Global Policy Outlook 2025

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Global Overview

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The second half of the year has brought clarity regarding multiple political contests worldwide. From Donald Trump's return to the White House to Japanese Prime Minister Fumio Kishida's resignation, the political landscape has seen dramatic changes that will reverberate through the years ahead. Now, every global region is anticipating the impact of new policies to come.

- **United States:** Donald Trump is returning to the Presidency, entering his second term with a Republican majority in both the House and the Senate. This leverage will allow the party to steer the policy agenda in Washington over the next two years, potentially resulting in significant legislative and regulatory change. This is expected to include new tax and tariff laws, a likely shift in US involvement in the Ukraine-Russia war, continued support of Israel, and restrictions on China. The US is also anticipating a major reorientation of energy and environmental priorities.
- **United Kingdom:** While UK policies may shift in response to Trump administration policies, negotiations for a "reset" with the European Union are also expected to begin in the new year, aimed at enhancing defense, security, and a broader economic relationship. Progress will be assessed at the first EU-UK summit in early 2025. On the sustainability front, the UK government is expected to publish more details on how it will accomplish its ambitious greenhouse gas emissions reduction target.
- **European Union:** In 2025, the European Commission will most likely work on making the EU more competitive through higher investment, a new industrial policy, strategic autonomy and regulatory simplification. Trump's reelection poses a geopolitical challenge, including US-EU friction due to his threats on defense, security, tariffs, and climate regulations. Meanwhile, Russia's invasion of Ukraine remains the most immediate security threat. If the US withdraws support, the financial burden will fall on the EU.
- **Asia Pacific:** The election of Indian Prime Minister Narendra Modi returns the nation to its earlier era of political fragmentation, with the Bharatiya Janata Party (BJP) not winning the sweeping majority it expected due to public discontent. Japanese politics have also become unusually volatile with the resignation of Prime Minister Kishida. His replacement, Shigeru Ishiba, faces a narrowly won election, pressure to deliver on public concerns regarding fiscal stimulus, and urgency to reevaluate US-Japan defense agreements with the incoming Trump administration.

In the following pages, our global team covers each region's political contests, fiscal initiatives, geopolitical issues, and regulations. Following major global elections, we examine how these issues may or may not change the financial landscape.

United States

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Political outlook

- On Nov. 5, former President Donald Trump was elected as the 47th president of the United States. Trump's victory was a decisive one – sweeping all seven of the battleground states and winning the popular vote.
- Additionally, Republicans took back control of the Senate, and while it took several days to count all the votes, they were also able to hold onto a majority in the House, albeit with an incredibly slim margin.
- It should be noted that the last five US presidents – Clinton, Bush, Obama, Trump, and Biden – started their first terms with unified control.
- Under this trifecta, Republicans will be able to steer the policy agenda in Washington over the next two years, which has the potential to result in significant legislative and regulatory change.
- In the days after the election, the Trump transition team moved quickly in announcing key staff positions and cabinet-level nominees. On Jan. 20, 2025, the former president will be sworn into office. Committees in the Senate can conduct confirmation hearings before Inauguration Day, allowing for nominees to be referred to the full Senate for a final vote when Trump takes office.

Fiscal outlook

- While the Republican sweep will likely give the Trump administration momentum in passing its economic agenda, including tax reform and tariffs, the current lame-duck Congress still needs to resolve the fiscal year (FY) 2025 government funding legislation, which has a deadline of Dec. 20.
- House Speaker Mike Johnson had originally proposed a stopgap funding bill until March 2025. However, it is still possible that President-Elect Trump will communicate a desire for the current Congress to "clear the deck" by passing an FY 2025 spending package through Sept. 30, 2025, along with other "must pass bills" like a disaster supplemental package, the annual defense policy bill, and a farm bill extension.
- Additionally, Trump may also encourage his party leadership in Congress to address the debt limit ceiling during this lame duck ahead of Jan. 1, when its suspension expires. Of course, current Senate Democratic Majority Leader Schumer would need to be receptive to addressing the debt ceiling prior to the new year, and such an agreement might need to be secured by negotiating other policy priorities with the Democratic leadership.

