

An Analytical Review and Analysis of the Overall Impact in Developing Economies During Global Trade Wars

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Abstract

This paper investigates the multidimensional impact of trade wars and tariffs on developing economies, examining trade diversion, inflation, FDIs, exports, etc. This study evaluates how nations are both vulnerable to and capable of adapting to the shifting trade landscape.

It is crucial to keep in mind that trade wars are originally fabricated from protectionist policies such as tariffs and import quotas, aimed to implement measures to restrict international trade and protect domestic industries from foreign competition. However, the impact created by these “protectionist policies” have shown prominent changes, especially in the context of developing countries. Policy recommendations are offered to help developing nations craft resilient trade strategies, diversify their export markets, and mitigate adverse outcomes. The paper aims to provide a broader discourse on global economic impacts and trade interdependencies in the context of current and shortly preceding geopolitical tensions, especially in the context of developing nations and economies.

Keywords: Trade Wars, Impact on Developing Nations, Reciprocal Tariffs, Economic Vulnerability, FDIs & Inflation, U.S.-China Trade Conflict

1. Introduction

A trade war is an economic dispute between countries, occurring when countries impose retaliatory trade restrictions such as tariffs, import quotas and restrictions against each other (Investopedia et al., 2025). Subordinate to this discourse is the impact caused by trade conflicts on developing countries. As globalisation deepens, the interconnectedness between markets increases, and trade conflicts between major economies create ripples through the market on global economies (IMF, 2023). In the context of emerging and developing countries like India, which rely heavily upon exports, FDIs, and stable commodity prices, trade conflicts often hinder their economic growth and development (World Bank et al., 2022).

The US-China trade conflict, for instance, has spawned significant effects on third-party countries. Although emerging economies such as Vietnam, Bangladesh and Mexico saw an increase in exports as they tried to relocate production to avoid tariffs (World Bank 2019). However, these gains were often absurd due to broader negative effects, including declining commodity prices and reduced FDIs due to global uncertainties (IMF 2020).

Developing countries, especially those dependent on raw material exports, particularly in Sub-Saharan Africa and Latin America, suffered from weak Chinese demand (Bown and Kolb, 2021).

This study meticulously dissects the virtues and vices of the repercussions caused by trade conflicts on developing economies. These would contain segments such as commodity price fluctuations, direct impact on export-dependent sectors, impact on GDP growth, FDIs, etc.

2. Methodology

This paper exerts a comparative research design using both qualitative and quantitative data. The analysis and evaluation of this study are based on secondary data. The relevant secondary data covers the period of 10 years from 2016 to 2025[inclusive of both]. The collected data were analysed using simple statistical tools and econometric models like: -

Dependency score (exportation to countries)

1. Identifying the countries with the greatest share in the total exports.
2. Apply a multiplier based on the largest share:
 - More than 50% → multiplier of 1.5(indicating high concentration)
 - 20%-50% → multiplier of 1.2(indicating moderate concentration)
 - Less than 20% → multiplier of 1(indicating low concentration)

This study is done in the special context of 2018-present U.S.-China trade war. Timeline of Major Events in the U.S.-China Trade War:

- 2018: U.S. imposes 25% tariffs on \$50 billion of Chinese goods.
- 2019: China retaliates with tariffs on \$60 billion of U.S. goods.
- 2022: U.S. reinstates select tariff exemptions, imposes semiconductor bans.
- 2023: U.S. grants temporary tariff exclusions; tensions persist over technology and security.
- 2025: A tit-for-tat situation was created as the U.S. imposed 34% tariff on China and so did China on the U.S. An additional tariff of 50% percent was again imposed by the U.S., totalling to 84% tariffs, which was reciprocated by China by the same percent.

Some of the major sources of our data comprises of World Bank IMF, UNCTAD, Fred, Bown & Kolb. The objective is to use the most explicit and accurate data available to evaluate the consequences and repercussions on major developing economies due to trade wars and tariffs.

