POLICY BRIEF

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Impact of Global Trade Tensions on Developing Countries: How to Respond to a Reset of the Global Economic System

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ABSTRACT

The recent unilateral, significant and broad-ranging tariff hikes by the new United States administration have triggered unprecedented trade tension in the world and led to significant downward revisions of the world's economic and trade growth projections for 2025 and beyond. The main aims of the U.S.' trade policies are complex and strategic, not only about reducing the trade and fiscal deficits, but also addressing the dollar overvaluation problem, "reconfigur(ing) the global trading and financial systems to America's benefit", promoting economic "fairness" and "making America great again". As what has frequently happened before, the poor countries are disproportionally affected by the negative repercussions of these policies, owing to their financial and capacity constraints and weaknesses to absorb the impact. This short paper analyses through which channels and to what degree trade tension would introduce economic, financial and political stability risks for developing countries, particularly in financially distressed developing countries. A few policy recommendations are also briefly mentioned.

KEYWORDS: *Global trade, Global economic system, Tariffs, United States, South-South trade*

Les récentes hausses tarifaires unilatérales, significatives et de grande ampleur de la nouvelle administration américaine ont déclenché des tensions commerciales sans précédent dans le monde et conduit à des révisions significatives à la baisse des projections de croissance de l'économie et du commerce mondial pour 2025 et au-delà. Les principaux objectifs de la politique commerciale des États-Unis sont complexes et stratégiques : il ne s'agit pas seulement de réduire les déficits commerciaux et budgétaires, mais aussi de résoudre le problème de la surévaluation du dollar, de « reconfigurer les systèmes commerciaux et financiers mondiaux au profit de l'Amérique », de promouvoir l'« équité » économique et de « rendre sa grandeur à l'Amérique ». Comme cela s'est souvent produit auparavant, les pays pauvres sont touchés de manière disproportionnée par les répercussions négatives de ces politiques, en raison de leurs contraintes et faiblesses financières et de leurs capacités à en absorber l'impact. Ce bref document analyse par quels canaux et dans quelle mesure les tensions commerciales introduiraient des risques économiques, financiers et de stabilité politique pour les pays en développement, en particulier pour les pays en développement en difficulté financière. Quelques recommandations sur politiques sont également brièvement mentionnées.

MOTS-CLÉS: *Commerce mondial, Système économique mondial, Tarifs, États-Unis, Commerce Sud-Sud*

KEY MESSAGES

- The poor countries are disproportionally affected by the negative repercussions of the U.S. tariff hikes owing to their financial and capacity constraints including narrow export bases and limited fiscal buffers.
- The main aims of the comprehensive U.S. strategy are to reduce trade deficits, address the dollar overvaluation problem, promote economic "fairness" and to "make America great again".
- The combination of reduced export revenues, higher borrowing costs, weakening domestic currencies, and economic slowdowns have raised concerns about the debt sustainability of some developing nations.
- The U.S. market absorbs about 15% of the Emerging Market Developing Economies' exports, while South-South trade occupies 43% of their exports. Developing countries need to diversify their trading partners and reduce reliance on the U.S. market.

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Las recientes subidas arancelarias unilaterales, significativas y de amplio alcance de la nueva Administración estadounidense han desencadenado una tensión comercial sin precedentes en el mundo y han provocado importantes revisiones a la baja de las previsiones de crecimiento económico y comercial mundial para 2025 y años posteriores. Los principales objetivos de las políticas comerciales de Estados Unidos son complejos y estratégicos, y no sólo consisten en reducir los déficits comercial y fiscal, sino también en abordar el problema de la sobrevaloración del dólar, «reconfigurar(ar) los sistemas comerciales y financieros mundiales en beneficio de Estados Unidos», promover la «equidad» económica y «volver a hacer grande a Estados Unidos». Como ya ha ocurrido con frecuencia, los países pobres se ven desproporcionadamente afectados por las repercusiones negativas de estas políticas, debido a sus limitaciones y debilidades financieras y de capacidad para absorber el impacto. Este breve documento analiza a través de qué canales y en qué medida la tensión comercial introduciría riesgos económicos, financieros y de estabilidad política para los países en desarrollo, especialmente en los países en desarrollo con dificultades financieras. También se mencionan brevemente algunas recomendaciones de políticas.

