

# IMPACT OF TRADE WARS ON THE GLOBAL ECONOMY

**Basavaraja, K.N<sup>1</sup>, Dr. Girish, D.H<sup>2</sup>**

<sup>1</sup>Research Scholar, and Assistant Professor, Department of Economics, Government First Grade College, Harapanahalli, Vijayanagara.

<sup>2</sup>Assistant Professor & Research Supervisor, Department of Studies in Economics, Davanagere University, Shivangotri, Davanagere.

## ABSTRACT

In the recent decade, trade wars have become a major topic of discussion in the global economic system. Trade wars arise when countries implement tariffs, import restrictions, and other protectionist policies to safeguard their economic interests and correct trade imbalances. Especially, trade conflicts between economically powerful nations have led to widespread and long-term impacts on the global economy. The main objective of this study is to analyze the causes, effects, and economic changes resulting from global trade wars. This research uses a secondary data method. Information has been collected from World Bank and IMF reports, government records, and various research articles. Through analytical and descriptive methods, the economic impacts of trade wars have been examined. The findings of this study indicate that trade wars significantly alter international trade activities. An increase in tariffs leads to a rise in the prices of goods, placing an additional burden on consumers and causing inflation.

Furthermore, trade wars adversely affect global supply chains. Multinational companies tend to relocate production units to other countries or search for new markets. This results in higher production costs and increased uncertainty in global trade. A decline in Foreign Direct Investment (FDI) and reduced investor confidence are also major consequences. This situation hampers global economic growth. For developing countries like India, trade wars create mixed effects. On one hand, a decline in global demand can negatively impact exports; on the other hand, new market opportunities may arise in certain sectors. Particularly, India may emerge as an alternative manufacturing hub. However, increased import costs and exchange rate volatility remain key challenges.

This study concludes that, in the long run, global trade wars are harmful to global economic integration. Therefore, countries need to reduce protectionist policies, strengthen multilateral cooperation, and promote free trade agreements. Only through balanced trade policies and international cooperation can global economic stability and sustainable development be achieved.

**KEYWORDS:** Global economy, Trade wars, Industries, Inflation, Developing countries

## INTRODUCTION

In the global economy, trade relations play a crucial role in the development of nations. However, in recent years, trade conflicts arising between various countries have created concerns at the global level. Such conflicts are commonly referred to as “trade wars.” Particularly, trade wars between economically strong nations have had a significant impact on the global economy. Trade wars mainly arise due to increased tariffs, import restrictions, and protectionist policies. Although these measures aim to protect domestic industries, they create instability in global trade. As a result, import and export activities decline, and the overall volume of global trade decreases. Moreover, rising prices of goods lead to higher inflation. Investor confidence declines, and Foreign Direct Investment (FDI) is reduced. Trade wars also negatively affect global supply chains, forcing multinational companies to relocate their production centres. For developing countries like India, trade wars present both challenges and opportunities. Therefore, this study aims to analyze the causes and effects of global trade wars and understand their impact on the economy.

## OBJECTIVES OF THE STUDY

1. To understand the nature and causes of global trade wars.
2. To analyze the impact of trade wars on the global economy.
3. To study the effects of global trade wars on developing countries like India.

4. To suggest suitable measures or solutions.

## RESEARCH METHODOLOGY

This study is descriptive and analytical in nature. To understand the impact of global trade wars, a cause-and-effect analysis has been carried out. The study uses the secondary data method. Information has been collected from Reports, Research articles, Government publications, Budget documents, and data from international organizations such as the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). This study particularly focuses on economically strong nations.

**Causes of Trade Wars:** The causes for trade wars are as below.

### 1. Rise in Import Tariffs:

Import tariffs play a crucial role in international protectionist trade policies. An increase in import tariffs is one of the major causes of global trade wars. A country imposes higher taxes on goods imported from other countries to protect its domestic industries. As a result, the prices of imported goods increase, reducing their demand. This, in turn, boosts the demand for domestic products and provides a competitive advantage to local industries. However, in response, other countries may also increase their tariffs. This mutual increase in tariffs leads to trade conflicts and eventually results in trade wars. Higher tariffs reduce the volume of foreign trade and negatively affect production and export activities. Ultimately, this process escalates into a trade war.

