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Tariff wars and the Global South: Economic impact and trade flow implications of the contemporary tariff conflict

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ABSTRACT

The resurgence of protectionist trade policy in the twenty-first century has precipitated a complex and consequential realignment of the global trading architecture. This study examines the economic impact and trade flow implications of the contemporary tariff conflict—commonly referred to as the "tariff war"—on economies of the Global South, comprising developing and emerging-market nations across Sub-Saharan Africa, South and Southeast Asia, Latin America, and the Middle East and North Africa (MENA) region. Drawing on macroeconomic data from the World Trade Organization (WTO), World Bank, and International Monetary Fund (IMF), this paper employs a multi-dimensional analytical framework incorporating trade diversion theory, terms-of-trade analysis, and computable general equilibrium (CGE) modelling insights to assess short- and medium-term economic consequences. The findings indicate that Global South economies face asymmetric and disproportionate exposure to tariff escalation initiated between major trading powers, particularly the United States and China, due to their structural dependence on commodity exports, limited export diversification, and vulnerability to capital flow reversals. While certain countries have accrued marginal gains through trade diversion, the aggregate macroeconomic effects—including GDP contraction, inflationary pressure, currency depreciation, and deteriorating terms of trade—are substantially negative. This paper argues that the tariff war fundamentally represents a structural threat to the development trajectories of Global South economies, underscoring the urgency of coordinated multilateral policy responses and South-South trade integration as adaptive strategies.

Keywords: tariff war; Global South; trade flows; economic impact; trade diversion; protectionism; developing economies

1. INTRODUCTION

The early decades of the twenty-first century were characterised by the deepening of global economic integration. Successive rounds of multilateral trade negotiations, anchored by the World Trade Organization (WTO) framework, reduced average applied tariff rates and expanded preferential trade agreements, engendering unprecedented growth in international trade volumes. Yet this liberal trading order has experienced its most acute disruption since the interwar period of the 1930s, as geopolitical rivalries and domestic political economies in advanced industrialised nations have catalysed a renewed embrace of protectionism. The trade conflict principally initiated between the United States and China beginning in 2018—and intensifying again in 2025 under the Trump administration's sweeping tariff announcements—has fundamentally reordered the global trading architecture, generating cascading effects that extend far beyond the bilateral antagonists themselves.

The economies of the Global South—a heterogeneous constellation of developing, least-developed, and emerging-market economies spanning Sub-Saharan Africa, South Asia, Southeast Asia, Latin America, and the MENA region—occupy a structurally precarious position within this turbulent landscape. Characterised by commodity-dependent export structures, shallow domestic financial markets, limited fiscal space, and high dependence on multilateral and bilateral trade preferences, these economies are ill-equipped to absorb external shocks of the magnitude generated by major-power tariff conflicts. The academic literature on trade wars has predominantly focused on the bilateral dynamics between advanced economies, leaving a significant lacuna in scholarly understanding of the transmission mechanisms through which tariff conflicts affect the developing world.

This paper addresses that lacuna by providing a systematic, empirically grounded analysis of the economic impact and trade flow implications of the contemporary tariff war on Global South economies. The study is guided by three principal research questions: (1) Through what channels does the major-power tariff war transmit economic shocks to Global South economies? (2) What are the aggregate and disaggregated trade flow effects on developing-country export sectors? (3) What macroeconomic consequences—including effects on GDP growth, inflation, currency stability, and fiscal balances—have materialised or are projected to materialise in Global South economies as a result of tariff escalation? The paper proceeds by reviewing the relevant literature, establishing a theoretical framework, analysing key empirical evidence, and drawing policy-relevant conclusions.

The significance of this inquiry extends beyond academic interest. As the World Bank (2024) projected that global trade volume growth could contract by as much as 3.0 percentage points under a severe tariff escalation scenario, the distributional consequences for developing economies—which are least able to implement countercyclical fiscal and monetary responses—demand urgent scholarly and policy attention. This paper contends that the tariff war constitutes not merely a bilateral trade dispute but a systemic shock with profound structural implications for the development prospects of the Global South.

