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Trade Wars and Tariff Policies: Long-Term effects on Global Trade and Economic Relationship

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Abstract

Trade wars and Tariff policies have become serious concerns defining and affecting global trade and economic relations in the 21st century. These policies characterized by the use of tariffs and other trade barriers have impacted the world beyond just the economic or financial effect between countries involved. The paper focuses on the long-term effect of trade wars and tariff policies on global trade and economic relationship between countries. Using historical and modern trade war scenarios such as USA-China trade war, the study indicates that disruption of global supply chain, volatility of financial market, and impact on specific sectors of the country economy such as agriculture are some of the long-term impacts of these policies on global trade. In terms of the impact on economic relationship between countries, the study highlights creation of new trade agreements and diversification of trade partnership as possible effects on economic relationship between countries. It is therefore imperative for countries to diversify their trade relationship by adopting initiatives against the effects of trade war. The study concludes that while national measures could bring some political and economic results in the short term, it is important to note that global prosperity cannot be long-lasting without cooperative and stable international trade policies.

Keywords: Trade war, Tariff, Policies, Barriers, Diversification

1. Introduction

Trade wars and tariff policies are measures or economic tools that nations use to safeguard domestic industries and affect international trade dynamics (Amiti & Weinstein, 2019). In the last decade, trade wars and stringent tariff policies come to the fore as nations engage in strategic economic confrontations (Amiti & Weinstein, 2019). Tariffs and other trade restrictions imposed by nations in retaliation against one another are referred to as trade wars. A rising number of nations are fighting trade wars, which is having a major negative economic effect on the world's economy in the present economic environment.

Disruption of global supply networks is one of trade wars' main economic effects (Itakura, 2020). Tariffs levied by one nation against another may raise manufacturing prices, which has a big impact on international commerce. Also, decreased trade volumes, decreased corporate profitability, and higher prices of goods for consumers are as a result of imposition of tariffs. Businesses often become more hesitant to make investments in the nations impacted by trade conflicts when tariffs are implemented (Amiti & Weinstein, 2019). This may cause the economies of those nations to expand more slowly, which would have an impact on the world economy. One of the most important economic developments over the last ten years has been the trade war between the United States of America (USA) and China (Benguria & Saffie, 2019). Due to unfair trade practices by China, the United States (US) placed tariffs on a variety of Chinese imports in 2018, sparking the start of the war (Itakura, 2020).

It is important to understand the long-term effect of trade wars and tariff policies in a dynamic and global world. Those impacts move beyond its effect on geopolitical dynamics, technological innovation, and strategic decisions for multinational companies. The long-term effects of trade wars and tariff policies on global trading patterns and economic relationships are explored in this paper. The results of this investigation would provide future insights towards providing suitable strategies that would lead to stability of international trade.

1.1 Historical Context of Trade Wars

Trade wars have a lengthy history within the British Empire. The opium wars with China in the 19th century serve as one example (Nascimento & Sheng, 2021). When the Chinese emperor declared opium to be illegal, the British had been supplying China with the drug for years, having imported it from India. After fruitless attempts at negotiation, the emperor sent soldiers to seize the narcotics. But the British navy's prevailed and China allowed more Western business to enter the country (Nascimento & Sheng, 2021).

The Smoot-Hawley Tariff Act was passed by the US in 1930, imposing higher duties to shield US farmers against agricultural goods originating from Europe (Charbonneau & Landry, 2018). Global commerce decreased as a result of various countries adopting higher tariffs in retaliation against the United States. President Roosevelt started to enact several laws to lower trade barriers when America entered into economic decline, partly due to failed trade policies. One such legislation was the Reciprocal Trade Agreements legislation (Handley & Limao, 2022).

