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# GLOBAL RESPONSES TO TRUMP'S TARIFFS

Differentiated Dynamics



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On 2 April 2025, under the International Emergency Economic Powers Act (IEEPA) of 1977, US President Donald Trump announced a barrage of reciprocal tariffs on a number of countries, irrespective of allies or adversaries, with the stated aim of reducing the enormous trade deficit America had, claiming the day as a 'Liberation Day'. In a highly globalized and integrated world, such sweeping tariffs are expected not only to disrupt the bilateral trade flows but also the global supply chains, investment strategies, and diplomatic relations. Therefore, it is imperative to delve deeper into understanding how different nations are responding to these tariffs, how they differ in their approaches, and what economic and political rationale is behind their negotiations and retaliations to the tariffs, thus affecting their bilateral relations with the world's largest economy.

The paper attempts to understand the types of approaches nations are adopting to facilitate their trade relations, with a focus on five key actors, namely ASEAN, India, China, Canada, and the European Union. The countries are selected based on their economic dependency, diplomatic and political alignments with the US. Holistically, the outlook of these five nations gives a comprehensive representation of global reactions, spanning across allies and adversaries of the US, collective multilateral blocs, and individual economies, inclusive of both rising and advanced economies. ASEAN, a culmination of emerging economies, is deeply centred in the US supply chains and drives their growth from its export orientation. It is intriguing to analyse how the heterogeneous stance of individual nations towards tariffs incorporates into a comprehensive and unified approach of the bloc to tackle the US. India, which is the fastest-growing economy and a perfect example of maintaining its strategic ties with the West and Global South, presents a case of cautious engagement and rising economic nationalism. China lies at the heart of the US trade deficit and thus offers an exemplary case analysis of confrontation and self-reliance outlook towards Trump's protectionist sentiments. Canada, a pioneer trading partner and neighbour

of the US, highlights how integrated economic partnerships and bilateral dependence through the United States-Mexico-Canada Agreement (USMCA) transform the narrative of North American nations about their outlook on foreign ties. Lastly, for the EU, one of the largest economic entities globally and a persistent US ally, presents a case of balanced and unified strategy while addressing the members' interests and sovereignty as its top priority, and sets a template as a contrast to the unilateral responses of the US.

Some nations are going in for one-to-one retaliation, some aiming at a more collaborative response, while the rest maintain a balance between the two extremes. The paper attempts to unpack the political and economic landscapes, integration, and dependence of these five nations on the US, to understand their rationales behind adopting a certain approach to deal with the tariffs.

There are other major trading partners of the US, such as Mexico, Japan, South Korea, and Brazil, offering rich case studies, and future research work could extend the analysis of these nations.

## Collaborative Approach

The US, being the largest economy, is placed in a unique influential position to influence the global scenario in its favour. Tariffs can be viewed as one such instrument, which has potentially swayed the approaches of certain nations like India, some ASEAN members, and the United Kingdom, one of the earliest nations to finalise a deal with the US.

## ASEAN

One case could be the Association of South East Asian Nations (ASEAN), which has heavily relied on the US and China. The US-China interplay has a major influence on the responses of the member countries. ASEAN is targeting the US market and reducing its dependence on the Chinese market due to the growing influence of China in Southeast Asia. Hence, ensuring a favourable deal with the US is imperative. Washington is already engaging

in the Indo-Pacific Economic Framework (IPEF) with seven ASEAN members and other nations to bolster cooperation, stability, prosperity, and development in the region.<sup>1</sup> The state of Southeast Asia 2024 survey report analysed that the majority of the ASEAN nations choose China and the EU over the US, giving China a regional hegemony.<sup>2</sup>

The US-ASEAN trade value was at 476.8 billion \$, and the goods trade deficit was at 227.7 billion \$ in 2024.<sup>3</sup> The US is the second most traded destination for ASEAN after China and the largest source of FDI (the amount invested in ASEAN by the US is greater than the combined FDI flow of the US into India, Japan, Korea, and China), approximating 22.5% of FDIs. For the US, ASEAN is the fourth-largest trade partner. Hence, it holds significance for American business and the government pertaining to climate, transportation, energy, and healthcare.<sup>4</sup> For instance, Ford, in collaboration with Vale Indonesia and China's Zhejiang Huayou Cobalt, signed an agreement in 2022 to set up a plant to produce refined nickel used in EV batteries in South Indonesia. Key traded items include electric machinery and equipment, nuclear reactors, boilers, apparel and clothing, furniture, rubber articles, footwear, mineral fuels and oil, aircraft, spacecraft, etc.

The integration led to more accommodating trade responses from ASEAN members. Trump on the 'liberation day' imposed 32% reciprocal tariffs on Indonesia, 46 % on Vietnam, 49% on Cambodia, 24 % on Malaysia, 17% on the Philippines, 36% on Thailand, 10 % on Singapore, 44 % on Myanmar, 48 % on Laos, 24 % on Brunei, only later to be paused to open the room for negotiations. Comprehensively, the ASEAN bloc has vouched for a hybrid model to unify and strengthen the internal trade while granting flexibility to members to negotiate in order to protect their respective national interests.

Cambodia, slapped with the highest rates, opened its trade talks in April, as the US is the country's largest export destination and could hit its footwear and textiles industry. The industries are vital to a 49.8 billion \$ economy and a major source of employment.<sup>5</sup> Cambodia led talks, proclaimed

tariff reduction from 35% to 5% on 19 US product categories, and urged for an extension of the tariff pause for thorough examination on how to deepen the bilateral relations.<sup>6</sup> The two nations remain cooperative and committed, with multiple rounds of negotiations to finalise the deal.

