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Tariff conflict in the Trump era: from fiscal instrument to geopolitical weapon against China

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Abstract:

Tariffs have evolved from simple fiscal tools into major geopolitical weapons. Under Donald Trump, they became a language of power deployed against both rivals and allies, grounded in national security, domestic politics, and bargaining leverage. This marked a rupture with the post-1945 liberalisation trend, establishing a form of administrative protectionism based on access rules, verifications, and conditional clauses.

The trade war with China was the most visible front. Washington imposed sweeping tariffs under Section 301, while Beijing responded with mirror measures and, more decisively, with the strategic use of critical minerals. Although U.S. consumers bore much of the cost, global trade did not collapse but rather reoriented toward countries such as Mexico and Vietnam. The rivalry also shifted into the technological realm, with restrictions on semiconductors and the emergence of competing standards.

Europe chose pragmatism: from litigating at the WTO, it moved to managing relations through tariff-rate quotas (TRQ), the CBAM, and the Anti-Coercion Instrument. The EU sought to reduce vulnerabilities, project power through norms, and build regulatory alliances with third partners while preserving the transatlantic relationship. Meanwhile, emerging actors such as India, ASEAN, Latin America, and Africa positioned themselves as substitution platforms (China-plus-one), provided they could deliver traceability, regulatory stability, and environmental compliance.

In the medium term, tariffs have introduced inflationary frictions, reshaped value chains, and altered investment incentives. Their effectiveness depends less on the nominal rate and more on the design of the bargain: clear exit conditions, robust verification, and automatic fallback mechanisms. The debate is no longer about free trade per se, but about who controls the regulatory grammar attached to tariffs. That grammar—rooted in data, standards, and administrative oversight—has become the new frontier of trade geopolitics.

Keywords:

Tariffs, Trump, Protectionism, Free trade, Trade war.

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Introduction: the importance of tariffs

Tariffs are one of the oldest instruments of economic policy. Their nature is simple: they are, in fact, taxes applied to imported goods, with the main objective of raising funds for the state or protecting domestic industry from foreign competition. However, their apparent simplicity hides great geopolitical complexity. In an interdependent world, where global value chains cross multiple borders, tariffs can alter not only market prices, but also international alliances, the stability of multilateral institutions and the very architecture of world trade. It is happening.

In the 19TH century and much of the 20TH, tariffs were used for fiscal reasons and to protect nascent industries. With the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 and, later, the World Trade Organisation (WTO) in 1995, a trend towards the progressive reduction of trade barriers was consolidated. Trade liberalisation became one of the pillars of incipient globalisation and a symbol of the international order led by the United States after the Second World War.

The arrival of Donald Trump to the US presidency in 2017 marked a break with that tradition. With the slogan "tariffs are the greatest"[1] , Trump has transformed tariffs from economic instruments into veritable political weapons. He uses them not only against strategic adversaries such as China, but also against historical allies such as Canada, Mexico and the European Union. Tariffs have become a tool for pressure, negotiation and punishment, linked to national security and domestic policy objectives. Hence, we can begin to talk about the "militarisation of trade policy" in the 21ST century.

Tariffs in US trade policy

From fiscal wall to architecture of order

US trade policy has swung like a pendulum between protectionism and openness. In the 19TH century, when the country was still building its industrial muscle, tariffs acted as a protective wall: they made European goods more expensive and gave breathing space to industries that were just starting out. The climax of this tradition came with the Smoot-

[1] "Tariffs are the greatest" was the political slogan Trump used to try to normalise and legitimise the systematic use of tariffs, transforming them from a technical instrument into a symbol of nationalist power.

Hawley Act (1930) (Irwin, 2017), an abrupt jump in import taxes in the midst of the Great Depression that sparked global retaliation and left a lasting scar. After 1945, the pendulum swung back: the United States went from being the guardian of its borders to the architect of openness—first GATT, then WTO—with successive rounds that reduced tariffs and consolidated global leadership based on international rules. American openness, however, never completely eliminated defensive reflexes in sensitive sectors such as steel, agriculture and automobiles.

