

# 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:

## North America

- **On December 4, the White House released the 2025 National Security Strategy (NSS).** It marks a significant shift in US foreign and domestic policy to one defined by "America First" and "Peace Through Strength." The document emphasizes a narrower definition of national interests, focusing on sovereignty, economic dominance, and border security while eschewing multilateralism and democracy promotion. Most notably is an emphasis on the Monroe Doctrine and the addition to it of the "Trump Corollary." Of particular note is the Trump administration's pledge to deprioritize Europe and focus more on the Western Hemisphere. It calls for American preeminence in the Western Hemisphere by blocking "hostile foreign incursion," primarily from China and Russia, as well as addressing threats from mass migration and narcotics trafficking. Further, the document signaled a shift away from "expeditionary campaigns" toward a posture of restraint, focusing resources where US safety is directly at risk. Reactions from Europe have been mixed but generally poor, with German Chancellor Friedrich Merz stated the document underscores Europe's need for "greater independence" in its security policy.
- **Congress has passed a more than \$900 billion defense bill** for fiscal year 2026, with bipartisan votes of 312–112 in the House and 77–20 in the Senate. The legislation, which President Trump is expected to sign, includes a 3.8% pay raise for service members and ends diversity programs at the Pentagon. It provides \$400 million annually for Ukraine, maintains US troop levels in Europe, and strengthens security cooperation with Taiwan and Baltic nations. The bill also authorizes troop deployments to the US-Mexico border, repeals decades-old war authorizations, and introduces new investment screening to counter China.
- **In early December, President Donald Trump approved the sale of Nvidia's advanced H200 AI chips to "approved customers" in China.** This decision marks a significant reversal of long-standing technology restrictions intended to curb China's AI development. Contingent to the agreement, sales are limited to commercial customers vetted and approved by the US Department of Commerce, with the US government receiving a 25% cut of the revenue. However, this does not include Nvidia's latest chips, such as the Blackwell or Rubin. Trump has also indicated that similar revenue-sharing agreements are being finalized for other major chipmakers such as AMD and Intel. The Trump administration framed the deal as a compromise between supporting American manufacturing, maintaining national security through vetting, and stalling China from developing its own domestic chip industry.
- **China has agreed to resume purchasing US soybeans following a trade agreement between President Trump and Chinese President Xi Jinping in South Korea last month.** This ended a boycott that reduced US soybean exports to China to virtually zero for nearly a year. China committed to purchasing 12 million metric tons (MMT) of American soybeans in the final months of 2025, continuing to buy at least 25 MMT annually through 2028. This was shortly followed by President Trump announcing the Farmer Bridge Assistance Program, a \$12 billion economic assistance package. Of the \$12 billion total, \$11 billion is earmarked for row crop farmers who grow commodity crops such as soybeans, corn, cotton, or wheat; the remainder is for specialty fruit and vegetable crops. While some groups, like the American Farm Bureau Federation, welcomed the aid as a necessary stopgap, others, such as the National Farmers Union, argued that ad hoc "bailouts" do not replace the need for stable trade policies.
- **Earlier this month, Mexico approved a package of import tariffs of 5% to 50% on products from countries with which it does not have a free trade agreement.** Set to take effect on the first of the year, 2026, it is primarily aimed at protecting domestic industries and addressing American concerns over Chinese goods entering the continent through Mexico. Other notable countries include China, India, South Korea, and Brazil, and has the most effect on automotive, industrial material, and consumer goods sectors. While Mexican President

Claudia Sheinbaum has stated the intent to boost domestic production, it is also likely a reaction to pressure from the Trump administration, which has threatened Mexico with its own tariffs over trade imbalances and border issues. Further, the Mexican Economy Ministry has been granted new powers to adjust these import levies as needed to ensure the supply of key imports remains competitive.

