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"In fact, the issue is always between two points"

Weekly
Political and Geopolitical
Developments

April 07, 2025

TEMA GRUP

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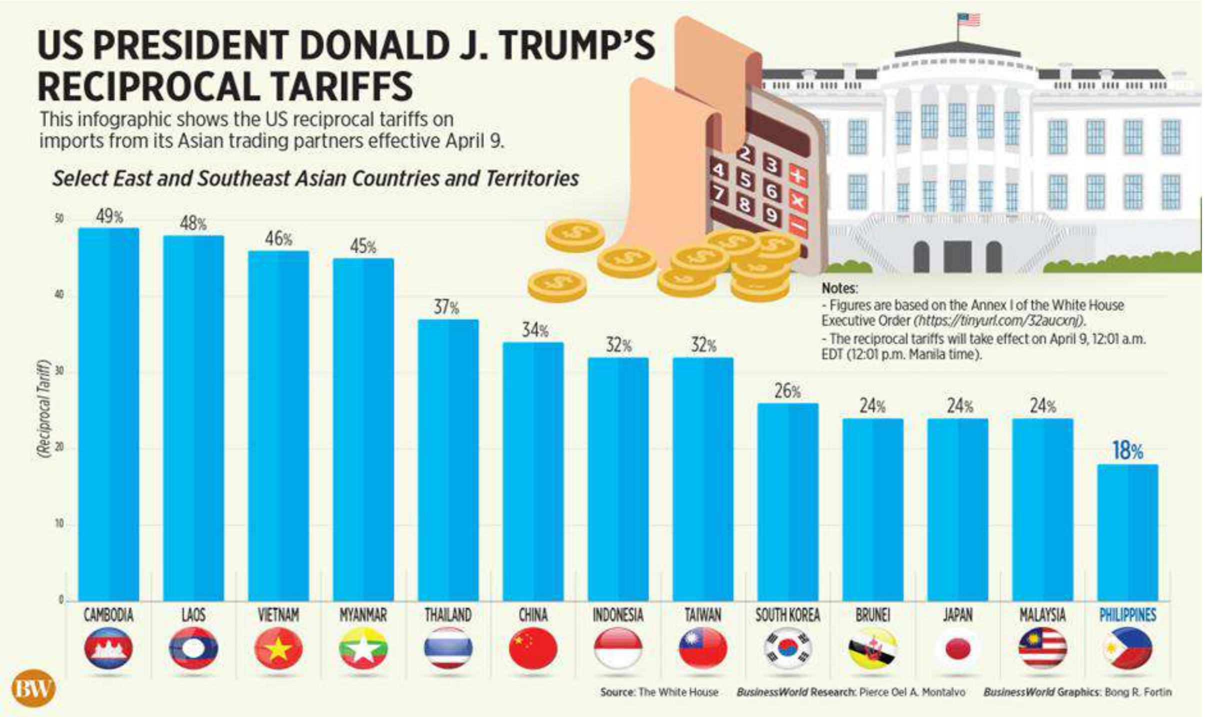
Geopolitical and Global Developments:

A CURRENT ANALYSIS ON THE GLOBAL ECONOMIC, GEOPOLITICAL SITUATION AND POTENTIAL DEVELOPMENTS FOLLOWING DONALD TRUMP'S NEW TARİFFS

Definition and Scope of the New Tariffs

At the beginning of 2025, U.S. President Donald Trump implemented new tariffs that caused a significant disruption in the global trade system. These tariffs impose a base tax of 10% on all imports to the U.S., with even higher rates for many of the country's major trading partners. For instance, tariffs on products from the European Union rose to 20%, while those from China increased to 34%, bringing the total new tariff rate on Chinese goods to 54%. Although close trade partners like Canada and Mexico are exempt from the base tariff, products that do not comply with North American trade agreement rules continue to face tariffs of up to 25%. The Trump administration has also temporarily exempted around one thousand product categories, including strategic items like crude oil, pharmaceuticals, and semiconductors.

These new tariffs represent a unilateral move that effectively rejects the post-World War II negotiated customs regime. Trump, pushing his "reciprocity" principle even further than in his first term, stated that these tariffs aim to counterbalance the barriers other countries impose on U.S. products. This approach signals a fundamental realignment in U.S. foreign trade relations, moving from an open market stance to a more protectionist one.