The 2023 US-Vietnam Comprehensive Strategic Partnership defines the US-Vietnam relationship.<sup>7</sup> Yet, the Trump administration has imposed soaring tariffs on Vietnam among ASEAN members. One of the factors for the high tariffs could be Vietnam's dependence on China for certain intermediate components, which are repackaged to be transmitted to the US, forming 30% of such exports, the highest amongst ASEAN, and helping China to circumvent US tariffs.<sup>8</sup> Hence, Vietnam, caught between two stools, strives to strike a balance by holding diplomatic and flexible trade negotiations with the US and not hurting its bilateral ties with China. Vietnam has signed an energy deal worth 4.15 billion \$ with US firms, decided to cut down tariffs on imports, and implemented regulatory measures to verify the goods' origin and their manufacturing.<sup>9</sup> On 3rd July, Trump announced a finalised deal with lowered 20% tariffs on Vietnam imported products but 40% on goods transmitted by third countries via Vietnam to the US, and Vietnam importing US goods at zero tariffs, thus de-escalating the tensions.<sup>10</sup> Vietnam can be considered as one of the winning contenders in the escalating US-China trade tensions. It is already attracting economies looking for fill-ins to shift their manufacturing units from China with its 'China+1 strategy', thus aiming for more US investments in semiconductors, rare earths, and tech supply chains. Moreover, from FY 2017 to FY 2023, Vietnam received approximately 104 million \$ in State Department-funded security assistance under the Foreign Military Financing (FMF) program.<sup>11</sup> Vietnam also received a separate 81.5 million \$ of FMF in FY 2018 to support the US Indo-Pacific Strategy. Thus, Vietnam views the US as a strategic partner for military support, trade, investment, and technological exchanges as an ancillary backbone to uphold ASEAN centrality within the regional architecture. These enhanced reconciliations might affect Vietnam's ties with China,

as the latter is the top export destination for Vietnam with trade worth 51.25 billion \$ in 2024, indicating a 17% increase from 2023.<sup>12</sup> Moreover, Vietnam and China have signed 45 bilateral agreements on supply chain integration, digital economy, boosting the green economy, agriculture, boosting investments and collaborations in AI, exchanges for human resource development, and expansion of payments in local currency, strengthening their Comprehensive Strategic Cooperative Partnership and leveraging Regional Comprehensive Economic Partnership (RCEP) and ASEAN-China Free Trade Area (ACFTA).<sup>13</sup> In addition, infrastructure and connectivity are on the cards as the two continue to expand the cooperation under the Belt and Road Initiative (BRI), with technical know-how from China on the construction of railway networks. These developments highlight the economic vulnerability that Vietnam faces as it balances between the US and China, with significant ramifications of taking a side.

Laos has been slapped with the second-highest tariff after Cambodia in the ASEAN region, affecting its footwear, textile, electric components, and coffee industries. Laos, to protect its 600 million \$ worth of trade deals sustaining employment, cost of raw material, and investments of the economy, is ramping up talks with the US, though with no significant output until now.<sup>14</sup> Thailand presented a five-point proposal to the US trade representative aimed at narrowing Thailand's trade surplus by 50% within five years.<sup>15</sup> The deal highlights strengthening the US-Thai food processing trade, increasing inflow of US imports, opening up markets and reducing trade barriers, strict obedience to rules of origin, and ramping up Thai investments. Indonesia, along with the remaining ASEAN members, is looking forward to negotiating with the US, including reducing import restrictions and easing the business environment to foster their growth.<sup>16</sup>

Lastly, in April, Malaysia sent its delegation to the US to mediate about the tariffs and expressed optimism in striking a deal before the expiry of a 90-day halt on the tariffs. Malaysia has put the US in its priority while holding its nation's integrity

and protecting key industries such as electronics, semiconductors, machinery, etc.<sup>17</sup> Additionally, the Malaysian government has announced a package of relief measures to protect its small and medium enterprises potentially affected by the tariffs.<sup>18</sup> Given the economic dependence on the US, Malaysian representative prioritise their relations with the US on economic cooperation, education, and defence sectors.<sup>19</sup> The US leads in the FDI flows into Malaysia, specifically in semiconductors and tech. However, the two do not define themselves as major allies, and the US has often urged Malaysia to shift its attention away from China, but the latter, balancing between the US and China, is deepening ties with Beijing as well due to lurking fear of tariffs, it aims to diversify its partnerships on digital innovation, AI, green technology, etc. China is integrating its 'BeiDou Navigation Satellite System (BDS) into Malaysia's infrastructure, expanding rail and infrastructure projects, including the East Coast Rail Link.<sup>20</sup> The trade value topped 212.04 billion \$, and 3.8 million Chinese tourists visited Malaysia in 2024.<sup>21</sup> The plot is similar for other ASEAN members as well, navigating their pragmatic routes amidst uncertainties between China and the US.