From Reagan to 'reciprocity'[2]

The discourse on opening barriers, dominant in the Reagan and Bush eras, was rewritten with the arrival of Donald Trump in 2017. Making extensive (and controversial) use of an old clarifying provision in the constitutional text[3] , tariffs ceased to be a technical instrument and returned as a political symbol: they were a promise to 'restore greatness' to industry, curb practices considered unfair and force allies and rivals to renegotiate. The legal basis existed—Section 232 of the Trade Expansion Act[4] of 1962, which allows national security to be invoked, and Section 301 of the Trade Act 1974[5] , designed to respond to unfair trade practices—but their use was expanded extraordinarily, turning tariffs into a visible (and measurable) gesture of authority. If this were not enough, the IEEPA[6] would be activated, allowing presidents to declare a national emergency to address an international trade issue. The lexicon changed: from 'free trade' to 'reciprocal/fair trade', from free trade to reciprocity in trade relations, with ideas such as a

[2] Meyer, T. and Sitaraman, G. (2020).
[3] "Article 1, Section 8 of the U.S. Constitution gives Congress power to impose duties and regulate foreign commerce. Congress has delegated some of these authorities to the President through statutes. Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862, as amended) allows the President to impose restrictions on goods imports or enter into negotiations with trading partners if the U.S. Secretary of Commerce determines, following an investigation, that the quantity or other circumstance of those imports 'threaten to impair' U.S. national security."
[4] See: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjm4LrV3NyPAxUhVKQEHQuNIiQQFnoECBcQAQ&url=https%3A%2F%2Fwww.congress.gov%2Fcrs-product%2FIF13006&usg=AOvVaw07b5xwbNA9n6QwawUiSoWG&opi=89978449
[5] See: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwj4y_W23NyPAxX1K_sDHVwVPGYQFnoECB4QAQ&url=https%3A%2F%2Fwww.congress.gov%2Fcrs-product%2FIF11346&usg=AOvVaw29I8va2OC1K8blM37zJ0ON&opi=89978449
[6] The International Emergency Economic Powers Act (IEEPA), Title II of Pub. L. 95-223, 91 Stat. 1626, enacted 28 December 1977, is a United States federal law authorising the president to regulate international commerce after declaring a national emergency in response to any unusual and extraordinary threat to the United States which has its source in whole or substantial part outside the United States.[1] The act was signed by President Jimmy Carter on 28 December 1977.

universal base tariff and selective surcharges by country or sector (Fajgelbaum *et al*., 2020).

Electoral coalition and ideological shift

The shift was not merely tactical: it crystallised into a reconfiguration of identity within the Republican Party. The conservative coalition—less dependent on suburban business leaders in favour of opening trade borders and more anchored in the industrial belt of the Midwest—adopted tariffs as a social shield and a tool for external negotiation. At the same time, the intellectual ecosystem of the economic right mutated: classic liberal voices opposed to tariffs remain, but those who defend a conservative industrial policy that accepts the state as a lever to sustain industrial employment, rebuild productive capacities and "take advantage of the dominant position" in relations with strategic rivals are gaining ground. The success of the country's economy is no longer measured solely by low consumer prices at the , but is reoriented towards industrial capacity, employment and reduced external dependence.

How the tariff mechanism works

For decades, tariffs were understood as a fiscal instrument or, at best, as a lever of industrial policy with limited scope. Today, however, they have taken on a qualitatively different dimension: they constitute a regulatory language that translates the struggle for economic power into rules.

The logic is simple but powerful: tariffs no longer measure only how much is paid at the border, but also what conditions must be met in order to cross it. In this sense, they function as a filter that organises incentives, selects suppliers and establishes access hierarchies. The key lies not so much in the percentage applied as in the accompanying framework of quotas, rules of origin, technical verifications, and environmental or labour clauses.

It is the implementation that makes the tariff a method and not just a tax. The United States has demonstrated this with sections 232 and 301: reviewable lists, discretionary exemptions and threats of escalation. The European Union, on the other hand, administers it through tariff quotas, carbon border adjustments or anti-coercion instruments. In both cases, the pattern is the same: the tariff opens or closes the door, but it is the regulatory ecosystem that determines who can enter and under what conditions.

The effects go beyond prices and quantities. The tariff method redefines competitiveness: it is no longer enough to produce cheaply and efficiently; it is necessary to demonstrate this through digital traceability, sustainability certifications, or labour compliance. Large companies, with legal and logistical teams, turn this toll into a competitive advantage; small companies, on the other hand, run the risk of being excluded.

In short, tariffs have gone from being a fiscal wall to becoming a geo-economic grammar. It is a system that disciplines, filters and reconfigures global value chains. Its strength lies not in the number that appears in the customs tariff, but in its ability to generate incentives, condition investment and build—or block—strategic alliances.

Trump's tariff war (2018-2025)

The so-called 'tariff war' has not been a series of improvised ups and downs, but rather the staging of a new way of exercising economic power. Between 2018 and 2025, Washington turned tariffs into the political arena in which everything else is negotiated. It was not just a matter of taxing imports: access to the US market was redesigned as an "administered regime," with relief conditional on changes verifiable by the other party. This is the key to understanding the period without repeating what has already been explained in previous sections: rather than recalling the measures or detailing reactions country by country, it is essential to understand the logic established by the White House and the structural effects it leaves behind.

