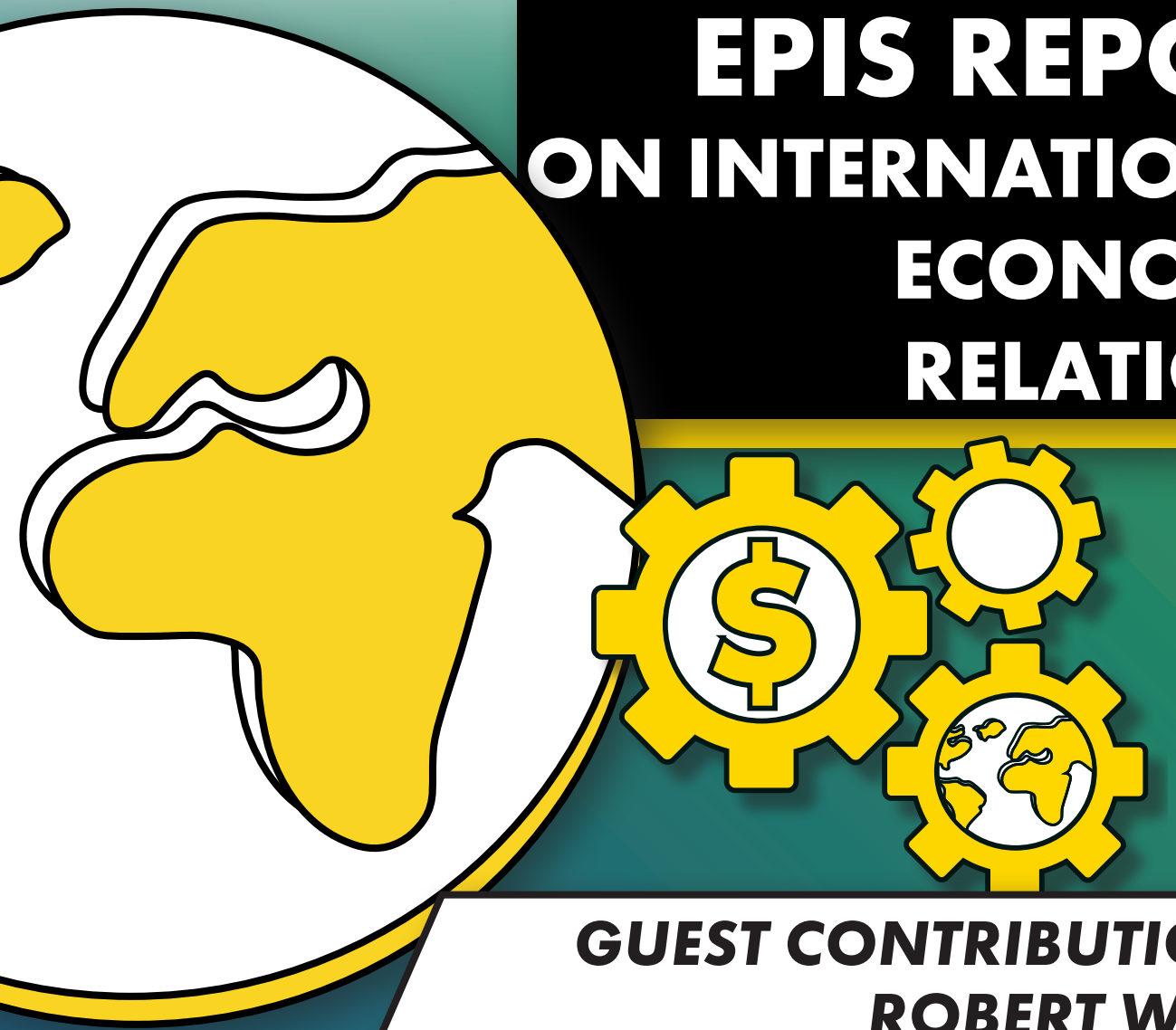
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EPIS REPORT ON INTERNATIONAL ECONOMIC RELATIONS



GUEST CONTRIBUTION BY ROBERT WALTER

President of Eurodefense – UK and the European Security and Defence Association

A New Era of Economic Nationalism

How do Trump-era tariffs and foreign aid cuts reflect economic nationalism and impact the global order? Tariffs and aid reductions, though aimed at protecting U.S. interests, have slowed growth, hurt supply chains, undermined global development, and weakened U.S. influence abroad. Economic nationalism comes at high costs; interconnected global systems and cooperation remain vital

Post-Trump defense shifts

Question: How did Trump's policies affect Europe's defense industry? Argument: "America First" pushed Europe to spend more and seek autonomy, helping local contractors Conclusion: Growth continues, but supply chain and budget limits remain

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Editorial Team



Editor / Resort Leader / Group Leader

Valentin Grangier is a French student of International Relations at Leiden University, specialising in East Asia and the Indo-Pacific. Focused on geopolitics, security, and regional dynamics, he analyses power interplay, ASEAN's role, and shifting alliances. Passionate about Japan, with intermediate Japanese, he blends constructivist, realist, liberal, and democratic perspectives to explore the region's political, economic, and security challenges.



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Editorial



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International Economic Relations

Dear reader,

The Trump administration has rolled out a drastic response to the U.S.–China trade war by levying a comprehensive 100% tariff on all Chinese goods after China imposed tight export controls on rare earth minerals. These minerals are the absolute necessities for a varied and futuristic technology spread like semiconductors, electric vehicles, LEDs, etc. U.S. states that the move is "economic coercion," and Trump said if China does not stop, the next moves from the U.S. will be more tariffs and export restrictions on software used by China. The flick of economic policy as a weapon used in the global power struggle is becoming more visible by the day.

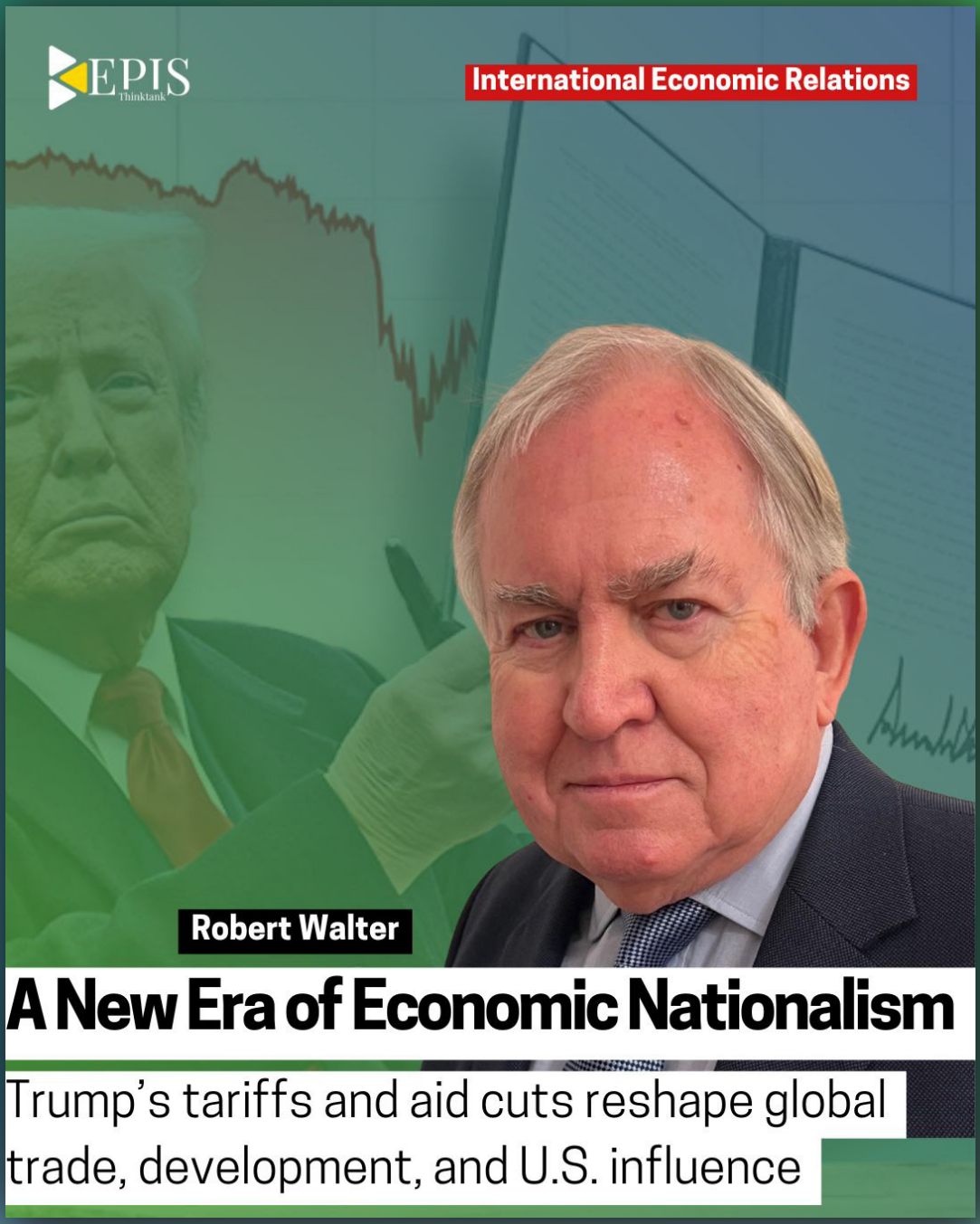
At the same time, the Indian-Pacific region is a site of changing trade patterns. Costa Rica decided to put joining the Indo-Pacific trade agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ahead of other regional deals like the EU-Mercosur. That shift itself speaks of how the Indian-Pacific has become the new global trade and how the world is geopolitically aligning due to the economic pressures. These events are not the isolated ones but the pieces of the big picture where economic policies get more and more entangled with national security issues. The tariffs that have an impact on the global supply chain and the strategic trade agreements that change the shape of regional alliances depict the rapid facelift of the international economic relations landscape.

In the first issue of our International Economic Relations Report, we get to the bottom of the knotty matters here. Our members dissect the origin of sanctions and trade wars, the effect of tariffs on manufacturing and security sectors, the evolution of trade agreements and do it all through a lens of robust analysis. We intend to uncover the problems and prospects that arise when economics meets global security.

This report came to be through the collaboration of students and young professionals from Europe and beyond, brought together by the EPIS Thinktank. The variety of their views and skillsets is the fuel of the debates you will find in the pages of this report.

As we confront such difficult issues, it remains vital to seek a middle ground between national interests and global cooperation. If used properly, economic measures may be a source of stability and prosperity; conversely, mistakes might result in unforeseen repercussions. We would be glad if this report became a part of informed debates and helped policymakers to take prudent decisions in international economic relations.

Valentin Grangier
EPIS Report Groups
Resort Leader
Editor of the EPIS International Economic RelationsReport



About the Article

How do Trump-era tariffs and foreign aid cuts reflect economic nationalism and impact the global order? Tariffs and aid reductions, though aimed at protecting U.S. interests, have slowed growth, hurt supply chains, undermined global development, and weakened U.S. influence abroad. Economic nationalism comes at high costs; interconnected global systems and cooperation remain vital

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Robert „Bob" Walter is President of Eurodefense – UK and the European Security and Defence Association. After 25 years as a stockbroker and investment banker, he served 18 years in the British Parliament. He held key roles in the Parliamentary Assembly of the Council of Europe, Western European Union, and the Inter-Parliamentary Union. Post-politics, he advised European governments on integration and chairs several defense organizations. He holds a BSc and doctorate from Aston University.

There is something ironic in listening to the leader of the richest and most powerful nation on earth telling not only his friends in the industrialised world, but also some of the poorest nations on the planet that they are all "ripping America off". Whilst it is true that the United States runs a large trade deficit in goods by a substantial margin, President Trump fails to acknowledge that it earns significant surpluses in services and from foreign investment income that substantially offset the goods imbalance. But there is nothing new in this kind of rhetoric and the tariffs and quotas that follow to "protect" the domestic market and reduce imports. The use of tariffs and protectionist rhetoric has long been a feature of international economic relations. From the Anglo-Dutch Wars of the 17th century to the Opium Wars in China, and the tariff battles of the 1920s and 1930s, history is replete with examples of nations using trade policy as a tool of power and leverage. In the 21st century, these themes have re-emerged with renewed force, most notably during the presidency of Donald Trump, whose aggressive approach to tariffs and foreign aid has reshaped both U.S. domestic economics and the global order. Trade disputes have often escalated into open conflict. The Anglo-Dutch Wars, for instance, were triggered by English attempts to undermine Dutch dominance in global trade, leading to a series of naval battles. Similarly, the Opium Wars between Britain and China were rooted in disputes over trade restrictions and market access, resulting in military intervention and the establishment of colonial outposts like Hong Kong. In the 20th century, tariff wars became a central feature of economic policy. The German Polish customs war of the 1920s saw both sides raising tolls and tariffs, disrupting trade and forcing economic realignment. In the United States, the Smoot-Hawley Tariff Act of 1930 and earlier measures like the Emergency Tariffs Act of 1921 and the Fordney-McCumber Tariff of 1922 raised average tariffs to 38%, contributing to a collapse in global trade and a sharp decline in U.S. corporate earnings and equity markets. Donald Trump's presidency (2017–2021, and again in 2025) marked a dramatic return to protectionist policies. Trump argued that the U.S. was being exploited by unfair trade practices, particularly by China, Mexico, and Germany. His administration imposed tariffs on steel, aluminium, and hundreds of billions of dollars' worth of Chinese goods, sparking a tit-for-tat trade war with Beijing. China retaliated with tariffs on American exports, especially agricultural products, prompting the U.S. government to subsidize affected farmers. Trump's approach was not limited to adversaries. Traditional allies such as the European Union, Canada, and Mexico also faced tariffs, often justified on national security grounds. These actions strained longstanding relationships and led to renegotiations of trade agreements, most notably the replacement of NAFTA with the United States-Mexico-Canada Agreement (USMCA), which updated provisions on labour, the environment, and digital trade. The impact of Trump's tariffs has been profound. By 2025, the average effective U.S. tariff rate reached its highest level since 1934. According to Yale University's Budget Lab, these measures were projected to reduce U.S. real GDP growth by about 0.5 percentage points in 2025 and 2026 and shrink the long-term size of the economy by 0.4%. The cost to American households is significant, with estimates suggesting an average annual burden of $2,000 per family due to higher consumer prices. Sectors dependent on global supply chains—such as electronics, apparel, and automobiles—are particularly hard hit. While some domestic manufacturing has seen modest gains, but advanced manufacturing, agriculture, and construction face contraction. The tariffs it is claimed will generate substantial government revenue, potentially as much as $2.3 trillion over a decade, but this comes at the expense of slower growth and higher inflation. Globally, the ripple effects are substantial. The World Bank warned that every 10-percentage-point increase in U.S. tariffs could reduce global growth by 0.2–0.3 percentage points. Trading partners like Canada, Mexico, and

