

**AMOGHVARTA**

**ISSN : 2583-3189**



## Trade War and Global Economic Order: A Historical and Strategic Analysis

**ORIGINAL ARTICLE**



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### **Abstract**

*This research paper explores the historical development and strategic dimensions of trade wars and their implications for the evolving global economic order. From early mercantilist practices and colonial monopolies to the modern tariff confrontations between the United States and China, trade wars have long shaped the contours of global trade dynamics. The study analyses how trade wars have influenced supply chains, trade institutions like the WTO, and the power dynamics between developed and emerging economies. The paper also focuses on India's role and response in the context of recent global trade conflicts.*

### **Key Words**

*Trade War, Global Economic, Historical, Strategic.*

### **Introduction**

Trade wars refer to economic conflicts where nations impose tariffs, quotas, or other trade barriers on each other's goods and services to protect domestic industries or assert geopolitical power. In a globalized world, trade wars have profound

implications beyond economics, influencing diplomatic relations, security frameworks, and institutional integrity. While trade liberalization defined much of the post-WWII era, recent years have seen a resurgence of protectionism. This paper examines the transformation of trade policy from cooperative liberalization to strategic rivalry.

## **Historical Evolution of Trade Wars**

### **1. Mercantilism and Colonial Trade Conflicts (1600–1800)**

In the early modern era, nations pursued mercantilism, aiming for a positive trade balance through colonial expansion and state control over commerce. British Navigation Acts restricted foreign shipping, while the Dutch-Portuguese rivalry exemplified maritime economic warfare. These policies often led to direct military confrontations, blurring the lines between economic and military conflict. Trade was viewed as zero-sum, and controlling markets meant controlling power.

## **Case Study: Anglo–Dutch Trade Wars**

Between the 17th and 18th centuries, Britain and the Dutch Republic engaged in several naval wars fuelled by commercial competition. British Navigation Acts aimed to undermine Dutch shipping dominance, culminating in a series of conflicts that reshaped European maritime supremacy and colonial influence.

### **2. 19th Century Shifts: Free Trade vs. Strategic Protectionism**

The 19th century witnessed the ideological battle between free trade and protectionism. Britain’s repeal of the Corn Laws in 1846 symbolized the shift towards liberal trade. However, newly industrializing countries like Germany and the USA adopted protective tariffs to shield infant industries. Friedrich List’s advocacy of national economic development justified such measures. The US Morrill Tariff (1861) and the German Tariff Act (1879) triggered counter measures, showing how national interests could override global liberal norms.

### **3. The Smoot–Hawley Tariff and the Great Depression (1930s)**

During the Great Depression, the US passed the Smoot Hawley Tariff Act in 1930, imposing tariffs on over 20,000 imports. This triggered retaliatory tariffs by over 25 countries, collapsing global trade volumes. Rather than protecting jobs, the act deepened the depression and delegitimized isolationist trade policy. The episode is a historical lesson in how uncoordinated protectionism can exacerbate systemic crises.

## **Case Study: Canada’s Response to Smoot–Hawley**

In retaliation to US tariffs, Canada imposed its own duties on American agricultural and industrial products, leading to a sharp decline in bilateral trade. The trade volume between the two countries fell by over 50%, illustrating the damaging spiral of protectionist retaliation.

## **Trade Wars in the Post-WWII Liberal Order**

### **1. Emergence of Multilateralism: GATT and WTO**

In response to the 1930s crisis, post-WWII institutions like the General Agreement on Tariffs and Trade (GATT, 1947) and the World Trade Organization (WTO, 1995) were created to promote predictable, rules-based trade. They aimed to prevent the tit-for-tat retaliation seen in earlier eras. Tariff bindings, most-favoured-nation clauses, and dispute settlement mechanisms defined this new era.

### **2. Strategic Use of Trade During the Cold War**

While multilateralism expanded, trade policy remained a strategic tool. The US imposed COCOM controls to restrict technology flow to communist countries. Trade embargoes against Cuba and the Soviet bloc illustrated how trade could serve ideological and security agendas. Economic sanctions, although not classical trade wars, became a persistent feature of foreign policy.