2. LITERATURE REVIEW

2.1. The Political Economy of Tariff Wars

The theoretical and empirical literature on tariff wars draws from a rich tradition in international economics. Brander and Spencer (1985) demonstrated in their seminal work on strategic trade policy that governments may have welfare-enhancing incentives to subsidise or protect industries engaged in imperfectly competitive international markets, laying intellectual groundwork for understanding protectionist impulses. Krugman (1987) extended this analysis to argue that, while strategic trade policy can yield gains under specific conditions, the political economy of protection tends to produce welfare-reducing outcomes in practice. The concept of a tariff war as a form of iterated prisoner's dilemma, in which mutual escalation leads to collectively suboptimal outcomes, was formalised by Dixit (1987) and subsequently elaborated by successive generations of trade theorists.

More recent scholarship has shifted attention to the empirical consequences of tariff conflicts.

Fajgelbaum et al. (2020) conducted a comprehensive welfare analysis of the US-China trade war, finding that the tariffs imposed in 2018-2019 resulted in substantial welfare losses for the United States through higher consumer prices and supply chain disruptions, while generating heterogeneous effects across trading partners. Amiti et al. (2019) demonstrated that US tariff costs were largely passed through to domestic consumers rather than absorbed by Chinese exporters, challenging optimistic narratives about the incidence of protection. Handley et al. (2020) examined the aggregate effects of the US-China trade war on US employment and found net employment losses across affected manufacturing sectors, complicating the domestic political rationale for tariff escalation.

2.2. Global South Exposure to Trade Shocks

The specific vulnerability of Global South economies to external trade shocks has been extensively theorised within the development economics literature. Prebisch (1950) and Singer (1950) established the foundational thesis that commodity-exporting developing countries face secular deterioration in their terms of trade relative to manufactured goods-exporting advanced economies—a dynamic that tariff-induced commodity price volatility intensifies. Kose and Riezman (2001) demonstrated through general equilibrium modelling that trade shocks account for a disproportionately large share of output fluctuations in small open developing economies, reflecting their limited ability to self-insure against external volatility.

Contemporary scholarship on the Global South's exposure to the US-China trade war has produced a nuanced but generally negative assessment. Bown and Kolb (2023) documented that while some developing countries—notably Vietnam, Bangladesh, and Mexico—experienced initial trade diversion gains as buyers shifted supply chains away from tariffed Chinese goods, these gains were modest relative to the broader disruption of global value chains (GVCs) in which developing countries participate as intermediate goods suppliers. The International Monetary Fund (IMF, 2023) estimated that fragmentation of global trade could reduce long-run global GDP by up to 7.0%, with developing economies bearing a disproportionate share of adjustment costs due to their greater reliance on trade as an engine of growth.

Rodrik (2018) provided an influential political economy perspective, arguing that the rise of protectionism in advanced economies reflects the failure of hyperglobalisation to deliver broadly shared domestic welfare gains, creating a structural tension between global economic integration and national democratic political systems. For Global South economies, Rodrik's analytical framework implies that the tariff war is symptomatic of a deeper reconfiguration of the international trade order that may persist independently of any bilateral resolution, necessitating longer-term adaptive strategies. Stiglitz (2019) similarly argued that the rules-based multilateral trading system requires fundamental reform to ensure that the gains from trade are more equitably distributed, particularly with respect to developing-country access to technology transfer and industrial policy space.

2.3. Theoretical Framework

This study draws upon three complementary theoretical frameworks to analyse the economic impact of tariff wars on the Global South. The first is trade diversion theory, originally developed by Viner (1950) in the context of customs union formation. Trade diversion occurs when tariff-induced price changes redirect trade flows away from lower-cost to higher-cost suppliers, generating efficiency losses at the global level while potentially benefiting third-party suppliers in the short run. In the context of the US-China tariff war, third-country suppliers—including Global South economies—may initially benefit from substitution effects, but these gains are circumscribed by adjustment costs, productive capacity constraints, and the risk of retaliatory measures.

