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UN warns of corporate grip on food systems

A small number of powerful corporations now dominate global food systems, prioritizing profit over public welfare. This dominance – driven by decades of industrialization – has been linked to rising greenhouse gas emissions, biodiversity loss and systemic human rights violations, according to a new report by the United Nations.

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Global food systems being hijacked by corporate interests, warns report

Corporate power in food systems is highly concentrated, allowing a relatively small group of people to shape food systems in a way that serves the ultimate goal of profit maximization instead of the public good, according to a United Nations report.

by Kanaga Raja

PENANG: Corporate power in food systems is highly concentrated, allowing a relatively small group of people to shape what is grown, how it is grown, labour conditions, prices and food choices in a way that serves the ultimate goal of profit maximization and not the public good.

This is one of the main conclusions highlighted by the UN Special Rapporteur on the right to food, Mr. Michael Fakhri, in his latest report (A/80/213) to the UN General Assembly in New York.

In his report, the Special Rapporteur examines how a relatively small number of corporations have amassed so much power within the world's food systems and how this phenomenon is violating human rights.

Corporations have grown so large and powerful over the past several decades that they now globally dominate food systems, he said.

"Many transnational agrifood companies are more in the business of selling edible commodities rather than good food. Moreover, corporations are increasingly influencing how policy decisions are being made within national Governments and the United Nations."

The rise of corporate power in food systems correlates with the increasing trend of the industrialization of food production, the UN expert noted.

As a result, corporate-led industrial food systems have increased rates of greenhouse gas emissions, biodiversity degradation, pollution and systemic human rights violations, Mr. Fakhri pointed out.

He also said today, agrifood corporations are turning more towards new digital technologies and large amounts of data processing, through the use of digitalization, which creates new human rights challenges in food systems.

The Special Rapporteur said the problem of corporate power in food systems stretches back centuries as a part of imperial rule.

However, "what is unique today is the expansion of corporate power into all aspects of the food system and the consolidation of corporate power over the past decades."

Beginning in the 1960s, the food and agriculture sector in developed countries became increasingly dominated by corporations. As a result, developed countries' agricultural subsidies were in effect corporate subsidies, he said.

He said at the World Food Conference held in 1974, some national delegates raised concerns that multinational corporations had too much power as both buyers of developing country products and sellers of necessary inputs, much like the core debates around the Food Systems Summit held in 2021.

During the COVID-19 pandemic, industrialized agriculture and food production sites became breeding grounds for pathogens, he added.

Moreover, Mr. Fakhri said that by prioritizing economic growth and efficiency, industrial agriculture drives a constant demand for more territory and large-scale monocrop farms that pollute land, air and water and debase animal life.

"It also encourages employers to prioritize profits over workers' rights and treat people like replaceable units."

He said the recent increase in food prices reflects the high concentration of suppliers' market power. Globally, food inflation rates are at record highs.

"Food inflation is principally caused by transnational corporations raising prices at rates that exceed increased costs and risks."

Corporations have been falsely attributing price hikes to various crises to hide their profiteering, Mr. Fakhri said.

Corporate food systems

Elaborating on the political economy of corporate food systems, the Special Rapporteur said corporations in food systems have increased and consolidated their market power primarily through mergers and acquisitions.

Market power refers to the capacity of firms to influence supply and/or demand elements of a market in ways that enable them to control prices and generate profits that exceed normal return on capital.

"Corporations may engage in horizontal strategies such as mergers, acquisitions and joint ventures to reduce competition and expand market share."

They may also engage in vertical strategies and use mergers, acquisitions or contractual control over suppliers, distributors, retailers and ancillary industries (e.g. transportation and storage) to dominate the supply chain and gate-keep market access, the UN expert observed.

Against this backdrop, the Special Rapporteur provided some examples in the agricultural input and processing sectors:

- Seeds and pesticides: Four firms (Bayer, Corteva, Syngenta and BASF) control 56 per cent of the global commercial seed market and 61 per cent of the pesticide market. These companies increasingly rely on genetically modified organisms and artificial intelligence to drive seed development;
- Fertilizers: Five firms – OCP (Morocco), the Mosaic Company (United States of America), ICL (Israel), Nutrien (United States) and Sinofert (China) – control 25 per cent of the phosphate fertilizer market;
- Farm machinery: Four companies – Deere and Company (United States), CNH Industrial (Kingdom of the Netherlands), AGCO (United States) and Kubota (Japan) – dominate 43 per cent of the global market and are heavily investing in artificial intelligence-driven precision agriculture;
- Animal pharmaceuticals: The top 10 firms control 68 per cent of the market, with the top four holding nearly 50 per cent;
- Poultry genetics: Three corporations – Tyson Foods (United States), EW Group (Germany) and Hendrix Genetics (Kingdom of the Netherlands) – dominate the sector. In the United States, they supply 98 per cent of the breeding stock for broilers. Similar market control is replicated in Brazil, China and Africa. Evidence of price manipulation and market coordination has emerged in Zambia and the United States, leading to investigations and penalties.

Corporate power becomes problematic when corporations have the ability to increase their profit by raising prices (especially for inputs) and/or lowering wages; that power gives corporations control over inflation and employment, thereby limiting people's power to determine how to live with dignity, said the UN expert.

He said corporations also gain control over material conditions such as technology, labour conditions, processing practices and food environments, thereby limiting choices for consumers and workers.

Furthermore, corporations are shaping food policy because of their growing political influence, which weakens democratic participation.

In Argentina, civil society organizations and Indigenous Peoples were reportedly sidelined in public discussions regarding seed law reform, unlike the biotechnology corporations concerned, Mr. Fakhri noted.

"In the European Union, 162 corporations and trade associations spend at least 343 million euros annually on lobbying to weaken green policies, a one-third increase since 2020."

The Special Rapporteur said that transnational corporations are increasingly exploiting workers across the food system in order to keep production costs low and increase returns for shareholders.

"Workers are often paid less than a living wage, forced into long working hours, lack contracts and social or maternity protection, are subjected to sexual harassment and/or abuse, exposed to harmful substances without adequate protection and have their right to organize curtailed."

The UN expert reiterated that industrial intensification was also designed to make farmers dependent on the expensive inputs provided by agrochemical companies.

"Such market concentration means that a small number of companies will unfairly control the price of seeds, which are the origins of life itself. Any increase in seed prices will increase the cost of farming, making it harder for farmers to turn a profit."

Moreover, said the UN expert, the "Big Four" in the seed sector produce most of the agrochemicals correlated with genetically modified seeds.

"Those agrochemicals reduce biodiversity, which in turn lowers agricultural resilience, making farms more vulnerable to climate change shocks."

In this regard, Mr. Fakhri said whereas countries such as Bolivia (Plurinational State of), Ecuador, Guatemala, Mexico and Venezuela (Bolivarian Republic of) promote the conservation of native seeds, Ecuador recognizes the political and social elements of farming and supports initiatives to enable small and family farmers to more easily access consumers.

Detrimental impacts

In his present report, the UN expert cited a recent report by the Special Rapporteur on the right to health which explained how corporate production and marketing strategies for unhealthy foods and beverages detrimentally influence dietary decisions.

For example, he said many companies specifically target lower-income countries with unhealthy products, while often pushing healthier foodstuffs in wealthier countries.

"Many food and beverage corporations market or repackage their products in a way that creates the perception that they are altering their business practices to address social, economic, environmental and health problems."

The UN expert said such strategies can be highly deceptive, luring consumers into believing that certain products are more sustainable or nutritious than they actually are.

Corporations are also creating an increase in demand for ultraprocessed products through advertising, promotions and other marketing strategies that disproportionately target racial and ethnic minorities and people from socially disadvantaged backgrounds.

For example, he said that between 2000 and 2013, the consumption of ultraprocessed products in Latin America increased by more than 25 per cent and the consumption of fast food by 40 per cent. Similar trends were seen in parts of Africa as well.

The Special Rapporteur said most alarming is the disproportionate targeting of children. Food and beverage marketing is pervasive, with the majority of food types marketed to children as part of an approach aimed at influencing their preferences, requests, purchases and eating behaviours, and increasing the risk of childhood obesity.

In this regard, he said that despite the prohibition on advertising and other forms of breast-milk substitutes, some industry tactics include marketing practices that spread false health and nutrition claims, the cross-promotion of milks and associated brands for infants, toddlers, older children and adults, as well as lobbying and the use of trade associations and front groups.

"Ultraprocessed products rely on cheap, easily exchangeable ingredients, have a long shelf life, cause addiction and overeating, pose a great risk of obesity and non-communicable diseases, and can be sold at a much higher price than their production cost. The result is that corporations are driving the homogenization of diets."

Encouragingly, said the Special Rapporteur, several States have adopted or are undertaking efforts to adopt front-of-package warning labelling to foster healthier lives.

For instance, Chile, Peru and Uruguay have implemented front-of-package warning labels, while Brazil, Canada, Colombia and Uganda, among others, are in the process of considering or adopting similar systems. Mexico has passed one of the most effective front-of-package labelling systems.

"Such positive measures notwithstanding, the food and beverage industry continues to strongly and extensively oppose front-of-package warning labelling regulations."

The UN expert also said the exponential growth of supermarkets and fast-food chains is displacing smaller, informal fresh food markets that sell locally sourced food. The spread of supermarkets often coincides with increased imports and sales of ultraprocessed foods.

He said between 1990 and 2000, supermarkets' share of all retail food sales in Latin America increased from 15 per cent to 60 per cent, with similar transitions occurring in Asia, parts of Europe, Western Asia and urban parts of Africa.

This shift in food environments favours larger-scale suppliers, often multinationals, that can meet supermarkets' needs and requirements more easily than smaller-scale suppliers, which in turn reinforces the power imbalances throughout the food system, Mr. Fakhri pointed out.

"Brazil counteracts the above-mentioned trend through various programmes, such as a food basket programme that prioritizes local fresh food and a procurement programme for schools that prioritizes family farms, especially those that are held by land reform settlements, Indigenous Peoples, people of African descent and women."

Unhealthy diets are linked to an unhealthy environment. Businesses are responsible for the damage caused by industrial agriculture because of input-heavy monoculture plantations, intensive livestock operations, land- and water-grabbing, deforestation and overfishing, thus exacerbating the global environmental crisis, he said.

"In fact, the leading cause of biodiversity loss is agriculture. Agriculture and aquaculture are listed as major threats for 85 per cent of the species identified by the International Union for Conservation of Nature on its Red List of Threatened Species. Moreover, food systems are responsible for between 21 and 37 per cent of global greenhouse gas emissions."

The Special Rapporteur also said that industrial food systems rely heavily on plastic packaging. Inadequate waste management systems cause plastic to enter air, water and soil, where it breaks down into micro-particles that harm wildlife, affect plant growth and ultimately contaminate food.

Gear abandoned by industrial fishing fleets is a major source of marine plastic pollution.

Agriculture is also responsible for surprisingly large contributions to air pollution, the largest environmental risk factor for premature death.

Over 90 per cent of global ammonia emissions come from agriculture, constituting a major source of fine particulate matter, which has significant health impacts, he added.

"Industrial agricultural practices are the leading cause of water pollution and the largest threat to the drinking water supply of hundreds of millions of people due to the extensive use of industrial pesticides and fertilizers and to slurry from intensive livestock farming."

Rivers and aquifers are increasingly contaminated by heavy metals, metalloids and other toxins originating from mining or industrial discharges, but also, more and more, by pesticides used in agriculture.

All of those pollutants not only severely affect the drinkability of water but also contaminate food chains, since these are toxins that progressively accumulate in living tissues, Mr. Fakhri pointed out.

In addition, he said that the excessive withdrawals for large irrigation schemes in lakes and basins have led to large-scale disasters.