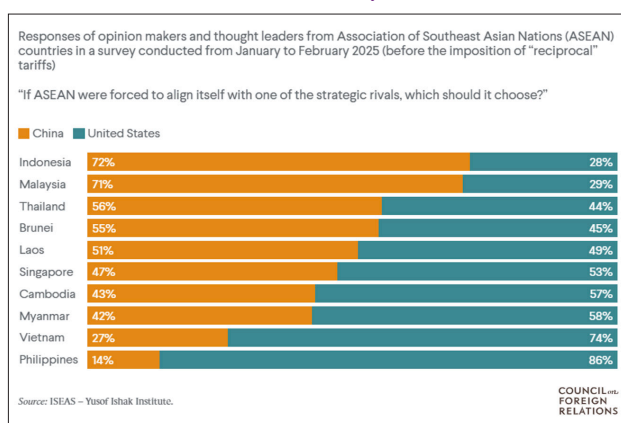
Most of the tariffs were paused by President Trump till the extended deadline of August 1. With the deadline ending, Trump reimposed the revised reciprocal tariffs, going into effect from August 7. ASEAN nations like Vietnam, is facing 20%, Thailand 19%, the Philippines 19%, Myanmar 40%, Malaysia 19%, Laos 40%, Indonesia 19%, Brunei, 25% and Cambodia 19%.<sup>22</sup>

Should the ASEAN bloc leverage its multilateral powers and economic integration to downplay Trump's policies or work in tandem with them? The answer to this depends on where the economic and political vulnerability of ASEAN stands vis-à-vis the US. Given its economic diversity and regional cooperation, ASEAN has turned out to be the fastest-growing trade area with its digital economy set to reach 1 trillion \$ by 2030, charting out to be a potential global leader. Southeast Asia is expected to grow at 4.9% relative to the US at 2.4% in 2025, and inflation at 3.1% for the former.<sup>23</sup>

ASEAN possesses certain demographic advantages essential for exponential growth. The intra-trade values are at 3.5 trillion \$. Boosting its tourism industry, the region attracted 123 million tourists in 2024 and plans to launch '6 countries, 1 destination', a joint visa framework.

The cooperative bloc also leverages the regional unity to its advantage. Through formations including AEC (ASEAN Economic Community), ASEAN Trade in Goods Agreement (ATIGA), and the ASEAN Framework Agreement on Services (AFAS), it aims to promote movement of goods and services, investments, skills, and capital, bolstering regional product sharing and network, and a higher level of transparency and predictability among members.<sup>24</sup>

**Figure 1: ASEAN Members in the US-China Competition**



Source: Council for Foreign Relations<sup>25</sup>

Comprehensively, ASEAN, which is dependent on both major powers, has adopted an approach of 'strategic hedging' to minimise its adversities, which works well for their nation's economic and political interests. Malaysia's and Vietnam's context reflects the relative importance both the US and China hold for the bloc, and pivoting towards one can be fatal because either nation's expanding authority could undermine the individuality of ASEAN, and make it difficult for ASEAN to hedge its bets. With Trump's tariffs and South China Sea dispute, ASEAN stands at a unique dynamic position, and whether it benefits from its neutral stance or convergence towards one power or aligns its vision via market diversification to other nations like Japan, Canada, South Korea, India,

etc., remains an open-ended question.

## India

Despite a month-long dialogue and bilateral talks between India and the US, Trump levied 25% tariffs on Indian goods entering into American market and some other penalties, effective from August 7, claiming India to be a "dead economy." A few rationales explaining the surprising move include India keeping a firm stance on protecting its Agricultural and Dairy sector from foreign competition, India buying cheap Russian Oil and arms despite sanctions imposed on Russia for its invasion of Ukraine, and India participating and bolstering its ties with the BRICS nations.

Irrespective of the more recent turn of events, New Delhi's approach to Washington on the tariff issue has reflected an accommodating outlook. Ahead of the liberation day tariffs announcement, US Secretary of Commerce Howard Lutnick warned India that it would impose double-digit tariffs if India did not scale down its import duties to zero or negligible levels from all sectors except agriculture. Washington has demanded the opening of the agriculture sector, as New Delhi continues to protect its domestic agro-industry, increase the defence supply from the US, and reduce dependence on Russia and BRICS, addressing de-dollarisation concerns. Finally, on 2 April, India was slapped with 26% tariffs, thus affecting the exports to its largest trading partner.<sup>26</sup> Nevertheless, universal tariffs were paused for 90 days after the announcement, with a resumption scheduled for July if no successful talks are finalised. However, on 4 June, tariffs on steel and aluminium products were raised to 50% from 25% on all the metal-exporting countries to the US, including India, except the UK.<sup>27</sup> America's agenda was to minimise its national security breach and boost domestic metal manufacturing. However, many industry experts have outlined that tariffs are not the only solution for expanding production and that certain reforms in the global trading system and alliances with key partners are integral to align the objectives. With adverse impact on its trade, India approached the World Trade Organisation (WTO) and proposed to



impose retaliatory tariffs and suspend concessions and other obligations. Yet, after multiple rounds of collaborative talks and negotiations, an interim deal is expected to be signed, settling roadblocks over duties on auto components, steel, farm goods, etc. while India keeps a firm stance on its agriculture sector and negotiates for more access in labour-intensive sectors like footwear, shrimp, oilseeds, gems and jewellery. Both sides aim to expand their bilateral trade to 500 billion \$ by 2030.

Despite Trump's exacerbating duties, India has maintained a collaborative outlook towards tariffs, keeping in mind its well-integrated and economic dependence on its largest trade partner. New Delhi is still open to holding talks with the sixth round of discussions to take place on August 25 in India. The ramifications of the tariffs on India seem minimal, as claimed by the State Bank of India research report, and more detrimental for the US.<sup>28</sup> Indian Commerce and Industry Minister, Piyush Goel, in response to the tariffs, has made a clear statement of upholding the interests and sovereignty of the Indian farmers, entrepreneurs, exporters, and MSMEs, and highlighted how India will continue to steer its pathway to become the third-largest economy by 2027.<sup>29</sup> India is working closely with stakeholders of the tariffs and with its US counterparts to look for a long-term, effective deal.

