

ONE WORLD OUTLOOK

WEAPONIZING COMMERCE

The Mirage of a Coercive
Trade Policy

September
2026



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EXECUTIVE SUMMARY

Historically positioned as shields for domestic industry and weapons of geopolitical coercion, tariffs remain one of the most heavily utilized, yet economically contentious, tools in international statecraft. This report investigates the mechanics, historical precedents, and contemporary applications of punitive tariffs, centered squarely on the recent US legislation targeting nations—specifically India and China—that purchase Russian energy.

Through an analysis spanning from the mercantilist eras of early modern Europe to the Lindsey O. Graham Sanctioning Russia and Iran Act of 2026, a clear historical and economic pattern emerges. While tariffs often yield short-term political dividends—temporarily shielding local industries or projecting geopolitical resolve—their long-term effects consistently manifest as severe economic

friction, deadweight loss, retaliatory trade wars, and diplomatic isolation.

The application of up to 100% tariffs on Indian and Chinese goods to coerce energy market compliance perfectly encapsulates this dynamic. By attempting to enforce secondary sanctions on sovereign nations pursuing their own energy security (India relies on imports for over 88% of its crude oil requirements), the United States risks accelerating the de-dollarization of global energy markets, eroding its own diplomatic soft power, and forcing domestic consumers to absorb the cost of supply chain disruptions. The empirical and historical evidence overwhelmingly confirms the core hypothesis: in the long term, unilateral and punitive tariffs inflict greater economic and diplomatic harm on the imposing nation than the strategic benefits they supposedly secure.



01

BEHIND THE BARRIER

THE MECHANICS, INTENT, AND PROTECTIONIST FALLACY

At their core, tariffs are taxes levied by a sovereign government on imported goods and services. In the framework of international trade economics, these levies generally take two primary structural forms: Ad Valorem Tariffs, which are assessed as a fixed percentage of the imported product's total market value, and Specific Tariffs, which impose a fixed USD fee applied per physical unit of the import, regardless of the item's fluctuating market price.

Governments traditionally deploy tariff regimes to achieve three primary objectives. First, historically and often in developing economies, they serve as a straightforward mechanism for generating federal treasury revenue. Second, they act as a protectionist shield for infant or strategically critical domestic industries, artificially raising the price floor of foreign goods so that local producers can compete. Third, as has become increasingly prevalent in modern geopolitics, tariffs function as a coercive diplomatic lever designed to punish rival nations, enforce secondary sanctions, or compel behavioral changes in global markets

THE ILLUSION OF SHORT-TERM GAINS

In the short term, tariffs possess undeniable political allure. By rendering imported goods artificially expensive, they immediately grant domestic products a localized competitive edge. Political leaders frequently champion these measures as vital defenses of national sovereignty, domestic labor markets, and strategic manufacturing bases.

When a government enacts an aggressive tariff policy, the immediate optics often suggest a victory for state coffers and domestic factories.

For instance, recent escalations in US trade policy—which temporarily drove the nation’s average effective tariff rate from 2.3% in early 2024 to severe heights before settling at 6.7% by mid-2026—initially generated approximately \$298.5 billion in gross customs revenue. However, viewing this temporary influx of capital as a net national benefit commits a fundamental error in macroeconomic accounting, as it deliberately ignores the corresponding, hidden burdens placed directly on the domestic market.

THE REALITY OF LONG-TERM ECONOMIC AND DIPLOMATIC HARM

The core hypothesis of this report is rooted in a consistent empirical reality: while tariffs may offer brief political utility or localized short-term shelter, they consistently inflict far greater long-term economic damage and diplomatic harm on the nation imposing them.

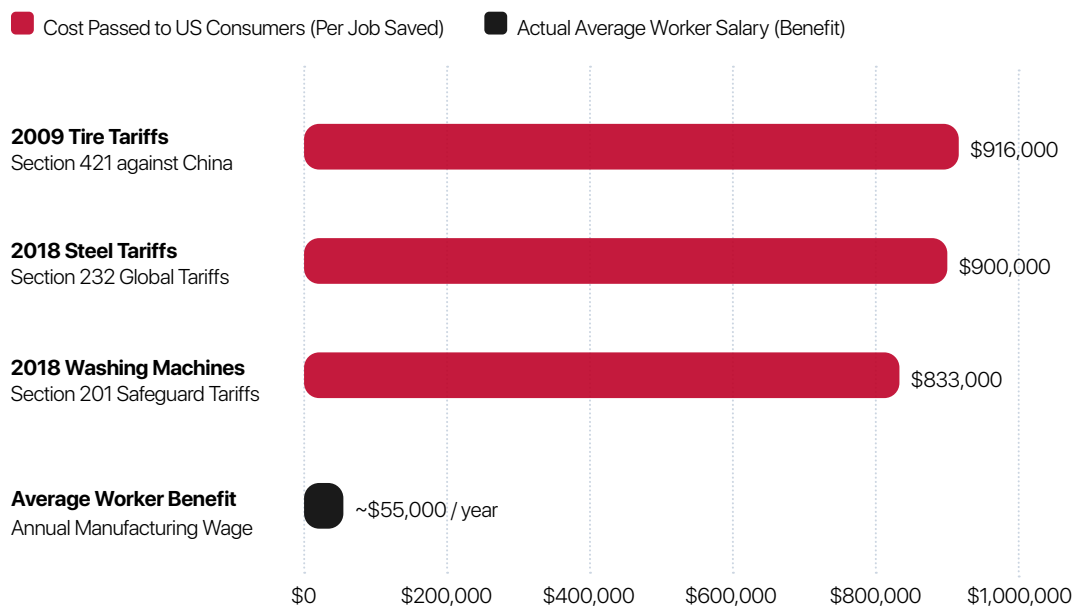
Because tariffs inherently distort the free market equilibrium, they trigger a cascade of systemic economic frictions. When prohibitive tariffs—such as 40.5% effective rates on imported steel and aluminum—are applied, they artificially inflate input costs for every domestic industry reliant on

