downgrading Korea's real GDP growth to 1% (from 2%) for 2025. Initial high-level discussions have been positive: Ministers Ahn Duk-geun and Choi Sang-mok met with US officials and agreed to work on a trade package before the 90-day tariff suspension ends on 8 July. South Korea has refrained from retaliation and instead floated ideas to offer cooperation on strategic industries (e.g. shipbuilding, energy) and encourage Korean investment in the US. Hyundai, for instance, announced it will maintain US pricing (absorbing costs) and stick to its planned $21 billion investment in US operations. In response, Bessent noted that South Korea's proposals were "very good", though he did not provide further details. Domestically, the government responded with a robust support package to protect the auto industry, unveiling 15 trillion won (US$10.2 billion) in emergency financing for automakers and suppliers and temporarily reducing Korea's auto purchase tax to spur domestic demand. Subsidies for electric vehicles were boosted as well. Recognising its dependence on the US market, the government is also helping auto exporters find new buyers in emerging markets to offset potential losses from US exports.
- **India:** Before the Liberation Day tariff announcements, India drafted a US $23 billion package to cut or scrap duties on more than half of US imports, targeting pharmaceuticals and luxury goods that were previously protected, called the "zero-for-zero" tariff arrangement on steel, auto components and pharmaceuticals. The proposal would grant each side a set quota of duty-free imports, after which normal tariffs would apply. As part of negotiations, India has also signalled a willingness to review its Quality Control Orders (QCOs), which the US sees as de-facto trade barriers (e.g. for medical devices). India's strategy has been paying off so far, with Bessent suggesting an early deal. Beyond the progress it is making towards a trade deal with the US, India's potential US tariff burden is moderate compared to China. Apple, for instance, plans to speed up its diversification from China by doubling its production capacity in India by 2026 and supplying most US-bound iPhones from India.
- Meanwhile, India is widening its trade network elsewhere. In the past two years, India has significantly expanded its network of free trade agreements (FTAs) with an interim agreement signed with Australia, an FTA with the United Arab Emirates and negotiations ongoing with the EU. Most recently, it finalised a free-trade agreement with the UK in May.
- **Australia:** In response to the Liberation Day tariff announcements, the government unveiled a five-point plan including support for exporters to find new markets, zero-interest loans for firms to retool and pivot exports regionally, stockpiling critical minerals (e.g. lithium), strengthening anti-dumping measures, and accelerating a "Buy Australian" campaign. Notably, however, it has refrained from directly cooperating with China – with Defence Minister Richard Marles rejecting China's appeal for Australia and other trading partners to jointly respond to US tariffs.

Asia Pacific

- **ASEAN:** Southeast Asian economies are among the most exposed to US reciprocal tariffs. Under Malaysia's 2025 chairmanship, ASEAN convened a special economic ministers' meeting on 10 April to discuss a united response and agreed to a common position: Engage the US in "frank and constructive" dialogue to address trade issues and refrain from any retaliation. In parallel, ASEAN countries are accelerating efforts to reduce their dependence on any single partner. Long-term regional integration plans have been fast-tracked – for example, Malaysia's Investment, Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz highlighted plans to upgrade the ASEAN Trade in Goods Agreement and to finalise the ASEAN Digital Economy Framework Agreement.

At the national level, bilateral negotiations with the US are ongoing.

- **Vietnam:** Trade negotiations with the US began on 7 May, aiming to address the looming threat of a 46% reciprocal tariff that could be imposed on Vietnamese exports. Beyond the large trade surplus Vietnam has with the US, key US concerns relate to counterfeiting, digital piracy, and trade fraud (i.e. illegal transshipment). The Vietnamese government is already responding by increasing enforcement of trade fraud and reportedly drafting legislation for specialised intellectual property courts. Beyond the US, the government also plans to diversify its exports to 17 markets with existing free trade agreements, boost domestic consumption, and increase infrastructure investment.
- **Thailand:** Prime Minister Shinawatra noted that informal discussions with US trade representatives have been taking place, emphasising that Thailand is seeking a "win-win outcome". Concessions on offer include increasing imports from the US in sectors such as energy, agriculture, and aircraft while cracking down on false claims of product origin. It has officially submitted proposals to the US to reduce its trade surplus with the US but has yet to schedule an official meeting with US trade representatives to discuss them.
- **Indonesia:** The US has demanded the removal of non-tariff barriers such as Indonesia's local content requirements (TKDN), Quick Response Code Indonesia Standard (QRIS) payment system, import quotas, and intellectual property enforcement issues. In response, Bessent said that Indonesia has been "very forthcoming" – Indonesia proposed increasing its imports by up to US$19 billion by switching to US suppliers for commodities (e.g. wheat, soybeans, LPG). It also proposed reducing certain non-tariff barriers and implementing tax cuts for US goods. For example, the government recently issued new regulations allowing government procurement of goods with lower locally-produced content (25% minimum compared to the previous 40%), addressing a key concern raised by US trade representatives during ongoing tariff negotiations.
- **Singapore:** Formed an Economic Resilience Taskforce to devise Singapore's response to US tariffs. As a long-time partner with the US, Singapore's approach includes negotiating product-specific concessions (e.g. in pharmaceutical exports, AI chips) and concessions aligned with US national interests (e.g. helping enforce US export controls). The countries had an introductory call with the US on 10 May, during which both sides reaffirmed the "mutually beneficial" nature of the relationship.

