

CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

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Here is a summary of the most important events that unfolded last month in the *United States, Europe, India, China, and Japan*, and which may affect economic, financial, and geopolitical issues in the months ahead:

United States

- **In mid-July, President Trump imposed sweeping new tariffs—35% on Canadian imports and 30% on goods from the EU, Mexico, and Japan—effective August 1st.** He also extended earlier duties on autos, steel, and pharmaceuticals, and floated the possibility of 100% tariffs on broader categories if negotiations stall. The move has provoked retaliatory threats, spurred legal challenges, and rattled markets. A federal appeals court has temporarily stayed lower-court injunctions, allowing the administration to continue collecting the duties pending a July 31st hearing. The threat to Japan is particularly sharp, with Tokyo singled out over trade imbalances and auto exports; Prime Minister Ishiba has called for emergency talks, and Japanese automakers are already adjusting supply chains. While the White House insists the tariff push protects U.S. industry, critics warn of inflationary effects and broader economic instability.
- **In early July, President Trump signed a far-reaching fiscal package (dubbed the “One Big Beautiful Bill”) that dramatically shifts U.S. domestic policy.** It overhauls energy and climate policy by slashing dozens of tax credits and spending programs for wind, solar and other renewables (while preserving or enhancing support for oil, gas, nuclear and hydropower). At the same time, the law injects more than \$100 billion into immigration enforcement (quadrupling detention funding) and extends funding for President Trump’s proposed border wall. To help pay for these measures, it cuts spending on programs like Medicaid and trims hundreds of billions from “clean” energy initiatives. In short, the package locks in a long-term boost for fossil-fuel development and stricter border control, at the expense of clean-energy incentives and parts of the social safety net.
- **President Trump signed the GENIUS Act into law on July 18th,** making it the first federal regulation specifically tailored to “dollar-backed” stablecoins like USDC and USDT. The law mandates that stablecoin issuers be federally or state-approved entities, fully back tokens with liquid assets, segregate reserves, disclose holdings monthly, and expressly prohibits offering interest on these assets. Its passage has already triggered a surge in crypto markets—Bitcoin rebounded near \$120 K, and DeFi-focused assets like Ethereum saw renewed investor interest—as firms and banks now rush to secure master accounts with the Fed and national charters.
- **Speculation has surged that President Trump is weighing the removal of Federal Reserve Chair Jerome Powell later this year, as macroeconomic signals point to both accelerating inflation and potential wage pressures heading into 2026.** The National Economic Council reportedly reviewed succession scenarios that could replace Powell with a more dovish or pro-growth nominee aligned with Trump’s renewed tariff and fiscal policy agenda. Though no official move has been made and legal obstacles limit presidential power in replacing Powell before his term expires in 2026, the mere possibility has rattled markets—bond yields rose on fears of politicization of monetary policy, while bank stocks saw volatility on uncertainty about Fed independence. Should Trump proceed, it would mark a historic shift in U.S. economic governance unlikely without congressional or institutional backlash.
- **Market Implications:** Trump’s sweeping new tariff threats rekindled trade war fears, pressuring U.S. manufacturers and global supply chains. Despite the policy shock, markets have held up, with equities stabilizing and infrastructure, defense, and export-oriented sectors buoyed by the \$1.3T “One Big Beautiful Bill Act,” which combines deep tax cuts with massive infrastructure and military spending. The bill passed alongside the “GENIUS Act,” offering aggressive innovation and R&D tax incentives. Meanwhile, July CPI ticked up to 2.7% y/y (core: 2.9%), reinforcing inflation concerns. Rumors that Trump may fire Fed Chair Powell have stirred bond market nerves and steepened the Treasury curve, though no formal action has been taken.