Initial Reactions in Global Markets

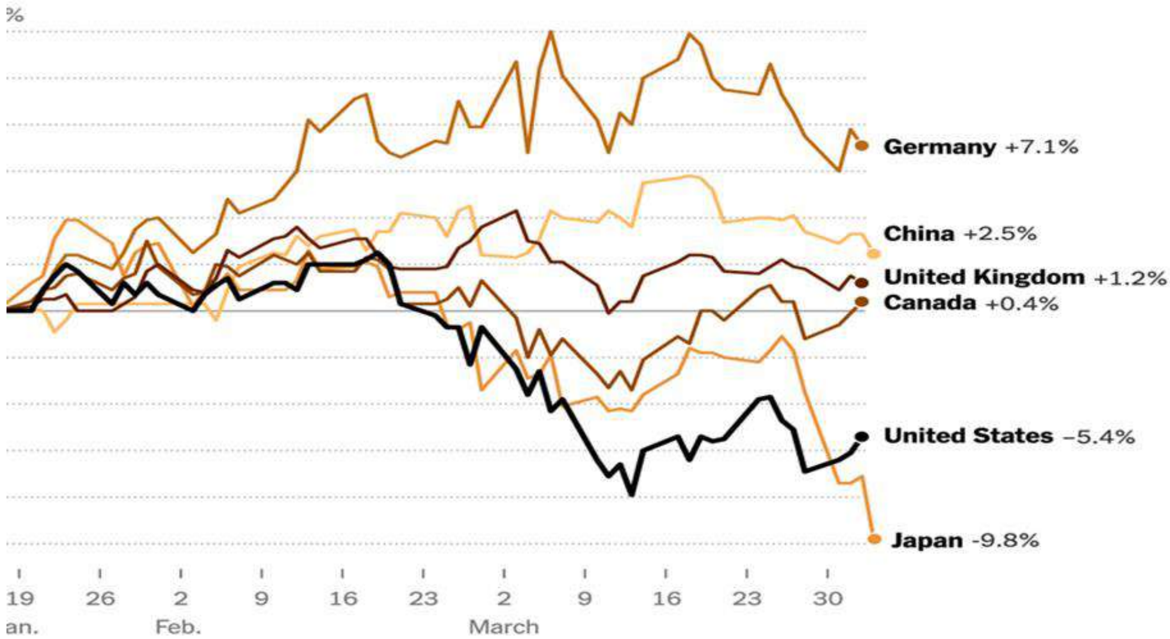
Since the announcement of Trump's new tariffs, global markets have faced sharp fluctuations and sell-offs. Immediately after the news, stock exchanges worldwide experienced accelerated losses as investors sought refuge in government bonds amid rising recession risks. The S&P 500 index in the U.S. lost $5 trillion in value within just two days, marking a record decline in stock market history. Tech stocks on the Nasdaq fell into a bear market[1], while the Dow Jones Industrial Average quickly retreated more than 10% from record highs.

European and Asian markets also recorded their sharpest weekly losses since the pandemic, with the Tokyo stock market plunging as banking stocks collapsed, dragging indexes to unprecedented lows. Commodity prices reacted similarly, with oil and industrial metals falling rapidly due to fears of a slowdown in global economic activity. U.S. crude oil prices plummeted within a few days, and industrial metals like copper followed suit, reflecting concerns about weakened global demand due to tariffs.

Meanwhile, the perceived safe-haven U.S. Treasury bonds saw increased demand, with the yield on 10-year notes dropping to a six-month low of 3.86%. Investors struggled to assess the potential economic damage of the tariff move, while risk indicators

[1] The bear market, also known as a "bear market," symbolizes a period when prices are in a downward trend and pessimism prevails in the market. To declare that a financial product has entered a bear market, the primary trend must first be downward, and there must also be a decline of 20% or more from the previous peak level. (https://www.halkbank.com.tr/tr/blog/ayi-piyasasi-nedir.html)

soared: the VIX, known as Wall Street's "fear index,"[2]surged above 40%, marking the highest close in five years, nearing panic-selling levels.
Currency markets also faced volatility, with the euro/dollar exchange rate reaching its highest fluctuation in two years. Initially, the Euro lost 1% against the dollar, while the dollar index exhibited unusual oscillations, reflecting market concerns about the U.S. economy.
The market performance during the first week following the tariff announcement was the worst since 2020, with the S&P 500 falling by around 9% throughout the week. This reaction indicates a state of "shock and anxiety" in global markets over the new tariff move.