The second framework is the terms-of-trade analysis embedded in the Heckscher-Ohlin-Samuelson tradition. For commodity-exporting developing economies, tariff escalation between major industrial powers can compress commodity demand and suppress prices, deteriorating the terms of trade and reducing export revenues. This mechanism is particularly consequential for Sub-Saharan African and Latin American economies whose export baskets are dominated by primary commodities—hydrocarbons, metals, agricultural products—whose price formation is highly sensitive to global demand conditions

influenced by major-power economic performance.

The third framework is the global value chain (GVC) participation model, drawing on the work of Baldwin (2016) and Antràs (2020). Global South economies have increasingly integrated into GVCs as providers of labour-intensive assembly, raw material inputs, and agricultural commodities. Tariff escalation that disrupts GVC relationships—through higher tariffs on intermediate goods, supply chain reconfiguration, or investment uncertainty—imposes adjustment costs on GVC-integrated developing economies that may be substantial relative to their productive capacity to absorb and redirect resources. The interaction of these three frameworks generates the analytical lens through which the empirical evidence reviewed in this paper is interpreted.

3. METHODOLOGY

This study employs a mixed analytical methodology combining quantitative data synthesis with theoretical framework application. Primary data sources include trade statistics from the WTO Statistics Portal and UNCTAD STAT, macroeconomic indicators from the World Bank World Development Indicators (WDI) and IMF World Economic Outlook (WEO) database, and commodity price data from the World Bank Pink Sheet and IMF Primary Commodity Price System. The analysis covers the period from 2017 (the pre-tariff war baseline) through 2024, with prospective projections for 2025-2026 drawing on published IMF and World Bank forecasts.

Descriptive statistical analysis is employed to characterise trade flow changes across key Global South regions and countries. To assess macroeconomic transmission mechanisms, the study draws on published computable general equilibrium (CGE) model results from the GTAP (Global Trade Analysis Project) and MIRAGE model frameworks, which have been widely used in the trade policy literature to estimate economy-wide effects of tariff changes. Country-level case studies—selected to represent different regional contexts, levels of development, and trade exposure profiles—are incorporated to illustrate how aggregate dynamics manifest at the national level. The study acknowledges methodological limitations including data availability constraints, the confounding effects of concurrent economic shocks (COVID-19 pandemic, energy price volatility, monetary policy tightening), and the inherent uncertainty of CGE projections.

4. RESULTS AND DISCUSSION

4.1. Trade Flow Disruption and Export Performance

The data reveal that the onset of the US-China tariff war in 2018 produced measurable and statistically significant disruptions to global trade flows, with distinct implications for Global South exporters. According to WTO data, global merchandise trade volume growth decelerated from 4.7% in 2017 to 3.0% in 2018 and further to 0.9% in 2019—the weakest performance since the global financial crisis—with the tariff conflict identified as a primary explanatory factor alongside broader cyclical slowdown (WTO, 2024). For commodity-exporting economies across Sub-Saharan Africa and Latin America, this deceleration in global trade was accompanied by a concurrent softening in commodity prices, as uncertainty about global growth prospects compressed industrial demand for metals, energy products, and agricultural commodities.

Disaggregating by region, the data demonstrate heterogeneous trade performance outcomes across Global South groupings. Southeast Asian economies—particularly Vietnam, Cambodia, and Thailand—experienced an initial surge in manufactured exports to the United States as buyers sought to substitute Chinese supply, with Vietnam's goods exports to the United States growing by approximately 35% between 2018 and 2019 (UNCTAD, 2023). However, this trade diversion effect proved partially offset by higher input costs arising from tariffs on Chinese intermediate goods incorporated into Southeast Asian production processes. Sub-Saharan African economies, by contrast, experienced predominantly negative trade impacts, as the demand compression associated with slowing global growth reduced export volumes and prices for their primary commodity exports—oil, copper, cocoa, coffee, and agricultural products—without generating compensating increases in manufactured exports (World Bank, 2024).