- **Market Implications:** Congress' defense bill and a new US security strategy signal multi-year spending on munitions, missile defense, cyber, and space, which are supportive for defense primes and logistics plays. Despite recent Fed rate cuts, long-term US yields have risen as rising Japanese bond yields and a narrowing US–Japan rate differential pressure Treasuries amid widening deficits, forcing policymakers toward a choice between higher rates or debt monetization, both inflationary. This dynamic, combined with stretched equity valuations and uncertainty over AI spending returns, has fueled investor caution and concerns about recession or stagflation. Additionally, expectations are that the U.S. dollar will continue to weaken in 2026. The White House's conditional approval for scaled AI-chip sales to China offers near-term semiconductor revenue upside but keeps export-control risk and valuation volatility in play. Meanwhile, agriculture futures firmed on China's soybean purchases, and Mexico's tariff moves add supply-chain friction, favoring incremental North American onshoring. Positioning now leans toward defensive sectors, real assets, and oil majors—given historically abnormal gold–oil ratios and unsustainably low oil prices—while maintaining selective exposure to defense and tech.

## Europe

- **Diplomatic efforts to end the war in Ukraine remain stalled over security guarantees and territorial control.** Talks in Berlin offered cautious optimism around US-backed “NATO-like” guarantees, but details are unclear and Moscow rejects any NATO or European troop presence. The leak of a US draft peace plan that appeared to concede Russian demands sparked criticism from Kyiv and European leaders, warning against a rushed deal. Meanwhile, the EU has frozen €210 billion (\$247 billion) in Russian central bank assets, aiming to use the funds to support Ukraine, and bypassed veto threats from Hungary and Slovakia through a special procedure. Reports suggest the Trump administration set an informal “Christmas deadline” for Ukraine to agree to a peace deal, though US officials deny this is official policy;

Zelensky insists no territory will be ceded without firm guarantees. Russia reinforced its negotiating posture with military pressure, as President Vladimir Putin warned that Moscow would seek to expand its gains if talks fail and outlined plans for further offensives while missile and drone strikes continued. The parallel tracks of diplomacy and escalation underscore how fragile the current negotiations remain, with security guarantees and control of territory still unresolved at the center of any potential deal.

- **Bulgaria's government collapsed this week after mass, youth-driven protests over corruption and elite capture forced Prime Minister Rosen Zhelyazkov's minority coalition to resign** ahead of a no-confidence vote, just weeks before the country is set to join the Eurozone. Demonstrations in Sofia and other cities drew up to 100,000 people and quickly expanded from opposition to a proposed 2026 budget to broader anger over endemic corruption, vote manipulation, and the influence of sanctioned oligarch Delyan Peevski and longtime power broker Boyko Borissov. The resignation extends Bulgaria's cycle of political instability, with the country now facing the prospect of its eighth election since 2021 and another interim caretaker government. While euro adoption on January 1st is expected to proceed, the collapse underscores persistent rule-of-law challenges in one of the EU's most corruption-prone member states and opens new political space for President Rumen Radev, a popular but more Russia-skeptical figure whose rise could complicate Bulgaria's alignment within the EU and NATO.
- **The European Union moved this week to effectively soften its planned 2035 ban on new combustion-engine vehicle sales,** marking the bloc's most significant retreat from Green Deal climate policy amid mounting pressure from automakers and intensifying competition from China. Under proposals unveiled by the European Commission, carmakers would be allowed to continue selling limited numbers of petrol and diesel vehicles, plug-in hybrids, and range-extender EVs after 2035, with emissions targets eased from a 100 percent cut from 2021 levels to roughly 90 percent. The shift reflects growing concern in Germany, Italy, and across Europe's auto sector that slower-than-expected EV adoption, weak profitability, high energy costs, and an influx of cheaper Chinese models have left manufacturers exposed. While Brussels framed the move as pragmatic flexibility, critics warned it risks slowing investment and

widening Europe's technological gap with China, whose automakers have already adapted by expanding hybrid exports in response to EU tariffs. The timing, following renewed China–EU trade talks and broader signs of a global EV “reset,” underscores how industrial competitiveness and trade pressures are increasingly reshaping Europe's climate ambitions.