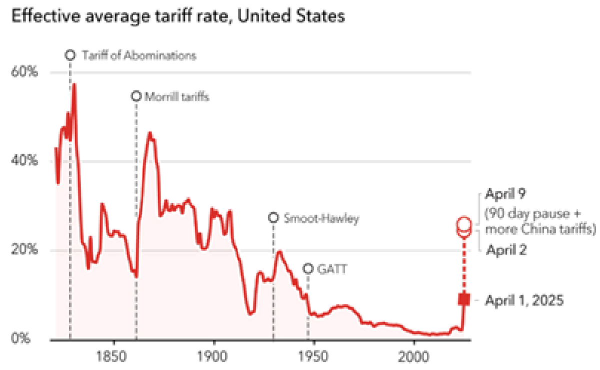
PALABRAS CLAVES: *Comercio mundial, Sistema económico mundial, Aranceles, Estados Unidos, Comercio Sur-Sur*

Introduction

After almost 80 years of global efforts to lower tariff and non-tariff international trade barriers under an open, rules-based, though somewhat biased, multilateral trading system since World War II, the new United States administration has enacted a series of unilateral, significant and broad-ranging tariff hikes affecting almost all countries in the world. Between January and April 2025, the average effective U.S. tariff rate rose from 2.5% to an estimated 27% - the highest level in over a century (see **Figure 1**). The hardest punitive tariffs were imposed on China, with the baseline tariffs on Chinese imports being raised to 145%, before the Sino-U.S. 90-day tariff truce in May[1]. Notably, quite a number of poor countries are also targets of high "reciprocal" tariffs, with Lesotho facing 50%, Cambodia 49% and Bangladesh 37%. Although China has been the primary target of the tariff escalation, the impact on small, commodity-dependent and vulnerable developing countries may be more destabilising in relative terms, particularly due to limited fiscal buffers, narrow export bases, and reduced policy space to mitigate external shocks. The strong waves of uncertainty and unpredictability of trade tension sent throughout the world have shaken the international financial markets and the world economy as a whole.

1 Leahy *et al.*, "China and US agree to slash tariff", *Financial Times*, 12 May 2025. Available from https://www.ft.com/content/92887b83-1b99-4d69-ba70-6bc812e23dbe.

Figure 1. Effective average tariff rates, United States



Source: IMF, World Economic Outlook, April 2025

The unilateral tariff hikes by the current U.S. administration are a continuation of the previous two presidencies' trade policies. They mirror to a large extent the perception of the dollar, tariff hikes and voluntary export restraints that the U.S. had imposed on Japan in the 1970s and 1980s. However, this time is different, not only because the trade measures are in greater intensity and wider coverage, but also and most importantly, there are systemic changes and strategic ambitions, as stated by Stephen Miran, the White House Chair of the Council of Economic Advisers, to *"reconfigure the global trading and financial systems to America's benefit."*[2] Indeed as stated by the International Monetary Fund (IMF), they tantamount to a "reset of the global economic system".[3]

1. Aims of the U.S. unilateral trade measures

Why has the U.S. administration triggered unilateral tariff hikes? Stephen Miran in his paper "A User's Guide to Restructuring the Global Trading System" outlined the core concepts which have been instrumental in shaping the administration's trade policies and led to the proposal for a so-called "Mar-a-Lago Accord" advocating for a restructured global trading system that addresses the overvaluation of the U.S. dollar and trade imbalances through leveraging unilateral tariff hikes on trading partners. The main aims of the comprehensive strategy are to reduce trade deficits, address the dollar overvaluation problem, promote economic "fairness" and to "make America great again". These would be achieved through:

A. Reducing trade deficit and generating revenue: Tariffs make imports more expensive and less competitive, potentially boosting American domestic production and reducing the outflow of dollars. Tariffs are also expected to increase revenue for the U.S. Treasury. With the strategic im-