Also, the United States and Japan were in a trade war in the 1980s. At that time, accusations about 'unfair' trade practices occurred between them. It was like they were holding out on imbalances in the automobile and electronics industries (Gopinath, 2016). This system meant the United States imposing tariffs and voluntary export restraints on Japan to safeguard its industries and reduce trade deficits. During the late 20th and early 21st centuries, new trade dynamics and conflicts emerged from the rise of emerging economies—first and foremost, China. One prominent milestone was struck with the accession of China to the world trade organization in 2001, marking its deepening integration into global trade. However, mounting concerns over intellectual property rights, state subsidies, and trade imbalances inflamed tensions between China and its trading partners—above all, the United States (Itakura, 2020).

The previous president Trump implemented a number of tariffs on goods ranging from solar panels and washing machines to steel and aluminium starting in January 2018. These tariffs applied to products coming from China, Mexico, the EU, and Canada (Blanchard & Chor, 2019). In retaliation, Canada placed a number of indefinite tariffs on American steel and other goods. In addition, the EU levied duties on American goods, such as Harley Davidson motorbikes, and agricultural exports. On the other hand, China retaliated with tariffs on American products. The trade war which began in a small scale grew into a full-scale US-China Trade war which disrupted supply chains worldwide and impacted on the financial markets (Itakura, 2020).

1.2 Mechanism of Trade Wars and Tariff Policies

Tariffs, or taxes on imports, are levies that nations employ to encourage their population to purchase locally made products, so supporting domestic businesses. But these tariffs often result in lower commerce, greater consumer costs, and retaliation from other countries (NBER, 2021). During the USA- China Trade war, President Donald Trump imposed tariffs on hundreds of billions of dollar's worth of imports from China and other nations in an attempt to stop the flow of unfair trade practices, close the trade deficit, and increase local production in the interest of U.S. economic viability and national security. Also, President Joe Biden has decided to maintain these tariffs, some analysts worry that they may become a complex feature of U.S. trade policy (Ma & Xu, 2021).

1.3 Imposition of Tariffs

A tariff is a levy placed on products manufactured abroad that is paid to the government of the importing company's home nation. Ad valorem tariffs, which are imposed as a set proportion of the import value, are the most prevalent kind of tariffs (Irwin, 2017). The implementation or imposition of tariffs is a critical tool for governments in the development of economic policy as it helps create protective measures for any local industry. First and foremost, they are designed to protect local businesses from foreign competition by making the imported products uncompetitive vis-à-vis local products (Irwin, 2017). This protectionism will support and protect domestic production and employment. Additionally, the tariffs from these trade products create immense revenue for any government, especially where other taxation systems are not so well developed. Tariffs attempt to correct trade imbalances and help stabilize national economies by modifying the cost of importing products (NBER, 2021 pp. 5-6).

Also, imposing tariffs raises prices for consumers while at the same time possibly disrupting the supply chain since industries that rely on imported raw materials will be hit with higher costs (Nwoke, 2020). Politically, while tariffs no doubt will appeal to some domestic industries and workers helped by reduced competition, they risk retaliation from trading partners, leading into full-fledged trade wars, thus straining international relationships severely. As such, any use of tariffs by a country is a highly complex strategic action that needs to consider both economic and diplomatic repercussions (Irwin, 2017).

