

Advanced Economic Integration

March 27, 2025

Contents

- I. Recent Development in the Global Macro Economy and Investment Opportunities
- II. Investable Instruments in the Tumultuous Global Financial Markets
- III. Probable Research Topics
- IV. Homework Assignment (Due May 29)

I. Recent Development in the Global Macro Economy and Investment Opportunities

1. US-China Trade War and Truce on May 11
2. Russia-Ukraine Truce (may be on May 11 at Turkey)
3. India-Pakistan Truce
4. Trump's Visit to Saudi Arabia

I. Recent Development in the Global Macro Economy and Investment Opportunities

1. US-China Trade War and Truce on May 11

On Monday, the White House announced that the U.S. and China had agreed to lower trade barriers with one another, simmering down a trade war that had exploded last month. The U.S. will pause the harshest tariffs for 90 days, while leaving a 10% "baseline" tariff in place, along with a 20% tariff that Trump said was to push China to crack down on fentanyl smuggling to the U.S. Tariffs of 25% remain on certain products including steel, aluminum, and automobiles.

Although the trade deal announced Monday was a significant reduction and raised hopes that negotiations could further reduce import taxes, tariffs are still far higher than they were before Trump started raising them.

S&P 500

VIX

2017

2018

2019

2020

2021

2022

2023

2024

2025



The CBOE Volatility Index (VIX), often referred to as Wall Street's "fear gauge," experienced significant fluctuations in 2025 in response to escalating and de-escalating trade tensions between the U.S. and China. [Business Insider](#) +4

Before the Truce:

- In early April 2025, President Donald Trump announced sweeping tariffs, raising U.S. levies on Chinese imports to 145%. This announcement led to a surge in market volatility, with the VIX spiking above 60, indicating heightened investor anxiety. [MarketWatch](#) +5

After the Truce:

- On May 12, 2025, the U.S. and China agreed to a 90-day pause in their trade war, reducing U.S. tariffs on Chinese goods from 145% to 30%, and China's tariffs on U.S. goods from 125% to 10%.

Reuters

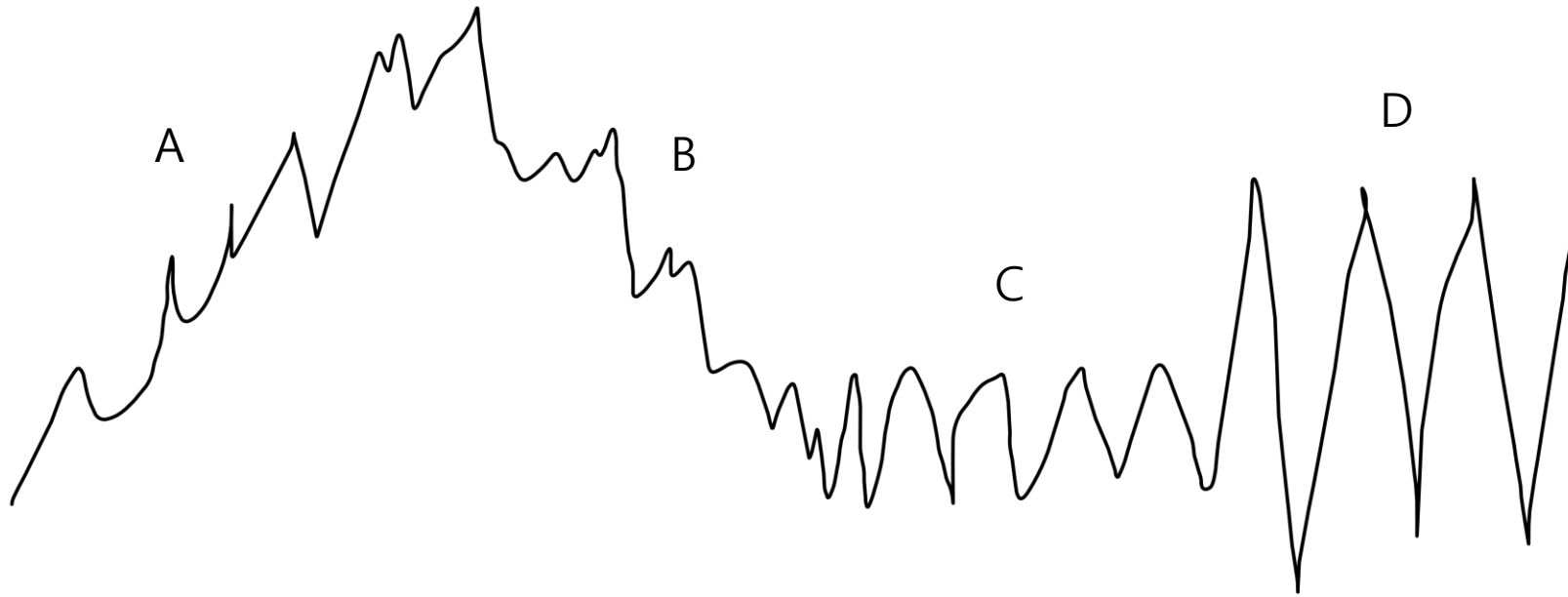
- Following this agreement, the VIX dropped sharply, falling below 20 for the first time since late March. This decline marked the quickest drop from above 40 to below 20 in the VIX's history, signaling a rapid decrease in market fear and a return to a more stable investment environment.