Economic Nationalism
putting national interests first through trade and aid policies

China have experienced significant declines in exports to the U.S., with knock-on effects for their own economies and supply chains. Studies indicate that U.S. consumers will ultimately bear most of the tariff costs. Simultaneously, the Trump administration has enacted deep cuts to U.S. foreign aid, particularly through the United States Agency for International Development (USAID). These reductions have dramatic consequences for global health, development, and humanitarian programmes. In countries like Lesotho, Malawi, and Ethiopia, the loss of U.S. aid has undermined health systems, agricultural productivity, and community resilience. Lesotho provides a stark example. The imposition of a 50% tariff (later reduced to 15%) on textiles—previously duty-free under the African Growth and Opportunity Act—has devastated the country's manufacturing sector, leading to factory closures, job losses, and a state of disaster. Concurrently, cuts to health funding have resulted in the termination of over half of HIV/AIDS-related health workers, threatening public health in a country with one of the world's highest HIV prevalence rates. Globally, the consequences of U.S. aid cuts are severe. A study from UCLA has projected over 14 million additional deaths by 2030 if the cuts persist, including more than 4.5 million children under five. Reductions in funding for HIV programs has led to declines in testing and treatment in countries such as Mozambique and Eswatini, with modelling suggesting millions of extra infections and deaths. The withdrawal of U.S. support has also destabilized multilateral institutions like the World Food Programme and eroded American credibility in the Global South. The combined effect of tariffs and aid cuts has been to increase migration pressures, particularly towards Europe. As export-dependent economies in Africa and Latin America have lost access to the U.S. market and USAID development support, unemployment and poverty have risen, pushing people to seek better opportunities abroad. Europe, already challenged by previous migration crises, faces renewed risks as U.S. disengagement leaves a vacuum in global development leadership. Trump's tariffs and aid cuts reflect a broader strategy of economic nationalism and inward-facing policy. While intended to protect domestic industry and raise government revenue, these measures have imposed significant costs on consumers, slowed economic growth, and weakened global development systems. The retreat from international engagement has undermined U.S. soft power and contributed to instability abroad, with potential knock-on effects on migration, trade, and security. As policymakers and the international community grapple with these challenges, the legacy of Trump's trade wars and aid cuts serves as a reminder of the value of interconnectedness of the modern world—and the risks of unilateral action in what was an era of a rules based international order and global interdependence.

> **"Trump's tariffs and aid cuts show economic policies being used as tools of national power"**

Robert Walter – President, Eurodefense-UK

UK member of Parliament (1997-2015), President of the Assembly of the Western European Union (2008-11), Vice-President of the Parliamentary Assembly of the Council of Europe (2010-15) and former international banker.

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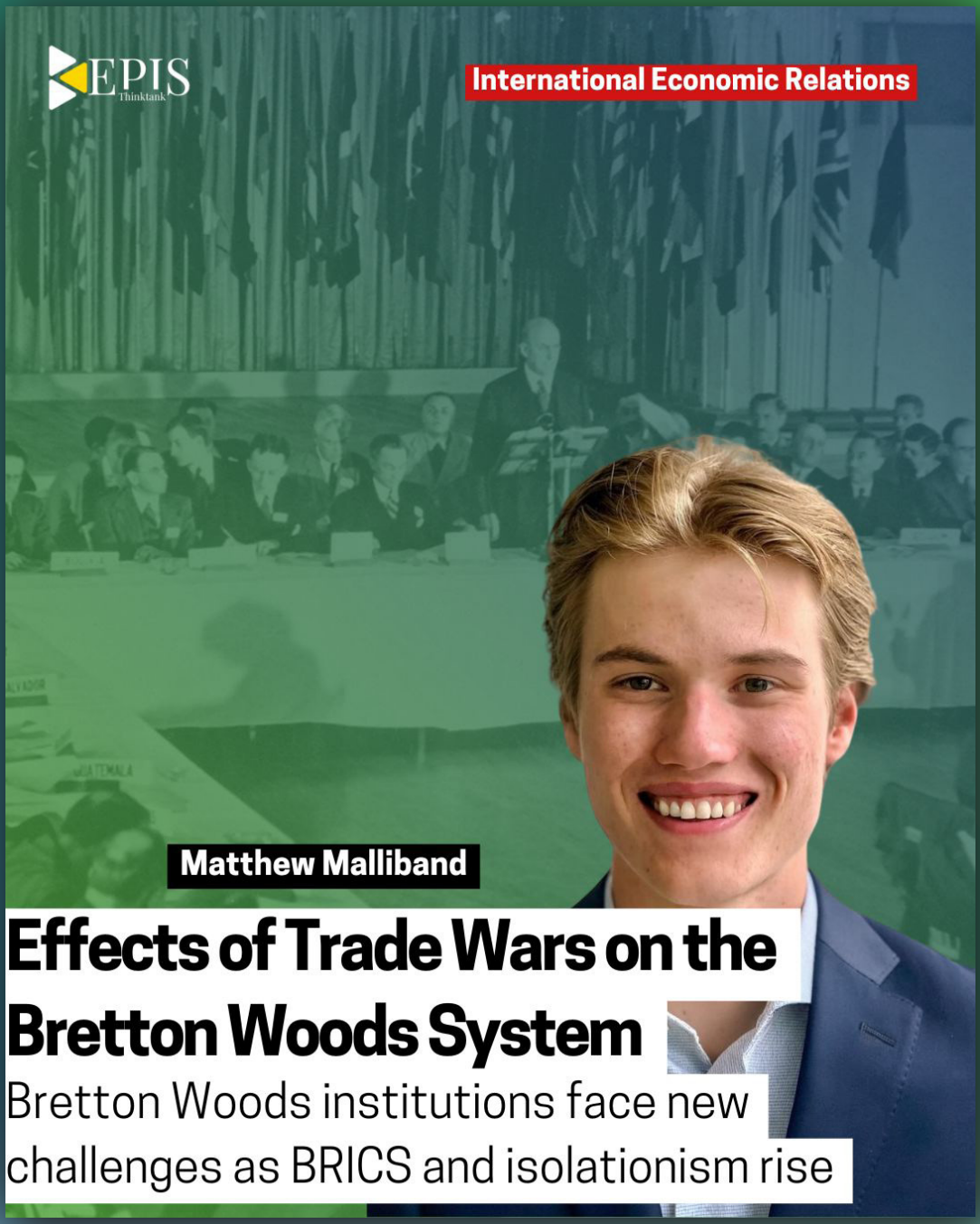
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About the Article

Question: How have Bretton Woods institutions adapted to new economic realities? Argument: Once stabilizing post-war economies, the IMF, World Bank, and WTO now face declining trust amid Western isolationism and rising BRICS influence. Conclusion: Global economic governance is fragmenting, requiring policymakers to plan for long-term geopolitical and economic shifts.

About the Author

Matthew Malliband is pursuing a B.B.A. in Finance while minoring in French and International Affairs at the University of Colorado - Boulder. His interests lie in the effects of geopolitics on the global economy, driven by his previous work and study experiences on both sides of the Atlantic. He works with an African-focused development non-profit.

1. Introduction – The Bretton Woods Meeting

In July 1944, among the chaos of World War II, forty-four Allied Nations met in the small town of Bretton Woods, New Hampshire, USA, to discuss the international economic system following the war. With the booming rise of globalization, often seen and accelerated due to World War II, intergovernmental organizations were starting to prove as a necessity to promote peace and stability, including in the economic sense. The three major organizations to come from this meeting were the International Monetary Fund (IMF), whose goal was to ensure stability by providing short term debt financing options to countries, the International Bank for Reconstruction and Development (IBRD – now called the World Bank), whose goal was to provide long term loans to countries rebuilding post-war, and The General Agreement on Tariffs and Trade (GATT – now called the World Trade Organization (WTO)) whose goal is to provide freer trade and tariff reductions by becoming a common ground for negotiations. 81 years on from the conference at the Mount Washington hotel, the organizations of the Bretton Woods system have changed drastically, with their primary focus shifting to the development of emerging economies. While these organizations were created under the idea of international cooperation, they have been a constant symbol of the spread of westernization, something that other global powers have continued to challenge, such as Russia and China. This contributed to the rise of not only BRICS but also to the rise of the New Development Bank (NDB), providing emerging countries with a new option in terms of development financing. A recent rise in isolationist economic policies among Western countries has caused a decrease in funding for development and aid for emerging markets. One of the more important examples of this is the current administration in the United States cutting USAID almost entirely. This makes alternatives like the NBD more attractive for emerging and developing economies, contradicting the goals of global unity and security that the Bretton Woods meeting seeks to achieve with the establishment of these organizations. Historically, there are very few events that can draw parallels due to how unprecedented this is in modern economics.

Bretton Woods System:
post-WWII institutions ensuring global economic stability

2. Plaza Accord Case Study

The Plaza Accord of 1985 can be attributed as a similar event to the one we are currently facing. A joint agreement between France, West Germany, Japan, UK, and the United States, the goal was to devalue the US dollar to decrease the US trade deficit through international cooperation. A current goal for the Trump administration's use of tariffs is to reduce this trade deficit, so the parallels do exist. The Reagan administration at the time considered using tariffs as well, but ultimately opted for the Plaza Accord instead. Signed September 22 at the Plaza Hotel in New York, the terms of the accord ultimately caused the US dollar to lose value relative to the other four currencies (the Pound, the Yen, the Franc, and the Deutsche Mark), but failed to reduce the deficit in the short term. Ultimately, the deficit decreased in every country except Japan. The knock-on effect from the Plaza Accord can be linked to the 1997 Financial Crisis, which prompted the IMF to intervene heavily to stabilize economies. The Plaza Accord „Institutionalized the role of the [IMF] as a neutral participant and advisor in the process. These institutions have survived into the present, though their adequacy for addressing problems in the global economy has been - and remains - an ongoing area of concern." (Bergsten and Green, 2016) The IMF's structure and reliance on donor nations, such as the United States, can hinder it's ability to operate effectively when the donor nations lose faith in other economies. The Plaza Accord later led to the infamous mandate of the United States Congress to label countries as "currency

manipulators" if they violated IMF commitments (Bergsten and Green, 2016). This caused a negative image to emerge of the IMF, the image of the organization as a tool by western powers to enforce their influence on the world. The protectionist policies of the United States at the time show the political mindset that caused them in the first place, and parallels can be drawn to the political climate in the United States today and the recent economic policies in the western world. The idea of "distrust" of developing and emerging economies is what caused the mandate of exchange rate tracking in the 1980s, and it's the same mindset that caused the cut of USAID funding earlier this year. The IMF and World Bank are only as effective as they're allowed to be, as they have to rely on member countries (primarily western countries) for funding. Therefore, if the IMF and World Bank are unable to provide adequate funding for the receiving countries, then it will force these countries to look for alternatives in development funding sources.

3. BRICS and the BRI

Geopolitically speaking, the effects of the Plaza Accord had a very little effect on global stability. Despite the hits and criticisms that the IMF and World Bank group took, there was no alternatives for development funding. However, in the early 2010s, China announced the Belt and Road Initiative (BRI), and the BRICS group created the New Development Bank (NDB), providing a new form of competition for the organizations of the Bretton Woods Conference. By 2023, the NDB and Asian Infrastructure and Investment Bank (AIIB - a Chinese counter to the World Bank's Asia Development Bank), have a combined total of $71 billion USD in credit outstanding (Boston Consulting Group, 2024). This is compared to $117.5 billion USD for the World Bank Group, and $169 million USD for the IMF, institutions that are 70 years older and funded by larger economies. The NDB and AIIB are growing at a much faster rate and will soon catch up to the World Bank and IMF. The BRI, which in part has fueled the growth of the NDB and AIIB, is one of the most ambitious geopolitical projects of the 21st century. Powering the BRI, Beijing has dumped money into its state owned enterprises (SOE's) so they can outbid other companies, predominantly western ones supported by the World Bank Group, to complete infrastructure projects in developing and emerging economies (ChinaPower, n.d.). This strategy has been incredibly successful, with 151 countries having joined the BRI, including Western economies such as New Zealand, Italy, Austria, and others. Clearly, the influence that China has been able to attain from the Belt and Road Initiative has been incredible, but it doesn't

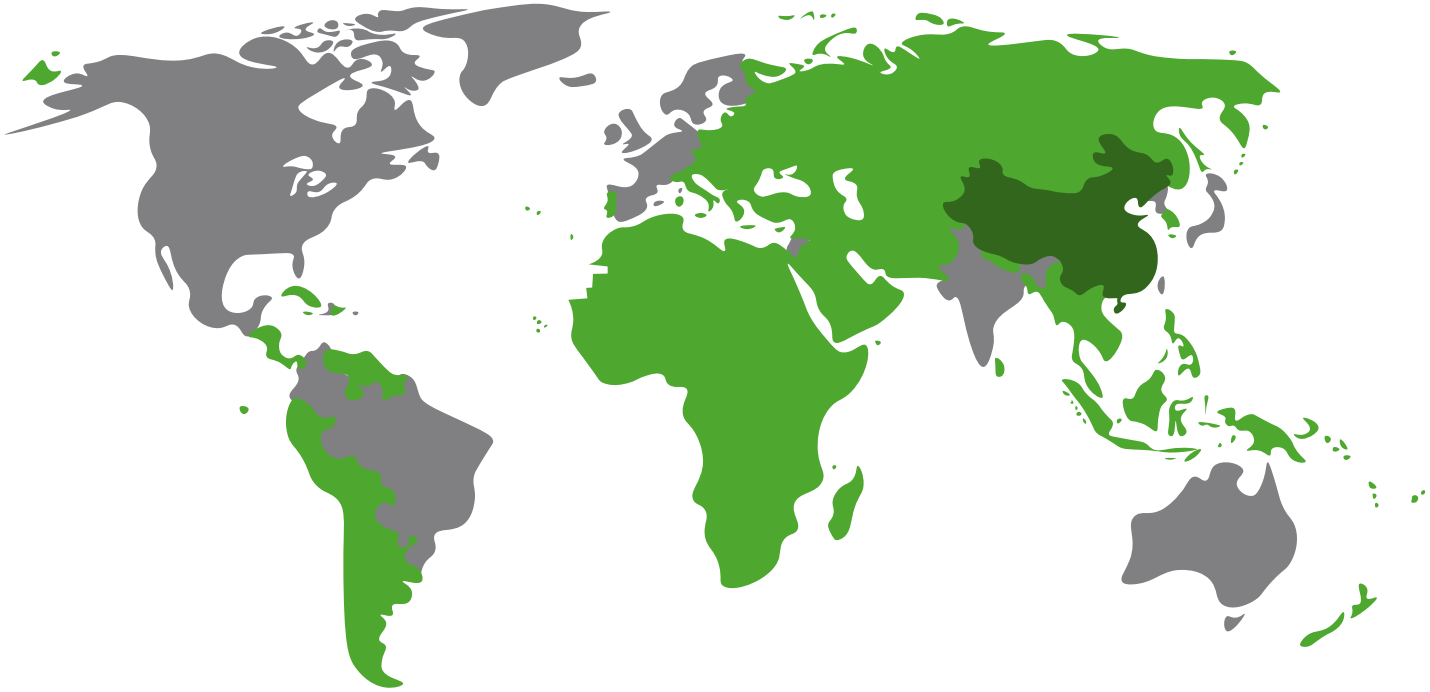


Figure 1: Map of countries in the BRI - Source: ChinaPower

stop at influence. Many Chinese companies take ownership of certain projects, such as COSCO shipping owning the Greek port of Piraeus (ChinaPower, n.d.). Furthermore, China has used this initiative to promote the Renminbi (RMB) as an international currency - in place of the USD, Euro, or Pound - by offering debt to fund these projects in RMB. The BRI has faced challenges in its financial effectiveness, as a majority of the countries receiving debt are low income and as a result have defaulted on their loans from Chinese institutions. Many countries have also seen the political intentions behind the BRI, and have left as a result, such as Australia. While it's early for any real effectiveness to be measured, China's true intentions are very clear, and it could be a long time until the BRI can be listed as a success or failure.