Geopolitical outlook

- After the inauguration of President-Elect Trump, it is likely that the US approach to the Russia-Ukraine war will shift significantly. At a May 2023 CNN town hall, Trump claimed that he could end the deaths of Russians and Ukrainians within 24 hours by meeting with Presidents Zelenskyy and Putin.
- Trump reiterated this assertion during a debate, where he criticized President Biden's handling of the war and stated that Putin would not have invaded Ukraine had he been in office. Trump's campaign communications director, Steven Cheung, has emphasized that a key priority for Trump's second term would be negotiating a swift end to the conflict, with European nations taking on more of the financial burden. In fact, Trump's first actions post-election day involved calls to Presidents Zelenskyy and Putin.
- It can be expected that a Donald Trump presidency would see continued support for Israel's war against Hamas and Hezbollah. Leading up to the 2024 presidential election, Trump has had multiple conversations with Israeli Prime Minister Benjamin Netanyahu, discussing the ongoing conflict and US support for Israel. Trump's stance reflects his broader approach of advocating for quicker resolutions to international conflicts.
- Regarding China, Trump will reportedly appoint two fellow China hawks to his cabinet, with Sen Marco Rubio (R-FL) as secretary of state and Rep. Michael Waltz (R-FL) as his national security advisor. This follows Trump's continued advocacy for stricter restrictions on China, especially around the ownership of critical US infrastructure and the forced sale of Chinese-held assets that pose security risks.
- 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 conflicts while encouraging allies to contribute more to their own defense.
- 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.

United States

Trade:

- Under a new Trump administration, Robert Lighthizer, former US trade representative, is expected to play a key role in advocating for a policy to devalue the US dollar in the stated effort to boost US exports and make American goods more competitively priced internationally.
- Such a policy could be carried out through unilateral actions or negotiations with key trading partners.
- Despite support from Trump's inner circle, this policy is anticipated to face strong resistance from Wall Street and other economic stakeholders concerned about the long-term economic impact.
- As part of his second-term agenda, President Trump is expected to move forward with his America First trade plan, which includes imposing a baseline tariff of 10% on most foreign imports and a 60% tariff on Chinese goods.
- Trump has stated that he is committed to revoking China's Most Favored Nation (MFN) trade status, an action that would limit US reliance on Chinese imports and send a strong message about reducing trade imbalances.
- A phased plan to eliminate Chinese imports of essential goods is expected to also be a priority, along with specific measures targeting Chinese manufacturing, including a proposed 100% or more tariff on Chinese vehicles entering the US market.
- Trump is expected to support the December 2023 bipartisan House Select Committee on the CCP report recommending that China be removed from MFN status and proposing a new tariff schedule to reduce US reliance on Chinese imports, particularly in sectors like technology and steel.
- A top priority will be reviewing the US-Mexico-Canada Agreement (USMCA), potentially revising provisions to favor US manufacturing, address trade imbalances, and align with his protectionist agenda.

Tax outlook

- A unified Republican government has unlocked the door for a so-called "budget reconciliation" process to drive tax reform in 2025. The budget reconciliation process allows for expedited consideration of certain tax, spending, and debt-limit legislation. This procedural fast track has been used in recent history to produce dramatic policy changes affecting health care, infrastructure spending, and tax reform.
- During the campaign, Trump called for a full extension of the 2017 Tax Cuts and Jobs Act, but that comes with a potential price tag of roughly $4.7 trillion.
- Some of the additional proposals floated by Trump include reducing the corporate rate to 15% for companies who produce their goods in the US, eliminating the tax on tips, and eliminating income taxes on Social Security benefits.
- Beyond reducing taxes and installing tariffs, the Republican agenda could include paring back some of the tax credits for clean energy or electric vehicles.
- While some have speculated that tax reform could be kicked off and concluded by the end of Q1 2025, it is also highly possible that the debates within Congress and with the White House could draw out over the course of the year, especially as the incoming administration works on standing up its government.
- It should not be understated that making wholesale changes to business and individual tax codes is complicated, and it will take time to balance the fiscal, policy, and political dynamics that impact every facet of the economy.