those materials, from automotive manufacturing to infrastructure development. This intervention creates severe deadweight loss—a quantifiable loss of total economic efficiency where the optimal quantity of a good is no longer produced or consumed. Furthermore, because foreign exporters rarely absorb the full cost of the duty, the tariff functionally acts as a regressive consumption tax passed directly onto the general public, directly driving up core inflation and reducing consumer purchasing power.

THE PROTECTIONIST FALLACY

Consumer Cost per Job Saved

Comparing the hidden consumer tax of US tariffs against actual worker compensation



The Inefficiency Gap

For every \$1 of wages saved, consumers paid up to \$16 in artificially inflated prices.

Source Data: Peterson Institute for International Economics (PIIE) & University of Chicago (Becker Friedman Institute).

Beyond the domestic economic distortions, tariffs fracture established supply chains and predictably invite asymmetrical retaliation. Targeted nations inevitably respond with their own non-tariff barriers, currency devaluations, or reciprocal duties, locking both economies into a destructive, inflationary

cycle of trade wars. Ultimately, the persistent weaponization of trade alienates strategic allies, accelerates the attrition of diplomatic soft power, and isolates the imposing nation from the very global markets required for sustained, long-term economic growth.

02

A HISTORICAL ANALYSIS OF TRADE BARRIERS ACROSS MILLENNIA



ANTIQUITY AND THE MERCANTILIST ERA

The historical record provides a wealth of empirical evidence confirming the core hypothesis: while tariffs may offer an illusion of temporary revenue generation or localized economic defense, they invariably inflict compounding, long-term economic and diplomatic damage. The imposition of trade levies is as old as organized commerce itself, and the fundamental economic distortions they create have remained remarkably consistent across millennia.

In the Bronze Age (spanning the 3rd and 2nd millennium BCE), merchant records unearthed from the Old Assyrian trading colony at Kanesh in Anatolia reveal that local rulers routinely imposed systemic levies on incoming caravans transporting metals and textiles. While these early Assyrian merchants absorbed these levies simply as an unavoidable cost of doing business, it established a precedent of sovereign rent-seeking that fundamentally altered the pricing dynamics of cross-border trade. By the classical era, the implementation of tariffs had become highly stratified. In ancient Greece, Athens levied a baseline 2% duty at the port of Piraeus on vital imports such as grain to finance municipal operations. The Roman Empire expanded on this dual mandate of revenue generation and sumptuary control. Imperial administrators utilized a two-tiered system, taxing internal provincial trade at a highly liquid and manageable rate of 1% to 5%, while slapping external luxury goods imported from Asia—such as silk and spices—with prohibitive tariffs ranging from 12% to 25%. While this maximized state revenue by capturing consumer surplus from highly inelastic luxury markets, it simultaneously distorted the optimal flow of capital

and rendered imported commodities exorbitantly expensive for the broader Roman populace.

This primitive taxation model eventually mutated into the heavily protectionist dogma of Mercantilism, which dominated early modern Europe from the 16th to the 18th centuries. Operating under the macroeconomic fallacy that global wealth was a zero-sum game measured strictly by a nation's accumulation of precious metals, European powers structurally weaponized tariffs. Tudor England, for instance, levied steep export duties on domestic wool—a cornerstone of the English medieval economy—to artificially force the domestic production of finished textiles. Similarly, Bourbon France, directed by Finance Minister Jean-Baptiste Colbert, embraced strict import substitution, utilizing steep tariff barriers to block foreign goods and hoard domestic gold.

While mercantilist policies occasionally enriched state treasuries in the short term, they generated staggering economic inefficiencies. By artificially inflating domestic prices and shielding local producers from foreign competition, mercantilism suppressed innovation and provoked aggressive retaliatory trade wars, notably between the English, French, and Dutch. In 1776, Adam Smith's seminal work, *The Wealth of Nations*, systematically dismantled mercantilist logic. Smith, and later David Ricardo, proved that restrictive tariffs destroy comparative advantage. By forcing a nation to produce goods it is ill-equipped to manufacture efficiently, tariffs create massive deadweight loss, actively lowering the aggregate standard of living for all participating nations.

