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Geopolitical Impact of U.S. Tariffs

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1 The Return of Geoeconomic Tariffs

On April 2, 2025, the Trump administration announced a sweeping set of import tariffs branded "Liberation Day," imposing levies on goods from over 180 countries, with rates on Chinese imports ultimately reaching 145%. Within days, the IMF warned that the measures "clearly represent a significant risk to the global outlook at a time of sluggish growth" (International Monetary Fund, 2025b), and later that month revised global growth sharply downward, citing tariff rates "at levels not seen in a century" and a highly unpredictable policy environment (International Monetary Fund, 2025c).

What scholars had long debated was no longer merely theoretical: tariffs were being deployed not chiefly as instruments of commercial policy, but as tools of geopolitical rivalry. However, this was not an isolated rupture. As Robert Gilpin observed in 1981, international economic relations are never purely economic; they are always simultaneously expressions of underlying power structures (Gilpin, 1981).

What the "Liberation Day" tariffs crystallized was a transformation that had been building for decades, marking a shift from a rules-based to a power-based trade order. What distinguishes the current moment from earlier episodes of cyclical retreat into protectionism is that the liberal international order itself has become the object of contestation, not merely its rules (Zakaria, 2008). In this context, tariffs have migrated from the domain of commercial regulation into the broader arena of geopolitical competition.

1.1 Key Concepts

Before assessing what tariffs are doing, it is necessary to establish what they are in a broader geoeconomic sense. In standard economic terms, a tariff is a tax imposed on imported goods, designed to protect domestic producers or generate fiscal revenue. However, this definition is limited and captures only one dimension of the instrument's function.

As D. A. Baldwin (1985) argues, tariffs in a geoeconomic context perform a second and distinctly political role: they "alter bargaining power across borders by raising costs, redirecting supply chains and disciplining firms" (D. A. Baldwin, 1985). In other words, they are not merely price-distorting interventions in international markets, but instruments through which states impose costs on foreign actors to gain concessions and signal strategic intent. Tariffs, on this account, are instruments of coercion as much as instruments of protection.

This coercive dimension connects tariffs to the broader concept of economic statecraft, which Baldwin defines as "the use of economic means in the service of foreign policy" (D. A. Baldwin, 1985). Tariffs, sanctions, export controls, investment restrictions, and industrial subsidies are not secondary to power politics; rather, they constitute one of its operational forms.

These concepts can be situated within the broader framework of geoeconomics, which Blackwill and Harris (2016) define as the use of economic instruments "to promote and defend national interests, and to produce beneficial geopolitical results." Geoeconomics is not a rupture from geopolitics but its contemporary expression; it is the pursuit of power through economic rather than military means.

The theoretical basis for this shift was anticipated by Edward Luttwak in his essay "From Geopolitics to Geo-Economics" (Luttwak, 1990). Writing at the close of the Cold War, he argues that interstate rivalry would not disappear with the end of ideological confrontation, but would instead be rearticulated through new instruments. The "logic of conflict" would increasingly unfold through the "grammar of commerce."

Taken together, these three concepts establish that tariffs today are not isolated trade-policy tools amenable to standard welfare analysis. They are components of a broader strategic repertoire through which states seek to shape interdependence, constrain rivals, and reinforce their position within the global

hierarchy. Knowing what they are, however, does not explain why they have returned with such force at this particular historical juncture.

1.2 Political, Ideological, and Structural Conditions

The resurgence of tariff politics cannot be explained as a mere policy preference or the idiosyncrasy of a particular administration. It is rooted in a deeper structural crisis that has been building for decades and progressively eroding the political foundations of the liberal trade order.

The most useful framework for understanding this crisis is Dani Rodrik's concept of hyperglobalization, developed in *The Globalization Paradox* (Rodrik, 2011). Rodrik identifies a fundamental trilemma, arguing that it is impossible to simultaneously sustain deep economic integration, national sovereignty, and democratic politics. In the era of hyperglobalization, national sovereignty and democratic accountability were systematically subordinated to market integration.

The consequences were not evenly distributed. Globalization produced convergence between countries while generating profound inequalities within them. Advanced economies benefited from cheaper imports and capital mobility but experienced, in parallel, the hollowing out of regional industrial bases and the dislocation of labor markets. These asymmetries transformed globalization from a source of shared prosperity into a source of political contestation, fueling populism and protectionist demands across the Western world (Rodrik, 2011).

Within the United States, these dynamics were filtered through a distinctive national narrative. At the end of the Cold War, Charles Krauthammer's concept of the "Unipolar Moment" (Krauthammer, 1990) captured a world of uncontested American dominance—the so-called Pax Americana—in which Washington had little incentive to deploy economic instruments for statecraft purposes, relying instead on its structural position within the liberal international order (Blackwill and Harris, 2016).

However, that configuration eroded steadily. The rise of China and the shift toward multipolarity challenged the assumptions of unipolar economic leadership, while deindustrialization and supply-chain dependence fed a domestic political discourse framing the United States as having been weakened by its own openness.

The MAGA movement gave organized ideological form to these anxieties. In its vocabulary, America had been "ripped off," trade deficits were recoded as symbols of national humiliation, and industrial communities had been abandoned by elites committed to an open economy that served capital but not labor. Tariffs became politically attractive precisely because they convert diffuse anxieties about national decline into a visible and legible instrument of retaliation and recovery.

As Ayesha Fatma notes in *"Perception vs Reality: Understanding the US-China Trade War"* (Fatma and Bharti, 2019), this involved a striking paradox: the United States came to perceive itself as a victim of exploitation despite retaining substantial structural power.

The trade war with China crystallized this logic most clearly, framed not as a conventional commercial dispute but as a contest over technological primacy, industrial survival, and long-run strategic positioning. Understanding why tariffs returned, however, still requires a theoretical framework capable of explaining their strategic logic.

1.3 Main Theoretical Frameworks

The transformation described above cannot be captured within the assumptions of classical trade theory. The Ricardian framework, in which states specialize according to comparative advantage and all parties

gain from exchange, is designed for a world of absolute gains. It has little to say about power, dependency, or strategic vulnerability.

As Ferguson argues in *Tariffs, Overstretch and the Geopolitics of Risk* (Hoover Institution, 2026), tariffs "lie beyond the realm of economics textbooks" and increasingly function as a form of "super sanction," providing states with political leverage. This points to a structural shift from liberal, rules-based trade governance toward a power-based competitive logic in which economic instruments and geopolitical strategy are inseparable.

To analyze this shift, this report draws on three complementary theoretical frameworks. The first is Realist International Political Economy (IPE), grounded in Robert Gilpin's *War and Change in World Politics* (Gilpin, 1981). It insists that international economic relations are inherently embedded in structures of power. From this perspective, U.S. tariffs are not irrational distortions of free trade but rational instruments for rebalancing power relations and converting market access into geopolitical leverage.

The second framework, hegemonic transition theory, operates at the macro-level of international order. Gilpin's analysis of the "differential growth of power" between states provides the structural context for the U.S.–China rivalry: when a rising power challenges a dominant one, economic instruments become central tools of systemic competition. This dynamic is further illuminated by Graham Allison's concept of the "Thucydides Trap," defined as the structural tension and elevated risk of conflict that arise when a rising power threatens to displace an incumbent hegemon. Tariffs, in this account, are not temporary protectionist measures but structural adjustments to shifting power balances.

The third framework, strategic trade theory, provides the microeconomic foundation for state intervention. Brander and Spencer demonstrate in "Export Subsidies and International Market Share Rivalry" (Brander and Spencer, 1985) that in industries characterized by imperfect competition, economies of scale, and high entry barriers, government intervention can shift competitive advantage toward domestic firms by altering the initial conditions of market rivalry. Applied to sectors such as semiconductors, AI, and advanced manufacturing, tariffs are not merely defensive instruments but components of an offensive industrial strategy aimed at securing long-term technological leadership.

Taken together, these three frameworks show that contemporary U.S. tariffs are better understood as structural instruments of geopolitical competition than episodic protectionist measures. The rest of the report builds on this argument by analyzing the "Liberation Day" tariffs as a case study in the reconfiguration of trade, power, and strategy in the global economy.

Methodological Note This report combines macro-level geopolitical analysis with a firm-level strategic perspective, including primary interview material with Thomas Heim (President of Climate Solutions Europe at Carrier Corp[1]), in order to bridge the gap between systemic theory and business strategy. The scope of the analysis is necessarily selective; limitations are addressed in the concluding section.

[1]Carrier Corporation is a U.S.-based multinational and a leading provider of HVAC and refrigeration solutions. Headquartered in Palm Beach Gardens, Florida, the company operates in over 150 countries and employs around 47,000 people. With revenues of $21.75 billion in 2025 and shareholder returns of approximately $3.7 billion, Carrier is a major player in the global climate solutions market, competing with firms such as Daikin Industries.

2 The US Liberation Day Tariffs

On April 2, 2025, President Donald Trump signed Executive Order 14257, declaring a national emergency over the United States' trade deficit and unveiling what he called "Liberation Day" (The White House, 2025b). With this Order, the government implemented a universal 10% tariff on all imports, alongside significantly higher rates for specific countries. The specific rates applied to these countries aimed to enforce a principle of strict "reciprocal trade" while generating federal revenue to offset the massive domestic tax cuts introduced in the "Big Beautiful Bill." By aligning U.S. import duties with the higher barriers faced by American exporters abroad, the administration sought to force trade partners into renegotiations. Following this logic, it imposed, for instance, a 20% rate on European Union goods and 54% on Chinese goods to address the systemic trade imbalance and security concerns (The White House, 2025a). Canada and Mexico were largely exempted under the USMCA, while certain goods—such as automobiles, steel, aluminum, and smartphones—were subject to special tariff regimes intended to compel manufacturers to "re-shore" their entire supply chains back to American soil (U.S. Congressional Research Service, 2025).

2.1 Rationale for the Measure

Trump's main reasons for the implementation can be divided into five key rationales:

Persistent Trade Deficits For decades, the United States has run a structural goods trade deficit that the Trump administration framed as evidence of national economic failure and unfair foreign practices. In 2024, that deficit reached $1.2 trillion. The underlying logic of the tariffs was to compel firms to reshore production and rebuild domestic industrial capacity. However, this strategy works only if trading partners do not retaliate with their own tariffs.

Deindustrialization Trump also used the argument of deindustrialization to legitimize his decision. According to the Bureau of Labor Statistics (BLS), the share of U.S. workers employed in manufacturing has collapsed from approximately 30% of the workforce after World War II to around 8% today. The Rust Belt, the geographic region from New York through the Midwest that was once dominated by manufacturing, has become a defining symbol of this structural decline. The Trump administration attributed the fall of this sector primarily to cheap foreign competition, particularly from China following its accession to the World Trade Organization (WTO) in 2001—commonly referred to as the "China shock."

National Security A central justification for the tariffs was the United States' deep dependency on foreign supply chains for strategically critical goods such as semiconductors, steel, pharmaceutical ingredients, and critical minerals. According to the U.S. Geological Survey (USGS), out of 37 critical minerals listed, 11 are 100% import-reliant—especially from China—meaning the U.S. has no domestic production at all. Several others depend on foreign sources for more than half of their supply. The administration argued that this dependency, exposed dramatically during the COVID-19 pandemic, constituted a national security threat requiring emergency economic action.

Electoral and Ideological Considerations Lastly, in the case that imports were not significantly reduced, tariffs would generate substantial new federal revenue—estimated by the administration at $600 billion per year—enabling tax cuts for the administration's electoral base, just like the "One Big Beautiful Bill." As J.P. Morgan calculated, the new tariffs represented the largest U.S. tax increase since the Revenue Act of 1968 (J.P. Morgan, 2025). If these policies generate employment gains, they may improve economic conditions for working-class voters, thereby increasing the likelihood that they support Trump.

2.2 Legality of the Measure

To impose these tariffs, President Trump declared a national emergency over the trade deficit in order to invoke the International Emergency Economic Powers Act (IEEPA, 1977), which grants the President broad authority to regulate international economic transactions during emergencies.

This legal interpretation was widely contested and triggered numerous challenges, culminating in a landmark Supreme Court ruling (6–3). On February 20, 2026, in the *Learning Resources* decision—following a lawsuit initiated by the company Learning Resources itself—the Court ruled that the IEEPA does not authorise the President to impose tariffs. The tariff power, the Court held, is a Congressional prerogative. Consequently, the "Liberation Day" tariffs were found to violate the constitutional structure and common sense.

In response, the administration relied on alternative legal instruments:

- **Section 122 of the Trade Act**: Permits the President to impose an emergency import surcharge of up to 15% for a maximum duration of 150 days to address balance-of-payments deficits.
- **Section 232 of the Trade Expansion Act**: Authorises tariffs on imports deemed to "threaten to impair national security." This provision was applied to sectors including steel, aluminum, automobiles, and semiconductors.
- **Section 301 of the Trade Act**: Allows action against foreign governments whose trade practices are considered "unreasonable or discriminatory." The administration initiated numerous Section 301 investigations, particularly targeting EU digital taxation policies and China's mineral export restrictions, with the objective of completing them before the expiration of Section 122 measures in July 2026, thereby enabling a reconfigured tariff framework.

