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POLICY BRIEF

2025: YEAR OF THE MIDDLE POWERS

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As geopolitical competition among superpowers intensifies, fragmenting the global economy and financial system, the role of middle powers has attracted much attention from policymakers and analysts. While there is no generally agreed list of middle powers, the term is intuitively understandable and has been used widely as referring to countries ranked below a handful of great powers, but significant enough to be able to act in response to external stimuli with some agency and with some impact, especially regionally. This group of countries will likely be put under pressure by the twin shocks of Trump 2.0 and China's ever growing manufacturing prowess. The twin shocks have been well documented in the case of the Association of South-East Asian Nations (ASEAN) in a Hinrich Foundation report (January 2025), but the pressure is also on middle powers in general, especially those aspiring to promote their manufacturing sectors to spur growth.

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In his second term as U.S. President, Donald Trump faces far fewer constraints than in his first term to his unilateral and transactional approach to promote his 'America First' agenda. The already strained international situation is likely to become more uncertain, unpredictable, and divisive. Moreover, the U.S. administration will likely be more assertive in dealing with countries seen as taking advantage of the U.S. These developments should incentivize countries that can to take measures to limit their vulnerability and sustain their economic development, while navigating the difficult geopolitical situation. Their efforts will turn a spotlight on them.

To gauge middle powers' reactions, areas to monitor include efforts to reconfigure trade and investment flows to manage the impacts of tariffs while dealing with China's growing manufacturing exports; measures to benefit from the great power race to secure access to critical minerals; navigating the intensified geopolitical conflict potentially at higher costs; and more *ad-hoc* coalition building among middle powers and other countries to deal with the challenges.

WHICH ARE THE MIDDLE POWERS?

The term 'middle power' has been attributed to the sixteenth century political thinker Giovanni Botero, who in his book *The Reason of State (1589)* (republished in 1956 by Yale University Press) divided the world into three categories: great powers (grandissime), middle powers (mezano), and small powers (piccioli). According to him, a middle power *"has sufficient strength and authority to stand on its own without the need of help from others"*. Moreover, middle powers are *"exposed neither to violence by their weakness nor to envy by their greatness, and their wealth and power being moderate, passions are less violent, ambition finds less support, and license less provocation than large states"*.

More practically, there are two approaches to the definition of middle powers. The first looks at capacities of countries in terms of factors including population size, economic development track record and GDP, and natural-resource endowments. These metrics matter in enabling a state to act on its own, but are not always sufficient in prompting action. The second approach examines behavior, in particular the exercise of foreign policy, gauging the influence a state can build up with peer countries to achieve a specific objective. In reality the two approaches are complementary, allowing a flexibly delineated group of a few dozen or so middle powers to be identified. These are situated below the super powers (the U.S. and China) and great powers (say the other G7 member states and Russia), but above most of the world's countries, which are mostly in the lower-middle-income and low-income groups. These small powers really are 'price takers'—passively responding to external developments without any expectation of changing them, and accepting whatever assistance the international community can offer during crises.

It is important to keep in mind that the list of middle powers is not fixed, and those countries need not be active all the time on all issues everywhere in the world. In other words, some countries can act in ways expected of a middle power on the issues important to them, but remaining inactive on other issues.

In recent years, there have been several examples of countries fitting the above criteria. The sample below is meant to be illustrative, not exhaustive.

Turkey has been very active in its foreign policy, extending its influence regionally and beyond. Maintaining dialogue with both Russia and Ukraine since the start of the war, Turkey was in a position to broker the UN-sponsored Black Sea Grain deal in July 2022, helping alleviate the shortages in global markets that were pushing up food prices to the detriment of low-income countries. Turkey was instrumental in engineering an agreement between Ethiopia and Somalia to end their bitter dispute over maritime access. Turkey also provided substantial support to the forces overthrowing Assad's regime in Syria. Finally, Turkey has reportedly tried to end Sudan's civil war.

By virtue of holding the annual rotating Presidency of the G20, Saudi Arabia, Indonesia, India, Brazil, and South Africa have been in the limelight for their efforts to guide the group's member states to produce results at G20 Summits. They have all taken steps to promote their national strategic agendas.

Vietnam has been quite active in upgrading its diplomatic relationships to strategic levels or above (comprehensive strategic levels), covering 20 countries including all five permanent UN Security Council members—out of 191 countries it maintains diplomatic relations with. The elevated levels of relationships convey the intention of concerned countries to hold intensive consultations on international and regional situations, seeking to deepen cooperation.