### 2. Protectionist Policies to Protect Domestic Industries:

Protectionist policies aimed at safeguarding domestic industries are another major cause of trade wars. Governments take various measures such as import restrictions, quotas, and subsidies to protect their industries from foreign competition. These policies support domestic producers and help preserve employment opportunities. However, they may create imbalances in global trade. Other countries often respond with similar protectionist measures, which weakens mutual trade relations. Eventually, such actions lead to trade wars.

### 3. Technology and Intellectual Property Rights (IPR) Disputes:

Disputes related to technology and intellectual property rights (IPR) are also significant causes of trade wars. Developed countries place great importance on protecting their innovations, technologies, and patent rights. However, conflicts arise when some countries allegedly use or copy these technologies without authorization. Such issues have been clearly observed in international trade conflicts, where companies from one country are accused of copying the technologies of firms from another country. This has intensified global debates on IPR violations.

These disputes create a lack of trust between nations. As a result, countries impose higher tariffs, trade restrictions, and limitations on technology transfer. This negatively affects global technological exchange and cooperation. Moreover, companies are forced to spend more on protecting their innovations, and the pace of technological development may slow down to some extent. Overall, disputes related to technology and intellectual property rights are a key factor leading to trade wars and have wide-ranging impacts on the global economy.

### 4. Trade Imbalance

Trade imbalance refers to a situation where there is no balance between a country's imports and exports. When a country's imports are higher than its exports, it results in a **trade deficit**. In such a situation, an imbalance arises in the country's economy. To correct this imbalance, governments may impose higher tariffs on foreign goods or adopt measures to restrict imports. This can lead to conflicts with trading partner countries. In response, the other country may impose its own restrictions. When such mutual actions are taken, it eventually leads to a trade war. Therefore, trade imbalance is one of the major causes of global trade wars.

### Global Impact of Trade Wars:

Trade wars have significant impacts on the global economy. Generally, when trade wars begin between countries, they create instability in the global trading system. An increase in tariffs reduces import and export activities, and the prices of goods rise, leading to inflation in the economy. As a result, investments in economic activities decline, and economic growth slows down. Thus, trade wars pose a serious threat to global economic stability. The impacts of trade wars on the global economy can be explained in detail as follows.

### **1. Decline in Trade**

As a result of trade wars, global trade activities decline significantly. When countries increase tariffs on each other, the cost of imports and exports rises. This leads to a decrease in demand for foreign goods. Consequently, there is a decline in the volume of imports and exports, and global trade flows become disrupted. Due to higher tariffs, the final prices of goods increase, causing consumers to purchase less. As demand decreases, production in the industrial sector also declines, leading to a reduction in the income of industries. The decline in trade weakens economic relationships between countries. Furthermore, global supply chains are affected. Companies attempt to relocate their production units to other locations, which increases business costs. Investor confidence declines, resulting in reduced foreign investment. Employment opportunities may also decrease. Developing countries are more adversely affected by the decline in trade. A fall in export earnings slows down their economic growth, and exchange rate instability may arise. Overall, the decline in trade weakens global economic stability and hinders long-term growth.

### **2. Inflation**

Trade wars lead to an increase in tariffs on goods, which raises their prices. When higher tariffs are imposed on imported goods, their cost increases. Businesses pass on this additional cost to consumers, resulting in a rise in market prices and causing inflation in the economy. In such a situation, the purchasing power of common people decreases, and the cost-of-living increases. In the production sector, rising prices of raw materials increase production costs, which further raises the prices of final products. This price rise is observed at the global level due to trade wars. As a result, demand declines and economic activities slow down. Overall, inflation negatively affects consumers, businesses, and the economy.

### **3. Reduction in Investment**

Trade wars lead to a decline in investment activities at the global level. Uncertainty between countries reduces investor confidence. Frequent changes in trade policies discourage investors from making new investments. As a result, Foreign Direct Investment (FDI) decreases. A reduction in investment slows down industrial expansion and delays or cancels new projects. Multinational companies may postpone or cancel their investment plans, negatively affecting production activities. Employment generation also declines. Additionally, investors tend to move their investments to safer regions, leading to reduced capital flows in some countries. Stock markets may become more volatile, and investor losses can put further pressure on the economic system.

