RSIS COMMENTARY

29 December 2025

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Dipinder S. Randhawa

RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore
RSIS COMMENTARY
www.rsis.edu.sg
No. 249 – 29 December 2025

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By Dipinder S. Randhawa

SYNOPSIS

Eight months after US President Donald Trump imposed tariffs globally, some trends in global trade and investment are emerging. How are businesses and markets adapting to the volatility in the new emerging order?

COMMENTARY

Since US President Donald Trump announced the "Liberation Day" tariffs on April 2, 2025, the global economy has experienced unprecedented fragmentation, driven by pervasive trade policy uncertainty and ongoing supply-chain realignments. At the same time, the collapse in trade and investment, followed by a recession that many feared, has not materialised, reflecting surprising resilience in the global economy, albeit growing fragilities.

As a growing cohort of trading partners reaches agreements with the US, it is timely to identify the key emerging trends in international trade and investment flows. What challenges and opportunities do the trends offer to businesses, especially those in ASEAN? With the WTO Appellate Tribunal, the arbiter of the rules-based multilateral trading system, paralysed, what alternative dispute-resolution systems are available for businesses?

Following trade restrictions reaching levels "not seen in a century", the IMF estimated that global GDP growth would decline from about 3.3 per cent in 2024 to 3.2 per cent in 2025 and 3.1 per cent in 2026, driven by trade barriers and policy uncertainty. The OECD also cautioned about tensions around trade in critical minerals and the risk of a speculative bubble driven by overly optimistic AI-driven corporate earnings.

Policy Uncertainty and Regulatory Risk

Businesses face increasingly uncertain regulatory regimes – export controls, sanctions, tariff changes that raise compliance costs, complicating long-range investment decisions. The endemic uncertainty is reflected in sharp increases in trade policy uncertainty indices to 900 points in 2025 – a tenfold increase from the 2015-2024 average of 85 points.

The implications cascade through every aspect of cross-border business, from supply chain planning to long-term investment decisions. Financial markets reflect the uncertainty, with global volatility indices spiking to 52 points in April 2025, more than triple the 2023-2024 average. The record gold and silver prices reflect investor flight toward safe-haven assets.

Trade

Trade in goods has slowed down. The WTO projected 2.8 per cent growth in world merchandise trade volume in 2024, falling to 2.4 per cent in 2025, and to 0.5 per cent in 2026. In 2025, the number in the first half of the year had increased due to one-off "frontloading" by importers in North America before tariffs took effect as well as to the growth in trade of AI-related products, which accounted for half the increase.

China has responded to the fall in exports to the US by redirecting trade flows, with exports to ASEAN increasing by 18.8 per cent, posing challenges to manufacturing across ASEAN as domestic industries are unable to compete with lower-priced Chinese imports – a trend indicative of trade rerouting rather than decoupling.

"Connector states" such as Vietnam, Mexico, and Hungary, that choose not to be affiliated with either superpower, are playing a vital role in sustaining global trade. Projects indicate that 30 per cent of global trade could be canalised between China-led and US-led corridors by 2035, representing the most dramatic reconfiguration in modern times. These trends discourage long-term cross-border investment, fundamentally altering the operating environment for international businesses.

Foreign Direct Investment (FDI)

Geopolitical tensions, trade fragmentation and intensifying industrial policy competition are increasingly reshaping the investment landscape and redrawing global investment maps. Multinational companies are progressively prioritising short-term risk management over long-term strategies, particularly in sectors sensitive to national security.

Global FDI fell sharply by 11 per cent to about US$1.5 trillion in 2024, with the decline concentrated among developed countries, especially in Europe. However, investment flows to the United States increased by 23 per cent. International project finance – critical for development – as well as investments in the Sustainable Development Goals (SDGs), especially in energy, including gas supply and renewables, are essential for net-zero goals.