The tariffs are expected to hit both economies. However, the degree of effect cannot be quantified in the short run. The trade was valued at 118.2 billion \$ in 2024, and India recorded a trade surplus of 36.8 billion \$ in the same year.<sup>30</sup> America is the third-largest investor in Foreign Direct Investment inflows. Major items exported to the US include engineering goods, electronic goods, pharmaceuticals, gems and stones, and in return, India imports mineral fuels and oils, nuclear boilers and reactors, electric machinery and equipment, etc.

India remains the fastest growing economy, reassuring its global rise and on its pathway to becoming the third largest economy by 2050, amidst global uncertainties and slower or stagnated growth rates of major economies, including the US. Still, India needs to undertake certain structural reforms and work on its economic and political policies to reduce its dependence on the largest economy in the world<sup>31</sup>. However, what steps India is taking right from an economic and political lens, how it can benefit from the universal tariffs, and what it can do right to be on its path to becoming the most influential economy globally?

India emerges as the clear alternative to China for countries like Japan, South Korea, who are looking to diversify their supply chains or for fill-in purposes

due to their rifts with China and to prevent impact from Washington's unpredictability. India offers a high population base and a rising middle class to cater to, thus expanding the consumer base for manufacturers. Additional incentives, including a cheap labour force, government schemes like the 'Make in India' program, Special Economic Zones, political and macroeconomic stability, with strong and resilient financial markets, place India in a lucrative position.<sup>32</sup> Its high-end digital public infrastructure, positive bilateral ties with influential economies, and expanding partnerships with multilateral blocs like BRICS also give it a strategic advantage. Some studies show India's capability to create 50 million 'green economy' jobs by 2070.

On the flip side, as per the World Economic Forum report, India was relatively ranked poorer than the US based on policies and institutions that determine fairness and equal representation in society. While the digital revolution is revolutionising society, it can potentially create a digital divide if not transmitted appropriately amongst different sections of society. India has been able to reduce its poverty levels over a decade, but there has not been much improvement in the standard of living and well-being, with rising income inequality.<sup>33</sup> While the US and China are investing heavily in technology and AI, India still lacks an AI revolution. Additionally, India requires a skilled workforce, a shift in its structural composition, more tax breaks, and financial incentives for a competitive business environment. Investing in basic factors, education, health care systems, upskilling of its labour force, reducing inequalities, tech advancements, R&D with informed fiscal and monetary decisions will enable India to outshine and move smoothly towards its goals of becoming the second-largest economy by 2075.

India is diversifying its partnerships to reduce its reliance on a few economies like the US and expand its integration into the global supply chain. Some of the key actions include recently signing a Free Trade Agreement with the UK, 13 FTAs and regional trade agreements, including ASEAN-India Free Trade Area (AIFTA), India-BIMSTEC trade totalling 44 billion\$ in 2024, and speeding up the negotiations

for signing an FTA, besides many other economic arrangements including with countries like Japan, UAE and Australia.<sup>34</sup>

## Retaliatory Approach

Economies with certain comparative advantages often give them an edge while advancing their negotiations with other countries. For instance, China, Canada, Mexico, etc., have their respective advantages and a consolidated bilateral dependence of these nations and the US, entitle them to maintain a tit-for-tat approach.

## China

The US-China rivalry is not a new notion in international relations, but a new dimension was added by Trump's tariffs. U.S. total goods trade with China was an estimated \$ 582.4 billion in 2024 and shares a deficit of \$295.4 billion, with a 5.8% increase from 2023. The US accused China of fentanyl drug trafficking, Chinese subsidies hurting American workers, and threatening American companies to submit their intellectual property and technology.<sup>35</sup> On 1 February, the US levied 10% base tariffs on all Chinese goods, to which China responded with 15% on natural gas and coal and 10% on crude oil, farm machinery, and other products.<sup>36</sup> The same day, the US responded with 25% taxes on Chinese steel and aluminium products. The base tariffs were further increased by Trump from 10 to 20%. In March, China then retaliated with 10% on chicken, wheat, corn, and cotton, and a 15% on sorghum, soybean, pork, beef, and some dairy products. Trump further escalated the trade war on 2 April by raising the tariff rate to 54%, the highest amongst all the countries facing Trump's tariffs. China further responded with a 34% tax rate and restrictions on the export of six rare earth metals to the US. Every subsequent day, the two major economic powers were exchanging tariff retaliation.<sup>37</sup> The rates escalated from the announced 54% to 84% by the US.<sup>38</sup> To which China also retaliated, raising the rate on the US to 84%.

On 9 April, President Trump dropped a sigh of relief for the countries by pausing the tariffs for 90 days

and opening the floor for negotiations, but there was no halt vis-à-vis China. Instead, the rates climbed to 125%, with Beijing matching the rates after a couple of days.<sup>39</sup> After a month of vengeance, on 12 May, Beijing and Washington toned down their whopping tariffs to 10% and 30% respectively, indicating a significant move towards negotiations.<sup>40</sup> Finally, each country agreed on a framework and decided to uphold the Geneva agreements of 12 May. America shifted from threatening to cooperating with China, with a total of 55% tariff on China, inclusive of a 10% base and receiving 10% in return, and the continuation of the supply of key rare earth minerals in return for the removal of the revocation of Chinese students' visas.<sup>41</sup> Yet, the final picture of multiple engagements and talks between the US and Chinese representatives will be presented on August 12, when the 90-day pause agreed upon by both nations in Geneva will end.<sup>42</sup>

Figure 2: US Trade Deficit with China



Source: Statista<sup>43</sup>

It is imperative to make a contrast and comparison, to understand at what parity the two nations stand and how much pain each nation can inflict on the other, or take it to sustain its economy. To what extent are the two economies integrated such that the tariff retaliation would have dire consequences on their macroeconomic performance?

