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US-China Truce Strengthens Global Trade while Developed Government Debt Slows Growth



Concerns about an abrupt decline in global trade were greatly exaggerated at the beginning of 2025. The recent trade agreements signed by the US administration and its main partners have increased visibility and set a playing field for more sustainable and fair global trade.

A key milestone this week came with the **trade truce** with China and the sign of a new bilateral **trade agreement** with Japan.

The United States' trade alliances across the world have strengthened and will likely support a significant increase in global trade.

After months of negotiation, the United States and Japan agreed on a new trade deal with a flat 15% tariff on almost all Japanese imports. **Japan** has committed to invest \$550 billion in the United States in key sectors such as energy, artificial intelligence infrastructure, and advanced manufacturing.

The US and Japan also reached a very significant deal in rare earths that accelerated the likelihood of an agreement with China, strengthening the United States' negotiation position.

A New Phase in U.S.–China Relations

Thus, the most important development came from the long-anticipated meeting between President Trump and President Xi Jinping in South Korea, which delivered a highly anticipated trade truce.

The key elements of the **Trump-Xi agreement** included China postponing new regulations on exports of rare earth minerals for a year; the United States lowering tariffs on Chinese imports, with average rates reduced from 57% to 47%; a reduction in the 20% tariff on Chinese fentanyl-related goods to 10%, with a commitment to eliminate the remaining tariff if China acts to curb fentanyl shipments; and China agreeing to increase imports of U.S. soybeans, oil, and gas.

Furthermore, both countries suspended new retaliatory measures on critical technology.

This truce is essential to reduce tension and improve global trade. The challenges remain, but it is another significant step that proves that both administrations are willing to cooperate instead of escalating a trade war that does not help anyone.

Anticipating a Surge in Manufacturing and Exports

What can we expect in the following months?

So far, we know that tariffs have no discernible impact on inflation because the excess capacity built into the exporters' supply chains is absorbing most of the cost along the different parts of the chain that are substantially more complex, diversified, and flexible than most analysts expected.

Global manufacturing PMIs have been fragile in 2025. China's manufacturing sector remains in contraction, while the euro area indicators barely indicate any expansion.

Once we fully implement the trade deals, we can anticipate a surge in manufacturing activity and exports.

Investment and trade will likely receive a boost from lower US interest rates as the Federal Reserve moves to the neutral level

Capital expenditure in exporting activities and shipping has not declined due to trade negotiations, as most businesses expected agreements to be in place before year-end.

Investment and trade will likely receive a boost from lower US interest rates as the Federal Reserve moves to the neutral level. Additionally, global money supply continues to rise.

Interventionism Keeps Nations in Stagnation

What are the biggest problems as we enter 2026? While trade may recover, consumers remain burdened by persistent inflation and the weak economic growth of developed economies.



*The world needs pro-growth, supply-side policies to revamp the lacklustre growth of developed nations -
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The UK, France, Germany, and Japan continue to report weak **GDP growth** levels, and the overcapacity that has allowed exporters to absorb tariffs and manage inflation may rise in the next two years, highlighting the working capital challenges faced by many exporting industries.

President Trump knew that he could level the playing field with trade negotiations because the US administration counted on the exporters' overcapacity and inability to offset sales to the United States with other nations.

Considering that the main developed economies continue to face weak growth, high government spending, and elevated taxation, the working capital problem for exporters may increase with sluggish sales growth, even with their admirable adaptation capacity to the current environment.

The world needs pro-growth, supply-side policies to revamp the lacklustre growth of developed nations. This would improve emerging markets and reduce the burden of public debt.

The recent trade agreements are essential to reduce uncertainty, but the most important problem in the world now is excessive government spending, and global trade cannot grow as desired if interventionism keeps developed nations in stagnation.