Trump Administration's Tariff Gambits: Will they work?

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Abstract- The world economy is passing through tumultuous times. On the one hand, growth rates have lost their steam and on the other, nations are turning more protectionist. The return of Donald Trump as the President of the United States of America (USA) brought with it the prospect of turning America into a protectionist fortress. Tariffs, once considered to be a policy instrument in political economy threaten to become an offensive weapon in the hands of the Trump administration. This has major repercussions for the US and the global economy. The current papers examines the objectives behind the tariff games initiated by the Trump administration, the likely impact and the way forward for the world economy.

Key Words- Tariffs, Trade, World economy, Geopolitics.

Recently, tariffs have earned a bad name. They are seen more as tools of intimidation rather than growth-enabling processes. Article1 (sec 8) of the US Constitution provides far-reaching powers to the Congress to impose duties, including tariffs (Metych, 2025). The second term of Trump's presidency was inaugurated by a slew of tariffs across the board. Virtually no country with any standing was spared a tariff attack.

In pure economic parlance, tariffs are defined as various classes of taxes imposed on products imported into a country from abroad. Broadly, tariffs can be specific, compound, or ad valorem tariffs. Tariffs are imposed to attain various policy goals, such as protecting domestic industries (including infant industries) and maintaining national security to attain geopolitical goals. In general, tariffs raise the prices of foreign products in the targeted category compared to domestic products.

However, the question that remains unanswered is whether tariffs actually work in favour of the imposing country. If they do, will it affect global welfare? This study attempts to answer these questions from the perspective of geopolitics in 2025.

REVIEW OF LITERATURE

Trump's return to power has rekindled the debate on the effects of tariffs on the global economy, especially when imposed by a major trading nation such as the USA. The interconnectedness of the world economy brings significant ramifications of the imposition of tariffs. The literature review delves into the reasons, contradictions and the results of such tariff imposition. We can examine the results of the literature review under the following headings-

WHY DID TRUMP IMPOSE THE TARIFFS?

The tariffs imposed by Trump created great uncertainty in the global markets (Levy, et.al. 2025). It is believed that the Trump administration had considerations of national security, manufacturing, and trade balancing to impose fresh tariffs, which enhanced the level of tariff protection from 2% to 20% (Levy, et.al. 2025). Such recalibration was effected to set right certain trading relations of the US that Trump and his advisers deemed as grossly unjust.

Trump's contention that other countries have systematically ripped off the US by imposing high tariffs while enjoying low tariff rates in return, thereby deindustrializing the US economy, is often questioned by authors (Scott, 2025). There is little coherence in the policies of the administration, and that it is unclear what they wish to attain through high tariffs. Furthermore, the root cause of the US deficit is fiscal imbalance, resulting in a deficit of 5.5% of GDP. Unless this root cause is resolved, the issue of trade deficits cannot be handled effectively (Scott, 2025).

How do Trump's Tariffs impact the economy and the final consumer?

Some scholars take a consumer-oriented perspective on the tariff issue. While tariffs are justified in terms of protecting domestic industries and augmenting revenues for governments, the experience of the US in recent years shows that new tariffs were entirely passed on to consumers, resulting in higher prices and lower economic welfare (York, 2024). There is wide support for this line of thinking. Although Trump believes that his tariff policy will save jobs at home and promote growth (Clarke 2025), it can potentially cause chaos in the world economy. This prompted the IMF to cut its growth projections. Prices are expected to increase significantly in the US due to supply-side factors (Clarke 2025).

Economists analysing tariffs from a macroeconomic perspective see them as a double-edged sword. Many measures, including the U.S. The Omnibus Trade and Competitiveness Act of 1988 emphasised countervailing measures against trade distortionists and currency manipulators. A major problem with such measures is that they prompt trading partners to impose matching or retailatory tariffs. Tariffs also have the potential to strengthen domestic currency in foreign currency markets (Obstfeld, 2016).

Analysis of sectoral and supply chain issues

US imports of steel and aluminum present contrasting pictures (Burga,2025). While steel imports fall annually, aluminum imports are steadily increasing. However, Trump in his second presidency revealed his intention to impose a 25% tariff on both steel and aluminum imports into the US. Trump hoped that these tariffs would help revive America's steel and aluminum industries (Burga,2025).

The global supply chains have benefited a great deal through the lowering of trade barriers in the past three decades. The authors believe that a clear understanding of potential reactions from complex connected supply chains could help policymakers better anticipate the impact of trade policy changes (Dong, 2019).

Contradictions of a political and Ideological nature

Scholars also bring out a contradiction in Trump's stance on tariffs. Trump's contention that the United States has been "looted, pillaged, raped, and plundered" by "friend and foe alike" for "more than 50 years" and that US exports were deliberately blocked by other countries seems to be far from true (Hirsh, 2025). The fact that the US enjoys exports of over $3 trillion indicates the fallacy of this statement (Hirsh, 2025).

It is clear from the review of literature that a clear gap exists with regard to the present round of tariff imposition by the Trump administration and its likely impact. The current study examines this very important aspect in detail.

OBJECTIVES OF THE STUDY

Based on the review of literature, the following research questions have been framed-

- What are the foundations of international trade in political economy
- What is the historical legacy of the US in tariff imposition
- What are the geopolitical intentions of the Trump administration behind the imposition of the tariffs
- Whether the intentions behind the tariffs were successfully met to any extent in the short run from a geopolitical perspective.
- Are Tariffs a sustainable foreign policy tool in the long run for the US

Based on the Research questions, the following objectives were framed-

- To examine the foundations of international trade in political economy
- To trace the historical legacy of imposition of tariffs by the US
- To understand the geopolitical intentions of the Trump administration behind the imposition of the tariffs
- To evaluate the geo-political success of the US tariff imposition
- To understand the sustainability of tariffs as a foreign policy tool.

The Foundation of International Trade

One of the important issues covered under the political economy is international trade. Many theories have floated since the period of Adam Smith to underscore the logic behind international trade. Let us examine some theories underscoring international trade.

1. The Mercantilist theory of Trade

This theory, once discarded, has found inroads into trade policy in recent times. The arguments and premises of this theory are both simple and attractive. Adherents of the Mercantilist trade theory advocate that a country should maximise its exports and minimise its imports. The policy objective is to maximise the collection of bullions. Critical to this line of thought is that governments should restrict imports, maximise internal production along all major lines, and encourage exports by providing subsidies and other support. The mercantilist theory is accused of creating production imbalances and economic degression due to the adoption of the "beggar thy neigbour" policy.