> **"Bretton Woods institutions are challenged by emerging economies and new development banks"**

4. Geopolitical Effects

The rise of BRICS and China's Belt and Road Initiative (BRI) has had noticeable geopolitical implications, particularly in the developing world. Both the BRICS's New Development Bank and the BRI challenge the Western monopoly over global economic governance, reducing the relative influence of the West in these countries. The BRICS group has evolved beyond an economic coalition into a political counterweight to Western institutions. Its expansion in 2024 to include countries such as Saudi Arabia, Iran, and Egypt shows a growing appeal among states annoyed with the West's dominance in global economic governance (Boston Consulting Group, 2024). This expansion strengthens BRICS' legitimacy as a forum representing the "Global South,"becoming an alternative in development finance. As BRICS and the BRI expand their networks, they reshape global norms of diplomacy, where influence is gained through long-term economic co-operation, rather than military alliances. This rise grows the rising global polarization. As the BRI's "debt diplomacy" and strategic infrastructure acquisitions attract scrutiny, Western powers have responded with their own counter-initiatives such as the G7's Partnership for Global Infrastructure and Investment. This growing competition risks fragmenting the global development landscape into a competition, with countries in the developing world caught between Western and BRICS financing systems. In this sense, BRICS and the BRI redefine the geopolitical order by redistributing soft power away from the West toward a more multipolar system.

5. Conclusion

The reason for the New Development Bank and the Belt and Road Initiative is to challenge Western economic soft power in the developing world. This is contradictory to the founding and continued mission of the Bretton Woods organizations, whose goal is to provide a platform for global economic growth and stability. The current rise in economic isolationism among the global West can cause these alternative organizations to be more attractive. This creates a rivalry on the global stage which can lead to further geopolitical tension, ultimately adding to the East vs West global divide. Ultimately, due to the lack of precedent in this sector, the future effects cannot be accurately projected. The possibility of increasing the global divide should be something that policy makers are aware of, but it can take years until it's fully realized due to the long term nature of infrastructure development projects.

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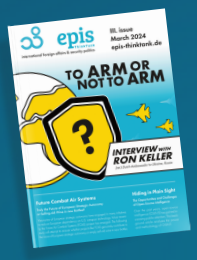
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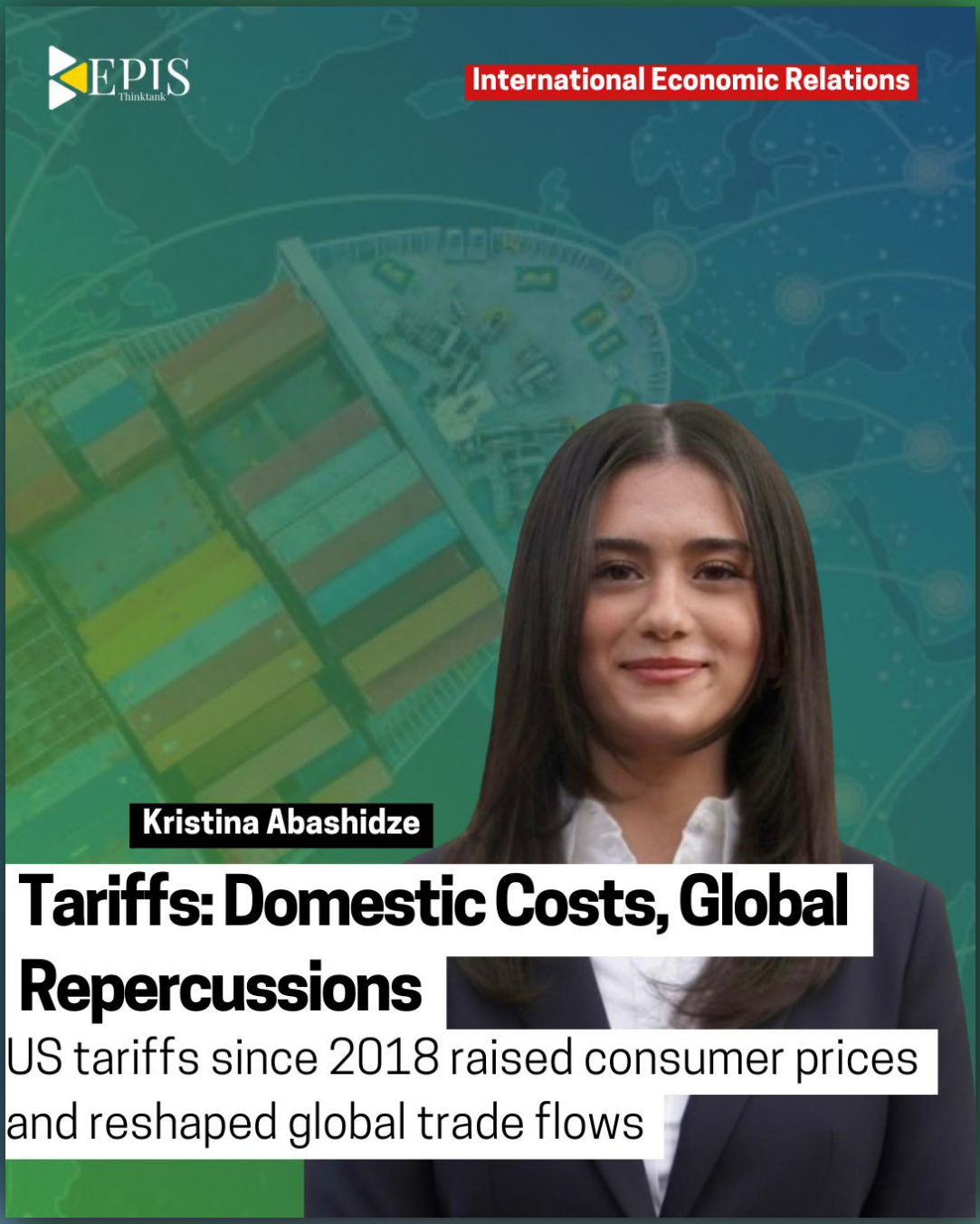
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About the Article

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About the Author

Kristina Abashidze is currently pursuing a Bachelor of Arts degree at the University of Nottingham. Her academic focus lies on global governance, with particular interest in how power structures influence both foreign policy and domestic political outcomes. She is driven by a broader mission to contribute to research and policy initiatives that promote ethical governance and international cooperation.

1. Introduction

By raising the price of foreign products, Tariffs aim to shield domestic industries from external competition and preserve employment. Yet, their economic consequences are rarely straightforward. Though tariffs often appeal to political narratives about national strength, they tend to create inflationary pressures and international frictions that undermine their intended benefits. In the United States, the revival of protectionist trade policy between 2018 and 2020 under the Trump administration represented the most extensive use of tariffs in recent history. Section 232 measures on steel and aluminum and Section 201 tariffs on washing machines were introduced under the banner of national security and job creation. At the same time, escalating duties on Chinese imports ignited a trade war that reshaped global supply chains and commodity markets. While these policies sought to boost American manufacturing and reduce trade deficits, a growing body of evidence suggests they raised production costs, increased consumer prices and disrupted export flows (Amiti et al, 2019). This section explores how these tariff measures have contributed to domestic inflation and instability across global markets. It draws on examples from US trade policy since 2018 which were the impact of steel and aluminum tariffs on industrial costs, the consumer burden created by tariffs on household goods, and the agricultural dislocation caused by retaliatory measures against US soybeans. Together these cases show that tariffs, rather than protecting the domestic economy, have functioned as a tax on consumption and a catalyst for wider economic disruption. Although tariffs are framed as tools to defend domestic industry, evidence from US trade policy since 2018 shows they have instead contributed to higher consumer prices, disrupted global supply chains, and also generated inflationary ripple effects across international markets.

Cost-push inflation:
rising prices caused by higher production costs, often from tariffs

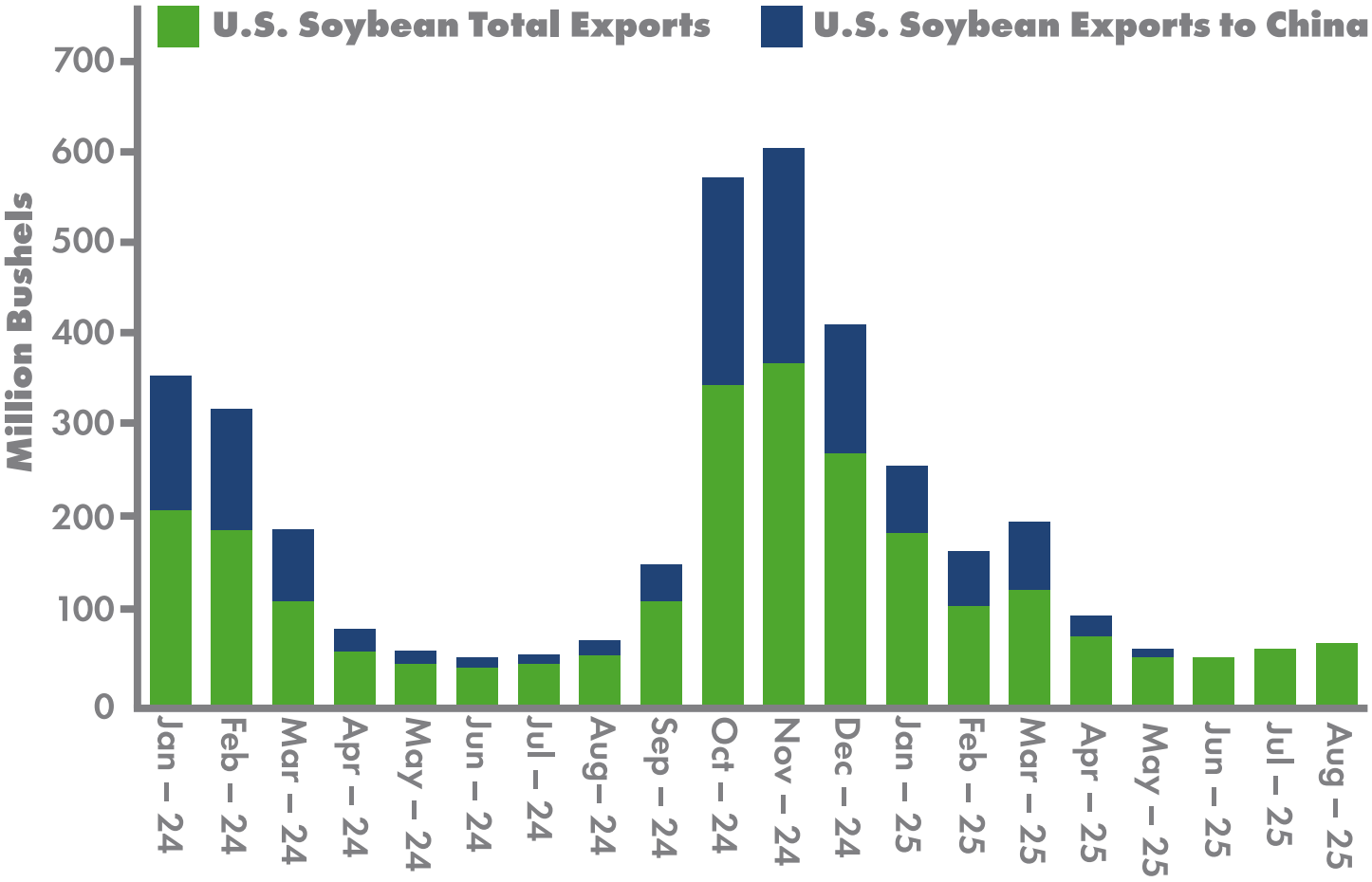
2. The Economic Logic of Tariffs and Inflation

Tariffs operate as a form of indirect taxation. By imposing duties on imported goods, governments increase the cost of those products at the border. This raises their prices within domestic markets. In theory, this price adjustment is intended to make locally produced goods more competitive and to encourage domestic production. In practice, however, tariffs rarely stop at protecting producers. Because imports often serve as essential inputs in manufacturing and retail supply chains, higher import costs ripple through the economy. This influences the price of a wide range of goods and services. In the short term, tariffs tend to produce cost-push inflation which is a situation where the rising cost of production inputs forces firms to increase final prices to maintain profitability. When the United States introduced tariffs on steel and aluminum and consumer goods in 2018, domestic manufacturers that relied on imported materials faced higher input costs almost immediately. Many responded by raising prices or reducing output, eroding any competitive advantage the tariffs were meant to create. Since modern supply chains are globally integrated, these disruptions extended beyond the targeted sectors, affecting industries from construction to electronics. The longer-term effects of tariffs are equally problematic. By discouraging imports and limiting competition, protectionist policies reduce market efficiency and innovation. Domestic producers face weaker incentives to invest in productivity or reduce prices. This structural rigidity perpetuates inflationary pressure, as fewer firms compete to absorb cost increases or offer cheaper alternatives to consumers. The inflationary dynamic follows a predictable feedback loop that the higher import costs push up production expenses, which in turn lead to higher consumer prices. As prices rise, real purchasing power declines and overall demand slows. Weaker demand reduces output growth, which may prompt further policy interventions to offset economic stagnation. What begins as a measure to support

national industries therefore evolves into a self-reinforcing cycle of higher costs and slower growth. Research confirms that this process has been evident in the United States since 2018. Fajgelbaum et al (2019) found that the tariffs imposed during the US-China trade war were almost entirely passed through to domestic prices rather than absorbed by foreign exporters. Similarly, Amiti, Redding and Weinstein (2019) demonstrate that the burden of tariffs fell primarily on US consumers and firms through higher import prices, with little measurable gain for domestic producers. The evidence suggests that rather than strengthening the national economy, tariffs have acted as an inflationary tax on households and a drag on broader economic performance.

