Reciprocal Tariffs, Unequal Power: The Disintegration of the Post-War Trade Order

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Back to 1930: The Return of Smoot-Hawley

President Trump's new tariffs, announced on 2 April 2025, remind us of a strikingly similar episode from nearly a century ago in 1930, when the United States enacted the Smoot-Hawley Tariff Act—named after Senator Reed Smoot and Representative Willis C. Hawley, with the populist intent to safeguard domestic industries—raising tariffs by an average of 20 per cent on over 20,000 imported goods. As many as 1,000 economists, hailing from nearly 200 academic institutions, implored then-President Herbert Hoover to veto the bill, articulating concerns over apprehensions regarding the likely repercussions of such tariff increases, including retaliatory actions by other trade partners, as well as the aggravation of the an already crisis-stricken economy—one that was in the grip of what would come to be recognised as the most severe recession in U.S. history.

The international ramifications were swift and severe. More than 25 major trading countries, affronted by the United States' unilateral escalation of tariffs, instituted their own countermeasures. The impact on global trade could not have been more drastic, as it fell by more than 66 per cent between 1929 and 1934. The ultra-protectionist stance, initiated by the culminating in the bill's enactment on 17 June 1930, is now widely blamed for deepening and prolonging the Great Depression of the 1930s.

The official U.S. Senate website describes the Smoot-Hawley Act as "among the most catastrophic acts in congressional history."

Recognising the deleterious impact of these protectionist policies, President Franklin D. Roosevelt subsequently moved to reverse the measures through the Reciprocal Trade Agreements Act of 1934, which aimed to ameliorate trade relations through negotiated tariff reductions, signalling a departure from the isolationist tendencies of the preceding years.

Fast-forward to the present day, and the spectre of Smoot-Hawley looms once more. There are suggestions that the so-called "Reciprocal Tariffs" of President Trump are potentially even more severe than those of 1930. So, the burning question is: if history has repeated itself in terms of actions, will the outcomes also match those endured by the global economies of that era?

Trump's New Tariff Regime: Unprecedented Scale and Questionable Logic

Under the new "reciprocal tariff" framework, a uniform 10 per cent baseline tariff is set to apply to all imports into the United States starting 5 April. More than 60 countries, identified as having significant bilateral trade surpluses with the U.S. or accused of maintaining non-tariff barriers, are now subject to markedly higher, country-specific tariffs, including 37 per cent for Bangladesh, 54 per cent for China (in addition to previously imposed tariffs of around 20%), 46 per cent for Vietnam, and 27 per cent for India, among others. A flat 25 per cent tariff has been imposed on all foreign-manufactured automobiles.

Once fully in effect, the average U.S. import tariff is projected to rise from less than 3 to 22 per cent, a level not seen since the 1930s.

According to one estimate, based on last year's trade figures, the 12 largest exporters to the US would now be subject to approximately $814 billion in annual tariff, reflecting an average duty rate of 28 per cent. Altogether, the total annual tariff bill would rise to roughly $1 trillion, resulting in an average effective tariff rate of around 22.7 per cent.

While Trump's reciprocal tariffs resemble the protectionist impulse of Smoot-Hawley, the scale and scope of the 2025 measures render them significantly more severe. The average U.S. tariff rate under Trump's new regime is set to rise from around 3 to nearly 23 per cent—a nearly 20-percentage-point increase, which is approximately three times the tariff escalation under Smoot-Hawley. More strikingly, while the 1930 act targeted specific goods, Trump's measures impose a blanket 10 per cent duty on all imports, with sharply higher rates applied to over 60 nations. In effect, virtually the entirety of U.S. imports is now subject to punitive tariffs, a level of coverage and severity without precedent in post-war U.S. trade policy.

The so-called "reciprocal tariffs" are mislabelled. No country in the world has specific tariff rates targeting the USA so they can reciprocate. Moreover, countries typically apply varying tariffs at highly disaggregated product levels, most often indicated by the Harmonised System of Trade Classification, rather than using a uniform, across-the-board rate. On the contrary, latest Trump tariffs are solely determined by the ratio of bilateral US trade deficit to US imports from the country in question. This awkward and unprecedented formula to determine tariff levels is based on flawed assumptions that a bilateral trade deficit signals the presence of country-specific trade barriers disadvantaging U.S. exports, and that in the absence of such barriers, the trade imbalance would dimmish or rebalance.