2. The theory of Absolute Advantage

The theory of Absolute Advantage can be considered as the beginning of political economy theories on international trade. The theory propounded by Adam Smith in his work, "An enquiry into the nature and causes of the wealth of nations' states that a country can export a product in which it has an absolute advantage in terms of cost of production. This also leads us to the inevitable position that every country should specialise in the production of products in which it has an Absolute Advantage. Let us consider a practical example to understand this theory:

Table: The number of units of a product produced by one unit of labor in two countries

Product	India	Bangladesh
Gun	5	1
Cloth	2	4

It is clear from the table above that a unit of labour in India produces five guns in India and only one gun in Bangladesh. On the other hand, the same unit of labour can produce 2units of cloth in India, while a unit of Bangladeshi labour can produce four units of cloth. It is clear that India has an Absolute Advantage in the production of Guns, while Bangladesh has the same advantage in the case of Cloth. Both countries can benefit from International Trade if India exports Guns to Bangladesh and Bangladesh exports clothes to India. This forms the basis of International Trade.

3. The Theory of Comparative Advantage

Over time, it was believed that the theory of Absolute Advantage was too simplistic to cover the complexities of international trade. What happens when one country has an absolute advantage over another in all the products that it produces? Is International Trade Possible? These questions occupied David Ricardo's thoughts. His seminal work "Principles of Political Economy and Taxation" provides a path-breaking theory that holds today. He states that a country can still export its products to other countries despite not possessing an absolute advantage in the production of any product, provided it has a comparative advantage in the production of the said product viz-a-viz other countries.

We illustrate this concept using an example. A comparative advantage is an index of relative opportunity costs. Opportunity cost is the next best opportunity for foregoing production because of the adoption of a certain production pattern. Let us consider the data given in Table 2

Table 2: Estimation of Comparative Advantage (output per unit of labour)

Country	Cycles	Cars
India	6	12
Bangladesh	4	6

It is clear from the table above that India has an Absolute Advantage in the production of both Cars and Cycles. If we follow Smith's theory, no trade can occur between the countries in question in this case. However, according to Ricardo's theory, trade is still possible. Let us examine the opportunity costs of production in the two countries. If India specialises in the production of cycles, its opportunity cost ratio should be 12/6=2 cars foregone to produce the cycle. If it specialises in cars, the opportunity cost is 6/12=0.5 cycles foregone. On the other hand, if Bangladesh specialises in the production of cycles, the opportunity cost will be 6/4=1.5 Cars foregone and if it specialises in the production of cycles, the opportunity cost will be 4/6= 0.6. It is clear that India has a comparative advantage in the production of cars, whereas Bangladesh has a comparative advantage in the production of cycles. Therefore, India should specialise in the production of cars and export them to Bangladesh, and the latter should specialise in the production of cycles and export them to India.

4. Hecksher-Ohlin Theory of International Trade

Although the basic premise of Ricardian theory remained intact, there was a need for further advancement in trade theories over time. One such refinement was in the form of Heckscher– Ohlin–Samuelson theory. This is essentially a factor endowment theory. With industrialisation, the relative factor endowments of countries have come into the picture. The countries of the Northern Hemisphere were characterised by a relative abundance of availability of capital, and the countries of the Southern Hemisphere were characterised by an abundance in the supply of labour. The theory essentially postulates that countries should produce and export products which abundantly embody the factor of production in major supply in that economy. This inturn meant that labour-abundant countries would produce labour-abundant products and export them to capital-abundant countries, while the latter would produce those products which utilise more capital in their production and export them to the former group of countries.

Advancements in this theory went further. It is possible that this scenario will not remain static. The production structures in these countries will ensure that there is increasing demand for an abundant factor of production. This sustained demand will result in an increase in factor payments for the abundant factor. Gradually, the difference in the factor payment differentials between labour- and capital-intensive countries will diminish. Certain situations may even occur in which this equalisation process may ultimately result in factor price equalisation between the various groups of countries. Such a scenario will be accentuated if there is free movement of production factors among countries. The gradual transformation of a number of less-developed countries into highly industrialised capitalist countries can be seen as a validation of this strand of thought.

5. Prebisch – Singer Thesis

A thesis which presents a pessimistic picture of the possibility of less developing countries to prosper from effective participation in world trade is the Prebisch Singer thesis. The thesis which is the product of the work done by Latin American economists Raul Prebisch and H. J. Singer states that there shall be a secular deterioration in the terms of trade of the primary product exports of less-developed countries. Less developed countries exported mostly primary products and other low-tech products, while the west exported major industrial products. Such deterioration may ultimately lead to balance of payment problems in these countries. The terms of trade here imply the ratio of exports to imports measured in terms of prices. The thesis also has an indirect implication: earnings from primary products should be wisely invested to improve the quality of human capital in such countries (Prebisch Singer Hypothesis, n.d.). This can be achieved through investment in education, healthcare, research, and so on. (Prebisch Singer Hypothesis, n.d.). Though not totally borne out, this thesis still has some relevance for the Least Developed Countries in the world.

6. Modern theories of trade

Modern trade theories differ substantially from the classical and neoclassical approaches. These theories emphasise information asymmetry and market imperfections. Perfect competition postulated by traditional theorists no longer exists, except in unregulated agricultural markets. Most firms that trade in the international sphere are oligopolistic, and, as such, the extent of product differentiation in a market space assumes importance. Similarly, the extent of information asymmetry in markets must also be factored into revealing trade outcomes. Intra-firm trade across nations is a major reality owing to the emergence of multinational corporations. Modern theories of trade consider all of these factors while formulating their conceptions.

What do the international trade rules dictate?

In brief, international trade rules adhere to the following basic principles-

a. Most Favoured Nations Status (MFN)

The provision of the MFN status indicates that "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties" (WTO) *b. National Treatment*

The concept of National Treatment is another seminal provision of the WTO. The concept states that once a product completes its importation process after fulfilling border requirements such as payment of customs duties, the products should not be discriminated against like domestic products in terms of internal taxes or other regulations. (WTO)

c. Anti-dumping and Countervailing Duties

The seminal provision on Anti-dumping and Countervailing Duties states that if the price of the product exported from one country to another "is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or in the absence of such domestic price, is less than either the highest comparable price for the like product for export to any third country in the ordinary course of trade, or the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit" (WTO), then it shall be deemed that the said product is dumped into the recipient country. To offset dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in the case of the said product (WTO).

e. Elimination of Quantitative Restrictions

GATT specifically states that restrictions other than duties, taxes, or other charges, in the form of quotas, import or export licences, or other measures, shall be invalid (WTO). The logic behind this measure is that tariffs and taxes operate through the price mechanism, and as such, a supplier can remain competitive if he reduces his supply price. However, if quotas or any other form of QR is imposed, market competitiveness cannot be gained through any measure once the limit is reached.