The uncertainty caused by trade wars also discourages long-term investments. Reduced investment in infrastructure and industry slows down economic growth. Developing nations are more affected by these impacts. Overall, a decline in investment becomes a major obstacle to global economic growth and negatively affects employment, production, and income.

### **4. Supply Chain Disruption:**

As a result of trade wars, global supply chains are severely disrupted. In today's global economy, production takes place in stages across different countries. It is common for raw materials to be sourced from one country, manufacturing to occur in another, and sales to happen in a third country. However, due to increased tariffs and trade restrictions, this chain becomes disturbed. Companies are unable to obtain the required raw materials on time, leading to delays or stoppages in production. Production costs also increase. Multinational companies attempt to relocate their production units to other countries, which is costly in terms of both time and money. Changes in supply chains reduce efficiency. Moreover, transportation costs increase, and delays occur in the delivery of goods. This may lead to shortages of goods in the market, which in turn contributes to rising prices. Small and Medium Enterprises (SMEs) are more affected by such disruptions, as they find it difficult to identify alternative sources of supply.

Overall, supply chain disruption weakens global production, distribution, and trade systems. It slows down economic growth and negatively impacts global economic stability.

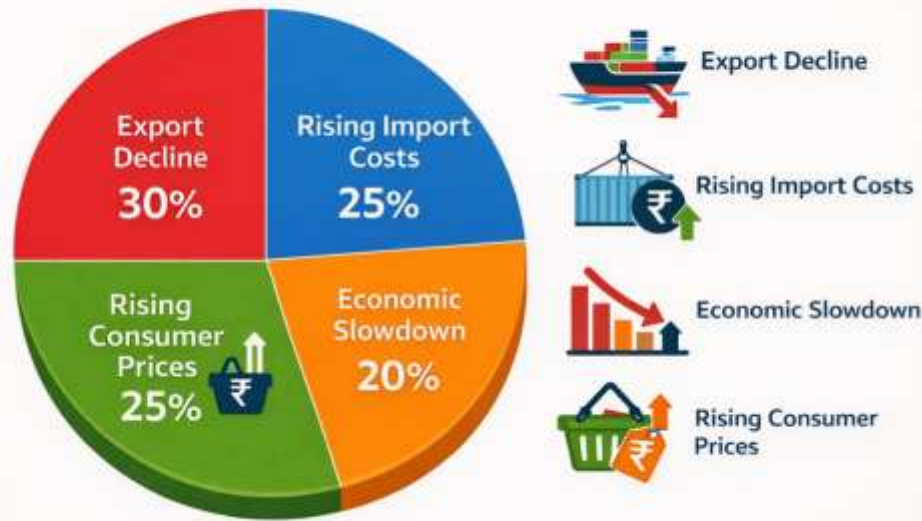
**Impact of Trade Wars on the Global Economy (2025–26 Statistics)**

SI No.	Indicator	Latest Statistics (2025–26)	Impact
1	Global Trade Growth	Around 4.6% in 2025, declining to 1.4%–1.9% in 2026	Decline in trade
2	Trade Volume	Only 0.5% growth in 2026 (WTO estimate)	Weak trade activity
3	Global GDP Growth	Around 3.1%–3.3% in 2026	Slow economic growth
4	Growth of Developing Countries	Around 2.6% in 2026 (UNCTAD)	Decline in demand
5	Services Trade Growth	4.6–4.8% in 2025, 4.1–4.4% in 2026	Slowdown in service sector
6	Tariff Levels	Average tariffs increased up to 20% in some countries	Costly imports
7	Global Investment Scenario	High uncertainty in 2026 (53% business leaders)	Reduction in investment
8	Impact on Employment	Up to 23 million job losses in worst-case scenario	Rise in unemployment
9	Supply Costs	Increased due to fuel and transport disruptions	Higher production costs
10	Global Trade Share (MFN share)	Declined from 80% to 72%	Decline in rule-based trade

Source: Data compiled from different sources

The latest statistics for 2025–26 show that trade wars have serious impacts on the global economy. Slowing trade growth, rising tariffs, declining investment, and supply chain disruptions are the major consequences.