2.1 Case Study – Steel and Aluminum Tariffs

In March 2018, the Trump administration implemented sweeping tariffs on steel and aluminum under Section 232 of the Trade Expansion Act, citing national security concerns. The policy imposed a 25% duty on imported steel and a 10% duty on aluminum. Officials argued that decades of cheap imports, particularly from China, had weakened the American industrial base, leaving critical supply chains vulnerable. The tariffs were therefore presented as a means to safeguard domestic production, restore industrial self-sufficiency and to protect American workers. In the aftermath, US steel producers benefited from temporary price increases and a modest expansion in domestic output. However, these gains were outweighed by broader economic costs. Steel and aluminum are key inputs for manufacturing and construction. This means that the tariffs quickly raised production costs across multiple industries. The automotive sector was among the hardest hit, as vehicle manufacturers rely heavily on steel for engines and body panels. The construction industry experienced similar pressures as the price of rebar and sheet metal increased. Federal Reserve Board (2019) estimates suggest that by the end of 2019, higher input costs



Figute 1: Monthly U.S. Soybean Exports vs Exports to China, Source: Foreign Agricultural Service (FAS), USDA

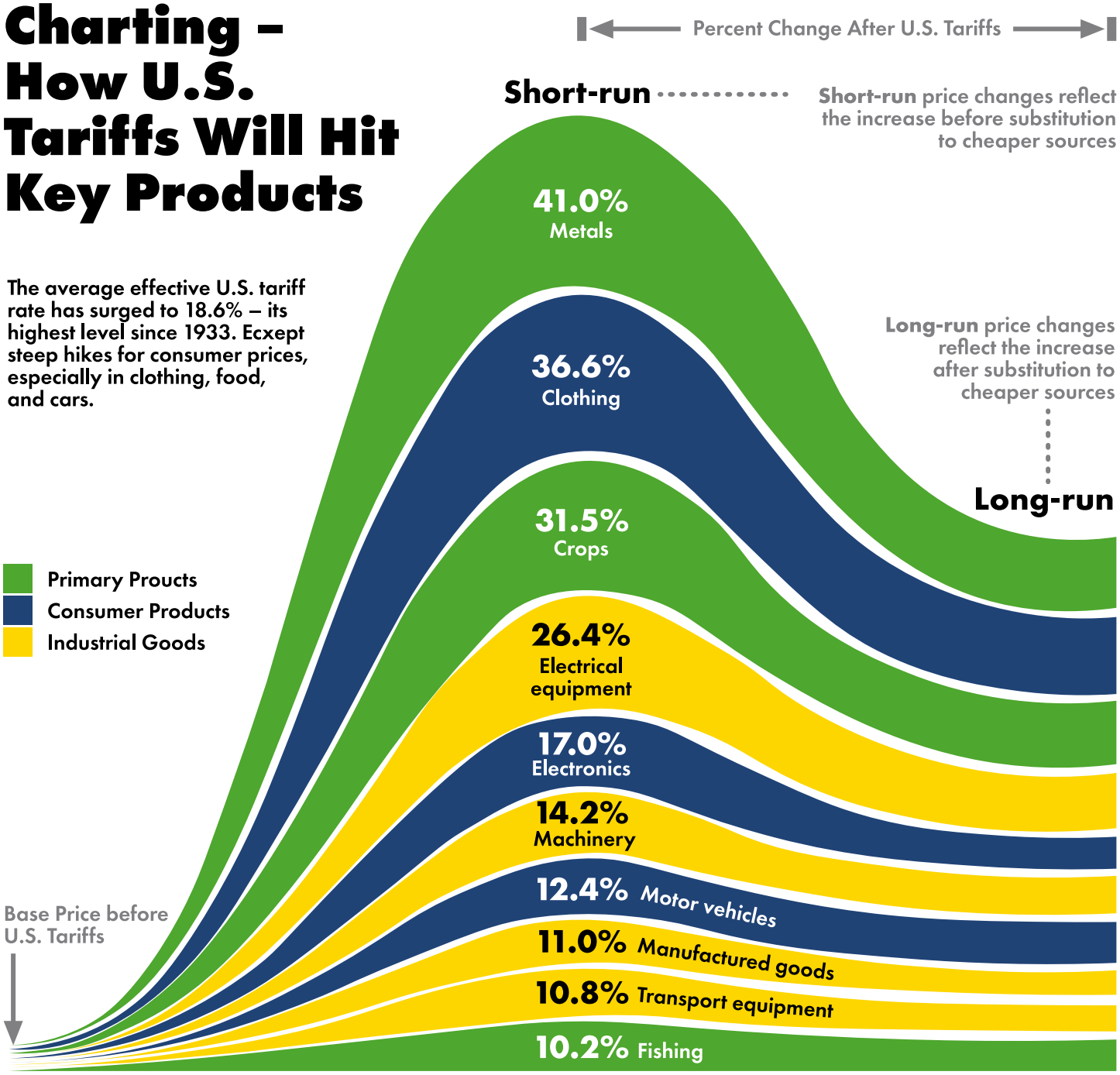
had reduced US manufacturing employment by roughly 75,000 jobs, nearly as many as the total number of jobs in the steel industry itself. Rising costs were passed on to consumers, amplifying inflationary pressures in manufacturing-intensive regions such as the Midwest and the South. Small and medium-sized enterprises, which lacked the market power to absorb cost increases, were disproportionately affected. Many firms reported delaying investment or scaling back production to offset higher expenses. The policy therefore undermined its own rationale which was a measure intended to protect industrial employment contributed to job losses and slower growth in downstream sectors. Internationally, the Section 232 tariffs strained relations with long-standing allies. The European Union, Canada and Mexico, major suppliers of US steel and aluminum, viewed the national security justification as unjustified and retaliated with tariffs on politically symbolic US exports. The EU targeted products such as bourbon whiskey, orange juice and motorcycles, measures that directly affected key Republican constituencies. Harley-Davidson, facing higher costs and retaliatory tariffs on its exports, announced plans to shift part of its production overseas. This illustrated the broader paradox of protectionism which is that instead of revitalising domestic manufacturing, the policy incentivised firms to relocate in order to maintain access to foreign markets. The steel and aluminum case demonstrates how sector-specific protectionism can trigger losses that extend far beyond its intended scope. While a handful of domestic producers benefited from short-term price increases, the aggregate impact was negative. Higher costs eroded competitiveness, inflationary pressures spread through supply chains, and trade partners responded with measures that curtailed US exports. The episode shows that tariffs, though politically appealing as symbols of industrial revival, often function as self-defeating instruments that weaken the very sectors they are designed to protect.

> **“.S. tariffs acted as an inflationary tax, harming consumers and global trade networks”**

2.2 Case Study – Washing Machines and Consumer Goods

In January 2018, the United States imposed global safeguard tariffs on large residential washing machines under Section 201 of the Trade Act. The measure followed a complaint by domestic manufacturers, including Whirlpool, who argued that imports from South Korea and China were flooding the US market at unfairly low prices. The policy introduced a tiered tariff structure beginning at 20% for the first 1,2 million imported units and rising to 50% for all additional machines. The intention was to protect American appliance producers, stimulate local investment and preserve industrial employment. Initially, the tariffs appeared to deliver visible benefits for domestic producers. Whirlpool’s share price rose, and several manufacturers, including Samsung and LG announced plans to expand assembly operations in the United States. Yet beneath these successes lay significant costs for consumers. Research by Flaaen, Hortaçsu and Tintelnot (2020) found that US consumers paid approximately $1,5 billion more for washing machines and dryers in the first year following the tariff’s introduction. The study estimated that each job created in the domestic appliance industry cost around $815,000 annually, an extraordinarily inefficient outcome when compared to average manufacturing wages. The inflationary consequences of the washing machine tariffs extended beyond a single product category. Higher appliance prices contributed to broader increases in the durable goods component of the Consumer Price Index, illustrating how tariffs on everyday consumer items can feed into headline inflation. Because washing machines and dryers are staple household purchases, the price increases were immediately visible to consumers, contrasting sharply with the more indirect effects of industrial tariffs on intermediate goods. Retailers and manufacturers, facing limited competition from foreign brands, capitalised on the protection by

Charting – How U.S. Tariffs Will Hit Key Products



Figute 2: How U.S. Tariffs will hit Key Products

raising mark-ups, further amplifying inflationary pressures. The washing machine case also demonstrates how supply chain adjustments can reinforce rather than mitigate cost increases. Foreign manufacturers circumvented part of the tariff by relocating production to countries not covered by the initial measures, such as Vietnam and Thailand. However, these transitions required time and investment, leading to temporary shortages and additional costs passed along to consumers. The complexity of global supply networks meant that even a narrowly targeted policy had economy-wide effects, disrupting logistics and pricing dynamics far beyond the appliance sector. Economically, the episode highlights the limitations of consumer-focused protectionism. While tariffs can produce visible political wins, they operate as regressive taxes that erode household purchasing power. The data from 2018 show that the cost of protecting a few thousand manufacturing jobs was borne disproportionately by millions of US consumers. More broadly, the policy reveals how restricting competition in consumer markets allows domestic firms to raise prices without improving efficiency or innovation. The result was higher inflation, minimal employment gains and a lasting reminder that even small-scale tariffs can carry substantial macroeconomic costs.

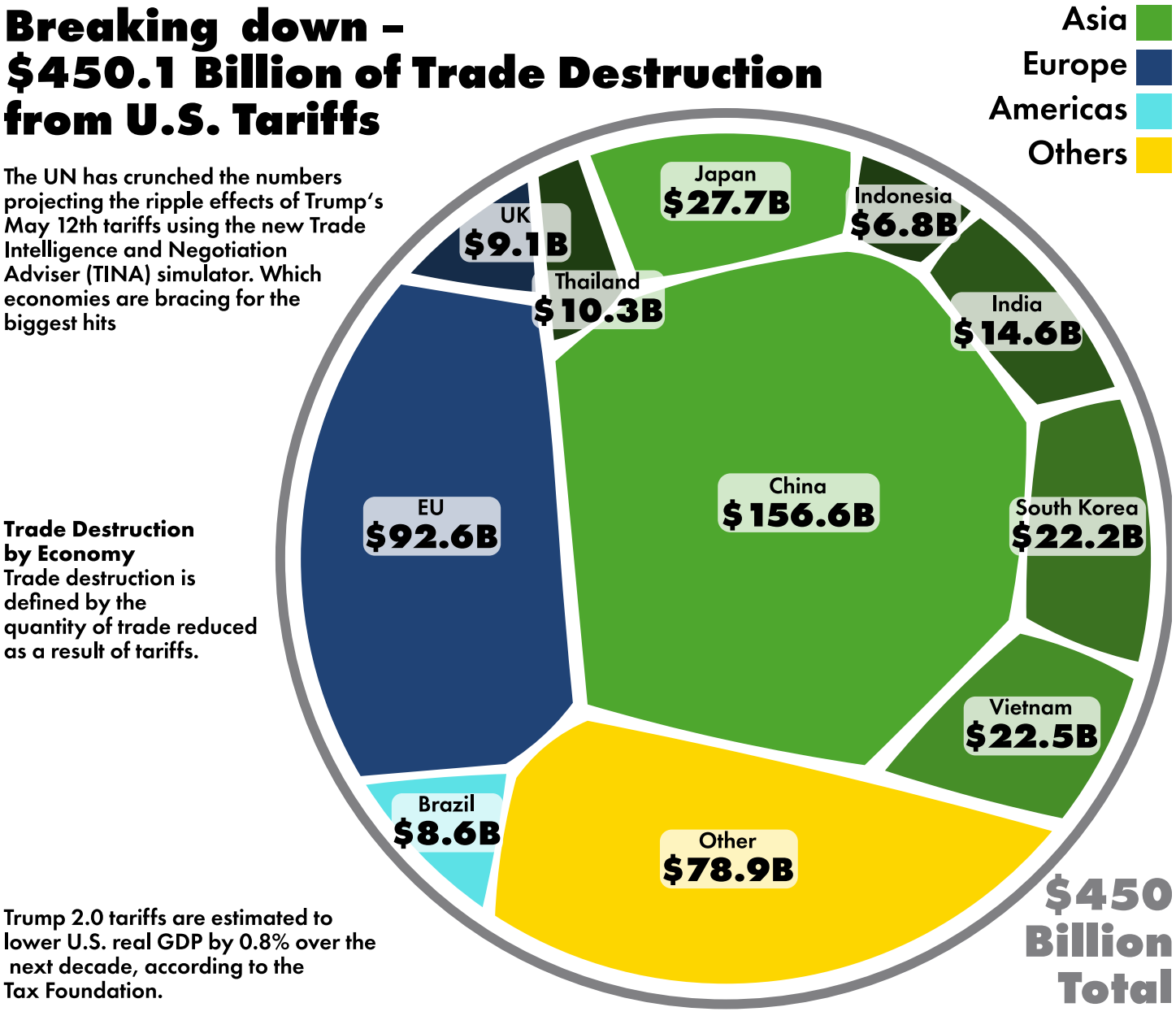
2.3 Case study – Soybeans and Retaliatory Tariffs

When the United States began imposing tariffs on Chinese goods in 2018, Beijing responded with a carefully calibrated set of retaliatory measures targeting politically sensitive sectors of the American economy. Agriculture became the central battleground of this response. China, which is the largest importer of US soybeans, placed a 25% tariff on the crop in July 2018, directly striking at the heart of the American Midwest, regions central to the Trump administration's political base. The objective was to inflict economic pain in areas most supportive of the trade war while diversifying China's supply chains away from dependence on the United States. The effects were immediate and severe. According to data from the US Department of Agriculture, US soybean exports to China fell by nearly 75% between 2017 and 2018, representing a decline of more than 25 million metric tons. As shipments collapsed, Chinese buyers turned to Brazil, whose soybean exports surged to record levels. This shift permanently altered global trade flows as China established new long-term contracts with South American suppliers. Even after tensions eased, US market share in China never fully recovered, showing how trade wars can produce lasting structural changes that are difficult to reverse. Domestically, the consequences were profound. The loss of the Chinese market depressed prices and incomes across the US agricultural sector. Farm bankruptcies increased, and the federal government was forced to intervene with over $28 billion in emergency aid to offset losses. These subsidies, while cushioning short-term damage, placed an additional burden on taxpayers and did little to restore the competitiveness of US farmers. The episode revealed how tariff retaliation can impose high domestic costs even when framed as a strategy to defend national interests. Globally, the soybean dispute contributed to a distortion of agricultural markets and volatility in food prices. As trade flows adjusted, logistical bottlenecks emerged in Brazil's ports and transport networks, pushing up shipping and storage costs. These inefficiencies, combined with uncertainty about future trade policy, fed into global food inflation during 2019. The episode illustrates what economists describe as second-order inflation, a process in which retaliatory tariffs, supply chain reorganisation and resource misallocation amplify price instability across interconnected markets. The soybean case exposes the wider costs of using tariffs as instruments of geopolitical competition. Rather than securing economic leverage, the US trade war with China disrupted one of its most productive export sectors, redistributed global supply chains and contributed to inflationary pressures that reached far beyond agriculture. The experience shows that in an interdependent global economy, retaliation is not a side effect of tariffs, it is an integral and predictable consequence.