The History of Tariffs imposed by the USA

The history of US tariffs clearly indicates that they serve two purposes: 1. Tariffs were sources of revenue, and 2. These are tools of protectionism. However, the current round of tariffs imposed by Trump also indicates that tariffs could be a tool for geopolitical domination. Historical facts indicate that the first use of tariffs as a policy tool in the independent USA was the introduction of the Tariff Act of 1789 George Washington, essentially catering to points 1 and 2 mentioned above. The tariffs imposed on imports were modest, pegged at 5% only.

The second instance in which tariffs were officially used as a policy device was the Tariff of Abominations (1828). This tariff was imposed on imports to an extent of 50% to make domestic production more attractive (Metych, 2025). While Northern manufacturers welcomed this move, Southern agriculturalists opposed it for fear of retaliation from Great Britain, which was their largest market (Metych, 2025).

The star among the tariff acts was the Smoot Hawley Tariff Act of 1930. One can state that the period witnessed a series of comedies of errors. The Fordney-McCumber Act of 1922 raised import tariffs by an unsustainable average of 40% (Kenton, 2025). Piloted by Sen(s). Reed Owen Smoot and Willis Chatman Hawley, the aim of the new Act was ostentiably to protect farmers and industrialists from cheaper imports. When the US raised its average tariffs by 20%, many countries responded by hiking their tariffs, leading to an all-out trade war that culminated in the Great Depression of the 1930s (Kenton 2025).

In subsequent years, the US has used tariffs to target specific countries and sectors, often resulting in welfare losses. In the run p to the 2024 presidential elections, high imports and employment loss were major issues encashed by Trump during his campaign. Therefore, it is no surprise that immediately on his assumption of office, Trump inaugurated a series of tariffs to target perceived offenders.

In this present case, a simple formula was used to arrive at the number of tariffs to be imposed on countries under Trump's second presidency, which reads as follows (Desk, 2025)-

$$\Delta\tau i = (xi - mi) / (\varepsilon * \varphi * mi)$$

where,

Δ stands for change in the tariff rates of import

Ti stands for import tariff rate

Xi stands for the exports from the US to a country

Mi stands for imports from the foreign country to the US

ε (Epsilon) is the price elasticity of import demand (fixed at 4)

φ (Phi) is the elasticity of import prices with respect to tariffs, fixed at 0.25

Change in tariff import rate = (exports - imports) / (4 * 0.25 * imports)

Or simply (exports-imports)/imports

The simplicity of this formula is appealing, and its effects can be devastating. The US is the premier importer, with a share of 14.6% in 2022 and valued at $ 3.2 Trillion (USTR, 2023). This figure remained at around $ 3 trillion in the year 2023 (OEC, 2025), which increased to $3.36 trillion in 2024 (Trading, 2025). This makes the US by far the largest importer in the world. Many small economies are completely dependent on their exports to the US for sustenance. In this scenario, any adverse tariff imposed by the US will have a debilitating impact on the world economy.

However, Trump justifies his actions citing certain domestic examples as indicated here below-

a. Since the year 1990, manufacturing related employment in New York has decreased by 59% and that in Ohio has come down by 35% (Trump, 2025)
b. Job loss due to de-industrialisation not only killed townships but also resulted in social ills such as drug abuse (Trump, 2025).
c. He equated the "loss of American industry" to the inability of the US to manufacture essential products such as medicines and other essential goods (Trump, 2025).
d. The loss of American competitiveness in steel and aluminium is due to protectionist measures initiated by other countries. If there is a level playing field, the American industry will thrive, and workers will prosper.

Trump's tariff measures have received support from various industries. For instance, Charles Johnson, who represents the American Aluminium industry states, "we appreciate President Trump's continued focus on strong trade actions to support the aluminium industry in the United States' (Whitehouse, 2025).

Trump's Geo-Political Intentions behind the imposition of Tariffs

"Make America Great again". This was Trump's election slogan during his presidential campaign. The tag line begs the question- how did America descend form "greatness"? The adherents of this line of thought state that America's greatness has been lost both internally and externally. A closer look at the factors of "greatness" reveals the advantages that the US held for itself for a long time.

The first factor that lent to the 'greatness' of the US was the sustained growth rates that its economy attained for long periods. Table 1 presents a clear picture.

Year	GDP growth (annual %)
1960	2.3
1961	6.1
1962	4.4
1963	5.8
1964	6.4
1965	6.5
1966	2.5
1967	4.8
1968	3.1
1969	0.216606498
1970	3.292722455
1971	5.255501951
1972	5.645679766
1973	-0.540550187
1974	-0.205619193
1975	5.388033896
1976	4.624186517
1977	5.535206478
1978	3.165988229
1979	-0.256775732
1980	2.537701267
1981	-1.803013788
1982	4.583790986
1983	7.236453159
1984	4.169575347
1985	3.462655053
1986	3.454629665
1987	4.176982398
1988	3.672237836
1989	1.885965585
1990	-0.108312889
1991	3.522497184

1992	2.751795862
1993	4.029022729
1994	2.684430735
1995	3.772772686
1996	4.447127942
1997	4.483133346
1998	4.788425053
1999	4.077585758
2000	0.955538346
2001	1.700447324
2002	2.795605966
2003	3.847771692
2004	3.483549938
2005	2.784539639
2006	2.003858298
2007	0.113587248
2008	-2.576500234
2009	2.695192584
2010	1.564406854
2011	2.289113388
2012	2.117830099
2013	2.523819814
2014	2.945550455
2015	1.819451475
2016	2.457622303
2017	2.966505069
2018	2.58382533
2019	-2.163029139
2020	6.055052933
2021	2.51237532
2022	2.887556009

Source – World Bank (data.worldbank.org)

If we look at the growth history of the world, very few countries have a sustainable growth rate similar to that of the US. The average GDP growth rate is 3.019% over the period 1960–2022, which is exceptional.