2 Stephan Miran, "A User's Guide to Restructuring the Global Trading System", November 2024, p. 38. Available from https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf.
3 International Monetary Fund, *World Economic Outlook* (April 2025). Available from https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025.

position of tariffs, the government is expected to generate significant amount of revenue. Excluding foreign retaliation but incorporating the revenue feedback from the negative macroeconomic effects, the Tax Foundation estimates that revenue gains over the 10-year budget window could be $1.7 trillion from the 10 percent tariff, $2.2 trillion from the 15 percent tariff, and $2.6 trillion from the 20 percent tariff.[4]

B. Enhancing intellectual property (IP) rights: By using tariffs as a bargaining tool, the U.S. administration aims to strengthen copyright and patent laws in other jurisdictions, including by linking tariff reductions to IP reforms and improving IP protection standards, for example by enforcing penalties for IP violations. This is an important aspect aiming at China and a few trading partners.

C. Strengthening national security: By aligning trade policies with U.S. national security objectives, tariffs would facilitate to ensure that local industries including steel, aluminum and semiconductors, remain under U.S. leadership and control through shielding U.S. firms from foreign competition, thus expanding their capacity and leading to more exports and strong control of the global market. Tariffs as well as tariff induced negotiations would encourage and pressure U.S. enterprises in tariff-targeted countries to "reshore" or relocate production back to the U.S. to expand critical, strategic investments in the U.S., thus increasing investments in the U.S. and reducing dependence on foreign countries.

D. Creating jobs: Tariffs would discourage imports, protect key industries and incentivize domestic production, thus sparking a resurgence in U.S. manufacturing jobs, particularly in industries that are vital to national economic health.

E. Maintaining dollar's centrality and dominance: John Connally, former U.S. treasury secretary, said that *"the dollar is our currency, but it's your problem."*[5] Leveraging tariff negotiation, trading partners would be pressured to pump up their currencies and help weaken the U.S. dollar so as to make goods produced in America more competitive and boost America's manufacturing industry. Therefore, tariffs are part of a broader push (e.g., the Mar-a-Lago Accord proposal) to realign currency values, making U.S. exports cheaper abroad, yet without losing or weakening the international reserve currency position of the U.S. Dollar.

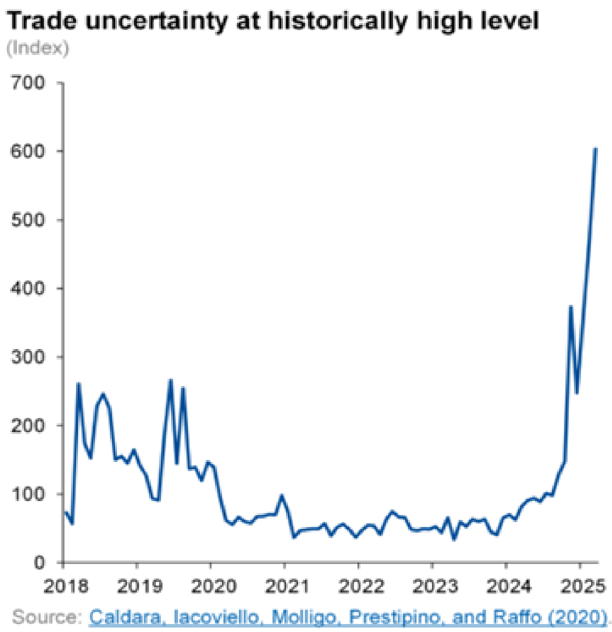
Obviously, the tariff hikes are not just for correcting structural imbalances, or to recalibrate global trade. The strategic aims and economics behind the current U.S. tariff policy involve a mix of protectionism, revenue generation, strategic trade policy, weakening the U.S. dollar, and geopolitical considerations. The U.S. aims to simultaneously address its trade and fiscal deficits, by cutting imports and raising revenue with higher tariffs. Meanwhile, the U.S. dollar's reserve currency status and dominance in the international financial system would be strengthened despite the persisting twin deficits, as well as policy uncertainties. The expectations of tariff hikes are high and complex, aiming at "making America great again".

