



Munich Personal RePEc Archive

**How the Liberation Day Announcement
is Shaping the Global Trade Order :
Recent Developments in Financial
Stability, Macprudential
Arrangements, and Shadow Banking**

Ojo, Marianne

Centre for Ingenuity, Innovation and Sustainable Development

2025

Online at <https://mpra.ub.uni-muenchen.de/124332/>
MPRA Paper No. 124332, posted 11 Apr 2025 04:30 UTC

How the Liberation Day Announcement is Shaping the Global Trade Order: Recent Developments in Financial Stability, Macroprudential Arrangements, and Shadow Banking

ABSTRACT

On the 20th December 2023, the Financial Stability Board published revised policy recommendations to address structural vulnerabilities from liquidity mismatch in open ended funds (OEFs). Main points which were highlighted in relation to new recommendations include the following:

- Revised FSB recommendations and IOSCO Guidance on Anti Dilution Liquidity Management Tools (LMTs), which are aimed at achieving significant strengthening of liquidity management by open ended funds (OEFs), compared to previous practices.

This paper aims to investigate the impact of Basel III on shadow banking and its facilitation of regulatory arbitrage as well as consider the response of various jurisdictions and standard setting bodies to aims and initiatives aimed at improving their macroprudential frameworks.

Furthermore, it will also aim to illustrate why immense work is still required at European level as regards efforts to address systemic risks on a macroprudential basis. This being the case in spite of significant efforts and steps that have been taken to address the macroprudential framework. In so doing, the paper will also attempt to address how coordination within the macroprudential framework as well as between microprudential and macroprudential supervision could be enhanced.

It is remarked that “Trump’s reciprocal tariff doctrine, holds foreign countries accountable”. Against this backdrop of discontent with World Trade Organisation’s dispute resolution mechanisms, which will be further elaborated on, in the paper, the immediate and possible long term impacts of the April 2nd 2025 Announcement, will be considered. As well as exploring the reasons for recent developments – by way of reference to historical developments and data, the paper also considers the underlying frameworks governing the calculations of recent tariff rates and hikes. Whilst there are arguments regarding the validity of such calculations, or whether the current scenario justifies the basis for implementing “national emergency measures”, what can be regarded as an emergency response can be determined through a consideration of underlying and contributory factors.

How the Liberation Day Announcement is Shaping the Global Trade Order: Recent Developments in Financial Stability, Macroprudential Arrangements, and Shadow Banking

Dr Marianne Ojo

Introduction

“Donald Trump’s tariffs will fix a broken system “. According to Navarro, (Financial Times, 2025a) whose remarks relate to the WTO’s resolution mechanism, the WTO’s dispute resolution system, is “functionally broken”. This is illustrated by way of reference to the U.S. having brought several high profile agricultural trade disputes to the WTO – “targeting foreign bans on poultry, hormone treated beef and genetically modified crops.....and that even though the U.S. has prevailed in nearly every case, and that the E.U’s ban on hormone treated U.S beef was ruled illegal in 1998,” the ban hasn’t been lifted by the E.U.

He further adds that “Trump’s reciprocal tariff doctrine, holds foreign countries accountable”.

This paper will commence with an introductory section which provides the conceptual and theoretical frameworks, as well as the background to the study. It will then consolidate on the literature review with various arguments, by way of reference to relevant data that is provided in the study. Even though the ramifications and consequences of the April 2nd Announcement are still unfolding, its immediate and devastating impacts on global stock markets across the world are already apparent. The immediate repercussions do not only embrace the turbulence and volatility currently being witnessed in stock markets and exchanges across the globe, but also its potential to partially or significantly impact trading relationships. Whilst its apparent and immediate impacts can be seen across global stock markets – with growing concerns of retaliatory and counter retaliatory measures, particularly by those countries impacted, the principal rationale behind the unprecedented announcement appears to have its origins and association with the manner in which current multilateral trade agreements are functioning and the dissatisfaction with current world trade dispute resolution mechanisms.

The main issues to be addressed, will constitute the focus of the second section. Under this heading, far reaching impacts and consequences of the recent decisions will be considered: namely, impacts on inflation levels and how central banks can address these in anticipation of recent events, the current challenges faced in the steel and car manufacturing industry – particularly in the United Kingdom, fears relating to consequences of recession – in the face of job losses currently being encountered in certain sectors, as well as impacts on government budgets and higher employer contributions.

Further major contributory factors to recent tariff announcements will be considered – as well as recommendations for the way forward and possible paths to achieving meaningful negotiations – particularly at bilateral trade level negotiations. This will be followed by a conclusive section.