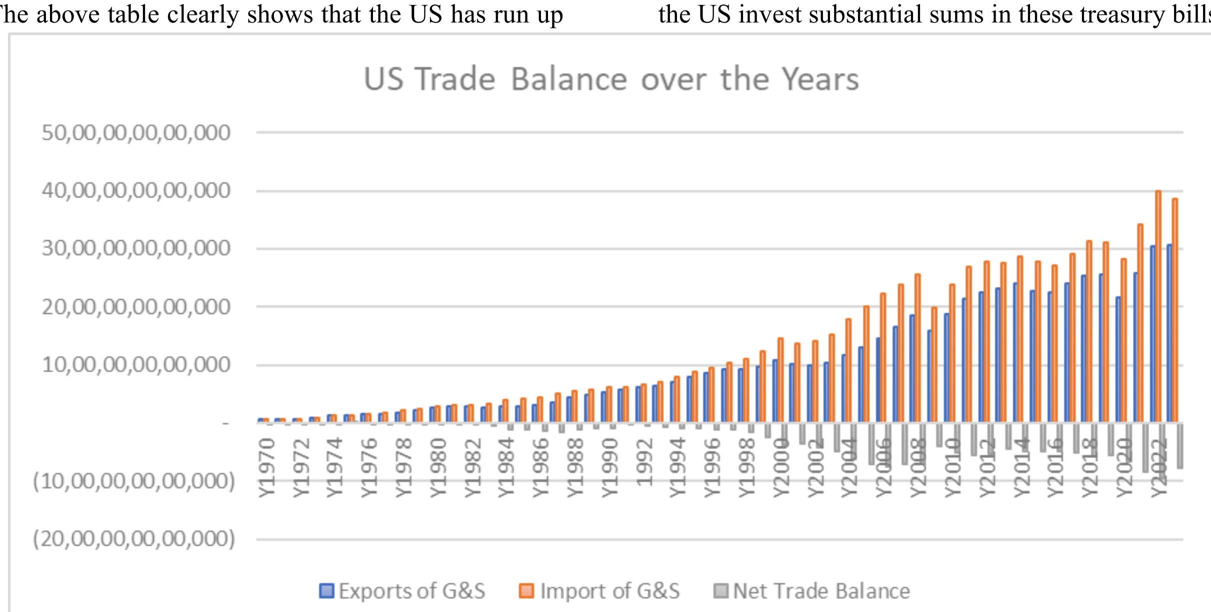
The second significant aspect that contributed to the perceived greatness of the USA is the fact that it has been the predominant trading partner of most countries- developed as well as developing. The trade statistics of the USA since 1970 is provided in the table below

Year	Exports of G&S	Import of G&S	Net Trade Balance
Y1970	53,90,00,00,000	54,51,00,00,000	-61,00,00,000
Y1971	56,11,00,00,000	61,15,00,00,000	-5,04,00,00,000
Y1972	62,73,00,00,000	72,85,00,00,000	-10,12,00,00,000
Y1973	88,45,00,00,000	89,59,00,00,000	-1,14,00,00,000
Y1974	1,19,08,00,00,000	1,25,48,00,00,000	-6,40,00,00,000
Y1975	1,30,42,00,00,000	1,20,45,00,00,000	9,97,00,00,000
Y1976	1,42,32,00,00,000	1,49,14,00,00,000	-6,82,00,00,000
Y1977	1,51,90,00,00,000	1,79,54,00,00,000	-27,64,00,00,000
Y1978	1,77,52,50,00,000	2,07,69,20,00,000	-30,16,70,00,000
Y1979	2,23,27,03,00,000	2,48,23,70,00,000	-24,96,67,00,000
Y1980	2,71,78,80,00,000	2,90,74,10,00,000	-18,95,30,00,000
Y1981	2,94,29,50,00,000	3,09,97,50,00,000	-15,68,00,00,000
Y1982	2,75,16,70,00,000	2,98,70,40,00,000	-23,53,70,00,000
Y1983	2,66,01,80,00,000	3,23,15,30,00,000	-57,13,50,00,000
Y1984	2,91,04,70,00,000	3,99,32,40,00,000	-1,08,27,70,00,000
Y1985	2,89,01,00,00,000	4,10,11,20,00,000	-1,21,10,20,00,000
Y1986	3,10,04,10,00,000	4,48,56,80,00,000	-1,38,52,70,00,000
Y1987	3,48,87,20,00,000	5,00,54,70,00,000	-1,51,67,50,00,000
Y1988	4,31,14,30,00,000	5,45,80,30,00,000	-1,14,66,00,00,000
Y1989	4,87,06,30,00,000	5,80,18,90,00,000	-93,12,60,00,000
Y1990	5,35,25,80,00,000	6,16,11,00,00,000	-80,85,20,00,000
Y1991	5,78,33,70,00,000	6,09,51,70,00,000	-31,18,00,00,000
1992	6,16,87,29,00,000	6,56,08,00,00,000	-39,20,71,00,000
Y1993	6,42,85,40,00,000	7,13,16,50,00,000	-70,31,10,00,000

Y1994	7,03,25,40,00,000	8,01,76,50,00,000	-98,51,10,00,000
Y1995	7,94,39,70,00,000	8,90,78,40,00,000	-96,38,70,00,000
Y1996	8,51,62,80,00,000	9,55,66,30,00,000	-1,04,03,50,00,000
Y1997	9,34,45,90,00,000	10,42,74,70,00,000	-1,08,28,80,00,000
Y1998	9,33,18,30,00,000	10,99,31,30,00,000	-1,66,13,00,00,000
Y1999	9,76,52,10,00,000	12,32,33,40,00,000	-2,55,81,30,00,000
Y2000	10,82,96,20,00,000	14,52,65,10,00,000	-3,69,68,90,00,000
Y2001	10,15,36,40,00,000	13,75,73,70,00,000	-3,60,37,30,00,000
Y2002	9,86,09,50,00,000	14,06,76,10,00,000	-4,20,66,60,00,000
Y2003	10,28,18,00,00,000	15,24,43,10,00,000	-4,96,25,10,00,000
Y2004	11,68,12,10,00,000	17,78,95,40,00,000	-6,10,83,30,00,000
Y2005	12,91,50,60,00,000	20,08,04,30,00,000	-7,16,53,70,00,000
Y2006	14,63,99,10,00,000	22,27,52,40,00,000	-7,63,53,30,00,000
Y2007	16,60,81,10,00,000	23,71,81,10,00,000	-7,11,00,00,00,000
Y2008	18,49,58,40,00,000	25,61,93,60,00,000	-7,12,35,20,00,000
Y2009	15,92,78,80,00,000	19,87,56,70,00,000	-3,94,77,90,00,000
Y2010	18,72,32,40,00,000	23,75,40,20,00,000	-5,03,07,80,00,000
Y2011	21,43,55,60,00,000	26,98,07,30,00,000	-5,54,51,70,00,000
Y2012	22,47,45,30,00,000	27,73,36,00,00,000	-5,25,90,70,00,000
Y2013	23,13,12,40,00,000	27,59,98,10,00,000	-4,46,85,70,00,000
Y2014	23,92,61,30,00,000	28,76,56,40,00,000	-4,83,95,10,00,000
Y2015	22,80,78,60,00,000	27,71,55,90,00,000	-4,90,77,30,00,000
Y2016	22,40,82,40,00,000	27,20,28,50,00,000	-4,79,46,10,00,000
Y2017	23,94,47,70,00,000	29,11,41,20,00,000	-5,16,93,50,00,000
Y2018	25,42,45,90,00,000	31,21,05,90,00,000	-5,78,60,00,00,000
Y2019	25,46,28,00,00,000	31,05,67,40,00,000	-5,59,39,40,00,000
Y2020	21,60,14,50,00,000	28,13,83,90,00,000	-6,53,69,40,00,000
Y2021	25,70,80,00,00,000	34,18,87,20,00,000	-8,48,07,20,00,000
Y2022	30,39,40,30,00,000	39,84,17,30,00,000	-9,44,77,00,00,000
Y2023	30,71,81,30,00,000	38,56,70,40,00,000	-7,84,89,10,00,000