2. What are the economic and social impacts on developing countries?

Naturally, all countries have their own sovereign right to formulate their own trade and economic policies in the way that best serves their national interest and development goals, yet should also abide by the rules they have agreed to respect under international agreements. However, the rapid rise in tariffs by the world's largest economy will not only affect the U.S. and its trading partners but also the entire global trading and financial systems. In view of the magnitude and breadth of the U.S. tariff hikes, international financial and economic institutions are concerned with the resultant significant economic and financial uncertainty and volatility (see **Figure 2**). As frequently, poor countries are disproportionally affected by the negative repercussions of policies by major economies owing to their financial and capacity constraints and weaknesses to absorb the impact, attention has been given through which channels and to what degree trade tension would introduce economic, financial and political stability risks for developing countries, particularly in financially distressed developing countries.

Figure 2. World hit by trade and uncertainty shocks

(Attributable to the IMF World Economic Outlook, April 2025)



The negative externalities would have significant impact on developing countries' economic prospects. Uncertainty, in particular, negatively influences major economic decisions and outlook as it is difficult to foresee what will happen next and when it would end.

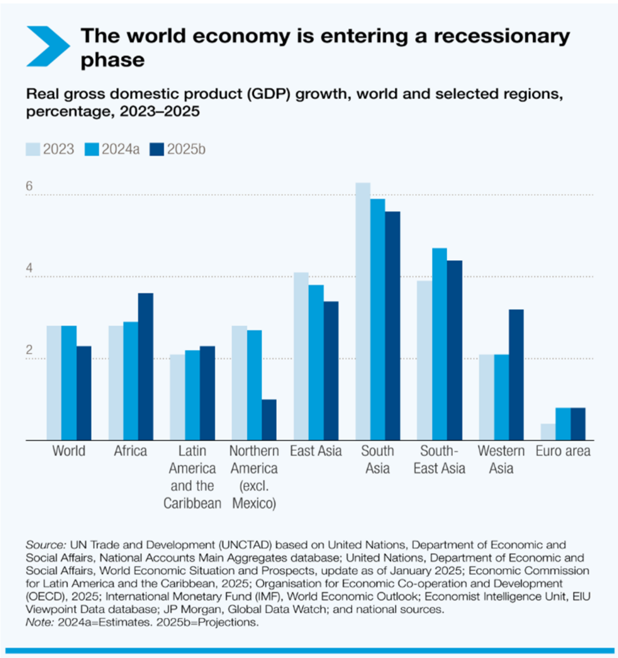
As a result, all major international organizations have had a significant downward revision for those countries' economic and

4 Erica York, Alex Durante, "How Much Revenue Can Tariffs Really Raise for the Federal Government?", Tax Foundation, 10 April 2025. Available from https://taxfoundation.org/research/all/federal/universal-tariff-revenue-estimates/.

5 "America's strengthening dollar will rattle the rest of the world", *The Economist*, 10 November 2024. Available from https://www.economist.com/finance-and-economics/2024/11/10/americas-strengthening-dollar-will-rattle-the-rest-of-the-world.

trade growth projections for 2025 and beyond. The IMF is projecting that global trade growth will decline to 1.7% in 2025, a significant dip compared to the 3.8% growth in 2024. This decline is more pronounced than the overall global economic growth, which is expected to slow to 2.8% in 2025[6]. The IMF has attributed the slowdown to factors like trade policy uncertainties, particularly from the U.S. tariff hikes, which are expected to impact global trade flows. The IMF's World Economic Outlook includes a "reference forecast," which reflects policy announcements by the U.S. and trading partners up to April 4, including the April 2 tariffs and initial responses[7]. At the country level, because of the sizable impact of the U.S. tariff hikes, the IMF has downgraded its gross domestic product (GDP) growth forecasts for 127 countries that account for 86 percent of global GDP[8]. Many emerging market economies could face significant slowdowns depending on where tariffs settle. The World Trade Organization (WTO) has warned that global merchandise trade is expected to decline by 0.2% in 2025 with developing countries bearing a significant portion of this decline. Should trade tensions escalate, the decline could reach 1.5%.[9] The United Nations Trade and Development (UNCTAD), moreover, has pointed out that the world is entering a recessionary phase (see **Figure 3**).