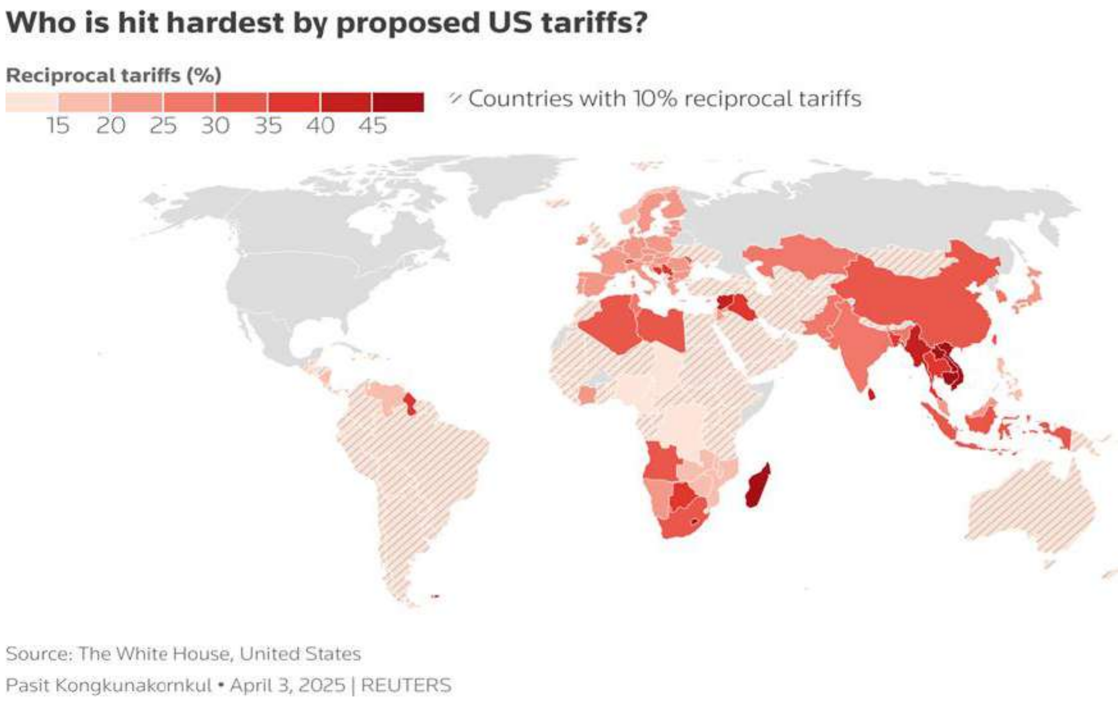
https://www.nytimes.com/2025/04/02/business/trump-tariffs-global-stock-markets.html

Economic and Political Reactions from Major Countries

The global response to Trump's tariff decision has varied, with different governments and leaders employing diverse economic and political strategies. Here is a summary of the first reactions and positions of key players:

- **United States (Washington):** As the decision originates from the U.S. administration itself, there was no direct "reaction" but rather domestic political repercussions. Trump insisted on maintaining the tariffs, describing them as the "largest trade move in the nation's history" and an "economic revolution." Despite some dissent from figures like Republican Senator Ted Cruz, who warned of the enormous risks to the U.S. economy, the administration maintained its stance, portraying market turbulence as a temporary "adjustment period."
- **China (Beijing):** Predictably, China reacted the most sharply, criticizing Trump's move as reckless and calling for "equal consultation." Beijing quickly retaliated with a 34% tariff on all U.S.-origin products and imposed export restrictions on rare earth elements critical to U.S. high-tech sectors. China also indicated the possibility of sanctions on American firms involved in arms sales to Taiwan.
- **European Union (Brussels):** The EU responded with cautious but determined diplomacy, seeking negotiations with the U.S. while warning of potential retaliatory measures. Internal divisions within the EU emerged, with France advocating a stronger response and other member states urging caution to avoid escalating tensions.
- **Japan (Tokyo):** Japan expressed deep concern over the tariffs, fearing severe impacts on critical sectors like automotive exports. Prime Minister Shigeru Ishiba labeled the situation a "national crisis," advocating for diplomatic solutions while considering limited retaliatory steps.
- **South Korea (Seoul):** South Korea aimed to balance its strategic partnership with the U.S. while protecting its export sectors, seeking exemptions through bilateral negotiations.Emerging Economies: Countries like Brazil and India exhibited varied responses, balancing between protecting their own interests and maintaining favorable relations with the U.S. Brazil criticized the protectionist move, while India cautiously addressed tariff impacts without risking strategic ties.