Source – World Bank (data.worldbank.org)

Since the Second World War, no nation has secured the kind of trading wherewithal that the US has acquired. Much of this ability is derived from the fact that the US runs up huge trade and fiscal deficits every year. The above table clearly shows that the US has run up trade deficits every year since 1970. The fact that the US Dollar is the world's de facto reserve currency helps the US borrow at low cost, especially through its treasury bills. Many countries that have surpluses with the US invest substantial sums in these treasury bills.



However, it should be noted that there is strong complementarity between US exports and imports. The correlation coefficient between exports and imports of Goods and Services in the US economy is as high as .99 indicating a very strong positive linear relationship between the two variables. This indicates that US exports have followed their import patterns, indicating that the former has aided the latter. Such a scenario can also arise when imports contain substantial export-related intermediate goods and services. Furthermore, the imposition of tariffs on imports can result in a reduction in exports if we assume that countries export goods and services. Otherwise, what will countries do with surplus foreign exchange?

A significant factor that made America “great” was its military force. The high defense spending, utilisation of modern technology, and sheer volume of available armaments make it the most powerful fighting machine in modern history. The country is ranked number 1 among 145 nations, with a score of 0.0744 (Power, 2025). The American navy is truly a “blue water” navy, while its air force has bases across the globe.

A subtle but evident reason for American dominance has been the pre-eminence of the Dollar as the World’s reserve currency. Whether under the Gold Standard or the Open Float system, the dollar performed the role of the major reserve currency. Under the open float system, it gave the additional advantage to Americans that they could run up deficits without affecting the domestic economy in any significant manner. Further, it is also significant that the trade surplus gained by exporters to the US market was, to a sizeable extent, invested in the US debt markets, allowing the government to borrow at low costs to fund further consumption at home.

Another factor that gave the US its great power status was its soft power. American films, music, games, lifestyles, and dramas have influenced people worldwide. Hollywood captured the imagination of the entire generation. American songs and games dominate the entertainment arena. Michael Jackson’s “Heal the World” has done more towards highlighting the importance of peace than a thousand declarations by state heads. Similarly, the game “Age of Empires” has provided more insight into medieval world history and war economy than most middle-school textbooks. McDonalds, KFC, Pepsi, Coca-Cola, and other American brands dominate the food and beverage industry in open economies.

American science, technology, and innovation have driven global growth. The key to this sustained output in research and innovation is mainly the industry-academia linkage. It ranked 3rd in the Global Innovation Index for the year 2024, down from no.2 in 2022 (United States of America ranking in the Global Innovation Index 2024, 2024).

The Trump administration feels that there has been a significant reduction in American power over the years, and he pins the responsibility for this decline in successive presidencies (especially led by Democrats). An impassionate analysis of the matter reveals that there is a kernel of truth in the Trump administration’s feelings. When the USSR disintegrated in 1991, the USA became the world’s undisputed supreme power. However, by 2010, China had emerged as a rival power centre, which had the potential to challenge the supremacy of the US in multiple domains in the foreseeable future. Other regional powers also rapidly emerged in 2015, such as India, Russia, and the EU. The case of China is all the more painful since the Chinese used American markets, technology, investments, and policy to grow and then challenge the US. The myopic view of successive US administrations even ignored China’s blatant violation of intellectual property not only in the industrial sector but also in military applications. According to reports, Chinese IP thefts cost the US $225 billion to $600 billion a year (Smith, 2019). With regard to military applications, the transfer of the US defense IP has helped the Chinese manufacture clones of some of the most advanced American weapons, including F-22 Raptor and F-35 (Jones, 2020). Based on this IP, China has advanced its military technology to the extent that it leads the US in the research for manufacturing 6th generation fighter aircraft.

The Belt and Road Initiative is another tool that has worked towards reducing the American influence in many parts of the world. Since the time of the Marshall Plan, the US has been the primary sponsor of development work globally. The reconstruction of Europe after World War II was achieved through American investments and liberal trade. All of this changed with the Belt and Road initiative. The Chinese, made rich through trade surpluses from across the world, started providing loan finance for completing infrastructural projects in many developing and developed countries. Though the loan conditions were stiff in financial terms, the Chinese did not make much noise about religious freedom, human rights, or other fundamental social or political issues in recipient countries. This came in handy for both autocratic and quasi-democratic countries. Political heads syphoned off the money, while the repayment burden fell on the general public. Moreover, these Chinese investments did not create technically trained manpower or a research ecosystem in these countries. In most cases, the Chinese advanced their investments by fully knowing that the recipient countries did not have absorption capacity and would soon default on their repayment obligations. The case of Hambantota port in SriLanka, the power projects under the China-Pakistan Economic Corridor, the reconstruction of the Entebbe Airport in Uganda are all cases in view. In the case of the Hambantota port, the defaulting Srilankan government was forced to grant a 99 -year old lease to the Chinese with complete operational rights. While these measures would be inimical to the populations of the land, they offer sufficient scope for corrupt politicians and rent-seeking bureaucrats. Using such tactics, the Chinese were successful in slowly wresting influence from the US in many counties which were earlier under the US sphere of influence. What also mattered was the fact that by 2023, the Chinese replaced the US as the largest economy in the world in PPP terms, with a total GDP of $31,230,000,000,000, far ahead of the US GDP of $24,977,000,000,000 (CIA, 2023). This clearly implies that the Chinese now had the ability to finance the activities of their choosing far better than the US.

