ANALYZING THE INTERNATIONAL TRADE DYNAMICS UNDER NEW TARIFF POLICY OF USA

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ABSTRACT

The United States' reciprocal tariff policy has significantly altered global trade dynamics directly affecting trade deals, developing and underdeveloped economies and the structure of international commerce. It has strained major agreements such as USMCA and WTO mechanisms, challenging the core ideals of free trade embedded in international economic law. Under its revised tariff regime, the U.S. has invoked domestic statutes like the International Emergency Economic Power Act of 1977, the U.S. has unilaterally raised tariffs on numerous imports, particularly targeting steel, aluminium, technology, and consumer goods. This has reduced market and economic challenges for underdeveloped economies, while major economies like China and India suffer from export constraints, currency volatility, and weakened investor confidence. The WTO, tasked with revolving disputes and enforcing global trade norms, is increasingly tested by U.S. unilateralism. Though the U.S. frames its tariffs as tools to protect domestic industries and cut trade deficits, the result has often been job losses in export-driven sectors and higher production cost, raising legal question of necessity and proportionality. In response, the affected countries have imposed retaliatory tariffs, often under safeguard or anti-dumping measures escalating trade friction and global supply chains. The analysis highlights the policy's intended protection and its disruptive trade war effects, revealing the complex legal, economic and strategic factors driving trade amid rising protectionism.

Keywords: Reciprocal tariff, tariff regime, trade deficits, global supply chains, trade war, trade policymaking.

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"In a world of global supply chains, trade wars are a lose-lose proposition."

- Joseph E. Stiglitz

- **INTRODUCTION**

On April 2, 2025, the president of the United States announced a new tariff policy called the **Discounted Reciprocal Tariff**.[1] It puts selective tariffs on 57 countries and offers better rates only to those that give fair trade terms in return.[2] This shows a clear move away from global cooperation and towards an **interest-based, selective trade approach**. In simple terms it is a return to **protectionism**,[3] where a country protects its local industries from foreign competition.

The aim of this policy is to reduce trade deficits, protect domestic industries, and deal with unfair trade practices. It uses a fixed formula to decide tariff rates and offers discounts to some countries. This makes tariff policy more targeted and turns it into a powerful tool for both economic and political strategy. This is a more calculated approach, where tariffs are used as both an economic and political tool. It is already starting to impact small scale economic aspects like business costs and prices for consumers,[4] and large economic factors like **GDP, inflation and trade balance** with an effects likely to grow over time.[5]

This essay explains what tariffs are, how this policy works, and how it affects the world. It looks at the impact on the U.S., other global economies, international trade, businesses and corporate and legal systems. As a result, it also puts forward some policy suggestions.

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[1] *The* WHITE HOUSE, https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/ (last visited June 22, 2025).
[2] *The* WHITE HOUSE, https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf (last visited June 22, 2025).
[3] WILEY Online Library, https://onlinelibrary.wiley.com/doi/abs/10.1002/9781405165518.wbeos1495 (last visited June 22, 2025).
[4] the budget lab, https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april (last visited June 22, 2025).
[5] IMF eLibrary, https://www.elibrary.imf.org/view/journals/001/2024/013/article-A001-en.xml (last visited June, 2025).

- **UNDERSTANDING TARIFFS: DEFINITION, EVOLUTION AND U.S. POLICY MECHANISM**

Tariffs are taxes that a government puts on goods coming from other countries.[6] These taxes help the government earn money and also protect local businesses from outside competition. There are different kinds of tariffs such as **ad valorem, specific and compound**. An **ad valorem tariff** is a tax based on a percentage of the product's price. A **specific tariff** is a fixed tax amount for each unit of the product. [7]A **compound tariff** combines both of these types. Today, countries often use tariffs as a way to shape and control their trade relationships with others. The history of tariff policy shows how its purpose has changed over time. Between the 16th and 18th centuries, during the time of mercantilism, European nations used high tariffs to boost exports and cut imports.[8] Their goal was to grow national wealth. In the 19th century, countries such as Britain used tariff to protect their new industries. Then during the Great Depression in the 1930s, many countries raised tariffs again, which led to a fall in global trade and made the crises worse.[9] After World War II, to stop such trade conflicts, the General Agreement Tariffs and Trade (GATT) was created, which later became the World Trade Organization (WTO).[10] These organisations promoted lower tariffs and open trade. In recent years, however many countries including the U.S. have returned to using tariffs as a way to protect domestic interests and respond to global competition.