3. Global Repercussions – Inflation Beyond Borders

While tariffs are designed to shield domestic industries, their economic effects extend far beyond national borders. In an interconnected global economy, the imposition of trade barriers by the United States reverberates through supply chains and export markets. Tariffs on key materials and manufactured goods increase input costs across international production networks, raising prices for firms and consumers in multiple countries. These cost increases effectively export inflation, as higher US import prices translate into more expensive intermediate goods and reduced global efficiency. Retaliatory measures intensify these pressures by undermining comparative advantage. When countries respond to US tariffs with restrictions of their own, trade flows are diverted from their most efficient routes to politically motivated alternatives. This reallocation erodes productivity gains that arise from specialisation and scale. For instance, China's pivot to Brazilian soybeans, Europe's search for alternative steel suppliers and the relocation of Asian manufacturing lines all represent adjustments that carry transitional costs. Over time, these disruptions create price volatility that affects not only major economies but also smaller states

reliant on export stability. Emerging economies are particularly vulnerable. Many depend on US demand for their manufactured goods and agricultural products. Tariff-induced slowdowns in US growth reduce import demand, leading to currency fluctuations and fiscal strain in developing markets. The resulting instability magnifies global inflationary trends as countries attempt to absorb higher import prices while maintaining competitiveness. Empirical evidence supports this broader interpretation. The International Monetary Fund (2022) found that the rise in trade restrictions after 2018 contributed to higher import price volatility across advanced and emerging economies alike. The study concluded that uncertainty surrounding tariffs and retaliatory measures weakened investment and constrained productivity growth, especially in export-oriented sectors. In effect, protectionism in one major economy relayed inflationary pressures worldwide. The long-term geopolitical consequences have also been significant. Traditional US allies such as the European Union, Japan and South Korea responded to tariff uncertainty by diversifying trade relations and reducing dependence on American markets. New bilateral and regional trade agreements, such as the EU-Japan Economic Partnership and the Regional Comprehensive Economic Partnership in Asia, reflect a strategic realignment toward greater autonomy. This diversification, though stabilising in the long run, signals a shift in global economic leadership away from the United States. The experience of 2018-2020 demonstrates that tariffs are not isolated national instruments but catalysts of global inflation and



Figute 3: Breaking Down the $450 Billion of Trade Destruction from U.S. Tariff

strategic realignment. Once introduced, their repercussions extend beyond immediate economic costs to reshape the very structure of international trade.

4. Conclusion

The evidence from US trade policy since 2018 demonstrates that tariffs, while politically framed as instruments to defend domestic industry, have largely functioned as inflationary taxes on consumers. Intended to protect workers and restore industrial strength, they instead raised production costs, increased household prices and provoked retaliatory measures that disrupted global trade flows. Each case reveals the same underlying dynamic that protectionist policies produce short-term political gains at the expense of long-term economic stability. Domestically, tariffs have transferred wealth from consumers to a small number of protected producers while undermining employment in manufacturing and agriculture. Internationally, they have strained alliances, distorted supply chains and exported inflation to trading partners. The result has been a fragmentation of global markets and an erosion of trust in the predictability of US trade policy. Rather than insulating the national economy from external pressures, tariffs have amplified volatility both at home and abroad. Looking forward, sustainable trade policy must balance national security concerns with the realities of global economic interdependence. Rebuilding multilateral cooperation, strengthening supply chain resilience and adopting inflation-sensitive trade strategies are essential to restoring stability. The US experience illustrates a broader lesson for policymakers worldwide that weaponising tariffs in pursuit of economic advantage often inflicts more damage at home than abroad, undermining the very foundations of open and efficient global trade.

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About the Article

Question: How are tariffs used as foreign policy tools in the Indo-Pacific? Argument: Tariffs now signal political intent, reshape supply chains, and interact with FTAs like RCEP and CPTPP amid geopolitical rivalry. Conclusion: They drive selective integration, strategic realignment, and regional technological competition.

About the Author

Viktoria Royeck holds a bachelor's degree in Economics from the University of Bonn, where she focused on sustainability-related issues. As a scholar of the Konrad Adenauer Foundation, she has developed a strong academic interest in the intersection of politics, international trade, and business, further reinforced by her work as a research assistant and her participation in UN simulations.

1. Introduction

The Indo-Pacific, accounting for nearly 60% of global GDP, has become the epicenter of worldwide trade and strategic competition. It encompasses some of the most significant maritime corridors, including the Strait of Malacca and the South China Sea, through which one-third of global trade passes. The Indo-Pacific is therefore not only a center of production and consumption but also a strategic hub where economic interdependence and geopolitical rivalry converge (Medcalf, 2020). In this context, free trade agreements (FTAs) have gained importance as frameworks for structuring the flows of goods, services, and investment in the region. By definition, FTAs are legally binding agreements in which signatory states commit to liberalizing trade, primarily by reducing or eliminating tariffs, but also by harmonizing rules on investment, competition, and regulatory standards. While the World Trade Organization (WTO) remains the cornerstone of the multilateral trading system, regional FTAs are increasingly becoming venues where states pursue both economic efficiency and strategic objectives. Tariffs, traditionally used to protect domestic industry from foreign competition, remain the most visible instrument of trade policy. They range from ad valorem duties on imports to specific protective measures aimed at countering the rise of foreign products. In the Indo-Pacific region, however, tariffs have taken on a broader role as a foreign policy tool, being used as a punitive or retaliatory measure to signal political dissatisfaction or force governments to make concessions. Understanding the dual role of tariffs is therefore crucial to analyzing current developments in the Indo-Pacific region. The Indo-Pacific region is home to one of the most complex and multi-layered networks of free trade agreements in the world. In contrast to the more hierarchical frameworks that have emerged in Europe or North America, the regional trade architecture here resembles a 'noodle dish' of overlapping agreements that differ in scope, depth, and membership (Rödl & Partner, 2023). These agreements not only reduce tariffs and harmonize market rules but also reflect the different geopolitical ambitions of their members. A closer look at the most important agreements shows how economic integration is progressing in parallel with geopolitical positioning.

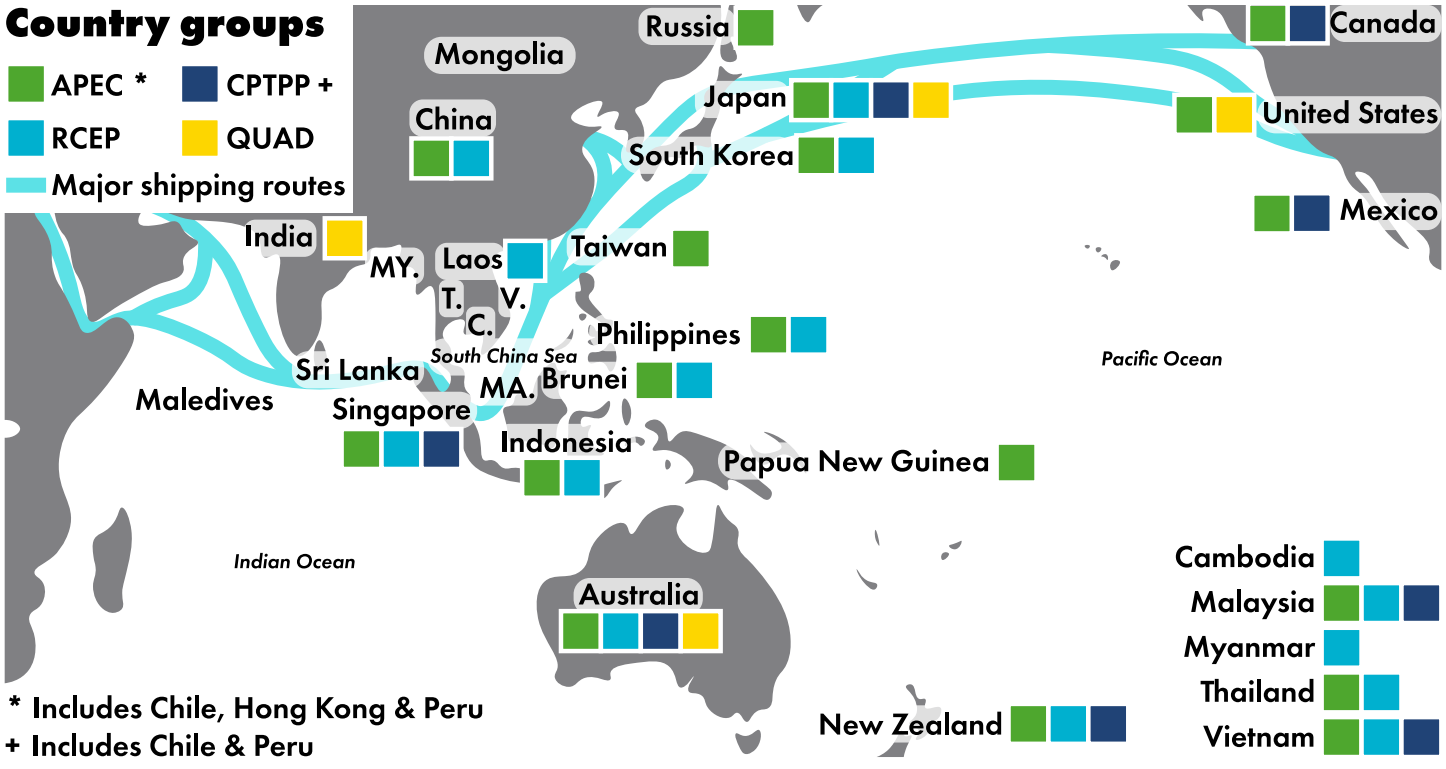


Figure 1 Source: Reinventing the Indo-Pacific

2. RCEP and CPTPP – Competing Models of Integration

The RCEP, which came into force in January 2022, is the world's largest trade agreement. RCEP focuses on tariff liberalization: members have committed to gradually reducing tariffs on up to 90 per cent of goods while simplifying rules of origin to facilitate regional supply chains (ASEAN Secretariat, 2022). However, the agreement is less ambitious in terms of labor standards, environmental protection, and competition policy, which are becoming increasingly important for modern trade governance. Economically, RCEP is strongly influenced by China's role as the largest trading partner for most members, while geopolitically it reflects Beijing's preference for an inclusive but relatively low-level agreement. India's withdrawal from the negotiations in 2020, citing concerns about trade imbalances and strategic vulnerability, underscores both the opportunities and tensions associated with RCEP. Def.: Regional Comprehensive Economic Partnership (RCEP): A free trade agreement between the ten ASEAN member states (Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and five regional partners: Australia, China, Japan, New Zealand, and South Korea. In contrast, the CPTPP, which came into force in 2018, represents a more qualitative approach to trade liberalization. The CPTPP commits signatory countries to high standards in areas such as labor rights, environmental sustainability, intellectual property protection, and public procurement. Although the CPTPP has fewer members than the RCEP, it is strategically designed to maintain high-quality rules that, at least in their original conception, deliberately exclude China's influence. Its open accession clause has attracted interest from potential new members, including the United Kingdom (which completed its accession in 2023), as well as China, Taiwan, and South Korea, all of which are undergoing varying degrees of political scrutiny of their accession applications. In this sense, the CPTPP embodies a rules-based alternative to the broad inclusivity of the RCEP, offering smaller states a hedge against excessive dependence on China by integrating them into a higher-standard trading regime. For policymakers, this means that tariff alignment under RCEP is less about economic efficiency than about securing political leverage within China-led supply chains. Def.: Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): A free trade agreement among 11 Asia-Pacific economies: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. A key feature of the trade architecture in the Indo-Pacific region is the network of ASEAN+1 agreements, which illustrate the bloc's flexible and pragmatic approach to integration. Since 2005, ASEAN has concluded comprehensive free trade agreements with China, Japan, South Korea, India, Australia, and New Zealand. These agreements vary in depth and sectoral focus: while the ASEAN-China FTA liberalized a wide range of goods, the ASEAN-Japan Comprehensive Economic Partnership was extended to cover investment and technology transfer. Despite their varying effectiveness, these agreements provide ASEAN countries with a diversified portfolio of partnerships that cushions them against external shocks and geopolitical stresses. This multi-layered integration has enabled ASEAN to maintain its central role in regional trade governance while balancing its economic dependence on China through links with other major economies. Def.: ASEAN (Association of Southeast Asian Nations): A regional organization promoting political and economic cooperation of ten Southeast Asian countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam Beyond regional frameworks, bilateral free trade agreements have also shaped the trade environment in the Indo-Pacific region, particularly those with the European Union and the United States. The EU has concluded

RCEP:
ASEAN plus key Asia-Pacific nations' trade pact reducing tariffs and linking supply chains

agreements with Japan (2019), South Korea (2015), Singapore (2019), and Vietnam (2020), each covering not only goods and services but also sustainability, investment, and regulatory cooperation. The EU recently signed a free trade agreement with New Zealand (2024) and is continuing negotiations with Australia, although talks on access to the agricultural market remain stalled. These agreements reflect the EU's desire to establish itself as a normative power in the region and to promote climate standards and digital trade in addition to tariff reductions. Meanwhile, the US has maintained important bilateral agreements such as the Korea-US Free Trade Agreement (KORUS, in force since 2012), while moving away from multilateral ambitions under the Trump and Biden administrations. Australia and India have also pushed ahead with their own bilateral agreement—the Economic Cooperation and Trade Agreement (2022)—as part of broader diversification strategies. A new trend in the Indo-Pacific trade landscape is the negotiation of digital free trade agreements, notab
the Digital Economy Partne
ship Agreement (DEPA), whic
was signed by Singapore, Ne
Zealand, and Chile in 2020.
The DEPA sets rules for cross-border data flows, electronic payments, source code protection, and cooperation on new technologies such as artificial intelligence. Unlike traditional free trade agreements, the DEPA responds to the structural shift towards digitalization in global trade. Its open membership clause has already attracted interest from South Korea and China, suggesting that digital trade rules could become a new field of strategic competition. Taken together, these overlapping agreements illustrate the fragmented but dynamic nature of trade integration in the Indo-Pacific region. RCEP stands for breadth, CPTPP for depth, ASEAN+1 for flexibility, bilateral agreements for normative influence, and digital free trade agreements for future-oriented innovation. However, they also reveal competing visions of regional order: China's focus on inclusive but low-level agreements, Japan and Australia's leadership on high standards, ASEAN's balancing act, and the EU's regulating projection. This institutional complexity forms the backdrop against which tariffs, as political instruments and strategic weapons, exert their influence on trade flows and external relations in the region.

