Financial Markets as Propagators of Global Shocks

Impact of recent tariff and trade disruptions on emerging markets; short- and long-run implications; thoughts on EM policy responses.

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Impact of Recent Tariff and Trade Disruptions on Emerging Markets

- Hotel California moment in global trade: "**You can check out any time you like, but you can never leave**"

- Integration brings benefits during good times…

- …but makes countries hostage to global disruptions during bad times.

Nature of the Current Shock

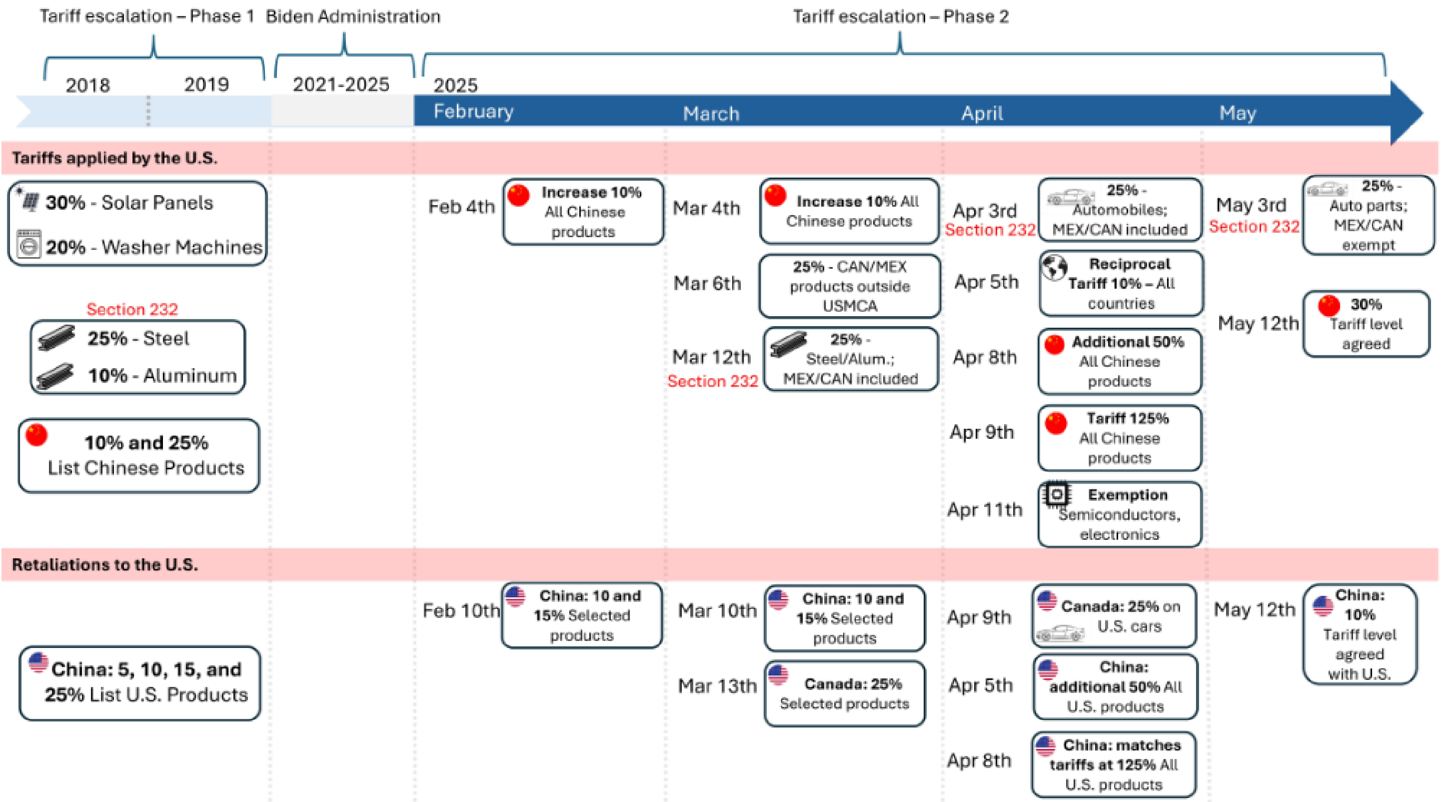
- **This is a self-inflicted shock** — not like COVID-19 or the 2008/09 financial crisis.
- The real damage for EMs isn't always from the tariff itself — it's from the **uncertainty** it generates.
- That uncertainty gets priced into exchange rates, credit risk, and investor sentiment. **It tightens financial conditions even before trade volumes are affected**.
- And more importantly, uncertainty itself becomes a **drag on growth**.