2.3 Real Impacts of the Tariffs

Trade Deficit: The Stated Goal Unmet Despite the central objective of reducing the trade deficit, the Bureau of Economic Analysis reported that the U.S. goods trade deficit increased by nearly 5% in February 2026, returning to approximately its April 2025 level. More notably, the deficit became significantly more volatile, reflecting supply chain disruptions and anticipatory import behaviour ("front-loading") by importers in response to policy uncertainty.

Household Costs and Inflation The economic burden of the tariffs fell disproportionately on American consumers. The Tax Foundation estimated that tariffs increased the average household's costs by approximately $1,000 in 2025, followed by an additional annual burden of around $600 in 2026 after partial rollbacks (Tax Foundation, 2026). This dynamic exacerbated inequality, given that lower-income households allocate a larger share of their income to imported goods and essential consumption.

More broadly, CSIS modelling suggests that the "Liberation Day" tariffs, combined with other contemporaneous policy measures, would increase prices by 9.5%, while nominal wages would rise by only 8.6%, implying a net decline in real purchasing power (Center for Strategic and International Studies, 2025).

The Paradox of Employment Since "Liberation Day," the U.S. labour market has shed a total of 189,600 blue-collar jobs. The cumulative decline in manufacturing employment is equivalent to the closure of roughly 2,800 average-sized factories. Notably, job losses were most pronounced in durable goods manufacturing, mining, and agriculture which the very sectors the tariffs were designed to protect.

Macroeconomic Slowdown and Erosion of U.S. Exceptionalism in Financial Markets From a macroeconomic perspective, CSIS general equilibrium modelling projects that the "Liberation Day" tariffs would reduce U.S. GDP by approximately 1%, corresponding to an annual loss of around $300 billion (at 2024 output levels) (Center for Strategic and International Studies, 2025). Regarding the financial markets, "Liberation Day" also damaged investor confidence, as illustrated by the following indicators:

- The S&P 500, a stock market index tracking the performance of 500 of the largest companies listed on U.S. stock exchanges, declined by more than 12% in the week following the announcement. This underlines investors' fears regarding massive supply chain disruptions, rising inflationary pressures, and slowing global economic growth.
- The U.S. Dollar Index (DXY) fell by 9.12% in April 2025. In contrast, Bitcoin increased by 12% over the same period, acting as an alternative store of value alongside rising gold prices, suggesting that investors were rethinking traditional U.S. safe-haven assets.
- Bond prices declined while interest rates rose sharply, in a pattern described as "bond vigilantism," whereby financial markets impose discipline on a government perceived as pursuing economically destabilising policies.

Reinforcement of Alternative Commercial Relations One of the most geopolitically significant unintended consequences of "Liberation Day" was the acceleration of trade realignment away from the United States. Rather than erecting their own tariff walls in retaliation, most trading partners,particularly mid-sized powers, chose to deepen ties with one another (R. Baldwin, 2025).

For instance, between May and December 2025, trade among the United Kingdom, Canada, the European Union, Japan, South Korea, and Switzerland increased by 12% year-on-year, while their exports to the United States declined by approximately 6%. In parallel, more than 15 major trade agreements were concluded without U.S. participation in 2025, covering over $400 billion in trade flows (Josephs, 2025). Furthermore, new free-trade agreements have been signed such as the one between the European Union and India to secure alternative export channels.

3 Strategic Competition with China

"Liberation Day" can be understood as the illustration of a broader strategy, the "Pivot to Asia" (2011), through which the Obama administration redirected its forces toward the rising power: China. This strategic shift led to a multidimensional rivalry between the established power and the rising power, in which Trump's trade policy illustrates the trade dimension.

The rise of China is supported by the remarkable expansion of its industrial base, export capabilities, and innovation in key technological sectors. This key advantage enables China to expand its trade relations with the Global South and impose itself as an alternative to U.S. hegemony.

As the U.S.-led international order is being challenged, China aims to be as independent from the U.S. market as possible. Therefore, the United States retains limited leverage over China in trade negotiations.

3.1 The Rise of China: The Industrial Dominance of China Challenges US Power

China's industrial rise relied on a policy of deliberate value chain upgrading. Starting from labour-intensive goods such as textiles and footwear in the 1980s, the country progressively moved into heavy industry and consumer electronics, then into information and communication technologies (ICT), and finally into high-tech sectors such as electric vehicles, 5G infrastructure, and artificial intelligence by the 2020s.

This trajectory is reflected in the emergence of globally competitive firms. Founded in 1984, Haier became the world's largest home appliance manufacturer by the mid-2000s (Haier Smart Home Co., Ltd., 2024). Chinese brands now account for just under 60% of new global electric vehicle registrations (International Energy Agency, 2024), while Huawei and ZTE have emerged as global leaders in 5G network equipment.

This trajectory was not market-driven alone. A central mechanism was the use of joint ventures as vehicles for technology acquisition (Wübbeke et al., 2016). Foreign firms seeking access to the Chinese market were required to partner with domestic enterprises, with an implicit expectation of technology transfer, as illustrated by partnerships such as FAW–Volkswagen and SAIC–Volkswagen.

The industrial strategy also relied on the doctrine of "keep the large, release the small." Huawei operates under CCP oversight and benefits from preferential financing loans through the State-owned Assets Supervision and Administration Commission (SASAC), while DeepSeek emerged organically from the Shenzhen Special Economic Zone—evidence that China's innovation ecosystem generates world-class firms through both directed industrial policy and market entrepreneurship (China Daily, 2025).

China's accession to the World Trade Organization (WTO) in 2001 marked a structural turning point. By 2023, Chinese goods exports had reached $3,380 billion, with a merchandise trade surplus of approximately $823 billion (World Trade Organization, 2024)—figures that became central grievances in Western trade policy and a direct trigger for the tariff escalation of 2025.

3.2 The Chinese Counter-Model

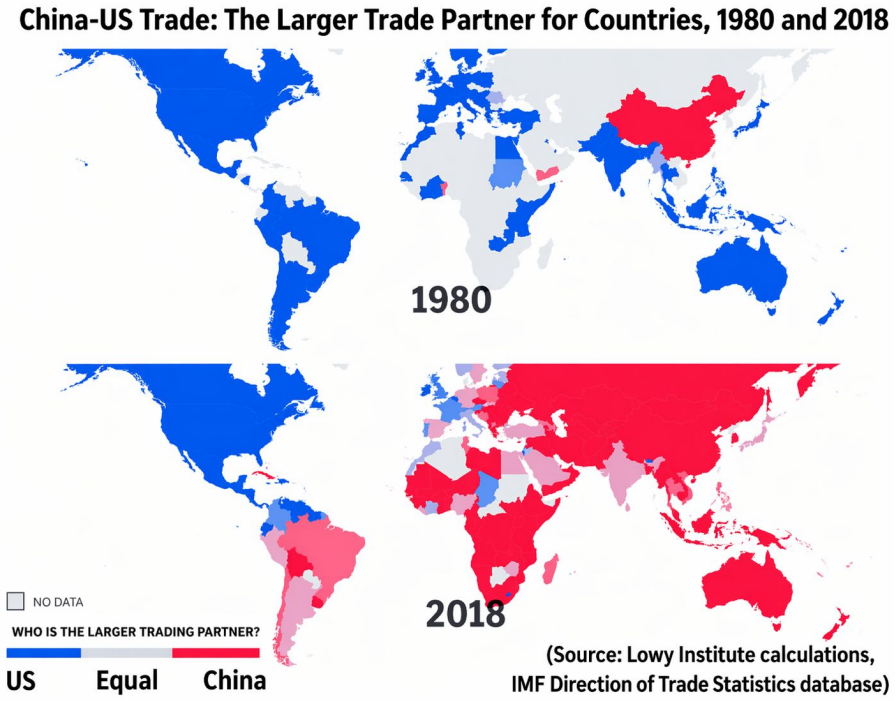

Figure 1: *China–U.S. Trade: Largest Trade Partner for Countries, 1980 and 2018.* The figure illustrates the global shift in trade dominance, showing the United States as the primary trade partner for most countries in 1980, while by 2018 China had become the leading trade partner across large parts of Asia, Africa, and beyond. Source: Lowy Institute (IMF Direction of Trade Statistics database).

While the United States conditions its international engagement on the promotion of democracy and human rights, China offers a radically different proposition. Domestically, the "socialism with Chinese characteristics" model combines market mechanisms with authoritarian political control, formalised in the CCP's internal Document Number 9 (April 2013), which identified seven threats to be suppressed, including Western constitutional democracy, universal values, and civil society (ChinaFile, 2013). These "seven taboos" reveal a model constructed in conscious opposition to Western liberal norms.

A further structural distinction lies in temporal horizon. Democratic systems are constrained by electoral cycles that incentivise short-termism, while China's one-party system enables sustained, multi-decade strategic planning that many developing nations find attractive.

Internationally, China deploys a soft power built on material foundations rather than ideological conditionality. Through the Belt and Road Initiative (BRI), Beijing finances roads, railways, ports, and airports across Asia, Africa, and Latin America without the democratic conditionality attached to Western aid. As Gomart (2023) has argued, the BRI constitutes "an instrument for restructuring global governance."

The China–Pakistan Economic Corridor (CPEC) illustrates this logic: a $60 billion investment linking Xinjiang to the port of Gwadar, securing China overland access to the Arabian Sea (Brookings Institution, 2025).

This "cheque-book diplomacy" renders China more attractive than Western alternatives for many de-

veloping nations, but critics have raised concerns about the "debt trap" dynamic. For Washington, the emergence of a rival soft power capable of reshaping the allegiances of the Global South represents a threat not merely economic but systemic.

3.3 The Chinese Autonomic Strategy

In April 2025, Victor Gao, a Chinese lawyer and specialist in China–U.S. relations, argued on Channel 4 regarding Trump's tariffs that "[China doesn't] care! [...] China has been here for five thousand years. For most of those five thousand years there was no United States and we survived. We will survive for another five thousand years [...]". This quote illustrates the goal of Chinese strategic doctrine: to be as little reliant on U.S. imports as possible.

China has built a dual autonomy—diplomatic and economic—so as never to expose a vulnerability that its adversaries could exploit to compromise its power and resource independence. This autonomy rests on two key axes: a flexible network of alliances and the control of continental and oceanic supply routes.

On the diplomatic plane, China is deeply averse to binding alliances. The rupture of the Sino–Soviet alliance in the late 1950s and early 1960s left a lasting imprint: formal commitments introduce dependency and reduce strategic manoeuvre. China's relationship with Russia today is instructive: a partnership of shared interest in contesting American hegemony, sustained by energy trade and diplomatic coordination, yet deliberately uncommitted to mutual defence obligations.

Similarly, China's engagement in the BRICS and the Shanghai Cooperation Organisation (SCO) follows the same logic of flexible, non-binding solidarity, preserving its autonomy of decision while building a network of states contesting the Western-led order. This architecture of non-constraining alliances significantly limits the diplomatic leverage the United States can exercise on China, leaving trade coercion as one of Washington's most accessible tools of pressure.

On the economic plane, China's principal structural vulnerability is its maritime dependence. Approximately 70% of Chinese oil imports transit through maritime chokepoints—including the Strait of Hormuz, the Bab el-Mandeb, and, above all, the Strait of Malacca—all potentially controllable by hostile naval powers.

This structural vulnerability explains China's investment in blue-water naval capabilities, its territorial assertiveness in the South China Sea, and the overland dimension of the BRI as a mechanism for diversifying energy supply routes. Control of the Eurasian heartland, in the Mackinderian sense, offers a strategic hedge against naval blockade: overland pipelines and rail corridors reduce the leverage of sea power over Chinese economic security.

Focus: Made in China 2025

Launched in 2015, *Made in China 2025* (MIC 2025) is Beijing's industrial masterplan for achieving technological sovereignty (Wübbeke et al., 2016). The plan targets ten strategic sectors: advanced information technology, robotics and artificial intelligence, aerospace, high-speed rail, new energy vehicles, renewable energy, and advanced materials—all areas in which China seeks to reduce dependence on foreign technology and capture global market leadership.

The underlying ambition is explicit: to achieve 70% self-sufficiency in core components by 2025, and global dominance by 2049.

The publication of MIC 2025 triggered immediate alarm in Washington, Brussels, and Tokyo. For Western policymakers, it was not merely an economic roadmap but a candid declaration that China intended to displace Western firms from the commanding heights of the global economy. The plan stands as one of the direct intellectual catalysts for the wave of Western industrial and trade responses that culminated in "Liberation Day."

Its successor frameworks, such as the Dual Circulation Strategy, confirm that MIC 2025 was not a one-off initiative but the foundation of a durable strategic doctrine.

3.4 The Confrontation with the United States: A Multidimensional Rivalry

The United States deploys a full spectrum of power against China, of which "Liberation Day" is only the most recent and visible instrument. Washington disposes of an arsenal of interlocking tools designed to contain Chinese power across every dimension of the competition.

The first is geographic and military. Through the Quad (2007, reactivated in 2017), AUKUS (2021), and its commitment to Taiwan, the United States controls the Rimland and encircles China's maritime approaches. American military bases in Singapore, the Persian Gulf, and across the Pacific enable Washington to threaten, in a crisis, the maritime routes through which approximately 70% of Chinese oil imports transit. On the continental flank, U.S. support for Ukraine prevents the consolidation of a Sino–Russian axis over the Eurasian heartland.