China is one of the largest export destinations for the US and vice versa. China also holds the second-largest US treasury bonds, approximating 760 billion

USD after Japan. Disruptions in their bilateral relations can be fatal for the two, eventually culminating in a serious global scenario. The US and China failed to adopt the negotiated Phase One agreement in 2020, under which the Biden administration imposed duties on Chinese steel and aluminium and curbed US investments in technologies that might help in the expansion of the Chinese military. The failure to adopt the agreement was followed by both economies experiencing slashed growth rates, increasing trade deficits and failure to divert Chinese goods as the US imported them through channels via Mexico.<sup>44</sup> Bolstering trade relations with China can even lead to a loss in manufacturing jobs and a national security breach through espionage for the US. Additionally, Chinese producers are often accused of stealing American technology to strengthen their defence powers, manipulating the Chinese Yuan to make American goods expensive in the global market relative to Chinese products. Provision of subsidies, hurting the American producers' sentiments and the violation of labour rights in China are some other key concerns for the US in expanding its relations with China.

The two economies are intertwined in various ways.<sup>45</sup> China is the world's manufacturing hub and a centre for innovation. Diffusion of such innovations and market integration will imply lower prices for the consumer. China is making rapid advancements in science, technology, security, and defence. Moreover, China also encompasses 70% of rare earth minerals essential for defence purposes and holds 90% of the global patents, thus giving an edge to China in the latest tariff deals with the US.<sup>46</sup> Any restriction on consumer-focused minerals further worsens the situation for America. Additionally, top American enterprises such as Apple, Walmart, and Ford will face a devastating impact on their efficiency and employment due to critical minerals restrictions and high dependency on Chinese imports.<sup>47</sup> Tariffs could also shift China's focus on expanding trade with other countries, where they are also shifting their focus to other strategic partners, from the US, to evade the consequences. Beijing could promote the exchanges in renminbi currency, thus reducing the dollar's domination in internal transactions, hitting



one of the major sources of revenue for the US. On the flip side, how is the US trying to outplay its Chinese counterparts? Maybe the answer lies in 'friendshoring'. While China continues to expand its assertiveness in the Indo-Pacific region, the US is diversifying its ties with Asia and Europe. The US initiated the Indo-Pacific Economic Framework and is a key contributor in the 'Partnership for Global Infrastructure and Investment', undertaken by the G7 bloc to meet the global infrastructure demand of the developing nations. China, on the other hand, promotes the Shanghai Cooperation Organisation (SCO), the BRICS, the Regional Comprehensive Economic Partnership (RCEP) and has been expanding its Belt and Road Initiative. Moreover, to reduce some reliance on Chinese rare earth minerals, the US has signed an MoU with Saudi Arabia to jointly develop a rare earth supply chain in West Asia. Besides these, the US is also shifting the semiconductor supply chains from China to Taiwan, South Korea, Japan and Solar battery production and clean energy technologies to India.<sup>48</sup> Friendshoring and diversification were common practices during the Biden Administration. But Washington's approach has undergone a shift under the Trump administration, and even the global outlook of countries towards the US has changed post-tariffs. Earlier, the US could rely on India, ASEAN, Canada,

Mexico, Japan, the EU, etc., but now these countries are under Trump's tariff umbrella, affecting bilateral relations.

How Trump will manoeuvre this diversification and sort out America's dynamics with China, remains a critical question. The same question holds for China, as many persistent issues, including territorial disputes and transgression, plus allegations of unfair trade practices with many countries, make it difficult for Beijing to offshore and diversify its trade base to protect its economy from the US protectionist tendencies.

## Canada

Canada is one of the most significant trading partners of the US in its top two list. A United States-Mexico-Canada (USMCA) agreement was signed in 2020 among the United States, Mexico and Canada, replacing the North American Free Trade Agreement and building a free trade arena. Under the IEEPA Act, addressing the concerns related to trade discipline, illegal migration, drug interdiction, and defence spending, Trump imposed a 25% tariff on Canadian imports, along with a baseline 10% tariff on 1 February. However, tariffs were paused for 30 days after a couple of days, as Canada

agreed to take cooperative action against fentanyl smuggling, immigration and money laundering. With no significant actions in place, the US decided to reimpose the 25% tariffs and 10% on Canadian energy after a month. To this, Canadian Prime Minister Justin Trudeau reiterated his administration's efforts to tackle the drug flow on the border and, claiming the tariffs to be unjust, he retaliated with 25% tariffs on American goods worth 155 billion \$.<sup>50</sup> But realising the adversities tariffs will impose on both nations, impacting the US-Canada trade relations, Trudeau opened the doors for negotiations with Trump while keeping a firm stance on its economy, jobs and workers. With no conclusive negotiations, on 6 March, the tariff rate was amended to 25% on goods not satisfying USMCA preferences by the US, and a lower 10% tariff on energy products falling outside USMCA preferences. Additionally, a lower 10% was announced on potash imported from Canada and Mexico, lying outside the USMCA preferences and no tariffs on goods qualifying under USMCA preferences.<sup>51</sup> On 10 March, Canada responded with a 25% surcharge on electricity exported to the US.<sup>52</sup>