United States

Energy and sustainability outlook

- With a Republican election sweep, the United States will see a major reorientation of energy and environmental priorities. Republican focus will center on supporting policies that solidify America's energy dominance while embracing an all-of-the-above energy policy that includes natural gas, nuclear, coal, and renewables.
- The Trump administration is expected to instruct the Department of Energy (DOE), Department of the Interior (Interior), Environmental Protection Agency (EPA), and others with energy and environment jurisdiction to cut red tape, streamline permitting, and roll back burdensome Biden regulations to accelerate all energy production.
- President Trump will likely issue numerous Executive Orders (EO) to undo President Biden's energy, environment, and climate policies as an effort to reposition the United States' energy strategy from climate-centric to energy dominance. He is expected, once again, to withdraw the US from the Paris Climate Accord, as well as end the Biden administration's pause on liquefied natural gas (LNG) exports and their power sector decarbonization 2035 objectives.
- The Trump administration, with a Republican Congress, will attempt to use the Congressional Review Act (CRA) to undue applicable Biden administration environment and energy regulations. Additionally, the Trump EPA will look to redo Biden administration regulations for power plants, new source performance, greenhouse gas emissions, automobile emissions, and many others. The Trump administration's regulatory agenda will be impacted by the Supreme Court's Loper Bright v. Raimondo decision with the Chevron Doctrine. {we could link here to the Chevron piece that we put out recently}
- In Congress, look for Republicans to pass legislation similar to H.R.1, the Lower Energy Costs Act, which the House passed in 2023 but never progressed in the Senate. Permitting reform has long been an elusive goal in Washington, but Congress is expected to finally address infrastructure bottlenecks by passing something similar to Senators Manchin (D-WV) and Barrasso (R-WY)'s Energy Permitting Reform Act of 2024 but with additional Republican policy sweeteners. The main pillars of permitting reforms will include judicial reviews, accelerating onshore energy and minerals leasing and permits, required offshore energy leases for oil, gas, and wind, electric transmission authority, electric reliability assessments, LNG export decision deadlines, and requiring additional Federal Energy Regulatory Commission (FERC) deadline certainty.
- There will be efforts by some conservative Republicans to dismantle President Biden's signature climate legislation, the Inflation Reduction Act (IRA), in its entirety, but that is unlikely. Speaker Johnson (R-LA) is on the record stating that he will use a "scalpel and not a sledgehammer" in any IRA reform efforts.
- While the IRA was passed via a partisan budget reconciliation process to the angst of Republicans, there are multiple energy provisions and tax credits within the law that enjoy bipartisan support, making a complete unraveling a low probability. Many of the IRA's program funds and tax credits have been allocated to red and battleground states, resulting in billions of dollars of economic activity. Congressional Republicans will be resistant to undermining the business certainty and job growth of these energy investments that have helped bring back manufacturing, strengthen supply chains, and provide energy security, but IRA program funding regulations should be redrawn. In August of this year, 18 House Republicans went on record stating their opposition to a full repeal of the IRA based in part on the economic, energy production, and manufacturing benefits that are a product of the legislation.
- President Trump will also look to reform any IRA regulatory guidance and implementation for renewables and for particular electrical vehicles (EVs), EV charging stations, and offshore wind tax credits.
- At the Securities and Exchange Commission (SEC) and the Department of Labor, new leadership is expected to move quickly to rescind ESG-related regulations and climate disclosure regulations finalized or proposed under the Biden administration. Congress is expected to move forward with legislation bolstering the Trump administration's position.
- A Republican-led SEC is also expected to move forward with reforms of regulations regarding proxy advisors and shareholder proposals.
- In 2020, under Chair Clayton, the SEC adopted new regulations imposing additional regulatory requirements on proxy advisors. These regulations were subsequently rescinded under Chair Gensler. The SEC could attempt to reinstate the 2020 rule or adopt new requirements. The SEC's process of excluding shareholder proposals has been a frequent target of criticism from Republicans.
- However, as we have seen in the past four years with Republican-led states reacting to Biden-era ESG and climate disclosure regulation, it is expected that Democrat-led states will similarly react to Trump-era regulation in this space.
- Currently, the state of California is defending its recently enacted climate disclosure law in state court. While this case is expected to take the next year to play out, the precedent set by the ruling will likely have a significant effect on other Democrat-led states that would like to legislate in a similar direction.

United Kingdom

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Political outlook

- UK politics in early 2025 will likely be dominated by responses to the emerging policies of Donald Trump's second presidency (Ukraine, tariffs, and climate) and negotiations for a 'reset' with the European Union.
- The Chancellor's Spring Statement and Spending Review will also put domestic living standards in the spotlight. Having failed to convince the spending watchdog, the Office for Budget Responsibility (OBR), that Labour's budget policies will raise the rate of economic growth, the chancellor will be hoping the OBR's spring assessment, when more policy detail will be available, is more generous.
- Keir Starmer will face his first electoral test as prime minister in the May local elections in England. Most of the councils up for election are currently controlled by the Conservatives. As such, Starmer will want to demonstrate that he can maintain momentum from the general election, while new Conservative Leader Kemi Badenoch will be under pressure to show the Conservatives can hold onto council seats under her leadership and see off the growing threat from Nigel Farage's Reform Party.

Fiscal outlook

- Alongside, or shortly after, the Spring Statement, the chancellor will set Whitehall budgets for the financial year 2029-30, detailing which will grow and which will be cut in real terms. Despite the large spending increases announced in the Autumn Budget, cuts to some departments will be inevitable to continue funding real-terms National Health Service (NHS) growth. In addition, we expect the chancellor to announce when the government will meet its target of spending 2.5% of gross domestic product (GDP) on defence.
- In the Autumn Budget, the chancellor left herself minimal headroom against her new fiscal rules by historical standards. Given the potential for tariff-induced headwinds to economic and revenue growth, there is a chance she will need to announce new taxes or borrowing to avoid breaching her rules.
- Alongside the Spending Review, we expect the government to publish the Strategic Defence Review, its final industrial strategy, a 10-year infrastructure strategy, a 10-year health plan for the NHS, 10-year research and development budgets, and the final investment decision on the Sizewell C new nuclear power station. The broad range of publications will test their resolve to be the most "pro-business government ever" while also facing short-term political pressure for a significant uplift in funding public services beyond the NHS.

