

Who's Afraid of Trump's Tariffs?

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The weaponization of tariffs by US President Donald Trump has clearly generated fear and loathing across the world. These threats are not only purely performative; nor are they just transactional in nature. The logic of these tariff threats in most cases is questionable at best, and the declared aims are varied: from demanding “parity” of tariffs with trading partners no matter what their level of development, to seeing any bilateral trade deficits with other countries as inherently problematic, to viewing threats of tariffs as a measure to force other policy changes on the part of the trading partner. The latest announcement of tariffs of 25 per cent on any country that buys Venezuelan oil is just the most recent egregious example.

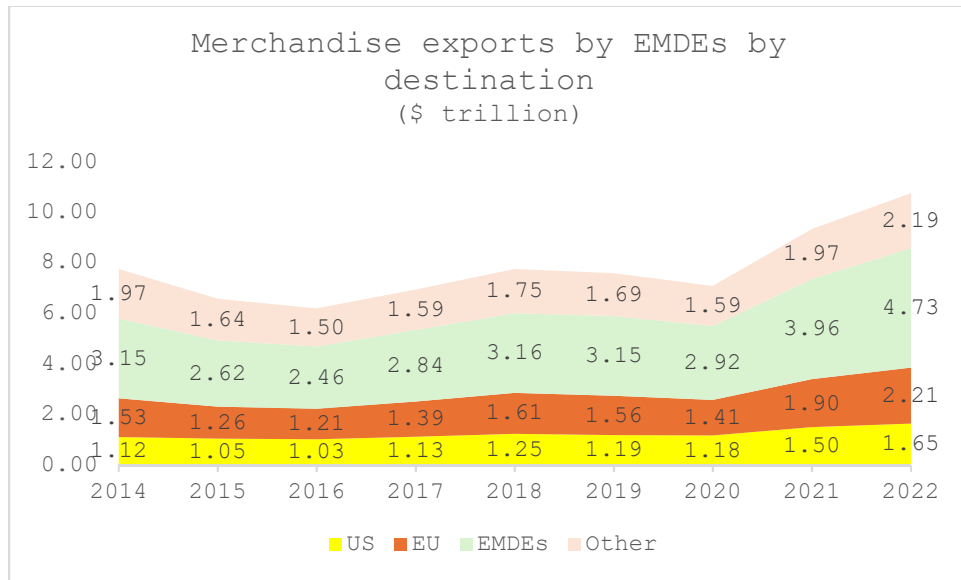
However, despite the variety of justifications and the frequent and dizzying reversals of trade policy that have already become a hallmark of Trump II, it is clear that these threats cannot be discounted and must be taken seriously. How the rest of the world responds to these is therefore critically important.

Several ostensible rich country “allies” of the US in Europe in particular are obviously dismayed, shocked and disoriented by the dramatic shifts in US geostrategic and commercial policies. But it is likely that the greatest concerns are in the developing world.

Most lower income countries are still far from achieving their socioeconomic and developmental goals, and in addition already face a slew of other challenges, ranging from the impacts of climate change to coping with external debt stress. They now have to deal with the possible effects of reduced exports to the US, the wider disruption of trade and supply chains that will likely ensue, and much greater uncertainty about both trade and financial flows as well as income generation, that are bound to affect investment and employment in their own countries. It is not surprising that there is heightened concern and anxiety among these governments.

However, the panic about the possible tariffs and their impact that is being spread especially by popular media in many lower income countries, is overplayed. It is important to keep in perspective the significance of the US economy as a major importer, even for lower income countries. The truth is that the US is much less important in driving world trade than it was in the decade leading up to the Global Financial Crisis, and it is certainly less significant for Emerging Market and Developing Economies (EMDEs) which effectively encompass the set of lower and middle income countries around the world.

Figure 1.



Source for all figures: IMF Direction of Trade Statistics, accessed on 28 March 2025

Figure 2.