3. Analysis and Discussion

As they say, “In the fight of two elephants, it is the grass that suffers the most.” Similarly, when economic superpowers impose tariffs, sanctions, and enter into trade conflicts, the maximum loss is borne by the developing countries in that scenario. Trade wars exert noteworthy multifaceted effects on developing economies, often influencing trade patterns, investment flows, inflation, tariff structures, and supply chains. The elements and discussion below present a comprehensive analysis of these impacts.

3.1. GDP growth/decline

Trade wars underscore the fragile position of developing economies in a globalized order. It is assumed by most that trade wars lead to a uniform, widespread GDP decline due to commodity price fluctuations happening because of global uncertainties. This assumption is often fictitious, especially in the case of trade wars and tariffs.

Table 1 - Annual GDP Growth/Decline

Countries	2016	2017	2018	2019	2020	2021
India	8.26%	7.04%	6.45%	3.87%	-5.83%	9.05%

Brazil	-3.28%	1.32%	1.83%	1.22%	-3.87%	5.03%
Mexico	2.89%	2.11%	2.19%	-0.19%	-8.25%	4.84%
Vietnam	6.68%	6.94%	7.08%	7.02%	2.91%	2.58%
Taiwan	1.48%	3.08%	2.63%	2.71%	3.11%	6.45%
Malaysia	4.4%	5.81%	4.78%	4.3%	-5.57%	3.11
Thailand	3.41%	4.19%	4.12%	2.37%	-6.16%	1.55%
Sub-Saharan Africa	1.25%	2.53%	2.76%	2.67%	-1.9%	4.33%

Source: World Bank

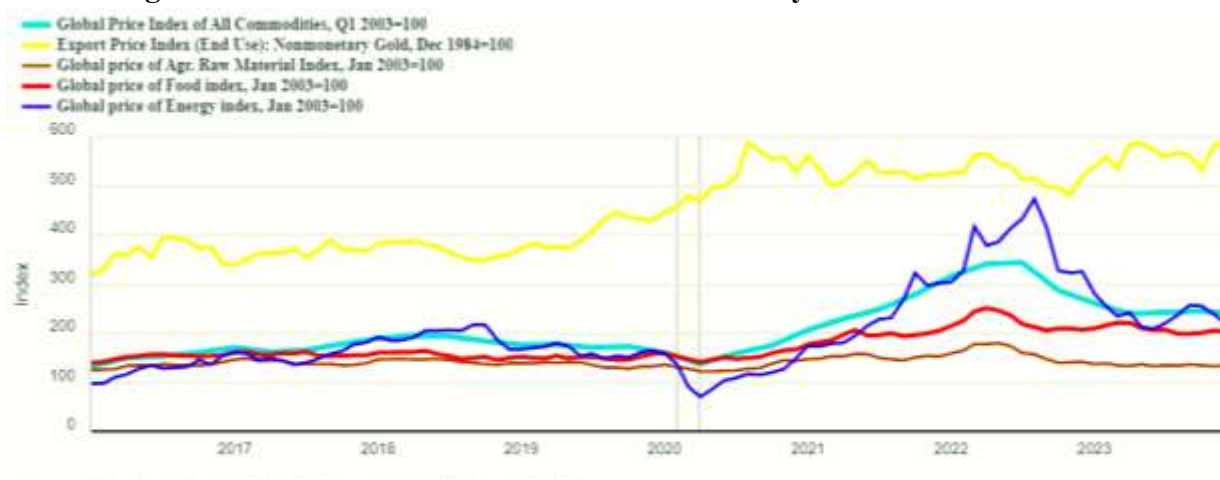
The table presented above outlines the GDP changes in some major developing countries from 2016 to 2021. Contrary to the above-mentioned notion/belief, the GDP change is quite heterogeneous. Although countries like India and Brazil experienced an economic slowdown in the trade war era (2018-19 U.S.-China trade war), Taiwan and Vietnam maintained their robust growth. The contractions occurring in 2020 are observed overwhelmingly due to the COVID-19 pandemic's impact. Increased costs and uncertainty cause an immediate slowdown in manufacturing orders and export volumes. This leads to a direct subtraction from GDP, as net exports are a key component to determine GDP growth/decline.