Tensions were escalating as every day, the two countries were exchanging snowballing tariff rates. Washington targeted the steel and aluminium sector by threatening of 25-50% tariff, inducing Ottawa to roll back its surcharges on electricity.<sup>53</sup> Continuing the tit-for-tat game, the same day, Trump rolled back his metal tariffs, too. However, on March 12, addressing the concerns related to national security, America decided to impose additional ad valorem duties on countries it imports steel and aluminium from, including Canada.<sup>54</sup> Ottawa immediately took countermeasures and levied 25% on certain American goods based on the eligibility criterion released by the Canadian government in the document named 'Determination of Country of Origin for the Purpose of Marking Goods (CUSMA Countries) Regulations'.<sup>55</sup> Canada and Mexico were not mentioned on the tariff board presented by Trump on the 'liberation day', as the two were exempted from those tariffs. But this was not a sign of relief, as the condition of 'USMCA compliant goods will continue to see a 0% tariff, non-USMCA compliant goods will see a 25% tariff, and non-USMCA compliant energy and potash will see

a 10% tariff' continued to hold.<sup>56</sup> Later, on 9 April, tariffs on all countries were paused to present their best deals. Ottawa and Washington are engaging in extensive talks, bargaining on the digital service tax, and are hopeful of cracking a deal soon.<sup>57</sup> Despite the negotiations, Trump increased the tariff from 25 to 35% on non-USMCA goods, alleging Canada's failure to curb the fentanyl flow and other drugs across the US border. Ottawa is responding by reducing its overdependence on the US and integrating its supply chains with other trading partners, as marked by Mary Ng, former Canadian International Trade Minister.<sup>58</sup> Trump's decision to increase the tariffs came after the Canadian Prime Minister voted in favour of considering Palestine a state, given that certain conditions are met.

For America, Mexico, China, and Canada are its top three export markets. The US-China trade war and barrage of tariffs on Canada and Mexico cost the US economy, depending on its reliance on international trade and how well the US can diversify this reliance on other partner countries. The US economy might spiral down in its growth with soaring inflation, hurting its workers, shaking the consumers, mainly middle-class earners, and business confidence, thus affecting their financial markets and reducing the earnings per share. The US is mainly dependent on Canada and Mexico for automobile and agricultural products, for pharmaceuticals, textiles, and other products on China. These sectors will be severely hit. For reshoring, too, it is a long-term tedious process requiring impeccable bilateral relations and capital to seed in, thus making substitution costly and a time-consuming process, leading to short and medium-term imbalances in the economy. Much literature considers these tariff rates as a bust for the US economy rather than a boon. However, President Trump downplayed Canada by remarking it as the 51st American state, showing Ottawa's dependence on the largest economy.<sup>59</sup>

The US accounts for 64% of Canada's total trade, and its trade value was 960.9 billion \$ in 2022.<sup>60</sup> Ottawa supplies 51% of the US total oil consumption, along with natural gas and electricity. Canadian companies invested 620 billion \$ in the

US and 550 billion \$ by US companies into Canada, indicating a valuable amount of funds flow. The trade between the two creates 2 million jobs. With tariffs, Canada's automobile, agriculture and energy sectors will be hit the hardest. Due to easy cross-border movements and spatial advantages, Canada and the US are each other's most cost-effective and pragmatic trade partners. Canada and America are highly integrated markets. Drastic changes in their trade dynamics can have severe repercussions on both economies. Politically, the US holds a much powerful position vis-à-vis Canada, but in terms of trade, there is a relative parity between the two neighbours.

Canada is expanding its trade base in the Indo-Pacific region, West Asia and North Africa. The trade commissioner service of Canada initiated 118 FTA promotion programmes and strong support for export diversification, other than the US.<sup>61</sup> It has also signed 15 FTAs with 51 countries, supporting a 1.5 billion-customer base. Over 38.3 million \$ was disbursed to small and medium businesses to diversify their export markets in 2023-24. Over the years, Ottawa's exports to non-US markets are on the rise, and there has been a steep growth in its two-way trade after the signing of the FTAs. However, Canada is one of the countries with the largest trade value with the US, and diversification can cost them in many ways, as discussed above.

### Golden Mean Approach

With India, ASEAN following a collaborative approach, while Canada, China adopting a retaliatory approach, some nations are choosing a mixture of the two extremes.

### The European Union

The European Union, which is one of the largest trade partners of the US, has adopted this mixed approach as the bloc is united enough to counter the US tariff measures yet maintain a flexible approach to protect its nation's interests and integrity. Each nation also differs in its outlook towards dealing with tariffs. There are varied responses within

the EU. Countries like Italy, Ireland and Hungary prioritise de-escalation and diplomacy, while others like France, Germany and Spain are rooting for a more combative approach.<sup>62</sup>