THE AMERICAN PROTECTIONIST PENDULUM

From Federal Revenue to Sectional Fracture

The economic history of the United States serves as a masterclass in the dangers of leveraging tariffs for domestic political utility. In its infancy, the US federal government, lacking an income tax apparatus, relied almost entirely on customs duties for operational revenue. The Tariff Act of 1789 implemented modest duties of 5% to 15% ad valorem. However, this revenue-focused model rapidly degenerated into a tool for regional protectionism, guided by the “infant industry” argument which posited that nascent domestic manufacturing required temporary shielding from dominant European competitors.

The political weaponization of these levies culminated in the Tariff of 1828, infamously dubbed the “Tariff of Abominations.” Congress engineered the legislation to protect Northern industrial manufacturers from British competition, pushing average rates on dutiable goods to nearly 62%. The economic mechanics of this tariff were utterly devastating to the agrarian South, which relied heavily on exporting raw cotton to Europe and importing finished manufactured goods.

The 1828 tariff highlights a critical macroeconomic reality: an import tariff functions implicitly as a tax on exports. Because the US heavily taxed British manufactured goods, British textile mills possessed fewer US dollars with which to purchase Southern

cotton. Furthermore, European nations immediately retaliated against American agricultural exports. The tariff artificially inflated the cost of living in the South while simultaneously collapsing their export revenues, concentrating wealth in the North at the severe expense of Southern capital formation. This massive, localized deadweight loss generated such extreme diplomatic and domestic alienation that it triggered the Nullification Crisis, bringing the United States to the brink of constitutional collapse.

Following the American Civil War, the US government entrenched itself in aggressive protectionism to shield domestic monopolies. Legislation such as the McKinley Tariff of 1890 and the Dingley Tariff of 1897 pushed average import duties above 50%. While proponents argued these policies fostered the rapid expansion of American heavy industry, the underlying economic reality was one of severe market distortion. Because demand for basic manufactured goods is relatively inelastic, the working class bore the brunt of these tariffs through artificially inflated consumer prices. Shielded from international competition, domestic monopolies formed, stifling innovation and extracting immense consumer surplus, sparking widespread domestic unrest over the rapidly rising cost of living.





THE SMOOT-HAWLEY CATASTROPHE AND THE INSTITUTIONALIZATION OF FREE TRADE

The ultimate historical proof of the long-term destructive nature of punitive tariffs is the Smoot-Hawley Tariff Act of 1930. Following the 1929 stock market crash, the US government panicked. Attempting to protect domestic farmers and industrial producers from global deflationary pressures, Congress enacted the legislation against the explicit petition of over 1,000 leading economists. The Act raised tariffs on more than 20,000 imported goods, pushing the effective rate on dutiable imports to record levels approaching 60%.

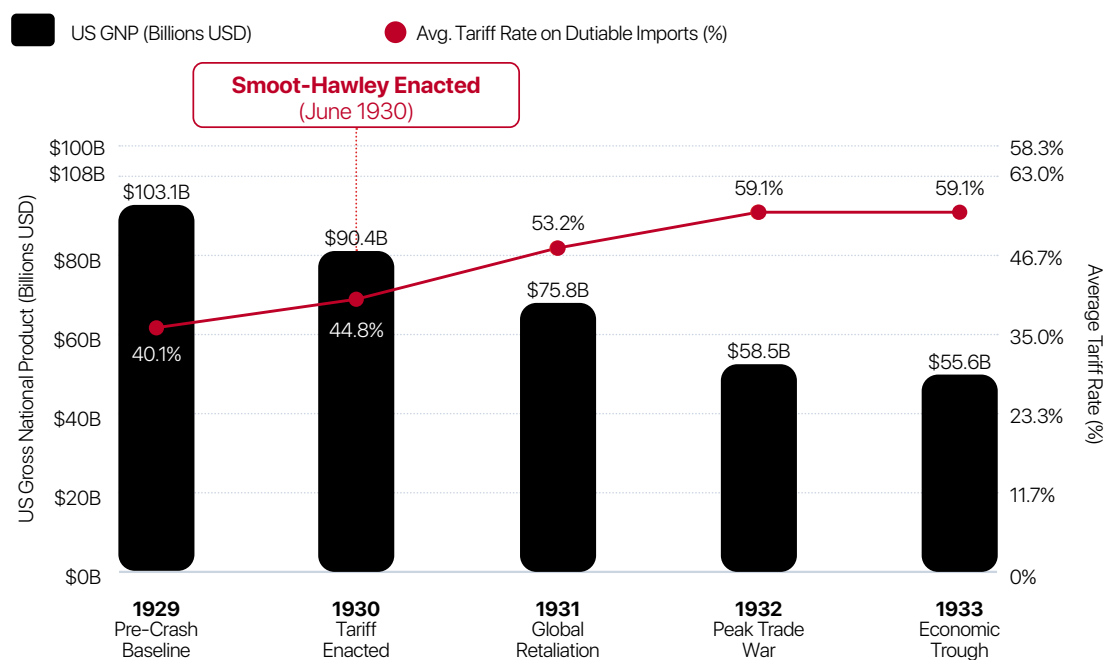
The short-term political intent was to shelter domestic industry; the long-term reality was rapid economic and diplomatic suicide. The imposition of Smoot-Hawley triggered immediate, asymmetrical retaliation from major global trading partners. Canada, America's largest trading partner, systematically targeted US agricultural

exports with retaliatory duties designed to inflict maximum political pain. France, Germany, and the British Empire followed suit, erecting impenetrable non-tariff barriers, quotas, and reciprocal duties.