The new U.S. tariff policy follows this trend of strategic use. The Discounted Reciprocal Tariff policy uses a specific formula to set tariff rates.

- **THE MATH BEHIND THE MEASURES**

Behind the rhetoric of fairness and reciprocity lies a calculated mathematical approach to determining tariff rates. The United States Trade Representative (USTR) has adopted a systematic formula to ensure that tariff increases are not arbitrary but reflect quantifiable trade

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[6]Open Text WSU, https://opentext.wsu.edu/cpim/chapter/2-3-understanding-tariffs/ (last visited June 26, 2025).
[7]Wits.worldbank.org.https://wits.worldbank.org/wits/wits/witshelp/content/data_retrieval/p/intro/C2.Forms_of_Import_Tariffs.htm (last visited June 26, 2025).
[8]The Library of Economics and Liberty, https://www.econlib.org/library/Enc/Mercantilism.html (last visited June 26, 2025).
[9]World Trade Oraganization, https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report07_e.pdf (last visited June 26, 2025).
[10]The University of Melbourne, https://unimelb.libguides.com/c.php?g=929605&p=6716617 (last visited June 29, 2025).

imbalances. Reciprocal tariffs are determined as the tariff rate necessary to equalize bilateral trade deficits between the U.S. and each of their trading partners.[11] The formula for calculating Reciprocal Tariffs, as prescribed by the United States Trade Representative (USTR). The formula is as follows:

$$\boxed{\Delta \boldsymbol{\tau i} = \frac{(\boldsymbol{xi} - \boldsymbol{mi})}{(\boldsymbol{\varepsilon} \times \boldsymbol{\varphi} \times \boldsymbol{mi})}}$$ [12]

Where:

Δ (Delta) denotes a change in the tariff rate of imports.

τi (Tau) denotes an import tariff rate.

xi signifies exports from the U.S to a country.

mi signifies exports from another country into the U.S.

ε (Epsilon) is the price elasticity of import demand, the USTR set this at 4, backed by conservative studies.[13]

$$\text{Price } Elasticity\ of\ Import\ Demanded = \frac{(percentage\ change\ in\ quantity\ of\ imports\ demanded)}{(percentage\ change\ in\ tariffs)}$$

φ(Phi) is the elasticity of import prices with the respect of tariffs, fixed at 0.25, backed by conservative studies.[15]

$$\boxed{Elasticity\ of\ Import\ Prices = \frac{(percentage\ change\ in\ import\ prices)}{(percentage\ change\ in\ tariffs)}}$$

[11]The WHITE HOUSE, supra note 2 at, 1.

[12]Ibid.

[13]Ibid

[14]T.R. Jain, V.K. Ohri, Introductory MICROECONOMICS 144 (VK Global Publications Pvt Ltd 2025).

[15]Ibid.

This calculation presumes that persistent trade deficits are caused by a combination of tariffs and non-tariff factors that restrict trade from balancing tariffs work through direct reductions of imports.[16]

❖ *Understanding the Trump Tariff Formula*

The USTR made a detailed explanation of how tariffs were computed based on the following mathematical formula:

$$\boxed{change\ in\ tariff\ import\ rate = \frac{(exports - imports)}{(4 \times 0.25 \times imports)}}$$ [17]

By simplifying the equation, since 4 multiplied by 0.25 equals 1, the formula reduces to:

$$\boxed{change\ in\ tariff\ import\ rate = \frac{(exports - imports)}{imports}}$$ [18]

Now, the Trump Discounted Tariff introduces a significant modification to the original tariff formula. U.S. President Donald Trump implemented a discount mechanism. Under this policy, the United States applies only 50% of the calculated tariff on certain countries, offering a more moderate and strategic approach to protectionism.