Will the April 2nd Announcement generate its intended objectives? It's still early days – however, it appears increasingly likely that negotiation outcomes – particularly between those significantly impacted by the Announcement, will be a major determinant in deciding whether the tariff hikes resulting from the April 2nd Announcement, will be short or long term.

Literature Review and Background to the Topic

According to the Centre for Strategic and International Studies (CSIS, 2025), the April 2nd Announcement is comprised of two distinct tariff actions:

- A universal 10% tariff which will apply to virtually all U.S. imports, starting from April the 5th;
- And, from April 9th, the imposition of “country specific reciprocal tariffs” – targeted at 57 named countries – with rates reaching as high as 50%

The second group of countries related to “country specific reciprocal tariffs”, were so identified in the CSIS report, “based on their bilateral trade surpluses with the United States, perceived tariff asymmetries, and other barriers to U.S. exports.

The Observer (2025), highlights the “master plan” behind Trump’s tariffs as follows:

“The U.S. President wants to revive the manufacturing sector with a mix of protectionist policies, tax cuts and deregulation.....and the cash generated by the tariffs, will be the source of funds for tax cuts.....”

The U.S. manufacturing sector is not the only one with its challenges. Even prior to the April 2nd Announcement, the U.K. steel and car manufacturing sectors had been subjected to severe challenges – with closures and losses of jobs having been announced in both sectors – prompting the U.K. government’s consideration of nationalisation of British Steel. Concerns over its main plant at Scunthorpe had been highlighted – as well as potential job losses of up to 3,000 workers. The U.K government was also recently faced with issues related to the TATA steel plant in Port Talbot where 2,500 jobs were lost.

According to the Times (2025b), the car industry, already faced with challenges of demand for electric cars, wants “tax discounts to stimulate demand.”

On the 9th April 2025, a week on from the 2nd April announcement, President Trump’s tariffs went into effect and the initial general imposition of 10% tariffs on all imports, escalated in certain cases of retaliatory measures which resulted in an increase to as high as 125% on one of its major trading partners. The impacts of the tariffs are considered to be far reaching – amongst others, not just necessitating bilateral trade negotiations – as evidenced with 70 countries already lined up for talks by the 9th April, but also potentially diverting and altering trade and relationships to, and between countries.

(As at the end of the 9th April 2025, President Trump announced a 90 day pause on reciprocal tariffs for all countries except China).

Other impacts of the April 2nd Announcement, also primarily relate to rising inflation levels. In anticipation of higher levels of inflation, many major central banks are expected to announce cuts in interest rates in the coming days and weeks. Current levels of uncertainty – and how long such uncertainty persists, will most likely, impact the levels to which interest rates will be determined over the coming months. As it stands, negotiations between the world's two largest economies, will be crucial in resolving and addressing prevailing levels of uncertainty.

Section Three: What Constitutes Emergency Measures? (For copyright reasons restricted)

Section Four: Central Bank approaches to Addressing Rising Inflation Levels.

(restricted for copyright reasons) See attached publication “Addressing Current Inflation Levels through Green Energy Technologies and Techniques: Recent Developments). Also see publication, “Inflationary Impacts Since Global Pandemic Crisis)

Section Five: The Art of Negotiations: Are Bilateral Trade Agreements the Way Forward? (Restricted for copyright reasons)

Conclusion (Restricted for copyright purposes and protection)

References

Bank of England (2025). “Relationship Lending and Monetary Policy Pass – Through” by J Cao, P Dubuis, and K Liaudinskas. March 21 2025

Bank of England (2025). “Weathering the Storm: Sectoral Economic and Inflationary Effects of Floods and the Role of Adaptation, by M Ficarra and R Mori 28 February 2025

Bank of England (2025). “Do Inflation Expectations Respond to Monetary Policy? An Empirical Analysis for the United Kingdom, by N Burr, 10 January 2025

Bloomberg UK (2025) “Tariffs Are For Emergencies” 7th April 2025

Board of Federal Reserve (2025). “Lecture by Governor Kugler on Inflation Dynamics and the Phillips Curve”

< <https://www.federalreserve.gov/newsevents/speech/kugler20250407a.htm>>

Centre for Strategic and International Studies (2025).
<https://www.csis.org/analysis/liberation-day-tariffs-explained>

Federal Reserve (2025). “Speech by Governor Kugler on Inflation Expectations and Monetary Policy Making”

At Public Talk: Reflections on Recent Economic Developments, Princeton University, New Jersey

<https://www.federalreserve.gov/newsevents/speech/kugler20250402a.htm>

Federal Reserve (2025). “Speech by Vice Chair Jefferson on the U.S. Economic Outlook and Central Bank Communication

