

How have penal tariffs evolved as a tool in recent geopolitical conflicts?

Table of Contents

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|---|----|
| 1. Introduction | 3 |
| 2. Penal tariffs in recent geopolitical conflicts | 4 |
| 3. Economic and political impact of using tariff as a geopolitical tool | 7 |
| 4. Conclusion | 8 |
| Works Cited | 10 |

1. Introduction

Penal tariffs, also known as punitive tariffs, have been used by governments as economic and geopolitical tools to regulate trade, impose financial consequences on trading partners that engage in unfair or illegal practices, and to protect domestic industries. Recently, their role has expanded beyond its use in executing economic policies and entering the political world by expanding its utility as a geopolitical tool. While the purpose of tariffs is to leverage economic edges/benefits to address trade imbalances, its latest use has now been used to exert political pressure, enforcing foreign policy goals, and retaliation against adversaries, who are in a geopolitical combat with a certain country. The expansion of its scope in utility has made penal tariffs a key instrument in modern international relations, affecting diplomatic negotiations, political alliances, and economic interdependencies.

In order to promote free trade and discourage unilateral trade restrictions, the World Trade Organization (WTO) allows penal tariffs provided there is a legal justification. As per the measures taken, the imposed tariffs are a response to unfair trade practices, national security concerns, or economic emergencies. As per the provision, situations such as anti-dumping measures, national security exceptions, and safeguard measures, are some reasons where penal tariffs are allowed by operating within the established legal framework.

Over the past 20 years, there has been a significant increase in their strategic use. This is specifically noted with major economies such as China, European Union, and the United States. A prime example of this is the US-China trade war of 2018, which showed how tariffs can be used to challenge economic rivals and force policy changes. A recent example is the United States imposing tariffs on Canada and Mexico¹, which further emphasizes on how trade measures are now being linked to concerns such as controlling migration, enforcing national security, and geopolitical tensions. The global trade dynamics between China and the European Union (EU) are also being addressed partially through the EU's consideration of tariffs on Chinese electrical vehicles, which highlights the effort of the EU to control China's economic dominance and protect the domestic interests of European industries.

Due to the shift in dynamics of global power, it is important to understand the economic implications of status from a geopolitical perspective today. The post- Cold War era has seen an expansion of free trade agreements and economic liberalization, adding to the global interdependence as a direct result. However, the last two decades have witnessed a growing resurgence of economic nationalism and policies that are protecting domestic interests, which are

¹ Buschschlüter, Vanessa. "US and Mexico Reach Deal to Put Tariffs on Hold - for Now." *BBC*, 3 Feb. 2025, www.bbc.com/news/articles/crke8jx5mvro.

used by the government to counteract unfair trade practices or as a valid reason to safeguard national security. The increasing frequency of tariff wars signal a deviation from the traditional diplomatic conflict resolution methods, which are, in some instances, creating a shift from collaborative negotiations to economic pressure or coercion. This economic and geopolitical shift is raising important questions about the long-term consequences of the use of tariffs as political leverage.

The study will examine the political and economic impact of these measures, the effect they have on the objectives of national interest and a globalized application pertaining to international trade and diplomacy. The key geopolitical conflict that the research will focus on includes the changing dynamics of the relations between the US, China, and the EU, along with other nations such as Canada and Mexico. This research focuses on penal tariffs and how their use, against the backdrop of geopolitics, has impacted economies and global supply chains, directly affecting trade diversification and economic alliances between multiple states globally.

2. Penal tariffs in recent geopolitical conflicts

Penal tariffs first gained traction towards the start of the 21st century. One of the earlier major tariff disputes was when, in 2002, the US had imposed tariffs on imported steel as a safeguard measure to protect the American steel industry from foreign competition.² However, back then, Japan, the EU, and other nations rightfully retaliated. Eventually, the WTO ruled against the tariffs, leading to their removal in 2003. The tariff, which was a direct result of the economic nationalist approach by the US, also highlighted how global trade institutions then played a role in regulating penal tariffs. Though the role of penal tariffs in geopolitics hadn't gained prominence until the mid to late 2010s.