It is not only China, but Russia, Iran, and Turkey that are challenging US power vertically and horizontally. The US could not convince Russia to accept a ceasefire with Ukraine as a step towards ending hostilities between the two countries. Despite the wide-ranging sanctions imposed on the Russian Republic, the country has not only survived but also posted robust growth, clearly indicating the limits of American influence. This finding also suggests that trade and economic tools can be ineffective in sufficiently large economies which have food self-sufficiency and a robust domestic industrial base.

Another factor undermining American economic and trade hegemony is the emergence of BRICS as a viable grouping. Initially, a joint initiative of Brazil, Russia, India, China, and South Africa covered 35% of the global GDP in PPP terms and 45% of the global population. However, with the recent addition of Egypt, Ethiopia, Indonesia, Iran, and the UAE as full members and Nigeria and others as partners, BRICS now covers 54.6% of the world population and 42.2% of the Global GDP (Norton, 2025). Experts attribute this development to the weak policy posture of former US President Biden (Camman, 2023). Further, the idea of floating a BRICS currency is also being actively discussed, an effort which could, if successful, deeply undermine the predominance of the US Dollar as the World's reserve currency. Trump realises that the days of the petrodollars are long gone, and newer options are now opening up.

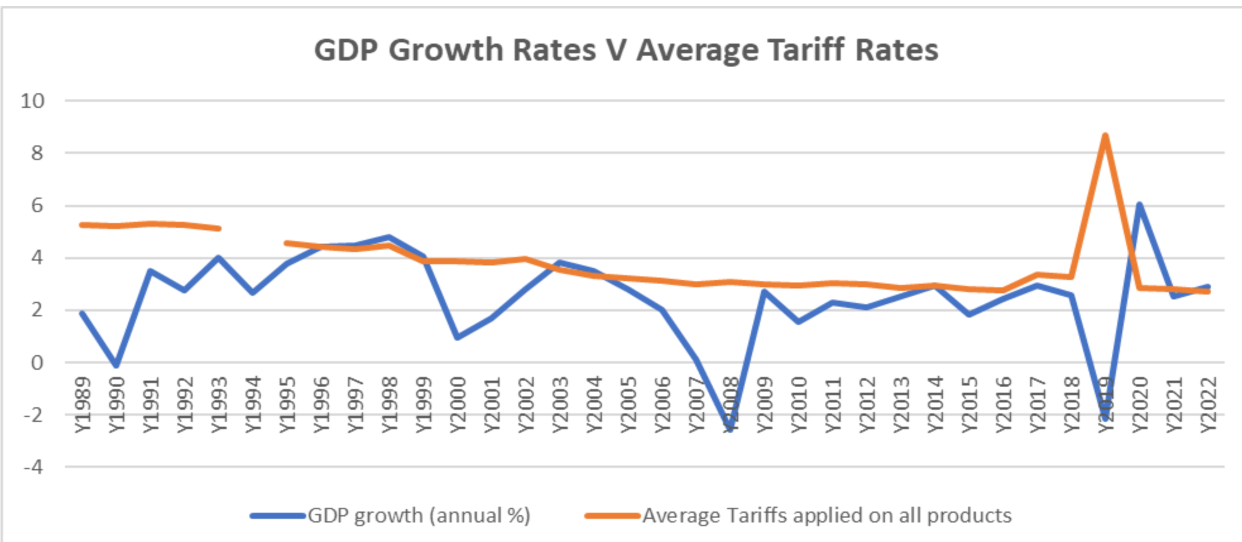
Are Tariffs a sustainable geopolitical policy tool in the long run?

In this scenario, it becomes pertinent to ask the question, "Do tariffs work"? In the short run, there could be some desirable impacts. The following table provides a bird's eye view of the relationship between tariff and GDP growth. Long-term US experience shows that there is a very weak negative correlation (-0.233) between the GDP growth rate and tariff rates. This implies that tariff rates have traditionally had a minor impact on the growth rate of the US economy. The only year in which the negative correlation was pronounced was 2019. However, for 2019, we had to consider additional variables related to the impact of the COVID-19 pandemic. This leads to the conclusion that tariff and economic growth rates do not have a significant association. We must concede that growth is not fully trade centric. The contributions of other sectors are significant and can address trade deficiencies.

Year	GDP growth (annual %)	Average Tariffs applied on all products
Y1989	1.885965585	5.28
Y1990	-0.108312889	5.2
Y1991	3.522497184	5.31
Y1992	2.751795862	5.25
Y1993	4.029022729	5.12

Y1994	2.684430735	
Y1995	3.772772686	4.59
Y1996	4.447127942	4.44
Y1997	4.483133346	4.34
Y1998	4.788425053	4.49
Y1999	4.077585758	3.88
Y2000	0.955538346	3.87
Y2001	1.700447324	3.82
Y2002	2.795605966	3.98
Y2003	3.847771692	3.53
Y2004	3.483549938	3.31
Y2005	2.784539639	3.23
Y2006	2.003858298	3.14
Y2007	0.113587248	3.01
Y2008	-2.576500234	3.1
Y2009	2.695192584	3
Y2010	1.564406854	2.96
Y2011	2.289113388	3.03
Y2012	2.117830099	2.99
Y2013	2.523819814	2.87
Y2014	2.945550455	2.93
Y2015	1.819451475	2.8
Y2016	2.457622303	2.76
Y2017	2.966505069	3.36
Y2018	2.58382533	3.25
Y2019	-2.163029139	8.7
Y2020	6.055052933	2.87
Y2021	2.51237532	2.79
Y2022	2.887556009	2.72

Source – World Bank (data.worldbank.org)



A more significant comparison would be the relationship between tariff rates and US exports and imports. The table below provides a comparison of tariff rates and exports

Year	Average Tariff Rates	Exports of Goods and Services
Y1989	5.28	4,87,06,30,00,000
Y1990	5.2	5,35,25,80,00,000
Y1991	5.31	5,78,33,70,00,000
Y1992	5.25	6,16,87,29,00,000
Y1993	5.12	6,42,85,40,00,000
Y1994		7,03,25,40,00,000
Y1995	4.59	7,94,39,70,00,000
Y1996	4.44	8,51,62,80,00,000
Y1997	4.34	9,34,45,90,00,000
Y1998	4.49	9,33,18,30,00,000
Y1999	3.88	9,76,52,10,00,000
Y2000	3.87	10,82,96,20,00,000
Y2001	3.82	10,15,36,40,00,000
Y2002	3.98	9,86,09,50,00,000
Y2003	3.53	10,28,18,00,00,000
Y2004	3.31	11,68,12,10,00,000
Y2005	3.23	12,91,50,60,00,000
Y2006	3.14	14,63,99,10,00,000
Y2007	3.01	16,60,81,10,00,000
Y2008	3.1	18,49,58,40,00,000
Y2009	3	15,92,78,80,00,000
Y2010	2.96	18,72,32,40,00,000
Y2011	3.03	21,43,55,60,00,000
Y2012	2.99	22,47,45,30,00,000
Y2013	2.87	23,13,12,40,00,000
Y2014	2.93	23,92,61,30,00,000
Y2015	2.8	22,80,78,60,00,000
Y2016	2.76	22,40,82,40,00,000
Y2017	3.36	23,94,47,70,00,000
Y2018	3.25	25,42,45,90,00,000
Y2019	8.7	25,46,28,00,00,000
Y2020	2.87	21,60,14,50,00,000
Y2021	2.79	25,70,80,00,00,000
Y2022	2.72	30,39,40,30,00,000