For example, in the Aral Sea basin, the irrigation of almost 10 million hectares, using flows from the Syr Darya and the Amu Darya rivers, decreased the surface of the Aral Sea by one-sixth. As a result, 40,000 tons of fish were lost.

In his report, the UN expert said that without fertile soil, the world cannot eat – to abuse soil is a violation of the right to life itself.

"Yet, approximately 33 per cent of land is classified as degraded because of erosion, salinization, compaction, acidification and chemical pollution."

He said land degradation has intensified over the past decades as a result of mounting pressures from industrial agriculture and livestock operations, including over-cultivation, overgrazing and forest clearing.

These aspects are further compounded by rapid urban expansion, deforestation and climate-related events such as prolonged droughts and coastal flooding, which contribute to soil salinization and reduced land productivity.

According to the report, soil erosion washes away between 20 billion and 37 billion tons of topsoil each year, reducing the soil's ability to store water and, consequently, increasing water irrigation needs.

"The loss of soil is practically irrecoverable, since regenerating 2 to 3 cm of soil can take up to 1,000 years."

The report also said that in the past decades, large transnational corporations have been acquiring community or community-used lands on a large scale, with the active collaboration of governments.

It said that the top 10 institutional landowners control over 400,000 sq km globally, approximately the size of Japan; just 1 per cent of the large industrial farms now control 70 per cent of global farmland, while 84 per cent of farms (smaller than 2 hectares) manage only 12 per cent.

"These land grabs are coupled with the appropriation of water rights. This land- and water-grabbing, carried out in the name of increasing agricultural productivity, has harmed Indigenous Peoples and rural communities by disrupting their way of life, limiting their access to good food and water and depriving them of the vital resources on which their livelihoods depend."

Digitalization

According to the Special Rapporteur, agrifood and technology corporations are quickly promoting the use of digital technologies across all aspects of food systems.

He said digital technologies now feature in the creation of inputs (e.g. predictive plant breeding and financial technology (fintech) credit services); farm operations (on-farm robotics and management platforms); trade (digital commodities marketplaces); processing (robotics in food packaging and processing); transport and storage (digital logistics); food retail (e-commerce platforms, mobile-based food delivery); and traceability across the supply chain (blockchain analytics).

"Over the past decade, digital technologies have become an increasingly important tool for corporate actors to expand their reach and control over food systems. Indeed, digital data and the intelligence derived from them are becoming increasingly important resources, while digital technologies increasingly shape access to services and control over resources and goods."

Consequently, the Special Rapporteur said the ability to collect, store, process, analyse and use data increasingly determines the profit, prospects and power of companies and other actors.

"That trend is reflected by the entry of big tech companies into agriculture and food, as well as in partnerships between agribusiness and big tech."

Corporations are telling farmers that sensors, robots, digital farming platforms and other new digital technologies will improve their decision-making.

However, that same technology is designed to help corporations to accumulate data and undermine peasant food production and agroecology, the Special Rapporteur cautioned.

"What is needed is not more data, but better governance systems that ensure the power of data generation and dissemination is in the hands of the people generating those data, which in turn is used to realize the human rights of communities and Indigenous Peoples."

The Special Rapporteur also underscored that competition law can play an important role in keeping markets fair and stable by disallowing the creation of market dominance, monopolies, oligopolies or monopsonies.

For example, in Germany, cartel practices among seven agrochemical wholesalers between 1998 and 2015 led to fines of nearly 155 million euros for coordinated price fixing.

Nevertheless, Mr. Fakhri said that competition law needs to be reformed or better enforced.

For instance, he said that in Australia, the poultry sector is dominated by two companies, Baiada and Ingham's, which control approximately 70 per cent of the national poultry market.

He said under this system, much like in the United States, contract farmers bear the cost and risk associated with infrastructure, while the corporations retain ownership over the birds and feed.

In Yemen, where 17.1 million people are food insecure, the country heavily depends on food imports, with over 90 per cent of staple foods such as wheat, rice and sugar sourced from abroad.

A small number of intermediaries and large importers reportedly dominate food distribution channels, especially for staple foods. Such concentration facilitates price manipulation, limits market competition and restricts access to affordable, culturally appropriate foods, the Special Rapporteur pointed out.

Accountability

According to the Special Rapporteur, the challenge in holding corporations liable is that they not only have the resources to outspend victims in terms of legal fees but are also legal persons that can exist in perpetuity (barring bankruptcy or personal choice), thereby outlasting the victims.

Legal damages that result from human rights violations can be budgeted for as "operating costs", he said, adding that transnational corporations are especially difficult to hold liable because of the complex web of subsidiaries and contracts they use across multiple jurisdictions.

"Voluntary guiding principles have proven inadequate to tackle the rise of corporate power and human rights violations."

The Special Rapporteur said corporations may sometimes concede to incentives in lieu of regulation; corporate incentives to abide by human rights law, however, are in effect corporate subsidies and might sometimes reward bad behaviour by paying human rights violators to change their ways.

The UN expert said that the European Union is an example of how corporate concentration has led to an unjust distribution of agricultural subsidies.

Approximately 80 per cent of Common Agricultural Policy funds go to the largest 20 per cent of farms, typically meat and dairy producers. As a result, the European Union lost 5.3 million farms between 2005 and 2020 (a 37 per cent decline), primarily small-scale farmers.

The Special Rapporteur said some viable international methods of holding corporations accountable for human rights violations include international criminal law; the proposed international legally binding instrument to regulate the activities of transnational corporations and other business enterprises; and the proposed international tax treaty.

Individual corporate executives can be prosecuted by the International Criminal Court for genocide, war crimes, crimes against humanity and the crime of aggression.

Corporations cannot be prosecuted at the Court and in fact there is no international forum with clear international criminal jurisdiction over legal persons, it said.

Nevertheless, corporations may still be held liable under international criminal law. There is a growing argument that corporations as legal persons may face international criminal liability as a matter of customary international law, it added.

Moreover, the UN expert said a number of treaties hold corporations criminally liable for specific crimes in areas including genocide, apartheid, financing terrorism, organized crime, corruption and financial fraud.

He said for the past 10 years, under the auspices of the Human Rights Council, States have been negotiating an international legally binding instrument to regulate the activities of transnational corporations and other business enterprises, which has the support of a number of States.

"There is a growing international consensus over the importance of mandatory due diligence obligations for businesses, which is reflected in the expansion of such practices in several jurisdictions."

Yet the proliferation of national and regional models could entail fragmentation of practices across jurisdictions.

The legally binding instrument could help to avoid fragmentation by adopting a multilateral standard for such an obligation, the Special Rapporteur suggested.

"Due to the profit-driven nature of corporations, the proposed business and human rights treaty cannot rely only on due diligence. The legally binding instrument should enable international cooperation and enhance corporate legal liability across jurisdictions."

Indeed, Mr. Fakhri said that corporate power is dynamic and therefore the treaty should ensure that reforms in international human rights law (and international environmental law) are continuously incorporated into business and human rights practice.

Finally, the legally binding instrument must take a systemic perspective, and therefore recognize the inalienable, indivisible, interdependent and interrelated nature of all human rights, he added.

At the time of writing, there is a historic opportunity to rebuild the architecture of the global tax system, he said.

In 2024, the United Nations finalized the terms of reference for a United Nations Framework Convention on International Tax Cooperation, which is set to be finalized by the end of 2027.

The aim is to establish an international tax system for sustainable development. This global tax deal is needed to end the exploitation of the public purse and the environment by multinational corporations, the ultra-rich and the polluters, said Mr. Fakhri.

"At the same time, this global tax deal can enable a coordinated approach towards surcharging the profits of companies that systemically violate human rights."

Such a top-up tax on the industries' profits will disincentivize the business-as-usual approach, shift investments and thus catalyse a just and equitable transition to a food system that realizes human rights, he emphasized. *(SUNS #10296)*

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China urges action to stabilize services trade, slams US tariffs

Following the imposition of reciprocal tariffs by the United States, China has called on members of the World Trade Organization (WTO) to strengthen the global trade in services, arguing that a singular focus on goods trade is misleading.

by D. Ravi Kanth

GENEVA: China has called on members of the World Trade Organization "to jointly stabilize and strengthen the global trade in services," after the United States "unilaterally imposed so-called "reciprocal tariffs" globally that have blatantly violated the fundamental WTO principles, undermined the rules-based multilateral trading system, and threatened the legitimate interests of WTO members."

In a restricted proposal (S/C/W/477) issued on 26 September, seen by the SUNS, China said the US is the biggest beneficiary of the global trade in services since the establishment of the WTO in 1995.

It is well established that the US had forced countries to agree to bring trade in services as well as trade-related intellectual property rights into the global trade remit under the Uruguay Round mandate in 1986.

The US is now the "world's largest exporter of services" with its "services exports having exceeded USD1 trillion, representing 13% of the global total."

According to China, "from 2010 to 2024, the United States consistently maintained an average annual services trade surplus of over USD250 billion, a figure that approached USD300 billion in 2024."

Data compiled from governments' trade in services suggests that "the United States remained the world's leading trader of services in the first half of 2025, with total imports and exports reaching USD1.024 trillion, a 5.7% year-on-year increase."

China pointed out that "in today's interconnected global value chains, a singular focus on goods trade is misleading."

China said "the US narrative of "reciprocal tariffs" is incomplete, as it disregards its substantial and often undervalued surpluses in services trade."

The US recently imposed restrictions on the movement of short-term services providers under Mode 4 of the WTO's General Agreement on Trade in Services (GATS).

The US imposed a fee of $100,000 on H-1B non-immigrant services providers.

The Trump administration's action in the arena of services has severely damaged prospects for short-term services providers, in which India and China are the biggest suppliers of tech professionals.

"It is somewhat surprising why China did not mention this latest assault on services trade by the Trump administration," said a services negotiator, who asked not to be quoted.

On 29 September, US President Donald Trump announced a 100% tariff on movies imported from foreign countries.

Movies are part of audio-visual services. It is a non-tangible item and is not amenable for tariffication, said an analyst who asked not to be quoted.

Writing in his Truth Social media website on 29 September, President Trump stated that: "Our movie making business has been stolen from the United States of America, by other Countries, just like stealing "candy from a baby." California, with its weak and incompetent Governor, has been particularly hard hit! Therefore, in order to solve this long time, never ending problem, I will be imposing a 100% Tariff on any and all movies that are made outside of the United States. Thank you for your attention to this matter. MAKE AMERICA GREAT AGAIN!"

Nevertheless, in its proposal, China cautioned countries "to remain vigilant against the spread of trade frictions and volatility to the services sector."

China argued that "when the United States first announced the imposition of so-called "reciprocal tariffs" on a global scale (in April), the WTO's Global Trade Outlook and Statistics released in April had already cautioned that services trade, though not directly subject to tariffs, would inevitably be affected."

It suggested that "the WTO report revised down its forecast for global commercial services trade growth in 2025 to 4.0%, compared with a baseline of 5.1%, and to 4.1% in 2026, below the original projection of 4.8%."

Further, it said the latest WTO data suggests a marked deceleration in the global services trade in the first quarter of 2025, "expanding by only 5% year-on-year – roughly half the pace of the previous two years."

The data also suggests that "services exports from Europe and North America grew by just 3%, compared with 8% and 11% in the same period a year prior."

"These figures," China argued, "clearly demonstrate that unilateral tariff actions and policy uncertainties gravely undermine business confidence, dampen investment, disrupt global supply chains, and aggravate the spread of trade frictions and volatility."

"The full consequences are still unfolding," China pointed out.

With the widespread application of digital technologies such as the internet, big data, and artificial intelligence, trade in services is expanding at an accelerated pace.

