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POLICY BRIEF

GLOBAL IMPLICATIONS OF THE TARIFF WAR: A FOCUS ON THE NEW SOUTH

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When President Donald Trump gave his State of the Union address to a joint session of the United States Congress on March 4, 2025, many of his announced tariffs went into effect. These included a 25% levy on most goods imports from Canada (10% on oil and gas) and Mexico (though Trump subsequently exempted Canadian and Mexican imports that satisfy USMCA rules of origin requirements); and 20% (doubling the 10% implemented in February) on all imports from China. A 25% tariff has been imposed on all imported steel and aluminum; this could be raised to 50% on Canada's metals as President Trump has threatened. He also planned a 200% tariff on champagne and European Union spirits in response to the EU reinstating an import tax on American whiskey. Another wave of tariffs is set to be applied in early April, including sector-specific tariffs (especially on automobiles) and reciprocal levies (on countries with national sales taxes or value added taxes—implemented in Europe and many other countries). Trump has repeatedly threatened to impose 100% tariffs on BRICS countries that seek to reduce the dollar's dominant role in global finance.

Based on the implemented tariffs, the average rate of U.S. tariffs on total imports could rise significantly from 2.4% at the end of 2023 to 10.5%—and probably higher if more tariffs are announced. The U.S. tariffs and counter tariffs by other countries have prompted serious concerns about a , undermining the prospects for growth and inflation not only in the affected countries but for the global economy as a whole. U.S. and international equity markets have posted heavy losses, driven by fears of a recession as the trade war takes shape.

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HOW HAVE OTHER COUNTRIES RESPONDED TO U.S. TARIFFS?

The reactions of the rest of the world have differed between the major trading countries and blocs able to push back, and most others not in a position to do so. The major trading partners directly impacted by U.S. tariffs have been active in taking measures to protect the competitive positions of their companies and products in international trade, and to help sustain their economic growth. These measures fall into three different but inter-related categories.

Tariffs and Counter-Tariffs

First, these countries and trading blocs have responded promptly to U.S. tariffs by implementing tariff and non-tariff retaliatory measures, while expressing their willingness to negotiate with the U.S.

Canada's federal government announced a 25% tariff on a specific list of goods imports from the U.S. worth C$30 billion ($20.9 billion), effective immediately, to be increased to C$155 billion ($107.9 billion) or more if U.S. tariffs are maintained. Separately, the Ontario government has imposed a 25% export tax on the sale of electricity to three U.S. states—Minnesota, Michigan, and New York—and additional measures in response to any U.S. escalation. Other provincial retaliations are likely to be announced in the period ahead.

Mexico's President scheduled a major rally in Mexico City on March 9 to announce retaliatory measures against Trump's tariffs, but instead turned it into a celebratory gathering after Trump decided to suspend tariffs on Mexico's goods that satisfy USMCA (United States-Mexico-Canada Agreement) rules of origin requirements—even though Mexico's steel exports of 3.2 million metric tons to the U.S. are still subject to the March 12 tariffs. President Claudia Sheinbaum believed that her approach of being firm while engaging with Trump to discuss solutions to his grievances (flows of immigrants and fentanyl to the U.S.) is the right tactic under the circumstances.

The EU has announced counter-tariffs on $28 billion of imports of industrial and agricultural goods from the U.S., effective April 1, 2025. The EU is concerned about the fact that it no longer enjoys Biden's tariff-free quota on steel and aluminum shipments to the U.S., as well as the planned reciprocal tariffs. But it has confirmed its readiness to *"protect is businesses, workers and consumers"*.

China has been prompt in taking counter measures in a variety of sectors. It has imposed a 15% tariff on some American agricultural imports including chicken, corn, cotton, and wheat; a 19% levy on U.S. aquatic products, beef, pork, dairy, soybeans, etc; 15% and 10% import taxes on American coal and liquified natural gas (LNG); and a 10% tariff on U.S. agricultural machinery, pick-up trucks, and some large cars. In addition, it has put 15 U.S. corporations on its export-control list and ten others on its unreliable-entities list. It has also imposed export controls on 25 rare-earth minerals.