Figure 3. The world economy is entering a recessionary phase
(Attributable to UNCTAD)



6 IMF Press Briefing Transcript: World Economic Outlook, Spring Meetings 2025, 22 April 2025. Available from https://www.imf.org/en/News/Articles/2025/04/22/tr-04222025-weo-press-briefing.
7 IMF, *World Economic Outlook* (April 2025).
8 Gita Gopinath, "Steering through the Fog: The Art and Science of Monetary Policy in Emerging Markets", IMF, 7 May 2025. Available from https://www.imf.org/en/News/Articles/2025/05/07/sp050725-science-of-monetary-policy-in-emerging-markets-gita-gopinath.
9 Don Rodney Junio, "WTO sounds alarm on trade risks as 2025 outlook weakens, and other international trade stories to know this month", World Economic Forum, 24 April 2025. Available from https://www.weforum.org/stories/2025/04/global-trade-decline-2025-international-trade-stories-this-month/.

The following are some of the likely impact of the global trade tension on developing countries:

A. Reducing export earnings and government revenue for developing countries: Developing countries, despite variations among countries, often rely significantly on export earnings as a source of government revenue and as a channel for getting badly needed foreign exchange to pay for much needed imports and for servicing their external debts. It is especially so for commodity exporting countries. According to the latest data from the World Bank database, least developed countries' (LDCs) natural resource rents as percentage of GDP were about 15% and declining till 2020, but saw an increase in 2021 to 8.2%.[10] For some LDCs, trade taxes are one of the largest source of domestic revenue, amounting to 17.2% of government revenue, but for some LDCs, it is the biggest part of their government revenues.[11]

For countries being levied "reciprocal" tariffs by the U.S., their loss of export revenues would be direct, if the tariffs would remain after the 90-day pause initiated by President Trump. It is obvious that tariff hikes are mostly a negative demand shock which will discourage buying developing countries' exports.

The secondary effect on trade, via shrinking trade volume and slower GDP growth would also be significant. Countries that rely on exporting raw materials, intermediate goods, or finished products to the U.S. or other countries targeted by U.S. tariffs may see demand contract for commodities and other exports. Taking into consideration that quite a number of developing countries are still commodity dependent, reduced commodity prices in response to lower demand resulting from a global recessionary phase would reduce their export earnings by a wide margin.

B. Increasing debt burden: First of all, as noted, trade tensions would reduce export earnings in hard currencies which are vital for servicing external debt of developing countries. Considering that much of their external debt is denominated in U.S. dollars, declining export revenues would drive them to borrow even more externally. At a time of economic volatility and trade uncertainty, borrowing cost would be increasing owing to risk perceptions of the debtor countries in addition to the tightening of financial markets via interest rate hikes because of global economic slowdown and uncertainties. The combination of reduced revenues, higher borrowing costs, weakening domestic currencies, and economic slowdowns have raised concerns about the debt sustainability of some developing nations. According to the World Bank, more than a half of low-income countries — 38 out of a total 69 — are currently in debt distress or at high risk of debt distress[12].

10 See https://data.worldbank.org/indicator/NY.GDP.TOTL.RT.ZS?locations=XL.
11 United Nations Trade and Development (UNCTAD), *Crisis-resilient Development Finance, Least Developed Countries Report 2023* (3 November 2023), p. 18. Available from https://unctad.org/system/files/official-document/ldc2023_en.pdf.
12 World Bank, Latest Publicly Available Debt Sustainability Analyses Under the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries (LIC-DSF). Available from https://www.worldbank.org/en/programs/debt-toolkit/dsa (accessed 19 May 2025).

C. Triggering currency depreciation: Currency depreciation has repeatedly happened in Asian and Latin American countries during the past trade tensions, leading to economic and financial crises[13]. Currently, some developing countries have seen their currencies weaken in response to reduced export demand and investor uncertainty stemming from U.S. tariffs. The IMF Global Financial Stability Report launched in April 2025 has highlighted that emerging economies' currencies have depreciated by 4–7% on average due to key U.S. tariff announcements. One consequence of a fall in the exchange rate is the potential impact on foreign debt. If a country has a significant amount of foreign currency-denominated debt, a depreciation of its currency can increase the burden of debt repayment, as more units of the domestic currency are needed to service the debt. This was a major issue during the Latin American Debt Crisis in the 1980s, when countries like Mexico and Argentina faced difficulties in servicing their dollar-denominated debt as their currencies depreciated.