The second is technological. Tightened export controls on semiconductors, the exclusion of Huawei from allied 5G networks, and coordinated allied restrictions aim to slow Chinese progress in artificial intelligence and advanced military systems (Farrell and Newman, 2019), producing a structural technological decoupling that both powers now treat as irreversible (Deutsche Bank, 2023).

The third and most recent is commercial. The 34% tariffs announced on April 2, 2025, subsequently raised to 84% (Center for Strategic and International Studies, 2025; CBS News, 2025), are not merely a penalty on Chinese exports. They try to function as a forcing mechanism, compelling multinationals to adopt a "China +1" strategy—relocating production to third countries to retain access to the American market—and thereby structurally eroding the value chains that have underpinned Chinese industrial primacy for four decades.

Therefore, "Liberation Day" is the commercial expression of a coherent strategy of containment, whose ultimate stakes are the commanding heights of the twenty-first century international order.

4 Reconfiguration of Global Value Chains

As seen with the "Liberation Day" tariffs, which aim to weaken China and bring production back to the United States, the high level of global interdependence raises questions about whether full relocation is feasible. In today's highly globalized economy, tariffs have a significant impact on global value chains

(GVCs), reshaping the mechanisms through which international trade has traditionally operated. This chapter focuses on the impact of tariffs, particularly how they reshape global trade flows, drive new strategic dynamics, and create indirect disruptions across regions and sectors.

4.1 Pressure on Globalization: Regionalization Rather than Full Collapse

Tariffs significantly impact global value chains (GVCs), because they account for approximately 70% of international trade across goods, services, raw materials, and intermediate components (OECD, n.d.). Modern production processes are fragmented across borders, where goods move sequentially from upstream to downstream stages in multistage processes. As the U.S. government has justified the "Liberation Day" tariffs, tariffs are often implemented to protect industries, but in today's globalized environment, they can have unintended consequences for firms that rely on globally sourced components and can ultimately be damaging to both the domestic and global economy.

The European Central Bank (Meinen, 2019) defines GVC-related trade as goods that cross at least two international borders during production. This trade can be understood through two key linkages: forward and backward. Forward linkages capture the value added by a country that is exported and further processed in third markets, while backward linkages refer to the foreign inputs embedded in a country's exports (Meinen, 2019). Industries positioned upstream in the supply chain, such as mining or product development, tend to rely more on forward linkages, whereas downstream sectors, particularly manufacturing, depend heavily on backward linkages and are therefore more exposed to changes in trade costs.

Several key characteristics of GVCs illustrate why tariffs have a strong impact in today's economy. Tariffs can have amplifying effects on the structure of GVCs, because lower trade barriers help reduce the price of final goods and firms' input costs. With multistage international production, every time goods cross a border, they may incur tariffs, which compound costs along the supply chain before reaching final consumers (Meinen, 2019). The effect is further intensified as tariffs are often applied to the full gross value of imports rather than the value added at each stage. Therefore, downstream industries are particularly vulnerable, as value accumulates along the chain, and even small tariff increases upstream lead to a substantial cost increase in final production (Meinen, 2019).

Secondly, there is heavy reliance on intermediate goods trade, as these make up a large percentage of GVCs. For example, European Union (2025) reports that intermediate services and intermediate goods made up 72% and 51% of total extra-EU exports, respectively. Furthermore, GVCs have tight interdependencies between firms and suppliers, which makes substitution very difficult in the short run. Tariffs can impose search and negotiation costs for firms and suppliers involved in incomplete contracts (Grossman, Helpman, and Redding, 2024). Moreover, many industries and firms operate under just-in-time ordering, where goods are received as needed to reduce inventory costs. This model is built on a stable global environment to function optimally; therefore, the unexpected introduction of tariffs can be costly (Engelland, 2025). Lastly, tariffs can cause ripple effects on firms that are not directly involved in manufacturing. When tariffs lead firms to reduce purchasing activities, transportation demand decreases, exposing logistics firms to operational struggles (Engelland, 2025).

4.2 New Strategic Dynamics

Building on the impacts of tariffs on global value chains, there is an increasing need to adopt new strategic responses to manage uncertainty and rising costs. These responses include both short-term adjustments, such as inventory accumulation, and longer-term shifts in production networks to maintain competitiveness in a changing trade environment. Companies such as Carrier Corp have manufacturing

processes across different key markets such as Mexico, Germany, France, China, and Thailand to optimize competitiveness in the global market (T. Heim, interview, March 25, 2026).

Short-term Inventory Strategies As a short-term strategy, and in early response to the tariffs, many U.S. firms engaged in stockpiling inventory before costs increased. Reports by DW show that 20% more goods were imported into the United States between January and March 2025 than the average year between 2022–2024 (Schacht, 2026). As illustrated in Figure 2, the surge in imports was uneven across different countries, with Switzerland and Ireland seeing the largest surges. The United States imported gold bullion approximately 50 times more than its usual amount from Switzerland and introduced new suppliers such as Uzbekistan, the Philippines, and Zimbabwe (Schacht, 2026). Furthermore, pharmaceutical imports largely consisting of weight-loss drugs from Ireland significantly increased as well (Luo, Boller, and Sun, 2025). Countries such as Taiwan, India, and Vietnam also saw large surges in exports to the United States, reflecting their role as potential substitutes for Chinese manufacturing.

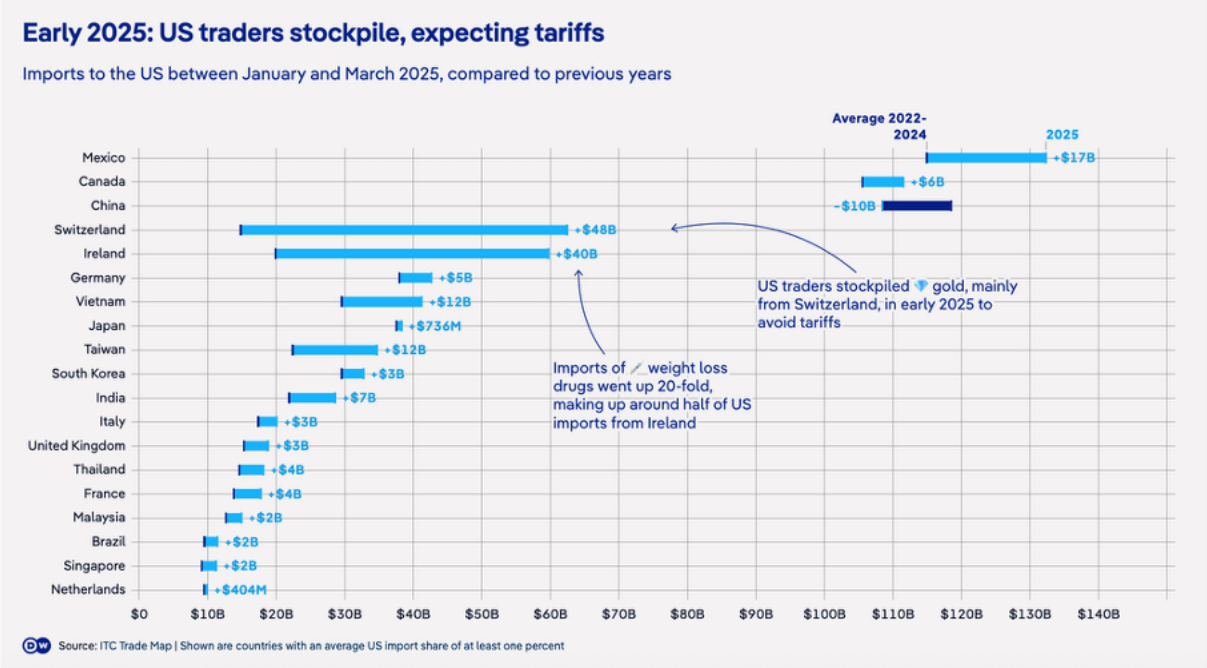

Figure 2: *Pre-Tariff Stockpiling: Surge in U.S. Imports by Country (Jan–Mar 2025).* Note. Reproduced from Schacht (2026), DW.

Reconfiguration of Production Geography A study by De Souza et al. (2025) found that U.S. firms shifted supply chains from high-tariff countries to low-tariff countries, with limited stockpiling from high-tariff countries. These shifts come from U.S. tariffs applying different rates across countries and being targeted toward China, with the highest tariff rates. These tariff-driven adjustments in supply chain configurations give rise to three key strategic responses: reshoring, nearshoring, and friend-shoring.

Reshoring is defined as the relocation of manufacturing to the company's home country, while nearshoring is defined as the setup of manufacturing closer to the final market (Huang, 2025). For both reshoring and nearshoring, the supply chain shortens, allowing firms to deliver faster to the market, while transportation risks and costs are reduced and visibility and communication are improved. Furthermore, companies can operate and produce in a familiar regulatory and cultural environment, which reduces search costs and barriers to entering a new environment (Huang, 2025). Especially in the European Union, reshoring and

nearshoring are almost interchangeable terms within the European single market. Lastly, friend-shoring means relocating production to a country that has aligned interests with the firm's own nation (Huang, 2025).

The United States Reports have shown that U.S. imports from China have drastically decreased with the very high tariff rates imposed. Between January and May 2025, U.S. imports from China halved (Born, 2025). Strategic shifts away from China and toward sourcing strategies involving transshipments through Southeast Asia and Mexico can be observed.

Mexico has been the United States' biggest trading partner since 2023 and has become a major production hub for the United States, with imports peaking in March 2025 at approximately $48 billion (Born, 2025). This can be seen as a result of close geographic proximity, low labor costs, and preferential market access through the United States–Mexico–Canada Agreement (USMCA) (Tordjman et al., 2024). Mexico positions itself as a key supplier for a wide range of industries through its extensive and established industrial clusters such as electronics, aerospace, medical products, and automotive manufacturing. For example, Aptiv, an American automotive technology supplier, has been heavily investing in Mexico (Tordjman et al., 2024). The combination of these clusters and close proximity to the U.S. allows many goods to reach the United States in one or two days (Tordjman et al., 2024).

Furthermore, new factory investments are announced on a regular basis, such as Foxconn's manufacturing facility for Nvidia's chips, which will manufacture a key component of the Blackwell family computing platform (Lee, 2024). This shows how Mexico is becoming a strategic hub for critical U.S. industries such as semiconductors and AI infrastructure. Furthermore, reports have shown that Mexican factories and their production of USMCA-compliant goods are replacing Chinese imports (Born, 2025).

Europe Although European firms have not seen strategic shifts as prominent as in the United States, a report published by the European Central Bank has shown that geopolitical uncertainties have led a majority of European firms to consider relocating operations. For example, 43% of European firms have plans to friend-shore, which was not so common in the past (Attinasi et al., 2023). Furthermore, there have been trends toward a more inward-looking trade geography, with trade shifting toward Central and Eastern European countries. For example, Poland has gained ground in multiple sectors including agrifood, machinery, and electronics and electrical equipment. Other countries such as Hungary, the Czech Republic, and Romania have become larger providers for Western European countries in key sectors such as electronics and electrical equipment, and the automotive industry (Subran et al., 2026).

Emergence of Southeast Asia As a result of diversification away from Chinese imports, Southeast Asian countries have seen an emergence in trade. Imports of equipment and manufacturing inputs from these countries have increased significantly, substituting for China's processing and assembly work. Haishi Li, an economist at Hong Kong University, has stated that U.S. importers are importing from countries that serve as potential substitutes for China. For example, Taiwanese and Vietnamese manufacturers have already had strong ties with U.S. companies since the first term of Trump's administration, which reinforced production and supply chains toward these countries (Schacht, 2026). High-value consumer electronics have been largely replaced with South Asian manufacturers, largely due to relocating final assembly to countries such as India, Vietnam, and Thailand (Devesa et al., 2026).

4.3 Implications of Tariffs: Inflationary Pressures, Efficiency Losses, Productivity Trade-offs

The reconfiguration of GVCs in response to tariffs generates significant economic trade-offs, particularly in terms of inflation, efficiency, and productivity. The OECD (2025) reports that re-localizing supply

chains could reduce global trade by over 18% and global real GDP by more than 5%, emphasizing the broader and higher macroeconomic costs of these adjustments. At the firm and industry level, reshoring and nearshoring tend to increase production costs due to higher wages, regulatory constraints, and limited availability of skilled labor (Huang, 2025). For example, Mexico has experienced a rise in factory wages, with the national minimum wage climbing annually since 2019. Furthermore, skilled labor has grown scarce and difficult to retain with intensified competition for talent (Tordjman et al., 2024). At the same time, supply chain diversification and relocation increase demand for inputs and labor across multiple regions, contributing to global inflationary pressures (Ruban, 2023).

Beyond inflationary pressures, these shifts can also reduce efficiency by shifting production away from the most cost-effective locations and undermining comparative advantage. Furthermore, supply chain restructuring increases operational complexities, as firms need to navigate new regulatory environments, manage and monitor new facilities, and coordinate across more fragmented production networks (Huang, 2025). Lastly, the OECD (2025) reports that reconfiguration does not enhance economic stability, as in more than half of the economies studied, localization was associated with higher GDP volatility.