Mathematically, this is represented as:

$$\boxed{Discounted\ Tariff\ Rate = \frac{\Delta\tau i}{2}}$$

[16]Ibid.
[17]USA Today, https://unimelb.libguides.com/c.php?g=929605&p=6716617ffs were calculated (last visited June 28, 2025).
[18]The Economics Times, https://m.economictimes.com/news/international/us/heres-how-trump-evaluated-tariff-rates-for-each-country-the-formula-and-math-explained/amp_articleshow/120023434.cms ,(last visited June 30, 2025).

The logic underpinning the formula is to adjust tariffs in a manner that offsets trade imbalances. If imports from a country exceed exports to that country, the USA imposes tariffs proportionally to reduce the deficit, adjusted by market responsiveness and geopolitical factors.

This formula is used as a basis for setting tariff rates on specific countries. By

Using the formula: Case study of China

To explain this formula, let's take the U.S. - China bilateral trade relationship in 2024:

U.S. exports to China are $143.5 billion and U.S. imports from China are $438.9 billion.[19]

By Using formula:

$$\rightarrow \quad \frac{(\mathbf{143.5-438.9})}{(\mathbf{438.9})} = \boxed{-0.673\ (\text{or} - 67.3\%)}$$

This resulted in a 67% tariff hike on Chinese imports, as highlighted by the tariff percentage on a chart carried by Trump at the time of announcement.

Applying the Trump Discount:

$$\rightarrow \quad \text{Discounted Tariff Rate} = \frac{67.3\%}{2} \quad \rightarrow \quad \boxed{33.65\%}$$

Therefore, instead of implementing a full 67.3% tariff, the United States imposes a discounted tariff of approximately 34% on Chinese imports, as shown by the tariff percentage chart carried by Trump.

[19] Ibid.

- **TIMELINE OF THE KEY DEVELOPMENT IN U.S. TARIFF POLICY (APRIL, 2025-JUNE, 2025)**

Since the announcement of the new U.S. tariff policy, there have been many updates to it. Thus, we have created this timeline to give a clear and simple summary of the key events that took place between April and June 2025. The essay is fully based on these events not only on ongoing developments. This helps the reader easily understand how countries reacted and escalated. It also shows the effects on global trade, international relations, legal system, and changing economic ties. This timeline is prepared using data from the official website of International Nut and Dry Fruit Council[20] and JP MORGAN[21] reports.

Here is a timeline of key developments following the announcement:

2nd April, 2025	• President of U.S. introduced broad new tariffs with 10% baseline on all its imports, w.e.f. 5th April, 2025. • Additional higher tariffs were announced for 57 countries.
3rd April, 2025	• **European Commission** expressed willingness to negotiate but prepared counter measures • **UK** has started a public consultation on retaliatory tariffs (targeting nuts, dried fruits)
4th April, 2025	• **China retaliated at 34% tariff** on all U.S. imports, effective April 10th.
5th April, 2025	• The baseline of 10% tariff on all U.S. imports came into effect.
8th April, 2025	• The president of U.S. imposed an additional 50% tariff on all Chinese imports taking total to 104%.
9th April, 2025	• Countries specific tariff came into effects • China retaliated again at 84% tariffs. • The President of U.S. has announced further escalation and imposed 1455 tariff. • Halt on country specific tariff for 90 days.

[20] International Nut & Dry Fruit Council, https://inc.nutfruit.org/tariffs-timeline/ (last visited July 12, 2025).

[21] J.P. Morgan, https://www.jpmorgan.com/insights/global-research/current-events/us-tariffs (last visited July 12, 2025).

11th April, 2025	• China again raised its tariffs on U.S. goods to 125%
14th April, 2025	• EU published two acts, one that it is adopting counter measures and another to suspend them for 90 days.
8th May, 2025	• EU launched a public consultation on expanding tariffs against U.S. goods if talks fall.
14th May, 2025	• U.S. and China agreed to a 90 days mutual tariff reduction. U.S. tariff on Chinese goods cut from 145% to 30% and China tariff on U.S. imports reduced from 125% to 10%.
23rd May, 2025	• The U.S. President threatened to impose a 50% tariff on EU goods from June1, 2025.
25th May, 2025	• The U.S. President withdrew the threat after a negotiation with the President of EU Commission.
29th May, 2025	• U.S. Court of Appeals granted a stay, allowing all tariffs to remain during the appeal.
20th June, 2025	• U.S. Supreme Court declined to fact track a challenge to The President's use of IEEPA (International Emergency Economic Powers Act). • Case will move forward on regular schedule and a ruling is expected in summer 2025.

