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Redrawing Global Trade Flows. Redefining the Financial Map: Markets on the Verge of a Turnaround?

Beijing must be seeing something serious, for it to have ordered, in the early hours of Tuesday morning, its state-owned holding companies to increase their investments in their own shares and to encourage several listed companies to announce major buyback programs. Everything indicates that the Chinese authorities are being forced to redouble their efforts to stabilize an increasingly fragile stock market. Why? The Trump administration seems determined to take relations with China to a historic turning point, threatening to revoke the "Permanent Normal Trade Relations" (PNTR) status granted to China since its entry into the WTO in 2001. A gesture that goes far beyond the symbolic: it would mean the definitive severance of trade ties between the two powers. It is worth remembering that this offensive did not begin with Trump. During Biden 's presidency , the legislative groundwork was laid to reverse the PNTR, the result of an unusual bipartisan consensus on foreign policy. As former U.S. Trade Representative Robert Lighthizer warned, “The consensus in Washington is clear: we must rebalance our relationship with China, even if it entails short-term costs.” It was at this stage that legislation was drafted that contemplated a 42% tariff as a tool to dismantle the existing trade relationship between the two countries. Trump translated that legislation into action, raising the tariff to the notorious 54%. China responded with 34%, and Trump redoubled the pressure to a blanket 104% tariff on Chinese goods. My fear? As Derek Thompson wrote in The Atlantic, “The endgame is that there is no endgame; only the infinite game of power.”

The Trump administration is seeking to revoke China's Permanent Normal Trade Relations (PNTR) status since joining the WTO in 2001.

From any angle, the outlook for China looks bleak. Beijing's decision to respond with a 34% tariff is intended to strike back, but it will hardly succeed in restoring what is being lost. There is no doubt that the country that held the trade surplus—some $300 billion—and is about to lose it, will bear the brunt of the adjustment. What Beijing does next will determine its long-term position. Some analysts argue that we should prepare for new responses from China: more tariffs, expanded import controls, export controls on strategic components, and stifling controls on American companies operating in China. This hard line would be justified on the premise that China now has little to lose. I do not share that view.

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Certainly, the tariffs announced on April 2nd are likely enough to severely impact China's trade volume with the US, but not to completely dismantle it. In this context, China should focus on minimizing these losses. Continuing with a strategy of symmetrical retaliation does not seem the most appropriate approach (in this writer's humble opinion). Rather, it would be preferable to channel its efforts toward a stimulus package—both fiscal and monetary—and, if possible, in coordination with other economic blocs, with the goal of reviving global demand to compensate for the loss of traction in North America. If, on the other hand, it maintains its strategy of "responding" to tariffs with more tariffs, and Trump maintains the additional 50% tariff starting April 9th, bringing the total tariff on Chinese products to 104%, that would be enough to wipe out all of China's trade volume with the US.

According to Beijing's current narrative, China can weather deflation more easily than the United States can weather stagflation.

What option will it take? Well, according to Beijing's current version, China can weather deflation more easily than the United States can weather stagflation. A conclusion as uncomforting as it is mistaken—for I suspect China will experience more than just deflation—and certainly a reflection indicative of the path it has chosen: returning blow for blow. That would plunge China into a cycle of escalation in which it will de facto be abandoning its traditional "strategic patience"—a virtue recognized in Chinese foreign policy treaties since Deng Xiaoping . The risk, from here on, is that any additional tariffs matter very little, since the effectiveness of imposing new tariffs would be absolutely marginal. The current situation amounts to saying that, for both, conventional ammunition has been exhausted; therefore, there is a real risk that both actors will seek new instruments of pressure in non-trade spheres—including more severe geopolitical confrontations, such as the Taiwan issue—and that is what scares me.

One question arises in this scenario of the foreseeable collapse of trade relations between the two countries: What implications would this have for the global trading system and for the markets? The answer will depend on the roadmap Trump decides to follow, something I don't know for sure, but what I do know is what paths he has before him. And I believe I can anticipate what consequences each of them would have for the markets. I'll outline what, in my opinion, are the most likely options:

Route 1: Trump advances bilateral negotiations with countries seeking quick agreements. The EU does not adopt a retaliatory approach. (Probability 20%)

Trump is moving quickly and beginning to close deals with those countries awaiting negotiations for the immediate withdrawal of reciprocal tariffs. First on the list is Japan; followed by India, and then a series of Southeast

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Asian countries with latent tensions with China—Indonesia, the Philippines, Taiwan, and Thailand. Perhaps later, although in the background, regional nations with closer relations with Beijing, such as Vietnam, could join the list. I assume the major blocs—the European Union and Canada—will opt for a passive role, a "wait and see" stance, without retaliating.

On this **Route 1** , Trump could lean toward the path of **minimal agreements** : quick, somewhat superficial pacts with a significant number of countries. That could be enough to neutralize the financial chaos he himself has unleashed and which Trump himself undoubtedly wants to mitigate, as it threatens to spread to the US economy. Or he could opt for a **maximalist strategy** . Instead of seeking immediate consensus, Trump would use tariffs more strategically, pressuring countries to align with the United States against China, forcing them to impose tariffs on Beijing, and even restricting their direct investment in those territories with the ultimate goal of preventing China from repeating the strategy of using these countries' ports as re-export platforms—an effective way to circumvent the tariffs imposed on Chinese products. This option will take longer than the first.