The rapid increase of penal tariffs as a tool of geopolitical influence recently, extends beyond the traditional economic function it was used for: to serve as a strategic instrument for international diplomacy. As a means of retaliation, economic defense, and even political coercion, global superpowers, such as the United States and China, along with actors from the EU, have used tariffs beyond their use as trade regulators. One of the most recent high-profile examples of penal tariffs has been the US-China trade war, which began under the 2018 Trump administration.³ Chinese

² “WTO | Dispute Settlement - the Disputes - DS248.” *Wto.org*, 2025, www.wto.org/english/tratop_e/dispu_e/cases_e/ds248_e.htm. Accessed 6 Feb. 2025.

³ *A Quick Guide to the US-China Trade War*. 24 Oct. 2018, www.bbc.com/news/business-45899310/.

goods worth billions of dollars were imposed with tariffs by the United States as concerns of trade imbalances, forced technology transfers, and intellectual property theft were being spoken about. In retaliation, the Chinese government responded with counter tariffs, targeting automobiles, agricultural products, and manufacturing components of companies based in the US. This method of combating tariffs with tariffs escalated as it disrupted the global supply chains and forced many multinational corporations to reconsider their alliance with the Chinese government for production of goods or parts.

The US-China trade war went beyond economic competition as it was deeply rooted in geopolitical strategies. The United States wanted to curb China's rise as a global economic and technological powerhouse, where industries such as artificial intelligence, 5G, and renewable energy were particularly targeted through companies such as Huawei. ⁴As Washington aimed to weaken Beijing's dominance, China faced short economic pressure, which enabled them to further incentivize domestic production to accelerate self-sufficiency in key industries.⁵ China, therefore, increased investments in their domestic production and diversified trade partnerships to control their dependence on US material and markets.

As a growing economic superpower, the United States also had other tariff conflicts while trying to maintain their economic growth. Geopolitical tensions with Canada and Mexico resulted in tariffs being introduced on steel and aluminium imports from both North American neighbors.^{6,7} Though citing national security concerns, the tariffs strained the relations between the three countries, which resulted in Canada and Mexico issuing retaliatory tariffs on the agricultural and consumer goods from the United States. The eventual resolution came through the renegotiation and collaboration of the North American Free Trade Agreement (NAFTA) into the United States-Mexico-Canada Agreement (USMCA). The revised negotiation meant revised trade rules on

⁴ Farge, Emma. "China Dispute Seen as Early Test of Trump's Stance towards WTO." *Reuters*, 6 Feb. 2025, www.reuters.com/world/china/china-dispute-seen-early-test-trumps-stance-towards-wto-2025-02-06/.

⁵ "The Contentious U.S.-China Trade Relationship." *Council on Foreign Relations*, 2023, www.cfr.org/backgrounder/contentious-us-china-trade-relationship/. Accessed 6 Feb. 2025.

⁶ *Tariffs Imposed on Steel and Aluminum from Canada, Mexico, and the EU*. 2018, www.cov.com/-/media/files/corporate/publications/2018/06/tariffs_imposed_on_steel_and_aluminum_from_canada_mexico_and_the_eu.pdf. Accessed 6 Feb. 2025.

⁷ The White House. "Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China – the White House." *The White House*, 2 Feb. 2025, www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/.

automotive manufacturing, intellectual property rights, and ensuring labor protections to ensure economic stability and a mutual flow of required resources. More recently, President Trump has proposed new tariffs on imports from Mexico⁸ and Canada citing issues such as illegal immigration and fentanyl trafficking. The use of penal tariffs for non-trade issues such as migration, illustrates how the tariffs have now evolved into tools for exerting political influence, which go beyond economic dispute and have a direct effect on the changing dynamics between two or more countries.

The European Union also has used penal tariffs to address China's rising market share in the Electrical Vehicles (EV) market. In 2023, an anti-subsidy investigation into Chinese EV manufacturers by the European Commission was launched.⁹ The narrative that a subsidy created an unfair competitive advantage and created an economic edge over European automakers was further discussed, where European leaders were considering measures and potential tariffs to protect domestic car manufacturers that are now being overridden by cheaper Chinese alternatives.