FDI has undergone more severe fragmentation than trade flows. China experienced a 29 per cent drop in FDI in 2024, with the trend continuing into 2025. Since the tariffs were announced, FDI into the US from the EU, South Korea, and Japan has increased further, driven by investment-for-access deals struck with close US allies. The security pacts and trade with the US are important enough for these US allies to agree to substantial investment commitments. In contrast to the rest of Asia, ASEAN experienced an increase of about 10 per cent in FDI, reflecting the consolidation of its status as an efficient and stable manufacturing hub and the growth of its internal market.

How are Firms Responding

Eighty-two per cent of respondents to a McKinsey survey reported that their supply chains were affected by the new tariffs. Companies have adopted resilience tools, including increasing inventory levels, pursuing dual-sourcing strategies, and developing nearshoring or onshoring plans. Forty-three per cent of companies plan to shift more supply chain nodes to the United States over the next three years – a 25 per cent increase from the previous year – while 38 per cent plan to reduce presence in China.

Meanwhile, US importers have increased sourcing from Mexico, Vietnam, Thailand, and Malaysia. Tariffs are also prompting companies to accelerate AI deployment and investment, reduce their workforce, and streamline operations to offset tariff-related costs.

Lessons for Businesses

The analysis of the UN Conference on Trade and Development (UNCTAD) emphasises that diversification of export markets and participation in trade agreements reduce vulnerabilities – firms with multiple markets can redirect shipments when one closes, cushioning losses.

Businesses must develop capabilities for iterative scenario planning using AI-driven tools that can simulate different tariff developments and test sourcing options. Firms in ASEAN and connector countries are investing in supply chain visibility – critical for assessing rules of origin and for defending against charges of transhipment, a politically volatile issue.

Companies have recognised that tariffs can no longer be treated as a one-off disruption but are a recurring feature of the business environment. Trade is no longer an administrative, reactive function, but rather a driver of business strategy and operational resilience.

Firms are prioritising resilience over pure efficiency, adding complexity and inefficiency to supply chains, accepting the higher consequential costs.

The Responses

ASEAN member states are responding by accelerating discussions on further liberalisation under the Regional Comprehensive Economic Partnership (RCEP) framework and deepening other free trade agreements, including with the EU and partners in Africa and Latin America. ASEAN is accelerating discussions on internal liberalisation towards a common market and easing non-tariff barriers which have continued to hamper growth in intra-ASEAN trade.

ASEAN is seeking to strengthen the digital economy, increase investments in renewables and other green industries, and incorporate chapters on digital and green trade into new trade agreements. These sectors are seen as key drivers of competitiveness, growth and resilience vis-a-vis the Southeast Asian economies.

Dispute Settlement

The WTO is facing its gravest crisis since its inception in 1995. The Appellate Tribunal has been dysfunctional since 2019. Studies indicate the devastating consequences of a complete system collapse, especially on developing economies. Even without the models, the high risks, including pervasive instability, are severe enough to induce those ambivalent about the WTO to work to maintain and sustain the multilateral framework.

In an environment characterised by endemic uncertainty, companies will not invest without legal protection/oversight of contracts. While the traditional system is severely stressed, the costs of collapse are so high that stakeholders have incentives to maintain and adapt it rather than abandon it.

In a fragmented global economy, the proliferation of dispute-resolution institutions creates the risk of inconsistent legal interpretations and "forum shopping" based on perceived advantage rather than on appropriate expertise. Singapore's Arb-Med-Arb process offers an efficient, neutral, and enforceable approach that successfully combines cultural values with international standards.

Concluding Observations

ASEAN has emerged as both a beneficiary and a victim of this transformation in the global economy. To maintain competitiveness, ASEAN must remain neutral between the superpowers while enhancing internal economic integration and its appeal as an investment destination through dispute-resolution mechanisms that meet international best practices.

International trade is essential for the global economy and ASEAN has a record of responding innovatively to various threats to the multilateral rules-based trade regime. As Southeast Asia remains a strategic trade and investment destination, it can continue to play an instrumental role in multilateral trade rule-making and sustaining the stake in multilateralism.

Dipinder S. Randhawa is a Senior Fellow at the Centre for Multilateralism Studies at S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798