

Global Implications of Tariff Wars and its Impact on International Trade

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Abstract- There are multiple consequences of trade protectionism in the modern economy. By making use of qualitative evaluation of academic literature and statistical- based data, the research expands on how these policies and their outcomes can create ruptures in supply chains globally, along with rising prices. However, the findings also imply that despite the many negative externalities of these conflicts, they are certain benefits, as they may urge countries to form newer alliances and broaden their trade margins. Overall, the study suggests a more analytical structure to build resilience through the creation of partnerships and a more adaptable global market. Hence, the research acts as a directory for MNCs hoping to survive the highly competitive and unpredictable international market.

Keywords - Tariff Wars, International Trade, Protectionism, Global Supply Chains, Trade Resilience.

I. Introduction

The recent unsettlement among political and economic leaders caused by the idea of a potential tariff war has become a topic of great discussion. Christine Lagarde, the head of the IMF has spoken of the recent US- China tariff conflict and deemed it to be a great obstacle to global economic growth (Lashkaripour, A.,2020). Economic leaders continue to provide messages of caution pertaining to a possible tariff war, as observers conclude that the costs of a tariff war far outweigh any benefits, regarding both the economy and politics. The most significant point made by observers, however, is in relation to the role of the United States. As the United States is known to have a large market for imported goods, any changes made to its tariff policies may affect multiple exporting economies greatly (Contractor, F. J., 2025). A trade war generally entails the imposition of tariffs by different nations, prompting them to respond in a similar manner to cause damage to the other's economy. This may also lead to political conflict as it escalates (BBC News, 2019).

An example may include the trade war instigated by the US, following Donald Trump's claim of, 'Trade wars are good and easy to win'. It began with the imposition of heavy tariffs (10% on aluminum, 25% on steel and 25% on 818 other categories of goods) and quickly escalated with the involvement of other nations such as Canada, Mexico and the EU. This may be done to cause political agitation, such as the EU's tariffs on well-known American brands like the Harley- Davidson motorbikes (Fetzer & Schwarz, 2020). These wars can damage the global economy on a great scale because of its dependence on international trade. Trade agreements facilitate easy exchange of capital, goods and services, the reduced barriers serving as a form of economic unity between nations. And while globalization does allow nations to foster these relations, it has caused and may continue to cause a few problems that may include job displacement, wealth inequality and environmental issues (possibly due to dumping)(Williams, B.,2025).

As a result of globalization, tariff wars bring a few setbacks to the global economy. This may be reflected through the US' imposition of rather heavy tariffs, as announced on April 2, 2025. This proved to be a significant threat to the rise of the global economy as it pulled financial markets across the world into a crisis. The escalation continued, with China retaliating with 125 percent tariffs and 75 other nations choosing to negotiate (Levy, C., 2025) For example, starting from April 4, China has chosen to discontinue many of its exports of certain rare earth elements. These elements include samarium, yttrium, scandium, gadolinium, etc, all of which are considered necessary in the composition of wind turbines, electric vehicles and smart phones. China's sudden suspension of exports for them has already led to several European factories to halt production, including Ford. This simply goes on to show the great impact of withholding supply and tariff wars overall to the global economy (*China's Rare Earth Export Ban Exposes Global Industry's Dangerous Dependence*, 2025).

This trade war between the two nations, (China and the United States), has had a significant impact on the agriculture sector particularly, the U.S' agricultural exports went to around \$5.9 billion 2018 from \$15.9 billion in 2017, another indicator of the impact on trade.