The macroeconomic fallout was unprecedented. Smoot-Hawley effectively destroyed global aggregate demand. Shut out of foreign markets by retaliatory measures, US agricultural surpluses swelled domestically, triggering a collapse in crop prices that led to mass foreclosures. American exports plummeted from approximately \$5.2 billion in 1929 to a mere \$1.7 billion by 1933. Rather than protecting the domestic economy, the trade war caused global trade volume to contract by roughly 66%. The deadweight loss was incalculable, as supply chains fractured and industries reliant on imported inputs saw their operating margins evaporate.

THE MACROECONOMIC COST OF PROTECTIONISM (1929-1933)

US Gross National Product vs. Average Tariff Rate on Dutiable Imports (Smoot-Hawley Era)



Source: US Bureau of Economic Analysis & US International Trade Commission historical records.

Beyond the catastrophic economic friction, the diplomatic alienation was absolute. The tariff war dissolved international trust and fractured the global economy into isolated, hostile autarkic blocs, deeply accelerating the geopolitical instability that preempted World War II.

The devastation wrought by Smoot-Hawley forced a paradigm shift in global economic statecraft. Recognizing that unilateral protectionism guarantees long-term mutual impoverishment, the US passed the Reciprocal Trade Agreements Act

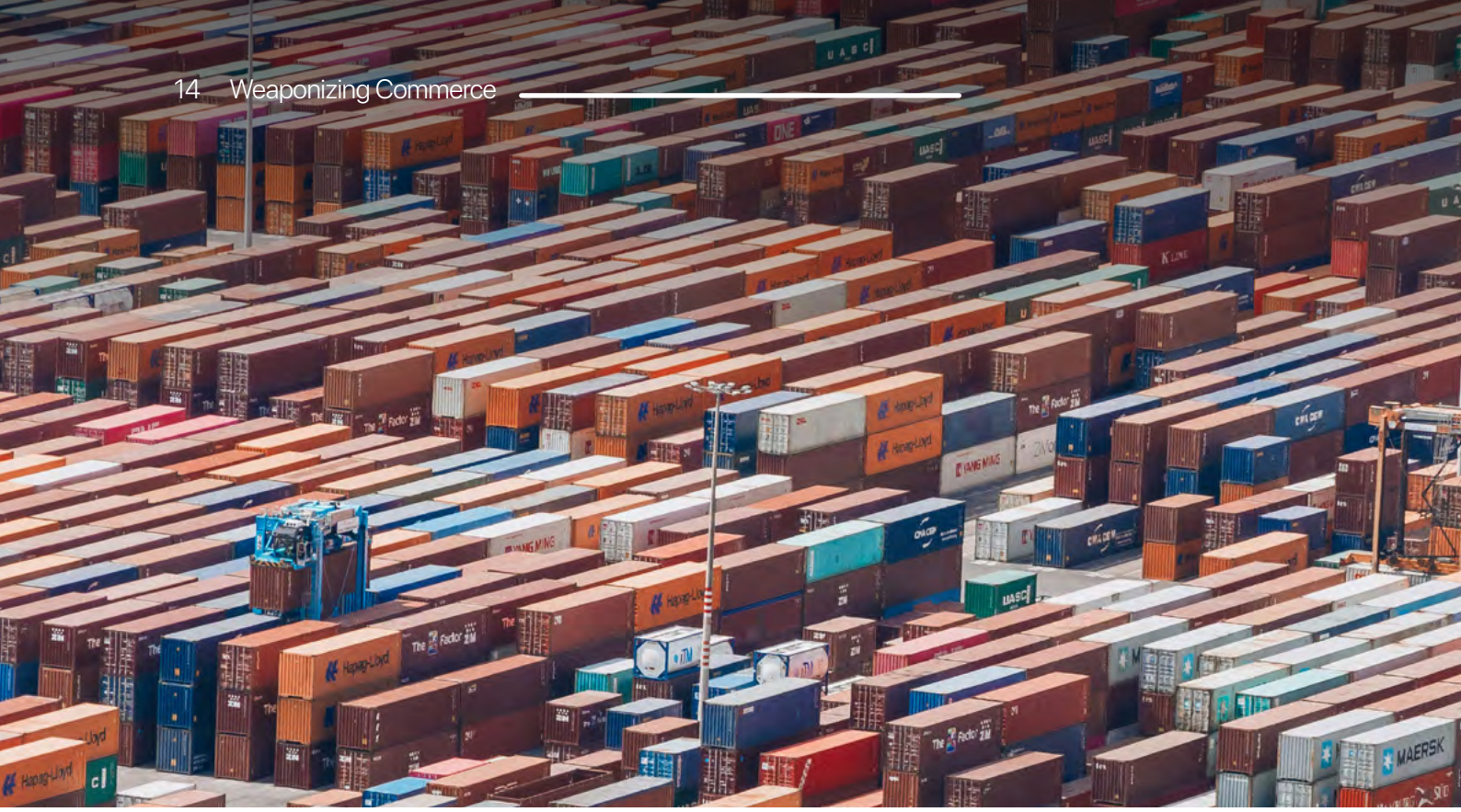
of 1934 to rapidly dismantle tariff walls. This pivot toward multilateralism culminated in the creation of the General Agreement on Tariffs and Trade (GATT) in 1947, and subsequently the modern World Trade Organization (WTO). The global institutional consensus formally recognized what the historical data proves: reciprocal free trade minimizes economic deadweight loss, whereas the weaponization of tariffs profoundly harms the imposing nation through inescapable cycles of inflation, retaliation, and diplomatic attrition.