This approach overlooks the structural drivers of trade flows, such as differences in factor endowments and patterns of specialisation between labour- and capital-abundant economies, as well as broader issues of competitiveness. For instance, when Bangladesh applies uniform tariff rates across all trading partners, it is the relative competitiveness of the supplying countries that becomes the key determinant in securing export orders.

The determination of Trump tariff levels hardly makes any sense if the US objective is to tackle its trade deficits. Bangladesh, with a $8 billion trade surplus (vis-à-vis the U.S.), faces tariffs (37%) comparable to those imposed on Vietnam and India, whose surpluses are $125 billion and $46 billion, respectively. Consider, the case of Lesotho, which exports just $227 million to the US and imports $8 million. Despite its contribution to the overall U.S. trade deficit being negligible, Lesotho has been slapped with the so-called reciprocal tariffs of 50 per cent.

Moreover, the calculation of trade deficit disregards services trade—an omission that unfairly disadvantages countries with limited competitiveness in that area, particularly given that the policy objective has primarily been deployed to revive U.S. manufacturing employment rather than services exports.

Distorted Diagnosis of Trade Deficits

Most international trade economists argue that the persistent U.S. trade deficit is best explained not by predatory trade practices of its partners, but by structural factors—particularly the U.S. fiscal policy stance and the privileged role of the dollar in the global economy.

According to the standard “twin deficits” framework, a sustained fiscal deficit—where government spending exceeds revenue—raises aggregate demand beyond domestic output, necessitating increased imports and thereby widening the current account deficit. The United States, as the issuer of the world’s dominant reserve currency, faces no immediate constraint in financing these deficits. Its ability to borrow in its own currency, at low cost and on a massive scale, has made it uniquely capable of absorbing global savings, allowing it to run large external deficits without triggering currency crises or capital flight.

In fact, the U.S. has consistently attracted among the highest levels of foreign direct investment, which alongside portfolio inflows, helps finance its fiscal shortfalls and fuels its role as the world’s largest importer. This system has served U.S. interests well: it sustains consumer purchasing power, deepens financial markets, and reinforces the dollar’s dominance. Yet, the political narrative of Trump’s trade policy rests on the erroneous premise that large trade deficits reflect systemic losses from globalisation. In reality, the U.S. has been a primary beneficiary of the post-war global economic order, leveraging its fiscal capacity, monetary centrality, and investment attractiveness in ways that can hardly be matched by any other nation on earth.

Impact of Whimsical Tariffs: Economic Fallout and Developmental Consequences

Unprecedented in scope and scale, the Trump administration’s reciprocal tariffs, have triggered a cascade of economic, developmental, and geopolitical disruptions. With inflationary pressures rising, growth expectations falling, and global alliances fraying, the international system appears to be entering a new and uncertain phase.

In the immediate aftermath, stock markets in major economies nosedived. The Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite indices plummeted, erasing approximately $3.1 trillion in market value. Companies heavily reliant on international supply chains, including Apple and Nike, saw their shares fall by over 9 per cent and 14 per cent.

While more elaborate impact assessments of the Trump tariffs, using sophisticated economic modelling exercises, are expected over the coming weeks, initial findings by Niven Winchester of Auckland University of Technology provide some startling results. Under one scenario, in which the newly imposed reciprocal tariffs are met with equivalent retaliatory tariffs by other countries on U.S. goods, U.S. GDP is projected to decline by US$438 billion. This corresponds to a reduction in average U.S. household income of approximately $3,500. Mexico and Canada are also projected to suffer substantial losses—2.24 per cent and 1.65 per cent of GDP, respectively—reflecting the fact that over 75 per cent of their exports are directed to the U.S. market. Although country-specific estimates for Bangladesh are not yet available, it is evident that global trade disruptions and a broader economic slowdown will have adverse implications.