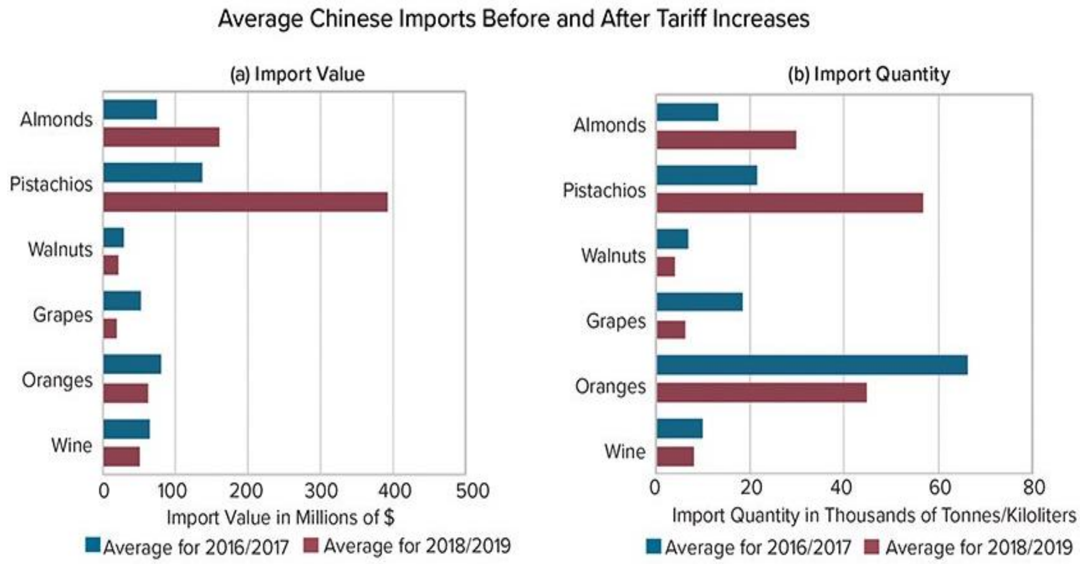

Figure 1. Average Chinese imports before and after tariff increases

Source: Colin & Steinbach, 2020

2. Types of Tariffs

2.1 Ad Valorem Tariffs

The ad valorem tariff is one of the most used methods of calculating tariffs; it expresses the duty to be paid as a percentage value of cargo. In this type of tariff, the amount of tariff paid is directly proportional to the prices of goods, and protection given to the domestic industries against falls in international market prices will always remain the same (Ederington & Ruta, 2016). For example, if any country charges 10% ad valorem duty on imported electronics and some electronic item worth $100 is imported, the tariff would turn out to be $10. If its price rises to $200, its tariff will automatically increase to $20. This type of tariff ensures a stable trade protection over a long period of time. Unlike specific tariffs, which are set as a fixed fee per unit of goods regardless of their value, ad valorem tariffs are naturally scaled with the cost of goods. Hence, they are quite good at protecting domestic industries from disparate impacts of inflation, deflation, and other factors affecting prices (Kee & Nicita, 2017).

2.2 Specific Tariff

Specific tariffs are involved by placing a fixed amount of fee based on the quantity measured on the particular product or goods such as through weight, volume, or number of units (Cadot & Gourdon, 2016). For example, the specific tariff might be $5 per kilogram for an agricultural imported product. Unlike ad valorem tariffs, which vary according to the good's price, specific tariffs remain unaffected by the item's market value. Predictability of the specific tariffs is valuable both to governments as well as to domestic industries.

This also makes it easier for policymakers because revenue projections and tariff administration are more accessible as the tariff rate does not constantly have to be changed to keep up with movements in the price level. Also, from the standpoint of domestic producers, specific tariffs provide a stable sanctuary from foreign competition because the cost advantage of imported goods is always constant (Ederington & Ruta, 2016). However, specific tariffs also have some disadvantages. Among the more significant drawbacks is that their effectiveness may erode over time because of inflation.

2.3 Compound Tariff

Compound tariffs combine parts of ad valorem and specific tariffs to establish a double-layer approach in the levying of charges against commodities in importation. In this type of tariff, there are charges at a fixed fee per unit with an additional certain percentage of the item's value, hence broadly protecting domestic industries (Nunn & Trefler, 2010). For example, a compound tariff for a piece of machinery can be expressed as $50 per unit plus 5% of the value of the relevant machinery. This hybrid system provides greater control over the imports because the fixed component gives its minimum revenue at whatever value the item may be, and the ad valorem component changes with the market value to provide constant protection proportional to changes in price.

3. Methodology

A comprehensive literature search was conducted using database and search engines. Specific keywords used in this search include, among others, the following: "trade wars," "tariff policies," "global trade," "economic relationships," "long-term effects," and "protectionism." The collection of relevant sources from academic databases-including Google Scholar, JSTOR, Scopus, Web of Science, and EconLit-was compiled in this consolidated literature search on how trade wars and tariff policies have their long-lasting impacts on world trade and economic relations.