D. Leading to credit downgrades: The uncertainty and reduced investor confidence stemming from trade tensions would lead to, as noted above, higher risk premiums for developing countries and drops in their credit ratings. Several developing countries have already experienced credit rating downgrades following the recent U.S. tariff hikes. While not all downgrades are directly attributed to the tariffs, the broader economic impact of these trade measures has contributed to heightened risks and negative outlooks for many emerging markets. In April 2025, Fitch Ratings downgraded China's long-term sovereign debt from A+ to A over concerns about weaker public finances and the impact of higher tariffs on Chinese exports[14]. For sub-Saharan African banks, Moody's issued a warning highlighting the possible slowdown on commodity exports owing to the U.S. tariffs[15]. Recently, Moody's has downgraded Cambodia's economic outlook to negative, citing risks from the U.S. tariffs.[16]

With credit rating downgrades, warnings and general increased risk perceptions, investors would demand higher yields on sovereign bonds, making it more expensive for these nations to finance their development and their debts.

E. Causing capital outflows: Higher U.S. import tariffs and softening expectations for global growth have spooked foreign investors, leading to significant capital outflows from emerging markets. These outflows are attributed to investors' concerns over the impact of tariffs on global trade dynamics and the economic stability of emerging economies. Countries like Malaysia, Thailand, and Indonesia have experienced portfolio outflows during tariff escalation phases due to trade exposure and supply chain disruptions[17]. The IMF 2025 World Economic Outlook has warned that shifting policies, such as the implementation of sweeping U.S. tariffs, could lead to abrupt tightening of global financial conditions and capital outflows, particularly impacting emerging markets. The IMF Global Financial Stability Report of April 2025 indicated that emerging markets saw $45 billion in capital outflows in Q4 2024, attributed largely to policy-driven trade shocks including U.S. tariff expansions. The World Bank's Global Economic Prospects of January 2025 cited that the imposition of U.S. tariffs reduced portfolio inflows to developing countries by up to 30 percent in affected quarters.

F. Resulting in job losses in key sectors: Tariff hikes can lead to job losses in developing countries, especially when those countries rely heavily on exports and labor intensive sectors like textiles and assembling of intermediary products. With higher tariffs, those goods become more expensive in foreign markets, thus reducing exports. As a result, export-oriented sectors—like textiles, electronics, agriculture, and manufacturing— can see falling orders and production cuts, which lead to layoffs. Many developing countries are part of global supply chains across sectors. Tariffs on components or final products disrupt the flow, reducing factory utilization and demand for labor. Moody's Analytics has estimated that a recession triggered by tariffs could result in a 2% reduction in GDP and an increase in unemployment to 7.5%[18].

G. Increasing inequality: Tariffs are often considered as a regressive tax because, like regressive taxes, they disproportionately affect lower-income countries, individuals and households. Tariffs are inflationary as they lead to higher consumer prices since importers and retailers often pass the cost onto consumers. Lower-income households spend a larger share of their income on basic needs like food, clothing, and household goods, many of which are imported. So, tariffs eat up a greater portion of their budget than that of wealthier consumers. While wealthier households can often switch to domestic or higher-quality alternatives when tariffs raise prices of imported goods, low-income consumers have fewer choices, so they're more directly impacted by the price increases. As imports and exports more often than not contain various degrees of intermediary goods, tariffs can lead to higher input costs, which businesses pass on to consumers. Therefore, the overall cost of living rises, squeezing low-income families the most. In addition, unlike income taxes (which may have progressive rates or deductions), tariffs offer no tax relief or exemptions for poor households. As a result, tariffs would increase inequality within and among countries.

