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GUEST ESSAY

Tariffs Make the World Poorer and More Perilous

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Mr. Prasad is a professor of trade policy in the Dyson School at Cornell University and a senior fellow at the Brookings Institution.

President Trump's on-again-off-again tariffs have disrupted the global trading system and caused whiplash for businesses and consumers. He has vacillated mightily, announcing tariffs on imports from practically every U.S. trading partner and then pausing or rolling some back. Legal challenges have added to the turmoil.

No matter where the tariffs eventually settle, they will have repercussions that go far beyond trade. Raising tariffs, or at least the constant looming threat of that happening, undermines trade and weakens economic links that stabilize international relations. By shredding rules that have governed trade and by disregarding free trade agreements, Mr. Trump has undercut the entire international rules-based order. This includes ignoring the rules of the World Trade Organization, hindering its work and threatening to abandon it.

Denying low-income countries with growing young work forces the opportunity to develop their economies through trade could lead to a surge of migrants that will put pressure on the countries that receive them. A retreat from free trade will hurt consumers worldwide through higher prices and more limited choices, raising the prospect of political discontent in their countries.

Whatever their ostensible objectives, the Trump tariffs will make the world a poorer and more perilous place.

A full-scale retreat from global trade is unlikely, but international commerce is already shifting in ways that can deepen geopolitical fissures. Business interests have long kept relationships between rivals on an even keel. In the past two decades, for instance, U.S.-China frictions have been smoothed by the eagerness of American companies to sell their products and services to China's rapidly growing middle class and to use Chinese suppliers.

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American investors keen to gain access to China's financial markets played a similar role. When China manipulated its currency during the 2000s to gain a competitive advantage for its exports, the presence of U.S. commercial interests ensured that the United States did not take punitive action. For China, the benefits from opening up to American businesses and investors pushed Beijing, for a while, at least, to align its own economy with U.S. free market principles. It eased restrictions on investments flowing into and out of the country, and even took steps to reduce government intervention in foreign exchange and other financial markets.

But now trade itself has come to be seen as a zero-sum game, in which one country gains only at the expense of another. That is harmful to resolving differences. If U.S.-China tensions in the South China Sea or over Taiwan were to escalate, for example, a give-and-take on trade matters would no longer be an element of negotiations.

Middle-power countries such as India now recognize that even U.S. friendship may not protect them from tariffs, making them less willing to ally themselves fully with the United States. Even longstanding U.S. allies such as Britain and the European Union were not spared from tariffs.

Governments make policy choices. But it is commercial interests that drive the realities on the ground. Falling trade barriers and other factors such as declining transportation costs had led corporations to build lean supply chains threaded through multiple countries. This approach, which emphasized efficiency and lower costs, drove down prices for consumers, increased product choices, helped spread new technologies and promoted innovation.

Whatever the fate of the Trump tariffs, they have permanently altered the global trade landscape. Businesses worldwide were already dealing with disruptions caused by climate change and geopolitical flare-ups, including the Russian invasion of Ukraine. Now they have to face the possibility of a trade war resulting from retaliatory tariffs and from many countries' concerns about becoming dumping grounds for Chinese exports. Even if countries retreat from using tariffs, there is little to prevent them from using government subsidies and import and export quotas to favor domestic manufacturers and restrict trade.

Businesses are thus being forced to focus on resilience of their supply chains rather than efficiency. Companies are resorting to reshoring (bringing production back home) and "friend-shoring" (running supply chains only through countries that a producer's home country sees as allies). This means that producers can no longer take advantage of low labor costs overseas or the efficiency gained by using factories close to sources of raw materials.

And even the seemingly safer approach of friend-shoring has been shattered by Mr. Trump's tariffs, which have been applied to friend and foe alike. The viability of rerouting output and restructuring supply chains from China through Vietnam and India, with whom the United States had more constructive trading relationships, has fallen prey to proposed tariffs. Canada and Mexico, which are crucial to U.S. auto manufacturers' supply chains, have not escaped either.

Mr. Trump has a point that some countries twisted trade rules. China, for instance, took advantage of World Trade Organization rules to gain access to other countries' markets for its exports while limiting access to its own markets. China has also used extensive subsidies and other measures, including forced technology transfers from foreign companies eager to invest in the country, to improve the global competitiveness of its companies.

But smashing the rules-based global trade system, which the United States itself had a huge role in establishing, will only create anarchy. With U.S. tariffs on one side and fears of the Chinese export machine on the other, and with few rules that can help ensure fair treatment by their trading partners, countries will increasingly try to go it alone or with a small group of their neighbors, splintering trade even further.

For customers around the world, the retreat from unfettered trade will mean higher prices. For many low-income countries trying to follow the path of manufacturing-led development, the traditional route to building a robust middle class is disappearing. A world with less trade and more uncertainty will be a less prosperous one. That, at least, is one aspect in which Mr. Trump's tariffs are fair: All countries, including the United States, will feel the pain.

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