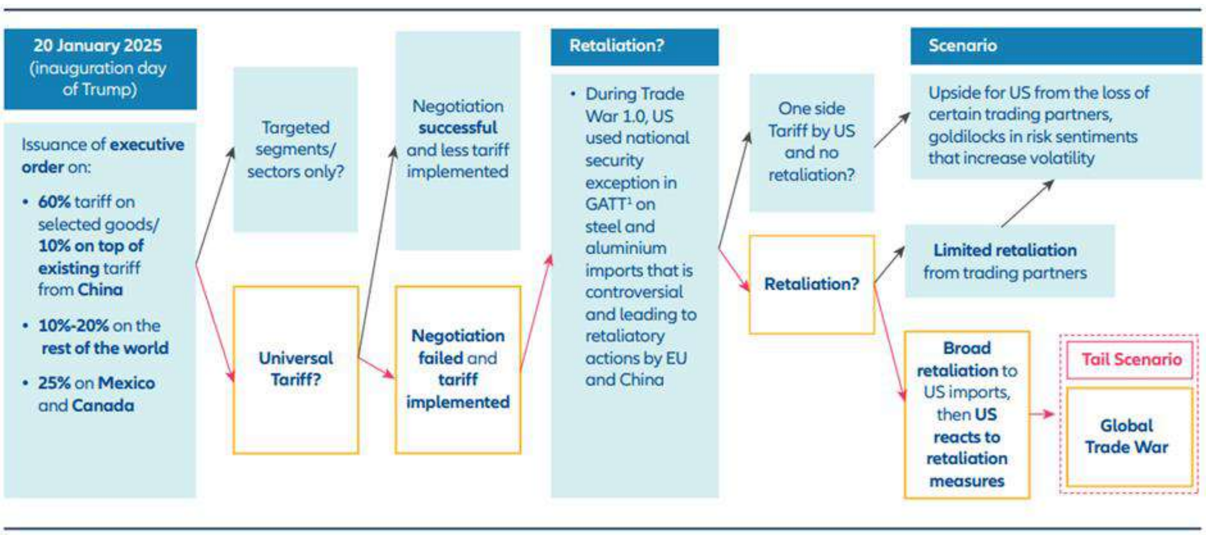
[2] The VIX, or volatility index, is a measure of implied volatility that can be observed within a short period. It was first created in 1993 by the Chicago Board Options Exchange (CBOE) to measure the expected 30-day volatility of the U.S. stock market.



Revival of Global Trade Wars

The new tariffs are reigniting fears of a global trade war similar to the 2018-2019 U.S.-China conflict, but on a broader scale. The unilateral U.S. move has not only affected China but also close allies, leading to a wave of retaliatory measures. The risk of a "tit-for-tat" escalation is palpable, and concerns over global economic fragmentation have resurfaced.

The revival of protectionism at levels unseen since the 1930s Great Depression threatens the multilateral trade system established after World War II. The tariffs have weakened the World Trade Organization's authority and prompted countries to form new trade alliances or restructure supply chains.



https://www.allianzgi.com/en/insights/outlook-and-commentary/new-world-re-order-trump-tariffs-reshape-supply-chains

Currency Wars and Their Effects

Alongside trade wars, currency wars are becoming a new battleground. In response to tariffs, some countries are manipulating their currencies to maintain export competitiveness. Trump has openly pressured the Federal Reserve to cut interest rates to weaken the dollar, while China may allow the yuan to devalue moderately.

The heightened volatility in currency markets could destabilize global financial systems, reminiscent of the 1930s competitive devaluations that exacerbated the global recession.

Global Trade Wars Resurfacing

The new tariffs have reignited concerns of a global trade war. The intense trade conflict between the U.S. and China in 2018-2019, which somewhat subsided at the end of Trump's first term, is now back on a larger and more intense scale. The new tariff package targeting 57 countries not only affects China but also nearly all major economies, including close allies, prompting countermeasures from all sides. As a result, the world appears to be entering a phase where "everyone is erecting trade barriers against everyone else." China retaliates, the EU debates countermeasures, Canada and others prepare their own defensive actions. The global trade system faces protectionist measures at a level not seen since the Great Depression of the 1930s.

Trump's tariffs have pushed U.S. trade barriers to their highest level in the last century, evoking a wave of protectionism similar to the 1930 Smoot-Hawley tariffs. This development threatens the core principles of the multilateral trade order established after World War II. The unilateral step taken by the U.S. has significantly undermined the authority of the World Trade Organization (WTO), as the system of negotiated tariffs has effectively given way to a power struggle.

Countries, in response to Trump's approach, are now seeking new alliances and reshaping supply chains. For instance, China and Russia are planning to reduce dependence on the U.S. by increasing trade with each other and other partners in the Asia-Pacific region. Similarly, the EU is working to strengthen ties with alternative markets in Africa and Latin America. As supply chains regionalize, companies are increasingly relocating production to closer or allied regions, a strategy known as "nearshoring" or "friend-shoring."