Geopolitical outlook

- Following a further meeting with the European Commission president before Christmas, we expect negotiations between the UK and EU to get underway in the new year, aimed at enhancing the defence, security, and broader economic relationship between the UK and EU. Keir Starmer and Ursula von der Leyen agreed to hold the first EU-UK summit early in 2025 to take stock of progress. Despite urging from political actors on both sides, any agreement is unlikely to include a youth mobility scheme to allow young people to live and work abroad for a fixed period, in part due to ongoing sensitivities and the political salience of immigration for voters. Negotiations are unlikely to come to fruition until the end of 2025 at the earliest.
- Following Donald Trump's election, the UK Government will be hoping to seek an exemption from any blanket tariffs on imports to the US. However, previous criticisms of Trump by UK cabinet ministers and support by Labour Party officials for his opponent could hamper the Government's success. Nonetheless, we expect the close defence and intelligence relationship to remain strong despite potential tensions on key international issues, including the Middle East.
- In its first months in office, the Labour Party has prioritised stabilising UK relations with China, pledging to increase bilateral engagement and cooperation while also undertaking a comprehensive audit of the relationship. However, the new approach will come under pressure from the incoming US administration, which will likely seek to force the UK to align with a more hawkish trading and security stance on China.

Policy and regulatory outlook:

Defense and security

- The Strategic Defence Review (SDR), launched by the new government in July, is due to be published in the spring. The review is predicated upon the UK defence budget reaching 2.5% of GDP, a target date for which will be set in the Chancellor's Spring Statement. The SDR is likely to continue to increase the resource allocation to capabilities in newer domains such as space, cyber, artificial intelligence, quantum technology, and undersea capabilities.
- Continued support for Ukraine will remain central to the UK's short-term defence priorities, but, together with EU allies, the Treasury lacks the financial firepower and munitions production to make up any shortfall if the US reduces its support.
- Through the course of 2025, the UK will attempt to negotiate a defence and security agreement with the EU. However, the agreement risks becoming enmeshed in wider UK-EU negotiations in which more difficult trade-offs are required. Alongside these talks and building on the UK-Germany Defence Agreement, we expect the government to seek a refresh of the 2010 Lancaster House Defence Agreement with France.

United Kingdom

Financial stability

- Following the Bank of England's (BOE) publication of the results of round 2 of its System Wide Exploratory Scenario (SWES) – which aims to improve regulators' understanding of the behaviour and interconnectedness of banks and other financial market participants in stressed market conditions – we expect the BOE to develop a series of policy recommendations in the first half of 2025.
- In addition, we expect the Financial Conduct Authority (FCA) to confirm its final reforms to the UK Money Market Regulations. Specifically, we expect the FCA to increase money market funds' (MMF) liquidity buffers and to remove provisions linking breaches of those buffers to the potential application of liquidity fees or redemption gates, with the discretion of the MMF manager to use such tools made clearer.

Energy and sustainability

- Having committed the UK to reducing its greenhouse gas emissions by 81% by 2035 relative to 1990 levels at COP29, we expect the Government to publish more detail on how it plans to deliver against its ambitious targets.
- Specifically, we expect the Government to publish an updated Delivery Plan, setting out how it intends to meet future Carbon Budgets, as well as formally setting the seventh Carbon Budget (covering 2038-2042) following advice from the Climate Change Committee.
- In addition, we anticipate further details on energy sector investment to be published alongside the Spending Review in the spring, including the energy contribution to the 10-year Infrastructure Strategy and a final investment decision on new nuclear generation at Sizewell C.
- By the end of Q1 2025, the Government is due to confirm its decision to endorse the first two global sustainability reporting standards for corporates, produced by the International Sustainability Standards Board (ISSB). Once confirmed, the FCA will consult on disclosure requirements for UK-listed companies, with the Department for Business due to consult on disclosures for large non-listed UK firms. We also expect HM Treasury and the FCA to publish an ESG taxonomy early in 2025 to help catalyse green investment.