Asymmetric Impact on SMEs and Large Corporations Another consequence of the "Liberation Day" tariffs is their asymmetric impact on small and medium enterprises (SMEs) compared to large corporations. SMEs have been more negatively affected, as their smaller profit margins limit their ability to absorb increased costs or secure exemptions (Sainato, 2025). SMEs often lack substantial cash reserves, averaging approximately 45 days, and their limited access to external capital markets exacerbates the strain on working capital when tariffs raise input costs (LeMay and McMahon, 2026). Furthermore, SMEs often limit their sourcing to a single supplier, which leaves them vulnerable when these primary suppliers are affected by tariffs (LeMay and McMahon, 2026). In November 2025, American small businesses saw the highest rates of job cuts in recent years (Unkenholz, 2025). Moreover, tariff-related costs for small businesses in 2025 are estimated to have tripled compared to the same period in the previous year (Unkenholz, 2025).

These effects are not limited to the United States but are also evident in the manufacturing sectors of developing countries. For example, textile factories in India, facing tariffs of up to 50%, have lost their comparative advantage to countries such as Sri Lanka, Vietnam, and Bangladesh, which faced 15–20% tariffs (Behal, 2025). Therefore, small and medium manufacturing firms operating on low margins are unable to absorb these additional costs, thus increasing the risk of factory closures and job losses. Similarly, in Lesotho, smaller clothing suppliers have been unable to operate at full capacity due to tariff pressures, prompting a shift toward alternative markets such as South Africa (Savage and Latela, 2026). These consequences extend beyond firms and create ripple effects throughout local economies. As price-sensitive global buyers shift to lower-cost suppliers, affected regions experience reduced orders, declining incomes for drivers and delivery staff, and weaker demand for local vendors.

Steel and Aluminum Industry

Steel and aluminum are foundational industries as they serve as inputs for a wide range of industries, including construction, automotive, aerospace, and consumer goods. The United States remains highly reliant on imports, with approximately 50% of its steel and 25% of its aluminum sourced from abroad. Aluminum is a critical input for key sectors such as electronics, aerospace, and defence, where it is used to meet purity and consistency standards. Therefore, tariffs on aluminium can have significant implications and place strain on the U.S. defence industrial base as they increase the costs of producing military aircraft and defense equipment (Huesa and O'Neil, 2025).

In response to higher tariffs, investments in domestic production capacity have increased. For example, Emirates Global Aluminium, and two South Korean firms, Hyundai Steel and Posco, plan to open new steel facilities in the U.S. (Boston Consulting Group, 2025a). Although these new facilities may generate employment, they are often offset by losses endured by manufacturing and other industries reliant on these metals (Huesa and O'Neil, 2025). The higher input prices are burdensome to businesses that use metals, which account for a high share of American employment. Thus, they are disadvantaged as inputs become pricier and overseas competitors can undercut them. Ultimately, these increased costs are passed on to final consumers, further amplifying inflationary pressures.

Tariffs have also had spillover effects, particularly in the European steel market. Diverted Chinese exports have increased competitive pressure in European markets, as cheaper imports threaten domestic producers (O'Carroll, 2025). This places Europe in a vulnerable position, as it could lead to increased reliance on the United States and China for a key manufacturing material. Therefore, it highlights how tariffs can reshape global trade flows and create indirect disruptions across regions.

Automobile Industry

The automobile industry has also been particularly hit by the "Liberation Day" tariffs. The inclusion of Canada and Mexico, two major exporters of cars to the United States, has caused significant uncertainty in North American supply chains. For example, major domestic automotive manufacturers such as Stellantis and General Motors import approximately 40% and 30% of the vehicles they sell in the U.S. from Mexico and Canada, respectively (The Economist, 2025). General Motors reported that U.S. tariffs cost the company $3.1 billion in 2025 — below its own worst-case projection of $4.5 billion (CNBC, 2026). Strategic decisions on large-scale domestic investments were announced that were partly strategic and partly designed to gain political goodwill with the Trump administration. GM, for instance, announced plans to invest $4 billion to shift production from Mexico to three U.S. plants (CNBC, 2026). Similar concerns can be seen in global firms such as Volkswagen and Nissan, which also have a large percentage of cars manufactured in Canada and Mexico (The Economist, 2025).

However, the financial impact on the industry is substantial. Estimates suggest that tariffs would cost the industry $110 million daily and cause additional average costs of $2,700 per car sold in the U.S. (The Economist, 2025). However, the automobile industry in the United States faces challenges in nearshoring, as firms cannot easily shift large investments from other countries and change long trading relationships with suppliers. Furthermore, automobile factories are very expensive to open and close. Economists at TD Bank, a Canadian lender, have stated that domestic production of all 7 to 8 million American imports of cars would cost $50 billion (The Economist, 2025). Daniel Roeska of Bernstein further adds that shifting investments and higher costs of producing cars in the U.S. can dampen the industry. Consequently, this would also worsen labor shortages and leave plants in Mexico or Canada underutilized (Brinley, 2025). These increased costs are likely to be passed on to consumers, with estimates suggesting a 3% increase in new vehicle prices. With existing affordability constraints, this places additional pressure on demand and depicts the broader distributional effects of tariffs (J.P. Morgan, 2025).

Beyond North America, retaliatory measures by China have exposed the industry's vulnerabilities. China's restrictions on exports of rare earth permanent magnets and semiconductors, which are key inputs for vehicles, have caused significant damage to the automobile industry globally (CBS News, 2025). Ford reported the shutdown of several factories due to rare earth mineral shortages (Cerullo, 2025). Similarly, Honda experienced temporary suspensions of production in North American factories due to shortages (Felton, Mackrael, and Wilmot, 2025). These disruptions highlight the complex and globally dispersed supply chains of the automobile industry. Moreover, they illustrate how tariffs can trigger ripple effects across industries reliant on highly specialized inputs such as critical earth minerals and semiconductors.

5 Corporate Strategy under Geoeconomic Fragmentation

Having examined how tariffs reconfigure global value chains, this chapter turns inward to the firm level. The imposition of tariffs on "Liberation Day," and the subsequent reciprocal responses, did not only alter the cost structure of global trade and its value chains – they accelerated a deeper transformation in how multinational businesses conceive of strategy.

This chapter examines how corporate strategy has responded to geoeconomic fragmentation driven by political instability and the implementation of tariffs. Particular attention is paid to coping mechanisms such as pricing strategies, the reorganization of strategic priorities, the restructuring of investment logic, and the management of margins under persistent trade policy uncertainty.

Underlying all of these responses is a fundamental directional shift: from efficiency-maximization toward the transformation of companies into resilient entities.

5.1 Shift from efficiency maximization to resilience maximization

The era of hyperglobalization rewarded firms that optimized for scale, efficiency, and cost arbitrage by dispersing production across borders and tightly integrating into global supply chains. "Liberation Day" marks another decisive rupture with that paradigm. Geopolitical risk has become a board-level strategic variable: it is no longer peripheral or insured away, but is now embedded in board discussions, enterprise risk management, and scenario planning (Braw, 2023). This shift reflects a broader reorientation toward resilience, understood in corporate strategy as a firm's dynamic capability to absorb shocks, adapt to changing conditions, and renew itself to sustain performance over time (Conz and Magnani, 2020).

According to the Willis Towers Watson Political Risk Survey, political risk now appears among the top five concerns on the enterprise risk management registers of globally active companies (Willis Towers Watson, 2023; Willis Towers Watson, 2025). Figure 3 presents Reuters (2025) data on how major firms across the United States, the United Kingdom, EMEA, and Asia-Pacific have responded to recent U.S. tariffs, capturing multiple reported reactions per firm, including price increases, financial impacts, and supply chain adjustments. As shown in Figure 3, trade policy uncertainty induced by the "Liberation Day" tariffs has also led many companies to withhold forward-looking guidance on revenue or profitability altogether, while others have signaled their exposure through earnings communications (Reuters, 2025). Mattel's CEO described in Q1 2025 navigating macroeconomic volatility with "speed, agility, and discipline," whilst its CFO added that "given the evolving tariff situation, we are taking mitigating actions designed to fully offset the potential incremental cost impact" (Mattel, Inc., 2025). Whilst Ralph Lauren cited its diversified supply chain and strong balance sheet as tools for managing ongoing macroeconomic uncertainty looking forward to 2026 (Ralph Lauren Corporation, 2025).

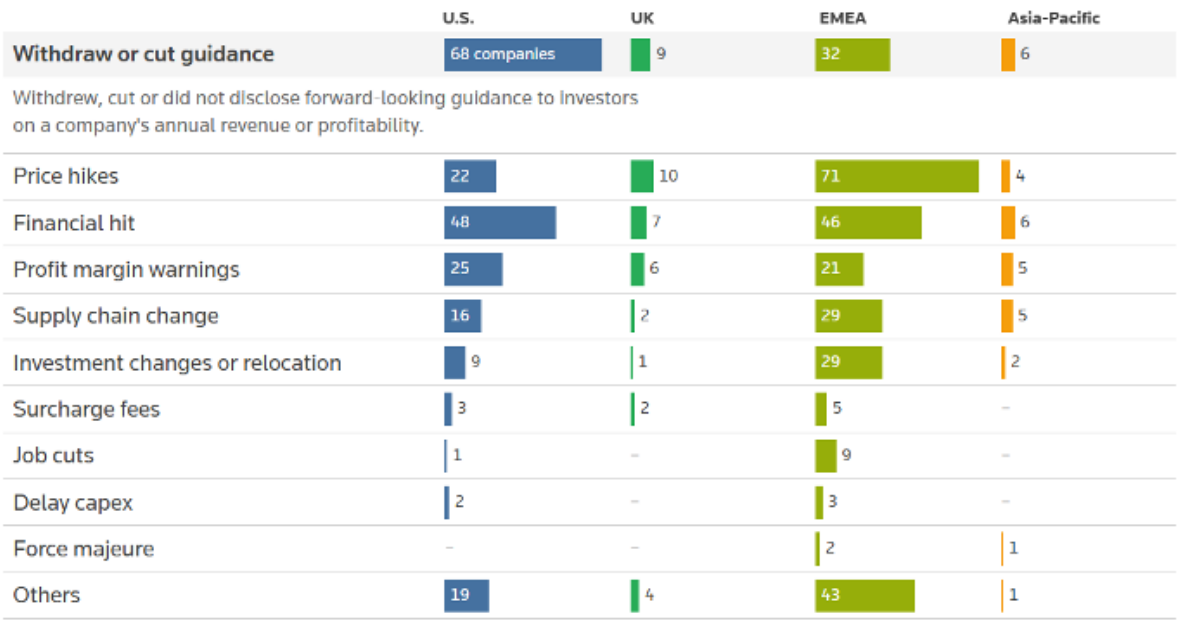

Figure 3: *Latest counts of company reactions to tariffs, by region.* Note. Includes the most recent information of current reactions and impacts for each company. If a company has reacted in more than one way, it would be included once for each reaction. EMEA includes countries in Europe (except the UK), the Middle East and Africa. Source: Reuters (2025).

The consulting industry has responded in kind. McKinsey & Company (2025) prescribes the creation of a geopolitical nerve center, a cross-functional standing unit, that tracks trade developments, models scenarios across short, medium, and long-term horizons, and coordinates rapid decision-making. BCG (2025) recommends dedicated tariff response units equipped with real-time analytics to simulate supply shifts and forecast margin impacts. KPMG International (2018) urges firms to appoint a Chief Geopolitical Officer and embed geopolitical stress-testing into core risk management. These recommendations share a common diagnosis: traditional forecasting and planning methods are insufficient when the policy environment is fundamentally discontinuous and unpredictable.

Investment Disruption Also the impact of tariff volatility on investment behavior is both measurable and significant. The Richmond Federal Reserve and Duke University CFO Survey (Q2 2025) found that more than four in ten U.S. financial executives had postponed, scaled down, delayed indefinitely, or outright cancelled investment plans in response to trade policy concerns (Richmond Federal Reserve and Duke University, 2025b).

As seen in Fig. 3, firms widely reported financial hits and issued profit margin warnings, while also raising prices, indicating mounting pressure on both revenues and profitability (Reuters, 2025). This aligns with survey evidence showing that companies and CFOs assigned in 2025 a 23% probability to negative year-ahead GDP growth – up from 15% the prior quarter – and flagged broadly lowered revenue expectations (Richmond Federal Reserve and Duke University, 2025a).

Resilience as Architecture: Evidence from Carrier

The interview with Thomas Heim, President of Climate Solutions Europe at Carrier Corp, provides a detailed account of how a large industrial multinational has operationalized this strategic shift. At Carrier, geopolitical risk is now discussed at every organizational level. The board handles macro-strategic developments and categorizes geopolitical risks; legal and sourcing departments analyze and quantify the operational consequences of framework changes in greater depth; and regional and local business units have the executional responsibility of implementing whatever those changes require at the country and regional level. This cascading governance structure closely matches the nerve center model advocated by McKinsey & Company (2025), though at Carrier it appears to have evolved organically from lived operational experience, monitoring how external cost factors like tariffs change their framework and thus their business assumptions.