03

THE CURRENT GEOPOLITICAL CONTEXT

TRADE AS A WEAPON





THE WEAPONIZATION OF THE USMCA

The historical temptation to weaponize trade has profoundly resurfaced in the modern era. However, the application of these levies has fundamentally transitioned from traditional economic protectionism—historically designed to shelter vulnerable domestic industries—to a blunt instrument of aggressive geopolitical coercion.

The ideological foundation for this shift solidified during the 2024 US presidential campaign. Promising to utilize trade barriers as a mechanism to encourage domestic onshoring and fund sweeping tax cuts, the administration pledged 60% tariffs on all Chinese imports and baseline global tariffs of 10% to 20%. This rhetoric swiftly transitioned into statutory reality. In November 2024, the administration explicitly linked trade access to border security, threatening 25% tariffs on Canada and Mexico to force compliance on immigration and fentanyl interdiction.

On February 1, 2025, this threat was formalized when the US executive branch announced sweeping tariffs on its closest strategic ally and heavily integrated trading partner, Canada. This included a 25% tariff on most imports and a 10% tariff specifically targeting Canadian energy products. Given that Canada exported over 70% of

its goods to the United States—with bilateral goods and services trade totaling an estimated \$872.3 billion in 2025—the disruption was catastrophic.

The economic and diplomatic outcomes perfectly illustrate the inherent failure of unilateral trade coercion. Rather than securing American industry or swiftly resolving border disputes, the 2025 tariffs severely fractured deeply intertwined United States–Mexico–Canada Agreement (USMCA) supply chains. Canada immediately retaliated, levying its own 25% tariffs on American products that rapidly expanded to cover approximately \$107 billion worth of US goods. The deadweight loss generated by this friction was immense. Interconnected industries, particularly automotive manufacturing, faced soaring input costs, while US agricultural exporters lost their primary market overnight. Yet, rather than recognizing the economic damage generated by the Canadian dispute, US policymakers internalized a dangerous fallacy: that access to the American consumer market is so indispensable that tariffs can be wielded unilaterally with impunity. This miscalculation set the stage for the unprecedented escalations of 2026.

THE 2026 CLIMAX

Secondary Sanctions and Russian Energy

Having normalized the use of universal tariffs against contiguous allies, US economic statecraft aggressively expanded its scope. In September 2026, the US House of Representatives passed the *Lindsey O. Graham Sanctioning Russia and Iran Act of 2026* by a decisive vote of 262–159. This legislation represents a radical and highly destabilizing evolution. While traditional trade barriers target primary adversaries, this bill operationalizes “secondary sanctions,” wielding the threat of catastrophic trade barriers against third-party sovereign nations to compel geopolitical compliance.

The statutory mechanics of the legislation are unprecedented in modern trade law. It grants the US President the executive authority to impose staggering tariffs of up to 100% on all imported goods from the top five global purchasers of

Russian oil and natural gas. This measure is explicitly aimed at the economic juggernauts of India and China. Furthermore, the legislation permits the imposition of ruinous tariffs of up to 500% directly on any remaining Russian goods entering the US, seeking to definitively sever the USD-denominated financial lifelines supporting the Russian military apparatus.

The political rhetoric accompanying the bill’s passage stripped away any veneer of diplomatic subtlety. US Senator Richard Blumenthal publicly admonished New Delhi and Beijing, warning that they “better clean up” their trade practices and “buy oil somewhere else.” This approach treats sovereign economic powers—nations with massive domestic energy requirements and complex independent foreign policies—as vassal states subject to Washington’s energy dictates.

THE MECHANICS OF COERCION AND LONG-TERM FALLOUT

The strategic objective of the 2026 legislation is to starve Russia of energy revenues by forcing its largest customers to instantly halt purchases. However, applying macroeconomic analysis to this context reveals a stark reality that strongly validates this report’s core hypothesis: these coercive tariffs will inflict far greater long-term economic and diplomatic harm on the United States than any temporary geopolitical leverage they secure.