The most recent escalation of tariff tensions in 2025—marked by the United States announcing sweeping reciprocal tariffs at rates ranging from 10% to over 50% on imports from multiple trading partners—has intensified these dynamics. The IMF (2025) revised its global growth forecast downward by 0.8 percentage points in the immediate aftermath of the announcements, with low-income and emerging-market economies facing a projected growth deceleration of 0.5-1.2 percentage points relative to baseline, attributable to demand compression, financial market volatility, and heightened trade policy uncertainty. Global South economies heavily dependent on US market access—including major textile exporters in South Asia and apparel manufacturers in Sub-Saharan Africa—face particular exposure, as elevated US tariff rates erode the competitive advantage embedded in preferential trade agreements such as the African Growth and Opportunity Act (AGOA).

4.2. Macroeconomic Consequences: GDP, Inflation, and Currency Dynamics

The macroeconomic transmission of tariff war effects to Global South economies operates through multiple channels. The primary channel is the trade volume and price channel described above: reduced export demand and deteriorating commodity terms of trade translate into lower export revenues, reduced foreign exchange earnings, and contracted aggregate demand, depressing GDP growth. The World Bank (2024) estimated that a protracted high-tariff scenario consistent with current escalation trajectories could reduce GDP growth in developing economies by 0.9-1.5 percentage points on average over the 2025-2027 period, with the most severe impacts concentrated in small open economies highly dependent on a narrow range of commodity exports.

The financial channel represents a second critical transmission mechanism. Tariff war-induced uncertainty precipitates risk-off investor behaviour, triggering capital outflows from emerging market economies and pressuring exchange rates. Between January and September 2025, several major emerging-market currencies including the South African rand, Brazilian real, Indonesian rupiah, and Pakistani rupee depreciated substantially against the US dollar as global risk appetite contracted. Exchange rate depreciation, while potentially beneficial for export competitiveness in the medium term, generates short-run inflationary pressures through higher import prices for food, fuel, and capital goods, compressing real household incomes and exacerbating poverty. For highly import-dependent economies such as those in the MENA region where food import bills constitute a large share of foreign exchange expenditure currency depreciation transmits directly into food price inflation with severe welfare consequences.

A third transmission channel is the fiscal channel. Commodity-dependent governments whose fiscal revenues are substantially derived from resource rents including hydrocarbon exporters in Sub-Saharan Africa and the Gulf, and mineral exporters across the Andes face fiscal revenue shortfalls as commodity prices soften. This creates a structural tension between the imperative to maintain social expenditure and public investment to support development goals, and the fiscal constraints imposed by declining revenues. The IMF Fiscal Monitor (2025) noted that fiscal space in low-income developing countries has narrowed substantially since the COVID-19 pandemic, leaving these economies with limited capacity to deploy countercyclical fiscal policy in response to the external shock of tariff escalation.

4.3. Trade Diversion Effects: Winners and Losers

The theoretical framework of trade diversion predicts that tariff-induced redirection of trade flows will generate differential impacts across Global South economies depending on their export structure, productive capacity, and ability to substitute for tariffed Chinese or US goods in affected markets. The empirical evidence confirms that trade diversion effects have materialised but are highly unevenly distributed. The principal beneficiaries of trade diversion have been manufacturing-oriented Asian economies with established productive capacity in electronics, textiles, and intermediate goods notably Vietnam, Bangladesh, India, and to a lesser extent Indonesia and Thailand. These economies possess the infrastructure, skilled labour base, and existing buyer relationships necessary to rapidly absorb redirected orders from manufacturers seeking to shift supply chains away from China.

By contrast, most commodity-exporting developing economies in Sub-Saharan Africa, the Caribbean, and the Pacific have been unable to capture meaningful trade diversion benefits. Their export

structures are largely non-substitutable for manufactured goods that form the core of redirected trade flows, and constraints in productive capacity, logistics infrastructure, and regulatory environment preclude rapid adjustment. Moreover, many of these economies face the paradox of being doubly disadvantaged: they do not benefit from trade diversion in manufactures, and simultaneously suffer from lower commodity prices induced by demand compression in China whose economic slowdown resulting partly from the tariff war reduces its imports of industrial commodities. The asymmetry of trade diversion effects thus reinforces existing global inequalities, concentrating gains among more diversified middle-income economies while imposing net losses on the poorest and most commodity-dependent nations.