However, the risk of a self-perpetuating cycle of retaliation has also increased. Markets are pricing in fears that governments will continuously respond with countermeasures, creating an uncontrollable spiral. Analysts in London note that investors fear the "tit-for-tat tariff war" may continue indefinitely. A prolonged trade war could harden positions on both sides and even extend the conflict beyond economic realms.

These developments raise the possibility of a divided global economic order. The term "trade wars" now encompasses not only the U.S.-China conflict but also tensions between the U.S. and its allies, such as Europe and Japan, as well as the efforts of developing countries to unite against the major economies. As of 2025, the world appears to be entering an era where trade conflicts have once again become the norm, raising concerns about long-term impacts on global growth, investment, and cooperation.

The Dynamics and Impacts of Currency Wars

Alongside trade conflicts, "currency wars" have emerged as a new competitive domain. Tariff measures are prompting countries to manipulate their exchange rates as a strategic tool. After Trump's tariff announcement, several countries' central banks and governments began taking steps to influence their currencies in their favor or faced pressure to do so.

On the U.S. side, President Trump openly urged the Federal Reserve to cut interest rates to devalue the dollar. Typically, rate cuts are made in anticipation of economic slowdown, but they also weaken the dollar against other currencies, boosting the competitiveness of U.S. exporters. Trump has framed this as a necessary move, pushing the Fed to incorporate monetary policy into his trade strategy.

China, known for using exchange rate management to support export competitiveness, may also allow the yuan to depreciate slightly as a countermeasure to the 2025 tariffs. During the 2019 trade tensions, China allowed the yuan to surpass the psychological threshold of 7 against the dollar, aiming to ease pressure on exporters. Similar signals suggest that China's central bank might once again intervene to slightly weaken the yuan. The Trump administration, in turn, has threatened to label China as a "currency manipulator," adding pressure on Beijing.

Other affected economies, like Europe and Japan, are more subtly introducing currency measures. The European Central Bank (ECB) and the Bank of Japan are inclined to maintain or increase monetary easing amid global uncertainties, indirectly keeping the euro and yen weak to support exports. After the tariff news, the euro sharply fell against the dollar, increasing volatility.

Japan, however, faces a unique challenge. In times of global panic, the yen often appreciates as a safe haven, putting pressure on Japanese exporters. To counter this, Japanese officials hinted at potential direct intervention to stabilize the yen, emphasizing that they will not tolerate excessive fluctuations.

Similarly, export-oriented Asian economies like South Korea and Taiwan are also preparing plans to manage their currencies, including using foreign exchange reserves or controlling capital movements when necessary.

Currency war dynamics can be summarized as an effort to neutralize the economic damage caused by tariffs. While one country imposes tariffs to harm another economically, the targeted country may use currency devaluation to mitigate the impact. This dynamic increases volatility in global financial markets and fuels uncertainty.

Historical precedent shows that in the 1930s, countries simultaneously imposed tariffs and devalued their currencies to gain competitive advantage, leading to a global recession. In 2025, a similar spiral could result in currency instability spreading throughout the financial system, potentially triggering debt crises in developing countries. Most economists stress the importance of resolving trade disputes before they escalate into currency wars, as the economic and financial consequences could be far-reaching.

Measures

Countries around the world have already taken a series of measures in response to the escalating trade tensions, and various other options remain on the table. The most common reactions so far have been retaliatory tariffs and diplomatic efforts. China immediately responded to the U.S. move by imposing a 34% additional tax on all U.S. goods and announced export restrictions on rare elements, which are crucial for the U.S. high-tech, defense, and green energy industries. The European Union, however, opted to negotiate before imposing countermeasures. The European Commission engaged in urgent talks with Washington, demanding that the tariff decision be reversed or limited. At the same time, the EU is preparing to initiate legal proceedings through the World Trade Organization (WTO), even though the WTO's appellate body has been rendered ineffective by the U.S. Nonetheless, the EU aims to maintain its commitment to international rules by taking this step.

Close allies like Israel and Japan have also reached out directly to Washington to mitigate the tariff impacts on their countries. Israeli Prime Minister Benjamin Netanyahu planned a visit to Washington to address the 17% tariff increase on Israeli products, while Japan's Prime Minister pursued a phone call with Trump to negotiate the reduction or elimination of the 24% tariff.

Vietnam, facing a high 46% tariff, was among the first countries to agree to bilateral negotiations with the U.S., aiming to soften potential sanctions through diplomacy.