**Impact of Trade Wars on Economies**



**Impact of Trade Wars on the India Economy**

Global trade wars have a significant impact on the Indian economy. Trade conflicts, especially between economically strong nations, influence global markets. As a result, there are changes in India’s export and import activities. While new export opportunities emerge in certain sectors, challenges such as rising import costs and increasing trade deficits also arise. Thus, trade wars create a mixed impact on India’s economy.

### ➤ **Export Opportunities**

During global trade wars, weakened trade relations between certain countries create new export opportunities for India. For example, when trade conflicts occur between major economies, some markets become vacant. India can take advantage of this situation by exporting its products to those markets. Particularly, sectors such as pharmaceuticals, textiles, agricultural products, and IT services gain increased export opportunities. This can lead to higher export earnings and contribute to job creation. Moreover, when multinational companies look for alternative production centers, they may choose India. This provides a boost to the manufacturing sector. However, to fully utilize these opportunities, the government must formulate appropriate policies, develop infrastructure, and enhance production capacity. Overall, trade wars create both challenges and new export opportunities for India.

### ➤ **Import Cost**

As a result of global trade wars, the cost of importing certain goods increases. When countries raise tariffs on each other, the prices of goods coming from abroad rise. These forces importing companies to bear additional costs. These increased costs are passed on to consumers, leading to a rise in market prices. In particular, imports of fuel, machinery, and raw materials become more expensive, which also increases domestic production costs. Higher import costs reduce the profit margins of industries. In some cases, production may decline, which can slow down economic growth. Moreover, countries that are heavily dependent on imports face greater economic pressure. Thus, trade wars increase import costs and negatively impact the economy.

### ➤ **Growth of Industries**

During global trade wars, when countries increase tariffs on foreign imports, it encourages domestic production. As foreign goods become more expensive, consumers tend to shift towards domestic products, increasing demand for local industries. In such situations, governments provide subsidies, incentives, and protective policies to support domestic industries. This creates opportunities for the establishment of new industries and increases employment opportunities. Additionally, when multinational companies relocate their production units, they may choose India as an alternative destination, further strengthening the manufacturing sector. However, in the long run, improving competitiveness requires advancements in technology and quality. Overall, trade wars can provide some level of encouragement for the growth of domestic industries.

### ➤ **Economic Uncertainty**

Global trade wars increase economic uncertainty. Frequent changes in tariffs and trade policies between countries reduce market stability. Investors hesitate to invest due to a lack of clarity about the future. Price fluctuations are observed in global markets, stock markets become volatile, and exchange rates fluctuate. This slows down trade and investment activities. Moreover, companies are forced to modify or postpone their business plans, which affects production and employment. As a developing country, India is more vulnerable to such uncertainty. Overall, economic uncertainty slows down global economic growth and hinders long-term stability.

## **SUGGESTIONS**

In view of the serious impacts of global trade wars on the economy, appropriate remedial measures are necessary to control them. Rising tariffs and trade restrictions between countries create instability in the global trading system. To address this issue, mutual cooperation, balanced trade policies, and dialogue-based approaches are essential. In particular, institutions like the World Trade Organization (WTO) can help strengthen a rules-based trading system. Therefore, achieving global economic stability requires comprehensive and cooperative measures.

### **1. Promoting Free Trade Agreements:**

Promoting free trade agreements is an important solution to reduce global trade wars. Through these agreements, countries reduce tariffs and facilitate smoother trade. This increases import-export activities and boosts global trade growth. Free trade agreements enhance economic cooperation between countries. By reducing trade barriers, market access becomes easier, enabling businesses to export their products to wider markets. Moreover, these agreements encourage investment and create employment opportunities. They also strengthen trust and cooperation among nations. Overall, promoting free trade agreements is an effective measure to control trade wars and maintain global economic stability.

