

# Current Tariff Wars: Global Trade Conflicts and Economic Impacts

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## **Abstract**

Tariff Wars have become a serious concern that defines and affects global trade and economic relations in the 21st century. These policies, characterized using tariffs and other trade barriers, have had a broader impact on the world, extending beyond the economic or financial effects between the countries involved. The paper focuses on the long-term effects of tariff wars on global trade and the economic relationship between countries. Using historical and current tariff war scenarios such as the Smoot-Hawley Tariff Act, the USA-China trade war, the study indicates that disruption of the global supply chain, volatility of the financial market, and impact on specific sectors of the country's economy, such as agriculture, are some of the long-term impacts of these policies on global trade. In terms of the impact on economic relationships between countries, the study highlights the creation of new trade agreements and the diversification of trade partnerships as possible effects on economic relationships between countries. It is therefore imperative for countries to diversify their trade relationship by adopting initiatives against the effects of trade wars. The study suggests that, even if some short-run political and economic payoffs obtain at the national level, global prosperity would not be sustainable without cooperative and stable international trade policies.

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## **What Is It?**



A trade war is in which two countries try to punish each other by slapping tariffs, or taxes on imports against the products of one another. Tariffs refer to taxes imposed on imports or exports between countries; when countries engage in a tariff war, they raise these taxes with a view to protecting their industries from foreign competition or as a form of retaliation against other countries in cases involving the practice of unfair trade.

In a tariff war, the retaliation cycle is followed and each country puts an added burden to what has already been imposed by another country. This results in disrupted trade flows, possibly higher consumer prices, and fraught international relations. While tariff wars can be tactics in short-term bargaining, they often result in longer-term markets imbalances, lost market share, higher prices for businesses and consumers.

### **Why Do Government Impose Tariffs?**

A tariff is a tax that the governing authority imposes on goods entering or leaving the country. Tariffs generally have an impact on a particular sector/product, since the application of taxes is done in a measured way so as to try and alter the quantity of trade between the inserting tariff nation and other foreign parties. If a government applies, for example, an import tariff, it raises the cost of importing the goods in question. This additional marginal cost should, in theory, discourage imports and impact the balance of trade.

There are a variety of reasons for a government to impose tariffs-to help nurture infant industries, support national security measures, preserve local employment opportunities or counter unfair trade practices.

### *1. Infant Industries*

Tariffs are applied to early-stage domestic companies and industries for protection from international competition. The tariff serves as an incubator that theoretically affords the domestic company in question ample runway time it may need to properly nurture, develop, and grow its business into a competitive entity. This is important for startups, mainly because more than 20% of businesses fail to endure longer than a year.

### *2. National Defence*

If a part of the economy is producing goods perceived as essential to national defense, a government might impose tariffs on foreign competition to preserve and protect domestic production. This has happened in peacetime as well as in wartime.

### *3. Domestic Workers*

This often means that the various economic policies set by a government seek to create an environment for its constituents that provides them with solid employment. Where a particular domestic segment or industry is at a disadvantage in competing against international competitors, the government may apply a tariff with a view to discouraging consumption of imports and encouraging the consumption of domestic goods, thereby helping support associated job growth, particularly in the manufacturing sector.

### *4. Aggressive Trade Practices*

Foreign competitors may use unfair trade tactics, such as dumping goods for sale at less than the cost of production to capture market share and shutter domestic producers. Thus, in their own way, tariffs can be seen as a device for governments to counteract the unfair practice of foreign entities.

### *5. Environmental Concerns*

Tariffs can be imposed by the government to decrease the consumption of foreign goods that do not meet particular environmental requirements.

## **Aim of the Review**

The purpose of this review is to speculate on historic and present tariff wars and the effects they have or are likely to inflict on world trade and economies. More precisely, this study aims to investigate tariff wars for their motives, underline some of the major historical conflicts like Smoot-Hawley Tariff, Chicken Tariff War, and current ones like the U.S.-China Trade War, U.S.-EU Frictions, and India's trade tensions for example, that have taken place and are still having an impact on industries and consumers, and also on international relationships. This review also attempts to highlight, through a historical context, economic theory, and recent policy movements, the trends in tariff usage and discuss some potential futures for world

trade.

## **Tariff Wars: A Brief History**

The tariff wars are a very ancient game; in fact, they go back to centuries. Countries have always used tariffs as a way of shielding industries, making revenues, or cudgeling political opponents. Here are some of the most significant historical tariff wars and how they have influenced global trade relations.