Figure 1. Trump presents his tariff schedule

From episode to paradigm: three historical moments

Act I (2018-2019): the White House, in the first part of the Trump era, opens the tariff front with China under Section 301 and, almost in parallel, invokes "national security" to tax metals (Section 232). The message that resonates with partners and rivals alike is less legal than political: tariffs are part of the global negotiation. The partial 'truce' (targeted purchases and promises of reform) reached with Beijing foreshadowed a constant in the cycle: public commitments, uneven compliance and a willingness to reactivate pressure if convenient.

Act II (2020-2023): a new administration, Biden in power, without abandoning the hard line, begins to manage the tension: more product exclusions, more tariff quotas (TRQs) with Europe in the metals sector, more coordination with technological controls in critical sectors (IRA[7]). The tariff is no longer a wall, it is a turnstile: it opens or closes depending on quotas, standards and verification.

Act III (2024-2025): the new and current second Trump era; rivalry with China moves into the "green" arena (electric vehicles, batteries, solar energy, critical minerals) and, with

[7] *Inflation Reduction Act* passed in the United States in August 2022 under the Biden administration, the IRA combines climate, industrial and technological policy, becoming the centrepiece of the US economic security strategy: it seeks not only to decarbonise, but also to attract investment, protect jobs and win the technological race against China and the EU.

Trump's return, the idea of a base tariff as an anchor on which to stack selective surcharges is enshrined (Bown and Irwin, 2019-2020). The novelty of 2025 is not the aggressiveness, but the normalisation of the format: tariffs as state policy that is then 'managed' with lists, quotas and exceptions.

Pressure architecture: from figures to design

To understand why this policy punishes everyone, we must look beyond the nominal percentage and examine how it is being applied. The White House initially sets a high non-agreement price (the current or threatened tariff) and offers conditional solutions: relief within quotas (TRQ)[8] , product/sector exclusions when domestic damage is excessive, stricter rules of origin to relocate value and, where relevant, mutual technical recognition to reduce the cost of double certification. This menu makes it possible to reward certain behaviours—traceability, standards, regulatory cooperation—without giving up coercive leverage.

The result is regulated international trade. Access to the US market is no longer automatic (pure MFN) but has become a series of periodic administrative decisions: who gets into the quota? Which exclusions remain in force? Which parts are considered critical? Data diplomacy—installed capacity, origin, footprint—now carries as much weight as classical diplomacy.

An analysis of the open fronts

China: from tariffs to targeted decoupling[9]

The front with Beijing made it clear that the objective was not just the trade balance. The combination of tariffs and export controls redesigned the rivalry as a battle for technology, standards and supply chains. In the absence of deglobalisation, there was a reblockade: more purchases from third parties in ASEAN and Mexico, more Chinese investment abroad to maintain access via friendly platforms, and more US surveillance to cut off the

[8] A tariff rate quota (TRQ) allows a lower tariff to be applied to imports of a given product within a specific quantity and requires a higher tariff on imports exceeding that quantity.
[9] See: Antràs, 2020: 12.

transhipment of goods in an attempt to circumvent the rule. What remains structurally is a functional bifurcation: two constellations of rules and verification that force companies and governments to choose (and demonstrate that it was beneficial) their choice.

Europe: from clash to conditional access

With the EU, the journey went from initial clash in the metal sector to managed peace: quarterly quotas, 'armoured' lists with no surcharges for sensitive sectors and, when convenient, conditional reductions (as in the automotive sector if there is a change in European legislation). This is not a return to classic free trade; it is coexisting with a base tariff and the (already mentioned) reinforced Section 232, while the costs of compliance with technical agreements are reduced. The relationship works if there is predictability: if there is not, it reverts to the full tariff and possible retaliation.

North America (Canada, Mexico) and the rest of the world

Under the USMCA[10] , tariff pressure was combined with new regulations on rules of origin and wage restrictions with the aim of anchoring production in the US. In India and other emerging economies, the effect was more indirect: an opportunity for substitution (China-plus-one) if they could offer reliable compliance in addition to competitive prices. The common thread is that tariffs act as a bargaining chip to negotiate specific changes, not just as a threat.

What changed (and will not return)

A method has been established. The main legacy of the period is not so much the specific percentages applied as the method: tariffs as a starting point, relief as verifiable compensation, and the possibility of retaliation in the event of non-compliance. This method is fuelled by three capabilities controlled by the United States: the administration

[10] T-MEC (Treaty between Mexico, the United States and Canada) is the free trade agreement that replaced NAFTA and entered into force on 1 July 2020. This agreement seeks to modernise and improve trade between the three countries by implementing more precise rules in areas such as the automotive industry, agriculture, intellectual property, digital trade, labour and the environment.

of quotas and exclusions, coordination with technological controls and sanctions, and measurement (origin, content, emissions) to legitimise its decisions.