## 2. Balancing Import–Export Policies

Balancing import and export policies is crucial to reduce global trade wars. Governments should formulate policies that maintain equilibrium between imports and exports. Reducing excessive dependence on imports and promoting domestic production is essential. At the same time, measures should be taken to boost exports, such as providing subsidies, tax incentives, and developing infrastructure. This helps reduce the trade deficit. Balanced policies help maintain stability in the global market and reduce the likelihood of trade conflicts. Overall, balancing import-export policies promotes economic growth and plays a key role in preventing trade wars.

**3. Strengthening Domestic Industries:** Strengthening domestic industries is essential to face global trade wars. Governments should provide financial support, subsidies, and tax concessions to local industries. This increases domestic production and reduces dependence on foreign imports. Encouraging technological development and innovation enhances the competitiveness of industries. Producing high-quality goods helps compete in global markets. Infrastructure development also supports industrial growth. Additionally, supporting Small and Medium Enterprises (SMEs) is very important, as they play a key role in employment generation and economic growth. Overall, strengthening domestic industries increases economic self-reliance and helps reduce the negative impacts of trade wars.

## 4. Enhancing Global Cooperation

Enhancing cooperation among countries is essential to prevent global trade wars. Nations should resolve trade-related issues peacefully through dialogue and negotiations. Multilateral institutions such as the World Trade Organization (WTO) can help strengthen a rules-based trading system. Through global cooperation, tariffs and trade barriers can be reduced. This increases trust among countries and improves trade relations. Joint policies and agreements can help maintain economic stability. Moreover, global challenges such as supply chain disruptions and economic uncertainty can be managed more effectively through cooperation. Overall, global cooperation helps control trade wars and contributes to building a stable and balanced global economy.

## 5. Strengthening the Role of Multilateral Institutions:

Strengthening the role of multilateral institutions is very important to control global trade wars. These institutions provide a platform to resolve trade disputes between countries. In particular, the World Trade Organization (WTO) formulates global trade rules and promotes fair trade among member nations. Through these institutions, countries can resolve issues peacefully through dialogue and negotiations. Following a rules-based trading system helps reduce unfair tariffs and trade restrictions. Additionally, multilateral institutions contribute to maintaining global economic stability. They provide technical and financial assistance to developing countries. Overall, strengthening the role of multilateral institutions is essential to maintain balance and transparency in global trade and to prevent trade wars.

### Impact of Trade Wars on India's Economy – (2025–26 Statistics)

S. No.	Indicator	Latest Statistics (2025–26)	Impact
1	Total Exports	USD 825.3 billion in FY2025, 6.1% growth	Trade resilience
2	Export Growth (2026)	13.17% YoY growth in January 2026	Strong performance in some sectors
3	Imports	Increased by 18.76% in January 2026	Higher import costs
4	Trade Deficit	\$34.68 billion in January 2026	Economic pressure
5	Trade Deficit	\$81.7 billion in 2025	Rising trade imbalance
6	Impact of Global Trade Slowdown	Global trade declined by ~0.2% in 2025	Pressure on India's exports
7	WTO Estimate	Higher tariffs challenge India's exports	Trade uncertainty
8	GDP Growth	~6.4%–7.3% in 2026 (IMF estimate)	Strong domestic economy
9	Impact on Investment	Trade uncertainty reduces investment	Pressure on FDI
10	Energy Dependence	India depends on ~90% oil imports	Impact from global conflicts
11	Agriculture/Trade Disruption	Price fall in some products, rise in import prices	Losses for farmers/traders
12	Government Support	₹497 crore relief scheme for export support	Export protection measures

Source: Data compiled from different sources

The 2025–26 data shows that global trade wars have created both opportunities and challenges for India's economy. On the positive side, India's exports have remained strong, reaching about USD 825.3 billion in FY2025, with steady growth. In early 2026, exports also showed double-digit growth (~13%), indicating that India is benefiting from shifting global markets. As major economies face trade conflicts, some countries are turning to India as an alternative supplier, especially in sectors like pharmaceuticals, textiles, agriculture, and IT services. Additionally, India's GDP growth (around 6.4%–7.3%) remains strong, supported by domestic demand.

However, there are several negative impacts. Imports have increased significantly (around 18.76% in January 2026), leading to higher import costs. This is especially critical because India depends heavily on imported oil (about 90%), making it vulnerable to global price shocks. As a result, the trade deficit (about \$34.68 billion) has widened, increasing economic pressure. The large trade deficit with China (~\$81.7 billion) further highlights trade imbalance issues.