According to WTO statistics, global exports of services reached USD 8.9 trillion in 2024, representing a 9% increase year-on-year.

China provided statistics that trade in "services now accounts for 26.6% of world trade and contributes 60% of overall trade growth."

Further, it said that trade in services is expected to exceed 30% by 2040, while "creating more opportunities for developing Members and small and medium-sized enterprises to integrate into global value chains, with the share of developing Members in global trade in services surpassing 30%."

"Sustaining this momentum will continuously inject stability and certainty into the global economy," said China.

It is against this backdrop that China called "on WTO Members to jointly stabilize and strengthen global trade in services, and consolidate and enhance the open, stable, and predictable multilateral trading system."

In this regard, Beijing put forward a blueprint for members' consideration.

China's suggestions include:

1. Ensure stable trade in services relations among Members.

China said it "regretfully notes that the multilateral trading system is facing the most severe challenge since World War II."

Further, it said that "the share of global trade conducted in accordance with the WTO's Most-Favoured-Nation Treatment principle has dropped to 72% and may decline further."

China called "on all Members to abide by the General Agreement on Trade in Services (GATS) disciplines and their commitments, uphold core WTO principles such as Most-Favoured-Nation Treatment and non-discrimination, and strive to ensure the stable operation of global trade in services within the framework of WTO rules."

2. Foster a supportive environment for services trade.

"Members are encouraged to voluntarily take measures to further reduce barriers to services trade, align with the global trends of digitalization, networking, and intelligentization, strengthen international cooperation in areas such as big data and artificial intelligence, and promote the innovative and inclusive development of global trade in services," said China.

Through mutually beneficial cooperation, Members can achieve shared prosperity and ensure services trade remains a vital engine of economic development, China said.

3. Address trade in services frictions through multilateral cooperation.

China underscored the need for enhancing "the transparency of policies related to services trade, strengthen information sharing and experience exchange within the multilateral framework, and prioritize multilateral cooperation over unilateral measures in resolving trade frictions."

"Bilateral negotiations are one of the channels to ease and resolve trade frictions, but bilateral arrangements must be based on WTO rules and must not violate the WTO's non-discrimination principle or harm the interests of third parties," China argued.

4. Promote meaningful outcomes on trade in services at MC14 (the WTO's 14th ministerial conference to be held in Yaounde, Cameroon in March 2026).

China said "Members should adopt a flexible and inclusive approach to ensure that the WTO evolves with the times, and to achieve more development-oriented services outcomes in the WTO."

It pledged its support for "holding dialogues on issues of common interests, including financial services, environmental services, artificial intelligence, and good regulatory practices in the Council for Trade in Services, with the aim of delivering meaningful outcomes on these issues at MC14."

Lastly, China emphasized that "trade in services is a key driver of global economic recovery and growth, and its healthy development requires the concerted efforts of all WTO Members."

Beijing warned that "unilateral actions and escalating trade frictions are eroding the foundation of the multilateral trading system and weakening global business confidence."

It said "all Members should act in accordance with WTO rules, and to safeguard the stability and predictability of trade in services through openness, cooperation, multilateral dialogue, and necessary reform."

China said it "stands ready to work with all Members to advance opening-up and cooperation in the services sector, foster an innovative and inclusive open world economy, and jointly promote the healthy and stable development of global trade in services." *(SUNS #10301)*

China waives S&DT rights in WTO talks, reaffirms developing status

While reaffirming its status as a developing country within the World Trade Organization (WTO) framework, China has declared that it will no longer seek special and differential treatment (S&DT) in current and future trade negotiations.

by D. Ravi Kanth

GENEVA: China on 24 September announced that it will not avail itself of special and differential treatment (S&DT) based on the self-designation criterion in current and future trade negotiations at the World Trade Organization (WTO), while insisting that it will retain its developing country status.

It emphasized that the S&DT provisions in its accession protocol will remain unchanged, adding that the latest decision applies only to current and future trade negotiations.

On 23 September, Chinese Premier Li Qiang said, "as a responsible major developing country, China will not seek new special and differential treatment in current and future negotiations at the WTO."

At a time when few negotiations are taking place at the WTO, China's decision may not hold much significance, said several negotiators, who requested anonymity.

However, the Chinese announcement appears timed to coincide with the ongoing WTO reform discussions, negotiators said, preferring not to be quoted.

In the reform discussions, a group of industrialized countries, particularly the so-called "Friends of the System" group, is pushing for "differentiation" among developing countries for availing of S&DT as a major demand, alongside undermining the practice of consensus-based decision-making.

The announcement also comes amid China's ongoing bilateral trade negotiations with the Trump administration, which during its first term insisted that developing countries forego their S&DT rights.

In a 39-page communication (WT/GC/W/765/Rev.2) issued in March 2019, China, India, South Africa, Venezuela, Laos, Bolivia, Kenya, Cuba, the Central African Republic, and Pakistan had vehemently opposed the US demand on "differentiation".

They argued that it ignores the development divide between industrialized countries on one hand and developing countries on the other.

Premier Li delivered his remarks at a high-level meeting on the Global Development Initiative held by China on the sidelines of the general debate at the 80th session of the United Nations General Assembly (UNGA) in New York.

At the UNGA meeting, Premier Li said, "This is a political announcement from the Chinese side that is very relevant to the WTO, especially against the current challenging global situation."

"It represents a concrete measure taken by China to proactively assume responsibility and demonstrate the commitment of a major developing country," he said, underscoring "China's firm stance in supporting the multilateral trading system through concrete actions."

He said that China's decision "will inject positive energy into advancing WTO current discussions, especially the reform of the global economic governance system."

He made it clear that the decision on S&DT "does not involve any change to China's status as a developing country, whether within the WTO framework or in any other context."

He said that "China has always been a member of the Global South and will always be a part of the developing world."

Insisting that the decision on S&DT "relates solely to China's decision to forgo certain Special and Differential Treatment (SDT) under the WTO framework," he said that it "has no implication and does not prejudice China's rights in other international fora."

Premier Li clarified that the decision "pertains only to China not seeking new SDT provisions in current and future WTO negotiations, and does not affect the rights China [has] under the SDT provisions of existing WTO agreements."

China also informed other countries that "it is a decision made by China with respect to itself. With respect to other developing countries, China will continue to stand with and speak for them, and firmly uphold their legitimate rights and interests, including their right to ask for SDT."

China's paper

On 24 September, China circulated an unrestricted document (WT/GC/274), titled "China's Position Paper Regarding Special and Differential Treatment in the WTO", ahead of the upcoming WTO's General Council meeting on 6-7 October.

In its document, China provided a thorough account of why it "is entitled to the inherent institutional right to S&DT in the WTO."

Citing the preamble of the Marrakesh Agreement Establishing the World Trade Organization, China said that: "Members have recognized that "there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development"."

Since the Tokyo Round of trade negotiations in the late 1980s, S&DT has assumed treaty status once the parties to the General Agreement on Tariffs and Trade (GATT) agreed to the Enabling Clause that listed the S&DT rights.

In its position paper, China said, "Members reached consensus through negotiations that special and differential treatment is a cornerstone principle of the WTO, an integral part of the WTO agreements and an institutional right of developing members."

Beijing cautioned that attempts "to deprive developing members of special and differential treatment" will erode the rules-based multilateral trading system.

China argued that it is "the largest developing country in the world," adding that it "acceded to the WTO as a developing member and is entitled to the institutional right to special and differential treatment."

Despite giving up its S&DT rights, China assured that it "always stands with other developing members in the WTO to firmly safeguard the justice and inclusiveness of the multilateral trading system."

China said that "when acceding to the WTO in accordance with Article 12 of the Marrakesh Agreement Establishing the World Trade Organization, China enjoyed less special and differential treatment than many other developing members."

For example, China accepted an 8.5% de minimis in subsidy reductions as against 10% for other developing countries.

"Since its accession, with a view to safeguarding the multilateral trading system and the interests of all members, China has been actively undertaking obligations commensurate with its own development stage and economic level, and taking the initiative to make positive contributions within its capacity to advance WTO negotiations and promote global trade and investment liberalization and facilitation," said China.

It reiterated that "in WTO negotiations," China is committed to approaching its special and differential treatment in an independent and pragmatic manner:

1. In the negotiations and implementation of the Agreement on Trade Facilitation, China did not request any provisions under Category C, and its provisions committed under Category A account for 94% of total provisions, with only four provisions under Category B, which were implemented well ahead of schedule.

2. In the negotiations on Services Domestic Regulation and waiver of intellectual property rights of COVID-19 vaccines, China did not claim special and differential treatment and made significant contributions to the conclusion of those negotiations.

3. China announced that it would not seek to use the special and differential treatment requested by G90 in their proposal and would continue to support the negotiations on the basis of that proposal.

4. In the second phase of fisheries subsidies negotiations, China has declared that it will not seek special and differential treatment in the final package of disciplines if its core concerns are properly addressed.

Significantly, China said "by not seeking new special and differential treatment," it "has further demonstrated its steadfast commitment to the multilateral trading system."

Without mentioning the allegedly unilateral reciprocal tariffs imposed by the Trump administration, which have upended the multilateral trading system, including most-favored nation (MFN) treatment, China said, "the recent surge in protectionism and unilateralism, in particular the arbitrary imposition of tariffs by a certain member, has posed unprecedented challenges to the rules-based multilateral trading system."

China said, "the authority and efficacy of WTO rules are severely tested, and the interests of the vast number of developing members are seriously undermined."

"As a responsible major developing country and a staunch supporter of the multilateral trading system," China said its "decision represents a solemn commitment as well as concrete action by China to safeguard the rules-based multilateral trading system with the WTO at its core."

Further, Beijing stated that "this decision will help deliver development-oriented outcomes for the 14th WTO Ministerial Conference to be held in Cameroon in March 2026 and contribute to substantial progress in WTO reform."

In addition, China said "it will also contribute to the better implementation of the Global Development Initiative and the achievement of the UN Sustainable Development Goals."

Sadly, in his address at the UNGA on 23 September, US President Donald Trump slammed the UN and characterized the Paris Agreement on climate change as a "con job".

In its paper, China clarified that its "decision does not affect China's status as a developing member in the WTO, nor its rights to special and differential treatment provisions in existing WTO agreements, including agreed solutions with other members in current negotiations."

"This decision is applicable solely within the framework of the WTO and does not constitute any precedent or have any impact on the status and treatment of China as a developing country in any other international organization or international treaty to which China is a member or signatory."

China reaffirmed that it "has always been a member of the Global South and will always be a part of the developing world."

China said that it will, as always, practice "true multilateralism, support the rules-based multilateral trading system, actively participate in the WTO reform process, and firmly safeguard the legitimate rights and interests of developing members, with a view to better bridging the North-South development gap, improving global economic governance and building an open world economy." *(SUNS #10298)*

WTO Secretariat compromising its "neutrality" in reform push?

During discussions on World Trade Organization (WTO) reform, several countries voiced strong concerns about the WTO Secretariat's perceived erosion of "neutrality", with allegations centring on the Secretariat acting without prior member consent and aligning with proposals from influential members.

by D. Ravi Kanth

GENEVA: Several countries on 24 September expressed sharp concern over the alleged attempt by the World Trade Organization (WTO) Secretariat to devalue its "neutrality" role by increasingly embarking on activities without the prior consent of members, and aligning with initiatives proposed by some powerful members, according to people familiar with the development.

During a discussion on reforming the WTO, several countries, including Paraguay and the United States, are understood to have raised sharp concerns over the Secretariat allegedly devaluing its "neutrality", including by aligning with issues raised by certain members in what is meant to be a member-driven organization, said people familiar with the development.