The frontier of trade power has been radically altered. The focus is no longer on "lowering tariffs" but on defining the rules. Whoever sets the standards and compliance certifications decides the playing field. That is why the battle over standards for electric vehicles, batteries, and cybersecurity matters more than a point up or down in the tariff.

Uncertainty has increased. Continuous announcements, changing stages and rectifications generate an invisible tariff: regulatory risk that irreversibly slows investment and forces spending on *compliance*[11] . Companies with muscle—capable of integrating traceability, a powerful legal department and purchasing volume—gain margin; SMEs and the rest pay the toll.

In short, the 2018-2025 period should not be seen as an anomaly, but as the codification of a new language of commercial power. A new non-military "hard power". Tariffs are no longer a number but a procedure: they establish a benchmark, define the outcome, verify compliance and reserve the right to take further action. That procedure—rather than any particular figure—is what will continue to shape US economic policy, specifically tariff policy, and therefore the strategic decisions of those who trade with the US.

Tariffs as a tool for political pressure

Under Trump, tariffs ceased to be a simple import tax and became an *instrument of geo-economic coercion*. Their use combined three vectors: a) national security as a legal and narrative basis (Section 232, IEEPA and, in the case of China, Section 301); b) domestic policy, translated into visible benefits for industrial sectors and regions; and c) barter-style negotiation, where tariffs are raised or relaxed to obtain specific concessions.

Since 2025, the tactic has been extended to more sectors and partners, and judicial limits have also been encountered. Tariffs are now understood as a *language of power*, with a subject (the White House), predicates (security, reciprocity, employment) and punctuation

[11] A business function that ensures compliance with a set of laws, regulations, and ethical standards applicable to an organisation in order to avoid risks, prevent fraud and corruption, and protect its reputation. It implements internal procedures, controls, and processes to identify, prevent, and manage operational and legal risks, thereby improving corporate integrity and decision-making.

(deadlines, quotas, exceptions). Externally, it puts pressure on rivals to extract concessions; internally, it sends signals of protection to key sectors.

Recent history can be narrated in three scenes. The first extends the concept of security from hard defence to supply chain resilience. Under Section 301, it is deployed against China's "unfair" practices and, on occasion, even attempted in economic emergencies, although the courts set limits. The second scene is the *domestic dimension*: tariffs benefit a few concentrated sectors, while dispersing costs among millions of consumers. This political asymmetry explains their appeal. The third is the *negotiating table*: tariffs set the price of non-agreement and allow for exchanges—quotas, stricter rules of origin, targeted purchases, or even cooperation on non-trade issues—always under a security narrative.

The mechanics of coercion combine credible signals (tariffs in force or announced), gradual escalations, pressure on transnational sectors, internal divisions through selective exclusions, and the linking of issues. It is often integrated with other levers—export controls, financial sanctions—that reinforce its impact.

The results vary: they work when they translate into regulatory changes or managed arrangements (TRQs with verification)[12] , but they fail when they are limited to promises of massive purchases without control mechanisms. The legal element is key: invoking national security or unfair practices is more effective than using general economic emergencies. Partners, in turn, have learned to respond with surgical retaliation, supplier diversification, and litigation in international forums.

In short, 21ST-CENTURY tariffs have moved from classic protectionism to *administrative protectionism*: they do not erect absolute walls, but rather filters and access rules verified with data. Their strength lies not in the rate, but in the design of the accompanying mechanism: what is required, how it is verified, and what is granted in return. The debate is no longer about free trade yes or no, but who controls the grammar of market access.

[12] See Reference 11.

International reactions and the geopolitics of tariffs

China: counterattack, resilience and normalisation of selective decoupling[13]

The tariff war between the United States and China did not break out suddenly, but was the result of discontent that had been brewing for years in Washington. In 2018, the White House invoked Section 301 of the Trade Act to sanction what it considered to be systematic practices of intellectual property misappropriation and forced technology transfer by Beijing. What followed was a cascade of measures: tariffs ranging from 7.5% to 25% on more than $350 billion worth of Chinese goods. Beijing responded with equivalent levies, albeit on a smaller volume of imports. As Bown and Irwin point out, this marked "the first major break in US trade policy since 1930" (Bown and Irwin, 2019).

Figure 2. AP/Susan Walsh

An attempt at a truce came in 2020 with the so-called "Phase One" agreement, in which China committed to purchasing an additional $200 billion worth of US goods, but in practice fulfilled only 58% of the agreement. As Evenett and Baldwin point out, the

[13] It is recommended that you read the following IEEE document beforehand: https://www.defensa.gob.es/ceseden/-/ieee/la_batalla_por_la_supremacia_tecnologica_2025_dieeea23

agreement was "more of a ceasefire than a peace treaty" (Evenett and Baldwin, 2020: 1017-1035).