These early events show that the new tariff policy is already affecting countries to trade with each other. Many countries are rethinking their trade strategies and trying to negotiate with the U.S. officials to lower the tariffs. At the same time, some legal concerns are being raised about the policy.

- **DOMESTIC ECONOMIC CONSEQUENCES OF TARIFF MEASURES**

The United States, despite having less than 5% of the world's population, contributes over 20% to global income.[22] Its trade policies therefore, hold significant importance both at home and globally. Recent moves toward protectionism have sparked debate, as they directly and

[22]United State Trade Representative, https://ustr.gov/issue-areas/economy-trade (last visited June 28, 2025)

indirectly impact various sectors of the U.S. economy in the short and long run.[23] Still, the results of such policies have been mixed, especially when analyzed through economic theories and historical examples. During the Great Depression of 1930, the U.S. put higher tariffs under Smoot-Hawley Tariff Act on hundreds of its imported goods to protect its own businesses from foreign competition.[24] But this move backfired, as other countries reacted by raising their own tariffs. Then after the 2008 financial crisis, the U.S. again used tariffs and gave subsidies to industries like steel, automotive[25], and solar energy.[26] While this provided temporary relief and generate significant employment[27]. A more recent example is the 2018-2020 U.S.-China trade war, which raised prices and harmed farmers. In 2018 for instance, U.S. soyabean exports to China dropped by nearly 75% due to Chinese retaliation[28], causing serious damage to American agriculture. The latest U.S. tariff announcement also brought major economic reactions. The stock market dropped sharply, with U.S. stock losing about $5.4trillion in value. Oil prices fell to four year low, and some experts estimated a 45% chance of a U.S. recession.[29] Consumer confidence weakened, as many believed that prices would rise due to inflation.[30] Sectors like automotive, machinery, and construction were hit the hardest because they rely heavily on imported parts[31]. For example, Ford extra costs due to tariffs on steel and aluminium[32]. This situation can be understood using the Effective Rate of Protection Theory. It explains that while tariffs may protect the final product, they can hurt industries that rely on imported inputs. As input costs rise, the final goods also become more expensive, reducing profit margins and harming producers. In the long term, such policies create uncertainty. Businesses may delay investment, and global supply chains may be disrupted. This can slow down GDP growth, limit

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[23]Ben Inker and John Pease, Tariffs: Making The U.S. Exceptional, But Not in a Good Way, GMO (June 28, 2025, 5:46 PM), https://www.gmo.com/asia/research-library/tariffs---making-the-us-exceptional-but-not-in-a-good-way_gmoquarterlyletter/

[24]Britannica, https://www.britannica.com/topic/Smoot-Hawley-Tariff-Act (last visited July 4, 2025).

[25]U.S. Department of the Treasury, https://home.treasury.gov/data/troubled-assets-relief-program/automotive-programs/overview#:~:text=The%20government's%20actions%20enabled%20the%20industry%20to,committed%20$12.5%20billion%20to%20Chrysler%20under%20TARP (last visited June 28, 2025).

[26]IEA, https://www.iea.org/articles/green-stimulus-after-the-2008-crisis (last visited June 28, 2025).

[27]Boston University, https://www.bu.edu/gdp/files/2020/09/How-Trade-Policy-Failed-US-Workers-and-How-to- Fix-it-FIN.pdf (last visited July 5, 2025).

[28]United States International Trade Commission, https://www.usitc.gov/publications/332/executive_briefings/chinasoyebot.pdf (last visited July 5, 2025).

[29]World Economic Forum, https://www.weforum.org/stories/2025/04/us-trade-policy-turmoil-shakes-the-global- economy-and-other-key-economic-news-to-know/ (last visited July 5, 2025).

[30]The Conference Board, https://www.conference-board.org/topics/consumer-confidence/ (last visited July 8, 2025).

[31]Council on Foreign Relations, https://www.cfr.org/article/trumps-new-aluminum-and-steel-tariffs-explained-six-charts (last visited July 8, 2025).