3.2 Commodity Prices and Inflation

Trade conflicts very often disrupt many diverse global supply chains, leading to significant fluctuations in commodity prices. These price fluctuations can drive inflation, as higher costs for food, energy, and raw materials ultimately reach consumer goods and services.

While some countries like Brazil and Argentina have benefited from trade diversions in agricultural commodities, the overall impact on developing nations has been severely negative, with low-income countries facing food price inflation rates reaching 30% compared to just 12.8% in high-income countries.

Diagram 1 - Economic Indices Trends from January 2019 to December 2024



Source: FRED International, St. Louis Fed

The graph above outlines the commodity price movement across the globe in recent years. For instance, we can observe that during the 2022 Russia-Ukraine war, energy and grain prices surged sharply. Similarly, during the 2018-19 US-China trade war, a similar surge can be seen. This led to inflation at multidecade

highs in many import-dependent nations. However, some commodity-exporting countries saw milder inflationary effects, benefiting from elevated global prices for their key exports. The variation highlights how geopolitical turbulences unevenly impact inflation worldwide.

3.3 Foreign Direct Investments

The perception that global uncertainties lead to a widespread uniform decline in foreign direct investments across developing economies is not fully supported by the data. The global FDIs during the 2018-19 trade war fell by 13%; developing economies carried only a 2% decrease, which was also seen with severe regional differences.

Table 2 - Aggregate FDIs Annually (in billion US dollars)

Countries	2016	2017	2018	2019	2020	2021
India	44.4	40.0	42.0	49.0	64.0	84.8
Brazil	78.5	70.0	88.0	75.0	50.0	55.0
Mexico	26.7	29.7	31.6	32.9	29.1	31.4
Vietnam	12.6	14.0	15.5	16.1	15.8	19.7
Sub-Saharan Africa	41.0	30.0	32.0	34.0	28.0	39.0

The 2018-19 US-China trade war acted as a catalyst for investment diversions, creating distinct winners and losers. Countries like Vietnam and India emerged as primary beneficiaries, seeing a 10.7% and 5.0% increase in their FDIs, respectively. On the other hand, Malaysia, Hong Kong and Thailand saw a 13.6%, 15.2% and 9.4% decrease, respectively.

This bifurcation highlights that the global FDI downturn during this period was predominantly driven by a sharp contraction (-27.7%) in developed economies, such as the U.S. (-18.4%) and the EU (-36.4%), as investors retreated due to heightened policy uncertainty. Thus, the impact on developing nations was not homogeneous but was instead determined by their perceived stability, strategic positioning, and ability to capitalise on shifting global value chains.

3.4 Export-Dependent Sectors

The U.S.-China trade war reconfigured global export patterns while highlighting some critical vulnerabilities in export dependencies on some countries and the export-dependent sectors. Developing economies often have concentrated export structures, making them vulnerable to disruptions in global trade.

Table 3 - Export Dependencies (2016-2017)

Country/Region	US Share (2016-17)	China Share (2016-17)	EU Share (2016-17)	Dependency Score
India	15.2%	4.3%	17.6%	17.6(Low)
Brazil	12.3%	21.7%	18.1%	26(Moderate)
Mexico	76.5%	1.8%	5.1%	114.8(Very High)
Vietnam	21.8%	12.4%	~19.2%*	26.2(Moderate)
Taiwan	~22%*	~25%*	~10%*	30(Moderate)
Malaysia	~9.5%*	~14%	~11.5%	14(Low)

Thailand	13.5%	12.8%	~9.5%*	13.5(Low)
Sub-Saharan Africa	8.5%	19.2%	26.3%	31.6(High)

Table 4 - Export Dependencies (2018-2019)