The tariff war has worsened the prospects for growth and inflation, not only for the U.S. and affected countries, but for the global economy. Of particular concern is the Atlanta Fed GDPNow model's estimate of a -2.5% slump in the first quarter of 2025, sharply down from more than +2% in late February first the US economy . For 2025 as a whole, U.S. growth estimates have been slashed to 1.5%-1.7% by American bank analysts, from around 2% expected earlier this year. Overall, the World Bank has estimated that global economic growth will slow to 2.7% this year, below the more than 3% annual average in the decade before COVID-19. More ominously, the International Chamber of Commerce has warned that the tariff war *"risks sinking the world in new depression"*.

It is an open question whether weakened economic growth, especially in the U.S., will at some point lead to modifications to the U.S. tariff policy.

Building New Trade Ties

Second, other countries have been active in building up trade ties with each other to sustain their export industries and de-risk from too much reliance on the American economy.

The EU has been in the process of ratifying free-trade agreements it has signed with the Mercosur countries (Brazil, Argentina, Paraguay and Uruguay), and with Mexico. It and Canada have taken steps to increase bilateral trade in the context of the Canada-EU Comprehensive Economic and Trade Agreement (CETA). The EU has tried to do the same with Vietnam in the context of the Vietnam-EU Free Trade Agreement. The EU has also agreed a digital trade pact with South Korea, is close to finalizing a free-trade agreement with India, and its Strategic Partners Agreement with Japan entered into force at the beginning of 2025.

In addition, the EU is likely to seek to strengthen its economic relationship with Africa, being the latter's largest export market. In addition to its Global Gateway investment package worth €150 billion ($163.8 billion), the EU will reinforce tiers with 15 sub-Saharan African countries through Economic Partnership Agreements; four North African countries through Association Agreements; and 35 African countries through its General System of Preferences. Moreover, —the first since 2018—reaffirmed diplomatic and economic ties in the face of U.S. pressure on both. Pointedly, the EU expressed full support for South Africa's Presidency of the G20 in 2025, after senior U.S. officials boycotted the first few ministerial meetings of this year's cycle of G20 meetings.

The United Kingdom has joined the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) and enjoys free trade with nine members, except Canada and Mexico, which have not yet ratified the UK's ascension to the Partnership. The UK has also secured trade deals with Australia, New Zealand, and started talks with India, among others.

Canada and Indonesia are scheduled to sign a Comprehensive Economic Partnership Agreement, concluded late last year.

More importantly, China has reached out to other countries, promising substantial trade and investment opportunities in order to diversify its trade with the U.S. It has already traded more with Global South countries than with the developed economies. In particular, ASEAN has become the top export market for China, ahead of the U.S. and EU. Of special interest is the fact that Malaysia, as Chairman of ASEAN in 2025, will organize the first China-ASEAN-Gulf Cooperation Council Summit later this year to promote economic cooperation among the three regions.

China has also stepped up its charm offensive directed at European countries. Criticizing the U.S. for treating its Western allies *"brutally and domineeringly"*, China has highlighted that its *"diplomacy is focused on peace, goodwill and win-win cooperation"*, especially ahead of the 50th anniversary of the relationship between Brussels and Beijing. China's approach appears to be receiving a sympathetic hearing from some EU officials who have been frustrated by the U.S. anti-EU posture. In particular, China has reiterated that *"it has been doing its best to push for negotiations with the EU"* on the latter's tariffs on Chinese electric vehicles, trying to leverage the opposition to the tariffs in Germany, Hungary, Slovakia, and Slovenia.

China has pledged to increase trade and investment with Africa. At the Forum on China-Africa Cooperation (FOCAC) Summit in September 2024 in Beijing, China pledged $51 billion to Africa for the next three years. This pledge represents a recovery from the low of $40 billion pledged in 2021 but still shy of the high of $60 billion in 2015 and 2018. More interesting is China's pledge of $10 billion of investment in sectors prioritized by African leaders—including pharmaceuticals, agricultural, industry, and mineral processing—areas in which Western corporations are still reluctant to invest in substantially. And while the U.S. has cut foreign aid, China has made progress in building alliances in space activities with Africa, forging nearly two dozen pacts with African nations and responding to the expectations of African leaders on high-tech cooperation.