[32]Ford, https://www.goschfordtemecula.com/how-tariffs-affect-ford-vehicles/#:~:text=But%20with%20the%20current%20fluctuating%20trade%20policies,turn%20can%20affect%20vehicle%20prices%20and%20availability (last visited July 9, 2025).

job creation, and weaken the economy. Although some jobs may be created in protected sectors, many more may be lost in industries affected by higher costs and falling exports. According to the **Theory of Comparative Advantage,** countries benefit most when they specialize in what they do best and engage in free trade.[33] Tariff- based protectionism works against this principle and can lead to inefficiency and reduced global competitiveness. In conclusion, although tariffs aim to protect local industries, they often bring inflation, investment delays and sectoral imbalances. The government must carefully balance political aims with economic realities to avoid long-term harm to U.S. growth and employment.

- **IMPACT OF U.S. TARIFF POLICY ON GLOBAL ECONOMIES**

A. IMPACT ON DEVELOPED ECONOMIES

The newly announced U.S. tariff policy has significantly affected global trade dynamics, especially for developed nations. Tariffs were imposed at 24% on Japan, 25% on South Korea, 20% on the European Union,[34] and 25% on the United Kingdom. North American countries (under USMCA) and Australia were exempted from the list. Surprisingly, Russia was also excluded due to existing sanctions that have already limited trade.[35] The International Monetary Fund (IMF) lowered the EU's 2025 GDP forecast by 0.5 percentage points.[36] EU automakers are losing market share in the U.S. weakening their global competitiveness. Japan's exports declined by 1.7%, mainly because of increased prices of imported technology and automobile parts.[37] Germany and South Korea, which rely on imported intermediate goods, are also facing higher production costs. In response to these challenges, some companies are planning to move production to Southeast Asia to avoid tariffs. According to the Heckscher- Ohlin trade theory, countries tend to export goods that are made using the resources they have in abundance.[38] Developed countries, which have more capital and skilled workers, usually export goods that require a lot of investment and technology. But when tariffs are applied, the

[33]Aldrich, J. 'The Discovery of Comparative Advantage', *Journal of the History of Economic Thought*, March 26, 2004, 10:04 AM). https://www.cambridge.org/core/journals/journal-of-the-history-of-economic-thought/article/abs/discovery-of-comparative-advantage/0D9B87E5CC7240845CE3BFA1A17E16DB
[34]Supra note 2, at 1.
[35]U.S. Customs and Border Protection, https://www.cbp.gov/newsroom/announcements/official-cbp-statement-tariffs?utm_source=chatgpt.com (last visited July 7, 2025).
[36]IMF, https://www.imf.org/en/Blogs/Articles/2025/04/22/the-global-economy-enters-a-new-era (last visited July 11, 2025).
[37]THE WALL STREET JOURNAL, https://www.wsj.com/economy/japans-exports-fell-for-first-time-in-eight-months-as-tariffs-weighed-f435e23b?mod=WTRN_pos1 (last visited July 11, 2025).
[38]Oxford University, https://www.oxfordreference.com/display/10.1093/oi/authority.20110803095927942 (last visited July 12, 2025).

demand for this export falls because they become more expensive in foreign markets this makes them less competitive. As a result, resources like capital and skilled labour shift back to domestic industries that may not use efficiently. This leads to a loss in the country's overall well-being. In short, the new U.S. tariff policy is changing the way global trade works. It is especially affecting developed countries that rely heavily on exports. These tariffs are causing inflation, slowing down economic growth, making goods less competitive, and creating uncertainty in trade and investment.

B. IMPACT ON DEVELOPING ECONOMIES

Initially, U.S. tariffs hit developed countries, but now developing nations that rely on exports are facing the pressure like China, India, some South Asian and Caribbean countries. They are seeing slower exports and fewer investments. Take Vietnam for example, its exports to the U.S. jumped 25% between 2018 and 2022.[39] Now, with a 46% tariff on their goods, demand is dropping.[40] In the Caribbean, countries like The Dominican Republic are struggling, as their market demand is falling.[41]

China, being one of the largest exporters and a major U.S. trade rival,[42] was a main target with tariffs at 34%.[43] China's exports to the U.S. fell by 8.6% in Q2 of 2025. Cities like Shenzhen and Guangzhou saw fewer orders, causing layoffs. The IMF has cut China's GDP forecast from 4.8% to 4.3%.[44] China retaliated with 34% tariffs on U.S. goods, which made things worse. This has also caused supply issues for countries like Cambodia and Bangladesh that depend on Chinese goods.

