Geopolitics of US Tariffs

Geopolitics for Business – 20763
Bocconi University
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This report analyzes the 2025 "Liberation Day" tariffs as a shift from economic policy to geopolitical strategy. It shows that while tariffs failed to meet their economic goals, they are reshaping global trade, corporate strategy, and the international order, marking a move toward a more fragmented and power-driven system.

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Introduction
Tariffs as Instruments of Strategic Competition

Tariffs today are instruments of economic statecraft i.e. tools of power, not merely of protection

Ideological Roots : Mapping the Transformation – *the Anti-Ricardian logic*

01
Hyperglobalization

Deepened interdependence but **constrainted domestic autonomy** > political backlash

→

02
Asymmetric gain

Openness generated **inequalities within countries** + regional deindustrialisation

→

03
UN decline narrative

From **"unipolar moment"** > (Krauthammer) to perceived weakening by openness

→

04
MAGA/trade war

Tariffs concert diffuse anxieties into a **visible intrument of recovery**

Theoretical Lenses

Realist IPE

States, markets & power
Trade is never separated from power

Hegemonic transition

Gilpin + Thucydides trap
Tariffs= structural adjustment to shifting Power balance

Strategic trade theory

Altering the original rule of the game
In imperfect-competition sectors (SC, AI), Tariffs shift profits + build industrial capacity

The US 'Liberation Day'
What and Why?

US Liberation Day

On **April 2, 2025**, Trump signed an executive order imposing a **universal 10% tariff on all imports**, with higer rates (up to 50%) to certain countries.

Motivations

Persistent Trade Deficits
$1.2 trillion of trade deficit (*2025*). The governement wants to force companies to reshore production

Desindustrialization
From **30%** of employees in the industrial sector (WW2) to **8%** today due to foreign cheap competition

National Security
High dependency on foreign supply chains for **steel, semiconductors, and critical minerals**

Electoral and Ideological Idea
Increase revenues to cut tax of Amercian households and companies

The Reality

Household Costs

600$ Average tax increase per household

9,5% Average raise of prices

Job Losses

190k Blue-collar jobs less

89k Manufacturing jobs lost

Slowdown

9,12% Decline of the USD Index

-1% Of GDP

Strategic Confrontation with China
Challenging US Hegemony

1 The Rise of China
From catch-up to systemic competitor

Industrial dominance
Low-cost → high-tech (EVs, 5G, AI)

Trade power
$3.38T exports
$823B surplus

State strategy
Industrial policy + long-term planning

→ **China = global industrial pole**

2 An Alternative Bloc
A competing system of power

Counter-model
Authoritarian + market
Long-term, no conditionality

Global reach
BRI → influence in Global South

Strategic autonomy
Flexible alliances
Reduced US dependence

→ **China = alternative pole of influence**

3 US Response
Containment across all dimensions

Geopolitical
Indo-Pacific alliances, sea control

Technological
Export controls → decoupling

Commercial (Tariffs)
34% → 84%
Force "China +1"

→ **Tariffs = economic containment tool**

Strategic Stakes
Why tariffs were deployed

Preserve U.S. hegemony
Maintain leadership in the global order.

Maintain leverage
Counter a near-peer competitor.

Contain a systemic rival
Economic, geopolitical, and ideological challenge.


TERMINAL BURCHARDKAI
EVER ATOP

Reconfiguration of Global Value Chains

Reconfiguration of Global Value Chains
New Strategic Dynamics and the Economic Costs

Disruptions

➔ **Global Value Chains** account for 70% of international trade

Tariffs compound → higher costs, increase in prices

Why:

- → Amplifying effects along production chain
- → Heavy reliance on intermediate goods
- → Just-in-time systems
- → Ripple effect beyond manufacturing systems

US imports from China fell by 50% by May 2025

1. Short-Term - Inventory Stockpiling
- Imports up to 20% (Jan-Mar 2025) – pharmaceuticals and gold bullion

2. Long-term – Reshoring, Nearshoring, Friendshoring
- Mexico as US' #1 Trading Partner
- Southeast Asia: as a new substitute for Chinese production

...to new Strategic Dynamics

Implications

Macroeconomic Impact

- ➔ Significant economic tradeoffs: inflation, efficiency and productivity
- ➔ Relocation → ↓ global trade (< 18%) , ↓ global real GDP (>5%)

Industrial Impact

- ➔ SMEs hit harder: low profit margins and limited cash reserves (avg. 45 days)
- ➔ Automobile Industry: costs up to $110M/day and +$2700 per vehicle
- ➔ Steel and Aluminum Industry: key input for other industries; high costs for downstream industries => passed on to consumers

Corporate Strategy Under Geoeconomic Fragmentation
Corporate Lens

Strategic Shifts

1 Governance & Capabilities
- Geopolitical risk a boardlevel priority
- Dedicated capabilities

2 Pricing & Margin Management
- Pricing strategic capacity based on customer
- Tariffs led to margin absorption by many US SMEs