Privately, several countries expressed concern that the WTO Director-General, Ms. Ngozi Okonjo-Iweala, and the facilitator overseeing the WTO reform discussions, Ambassador Petter Olberg of Norway, are tacitly setting the reform agenda, said people familiar with the development.

A restricted document (Job/GC/456) issued by the facilitator argues that "many delegations supported a stronger technical role for the Secretariat, including providing fact-based analysis, trade monitoring, negotiation simulations, and technical briefings to support informed decision-making."

According to the document, the facilitator has seemingly elevated the DG's role by suggesting that "the Director-General was also seen by many as having a legitimate role in facilitating dialogue during political stalemates – so long as this is done in a neutral and transparent manner."

"However," the facilitator noted, "a few [members] raised concerns about perceived partiality, particularly in the Secretariat's support for plurilateral initiatives while longstanding mandates remain unaddressed. Concerns also extended to how studies are framed and topics prioritized. Similar concerns were voiced about agenda management by Chairs – especially how issues were classified in the General Council. They called for institutional safeguards to ensure Secretariat's neutrality, greater transparency in agenda-setting, and greater clarity on the roles of Chairs and facilitators – particularly in how they structure consultations, guide discussions, and report outcomes."

However, members familiar with the discussions pointed to paragraph 4 of Article VI of the Marrakesh Agreement, which established the WTO in 1995.

It clearly states that: "The responsibilities of the Director-General and of the staff of the Secretariat shall be exclusively international in character. In the discharge of their duties, the Director-General and the staff of the Secretariat shall not seek or accept instructions from any government or any other authority external to the WTO. They shall refrain from any action which might adversely reflect on their position as international officials. The Members of the WTO shall respect the international character of the responsibilities of the Director-General and of the staff of the Secretariat and shall not seek to influence them in the discharge of their duties." *(SUNS #10298)*

Unilateral sanctions undermining human rights and SDGs, warns report

Unilateral sanctions are harming the economies of targeted states and undermining economic, labour, and social rights, while also slowing progress toward the Sustainable Development Goals (SDGs), according to a United Nations report.

by Kanaga Raja

PENANG: Unilateral sanctions directly affect the economies of the targeted States, producing a direct and indirect negative impact on the enjoyment of all economic, labour and social rights, as well as slowing progress toward the Sustainable Development Goals (SDGs).

This is one of the main conclusions highlighted by Prof. Alena F. Douhan, the UN Special Rapporteur on the negative impact of unilateral coercive measures on the enjoyment of human rights, in a report presented to the 60th regular session of the UN Human Rights Council.

"We are observing a growing use of unilateral sanctions and means of enforcement by States, as well as over-compliance by private actors, despite multiple reports on their negative humanitarian impact," she said.

"Sanctions have cumulative effects and have wider implications, including for third States and sanctioning States themselves," she added.

Speaking at a media briefing at the United Nations Office at Geneva on 17 September, Prof. Douhan said that, "Today, we all are all the more observing the growing use of unilateral sanctions and overcompliance in different forms."

She said the means of enforcement are diversified and all of that results in the growing overcompliance from the side of different – both public and private – actors, which all together have a comprehensive humanitarian effect.

Unilateral sanctions today are informed not only by secondary sanctions, which she said had been reflected in her reports presented to the Human Rights Council two years ago and to the UN General Assembly a year ago.

Today, the UN expert said, "we are all the more observing the expanding use of criminal, civil, administrative and customs penalties for so-called circumvention of sanctions regimes or alleged circumvention of sanctions regimes, [or] of being somehow associated with some convention of sanctions regimes."

"So-called targeted sanctions, which have been initially produced as the means to which we aim to minimise humanitarian suffering, do not look like that any longer," she pointed out.

First of all, "when we come to application of targeted sanctions against high state officials of huge companies, at the very end, quite often it affects the whole company and country as such."

Unilateral sanctions, so-called targeted ones, have been imposed since slightly more than one year against judges and officers of the International Criminal Court, Prof. Douhan noted.

In her report, the Special Rapporteur noted that multiple sanctions regimes, alongside secondary sanctions and extensive overcompliance, produce cumulative effects and wider implications for the economy of and economic rights in targeted countries, third States and even sanctioning States themselves, indiscriminately affecting the human rights of individuals and peoples, including freedom from poverty, the right to health, the right to an adequate standard of living, the right to water and sanitation, the right to food and other economic, social and cultural rights.

The report said unilateral sanctions also undermine the ability of targeted States to ensure relevant human rights within their territory due to economic hardships and other tangible impediments, even though it is their primary responsibility to take all possible measures to ensure the protection, promotion and fulfilment of human rights within the maximum resources available.

"Unilateral sanctions are usually aimed at targeting the economy of the sanctioned States. They take different forms and include measures taken against States, sectors of a State's economy or a specific region of a country."

Trade embargoes and restrictions and financial, economic and sectoral sanctions directly target the economies of sanctioned States, said the report.

Such measures affect the businesses of nationals and residents of sanctioned States and the activities of all those operating in such States.

According to Prof. Douhan, they also affect central and commercial banks' ability to transfer money to and from sanctioning States and the ability of the sanctioned States to meet the basic needs of their citizens due to reduced revenue and ability to transfer, procure, ensure and deliver.

The Special Rapporteur said targeted sanctions are directed at designated individuals or companies, noting that European Union financial sanctions include several thousand individuals and companies; far more are listed by the United States of America.

The grounds for the listing of companies and individuals have expanded significantly beyond the authorization of the Security Council, she noted.

The UN expert said that such measures produce negative effects not only on the individuals and entities that are directly targeted, but also an indiscriminate number of people, particularly with the imposition of sanctions on banks and other financial institutions leading to the closure of accounts and the freezing of deposits, impeding bank transfers and remittances.

In her report, the Special Rapporteur noted the discrepancy in the terminology used in relation to the adoption of restrictive measures.

In particular, sanctions regulations refer to the freezing of economic resources, the freezing or immobilizing of funds, the blocking of property and interests in property and financial sanctions.

She said that in such cases, any property and interests in property of a sanctioned person "must be blocked (i.e., "frozen") – not seized – and may not be transferred, withdrawn or otherwise dealt in."

Title to the blocked property remains with the blocked person, but the exercise of powers and privileges normally associated with ownership is prohibited, she added.

According to the report, since February 2022, property of more than 1,500 Russian individuals or organizations has reportedly been blocked in this way.

The UN expert said that Russian gold and foreign exchange reserves amounting to $300 billion have been frozen, and the profits of some of those assets have reportedly been used without the agreement of the Government of the Russian Federation.

The assets of Russian nationals blocked by the Group of Seven countries amount to $30 billion, she noted.

According to the Special Rapporteur, "uncertain and ambiguous terminology, alongside the use of severe means of enforcement, including criminalization, exacerbates overcompliance and directly affects the right to property and other economic rights."

The Special Rapporteur noted with concern that newly adopted legislation in several countries legitimizing the confiscation of frozen State property violates international law, in particular, norms on State immunities, and the principle of the sovereign equality of States.

She said legislation providing a framework for the forfeiting of both sovereign and private property manifestly doesn't correspond with the right to property set forth in the Universal Declaration of Human Rights (art. 17) and regional instruments such as the Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms (European Convention on Human Rights, art.1).

The Special Rapporteur said multiple reports indicate that private property is frequently seized for the alleged circumvention of primary unilateral sanctions.

For example, the report said seven milk tankers and 17 fire engines were confiscated in the Port of Klaipeda, Lithuania, in 2023 for the alleged circumvention of unilateral sanctions while they were being transferred from Belarus through Lithuania to Cuba and Zimbabwe.

The Special Rapporteur regretted that overcompliance by banks and other financial actors includes charging higher rates or imposing unreasonable delays, freezing assets that are not targeted by sanctions and denying individuals the possibility to open or maintain bank accounts or to conduct transactions on the grounds that they are nationals or residents of or originate from a country under sanctions. This can apply even to those who are nationals of the sanctioning State.

She said that such measures indiscriminately affect the lives of the general population, with a disproportionate impact on groups and persons in vulnerable situations, which constitutes discrimination based on, inter alia, nationality and place of birth, and results in a violation of the right to property as well as other human rights (rights to health, food, education, an adequate standard of living and development).

The Special Rapporteur noted with concern that unilateral sanctions also have an indirect effect on certain sectors of the economy of third States, affecting their macroeconomic indicators (such as gross domestic product growth, inflation, currency stability, foreign direct investment and international commerce).

"This in turn affects their labour market, income levels and the broader socioeconomic situation, which leads to the rising cost of essential goods, decreased employment opportunities and limited access to financial resources for development projects."

Negative impacts

According to the report, unilateral sanctions have tremendous effect on the enjoyment of all aspects of the right to work.

Unemployment increased from 8.6 per cent of the total labour force in 2011 to 13.2 per cent in 2023 in the Syrian Arab Republic, from 9 per cent in 2003 to 15.4 per cent in 2023 in Iraq and from 8 per cent in 2001 to 14 per cent in 2023 in Afghanistan.

The Special Rapporteur expressed concern that, as a result of, inter alia, unilateral sanctions and the consequent hyperinflation, salaries in the public sector significantly dropped in many countries under sanctions.

For example, the average public-sector salary in the Bolivarian Republic of Venezuela is estimated at $2-$10 per month, with the cost of the average food basket being many times higher (about $200).

The report said all of the above results in the deteriorating level of social security and labour conditions, the loss of professionals and economic migration.

The report also said unilateral sanctions often result not only in higher unemployment rates, but also in wage reductions, the deterioration of working conditions and a shift towards informal employment, affecting labour rights and standards.

For instance, in the Syrian Arab Republic, sanctions have shattered the State's capability to respond to the needs of the population, particularly the most vulnerable, and 90 per cent of the population lives below the poverty line, as witnessed by the Special Rapporteur during her visit to the country.

Since 2019, prices increased by more than 800 per cent and hundreds of thousands of jobs were lost due to the destruction of industries, the loss of external trade and the COVID-19 pandemic.

The UN expert pointed out that this results in the manifest violation of the right to decent work, enshrined in the International Covenant on Economic, Social and Cultural Rights (arts. 6-8) and relevant International Labour Organization (ILO) conventions, depriving people of essential opportunities to access decent and productive work in conditions that provide them freedom, equality, security and human dignity.

Furthermore, the Special Rapporteur aligned with the position of the Committee on Economic, Social and Cultural Rights that the right of everyone to the enjoyment of just and favourable conditions of work is an important component of other labour rights enshrined in the Covenant, including the right to fair remuneration providing for a decent living for workers and their families.

However, she said the preliminary results of the monitoring and impact assessment demonstrate a high level of working poverty in numerous States under unilateral sanctions.

For example, for 2024, the working poverty rate was 22 per cent in Mali, 23.2 per cent in the Bolivarian Republic of Venezuela, 24.7 per cent in the Syrian Arab Republic, 31.2 per cent in Haiti, 34.6 per cent in Zimbabwe, 42 per cent in the Niger, 48.2 per cent in Yemen, 65.7 per cent in the Central African Republic, and 72.8 per cent in the Democratic Republic of the Congo.

As of July 2025, the minimum monthly wage is equivalent to $1.35 in the Bolivarian Republic of Venezuela, $12.4 in the Syrian Arab Republic, $24 in Eritrea and $86.5 in Afghanistan.

Harsh economic conditions provoked by the application of unilateral sanctions significantly affect States' ability to raise wages, therefore preventing them from fulfilling their obligation to ensure fair wages under article 7 of the Covenant, said the UN expert.