Europe

- At their June 25th summit in The Hague, NATO leaders endorsed an ambitious new target: member countries will aim to spend 5% of GDP on defense by 2035.** This “ironclad” commitment – more than double the previous 2% guideline – covers not only military budgets but also related procurement and infrastructure. The move, which President Trump lauded as “transformational,” is driven by concerns over Russia’s aggression and other security threats. It signals that European NATO members will take on far more of the burden for their own defense. While the U.S. will still play a central role in Europe’s deterrence, analysts say this agreement acknowledges that Europe must build up its military capabilities to meet growing geopolitical challenges.
- Reports in mid-July indicate the war in Ukraine is intensifying on several fronts.** Kremlin sources indicate that President Putin intends to fight on until the West meets his conditions, and that Russia’s forces could capture more Ukrainian territory as they advance. Ukraine’s leaders, meanwhile, have vowed never to concede Russia’s territorial gains, with President Zelensky insisting Ukraine will not recognize Russia’s annexations. In Washington, President Trump announced new U.S. arms shipments to Ukraine (including advanced air-defense systems) and warned Russia to agree to a ceasefire within 50 days or face tougher sanctions. The buildup of Western weaponry alongside Russia’s offensive posture suggests both sides are bracing for a prolonged conflict, even as diplomatic efforts continue.
- In early July, Britain hosted French President Emmanuel Macron for a three-day state visit – the first by a European leader since Brexit.** The two sides announced several cooperative measures. Most notably, they signed the “Northwood Declaration” to coordinate their independent nuclear deterrents. Prime Minister Starmer said this pact means any major threat to Europe will now trigger a joint nuclear response from France and Britain. Macron said an oversight committee would guide the cooperation. The leaders also agreed that France’s energy giant EDF would invest about £1.1 billion in a new UK nuclear power plant. Overall, the visit – which featured addresses to parliament and a “new entente” rhetoric – marked a reset in relations. It underscored both countries’ desire to reduce overdependence on the U.S. and jointly face global challenges (security, climate, migration) as a European partnership.
- The European Commission proposed a landmark revision of the EU’s Climate Law, setting a legally binding target to cut net greenhouse emissions by 90% from 1990 levels by 2040.** This would be one of the world’s most aggressive interim climate goals, intended to keep the EU on track for net-zero by 2050. To ease implementation, the draft law includes new flexibilities: up to 3 percentage points of the 90% target can be met using international carbon credits (offsets from global projects.) The proposal now goes to the European Parliament and capitals for approval. Environmental ministers say the high target sends a strong signal that the EU intends to lead on climate action despite geopolitical headwinds. However, opponents caution it could increase costs for industry and consumers.
- Late June’s unprecedented heat dome proved deadly across Europe.** A scientific study published on July 9th estimated that about 2,300 people died of heat-related causes in 12 major Western European cities during the 10-day heatwave (June 23 – July 2). The research attributed roughly 1,500 of those fatalities to climate change, which made the heat significantly more severe than it would have been in a cooler world. Cities like Madrid and Barcelona saw temperatures above 40°C, and wildfires broke out in France and the Balkans. Meteorological agencies reported that the month of June 2025 was the warmest on record in Europe. Scientists warn that such lethal heatwaves will become more frequent unless greenhouse gas emissions are drastically cut and countries bolster their preparedness.
- Market Implications:** NATO’s Hague summit set the stage for a defense spending surge, with allies pledging up to 5% of GDP by 2035, fueling order books for EU defense companies and widening peripheral bond supply. War risk premia rose sharply following overnight Russian strikes, boosting demand for air defense systems and lifting gas spreads. A severe heat dome strained agriculture and power grids, driving outperformance in hydro and solar-heavy utilities while insurers flagged rising claims. Brussels’ revised climate law targets a 90% emissions cut by 2040, signaling higher carbon prices and green investment flows. Macron’s EDF nuclear pact and migrant deal with the UK improved infrastructure visibility and boosted prospects for Franco-British collaboration. Positioning favors aerospace and cybersecurity firms exposed to NATO spend, green capex plays like wind, heat pumps, and storage, and contractors linked to UK-EU détente.