European Union

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Political outlook

- The European Commission's work programme for 2025 (expected in January) will likely focus on measures to seek to make the EU more competitive through higher investment, a new industrial policy, building strategic autonomy, and regulatory simplification. The key new initiative will be the so-called Clean Industrial Deal, a collection of targeted measures aimed at supporting the transition to net zero and improving energy security while bringing down energy bills.
- With German federal elections scheduled for February and uncertainty about the longevity of the French government, there is a risk of a weak and fragmented EU response to any antagonistic measures from the first months of Trump's presidency. With the Franco-German EU motor broken and Trump supporters such as Italy's Georgia Meloni and Hungary's Victor Orban potentially weakening wider cooperation, the new Commission may have its work cut out corralling support for robust countermeasures.
- Similarly, the new Commission will face obstacles to securing support for measures to implement the findings of Mario Draghi's competitiveness report. Measures to boost investment and create a functioning Savings and Investment Union will likely prove challenging, particularly given that some of the key levers – such as tax, company law, and pensions policy – remain member-state competencies.

Fiscal outlook

- With individual EU economies performing very differently economically, the growth outlook for 2025 for the Euro area is currently 1.4%. Big member states such as Germany and France are forecast to struggle with low rates of economic growth (1.0 and 1.3%, respectively, for 2025), and both have struggled to get their 2025 budgets through their national Parliaments. The Commission will assess both against the EU's fiscal rules when they are finalised, including the excessive deficit procedure that France is currently under. The German coalition government collapsed before finalising the 2025 budget, and with elections in February, it will likely take until after the summer to agree to a new budget.
- While Mario Draghi's proposal for common debt issuance was welcomed by several member states as a way to augment the constrained EU budget, the German and Dutch governments immediately rejected this idea. With the likely return of the conservative CDU to government next spring, the German position is likely to harden. The real crunch time on common debt will come when the EU needs to start paying the interest on the Recovery Bonds already issued – which will require substantial revenues for the Commission, unless an agreement is found to roll over the debt as per usual Finance Ministries' practice. With the new Multiannual Financial Framework cycle beginning in 2028, the EU will need to account for the repayment of the EU debt in its budget.

Geopolitical outlook

- Preserving the unity of the EU in the face of the new Trump administration will be the main geopolitical challenge for the new Commission. Trump's threats on defence, security, and trade tariffs will dominate the EU-US relationship. We also anticipate friction over extra-territorial climate-related regulations from the EU. Examples of where the US could seek to reduce the EU's reach include the recently agreed Corporate Sustainability Due Diligence Directive (CSDDD) – which requires firms to perform sustainability checks on their supply chains – and EU regulation on (US) big tech.
- The ongoing Russian invasion of Ukraine will remain the most immediate threat to European security, while the potential for escalation in the Middle East will also remain of concern. Support for Ukraine has been strong across most of the EU, but it has limited ability to increase significantly its weapons and armaments contribution if the US winds down its support. If Ukraine is forced to the negotiating table, we would likely see Eastern states further increase their national defence spending, with southern and western member states struggling to find additional support from their budgets.
- Trump's presidency will also likely have an impact on EU-China relations, which are already tense following the tariffs imposed by the EU on EVs produced in China. The EU will be bracing itself for pressure to increase further trade restrictions on China, which could impact (for example) German auto and French luxury goods exports if China introduces retaliatory measures.

Policy and regulatory outlook:

Trade

- EU EV tariffs against China entered into force on 30 October. After resistance from certain member states, including Germany, the Commission will be alert to possible circumvention measures and will have to carefully address the implication of US policy in this sphere.
- EU Mercosur negotiations are still ongoing in the background. If finalised, the Mercosur trade deal would have a substantial impact on the EU's agrifood sector by giving market access to cheaper products from South America. To convince opponents, such as France, the Commission is currently investigating setting up a compensation fund. Reaching a deal on Mercosur would be especially important for Germany, which is seeking to revive its export-led economy. The nature of the deal is unlikely to require unanimity in the Council, meaning that, in theory, the Commission could overcome French opposition. China is also exploring a trade agreement with South America, which would further diminish the EU's role on the global scene.

European Union

Financial stability

- EU policymakers have started exploring the potential for extending a macroprudential framework to non-bank financial institutions (NBFIs), including investment funds. At the same time, the European authorities are developing further detailed requirements for funds' liquidity management tools.
- One key proposal the European Commission is expected to publish in the first half of 2025 is a review of the money market fund regulation. This will be looking at increasing existing liquidity buffers and other changes in line with the agreed FSB 2021 guidelines.

Energy and sustainability

- Having rolled out a huge swathe of sustainability-related regulation during the last mandate, we expect the new Commission to focus its efforts on the implementation and simplification of the current measures. Duplicatory and burdensome sustainability disclosure requirements for businesses featured prominently in the Draghi report. The recent proposal to delay the implementation of the EU Deforestation Regulation could lead to further efforts to reduce or delay the burden on business.
- In the meantime, the European Commission will publish its plan for a Clean Industrial Deal in the first 100 days of its mandate. This deal is expected to provide the basis for the EU's new growth strategy and fulfill the EU's competitiveness ambitions targeted at EU industrial policy with a main focus on cleantech as a driver for EU competitiveness.
- The legislative focus will move to the expected review of the Sustainable Financial Disclosure Regulation (SFDR), targeted at streamlining disclosure provisions and introducing a categorisation for sustainable, transition, and ESG-related investment products. A draft legislative proposal is currently expected in the first half of 2025, possibly preceded by another public consultation.