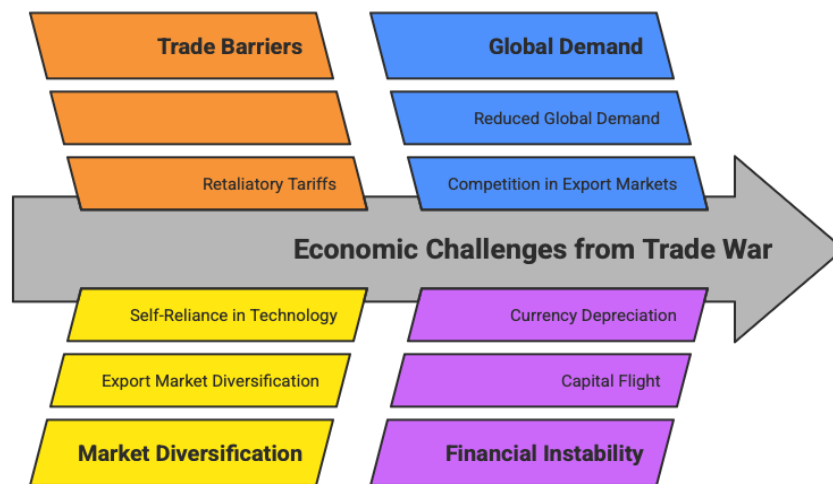


Figure 1. Economic Challenges from Trade War

Fig 1 highlights the effects of trade wars in different economies. It states that the most significant economic challenges from a trade war include trade barriers (which can lead to great escalations between economies as they might retaliate with similar measures) and reduced global demand as the prices for exports rise. It also emphasizes how market diversification may suffer as it would become increasingly difficult for businesses to enter different markets in different economies. Fig 1 additionally mentions financial instability as a great consequence as it may lead to currency depreciation (as demand for exports and hence foreign currency falls) and capital flight (investment withdrawal).

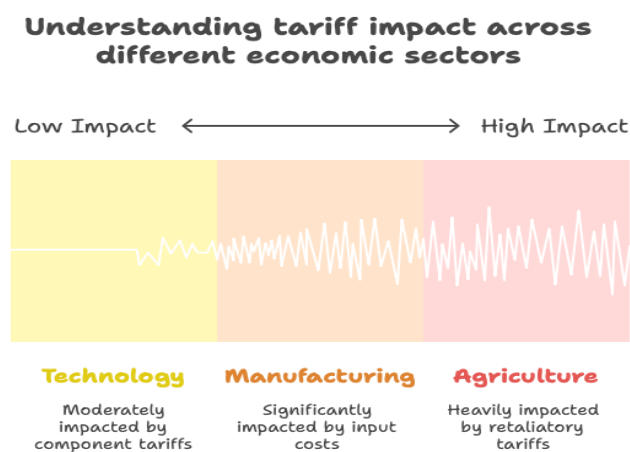


Figure 2. Impact of Tariffs on different economic sectors

Fig.2 creates an understanding of how tariffs impact different sectors in the economy. It focuses mainly on the technological, manufacturing and agricultural sectors. The diagram shows how the technological sector will have the least impact compared to the manufacturing sector, which would be hit with rising input costs and the agricultural sector which may suffer as a result of retaliatory tariffs.

This paper is structured into five sections. The first section contains an introduction outlining the increasing importance of tariff wars to the international trade system, including the economic and geopolitical factors that drive protectionism and the conflicts that arise from it. The second section contains a comprehensive literature review examining the impacts of tariff policies and global trade disputes on international trade flows, supply chains, and economic stability, while identifying significant gaps in the literature regarding trade resilience. The third section details the research methodology used in this

research project, which consists of a systematic review of the academic literature and policy reports to gain insights into the economic effects of tariff wars. The fourth section provides an analysis of the results obtained through the research methodology as well as a discussion of how tariff war conflicts disrupt global supply chains, modify trade flows, and impact investment and economic growth, including the introduction of a Trade Resilience Policy Framework to assist with addressing these challenges. The fifth section introduces a conclusion and future research opportunities, summarizing the principal findings of the study and proposing ways to strengthen global trade resilience within a globally unstable geopolitical environment.

II. Literature Review

A study showcases the multiple cons of trade restrictions on the global economy, emphasizing how the general theories imply a certain level of harm to all economies involved. Furthermore, it uses the ongoing escalation between China and US to explain the negative outcomes, which include supply chain disturbance, reduced competitive advantage for companies and a rise in the price level for general/ domestic goods. Hence, through empirical evidence, the study corroborates the claim that tariff escalations are inimical to the global economy (Mutambara, 2019). Another study examines how there has been a general increase in trade protectionism following the US's April 2025 tariff policy, which led to retaliation from other economies such as China and the EU. This, along with the economic impact, also raised concerns in terms of the environment, more specifically, carbon emissions. In order to further explore the implications of tariff wars, the study used the GRACE model which provided insight into the true impact of the tariffs on global supply chains (Ara, T 2025)

Now, there can be multiple reasons for countries to implement such policies of course. A recent study explains that tariffs are often used as a tool to protect domestic industries, by hoisting prices for imports up, encouraging consumption of domestic goods (an unpopular move amongst consumers who see it as a cause for decline in their welfare). Though it also suggests a way to protect such industries through tariffs without raising import prices for consumers specifically in the US (Ara, 2025). A recent study discusses how the utilization of tariffs and sanctions due to geopolitical conflicts affect global business markets. It uses the US- China escalation as an example, pointing out how the economic volatility of the dispute is reflected through the unstable stock market, declining currencies and slowly waning economic certainty. The analysis further claims that this has led firms to adjust their distribution networks and corporate rules due to the changes in resource accessibility. (Kumar et al., 2025).