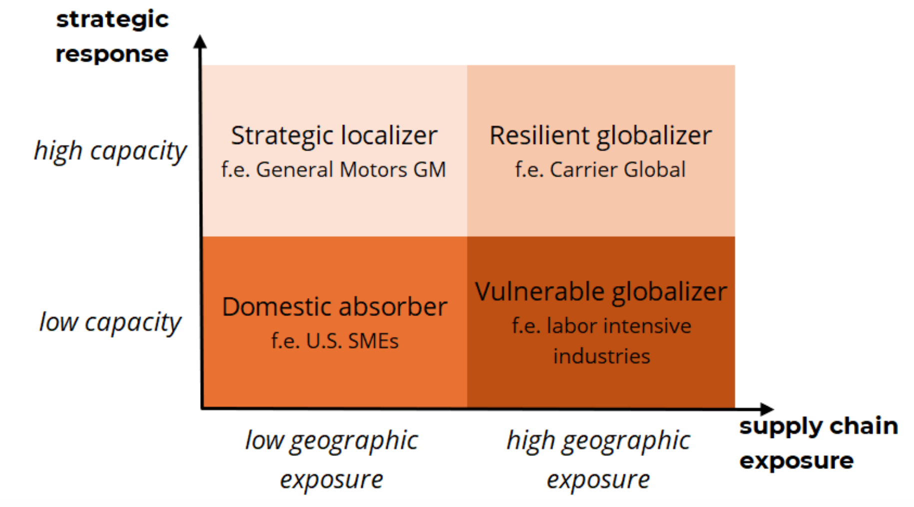
3 Supply Chain Flexibility
- Multi-sourcing, regionalization, flexible operations – building optionality

4 Investment Discipline
- Focus on flexibility and long-term structural logic
- Many firms postponed/scaled down/ canceled investments

5 Nuanced Global Engagement
- Not decoupling but managing exposure
- Global vs. Regional approach – right level matters

Sources: WTW (2025), Richmond Fed (2025), Minton & Somale (2025/2026), CNBC (2026), Fed Boston (2025), and Heim (2026)

Classifying Corporate Responses



Key Takeaways
- Tariffs are a trigger - **structural drivers still dominate**
- Tariff burden stays domestic and falls asymetrically
- **Resilience is architecture, not posture**
- Decoupling is not the answer **– managed exposure** is

"Resilience is now the name of the game."
- Thomas Heim, President Climate Solutions Europe Carrier Global (March 2026)

Alliance Re-alignment and Rise of De-globalization
Pressure, Response, and Limits

01 PRESSURE
Tariffs as Alliance Discipline

- **EU retaliation:** €26 bn in countermeasures on steel & aluminum (Mar 2025)
- **Japan & South Korea:** 24–25% tariffs capped at 15% in exchange for ~$900 bn in pledged US investment
- **Weaponized interdependence:** alliance partners no longer exempt from coercion; eroding the post-1945 norm
- **Legal restructuring:** after the 6-3 SCOTUS ruling on IEEPA, the administration pivoted to Section 122 surcharges and Section 301 investigations

02 RESPONSE
Bloc Formation & Regional Spheres

- **Regional comprehensive economic partnership (RCEP) safe harbor:** China–Belt & Road trade hit $3.09 tn in 2024
- **EU strategic autonomy:** prioritization of self-sufficiency with f.e. 2025 Competitiveness Compass
- **Friend-shoring:** RTAs surged from 22 (1990) to 360+ (2023); GCC SEZs position as new corridors
- **EU–Mercosur 2026:** 780 m people, ~25% of global GDP; €4 bn/yr in saved duties

03 LIMITS
Why Interdependence Persists

- **Trade still expanding:** world trade +7%; services hit a record 27.6% share
- **Connector countries:** ASEAN economies bridge rival blocs
- **IMF assessment:** front-loading and rerouting absorbed much of the disruption
- **Cost of full decoupling:** 5–7% of global GDP at risk; abrupt severance is structurally not viable

*The concept of globalization being **rewired around political alignment**.*

*Fragmentation is real but bounded; the **world is sorting into spheres, not severing**.*

Global Trade and Systematic Consequences
Short-term Shocks and Long-term Adjustments

Erosion of Rule Based Global Trade Order

→ **Indefinite WTO Impairment**
- transforms trade into web of uncertainties (law of the jungle) → no 3rd party adjudication system
- lack of all-encompassing structure , vague commitments

→ **Unpredictability of Trade**
- causes currency and inflation fluctuations affecting export/import demands and private investment
- **Crisis of Export Driven Growth Model**

Immediate Response and Short-term Future Outlook

1. **Bilateral Trade Proliferation:** focus on alternate agreements and preferential treatment with rest of global economy
2. **Regional Integration Acceleration:** expand existing FTAs to cement zones of reliable rule-based trade (regional hubs and institutions)
3. **Alternative Multilateral Construction:** redirect center of trades to better reflect trends and avoid volatility

Longterm Future Outlook of Global Trade

Prospect of WTO Revival

→ **Leadership Vacuum:** issues with US, EU and China
→ WTO(-US) Continued Engagement ?

Competitive Regionalism

Coalition Multilateralism

Importance of Middle Powers

→ **Allows for Expansion and Convergence of Various Trade Blocs through participation**


Reciprocal Tariffs
Country
China
European Union
Vietnam
Taiwan
Japan
India
South Korea
Thailand
Switzerland
Indonesia
Malaysia
Cambodia
United Kingdom
South Africa
Brazil
Bangladesh
Singapore
Israel
Philippines
Chile
Australia
Pakistan
Turkey
Sri Lanka
Colombia

Conclusion
Geopolitical Competence = Strategic Necessity

Structural Shift

Trade = Geopolitical Statecraft
- Constraining China's technological rise
- Disciplining allies
- Restructuring supply chains

Limited Economic Success

Core Goals Unmet
- Persistence of trade deficits
- Decline in manufacturing jobs
- Rising consumer prices

2026 Supreme Court Ruling
- Tariffs deemed 'unlawful' → policy redesign

Deeper Systemic Effect

1. Erosion of WTO Order
2. Reinforced position of China
3. Allied tensions increase

Implications for Firms

1. Supply Chain Diversification
2. Multi-sourcing and Pricing Flexibility
3. Geopolitical risk integrated at firm level

Future Trajectory

Escalation; Managed Competition; Partial Stabilization

All paths lead to: Hybrid Multipolar Fragmentation

Selective decoupling in strategic sectors with persistent interdependence elsewhere

Thank You!

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