The arrival of the Biden administration did not mark a return to free trade. In 2024, the Section 301 review further increased the pressure: Chinese electric vehicles were taxed at 100%, along with new tariffs on batteries and solar panels. The logic had changed radically. As Naughton warns, the trade relationship is no longer explained by comparative advantages, but by the "centrality of national security in the definition of economic policy" (Naughton, 2021).

China, for its part, deployed a strategy of intelligent retaliation. In addition to tariffs, it resorted to regulatory measures, blacklists of foreign companies and, above all, its most powerful card: critical minerals. Germanium, gallium and graphite were subject to export controls. As Storz points out, "the power of strategic raw materials is emerging as an instrument of pressure equivalent to that of missiles or currencies" (Storz, 2023: 557-573).

The economic costs were tangible. Empirical studies show that US consumers absorbed most of the impact, paying higher prices for consumer products and intermediate goods (Amiti *et al*., 2019b: 1793-1849). However, there was no collapse in trade, but rather a diversion of flows: Vietnam, Mexico and the European Union gained market share, with Mexico even overtaking China as the United States' largest trading partner. This was an apparent victory, as a large part of these exports are relabelled Chinese goods.

The war soon went beyond tariffs. Washington restricted China's access to advanced semiconductors, while Beijing threatened to cut off the supply of rare earths. As Baldwin summarises, "we have moved from the era of globalisation to the era of geo-economic rivalry" (Baldwin, 2020).

In this context, China's response has been twofold: to retaliate when appropriate—with mirror tariffs, anti-dumping investigations, and measures on subsidies—and, above all, to absorb the shock by reconfiguring its development strategy to reduce vulnerabilities. This second move, less visible but more profound, is articulated along three axes:

a) Import substitution and "dual circulation". Beijing has accelerated its technological autonomy agenda through tax incentives, preferential financing, public procurement and the development of its own standards in mid-range semiconductors, industrial equipment, batteries and renewable energies. The aim is not to isolate itself, but to exchange dependencies: giving up part of its access to the US market in exchange for dominating critical links and expanding its presence in ASEAN, Africa, MENA and Latin America. The discourse of 'dual circulation' – simultaneously stimulating domestic demand and non-Western external chains – is the conceptual framework for this shift.

b) Geopolitics of diversion and legal triangulation. In the short term, part of the affected trade is migrating to bridge platforms such as Vietnam, Malaysia, Thailand and Mexico, where Chinese companies are investing to assemble and relabel with greater local added value. The risk of "transshipment"—reshipping with minimal processing—has forced the US to strengthen origin verification (*melted & poured* rules for metals[14]; traceability for solar panels and batteries) and to strengthen customs cooperation with third countries. China, for its part, legalises this triangulation through foreign investment, which allows it to formally comply with the rules and maintain access, even with narrower margins.

c) Counterweight levers outside tariffs. Where tariffs can cause the most damage, Beijing is exploring alternative tools: restrictions on exports of materials and precursors, stricter regulatory inspections of foreign subsidiaries, cybersecurity requirements, and financial incentives to retain industries with sensitive *know-how*. At the same time, it is promoting alternative standards in fields such as connected vehicles, 5G/6G and the industrial Internet of Things (IoT), and seeks to institutionalise them through regional forums and bilateral agreements, thereby building structural power without direct confrontation.

Geopolitical implications

The tariff standoff is accelerating a functional bifurcation: it is not 'deglobalisation', but rather a re-blocking around two major constellations of standards and verification. Interdependence remains (many Western firms are still in China), but in a different way: more licences, more traceability, more *compliance*. In this context, China prioritises

[14]A specific criterion of origin in the metal trade, widely used in the US and in trade agreements. For steel (or other metals) to be considered as originating in a country, it is not enough for it to have been rolled, cut or processed there. It must have been melted and *poured* into ingots or primary forms in that territory.

continuing to produce a lot and cheaply, controlling certain products (critical minerals, chemical precursors) and its own standards, and accepts lower margins in markets with barriers. A pragmatic approach.

But the capacity to absorb sanctions and tariffs is not infinite: simultaneous pressure on technology, finance and logistics can strangle sectors; leverage via third countries reaches its limits if the US and the EU tighten verification, and Chinese domestic policy does not always reward visible concessions on sensitive issues (e.g., data, chemical precursors), making "clean" exits difficult in the short term. Even so, industrial inertia and scale remain decisive advantages.