Together with Vietnam, Indonesia, Poland, Mexico, and Morocco have become the so-called "*connector economies*"—able to attract more trade and investment from both the U.S. and China thanks to their adroit positioning between the two. However, some of those countries could be tested by Trump's threats of tariffs to rectify growing U.S. bilateral trade deficits.

Lastly, several countries in the Western camp have become more visible because of their important roles in regional security dynamics—for example Poland in the war in Ukraine, and Australia and South Korea in the Indo-Pacific region.

NAVIGATING THE TWIN SHOCKS: TRUMP'S TARIFFS AND CHINA'S MANUFACTURING OVERCAPACITY

Many countries, especially among the middle powers, found ways to cope with the geopolitically driven fragmentation of the global economy under Trump 1.0 and Biden. Tariffs and restrictions of high-tech transfers implemented by the U.S., and to a lesser extent other G7 countries, against China and Russia have triggered a noticeable reconfiguration of global supply chains through shifts in international trade and investment flows. Importantly, there is a risk that tariffs will become a permanent feature of U.S. economic policy regardless of changes in trade balances. Specifically, Trump and Howard Lutnick, his Commerce Secretary, have expressed admiration for the economic model of the twenty-fifth President William McKinley (1897-1901), helping America grow rich with high tariffs and no domestic income taxes.

As a result of U.S. restrictive measures, China has lost almost half of its share of U.S. imports—from 22% in 2018 to 11.5% in 2024. Its lost share has been more than made up other countries, which have increased exports to the U.S.

It is important to stress that those countries, in turn, have received significantly more imports from China—especially in components and intermediate goods with which to assemble finished products to be shipped to the U.S. and Europe.

China has also been able to diversify its trade away from the U.S. in favor of countries in the Global South—so that China now trades more with Global South countries than with all developed countries combined. The U.S. now takes 15% of China's exports, down from 20% in 2018. Furthermore, ASEAN as a group has emerged as China's largest trade partner, ahead of the EU and U.S. Impressively, despite U.S. tariffs and restrictions, China's exports jumped to $3.6 trillion, with a record trade surplus of almost $1 trillion, in 2024.

However, the newly reconfigured and lengthened global supply chain—according to which China exports intermediate goods to third countries, which assemble them into finished products to ship to the U.S. and Europe—is unsustainable for two reasons.

First, despite tariffs and restrictions on high-tech transfers, the U.S. goods trade deficit has worsened, widening from $792 billion in 2017 to an estimated $1.1 trillion in 2024. While the U.S. deficit with China has fallen moderately from $375 billion to $300 billion, its deficit with Mexico rose visibly from $69 billion to $167 billion, and Vietnam from $38 billion to $120 billion. China, Mexico, and Vietnam are the three countries with which the U.S. has the largest goods trade deficits. In contrast to President Biden, who paid little attention to bilateral trade deficits, Trump has consistently considered them as evidence of unfair trade practices by other countries, taking advantage of the U.S. Trump has promised to put a 10%-20% tariff on all goods entering the U.S., and 60% on China. In addition, he has threatened tariffs on Mexico and Canada because of the flows of illegal immigrants to the U.S., on China for the flows of fentanyl, and on the BRICS countries for trying to develop alternative cross-border payment mechanisms to bypass the U.S. dollar.

Second, the growing trade with China has begun to turn from being a positive to a possible problem, at least for some middle powers—those aspiring to promote and upgrade their manufacturing sectors to develop and modernize their economies. The model of assembling intermediate goods imported from China to export to the West has probably run its course. Further growth based on this model will likely be constrained by possible U.S. retaliatory tariffs.

Meanwhile, China has doubled down on increasing manufacturing capacity and exporting to sustain its faltering economic growth, building up overcapacity (production well exceeds domestic demand) in green-technology products including electric batteries, electric vehicles, solar panels, and wind turbines, and in old-tech products such as steel, cement, and a whole range of consumer goods. China's share of global manufacturing output has continued to rise, from 6% in 2000 to 31% now, and is expected to reach 45% by 2030 according to the United Nations Industrial Development Organization (UNIDO). To accommodate China, the share of global manufacturing output of other countries will have to shrink. For example, the U.S.'s manufacturing share has fallen from 25% to 16.3%, and is expected to decline further to 11% in 2030.