Fundamental Asymmetry

- For the **U.S.**, tariffs act as a **supply shock** driving stagflation, while **emerging markets** primarily face **demand shocks** with growth slowdowns and complex price effects.

- Complex policy decisions for emerging markets:
  - Higher U.S. Interest Rates → Capital Flight
  - EM Currency Volatility (depreciation – depending on channels)
  - Forced to stop policy easing despite weak growth
  - Rising debt service costs (plus already high yields because US Treasury levels)

Tariffs increases



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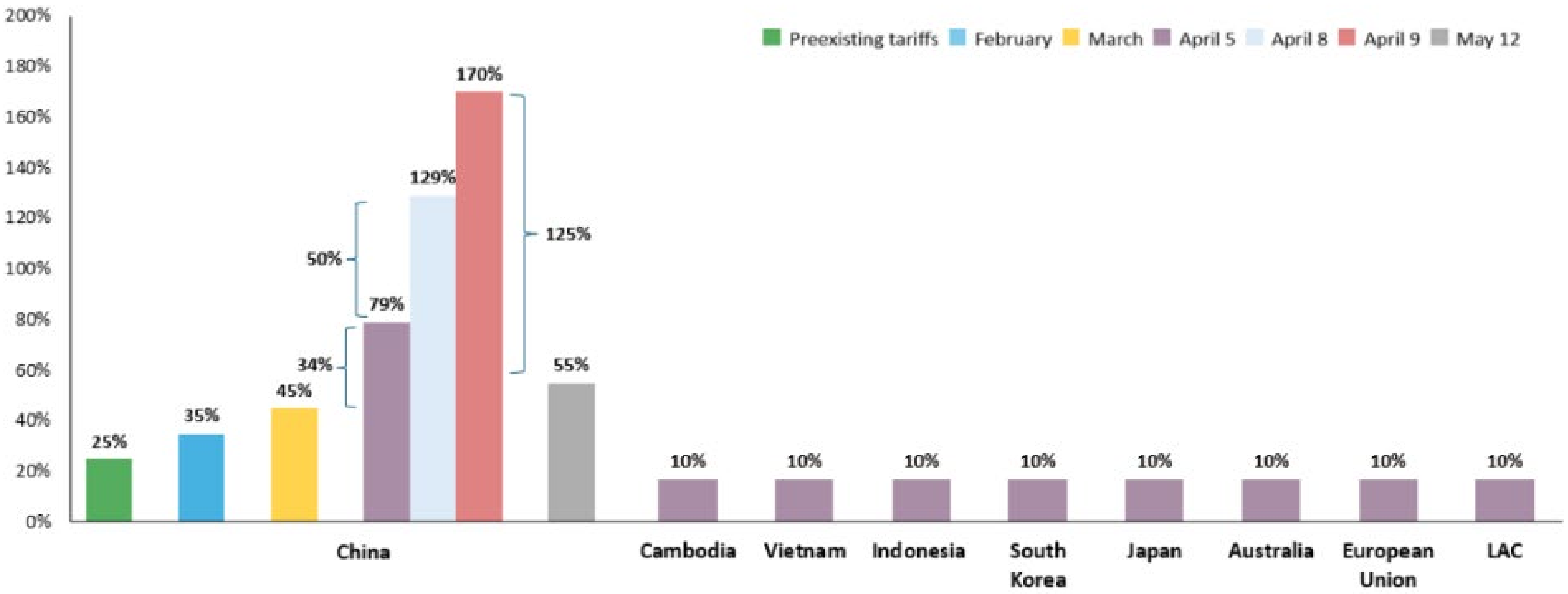
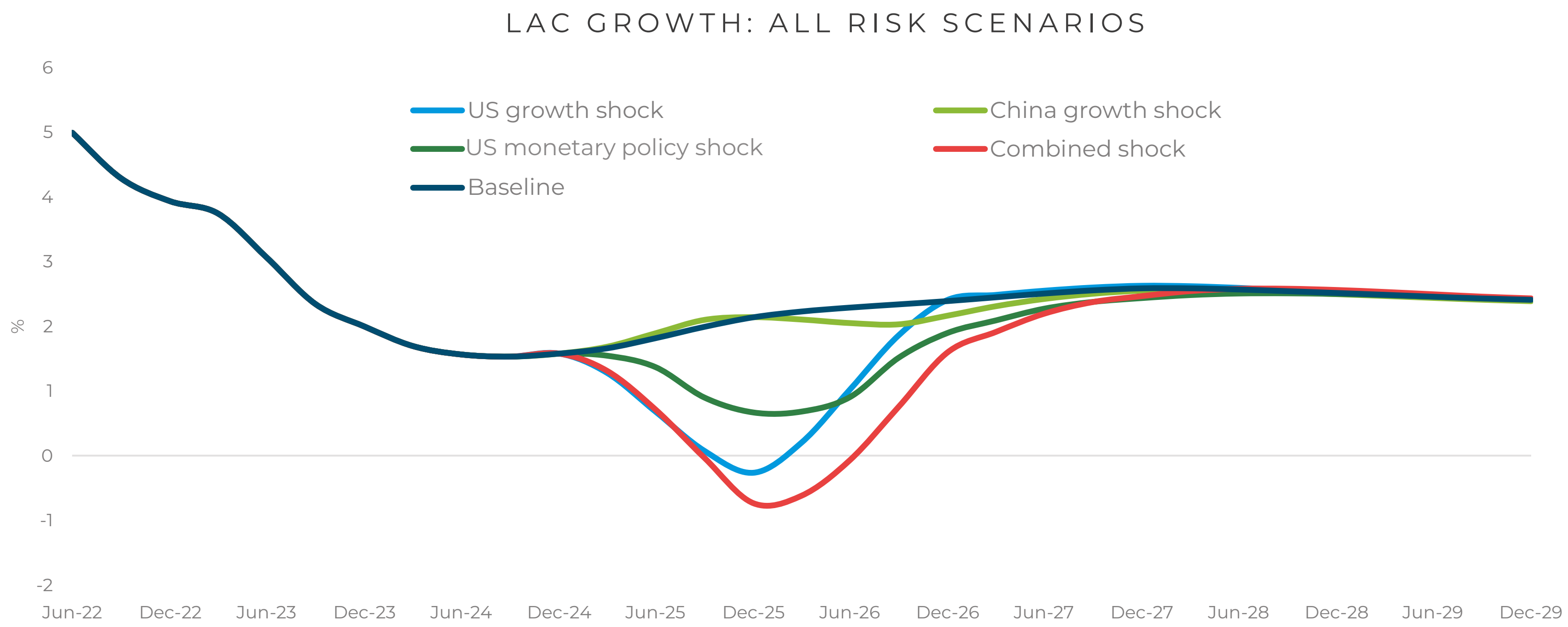
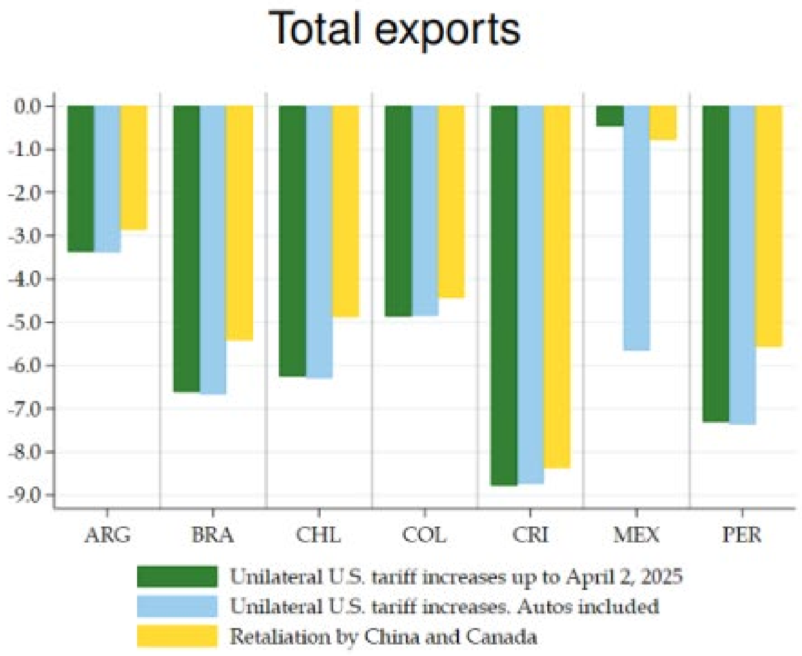
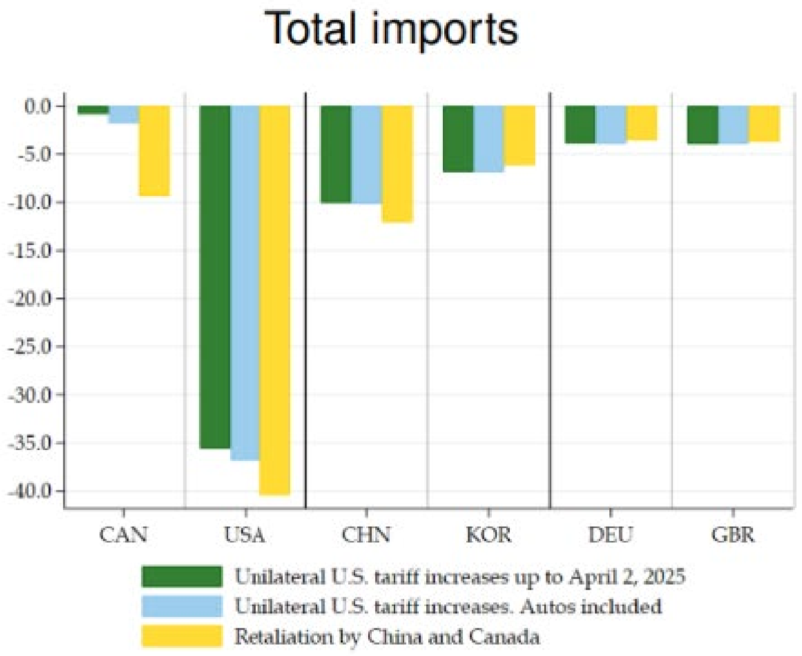