- **Germany approved a roughly €50 billion defense procurement package this week, underscoring Berlin's accelerating rearmament as it confronts a more hostile security environment shaped by Russia's war in Ukraine and uncertainty over long-term US commitments to Europe.** The Bundestag's budget committee signed off on purchases spanning air and missile defense, armored vehicles, satellites, drones, and basic equipment such as uniforms and protective gear, pushing total approved military acquisitions this year to a historic high. Under Chancellor Friedrich Merz, Germany has gone further than its post-2022 *Zeitenwende* by exempting defense spending from debt limits, pledging to raise military outlays to around 3.5 percent of GDP by 2029 and positioning the Bundeswehr to become Europe's strongest conventional force. The scale and speed of approvals signal a shift from rhetoric to execution, while also fueling a surge in European defense stocks and highlighting how security imperatives are reshaping fiscal policy, industrial priorities, and Germany's role as a central pillar of NATO's eastern defense.
- **Market Implications:** European markets are balancing geopolitical uncertainty and policy shifts. Peace-talk headlines and EU debates over using frozen Russian assets keep defense stocks strong, while Brussels' move to ease the 2035 internal combustion engine ban offers near-term relief for automakers amid ongoing EU–China tariff negotiations. Political instability in Bulgaria ahead of euro adoption adds volatility to peripheral assets. Looking ahead to 2026, defense and cybersecurity remain top-performing sectors, supported by sustained security concerns and investment, while autos offer selective upside despite capex and China-policy risks. Clean-tech valuations face pressure from policy uncertainty, and energy-intensive industries stay neutral until gas and sanction dynamics settle. Rates may rise as global yield pressures spill into Europe, with ECB policy staying cautious, favoring aerospace-defense, cyber, and real assets for resilience.

## China, India, and Japan

- **Indian Prime Minister Narendra Modi hosted Russian President Vladimir Putin this month in a high-profile summit** that underscored New Delhi's renewed hedging strategy amid strained ties with Washington and a shifting global order. The visit, Putin's first to India since 2021, highlighted the durability of the India–Russia relationship through pledges to deepen cooperation on defense, energy, nuclear power, and trade, even as US pressure mounts on India to curb purchases of discounted Russian oil and Washington raises tariffs on Indian imports to 50%. For Putin, the trip reinforced Moscow's claim that it is not diplomatically isolated and remains a viable partner in Asia as it seeks to reduce overdependence on China. For India, the optics and substance of the meeting reflected a familiar strategy of strategic autonomy: maintaining ties with Russia to secure energy supplies, sustain defense readiness, and preserve Moscow as a continental counterweight to Beijing, while avoiding any overt mediating role on Ukraine. The summit illustrated how geopolitical competition, sanctions pressure, and great-power rivalry are increasingly shaping India's foreign policy choices, even as New Delhi works to balance relations with all major powers rather than align fully with any one camp.
- **China–Japan tensions have continued to escalate this month following Prime Minister Sanae Takaichi's public assertion that a Chinese use of force against Taiwan could pose a “survival-threatening situation” for Japan,** remarks Beijing interpreted as signaling potential Japanese participation in collective self-defense. Beijing escalated military signaling with repeated radar lock-on incidents against Japanese jets near Okinawa and joint bomber patrols with Russia, prompting Tokyo to summon China's ambassador and accelerate defense deployments in the Ryukyu chain. China reinforced pressure through UN protests, propaganda campaigns framing Japan as reviving WWII militarism, and economic coercion targeting tourism, student exchanges, and seafood imports. The US and Japan conducted joint exercises featuring B-52 bombers and F-35 fighters, underscoring alliance solidarity amid growing uncertainty. Analysts warn these developments have reset bilateral relations to a more adversarial baseline, increasing the likelihood that future crises will be more frequent, militarized, and difficult to contain. The crisis has also exposed US ambiguity under the Trump administration, frustrating Tokyo even as Washington urges allies to

shoulder greater responsibility in a Taiwan contingency.