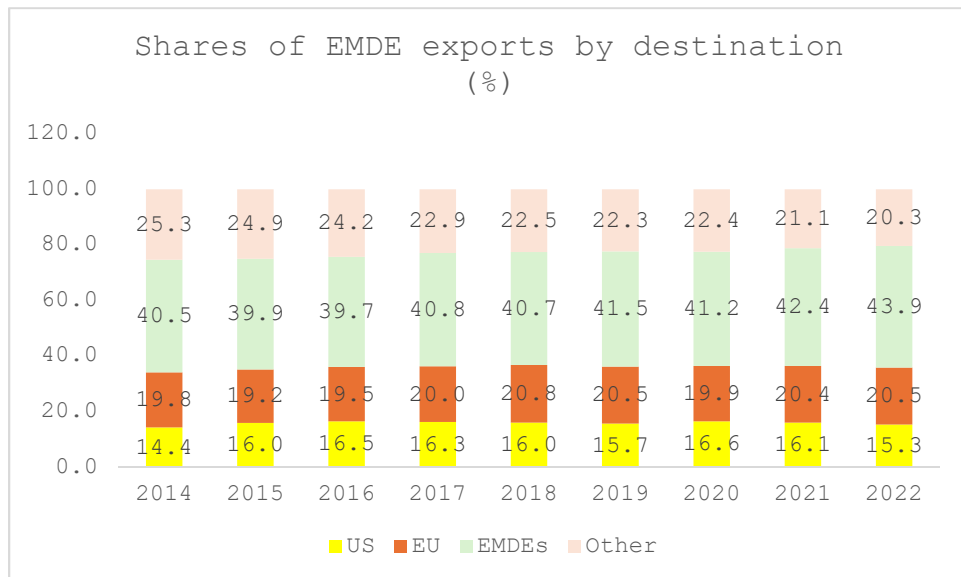
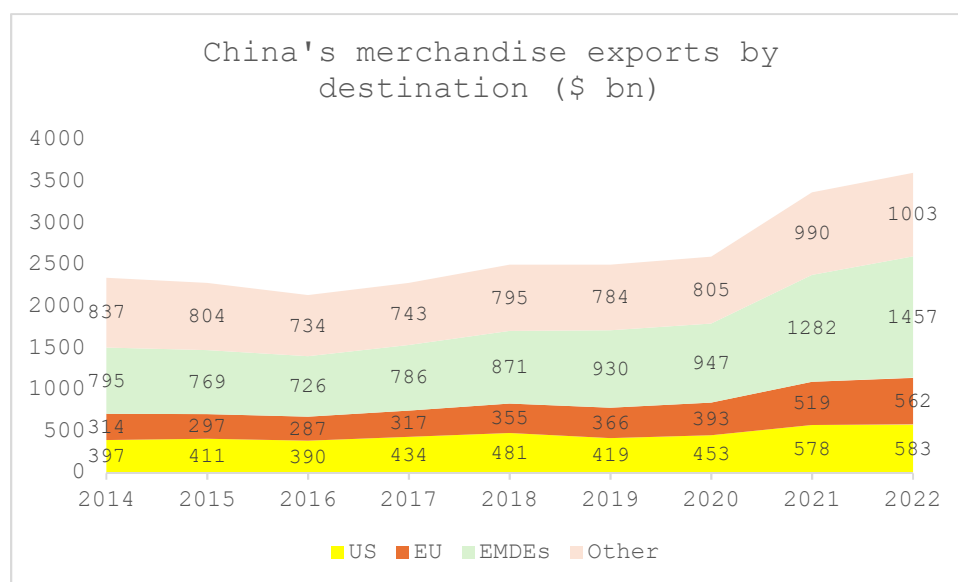


Figure 1 shows the total of all EMDE merchandise exports by destination. The US does account for a large value, which reached \$1.6 trillion in 2022. But in that year, exports to the EU were more than half a trillion dollars greater in value, and those to other EMDEs were nearly three times as much. Indeed, as Figure 2 makes clear, the share of exports to the US in total merchandise exports of EMDEs has been broadly in the range of 15-16 per cent, and has fallen in recent years. Recent estimates suggest that in 2023 the US share of EMDE exports fell to 14 per cent. This is non-negligible, but also not large enough to cause the consternation evident in many countries.