To ensure the review's relevance to the research objectives and its quality, specific inclusion criteria were developed. Selected for review are studies that directly deal with trade wars, tariff policies, and reviewed the direct or indirect implications on world trade and economic relationships. Top priority was given to studies focusing on the global impact of trade wars, or research works that focused on analysing particular regions heavily involved in trade conflicts, such as the U.S.-China trade war or European Union trade policies. It was, therefore, important to include papers that would give quantitative or qualitative long-term economic impact assessments, including models and empirical data relating to trade flows, GDPs, employment, and sectoral effects. Also, only English language studies were reviewed to maintain clarity in understanding and accessibility as well as peer-reviewed articles, such as conference papers and official policy documents, were selected in order to have a credible and reliable presentation.

In addition, some exclusion criteria were also utilised for this research. Papers or research works that were published before the year 2010 were excluded, except when the research provided foundational theoretical frameworks that remained relevant to current trade dynamics. Works discussing broad trade policies where no specific analysis of trade wars or tariff policies was provided were not included in this review. Non-peer-reviewed sources were excluded, including blogs, opinion articles, and such, to maintain academic rigor for the review. Furthermore, studies that focused only on micro-economic implications to niche markets or individual companies that had no broader economic and trade implication were also excluded from the analysis.

The initial search produced about 75 articles that were screened for title and abstract. About 50 articles passed through to full-text review. Each article was carefully checked in this review against the inclusion and exclusion criteria. Finally, about 35 articles were selected as suitable for in-depth analysis and synthesis. Each identified paper needed to be critically assessed for its methodological quality on the strength of research design, the validity of data sources, and the consistency of findings. Final synthesis included only those studies that were sound in their methodological framework, with reliable data and evidence-supported conclusions. Therefore, the review applied strict methodology in developing a balanced understanding of how trade wars and tariff policies could have longstanding effects on world trade and economic relations.

3.1 Case Study (USA-CHINA Trade War)

The bilateral relationship between the United States and China has a lengthy history, and it has changed significantly since the Second World War ended. China and the United States became rivals when the communist party was founded in the People's Republic of China and after both countries intervened in the Korean War (1950–1953). When US Secretary of State Henry Kissinger visited China in 1971, there was a favourable shift in bilateral ties. While the USA-China trade war technically began in 2018, it is deeply rooted in much older economic and political conflicts before 2018 (Itakura, 2020).

The key areas of dispute include large imbalances in trade, piracy of intellectual property, coerced technology transfer, and unfair trading practices by China according to the United States (Jiao & Wang, 2020). These issues have formed a contention basis for decades but were largely escalated up under the Trump administration. The trade war started in March 2018 when President Donald Trump slapped tariffs on steel and aluminium imports to the United States, targeting China and some other countries. This action led to a number of tariff and counter-tariff hikes between the United States and China. It became more serious when in July 2018, the U.S. slapped 25% tariffs on $34 billion worth of Chinese goods. China reciprocated by imposing tariffs on an equivalent value of American products, such as farm products, automobiles, and seafood (Jiao & Wang, 2020).

The trade war has had profound impacts on the economies of both countries and global economic performance. In the United States, sectors such as the agricultural sector has been deeply affected due to lost access to the Chinese market and retaliatory tariffs by the Chinese. For China, the tariffs hit manufacturing and exports, which led to economic slowdown. The uncertainty caused by the trade war has also affected supply chains globally and added to the volatility in financial markets (Handley & Monarch, 2020). However, several rounds of negotiations have been conducted to try to resolve the trade war. The most significant result of the negotiations was the "Phase One" trade deal signed in January 2020. In that deal, China would buy 200 billion dollars more of additional U.S. goods and services over two years, while the U.S. would slash some tariffs on Chinese goods. Yet, many of the fundamental problems, above all regarding intellectual property rights and technology transfer, were not resolved (Itakura, 2020).