Asia Pacific

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The election of Donald Trump is a significant political event for Asian countries, with important implications for trade and security. While specific policy issues will become clear once he resumes the presidency in January 2025, his senior appointments during the transition period suggest that he will maintain a particular focus on relations with China. Some countries, such as India, are buoyed by his re-election, in part because of his warm relationship with Prime Minister Narendra Modi. However, in all cases, governments recognize Trump's America First approach and his transactional approach: Deals can be done if they can persuade Trump of an approach with mutual benefits.

Political outlook

India

- In June, Narendra Modi was re-elected as India's prime minister for a third term (a full term is five years). However, he is the leader of a coalition between his Bharatiya Janata Party (BJP) and two regional parties, rather than winning the sweeping majority that had been expected. Public discontent stemmed from high youth unemployment, rising prices, and growing inequality in which India's largely rural poor felt disconnected from India's economic growth.
- The election returns India to its earlier era of political fragmentation: the previous parliament in which the BJP won an outright majority had been the historic exception to Indian political norms in recent decades. It is expected that Modi will continue the BJP's pro-business approach to governing. However, some of the more contentious aspects of BJP's policy and reform agenda will now become even more challenging to implement. Many of these are considered by the Government to be important to harness future economic growth and reduce bottlenecks of the current economy, such as farm and agricultural subsidy reform. When agricultural reform was attempted in 2020, large-scale farmers' strikes created gridlock until the planned reform was repealed. The Government faces further electoral tests in 2025, with elections in Delhi next February, where the opposition Aam Aadmi Party (AAP) dominates, and Bihar in November, where the BJP currently governs in coalition with a regional party that is also a part of the federal level coalition.

Japan

- Japanese politics has been unusually volatile. Following mounting public pressure after a political fundraising scandal, Japanese Prime Minister Fumio Kishida stood down as leader of the ruling Liberal Democratic Party (LDP) and was replaced by former Defence Minister and LDP Secretary-General Shigeru Ishiba in September. Ishiba immediately announced a snap general election, looking to capitalize on a potential honeymoon period with voters. However, his gamble proved unsuccessful and the LDP lost its majority in the lower house, recording its worst performance in 15 years.
- Ishiba won the approval of the new National Diet to continue in office on 11 November following negotiations with the Democratic Party for the People (DPP), for support on a policy-by-policy basis. However, DPP leader Yuichiro Tamaki soon came under his own pressure to resign after being exposed for an extramarital affair. In addition, Ishiba's own position remains weak. Candidates to challenge his role could include Sanae Takaichi, the former Economic Security Minister who narrowly lost the LDP leadership to Ishiba, or potentially even the return of Kishida to the premiership.
- The next electoral test for Japanese politicians will be the House of Councillors (upper house) elections scheduled to be held by July 2025. Ahead of that, the Government will need to deliver on public concerns on fiscal stimulus. The election of Donald Trump as US president also raises US-Japan defence agreements as an open issue to be resolved.

Asia Pacific

Fiscal outlook

China

- China's economy continues to transition as the real estate sector deleverages. The past year has seen markets react to various government stimulus measures, which have been interpreted to varying degrees of effectiveness by investors.
- Policy announcements in September and October provided some meaningful market boost, while the Chinese Government unveiled its largest fiscal stimulus on 8 November, following the approval by the National People's Congress (NPC). The five-year stimulus package, totaling 10 trillion yuan (US$1.4 trillion), includes allowing local governments to issue 6 trillion yuan in new bonds over three years to replace "hidden debt." The Government also suggested it would provide a further 4 trillion yuan in previously planned bonds over five years. These policies are focused on debt swaps and long-term restoration of municipal balance sheets rather than a direct injection of money into the economy.
- China's Finance Minister Lan Fo'an signaled that additional measures would be issued later. Earlier stimulus steps focused on monetary stimulus, including interest rate cuts, property market support, and structural monetary policy tools to stabilize the stock market. These policies reflect the Government's urgency in reviving consumer confidence and reflating the overall economy.
- We expect that China will continue to grow at around 4.5% to 5% annually. The effect of stimulus measures should become apparent in the economic data starting next year.

