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Global trade update

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Policy Insights

Trade policy uncertainty looms over global markets

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KEY TAKEAWAYS

- **Global tensions and economic challenges** are fueling trade policy uncertainty, which in turn drives trade volatility and increases risks for trade-dependent economies.
- **Uncertainty is often more disruptive than tariffs,** as firms can adapt to rising costs but struggle to plan around unpredictable policy shifts.
- **Small firms and poor countries are especially vulnerable,** as they lack the capacity to respond to unpredictable trade environments.
- **Stable and predictable trade policies** are critical to sustaining development and growth through international trade.

Policy uncertainty is rarely accidental; it is often a deliberate or inevitable outcome of governance in a complex world. **As governments respond to shifting domestic priorities and mounting global pressures, they are frequently compelled to recalibrate their policies.** These policy adjustments, while necessary, often create uncertainty—both about the scale of the changes and the timing of their implementation. On the international arena, such uncertainty is often amplified by the ripple effects of follow-up measures, creating a feedback loop that clouds global predictability. Moreover, policy uncertainty is not always a byproduct of indecision; it can be a strategic tool. Governments may employ ambiguity to test reactions or gain leverage in negotiations. While this tactic may serve their negotiating interests, it comes at a cost: it heightens risk for firms and investors and undermines the reliability of mechanisms for international coordination.

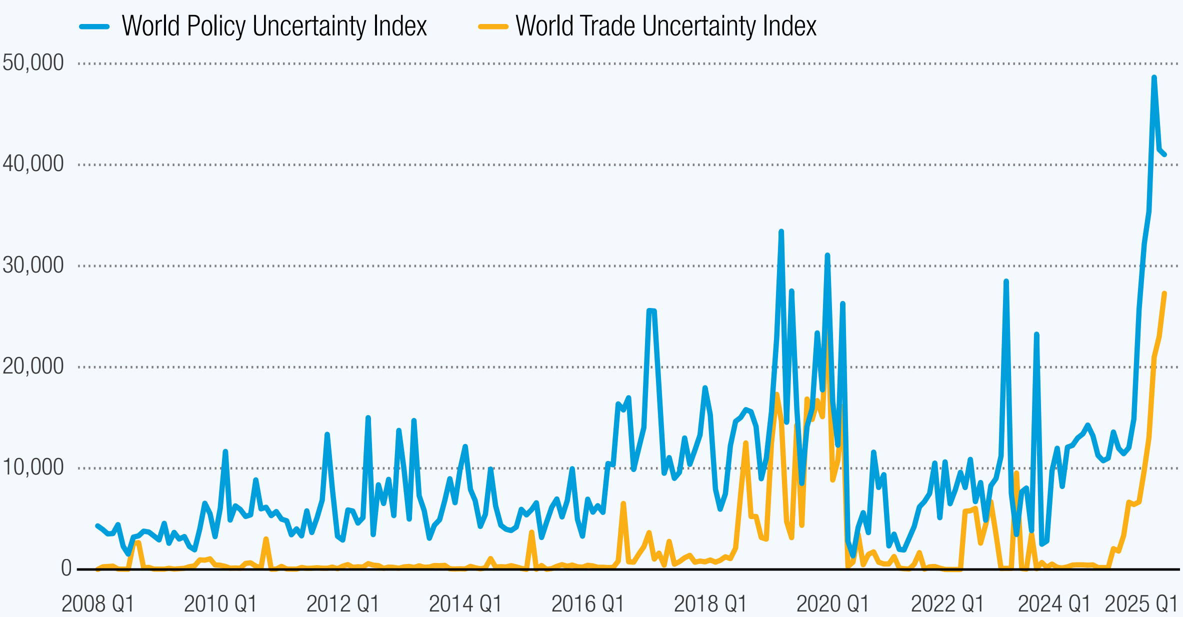
Historically, trade policy uncertainty has been relatively contained. **For decades, multilateral and regional agreements acted as stabilizers, discouraging abrupt shifts and providing predictability to global markets.** Surges in uncertainty were typically episodic, linked to specific events such as regional conflicts, the disruptions caused by COVID-19, regional fragmentation like Brexit or the US–China trade tensions.