The United States-China trade relationship remains a very challenging situation. Though, both countries have been trying to make their economies less dependent on each other, and increase domestic production which indicators of protectionism system. The future of U.S.-China trade relations will be determined by sustained diplomatic efforts, calculated economic strategies, and unsettling geopolitical developments.

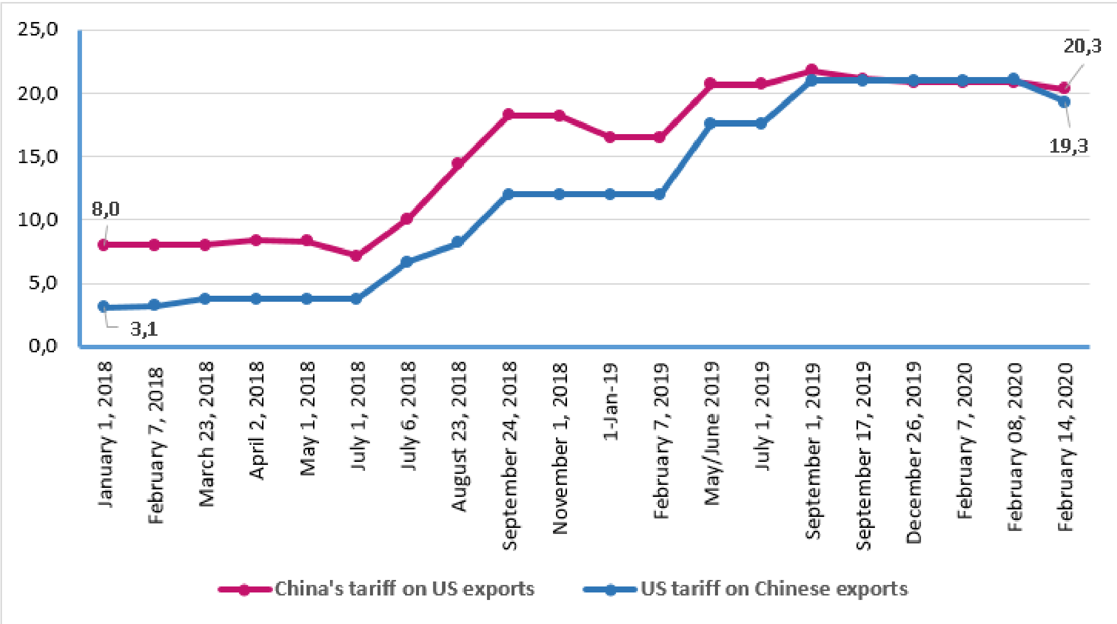

Figure 2. China Tariff on US exports and US tariff on Chinese exports from January 2018-February 2020

Source: Handley & Monarch, 2020

4. Long Term Effect on Global Trade

4.1 Disruption of Global Supply Chain

Disruption of global supply chain or networks is one of the major economic effects of trade wars. Tariffs levied by one nation against another may raise manufacturing prices, which has a big impact on international commerce. Consequently, this results in decreased trade volumes, poorer profitability for firms, and higher costs for customers. The USA-China trade war is a good example of how trade wars can cause a supply chain disruption on a global level which can have repercussions on economies (Grossman & Helpman, 2020).

One significant way in which the trade war disrupted global supply chains was through increasing import costs. Tariffs by the U.S. on Chinese products, or vice versa, meant that these companies bring goods at higher costs at increased tariffs. The United States imposed tariffs on electronic consumer goods and machinery from China raised the cost of production for American companies that used these imports in their manufacturing process. This resulted in either higher prices for the final consumer or reduced profit margins for businesses, hence affecting competitiveness or consumer demand (Grossman & Helpman, 2020).