Owing to the trade deficit and certain non-monetary trade barriers, including Value Added Tax (VAT) and Digital Services Tax (DST), the US has called out the EU for imposing VAT on American goods imports and DSTs collected from American big tech companies' services, as these malpractices continue to disproportionately affect their enterprises. President Trump initiated the trade confrontation with the EU in March by imposing an additional 25% ad valorem tariff on steel articles and derivatives.<sup>63</sup> Claiming the tariff imposition to be unjustified with an estimated loss of 8 billion €, "The commission allowed the suspension of the existing 2018 and 2020 countermeasures against the US to lapse on 1st April" and announced an additional package of countermeasures to a loss of 18 million € inflicted by the US's new tariff rates.<sup>64</sup> Despite the retaliation, the EU has maintained a poised stance in open negotiations with the US, aiming for mutually beneficial outcomes. However, the Trump administration's threat-and-win-over approach will only harm the integral trade relations. While the US maintains its threatening outlook, in retaliation for EU tariffs on American whiskey, Trump, on Truth Social, claimed, "If this Tariff is not removed immediately, the U.S. will shortly place a 200% Tariff on all wines, champagnes and alcoholic products coming out of France and other EU represented countries."<sup>65</sup> France remarked it was a mistake by the EU to impose duties on American Whiskey in an attempt to prevent its French Cognac industry from damage due to the duty. A similar concern was also raised by Italy. So, keeping France and Italy's concerns in the loop, the bloc agreed to narrow down its arena of target products from worth 21 billion € to 18 billion € to impose tariffs on, to be effective in two batches, on April 1 and April 13. However, to rekindle the ties, the EU decided to halt the tariffs by mid-April, to initiate negotiations prioritising the reindustrialisation and boosting investments in the bloc<sup>66</sup>.

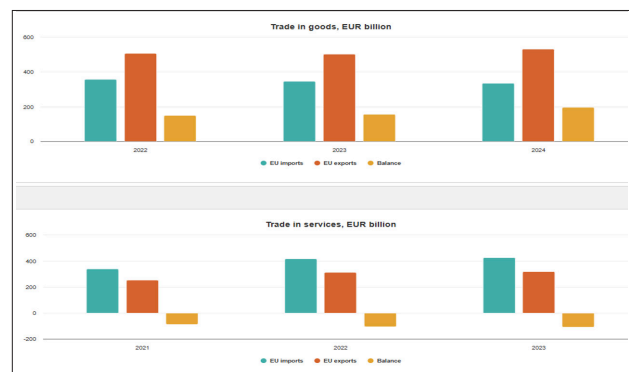
On 2 April, amidst the ongoing metal tariff row, President Trump declared a national emergency, thrusting the world economy with a volley of tariffs, including the union with a 20% USA discounted reciprocal rate.<sup>67</sup> The tariffs are expected to lead to a structural shift in the preferences of European consumers to non-American brands, more likely due to the instilled emotions of anti-American abhorrence, thus affecting the integrated trade partnership between the US and the EU.<sup>68</sup> The European Commission members marked Washington's action as damaging and unjustified to the European and global economy, and thus, retaliated with 25%. Just a week after Trump paused the reciprocal tariffs for 90 days, with a baseline rate of 10% still applicable, president of the EU Commission, Ursula von der Leyen responded with a similar tariff pause, with failing negotiations resulting in countermeasures.<sup>69</sup> During the truce period, the two trading partners engaged in extensive negotiations. However, the two failed to reach a consensus, and the US threatened to impose 50% tariffs, as Trump's treasury secretary, Scott Bessent, claimed that the negotiations with the EU were not in good faith and termed the collective action problem as a possible reason. With an extended deadline till August 1, the US and the EU concluded a wide-ranging agreement including a 15% tariff on most of the European goods entering America. Goods belonging to sectors like Agriculture, Aviation parts, semiconductors, and certain chemicals are exempted from the tariffs. Furthermore, the Union is committed to buying 750 billion \$ worth of energy from the US and investing 600 billion \$ in the American economy.<sup>70</sup> To the deal announced, there was a mixed reaction from the member countries, with some lauding the sweeping tariffs reduced to 15% and bringing some clarity and predictability to the complex and perplexed economic environment. Others criticised the deal for the EU not keeping a firm and resisting stance in front of the US. Hence, the deal is not legally binding, and some areas of the framework will continue to be negotiated.<sup>71</sup>

Inconclusive talks often lead to speculative calculations and analyses about which economy outperforms the other and how they approach the

trade war, depending on the relative economic and political advantage the nations hold. Will the US maintain its global stewardship or with inward-looking policies, influential contenders, including the EU, will take over the world?

The EU was the largest trading partner of the US, with trade value exceeding 975.9 \$ billion in 2024. Major trade items include petroleum oil, medicines, pharmaceutical products, motor cars and vehicles, and aerospace parts and components, essential for security concerns and indigenous productivity. Additionally, the two markets are well integrated via investments, with EU and US firms having 4.7 trillion € worth of investment in each other's markets in 2023.<sup>72</sup> Given the trade and investment composition shared by the two nations, imposing trade barriers would have dire consequences, risking the loss of 2.3 million jobs created from goods and services trade and 3.4 million from cross-border investments, thereby hampering their bilateral relations.<sup>73</sup>

Figure 3: US-Europe Trade Values in Goods and Services from 2022-24



Source: European Commission<sup>74</sup>

What relative importance does the EU hold vis-à-vis the US? A World Economic Forum report titled 'Is Europe outperforming the US?' mentions that despite the US being the world leader in terms of well-being and economic growth, the EU has surpassed the US. The EU has been able to harness a better wealth accumulation environment for its citizens relative to the US. Since 1994, there has been a parallel trend in GDP per capita growth of both nations. However, after the 2001 American technological crisis, coming out of the collapse of the dotcom bubble, the EU reported exponential

growth, but the US experienced a rebound growth after the 2008 asset market financial crisis and maintained it owing to tech-driven growth. As per a Boston Consulting Group study in 2015, the economic well-being measured on ten dimensions like infrastructure, income, economic equality, sustainability, governance, health, education, etc., the average of the EU is higher than the US value.<sup>75</sup> The EU's growth in the real average income of the population belonging to the lower 90% over 1950-2013 outperformed the US's, implying the former has been able to generate wealth for the entire society, ensuring an equitable distribution. Additionally, the debt-to-GDP ratio is relatively lower than that of the US, indicating healthy fiscal balances. Since 2000, employment has been on the rise in the EU, while in the US it has been on a declining trend. On a political front, the union stands united along with a well-educated common market workplace, benefits from low-cost development and greater social responsibility for welfare and climate issues. The achievements could be attributed to overarching policy decisions and prioritising commitments to the citizens.