According to the Special Rapporteur, unilateral sanctions reportedly result in declining State revenue and GDP, rising inflation rates, deteriorating currency stability, decreased foreign direct investment flows and donations from businesses, impediments, including disruptions, delays and high costs, to the delivery of humanitarian assistance and a decrease in available resources and governmental capacity to develop and maintain critical infrastructure to ensure economic, labour and social rights.

States affected by unilateral coercive measures are reported to take various measures to alleviate the negative impacts thereof, she noted.

The report said in the Bolivarian Republic of Venezuela, a drastic reduction in foreign currency income, from $39 billion in 2014 to $743 million in 2020, compromised macroeconomic stability, generating a sustained decline in GDP during the period 2015-2020 and restricting the State's ability to finance social investment and public infrastructure.

In the Sudan, the reduction in foreign direct investment flows of approximately 45 per cent had a negative impact on economic development.

The report said sanctions have strained the social services of the Islamic Republic of Iran, including childcare, welfare programmes and support for vulnerable families. For example, funding for orphanages and shelters for abused women was cut due to budget constraints.

Women and children in need of social support face increased hardships and shelters for victims of domestic violence reported overcrowding and insufficient resources, it added.

As a result of prolonged economic sanctions, the Government of the Islamic Republic of Iran has been compelled to adopt the doctrine of "resistance economy", which has not only affected economic sectors but has also resulted in substantial socio-cultural repercussions, said the UN expert.

She also said multiple reports indicate that unilateral sanctions are affecting all relevant social rights, including the rights to adequate food, clean water, sanitation, freedom of movement and a healthy environment.

For instance, countries under sanctions report high levels of food insecurity: up to 60 per cent in specific regions in the Islamic Republic of Iran, up to 35 per cent in the Bolivarian Republic of Venezuela and over 50 per cent in the Syrian Arab Republic.

Unilateral sanctions indirectly affect food security through their broader economic effects and the challenges that they pose to the agricultural sector in particular, said the report.

For instance, in Cuba, the economic damage for cereal production as a result of the embargo was estimated at $2,447,830 during the period 2016-2017.

The Special Rapporteur noted that 90 per cent of children in the Syrian Arab Republic depend on humanitarian assistance for survival and that about 117,000 children in the Bolivarian Republic of Venezuela were at risk of acute malnutrition in 2022, with half of children under the age of 5 being at risk of acute malnutrition.

In the Democratic People's Republic of Korea, the figure is about 140,000 children under 5 years old. Similar figures are also reported in other countries under sanctions, she added.

The UN expert underlined a global shared responsibility for violation of economic, social and cultural rights.

In this regard, she called on sanctioning States and regional organisations to review all unilateral sanctions, and lift those imposed without or beyond the authorisation of the Security Council and not meeting the conditions of retorsions or countermeasures.

She urged all States not to impede the implementation of humanitarian resolutions of the UN Security Council, including through blocking payments, insurance or delivery of humanitarian cargo.

The UN expert also urged all States to tackle overcompliance, to ensure protection of critical infrastructure and follow the Guiding Principles on Sanctions, Business and Human Rights.

The UN expert urged international organisations to avoid legitimising unilateral sanctions, and called on the UN entities, including the World Health Organization (WHO), the International Labour Organization (ILO), the UN Food and Agriculture Organization (FAO), the UN Development Programme (UNDP) and UNESCO to monitor and report on their impact, using the Monitoring and Impact Assessment Tool.

"The ILO should pay particular attention to the right to work, decent work and social security," she said. *(SUNS #10294)*

Global shipping hits choppy waters amid new tariffs, rising uncertainty

In a new report, UN Trade and Development (UNCTAD) has highlighted how geopolitical tensions and trade policy shifts are disrupting traditional shipping routes and reshaping the geography of maritime trade.

by Kanaga Raja

PENANG: In 2025, global shipping, moving over 80% of the world's merchandise trade, continues to navigate an environment marked by volatility, rerouted flows and mounting uncertainty, according to UN Trade and Development (UNCTAD).

In its Review of Maritime Transport 2025 report, UNCTAD said persistent geopolitical tensions and trade policy changes have altered shipping patterns, with many routes redirected away from traditional chokepoints.

After firm growth last year, seaborne trade is expected to stall in 2025, with volumes barely rising (+0.5%), said UNCTAD.

Long-distance rerouting caused by geopolitical tensions kept ships busier last year with a record of nearly 6% growth in ton-miles, it added.

It said political tensions, new tariffs, shifting trading patterns, and reconfigured shipping lanes are reshaping the geography of maritime trade.

The United States of America and several trading partners have announced policy measures, including new tariffs, and port fees in the United States for certain foreign-built or foreign-operated vessels. These measures may further affect shipping costs and routes, it added.

The result is more rerouting, skipped port calls, longer journeys and ultimately increased costs, said UNCTAD.

Energy shipping is also in transition: coal and oil volumes are under pressure from decarbonization efforts, while gas trade continues to expand.

Meanwhile, UNCTAD said that critical minerals – essential for batteries, renewable energy and digital economy as a whole – are becoming a new source of tension in global trade, with competition to secure supplies and add value domestically.

Speaking at a media briefing at the United Nations Office at Geneva on 24 September, Regina Asariotis, Chief of the Trade Logistics Branch at UNCTAD, said: "We know the global environment has become more complex."

"We know geopolitical tensions are affecting the Red Sea and have forced costly rerouting around the Cape of Good Hope. Risks remain, for example, in the Strait of Hormuz, a vital artery for global oil trade."

"New tariffs are disrupting established trade flows, freight rates are increasingly high and volatile, and delay and disruption are becoming the norm. And these challenges drive up costs," said Asariotis.

She pointed out that small island developing states, least developed countries, and net food-importing nations are the most vulnerable, as higher freight costs quickly translate into more expensive imports and food insecurity.

Highlighting the latest trends in international maritime trade, she said: "Seaborne trade has grown in 2024 by 2.2%. At the same time, rerouting has meant longer shipping routes, with ton-miles increasing by about 6%."

"This, in turn, has led to higher transport costs, delays, and greenhouse gas emissions, as well as a reshuffling of shipping networks affecting ports, including in Africa. For 2025, the big picture is heightened uncertainty and volatility, with growth forecast to slow to only half a percent," said Asariotis.

"The big picture"

According to the report, maritime trade volumes reached 12,720 million tons in 2024, growing by 2.2 per cent, exceeding the 2013-2023 average (1.8 per cent).

This suggests positive momentum, yet the growth rate lagged the 2003-2023 average (2.9 per cent), indicating a longer-term deceleration in the expansion of global volume, it said.

The report said that structural, cyclical and policy factors underpin this deceleration, encompassing the structural weakening of trade-to-GDP links, a slowdown in global value chain expansion, repeated economic shocks, rising trade barriers and policy instability, and geopolitical fragmentation.

Moderate growth in the global economy and resilient Chinese commodity demand supported the seaborne trade volumes in 2024, driven by robust growth in container and dry bulk shipping, it added.

"Solid industrial demand, domestic mine output limitations and stockpiling activities amid softer commodity prices propelled Chinese dry bulk imports (particularly for iron ore, coal and bauxite) and steel exports."

The report said resilient consumer demand in the United States of America and strong trade flows from Asia to emerging economies also supported seaborne trade volume growth in 2024.

It said as global supply chains diversify and new consumption hubs emerge, maritime routes are becoming more regionally interconnected and globally distributed, which renders them more complex.

"Measured in distance-adjusted volumes, global seaborne trade reached 66,781 billion ton-miles in 2024, an increase of 5.9 per cent, marking the fastest pace of expansion since 2011."

It said the substantial growth in ton-miles was primarily due to extended voyage distances caused by logistical disruptions, particularly the Red Sea rerouting and, to a lesser extent, Panama Canal transit restrictions (until mid-2024).

This effect was compounded by firm demand from major importing regions, such as Asia, which resulted in significant growth in the long-haul Atlantic trade and shifts in trade from the Russian Federation, it added.

These longer shipping routes resulted in greater distances travelled per unit of cargo, inflating ton-mile figures while contributing to higher transport costs, delays and greenhouse gas emissions.

As such, the report said the rise in ton-miles indicates the growing fragility and inefficiency of global supply chains, rather than a sign of robust trade expansion.

Against this backdrop, the report noted that crude oil exports came primarily from Brazil, Guyana and the United States to Asia, while United States exports of liquified natural gas (LNG), liquified petroleum gas (LPG) and ethane were also increasingly redirected towards Asia, with China and India accounting for most ethane demand.

Africa, particularly Guinea, made significant bauxite shipments to China, while coal exports from Colombia and the Russian Federation shifted towards longer-haul Asian buyers.

At the same time, the report said European importers increased their purchases of crude oil and refined products from the United States and the Middle East as they reduced reliance on Russian supplies.

This broad reorientation of trade flows, driven by both market dynamics and geopolitical shifts, led to longer voyage distances and rising ton-miles, the report pointed out.

Outlook ahead

According to the report, the outlook for global seaborne trade in 2025 is increasingly complex and marked by downside risks.

Continued policy volatility, geopolitical tensions (including Red Sea insecurity, the war in Ukraine, and tensions in the Middle East), and softer macroeconomic conditions are weighing on confidence and demand, it said.

As a result, the report said both merchandise trade and maritime transport activity are projected to slow, with the outlook shifting markedly since early 2025.

"The outlook remains subject to persistent uncertainty and downside risks due to subdued private consumption in some economies, a volatile global trade landscape and deteriorating investor sentiment."

As of July 2025, global GDP was projected to grow by 3 per cent in 2025, an upward revision of 0.2 percentage points from the April 2025 forecast, the report noted.

It said as of 3 July 2025, global merchandise trade was projected to grow by 0.1 per cent in 2025, reflecting an improvement vis-a-vis an April projection of a 0.2 per cent contraction of merchandise trade in 2025, based on an adjusted scenario assuming that temporary measures, such as pauses on higher tariffs, remain in place past their expiration dates and that higher rates do not take effect.

The introduction and subsequent suspension or modification of reciprocal tariff measures, as well as parallel trade negotiations, were central to the shifting trade outlook in 2025, it added.

A temporary surge in trade volumes in early 2025, driven by the front-loading of shipments in anticipation of tariff increases, is expected to fade in the second half of 2025, UNCTAD suggested.

"In a downside scenario that includes both the implementation of reciprocal tariffs and global spread of trade policy uncertainty, the contraction would deepen to 1.5 per cent, reflecting the impacts of these two factors."

It said the introduction of tariff measures has been a pivotal factor influencing the 2025 trade outlook.

These contributed significantly to the downward revision, with model-based estimates suggesting that without them, global trade could have expanded by 2.7 per cent.

"The escalation in tariff measures in early 2025 introduced renewed headwinds to global trade flows, particularly affecting small and vulnerable economies."

It could further threaten marginal gains made by least developed countries, small island developing States and landlocked developing countries, the report cautioned.

Some least developed countries, such as Cambodia, Lesotho, and Madagascar, could face some of the highest new United States tariffs, resulting in a loss of competitiveness, especially in textiles and agriculture, which could lead to a decline in vital exports and pose substantial risks to their development, it said.

According to the report, the global trade policy environment remains volatile and highly uncertain in the near term.

"The potential reintroduction of higher tariffs or the imposition of new sector-specific measures, particularly in high-tech, energy and transport-related sectors, continues to weigh on trade and investment planning."

While the temporary tariff pause has provided short-term stability, bilateral negotiations remain fragile, and the risk of renewed escalation is significant, it emphasized.

Without a durable resolution, ongoing policy changes are likely to continue suppressing trade flows and delaying investment decisions well into the second half of the year, it suggested.

In this environment, the report said that maritime trade projections for 2025 have also been revised downward.