13 Lukas Boer and Malte Rieth, "The Macroeconomic Consequences of Import Tariffs and Trade Barriers", IMF Working Paper 24/13, January 2024; Pablo Fajgelbaum and Amit Khandelwal, "The Economic Impacts of the US-China Trade War", NBER Working Paper 29315 (2021).

14 Arjun Neil Alim and Cheng Leng, "Fitch downgrades China's sovereign debt over spending and tariffs", *Financial Times*, 3 April 2025. Available from https://www.ft.com/content/cdba81e5-0a28-40f6-a13f-f87850fe0f01.

15 Rae Wee, Karin Strohecker and Libby George, "Emerging economies brace for Trump tariff 'turning point'", *Reuters*, 5 April 2025. Available from https://www.reuters.com/markets/emerging-economies-brace-trump-tariff-turning-point-2025-04-03/.

16 "Cambodia holds trade talks with U.S. as 49% tariff weighs on outlook", *Reuters*, 15 May 2025. Available from https://www.reuters.com/world/asia-pacific/cambodia-holds-trade-talks-with-us-49-tariff-weighs-outlook-2025-05-15/.

17 Emerging Markets Chart Pack, Capital Economics, 28 April 2025. Available from https://www.capitaleconomics.com/publications/emerging-markets-economics-chart-pack/emerging-markets-chart-pack-apr-2025.

18 Jack Kelly, "Trump's High-Stakes Tariff Gamble Created A Jobs And Economy Crisis", *Forbes*, 7 April 2025.

H. More compromises from tariff relief negotiations with the U.S.: Facing the economic strain of drastically elevated U.S. tariffs, some countries have tried and others will also try to negotiate with the U.S. Administration to get tariff relief. In doing so, these nations may have to offer important trade, economic and policy compromises to secure reductions of tariffs. These may include market access for U.S. exports, direct investment in the U.S., and access to critical mineral exploitation or exports. If a reduction in tariffs is agreed upon with the U.S., the new tariff level would benefit all WTO members and not only the U.S. as a result of the most favoured nation treatment, one of the pillars of the General Agreement on Tariffs and Trade (GATT)/WTO system. Currently, the U.S. administration is adopting a more transactional approach, encouraging countries to offer unique concessions beyond traditional trade terms, including collaborations on artificial intelligence and technology, more purchase of U.S. products, or commitments to combat global drug trafficking. This strategy aims to leverage the U.S.'s strong negotiating position to secure not only broader trade concessions but gain economic and other advantages beyond trade.

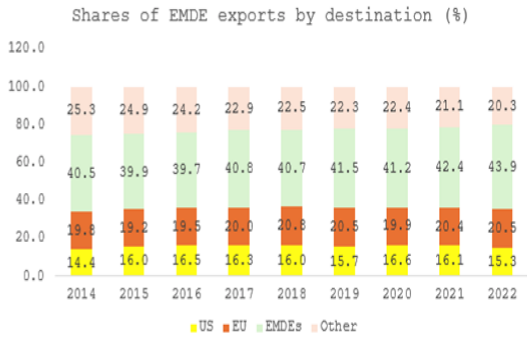
3. Policy options in times of uncertainties

The world is in a transitional period as the global economic landscape, the multilateral institutional set up and the balance of power are shifting. The United States has been engaging in introducing fundamental systemic changes to the global order. There is certainly no one-size-fits-all policy recommendations for developing countries as the picture is still not clear.
Some possible responses include the following:

Prudent monetary policies: On monetary policies, the IMF recommends emerging market central banks to respond forcefully to upside inflation risks to ward off the return of inflation and also recommends countries to introduce foreign exchange intervention prudently, as well as to build financial and fiscal resilience.[19]

Enhance South-South trade and diversify trading partners: To safeguard their economies and reduce vulnerability, countries need to diversify their trading partners and reduce reliance on the U.S. market. This would contribute to correcting the persistent imbalance in international trade and the narrowing of the U.S. trade deficit. A close look at the trend of international trade reveals that rebalancing of the international trade has already made some progress and the U.S. is much less important in driving world trade than it was in the decade leading up to the Global Financial Crisis of 2007-08. As Chandrasekhar and Ghosh have pointed out, the U.S. market absorbs about 15% of the Emerging Market Developing Economies' (EMDE) exports, while South-South trade occupies 43% of their exports (see **Figure 4**), thus pointing out that South-South trade has great potential.[20] Naturally, it would be important for developing countries to leverage regional trade blocs for promoting regional integration and regional trade.