India was not hit as hard at first but still felt the effects. A 26% tariff on some exports hurt sectors like electronics and textiles. However, the tariff exemption on pharmaceutical exports helped the industry.[45] Looking on the bright side, as China's trade decreased, a lot of companies are

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[39]WTO CENTER, https://wtocenter.vn/chuyen-de/25755-vietnams-exports-to-the-us-grow-faster-than-other-markets?utm_source=chatgpt.com (last visited July 12, 2025).

[40]The WHITE HOUSE, supra note 2 at, 1.

[41]Dominican Today, https://dominicantoday.com/dr/economy/2025/04/05/negative-impacts-dominican-republic-on-exports-due-to-tariffs/#:~:text=The%20imposition%20of%20a%2010,at%20global%20and%20bilateral%20levels (last visited July 12, 2025).

[42]COUNCIL on FOREIGN RELATIONS, https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship (last visited July 12, 2025).

[43]The WHITE HOUSE, supra note 2 at, 1.

[44]I.C.I.S. https://www.icis.com/explore/resources/news/2025/04/23/11094566/imf-cuts-gdp-growth-forecasts-for-china-to-4-0-india-to-6-2/#:~:text=Home%20News%20IMF%20cuts%20GDP,ICIS (last visited July 12, 2025).

[45]The Economic Times, https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/big-relief-for-india-trump-spares-pharma-from-harsh-tariffs/articleshow/119927523.cms (last visited July 13, 2025).

looking for other manufacturing locations which helped India. Investment in Indian manufacturing grew, especially in electronics, and the government pushed local production, which helped exports. The instances show how U.S. tariffs are stressing developing economies, which goes against the idea of countries trading based on what they do best, and tariffs are messing with this trade.

C. IMPACT ON LEAST DEVELOPED ECONOMIES

Least developed economies are the most vulnerable to tariff shocks. Many rely heavily on exports of raw materials, garments, or basic manufactured goods that are part of the global supply chain. So, when tariffs raise costs or reduce trade, these countries suffer even if they are not the main target.

The newly implemented reciprocal tariffs are disproportionately affecting the least developed countries **(LDCs),** threatening labor-extensive export industries, jobs, and economic stability.[46] The renewed U.S. reciprocal tariffs include a significant number of least developing countries, particularly African and Asian countries. The impacted African exporters will shift from zero duties to high rates under the **African Growth and Opportunity Act** (**AGOA**).[47] Some of these economies are heavily dependent on access to the US market. For instance, **Lesotho** faced an 50% tariff, given the dependence of the economy on exports to the US, mostly garments, the overall impact on Lesotho's GDP could be as high as 10 %. Manufacturers might switch some production elsewhere, but supply chains are most likely designed to meet the exact demand of US garment exporters, who face the same situation.[48] Another African country **Madagascar** vanilla exporters are also likely to suffer. About a quarter of the country's exports go to the US and it faces a 47% tariff. Same goes with affected Asian countries like, **Bangladesh**, the world's second-largest garment exporter, was subjected to a 37% tariff, rendered its textiles uncompetitive in the U.S. market.[49] While **Laos** and **Cambodia** were hit with duties of 48% and 49% respectively.[50] These tariffs resulted in an immediate contraction of export orders, particularly within the garment and agricultural sectors core pillars of these

[46]The Economics Times, https://m.economictimes.com/news/international/global-trends/trump-tariffs-are-disaster-for-the-worlds-poorest-countries/amp_articleshow/119939467.cms (last visited July 14, 2025).
[47]claspblog, https://m.economictimes.com/news/international/global-trends/trump-tariffs-are-disaster-for-the-worlds-poorest-countries/amp_articleshow/119939467.cms (last visited July 14, 2025).
[48]Times of India, https://timesofindia.indiatimes.com/world/rest-of-world/how-lesotho-ended-up-in-the-crosshairs-of-trumps-tariff-blitz/articleshow/120061095.cms (last visited July 15, 2025).
[49]Supra note 2 at, 1.
[50]Supra note 2 at,1.

economies. **Cambodia**, with nearly one million apparel workers, experienced mass layoffs and sectoral stagnation following the tariff announcement.[51]

From a theoretical perspective, these measures dispute the principle of **comparative advantage**, which holds that countries benefit by specializing in the production and export of goods they can produce at a lower relative opportunity cost than others.[52] This foundational trade theory suggests that mutual gains arise when nations trade based on their efficiency differences. However, the tariffs inflated prices on labour-intensive exports from countries like Bangladesh and Madagascar, reducing their competitiveness and diminishing U.S. demand.