Country/Region	US Share (2018-19)	China Share (2018-19)	EU Share (2018-19)	Dependency Score
India	16.8%	5.1%	18.9%	18.9(Low)
Brazil	14.5%	23.4%	16.8%	28.1(Moderate)
Mexico	78.2%	2.1%	4.9%	117.3(Very High)
Vietnam	30.1%	14.2%	~17%*	36.1(High)
Taiwan	34.7%	23.5%	~8.7%*	41.6(High)
Malaysia	13.5%	15.8%	10.7%	15.8(Low)
Thailand	14.1%	11.9%	15.3%	15.3(Low)
Sub-Saharan Africa	7.9%	22.6%	24.1%	28.9(Moderate)

We calculated the dependency scores in the above table using the formula: -

1. Identifying the countries with the greatest share in the total exports.
2. Apply a multiplier based on the largest share:
 - More than 50% → multiplier of 1.5(indicating high concentration)
 - 20%-50% → multiplier of 1.2(indicating moderate concentration)
 - Less than 20% → multiplier of 1(indicating low concentration)

[Source: UNCTAD, World Bank]

We can analyse from the above-mentioned table that most of the countries saw an increase in their export dependency. Only Sub-Saharan Africa saw a decrease, as the trade done internally between the countries of that region was not counted. The data also underscores how the U.S.-China trade war has significantly reshaped export dependencies among key developing and emerging economies. Mexico stands out with an extreme and worsening reliance on the US market (76.5% rising to 78.2%), resulting in a dependency score exceeding 110. Similarly, Sub-Saharan Africa initially displayed "High" dependency (31.6), heavily reliant on the EU and China, though this moderated slightly by 2018-19. Conversely, economies like India, Malaysia, and Thailand maintained "Low" dependency scores throughout, benefiting from comparatively diversified export structures that provided resilience through policy shifts and demand shocks.

3.5 Exchange Rate Volatility

The exchange rates of the currencies of some developing nations saw a depreciation during the U.S.-China trade war. The primary driver for the depreciation was different for each currency. Although the overall reason for the depreciation was that the tariffs reduced export volumes, which in turn meant lower foreign currency earnings.

Table 5 - Currency Depreciations in Context of U.S.-China Trade War

Country/Region	Currency	2018-2019 Depreciation	2024-2025 Depreciation (YTD 2024)	Key Factors
India	INR (Rupee)	-7.3%	-4.1%	Trade deficit, Fed rate hikes
Brazil	BRL (Real)	-15.2%	-8.6%	Commodity prices, fiscal risks
Mexico	MXN (Peso)	-6.8%	-3.9%	Nearshoring benefits, remittances
Turkey	TRY (Lira)	-28.7% (Currency crisis)	-12.9%	Hyperinflation, unorthodox policies
Vietnam	VND (Dong)	-2.1% (Stable)	-1.8%	Export resilience, FDI inflows
Taiwan	TWD (Dollar)	-3.5%	-2.3%	Tech exports, China tensions
Malaysia	MYR (Ringgit)	-6.2%	-4.7%	Oil prices, political stability
Thailand	THB (Baht)	-4.9%	-3.5%	Tourism recovery, China slowdown
Sub-Saharan Africa	Mixed	-10–20% (Varies)	-5–15% (Wide range)	Debt crises, China slowdown

The data presented above indicates the persistent vulnerability of developing nations' currencies to global economic shocks, particularly trade wars and tariffs, as seen during the 2018-19 US-China trade war. Countries like Taiwan (-3.5%) and Vietnam (-2.1%) demonstrated relative currency stability. Vietnam achieved stability via a tightly controlled exchange rate regime and crucially attracted significant supply chains from China due to its competitive labour costs, boosting FDI inflows and export resilience. The Taiwanese tech exports shielded Taiwan from much of the major trade war impacts. Countries like India, Mexico, and several in Sub-Saharan Africa and Southeast Asia experienced a mild depreciation. The Indian rupee fell by 7.3% due to factors like oil price hikes and trade deficits. However, lower external debts and sustainable reserves helped limit India's overall vulnerability. It was the countries of Brazil and Turkey that were the hardest hit by the currency collapse. The commodity price volatility and fiscal risks were a big driver for depreciation in Brazil (-15.2). The Turkish Lira was the one hit full-on, falling by 28.7% due to its unorthodox policies, which led to hyperinflation. The US-China trade war, more or less, highlighted the fragilities of commodity-dependent and policy-vulnerable economies. It also demonstrated the advantages for economies, while specifically benefiting those better integrated into diversified global value chains and exports.