Although Canada has been exempt from Trump's latest tariffs, uncertainties arising from the USMCA agreement have already led to job losses, prompting Ottawa to consider preventive concessions to reduce U.S. pressure. Both Canada and Mexico have agreed to adjust their exports to the U.S. according to American demands, such as imposing quotas or restricting exports of certain goods.

Possible Developments

The measures taken so far may only mitigate the damage rather than end the trade war. A wide range of responses, from retaliatory tariffs to diplomatic negotiations and national support programs, have been deployed. Each actor uses these tools according to their own economic vulnerabilities and leverage. Some respond with harsh countermeasures to maintain deterrence, while others prefer constructive negotiations to resolve the issue. However, most analysts agree that mutual concessions and a new balance will be necessary to achieve a lasting resolution.

Negotiations and New Agreements: Many countries will likely engage in bilateral talks with the U.S. to narrow the scope of tariffs or secure exemptions. For instance, the EU might propose a limited trade deal with the U.S. to eliminate industrial tariffs on both sides. Japan and South Korea could offer to increase imports of American products (such as LNG) to create a win-win situation. Developing countries like India might reduce tariffs on certain U.S. agricultural imports in exchange for better access for their IT and textile products.

International Platforms: Countries dissatisfied with the tariffs will raise the issue in multilateral platforms. At G20 summits and regional meetings, affected countries may unite to pressure the U.S. into reconsidering its decisions. The EU, China, and India may come together at the G20 to advocate for the withdrawal of harmful measures, issuing joint statements to highlight the global economic risks.

Expanding Retaliation: While countermeasures have mostly taken the form of tariffs so far, countries may consider retaliation in other areas. For instance, China might issue travel advisories against the U.S. or encourage consumer boycotts of American products. The EU could impose selective taxes on iconic U.S. imports, such as Texas whiskey or Harley-Davidson motorcycles, to create political pressure.

Domestic Support Packages: Countries are introducing economic support programs to cushion the impact of tariffs. The U.S. is considering subsidies for farmers and exporters, similar to the assistance provided during the first tariff war. China is increasing tax rebates for exporters and promoting domestic sales to reduce dependence on foreign markets. The EU plans to create an "adjustment fund" to support sectors particularly affected by U.S. tariffs.

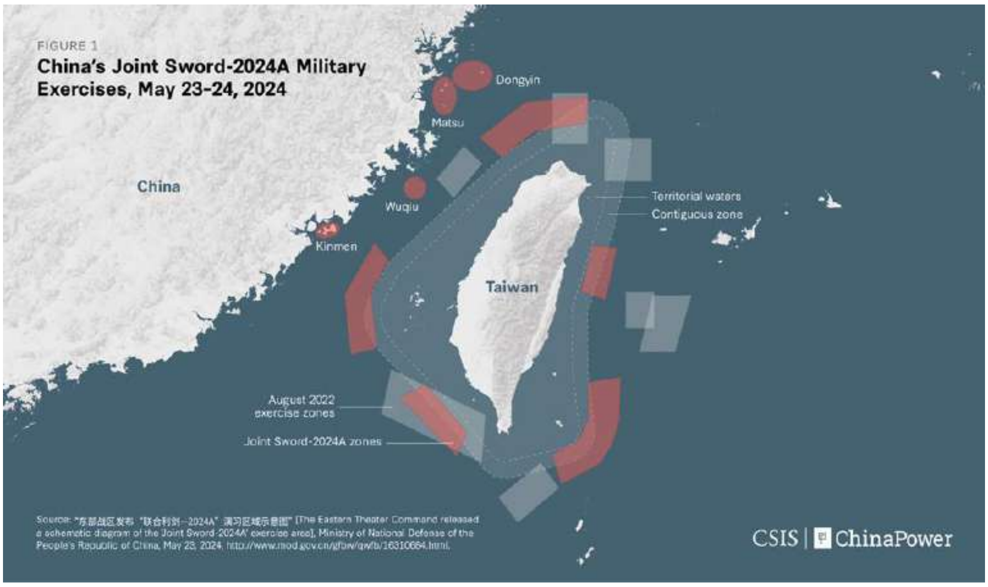
Structural/Competitive Measures: Some countries are adopting long-term strategies to reduce tariff vulnerability by boosting domestic production. China is accelerating its "Made in China 2025" initiative to reduce dependence on U.S. technology, while the EU seeks to enhance industrial competitiveness and diversify supply chains. Brazil and India are focusing on promoting local production to withstand future trade shocks.

Global Security and Stability Implications

Trump's new tariffs not only disrupt economic balances but also impact global security and the international political landscape. If the trade war continues, it could deepen the trust deficit between global powers, leading to miscalculations or diplomatic breakdowns.