> **"Tariffs in the Indo-Pacific serve as political tools, reshaping trade and strategic alliances"**

2.1 Case study – Relations between China and Australia

The deterioration in relations between China and Australia since 2020 is a striking example of the use of tariffs as a foreign policy tool. After Canberra called for an independent investigation into the origins of COVID-19, Beijing responded with a series of trade restrictions targeting key Australian export sectors. These included tariffs of up to 212 percent on wine, anti-dumping duties on barley, and informal bans on imports of coal, beef, and seafood (Reuters, 2021). Although these measures were officially justified on technical grounds such as dumping or quarantine standards, the timing and scale of these measures underscored their political nature. The consequences were significant. Australian exporters suffered immediate revenue losses, particularly in the wine industry, where China accounted for more than a third of total exports. As a reaction, Australian industries diversified their exports toward India and Europe. This diversification demonstrated both the vulnerability and resilience of globalized supply chains: Although the short-term economic costs were high, Australian businesses and policymakers stepped up their efforts to reduce excessive dependence on the Chinese market. At the same time, China suffered reputational damage as its actions reinforced perceptions of 'economic coercion' among Indo-Pacific states and fuelled debates about strategic autonomy and the reshoring of supply chains. The China-Australia case illustrates how tariffs can have repercussions far beyond bilateral trade. First, they encourage diversification of supply chains and prompt companies to seek more politically reliable markets. Second, they can accelerate regional integration by motivating the countries concerned to deepen their relations with alternative partners through free trade agreements.

Australia's renewed focus on its economic and trade agreement with India (2022) and its active participation in the CPTPP negotiations are examples of this trend. Third, tariffs raise awareness of the vulnerability associated with asymmetric economic dependence and force states to weigh economic benefits against geopolitical risks. The episode underlines the need for middle powers to diversify export destinations and to institutionalize anti-coercion measures within FTAs.

3. Geopolitics of Trade

The interplay of tariffs and free trade agreements in the Indo-Pacific cannot be viewed in isolation from the region's broader geopolitical rivalries. The rivalry between the US and China, in particular, has transformed the Indo-Pacific into a pivotal arena. Tariffs, free trade agreements, and strategic initiatives increasingly function as proxies in this competition, forcing smaller states to navigate between competing economic and security imperatives. China is seeking to consolidate its regional influence through trade integration, particularly by promoting the RCEP as a framework that reflects its economic importance. The US, on the other hand, has retreated from its previous ambition to shape the regional order through mega-free trade agreements such as the Trans-Pacific Partnership (TPP). Instead, it is now pursuing the Indo-Pacific Economic Framework for Prosperity (IPEF), launched in 2022, which emphasizes supply chain resilience, clean energy, and anti-corruption standards but necessarily excludes market access commitments. This divergence highlights a structural asymmetry: China integrates through market liberalization, while the US seeks influence through regulatory frameworks and security partnerships. Amid this rivalry, ASEAN countries are pursuing a strategy of safeguarding and balancing. On the one hand, China remains its largest trading partner, and participation in RCEP strengthens these ties. On the other hand, ASEAN is simultaneously deepening ties with external partners through „ASEAN+1" agreements and participation in the CPTPP or bilateral agreements with the EU, Japan, and others. This dual strategy reflects ASEAN's preference for „strategic equidistance": preserving China's economic advantages while ensuring geopolitical security through the US and its allies. Tariffs imposed in the wake of bilateral disputes—whether by Beijing or Washington—reaffirm ASEAN's determination to diversify partnerships and avoid an exclusive focus. The geopolitical dimension of trade is also manifested in security initiatives that complement economic agreements. The Quadrilateral Security Dialogue (Quad), comprising the US, Japan, India, and Australia, has evolved from a loosely coordinated grouping into a more cohesive strategic partnership. While its focus is on maritime security and defense cooperation, the Quad increasingly overlaps with economic issues such as technology supply chains and infrastructure financing. Similarly, the EU's Indo-Pacific Strategy aims to position Europe as a normative actor by linking trade agreements with sustainability, climate policy, and digital governance (EEAS, 2021). These overlapping initiatives underscore that economic and security architectures in the Indo-Pacific are inextricably linked: tariffs can trigger diversification, but free trade agreements and strategic alliances provide the institutional framework for long-term rebalancing. Tariffs thus play a catalytic role in accelerating geopolitical realignments. By weaponizing access to their markets, major powers force smaller states to rethink their alignment strategies. Australia's experience with Chinese tariffs has brought Canberra closer to the US and India and strengthened its participation in the CPTPP and the Quad. Likewise, US protectionist policies have motivated countries like Japan and Singapore to push for highly standardized agreements without Washington's leadership. In this way, tariffs not only disrupt trade but also act as triggers for new strategic constellations and alter the balance of power in the region.

4. Policy Implications and Outlook

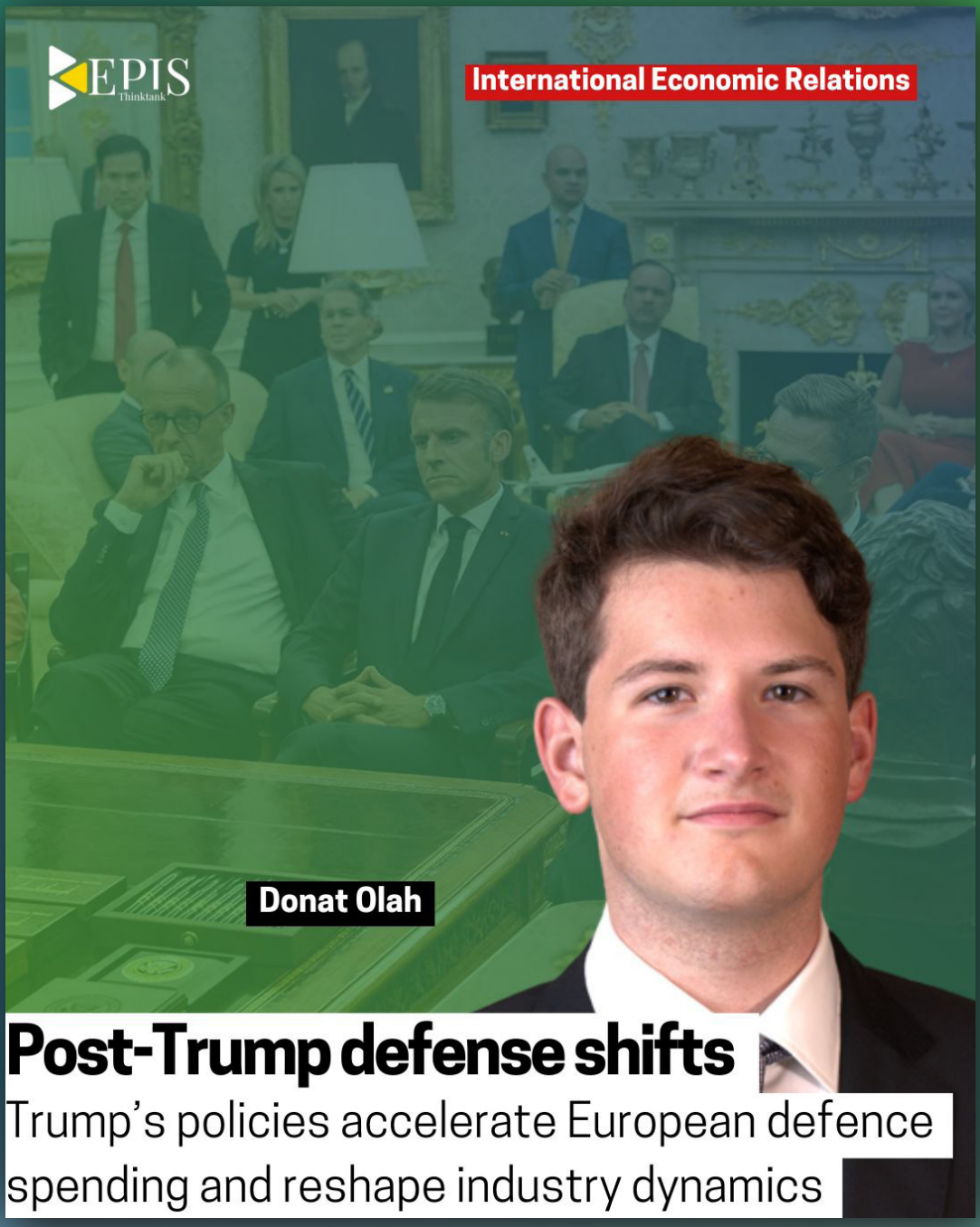
The evolving interaction between tariffs, trade agreements, and strategic competition in the Indo-Pacific underscores that economic policy has become an essential tool of diplomacy. To navigate this environment, policymakers should focus on four priorities:

- Diversification over Dependence: Middle powers such as Australia, Japan, and India must reduce exposure to coercive tariffs by broadening export markets and joining high-standard FTAs like the CPTPP. Economic diversification is now a form of strategic resilience.

- Digital Trade as the Next Frontier: Frameworks such as the Digital Economy Partnership Agreement (DEPA) show that digital rule-making is becoming as influential as tariff policy. Establishing fair and open data governance standards will be key to future competitiveness.

- Europe's Leverage: The EU can serve as a regulatory and normative counterweight by embedding sustainability and digital clauses in its Indo-Pacific trade agreements, thereby promoting stability through rules rather than rivalry.

- Aligning Economic and Security Agendas: Economic agreements and security cooperation (e.g., Quad, AUKUS, IPEF) must be coordinated to ensure that trade openness contributes to regional stability rather than strategic fragmentation. In the coming decade, success in the Indo-Pacific will depend not only on reducing tariffs but also on redefining trade as a strategic instrument for stability, diversification, and technological leadership.



About the Article

Question: How did Trump's policies affect Europe's defense industry? Argument: "America First" pushed Europe to spend more and seek autonomy, helping local contractors Conclusion: Growth continues, but supply chain and budget limits remain

About the Author

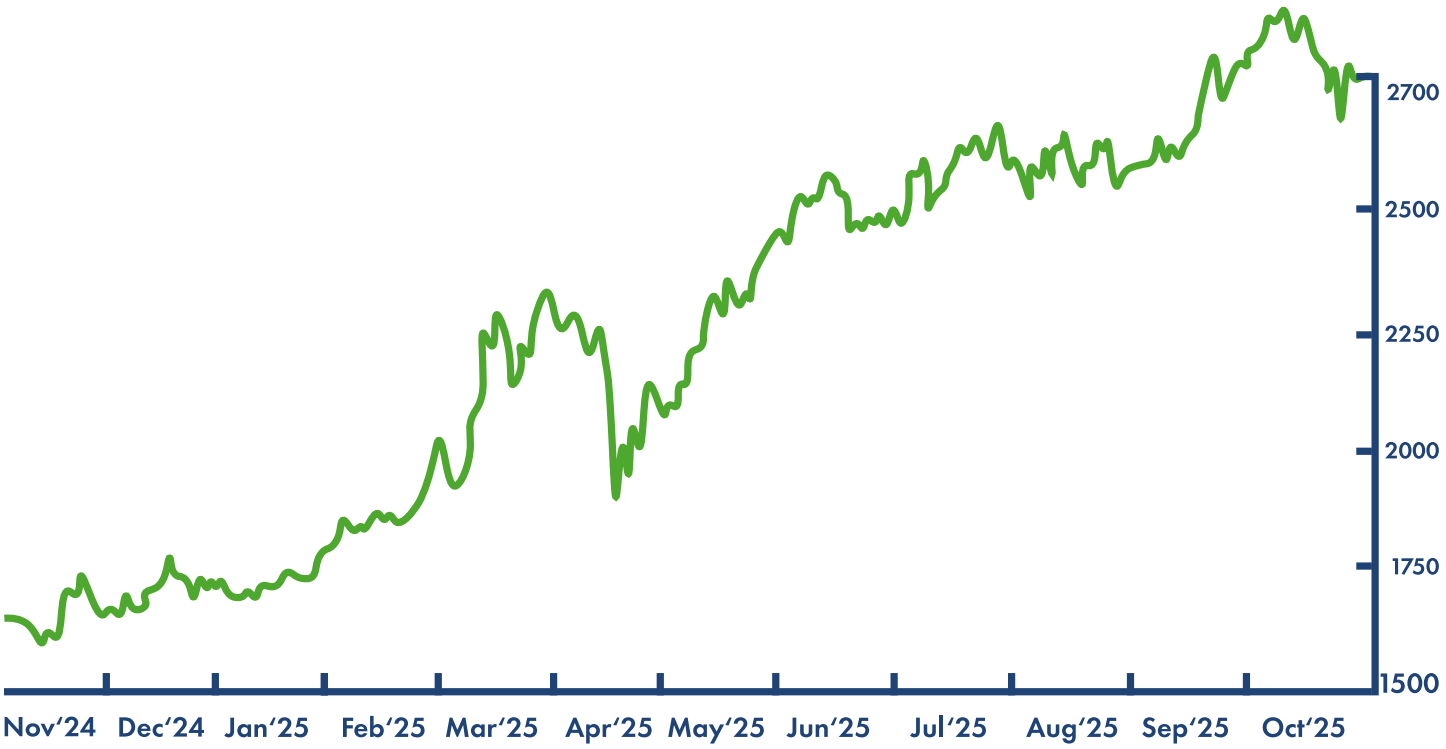
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1. Introduction