4.4. Sectoral Vulnerabilities: Agriculture, Manufacturing, and Commodities

Sector-level analysis reveals differentiated vulnerabilities across the Global South's productive economy. Agricultural sectors face multiple compounding pressures. US tariffs on Chinese agricultural goods prompted retaliatory Chinese tariffs on US soybeans, creating opportunities for Brazilian and Argentine soybean producers to expand their share of the Chinese market—a noteworthy example of trade diversion benefiting Latin American agricultural exporters. However, this gain has been offset for many Global South agricultural exporters by broader demand uncertainty, logistical disruptions, and competitive pressure from redirected US agricultural exports seeking alternative markets following the loss of Chinese demand.

Manufacturing sectors in the Global South face complex adjustments. In countries such as Bangladesh and Cambodia, which have achieved manufacturing growth through integration into global apparel and electronics GVCs, elevated tariffs on inputs sourced from China increase production costs and compress margins, even as final-goods demand may nominally increase. The disruption of GVCs—which depends not only on final tariff rates but also on predictability, supply chain continuity, and logistics—creates investment uncertainty that deters the long-term capital expenditure necessary to expand productive capacity and diversify export structures. The World Bank (2024) estimated that GVC participation among developing economies could decline by 2-4 percentage points under a sustained high-tariff scenario, with attendant consequences for technology transfer, productivity growth, and employment creation.

In the commodities sector, the impact of the tariff war intersects with pre-existing commodity cycle dynamics in complex ways. Demand compression from slowing global growth reduces commodity prices across the board, particularly affecting metals—copper, aluminium, nickel—whose demand is sensitive to Chinese industrial production. Africa's copper belt economies (Democratic Republic of Congo, Zambia), Chile's copper sector, and Indonesia's nickel industry all face reduced revenues. Hydrocarbon exporters in the Gulf, West Africa, and Latin America similarly confront downward price pressure, compounding fiscal pressures in economies where energy rents are critical to state finance and social development expenditure. The compounding of tariff war shocks with existing commodity cycle vulnerabilities underscores the structural fragility of commodity-dependent development models.

4.5. Discussion

The evidence reviewed in this paper supports the central thesis that the contemporary tariff war imposes disproportionately negative economic consequences on Global South economies, albeit with significant distributional variation. The asymmetry of these impacts reflects the structural characteristics of developing-economy integration into the global trading system: commodity export dependence, limited productive diversification, shallow financial markets, and constrained fiscal space—characteristics that are themselves partly products of historical patterns of integration shaped by the global trading architecture that the tariff war is now disrupting.

Several findings merit particular emphasis in relation to existing scholarship. First, the trade diversion effects documented in Southeast Asia are more limited in scope and durability than early optimistic assessments suggested. While bilateral trade flows between Vietnam, India, or Bangladesh and the United States have increased, the intermediate-goods linkages that tie Global South manufacturing into Chinese supply chains mean that tariffs on Chinese inputs simultaneously increase costs for producers

elsewhere in the GVC. Baldwin's (2016) characterisation of GVCs as involving the simultaneous unbundling of production across borders implies that tariffs on any node in the chain generate systemic costs that are difficult to fully calculate from bilateral trade data alone.

Second, the macroeconomic transmission channels—particularly the financial and fiscal channels—have proven to be as consequential as the direct trade volume effects. The capital flow reversals and exchange rate pressures documented across multiple Global South economies in 2025 amplify the aggregate welfare costs of tariff escalation through inflationary and contractionary mechanisms that operate independently of direct export exposure. This finding aligns with the IMF's (2023) emphasis on financial spillovers as a primary vector through which trade conflicts affect developing countries, and underscores the inadequacy of analytical frameworks that focus solely on trade volume effects.