If Trump closes quick, superficial agreements with a significant number of countries, we expect a moderate rebound in the markets of these signatory countries. The US will stabilize. Europe will be erratic and on the sidelines. China will be doing poorly.

Impact Route 1 - Minimalist version of quick and superficial agreements.

- **Asian signatory markets (Japan, India, others): Moderately positive** due to financial relief and the perception of an "alternative trade haven" in the face of the China-US collapse.
- **USA** : **Moderately positive** . The market welcomes the return of predictability with relief, although tensions with China persist. Quick agreements reduce uncertainty and stabilize trade with allies. Platform companies (North American) are expected to maintain part of their structures in some of these signatory countries.
- **Europe** : **Flat** . Europe is on the sidelines for the time being, with no agreements, but no retaliation. It's losing relative traction compared to the countries that have signed agreements.
- **China** : **Adverse.** Would be affected by China being cut off from its main export market.

Impact Route 1 - Maximalist version of strategic agreements. (More likely than the minimalist version, but will take longer) .

- **Asian signatory markets (Japan, India, others): Significantly positive . The US is pushing to create an** explicitly aligned economic bloc , and Japan, other countries (and perhaps India) are consolidating their position as strategic partners and gaining commercial clout.
- **USA: Stronger positive** . Consolidates and leads a new geopolitically aligned trade architecture.

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If Trump closes lasting deals with a significant number of countries, we expect a significant rebound. The US is

- **Europe: Slightly negative.** Trump forces alignments against China. Europe, by not joining the new axis, is once again somewhat isolated while waiting to establish its bilateral relations.
- **China: Very adverse.** China would be disconnected not only from its main export destination, but also from the Asian regional markets it routinely uses as re-export platforms.

Trade Representative Jamieson Greer has just downplayed the prospects of a quick resolution to the negotiations, stressing that "no waivers are contemplated in the short term."

Route 2: Trump advances in strategic bilateral negotiations with countries seeking quick but lasting agreements. Meanwhile, large blocs like the European Union choose to respond with measured and calculated retaliation. (Probability 70%)

This path can be considered a variant of Maximalist Route 1 (also slow), in which, while Trump advances agreements with numerous countries—mainly Asian—large blocs such as the European Union and Canada, emboldened by the firmness shown by China, also choose to respond (and this is the difference). In fact, both blocs have announced that they are considering retaliation against the latest US measures. Apparently, the latest blow Trump has dealt to Beijing has not deterred them. There are no signs that they are reconsidering their intention to respond, but this should not necessarily be interpreted as an inevitable escalation of the conflict. The fact that the EU maintains its intention to respond could be precisely because its "responses" are, in reality, of a modest nature, aimed more at public opinion and with no intention of provoking an escalation of the situation. European ministers, for example, decided on Monday to apply tariffs on US products in symbolic sectors such as Harley-Davidson motorcycles, dental floss, beef, cigars, and footwear; And bourbon has been removed from the list of goods to be "punished" to avoid hitting the European wine sector. In reality, what the EU is doing is not extending the suspension of the tariffs it used in response to the first tariff dispute with Trump. This is not, therefore, a new round of tariffs. Hopefully, for the sake of the financial world, this is a response framed within the framework of the " anti-coercive instruments" available to the EU, but with limited effects. That said, *it* 's worth mentioning the somewhat more rigid position of France and Germany, arguing that the EU should gain greater leverage before sitting down to negotiate. This is a strategy that undoubtedly carries risks from the perspective of financial stability. From this perspective, the European Commission's proposal for another extensive list of US products that will be subject to 25% tariffs starting May 16 is a risk. We shall see.

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Impact on markets of this Route 2:

- **Signatory Asian markets (Japan, India, and others): Sustained positive results.** The signatory countries are consolidating their position as strategic partners and gaining commercial clout.
- **USA: Mixed, with a positive bias if bilateral agreements proliferate,** but European retaliation generates tensions, although not strong enough to overshadow US progress with Asia.
- **Europe: Erratic** . Europe responds with symbolic retaliation. The open risk of US tariff counterattacks creates uncertainty. Stimulus expectations (post-election Germany) could offset this and avoid a technical recession.
- **China: Adverse** . The rift with the US remains, but Europe is not strategically aligned with Washington, which does not leave China so isolated.

The optimal scenario from a market perspective would be for the EU to avoid a new round of tariffs. To achieve this, it should focus on a moderate, limited-effect response.

Route 3: Trump does not open negotiations with any country (0-10% probability)

Trump maintains unacceptable conditions for most countries, such as the demand to eliminate—and not simply reduce—their trade deficits with the US. This rhetoric makes fruitful negotiations impossible, even with strategic allies like Japan and Germany. The result would be the current proliferation and maintenance of reciprocal tariffs, which would very likely trigger a synchronized global recession. As Carmen Reinhart, former chief economist of the World Bank, warned: *"Globalization is dying from an accumulation of trade wounds* . "

Paradoxically, this scenario—although devastating for all markets—would be the best scenario for China, as it would be equivalent to the US deciding to isolate itself from the rest of the world and, perhaps, would force other countries to strengthen their economic relations with China, which would become the center of gravity in the global economic landscape. But this is a very big "maybe." I wonder how resilient China really is to quickly assume that role. Or if the rest of the world would be willing to shift so abruptly toward China in a context of global recession. These are huge enigmas that don't admit quick answers.

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