Commentary
Volume 12:04, 2024

Journal of Global Economics

ISSN: 2375-4389 **Open Access**

The Impact of Trade Wars on Emerging Markets

Valentin Matan*
Department of Management, Economics and Industrial Engineering, Politecnico di Milano, Via Lambruschini 4b, 20156 Milano, Italy

Introduction

Trade wars, characterized by the imposition of tariffs, import restrictions, and retaliatory measures between countries, have far-reaching consequences on the global economy. Emerging markets, which often rely on trade to fuel their economic growth, are particularly vulnerable to these conflicts. The rise in protectionist policies, particularly between major economies like the United States and China, has disrupted global supply chains, increased uncertainty, and shifted trade patterns. This has led to significant challenges for emerging markets, including currency volatility, reduced export demand, and altered investment flows [1].

Description

Emerging markets, often characterized by their rapid economic growth, expanding industrial base, and increasing integration into the global economy, are particularly susceptible to the ramifications of trade wars. These economies are typically in a transitional phase, moving from reliance on agriculture or raw material extraction toward more diversified industrial and

Service sectors. As they strive to climb the value chain, international trade plays a pivotal role in driving their economic development. However, the onset of trade wars, especially between major global economies like the United States and China, poses significant challenges to these markets, disrupting the delicate balance of growth, investment, and development that they rely upon. One of the most immediate effects of trade wars on emerging markets is the disruption of export demand. Many of these economies are heavily dependent on exporting goods, whether raw materials, intermediate goods, or finished products, to larger, more developed markets. For instance, countries like Brazil and Russia are major exporters of raw materials, while nations such as Mexico, Vietnam, and Malaysia export a range of manufactured goods and components that are critical to global supply chains [2].

When trade wars lead to the imposition of tariffs, these goods become more expensive in the target markets, reducing demand and ultimately impacting the revenue of exporting countries. This reduction in export demand can slow down economic growth, as these countries often lack the diversified economic base to quickly shift their output to other sectors or markets. The disruption of global supply chains is another significant impact of trade wars on emerging markets. Many emerging economies have become integral links in these complex supply networks, providing essential components, raw materials, or finished products that are assembled and sold across the world. For example, Southeast Asian nations like Thailand and Indonesia are crucial suppliers of electronic components and automotive parts, while countries such as India and Bangladesh play key roles in the textile and apparel industries. Trade wars can force companies in developed economies to re-evaluate their supply chains, often leading to a re-shoring of production or a shift to alternative suppliers in other regions. This reconfiguration can increase production costs and logistical challenges for businesses operating in emerging markets, leading to decreased competitiveness and potential job losses in these industries [3].

Investment uncertainty is another critical consequence of trade wars for emerging markets. These economies typically rely on Foreign Direct Investment (FDI) to fund infrastructure projects, industrial expansion, and the development of new industries. Trade conflicts create a climate of uncertainty and risk, leading investors to become more cautious and potentially diverting capital flows away from these markets. The reduced investment can slow down the pace of economic development, as infrastructure projects may be delayed, and the growth of key industries may be stunted. Furthermore, the withdrawal or reduction of foreign investment can have a ripple effect on local economies, leading to decreased employment opportunities, lower wages, and reduced consumer spending, all of which contribute to economic instability. Currency volatility is another significant challenge that emerging markets face as a result of trade wars. The economic uncertainty caused by these conflicts often leads to fluctuations in currency values, which can be particularly destabilizing for emerging economies that do not have strong or resilient financial systems. Devaluations in local currencies can increase the cost of imports, leading to higher inflation and reducing the purchasing power of consumers. This, in turn, can affect domestic consumption, which is a key driver of growth in many emerging markets. Moreover, currency volatility can also impact the ability of these countries to service their external debt, which is often denominated in foreign currencies, further exacerbating economic difficulties [4].