Heim frames resilience not as an end state but as the continuous creation of optionality. Multi-sourcing and dual sourcing of components, in-house design of electronic control boards – enabling rapid component substitution – and flexible labor contracts negotiated with work councils, are all mechanisms to maintain freedom of maneuver as the policy environment shifts. Carrier's regional-for-regional manufacturing strategy, with plants across for example Germany, Poland, Mexico, Thailand, or China, further insulates the firm from tariff shocks in any single geography. That said, Heim offers an important corrective to more excitable narratives about tariff-driven strategic disruption. For Carrier, tariffs are described as "more technical" – one factor among many – ranked below labor cost trajectories and the availability of skilled workers as mid- and long-term strategic drivers. Investment decisions have not been fundamentally altered by tariff snapshots. This distinction matters: while consulting prescriptions urge radical reconfiguration, sophisticated practitioners maintain a hierarchy of strategic considerations in which tariffs, though consequential, are not determinative. In Heim's words: "Tariff is only one of the many influencing factors, and I would almost say it's more a technical one [...] the availability of skilled workforce, the expected cost development for the skilled workforce – that in a mid- and long-term perspective is much more important than a snapshot of a momentous situation where tariff may change" (T. Heim, personal communication, March 25, 2026; see Appendix). In this light, sophistication consists in maintaining strategic discipline rather than reacting to every disruption.

5.2 Pricing adjustments and margin management under tariff exposure

Corporate adaptation to tariffs also operates at the micro-level of pricing: how companies manage the impact of higher import costs on their cost structure and their relationships with customers. Knowing one's customer and brand base is decisive in this context: whether customers prioritize brand quality, product attributes, or simply price will define their price elasticity and should determine the pricing strategy a business adopts (EY Belgium, 2025). The academic and policy evidence broadly supports the view that strategy must be grounded in this kind of analysis. Whether short-term stockpiling, broad pricing adjustments, or differentiated pricing by segment is optimal depends on the specific competitive position of the firm.

At the aggregate level, U.S. import tariffs have caused statistically significant increases in core consumer goods prices (Minton and Somale, 2025; Minton and Somale, 2026). The "Liberation Day" tariff costs were transmitted gradually but steadily to U.S. consumers following April 2025 (Cavallo et al., 2025). For the 2018–2019 China–U.S. tariffs, pass-through to consumer goods prices was rapid and nearly complete within two months. In contrast, tariff effects on prices in 2025 built up more gradually over time:

tariffs implemented through November 2025 raised core goods PCE prices by 3.1% through February 2026, contributing about 0.8 percentage points to overall core PCE inflation (Minton and Somale, 2025; Minton and Somale, 2026). This suggests that the 2025 tariffs passed through to consumer prices more slowly and less strongly than the 2018–2019 tariffs.

Examining margin compression more closely, a key finding from the 2018–2019 episode is that many U.S. retailers chose to reduce profit margins on affected goods rather than passing the full cost on to consumers (International Monetary Fund, 2019). A study of U.S. tariffs on European still wines implemented in 2019 offers further granularity: foreign producers absorbed approximately one quarter of the tariff by lowering their prices, while the dollar pass-through estimate at the consumer level exceeded 100%. This means that consumers ultimately bore more than the full tariff amount in dollar terms due to markup amplification along the distribution chain. The lag structure is also noteworthy: wine importers' prices took around three months to adjust, while consumer prices did not fully respond until nearly a year after tariff application (Faber, Fally, and Fan, 2025).

The asymmetry between large firms and small and medium-sized enterprises (SMEs) is particularly significant. As Misfit Toys (a small Houston-based retailer) noted: small firms simply cannot afford to absorb tariff costs the way competitors like Target, Walmart, or Amazon can (Schneider, 2026). The Federal Reserve Bank of Boston survey corroborates this structurally: U.S. SMEs estimated that it would take approximately two years before they were fully passing cost increases through to their prices (Federal Reserve Bank of Boston, 2025). The Peterson Institute for International Economics draws the logical conclusion: through July 2025, U.S. firms were largely absorbing the tariff burden through compressed spreads between import costs and selling prices, with many basing selling prices on pre-tariff historic inventory costs, thereby delaying the consumer impact (Peterson Institute for International Economics, 2025).

The firms best positioned to navigate this environment are those capable of implementing differentiated pricing: adjusting by product line, geography, or customer segment rather than applying blanket increases. This capacity is, in practice, largely concentrated among large multinationals with the analytical infrastructure to execute it. Nike, for instance, announced a surgical price increase, raising prices only on certain products, markets, or segments rather than across the board (OPB, 2025). Costco adopted a similarly differentiated approach: absorbing costs for high-frequency staples such as bananas and pineapples while raising prices on lower-frequency purchases such as flowers (CNBC, 2025).

Segmented Pricing in Practice: Carrier's Approach

Carrier's approach, as described by Thomas Heim, illustrates the strategic sophistication that well-positioned firms bring to pricing decisions. Rather than applying a blanket pass-through policy, Carrier's pricing decisions are made by segment, product line, and geography – assessed against a firm-specific analysis of value proposition, competitive positioning, and willingness to pay.

Critically, this analysis follows an attempt to resolve cost pressures upstream first: in the week prior to the interview, Heim had convened Carrier's top European suppliers in Wrocław for a sourcing summit, working jointly with the supplier base to identify productivity improvements that could offset cost pressures – also from for example inflation. As he describes it: "We are in close exchange with all our suppliers in order to support them and them supporting us to get down cost on the value creation [...] pricing is not only a possibility but also a necessity." (T. Heim, personal communication, March 25, 2026; see Appendix). This approach maps precisely onto the EY Belgium (2025) framework, which distinguishes between price-sensitive consumers who would readily substitute cheaper domestic alternatives and those who prioritize brand reputation or product quality and can therefore absorb price increases.

5.3 Changes in Corporate Strategy

Stepping back from the firm and sector-level evidence, five durable shifts in corporate strategy emerge – each of which is likely to outlast the current tariff cycle.

First, geopolitical risk has been permanently elevated as a board-level strategic variable, no longer managed through insurance or delegated to peripheral functions. The organizational implication is the institutionalization of cross-functional monitoring and response capabilities. Firms that built these capabilities early, as Carrier appears to have done, are better positioned to respond with speed when the next policy shift materializes.

Second, investment decisions are being recalibrated around resilience and optionality. The gap between firms considering reshoring and those actively doing so – 63% versus 10% in the KPMG September 2025 survey – reflects the reality Heim described: for most multinationals, the long-run structural logic of manufacturing footprint is not overturned by a tariff snapshot (KPMG LLP, 2025). This discipline separates firms that respond strategically from those that react tactically.

Third, pricing has been elevated from a tactical function to a strategic one. The firms that have navigated the tariff environment most effectively share a common characteristic: they treated pricing as an analytical decision informed by customer segmentation, competitive positioning, and supplier relationships – rather than as a reflexive response to cost increases.

A fourth and often overlooked dimension concerns the question of decoupling. While political rhetoric frequently frames geoeconomic fragmentation as a binary choice like decoupling from China or not, the evidence from leading multinationals suggests a more nuanced position. Carrier, for instance, explicitly rejects the logic of exclusion. Rather than retreating from geopolitically sensitive markets, Heim frames global presence as both a commercial necessity and a corporate responsibility: "We are not believing in splitting, excluding or whatsoever of certain parts of the world [...] I believe as a global company we almost – not only have an opportunity – but also have the responsibility to act as bridgemakers" (T. Heim, personal communication, March 25, 2026; see Appendix). This position reflects a broader reality: for firms with globally distributed value chains and customer bases, full decoupling is neither operationally feasible nor strategically desirable. The strategic response is not withdrawal, but the careful management

of exposure through geographic diversification and supply chain flexibility.

Finally, geoeconomic fragmentation has forced firms to develop a more differentiated approach to their global footprint, distinguishing between global trends and those that require a regional response. Heim articulates this as a conscious strategic organizing principle at Carrier: global megatrends such as the growth of data centers are addressed through globally integrated product management teams and standardized solutions, with "lighthouse plants" distributed across regions. By contrast, technologies with region-specific demand patterns, such as residential heating systems in Europe, are governed through regional business units with locally embedded R&D and product management (T. Heim, personal communication, March 25, 2026; see Appendix). This global-versus-regional strategic dualism is likely to become a defining organizational feature for multinationals navigating fragmentation: not a retreat from globalization, but a more deliberate segmentation of which decisions belong at which level.

The broader implication is that geoeconomic fragmentation has elevated the strategic value of organizational flexibility and geopolitical competence as sources of competitive advantage. As the evidence across this chapter demonstrates, the firms best equipped for this environment are not necessarily those that have restructured most aggressively, but those that have built the internal architecture such as governance, sourcing flexibility, and analytical pricing capability, to absorb shocks before they become crises. To the question whether he would agree that resilience is a strategic objective now when facing geoeconomic fragmentation, Heim explains: "I mean I would say resilience is almost the name of the game. But resilience is super important because at the end of the day there is so much volatility driven by so many developments that we are currently seeing. [...] we have commitments to our shareholders, we have commitments to our suppliers and we have commitments to our employees, and we have to live up to those – so we cannot become victims of volatility." (T. Heim, personal communication, March 25, 2026; see Appendix).

5.4 A Framework for Classifying Corporate Responses

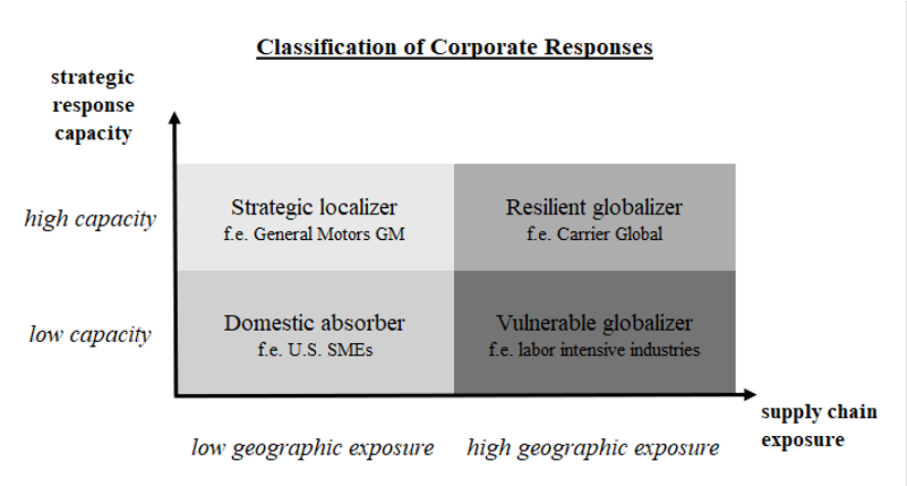

Figure 4: Classification of corporate responses

Looking at these five strategic shifts, two underlying dimensions cut across them. The first is a firm's supply chain geographic exposure: the degree to which its production, sourcing, and cost base are embedded in cross-border networks subject to tariff volatility. The second is its strategic response capacity: the organizational infrastructure, governance architecture, analytical pricing capability, supply chain flexibility, and financial resilience, that determines whether a firm can respond to tariff shocks with precision or

is forced into blunt, reactive measures.

Mapping these two dimensions produces a two-by-two matrix with four distinct firm archetypes as depicted in Figure 4. Each archetype captures a combination of structural tariff vulnerability and adaptive capability, and each implies a different strategic priority for firms seeking to improve their position.

Resilient globalizers maintain deep cross-border supply chains but govern them with sufficient organizational sophistication to absorb tariff shocks without restructuring their footprint. The defining characteristic is strategic discipline: tariffs are treated as one technical factor among many, and investment decisions remain anchored in long-term structural logic rather than policy headlines. Carrier illustrates this most directly with its regional-for-regional manufacturing strategy, multi-sourcing architecture, and in-house engineering capability allow it to switch components and redirect sourcing rapidly without altering the overall strategic direction.

Strategic localizers respond to geoeconomic fragmentation by deliberately reducing their geographic exposure by restructuring their manufacturing footprint rather than simply governing existing exposure more carefully. The automotive sector mentioned in Chapter 4 provides the clearest examples: GM announced a $4 billion shift of production from Mexico to three U.S. plants. In pharmaceuticals, AbbVie and Johnson & Johnson committed $10 billion and $55 billion respectively to U.S. facilities, partly in response to tariff threats and partly to qualify for domestic production exemptions (CNBC, 2026). This way they reduce structural tariff exposure through footprint reconfiguration rather than absorbing it through governance. This strategy requires significant capital and time but it lowers the long-run tariff risk embedded in the cost base.

Domestic absorbers have limited direct cross-border exposure but lack the organizational infrastructure to respond analytically when indirect tariff costs do reach them, through commodity input prices, supplier pass-through, or logistics inflation. For small and medium-sized enterprises in particular, the absence of analytical pricing capability means the only available responses are indiscriminate cost absorption or blanket price increases, neither of which is sustainable.

