International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN :2581-7930 (Online), Impact Factor (Cosmos): 7.270 & PIF (I2OR): 5.010, Volume 09, No. 01(I), January-March, 2026, pp 26-31

An Analysis of Shifting International Trade Relations among Global Economies in the Era of Tariff Wars

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***Citation**: Singh, K., & Bisht, B. (2026). An Analysis of Shifting International Trade Relations among Global Economies in the Era of Tariff Wars. International Journal of Advanced Research in Commerce, Management & Social Science, 09(01(I)), 26–31.*

ABSTRACT

Trade scenario has witnessed huge changes since its inception due to which countries trading with each other are exploring new avenues to trade so that the demand and supply of goods and services remain intact which will prevent inflation in the economies. This paper is written with the objective to examine the changing trade relations between major economies of the world due to increased tariffs imposed on the nations (like India and China) by the superpower USA which has led to tariff wars between the nations which has led to geopolitical tensions.

***Keywords**: Tariffs, Trade, USA, Tariff Wars, Geopolitical Tensions.*

Introduction

Since ancient times trade has been very instrumental in the development of various economies of the world and the world economies have flourished by increasing the trade relations with different countries. Civilizations have developed through trade of goods and services among them. With the passage of time and introduction of “Globalisation” there has been a massive increase in the value, volume, composition and direction of trade and United States of America (USA) has emerged as the biggest consumer of the world and on the other hand, China has emerged as the world’s largest manufacturer. This trade statistic of the USA and China exemplifies the intricate balance of consumption and production that defines modern global commerce. USA imports approximately US $3 trillion of goods and services from Canada, Mexico and China where as China is the largest exporter in the world by exporting goods and services worth US $3.5 trillion. But, these trade dynamics may change due to increased tariffs imposed by the USA. Trade tariffs have been a key tool of protectionist trade policy to protect the domestic industries from foreign goods entering the domestic market. It makes foreign goods expensive due to which people prefer to buy domestic goods only. The imposition of tariffs by the USA has disrupted established trade flows, signalling a shift from cooperative globalization to competitive nationalism.

Understanding Tariffs: Types and Functions

Tariffs are taxes imposed on goods and services as they cross international borders. They serve multiple purposes: protecting domestic industries, generating government revenue, and asserting strategic control over trade relationships. Depending on a nation’s objectives, various types of tariffs can be employed:

- **Export Duty**: Levied on goods leaving the country, often used to control the outflow of scarce resources or essential commodities.

- **Import Duty**: Imposed on goods entering the domestic market, aimed at making foreign products more expensive and less competitive.
- **Transit Duty**: Applied to goods passing through a country on the route to another destination, often used to regulate trade routes.
- **Specific Duty**: Based on the quantity or physical measurement of goods, such as weight or volume.
- **Ad Valorem Duty**: Calculated as a percentage of the value of the goods, reflecting their market price.
- **Compound Duty**: A combination of specific and ad valorem duties, offering a more nuanced approach to taxation.
- **Single Column Tariff**: A uniform rate applied to similar commodities, regardless of origin.
- **Double Column Tariff**: Differentiated rates based on the country of origin, often reflecting political or economic alliances.
- **Revenue Tariff**: Designed primarily to generate income for the government rather than to restrict trade.

In recent years, the United States under President Trump has strategically employed tariffs as a regulatory tool to control the influx of imported goods. This approach is primarily aimed at shielding domestic industries from intense competition posed by foreign products, particularly those originating from countries such as India, China, and Mexico. By imposing higher import duties, the U.S. administration seeks to create a more favourable environment for local manufacturers, encouraging domestic production and reducing dependency on external markets.

Beyond economic protectionism, these tariff measures also serve a broader geopolitical purpose. The United States has utilized trade policy as a means of asserting its global influence, signalling to other nations that their economic stability is, to some extent, intertwined with American trade relations. This strategy reflects an attempt to reinforce

U.S. hegemony in international commerce, suggesting that no country can thrive in isolation from the American market. However, such unilateral tariff actions have sparked significant debate and concern among global economists and policymakers. While they may offer short-term relief to domestic industries, they often lead to retaliatory measures, trade disputes, and strained diplomatic relations. Moreover, these policies can disrupt global supply chains, increase production costs, and contribute to inflationary trends within the U.S. itself.

The broader implication is a shift from cooperative trade frameworks to competitive and adversarial dynamics. This not only undermines multilateral institutions like the World Trade Organization but also destabilizes the global economic order. In light of these challenges, there is a growing consensus that nations should prioritize dialogue and negotiation over trade confrontation, fostering mutual growth and sustainable development through balanced and inclusive trade agreements.

