Tariffs in International Trade: Assessing Their Economic Costs and Strategic Impact

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Abstract

Trade tariffs have become a common feature of global trade in response to dumping, trade imbalances, and efforts to protect emerging industries. However, they have also had adverse effects on the global economy, including trade wars, international tensions, and inflation, among others. This paper critically examines the costs and impacts of tariffs on the global economy, using a qualitative approach and referencing relevant published literature. It finds that the benefits of tariffs are generally offset or surpassed by their negative effects, except when they are imposed appropriately. Therefore, it proposes a six-point framework to guide the proper implementation of tariffs.

Keywords: Tariffs, Global trade, Infant Industries, Protectionism, Trade wars

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1. Introduction

Tariffs, which are government-imposed levies on imports, sit at the crossroads of free trade and globalization on one side and self-sufficiency and protectionism on the other (Furceri et al., 2020). Typically, tariffs are imposed by one nation on another, or, as the U.S. recently demonstrated, on others, highlighting their impact on the global economy, especially when a major world power is involved (Contractor, 2025). Their justification often stems from protectionist goals, but left-leaning individuals argue that the claimed benefits are often outweighed by the negative effects, first on the nation's economy and then on the global economy (Contractor, 2025). This paper revisits this debate.

This paper consolidates previous debates and critically examines the positive and negative impacts of tariffs on the global economy. It is structured into five sections: Section One introduces the article and provides a brief background; Section Two explores the conceptual and theoretical foundations of tariffs, free trade, and protectionism; Section Three critically analyzes the costs and effects of tariffs on the global economy, using case studies and statistical data; Section Four proposes a six-point framework for implementing tariffs with minimal harmful effects; and Section Five concludes the study.

2. Conceptual and Theoretical Framework

The concepts frequently discussed in this paper are tariffs, free trade, and protectionism. Tariffs are any government-imposed levies, including taxes, customs duties (import, export, and excise), and rates for government-provided services (Demirel & Demirel, 2019). However, this paper focuses on customs duties applied to imports and exports; therefore, when using the term tariffs hereafter, it refers specifically to this meaning. Free trade can be seen as the opposite of tariffs; it refers to an economic policy or system in which cross-border trade occurs without restrictions, such as tariffs (Furceri et al., 2020). Protectionism serves as a justification for imposing tariffs, arguing that it protects domestic infant industries from external competition (Fajbelbaum et al., 2019).

These terms are based on specific theories that need explanation. Cross-border trade, and by extension free trade, stems from David Ricardo's comparative advantage theory, which emphasizes that nations should produce goods and services where they have a competitive edge and import those where they do not. However, others do

(Bairoch, 1972). Tariffs and their protectionist roots were shaped by sovereignty and populist theories that argue for national self-sufficiency and promote an "us-versus-them" mentality, where "us" refers to locals and "them" includes outsiders, minorities, immigrants, etc. (Berman, 2021).

2.1 A Critical Analysis of the Costs and Effects of Tariffs on the Global Economy

Tariffs have both positive and negative effects, as Contractor (2025) accurately summarized in Figure 1 below. This section critically analyzes some of these effects individually, starting with the positive ones.

2.2 Positive Effects of Tariffs on the Global Economy

Firstly, tariffs boost the revenue of the collecting country, enabling more funding for domestic spending and foreign investment, which helps drive economic growth (Angwaomaodoko, 2024). Data from the Tax Foundation indicated that tariffs collected between 2019 and 2023 totalled about $223 billion (York, 2024). However, it is argued that this increased revenue is largely offset by the economic effects of retaliatory tariffs and higher costs passed on to consumers, resulting in a net loss (Contractor, 2025).