### *1. Smoot-Hawley Tariff Act (1930)*

The Smoot-Hawley Tariff Act of 1930 raised tariffs on more than 20,000 imported products at the height of America's Great Depression. It was designed to protect American farmers and workers from competition with foreigners. But other countries retaliated by placing tariffs on U.S. exports after the new trade measures were instituted, and international trade collapsed.

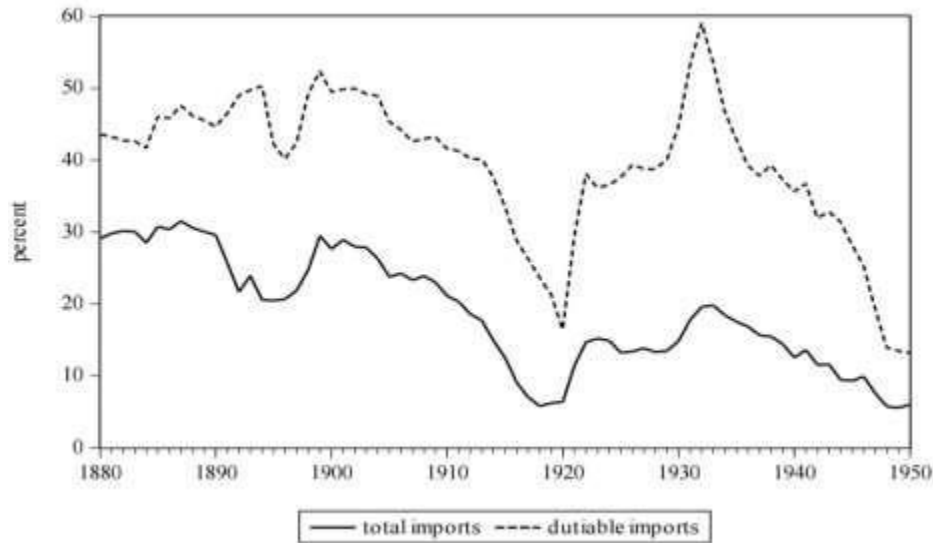
**Outcome:** International trade shrunk, and it deepened the severity of the Great Depression. Global GDP plummeted by 25%, plunging the world in depths of economic distress. As nations became more insular and protectionist, diplomatic relations were strained.

The following figure shows how the average tariff on dutiable imports rose in 1930 and then further in 1931 and 1932 to reach its highest point ever-59.1 percent, the second-highest amount on record. Figure 1 The following figure 1 shows how the average tariff on dutiable imports rose in 1930 and then further in 1931 and 1932 to reach its highest point ever-59.1 percent, the second-highest amount on record.

Roughly two-thirds of imports subject to duty were covered by specific duties, which caused the average tariff on dutiable imports to rise in 1931 and 1932

because import prices fell so sharply. Since 1929, import prices fell by 18 percent in 1930 and then 22 percent in both of the next two years, a total fall of 49 percent. Average protection on dutiable imports rose slowly to 53 per cent in 1931, and sixty-three percent in 1932 as the result of deflation increases in specific duties.

In reality, this was a deflationary tariff hike that began in 1929 and was based on monetary factors that almost certainly would have transpired independently of the bill's passage; it had little to do with congressional action.



**Figure 1: Average tariff on imports, total and dutiable, 1880-1950. (US Department of Commerce 1975, series U-211-12.)**

## 2. The Chicken Tariff War (1960s)

In the early 1960s, U.S. frozen chicken exports suddenly surged into Europe; these exports were seen as a threat by local farmers. The EEC countered these imports with a tariff to protect their poultry industry. The United States retaliated with tariffs on a series of European imports including brandy, potato starch, dextrin, and most significantly, light trucks.

**Outcome:** The U.S. levied a 25% tariff on light trucks, which came to be known as the "chicken tax." That tariff was rendered permanent and shapes the character of the U.S. automobile market to this day. The dispute showed how trade wars can leave enduring policy legacies.

## 3. U.S.-Japan Auto Tariffs (1987)

By the 1980s, Japanese automakers dominated world markets and were in conflict with American companies. In 1987, President Ronald Reagan imposed 100 percent tariffs on \$300 million in Japanese goods, targeting cars and electronics in a move calculated to penalize Japan for not opening its markets as agreed in a semiconductor trade pact.

**Outcome:** Japan had to negotiate and compromise on providing better market access to the U.S. companies. The incident had highlighted the ways in which tariffs could be used in high technology and automotive industries. The tensions finally died down but this development brought Japan's growing competitiveness more dramatically to the fore and the problems created for U.S. industry.