The formula used by the White House to determine tariff rates for different countries assumes that for every 1-percentage-point increase in tariffs, prices for U.S. consumers will rise by 0.25 per cent. It further assumes that a 1 per cent rise in consumer prices leads to a 4 per cent decline in import demand. Based on these assumptions, an average tariff increase of around 20 per cent would result in a 5 per cent reduction in U.S. import demand. In reality, however, the sensitivity of import demand in response to price rises may be considerably higher, potentially triggering severe market disruptions in a short span of time. This is precisely where global exporters anticipate a sharp market squeeze.

ariff hikes on apparel imports are significantly higher than the overall average. A simple average of the new tariff rates imposed on six major apparel-exporting countries—Bangladesh (37%), India (26%), Pakistan (29%), Sri Lanka (44%), Vietnam (46%), and China (54%)—yields an average increase of over 40 per cent. According to estimates by the U.S. Trade Representative, this level of tariff could raise the retail price of imported garments from these countries by at least 10 per cent, as higher import costs are passed on to consumers. The likely outcome is a sharp drop in demand in the U.S. market, with severe consequences for the exporting countries. The 37 per cent tariff imposed on Bangladeshi apparel exports to the U.S. poses a significant challenge, but its competitive position in the American market may not deteriorate markedly. Major suppliers like China and Vietnam, which together hold around 40 per cent of the U.S. apparel import market, now face even steeper tariffs of 54 per cent and 46 per cent, respectively. If their export volumes—$17 billion for China and $15 billion for Vietnam in 2024—would be under pressure, India, facing the lowest tariff among key exporters, could be in an advantageous position, followed by Pakistan and Bangladesh. However, as the overall US apparel import tend to decline considerably, gaining in terms of absolute export earnings can be a daunting prospect.

The greater concern lies beyond the U.S. market. Constrained by American tariffs, supplies may be diverted to other key destinations such as the EU, Japan, and Canada. With Bangladesh holding a more than 20 per cent share in the EU apparel market, this diversion could intensify price competition, squeezing margins and undermining profitability. Compounding these pressures is the risk of competitive currency devaluations among export-reliant economies, as countries seek to counteract the loss in price competitiveness. For Bangladesh, already contending with foreign exchange shortages and inflationary stress, such developments could deepen macroeconomic vulnerabilities and complicate efforts toward external and fiscal stabilisation.

The development implications are particularly alarming. Unlike earlier U.S. trade actions, the reciprocal tariffs have swept in many low-income countries, including those with limited market power or diversification options. Along with Bangladesh, Cambodia (facing a 49% tariff), Laos (48%), and Lesotho (50%)—among the highest rates imposed. These shocks come at a time when these and many other countries are still struggling with post-pandemic recovery and declining aid flows. The imposition of steep reciprocal tariffs has come barely weeks after Washington abruptly terminated most USAID development assistance programmes — a double blow for developing countries now facing both shrinking export opportunities and the withdrawal of critical aid support.

Towards Strategic Policy Options and A Race to Bottom

The United States' recent tariff measures represent a significant departure from WTO-led multilateral norms, particularly the Most-Favoured-Nation (MFN) principle, which requires equal tariff treatment for all trading partners. This move effectively sidelines the multilateral trading system and can be seen as a continuation of earlier efforts by the U.S. to undermine it—most notably through its prolonged obstruction of appointments to the WTO's Appellate Body, which has effectively paralysed the organisation's dispute resolution mechanism.

The US trade policy shift is not solely about trade; it is deeply entwined with geopolitical considerations. By circumventing WTO rules, the U.S. aims to unleash its geoeconomic pressure on rivals such as China, leveraging trade policy as a tool in broader geopolitical competition. This approach

reflects a move towards unilateralism, where trade measures are employed to achieve strategic objectives beyond the realm of commerce.