From an insignificant player two decades ago, China has become a dominant force in Latin America alongside the U.S. and EU. The EU highlighted the expectation that by 2035, China may overtake the U.S. to become Latin America's top economic partner. A notable development is the inauguration of the Chancay megaport in Peru, a project financed by China as parts of its Belt and Road Initiative (BRI), which took place during the APEC Summit in that country in November 2024. When fully operational, the megaport could be transformative of Latin America's trade logistics by cutting shipping time to China by half (up to 20 days), bypassing the Panama Canal and the Atlantic Ocean.

It is important to recognize that while the trade-diversion measures described above would generate some trade activities among countries engaging in forging new ties, the tariff war would depress overall world trade, increasing inefficiency and raising the costs of international commerce. This is likely to reduce growth in world trade in 2025 from the 3.2% expected previously. The international bank ING has estimated that world trade will grow by 2.5% this year, barely keeping up with expected world growth, instead of doubling and leading global economic growth rates like before.

Implement Supportive Fiscal, Monetary and Structural Policies

Third, many countries have aligned their fiscal, monetary, and structural policies to support domestic demand in anticipation of turbulence on the foreign trade front. At China's two sessions of its national legislative and consultative bodies, which took place in early March 2025, the government pledged to increase its planned budget deficit from 3.5% of GDP to 4%, together with an appropriate monetary policy stance to stabilize the property market and stimulate domestic demand. In addition, China has announced a comprehensive 30-point strategy to boost consumer spending, tackling many underlying impediments.

The European Central Bank, meanwhile, has cut policy rates for the sixth time to 2.5% while the European Commission has proposed raising €150 billion ($163.8 billion) against the security of the EU budget to fund joint defense projects. In particular, Germany's major parties have reached a deal allowing the incoming CDU/CSU-SPD coalition government to spend hundreds of billions euros on defense and infrastructure, including the green transition—supporting growth. hoping to increase production and jobs, including by raising the minimum wage and public investment in infrastructure. Canada has promoted structural reforms to increase productivity and economic union, including by removing rules that restrict inter-provincial trade. The Bank of Canada is expected to cut policy interest rates further towards 2.25% from 2.75% at present.

It is important to note that, if successfully implemented, the structural reforms announced by some countries as mentioned above would help improve their economic performance in the future.

Impacts on Global South Countries

Most countries in the Global South (GS) are 'price takers' or recipients of the negative fallout from the tariff war. First and foremost among this fallout is slower growth in world trade and economic activities, accompanied by higher inflation. Furthermore, U.S. tariffs tend to keep the dollar strong. This environment is bad for emerging-market and developing countries, many of which can suffer from declining capital flows, causing dollar shortages in their economies. Many emerging-market countries have eased monetary policies as their growth prospects have worsened.

In addition, the U.S. has taken a much more ideological approach to foreign relations, linking other countries' access to U.S. markets, especially its General System of Preferences, as well as foreign aid, to whether their actions have been viewed as being contrary to U.S. interests. One example of this approach is the way the U.S. has cut aid to South Africa in reaction to its land reform law, viewed by the U.S. as discriminating against white Afrikaners. In short, U.S. trade actions and official statements have raised doubts about the reliability of unfettered access by other countries to U.S. markets. Furthermore, China's over-capacity in a wide range of products flooding world markets poses serious problems to the industrialization efforts of many developing countries, in addition to causing trade frictions with developed countries.

Two groups of GS countries will face different sets of challenges arising from recent global developments.

Twin Challenges: Uncertain Access to U.S. Markets and China's Overcapacity

Larger GS countries, those considered to be among the middle powers, including India, Brazil, Turkey, and Vietnam, face twin challenges from the U.S. and China. Many GS countries have developed export industries, including to the U.S. That exposes them to U.S. tariffs and other restrictive measures, especially against those running large trade surpluses with the U.S. By and large, their responses to U.S. tariffs, in particular on steel and aluminum, have been reconciliatory—not imposing counter tariffs, but seeking to negotiate in an effort to address U.S. complaints. This approach reflects their assessment that they are not in a position to engage in a tit-for-tat tariff war with the U.S.