Penal tariffs have also been used as a direct geopolitical bargaining tool, seen with the case between the United States and Colombia. In late 2023, and once again in early 2025, citing national security concerns, the United States of America announced that there would be potential tariffs on Colombian aluminium and steel, which was an economic but also a political strategy to mitigate the migration policy. The US had deported migrants who had entered the US illegally, and America was seeking to pressure Colombia into accepting the deported migrants.¹⁰ Though initially the Colombian Government was hesitant and resisted the demands, eventually through negotiations, Colombia agreed to the deportation deal and the administration of the US nullified the tariff threat.

⁸ Buschschlüter, Vanessa. "US and Mexico Reach Deal to Put Tariffs on Hold - for Now." *BBC*, 3 Feb. 2025, www.bbc.com/news/articles/crke8jx5mvro.

⁹ IISS. "The EU's Approach to Tariffs on Chinese Electric Vehicles." *IISS*, 2019, www.iiss.org/publications/strategic-comments/2024/10/the-eus-approach-to-tariffs-on-chinese-electric-vehicles/.

¹⁰ Stewart, Phil, and Oliver Griffin. "Trump Heaps Tariffs on Colombia after It Refuses Migration Deportation Flights." *Reuters*, 26 Jan. 2025, www.reuters.com/world/americas/colombias-petro-will-not-allow-us-planes-return-migrants-2025-01-26/.

3. Economic and political impact of using tariff as a geopolitical tool

The immediate impact of penal tariffs would be the rising cost of imports as it affects trade flows. Foreign goods, therefore, become less competitive in the domestic market, benefiting the local industries in the short term, but may result in increasing costs for businesses and consumers. For example, due to the growing tension between the US and China and their corresponding trade war, the supply chains were impacted globally, forcing companies to rethink sourcing strategies and production lines. MNCs relocated manufacturing from China to countries such as Mexico, Vietnam, India, and other such nations that helped them avoid tariff-related costs. Where the diversification reduced these companies' dependency on China, operational expenses increased as a direct result, as the corporations needed to invest in new facilities, reconfigure logistical networks, and work with different regulatory environments based on the domestic need of these nations that were now hosting them. The Tariffs on trade also directly impacted the consumers as the increased costs that are incurred by businesses and industries, passed on to the consumers and raised the price points. Inflationary pressures resulted in higher prices on electronics and clothing from China in the US; on the other hand, the agricultural products import duties in China, directly impacted the American farmers. It also impacted governments as the USA government had to intervene and provide government subsidies to partially offset those losses to the farmers. Economic pressures through penal tariffs affect political relations as well. For example, the aforementioned US-China trade war was not just an economic conflict, but a geopolitical stand-off for technological and economic supremacy globally.¹¹ Though the United States tariff strategy did not have the desired effect when China chose to accelerate the efforts towards technological self-sufficiency, encouraging heavy investment in production and innovation domestically. On the other hand, the reason for the tariffs on Mexico by the United States in 2019 have been linked to immigration policies rather than trade concerns; something which is being addressed again at the start of 2025 Trump administration.¹² The imposition of escalating tariffs is an economic threat which the US hopes will make Mexico take stronger action to curb migration across the US border. The EU too has been strategically using tariffs to address political and economic concerns regarding domestic production and economic growth of the European nations. The EU has considered putting tariffs on countries which failed to meet labor standards or are violating

¹¹ Navin Girishankar, and Philip Luck. "Tariffs Using Emergency Economic Powers Risk Undermining U.S. Economic Security." *Csis.org*, 2025, www.csis.org/analysis/tariffs-using-emergency-economic-powers-risk-undermining-us-economic-security.