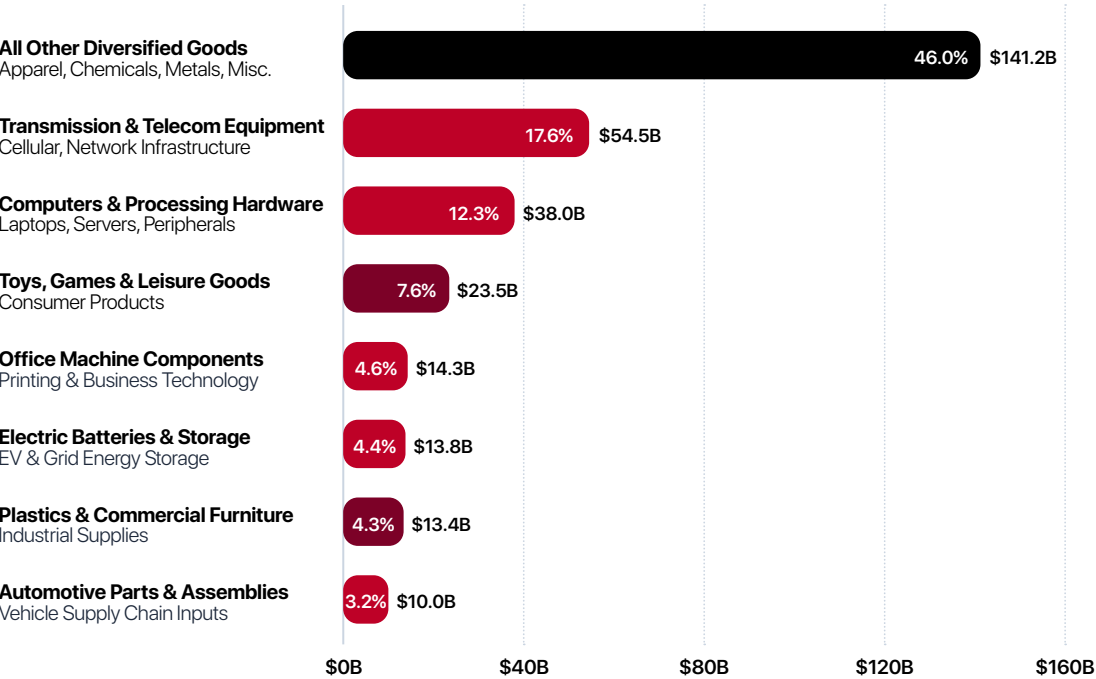
From an economic perspective, executing a 100% tariff on Chinese and Indian imports guarantees

a severe domestic inflationary shock. The US relies heavily on both nations for foundational supply chains, importing roughly \$426.9 billion in goods from China alone prior to these escalations. Because domestic demand for essential goods—from active pharmaceutical ingredients to heavy machinery—is highly inelastic in the short term, a 100% tariff cannot immediately onshore production to the US. Instead, it functions as a massive, regressive consumption tax passed directly onto American businesses and consumers.

US SUPPLY CHAIN EXPOSURE TO CHINESE IMPORTS (2025)

Total Goods Imported: \$308.7 Billion USD | High-Tech & Industrial Supply Chains Highlighted

- Critical Tech & Machinery (High Tariff Impact)
- Consumer Goods & Manufacturing Inputs
- All Other Goods



Source: US Census Bureau Foreign Trade Statistics & Office of the United States Trade Representative (USTR) 2025 Data.

Equally devastating is the diplomatic attrition. By weaponizing trade against India—a critical strategic partner required to balance power in the Indo-Pacific—the US rapidly erodes its diplomatic soft power. The persistent threat of 100% levies acts as a powerful catalyst for asymmetrical retaliation,

directly incentivizing the world’s largest emerging economies to aggressively accelerate the de-dollarization of global commodity markets. In the long term, nations will structurally decouple from the US financial system to insulate their domestic energy security from American economic coercion.

04

ECONOMIC IMPACT

HOW TARIFFS TRIGGER
INFLATION AND DESTROY
AGGREGATE WELFARE

THE MIRAGE OF SHORT-TERM GEOPOLITICAL LEVERAGE

The strategic objective underpinning the 2026 secondary sanctions is unambiguous: to completely sever Russian energy revenues by forcing its largest global purchasers to instantaneously halt their imports. Proponents of the *Lindsey O. Graham Sanctioning Russia and Iran Act* argue that the threat of a 100% tariff on Indian and Chinese goods provides the United States and its allies with an immediate geopolitical victory. By leveraging the sheer size of the American consumer market, the political assumption is that foreign nations will capitulate to US energy dictates rather than lose their export revenues.

However, applying rigorous macroeconomic analysis to this strategy reveals a devastating structural flaw. The long-term economic mechanics dictate a profound and unavoidable loss for the US economy and the broader global trading system. A tariff is not a penalty paid by the exporting nation; it is a border tax levied on the domestic importer. When a punitive 100% ad valorem duty is applied to Indian or Chinese imports, the primary victim is not the foreign government, but the American business relying on industrial inputs and the American consumer reliant on affordable finished goods.

THE MECHANICS OF DEADWEIGHT LOSS IN MACROECONOMIES

The most insidious and long-lasting economic damage inflicted by protectionist tariffs is the generation of “deadweight loss.” In macroeconomic theory, deadweight loss represents the permanent destruction of economic value—wealth that could have existed but was prevented from forming due to market distortion. When a tariff artificially inflates the price of imported goods, it causes both consumption distortion and production distortion.