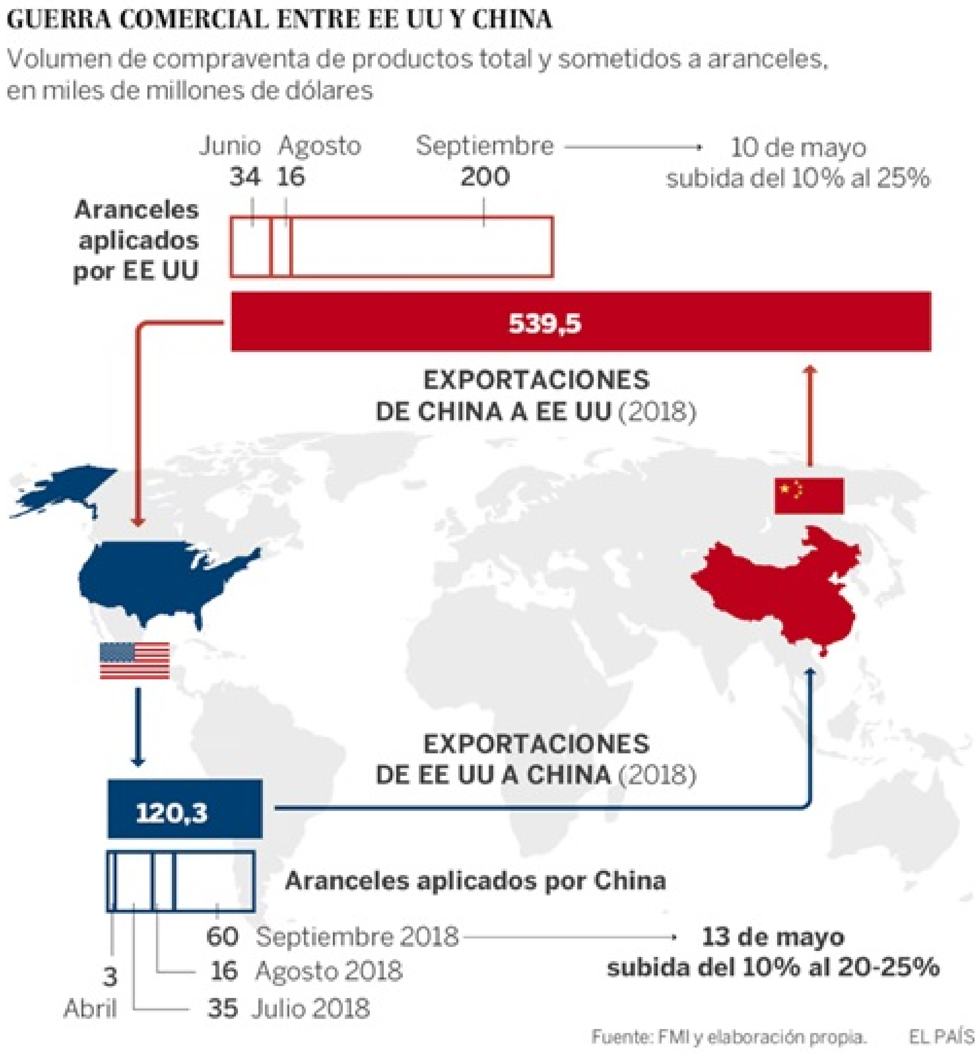

Figure 3. Trade and tariffs between the U.S. and China

European Union: from litigation to management with 'open strategic autonomy'

Europe moved from challenging US tariffs at the WTO to managing them pragmatically, using instruments that now define its trade policy. The guiding principle is open strategic autonomy: protecting critical capabilities and ensuring resilience without giving up openness (European Commission, 2021).

The first step was to transform the clash into a bilateral agreement. After the 25% and 10% tariffs applied to steel and aluminium under Section 232, Brussels accepted a tariff rate quota (TRQ) system: free access within historical quotas and full tariffs outside them. In 2025, when Washington raised tariffs on metals to 50% and extended their scope to copper, parts and even cars, the EU negotiated a 'conditional peace': flat tariffs of 15% for most goods, reinforced TRQs on metals, a transatlantic alliance against Chinese overcapacity, 'armoured' MFN product lists — aeronautics, generic pharmaceuticals, cork — and more mutual technical recognition in sensitive sectors. The message was clear: less litigation, more shared and verifiable rules.

The projection of power via regulations became the second lever. The Carbon Border Adjustment Mechanism (CBAM)[15] forced the internalisation of the price of CO_2 in carbon-intensive imports; the Net-Zero Industry Act[16] and the Critical Raw Materials Act[17] underpinned strategic chains and reduced dependencies — on China for renewables and rare earths, and on Russia for fossil fuels. The triad transformed climate policy into industrial policy and erected a light defence against third parties: complying with the standard opens the door, ignoring it means paying (Mehling *et al*., 2019).