¹² Tiziana Barghini. "Bracing for a Tariff War." *Global Finance Magazine*, 27 Dec. 2024, gfmag.com/economics-policy-regulation/trump-tariff-war-canada-mexico-china-europe-protectionism/.

environmental concerns, using trade policies as a tool for promoting global governance objectives. Nations using penal tariffs are shifting away from the post-Cold War era of economic liberalisation and free trade; rather moving towards a more protectionist and nationalist economy globally. Maintaining economic security over restricted trade to safeguard domestic industries and national security has been a prioritized agenda that nations seem to be working towards. This is particularly seen with Europe and the United States where policies are being used to reduce the over reliance on Chinese manufacturing. Economic nationalism is shaping policy decisions to ensure that there is reduced dependency in key sectors and industries while also maintaining selective economic cooperation.

This is reducing the effect of global trade organizations such as the World Trade Organization (WTO) as nations are relying on unilateral tariff measures. This limits the scope for bodies such as the WTO to intervene as previously used to seek dispute resolution. Traditionally, organizations such as the WTO would have an important role in regulating international trade disputes and were responsible to ensure that trade rules were followed, and economic stability was maintained globally. This is seen during the US-China trade war where, rather than resolving the disputes through WTO's arbitration mechanisms, the two countries chose to engage in an escalating tariff exchange. The WTO was unable to prevent or mediate the conflict effectively due to the lack of immediate enforcement power and the elaborate trade dispute resolution process, emphasising how without a strong functioning and binding framework, there is an inability to regulate trade disputes involving the world's largest economies.

4. Conclusion

The increasing use of penal tariffs as a geopolitical tool has created a fundamental shift in global relations concerning political alliances and economic relations. The tool, which was once used as a mechanism to protect domestic interests and industries against unfair advantage, and resolving trade imbalances, has evolved into a powerful instrument in global politics. It is now being used to exert global influence, enforce foreign policies, and is instrumental in changing the trade dynamics internationally. The recent conflicts itself show how penal tariffs are now deeply intertwined with geopolitical issues such as national security and economic dominance of countries that are leveraging tariffs in trade negotiations. Economic inefficiencies due to penal tariffs have resulted in rising production costs, inefficient use of global resources, and inflationary pressures in consumer markets which, though are protecting domestic industries in the short term, are often resulting in higher prices for the consumers. This inturn is harming global trade stability. The ineffectiveness of global trade organizations such as WTO has further emphasised on how nations are increasingly depending on unilateral tariff measures rather than seeking dispute resolutions through mediation of international institutions. This escalation highlights how the defined global

economic governance, which had been predominant since the late 20th century, is now weakening due to the changing dynamics of the modern global dispute measures as opposed to a multilateral trade system. The escalation would result in an outcome that would show a gradual shift of nations towards regional trade partnerships, rather than dependence on adversarial economies. The shift would create a scope for increase in regional trade agreements and alternative supply chains, leading to a more fragmented global economy with regional trade blocs.

Looking ahead, the role of penal tariffs in global trade is likely to continue evolving. As nations navigate an increasingly multipolar world, economic policies will be shaped by competing interests in security, technology, and resource control. While tariffs will remain a key tool for addressing trade disputes and strategic challenges, their long-term sustainability depends on how effectively governments balance economic protectionism with the need for international economic stability. In the short term, ongoing tensions between the U.S. and China, as well as growing trade disputes between the EU and China, suggest that tariff-based conflicts will persist. However, the long-term effectiveness of penal tariffs remains uncertain. While they provide temporary economic leverage, their overuse risks economic fragmentation, weakened global cooperation, unintended diplomatic consequences, and most importantly, inefficient use of limited global resources. Ultimately, the future of penal tariffs as a geopolitical tool will depend on whether global leaders can move beyond short-term economic nationalism and focus on sustainable, cooperative trade policies. If properly managed, tariffs can serve as part of a broader strategy to ensure fair competition and national security. However, if misused, they could contribute to the destabilization of the global economic order, leading to prolonged uncertainty and economic stagnation.

There are adversarial effects on international diplomacy as well as traditional trade negotiations, which were once based on multilateral agreement and compromise, have now been replaced by unilateral tariffs and trade wars, in its impositions and retaliation. The shift is raising concerns regarding the long-term sustainability of the global economic order, and how it will affect global cooperation, and whether it will lead to economic isolation.

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