The post-World War II liberal order has relied on both economic openness and security alliances. Now that the economic pillar is weakened, the security framework is also at risk. Political leaders warn that prolonged trade tensions could undermine geopolitical stability, as major powers may resort to military posturing if economic pressure fails to yield results.

U.S.-China Rivalry: The trade war reflects the broader strategic competition between the U.S. and China. As economic tensions escalate, the risk of military confrontations in the South China Sea or the Taiwan Strait also increases.



Alliance Strain: The tariffs are also testing U.S. relations with traditional allies like the EU, Japan, and South Korea. Economic conflict within the Western alliance could erode unity, as seen in French President Macron's warning that trade wars benefit no one and calling for solidarity. If European countries lose confidence in the U.S., they might seek closer ties with China or Russia, shifting global power dynamics.

Economic and Security Interlinkages: Trade disputes are also affecting defense and technological alliances. Restrictions on high-tech exports from China to the U.S. blur the line between economic and military competition. Europe is also reconsidering its dependence on American technology, possibly fostering strategic autonomy.

Emerging Opportunities and Risks

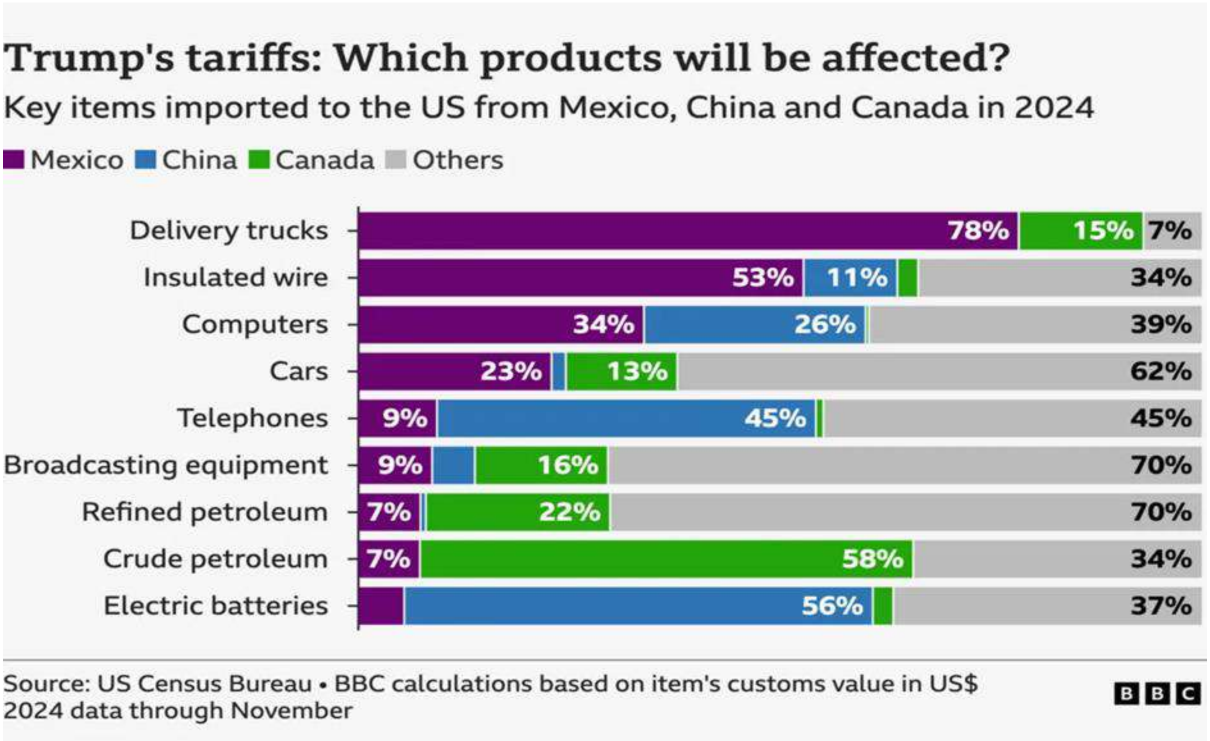
Amid the turbulence, new opportunities and risks are emerging:

Risks:

- Global recession risk has increased, with JP Morgan estimating a 60% chance of a global recession by the end of 2025.
- High volatility threatens financial stability, as rapid changes in asset values can trigger financial crises, especially in emerging markets.
- Stagflation risk looms, with tariffs driving up prices while economic activity slows.
- Geopolitical tensions may escalate, leading to unintended confrontations.