As of 2025, trade policy uncertainty has escalated to unprecedented levels. The surge reflects a mix of economic and non-economic factors: industrial policy and competition for critical raw materials are driving rounds of supportive trade measures, while persistent concerns over trade imbalances are increasing calls for corrective trade measures. Trade policy is also increasingly used to pursue domestic political, security, and environmental goals unilaterally, thus prompting responses from trading partners. With rule-based trading systems weakened, there is little to constrain these shifts. More importantly, as countries face the need to update trade rules, strategic ambiguity may become a more widespread feature of the trade policymaking process, further heightening trade policy uncertainty.

Figure 1

Trade policy shifts add to global uncertainties

Economic policy uncertainty and trade policy uncertainty indexes



Source: World Uncertainty Index (https://worlduncertaintyindex.com/).

Rising trade policy uncertainty sparks economic concerns

Trade policy uncertainty is emerging as a major drag on the global economy, with repercussions that ripple far beyond tariffs and border controls. Its impact is most visible in three areas:

1. Higher costs, slower growth, distorted competition

Unpredictable trade policies significantly increase the cost and complexity of cross-border commerce. Companies are forced to carry excess inventory, hedge against losses, and constantly reconfigure their supply chains— all of which reduce efficiency and raise operational costs. The knock-on effect is weaker for long-term investments in critical areas such as factories, technology, and workforce development. The impact is especially severe for small firms and vulnerable economies. When access to major markets becomes uncertain due to shifting policies, these actors struggle to attract capital, sustain export strategies, and build the productive capacity needed for growth.

2. Risks to financial and macro stability

Uncertainty does not stop at trade flows—it spills into financial markets. Sudden policy shifts can jolt exchange rates, unsettle capital flows, and tighten credit conditions. Investor confidence suffers, and access to trade finance narrows, particularly in developing economies. Over time, this can feed inflationary pressures, keeping interest rates elevated. For many countries, the combination of higher borrowing costs and weaker investment deepens fiscal fragility, which can squeeze the space for growth and development policies.

3. Erosion of trust—and a cycle of unpredictability

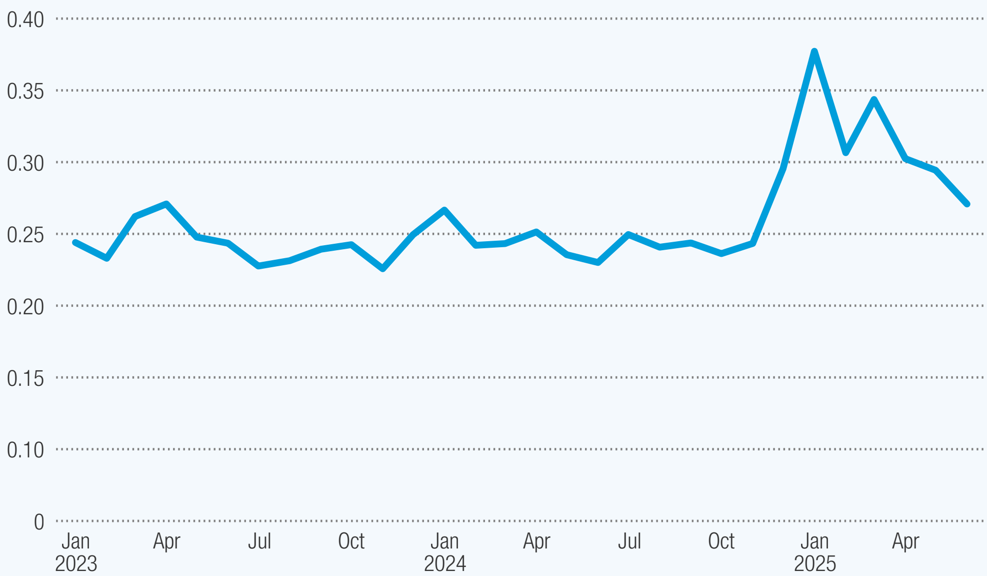
Perhaps most damaging is the erosion of trust between trading partners. Weak or selectively enforced rules fuel uncertainty and encourage ad hoc measures, eroding faith in fair, non-discriminatory trade practices. As credibility in the existing agreements fades, governments turn more readily to unilateral action. That, in turn, can fuel retaliation, spill over through value chains, and harden the cycle of uncertainty—making global cooperation on broader socio-economic challenges even harder to achieve.

Current trade policy shifts fuel volatility across global markets

The United States' recent policy shift offers a clear example of how rising trade policy uncertainty reverberates through global commerce. As the world's largest economy and the leading importer of goods, even modest United States policy changes can reshape supply chains and alter trade flows worldwide. Recent announcements of the United States trade measures have already produced short-term disruptions, with the impact visible in data on trade volatility and firms' adaptive responses.