The global response to new U.S. tariffs has been strikingly restrained, compared to the 1930 Smoot-Hawley case. China stands out as the only major economy to have responded with explicit and immediate retaliatory measures, including imposing a 34 per cent tariff on U.S. goods and restricting exports of critical rare earth minerals. China's swift retaliatory response is hardly surprising; as a geopolitical rival of the United States, it recognises that Washington is unlikely to offer it a favourable deal, making retaliation the only credible response. For Beijing, this confrontation is not just economic but deeply strategic—its countermeasures are a signal of resolve in a broader rivalry where concessions are unlikely.

The European Union, while expressing concern, has stopped short of direct confrontation and is keeping open the possibility of negotiating a tailored arrangement with Washington. There have even been renewed calls for establishing a transatlantic free trade zone that would anchor economic ties with the U.S. under a new framework.

Many capitals are desperately making attempts to come to terms with the United States signalling that the prospect that the WTO-led multilateral order is nearing its end, and bilateral engagements are the only option to protect export interest in the World's largest market.

India has also opted for a non-confrontational approach partly in recognising that the reciprocal tariff of 26 per cent faced by its exporters actually puts them in an advantageous position when compared with other competitors. Rather than retaliating, New Delhi is engaging in negotiations aimed at securing a bilateral trade agreement with Washington. India's proactive stance includes offering concessions such as reducing tariffs on select American products and expressing willingness to lower duties on a broader range of U.S. imports.

Other affected nations have also adopted cautious approaches, with many scrambling to negotiate bilateral exemptions to mitigate the impact on their economies. For instance, Cambodia, Vietnam, Japan, and Israel have initiated direct talks with Washington seeking relief from the imposed tariffs. Bangladesh has also sent an official letter requesting for negotiations, indicating concessions on US imports.

Bangladesh in the Crossfire of Trade Power Plays

This marks a new era in global trade. For the past three decades, multilateral trade rules provided weaker economies with a shield, sparing them from the necessity of negotiating bilaterally with more powerful nations. Even regional trade agreements and bilateral free trade agreements were needed to align with overarching multilateral standards. The latest tariff actions by the U.S. appear to have destroyed the shield, compelling smaller economies to engage in direct negotiations with significantly larger and more influential trading partners.

Negotiations between small developing nations and major global powers are inherently asymmetrical, often placing the smaller countries at a distinct disadvantage. Lacking substantial economic leverage, these nations may find it challenging to assert their interests effectively, rendering them susceptible to unfavorable terms that could compromise their developmental objectives. The disparity in negotiating power is further exacerbated when weakest and capacity-constrained countries must compete with more advanced developing economies, like India and Vietnam, which possess diversified

economies and more substantial geopolitical influence. Countries with broader economic bases can offer more attractive concessions or alternative trade benefits to negotiating partners, thereby securing greater concessions, which then can help outcompete weaker developing countries. For Bangladesh, this dynamic presents a formidable challenge.

Non-rules-based bilateral negotiations can initiate a “race to the bottom,” where countries increasingly dilute standards or offer disproportionate concessions in a bid to secure or preserve access to dominant markets. This creates a context in which access to trade opportunities begins to resemble a zero-sum game—where gains for one country are often secured at the direct expense of others, particularly those with limited bargaining power. For a country like Bangladesh, entering into such precarious negotiations without sufficient leverage not only threatens its economic resilience but also raises pressing questions about the fairness, balance, and long-term sustainability of the emerging trade landscape. Yet this is a dangerous game in which non-participation is not a viable option, as strong domestic pressures persist to safeguard export market access, protect jobs in key sectors such as garments, and attract foreign investment.

If the post-war trading order painstakingly evolved through periods of turmoil and turbulence to establish the principle that rules, not power, should govern global commerce, then the tariffs imposed by the U.S. administration have turned that principle on its head. Small nations like Bangladesh, having lost the multilateral safety net, now stand at a perilous crossroads—forced to negotiate, with limited leverage, against economic giants. The world is not merely witnessing the rise of a new trade order; it stands on the precipice of dismantling a global trading system in which trade competitiveness no longer hinges on comparative advantage or rules, but increasingly on bargaining power, geopolitical alignment, and the capacity to offer unilateral concessions—factors that systematically disadvantage the weakest.

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