At Financial Intermediaries, Markets, and Monetary Policy “

<https://www.federalreserve.gov/newsevents/speech/jefferson20250403a.htm>

Federal Reserve (2025). “Speech by Chair Powell on the Economic Outlook “

At the Society for Advancing Business Editing and Writing Annual Conference, Arlington

<<https://www.federalreserve.gov/newsevents/speech/powell20250404a.htm>>

Financial Times (2025a) “ Donald Trump’s Tariffs Will Fix a Broken System” April 7th 2025

Financial Times (2025b) “Trump Has No Idea What He Has Unleashed” April 2025

Nation Cymru (2025). “Labour Accused of Abandoning Port Talbot Steel Plant While Considering Nationalisation for Scunthorpe” Emily Price, April 8 2025

The Budget Lab (2025) “Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S Tariffs Enacted in 2025 Through April 2”

<<https://budgetlab.yale.edu/research/where-we-standfiscal-economic-and-distributional-effects-all-us-tariffs-enacted-through-2025-through-april>

[Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2 | The Budget Lab at Yale](https://budgetlab.yale.edu/research/where-we-standfiscal-economic-and-distributional-effects-all-us-tariffs-enacted-through-2025-through-april)

The Guardian (2025). “Donald Trump Unleashes New Wave of Tariffs Against Dozens of Countries” 9 April 2025

The Observer (2025). “The Fall Out from Trump’s Tariffs: Is there a Masterplan, are we Heading for Recession and what does it mean for the U.K?

The Times (2025a). “UK Government Considers Nationalising British Steel” April 9 2025

The Times (2025b) “Keir Starmer Set for Profound Trump Tariff Challenge “ 8th April 2025

Figures and Tables

Source: Centre for Strategic and International Studies (2025).
<https://www.csis.org/analysis/liberation-day-tariffs-explained>

Prelude to “Liberation Day”: The Road to April 2, 2025

Trump's Inauguration and “America First Trade Policy”

January 20, 2025

Immediately upon returning to the White House, President Trump issues a presidential memorandum promoting an “America First trade policy.” This directive lays the rhetorical groundwork for aggressive tariffs to “revitalize U.S. manufacturing,” signaling that trade imbalances and industrial decline would be treated as national emergencies.

Canada and Mexico Tariff Threat

February 1, 2025

The same day, the administration turned its ire towards its North American neighbors, announcing a 25 percent tariff on all imports from Canada and Mexico based on allegations that they were not doing enough to curb cross-border drug and immigration issues.

10 Percent Tariffs on China Go Into Effect

February 4, 2025

China retaliates, adding tariffs of up to 15 percent on U.S. goods, including coal, natural gas, crude oil, and large machinery. Beijing also quietly places export controls on certain U.S. firms and products, with a focus on critical minerals and relevant processing technologies.

China Tariffs Announced (10 Percent)

February 1, 2025

Citing a crisis of fentanyl trafficking and “Chinese inaction,” Trump invokes emergency powers to hit all Chinese imports with a 10 percent tariff, reigniting the U.S.-China trade war.

Canada and Mexico Tariffs Pause

February 3, 2025

After commitments from Mexico and Canada to work with the United States on illegal immigration, fentanyl, and border security, as well as pushback from U.S. automakers and farmers, a 30-day pause (grace period) is granted. Mexico commits 10,000 National Guard troops to its northern border and extradites 29 cartel leaders to the United States, while Canada pledges to name a fentanyl czar, list Mexican cartels as terrorist groups, and launch a “Canada-U.S. Joint Strike Force” to combat cross-border crime.

China Tariffs Double to 20 Percent

March 4, 2025

The temporary calm is short-lived. Trump follows through on his threat to increase tariffs on China, bringing the total tariff on Chinese imports to 20

China Retaliates

Programs ▾ Experts

CSIS

CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

Regions ▾ Topics ▾



Relaxation of Canada and Mexico Tariffs

March 6, 2025

U.S. tariffs on Mexico and Canada are somewhat relaxed in response to concerns about their impacts on the auto industry. There are now no tariffs on those goods from Canada and Mexico that qualify for the United States–Mexico–Canada Agreement (USMCA) preference, though 25 percent tariffs still apply to those that do not.

Canada and Mexico Tariffs “Pause” Expires—Retaliation Follows

March 4, 2025

Tariffs of 25 percent on Canada and Mexico go into effect, with a reduced rate of 10 percent applied to Canadian energy and energy resources. Canada immediately announces a 25 percent tariff on \$105 billion worth of U.S. goods, while Mexico promises retaliation without offering specifics.

Global Steel and Aluminum Tariffs

March 12, 2025

The Trump administration reimposes a 25 percent tariff on imported steel and on aluminum globally, resurrecting and amplifying the 2018 Section 232 tariffs. A key difference from 2018 was that allies such as Canada, Mexico, the European Union, Australia, and South Korea were not spared from the tariffs. The European Union imposes retaliatory tariffs on a wide range of U.S. products, including agricultural products, alcoholic beverages, and clothing.