The issue has also been linked to globalization, as a study claims it to be the leading cause of disruptions in global economies by allowing political heads to implement protectionist policies (Deese & Biasi, 2022). It further analyses how globalization has raised the density of international crises in the past years and worsened inequality between both societies and economies (Saliya, C. A. 2025). However, despite the criticism, many also point out the more positive implications of trade protectionism. A study analyzing the US tariff policy considers how protectionism may help strengthen national security by promoting domestic businesses in different sectors. It further addresses the economic uncertainty, asserting that any financial insecurity can have benefits in the long- term, such as useful adjustments in the structure of trade and monetary policy (Kreuter, H., & Riccaboni, M.,2023). This argument can be furthered by measuring the scale of impact, as evident in different research, that uses a production network model to analyze the negative effects of raised import tariffs. The analysis shows how the effects intensify, spreading through several domestic industries. The fall in consumer welfare and GDP following the policy change predominantly relies upon the essentiality of the industries involved as well as the productive potential of domestic industries. Hence, it is easier to understand the actual cost of protectionist policies (Döbeling et al., 2025).

Returning focus to the United States, the country has shown signs of changing trade dynamics since 2018, raising protectionist measures and keeping out of trade agreements. A study exercised the use of a dynamic computable general equilibrium model to replicate the consequences of the US' tariff policies and lack of involvement in trade agreements. The results showed that the high import tariffs did not seem to lower the trade deficit, as, even without retaliation from other economies, there were quite a few negative consequences to US exports. In addition to this, it was also revealed that the impact of these measures was most prevalent in the agricultural sectors in the economy (Döbeling et al., 2025b). Furthermore, a source analyses how geopolitical conflicts can lead to disruptions in the general trade arrangements and supply chains. These rather abrupt changes have caused firms to introduce newer schemes, such as reshoring and friendshoring to re-establish supply chains effectively. It also highlights how these rivalries act as an obstacle to

advancements in technology, causing economies to implement further control over exports and decoupling. It additionally emphasizes upon the access to critical resources (such as rare earth elements) that are nothing short of a necessity to the global economy (Deirmentzoglou, G. A.,2025). The impact of tariff wars on different economies is further examined in an academic paper highlighting China's response to tariffs imposed by the US in 2018 and raised further in 2025. It investigates the effects of the dispute on China's economy, showcasing a slight fall in the economy's overall trade value. Despite this, it also notes a trade surplus by 2024 as result of a rise in trade with the EU and ASEAN. The paper also draws attention to the surge in economic transformation, especially in terms of demand for domestic products and innovation) and the escalation of semiconductor self-sufficiency (Lou, 2025).

To fully analyze China's economy and the US' involvement however, it is important to note some form of historical context. A source does this through heavy emphasis upon the country's inclusion in the World Trade Organization (WTO), which during the late 1990's and early 2000's the US saw as necessary to arrange and supervise competition with the nation. Certain officials such as the National Security Advisor, Sandy Berger spoke of their belief that allowing China into the WTO would stimulate its shift to being a more open and collaborative nation overall, more compliant to global policies. This was further corroborated by the Clinton administration.

Research Objectives:

This study aims to analyze the global implications of tariff wars on international trade, focusing on the economic and political consequences stemming from recent tariff policies. It seeks to examine how trade barriers, including tariffs and retaliatory measures, disrupt supply chains, reduce global demand, and exacerbate market access challenges for businesses across different economies. A key emphasis is placed on evaluating the role of the United States in instigating trade protectionism and the ripple effects on global trade dynamics, consumer welfare, GDP, and international cooperation.