Downside risks have increased

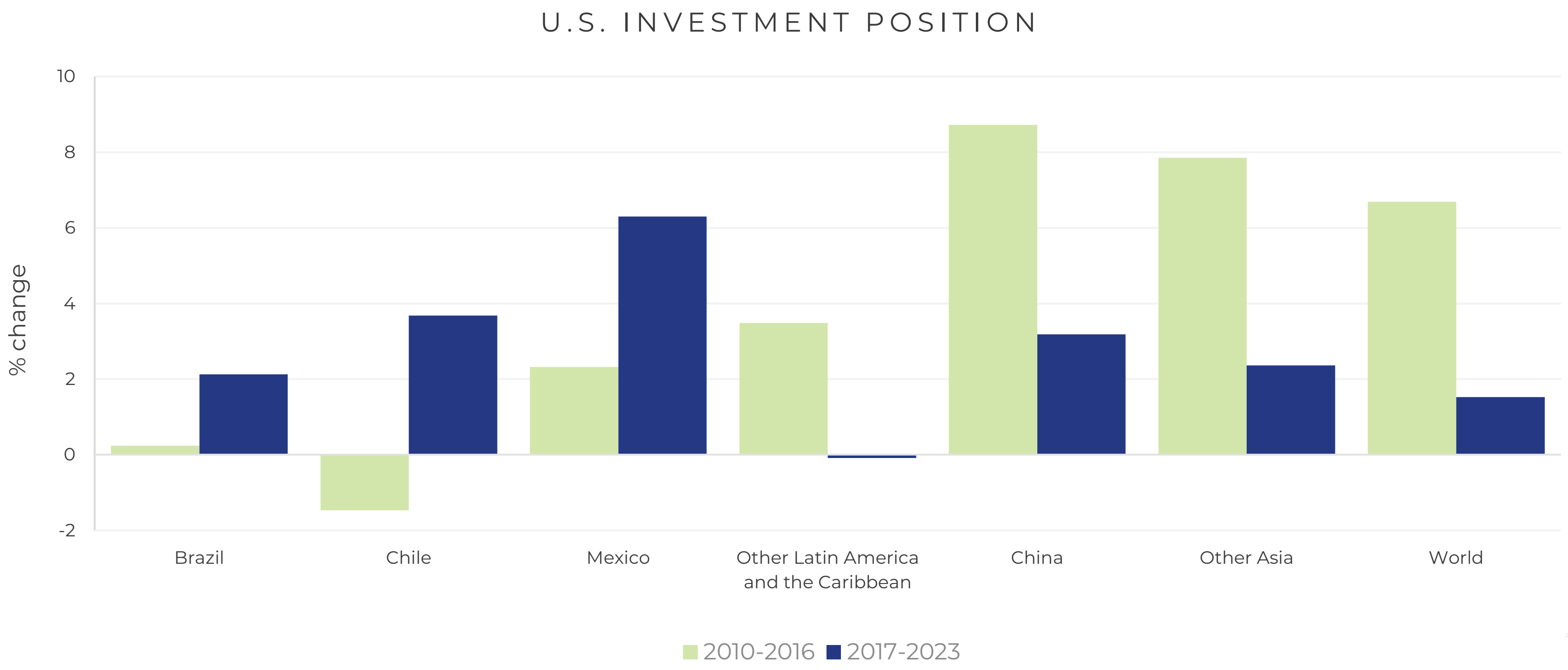


Trade values are expected to fall significantly

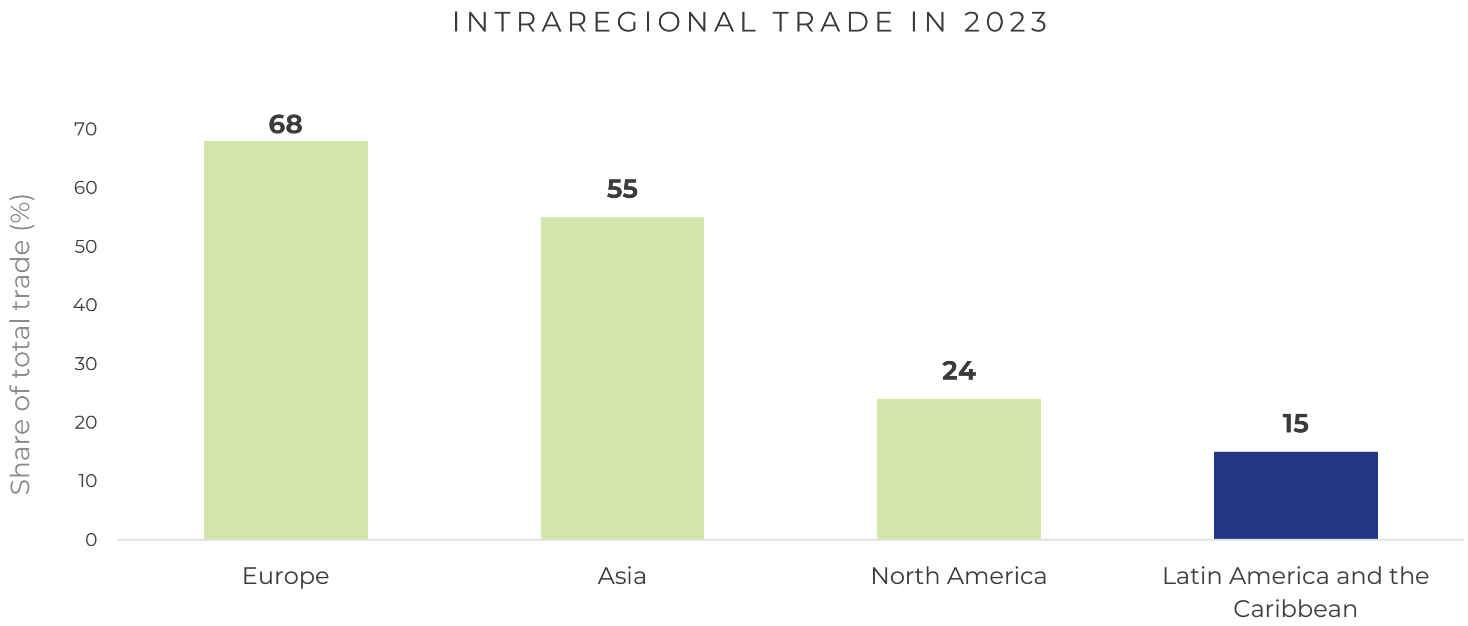




FDI shifts: Supply Chain Realignment An opportunity for LAC



Countries should focus on boosting intraregional trade



Never let a good crisis go to waste

- Unlike the Hotel California, there is a way out – not by returning to the past, but by building more resilient, regionally integrated, and adaptable economies.

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