The policies of Donald Trump's second term have been radical both abroad and at home. His presidency has brought uncertainty and confusion to economic and political circles. The defence industry might however even benefit from the change the 47th President is bringing to the world. Trump's tariffs have fundamentally shaken the world's economic and trade order. The United States – the world's largest economy – has raised tariffs to a level not seen since the 1930s. Such high barriers to trade will hurt many American and non-American firms. Many companies will need to rethink their way of doing business and restructure their global operations. While it seems – at the time of writing – that most uncertainty is gone with the US signing new trade agreements with most major economies, the long term impact of these tariffs or whether they will remain is still unknown. Trump also shook up the US's diplomatic relationship with its allies and foes. He wants to reshape the US's relationship with NATO. The president's "America first" policy means that Europe needs to rethink its defence strategy as it cannot fully rely on America's help. This has led to a wave of announcements increasing defence spending in most European countries. European countries have drawn the conclusion from Trump's behaviour that they need to be more independent. European defence companies such as Rheinmetall, Leonardo, Rolls-Royce or Saab stand to benefit greatly from the instability caused by Donald Trump. Defence spending is set to rise in the coming years in Europe. Russia's threat is too important for European countries to ignore. Trump was able to institutionalize this increase in defence spending. In June 2025, NATO leaders agreed on a 3.5% + 1.5% increase in defence spending, where 3.5% of a country's GDP should be spent on the military with an additional 1.5% on infrastructure connected to defence. In Germany, the government has ended 15 years of fiscal restraint and is planning on spending considerable amounts of money in the coming years. They achieved this by partially exempting defence and infrastructure spending from the country's constitutional provision which limits federal debt at 60% of the GDP and deficit at 3%. This can be partially attributed to Trump's threat of tariffs, which Germany could greatly suffer from, as it has an export-driven economy. The United States will not see such a considerable rise in defence spending as Europe will. Despite these bullish news for the industry, there still remain considerable headwinds. Tariffs could mean disruptions to industrial supply chains - as most defence contractors have to source certain parts and commodities from overseas. For example, China is putting in place restrictions on rare-earth minerals which means a sharp increase in prices and sourcing problems. These rare earth minerals are found in many complex weapon systems. Secondly, most defence contractors still have considerable exposure to civilian industries - namely commercial aviation - such as Airbus, Boeing or Safran.

2. Trump has made Europe think about autonomy

European countries have already been increasing their military spending before the election of Trump, but his isolationist stance seems to have accelerated this process. The need to arm Ukraine and to deter any further Russian attack has been profitable to both European and American defence contractors. In fact, overall European defence contractors have seen their market valuation double from the start of the invasion of Ukraine to Trump's election. (STOXX, 2025, Europe Total Market Aerospace & Defense) Since last November, they have seen their valuation rise 80%. This can be explained by several reasons, which we will explore in the coming paragraphs. Trump has threatened NATO's decades-old structure, which puts an American umbrella under the continent. This has made European countries rethink their defence strategies, with many of them opting to continue further increasing their defence spending, to allow more independence in terms of defence from the American army. Even Europe's most well-equipped armies don't have comparable operational and technological capabilities without the US's help.



Stoxx Europe Total Market Aerospace & Defense Index since October 2024. The index is up 75% as compared to a year before as of the 5th November 2025, Source: STOXX, 2025

Therefore, the only way for deterrence is more spending. Trump has also criticised European countries' freeriding on American protection, even in his first term. Indeed, in 2017 only four countries (including the US) met NATO's 2% defence target. (NATO, 2023, Defence expenditure of NATO countries (2014-2023)) In 2025, every NATO country is set to meet this target. In 2025, in big part thanks to Trump's pressure, countries agreed to raise spending to 3,5% of GDP, with an additional 1,5% related infrastructure spending. NATO's GDP (excluding the US) is about 25 trillion dollars. This bump in spending could amount to at least 375 billion dollars in additional spending per year by 2035. To estimate how this might impact major contractors, at least 20% of NATO spending has to go into equipment and R&D, but overall, this spending seems to be hovering around 33%. (NATO, 2025, NATO's role in defence industry production) According to the French army, 80% of its spending on equipment goes to major corporations. (Ministry of Armed Forces (France), 2023, Le bulletin de l'observatoire économique de la défence) Assuming this constant rate for every NATO country, by 2035, major defence contractors in Europe (and Canada) could see a bump in revenue totalling 100 billion dollars per year. The 80 billion dollar increase in spending between 2024 and 205 could translate into roughly 15-20 billion dollars in additional revenue for defence contractors. Even without Trump, defence spending would have sharply risen in Europe in the coming years. However, his actions have reinforced the belief in many European countries that a greater independence in defence is necessary, which prompts an acceleration in defence spending. The EU proposed in March 2025, ReArm Europe, later renaming it Readiness 2030 to fund and coordinate defence initiatives in the European Union. The program aims to develop Pan-European defence initiatives such as air defence systems. It also plans to lend out 150 billion euros to EU countries for defence spending and exempt certain expenditures on the industry from the EU's excessive deficit rule. (IRIS, 2025, The ReArm Europe Plan: Squaring the Circle Between Integration and National Sovereignty). Trump has advocated for European countries to purchase American goods to close down the US's trade deficit. This includes him pushing certain countries to purchase American weapons. Some other countries might opt for this option to appease him. However, some countries have decided to purchase European-made weapons or develop a new equivalent to existing American weapon systems. As Trump has threatened weaker American involvement in NATO, many European countries have reacted by calling for greater strategic autonomy.

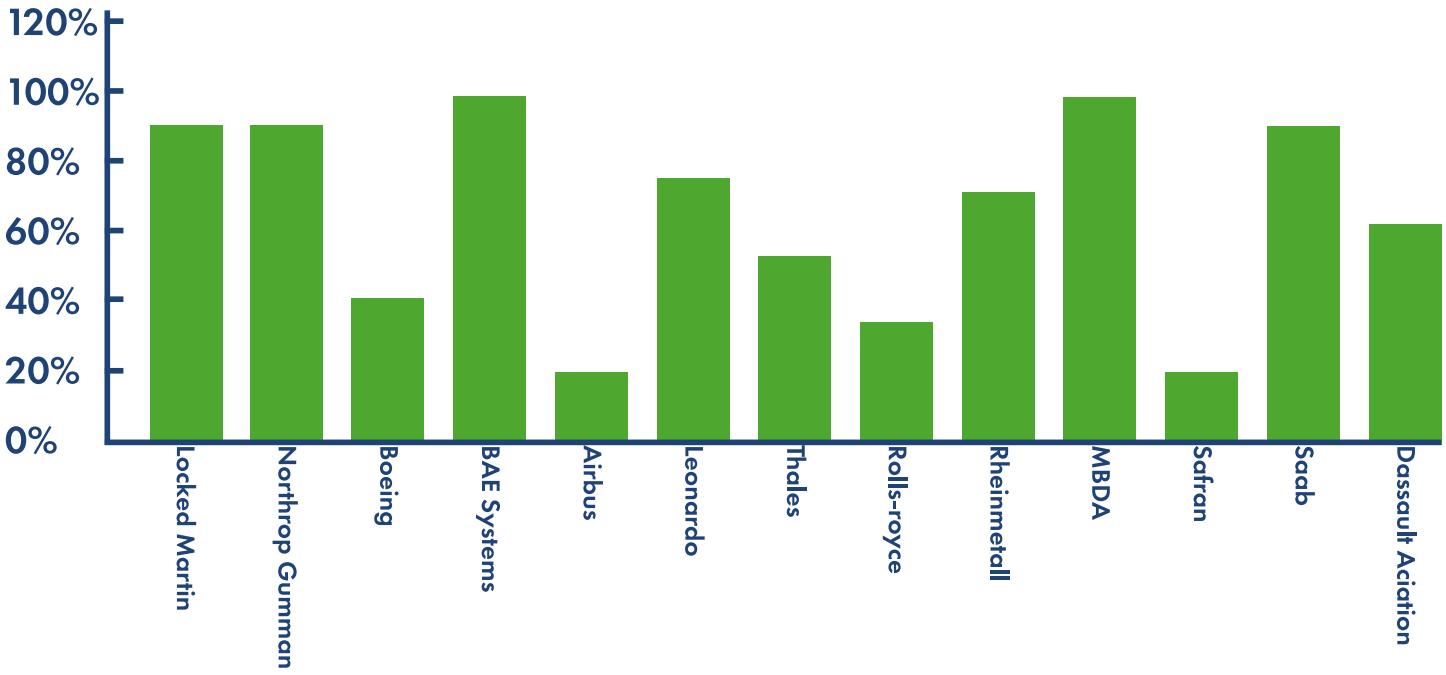
Germany, which announced its defence budget for 2026, has mostly sidelined American weapons from its 80 billion procurement budget by only buying 8% of materiel from the United States. This is a blow for US arms manufacturers, as Germany has bought 18 billion dollars' worth of American weapons. (Politico, 2025, Germany's 80B rearmament plan sidelines US weapons) Buying weapons from the US will probably not end with Germany's 2026 military budget, but it signals that many European countries would prefer supporting local manufacturers and use homegrown technologies.

3. Tariffs – Defence companies are better protected than other firms might be

Defence companies are mainly shielded from tariffs because of the nature and structure of their activities. Defence contractors mostly operate within one national economy or in Europe's case a highly integrated free-trade zone. The products are produced in their home country, and they mostly sell these products to their own national government. Exports by defence contractors require government approval or formal intergovernmental agreements on arms sales. Therefore, defence contractors are shielded from exposure to tariffs on their products. Tariffs could raise defence contractors' costs when using imported materials – primarily raw materials, such as steel, but also rare earth minerals. In the case of steel, the US has imposed a 50% tariff on steel. (PWC, 2025, Tax Insights: US tariffs on steel and aluminum imports from Canada) The EU, as per its agreement with the US, is not imposing any levy on American goods. However, the EU as of October 16th has raised tariffs on steel to pressure the United States. If such high tariffs were to be applied, European defence companies could face higher prices for steel, if they purchase steel derivatives from outside the EEA. The impact is however more dire when it comes to rare-earth minerals. As a direct response to American tariffs, Beijing has restricted the export of rare earth minerals. Up to 90% of rare-earth minerals come from China. (Mining.com, 2025, China limits supply of critical minerals to US defense sector: WSJ) (Reuters, 2025, China expands rare earth restrictions, targets defense and chip users) These restrictions, in the medium term – European countries and the US have already started developing alternatives to the Chinese supply chains – could disrupt defence contractors production as these elements are often necessary components of high-tech weapon systems, such as fighter aircraft or radars. In a decision made at the beginning of October 2025, the Chinese government has decided not to issue export licenses for defence manufacturers. (Reuters, 2025, China expands rare earth restrictions, targets defense and chip users) (The Economiste, 2025, China's power over rare earths is not as great as it seems) If these restrictions are kept up, defence contractors might suffer from component shortages or from much higher prices. The prices for these metals have so far risen by up to 60% in the last year. (Strategic metals invest, 2025, Current strategic metals prices) (Rare earths, 2025, Price Development of Selected Rare Earths) Defence contractors also have civilian branches which might be more exposed. In both Europe and the US, civilian aerospace is a very important industry. For the U.S., the industry accounts for about 130 billion dollars in exports and employs over 2 million people. (AIA, 2025, 2025 Facts & Figures: American Aerospace & Defense industry continues economic dominance) As we have detailed previously, the two industries go hand in hand, which explains why they are usually classified together. Both Boeing and Airbus, while mainly known for their civilian aircraft, have a sizable defence branch. Boeing gets about 35% of its revenues from defence. The uncertainty around trade and any possible economic trouble can hit the defence contracting businesses of these corporations, namely through higher financing costs. To prevent damages to the aerospace industry, they have been made exempt from any additional tariffs in the EU-US July trade agreements. (European Commission, 2025, EU-US trade deal explained)

A&D:
Companies in military/civil aviation, defense systems, and related tech

Revenue from defence contracts fo select A&D companies



Defence and non-defence-related revenues for select A&D firms (2023, million $)

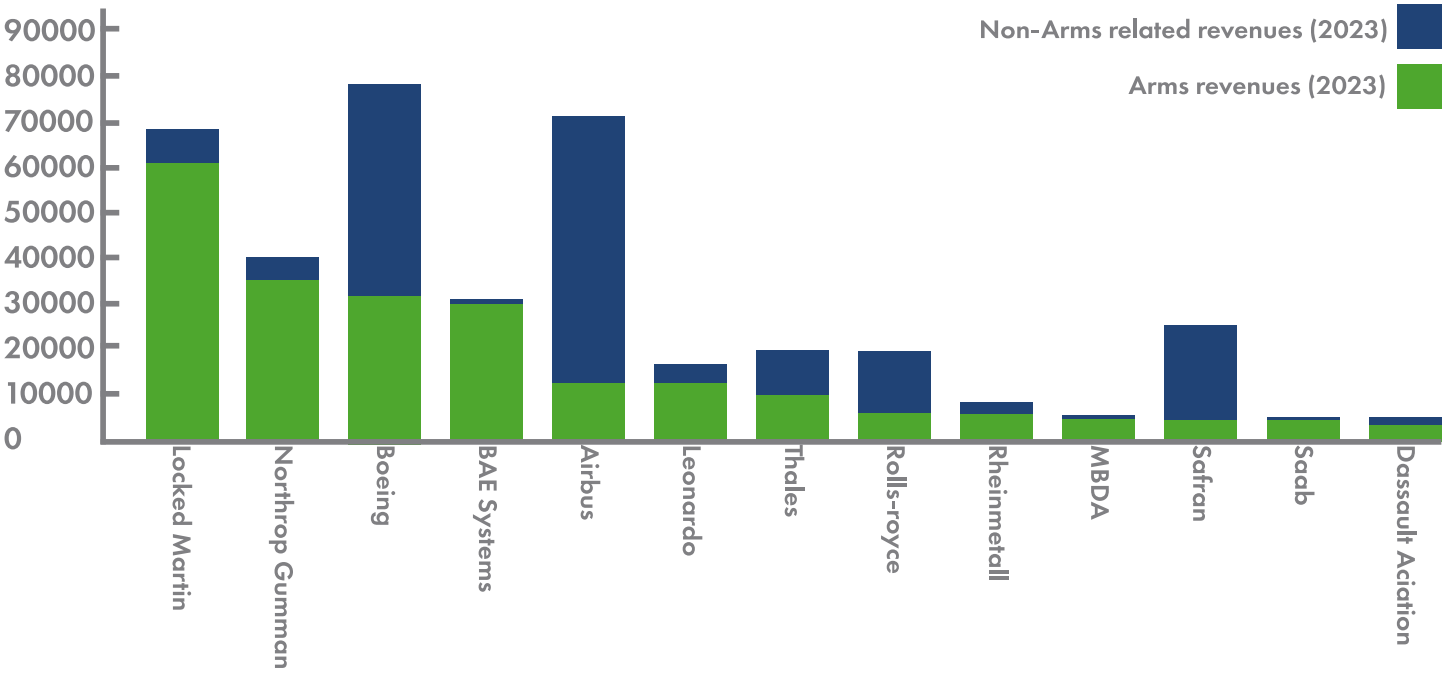


Figure 2: There is a great variety of diversification of revenues for the A&D sector, Source: SIPRI, 2023, SIPRI Arms Industry Database