When uncertainty looms, companies often scramble to adjust by pausing shipments, renegotiating contracts, or rushing deliveries ahead of potential tariff hikes. The result is more erratic trade patterns. This was evident in early 2025, when the variance in shipments entering the United States spiked sharply. **One insight from these trade dynamics is that uncertainty itself can be more destabilizing than tariffs.** Import volatility peaked before new tariffs officially took effect in April 2025. Once implemented, volatility subsided, suggesting that firms—while facing higher costs—had begun adapting to the new policy environment.

Figure 2
Trade policy uncertainty results in increased import volatility
Volatility of United States imports over three-month periods



Source: UNCTAD secretariat, based on the United States national statistics.
Note: Volatility is measured by the coefficient of variation across a three-month period, within the HS6-digit product. A higher coefficient of variation indicates greater volatility.

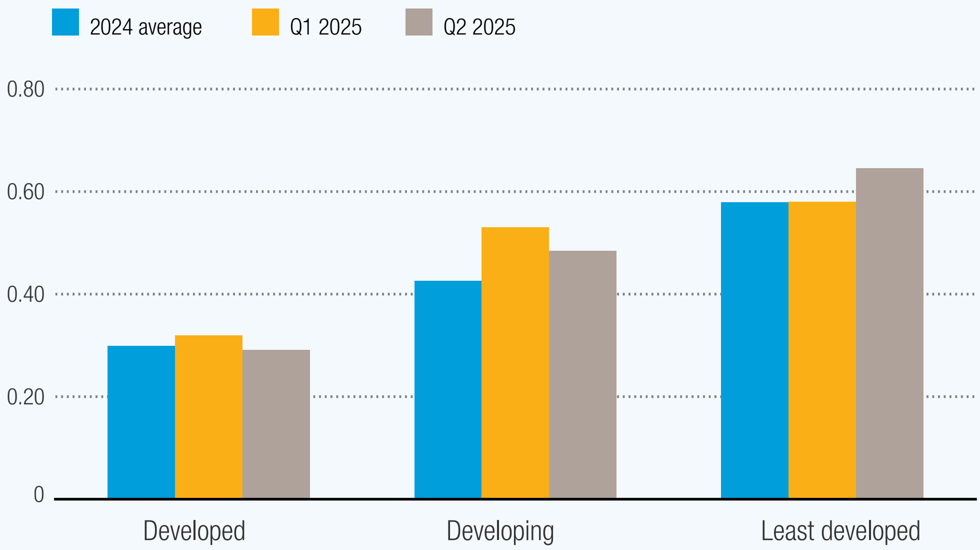
The burden of trade policy uncertainty is not felt equally. Import data from the United States in the first half of 2025 shows that volatility has been far more pronounced for imports originating from developing and least developed countries (LDCs) than for advanced economies. While imports from developed countries show little variance—extending the relatively low volatility seen in 2024—shipments from developing nations swung more sharply.

The pattern is even starker for LDCs. Unlike other economies, their import volatility spiked later, only becoming evident in the second quarter of 2025. This lag suggests that the effects of United States policy shifts filter through unevenly, potentially exposing more vulnerable economies to delayed yet potentially sharper disruptions— a dynamic that warrants deeper, targeted analysis. Moreover, uncertainty over the extensions of trade preference programs, the specifics of transshipment conditions and rules-of-origin frameworks further compounds this vulnerability. These uncertainties leave many exporters in low-income countries unsure of future market access conditions, undermining their ability to plan export strategies, attract investment and participate effectively in international trade and global supply chains.