Another key concept illustrating the economic fallout is the **theory of opportunity cost**.[53] With diminished access to the U.S. market, under-developing countries were forced to relocate limited resources from efficient, export driven sectors such as textiles and agriculture processing towards less productive domestic alternatives. This shift entailed significant trade-offs, including reduced income, employment, and capital formation. These outcomes align with the Ricardian trade model, which underscores the welfare gains from specialisation and the costs of trade distortion. The reciprocal tariffs might seem fair in theory but their application to under developing countries many of which lack the fiscal, infrastructural, and technological base to quickly restructure their economies has proven to be economically destabilizing.

- **DISPLACEMENT DYNAMICS IN GLOBAL SUPPLY CHAINS**

The U.S. tariff policy in 2025 has had a strong impact on global trade. As tariffs increased, the price of imported goods also went up. This made supply chains more expensive and harder to manage. Countries that used to export large amounts to the U.S. are now facing less demand. According to WTO data, global trade dropped by 3% in the second quarter of 2025, showing how one country's policy can affect the whole world.

Many companies that depended on low-cost foreign materials are now paying more because of extra duties or expensive alternatives. According to the **law of supply**,[54] when production becomes more expensive, companies either produce less or increase price. So, many firms are

[51] Scroll.in https://scroll.in/article/1084489/us-tariffs-will-crush-lives-and-livelihoods-in-bangladesh-cambodia-garment-industries (last visited July 15, 2025).

[52] Supra note 33.

[53] ResearchGate, https://www.researchgate.net/publication/340716274_Opportunity_Cost_Decision-Making_Limits_and_Human_Development (last visited July 15, 2025).

[54] T.R. Jain, supra note 14 at, 282.

cutting back production or passing the extra cost to customers, making products more expensive.

Tariffs also reduce demand. As price rise, people tend to buy less-this is explained by the **law of demand.**[55] For example, American customers may now buy fewer imported clothes or electronics. This fall in demand also affects exporting countries, causing job losses and less investment.

Today with these problems, companies are changing how they work. Some are moving production to countries with lower tariffs this is called **trade diversion.**[56] Others are trying **nearshoring,** which means moving production closer to home. While these ideas may help in the long run, they take time and money to put in place.

Big companies like **Ford, GM, and Apple** are already facing problems.[57] They are seeing higher cost, slower production, and lower profits. Smaller businesses that rely on imported raw materials are also affected. Because of all the uncertainty around trade policies, many companies are now careful about investing and expanding.

- **LEGAL CONSIDERATIONS AND WORLD TRADE ORDER**

United States under its new tariff policy challenged international trade norms and legal frameworks of World Trade Organisation (WTO), it is very concerning because it comes from the country whose leadership helped WTO to grow. The U.S. government is invoking the International Emergency Economic Powers Act, 1977 to protect national security and economic interest but this is an inappropriate use of emergency powers.[58] If Trump believes that reciprocal tariffs could benefit the U.S. economy, he needs to propose his case to the congress. Law makers then follow the legislative process to decide whether to adopt his plan or not it may be legitimate in terms of domestic policies, but it is illegal under the framework of WTO law also. The WTO had previously ruled that the significantly lower tariffs that the Trump administration levied in 2018 on the ground of national security reasons were inapplicable since U.S. was not at war at that time as it is not now.[59] The specific WTO principle