Japan

- Shortly after taking office in early October, Prime Minister Ishiba committed to a significant fiscal stimulus package to cushion the blow to households from rising living costs, and made an exit from deflation the Government's top priority. While Ishiba, who had previously been seen as a proponent of fiscal austerity, had planned an increase in capital gains tax on investment income to offset additional spending, the LDP's electoral performance will likely see higher fiscal deficits instead. The LDP and DPP came to an agreement in November to raise income-tax thresholds and supply gasoline tax relief. Fiscal policy proposals are typically compiled in mid-December before the Government drafts its budget proposals for the next fiscal year.
- Budget discussions come amid an increase in inflation, driven by the weak yen, which has seen the Bank of Japan move out of negative interest rates earlier this year. Market analysts expect the central bank will raise short-term interest rates from their current level of 0.25% when they make their next monetary policy decision in December.

India

- After the BJP's election result, a relatively cautious budget was presented to the parliament in late July, which responded to some key concerns of voters. Headline measures focused on employment-linked measures for businesses to help spur jobs, skilling programs for India's youth and women, as well as a new tax regime for India's lower income earners. In addition, states represented by Modi's key allies — Andhra Pradesh and Bihar — also got budget attention. The budget allocated 2.6 trillion rupees for rural development, including infrastructure.
- India's fiscal deficit target fell from 5.1% to 4.9%. Markets fell in reaction to an announced increase in capital gains taxes, with the rate on assets held for less than 12 months from 15% to 20%, and for those held more than 12 months from 10% to 12.5%. Equities, bonds and the Indian rupee fell after the capital gains tax announcement, though equity markets rebounded relatively quickly.
- India has the highest growth rate of G20 countries, a trend which is forecast to continue in the coming years: The OECD recently forecast growth of 6.7% for 2025 and 6.8% for 2026. The proceeds of that growth are increasingly likely to be directed towards those lower-income earners whom Modi will need for upcoming electoral tests, notably regional elections in Delhi and Bihar next year.

Geopolitical outlook

- The October 2024 BRICs summit was held in Russia. In a sign of changing geopolitical alliances, the attendees included the leaders of China, India and South Africa, with the latter two countries attending instead of going to the Commonwealth Heads of Government Summit in Samoa. Key items discussed at the BRICs summit included a reduction in the reliance on the US dollar and the introduction of a new Interbank Cooperation Mechanism. Chinese President Xi Jinping led calls for 'urgent' reform of the international financial system, including enhancing stronger cooperation in key issues such as green development. Thirteen new nations were also confirmed as partner countries to the alliance, including Malaysia, Thailand, Vietnam and Indonesia. Notable bilateral meetings on the sidelines include President Xi and Russian President Vladimir Putin, as well as President Xi and Indian leader Narendra Modi, in a show of unity after agreeing on a temporary deal over the disputed border between India and China.
- The Japan-US relationship is likely to see considerable development over 2025. While there remains some political uncertainty over Japan's political leadership, parties are broadly aligned that Japan needs to be less reliant on the US. Japan has increased defence spending to record levels and developed a proactive stance around its security policy to help mitigate potential risks. There is a widespread understanding between parties that current arrangements such as the US-Japan Status of Forces Agreement (SOFA) need to be reformed to reduce Japan's dependence on the US. Prime Minister Ishiba, as a former Defence Minister, is seen as a hawk, and has previously discussed an "Asian version of NATO." In addition, the potential acquisition of US Steel by Nippon Steel was politically contentious during the US election and may be rejected by the incoming Trump administration.

Asia Pacific

Policy and regulatory outlook

Trade

- **China.** China faces significant trade challenges from the US heading into 2025, with the incoming administration having already publicly suggested a potential 60% tariff on all Chinese imports. China has already faced export controls in the critical semiconductor space starting under the Biden administration, which has constrained access to the most advanced semiconductor technology outside of the country. This could intensify under Trump's new term with renewed pressure on other key suppliers in the semiconductor sector (e.g., Taiwan) to further restrict chip exports to China. Such moves could be offset by recent advancements in domestic semiconductor manufacturing, negating some of the impact from potentially more restrictive export controls in the future. Additionally, the electric vehicle industry is particularly exposed, as Trump has suggested potential 100% or more tariffs on these imports, although Chinese-made autos currently represent a very small proportion of total US light vehicle sales. Beyond targeted economic measures, Trump may introduce other trade barriers based more on political symbolism than economic impact. This could include tariffs on products sold by Chinese-owned e-commerce platforms operating in the US or further restrictions on Chinese-made agricultural imports.
- **South Korea.** Trump's re-election has caused considerable nervousness in Seoul. South Korea was a target of Trump's protectionist policies in his first term, although a deal was reached on that occasion. There are now substantial risks of further threats to the trade relationship under Trump 2.0. South Korea's strategic vulnerabilities – including its reliance on semiconductor and automobile exports to the US and complex supply chain dependencies with China – make it particularly exposed to potential shifts in US trade policy both bilaterally and with China. In the event of increased tariffs placed directly on South Korean exports to the US, a strong tit-for-tat retaliatory action is unlikely. Instead, South Korea will likely seek to make concessionary proposals for early deals in the various areas that have attracted Trump's attention.
- **Australia.** Australia is highly vulnerable to broader geopolitical trade dynamics between the US and China. The primary risk for Australia stems from its position between its largest security partner (US) and its largest trading partner (China). In the event of a US-China trade war, OECD modelling suggests that Australia's economy will be one of the hardest hit in the Asia-Pacific region. Specifically, Australia has a heavy reliance on commodity exports to China (mining products and metals) and also depends on intermediate inputs from China. In the event of any trade conflict with the US or China, Canberra is likely to maintain a non-confrontational approach, focusing on negotiation rather than retaliation – as they have done in the past.