Literature Review

A number of research papers have been published on the escalating trade wars between nations due imposition of increased trade tariffs by the USA and some of these works are cited below:

The study by **Dr. P.N. Sampangi Ramaiah (2018)** offers a comprehensive examination of how tariffs and trade barriers influence international business operations. It contributes to the growing body of literature that critiques protectionist policies and their unintended consequences on global trade, investment flows, and economic stability. His work enriches the discourse on international trade by synthesizing economic, operational, and policy dimensions of tariff impacts. It reinforces the argument that while protectionist tools may offer short-term relief, they often undermine long-term global economic stability and business efficiency.

The concept of economic security has gained prominence in international relations discourse. **Huzaifa and Legacy (2024)** argue that trade wars are no longer isolated economic events but are deeply intertwined with national security concerns and ideological competition. Their analysis of the U.S.-China trade dispute illustrates how tariffs are deployed to challenge technological dominance and assert strategic influence.

The paper by **Kumar, Swamy, and Pavani (2025)** contributes to the evolving discourse on how geopolitical tensions—manifested through sanctions, tariffs, and trade wars—reshape global business environments. It positions economic instruments as strategic tools wielded by governments to influence trade flows, investment decisions, and corporate behaviour.

Objectives

- To analyse the impact of tariff wars on the diplomatic and economic relationships between the United States and other nations.
- To identify and evaluate the key challenges faced by India as a result of global trade conflicts and protectionist policies.
- To explore the potential opportunities for India arising from shifts in global trade dynamics and supply chain realignments.
- To examine the evolving tariff strategies and trade policy behaviour of the United States in the context of international economic relations.
- To assess the long-term implications of trade wars on global supply chains, including disruptions, reconfigurations, and resilience strategies.

Changing Trade Dynamics between Different Nations

In recent months, US President Trump has imposed increased tariffs on different nations due to which the trade dynamics between the USA and other nation has changed, some nations have shown retaliatory behaviour towards this by imposing additional tariffs on USA while others are in continuous trade negotiations with USA and how these relations have changed between the nations is discussed below:

- **Changing trade relations between USA and China**

China currently maintains a significant trade surplus with the United States, exporting approximately US $580 billion worth of goods and services annually while importing only around US $160 billion in return. This imbalance has prompted the U.S. government, under President Trump, to implement a series of tariff measures aimed at curbing Chinese imports. The initial imposition of a 30% tariff on Chinese goods entering the U.S. market has made these products considerably more expensive for American consumers and businesses.

In response, Chinese President Xi Jinping retaliated by levying a 34% tariff on U.S. exports to China, intensifying the trade conflict. Beyond tariffs, China has also threatened to restrict the export of critical rare earth magnets—such as holmium, erbium, thulium, europium, and ytterbium—which are essential components in advanced U.S. defence technologies including fighter aircraft and warplanes. To further tighten control, China reduced the supply of these metals to intermediary countries that might re-export them to the United States.

Recently, China escalated its stance by banning the re-export of rare earth metals purchased from China to the U.S., prompting the United States to impose an additional 100% tariff on Chinese imports, raising the total tariff burden to 130%. This aggressive tariff regime has not only strained bilateral trade relations but also disrupted global supply chains and increased geopolitical tensions.

However, this evolving scenario may open new avenues for other countries to fill the trade vacuum created by the U.S.–China standoff. Nations with alternative resources or manufacturing capabilities could benefit from redirected trade flows. At the same time, the situation underscores the need for renewed diplomatic engagement and trade negotiations between the two powers to prevent further economic instability and foster a more balanced global trade environment.

- **Changing trade relations between USA and India**

India has long maintained a robust trade partnership with the United States, consistently enjoying a trade surplus. However, recent shifts in tariff policies have presented both challenges and opportunities for India. Historically, Indian exports to the U.S. benefited from the Generalized System of Preferences (GSP), which allowed certain goods to enter the American market with reduced or zero tariffs. This preferential treatment significantly boosted India’s export competitiveness. In 2019, however, the Trump administration revoked India’s GSP status, citing concerns over market access and trade imbalances.

President Trump has frequently referred to India as the “tariff king,” alleging that India imposes some of the highest tariffs globally. In a more recent development, the U.S. imposed a 50% tariff on Indian goods—25% as a general measure and an additional 25% in response to India’s continued purchase of crude oil from Russia. These elevated tariffs have made Indian products less competitive in the American market, posing difficulties for exporters. Simultaneously, American consumers and businesses are also affected, as the cost of Indian goods has risen sharply.

In response, India has initiated negotiations with the United States to address these trade barriers and restore favourable conditions. Given the size and importance of the U.S. market, India remains committed to resolving the dispute diplomatically. Moreover, the ongoing trade tensions between the U.S. and China present a strategic opening for India. With Chinese goods facing steep tariffs, India has the potential to fill the supply gap by offering alternative products to American buyers.

Additionally, India should proactively explore new export destinations to diversify its trade portfolio and reduce dependency on any single market. By leveraging its manufacturing capabilities and diplomatic channels, India can turn current challenges into long-term trade opportunities.