Local industries in ASEAN countries such as Thailand and Indonesia have faced acute competitive pressures from Chinese imports in a wide range of products, from textiles to combustion-engine automobiles, leading to widespread plant closures. The situation has worsened further as Chinese e-commerce giants such as Alibaba, Temu, and Shein have flooded many Southeast Asian markets with competitively priced home-delivered consumer goods. This has led to reactions from those countries, including application of tariffs on Chinese steel imports by Malaysia, Thailand, and Vietnam, and tightening regulatory scrutiny of the Chinese e-commerce companies.

Outside Asia, Brazil has put tariffs on Chinese EVs, which have flooded the Brazilian market, threatening local producers—tariff rates will rise gradually to 35% by July 2026. This is in line with the tariffs imposed by the U.S., EU, and Canada on Chinese EVs and other clean-energy products. These developing countries, however, must perform a delicate balancing act when imposing tariffs on Chinese imports to protect their domestic manufacturers because they still want to maintain substantial trade and investment relationships with China.

In short, a number of middle powers will be squeezed between Trump's tariffs—especially against countries running large bilateral trade surpluses with the U.S.—and the competitiveness of manufactured products from the only manufacturing superpower in the world: China. How those countries navigate the twin shocks in pursuing a manufacturing-based development strategy will be a defining feature of at least the next four years.

"THE U.S. WILL BE TAKING NAMES": RAISING THE COST OF ACTING CONTRARY TO U.S. INTERESTS

Nikki Haley, former U.S. Ambassador to the UN under Trump 1.0, made that statement in her effort to prevent many UN member countries from voting in 2017 for a resolution criticizing the U.S. for unilaterally recognizing Jerusalem as Israel's capital and moving its embassy in Israel there from Tel Aviv. At the time, President Trump was more blunt, threatening to cut off financial aid to countries that voted in favor of that resolution. In the event, a strong majority of 128 nations voted in favor of the resolution, and the U.S. significantly reduced financial aid to Palestine.

In late 2019, the Trump administration drafted a policy directive to overhaul the way financial aid was handled, stopping sending aid to countries that do not side with the U.S. in international disputes, or that align themselves with U.S. rivals such as China. It is likely that such a policy will be taken up in the new Trump administration as part of the move to cut federal spending including foreign aid programs. Trump has already suspended US foreign assistance for 90 days pending review. The U.S. provided $64.7 billion in 2023, the largest volume of Official Development Aid (ODA); but at 0.24% of GDP, it ranks twenty-fifth out of the 32 members of the OECD's Development Assistance Committee.

More generally, other policy tools beyond financial aid—such as trade—will also be used to push back against countries perceived by Trump to have taken advantage of the U.S., whether in trade like China, or in relation to the U.S. defense umbrella, such as NATO members, or of U.S. aid, including many developing countries. This has been a point consistently stressed by him since his first term as President.

In fact, this muscular differentiation was evident in the Framework for Artificial Intelligence Diffusion, announced in the final weeks of the Biden administration. This policy aims to control the sales of AI chips—such as those made by Nvidia—by designating only 18 trusted countries as having unfettered access to them, excluding many allied countries including 17 European Union countries. Most notable among them are Poland, a strong supporter of the U.S., for hosting the rail gateway from China to Europe through the recently launched Guangzhou International Port-Warsaw lines; Portugal for being the shipping gateway from China to Europe through the port of Sines; and Luxembourg for serving as China's banking gateway to Europe. All three participate in China's Belt and Road Initiative (BRI).

Under President Trump, the event to watch for is how the Republican-controlled Congress will decide whether to remove South Africa from the beneficiaries of the African Growth and Opportunities Act (AGOA), as part of the debate about extending this legislation launched in 2000. Several lawmakers, mostly Republican, have proposed such an exclusion in response to actions by South Africa perceived to be contrary to U.S. interests.

The increasingly muscular U.S. approach to foreign relations would limit the room for maneuver available to middle powers. Several observers have expressed the view that key middle powers can play an important role in shaping the multipolar world by not taking sides between China and the U.S., instead fostering cooperative solutions involving many other countries. Danny Rodrik has identified six middle powers—India, Indonesia, Brazil, Turkey, South Africa, and Nigeria—able to lead on many pressing issues. In a *Foreign Policy* article (June 2023), Cliff Kupchan asserted that six middle powers—or swing states (Brazil, India, Indonesia, Saudi Arabia, South Africa, and Turkey, all members of the G20)—*"will decide the future of geopolitics"*. This may or may not be the case; it is not clear if the countries mentioned by those authors could withstand threats of retaliatory measures by either superpower, in case they take independent actions not to the superpowers' liking. What is clear is that for most middle powers, the preferred approach of not taking sides will probably become more difficult to execute and probably will no longer be cost-free, as it has been so far.

