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Impact of U.S. Tariffs on International Trade: Legal Perspectives and Global Implications

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Abstract

With a focus on using tariffs as a strategic tool, the current administration has significantly altered US trade policy. Recent developments have raised serious concerns, particularly the imposition of new and increased tariffs on major trading partners like China, Canada, India, and the European Union. This study examines the wider ramifications for international economic relations and trade regulation while analyzing the legal effects of U.S. tariffs on foreign trade. It covers the latest U.S. tariff measures, international reactions, and practical concerns for businesses operating in this shifting global trade environment. The United States has been using tariffs more and more as tools of national security and economic power in recent years, usually avoiding traditional multilateral trade frameworks. In addition to straining economic ties with important allies like China and the EU, these unilateral actions have damaged the credibility of organizations like the World Economic Organization (WTO). This study evaluates the legal basis of U.S. tariff measures under domestic laws, such as Section 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act, and determines whether or not they are in compliance with international trade law. The report also looks at the legal justifications for the retaliatory measures taken by the affected countries. In order to shed light on the changing dynamics of international trade standards and the demise of multilateralism, the study looks at important trade disputes, WTO rulings, and fresh legal challenges. In order to promote global economic stability and rule-based international cooperation, this study highlights the need for a fair and legally transparent trade policy.

Key words: *United States. WTO disputes, trade policy, international trade, trade law, tariffs, and global economic relations.*

INTRODUCTION

These policy changes are mostly due to the America First Trade Policy Memorandum, which details the administration's plan to use tariffs to boost home sectors, lessen dependence on foreign production, and deal with what are seen as dangers to national security. The following document lays out the course of action for upcoming regulatory and enforcement measures.
Companies are reevaluating their long-term investment plans and looking for alternate trade routes as a result of the increased anxiety caused by the uncertainty of US trade policies. It has come to light in recent industry conversations that companies are using the help of trade consultants and compliance teams to evaluate the operational, financial, and legal risks posed by targeted and escalated tariffs. Companies operating in this dynamic environment need to evaluate their vulnerability, reevaluate their supply chain plans, and be ready for any responses from nations that have been hit hard. The America First Trade Policy Memorandum, which outlines the administration's strategy to use tariffs to strengthen domestic industries, reduce reliance on foreign production, and address perceived threats to national security, is primarily responsible for these policy changes. The strategy for future regulatory and enforcement actions is outlined in the document that follows.
Because of the increased anxiety brought on by the uncertainty of US trade policies, businesses are reassessing their long-term investment plans and searching for alternative trade routes. Recent industry discussions have revealed that businesses are assessing the operational, financial, and legal risks associated with targeted and increased tariffs with the assistance of trade consultants and compliance teams. Businesses that operate in this dynamic environment must assess their vulnerability, review their supply chain strategies, and be prepared for any reactions from severely affected countries.

Us Trade Policy And Tariff Strategy

The US government has used tariffs as its main trade policy tool under the reaffirmed "America First" trade agenda. Tariffs, according to the administration, are used to safeguard national security, correct trade imbalances, and protect domestic industries. In addition to raising trade tensions, these actions may ultimately raise prices for US consumers and businesses.

Prices On Essential Industries

President Trump changed the existing Section 232 tariff framework for those actions when he announced the extension of current tariffs on steel, aluminum, and derivative articles under Section 232 of the Trade Expansion Act of 1962 (19 USC § 1862). All previous exemptions and exclusions were terminated on March 12 and an additional 25% tariff was applied to identified steel, aluminum, and derivatives.
A new Section 232 investigation into copper imports in all forms was also announced by the administration. By November 22, the US Department of Commerce should release a report. Following that, any threats to US national security posed by copper imports could be addressed. Critical industries like semiconductors, pharmaceuticals, and automobiles have also received attention. Using a Section 232 report created during the first Trump administration, 25% tariffs on cars and some auto parts were announced on March 26 and went into effect on April 3. As early as April 2, 2025, the administration has hinted that more tariffs might be applied to these industries. Because these industries are interdependent, these tariffs have the potential to seriously disrupt global supply chains. Industry concern has been raised by the proposed tariffs on Taiwanese semiconductors in particular, with some speculating that they could be increased to 100%, which could result in significant cost increases for US technology manufacturers. Businesses in these industries should look into ways to lessen the effects of these tariffs, such as diversifying their supply chains, thinking about options for tariff engineering, and defining risk allocation in purchase and sale agreements.