나스닥 +5

MarketWatch +1

- 1) In the US stock markets, which stocks got the most from the truce ?
- 2) What about Korean stocks which got the most benefit of US-China trade war truce ?

Four Different Market Trends and Appropriate Trading Instruments



A: Stock (Buy), Futures (Long), Options (Call(long))

B: Stock (Short Sell), Futures (Short), Options (Call (short), Put (long))

C: Stock (x), Futures (x), Options (Staddles (short), Strangles (short))

D: Sock (x), Future (x), Options (Strad^o (long), Strangles (Long))

What are the Futures ?

What are the Options ?

III. Probable Research Topics associated with the recent US-China Trade War and Truce

I. Global Trade and Economic Impact

1. Economic Consequences of the 2025 US-China Trade Truce on Global Supply Chains

- Investigate how the truce reshaped supply chain strategies in Asia, North America, and Europe.

2. Winners and Losers: Trade Diversion Effects of the US-China Trade War

- Use panel data or CGE models to analyze how third countries (e.g., Vietnam, Mexico, Taiwan) gained or lost from trade redirection.

3. Tariff Retaliation and Its Spillover Effects on Emerging Markets

- Evaluate how secondary economies were affected by cross-border capital flows, commodity price shifts, or inflation.

II. Firm Strategy and Global Management

4. Strategic Reactions of Multinational Corporations to Geopolitical Trade Risks

- Study how MNCs relocated operations, diversified sourcing, or adapted pricing strategies.

5. Global Value Chain Reconfiguration Post-US-China Truce: Case Studies of Key Sectors

- Focus on semiconductors, rare earths, or EV battery supply chains.

6. Export Risk Management and Hedging Techniques During High Tariff Periods

- Examine corporate use of trade credit insurance, forward contracts, or relocation as mitigation tools.

III. Policy and Governance

7. The Role of the WTO in Mediating Bilateral Trade Conflicts: The Case of US-China

- Analyze WTO's limitations and reforms required in dealing with systemic trade conflict.

8. Green Protectionism and Environmental Standards in US-China Trade Negotiations

- Explore how climate policy became a tool for strategic trade regulation (see "green tariffs").

9. Digital Trade and Tech Decoupling in US-China Economic Relations

- Study the impact of export controls and tech blacklists on firms like Huawei, Nvidia, or ByteDance.

IV. Political Economy and Strategy

10. Domestic Political Incentives and Electoral Cycles in Shaping US Trade Policy

- Assess how presidential election cycles influence trade policy direction and timing of truces.

11. China's Dual Circulation Strategy and Its Response to Western Decoupling

- Evaluate the strategic pivot toward self-sufficiency in high-tech sectors.

12. National Security Narratives and the Securitization of Trade Policy

- Study how trade policy is framed in terms of national defense (e.g., rare earths, chips).

V. Modeling and Forecasting

13. Forecasting Trade Volume Recovery Post-Tariff Rollback: A Gravity Model Approach

- Use gravity models to quantify expected bilateral trade flows with and without tariffs.

14. Event Study Analysis of Financial Market Responses to Trade Truce Announcements

- Examine S&P 500, VIX, or stock volatility in response to specific policy events.

Methodologies to Consider:

- DSGE modeling or Computable General Equilibrium (CGE)
- Case studies and firm-level interviews
- Panel data regression (fixed/random effects)
- Synthetic control methods
- Gravity models of trade
- Event studies on financial data

IV. Homework Assignment (Due May 29)

Due: May 29 (submit your paper with a hard copy on the class podium before the class begins)

Topics: Choose one in the list shown above or your choice

Pages: around 20 pages (word)

Form: Research Paper (Abstract, Introduction, Related Research, Research Model and Hypotheses to test, Empirical Results, Summary and Conclusion, References)