3.6 Implementation of Retaliatory Tariffs

Tariffs, being the genesis of many trade wars, are crucial to be discussed specifically here. After the U.S. imposed tariffs on countries due to their trade deficits, many developing countries have retaliated by imposing reciprocal tariffs on imports from aggressor nations (the U.S.A. in this scenario). Reciprocal tariffs are imposed broadly to create negotiation leverage and protect oneself from trade deficits. Developing countries like India have strategically applied reciprocal tariffs on agricultural and

technological imports from countries imposing duties on their exports, due to their comparatively weaker trade positions.

It's also of interest to note that many countries have imposed retaliatory tariffs to fight against the U.S.A. The EU, China and Canada deliberately targeted those regions in retaliation for where the president (Donald Trump at that point) got the most votes. For reference, China targeted American farmers and tech companies in retaliation for Trump tariffs. These are the sectors from which President Trump got most of his votes and support.

Imposing such tariffs without negotiations and all of a sudden, makes both the import and export sides suffer: the businesses exporting commodities and the expensively imported foreign commodities.

4. Strategic Policy Recommendation

Here are some recommended fiscal policies, especially for developing economies, that can be implemented for prevention of loss from trade conflicts: -

1. **Trade Diversification:** This reduces over reliance on conflict-affected economic superpowers. For example: - 78.4% of Mexican exports go to the US, creating extreme vulnerabilities. Vietnam managed to shift to semi-conductors and electronics despite US-China tariffs because of its trade diversification.
2. **Regional Integration:** Regional integration allows countries to avoid conflict-prone trade routes by having intra-regional agreements. For example, Southern African Customs Union (SACU) countries integrated apparel production which offset 210 million dollars of loss from the US reciprocal tariffs.
3. **Value Added Supply Chains:** These provide economic resilience, and enhance the competitiveness of a country in the global market. Countries are able to capture more of the export's profit by adding value domestically. For example, Chile refines copper into wire, increasing export value by 40%, compared to raw ore.
4. **Tariff Rate Quota System:** Countries can use a quota system for tariffs with gradual over-quota tariffs (e.g. 50% to 100% to 200% as imports surge). These can help in protecting domestic industries in sensitive sectors like agriculture. For example, South Korea, a developed nation, uses this system for rice imports, 5% in-quota and 513% above-quota (above 132,304 tons), citing food security and cultural reasons. It has led the South Korean domestic rice industry to prosper.

5. Conclusion

Based on the comprehensive analysis presented, this paper concludes that trade wars inflict complex, multidimensional, and highly uneven impacts on developing economies, exposing structural vulnerabilities while simultaneously creating selective opportunities for adaptation. Trade wars are not mere bilateral disputes but systemic shocks that reconfigure global supply chains, investment flows, and developmental trajectories. While developing economies remain disproportionately vulnerable, strategic policy agility centred on diversification, regional cooperation, and value-chain upgrading can transform exposure into opportunity.

As we saw in the multiple analyses, developing nations such as Vietnam didn't just adapt but thrived in a volatile global landscape. They capitalised on trade diversion through strategic diversification and FDI attraction. Meanwhile, nations like Turkey with pre-existing economic fragilities, suffered even more from currency depreciation, and Mexico which although gained from US firms searching for a country close by, which was also tariff-free under USMCA, underscored due to the risks of over-reliance on a single market.

In conclusion, the challenge for developing economies lies in their capacity to mobilise the political will, institutional capacity, and international support required to transform the exposure into resilience in a volatile global landscape.

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