Financial service regulations

With rising geopolitical tensions and the US taking a deregulatory approach, APAC governments and FS regulators are exploring how to best balance regulation and competitiveness in the first half of 2025:

Private markets

- APAC markets are evolving their views of private market activity growth by releasing consultations on the role of retail investment in private market growth.
- **Hong Kong:** in February 2025, the Securities and Futures Commission (SFC) published a Circular on listed closed-ended alternative asset funds. The SFC highlighted that the new regulatory guidance aligns with the government's goal to broaden private equity fund distribution. Additionally, the Mandatory Provident Fund Schemes Authority (MPFA) is reportedly considering allowing "listed private equity funds in the scope of MPF permissible investments", though the timeframe for this decision is not announced.
- **Singapore:** Monetary Authority of Singapore (MAS) released a consultation paper in March 2025, proposing a regulatory framework to allow retail investment in private markets through authorized long-term investment funds (LIFs).
- **Australia:** the Australian Securities & Investments Commission's (ASIC) discussion paper in February 2025 sought feedback on the size of current and likely future exposures of retail investors to private markets, additional benefits and risks, and whether there are currently sufficient investor protections in place for retail investors investing in private assets.

AI

- **Japan's Financial Services Agency** (JFSA) released an AI discussion paper addressing key considerations for the responsible use of AI in the financial services sector. The paper underscores Japan's preference for a sector-specific, vertical approach to AI governance. JFSA is exploring AI applications for its own risk analysis, financial supervision, and market surveillance. It aims to update this paper and provide additional guidance during the Japan Fintech Week in March 2026.
- **Hong Kong Monetary Authority** (HKMA) and Hong Kong Cyberport Management Company Limited (Cyberport) launched the second cohort of the Generative AI Sandbox initiative in April. In line with the government's vision of AI as a "core industry" for economic transformation as outlined in its 2025 budget, HKMA is accelerating its push for AI innovation in the sector, including using an in-house genAI tool to monitor for banking system risks.

Asia Pacific

Market structure regulatory reforms market integrity

- **Taiwan:** the Financial Supervisory Commission (FSC) announced plans to relax over 30 wealth and asset managers regulations by year-end in order to boost its attractiveness as a regional asset management hub by making the financial markets more accessible to foreign investors.
- **India:** Tuhin Kanta Pandey was appointed as the chairperson of the Securities and Exchange Board of India (SEBI) and has made a number of significant changes to the regime he inherited, including easing beneficial ownership rules for foreign portfolio investors (FPIs) in order to attract further investment to India. He has inherited SEBI's ongoing efforts to curb insider trading, regulate financial influencers, and strengthen the framework for the primary markets.
- **Singapore:** the Equities Market Review Group set up by the MAS published its initial measures seeking to strengthen the competitiveness of Singapore's equities market. The first set of proposals focuses on increasing investor interest, improving attractiveness to quality listings, and pro-enterprise regulatory stance and measures to enhance investor confidence.
- **Australia:** ASIC and the Reserve Bank of Australia (RBA) acted on concerns over operational risk management at the Australian Securities Exchange (ASX) after the CHESS batch settlement failure incident in December 2024. In an unprecedented move, the RBA downgraded its assessment of ASX Clear Pty Limited and ASX Settlement Pty Ltd's compliance with the "Operational Risk" standard in its Financial Stability Standards from partly observed to not observed.
- **China:** The China Securities and Regulatory Commission (CSRC) announced in May an action plan with 25 measures to boost the "high-quality development" of the public fund industry. The action plan aims to strengthen internal controls of fund managers, encourage more long-term investments by funds and align the interests of fund managers with investors. Compensation structures will undergo major changes: compensation will be determined based on longer-term returns (three years). Underperformers face pay cuts, while outperformers may receive bonuses. To boost equity investment funds, the CSRC will shorten registration times to five working days for equity ETFs and to 10 working days for actively managed equity funds. Finally, measures to improve risk management are also introduced. This includes a clearer delineation of responsibilities for fund managers and stricter standards around internal compliance and reporting.

Digital assets

- In the first half of 2025, APAC governments largely maintained a cautious stance on digital assets despite pressure from the US' deregulatory approach, seeking to position itself as a leader in crypto innovation.
- In **Japan**, the JFSA published a discussion paper on 10 April, seeking public opinion on the current state and future direction of crypto asset regulation. It highlights the need for further adjustments to foster a sound crypto asset market, protect users, and promote innovation in the Web3 space.

Energy and sustainability

- **Australia:** ASIC's mandatory sustainability reporting requirements for large businesses and financial institutions commenced on 1 January 2025. On 31 March, ASIC published its regulatory guide to assist companies in complying with these new requirements.
- **China:** In March 2025, China announced plans to expand its carbon trading market to include the steel, cement, and aluminium industries. This expansion will require approximately 1,500 additional firms to purchase credits to cover their emissions, increasing the total volume of carbon dioxide managed by the trading scheme to 8 billion metric tons.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested. **Past performance is not a guide to future returns.**

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