## **Contemporary Trade Wars: US–China Conflict (2018–2025)**

### **1. Origins and Escalation**

The US–China trade war began in 2018 under the Trump administration, citing concerns over China’s trade surplus, intellectual property theft, and forced technology transfers. The US imposed tariffs on over \$550 billion in Chinese goods, while China retaliated with tariffs on \$185 billion in US exports. Although a Phase-One agreement was signed in 2020, tensions reemerged in 2025 with further tariff escalations under the renewed US administration.

## **Case Study: Apple and Supply Chain Realignment**

Apple Inc., heavily reliant on Chinese manufacturing, began diversifying its supply chain in response to escalating tariffs. The company shifted a significant portion of iPhone assembly to India and Vietnam. This move not only mitigated tariff risks but also catalyzed industrial growth in host nations.

### **2. Disruption of Global Supply Chains**

The trade war forced multinational corporations to reconsider their sourcing and production strategies. Many shifted manufacturing to Southeast Asia, India, and Mexico. Terms like “friendshoring” and “nearshoring”

gained prominence as businesses sought politically aligned and logistically stable partners. This shift led to partial de-globalization and regional supply chain fragmentation.

### **3. WTO's Diminished Role**

The WTO's dispute resolution mechanism was paralyzed due to US opposition to appellate body appointments. Consequently, major powers resorted to unilateral actions and bilateral negotiations, undermining the multilateral system. The erosion of WTO authority raises concerns about the sustainability of the global trade regime.

## **Strategic Implications for the Global Economic Order**

### **1. Rise of Economic Nationalism and Bilateralism**

As trust in multilateralism declined, countries pursued bilateral trade deals and regional pacts. RCEP, CPTPP, and the African Continental Free Trade Area (AfCFTA) exemplify this shift. Such arrangements allow flexibility but may create overlapping, inconsistent trade norms, complicating global governance.

### **2. Geo-economic Coercion and Technological Sovereignty**

Nations now weaponize trade to enforce political objectives. US export controls on semi-conductors and China's dominance in rare earth exports exemplify strategic resource control. The pursuit of technological self-sufficiency evident in EU's digital sovereignty and China's Made in China 2025 reflects growing distrust in interdependence.

### **Case Study: Huawei and Global Tech Tensions**

The US blacklisting of Huawei in 2019 and subsequent export controls marked a shift in trade policy from tariffs to technology sanctions. Huawei's access to semiconductor chips and software was curtailed, prompting China to invest heavily in domestic tech capabilities and semiconductor self-sufficiency.

### **3. Shifting Centers of Power**

The US and EU seek to reassert leadership through industrial policy and green tech investments. Meanwhile, China builds parallel institutions like the Belt and Road Initiative and the Digital Yuan system. Emerging economies like India, Brazil, and Vietnam are becoming pivotal players in the new supply chain architecture.

## **India's Strategic Position**

India emerged as a beneficiary of global supply chain reconfiguration. The Production Linked Incentive (PLI) schemes in electronics, pharmaceuticals, and semiconductors attracted FDI. Yet, inflation, logistics gaps, and labor rigidity remain hurdles. India must invest in infrastructure, trade facilitation, and export competitiveness to solidify its position.

### **Case Study: Samsung's Manufacturing Shift to India**

In response to the trade tensions and PLI incentives, Samsung invested in setting up the world's largest mobile phone factory in Noida, India. This not only helped Samsung avoid US-China tariffs but also reinforced India's position in the global electronics value chain.

Moreover, India's role in forums like QUAD and IPEF offers opportunities to influence rule-making in the Indo-Pacific. Balancing strategic autonomy with economic integration remains a key challenge for Indian policymakers.

## **Conclusion**

Trade wars are no longer peripheral disruptions but core instruments of strategic competition. They signal a shift from globalization to geo-economic fragmentation. The challenge ahead lies in managing this transition reviving multilateral institutions, ensuring fair competition, and maintaining supply chain resilience. As power centers evolve and trade becomes entangled with national security, the global economic order faces a

critical inflection point. Policy makers must craft responses that preserve openness while protecting national interests, ensuring that economic interdependence remains a source of stability rather than vulnerability.

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