Tariffs Turmoil: From Tantrums to Concessions

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Introduction

On 02 Apr 2025, President Donald Trump imposed a universal tariff on most nations, sending the United States (US) stock market into a tailspin, with trillions of dollars wiped out within days. Then even more draconian reciprocal tariffs were imposed on a few countries and amid the chaos, US officials advised targeted countries not to retaliate.[1]

China, however, did not listen. After the 02 Apr tariffs, it decided to retaliate with an 84 per cent tariff on US goods, hiked later to 125 per cent in response to a further increase by Trump.

This turmoil rattled investors everywhere as all markets took a hit. Economists and analysts began sounding the alarm about a global recession. But in a turnaround on 09 Apr, he announced a 90-day pause in tariffs on all countries except China.[2]

Apparently, the US bond market, one of the world's safest and most stable investments, started to tank. The bond market essentially the channel through which countries buy US debt in 10 and 30 year increments reflects global confidence in the US ability to repay its dues. That confidence has traditionally remained high, given the size and strength of the US economy.[3] Unlike stocks, which are known for their volatility, the bond market is supposed to be steady. But not this time.[4]

It is now being speculated that the sudden volatility there is what forced Trump's hand. Following a realisation on what American consumers will have to pay, smartphones, computers and some other electronic devices were then exempted from 'Reciprocal' tariffs, including the 125 per cent levies imposed on Chinese imports on 11 Apr.

The End of an Era

The era of increasingly free and extensive international trade, built on a rules-based system, has come to an abrupt end, ironically, by one of its creators the US when they rolled the massive tariffs. A tariff is a government surcharge on products imported from other countries and is paid to the government by those who import the goods.

In one sense, his announcement was not a surprise: from the moment he took office, businesses and financial analysts knew that Trump would raise trade barriers. But the scale and scope of the tariffs confirmed their worst fears. In one stroke, Washington has severely restricted international commerce and the markets soon collapsed. In a globalised world, the US, while causing harm to itself, has ensured others are suffering too as this policy ricochets around the world.[5]

President Trump justified his announcement by stating that the US is the victim of unfair trading practices. That may be the case as far as China, is concerned, as it has taken advantage of World Trade Organization rules to gain access to markets for its exports while limiting access to its own markets. It has also used extensive subsidies and other measures including forcing foreign firms to part with technology in order to boost the global competitiveness of Chinese Companies.[6]

But rather than fixing the rules that some took advantage of, Trump has chosen to derail the entire system, sparing neither allies nor rivals. India now also faces high tariffs as long-standing, mutually beneficial economic relationships and geopolitical alliances appear to have little consequence.[7]

The reality is that the age of free trade is unlikely to come back. Instead, future negotiations will shape an emerging economic system defined by protectionism, tensions, and transactions. The result may be the renaissance of American manufacturing and more jobs, as the turbulence may remain due to the unpredictability of future policies.[8]

Why Tariffs

According to President Trump, the US needs massive tariffs to rectify its trade imbalances. Further, President Trump believes that any country that runs a bilateral trade surplus with the United States is, by definition, cheating, and that reciprocal tariffs are needed to even things out.[9]

The executive memorandum introducing these tariffs describes them as 'Fair and reciprocal', but they are neither. But the White House reciprocal tariff bears no relation to actual tariff barriers. It's equal to half of a country's trade deficit with the US, without consideration of its tariff levels or the size of its economy.[10]

The calculations conveniently excluded services trade—such as tourism, education, and business services—in which the US runs a surplus with most of its trading partners. They then gave each country a discount of 50 per cent while imposing reciprocal tariffs on imports. Based on this formula India has been handed a 26 per cent reciprocal tariff.[11]

But the announcement on tariffs defies logic, countries that the US runs a trade surplus against have been taxed as have remote islands that only have penguins as their inhabitants.