Figure 3

Trade policy uncertainty results in uneven trade volatility

United States import volatility across different country groupings



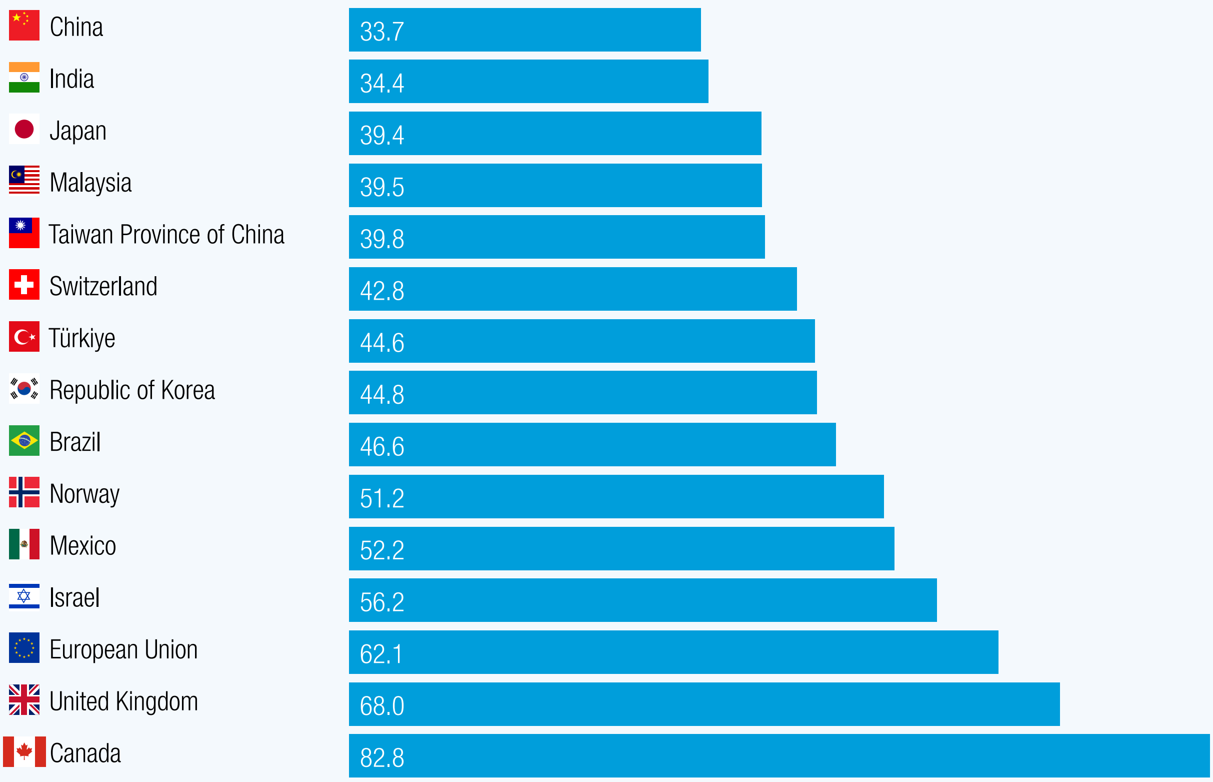
Source: UNCTAD secretariat, based on the United States national statistics. Volatility is measured by the coefficient of variation across a three-month period.

Note: Volatility is measured by the coefficient of variation across a three-month period, within the HS6-digit product. A higher coefficient of variation indicates greater volatility during the period.

Policy shifts in one country can send shockwaves both upstream and downstream, disrupting suppliers, manufacturers, and end markets alike. While global value chains may have become more resilient in the wake of the pandemic and geopolitical tensions, trade policy uncertainty remains a destabilizing force. These disruptions are often intensified by retaliatory measures, which amplify the ripple effects, and compound the risks for businesses and economies worldwide.

The full impact of recent United States trade policy shifts on global value chains is still unfolding, yet the vulnerabilities are clear, and economies more tightly woven into United States value chains face the greatest exposure. For them, sudden shifts in United States trade policy can reverberate across upstream suppliers and downstream industries.

Figure 4
Ripple effects: exposure to United States policy shifts through global production networks (selected economies)
Manufacturing intra-industry trade index, 2024



Source: UNCTAD calculation based on COMTRADE data.

Note: Manufacturing integration is calculated using the trade-weighted average of the intra-industry trade index, based on the Grubel-Lloyd methods at the chapter level of the Harmonized System (HS) classification, including only manufacturing consumers and intermediate goods as defined at the HS 6-digit level.