Vulnerable globalizers occupy the most exposed position: deeply embedded in tariff-affected sourcing networks without the governance architecture or analytical pricing capability to respond with precision. As seen in Chapter 4, firms in labor-intensive industries such as textiles and footwear illustrate this clearly: those manufacturing in India, facing tariffs of up to 50%, lost their competitive position to lower-tariffed countries such as Vietnam and Bangladesh almost immediately, with insufficient time or capital to qualify new suppliers or reconfigure production (Chapter 4). Unable to absorb costs or pass them through selectively, these firms face a binary choice between margin destruction and volume loss. The strategic priority for this quadrant is twofold: in the short run, co-investing with suppliers in cost reduction and in the medium run, building the sourcing diversification and governance infrastructure that would allow migration toward the resilient globalizer or strategic localizer archetypes.

The value of the matrix lies not in categorizing firms definitively, but in identifying the direction of movement that builds strategic resilience. Firms in the vulnerable globalizer quadrant face the most urgent need to act. Those already in the resilient globalizer or strategic localizer quadrants face a different challenge: maintaining the discipline and organizational capacity that places them there, in an environment where policy volatility makes that discipline continuously costly to sustain.

6 Alliance Realignment

The preceding chapters established that U.S. tariffs have been reconstituted as instruments of economic statecraft and traced their consequences through global value chains and corporate strategy. This chapter shifts the focus to the international system, examining how tariffs function as tools of alliance discipline, how they have accelerated the formation of competing regional trade blocs, and why full deglobalization remains structurally implausible despite these pressures.

6.1 Tariffs as Instruments of Alliance Discipline

What distinguishes the post-Liberation Day trade environment is that U.S. tariffs hit treaty allies, not just strategic adversaries. This breaks with the post-1945 norm under which alliance partners received preferential economic treatment. Section 232 tariffs of 25% on steel and aluminum imports from the European Union affected roughly €26 billion of EU exports, about 5% of total EU goods exports to the United States. The administration was treating allied economies as objects of coercion rather than partners in a shared liberal order (European Commission, 2025). The EU responded with a two-phase package of countermeasures targeting U.S. goods ranging from bourbon and motorcycles to textiles, poultry, and agricultural products, covering approximately €26 billion in trade value (NPR, 2025; Global Policy Watch, 2025). The Commission also signaled its willingness to deploy the Anti-Coercion Instrument, a framework adopted in 2023 to deter economic coercion against EU sovereignty.

The pattern repeated in the Indo-Pacific, and arguably in a more pronounced form. On Liberation Day, Japan faced a 24% tariff rate and South Korea 25%, exceeding those applied to the EU even though both nations are Washington's principal security partners in the region and host major U.S. military installations (Asia Times, 2025). To bring these rates down to 15%, both countries had to pledge a combined $900 billion in investment commitments to the United States, a configuration closer to tributary extraction than to alliance management (Bloomberg, 2026). After the Supreme Court ruled 6–3 that the IEEPA-based tariffs were unlawful, the administration quickly replaced them with Section 122 surcharges and launched Section 301 investigations targeting allied economies alongside China. The specific legal authority mattered less than the structural intent (The Diplomat, 2026; Tax Foundation, 2026).

Farrell and Newman (2019) concept of "weaponized interdependence" captures this dynamic. Originally formulated to describe how states exploit network centrality to coerce adversaries, it now applies within alliances. The consequences extend beyond trade. Both Japan and South Korea have initiated public debates about nuclear autonomy, and U.S. tariff pressure directly prompted the March 2025 trilateral ministerial meeting between China, Japan, and South Korea in Seoul, the first in six years. Dormant free trade agreement negotiations were revived as a countermeasure to American economic coercion (Modern Diplomacy, 2025).

Trilateral Dynamics in East Asia under U.S. Tariff Pressure

The March 2025 meeting of the Chinese, Japanese, and South Korean foreign ministers in Seoul was the first trilateral at this level in six years, and its timing is noteworthy. The previous such gathering, held in Beijing in 2019, took place during the trade confrontation between Washington and Beijing under the first Trump administration. The sequence has now occurred twice: sustained U.S. tariff pressure has coincided with renewed trilateral engagement between two American treaty allies and China (Modern Diplomacy, 2025).

In Seoul, the three governments agreed to revive free trade negotiations that had stalled for several years. Participants were relatively explicit about the rationale, citing shared exposure to U.S. tariff measures as a motivating factor. Western analysts cautioned that this trajectory risked "ceding the region to Beijing." Chinese commentators were more measured, noting that Japan and South Korea remain embedded in a U.S.-led security architecture that excludes China, while longstanding historical disputes continue to constrain deeper cooperation.

This episode highlights a structural limitation of economic coercion when directed at allies. Tariffs imposed on security partners may strain bilateral relationships, but they also reshape the strategic options available to those partners. In this case, some of those options led toward deeper engagement with Beijing, the very actor the tariffs were intended to constrain.

Bloc Formation and Regional Economic Spheres The erosion of alliance-based trade privilege has accelerated the consolidation of alternative regional architectures. Four developments stand out, each operating at the level of states and trade blocs rather than individual firms.

First, the Regional Comprehensive Economic Partnership (RCEP), a free trade agreement signed in 2020 between fifteen Asia-Pacific economies including China, Japan, South Korea, Australia, New Zealand, and the ten ASEAN member states, has deepened its role as what analysts call a China-centered "safe harbor." Its cumulative rules of origin, which allow value added across any of the fifteen member economies to count toward preferential tariff qualification, have structurally incentivized intra-regional sourcing. China's trade with Belt and Road Initiative partner countries reached $3.09 trillion in 2024, exceeding 50% of its total trade for the first time (China Daily, 2025). As illustrated in Figure 5, Chinese cumulative BRI engagement reached record levels in 2025, with particularly strong growth in energy, metals and mining, and technology sectors, confirming the deepening institutional consolidation of a China-centered economic sphere. RCEP is no longer just a trade agreement; it functions as an institutional buffer against U.S. tariff volatility and as an alternative to the hub-and-spoke system Washington has historically dominated in Asia.

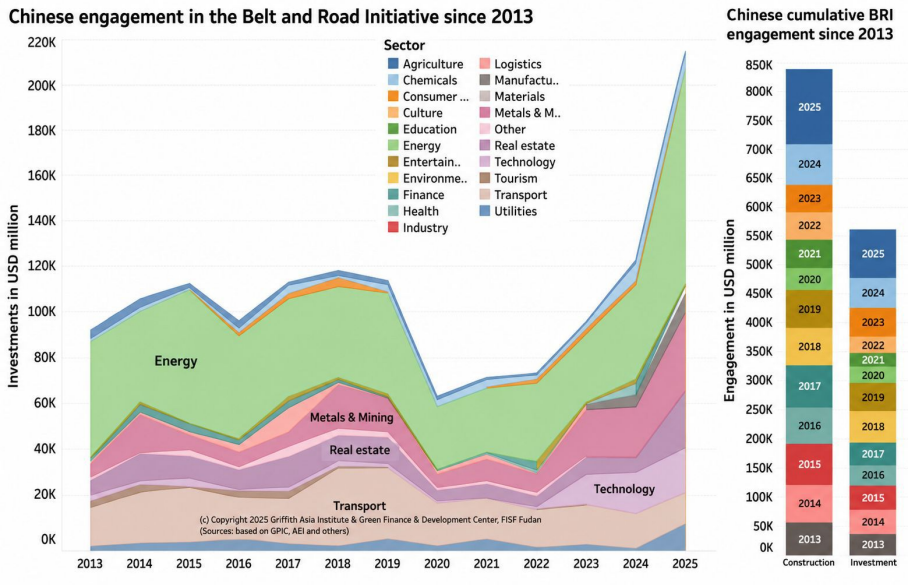

Figure 5: *Chinese Engagement in the Belt and Road Initiative since 2013.* Note. Left panel shows annual Chinese BRI engagement by sector (in USD million), highlighting the acceleration of engagement in 2024–2025 and the growing prominence of energy, metals and mining, and technology. Right panel shows cumulative BRI engagement since 2013, disaggregated by construction contracts and investments. Data based on the China Global Investment Tracker (AEI) and GFDC estimates. Source: Nedopil (2026).

Second, the European Union has accelerated its pursuit of Open Strategic Autonomy, a doctrine that seeks to preserve the EU's capacity to act independently in strategic sectors while remaining open to international cooperation. The doctrine combines trade openness with the deliberate reduction of critical dependencies on external powers. The January 2025 Competitiveness Compass shifts priority toward autonomy over openness, using instruments including the Anti-Coercion Instrument, the EU Chips Act (€43 billion), and the Net-Zero Industry Act to reduce strategic dependencies on both the United States and China (CELIS Institute, 2025; Baroncelli, 2025). The EU–Mercosur Partnership Agreement, politically concluded on 6 December 2024 and signed on 17 January 2026, covers a market of 780 million people and gives the EU preferential access to 97% of Latin American GDP, twice the market penetration enjoyed by the United States, while securing supply of critical raw materials for the green transition (Council of the European Union, 2026b; Santander, 2025).

Third, a WTO working paper from October 2024 empirically confirms that trade between geopolitically aligned partners is growing faster than cross-bloc flows, giving quantitative weight to the friend-shoring thesis (Global Trade Review, 2024). As illustrated in Figure 6, the number of regional trade agreements in force has grown from 22 in 1990 to over 360 in 2023, and new configurations have emerged, such as the Gulf Cooperation Council's Special Economic Zones designed to attract relocated supply chains (AMRO-Asia and European Central Bank, 2024).

Figure 6: *Cumulative Number of Regional Trade Agreements in Force Globally, 1990–2023.* Note. The chart illustrates the long-run proliferation of regional trade agreements (RTAs) notified to the WTO. The acceleration of RTA formation reflects both deepening regional integration and the increasing turn toward preferential and plurilateral arrangements in place of multilateral liberalization. Source: Authors' elaboration based on AMRO-Asia and European Central Bank (2024) and WTO RTA Database.

Fourth, and paradoxically, U.S. tariff pressure has driven Washington's own allies toward closer engagement with China. The March 2025 China–Japan–Korea trilateral is unlikely to produce a comprehensive free trade agreement given entrenched historical and security obstacles, but it signals that coercive tariffs on allies risk accelerating the very geopolitical realignment they are supposed to prevent.

6.2 Limits of Fragmentation: Interdependence Persists

The evidence of bloc formation has to be weighed against the fact that the global economy remains deeply interdependent, and the empirical signature of deglobalization is weaker than political rhetoric suggests.

World trade in goods and commercial services grew 7% in 2025 to $34.65 trillion, with services reaching a record 27.6% share of total trade (World Trade Organization, 2025b). As shown in Figure 7, world trade growth has remained volatile but structurally positive in most years, with 2025 recording a strong rebound despite tariff disruption. AI-related goods alone contributed nearly half of merchandise trade growth in the first half of 2025, expanding over 20% year-on-year, suggesting that technology-driven interdependence generates its own resistance to decoupling (World Trade Organization, 2025a). The ASEAN+3 Macroeconomic Research Office and the ECB identify ASEAN economies as "connector countries" that maintain commercial integration with both blocs regardless of political alignment. China's global export share has actually increased despite reduced bilateral U.S. flows, and the BIS documents that global value chains have lengthened, not shortened, since 2021 (AMRO-Asia and European Central Bank, 2024; Qiu, Shin, and Zhang, 2023).

Figure 7: *Year-on-Year World Trade Growth, 2021–2025 (%).* Note. Figures refer to annual growth of world trade in goods and commercial services on a balance-of-payments basis. The 2023 contraction reflects the combined effects of tighter monetary policy, the lingering effects of the war in Ukraine, and weak Chinese demand, while the 2025 rebound to 7% occurred despite the introduction of the "Liberation Day" tariffs. Source: Authors' elaboration based on WTO data (World Trade Organization, 2025b; World Trade Organization, 2025a).

The IMF's October 2025 World Economic Outlook supports this assessment. Chief Economist Gourinchas reported that the growth downgrade from tariff disruption was "at the modest end of the range" projected in April. He attributed this to the smaller-than-feared tariff shock following trade deals and exemptions, limited retaliation by most countries, and private-sector agility in front-loading imports and rerouting supply chains (International Monetary Fund, 2025a). IMF and WTO models estimate that full bloc fragmentation could reduce global GDP by 5–7%, with fragmentation costs ranging from 0.2% to 7% of output depending on severity, but the realized costs have stayed at the lower bound (International Monetary Fund and World Trade Organization, 2023; Deutsche Bank, 2023). Figure 8 illustrates the gap between modelled worst-case scenarios and realized outcomes. As Deutsche Bank analysts have argued, full U.S.–China decoupling would severely damage the world economy, given that China holds over $859 billion in U.S. Treasury securities and that lower-income countries would be forced into exclusive bloc dependence (Deutsche Bank, 2023).