In the context of the US-China and US-India trade corridors, the scale of this impending deadweight loss is staggering. Prior to the 2026 escalations, the US imported over \$427 billion in goods from China annually and approximately \$86.5 billion from India. A 100% tariff essentially doubles the landing cost of over half a trillion dollars of global supply.

First, this creates massive consumption distortion. Countless mutually beneficial transactions simply cease to occur. A US manufacturing firm that previously purchased specialized Indian machinery for \$500,000 is priced out when the

tariff pushes the cost to \$1,000,000. Because the transaction never takes place, the US government collects zero customs revenue, the business fails to upgrade its capital equipment, and aggregate economic output shrinks.

Second, it triggers severe production distortion. To avoid the 100% tariff, US demand theoretically shifts to domestic producers. However, if an American manufacturer requires a 100% price shield to compete with Chinese or Indian producers, that domestic firm is fundamentally inefficient. By artificially shielding these inefficient domestic companies from global competition, the tariff encourages the US economy to waste vital resources—labor, capital, and factory capacity—producing goods that could have been obtained far cheaper elsewhere. Those domestic resources are essentially trapped in sub-optimal industries rather than being deployed into sectors where the US actually holds a comparative advantage, structurally lowering the nation's total economic welfare.

INFLATIONARY PRESSURES AND THE REGRESSIVE CONSUMER TAX

Beyond the invisible destruction of deadweight loss, tariffs act as an immediate, regressive consumption tax that violently drives up core inflation. When Chinese electronics or Indian pharmaceuticals face a 100% duty, US importers do not simply absorb these catastrophic margin compressions. They pass the costs directly down the supply chain until they reach the end consumer.

The composition of imports from the targeted nations makes this inflationary shock unavoidable. India is a critical node in the US healthcare supply chain, exporting approximately \$10.97 billion in medical appliances and accessories, alongside heavily relied-upon generic pharmaceuticals and active pharmaceutical ingredients (APIs). A 100% tariff on these goods directly inflates the operational costs of American hospitals and the

out-of-pocket expenses for patients.

Similarly, China is the dominant supplier of foundational technology hardware. The US imports tens of billions of USD in transmission equipment, computers, and electric batteries from Chinese manufacturing hubs. Because domestic demand for these goods—ranging from hospital equipment to cellular network infrastructure—is highly inelastic in the short term, American consumers and businesses cannot simply stop buying them. Instead, they are forced to pay double. This massive extraction of capital from the private sector suppresses disposable income, acting as a broad-based tax hike that slows consumer spending, stifles retail growth, and forces the Federal Reserve into reactionary monetary tightening to combat the artificially induced inflation.

SYSTEMIC SUPPLY CHAIN DISRUPTION AND FRICTIONAL COSTS

The third pillar of economic self-harm caused by weaponized tariffs is systemic supply chain disruption. Global supply networks are highly optimized ecosystems built on predictability, precision logistics, and long-term contracting. The abrupt imposition of 100% tariffs on two of the world's largest manufacturing hubs forces American businesses into a chaotic and highly expensive logistical retreat.

US corporations are forced to rapidly re-evaluate and physically restructure their supply lines, seeking alternative producers in nations like Vietnam, Mexico, or domestic markets. However, this "friend-shoring" process takes years to execute and requires billions of USD in upfront capital expenditure. In the interim, businesses face severe supply bottlenecks. The capacity to

immediately replace \$3.86 billion in Indian organic chemicals or \$13.8 billion in Chinese electric batteries simply does not exist elsewhere in the global market.

As US firms scramble to secure limited alternative supplies, the sudden spike in localized demand drives up global commodity prices across the board. Furthermore, the logistical friction of breaking established shipping routes, navigating complex new customs compliance regimes, and absorbing higher maritime freight costs further degrades corporate profitability. Ultimately, the attempt to coerce sovereign nations via tariff threats creates an isolated, highly inflationary, and structurally less efficient domestic economy for the nation wielding the weapon.

05

DIPLOMATIC IMPACT

ALIENATION, RETALIATION, AND SOFT POWER ATTRITION

The diplomatic blowback generated by the weaponization of tariffs is frequently far more severe and structurally enduring than the immediate economic friction they cause. Diplomatic relations form the fundamental bedrock of international trade; they establish the legal, institutional, and normative frameworks that allow global capital and goods to flow safely. When the United States wields punitive tariffs against massive, sovereign economic powers like India and China over secondary geopolitical issues—such as their procurement of Russian energy—it inflicts profound, long-term diplomatic damage that deeply erodes its global standing.

At the core of this damage is the erosion of sovereign trust. In international relations, sovereign nations view secondary sanctions and coercive tariffs as direct infringements upon their political autonomy. For India, a nation that relies on imports for over 88% of its crude oil, energy security is viewed as an existential domestic priority, not a variable subject to Washington's dictates. By threatening to impose 100% tariffs on hundreds of billions of USD in bilateral trade unless these nations alter their foreign policy, the United States fundamentally alters the nature of its alliances. It transforms mutually beneficial economic partnerships into relationships defined by extortionate leverage, dismantling decades of carefully cultivated bilateral trust and pushing strategic partners to reevaluate their reliance on American goodwill.