Trade wars also create global uncertainty, which affects investment. Investors become cautious, leading to reduced Foreign Direct Investment (FDI) inflows. Moreover, higher tariffs and global trade slowdown (around 0.2% decline) put pressure on India's exports in certain sectors.

The agriculture and small business sectors are also affected. Fluctuations in global prices lead to losses for farmers and traders, while rising import costs increase production expenses. Supply chain disruptions further add to these challenges.

## Impact of Trade Wars on India's Economy



■ Export Opportunities ■ Supply Chain Disruptions ■ Market Volatility ■ Investment Uncertainty

## CONCLUSION

Global trade wars have emerged as a significant issue in today's economic world. Trade conflicts arise when countries adopt tariffs, import restrictions, and other protectionist policies to safeguard their economic interests. In particular, the trade war between the United States and China has had long-term impacts on the global economy. These conflicts weaken the stability of the global trading system and reduce economic cooperation among nations. Firstly, trade wars

lead to a decline in international trade activities. Increased tariffs on imports and exports raise the cost of trade. This results in higher prices of goods and places an additional financial burden on consumers. Consequently, global demand decreases, and production activities slow down. Such a situation plays a major role in reducing economic growth. Another significant impact is on investment. The uncertainty created by trade wars reduces investor confidence. A decline in Foreign Direct Investment (FDI) hinders job creation and industrial growth. Multinational companies often relocate their production units or search for new markets, leading to disruptions in global supply chains and increased production costs. However, trade wars may also create opportunities for developing countries in certain situations. For example, conflicts between major economies can open up new markets for other countries. Nations like India can take advantage of these opportunities to increase exports and strengthen their industrial sector. Growth potential is particularly high in manufacturing and IT sectors. Nevertheless, effective policies and strategies are required to fully utilize these opportunities. Moreover, trade wars negatively affect global economic integration. When countries adopt protectionist policies instead of promoting free trade and cooperation, the global trading system becomes weaker. This increases instability in the world economy and, in the long run, proves harmful to all nations. Therefore, balanced and cooperative measures are essential to address the issue of global trade wars. Countries should enhance mutual cooperation and promote free trade agreements. Resolving disputes through international institutions is a better approach. At the same time, domestic industries should be strengthened and developed to compete globally. In conclusion, although global trade wars have negative impacts on the economy, they may also create new opportunities in certain cases. However, for long-term economic stability and sustainable development, global cooperation and balanced trade policies are essential.

## REFERENCES

1. International Monetary Fund. (2026). *World economic outlook update: January 2026*. International Monetary Fund.
2. World Trade Organization. (2025). *Global trade outlook and statistics*. World Trade Organization.
3. United Nations Conference on Trade and Development. (2026). *Global trade update*. UNCTAD.
4. World Bank. (2025). *Global economic prospects*. World Bank.
5. Organisation for Economic Co-operation and Development. (2025). *Economic outlook*. OECD.
6. Chad P. Bown. (2020). *US–China trade war tariffs: An up-to-date chart*. Peterson Institute for International Economics.
7. Mary Amiti., Stephen J. Redding., & David E. Weinstein. (2019). *The impact of the 2018 trade war on U.S. prices and welfare*. National Bureau of Economic Research.
8. Pablo D. Fajgelbaum., Pinelopi K. Goldberg., Patrick J. Kennedy., & Amit K. Khandelwal. (2020). *The return to protectionism*. *Quarterly Journal of Economics*.
9. Simon J. Evenett., & Johannes Fritz. (2023). *Global trade alert report*. *Global Trade Alert*.
10. Reserve Bank of India. (2025). *Annual report 2024–25*. Reserve Bank of India.
11. Ministry of Commerce and Industry. (2026). *Trade statistics*. Government of India.
12. KPMG. (2026). *Global trade outlook 2026*. KPMG.
13. PwC. (2025). *Global economy watch*. PwC.
14. Reuters. (2026). *Global trade news reports*. Reuters.
15. World Economic Forum. (2025). *Global risks report*. World Economic Forum.