Short-term responses to trade policy uncertainty

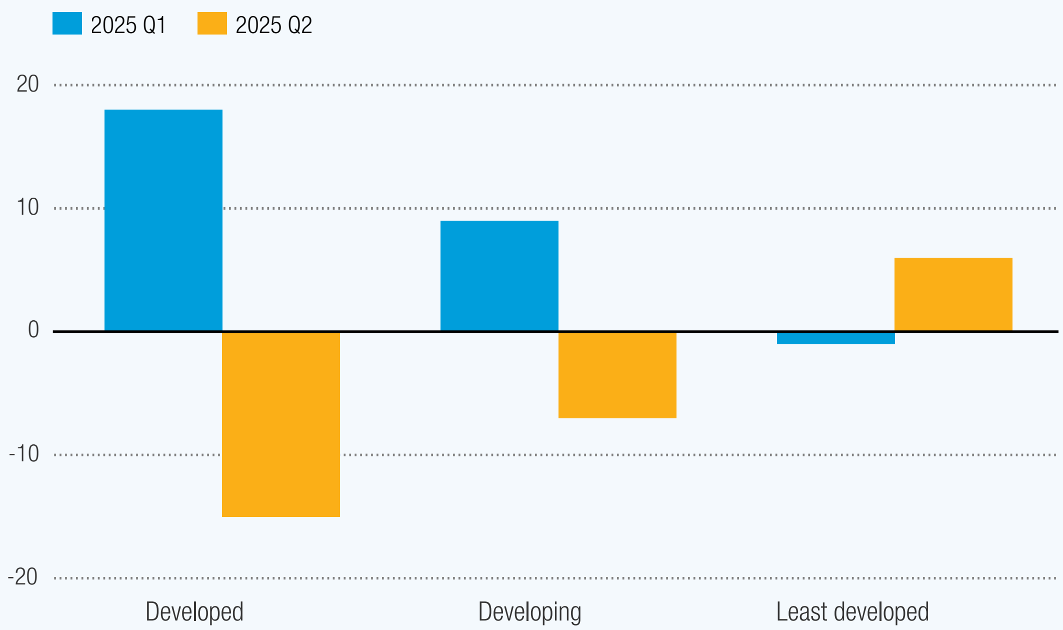
One of the most destabilizing aspects of trade policy uncertainty is its timing. While the general direction of a policy change—whether more liberal or more restrictive—can often be anticipated, the magnitude, scope, and especially the timing of new measures are far less predictable. This unpredictability has become a defining feature of recent United States tariff decisions, making it difficult for businesses and trading partners to plan and adapt effectively.

When tariffs are expected to rise but their implementation date remains unclear, importers often react preemptively. Many accelerate shipments, "front-loading" goods to stockpile inventory before higher tariffs take effect. Others shift from slower and cheaper sea freight to faster, though more expensive, air cargo—an option most feasible for high-value, low-volume products. While these adjustments can buy time, they also introduce new costs and distortions into global trade flows. **Small firms, particularly those in developing and least developed countries, face greater challenges in adapting.** Their exports often consist of bulky, low-value products, and they typically operate with limited working capital, restricted access to credit, lack of spare production capacity, and less efficient shipping infrastructure. These constraints make it harder for them to respond swiftly, deepening their vulnerability in an already uncertain trade environment.

Figure 5

Response to impending tariffs: building up inventories through front-loading

United States imports growth from selected country groupings (YoY % change)



Source: UNCTAD secretariat, based on the United States national statistics.

Note: YoY % change measures growth compared with the same quarter of last year.

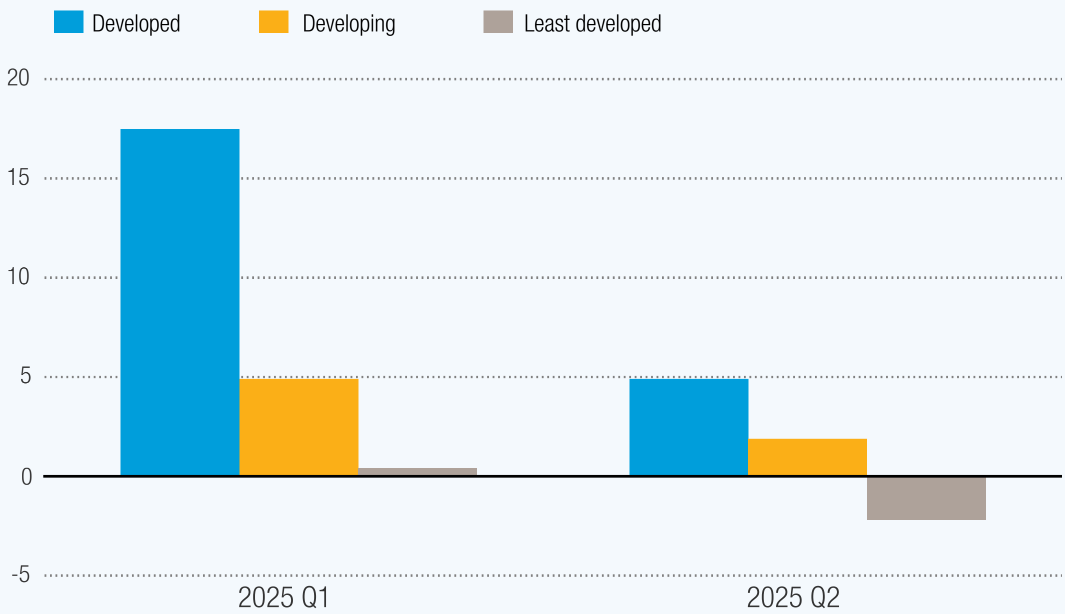
Front-loading patterns in United States imports were clearly visible in the first half of 2025. Imports surged in the first quarter, only to drop sharply in the second quarter. The effect was most pronounced for developed countries, suggesting that importers there were better able to anticipate and act ahead of tariff deadlines. In contrast, developing countries showed a more muted frontloading response, while least developed countries (LDCs) exhibited little to no such pattern. This may reflect constraints such as shorter-term contracts or limited productive capacity, which prevented them from ramping up exports in advance. Notably, LDC exports did rise in Q2 2025, but by then, many tariffs had already taken effect.