Of course there are outliers within this group such as Mexico, where the US accounts for nearly 80 per cent of exports. But these are unusual cases that do not reflect the broader tendency among EMDEs.

What of China, currently the main target of not just tariff threats but also other import restraints and trade sanctions? Figure 3 indicates that even for China, and well before Trump 2, the share of the US in merchandise exports was relatively low and declining. The share of the US was largely stable through much of this period at around 16 per cent, but recent reports suggest that it may have fallen to as low as 13-14 per cent in 2023 and 2024. At one level this is not surprising, since the aggressive trade and technology restrictions brought in by Trump in his first administration from 2017 onwards were continued and even added to by Biden.

Figure 3.

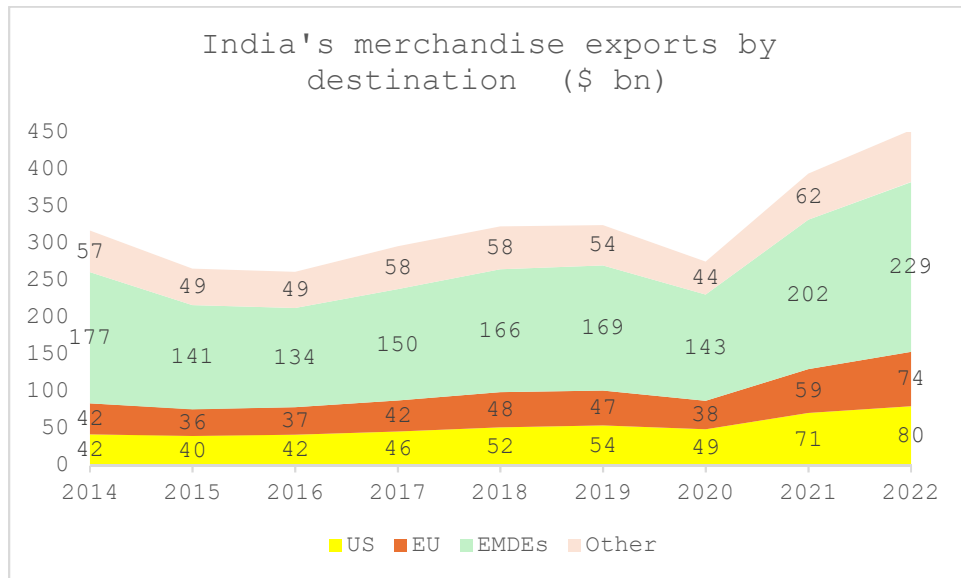


But China’s total exports have continued to grow by leaps and bounds despite this, with the biggest increases coming from exports going to other EMDEs. The share of such exports to other EMDEs increased from 34 per cent in 2014 to 40 per cent in 2022, and that of the EU also increased slightly, from 13.4 per cent to 15.6 per cent. The dynamism of China’s exports is now largely due to its exports to other EMDEs. This may also explain that strong response that China’s leaders have delivered to the US, in refusing to panic or kowtow to the whims of its current leader.

By contrast, thus far the Government of India’s response has been embarrassing at best. As Figure 4 shows, India is similarly placed, like China and like most other EMDEs, in terms of relatively limited reliance on US as a market for its merchandise exports, at less than 18 per cent in 2022. Yet there are signs of desperate attempts to placate the Trump administration in a variety of ways, including extraordinary exhortations by the Commerce Minister Piyush Goyal, to Indians to buy more US goods, apparent promises of tariff reductions specifically for US imports and various

other deals such as enabling the entry of Elon Musk’s Starlink satellites into the much-coveted Indian market.

Figure 4.



This is quite the wrong approach in dealing with the current challenge. Bullies tend to be greatly emboldened by those who cave in quickly. Typically, they do not respect them but instead feel they can be further trampled on. The leaders who have stood up to Trump and maintained their dignity have [tended to get higher public approval ratings](#) within their countries and greater respect abroad. Mexican President Claudia Sheinbaum provides an object lesson in how to respond to some reasonable demands with dignity and without appearing to be craven or intimidated, despite Mexico’s much greater dependence on the US market. In the rapidly shifting geopolitics of our times, this is an example our own leaders would do well to follow.

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