Third, the concentration of trade diversion benefits among middle-income, manufacturing-oriented Asian economies while commodity-dependent least-developed countries bear net losses creates a politically and normatively significant distributional pattern. If the resolution of the US-China tariff conflict is contingent on bilateral negotiations that do not incorporate the interests of third-country developing economies, the risk arises that any settlement will consolidate the inequitable distribution of adjustment burdens. This concern has been raised in multilateral forums by the G77 and China coalition, which has called for trade conflict resolution processes to incorporate development impact assessments and compensation mechanisms for adversely affected developing nations (UNCTAD, 2024).

The policy implications of these findings are consequential. For Global South governments, the tariff war underscores the urgency of export diversification strategies, the development of South-South trade linkages through frameworks such as the African Continental Free Trade Area (AfCFTA), and the deepening of regional financial safety nets to mitigate capital flow volatility. At the multilateral level, the findings support calls for WTO reform to strengthen the dispute resolution mechanism, enhance transparency in trade policy notifications, and develop binding frameworks for the management of trade conflicts that protect the interests of developing-country members. The adequacy of existing special and differential treatment (SDT) provisions—designed to safeguard developing-country trade interests within the WTO framework—deserves critical reassessment in light of the magnitude of the current tariff war's impacts.

5. CONCLUSION

This paper has examined the economic impact and trade flow implications of the contemporary tariff war on economies of the Global South, employing an analytical framework that integrates trade diversion theory, terms-of-trade analysis, and global value chain perspectives. The evidence synthesised from WTO, World Bank, IMF, and UNCTAD data sources, complemented by CGE model projections and country-level analysis, supports a broadly negative assessment of the tariff war's consequences for developing economies. Trade flow disruptions, commodity price compression, capital flow volatility, exchange rate depreciation, fiscal revenue shortfalls, and GVC disruption collectively constitute a multidimensional shock that is structurally asymmetric in its distributional incidence—falling most heavily on the least-diversified, most commodity-dependent, and fiscally most constrained economies.

The study identifies an important exception to this broadly negative pattern: manufacturing-oriented middle-income economies in Southeast and South Asia have captured some trade diversion benefits from supply chain reconfiguration. However, even these gains are partial, conditional on sustained trade policy unpredictability, and do not offset the systemic risks imposed by a fragmented and antagonistic global trading environment. The concentration of trade diversion benefits among a small subset of more advanced developing economies, while the majority of Global South nations—particularly in Sub-Saharan Africa and the Pacific—bear net adjustment costs, raises urgent distributional and developmental concerns.

Future research should extend this analysis in several directions. Longitudinal studies tracking the persistence of trade diversion effects and their relationship to productive capacity investment decisions are needed to assess medium-term structural implications. Household-level welfare analysis disaggregating

the distributional incidence of tariff war impacts across income groups within Global South economies would contribute to a more complete understanding of the social consequences of trade conflict. Finally, rigorous evaluation of the effectiveness of South-South trade integration initiatives—including the AfCFTA and ASEAN Plus frameworks—as adaptive responses to an increasingly fragmented global trading order represents a particularly pressing research agenda.

In conclusion, the tariff war is not merely a dispute between great powers. It is a structural perturbation to the international trading order with lasting developmental consequences for the most vulnerable economies in the global system. Addressing these consequences requires concerted intellectual effort, multilateral institutional reform, and a renewed political commitment to a rules-based trading order that equitably reflects the interests and constraints of Global South economies. This paper aspires to contribute to that scholarly and policy endeavour.

Ethical Approval

This study is a systematic literature review based exclusively on published academic sources and did not involve human participants, personal data collection, or experimental procedures. Therefore, formal ethical approval was not required.

Informed Consent Statement

Not applicable because this study did not involve human participants.

Authors' Contributions

Not applicable

Disclosure Statement

The author declares no potential conflict of interest.

Data Availability Statement

No primary dataset was generated for this study. All materials analyzed are available in the published sources cited in the reference list.

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Notes on Contributor

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Olivia Putri Dahlan is affiliated with Privietlab Research Center, Jakarta, Indonesia. Her academic and professional interests focus on social research, publication support, and interdisciplinary development issues.

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