In parallel, Brussels developed its own geo-economic toolbox. The Anti-Coercion Instrument[18] allows it to respond to economic pressure from states, while investment control and technology *screening* add security in sensitive sectors. These mechanisms are not as eye-catching as those of the United States, but they gain capacity and effectiveness as they are applied (Leino-Sandberg and Niemann, 2023).

[15] The CBAM addresses the risk of carbon leakage that occurs when, due to costs arising from climate policies, companies in certain industrial sectors or subsectors relocate their production to other countries, or when imports from these countries replace equivalent products that are less intensive in terms of greenhouse gas emissions.
[16] See: Net-Zero Industry Act - European Commission
[17] See: European Critical Raw Materials Act - European Commission
[18] See: Anti-coercion instrument: the EU's new weapon to protect trade | Topics | European Parliament

The fourth dimension is the strategy with third countries. With Latin America and Africa, the EU offers regulatory access conditional on compliance with European standards, together with investment packages through the Global Gateway, in competition with China's Belt and Road Initiative. At the same time, it is reopening modernised agreements with Mercosur, Chile and Mexico, which incorporate environmental chapters and commitments on critical minerals (Ayuso and Gratius, 2023).

Overall, the Union is moving towards operational rather than judicial multilateralism: executive arrangements such as TRQs, exporting standards via CBAM, calibrated trade defence and increasing technical cooperation. The aim is not to replicate the United States' 'base tariff' policy, but to reduce vulnerabilities and make compliance cheaper wherever possible, maintaining the transatlantic relationship without giving up its autonomy (Tocci, 2021).

India, Latin America and other emerging economies: substitution platforms and the race for compliance

[19]This diverse group shares a strategic opportunity: to become substitution platforms under the China-plus-one logic. The challenge is not only labour costs, but also regulatory compliance capacity, logistics and institutional stability[1].

India has used high internal tariffs and production-linked incentives (PLI) to support sectors such as electronics and pharmaceuticals. The global shift has positioned it as an alternative to China, especially for the US and the EU. Its challenge is to demonstrate reliability in traceability, rules of origin and overcoming digital customs. If it succeeds, it will move from assembler to structural supplier[2].

ASEAN (Vietnam, Malaysia, Thailand) is already attracting investment diverted from China, but its future will depend on certifying origin and avoiding transhipments. The first to invest in interoperable traceability will be the winners[3].

Mexico and Canada are taking advantage of the USMCA as a highway to the US, albeit with tolls: strict rules of origin, labour clauses and customs controls. Mexico must improve

[19] The supply chain management strategy of maintaining a production presence in China, but at the same time diversifying part of production or sourcing to at least one additional country.

in terms of added value; Canada must capitalise on its niches in critical minerals and aerospace.

Andean and southern Latin America offers lithium and copper, with the potential to advance in refining and domestic production if it secures regulatory frameworks and technology transfer. The European CBAM will force countries to anticipate carbon footprints[4].

The Middle East and Africa are seeking long-term contracts in green metals, hydrogen and advanced petrochemicals. The AfCFTA[20] could convert resources into industrial implementation if it improves governance and the opening of logistics corridors[5].

Japan, Korea and the United Kingdom adopt derisking strategies[21] alongside Washington, maintaining ties with China. Japan and Korea control intermediate technologies but are under price pressure; the United Kingdom is exploring bilateral agreements and specialisation in services, with the scope still uncertain.

Medium-term economic and strategic impacts

Tariff policy turned into a geo-economic weapon not only alters prices and quantities: it redefines the incentives of companies and governments. Its impact is projected on three levels: the real economy — prices, investment, employment —; the architecture of value chains — traceability, rules of origin, standards —; and the configuration of power — who dictates and verifies the rules.

In terms of prices, tariffs on critical inputs act as a wedge: they make imported goods more expensive, raise the price of local substitutes, and put pressure on intermediate users. Demand tends to be inelastic in the short term, which increases price transmission. Over time, companies redesign suppliers and components, but at the cost of new certifications and compliance systems that reduce regulatory risks, even if they do not increase productivity. The aggregate balance is negative, although it can be masked by temporary revenue or income from protected sectors.

[20] African Continental Free Trade Area.
[21] The economic and geopolitical strategy of reducing exposure to a country, sector or supplier considered risky, without necessarily cutting ties. Unlike decoupling, which involves breaking ties, *derisking* seeks to manage dependencies selectively.

Investment depends less on the size of the tariff than on its credibility. Where protection is perceived as stable and administered with clear rules, expansion or traceability projects emerge. In uncertain environments— r discretionary exclusions, escalating threats—capital retreats or migrates to "friendly" jurisdictions. Hence the rise of *friendshoring* and *nearshoring*: not deglobalisation, but a reblocking of trade around trusted administrations.