In early 2025 (specifically, in February and March), global seaborne trade volumes were projected to grow by 1.4 per cent. By May 2025, they were projected to contract marginally by 0.1 per cent.

This notable reduction points to the increasingly complex and uncertain global trade environment, it added.

UNCTAD forecasts that maritime trade volume will expand at an annual growth rate of 0.5 per cent in 2025, with containerized trade volume growing by 1.4 per cent.

From 2026-2030, UNCTAD expects total seaborne trade to increase at an annual average of 2 per cent and containerized trade by 2.3 per cent.

The report said that distance-adjusted volumes (ton-miles) are projected to rise slightly in 2025, by 0.3 per cent, following an exceptional surge in 2024 when Red Sea rerouting sharply increased voyage distances.

"That one-time spike has set a high base for comparison. Even if rerouting continues, the additional impact is expected to be minimal, as longer routes are already factored into operations."

Meanwhile, the report said that a market re-calibration is underway. Fleet capacity is outpacing demand in key segments, such as containers and product tankers, while macroeconomic conditions remain subdued, and trade patterns are shifting (including shorter LNG hauls and reduced demand from China).

As a result, it said ton-mile growth is expected to slow across most shipping segments.

A return to shorter trade routes later in the year – should rerouting unwind – would further reduce distance-adjusted demand while easing transport costs and emissions.

However, the report said several downside factors continue to weigh on maritime trade performance in 2025.

"Persistent trade policy uncertainty remains a key risk, alongside subdued industrial activity in major economies and weak Chinese demand for bulk commodities."

Tighter global financial conditions and limited investment in trade-intensive sectors further constrain growth, it said.

At the same time, UNCTAD said some developments could support a marginal recovery.

It said trade diversion effects and new preferential trade agreements may offer opportunities for select developing countries.

These dynamics underscore the complexity of the current environment, where cyclical and structural forces are pulling in different directions, making the path to recovery uneven and fragile, the report concluded. *(SUNS #10299)*

Surging shipping costs threatening fragile economies, warns report

Freight rate instability has become a permanent feature across global shipping segments, with the key drivers being geopolitical tensions, trade policy shifts, regulatory changes, and ongoing supply-demand imbalances, according to UN Trade and Development (UNCTAD).

by Kanaga Raja

PENANG: Freight rate volatility is becoming the new normal across all shipping segments, driven by continued geopolitical tensions, shifting trade policy, regulatory developments, and persistent supply and demand imbalances, according to UN Trade and Development (UNCTAD).

In its Review of Maritime Transport 2025 report, UNCTAD said that persistent high transport costs risk hitting developing countries hardest, particularly small island developing States (SIDS) and Least Developed Countries (LDCs).

In 2024, disruptions in the Red Sea significantly affected container shipping. Rerouting via the Cape of Good Hope extended voyage times, reduced effective capacity and increased operating costs, driving spot and charter rates to near COVID-19 peaks by mid-2024 before moderating by the end of the year, said the report.

The report said volatility continued into 2025 amid tariff announcements by the United States of America and mounting geopolitical risks, including around the Strait of Hormuz.

Highlighting some recent trends in freight rates, the report said the Red Sea crisis drove up spot container freight rates in 2024 with partial relief by year-end.

Container freight rates recorded strong increases in 2024, with spot rates peaking around mid-year at levels not seen since the COVID-19 disruptions of 2021-2022, it added.

The Red Sea disruptions primarily drove this surge, forcing carriers to reroute vessels around the Cape of Good Hope instead of transiting through the Suez Canal.

"This rerouting increased voyage distances and demand for vessels, caused delays to shipping frequency and reliability, and increased overall operating costs."

Extended voyage durations contributed to a substantial increase in global ton-miles, estimated at 17 per cent in 2024, along with a significant rise in operating costs, particularly time charter and fuel costs, despite reduced Suez Canal dues, the report observed.

In addition to the impact of disrupted shipping operations in the Red Sea, global cargo volumes grew more than anticipated in 2024, further constricting vessel availability and maintaining high freight rates.

This growth in demand was driven by trade between North America and other regions, particularly Asia, as well as by the continued expansion of South-South trade between Asia and developing economies in Africa, Latin America and the Middle East.

An analysis of supply and demand dynamics in the container shipping market, measured in TEUs, shows overall growth in demand of 7.1 per cent in 2024, said the report.

This growth contrasted with the contraction in 2022 (-1.5 per cent) and stagnation in 2023 (-0.1 per cent), it said.

"On the supply side, global container shipping capacity grew by 10.1 per cent in 2024, equivalent to nearly 3 million TEUs, the highest annual growth since 2008."

Much of the new tonnage was absorbed by increased demand from longer voyages due to Red Sea rerouting and broader economic activity.

Consequently, the report said the additional capacity did not immediately drive rates lower; instead, it continued to support elevated spot freight rates.

By the end of 2024, spot container freight rates eased from mid-year peaks but stayed well above levels observed prior to the onset of the Red Sea crisis in December 2023.

"Container demand projections for 2025 remain uncertain amid growing geopolitical tensions and trade policy shifts."

On the supply side, container fleet capacity is still growing as new ships ordered during the post-COVID-19 period of booming earnings continue to be delivered, said UNCTAD.

The Shanghai Containerized Freight Index (SCFI), a key benchmark for spot rates on containerized shipments from Shanghai to major global destinations, averaged 2,496 points in 2024, an increase of approximately 149 per cent compared to the 2023 average.

The index peaked at 3,600 points in mid-2024, its highest level since the global logistics crunch of 2021-2022 triggered by the COVID-19 pandemic. This increase was reflected across major trade routes, it added.

The report said as the third quarter progressed, freight rates eased due to a decline in seasonal demand and new vessel deliveries.

By December 2024, the index had fallen by 34.1 per cent from its July peak. Nevertheless, this figure remained around 93 per cent higher than the 1,230-point level recorded in December 2023.

This further underscores the significant impact of the Red Sea crisis on global container shipping dynamics and the sustained upward pressure on transport costs in the 2024 container market, the report suggested.

UNCTAD said in 2024, port congestion also contributed to high freight rates, driven by factors including the disruption to shipping operations in the Red Sea, weather-related challenges in Asia and the Caribbean, and labour issues in the United States and Europe.

These elements were in addition to infrastructure bottlenecks and operational inefficiencies, and a general surge in container cargo volumes, it added.

Such conditions placed significant strain on port operations, leading to increased turnaround times and delays.

The resulting congestion reduced the effective supply and timely deployment of vessels, diminishing available shipping capacity and reliability. This, in turn, exerted upward pressure on freight rates, said UNCTAD.

Following a weaker start to the year, characterized mainly by low demand after the Chinese Lunar New Year, freight rate markets experienced heightened volatility as trade tensions amplified, it added.

In April 2025, the United States Administration announced new tariffs, including base-level and more elevated country-specific tariffs on key trading partners.

"Such measures would typically exert upward pressure on freight rates, as tariff announcements can trigger the front-loading of imports, temporarily increasing demand for shipping and raising freight rates."

Yet, UNCTAD said that the impact on spot rates was limited, as importers in the United States had already accelerated shipments earlier in the year in anticipation of potential tariff impositions on Chinese goods.

However, it said by mid-May 2025, front-loading had caused a new surge in cargo demand from China to the United States, as the latter announced a 90-day tariff suspension period with its trading partners to allow bilateral negotiations to take place.

Increased cargo flows promoted a significant rise in spot freight rates on the trans-Pacific route, it added.

Between April and May 2025, average rates from Shanghai to the western coast of the United States rose by 57.3 per cent, while those to the eastern coast increased by 37.3 per cent.

Looking ahead, the report said that the overall outlook for container freight rates remains clouded by uncertainty.

"Many risks tilt towards the downside, affecting demand. It is unclear if or to what extent changing tariffs will be implemented and how markets will adapt," it pointed out.

It said that uncertainty around China and United States tariff measures as well as capacity realignments, such as the reallocation of surplus trans-Pacific tonnage to other trade lanes (for example, exports to Europe and Latin America, and intra-Asia), are expected to affect market dynamics and exacerbate freight rate volatility.

Sudden shifts in trade policy and shipping patterns would likely disrupt the balance between supply and demand.

At the same time, the report said overcapacity will probably remain a key factor. Global container fleet capacity is projected to expand by 6.7 per cent in 2025 and 4.0 per cent in 2026.

In this context, the projected increase in supply will exert downturn pressure on freight rates, particularly if not met with a corresponding rise in demand, it added.

"Simultaneously, a full return of container shipping to the Red Sea and Suez Canal routes, should conditions allow, would increase capacity that had been absorbed by longer Cape of Good Hope rerouting."

This would lead to a decline in global TEU-mile demand and a further drop in freight rates, said the report.

"Existing mitigation measures applied by carriers, such as blank sailing, slow steaming, vessel idling and controlled fleet deployment, may not be sufficient to absorb surplus capacity."

Strategic carrier alliances and continued coordinated capacity management are expected to play increasingly important roles in shaping freight rate dynamics, the report suggested.

As freight rates continue to adjust to evolving disruptions, risks and regulatory changes, including those related to environmental compliance, rate volatility is expected to persist across most containerized trade routes, it said.

The report also said that in 2024, global container charter rates were higher than in 2023.

"This stemmed particularly from increased TEU-mile demand from longer-voyage distances caused by ship rerouting and higher-than-expected growth in trade volumes."

The report said charter markets remained strong throughout 2024, with rates increasing across vessel segments.

Large vessels (3,400 TEU and above) saw daily rates rise by 18 to 25 per cent year-on-year, with charter periods often exceeding 22 months.

Smaller ships also experienced robust demand, driven by Red Sea disruptions, as well as increased regional trade and the need for feeder capacity, leading to a 33 per cent increase in average rates for 1,600-1,999 TEU vessels, many fixed for 18-24 months.

"Looking ahead, container charter market dynamics remain vulnerable to geopolitical disruptions, shifts in trade policy and an evolving fleet profile."

Meanwhile, the report said the dry bulk shipping freight market experienced a rebound and sustained volatility in 2024, following weaker and fluctuating performance in 2023.

The Baltic Dry Index, which tracks bulk commodity shipping costs, averaged 1,755 points in 2024, up 27.3 per cent from 2023.

A strong underlying demand for coal, grain and fertilizers limited new supply, while effective vessel utilization was in play across all segments.

The rerouting of vessels from the Red Sea caused dry bulk trade in ton-miles to increase by an estimated 1.2 per cent. The index began to decline towards the end of 2024, reflecting softening earnings, said the report.

On the supply side, the dry bulk fleet expanded by an estimated 3 per cent in 2024, similar to growth in previous years.

UNCTAD said this moderate pace of fleet growth broadly aligned with market demand. Low scrapping activity also supported available capacity, as firm charter earnings provided shipowners with continued incentives to retain older vessels.

The dry bulk shipping market experienced slower and fluctuating demand during the first half of 2025 compared to 2024, it added.

Average freight rates, as reflected in daily earnings across the sector, declined to approximately $10,750 per day, around a 30 per cent drop compared to the same period last year.

This downturn was primarily driven by weaker demand for key commodities, particularly iron ore and coal, amid reduced industrial output and changing global trade dynamics, said the report.

A notable but temporary increase in the Baltic Dry Index occurred in June 2025. It saw an average of 1,685.95, supported by rising Cape-size rates due to increased bauxite shipments from Guinea to China and a rebound in Chinese coal imports, before easing again in July, it added.

The Strait of Hormuz caused concern. Although only around 3 per cent of global dry bulk trade passes through it, any disruption could put additional pressure on an already fragile and uncertain outlook for the dry bulk trade, it said.

Meanwhile, the report said the dry bulk fleet is projected to expand by approximately 3 per cent in 2025, in line with average annual growth over 2022-2024.