Energy and sustainability

- **China:** In May and in August, Chinese authorities published detailed action plans on emissions reduction and energy conservation alongside guidelines to ramp up its green transition to achieve its goals of seeing carbon emissions peak by 2030 and achieve net-zero status by 2060. The August guidelines noted that China will extend the implementation period of financial instruments such as carbon emission reduction support tools to the end of 2027 and actively develop new instruments such as green equity financing, green financial leasing, and green trusts. The guidelines also established targets across a number of areas, including additional funding for energy conservation and environment protection, and increasing the proportion of non-fossil fuel energy consumption to reach 25%. Building on the guidelines, China also passed its first Energy Law in November. The law will prioritize renewable energy development while maintaining the "rational development and clean efficient use" of fossil fuels. Chinese authorities realize there remain ongoing challenges to phase out fossil fuel use, most notably electricity generation from coal and other carbon-intensive heavy industries such as cement and steel production. As such, the "establish first, demolish later" principle is emphasized in official documents to ensure a measured approach to not compromise on economic growth while pursuing environmental goals. In September, China continued with its policy support towards decarbonization and released a draft workplan to expand sectoral coverage of national Emissions Trading Scheme to include cement, iron and steel, and aluminum industries.
- **Taiwan:** In November the Financial Services Commission (FSC) released the Green and Transition Finance Action Plan (GTFAP), setting out core measures and priorities for Taiwan's green transition. It particularly highlights the need for private capital investment to develop new products such as green bonds. The GTFAP has been developed in alignment with international trends on transition finance but also addresses Taiwan-specific issues through measures such as a cross-industry climate risk database, incentives for firms to submit climate-related disclosures and carbon emissions data, and a green securities certification system to promote the development of green financial products. Regulators will continue to collaborate with industry in the GTFAP rollout, particularly on disclosure and data collection.
- **Japan:** On 11 November, the Japanese Cabinet approved Cabinet Orders related to the "Act on Carbon Dioxide Storage Business," setting the exploratory drilling enforcement date for 18 November. These orders also address the registration of prospecting rights and other measures tied to the act, enacted during the 213th Diet session.
- As Japan strengthens its energy strategy, carbon capture and storage (CCS) plays a key role in its shift to a low-carbon future, with commercial operations starting by 2030. The plan aims to capture 6-to-12 million tons of CO_2 annually by 2030, rising to 240 million tons by 2050. Although CCS costs currently exceed carbon prices, subsidies are expected to make it viable until 2040. Given Japan's limited storage capacity, the country will likely depend on overseas facilities, positioning itself as a leader in regional carbon transport and storage. Major companies, including Mitsubishi Heavy Industries, anticipate significant revenue growth from CCS and hydrogen, further embedding CCS within Japan's long-term energy plan.

Asia Pacific

- **ASEAN:** At the ASEAN Investment Forum 2024 in Vientiane, Laos, ASEAN launched its Regional Investment Promotion Action Plan 2025-2030, developed with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The plan targets foreign direct investment (FDI) in sustainable sectors to support the region's green transition and post-pandemic recovery. It emphasizes high-potential sectors aligned with the UN Sustainable Development Goals (SDGs), positioning ASEAN as a unified investment destination to attract investors focused on regional ecosystems.
- Endorsed by ASEAN Economic Ministers, the strategy includes sector-focused promotion, regional coordination, and strategic investor engagement. This collaborative approach aims to strengthen ASEAN's competitiveness in global value chains, fostering inclusive growth and resilience. The plan is adaptable, responding to global trends and individual country needs.
- The forum highlighted opportunities in renewable energy, sustainable agriculture, and impact investing, showcasing investment-ready projects. It also emphasized the importance of cross-border collaboration. ESCAP will support the plan's implementation with capacity-building initiatives to maximize its impact. The next forum will be held in Malaysia in 2025, continuing momentum toward sustainable, inclusive investment in the region.

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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