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[55]T.R. Jain, supra note 10 at, 111.
[56]Oxford Reference, https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/big-relief-for- india-trump-spares-pharma-from-harsh-tariffs/articleshow/119927523.cms (last visited July13, 2025). [57]THE NEW YORK TIMES, https://www.nytimes.com/live/2025/03/26/business/trump-tariffs-auto-cars (last visited July 14, 2025).
[58]Congress.gov, https://www.congress.gov/crs-product/R45618 (last visited July 17, 2025).
[59]University of St.Gallen, https //www unisg ch/en/newsroom/trumps-tariffs-a-frontal-attack-on-the-wto/ (last visited July 17, 2025).

that is being violated was Most Favored Nation (MFN) principle. This principle states that the WTO members cannot discriminate between their trading economies. If a WTO member grants a lower tariff trade advantage to a country, it must extend that same advantage to all other WTO members. A country cannot levy different tariff on different countries as U.S. has done.[60] The United States-Mexico-Canada Agreement (USMCA) was designed to facilitate tariff free trade among the member countries.[61] Under the new tariff structure announced by the President Trump, goods that comply with USMCA, rules will remain exempt from the newly imposed tariffs. However, goods imported from Canada and Mexico that do not satisfy USMCA rules will come under new U.S. tariffs.

- **POLICY SUGGESTIONS AND FRAMEWORKS**

Tariffs remain the focus of the incoming Trump Administration. The announcement of reciprocal tariffs from president and his team have been dynamic. We expect the USTR policy team to use creative methods to deliver aggressive new tariff policies. To address the economic challenges arising from the tariff trade war following policy suggestion and framework are proposed to promote fair trade and protect domestic industries. The U.S. reciprocal tariffs aim to counter trade deficits by matching tariff rate that necessary to equalize bilateral trade deficits between U.S. and each of its trading countries. While the intention is to protect and promote U.S. economy, these tariffs have increased import cost, provoked retaliation tariffs and affected multilateral trade relationships. Least developed countries (LDCs), have suffered disproportionate losses due to their limited capacity to absorb economic shocks. The U.S. should apply low or zero tariffs on LDCs to prevent marginalisation from global market, given their right to equitable growth under international trade principles. To cope up with economic disturbance U.S. should shift from unilateralism to multilateralism to rebuild the trust in international institution such as the World Trade Organization (WTO) and rejoining or renegotiating multilateral agreements. On the domestic level, U.S. government should provide tax incentives to local products, upskilling funds for industries workers and facilitate with R&D subsidies for vulnerable industries like agriculture and electronics rather than relying on broad and damaging tariffs.

[60]Centre for International Law, https://cil.nus.edu.sg/wp-content/uploads/2021/07/WTO-Unit-5-MFN- 2017-editon.pdf (last visited July 17, 2025).
[61]United States Trade Representative, https://ustr.gov/trade-agreements/free-trade-agreements/united- states-mexico-canada-agreement (last visited July 17, 2025).

- **CONCLUSION**

This essay has done a deep analysis of the new U.S. tariff policy and its impact on international trade. It has explored the topic from historical, economic, legal, and global aspects. It concludes that the Discounted Reciprocal Tariff marks a major policy shift, where tariffs are no longer used just for revenue and protectionism but are now being used to influence global trade, act as a geopolitical instrument, and reshape international relation.

This policy has had both good and bad effects. It might help some U.S. industries for a short run. But in a long run, it has also led to issues like higher prices, slower investments, and less trade with other countries. Many American companies that need to buy raw materials from abroad are now spending more, and consumers might have to pay more for those products.

It has made bigger effects on the economies and global supply chain. Developed countries are losing competitiveness in U.S. market, while developing countries having trade deficits and least developing countries are facing real hardship with unemployment, slow economic growth and shrink exports.

However, with all these challenges, countries are coming for better approach. Many have already begun official talks and negotiations with U.S. trade representatives to seek exemptions or reduced rates. There is also hope that global forums like the WTO will play role in balancing fairness with flexibility in the evolving trade framework.

Although the immediate responses are significant but this policy may also push corporates to innovate and diversify their supply chains. If economies handle this policy with cooperation and strategically. Then this could open doors to a more balanced and a fair global trade in the long run.

In the end, the goal of the U.S. policy is to protect its economy. It presents economic and legal challenges. If not taken measures, these tariffs can harm global trade and economies and can also create long run uncertainty. The U.S. and other countries will need to find a balance between protecting their interest and maintaining a fair and stable global trading system.