Transport modes tell a similar story. Air shipments into the United States jumped nearly 10 per cent year-on-year in Q1 2025, with developed-country exporters driving most of the increase—up roughly 18 per cent. Developing countries also shifted toward air freight, though to a far smaller degree, while LDCs showed no significant change. The patterns suggest that the ability to front-load and switch transport modes is closely linked to the resources and flexibility available to firms.

Figure 6

Response to impending tariffs: Not all trade takes off

United States imports by air, from selected country groups (YoY % change)



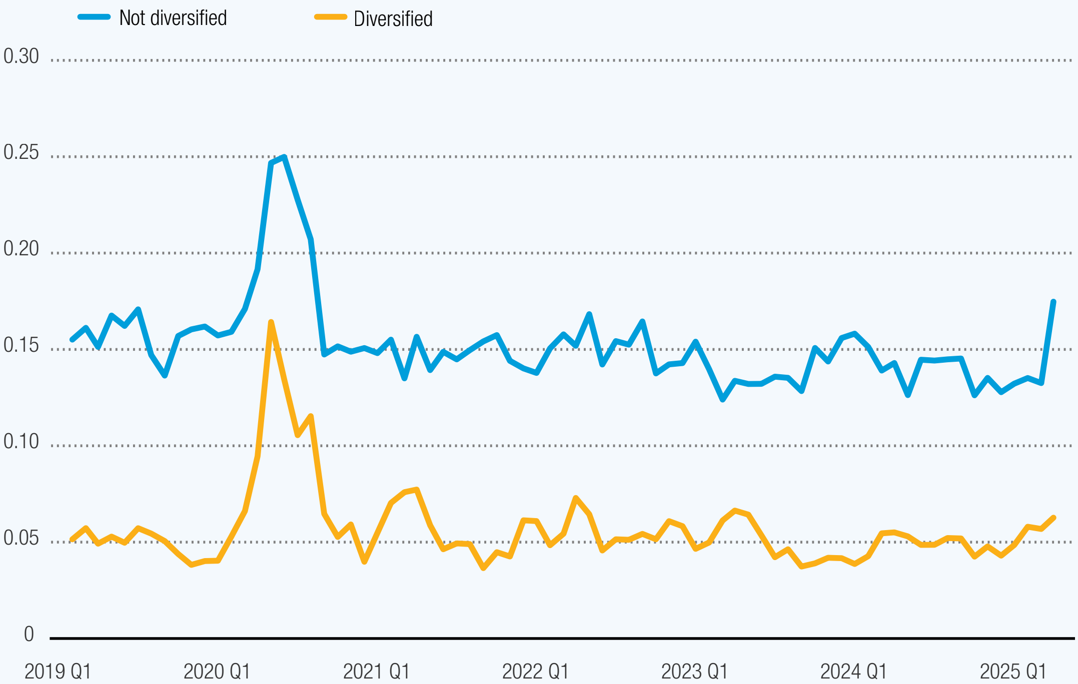
Source: UNCTAD secretariat, based on the United States national statistics.

Note: YoY % change measures growth compared with the same quarter of last year.