POTENTIAL AND PURPORTED BENEFITS	COSTS
Increased import country government revenue from collecting tariffs at the border	Retaliation from trading partners and strain on relationships needed for tackling global issues
Increased domestic manufacturing if local production becomes viable because of tariffs	Decrease in the country's export sector jobs due to retaliatory tariffs imposed by trading partners
Increased domestic jobs if local production becomes viable again because of tariffs	Tariffs increase the cost of imported inputs for companies that depend on imported inputs
Increased (foreign and domestic) investment in the economy and more foreign investment as a substitute for tariffed imports	Sharp price increases of consumer goods as tariffs are added to other normal supply chain costs. Domestic producers may also match price rises.
Reduced vulnerability in strategic and defense sectors if tariffs induce investment in domestic strategic technologies and products	Higher cost-of-living wage increases demanded by workers leads to higher inflation – then companies pass on higher wage costs in the form of still higher prices charged to consumers
Benefits to friendly partner countries if export production is diverted to those nations from China	Higher interest rates to combat tariff-induced inflation – mortgages, car loans, and other financing would therefore cost more
Strengthened ties with neutral nations if export production is diverted to those nations from China	Possible recession with higher prices, fewer domestic jobs, and hiked interest rates
The "infant industry" theory: Nascent industries and innovation can be fostered by giving protection to key sectors (until the "infant" grows up and can withstand international competition), after which tariff protection can be lowered	Detriment to multilateral cooperation among allies, which is needed for negotiations on global issues -- upholding democracy, limiting wars, combating climate change, regulating deep sea mining, and maintaining the neutrality of Antarctica, astronomical bodies, and space
A feeling of national pride for some	Ultimately, trade protection reduces the ability of domestic firms to be innovative and internationally competitive

Figure 1. Benefits and Costs of Tariffs on the Global Economy (Contractor, 2025)

Another positive effect of tariffs on the global economy is their role in reducing dumping, a trade practice where goods are exported to another country at a price lower than their normal value in the exporter's domestic market or below the cost of production (Irwin, 2005). In most cases, the impact of dumping is the decline or collapse of domestic industries (Prusa, 2005). Tariffs help to prevent dumping, thereby promoting fairness in international trade and supporting national economic growth, all of which influence the global economy (Irwin, 2017).

Finally, tariffs have the potential to boost both foreign and domestic investment, which are indicators of economic growth and contribute to strengthening the global economy (Contractor, 2025). The implementation of tariffs often leads to retaliatory tariffs or higher prices for tariffed goods and services, both of which ultimately discourage consumers from purchasing tariffed imports (Nwoke, 2020). As an alternative, governments and firms tend to invest more domestically, thereby stimulating the growth of local industries (Waugh, 2019).

2.3 Negative Effects of Tariffs on the Global Economy

While the imposition of tariffs may bring some benefits, it also causes negative consequences, the most obvious being retaliatory tariffs from trading partners, which can ignite a trade war (Ma, Ning, & Xu, 2021). History is filled with examples of this, including recent instances like the 2018 and 2025 US-China tariff wars (Amiti, Redding, & Weinstein, 2019; Angwaomaodoko, 2024; Itakura, 2020). Although trade wars might benefit some, they usually harm many unsuspecting countries and weaken the global economy through job losses and inflation (Freund, Mattoo, & Ruta, 2020).

Another negative impact of tariffs on the global economy is the sharp rise in consumer goods prices, whether the goods are imported or domestically produced (Contractor, 2025; Furceri et al., 2020). In cases where demand is inelastic, as with most consumer goods, the tax burden is readily transferred to consumers through higher prices (Contractor, 2025). This initiates a continuous cycle of increases—prices, wages, taxes—ultimately leading to inflation (Furceri et al., 2019; Furceri et al., 2020). In the U.S., where tariffs often appear to be a favored economic strategy, Yale Budget Lab economists estimate that, depending on the level of retaliation from trading partners, inflation could increase by 1.4% to 5.1% above current levels (Yale Budget Lab, 2024).

Finally, tariffs hinder bilateral or multilateral economic cooperation, which is essential for addressing global economic issues like poverty and income inequality (Contractor, 2025). The U.S.-China trade wars have severely strained relations between the two countries, making a partnership or coalition almost impossible (Fetzer & Schwarz, 2021). Similarly, the high tariffs imposed by the EU and US on African imports are impacting their ties, causing many African states to turn to China for their trading needs.

3. A Proposed Framework to Guide Tariff Imposition

While Contractor (2025) and several others (Furceri et al., 2020) argue that tariffs have a net negative impact on the global economy, this author suggests that this is not necessarily the case. Tariffs, as mentioned earlier, have several positive effects, most of which can be achieved without corresponding harm. To this end, this paper proposes a six-point framework to guide the imposition of tariffs.