Without a rebound in demand, projected growth in bulker capacity could keep vessel use low and put downward pressure on freight earnings through 2025, it suggested.

Looking ahead, the report pointed out that the dry bulk freight rates are expected to remain under pressure due to a combination of economic uncertainty, the global energy transition, shifting national strategies on energy and food security, geopolitical tensions and trade policy shifts.

It said these factors are reshaping commodity flows, route preferences and vessel deployment capacity, thereby influencing dry bulk freight rates.

Tanker freight markets remained firm in 2024, although marked by elevated volatility. Freight rates stayed above historical averages but below the exceptional peaks of 2022 and 2023.

The Baltic Dirty Tanker Index, which tracks crude oil tanker spot rates, averaged 1,092, reaching a high of 1,399 in January and a low of 877 in September 2024.

The Baltic Clean Tanker Index, covering product tankers, such as those transporting refined fuels, including diesel, jet fuel and gasoline, averaged 818, peaking at 1,104 in March before declining to 540 in October 2024.

Freight rates, as reflected in average tanker earnings, declined by 13 per cent to $35,498 per day in 2024 but remained high by historical standards, said the report.

The first half of the year saw elevated rates and earnings driven by increased ton-mile demand as ships rerouted around the Cape of Good Hope, causing the average haul to increase.

The re-direction of Russian crude oil and petroleum products to Africa and Asia as well as increased United States and West African crude shipments to Asia and Europe also significantly extended voyage distances and tightened vessel availability, said the report.

Together, these factors and limited fleet capacity growth (0.7 per cent) have pushed tanker freight rates up.

The report said in the second half of 2024, crude tanker earnings declined, particularly for very large crude carriers, due to weakening Chinese crude imports, continued OPEC+ production cuts and the broader global economic slowdown.

Product tanker rates also fell, impacted by reduced Russian Federation exports, weaker refining margins and increased competition from crude tankers shifting into the clean product segment to capture higher earnings.

Looking ahead, the report said the tanker market faces a more complex and challenging environment.

While geopolitical tensions and rerouting spark intermittent surges in demand, global oil demand growth is slowing, fleet utilization is weakening and vessel supply is expanding, especially in the product segment.

In parallel, tanker freight rates, much like other fleet segments, will be increasingly shaped by demands for ships running on low- and zero-carbon fuels.

This shift is expected to tighten vessel supply and increase operating costs, particularly for older, less efficient ships, thereby exerting upward pressure on freight rates. All these factors will influence how rates evolve, said the report.

In its overall conclusions, the report pointed out that freight market developments in 2024-2025 underscored the vulnerability of global trade to persistent disruptions, supply and demand mismatches, and regulatory shifts.

Freight rates surged in 2024 across all segments, container, dry bulk and tanker, driven by the Red Sea crisis, longer voyage distances, stronger-than-expected cargo demand and extensive port congestion. Although rates came down by year-end, they remained historically high.

Until the middle of 2025, freight rates continued to fluctuate, influenced by increased geopolitical tensions, trade policy uncertainty, and persistent imbalances in global supply and demand.

The report said in addition to the increased volatility in freight rates, evolving trade policies have introduced significant uncertainty into transport and trade costs. *(SUNS #10301)*

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Markets stay buoyant despite trade tensions, policy uncertainty

Largely ignoring concerns over tariffs, policy shifts, and fiscal uncertainty in major economies, global financial markets maintained a risk-on sentiment during the period from 1 June to 4 September, according to the Bank for International Settlements (BIS).

by Kanaga Raja

PENANG: The global financial markets maintained a risk-on tone during the review period from 1 June to 4 September, shrugging off concerns over mounting tariff and policy uncertainty, according to the Bank for International Settlements (BIS).

In its latest Quarterly Review of developments in the international banking and financial markets, BIS said that despite short-lived bouts of volatility triggered by incoming data and political developments, market sentiment remained upbeat, defying mounting challenges, including unease over the longer-run fiscal outlook in several key jurisdictions.

Equity markets in particular delivered strong returns, led by US stocks, which reached all-time highs, it said.

Large cap technology stocks outperformed, buoyed by enthusiasm around artificial intelligence (AI) and strong earnings, despite high valuations, it added.

BIS said that Japanese stocks also posted gains. However, after having rallied earlier this year, European stocks remained flat, on the back of relatively weaker earnings growth.

The US dollar paused its depreciation after a significant step down in the second quarter of 2025.

While dollar depreciation has historically been a marker of risk-on phases in financial markets, the dynamics over the review period did not match historical patterns, said BIS.

"The risk-on tone was accompanied by an appreciation of the currency following the unveiling of the US fiscal package in early July."

Overall, global financial conditions eased significantly, driven by equity gains and compressing credit spreads in the United States and benign conditions in emerging market assets. Conditions in Europe remained more subdued following a strong half-year, it added.

It said the risk-on environment was underpinned by expectations of further monetary policy easing in the US and several other jurisdictions, coupled with expected fiscal largesse in the US and Germany.

This policy cushion supported investors' optimism by reducing their perceived likelihood of adverse scenarios, it pointed out.

According to the Basel-based central bank for the world's central banks, central banks in the major advanced economies (AEs) continued reducing policy rates.

The European Central Bank (ECB), Sveriges Riksbank, the Swiss National Bank and the Bank of England implemented rate cuts.

It said the Federal Reserve kept rates on hold, but some Federal Open Market Committee (FOMC) participants signalled a preference for an easier stance in the future, and signs of a cooler labour market fuelled expectations of rate cuts.

BIS said that emerging market economies (EMEs) capitalised on the global risk-on sentiment, benefiting from a softer US dollar and from market participants tuning out trade conflicts.

"EME currencies appreciated broadly, supported by both developments in the real economy and technical factors related to hedging activities."

Risk assets rally

According to BIS, during the review period, risk assets showed remarkable resilience, defying the trade conflict and policy uncertainties.

Despite occasional volatility due to macroeconomic data surprises, positive sentiment held sway, reinforced by strong corporate earnings and an outwardly resilient macroeconomic outlook, it said.

Global equity markets delivered robust returns, with US stocks setting the pace. US equity markets surged to all- time highs, supported by better-than-expected corporate earnings.

US stocks, particularly those of large cap technology companies (the so-called "Magnificent 7") reported solid earnings, which further fuelled investors' optimism, it said, adding that Japanese stocks also performed strongly.

(According to BIS, the "Magnificent 7" are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.)

EME equities joined the rally, outperforming those of many AEs. European equities performed more modestly and finished the period flat, reflecting weaker earnings growth and a pause in the re-calibration of international portfolio allocations that prevailed in the first half of the year.

BIS said that as a result of the stock market rally, equity valuations rose, overtaking their levels before the April shock.

In the US, aggregate valuations were close to the top 10% of the historical distribution, and not far from the levels touched at the peak of the dotcom bubble.

On the other hand, it said that European stock valuations were more in line with historical norms.

According to the Quarterly Review, the rally in US equities was fuelled by large cap technology stocks and banks.

It said the "Magnificent 7" reported strong earnings and outperformed the rest of the S&P 500 index by about 11 percentage points.

BIS said that the AI trade boosted investor enthusiasm, with these companies capitalising on heightened demand for technology-driven solutions, in turn pushing the S&P 500 to all-time highs in August and overshadowing concerns over the future profitability of investment in AI.

It said other outperforming sectors included consumer discretionary and banks, which benefited from tailwinds from the early July fiscal package and a pause in the US-China trade conflict, as well as the upward-sloping yield curve in the case of banks.

"Investor confidence was further underpinned by resilient economic readings and consumer spending in the US, as well as expectations of policy easing, which offset increasing signs of weakness in the labour market."

BIS said the rally took place amid notably subdued volatility, which typically accompanies risk-on environments, adding that measures of equity market volatility such as the VIX declined.

It explained that volatility spikes during the period were mostly tied to macroeconomic data releases hinting at a possible slowdown, but ultimately proved short-lived.

For example, it said the disappointing US non-farm payrolls data released in early August and September led to drops in the S&P 500.

Another short bout of volatility coincided with higher-than-expected US and euro area inflation releases in June.

On the other hand, it said that tariff news had an increasingly muted impact, as markets seemed to become less attentive to lingering trade tensions and focused more on factors other than tariffs, such as relatively positive macroeconomic readings and expectations of easier monetary policy.

It noted that other signs of aggressive risk-taking were visible in options markets. The SKEW index turned more positive after 2 April and remained so over the review period, meaning that prices for upside exposure increased whereas those for downside protection decreased.

BIS said these price moves may have also amplified the overall equity price increases via shifts in option dealers' hedging activities, as dealers presumably had to re-balance their downward protection hedges by buying equities during the June-July rally.

Broad risk-on sentiment was also evident in credit markets. Credit spreads in the high-yield segment compressed significantly in both the US and Europe, to be well below historical norms, and even close to historical lows in the US, according to the Basel-based central bank.

In line with a risk-on environment, high-yield issuance also rebounded and private credit deals edged up, it said.

It said the prevailing risk-on sentiment was a key ingredient of generally easing financial conditions.

Conditions relaxed significantly in the US, as well as in the United Kingdom, while those in the euro area remained broadly unchanged, with more lacklustre equity performance.

BIS said narrower credit spreads and buoyant corporate bond markets were the key drivers of the easing in the "risk factor" underlying its measure of financial conditions.

In the US, corporate yields and spreads led the risk factor to ease further, despite the relatively high level of government bond yields.

In France, an increase in credit and sovereign spreads, not only vis-a-vis German bunds but also Italian treasuries, contributed to a steady tightening of the risk factor, it added.

BIS said the risk-on environment was also evident from the dynamics of digital assets and gold.

Cryptoassets rallied, aligning with the risk-on mood and supported by the GENIUS Act, which provided further tailwinds.

"In the first part of the review period, gold's appreciation paused, consistent with optimistic investors shifting portfolio flows towards growth-oriented assets, while the demand for safe haven assets waned."

Yet, towards the end of August, gold prices resumed their march upwards, in line with emerging signs of unease about longer-run prospects, it noted.

According to BIS, another unusual development in the general risk-on environment was the dynamics of the US dollar.

Initially, the dollar stayed on the depreciation path entered in April owing to shifts in investors' hedging practices and some re-balancing of portfolio flows away from dollar assets.

The depreciation was sustained against the Swiss franc and the euro, while the Japanese yen diverged from other currencies and lost ground against the dollar, it said.

"Yet, the greenback's depreciation came to a halt after the unveiling of the fiscal package in July: the dollar appreciated while equity markets were posting strong gains. This appreciation is somewhat at odds with the dollar's tendency to soften in periods of heightened risk-taking."

US dollar dynamics during the review period also did not square well with interest rate differentials, said BIS.

It said typically, higher differentials between short-term yields on US Treasuries and German bunds have been associated with an appreciation of the dollar against the euro.

Yet, this historical pattern broke down in the aftermath of the April 2025 tariff-related turbulence when positive and widening yield differentials went hand-in-hand with dollar depreciation.

As US rates declined after July while those in the euro area edged up, the interest rate differential narrowed, but the dollar actually firmed, said the Basel-based central bank.

While inflows into US equity and bond funds probably supported it, the appreciation in this phase might also be related in part to some unwinding of hedging activity that had taken place in April and May, it suggested.

Bond markets

According to the Quarterly Review, the risk-on sentiment was also encouraged by actual and expected monetary easing.

"In the short segment of the yield curve, market pricing seemed consistent with investors' eyeing policy rate cuts, and more broadly being confident that policy interventions could mitigate the likelihood of adverse scenarios."