## **Current Tariff Wars**

Today, tariff wars are among the most important challenges in global trade. They reshape supply chains, strain relations between countries, and affect industries that span agriculture to technology.

A detailed description of some of the most important current and recent tariff disputes, together with their consequences, follows:

### *1.U.S.-China Trade War (2018-Present)*

The bilateral relationship between the United States and China has a long history; 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 favorable shift in the bilateral ties. While technically the USA-China trade war started in 2018, it is deeply rooted in much older economic and political conflicts before 2018. 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. 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 aluminum 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. 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. However, The most important consequence 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. Meanwhile, 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 still is a very challenging situation. Though, both countries have been trying to make their economies less dependent on each other, and increase domestic production, which are indicators of the protectionism system. The future of US-China trade relations will be determined by sustained diplomatic efforts, calculated economic strategies, and unsettling geopolitical developments.

## 2. U.S.-European Union Steel and Aluminum Disputes (2002 & 2018)

The U.S. and the European Union have repeatedly clashed over tariffs on steel and aluminum. President George W. Bush slapped tariffs of up to 30% on imported steel in 2002 to protect U.S. producers. The EU hit back with tariffs on American products, including motorcycles and orange juice. The World Trade Organization eventually ruled against the U.S., forcing the tariffs to be lifted.

If this sounds

familiar, that's because this is similar to the 2018 conflict where President Donald Trump, citing foreign steel as a threat to U.S. national security, imposed 25% tariffs on steel and 10% on aluminum imports. In retaliation, the European Union, Canada, and Mexico levied tariffs against iconic American products such as

Harley-Davidson motorcycles, bourbon whiskey, and peanut butter.

**Outcome:** In 2002, the WTO ruled against U.S. protectionism. U.S. tariffs in 2018 raised costs to U.S. manufacturers relying on imported steel. EU retaliatory tariffs targeted goods from politically influential states to put political pressure. Partial agreements in 2021 replaced tariffs with quotas in some cases, but tensions over steel remain unresolved.

## 3. India-U.S. Tariff Disputes

India and the U.S. often disagree over tariffs, with agriculture, electronics, and solar panels typically taking center stage in those disputes. The Trump administration removed India's preferential trade status under the Generalized

System of Preferences, or GSP, in 2018 because India had not given the U.S. fair access to its markets. India retaliated by raising tariffs on U.S. almonds, walnuts, apples, and a range of chemical products.

**Outcome:** These disputes made the relations tense while also pushing both countries to negotiate limited agreements. Exporters, particularly the nut and fruit farmers, lost a part of the Indian market. This consequently raised the costs of India's key imports, as the two economies are interdependent. Both remain strategic partners of one another, so compromise will likely be in order over the long term despite tensions.

## 4. U.S.-Mexico Tariff Threats (2019 & 2025)

It was in 2019 that the U.S. threatened tariffs on Mexican goods as a tool to press Mexico on immigration enforcement; though those tariffs were eventually suspended after negotiations, that episode showed how tariffs could be used for political leverage beyond trade considerations. In February 2025, new tariffs have now been imposed: 25% on imports coming from Canada and Mexico and 10% on those from China. This was partly because of economic reasons but also to try and check illegal immigration and drugs, especially fentanyl.

**Outcome:** The 2019 threats ended in a deal without tariffs; the uncertainty disrupted business planning and investment. The 2025 measures would risk raising prices for U.S. consumers and manufacturers, given how closely integrated North American supply chains are under the USMCA agreement. Mexico is seeking to diversify its exports while also negotiating exemptions.

### 5. *Brexit-Related Tariff Tensions(2020-Present)*

The United Kingdom's withdrawal from the European Union presents a tariff and customs challenge, in particular with respect to Ireland and the wider EU market. Disputes over fisheries, food safety standards, and customs checks in Northern Ireland have repeatedly risked escalating into tariff measures.

**Outcome:** While large-scale tariff wars have not been resorted to, the creation of customs barriers disrupted trade flows, especially for small businesses. Tensions between the UK and EU remain tight, particularly in agriculture and fisheries. The long-term result is not certain while both sides periodically renegotiate terms.

### 6. *Tariffs on Russia (2022-Present)*

Present The 2022 Russian invasion of Ukraine, however, saw severe economic sanctions imposed by a number of countries, including the U.S., EU, and Japan. These included the suspension of normal trade relations and dramatic tariff hikes on Russian goods. For example, the U.S. raised tariffs on non-banned Russian imports by as much as 35%.