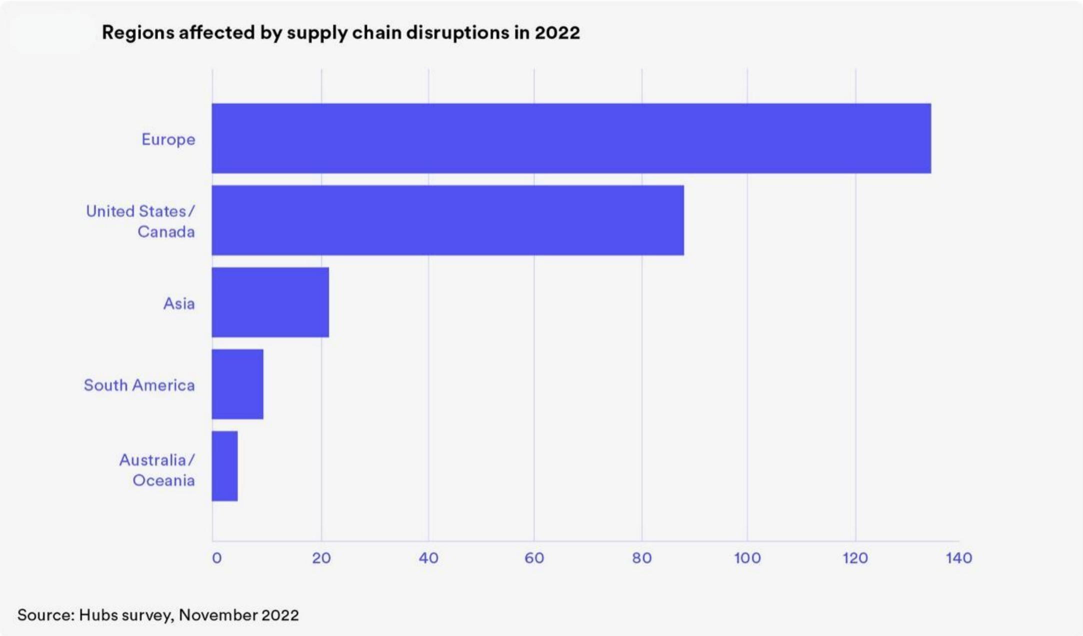

Figure 3. Regions affected by supply chain disruption in 2022

Source: Grossman & Helpman, 2020

4.2 Effect on Financial Markets

Another area affected by the trade war is financial markets. The uncertainty of the trade war may raise the volatility of stock markets due to a lesser willingness to invest in riskier investments. Global investment patterns may be altered due to trade war since investors will search for new areas to make investments. Utilizing the US-China trade war as an example, one of the straightforward results of the trade war was that the stock market became more volatile. Investors reacted to every new round of tariffs and retaliatory measures, raising concerns and creating sharp swings in stock prices.

The stock prices of firms with massive exposure to Chinese markets, such as big technology firms and industrial manufacturers, increased (Freund & Ruta, 2020). For instance, it was observed that the stock prices of American technology companies like Apple and Intel fell when tariffs on Chinese electronics were announced due to the fact that these firms had their manufacturing units in China and also depended on China on product sales (Ma & Xu, 2021).

4.3 Sector -Specific Impact

During trade disputes, the agriculture industry is often one of the most negatively impacted. Tariffs imposed by nations in response against one another on agricultural products may result in decreased demand and lower prices. This might have a major effect on farmers and the economy of nations that rely on exports of agricultural goods. The USA-China trade war had serious effect on the agricultural sector because China had placed retaliatory tariffs on American farm products (Jiao & Wang, 2020).

Indeed, China is one of the largest importers of agricultural goods from the United States; hence, it targeted commodities like soybeans, pork, corn, wheat, and several dairy products. Since demand was reduced with huge economic repercussions, soybeans were among those worst affected. Before the trade war, China was the largest customer of U.S. soybeans, buying about 30% of the crop in the United States (Waugh, 2019). This resulted in massive overstocking in the United States soybean market, ultimately driving down prices. The farmers encountered and experienced huge financial losses while the economic impacts spilled over to associated sectors of the economy such as transportation.