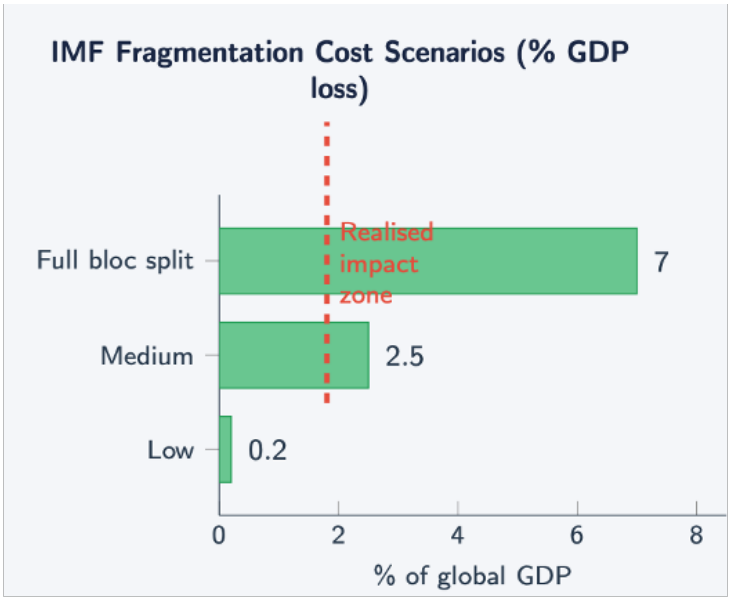

Figure 8: *IMF Fragmentation Cost Scenarios: Estimated Output Losses under Alternative Bloc-Split Intensities (% of Global GDP).* Note. The chart presents IMF model estimates of the long-run GDP cost of geoeconomic fragmentation under three scenarios, low (0.2%), medium (2.5%), and full bloc split (7%), with the dashed line indicating the "realized impact zone" observed through 2025. The gap between modelled worst-case scenarios and realized outcomes suggests that, while fragmentation is occurring, it has so far unfolded along the lower-intensity range. Source: Authors' elaboration based on International Monetary Fund and World Trade Organization (2023) and Gopinath et al. (2024).

What the evidence reveals is therefore not deglobalization but geoeconomic fragmentation. In other words, trade is rerouted through connector economies rather than eliminated, and globalization shifting from efficiency-maximizing networks toward geopolitically segmented but still interconnected value chains. The international trading system is not collapsing; it is being reorganized along lines that reflect strategic alignment more than pure economic logic.

7 Global Trade Governance and Systemic Consequences

Earlier chapters traced the consequences of the "Liberation Day" tariffs across firms, value chains, and alliance structures. This chapter turns to the institutional dimension: what the tariff regime implies for the governance of global trade. Chapter 1 set out the shift from a rules-based to a power-based trade order, and Chapter 6 documented the rise of alternative regional architectures. The question here is narrower. How are states and blocs trying to reconstruct, or to circumvent, multilateral trade governance after the impairment of the WTO?

7.1 The Erosion of Multilateral Trade Governance

As argued in Chapter 1, the "Liberation Day" tariffs are a decisive break with the liberal rules-based order that has structured international trade since the 1990s. The consequences for the World Trade Organization deserve closer examination (Kozul-Wright, 2025). The WTO has, since its establishment, been the principal institutional anchor of global trade. It sets common rules, facilitates negotiated agreements, and, through its dispute settlement mechanism, offers a forum for binding resolution of trade

conflicts. It also promotes liberalization through the Most Favoured Nation (MFN) principle, under which states may liberalize at their own pace provided liberalization is extended on a non-discriminatory basis (Jones, 2026).

The WTO has historically depended on sustained U.S. leadership. The United States was its principal architect and largest financial contributor, and used its economic weight to secure universal adoption of tariff commitments through U.S. tariff binding. That structural position has eroded substantially. Domestic support for the organization has declined across the political spectrum, and the WTO has become a target of bipartisan criticism, seen as insufficiently responsive to U.S. interests and associated with the dislocations of trade liberalization (Horn and Mavroidis, 2025; Jones, 2026).

Trump's tariffs are therefore not an isolated rupture but the culmination of a longer trajectory of U.S. disengagement. Since the first Trump administration, the United States has blocked appointments to the WTO's Appellate Body, impairing the dispute settlement mechanism. The Biden administration continued that policy. In 2023 the United States suspended its financial contributions, precipitating a budgetary crisis that has further constrained the organization's operational capacity (Kozul-Wright, 2025; Horn and Mavroidis, 2025).

The WTO's inability to respond effectively to the tariff regime shows the depth of this impairment. International trade now operates in a hybrid space, where some actors still observe multilateral rules while others, most notably the United States, rely on unilateral imposition and power-based enforcement (Kim, 2025). The risk is that trade is converted from a system underwritten by insurance-like institutional guarantees into one characterized by extraction. In that configuration, power asymmetries structurally advantage larger economies at the expense of smaller trading partners. Vague tariff commitments replace the specificity of WTO treaty obligations, and third-party adjudication gives way to bilateral bargaining without legal guarantees (Alden et al., 2025).

The macroeconomic implications are significant. Sudden tariff impositions generate supply-demand imbalances, pricing pressures, and volatility in currency and interest rates (Smith, 2025; Grant Thornton Ireland, 2025). As Chapter 5 documented, this uncertainty has already translated into delayed investment decisions and strained supplier relationships at the firm level. More fundamentally, it renders the export-driven growth model increasingly untenable. That model, long used by smaller and emerging economies to raise living standards through integration into global value chains, is exposed by coercive demands and tariff-induced inefficiencies to redirected trade flows and to restrictions on capital and technology transfer (R. Baldwin, 2025; Kim, 2025).

7.2 Response Strategies and the Short-term Outlook

Faced with the trade shock generated by U.S. tariffs and with the diminished reliability of U.S. trade leadership, trading economies have pursued three main strategies. The aim, in combination, is to strengthen their bargaining positions, insulate them from U.S. policy volatility, and begin building an alternative multilateral architecture (García Bercero, 2025; R. Baldwin, 2025).

The first strategy is the proliferation of bilateral trade blocs. It operates both through the coalescence of states within existing or new trade agreements, and through the negotiation of agreements between trade blocs. The former improves policy coordination among smaller economies and strengthens their position vis-à-vis larger trading partners: Mexico and Canada's deepened trade cooperation after the "Liberation Day" tariffs, aimed at reinforcing their bargaining power within the USMCA, is the clearest case (Alden et al., 2025). The latter leverages the combined size of two blocs to reshape multilateral trade, working around both U.S. hostility and WTO impairment. The ongoing EU–CPTPP negotiations, which together cover roughly 40% of global trade, illustrate this route (García Bercero, 2025; Josephs, 2025).

The second strategy is the acceleration of regional integration: the deepening and expansion of existing regional free trade agreements to consolidate zones of predictable, rules-based trade. As discussed in Chapter 6, RCEP, which harmonizes trade rules across Japan, South Korea, China, and the ASEAN economies and covers about 30% of global GDP, has been central to this strategy (DHL, 2025). Beyond the institutional role identified there, regional integration also strengthens the collective bargaining power of its members and provides mechanisms for coordinated responses to coercive trade actions. The ASEAN Geoeconomic Taskforce, designed specifically to coordinate member responses to U.S. tariffs, is one instance (Kim, 2025).

The third strategy is the construction of an alternative multilateral order. Its aim is to develop a trade architecture that bypasses the volatile Global North and shifts the centre of gravity toward the Global South. Emerging economies have grown increasingly dissatisfied with Western trade scepticism and with the perceived unreliability of Western trade partners (R. Baldwin, 2025). From their perspective, the erosion of the liberal rules-based order penalizes economies that have successfully used the export-driven growth model to converge with advanced economies. Tariffs and trade barriers appear as instruments deployed by incumbent economies to preserve a declining competitive position. The alternative architecture is therefore meant to reflect patterns of trade expansion, industrial cooperation, and technology transfer among emerging economies, especially in Africa and Southeast Asia. Efforts to develop BRICS into a trade forum alternative to the Western-dominated WTO are the clearest expression of this approach (Kim, 2025; DHL, 2025).

The relative success of the three strategies will shape the long-term trajectory of global trade. In the short term, a revival of the WTO in its pre-crisis form is unlikely (Horn and Mavroidis, 2025; Kozul-Wright, 2025).

7.3 Long-term Trajectories

As Chapters 1 and 2 noted, scepticism toward open trade and the WTO has become a bipartisan position in the United States. Future U.S. administrations, regardless of partisan orientation, can reasonably be expected to sustain this disengagement and to continue repudiating the traditional U.S. role as the principal sponsor of trade liberalization (Horn and Mavroidis, 2025; Jones, 2026).

Only two trading powers currently have the economic weight and trade volume to assume global trade leadership in the event of a sustained U.S. withdrawal: the European Union and China (García Bercero, 2025). Each faces structural constraints. The EU, despite its integration as a trade bloc, comprises 27 member states with divergent preferences on trade liberalization, which makes the internal consensus required for global leadership difficult to secure. The prolonged negotiation of the EU–Mercosur agreement, repeatedly delayed by member state opposition, illustrates the limitation (García Bercero, 2025). China is constrained by its own record of non-compliance with rules-based trade norms, which undermines its credibility as a potential sponsor of the WTO system (Kim, 2025).

The WTO's future will depend on the extent to which member states continue to operate within its framework (Jones, 2026). Two indicators are informative. The first is whether states retaliate against U.S. tariffs through WTO-consistent channels. Independent bilateral deals with the United States, and retaliation outside the WTO framework, tend to erode the organization's legitimacy and to normalize the protectionist measures introduced by the Trump administration. Proportionate responses following WTO consultation and dispute settlement procedures reinforce its institutional value (Horn and Mavroidis, 2025). The second indicator is whether members continue to advance the WTO's liberalization agenda despite U.S. disengagement: openness to negotiation, development of plurilateral agreements on new trade issues, and the maintenance of special exemptions for least developed economies (Jones, 2026;

Josephs, 2025).

Building on the short-term responses described in Section 7.2, two alternative long-term configurations can be identified as potential substitutes for a comprehensive, WTO-type multilateral institution: competitive regionalism and coalition multilateralism (Kim, 2025; R. Baldwin, 2025). Competitive regionalism refers to the fragmentation of the global trade system into large regional blocs that partially substitute for multilateral governance by distributing market access and rulemaking authority among their members. It is exclusionary, generates negative externalities for non-members, and is marked by varying degrees of hostility between blocs (Kim, 2025).

Coalition multilateralism, by contrast, describes an arrangement in which small, like-minded coalitions negotiate trade agreements whose rules are designed to be "portable" to larger global forums. Rather than exclude non-members, these arrangements incorporate open accession provisions and observe the MFN principle. Trade rules can then be progressively harmonized across blocs, producing a return to a rules-based order that is more decentralized than the WTO system but not fragmented (R. Baldwin, 2025; García Bercero, 2025).

Middle trade powers are likely to play a decisive role in determining which configuration prevails. Their trade interconnectedness and their integration across multiple blocs allow them to bridge coalitions and to operate outside the dynamics of great-power competition (García Bercero, 2025). They can form lateral coalitions to pilot new rules without being constrained by the slower pace of WTO negotiations, with potential for subsequent scaling. This is the logic of coalition multilateralism. New Zealand's role within the FIT-P, a coalition of small and medium-sized trading economies working to advance trade liberalization under conditions of WTO impairment and great-power competition, is one example (R. Baldwin, 2025). Australia, which participates in the CPTPP, RCEP, and the ASEAN–Australia–New Zealand FTA, is similarly placed to promote liberalization and convergence across overlapping agreements (DHL, 2025).

Whether the trading system gravitates toward competitive regionalism or toward coalition multilateralism will depend on the choices of these middle powers and on the relative success of the three response strategies identified in Section 7.2. The distinction matters. The first implies durable fragmentation of global trade governance; the second offers a plausible pathway to a rules-based order reconstructed in more decentralized form (Kim, 2025; R. Baldwin, 2025).

8 Conclusion

We examined how the "Liberation Day" tariffs of April 2025 mark a decisive rupture: the full migration of trade policy from commercial regulation into geopolitical statecraft. Drawing on Gilpin's realist framework, hegemonic transition theory, and the concept of weaponized interdependence, we demonstrate that contemporary U.S. tariffs are not episodic protectionist measures but structural instruments of power competition, designed to constrain China's technological rise, discipline allies, and reshape the global production order.

The empirical record of the tariffs' first year is sobering. The stated objectives — reducing the trade deficit, restoring manufacturing employment, rebuilding domestic industrial capacity — have remained largely unmet: the deficit persisted, blue-collar jobs fell in the sectors the tariffs were meant to protect, and household costs rose. The legal foundations were further destabilized by the Supreme Court's February 2026 ruling that IEEPA-based tariffs exceeded presidential authority, forcing the administration to reconstitute its regime through alternative statutory instruments.

These failures, however, obscure deeper structural shifts. At the systemic level, the tariffs have accelerated three structural transformations. First, they have deepened the crisis of the WTO-anchored multilateral order, pushing states toward bilateral bloc proliferation and alternative trade architectures. Second, rather than isolating China, they have inadvertently consolidated China-centered networks under RCEP and reinforced Beijing's strategic autonomy doctrine. Third, by extending coercion to treaty allies — subjecting Japan, South Korea, and the EU to tariff rates that treat them as objects of extraction — the U.S. has catalysed the very geopolitical realignment it sought to prevent.