From the trade perspective, the bloc is expected to have manageable negative impacts of tariffs. The trade flows will reduce in a higher magnitude for the US, depending on the retaliations from other nations, implying US GDP is expected to contract by 0.7% relative to the EU, with 0.3%.<sup>76</sup> Certain European economies like Ireland and Italy, with the largest trade share with the US, are more likely to be impacted. Yet there will be greater suppression of demand in the US relative to the EU. Trump's intention of boosting domestic production will be offset by higher import costs of inputs, converging into a supply shock spiral.<sup>77</sup> Tariffs can result in inflationary pressure, inducing monetary tightening policies and a higher nominal exchange rate, leading to improved terms of trade (TOT) for the US. As a mirror effect on the EU, tariffs can lead to poor TOT, but recessionary forces induce deflation, exchange rate depreciation, and monetary easing, augmenting domestic demand. Additionally, tariffs are expected to reduce the US trade deficit by 1.3 to 1.5% of GDP, only temporarily reducing imports, having no

medium-term effects. However, a report on 'Long-term competitiveness of the EU: looking beyond 2030' has noted weak average productivity growth, changing demographics, slower technological adoptions, and investments in research and innovation as some of the key bottlenecks for the EU to work upon to bridge the gap between the two. The twin 'European Green Deal' and 'Digital Decade', along with a focus on inclusive growth, sustainable competitiveness, economic security, trade, open strategic autonomy, and a fair competition approach, would strengthen its global competitiveness.

Diversification is a countermeasure at play. The EU can regain its lost market share by diversifying its exports to third countries looking for alternatives to expensive American goods. Partnerships like the Canada-European Union Comprehensive Economic and Trade Agreement between the EU and Canada bolstered exports and diversified supply chains for the EU.<sup>79</sup> The bloc has launched free trade talks with the UAE to boost trade worth 55 billion €. <sup>80</sup> With Japan<sup>81</sup> as its third-largest trade partner, it reaffirms close cooperation on trade and economic security. To foster its digital development, the EU signed the Digital Trade Agreement with Singapore<sup>82</sup>, as 60% of the global GDP is linked to digital transactions. Conclusively, the European Union stands in a secure position and at par with the US as it continues to broaden its partnerships and strike a deal with the US, while working on its internal affairs.

## Conclusion

Holistically, the aftermath of the tariffs depends on negotiations and trade deals the US and its counterparts agree to, the contribution of global exchanges and integration in the global market, international dynamics with third countries, and fiscal and monetary decisions of the respective nations. Trump's tariff policies and the insistence on reciprocity plus bilateral negotiations have injected an urgency among countries to protect and promote their respective interests in dealing with the United States. Such strategies have led to more short-term and ad-hoc strategies among nations, which might only fragment the existing multilateral order and

have negative repercussions on the global outlook, at least in the short run. It is evident from the above context that countries like India and ASEAN, which are dependent on the US, an escalating trade tension can inflict a serious threat to their economic outlook. Though India and ASEAN are looking forward to diversifying their trade partners and integrating the supply chains with the potential countries, yet, with the US being their largest trade partners, in the short run, offshoring can prove to be an unviable option, and maintaining a collaborative approach is one of the reasonable alternatives. Another approach commonly adopted by the nations sharing a bilateral dependence with the US is of Retaliation approach. Classic examples like China and Canada, which share advantageous trade positions with the US due to their well-integrated trade markets and certain economic relative advantages, Beijing and Ottawa started with a tit-for-tat approach, which went on for a month. Recently, Trump announced an agreed framework with China with much lower tariffs and ease on certain restrictions, but the negotiations between Canada and the US are not going in favour of the former.

Lastly, some nations value their dependence on the US and their autonomous stance, too. The European Union nations, leveraging their collective twenty-seven members' economic and political powers,

stand as a tough competitor to the US in the trade war. However, keeping in view the heterogeneity in the stance of the European nations towards the US and to protect each member's interest and sovereignty, the EU bloc has kept a methodological and balanced approach of retaliation and being accommodating.

The paper analysed the role of economic dependence and political alignment of each specified nation in shaping their responses to the inward-looking strategies of the US. It also underscored the emergence of new, diversifying alliances and trade frameworks as a countermeasure to the tariff threats, and how resilient and challenging aggressive unilateralism, initiated by the US, can be to multilateralism. Comprehensively, the paper aimed to understand the policies, the institutional strategies and outlook, power, politics, and economics of each nation that shape the global landscape amidst Trump's trade war and other geopolitical upheavals.

The final tariff rates, their ultimate impact on each country, and what approach each of them settles on, remain an open-ended question. Countries can lie at the intersection of one or the other approaches, and the categorisation depends on the final responses and deals they agree to. •

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