Opportunities:

- Some countries could benefit from trade and production shifts. For example, Mexico might gain from increased U.S. demand for locally produced goods.
- India could emerge as a reliable supplier amid Western distrust of China.
- Domestic producers may gain a competitive edge if imports become more expensive.
- Investments in automation and AI could increase as companies seek to reduce costs.



Conclusion

Trump's 2025 tariffs have introduced a period of significant turbulence for the global economy and politics. While the risks of recession, volatility, and geopolitical conflict are high, adaptive strategies could transform these challenges into opportunities. The real challenge lies in crafting intelligent policies that balance competition and cooperation on both national and international levels. If managed well, the crisis may foster innovation, diversification, and new global trade dynamics. Otherwise, the world could face prolonged economic stagnation and intensified international conflicts.

Some Notes and Interpretations

- ***Deepening Technological and Financial Divergence between the U.S. and China***

The technological and financial divergence between China and the U.S. may deepen, as countries start applying pressure not only through tariffs but also via export controls, investment bans, and blacklists. Signs of this are already visible: while the U.S. continues to impose sanctions on Chinese technologies like TikTok, China is preparing for retaliation by declaring certain U.S. companies "unreliable" and creating the groundwork for technological countermeasures.

- ***FED's Stance on Trump's Tariffs***

While the Federal Reserve acknowledges that Trump's tariffs could increase inflation, it is reluctant to respond with an immediate rate hike, as it also needs to support economic growth.

- ***Geopolitical Tensions Amid Trade Wars***

During this period of escalating trade conflict, China has hardened its stance on the Taiwan issue, targeting U.S. defense companies involved in arms sales to Taiwan by placing them on its own "blacklist" as a form of retaliation.

In Europe, if the perception that "Europe is being harmed for the sake of U.S. economic interests" gains traction among the public, it could negatively affect political cohesion within NATO. Currently, Europe and the U.S. share a common stance on the Russia-Ukraine war, but if economic interests are significantly harmed, Europe may become less willing to continue imposing strict sanctions on Russia—a development that would benefit Moscow. Similarly, U.S. allies in the Middle East, like Saudi Arabia, may express dissatisfaction with a 10% tariff on their oil and respond by deepening relations with China and Russia.

- ***Balancing Technology and Security in East Asia***

South Korea and Japan are working to strengthen their technology alliances with the U.S. while attempting not to lose access to the Chinese market. However, if security concerns outweigh economic interests, they might limit technological cooperation with China.

- ***Economic Challenges for Developing Countries***

Some African and Latin American countries are negatively affected by China reducing commodity purchases or the U.S. tightening global liquidity. These economic difficulties, coupled with high food and energy prices, have the potential to trigger social and political instability in these regions, including the risk of public protests.

- ***The U.S.-China Trade Dispute and Climate Negotiations***

The trade dispute between the U.S. and China makes it more challenging to reach meaningful agreements on climate change, even though both countries are the leading emitters of greenhouse gases. Similarly, tensions within the UN Security Council—particularly between the U.S. and China—could hinder joint action on crises such as Syria or North Korea, as the two countries might veto each other's proposals instead of cooperating.

- ***Impact on Consumers and Sensitive Regions***

— *American and European consumers are already starting to feel the impact of higher prices. For instance, in the U.S., the price of a high-end smartphone could rise to $2,300 if tariffs are fully applied.*

— *Escalating U.S.-China tensions could also ignite unwanted incidents or local conflicts in sensitive areas such as Taiwan, the South China Sea, or the Korean Peninsula. Additionally, Russia might exploit fractures within the Western alliance to harden its stance on Ukraine or pursue new provocations. In the Middle East, actors like Iran and Saudi Arabia might adopt more assertive positions amid emerging blocs.*

- ***U.S. Domestic Impact and BRICS Initiatives***

U.S. steel and aluminum producers have a chance to increase their market share due to additional tariffs on imports. Meanwhile, the BRICS countries have long discussed establishing swap mechanisms and creating a new reserve currency as an alternative to the dollar-centered system. Now, with dissatisfaction growing among countries dependent on the dollar, these ideas are gaining more traction and could lead to innovations that enhance competition and stability in the international financial architecture.

- ***Innovation and Technological Advancement***

As companies strive to maintain their competitive edge, they are increasingly investing in innovation. This could lead to long-term gains in efficiency and new technological breakthroughs, which may ultimately support global economic growth. The U.S. Treasury Secretary partially linked the recent stock market downturn to an unexpected artificial intelligence breakthrough from China (DeepSeek), emphasizing the significance of technological competition.

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