Source – World Bank (data.worldbank.org)

It is important to note here that the coefficient of correlation between tariff rates and the export value of goods and services is negative, with a value of -0.42. This implies a moderately negative correlation between the variables. As tariffs rise, exports show a tendency to fall, implying that other nations may also take retaliatory steps against higher tariffs. Furthermore, some exports may depend on imports of intermediary products. Thus, higher tariffs may impede such exports.

On the contrary, do tariffs affect imports? The following table provides an idea:

Year	Average Tariff Rates	Imports of Goods and Services
Y1989	5.28	5,80,18,90,00,000
Y1990	5.2	6,16,11,00,00,000
Y1991	5.31	6,09,51,70,00,000
Y1992	5.25	6,56,08,00,00,000
Y1993	5.12	7,13,16,50,00,000
Y1994		8,01,76,50,00,000
Y1995	4.59	8,90,78,40,00,000
Y1996	4.44	9,55,66,30,00,000
Y1997	4.34	10,42,74,70,00,000
Y1998	4.49	10,99,31,30,00,000
Y1999	3.88	12,32,33,40,00,000
Y2000	3.87	14,52,65,10,00,000
Y2001	3.82	13,75,73,70,00,000
Y2002	3.98	14,06,76,10,00,000
Y2003	3.53	15,24,43,10,00,000
Y2004	3.31	17,78,95,40,00,000
Y2005	3.23	20,08,04,30,00,000
Y2006	3.14	22,27,52,40,00,000
Y2007	3.01	23,71,81,10,00,000
Y2008	3.1	25,61,93,60,00,000
Y2009	3	19,87,56,70,00,000
Y2010	2.96	23,75,40,20,00,000
Y2011	3.03	26,98,07,30,00,000
Y2012	2.99	27,73,36,00,00,000
Y2013	2.87	27,59,98,10,00,000
Y2014	2.93	28,76,56,40,00,000
Y2015	2.8	27,71,55,90,00,000
Y2016	2.76	27,20,28,50,00,000
Y2017	3.36	29,11,41,20,00,000
Y2018	3.25	31,21,05,90,00,000
Y2019	8.7	31,05,67,40,00,000
Y2020	2.87	28,13,83,90,00,000
Y2021	2.79	34,18,87,20,00,000
Y2022	2.72	39,84,17,30,00,000

Source – World Bank (data.worldbank.org)

The correlation coefficient between tariff rates and imports to the US economy shows a moderate negative correlation of -0.47. This implies that tariffs only have a moderate impact on imports by the US economy. This could be because the US does not have a cost-competitive domestic production of the products and services that it imports, as illustrated by the instance of the year 2019 as against the year 2020. In 2019, the tariff rate was 8.7%; imports were to the tune of USD$31,05,67,40,00,000, whereas the same was $31,21,05,90,00,00 in 2018 when the tariff rate was 3.25. In this case, the decline was marginal.

Trump 2.0 Tariffs and China- A case study

The current round of tariff escalation is a consequence of a series of exchanges that began in 2017. The US always believed that tariff regimes imposed by the Chinese were unjustified. An agreement was reached between the US and China in 2020 that stipulated structural reforms in Chinese trade policy, better protection of Intellectual Property, and further reforms in technology transfer, currency management, and financial services (ForeignAgricultureService, 2020). This agreement was termed the "Phase One Agreement". However, this agreement did not result in major advancements. Both the US and China maintained their comparative tariff levels and even strengthened tariffs in some segments, such as semiconductors. Despite the agreement, neither country was in a mood to tone down their tariff war, and the Chinese on their part never seriously tried to meet their commitments (Bown, 2021).

Trump 2.0 campaign was painted as a 'we v them' battle. His famous lines on tariffs were, we will "tariff and tax foreign countries" (France-Presse, 2025). He further famously stated, "I will immediately begin the overhaul of our trade system to protect American workers and families", (France-Presse, 2025). The most significant target of Trump 2.0 was China. As of 2024, China's trade surplus with the US stands at $582.4 bn (USTR, Office of the US Trade Representative, 2024). The Trump Administration 2.0 upped the ante by imposing a blanket 10% tariff on all imports from China on the 4th of February 2025 (Clarke, What tariffs has Trump announced and why?, 2025). China retaliated in kind through a slew of measures that included fresh duties on US exports to China, along with an investigation of Google to detect unfair trade practices. Further retaliation from China took the form of tariffs amounting to 15% for coal and LNG, and 10% for crude oil, agricultural machinery, and big-engine cars (S&PGlobal, 2025). Trump started the second round of retaliations by imposing a 25% tariff on all steel and aluminium products imported from China and other countries (Associated Press, 2025). This was in addition to the 10% blanket tariff imposed on all products in China.

In March, the US imposed tariffs on China under Section 232 of the Trade Expansion Act. Section 232 of the Act empowers the US president to impose tariffs through executive orders (not taking congressional approval) under certain circumstances (Hayes, 2025). In April, both the US and China imposed retaliatory tariffs of 34% each (AssociatedPress, China imposes 34% tariff on imports of all U.S. products starting 10 April; Trump says Beijing played it wrong, 2025). This was followed by the imposition of a 25% Section 232 tariff on China by the US (Bown, US-China Trade War Tariffs: An Up-to-Date Chart, 2024). The US clearly understood that the tariffs imposed did not have the desired effects and created a conducive environment for further negotiations, reducing the tariffs on 14 May 2025. The US reduced the cumulative IEEPA tariffs on China from 10% to 125%, which China reciprocated by reducing its own IEEPA tariffs to similar levels (Bown, US-China Trade War Tariffs: An Up-to-Date Chart, 2024). This seems to be a temporary phase that allows talk to take place. However, there is no long-term commitment on either side to hold on to thawing.