1. Evidence-based Justification: The indiscriminate and politicized imposition of trade tariffs largely contributes to the negative impacts of tariffs on the global economy (Fetzer & Schwarz, 2021). Therefore, before implementing any tariff, governments should conduct comprehensive cost-benefit analyses to evaluate its potential effects. A tariff should be imposed only if the data show that its benefits, such as protecting infant industries or addressing trade deficits, outweigh its costs. Contractor (2025) provides a good example of the U.S. imposing a 100% tariff on imported Chinese electric vehicles (EVs) to support its emerging EV industry.

2. Legal and Regulatory Compliance: Global trade does not operate in a vacuum but is guided by legal and institutional frameworks, with the World Trade Organization (WTO) General Agreement on Tariffs and Trade (GATT) (1994) being one of the most prominent. Tariff policies should align with the well-thought-out provisions and rules of the WTO/GATT, which promote trade liberalization with necessary exceptions. This reduces the arbitrariness of tariff policies, supports global economic integration, and limits trade wars.

3. Bi- or Multilateral Coordination: Sudden imposition of trade tariffs without prior consultation or coordination with trading partners is a significant cause of trade wars and their negative consequences (Itakura, 2020). A more thoughtful and diplomatic approach would be more effective. Rather than taking what appears to be an authoritarian approach that breeds mistrust, countries should engage in bilateral or multilateral discussions with trade partners before imposing tariffs. This dialogue can often reveal alternative solutions, such as technical knowledge transfer agreements, and at the very least, prevent retaliatory measures.

4. Targeted and Temporary Application: "When the purpose of a thing is not known, abuse is inevitable." These words from Myles Munroe highlight that every action should serve a specific purpose. Trade tariffs are no exception to this principle; they should be directed at specific sectors or goods where market distortions are statistically evident. Additionally, they should be time-limited rather than permanent measures, as permanent measures can cause irreparable damage to the global economy. Applying tariffs in this manner can reduce retaliation and help achieve the desired economic goals of growth and sustainability.

5. Diversification and Industrialization Economic Policies: Trade tariffs, in isolation, neither genuinely protect infant industries nor effectively address trade imbalances. This is why Contractor (2025, p. 6) describes the infant protection benefits of trade tariffs as 'slightly or partially valid". This is especially important given that not all imported goods are consumer products; some are capital goods vital to manufacturing. Therefore, trade tariffs, when applied, must be supported by policies that promote domestic industrial diversification and

competitiveness. Trade tariffs should not serve as permanent shields to protect inefficiency or a lack of innovation. However, they should be temporary measures to shield developing domestic industries as they rapidly grow into international competitiveness.

6. Periodic Review and Termination: Everything that has a beginning has an end, and trade tariffs should be no exception. Governments should conduct periodic assessments every three or five years or as practically possible, to determine whether the imposed tariff has achieved the intended objectives. If it has, the tariff should be removed and trade liberalization allowed. If it has not, the tariff should be modified or supplemented with other economic policies. This approach will ensure transparency and credibility, preventing the politicization or weaponization of trade tariffs.

4. Conclusion

In conclusion, tariffs are government-imposed levies, such as taxes, customs duties (import, export, and excise), and rates. They serve a variety of objectives, such as preventing dumping, protecting infant industries, correcting trade imbalances, generating revenue, and promoting industrialization, among others. However, they can also trigger adverse effects, including retaliatory measures that escalate into trade wars, price increases, disruptions to the global supply chain, and bilateral or multilateral disputes. The available evidence shows that the negatives outweigh the benefits, but more can be done to turn the tide around.

Therefore, this paper proposes a six-point framework for the thoughtful and positive implementation of trade tariffs. The first point stresses the importance of research to provide an evidence-based, rather than politically motivated, justification for imposing tariffs. The second and third points emphasize the need for legal compliance and stakeholder management in tariff impositions to help prevent retaliatory actions. The fourth point supports the targeted and temporary use of tariffs to avoid their politicization and weaponization. The fifth point calls for enforcing diversification and industrialization policies as complements to trade tariffs. The sixth point establishes review and termination mechanisms to ensure that trade tariffs do not remain beyond their usefulness.

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