For example, Brazil is the second largest steel exporter to the U.S. (at four million metric tons in 2024 after Canada at six million) and has decided not to retaliate, but has tried negotiations. This is against the backdrop that Brazil hopes to benefit from the tariff war, putting itself forward as a steady and reliable supplier of agricultural products, especially soy. Under the first Trump Presidency, China diverted large orders of soybean from the U.S.

to Brazil, raising its share of Brazilian exports while reducing its share of U.S. exports.

India exported 319,000 metric tons of steel to the US in 2024, runs an annual trade surplus of around $35 billion against the U.S., and imposes a weighted tariff rate on U.S. goods of 9.5%, more than three times the U.S. tariff rate on Indian goods—putting it in Trump's sights. Instead of counter tariffs, India has moved quickly to cut tariffs preemptively on high-end motorcycles, cars, and smartphones parts—helping companies such as Harley-Davidson (a traditional favorite of Trump), Tesla (a more recent favorite), and Apple—and hoping to earn some goodwill from the Trump administration. India has also promised to purchase more American goods. In addition, India has been cooperative in accepting planeloads of illegal Indian immigrants in the U.S., avoiding the pressure the U.S. put on Colombia, which initially refused to accept returnees but had to back down after the U.S. announced tariffs on its goods.

Turkey has had a modest and fairly balanced trade relationship with the U.S., totaling $32 billion in 2024 with a small U.S. trade deficit of $1.3 billion. While Turkey exports 418,000 metric tons of steel to the U.S., it has not reacted to the new U.S. tariffs on steel imports, in contrast to the counter tariffs it imposed on the U.S. in response to similar tariffs on its iron and steel shipments under the first Trump Presidency.

Vietnam ranks eighth among the U.S.'s top trading partners, and has the third-largest trade surplus with the U.S.—reaching $123 billion in 2024. As such it has been vulnerable to U.S. tariffs to rectify the trade imbalance. Vietnam also ranks sixth in terms of steel exports to the U.S.—at 1.2 million metric tons in 2024. Without taking any actions on the U.S. steel tariff, the Vietnamese government has instead sent a trade mission to Washington to negotiate deals to buy a wide range of products, including liquified natural gas (LNG), aircraft, armaments, power-plant equipment, and medicines, in a bid to placate the Trump administration and avoid tariffs. U.S. Trade Representative Jamieson Greer has reportedly asked Vietnam to *"have stronger solutions to open up its markets and improve the trade balance between the two countries"*. Vietnam has tried to attract foreign direct investment from U.S. firms. Most recently, it has planned rules that would allow Elon Musk's Starlink to provide internet services in the country.

At this juncture, it remains to be seen if these 'appeasement' strategies work in shielding those countries from U.S. tariffs.

Exporters to the U.S. have also experienced the competitive pressure from Chinese manufactured goods in both their home and export markets. China has increased substantially both the volume of its exports to, and trade surpluses with, ASEAN, South Asia, Latin America, and Africa in recent years. Several large GS countries, including Vietnam, Indonesia, Malaysia, Thailand, Mexico, Turkey, Brazil, and South Africa, have reacted by putting tariffs on some Chinese products, including steel and electric vehicles, and restricting the flow of online imports to protect their small domestic retailers. But they have left the door open to attract greenfield direct investment from China, again in electric vehicles, batteries, solar, and wind power products. Generally speaking, China increasingly poses a challenge to the development strategy of the large GS countries, as the well-proven manufacturing-for-export route has been made more difficult for them to follow.

One of the responses to the twin challenges from the U.S. and China has been for many countries to deepen regional cooperation to sustain growth in the face of adverse international environment. Of particular interest is Africa launching its Pan-Africa Payment and Settlement System (PAPSS), backed by 15 central banks and 500 commercial banks in the region, to provide direct exchange of local currencies without the need for a vehicle currency such as the dollar. This would help spur trade among regional economies, especially in the context of the rolling out of the African Continental Free Trade Agreement (AfCFTA).

Similarly, ASEAN has made steady progress in promoting regional economic integration through its digital payment system, facilitating payment and settlement of cross-border transactions in local currencies.