Over The Horizon

Important dates and changes in policy are looming large in the changing trade landscape. The president will receive reports required by the America First Trade Policy Memorandum by April 1, 2025, which could further impact trade policies and retaliatory measures. Depending on these results, the administration has also hinted at the prospect of raising tariffs on specific industries. Based on these dates, businesses should brace for ongoing volatility and stay vigilant for any changes in US trade policy.

Retaliatory Measures And International Responses

In order to safeguard their economic interests, a number of nations have swiftly implemented countermeasures in response to the US tariff measures. An already unstable global economic climate has been made more complex by these retaliatory actions, which have increased trade tensions.

In reaction to the US tariffs, China has adopted a tough posture. Under Article 3 of China's Foreign Trade Law, the Chinese government has levied tariffs on US coal, crude oil, liquefied natural gas, and agricultural equipment. These 10%–15% tariffs are aimed at important US export sectors. Furthermore, China has imposed export restrictions on vital minerals that are necessary for high-tech industries, including tungsten, tellurium, molybdenum, bismuth, and indium.

China has placed a number of US corporations on its Unreliable Entity List, which limits their capacity to conduct business in the nation, as another indication of the rising tensions. Beijing has also requested consultations with the World Trade Organization (WTO) Dispute Settlement Body, but given the US position on national security exemptions, it is unclear how effective this strategy will be.

Targeting politically significant US exports, Canada has announced a CAD $30 billion (roughly USD $21 billion) tranche of retaliatory tariffs under Canada's Customs Tariff Act (RSC, 1985, c. 41 (3rd Supp.)). Goods from important Republican congressional districts, such as Ohio, Michigan, and Florida, will be the target of these tariffs, Canadian officials have made clear. A joint US-Canada task force to combat organized crime, a "24/7 Eyes" surveillance program at the border, and a CAD $1.3 billion (roughly USD $909 million) investment in border security are just a few of the security measures that Canada has put in place. Furthermore, by designating drug cartels as terrorist organizations and appointing a "Fentanyl Czar" to handle opined-related issues, Canada has adopted the US strategy.

Mexico's retaliation has become more accommodating. Mexico has chosen to use a "carousel" system under its Foreign Trade Law, which cycles various products on and off the tariff list at regular intervals, as an alternative to enforcing a blanket tariff. Because they are unable to depend on consistent tariff schedules, this strategy makes it more difficult for US companies to adjust. Mexico has also threatened to impose non-tariff barriers, which would make trade relations even more difficult.

In an effort to allay US worries about drug trafficking and illegal immigration, Mexico has also agreed to place 10,000 more security forces along its northern border. The European Union, meanwhile, has issued a warning that it might use the Anti-Coercion Instrument (ACI), a potent trade policy tool that enables the EU to retaliate against economic pressure from outside the country by imposing tariffs and restrictions on investment in US companies. Additionally, European policymakers are using ongoing negotiations to pressure the United States to lower industrial goods tariffs and increase liquefied natural gas imports. As more aluminum imports diverge to the EU in order to avoid US tariffs, the EU also promises to implement a tariff tool to protect steel from overcapacity.

Applicable Aspects For Companies

In light of the changing nature of trade, companies should take the following proactive measures to reduce the risk that comes with this new tariff regime.

Supply Chain Diversification: Evaluate alternate supply sources, examine HTS classifications, and identify the nation of origin for all inputs and final products.

Contractual Adjustments: Renew contracts to reflect cost increases associated with tariffs and make sure pricing plans are adaptable to abrupt changes in trade policy.

Internal Preparedness: Create backup plans that include coordinating with outside trade advisors and modifying internal policies in response to tariff changes.

Trade Compliance Strategies: Assess the availability of duty-saving techniques to lower exposure, such as tariff engineering, first sale valuation, and the use of foreign trade zones.

Risk management: To estimate the operational and financial effects of new tariffs and modify sourcing and investment plans appropriately, put in place a risk assessment framework.

Customer Communication: Be ready to notify clients of price hikes and possible delays, making sure that cost adjustments linked to the supply chain are transparent.

Regulatory Monitoring: Monitor judicial and legislative developments, such as potential WTO decisions and domestic legal challenges, that may have an impact on the legality of tariff measures.