In particular, middle powers are vulnerable because economic statecraft has become the weapon of choice by superpowers—especially the U.S.—as they continue to be deterred by nuclear mutual assured destruction (MAD) from engaging in open kinetic warfare. Economic statecraft refers to the use of sanctions and restrictions on trade and investment flows, especially of high-tech goods, including tariffs, quotas, embargoes, and controls on imports, exports, and in-bound and out-bound investments. Primary sanctions, and counter sanctions—between the principal geopolitical opponents, i.e. the U.S./Europe versus China/Russia—would slow global economic growth to the detriment of other countries, especially those relying on exports to stimulate growth. Secondary sanctions imposed on third countries and companies for violations of primary sanctions could hinder efforts by many middle powers to maintain economic relations with both sides, raising the costs of doing so.

OPPORTUNITIES CREATED BY THE RACE TO SECURE ACCESS TO CRITICAL MINERALS

The geopolitical conflict is likely to be intensified under Trump 2.0, complicating the race among great powers to secure access to critical minerals, necessary for the transition to clean and renewable energy and products. Competition among great powers, however, would create opportunities for those middle powers that possess sufficient amounts of reserves of critical minerals—including lithium, cobalt, nickel, and rare earth minerals—to drive hard bargains with investing countries for mineral deals involving downstream activities and infrastructure development.

Much attention has been focussed on Indonesia, which a decade ago banned the export of raw minerals in order to induce international companies from the West and China to invest in refining and processing activities, to facilitate Indonesia's move up the value chain. Several useful lessons can be gleaned from Indonesia's experiences. The strategy has been successful in the case of nickel, critical for making EVs and batteries. Indonesia possesses 42% of the world's known nickel reserves. It has been able to significantly lift its share of global nickel extraction from 5% in 2015 to 50% in 2023, becoming the largest nickel producer in the world. Investment in Indonesia has surged from $3.6 billion in 2019 to $11 billion in 2022, most of which has come from China, raising the value of nickel exports from $3 billion to $30 billion over that period. There have been costs as well, including environmental degradation in the mining areas, dislocation of local communities, and poor labor practices. All these need to be addressed.

By contrast, the strategy of banning raw mineral exports has not worked out for copper and bauxite. Three important lessons can be distilled.

First, a country that wants to leverage its reserves must be in a commanding position in the share of critical mineral, sufficient to prevent foreign investors from switching to alternative sources. For Indonesia, this is the case for nickel, but not bauxite.

Second, the value addition from extraction to refining has to be substantial enough to make it worthwhile both for the host country and foreign companies. Again, this is the case for nickel but not copper in Indonesia.

Third, the host country needs to provide an appropriate overall legal and regulatory environment including investment incentives, adequate infrastructure including energy supply, and sufficient supply of workers who are already skilled or ready to be trained. In other words, banning the export of raw materials by itself would not necessarily produce the results seen in Indonesia's nickel sector.

These lessons can be useful to several African countries trying to implement a similar strategy.

Zimbabwe, Ghana, and Namibia have banned exports of raw lithium. The Democratic Republic of Congo, Zambia, Zimbabwe, and Mali have done the same for cobalt. So far, China has stepped up its investment in minerals in African countries—not only in extraction but increasingly in refining and processing, to meet the expectations of host countries. However, not much investment has come from Western companies, which have been deterred by a perception of unfavorable risk-return tradeoffs in African mineral processing activities. This could work to strengthen China's already dominant position, which accounts for 85% of the world's mineral processing capacity.

COALITIONS OF THE WILLING AMONG MIDDLE POWERS

In response to the surge in restrictive trade measures among G20 countries, others, especially the middle powers, have tried to negotiate free trade agreements (FTAs) with big trading blocs, in particular the EU. Most noteworthy have been the conclusions of long-pending FTAs between the EU and Mercosur (consisting of Argentina, Brazil, Paraguay, and Uruguay) and between the EU and Mexico.

Regional trading blocs have also tried to trade more with each other. While Europe has been the most integrated trading bloc with intra-European trade persistently around 60% of total trade, Asia has become the second most integrated trading area, with intra-Asian trade accounting for 57% of the total, up from 54% in 2000. By contrast, Africa has seen its intra-continental trade share fall, from 21% between 2015-16 to 15%, while the intra-Latin American trade share remains the lowest at 14%. The African Continental Free Trade Agreement (AfCFTA) is expected to meaningfully raise the share of intra-continental trade when fully implemented.