Coping With Cuts to Foreign Aid

Low-income countries in particular will suffer from the cuts in official foreign aid by the U.S. and some European countries, such as the UK and the Netherlands, which are now prioritizing defense spending over aid. For example, 83% of the programs of the U.S. Agency for International Development (USAID) have been eliminated, while the U.S. foreign aid budget has been frozen, subject to review. Since the U.S. has accounted for 25%-30% of total annual official development assistance (ODA), substantial cuts by the U.S. will have a significant impact on aid flows to developing countries. Furthermore, other Western countries are under pressure to increase defense spending, forcing many to cut back on foreign aid. For example, the UK government has reduced its foreign aid budget from 0.5% of its gross national income to 0.3%. This ratio is similar to the overall ODA/GNI ratio of developed countries, already well below to the United Nations target of 0.7%. Some other countries, especially China for geopolitical reasons, would likely step in, probably selectively, to make up some of the cuts, but it is unlikely that this would fully compensate for the reduction in ODA and other financial contributions by the U.S. and key Western nations to developing countries.

TheU.S. has also exited the Loss and Damage Fund (providing financial assistance to developing countries most vulnerable to climate change impacts) raising concerns about possible U.S. withdrawals from other vertical funds, including the Global Fund to combat HIV, tuberculosis and malaria (the U.S. pledged to contribute 38% of the Global Fund's replenishment of $18 billion in 2025), Gavi the Vaccine Alliance (The U.S. pledged $1.5 billion of the $9 billion replenishment in last five years), the Pandemic Fund hosted by the World Bank (the U.S. contributed $700 million to the $2 billion fund), the Green Climate Fund (the U.S. contributed $3 billion to the $13.5 billion fund), and the Clean Technology Fund (the U.S. contributed $150 million out of $5.4 billion).

Specifically, international assistance for the energy transition has been curtailed, causing disruptions in these efforts in recipient countries. For example the U.S. has withdrawn from the Just Energy Transition Partnership (JETP) program that helps South Africa, Indonesia, Vietnam, and Senegal. The EU has pledged to step up to sustain the program, but there is a limit to what it can do given its own budget constraints.

Moreover, there are concerns about possible cuts to U.S. support for the multilateral development banks, especially their concessional lending windows and climate change activities—to the point of the U.S. considering withdrawal from some of them.

The reduction in international aid—already insufficient relative to the needs—would greatly hamper efforts by low-income countries to develop economically, provide adequate healthcare to their peoples, and deal with the effects of climate change—probably reversing the meagre progress some have made in the past decades. The most damaging cuts to foreign aid have been in the field of healthcare, especially for HIV/AIDS viral programs. This would put at risk of health crises.

Some observers have considered the aid reduction as an opportunity for recipient countries to reduce their aid dependency and to try to mobilize domestic resources for development. Out of necessity, many countries may have to do so—but this is a long-term endeavor with uncertain prospects for success, which would not help cushion the damage to low-income countries in the foreseeable future.

CONCLUSIONS

The unfolding tariff war is likely to be just the start of the unraveling of the post-Second World War world order, in particular the rules-based open trading system underpinned by the World Trade Organization. Since no alternative order has emerged, despite talks about multipolarity replacing unipolarity, there does not seem to be any accepted and respected rules of the game setting out how sovereign nations should deal with each other. As the world slides towards global disorder, countries have no choice but to seek to strengthen national unity and independence, as well as their economic resilience. By necessity, they have to work together with like-minded countries to enhance their positions in dealing with the superpowers—in particular the U.S. Those which fail these challenges will have to accept their fate as explained by Athens's envoy to the Melians, according to Thucydides' History of the Peloponnesean War: *"The strong do what they can, the weak endure what they must"*.

ABOUT
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In 2001-07, he served as the Deputy Director of the Monetary and Capital Markets Department, International Monetary Fund. Among other duties, he chaired the Editorial Committee of the Global Financial Stability Report, one of the IMF's flagship publications. In the previous two decades, he worked as senior economist, chief economist and global head of research of Rabobank International, Deutsche Bank, Merrill Lynch and Salomon Brothers; having been posted in New York, Frankfurt, Singapore and London. Before that, he briefly taught Economics at New York Institute of Technology. Hung Tran has authored and published numerous articles and books on economics and financial markets, and has been interviewed and quoted extensively in the international media.

ABOUT
THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership, and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.
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