For firms, "Liberation Day" signals permanent geoeconomic fragmentation rather than temporary disruption. The central strategic imperative, confirmed by cross-sectoral evidence and the Carrier interview, is the shift from efficiency-maximization to resilience-maximization: institutionalizing geopolitical risk at board level, diversifying supply chains through reshoring, nearshoring, and friendshoring, and building optionality through multi-sourcing and differentiated pricing. To structure these responses analytically, the chapter develops a two-by-two framework classifying firms along two dimensions, supply chain geographic exposure and strategic response capacity, producing four archetypes (resilient globalizers, strategic localizers, domestic absorbers, and vulnerable globalizers) that capture both the degree of tariff vulnerability and the urgency of strategic adaptation required. Yet the evidence cautions against overreaction: Carrier's Thomas Heim stresses that tariffs remain one technical factor among many, and that long-term manufacturing decisions must be anchored in structural drivers, such as skilled labor availability and cost trajectories, rather than policy volatility.

Looking ahead, three scenarios are plausible over the next decade: escalation, in which tariffs intensify alongside export controls, entrenching a power-based order; managed competition, in which tariffs stabilize within negotiated frameworks, bounded by the interdependence neither power can fully escape; and partial stabilization, with selective rollback via plurilateral agreements, though a return to the pre-2016 liberal order remains implausible. Across all three, the most likely outcome is a hybrid multipolar fragmentation, which is a partial decoupling in strategic sectors coexisting with persistent interdependence elsewhere.

This analysis carries inherent limitations. The focus on U.S. and EU corporate responses risks underweighting emerging economies most exposed to the collateral damage of great-power trade competition. The reliance on a single firm-level interview, while analytically rich, cannot be generalized across industries. And the pace of policy change underscores that conclusions about the tariff regime's precise configuration remain provisional.

The fundamental insight that emerges is both analytical and strategic: in a world where the logic of conflict increasingly operates through commerce, the distinction between trade policy and foreign policy has collapsed. For governments, this means that every tariff is simultaneously a commercial instrument, a coercive signal, and a declaration about the international order one seeks to build or defend. For firms, it means that geopolitical competence. That is, the ability to read, anticipate, and navigate this environment has become as strategically decisive as operational efficiency once was.

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A Appendix

A.1 Interview with Thomas Heim (Carrier)

- **Date:** 25 March 2026
- **Duration:** 25 minutes
- **Interviewee:** Thomas Heim, Carrier, President, Climate Solutions Europe (former CEO of Viessmann)
- **Interviewers:** Rin Hirashima; Nicola Heim

Carrier Global Corporation is a U.S.-based multinational and a leading provider of HVAC and refrigeration solutions. Headquartered in Palm Beach Gardens, Florida, the company operates in over 150 countries and employs around 47,000 people. With revenues of $21.75 billion in 2025 and shareholder returns of approximately $3.7 billion, Carrier is a major player in the global climate solutions market, competing with firms such as Daikin Industries.

Transcription Note: The interview was transcribed verbatim with minor adjustments for clarity and readability. Filler words (e.g., "um", "uh", "you know", "kind of"), repetitions, and pauses have been removed where they did not affect the meaning of the statements.

Interview

[Heim's introduction of the company Carrier]

Question At what level is geopolitical risk discussed within Carrier today - operational, regional, executive, or board level - and has the company developed new internal capabilities or structures to monitor and respond to developments such as tariffs, trade controls, or regulatory shifts?

Answer I can tell you that this topic is being monitored and discussed at all levels of the company. It obviously starts with the board, where we are looking above all at fundamental and geo-politically relevant developments. This top-level board categorizes so to say risks and thus continuously monitors whether they develop in accordance with what we have planned for or whether there are any deviations, so that it is at a strategic and very high-level of the company. Furthermore, we have our legal and also sourcing departments, analyzing and quantifying in more depth the actual consequences for the business. Why the legal side? Because they obviously understand the implications of changes in the framework. So, that requires a deeper understanding of the more formal aspects of a tariff setting and changes. This is then being combined with a deep analysis on the sourcing side. So the sourcing teams are being in continuous contact then with the component, material and then finished goods supplier. Then analyzing the geographic split, how any of the framework changes would potentially apply to the different sources that we have defined in the company. Lastly, this obviously has consequences and is being discussed on the regional and even local levels because the implications of whatever kind of is being produced by the framework changes will have to be coped with at the more operational and executional level of the regional and local business entities. That's a bit how we split it and make sure that from the most strategic implications at the very high-level to the most operational implications and execution levels in the countries, so every aspect of the business is being covered.

Question For firms like Carrier in a complex manufacturing sector, if tariffs lead to long-term efficiency losses and reduced productivity then do you see any new strategic opportunities?

Answer If you look at the sourcing and at our footprint, we first of all do that by looking at our long-term strategy. So what is the long-term value proposition and what are the use cases that we are actually addressing with our offering and where do we want to develop our offering to. And that is the strategic framework, starting always outside in, with the use of, with the value proposition, with our strategic positioning and with differentiation that we have to anybody else. We, also, then look at how does a geographic footprint support the value proposition and allows us to differentiate. In that aspect, tariff is only one of the many influencing factors, and I would almost say it's more a technical one because in the end of the day what really drives differentiation in the productivity dimension, it's when you look at material, it's when you look at logistics, and when you look at the productivity in your plants, which is a lot defined by labor costs and the availability of skilled labor and that has now and here. But above all, that has a medium to long-term perspective and that's what we mainly are focusing on, and tariffs are hidden more technically and then we have to cope with changes that are potentially being induced by that.

Question Has Carrier pursued diversification strategies (e.g., "China+1") or nearshoring, such as shifting production toward Southeast Asia or Eastern Europe? And what trade-offs has this involved in terms of cost, efficiency, and resilience?

Answer We did, if you start looking at how we scope our business, we scope it very much geographically, as I explained in the very beginning. So the business units we have defined, are covering different geographies and that is because we do see some homogeneous use requirements within the geographic scopes. So sufficient heterogeneity in between the different geography is important. In order to ideally and perfectly cater for those needs, we run a regional for regional manufacturing strategy as well, which allows us to optimize logistic cost, for example. This allows us to also optimize supply security because this nowadays is very important being able to deliver when our customers expect us to do so. It depends a lot on competitiveness, and thus having a clearly defined regional scope, with respect to our manufacturing set up is important. So we have manufacturing sites across the board, in the US, important ones in Mexico - being very close to the US, in Europe we do have in the key markets - whether its Germany, France, but also Poland and Hungary - manufacturing sites, and so we do in Asia with China, but also Thailand and other countries. So for that reason, again, our decisions on where to place our manufacturing footprint is a lot motivated by how can we best on spec, on time and on budget deliver on the value proposition that we've been to the market for our B2B partners and at the end of day for the users.

Question Given the multistage nature of global value chains, how do tariffs compound across different stages of production in Carrier's supply chain, and how does the company assess and manage the indirect effects of upstream tariffs on input costs and competitiveness?

Answer Tariffs is one of the many factors of costs and honestly speaking it is not the most relevant one. We assess on the one hand side by monitoring how does the framework change, and how does this change business assumptions. And that is very important to mention, we as a publicly listed company, we commit every year to a certain revenue growth and obviously profitability growth to all our shareholders. This builds on a certain framework we assume, and if there are changes in that framework, we need to compensate for negative deviations for overdriving in other areas. If you look particularly on a tariff situation that may change, we do have lots of opportunities on the material side, on the productivity side, on the logistics side to compensate for that. We try to build flexibility as well by applying strategies such as dual sourcing, or having three or even more different sources of materials of the components, which makes us a bit more independent of those situations. And which allows us with speed to react on

potential deviations.

Question Given China's continued importance as a supplier of critical inputs, is full decoupling realistic for firms like Carrier? How does the company balance maintaining operations in China with diversifying geographic risk?

Answer You know, our purpose is - as I explained when starting - we want to enhance people's lives for the world share and if I say for the world we share, we actually refer to the entire planet. Because if you look at one of the challenges that we want to contribute solving, which is global warming, this has become since long a global challenge. Thus we are not believing in splitting excluding or whatsoever of certain parts of the world. We are very much believing in - as a global company - in bridging and living up to the expectations of our customers that we do have in any of the continents. And so we do have appreciated the customers and users in China obviously as well, and it's our link to our purpose - to our mission - to meet and ideally exceed our expectations. I believe as a global company we almost - not only have an opportunity - but also have the responsibility to act as bridgemakers.

Question Has tariff and broader policy uncertainty affected the timing, location, or scale of Carrier's investments, and if so, can you describe a concrete example of how a decision changed compared with a purely cost-efficiency logic?

Answer Actually it has not, because at the end of the day this is as I mentioned before one element of so many facets that we need to look at. Imagine the availability of skilled workforce, the expected cost development for the skilled workforce, that in a mid- and long-term perspective is much more important than a snapshot of a momentous situation where tariff may change. So again we have to cope with that and we're doing so because with our strategy of flexibilizing, we can compensate for negative deviations compared to assumptions, but in the mid- and long-run, there are much more strategic elements that we need to consider when planning for our manufacturing footprint.

Question When tariffs or trade-policy changes increase costs, how does Carrier decide whether to absorb those costs, pass them along the supply chain, or raise prices for customers? Are these pricing responses typically broad-based, or targeted by product line, market, or customer segment?

Answer I believe in the 21st century we benefit a lot from alliances and partnerships, and we at Carrier do have actually very close alliances with all of our suppliers. Only last week I spent one and a half days in Wroclaw where we gathered our top European suppliers for a sourcing summit and we closely discussed cost developments, and also discussed with them how we can encounter those. Because next to tariffs and changes on tariffs we have an inflationary tendency across the bar and we cannot just continue to add on pricing to compensate for inflation so this is a lot about productivity. So we are in a close exchange with all our suppliers in order to support them and them supporting us to get down cost on the value creation, right!? So that is one thing that we do - so yes we analyze and find possibilities with our supplier base to compensate for negative deviations - on the one side. On the other hand, it's natural for any company: pricing is not only a possibility but also a necessity and here obviously we need to analyze and that we do by segment - that is a very good observation, you cannot kind of deal pricing across the board. We evaluate very much by segment: what is the value proposition we are bringing to the market? What is actually the willingness to pay from our consumers? What is our competitive situation? And as a consequence of this analysis, we decide where to increase prices by how much and that truly may differ from product product line to product line and from geography to geography.

Question Looking at the last few years, what would you say has been the biggest strategic shift for a multinational company like Carrier operating in an environment of geopolitical fragmentation?

Answer When we look at certain developments, they are still kind of actually globally relevant and thus we have to deal with fragmentation whilst catering for global trends. I'll give you an example for that: if you look at the data center development. We have global hyper scalers that drive development by investing enormous amount of money. But not only them also co-locators and then also smaller companies so the edge computer, for example. And that is a global trend and we need to kind of identify solutions which we can also standardize to some extent and thus scale in order to provide to these global customers and global needs the best possible value proposition. So I would rather say, what we have been doing is identifying clearly what are global trends and developments that we want to support with very much a global strategy. Because if we look at data centers for example, we do have global integrated product management team where we gather anything from engineering up to logistics and delivery in order to make sure that we kind of cater for those needs in the global context. And here we obviously do have a few kind of lighthouse plants, but actually split out across the different regions and continents. And then we do have more regional relevant technologies and those we strongly drive regionally. There we basically would have regional business unit engineering and product management understanding the customer needs and thus realizing with the geographically focused RD, the solutions that cater for those necessities. So that is a bit the mix you can have - and actually should make use of advantages by catering for global developments and needs. For example, air conditioning, cooling in residential space is a global phenomenon that we address with global technologies. But on the other hand, you need to clearly understand which are the pockets in the different regional markets in that we want to be present and want to be leading and that has to be driven much more regionally.

Question Would you agree that resilience is a strategic objective now when facing geoeconomic fragmentation, is Carrier and firms in general accepting higher costs for lower geopolitical exposure?

Answer I mean I would say resilience is almost the name of the game. But resilience is super important because at the end of the day there is so much volatility driven by so many developments that we are currently seeing. I mean we still have commitments to our shareholders, we have commitments to our suppliers and we have commitments to our employees, and we have to live up to those - so we cannot become victims of volatility. And in order to kind of avoid this, we have to have a resiliency strategy - and we do so. And that is very much building on flexibility. And flexibility today means above all creating options and optionality to be able to act depending on development of certain kinds of framework factors. And what are those strategic initiatives: multi-sourcing is for example a clear optionality that we create depending on developments - you're capable to do A, B or C. I believe on the engineering side flexibilizing in your engineering designs becomes super important. I give you an example, in the European business plants we have an electronics plan where we are capable of designing the electronic control boards ourselves. Whilst we obviously source components from somewhere, we are able to switch from component A to component E by redesigning the switch board relatively quickly as we do it in-house. So also the topic of what is in-house, what do you consider to be a strategic core competence and what is actually more commoditized and new sourced from outside is a key element to build resilience. The access to talented people is fostering resilience, the flexibility on work tariffs in a sense of contracts, flexibilizing on working hours in certain plants, depending on the demand that you're having - which we - in close alignment with our work councils are driving. When I leave here (referring to leaving Milan) I am actually going to see our European workers council to discuss - amongst other topics - the topic of flexibilization of work time. And these are all elements that support us to build resilience and I believe this is one of the most important elements that you need in order to successfully drive the strategy.

Because the only thing that is not variable is the outcome of what you want to deliver towards our customers, our shareholders and obviously then having all of our employees benefit from it.