BACKGROUND

Since the new US administration took office on January 20, 2025, international trade has been, to put it mildly, disruptive. "Tariffs" are a key tool in the President's "America First Trade Policy," which aims to revitalize manufacturing and investment in the United States.

Citing national security concerns, President Trump imposed import tariffs on steel and aluminum under Section 232 of the Trade Expansion Act, 1962, even during his first term (2018–2021). In accordance with Section 301 of the Trade Act of 1974, he also levied tariffs on Chinese imports due to irrational practices pertaining to intellectual property rights (IPR) in China. Nonetheless, during Trump's second term, the use of tariffs as a tool of US policy has multiplied in both frequency and scope. The President's second term has seen the imposition of 20% tariffs on all imports from China and Hong Kong; a 25% tariff on automobiles (including passenger cars and light trucks) and some auto parts, with some exemptions granted to imports from Canada and Mexico; and an increase in tariffs of up to 25% on aluminum, along with the removal of all prior exemptions and an expansive definition of steel and aluminum derivatives covered within the scope of tariffs.

The eagerly anticipated reciprocal tariffs under Executive Order 14257 of April 2, 2025 (the "EO") are the most recent addition. With its trading partners, the EO seeks to address the United States' growing goods trade deficit, which is expected to reach approximately $1.2 trillion in 2024. Based on the assumption that non-reciprocal trade practices by those trading partners are the main cause of the trade deficit and that prompt action is required, the EO targets nations with significant trade deficits with the US.

It is asserted that the reciprocal tariffs are a reflection of the trade restrictions placed on US exports by trading partners. Wide-ranging and impacting almost all US trading partners, the EO's tariff measures have a big impact on the dynamics of international trade.

LEGAL FOUNDATION

In order to take action under the International Emergency Economic Powers Act, 1977 (the "IEEPA"), the US president has used his authority to declare a "national emergency." The EO views the US trade deficit with its trading partners as a national emergency and a national security threat that is eroding American manufacturing, increasing the country's reliance on imports, and compromising its industrial and military capabilities.

TARIFF FRAMEWORK:

The EO imposes a base 10% tariff on all imports into the US from all nations as of April 5, 2025. The 10% tariffs will be replaced with country-specific reciprocal tariffs ranging from 11% to 50% on the 57 countries listed in Annex-1, with the rates listed against each country, starting on April 9, 2025. The following table lists the rates that apply to India and a few other important Asian nations:

SN	ASIAN COUNTRIES/ REGION	TARIFF RATE
1	China	34
2	European Union	20
3	Taiwan	32
4	Vietnam	46
5	Japan	24
6	India	26
7	South korea	25
8	Brazil	10

[1] The current EO's tariffs on China will also be applied to goods from Hong Kong and the Macau Special Administrative Region in order to lower the risk of transshipment and evasion.
Products from the Macau Special Administrative Region and Hong Kong are included. In addition to Sec 301 tariffs and standard MFN custom duties, products from China and Hong Kong already face 20% additional IEPPA tariffs that were imposed under earlier EOs, totaling a 54% tariff rate for China.
The original version of Annex-1 called for 27%, but it was later changed to 26%.

TRANSITIONAL PROVISIONS

Goods loaded onto a vessel at the port of loading and in transit on the final mode of transit before 12:01 am EST on April 5, 2025, and April 9, 2025, respectively, are exempt from the duties,

EXEMPTED GOODS

1. Postal communications, specific donations like food, clothing, and medications, specific information or informational materials like publications, movies, and posters, and specific personal use items like luggage are all covered by 50 U.S.C. 1702(b).
2. Products already subject to Section 232 tariffs include automobiles and specific automotive parts and articles that may be subject to future actions under Section 232 of the Trade Expansion Act of 1962, as well as steel and aluminum products and their derivatives.
3. Products like copper, pharmaceuticals, semiconductors, lumber articles, energy and energy products, and some inorganic and organic chemicals are among the other items mentioned in Annex II.
4. articles from nations under sanctions, such as those from North Korea, Cuba, Belarus, and Russia. These nations already impose high tariffs on goods.
5. Products that comply with the United States-Mexico-Canada Agreement's (USMCA) rules of origin are those that are imported into the US from Canada and Mexico.
6. Non-USMCA compliant goods: Under the previous EOs, goods imported into the US from Canada and Mexico that do not comply with the USMCA's rules of origin are still subject to 25% tariffs, with the exception of energy or energy resources and potash imported from Canada or Mexico, which are subject to 10% tariffs.