Building lasting resilience in the face of policy uncertainty

Not all economies are equally exposed to trade policy uncertainty. Two factors can significantly reduce vulnerabilities: diversified export markets and participation in trade agreements. Firms with access to multiple markets are in a better position to reallocate shipments when policy shifts restrict trade in a particular country, cushioning revenue losses and production disruptions. During recent tariff escalations, companies with established regional networks were able to redirect goods to unaffected markets, mitigating their impact on sales. **At the macroeconomic level, countries with broader export bases — meaning they sell to multiple trading partners — tend to weather periods of heightened uncertainty more effectively.** Losses in one region can often be offset by gains elsewhere, resulting in smaller trade contractions and reduced volatility.

Figure 7
Market diversification makes exports more resilient and less volatile
Volatility of global trade: averages for diversified vs. non-diversified countries



Source: UNCTAD secretariat calculations based on COMTRADE data and various national statistics.

Note: Countries are split into two equally sized groups based on their level of market diversification, measured by the average number of trading partners in 2024. Volatility is measured by the coefficient of variation of exports across a three-month period.

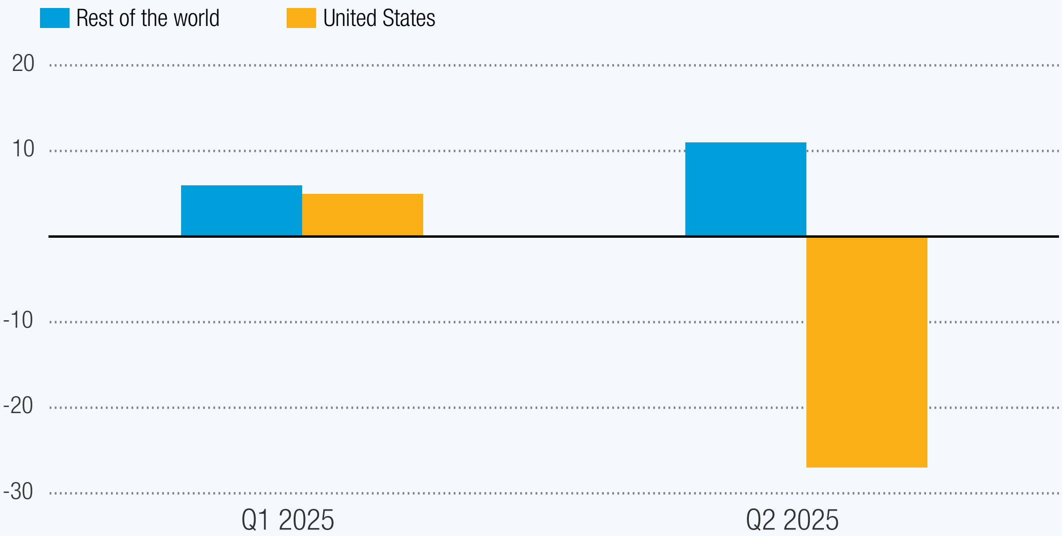
China's recent trade patterns illustrate the value of multiple market opportunities. In the second quarter of 2025, Chinese exports to the world rose sharply compared with the first quarter, even as shipments to the United States declined. By maintaining alternative markets and established trading relationships, many Chinese firms have been able to cushion the impact of unpredictable United States trade policies, stabilize export flows, and limit adverse effects on the country's overall economy.

Participation in trade agreements can help shield economies from trade policy uncertainty. By providing established rules and dispute settlement mechanisms, agreements reduce the risk of sudden policy shifts both at home and abroad. Companies operating under regional or bilateral frameworks tend to face fewer disruptions and enjoy greater confidence to make long-term investments, even amid global policy volatility.

Figure 8

China's exports rose sharply in Q2 2025, except to the United States

Chinese export growth with the United States and the rest of the world (YoY % change)



Source: UNCTAD secretariat, based on China's national statistics.