Middle powers should try to spearhead efforts to increase trading and other economic interactions within their geographical regions, and with developing countries in general. Indeed, according to the World Bank's Global Economic Prospects, trading among developing countries has accounted for 40% of their overall trade, doubling the share observed in 2000. As emerging markets and developing countries (EMDCs) now account for 45% of global GDP, contributing 60% to global growth, trading more among themselves would be meaningfully useful in sustaining their trade and growth, reducing their vulnerability to the actions of great powers.

Moreover, middle powers should step up their South-South cooperation, going beyond increased trade and investment to providing more financial aid, not only for humanitarian reasons but for development and climate mitigation and transition efforts. One example is the billions of dollars invested in Ethiopia's industrial parks by countries including China, India, Saudi Arabia, and Turkey, revitalizing key sectors such as textiles, manufacturing, and agribusiness. These have helped Ethiopia grow by more than 9% per year in the past decade.

Generally, middle powers should reach out to their peers to foster consultation, which can lead to common positions on issues facing them, strengthening their voices in international forums. While the BRICS has commanded much attention, having grown to 22 full members and partner countries, with many waiting in the wings, it is not the only game in town.

Indeed, several groups have existed and can be upgraded. These include IBSA (a dialogue forum of India, Brazil, and South Africa), and BASIC (Brazil, South Africa, India, and China). The G77+China was influential at COP 28 in Dubai (pushing for a Loss and Damage Fund) and COP 29 in Baku (pushing for a $1.3 trillion commitment by developed countries to aid climate efforts of developing countries). The G15, consisting of 17 members in Africa, Asia and Latin America—without China nor Russia—aims to promote growth and prosperity including by reforming the world trade system. The G33 driven by India, Brazil, Indonesia, and South Africa, together with other members of the Cairns group of agricultural exporting countries, has become more vocal in promoting stockpiling for food security.

CONCLUSIONS

Confronted by intensifying geopolitical tension and strong pulls by the great powers in their strategic competition, middle powers have been pushed to reach out and form 'coalitions of the willing' that would take common measures to protect their interests, while reducing risks of retaliation by either great power. Such coalitions will likely proliferate, varying in memberships and issues, in the process embodying the concept of multipolarity. And 2025 is a good window for that approach. As Matias Spektor argued in *Foreign Affairs* (January/February 2025), *"the rising agency of the global South and the expanding geopolitical consciousness of its peoples have fundamentally altered the dynamics of global power"*, setting the stage for the rise of nonaligned countries.

Against that backdrop, it is equally important that key middle powers should choose the right battles to fight—focussing on the most important issues to maximize support. During 2025, several important international gatherings will test the mettle of important middle powers that will be chairing those meetings. The BRICS Summit will be held in July 2025 in Rio de Janeiro, Brazil, offering a test of whether President Lula can get the moderate members of the group to focus on finding ways to negotiate changes in the international economic and financial architecture, and to promote South-South cooperation, instead of allowing the group to be used as a platform for anti-West rhetoric. The COP 30, also chaired by Brazil in Belem in November 2025, will face the challenges of moving on after the unhappy compromise on climate funding reached at the end of COP 29 in Baku, with the US again having withdrawn from the Paris Agreement and Argentina likely to follow suit. Lastly, the 2025 G20 Summit will take place in Johannesburg, South Africa. Among the subjects usually discussed at G20 meetings, including climate financing, improving the Common Framework for Sovereign Debt Treatment would probably be easiest to build consensus on. Specifically, the Common Framework should be widened to include vulnerable countries in the lower-middle-income group. In addition, its negotiating process could be changed from sequential to comprehensive, involving all creditor groups at the same time, in one setting or in parallel, to avoid substantial delays.

In short, progress on tackling important issues, in particular at the summits mentioned above, and evidence of whether key middle powers can withstand threats of retaliation by great powers for not siding with one of them, will show if middle powers can come of age in 2025.

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In 2001-07, he served as the Deputy Director of the Monetary and Capital Markets Department, International Monetary Fund. Among other duties, he chaired the Editorial Committee of the Global Financial Stability Report, one of the IMF's flagship publications. In the previous two decades, he worked as senior economist, chief economist and global head of research of Rabobank International, Deutsche Bank, Merrill Lynch and Salomon Brothers; having been posted in New York, Frankfurt, Singapore and London. Before that, he briefly taught Economics at New York Institute of Technology. Hung Tran has authored and published numerous articles and books on economics and financial markets, and has been interviewed and quoted extensively in the international media.

ABOUT THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions. Read more

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