DUTY ONLY ON NON-US CONTENT

The duty applies only to the non-U.S. content of a subject article, provided at least 20 percent of the value of the subject article is US originating. The table below illustrates by taking India’s 26% duty rate as an example:

Value of Article imported into US	US content	Non-US content	Duty rate for India	Duty amount	Effective duty rate for India
100	15	85	26%	26 (26%*100)	26.0%
100	20	80	26%	20.8 (26%*80)	20.8%
100	50	50	26%	13 (26%*50)	13.0%

As can be seen, with the increase of US content, the effective tariff rate appliable to imports of goods into the US reduces. The 'US content' is the value of an article attributable to the components produced entirely, or substantially transformed in, the US.

DUTY DRAWBACK:

The current EO does not specifically allow for the dis-allowance of duty drawbacks of reciprocal tariffs, which implies that drawbacks of reciprocal duties paid under the EO are available, in contrast to earlier EOs where the drawback of additional duties is prohibited (such as the 20% IEEPA tariffs on Chinese and Hong Kong products). For US importers who import for manufacturing and reexport, this could lessen the load.

CALCULATION OF RECIPROCAL TARIFF:

The value of the trade deficit between the US and the relevant nation is divided by the value of imports into the US from that nation to determine the reciprocal tariffs for that nation. Both the price elasticity of import demand and the price elasticity of import prices in relation to tariffs are taken into account in the computation. Lastly, the "discounted rate" for a nation is determined by dividing the computed rate by two. Since the underlying assumption is that persistent trade deficits are caused by a combination of tariff and non-tariff barriers by the trading partner country that prevent trade from balancing, the calculation methodology is set up so that a country with a larger trade deficit with the US experiences a higher rate of reciprocal tariffs.

OPPORTUNITIES AND OBSTACLES FACING INDIAN BUSINESSES:

A Bilateral Trade Agreement (BIT) between the US and India is presently being negotiated. The US may argue that it has the upper hand in the current negotiations because reciprocal tariffs are in place, but the Indian government must be proactive and skilled in order to negotiate a deal with the US that benefits both parties. It gives the Indian industry a chance to discuss desired concessions and the potential removal or reduction of reciprocal tariffs with the Indian government. The following actions should also be taken by Indian companies, especially exporters, in order to overcome the obstacles and take advantage of the opportunities brought about by the shifting global trade order.

Determine Tariff Arbitrages: Examine the effects of tariffs on particular industries, commodities, or tariff lines to determine potential growth opportunities in comparison to other rival countries. It is evident that many Asian nations that compete with India have higher reciprocal tariffs.

Re-calibrating the supply chains: Cost-benefit analysis of sourcing inputs from the US combined with tariff mapping of supply chains for inputs taking into account current concessions offered under India's Free Trade Agreements (or "FTAs") with partner countries/blocks.

Readjusting pricing strategies to maximize opportunities and reduce the possibility of unfair pricing resulting in dumping investigations is an example of appropriate pricing strategies. In order to lessen the duty impact of new US tariffs, businesses can also benefit from the "first sale" principle, which the US uses to determine the customs value for assessment.

Classification and origin checks: Businesses must reevaluate customs compliance to reap the full benefits and prevent further penalties and fines, as tariff rates and exemptions are dependent on accurate tariff classification and fulfilling country-specific origin requirements, especially for products manufactured at different stages in multiple jurisdictions.

CONCLUSION

India must respond to the shifting global trade order in a variety of ways, striking a balance between targeted industrial assistance, economic diversification, and diplomatic discussions. India can lessen the immediate effects of the tariffs and become more resilient to trade challenges by taking a proactive and flexible approach. The US tariff strategy is changing the dynamics of international trade. Businesses and trading partners are keeping a close eye on possible legal challenges as a result of the US administration's growing reliance on executive authority to impose tariffs under national security justifications. Businesses should be ready for an uncertain regulatory environment as courts consider the extent of executive trade authority. Businesses will be in the best position to handle the complexities of this changing trade environment if they remain informed, diversify their supply chains, and proactively adapt to policy changes.

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