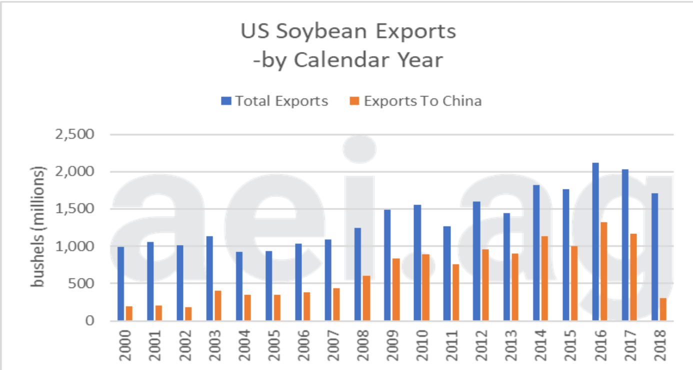

Figure 4. US soya Exports from 2010-2018

Source: Jiao & Wang, 2020

Table 1. Various Trade wars and their Long-term effect on Global Trade

Trade War	Countries Involved	Duration	Long Term effect on Global Trade
USA-Japan Trade war	USA, Japan	1980s	Greater focus on technological advancement and efficiency; diversification of Japanese investment into other regions.
USA-China Trade War	USA, China	2018-present	Supply chain disruption, it led to volatility of the financial market.
India – USA Trade War	India, USA	2019-present	It increased bilateral negotiations and trade agreements with other countries.
USA-Canada lumber dispute	Argentina, Brazil	1982-present	Price fluctuations of lumber, impact on USA and Canadian construction industries.

Source: Waugh, 2019

5. Impact on Economic Relationship Between Countries

Trade war and implementation of tariff policies have serious impact on the economic relationship between countries. Using the USA – China trade war scenario, the study highlights strained bilateral relations, creation of new trade agreements and diversification of trade partnership as possible effects on economic relationship between countries.

5.1 Diversification of Trade Partnership

Diversification of trade partnerships means countries move to find new trading relationships that will reduce overreliance on traditional partners. The move is driven by the need to cut potential risks in trade wars and tariff policies. Expanding their trade networks, countries engaged have found new markets for their imports and exports, including agricultural products. This readjustment changes the dynamics of world trade, creating new economic alliances while altering long-standing trade patterns.

Due to trade barriers and imposition of tariffs, USA and China diversified trade partnerships to reduce dependency on one another. This strategic move was, therefore, significant for both nations in containing the economic impacts of the trade war between the countries as well as ensure overall stability in their respective economies (Benguria & Saffie, 2019). On the other hand, China, whose exports to USA were slapped with tariffs, turned its focus to different countries just to fulfil its agricultural needs. It much increased its agricultural imports from Brazil, Argentina, and Russia. As a result, Brazil became the biggest soybean supplier to China, replacing the USA as the lead exporter. This did not apply to soybeans but also widened to include beef, poultry, and other agricultural imports from these countries (Blanchard & Chor, 2019). By diversifying its sources, China reduced the vulnerability to US tariffs and ensured a steady supply of essential commodities.

Realizing the fact that the exports were not optimized geographically and led to dependence on a single market, Chinese manufacturing enterprises have been working hard to expand exports to a wide range of foreign markets directed toward the EU, ASEAN, Africa, and other economies participating in the "Belt and Road Initiative" (BRI) for mitigating export risks and ushering in multilateral trade across the globe (Johnston, 2019). Official statistics of the United Nations Trade Database show that the US, European union (EU), and Association of southeast Asian nations (ASEAN) are the top three trading partner regions for China. Of these, EU and ASEAN are the key alternative markets to the US regarding Chinese exports in case of a shift away from the US. These two markets differ significantly in economic development, consumption structure, and their roles in the global value chain.

Also, the USA extended its trade relations with nations in the Western Hemisphere. It was followed by the renegotiation of North American Free Trade Agreement (NAFTA) under the umbrella of the United States-Mexico-Canada Agreement (USMCA). The USMCA aims to strengthen trade ties with Canada and Mexico on current trade issues, such as digital trade and intellectual property rights. This agreement meant that the USA would have stable and reliable trade partnerships near home, decreasing dependence on Chinese markets (Capling & Puccio, 2020).

