About the Article

Question: How do trade wars impact global economics, and how can states respond? Argument: Trade wars disrupt supply chains, raise prices, and weaken multilateral institutions; mitigation requires diversification, digital standards, and multilateral trust. Conclusion: States can reduce trade war risks through diversified trade, anti-coercion measures, tech agreements, and multilateral engagement

About the Author

Valentin Grangier is a French student of International Relations at Leiden University, currently on exchange at the University of Tokyo. Specialising in East Asia and the Indo-Pacific, he focuses on geopolitics, security, and regional dynamics, analysing power interplay, ASEAN's role, and shifting alliances. Passionate about Japan and proficient in intermediate Japanese, he blends constructivist, realist, liberal, and democratic perspectives to explore the region's political, economic, and security challenges.

1. The Context – Rise and Expansion of Trade Wars

The strategic use of tariffs as a diplomatic weapon is historically rooted in early conflicts like the Anglo-Dutch Wars and shaped legislative architecture from the 19th-century US Tariff Acts to the 20th-century Smoot-Hawley Tariff Act of 1930 (Wikipedia contributors, 2023). More recent escalations, including the 2018-2019 U.S. tariffs on steel, aluminium, and hundreds of billions of Chinese goods, represent a reassertion of economic nationalism within deep global economic interdependence (Amiti et al., 2019; Fajgelbaum et al., 2019). Today's trade conflict is defined by overlapping agreements such as the Regional Comprehensive Economic Partnership (RCEP), effective January 2022, covering ten ASEAN members plus Australia, China, Japan, New Zealand, and South Korea, aiming to remove tariffs on 90% of goods (Asian Development Bank, 2022; CEPII, 2024). Meanwhile, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), launched in 2018, binds members to high standards on labour, environment, and technology as a hedge against economic uncertainty (Medcalf, 2024).

Trade War:
Countries impose tariffs or barriers, prompting retaliation and global disruption

2. Economic and Social Costs – Inflation, Supply Chains, Retaliation

Inflationary Pressures and Domestic Costs

Extensive economic analysis has shown that tariffs imposed during the 2018-2020 US-China trade war were fully passed through to domestic prices, increasing costs for American consumers and firms without meaningful gains for producers (Amiti et al., 2019; Fajgelbaum et al., 2019). Tariffs have effectively acted as broad consumption taxes.

- Steel and Aluminium Tariffs: The Section 232 tariffs imposed 25% duties on steel and 10% on aluminium, resulting in a net loss of approximately 75,000 manufacturing jobs by 2019, contrary to projections of job preservation (Federal Reserve Board, 2019; Bown, 2019).
- Washing Machine Tariffs: US safeguard tariffs led to $1.5 billion in consumer price increases during the first year, with average costs exceeding $815,000 per job created, revealing their inefficiency (Investopedia, 2019; Kiel Institute, 2025).

Supply Chain Volatility – Global and Agricultural Case Studies

Disruptions to global supply chains were pronounced and often unexpected. For instance, China's retaliatory tariffs on US soybeans led to a 75% export decrease, necessitating $28 billion in emergency aid. Agricultural demand shifted towards Brazil, permanently altering trade relationships and triggering second-order inflation and resource misallocation effects (FAS USDA, 2019; Choices Magazine, 2019; SUERF, 2025). Advanced manufacturing sectors such as electronics, autos, and construction experienced higher input costs and retaliatory tariffs that delayed investments and reduced competitiveness (NBER, 2021; DeLuigi, Lechthaler, & Rumler, 2025).

3. International Spillover – Emerging Markets, Multilateral Institutions, and Macro Effects

According to the International Monetary Fund (2022), trade restrictions post-2018 caused cross-border price volatility, suppressed investment, and slowed productivity globally. The World Bank projects that a 10-point increase in US tariffs could reduce global GDP growth by 0.2-0.3 percentage points, disproportionately impacting emerging economies, which depend heavily on exports for development (IMF, 2022; IEJ Policy Brief, 2025). Emerging markets face currency fluctuations, reduced investment, and fiscal pressures limiting economic advancement, particularly in Africa and Latin America (IEJ Policy Brief, 2025). However, the Indo-Pacific region sees active diversification strategies, with ASEAN utilising multiple free trade agreements to mitigate shocks (Asian Development Bank, 2022).

Institutional Fragmentation and Strategic Innovation

The weakening of global institutions such as the WTO and a shift towards bilateral and regional trade agreements have elevated the importance of pacts like RCEP and CPTPP (Asian Development Bank, 2022; Medcalf, 2024). Emerging digital trade agreements (e.g., DEPA, 2020) suggest new rule-making arenas involving data governance and technology standards, expanding beyond traditional tariff policy (CEPII, 2024). Meanwhile, reductions in US international aid paired with trade sanctions have amplified food insecurity, migration pressures, and health crises in partner countries, complicating multilateral cooperation (IEJ Policy Brief, 2025; SUERF, 2025).

> **Trade wars raise domestic costs and drive supply chain diversification and digital trade**

4 . Case Studies in Strategic Diversification and Retaliation

China-Australia Wine Tariffs

After Australia's advocacy for a COVID-19 investigation in 2021, China imposed tariffs up to 212% on Australian wine and additional tariffs on other commodities, disrupting exports and forcing Australian industries to seek alternative markets in India, Europe, and other free trade agreements (SUERF, 2025).

Africa's Bargaining Response

African countries have collectively sought greater trade bargaining power and new negotiation platforms in response to escalating US tariffs, reflecting strategic diversification to mitigate economic coercion (IEJ Policy Brief, 2025).

5. Policy Recommendations

To address the challenges posed by trade wars, policymakers should prioritise:

- Market Diversification and Strategic Resilience: Reduce exposure to coercive tariffs via diversified exports and institutionalize anti-coercion provisions in FTAs, emphasising flexibility (Asian Development Bank, 2022; Medcalf, 2024).

- Digital Trade and Technological Standards: Support digital trade frameworks, ensuring secure, fair data governance and access to emerging technologies (CEPII, 2024).

- Restoring Multilateral Trust: Reinforce WTO and international platforms for transparent negotiation and dispute resolution (IEJ Policy Brief, 2025).

- Balancing Security and Openness: Develop adaptive tariff policies harmonising national security with trade openness and managing inflation sensitivity (IMF, 2022; Bown, 2019).

- Defending Development Gains: Maintain robust international aid and mitigate trade war negative impacts on vulnerable economies (IEJ Policy Brief, 2025).

5. Conclusion

Modern trade wars illustrate that tariff escalation as an industrial or geopolitical strategy often inflicts greater economic costs at home, undermining global cooperation. Embracing diversification, digital innovation, multilateralism, and strategic economic-security linkages can enhance resilience amid international fragmentation (Medcalf, 2024; Asian Development Bank, 2022).

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