China, India, & Japan

- In early July a tentative trade truce between the U.S. and China brought some easing of tensions in key sectors.** The U.S. lifted export curbs on semiconductor design software and other technology for Chinese customers. Major EDA (electronic design automation) firms – Synopsys, Cadence and Siemens – said they would resume sales to China after the Commerce Department dropped recent restrictions. The U.S. also rescinded new licensing requirements on ethane gas exports to China. These steps came as China agreed to resume rare-earth exports to the U.S., and both sides affirmed a framework to roll back retaliatory measures. In short, Washington moved to remove certain technology and chemical export bans while Beijing eased its countermeasures – a sign that the two superpowers are reaching accommodation after months of trade hostilities. Nonetheless, broader disputes (e.g. tariffs on industrial goods and autos) remain unresolved.
- China announced that it will restrict government procurement of medical devices from the European Union, in retaliation for EU limits on Chinese device firms.** China’s finance ministry said any Chinese government contract for medical equipment worth over 45 million yuan (about \$6.3 million) will bar bids from EU-based suppliers. This means Chinese hospitals and health authorities can no longer source large-value devices from European manufacturers. The move matches the EU’s own action last month (barring Chinese companies from many public tenders) and was described by Beijing as a “reciprocal” measure after what it called Brussels’ protectionist barriers. (Notably, the restriction does not apply to products made by European companies inside China.) The spat is part of a growing tit-for-tat trade conflict between China and the EU, which has also seen tit-for-tat tariffs on EVs and cognac, ahead of a planned EU–China leaders’ meeting.
- In late June 2025, under a new licensing regime China classified seven strategic rare-earth elements as “national security” exports—initiating a 45-day permit process that slashed magnet shipments by some 75% and disrupted global supply chains,** notably halting production at several automakers and aerospace firms. Later in the month, Beijing began granting a limited number of six-month licenses to select firms—including US auto suppliers—though approvals remain scarce and opaque. While a trade truce in late June led to a dramatic 660% rebound in magnet exports to the
- U.S., volumes remained well below last year’s levels, and Chinese authorities quietly tightened smuggling crackdowns as part of the licensing framework
- Following the LDP’s historic loss in Tokyo’s metropolitan assembly—where it won just 21 of 127 seats amid voter backlash over funding scandals and policy dissatisfaction—Prime Minister Shigeru Ishiba’s coalition suffered a second blow in the July 20th upper house election, failing to secure a majority.** Despite the defeat, Ishiba has vowed to remain in power, citing the urgency of ongoing U.S. trade negotiations and the need to avoid a political vacuum. The LDP now finds itself in the unprecedented position of leading a government without control of either parliamentary chamber. With populist parties like Sanseito gaining ground and opposition forces aligned with Tokyo Governor Yuriko Koike consolidating influence, Ishiba faces mounting pressure from within his party and a volatile electorate. The coming weeks may determine whether his defiance translates into stability—or accelerates Japan’s political realignment.
- The United States, Japan, India and Australia (the “Quad” countries) announced a joint initiative to secure supplies of critical minerals.** The foreign ministers unveiled the Quad Critical Minerals Initiative, aimed at diversifying and strengthening supply chains for strategic resources like lithium, cobalt and rare earth elements. They described it as an “ambitious expansion” of their partnership to boost economic security by collaborating on sourcing and processing these minerals, which are vital for batteries and clean technologies. Over 30 mining and tech companies from the four countries were set to meet at the State Department to coordinate the effort. The pledge reflects shared concern that China’s dominance of key raw materials poses a risk, and it formalizes cooperation in mining and refining critical inputs for the energy transition.
- Trade negotiations between India and the United States hit a snag in late June.** Reuters reported that talks have stalled over reciprocal tariffs: India is seeking relief from a planned U.S. tariff (26%) on about \$9 billion of its exports, and wants cuts in existing U.S. duties on steel and auto parts. Washington, however, has insisted that India first lower its own barriers on U.S. farm goods (like soybeans and corn), vehicles and liquor. With a July 9 deadline looming for reciprocal tariffs to take effect, both sides may abandon an interim deal in

favor of a broader pact later this year. India's government remains keen to attract U.S. investment and expand exports but is refusing cuts it sees as too steep or one-sided. The impasse means new U.S. tariffs could soon hit Indian products, though officials say they stand ready to absorb the impact and will continue seeking a mutually beneficial agreement.

- **A new flashpoint in South Asia has emerged over the 1960 Indus Waters Treaty.** In late June, India announced it was formally suspending the pact with Pakistan, which governs allocation of rivers flowing between the two countries. New Delhi blamed Islamabad for a militant attack in Kashmir and said it would no longer honor the treaty's terms. Pakistan denounced the move, warning that any attempt to curb its share of Indus River water would be treated as an "act of war". On June 21st, India's home minister Amit Shah confirmed the treaty suspension would be permanent, stating India will divert water flows for its own use. The breakdown of this 65-year agreement – long seen as a rare area of cooperation – raises fears of a serious conflict over water resources. Experts note India does not currently have the infrastructure to fully cut Pakistan off, but even partial disruptions in the dry season could have a devastating impact on Pakistani agriculture and stability.
- **Market Implications:** China's temporary tariff truce with Washington has stabilized supply chain sentiment, driving a surge in June exports and lifting the yuan. However, its procurement ban on EU firms signals selective decoupling, favoring domestic med techs while EU suppliers face market losses and potential WTO challenges. India's Quad-backed minerals initiative supports long-term lithium and rare earth investment, though trade talks with the U.S. remain stalled, triggering exporter caution. Japan also benefits from mineral demand, but political uncertainty following the LDP's defeat has driven JGB yields to a record 3.20% and heightened yen volatility. Positioning favors Chinese med techs poised to fill the EU void, Indian miners aligned with Quad flows, and Japanese defense and rare earth firms despite rising political risk.

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David Amiel, *Project Syndicate*

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Alexander Hurst, *The Guardian*

[China, the energy transition superpower](#)

Jordan Pouille & Harlod Thibault, *Le Monde*