5.2 Creation of New Trade Agreement

Another significant effect of trade wars on economic relationship between countries is the creation of new trade agreements. When countries come under the pressure of ever-growing tariffs and trade barriers, they tend to react by forming new economic alliances and even attempting to renegotiate existing ones. In such circumstances, countries will tend to focus more on renegotiating significant trade agreements to be brought up-to-date and modified in areas of their weaknesses. Agreements, for instance, such as the United States-Mexico-Canada Agreement, can be reached to upgrade any existing framework related to trade, including digital trade, labour rights, and environmental standards (Bolle & Ferguson, 2019). These updated agreements thus reflect the changing nature of international trading relations, and they purport to grant adequate strengths to trade relations among participant countries to ensure stability and progress.

Using the USA-China trade-war scenario, USA and China responded by implementing new trade agreements with other countries, which in turn reshaped the global economic landscape. The case of the USA renegotiating North American Free Trade Agreement (NAFTA) into the United States-Mexico-Canada Agreement (USMCA) and China strengthening its economic ties with regional countries through the Regional Comprehensive Economic Partnership (RCEP) and BRI reflect how each nation adapted to these new trade dynamics (Bolle & Ferguson, 2019). The USMCA role was aimed at rebalancing the trade with Canada and Mexico. It featured provisions related to protecting intellectual property, labour rights, and access of American agricultural production to foreign markets. In renegotiating NAFTA, the USA had a clear objective for rectifying trade imbalances and guaranteeing that fairer trade practices would happen with its immediate neighbours (Dur & Elsing, 2021). The move was not only to offset the effects of the trade war on North America's economy but also to create a blueprint for future trade agreements, which would be more tilted towards American interests.

Meanwhile, China's laid emphasis on its influence through multilateral foreign commerce accords and trade infrastructure investments. One of the topical creations that reflects Beijing's action in deepening regional economic ties across the Asia-Pacific is the Regional Comprehensive Economic Partnership. RCEP is a deal designed to slash tariffs, smooth trade, and promote closer economic cooperation among countries (Dur & Elsing, 2021). Through this accord, China has marked itself as central to regional trade, counterbalancing the economic influence of the United States. In leading RCEP, what China did was more than just securing new markets for its products; it solidified its role as an architect of regional economic integration.

6. Conclusion

The impacts of trade wars and tariff policies run deep and lead to various changes in global trade and economic relationships. They reshape the world in ways extending far beyond immediate fiscal impacts. Even when initiated for protectionist reasons or to set trade imbalances right, the consequences can be all-pervasive and long-term. Of these, perhaps one of the significant effects of trade wars and tariff policies is the disruption of global supply chains. Trade wars will reconsider the sourcing and manufacturing strategy of firms, probably increasing costs and reducing efficiency, as companies may need to find new suppliers or switch production to different locations only to avoid tariffs. These disturbances can have lasting and profound effects on global trade patterns as well as economic integration.

The study also highlights that given the prospects of trade wars, huge volatility arises in financial markets since it would remain unknown when tariffs would be imposed and what kind of trade policy would be adopted. The stock prices of the concerned sectors fluctuate rapidly, and instability may be seen in general. This may make investments unattractive and hence reduce economic growth in the long run in both developed and developing countries.

In terms of economic relationship impact, countries often turn to the diversification of their trade partners and signing new trade agreements. Efforts taken in the process might realign global economic allies, alter relations, and break dependencies on contentious trade partners. Realigning efforts in establishing new agreements and strengthening regional trade may eventually lead to new economic relationships that persist long after a trade war is concluded. Generally, the impact of trade wars and tariff policies itself underlines how integrated the modern global economy has become. Nonetheless, even though national measures might bring about some political and economic outcomes at least in the short run, it is essential to recognize that without cooperative and stable international trade policies, global prosperity cannot be sustained for long periods.

Competing interests

The author declares that there is no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Macrothink Institute.

The journal's policies adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

Open access

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