At the same time, long-term yields remained elevated and the yield curve even steepened at its very long end, possibly reflecting unease over the outlook in the longer run, said BIS.

Amid emerging concerns of an economic slowdown, and with inflation apparently in check, central banks in major economies continued lowering policy rates, it noted.

The ECB and the Bank of England cut their policy rates by 25 basis points, and other central banks followed suit.

The Federal Reserve kept the federal funds rate on hold at its July policy meeting. Yet, US non-farm payrolls releases in early August and September surprised on the downside, while previous readings were also revised downwards, hinting at a cooling of the labour market, said BIS.

In mid-August, the CPI release seemed to at least temporarily dispel concerns over the inflationary effects of tariffs, as core goods prices increased only marginally, it added.

It said increasing evidence of a slowdown and subdued inflationary pressures from tariffs so far also led market participants to price more aggressive rate cuts in the near future.

The dovish tone of the Jackson Hole meeting at the end of August fuelled expectations of upcoming rate cuts and supported further risk-taking, it added.

Overall, market participants progressively revised their expectations on the policy stance downwards, relative to FOMC members' own projections made in June.

Notwithstanding the policy easing in major AEs, long-term bond yields stayed elevated across those economies.

BIS said in the US, 10-year government bond yields were dragged in different directions by expectations of an easier policy stance and longer-term concerns over fiscal prospects.

"Yield curves steepened considerably at the very long end in all major AEs. This could also reflect structurally weaker demand from long-term investors such as pension funds and insurers."

Term spreads between 30- and 10-year government bonds increased steadily over the review period, especially in the UK, France and Germany, said BIS.

"In the UK, yields on longer-term gilts were particularly affected by weaker demand by institutional investors, following the UK government's liability-driven investment (LDI) reform."

In Japan, longer-term rates rose steadily after their spurt in the second quarter, reflecting political uncertainty clouding the fiscal outlook.

In the euro area, fiscal developments also took centre stage. On top of tariff-related uncertainties, the increase of longer-term rates in Germany may reflect expectations of a larger supply of government bonds, given the fiscal expansion plans, said BIS.

It said fiscal concerns led the yields on French government bonds to increase even faster, as mounting political challenges could thwart the fiscal outlook.

It said this led to an increase in the spread of French over German government bonds. At the same time, other sovereign spreads in the euro area continued to compress.

For example, the spread of Italian versus German bonds reached levels not seen since 2010, settling close to the French sovereign spread in August, it added.

EMEs join rally

EMEs capitalised on the global risk-on sentiment, benefiting from US dollar weakness, subdued corporate bond yields and markets paying less attention to lingering trade tensions, according to the Quarterly Review.

EME currencies, bonds and equities saw gains, with regional variations reflecting differences in local economic dynamics, it said.

The risk-on environment went hand-in-hand with the appreciation of several EME currencies.

Currencies in Latin America and Europe, the Middle East and Africa (EMEA) led the appreciation, whereas Asian currencies were mostly flat, with some exceptions.

The appreciation of some EME currencies partly indicated large asset managers raising currency hedge ratios on their US dollar asset holdings after April, said BIS.

It said public data on currency futures show that asset managers increased their long positions in EME currencies such as the Mexican peso, effectively shorting the US dollar vis-a-vis these currencies.

Portfolio flows maintained their momentum from the second quarter and were positive on net, it added.

"Long-term yields in EMEs showed regional divergence and bond issuance picked up. In Latin America, yields ticked lower, reflecting uneven growth and a generally higher sensitivity to the waxing and waning of US trade policy uncertainties."

Brazil, which was hit by a hefty 50% US tariff, was an exception, even though a policy rate increase aimed at countering inflationary pressures also contributed to higher yields, said BIS.

In Asia and EMEA, yields remained broadly flat, reflecting less monetary policy easing and stable investor sentiment, it added.

BIS said EME sovereign bond issuance picked up pace after lacklustre performance in the first quarter, echoing the improved risk sentiment as global investors sought higher yields in EME debt markets.

Dollar-denominated EME bonds were also supported by the risk-on environment and saw a notable compression in spreads.

In line with the broad risk-on sentiment, EME equity markets rallied. In Asia, markets in China, Indonesia and Korea led the gains, driven by the 90-day US-China tariff pause in June, which temporarily eased trade tensions, said the Basel-based central bank.

"China's markets also benefited from stabilising economic data and stimulus measures, such as infrastructure spending, which boosted investor confidence."

Equities in Hong Kong SAR rose in tandem, supported by its linkage to Chinese markets, and strong financial sector performance.

There was some regional divergence in Latin America, with Colombian equites outperforming those in Brazil and Mexico, even though Colombia faced headwinds amid fiscal and tariff uncertainty, said BIS. *(SUNS #10298)*

Global FX trading hits $9.6 trillion daily, led by US dollar

Daily over-the-counter (OTC) foreign exchange trading hit $9.6 trillion in April 2025, marking a 28% increase from 2022, with the US dollar remaining dominant in global foreign exchange (FX) markets, according to the Bank for International Settlements (BIS).

by Kanaga Raja

PENANG: Trading in over-the-counter (OTC) foreign exchange (FX) markets reached $9.6 trillion per day in April 2025, up 28% from $7.5 trillion seen three years earlier, with the US dollar continuing to dominate global FX markets, according to the Bank for International Settlements (BIS).

Sales desks in the top four jurisdictions – the United Kingdom, the United States, Singapore and Hong Kong SAR – accounted for 75% of total FX trading, with Singapore, in particular, gaining market share, reaching 11.8% of the total (up from 9.5% in 2022).

These findings were outlined by BIS in its latest Triennial Central Bank Survey, which provides comprehensive information on the size and structure of global OTC markets in FX and interest rate derivatives (IRD).

The first part of the statistical release concerns OTC FX turnover in the 2025 Triennial Survey that took place in April and involved central banks and other authorities in 52 jurisdictions. The preliminary results were released on 30 September.

According to the report, turnover in OTC FX markets averaged $9.6 trillion per day in April 2025, representing a 28% increase from the $7.5 trillion per day recorded in the 2022 Survey.

The April 2025 Survey was conducted amidst elevated FX volatility and a surge in trading activity that followed trade policy announcements early in that month by major jurisdictions, said BIS.

The share of spot and outright forwards increased relative to those of other FX instruments, it added.

According to the Basel-based central bank for the world's central banks, at $3 trillion per day in April 2025, turnover in FX spot markets accounted for 31% of global turnover (all instruments), up from 28% in 2022.

Turnover in outright forwards, in particular - used by market participants to lock in future exchange rates - was $1.8 trillion, or 19% of global FX turnover in April 2025, compared with 15% in 2022.

FX swaps remained the most traded instrument, with average daily turnover rising to $4 trillion in April 2025 - a 5% increase from $3.8 trillion in April 2022, said the report.

Despite this growth, their share in global turnover declined to 42% in 2025 (from 51% in 2022), owing to faster growth in turnover of other FX instruments, it added.

However, it said although this marks the lowest share since the 2010 survey, FX swaps continue to play a critical role in the market.

BIS said average daily turnover of FX options – mainly used to hedge currency risk or to speculate on currency movements – more than doubled from 2022 to 2025, accounting for 7% of global turnover in 2025 (up from 4% in 2022).

Meanwhile, it said turnover of currency swaps, which are mainly used to manage longer-term funding needs across currencies and to hedge currency risk, remained stable at around 2%.

"Since they typically have longer maturities than FX swaps or outright forwards, their average daily turnover tends to be much lower."

The report also said the US dollar remained the dominant currency: it was on one side of 89.2% of all trades in April 2025, up from 88.4% in 2022.

The euro share declined to 28.9%, down from 30.6% in 2022 and 32.3% in 2019, while the Japanese yen's share held steady at 16.8%, roughly unchanged since 2019.

BIS said that the next three most traded currencies - sterling, the Chinese renminbi and the Swiss franc (CHF) – registered more notable shifts, with the renminbi (CNY) and the franc seeing gains in market share.

The renminbi continued its upward trajectory observed since 2013, reaching 8.5% of global turnover.

The share of the franc increased to 6.4% in 2025, making it the sixth most traded currency, up from eighth place in 2022.

On the other hand, BIS said sterling's share dropped sharply, to 10.2% in April 2025, falling below its average of 13% observed over the previous three surveys since 2016.

With the notable exception of the Hong Kong dollar (HKD), the next most traded currencies saw minor changes in market share.

The Australian dollar, Canadian dollar and Singapore dollar maintained stable shares around 6%, 6% and 2%, respectively.

The share of the Hong Kong dollar, however, increased from 2.6% in 2022 to 3.8% in 2025, back close to the 3.5% share reported in the 2019 survey.

"The top 10 most traded currency pairs all involve the US dollar, reflecting its status as the world's vehicle currency," the report underlined.

Trading in the currency pairs USD/CNY, USD/CHF and USD/HKD rose materially by 59%, 60% and 95%, respectively.

According to BIS, their share in global turnover increased to 8.1% (from 6.6%), 4.9% (from 3.9%) and 3.6% (from 2.4%), respectively.

Trading between reporting dealers (i.e. inter-dealer trading) averaged $4.4 trillion in April 2025, or 46% of total FX turnover, the report further said.

This was slightly lower than the 47% share in 2022, but higher than the shares recorded in the previous surveys from 2010 to 2019.

Meanwhile, dealers' trading with "other financial institutions" accounted for 50% of average daily FX turnover in April 2025, up from 47% in 2022.

"Other financial institutions" is a broad category that includes non-reporting banks, institutional investors, hedge funds and proprietary trading firms (PTFs), and official sector financial institutions.

A further breakdown by instrument shows that these counterparties accounted for 55% of turnover in spot (up from 52% in 2022) and 62% of turnover in outright forwards (up from 57%), said BIS.

It said higher turnover in spot and forwards with these counterparties reflected elevated trading activity amid heightened FX volatility following US tariff announcements in early April 2025.

For example, BIS said the depreciation of the US dollar appears to have led many institutional investors and asset managers with dollar asset exposures to limit further FX losses on their portfolios by selling dollars forward.

This ex post hedging activity contributed to the high turnover in outright forwards, it noted.

It said within the "other financial institutions" customer group, trading with non-reporting banks (mainly smaller regional banks) remained dominant.

Turnover with this sub-sector averaged $2.4 trillion per day or 24% of global turnover in 2025, up from 21% in 2022.

Similarly, trading with institutional investors increased in relative terms for the first time since 2016; at $1.3 trillion per day in 2025, its share in global turnover rose to 13% from 11% in 2022.

Trading with hedge funds and proprietary trading firms was also higher, at 8% of global turnover in 2025, up from 7% in 2022, said the report.

On the other hand, the share of trading with non-financial customers extended its downward trend: it accounted for 5% of global turnover in 2025, down from 6% in 2022 and 7% in 2019.

Significantly, the report found that FX trading continued to be concentrated in major financial centres.

In April 2025, sales desks in four locations – the United Kingdom, the United States, Singapore and Hong Kong – intermediated three quarters of total FX trading.

The relative shares of major financial centres remained largely stable, with Singapore as a notable exception, it added.

The United Kingdom retained its position as the world's leading FX trading hub, followed by the United States in second place.

The shares of these two jurisdictions were largely unchanged compared with three years ago, at approximately 38% and 19%, respectively.

Singapore reported brisk growth in trading activity, pushing its share to 11.8% of the total (up from 9% in 2022), while Hong Kong's share remained steady at 7.0%.

Furthermore, the share of cross-border trading in global FX turnover was 63% in April 2025, inching up from 62% in 2022.

BIS said cross-border trading accounted for 68% in the inter-dealer segment and 61% in the turnover with "other financial institutions". *(SUNS #10302)*