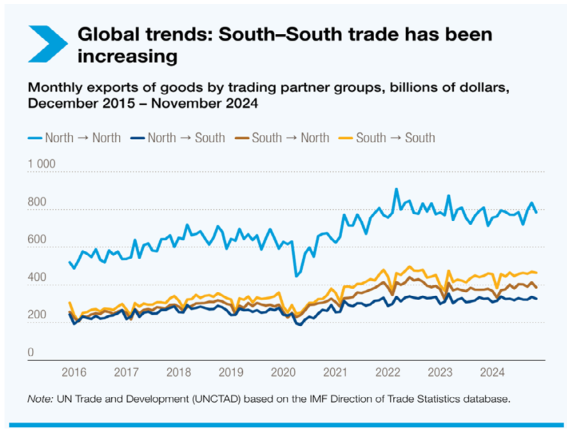
Figure 4. South-South Trade has great potential



Source: Chandrasekhar and Ghosh, 2025

The UNCTAD graph below also shows that South-South trade has increased faster than North-South trade (see **Figure 5**).

Figure 5. South-South Trade has been increasing



Source: UNCTAD

Balancing of long term and short term gains: While it may be necessary to conduct tariff relief negotiations aiming at getting short-term relief from unilateral tariffs, long-term economic and geopolitical gains should be part of the equation. The pressure to make significant compromises underscores the challenges these countries may face in navigating complex international trade dynamics. After all, tariffs are being used as a bargaining tool for "a reset of the global economic system". Some concessions in bilateral agreements may have sunset clauses and review mechanisms which could help countries adapt their positions to future developments and maintain reciprocity and balance.

Shocks and crisis can also be an opportunity to introduce reform and change: Commodity dependent countries could make use of this opportunity to design policies and strategies to move up the value chain.

Prepare for a long-haul battle to reduce tariffs: For major trading partners, the tariff hikes are covering a much broader spectrum and diverse concerns, Therefore, for them, tariffs, once imposed, are rarely rolled back quickly and fully. Increasing tariffs

19 Gita Gopinath, "Steering through the Fog".
20 C.P. Chandrasekhar and Jayati Ghosh, "Who's Afraid of Trump's Tariffs?", IDEAs, 1 April 2025. Available from https://www.networkideas.org/featured-articles/2025/04/whos-afraid-of-trumps-tariffs/.

can be done within a day but reducing tariffs is a slow, complex and uncertain process. First of all, there are domestic political inertia and pressures in the U.S. as tariffs are politically popular right now for some constituencies. Secondly, negotiations are complex and technical, especially when the U.S. demands for concessions beyond trade. Thirdly, rolling back tariffs would require coordination between different government agencies even though the enacting was through a presidential order under the International Emergency Economic Powers Act, citing a national emergency due to the U.S. trade deficit.

Historically, the rollback of Voluntary Export Restraints on Japanese cars was a gradual and phased process that took about a decade, marked by political caution and economic transition.

The escalation in U.S.–China tariffs which started in mid-2018 only had some de-escalation in 2020. However, much of the tariffs remain up to now. It shows that when tied to strategic and geopolitical considerations, tariffs can become semi-permanent fixtures.

In summary, for major trading partners of the U.S., especially those with high trade surpluses with the U.S., it is critical for them to craft a long-term response strategy and not rely on the expectations that the "reciprocal" tariffs can be removed quickly through negotiations and life will return to normal. For some other developing countries with significant trade exposure, though not a huge trade partner of the U.S. yet the size of trade with the U.S. constitutes an important weight on the national economy, engaging in bilateral negotiations is seen as a pragmatic and urgent step to manage economic risks and maintain access to a key market. Under the current situation, the uncertainty is immense as many factors could influence the outcome of the negotiations.

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Education & Learning and the Global Digital Compact by Kishore Singh

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