Compliance becomes a factor of competitiveness. Material passports, audits, rules of origin and recognition agreements favour large companies with strong legal teams and penalise SMEs. Competing is no longer just about producing cheaply and well, but about proving it in real time with documentation.

At the macro level, tariffs add selective inflationary friction. They do not trigger the general index, but they do make durable goods and equipment more expensive. Combined with industrial subsidies, they raise costs and delay projects. In terms of business margins, firms with sufficient resources absorb or pass on the cost; those less capable of stockpiling see their profitability squeezed. In terms of employment, jobs are created in protected sectors and lost in those dependent on more expensive products.

The technological dimension amplifies these trends. Tariffs coexist with export controls and sanctions that fragment ecosystems in semiconductors, batteries and renewables. Power is concentrated in those who impose standards and verify compliance. Without a standardisation strategy, tariffs become a punishment that encourages tax evasion; with it, they become a belt that forces alignment.

Enforcement is crucial: very high differentials encourage transhipment and relabelling; those affected respond with content rules, customs cooperation and digitalisation. Investing in smart customs and traceability provides an advantage not through protectionism, but through regulatory reputation.

Regionally, the US capitalises on its status as an anchor market, albeit at the cost of higher prices and additional subsidies. Europe manages a "conditional peace": base tariffs, quotas and new instruments such as carbon border adjustment. China compensates with diversification towards Asia, the Middle East, Africa and Latin America, promoting alternative standards. India is establishing itself as a replacement platform if it achieves administrative stability. Latin America is gaining ground in green raw materials and light manufacturing, although it risks being left with assembly without demanding technology transfer.

The institutional framework has shifted: the blockade of the WTO Appellate Body has not emptied the system, but it has shifted its focus to lists, quotas and technical panels. Whoever controls data on capacity, subsidies or origin and shares it credibly will shape governance.

Looking ahead, the risks are clear: legal disputes, energy *shocks*, logistical bottlenecks or electoral cycles that alter the appetite for concessions or retaliation. For governments, the rational approach is to convert coercion into predictable rules, make protection conditional on productivity and reinforce standards diplomacy. For companies, it is to diversify suppliers, shield contracts and adapt rules of origin.

In short, tariffs are here to stay, but their real impact lies not in the percentage applied, but in the quality of the regulatory grammar that accompanies them. That grammar—made up of data, verification, and administration—is today the frontier where competitiveness is defined and, with it, the geopolitics of trade.

Conclusions

Between 2018 and 2025, tariffs went from being a fiscal or protectionist instrument to becoming a *central geo-economic* lever, integrated into a broader set of security narratives, technological controls, sanctions and technical agreements. As a result, international trade ceased to be governed by automatic multilateralism and moved to a *managed and political* model based on clauses, metrics and verifications.

Tariffs are effective not because of their magnitude, but because *of* the *quality of the exchange*: they work when there are clear exit conditions, verifiable relief and automatic return mechanisms. Where they generate stricter rules of origin or operational tariff quotas, they produce tangible results; on the other hand, promises of massive purchases offer limited effects.

Legally, *Section 232* (national security) has established itself as the most solid basis; *Section 301* continues to focus on China, while the use of the IEEPA faces complicated legal challenges. This concentrates coercion on 'securitised' sectors such as metals, automotive and critical technologies.

Economically, the costs of tariffs are spread among consumers, while the benefits are concentrated in strategic sectors with political profitability. This asymmetry sustains the instrument, although it generates *regulatory rents* (exclusions, quotas) and requires compensatory policies for the sectors affected.

In terms of value chains, there is no evidence of deglobalisation, but rather a *reblocking* around *friendshoring*[22] and *nearshoring*[23] strategies. Competitiveness increasingly depends on *compliance and traceability*, which favours large integrators over SMEs. The technological dimension reinforces this logic, with the *standardisation of standards* created as a true axis of power.

In practice, Europe has moved from litigation to *technical management* of pressure (TRQs, armoured lists, CBAM, technical agreements), while China diversifies markets and creates its own standards; India emerges as a replacement platform and Latin America faces the dilemma of creating *added value or focusing on being the assembly platform for others*.

The governance of the system has shifted from the WTO to *executive arrangements and technical verification*: quotas, lists, panels and material- tions. Power is concentrated in those who control data, standards and verification capacity.

In short, the debate is no longer about how much tariffs will rise, but *who controls the regulatory grammar that accompanies them*. That governance—based on data, verification, and administration—is now the new frontier of trade geopolitics.

[22] The practice of moving or redirecting supply chains to countries considered political allies or strategic partners, with which values or geopolitical interests are shared, in order to reduce the risks of dependence on rivals.
[23] The business and political strategy of relocating part of production or supply chains to countries geographically close to the end consumer market.

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