Hypotheses:

1. Tariff wars significantly reduce international trade volumes by increasing trade barriers and disrupting supply chains.
2. The United States' tariff policies serve as a catalyst for increased trade protectionism and retaliatory measures by other economies, amplifying global economic uncertainty.
3. Tariff wars negatively affect market diversification, limiting business entry into new markets and reducing consumer welfare across affected economies.

III. Research Methodology

The research methodology employed in this study is qualitative, drawing on comprehensive literature from Scopus, WoS, and ABDC-indexed articles to explore the multifaceted impacts of tariff wars on international trade. Secondary data and statistics from reputable sources such as Statista, McKinsey, and Deloitte have been integrated to provide empirical grounding for the analysis. Each research question is mapped to a detailed case study qualitative research approach, which allows for contextual examination of the economic effects, the role of the United States, and the impact on market diversification

RQ1. What are the primary economic effects of tariff wars on international trade volumes, supply chains, and global demand?

Case Study – 1 Tariff wars and US Supremacy: There are multiple consequences of trade conflicts in the modern era in terms of finance and logistics. This includes the inflation of prices for consumers and firms, as the taxes may create economic shocks that disturb production networks at a global scale. As a result, businesses must adapt and rearrange their supply chains to evade certain regions, leading to a rise in inefficiency and costs of production. Additionally, there may be instances of trade diversion which would make countering the fall in global output difficult. Overall, tariff wars may disrupt supply chains, causing a reduction in real income and inefficiency in manufacturing.

Case Study 2: Economic Effects of Tariff Wars and Rerouting — Evidence from the US–China Trade Conflict and Vietnam

Background and Context

Case study 2-There has been an increase in the use of geoeconomic statecraft by the United States, as it attempts to influence international trade to tackle issues concerning intellectual property and instability in the market. By applying a significant number of tariffs on Chinese products, the United States has set off an international alteration in supply chains along with a rise in retaliatory policies. The new trade barriers caused multinational corporations across the globe to adapt and come up with strategies like the ‘China-plus-one’ model, in hopes of avoiding a rise in production costs.

RQ2. How does the role of the United States as a dominant economic actor influence the escalation and consequences of tariff wars worldwide?

Case Study 3: The United States’ Role in Escalating Tariff Wars and Global Economic Consequences — Lessons from the US–China Trade Conflict

Case study 3- The United States has increasingly utilized geoeconomic statecraft to influence international trade and address long-standing grievances regarding intellectual property and market imbalances. By implementing substantial tariffs on Chinese goods, the U.S. triggered a global transformation of supply chain networks and sparked retaliatory measures. These trade barriers forced multinational corporations to adopt diversification strategies, such as the "China-plus-one" model, to mitigate rising production costs. Consequently, nations like Vietnam have seen a massive surge in exports as businesses attempt to maintain access to the American market while avoiding tax penalties. Ultimately, the U.S. government’s aggressive use of economic levers has reshaped global economic governance and altered the movement of goods worldwide.

RQ3. To what extent do tariff wars impact market diversification and access for businesses across different global economies?

Case Study 4: Tariff Wars and Their Impact on Market Diversification and Access — Business Strategies Amid Global Trade Disruptions

Currently the global economy relies heavily on networks of trade, finance and technology. Advancements in technology have allowed companies to make full use of resources by extending production across different countries. This reliance, however, comes with many risks, as these businesses are now vulnerable to any disruption caused by political unsettlements or trade wars due to protectionism. Hence, the global economy is facing the consequences of geopolitical turmoil and tariff wars, with the recent surge in US tariffs (over 20%), creating certain financial issues, forcing companies to restructure their supply chains. They must also reevaluate costs of production, market access and their presence in foreign markets, which makes a company’s flexibility in terms of trade and production in the long term of utmost importance.

IV. Results and Discussion

The research reveals that tariff wars create a challenge for global trade because they modify how international trade flows while increasing uncertainty in the economy. As a result, protectionist policies (i.e., raising tariffs) prompt retaliatory actions from countries with which trade occurs. This creates an ongoing cycle of disruptive retaliation between these countries and reduces global trade, because tariffs raise the costs of intermediate imported goods, they subsequently increase the costs of production for companies that operate in a global supply chain. Suppliers experience lower margins of profit and tend to adjust their investment possibilities and sourcing strategy as a result. Tariff disputes also negatively influence the stability of economies and deter foreign direct investment (FDI) and volatility in global markets. Manufacturers and agricultural products heavily rely on international trade; thus, any changes in policy create uncertainty. To offset tariff impacts, many companies will either move production or shift sourcing to other countries. This will result in a diversion of trade and restructuring of global supply chains.