- **Hong Kong’s High Court convicted pro-democracy media tycoon Jimmy Lai this week on multiple national security charges**, a landmark verdict that could see the 78-year-old founder of Apple Daily sentenced to life in prison and that **underscores the final dismantling of the city’s political and press freedoms**. Lai was found guilty of conspiring to collude with foreign forces and to publish seditious materials, with judges portraying his advocacy for sanctions and meetings with Western officials as an effort to undermine the Chinese Communist Party. The case, closely watched by the United States, the United Kingdom, and the European Union, has become a global barometer of Beijing’s use of the 2020 national security law to criminalize dissent and recast the 2019 protests as a foreign-backed “color revolution.” Western governments condemned the verdict as politically motivated, while Beijing defended it as a matter of law and sovereignty. Coming amid the collapse of Hong Kong’s remaining opposition parties and declining electoral participation under the “patriots only” system, Lai’s conviction marks a symbolic endpoint to Hong Kong’s pro-democracy movement and reinforces the city’s transformation from a semi-autonomous political space into one fully aligned with mainland China’s security priorities.
- **As of mid-December, the United States and India are in the final stages of high-stakes negotiations to resolve the trade crisis that escalated earlier this year**. Following a recent phone call between President Donald Trump and Prime Minister Narendra Modi, officials report that the two nations are “very close” to finalizing a framework trade deal. India is seeking the removal of 50% tariffs imposed by the US in August of this year, as retaliation for India’s continued purchase of Russian oil. The countries are pursuing two negotiations simultaneously: a trade to immediately address tariffs, and a comprehensive Bilateral Trade Agreement for long-term cooperation. Hope for a mutually beneficial deal have been bolstered by the US National Security Strategy for 2025, which called India an “important strategic partner” in the Indo-Pacific, despite the sanctions from the continued purchase of Russian energy.
- **Saudi Arabia’s Public Investment Fund (PIF) announced a massive expansion of its investment and economic relationship with Japan**. The PIF aims to increase its investments in Japan to \$27

billion by 2030, up from \$11.5 billion over the last eight years. Other areas of cooperation include strategic partnerships with major Japanese lenders, including Mizuho Bank, Sumitomo Mitsui, and MUFG Bank. With Saudi Arabia also investing heavily into artificial intelligence and robotics, the Kingdom is likely leveraging Japan’s industrial expertise through closer ties. Japan has also been actively seeking to partner with Saudi Arabia to develop its estimated \$2.5 trillion in mineral deposits, including rare earths, so that it can secure its supply chains. Additionally, new ETFs that track Saudi assets have been launched on the Tokyo Stock Exchange, so as to encourage reciprocal investment from Japanese retail and institutional investors.

- **Market Implications:** China–Japan friction over Taiwan remarks has raised supply-chain risk and JPY volatility, favoring a quality tilt in Japan and reduced China exposure in autos and tech. India’s deepening energy and defense ties with Russia continue to support refining margins, though sanctions optics cap defense PSU upside, while US–India trade talks remain uneven, tariff relief would boost IT, pharma, and autos. Looking ahead to 2026, India’s equity markets are expected to post strong earnings growth driven by domestic demand and infrastructure-led capex; Japan should benefit from corporate reform, wage gains, and industrial investment; and China is projected to grow around 4.5–4.8%, supported by export recovery and industrial upgrading in EVs and tech, though it continues to suffer economic headwinds especially in its property sector. Investors should favor quality, domestically oriented names—defensive and reform-driven stocks in China, consumption and reform plays in Japan, and infrastructure, autos, and tech in India—while remaining cautious on policy-sensitive sectors like China-exposed autos and tech suppliers.

## Suggested Reading

[The year in review: the stories that defined 2025](#)  
*The Economist*

[Why Peace in Ukraine Remains a Distant Prospect](#)  
Ian Bremmer, Project Syndicate

[China’s Long Economic War](#)  
Zongyuan Zoe Liu, *Foreign Affairs*