4. Possible brakes to the sector

There seems to be a global tendency for rearmament, but as quickly as tensions have risen in the last few years, as quickly as they can fall. It seems unlikely that tensions will ease in the coming months or few years, but it is possible that there will be steps to ease tensions between countries. The end of the war in Ukraine might be such a possible event. When the US and Russia were conducting negotiations to explore a possible end to the conflict on the 18th of February 2025, European market indices tracking the Aerospace & Defence sector fell by as much as 5%, possibly due to heightened expectations that the conflict might end and with it, there would be a lower demand for weapon systems. (The Guardian, 2025, US and Russia agree to explore mutual opportunities of end to Ukraine war)

(STOXX, 2025, Europe Total Market Aerospace & Defense) The same tensions that have fuelled expectations and growth in the A&D sector could ultimately bring an end to this. Trump's budget for 2026 keeps the defence budget essentially flat (there is a 13% growth in total spending allocated to it, but this increase will go to border security). Overall, there will be a decrease in real terms in the Department of Defense's budget (possibly renamed to Department of War). This decision, if not dramatic for a year, might in the long-term hinder the DoD's abilities to invest into new materiel and R&D. (Forbes, 2025, President Trump decreased U.S. defense budgets, here's the real impact) (White House, 2025, Discretionary budget request 2026) There might not be much space left to extend defence spending in many cases. Both France and the United Kingdom – Europe's two most powerful militaries – have been suffering from considerable public deficits. France had a deficit last year of 5.5% of GDP and the UK 4.9%, Poland, one of Europe's biggest defence spenders, is at 6.7%. (The Economist, 2025, Economic and Financial Indicators) Neither France nor the UK have much wiggle room for decreasing spending while increasing military budgets at the same time, as they are meeting social opposition to any cuts and have not seen any considerable economic growth in the last few years, which is worsened even more by Trump's tariffs and the uncertainty they cause. Both have signed up for NATO's budget increase and have so far met their targets, but it is unsure if they will be able to keep up such spending without any social tensions at home. At the same time, Eurosceptic and anti-NATO parties have emerged in many European countries. These parties are either backed by Trump or his close allies (e.g. AFD in Germany) or draw inspiration from his isolationist policies. These parties, since they have appeared have lightened their rhetoric criticising their institutions – and some have even supported Ukraine, such as Giorgia Meloni in Italy. Most of these parties' rhetoric still opposes strong action in Ukraine and implicitly argue that defence spending should be spent elsewhere. These parties are very close to power in many countries, leading the polls in France, the UK or in Germany. Once in power, it is unclear how they will address the defence industry, but we can expect a weaker stance against Russia for example or a slowdown or even cuts for the military.

> **"Trump's policies boosted European defense and strategic autonomy"**

5. Conclusion

Without a doubt Trump has stirred up the global security landscape and with it the defence industry. This increased uncertainty has prompted European countries to reconsider their own security strategy and earn more independence in terms of security. The direct consequence of this is a considerable increase in defence spending, which has sent European defence stocks up. The industry will benefit both from material orders from many European countries and R&D agreements. This trend has been started by Russia's invasion of Ukraine and has been strongly accelerated by Trump's hostile stance to NATO and him sidelining Europe in negotiations with Russia. The defence industry will probably not be heavily affected by tariffs. It mostly works for local markets and therefore does not face tariffs when selling its products. The industry will still probably feel the uncertainties caused by tariffs and a strain in supply chains directly caused by Trump's trade feud with China, notably through Chinese export restrictions on some key components. The industry will therefore probably see considerable growth in the coming years.

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About the Article

Question: How do trade wars impact global economics, and how can states respond? Argument: Trade wars disrupt supply chains, raise prices, and weaken multilateral institutions; mitigation requires diversification, digital standards, and multilateral trust. Conclusion: States can reduce trade war risks through diversified trade, anti-coercion measures, tech agreements, and multilateral engagement

About the Author

Valentin Grangier is a French student of International Relations at Leiden University, currently on exchange at the University of Tokyo. Specialising in East Asia and the Indo-Pacific, he focuses on geopolitics, security, and regional dynamics, analysing power interplay, ASEAN's role, and shifting alliances. Passionate about Japan and proficient in intermediate Japanese, he blends constructivist, realist, liberal, and democratic perspectives to explore the region's political, economic, and security challenges.

1. The Context – Rise and Expansion of Trade Wars

The strategic use of tariffs as a diplomatic weapon is historically rooted in early conflicts like the Anglo-Dutch Wars and shaped legislative architecture from the 19th-century US Tariff Acts to the 20th-century Smoot-Hawley Tariff Act of 1930 (Wikipedia contributors, 2023). More recent escalations, including the 2018-2019 U.S. tariffs on steel, aluminium, and hundreds of billions of Chinese goods, represent a reassertion of economic nationalism within deep global economic interdependence (Amiti et al., 2019; Fajgelbaum et al., 2019). Today's trade conflict is defined by overlapping agreements such as the Regional Comprehensive Economic Partnership (RCEP), effective January 2022, covering ten ASEAN members plus Australia, China, Japan, New Zealand, and South Korea, aiming to remove tariffs on 90% of goods (Asian Development Bank, 2022; CEPII, 2024). Meanwhile, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), launched in 2018, binds members to high standards on labour, environment, and technology as a hedge against economic uncertainty (Medcalf, 2024).

Trade War:
Countries impose tariffs or barriers, prompting retaliation and global disruption

2. Economic and Social Costs – Inflation, Supply Chains, Retaliation

Inflationary Pressures and Domestic Costs

Extensive economic analysis has shown that tariffs imposed during the 2018-2020 US-China trade war were fully passed through to domestic prices, increasing costs for American consumers and firms without meaningful gains for producers (Amiti et al., 2019; Fajgelbaum et al., 2019). Tariffs have effectively acted as broad consumption taxes.

- Steel and Aluminium Tariffs: The Section 232 tariffs imposed 25% duties on steel and 10% on aluminium, resulting in a net loss of approximately 75,000 manufacturing jobs by 2019, contrary to projections of job preservation (Federal Reserve Board, 2019; Bown, 2019).

- Washing Machine Tariffs: US safeguard tariffs led to $1.5 billion in consumer price increases during the first year, with average costs exceeding $815,000 per job created, revealing their inefficiency (Investopedia, 2019; Kiel Institute, 2025).

Supply Chain Volatility – Global and Agricultural Case Studies

Disruptions to global supply chains were pronounced and often unexpected. For instance, China's retaliatory tariffs on US soybeans led to a 75% export decrease, necessitating $28 billion in emergency aid. Agricultural demand shifted towards Brazil, permanently altering trade relationships and triggering second-order inflation and resource misallocation effects (FAS USDA, 2019; Choices Magazine, 2019; SUERF, 2025). Advanced manufacturing sectors such as electronics, autos, and construction experienced higher input costs and retaliatory tariffs that delayed investments and reduced competitiveness (NBER, 2021; DeLuigi, Lechthaler, & Rumler, 2025).

3. International Spillover – Emerging Markets, Multilateral Institutions, and Macro Effects

According to the International Monetary Fund (2022), trade restrictions post-2018 caused cross-border price volatility, suppressed investment, and slowed productivity globally. The World Bank projects that a 10-point increase in US tariffs could reduce global GDP growth by 0.2-0.3 percentage points, disproportionately impacting emerging economies, which depend heavily on exports for development (IMF, 2022; IEJ Policy Brief, 2025). Emerging markets face currency fluctuations, reduced

investment, and fiscal pressures limiting economic advancement, particularly in Africa and Latin America (IEJ Policy Brief, 2025). However, the Indo-Pacific region sees active diversification strategies, with ASEAN utilising multiple free trade agreements to mitigate shocks (Asian Development Bank, 2022).

Institutional Fragmentation and Strategic Innovation

The weakening of global institutions such as the WTO and a shift towards bilateral and regional trade agreements have elevated the importance of pacts like RCEP and CPTPP (Asian Development Bank, 2022; Medcalf, 2024). Emerging digital trade agreements (e.g., DEPA, 2020) suggest new rule-making arenas involving data governance and technology standards, expanding beyond traditional tariff policy (CEPII, 2024). Meanwhile, reductions in US international aid paired with trade sanctions have amplified food insecurity, migration pressures, and health crises in partner countries, complicating multilateral cooperation (IEJ Policy Brief, 2025; SUERF, 2025).

> **"Trade wars raise domestic costs and drive supply chain diversification and digital trade"**

4 . Case Studies in Strategic Diversification and Retaliation

China-Australia Wine Tariffs

After Australia's advocacy for a COVID-19 investigation in 2021, China imposed tariffs up to 212% on Australian wine and additional tariffs on other commodities, disrupting exports and forcing Australian industries to seek alternative markets in India, Europe, and other free trade agreements (SUERF, 2025).

Africa's Bargaining Response

African countries have collectively sought greater trade bargaining power and new negotiation platforms in response to escalating US tariffs, reflecting strategic diversification to mitigate economic coercion (IEJ Policy Brief, 2025).

5. Policy Recommendations

To address the challenges posed by trade wars, policymakers should prioritise:

- Market Diversification and Strategic Resilience: Reduce exposure to coercive tariffs via diversified exports and institutionalize anti-coercion provisions in FTAs, emphasising flexibility (Asian Development Bank, 2022; Medcalf, 2024).
- Digital Trade and Technological Standards: Support digital trade frameworks, ensuring secure, fair data governance and access to emerging technologies (CEPII, 2024).
- Restoring Multilateral Trust: Reinforce WTO and international platforms for transparent negotiation and dispute resolution (IEJ Policy Brief, 2025).
- Balancing Security and Openness: Develop adaptive tariff policies harmonising national security with trade openness and managing inflation sensitivity (IMF, 2022; Bown, 2019).
- Defending Development Gains: Maintain robust international aid and mitigate trade war negative impacts on vulnerable economies (IEJ Policy Brief, 2025).

5. Conclusion

Modern trade wars illustrate that tariff escalation as an industrial or geopolitical strategy often inflicts greater economic costs at home, undermining global cooperation. Embracing diversification, digital innovation, multilateralism, and strategic economic-security linkages can enhance resilience amid international fragmentation (Medcalf, 2024; Asian Development Bank, 2022).

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Conclusion



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Valentin Grangier is a French student of International Relations at Leiden University, specialising in East Asia and the Indo-Pacific. Focused on geopolitics, security, and regional dynamics, he analyses power interplay, ASEAN's role, and shifting alliances. Passionate about Japan, with intermediate Japanese, he blends constructivist, realist, liberal, and democratic perspectives to explore the region's political, economic, and security challenges.

EPIS Report on International Economic Relations

The combined insights from the EPIS International Economic Relations report ensemble show that trade wars today are a lot more than just symbolic gestures of economic protectionism; they are a very potent geopolitical leverage tool that changes the structure of global value chains, supply relationships and the strategic considerations of not only big, but also small states. The group of papers has brought together different analytical perspectives and a wide array of empirical evidence, making several key issues and their ramifications particularly noticeable.

To start with, trade wars have a real economic impact on a society, contributing to the rise in prices of consumer goods, dislodging entire sectors of the economy, and inflating rates not only within the country but also in those interlinked markets. The local producers are far from winning their competition sustainably, since in reality tariffs are mostly a regressive tax and a major source of inefficiency, which even in most cases can cause more job losses than job creations in the targeted sectors. Industry examples like steel, aluminium, and consumer goods show that the initial gains are very quickly burned away by the losses from manufacturing, agriculture, and other sectors interlaced with supply chains. Secondly, the spillover is international, and it speaks deeply and persistently. The global agriculture has been dramatically changed owing to mutually imposed tariffs and redirected trade flows (e.g., the war on soybeans between the US and China), as well as the manufacturing hubs and the commodity markets have been affected, almost always with irreversible effects. New economies, which usually depend on high demand from the big markets, have suffered from financial turmoil; at the same time the mature economies have experienced slower growth and deterioration of wages and investments. Thirdly, local networks and global structures are challenged by the new age of economic conflicts. The heavily interwoven trade agreements of Indo-Pacific, the steadiness of ASEAN, and the spreading of the high-standard bilateral trade agreements such as the CPTPP are three features that together sketch the international scene as one of diversification, risk management, and large-scale institutional change. Nevertheless, in the present time, digital trade pacts and tech collaboration are becoming more and more crucial, thus pointing to the shift from the traditional competition model to the data-driven one in a new era. Fourthly, the implementation of economic policy for strategic coercion purposes, by the example of the case of China's tariffs on Australia and, progressively, the US tariffs, has proven to be the reason why trade wars very infrequently stay disengaged. They initiate the reshuffling of connections, foster defensive economic nationalism, and push governments to find new partners and devise anti-coercion measures. While at the same time cuts in international aid and development support, along with the imposition of protectionist measures, increase the exposure of low-income regions to various kinds of risks, including health, migration and social stability.

In the end, the EPIS reports and policy briefs highlight that dealing with the trade wars issue should be done through multilayered tactics: increasing market diversification and institutional resilience, using digital innovation and tech standards, bringing back trust into multilateral forums, and at the same time, security concerns should be balanced, and there should be commitment to open and inclusive global trade. Politicians will have to depend on adjustment, cooperation, and foresight to successfully navigate the international economic relations, which are transitioning into a new era with higher stakes and major consequences.

Trade wars are more than just protecting borders or domestic industries. These conflicts entail the reshaping of future global trade, governance, and diplomatic order, which, in turn, call for a thorough understanding, flexible leadership, and staying committed to long-term stability and prosperity


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