The research proposes a Trade Resilience Policy Framework, which considers three critical challenges to international trade: lack of trade diversity, insufficient cooperation between institutions, and underutilization of progressive technology use within the supply chain. By diversifying imports from multiple sources, countries can reduce their reliance on any one source for most of what they consume. Increased cooperation between various institutions will provide greater stability and

predictability to the international trade environment. Lastly, properly integrating various forms of digital technology and utilizing data-driven methods in managing supply chains can improve supply chain efficiency and flexibility in a rapidly changing global business environment. The results of this study suggest the need for resilience-based strategies to minimize the longer term economic impacts of tariff wars on global trade.



Figure 3. Trade Resilience Framework

The Trade Resilience Policy Framework (shown in Figure 3) identifies critical strategies for minimizing economic impacts arising from tariff wars and protectionist trade policies. The Framework consists of three primary pillars: trade diversification, institutional cooperation, and technological integration. Trade diversification involves reducing the number of trading partners by seeking opportunities to expand to new markets and strengthening trade links throughout regions. Institutional cooperation involves the coordination of governments, international trade organizations, and regulatory bodies in efforts to ensure the continued stability of global trade and to prevent an increase in retaliation-related tariffs. Technological integration encompasses using digital trade platforms, as well as data-driven supply chain management and sophisticated logistics systems to create greater transparency, efficiency, and adaptability within global trade operations. Collectively, these elements produce a more resilient trade environment by allowing governments and businesses to anticipate, absorb and adjust to challenges that arise from geopolitical conflicts over trade.

V. Conclusion & Future Scope

This study surveys the disturbances being caused in the global economy because of tariff wars, emphasizing upon how protectionism has a largely negative impact on economic stability and prices for consumers. These measures generally aim to protect domestic industries, but have certain consequences, which include inefficiency in terms of global trade and ruptured supply chains. To tackle these problems, the Trade Resilience Policy Framework, which endorses the idea of digital trade and market expansion, is suggested. The text additionally encourages institutional cooperation and more flexible methods to adapt to the increasingly volatile global market. The research also suggests further investigation with the use of updated data to predict the impact tariff wars might have in the future on an international scale.

The results of this study present several avenues for future research. The current study gives a detailed analysis of the implications of the tariff wars on international trade in the entire world, however the depth of analysis can be extended along various dimensions to further enhance scholarly discussion and policy design.

- **Geographical Extension:** Future research should address lesser discussed trade links between India-EU, ASEAN-Gulf and Africa-China trade and specific vulnerability of the small, landlocked, and developing economies that suffer collateral damage from tariff conflicts between the major powers;
- **Sectoral Depth:** The sectoral dimension represented by existing tariff war literature is inadequate and needs to be done more in-depth, as there are critical mineral supply chains, agricultural food security, digital trade restrictions and pharmaceutical supply chain resilience to consider.

- **Methodological Advancement:** Future research needs to include tariff uncertainty, multi-party game-theoretic models, agent-based computational simulation, and global value chain network analysis to better account for the non-linear and complex adaptive dynamics of the tariff that traditional econometric models cannot.
- **Policy and Institutional Analysis:** The rapid erosion of WTO multilateralism, the growing number of Regional Trade Agreements as tariff war responses, and the emergence of Carbon Border Adjustment Mechanisms as disguised protectionist measures require individual scholarly study.
- **Social and Ethical Dimensions:** Future research should incorporate distributional, gender and environmental perspectives to the analysis of tariff war impact on the distributional impacts of tariff wars should not be the same for lower income consumers, for women in export industries, and for the carbon-unregulated economy absorbing outsourced production. At the nexus of trade policy, financial technology and AI-governance, emerging frontiers like the use of cryptocurrency for tariff evasion and the systemic risk of tariff escalation through AI-controlled algorithms represent new territory which may offer the potential for original interdisciplinary contributions.

These directions lead to a broad, new development, from a traditionally descriptive and bilateral research paradigm to a more dynamic, multilateral, and interdisciplinary approach that must consider geopolitics, climate governance, digital transformation and social equity simultaneously to fully grasp the complexity of trade conflict in the global twenty-first century economy.

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