Studies reveal that a prolonged tariff war between the US and China could result in significant losses not only to the two, but also to the world economy. A recent simulation indicates a potential decline in world GDP by 0.5% along with a decline in world trade by 3.5% due to the tariff war initiated by Trump (Antoine Bouët, 2025). Further, the US and Chinese GDP may see losses of 1.3% each (Bouët 2025). Therefore, in the case of China, the slew of tariffs imposed by the Trump administration is likely to result in more harm than good. If these tariffs aim to achieve supply chain diversification, there is an inherent bottleneck in the fact that cheap but efficient supply lines existing in China are difficult to replicate elsewhere. Further, the ease of transport associated with Chinese products, especially because of the "Belt and Road Initiative", is absent from other suppliers. It must not be forgotten that the Chinese have a stranglehold over rare-earth exports. Rare earths are an essential ingredient of almost all production cycles- from smartphones to supercomputers. If China clamps down its exports of rare earths, global industrial production will take a massive hit, including in the US.

Following a period of total confusion, an agreement was reached between the US and China to reduce the proposed tariffs, in exchange for the normalization of rare earth trade and reduction in restrictions. However, additional tariffs remain and are way above pre-Trump 2.0 levels.

Trump 2.0 Tariff war and the stand of economic groupings

Since the strengthening of the European Union, the importance of economic groupings has grown by leap and bound. Though there are scores of such groupings, we shall analyse the stand of three major economic groupings in the context of the trade war unleashed by the US: NAFTA, the European Union, and BRICS. NAFTA has been chosen since the US is its member, and the EU and BRICs have been chosen based on the strength of their economic and representative largeness.

NAFTA is at the crossroads of this tariff war. The US is a member of this group. This grouping aims to reduce tariffs and trade barriers among its members: the US, Canada, and Mexico. However, both Mexico and Canada are badly hit by the Trump 2.0 tariffs. Immediately after assuming office for a second time, the Trump administration imposed a 25% ad valorem tariff on both Mexico and Canada, in addition to a 10% tariff on energy imports (Bond, 2025). However, in March 2025, the US announced that goods covered under the United States-Mexico-Canada Agreement (USMCA) would be exempted from the above-mentioned tariffs (Chandri Navarro et al., 2025). This is a major concession when we account for the hardline stance taken by the US with other countries, especially China. However, Mexico and Canada reacted differently against the initially imposed tariffs. In an apparent retaliation to the US taxes, Canada imposed a 25% surtax on C$30 billion (approx. US$22 billion) worth of U.S. goods (Canada, 2025), on products such as orange juice, peanut butter, wine, spirits, beer, coffee, appliances, apparel, footwear, motorcycles and cosmetics which was followed by a 25% tariff on Non-CUSMA compliant vehicles imported from the US effective from April 9th, 2025 (Canada, Canada's response to U.S. tariffs on Canadian goods, 2025). Mexico, on the other hand, has not favoured a massive retaliation against the US. Instead, the country has embarked on an 18-point plan to bolster economic self-sufficiency. This plan includes ways to improve food self-sufficiency, improve energy sovereignty, accelerate infrastructure creation, augment automobile manufacturing, and improve the sectoral strength of the Mexican economy (MND, 2025). It is expected that through these measures, the Mexican economy will be freed from its reliance on the US.

The European Union is a major trading partner of the US apart from China. The EU was slapped with a 25% import duty on aluminium and steel products apart from cars by the US apart from a slew of tariffs on other products (Reuters, 2025). They also face a 20% tariff on other products, affecting US exports worth 26 billion euros (Reuters, 2025). In retaliation, the EU has proposed a 25% tariff on motorcycles, poultry, fruit, wood, clothing, and dental floss, apart from other products (Reuters, 2025). These tariffs are expected to hit US products worth 21 billion euros (Reuters, 2025).

The Way Forward

Unilateral action, even though a hegemon, cannot succeed in a multipolar global order. As explained above, a prolonged trade war is in no one's interest, including the US. Experts emphasise that real wages in the US will decline by 1.4% by 2028 and GDP will fall by approximately 1%, if the present scenario continues. (Vasquez, et.al 2025). Evidently, the solution does not lie in imposing tariffs. Recently, Trump had threatened Iran and Russia with tariffs, which were ignored by both countries with contempt. Since the times of the Islamic revolution, Iran has been be-seiged with multifarious tariffs, yet its regime is strong as ever. Indiscriminate tariffs will only affect the Americans. Let us take the case of auto manufacturers. These tariffs have increased costs and created uncertainties (Global). By imposing high tariff on auto imports from Mexico and Canada, Trum increased the costs for both the American producers and consumers, since most of the auto companies in these countries produce for the American market. The aim of reviving the industries of Detroit through these measures is futile since it has been long since the American had shifted the "dirty" industries beyond its borders, while it concentrated on activities involving higher intellectual application such as technology fabrication, IPR creation and the like. Now, such an act itself was a result of the rising production costs inside the US and the pursuit of a more circular economy. It is far cheaper to produce outside and import into the US. Such policies made sense in the light of the fact that US is the most prominent knowledge economy of the world and this provided it with cutting edge technology which other countries relied upon for their domestic application. A reversal of this line of thought can be detrimental for the US economy, especially when read in conjunction with the reduction in research funding in the American universities. It is common economic logic to stay put with a country's core competency rather than trying to revive industries on whom the sun has set in the US. Needless to state, better diplomacy rather than tariffs can achieve policy objectives in the long run. Tariffs when applied with other tools of foreign policy such as public diplomacy, alliances, economic instruments etc. Trum himself has come to realize this as can be seen from the repeated extensions of tariff deadlines related to China. Several U-turns have also been witnessed with respect to the sale of high technology products such as the high end AI chips, which were banned for exports to the Chinese earlier (especially the Nvidia H-20 AI Chips) (Techdesk, 2025). Many countries are already taking measures to insulate themselves from the shocks of the US market. One such step is the newly found urgency in arriving at Free Trade Agreements. A case in view is the India- UK FTA, which had been in the pipeline for long, but signed on an urgent basis recently. It is seen that strong countries like China are also threatening the US with counter trade measures, including punitive tariffs.

CONCLUSION

Needless to state, the global economy is in turmoil. The smooth functioning of the international trading mechanism set up after years of negotiation has been disrupted. The flip flops of the American policy makers have created massive uncertainty in world trade. Exporters and importers dealing with the US market are not clear about the long term tariff positions they would face in the US. When considering the fact that the US is still the predominent market of the world, it could well unleash forces of recession.

Growth rates across the globe could fall drastically if tariffs are imposed on all and sundry and the US economy also could be severely hurt. It is in the interest of the US and the world, if tariffs are used more as a policy tool rather than a punitive measure.

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