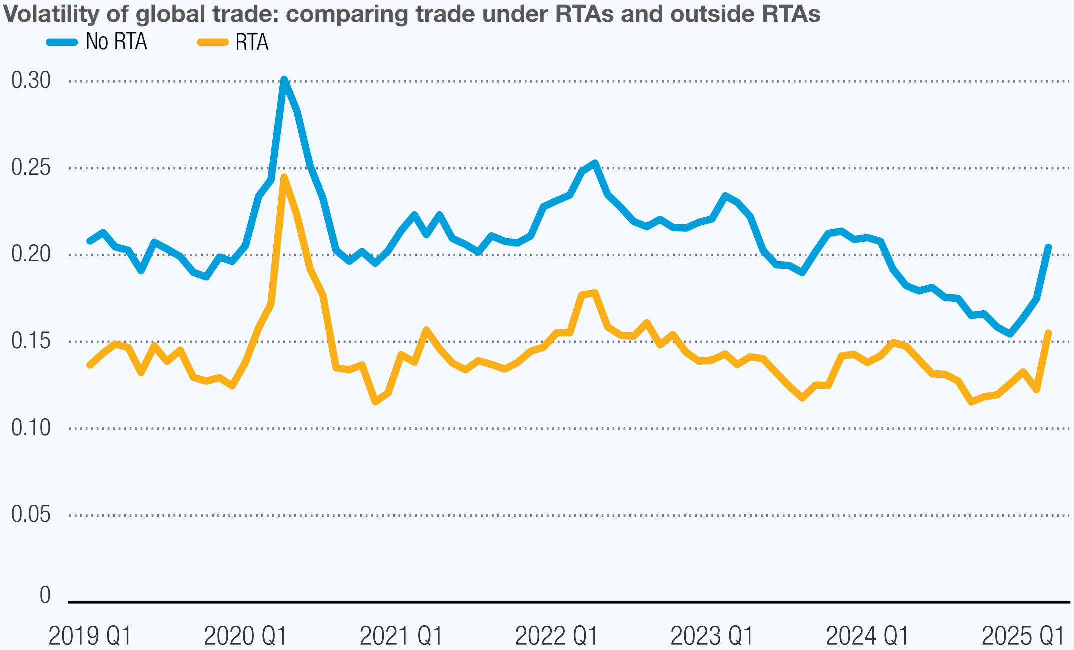
Note: YoY % change measures growth compared with the same quarter of last year.

Historical patterns confirm this effect: trade outside regional trade agreements (RTAs) has consistently been more volatile, including during periods of heightened uncertainty such as the COVID-19 pandemic. Yet recent data tell a more nuanced story. In the last quarter, trade volatility within RTAs has risen, largely driven by uncertainty in the United States-Mexico-Canada Agreement (USMCA) region. The trend underscores that even trade within agreements expected to offer trade certainty and stability can be disrupted when policies of major members become unpredictable.

Figure 9

Trade agreements make exports more resilient and less volatile

Volatility of global trade: comparing trade under RTAs and outside RTAs



Source: UNCTAD secretariat calculations based on COMTRADE data and National Statistics. Volatility is measured by the coefficient of variation of exports across a three-month period.

Reducing policy uncertainty, strengthening trade resilience

Predictability is essential for international trade. Uncertainty over market access conditions can disrupt supply chains, deter investment, and disproportionately affect low-income economies and small firms the hardest. Historically, transparency, rules, and dispute-resolution mechanisms have helped contain these risks. Today, however, unilateral measures with far-reaching cross-border effects are increasingly deployed, often with little regard for spillovers. Strategic ambiguity — where governments deliberately keep future actions or rules unclear — in trade policy adds an additional layer of uncertainty, making it harder for firms to invest and for governments to coordinate.

Low-income countries are particularly vulnerable, lacking the leverage to shape, absorb or effectively respond to sudden policy shifts. Small firms often face additional constraints—limited working capital, weaker integration into global trade networks, and minimal capacity to adapt to volatility. While concerns over limited "policy space" have long existed, its indiscriminate use—often in a beggar-thy-neighbor style— can threaten to destabilize markets, slow economic growth, and undermine trade commitments that are critical for supporting socio-economic development, especially in countries striving to integrate more fully into the global economy.

Practical steps can help restore stability in global trade and mitigate the effects of strategic ambiguity:

- **Providing advance notice of policy changes.** Announcing proposed trade measures with sufficient lead time allows consultation, gives trading partners time to adapt, and enables firms—both domestic and foreign—to adjust operations and supply chains.

- **Basing policies on clear, data-driven reasoning.** Transparent economic analysis signals the purpose and rationale behind changes, helping companies and investors plan investment, production and trade strategies with confidence.

- **Promoting international coordination.** Institutions such as UN Trade and Development (UNCTAD) and the World Trade Organization (WTO) can help members align responses, avoid retaliatory cycles, and establish contingency frameworks.

- **Strengthening trade agreement commitments.** Clear rules and effective dispute settlement reduce the risk of sudden shocks and constrain the scope for strategic ambiguity.

- **Diversifying export markets.** Opening access to new markets can cushion the impact of policy shifts in specific partner countries and reinforce overall economic stability.

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current and emerging trade policy
issues and their impact
on economic development in a fast
changing global trade context.

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