The policy response of emerging markets to trade wars is another important aspect to consider. In an effort to mitigate the negative impacts, governments may resort to implementing their own tariffs or trade restrictions, which can lead to a tit-for-tat escalation and further strain international relations. Alternatively, they might seek to diversify their trade partnerships looking to other regions or forming new trade agreements to offset the losses from traditional markets. However, these policy shifts can create additional economic instability, as businesses and consumers must adjust to new market conditions, often with little time to prepare. Furthermore, the shift in trade alliances may not be sufficient to fully compensate for the losses incurred due to the disruption of established trade relationships, leading to longer-term economic challenges. Trade wars also force emerging markets to reassess their economic strategies and long-term development plans. The reliance on export-led growth models may come under scrutiny, prompting these countries to explore other avenues for economic expansion, such as increasing domestic consumption or investing in higher-value industries like technology and services. However, these shifts require time, resources, and a stable economic environment, all of which may be in short supply during periods of heightened trade tensions. Additionally, the potential for trade wars to lead to broader geopolitical conflicts or economic fragmentation increases the risks for emerging markets, making it more difficult for them to navigate an already complex global landscape [5].

Conclusion

The impact of trade wars on emerging markets is both profound and multifaceted, with far-reaching implications for their economic stability, growth prospects, and long-term development. The immediate disruptions to export demand and global supply chains can lead to significant economic

***Address for Correspondence:** Valentin Matan, Department of Management, Economics and Industrial Engineering, Politecnico di Milano, Via Lambruschini 4b, 20156 Milano, Italy; E-mail: valentine@matan.it*

Received: 28 June, 2024, Manuscript No. economics-24-145478; **Editor Assigned:** 01 July, 2024, Pre QC No. P-145478; **Reviewed:** 15 July, 2024, QC No. Q-145478; **Revised:** 23 July, 2024, Manuscript No. R-145478; **Published:** 30 July, 2024, DOI: 10.37421/2375-4389.2024.12.471

slowdowns, as these markets struggle to adapt to the sudden changes in trade patterns. The resulting investment uncertainty and currency volatility further compound these challenges, creating a precarious environment for economic development. The policy responses available to emerging markets are often limited, and while efforts to diversify trade relationships or shift economic strategies may offer some relief, they are unlikely to fully mitigate the negative impacts of trade wars. In the broader context, trade wars highlight the vulnerabilities of emerging markets in the global economy. These economies are often at the mercy of decisions made by larger, more powerful countries, with limited ability to influence or respond effectively to global economic trends. This underscores the importance of international cooperation and stable trade relationships for the sustained growth and development of emerging markets. As the global economy becomes increasingly interconnected, the ripple effects of trade wars are felt far and wide, and emerging markets, in particular, bear the brunt of these disruptions.

Ultimately, the long-term resilience of emerging markets will depend on their ability to adapt to the changing global landscape, diversify their economic bases, and develop robust strategies for mitigating external shocks. This may require a rethinking of economic policies, greater investment in domestic industries, and a concerted effort to build more resilient and diversified economies. In doing so, emerging markets can better position themselves to withstand the challenges posed by trade wars and other global economic disruptions, ensuring sustainable growth and development in an increasingly uncertain world.

Acknowledgement

None.

Conflict of Interest

None

References

1. Zhang, Dayong, Min Hu and Qiang Ji. "Financial markets under the global pandemic of COVID-19." *Fin Res Lett* 36 (2020): 101528.
2. Hussin, Mutia Hariati and Muhammad Maulana Iberahim. "Indonesia's Interest in Winning Biodiesel Disputes in the World Trade Organization." *Jurnal Hubungan Internasional* 7 (2019).
3. Arouri, Mohamed El Hedi, Amine Lahiani and Duc Khuong Nguyen. "World gold prices and stock returns in China: Insights for hedging and diversification strategies." *Econ Model* 44 (2015): 273-282.
4. Basher, Syed Abul and Perry Sadorsky. "Hedging emerging market stock prices with oil, gold, VIX, and bonds: A comparison between DCC, ADCC and GO-Garch." *Energy Econ* 54 (2016): 235-247.
5. Urom, Christian, Gideon Ndubuisi, Gaye Del Lo, and Denis Yuni. "Global commodity and equity markets spillovers to Africa during the COVID-19 pandemic." *Emerg Mar Rev* 55 (2023): 100948.

How to cite this article: Matan, Valentine. "The Impact of Trade Wars on Emerging Markets." *J Glob Econ* 12 (2024): 471.