**Outcome:** Loss of Russia's access to key Western markets, thus damaging its export revenues. Western nations diversified their energy supplies away from Russian oil and gas. Tariffs became part of a wider geopolitical strategy, combined with sanctions, rather than purely a question of economic protectionism.

### **Economic Theories Behind Tariff Wars**

Economic Theories Behind Tariff Wars Economic theory can be instructive regarding tariffs and trade wars. These frameworks help explain why governments use tariffs, the impact on industries and consumers, and how and why the process often escalates and seldom leads to a quick resolution.

#### 1. *Mercantilism*

One of the oldest theories of trade, mercantilism, considers international trade as a zero-sum game: one country's gain is another country's loss. This school of thought thus regards tariffs as instruments to be used in maximizing exports and minimizing imports in order to build up wealth. Historical tariff wars, such as the Smoot-Hawley Act, reflected mercantilist thinking where protection of domestic industries was paramount, even at the expense of global cooperation.

#### 2. *Infant Industry Argument*

This is the theory used, more often than not, by developing nations. In simple words, it states that new or emerging industries require protection from international competition until they are strong enough to face world competition. It justifies tariffs as a temporary shield. For instance, India has used tariffs to protect its domestic electronics and solar industries. Similarly, the U.S. used similar reasoning for its 2018 tariffs on steel and aluminum.

### 3. *Strategic Trade Theory*

This new approach suggests that tariffs and subsidies can help countries have a competitive advantage in those industries with high entry barriers, like technology, aerospace, or semiconductors. The U.S.-Japan auto tariffs, 1987, and the U.S.- China trade war, 2018 to the present, are perfect examples of strategic trade policy, whereby the tariffs protect or promote some high-value industries crucial for long- term economic dominance.

### 4. *Public Choice Theory*

According to the public choice theory, many times tariffs remain in place because this benefits specific industries and various groups, although doing so might be costly for consumers generally. One example is the so-called "chicken tax" imposed on light trucks during the 1960s, still enforced today, due to heavy lobbying by U.S. automakers, despite its distortionary implications for the automobile market.

### 5. *Comparative Advantage vs. Protectionism*

Classical economists, including the famous David Ricardo, believed that free trade based on comparative advantage maximizes global welfare. However, tariff wars directly contradict this view. Whereas protectionism through tariffs benefits domestic industries in the short run, it lowers efficiency, increases prices, and diminishes the realization of gains from specialization-as seen in both the Smoot- Hawley Act and the ongoing U.S.-China conflict.

## **WTO's Role in Dispute Settlement**

The WTO plays a central role in the management of tariff disputes and ensures that world trade functions within rules that are pre-agreed upon.

### 1. *Dispute Settlement Mechanism (DSM)*

The WTO allows countries to bring complaints if they think another member's tariffs or other trade barriers flout the rules. Panels of trade experts review cases, and their decisions can permit retaliatory tariffs when the offending country does not comply.

### 2. *Historical Examples*

In 2002, the WTO had ruled against U.S. steel tariffs imposed by President George W. Bush. The U.S. removed its tariffs after facing a threat of EU retaliation worth billions. Similarly, various disputes over agricultural subsidies have been settled under the auspices of the WTO. The political economy of tariffs Tariff wars are a cause for general economic concern because they disrupt markets and lead to inefficiencies.

## **Conclusion**

Tariff wars, both historical and current, reveal a recurring cycle in global trade: nations impose tariffs to protect industries, raise revenues, or pursue political goals, but the results are often counterproductive. From the Smoot-Hawley Act of 1930, which deepened the Great Depression, to the U.S.-China conflict of today, tariff wars have consistently disrupted global supply chains, increased costs for consumers, and created long-term uncertainty for businesses.

While certain industries benefit in the short run, the broader economy typically suffers through inflation, reduced competitiveness, and strained diplomatic relations. Developing countries, in particular, face the harshest consequences, as tariff wars limit their market access and slow their economic growth. The persistence of protectionist policies shows that economic rationality often competes with political agendas and domestic pressures.

Theoretical perspectives such as mercantilism, strategic trade, and the infant industry argument explain why tariffs are used, while classical trade theories highlight their inefficiencies. The WTO's dispute settlement mechanism has played a crucial role in resolving conflicts, but recent challenges reveal the urgent need for reform to handle modern trade disputes more effectively.

In sum, tariff wars are not merely about economics—they are also about power, politics, and global influence. They underscore the delicate balance between protecting national interests and maintaining an open, cooperative global trade system.

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