Tariffs by themselves will not erase the overall US trade deficit unless the country completely walls itself off from international trade. Even if the US were to have no overall trade deficit, it would still probably run trade deficits with some countries and surpluses with others. Bilateral trade imbalances are just the nature of international commerce.[12,13]

Trump also views tariffs as a tool for reviving US manufacturing. But that benefit is speculative and will occur far in the future. Presently the tariffs encompass such a broad swath of products and trading partners that they will inevitably have adverse effects on the US economy, with the costs of disruption and rise of prices borne by American consumers and businesses in practically every sector. Industries with complex supply chains threaded through multiple countries, such as auto manufacturing, will face the most severe consequences. [14]

President Trump has also described tariffs as an all-purpose tool, forcing countries to crack down on the flow of drugs and migrants, as well as, those tariffs will increase revenue that the government can use for tax cuts.[15]

But economists feel that tariffs cannot simultaneously achieve all of the goals expressed. In fact, some aims contradict one another. The same tariffs that are supposed to boost US manufacturing are also disrupting their supply chains and raising the cost of their raw materials.[16]

The fact remains that when the US imposes tariffs, the impact extends far beyond the balance sheets of exporters and importers. These policy tools, while often presented as economic levers, also serve as clear messages about strategic intent.

The Response

The world is still reacting to Trump's tariffs thrown at them. But countries will likely respond with a combination of retaliation, appeasement, and diversification. Each of these approaches has challenges.[17]

Multiple countries promised to apply tariffs on American-made goods in response to Trump's provocations. China has already imposed counter-tariffs on all US imports. Beijing also banned the export of sixteen rare-earth elements to US companies and put eleven US firms on its 'Unreliable entity list', effectively banning those companies from doing business in or with China. It also launched an anti-monopoly investigation into DuPont and halted imports of US chicken products, including chicken feet, which American farmers are unlikely to find good alternatives to sell to at home.

Canada is 'Leading the charge' against Trump's trade war with USD 60 billion worth of counter tariffs on American goods, and is urging Europe to retaliate too. But retaliation carries its own costs because it increases uncertainty about global trade, which hurts business investment.[18]

Appeasement comes with fewer risks, and it certainly is in the interest of each country hit with tariffs to negotiate with Trump. Bilateral trade cannot be balanced overnight, but countries could promise to buy more goods from the US and reduce barriers to those imports. Trump justified earlier rounds of tariffs on broader national security grounds, using them as a tool to get countries to limit illegal immigration and inflows of illicit drugs.[19]

Trump loves a deal, after all, so each country will have to find ways to negotiate. India has already cut tariffs on several items and is considering further reductions on key products of US export interest, including automobiles, auto parts and select agricultural products such as dairy and processed foods as part of a broader strategy and potentially negotiate a bilateral free trade agreement.[20]

Yet even if countries promise to buy more US goods, it is unlikely that their trade surpluses with the US will shrink rapidly.[21]

Other countries, particularly those that already have strong trade relationships, could perhaps bypass the US altogether by collectively shielding themselves from the effects of US tariffs by intensifying their mutual trade linkages.

Nevertheless, faced with restricted access to US markets and its weaker consumer demand, the rest of the world will look to export market diversification and trade arrangements that exclude the US, and other approaches to buffer themselves against a looming global trade war. But the reality is they can do only so much. [22]

US importers are also likely to re-evaluate their sourcing strategies in response to these tariff adjustments, potentially leading to the relocation of industries from heavily taxed countries like China. Previously, Vietnam and Cambodia were amongst the preferred alternatives due to their competitive cost structures and trade agreements. However, the shifting tariff landscape could disrupt these patterns, prompting businesses to explore new manufacturing hubs. In this context, India stands to benefit. For India, new opportunities will emerge as supply chains adjust and prices in the US climb.[23]

However, India's ability to adapt and modernise its trade framework will determine whether it emerges stronger or remains constrained by protectionist policies and structural inefficiencies.[24]

Conclusion

The tariffs have disrupted global markets by unilaterally altering the terms of trade in the name of reciprocity, signaling an uncertain future for economic engagement. Tariffs may seem like small policy tools, but their aftershocks will redraw global trade maps. There has been nothing even remotely similar, the implications for the global economy, the US economy, geostrategic dynamics, and the collapse of the multilateral trading system will be visible for years.

Such sweeping trade restrictions and swings from tantrums to concessions suggest that escalating trade tensions could even push some economies, including the US, toward recession. The fact remains that even as the US retreats from the broad-based, substantial tariffs announced, the damage has been done to business and investor confidence.

The US has ceded its role as a bastion of free trade by implying that the global trading system it helped create no longer works and is instead leading a resurgence of protectionism. Tariffs, if they remain in place, will define Trump's legacy as a hindrance to economic progress and seem to be an enormously misguided policy.

Endnotes

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[19] ibid
[20] D M Ahmad, ,‘Adapting to Trump’s new tariffs’, *Dawn*, 07 Apr 2025 https://www.dawn.com/news/1902530
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Article uploaded on 10-02-2023