“Liberation Day” Teased on Social Media

March 21, 2025

Trump intensifies the rhetoric on his Truth Social account, dubbing April 2 as “Liberation Day” in the United States, suggesting that it will dwarf all prior tariff actions. The message unnerves trading markets.

25 Percent Secondary Tariffs on Venezuela

March 24, 2025

President Trump threatened to impose a “secondary tariff” of 25 percent on countries that purchase oil from Venezuela, set to go into effect on April 2. China and the United States are Venezuela's primary oil purchasers.

25 Percent Auto Tariffs Announced

March 26, 2025

President Trump announces a new 25 percent tariff on imported automobiles, to take effect on April 3. The long-threatened action hits cars globally from all trading partners. Canada and Mexico will benefit from a temporary exemption for USMCA-qualified vehicles until June 24, at which point automakers will be required to calculate U.S.-only content, which will not be tariffed in cars that are USMCA-compliant. So, if a USMCA-qualifying car is \$20,000 but \$10,000 is U.S.-content, then the tariff only applies to \$10,000.

“Reciprocal” Tariffs Announced

April 2, 2025

In a Rose Garden event and accompanying executive order, President Trump invokes the International Emergency Economic Powers Act to place a universal 10 percent tariff rate as well as differential “reciprocal” tariffs on all U.S. trading partners.

Source: Author's analysis.

CSIS

Figure 1: U.S. Reciprocal Tariff by Trade Deficit in 2024

Search in table

Page 1 of 2

Countries and Territories	Reciprocal Tariff	U.S. Trade Deficit ▾
China	34%	270.4B
European Union	20%	213.7B
Vietnam	46%	113.1B
Taiwan	32%	67.4B
Japan	24%	62.6B
South Korea	26%	60.2B
India	27%	41.5B
Thailand	37%	41.5B
Switzerland	32%	25.5B
Malaysia	24%	22.1B
Indonesia	32%	16.4B
Cambodia	49%	11.4B
South Africa	31%	7.9B
Israel	17%	6.7B
Bangladesh	37%	5.7B
Iraq	39%	5.4B
Philippines	18%	4.4B
Guyana	38%	3.9B
Pakistan	30%	2.7B
Sri Lanka	44%	2.5B

Countries with 2024 deficits under \$1 billion are excluded from this table. The reciprocal tariff is adjusted; the U.S. trade deficit in 2024 does not include December.
Table: CSIS Economics Program and Scholl Chair in International Business • Source: White House, *Annex I: Tariff Rates*, Apr. 2025; U.S. Bureau of Economic Analysis, *Trade Deficit Report*, Feb. 2025, aggregated at U.S. Trade Deficit by Country.

CSIS

Figure 2: Countries Targeted in Reciprocal Tariffs by Region

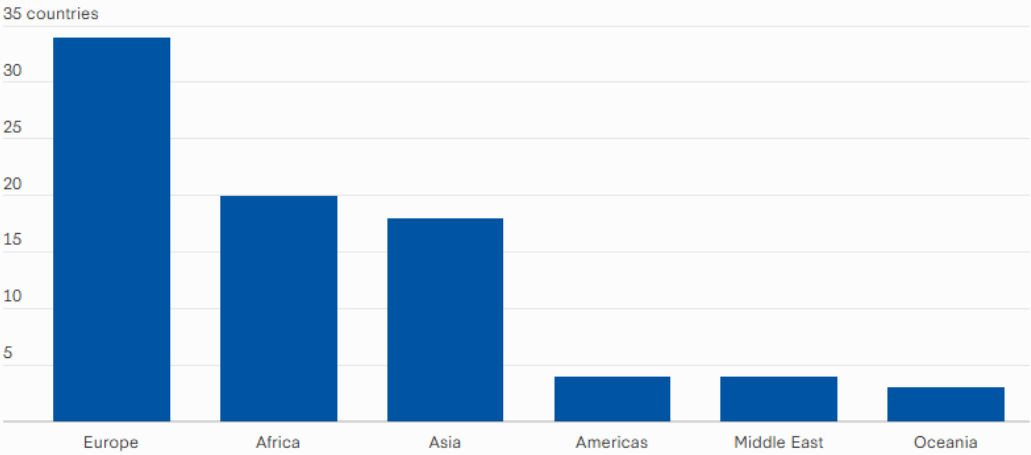


Chart: CSIS Economics Program and Scholl Chair in International Business • Source: CSIS Economics Program and Scholl Chair in International Business's analysis.

CSIS