Other nations impacted by the tariff decisions of USA

The new tariff regime of USA has not only impacted China and India but it has also impacted the other countries of the world and these countries are as follows:

Name of Country	Tariffs imposed by USA
Canada	35%
Mexico	25%
Germany	15%
Vietnam	20%
Japan	15%
South Korea	15%
Taiwan	20%
Ireland	15%
Italy	15%
United Kingdom	10%
Switzerland	39%
Thailand	19%
France	15%
Malaysia	19%
Israel	15%
Brazil	50%
Indonesia	19%
Singapore	10%
Netherlands	15%
Australia	10%
Turkey	15%
South Africa	30%
Pakistan	19%

Challenges due to Increased Tariffs

- **for India and China**
  - Both nations are likely to experience a balance of payments deficit as a consequence of trade disruptions.
  - Higher tariffs may pose challenges for domestic manufacturers in both countries, affecting production efficiency and competitiveness.
  - The imposition of trade barriers could lead to rising unemployment levels across both economies.
  - Escalating tariff measures may adversely influence the Gross Domestic Product (GDP), potentially slowing overall economic growth.

- **Challenges for USA**
  - The United States may encounter challenges in maintaining equilibrium between demand and supply across key sectors.
  - An upward inflationary trend is likely to emerge within the U.S. market due to trade disruptions.
  - Access to rare earth metals may become constrained for the United States, affecting critical industries.

Hypothesis

Hypothesis is a hypothetical statement about the relationship between two variables. Keeping in view the changing tariff structure of USA on different nations the following hypothesis can be formulated:

Null Hypothesis (H_0)- Increasing tariffs will not impact geopolitical relations. **Alternate Hypothesis (H_1)-** Increasing tariffs will impact geopolitical relations. **Analysis:**

Taking into consideration the above hypothesis this paper supports alternate hypothesis and rejects null hypothesis. This analysis is based on the following considerations:

- Strained political relations- President Trump's tariff policy has worsened the political ties between the USA and other countries which is harmful for the growth and development of these countries. An example of this is political tension between USA and Brazil.
- Retaliatory tariff policy- Due to the new trade tariff rates of USA many countries have started imposing additional tariffs on USA also.
- Promotion of domestic products- In the wake of additional tariffs imposed by USA President Trump countries are now rejecting US made goods and promoting their domestic goods
- Inflationary situation- This tariff war between USA and other countries will create inflationary trend.
- Creation of new economic groups- With the implementation of new tariff policy of USA the major economies are in strong discussion with each other to create an economic that could challenge the US hegemony. SCO and BRICS are examples of such economic groups.

This paper is able to analyse that if USA does not decrease its trade tariffs then there will be geopolitical tensions across the globe which may lead to the downfall of many economies.

Way Forward

Tariff wars tend to create a cascade of adverse economic consequences. When countries impose higher tariffs on imports, it not only raises the cost of goods but also disrupts supply chains, reduces market efficiency, and triggers retaliatory measures from affected nations. This cycle of protectionism can lead to inflationary pressures, as domestic consumers face rising prices for essential goods and services. Moreover, businesses—especially those reliant on imported raw materials or components—struggle to maintain profitability, which may result in reduced investment, layoffs, and slower economic growth.

The United States, as a leading global economy, is particularly vulnerable to these dynamics. A rigid tariff regime can hinder its ability to meet domestic demand, especially in sectors dependent on international inputs such as technology, pharmaceuticals, and manufacturing. Additionally, restricted access to critical resources like rare earth metals—often sourced from countries targeted by trade barriers—can impair innovation and industrial competitiveness. Inflationary trends, coupled with supply shortages, further erode consumer confidence and destabilize financial markets.

Given these challenges, it is imperative for nations to prioritize negotiation over confrontation. Trade talks offer a platform for resolving disputes, aligning interests, and crafting agreements that serve the long-term economic goals of all parties involved. A win-win approach—where both the United States and its trading partners benefit—can help restore stability, encourage investment, and promote sustainable development. Such agreements may include tariff reductions, regulatory harmonization, and joint initiatives to enhance trade facilitation and transparency.

Furthermore, multilateral institutions like the World Trade Organization (WTO) and regional trade blocs can play a pivotal role in mediating conflicts and fostering dialogue. By adhering to established trade norms and dispute resolution mechanisms, countries can avoid the pitfalls of unilateralism and build trust in the international trading system. Collaborative efforts also enable smaller economies to voice their concerns and participate meaningfully in shaping global trade policies.

In conclusion, while tariffs may offer short-term protection, their long-term impact on economic stability and global cooperation is deeply concerning. Countries must recognize that trade rivalries are counterproductive and that constructive dialogue is the key to resolving disputes. By embracing negotiation and pursuing balanced trade agreements, nations can create a more resilient and inclusive global economy—one that thrives on cooperation rather than conflict.

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