ASYMMETRICAL RETALIATION AND NON-TARIFF BARRIERS

Just as the Smoot-Hawley Tariff Act of 1930 sparked a catastrophic global trade war, modern punitive tariffs predictably invite fierce retaliation. However, in the contemporary highly integrated global economy, this retaliation is rarely limited to reciprocal import duties. Targeted economic superpowers possess the capacity to execute highly disruptive, asymmetrical countermeasures that inflict disproportionate damage on the American economy.

If the US executes staggering tariffs on Chinese goods, Beijing has a vast arsenal of non-tariff barriers at its disposal. China currently commands a near-monopoly on the processing of critical rare earth elements and minerals—such as gallium,

germanium, and graphite—which are vital inputs for US defense contractors, semiconductor manufacturing, and green energy infrastructure. By restricting the export of these critical materials, targeted nations can severely cripple US industrial capacity. Furthermore, China holds roughly \$770 billion in US Treasury securities. A retaliatory, coordinated dumping of these assets would instantly spike US borrowing costs, exacerbating federal debt burdens. Simultaneously, these nations can summarily revoke market access for major US multinational corporations, instantly wiping out billions of USD in American corporate revenue and erasing decades of foreign direct investment.

THE CONSOLIDATION OF ALTERNATIVE BLOCS AND DE-DOLLARIZATION

Perhaps the most catastrophic long-term diplomatic consequence of weaponized tariffs is the accelerated formation of alternative, non-Western economic blocs. By persistently threatening major developing economies, the US inadvertently provides the ultimate catalyst for the consolidation of alliances such as BRICS+ (Brazil, Russia, India, China, South Africa, and emerging members).

This shift represents a fundamental threat to American diplomatic soft power and financial hegemony. If trading in US dollars and relying on access to American consumer markets comes with the constant, existential threat of sudden tariff annihilation based on geopolitical alignment, sovereign nations have a fiduciary duty to their citizens to structurally decouple from the US

financial system. We see this materializing in the rapid development of alternative cross-border payment systems, such as China's Cross-Border Interbank Payment System (CIPS) and BRICS Pay, designed specifically to bypass the USD-dominated SWIFT network.

By pushing India and China closer together to defend their mutual energy and trade interests, the United States validates the core hypothesis of its own strategic failure. The weaponization of tariffs does not project strength; it actively alienates the very nations required to maintain a US-led global order. In the long term, these punitive economic measures ensure that the imposing nation becomes increasingly isolated, diplomatically weakened, and structurally locked out of the next century of global economic growth.

06

CASE STUDIES

HISTORICAL PRECEDENTS AND MODERN DEFIANCE



CASE STUDY 1

The British Corn Laws (1815–1846)

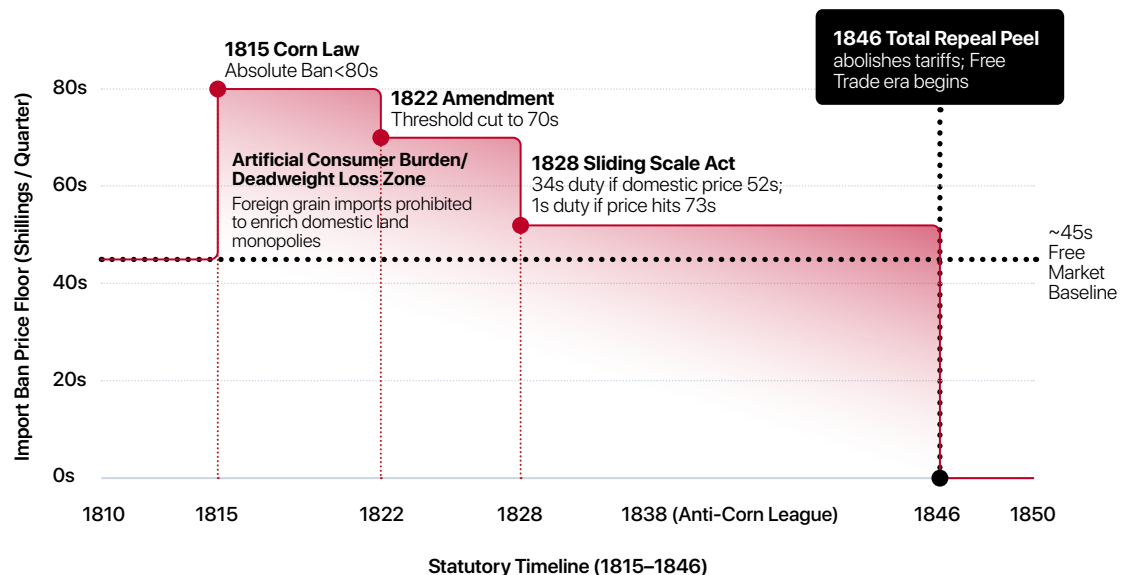
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THE CORN LAWS & STATUTORY PRICE FLOORS (1815–1846)

Artificially Inflated Grain Price Thresholds & The Monopoly Rent Zone



Source: UK Parliamentary Papers & Historical Grain Price Statistics (Smart & Barnes Economic History Archives).

THE ECONOMIC AND DIPLOMATIC HARM

Massive Consumer Tax and Deadweight Loss

The tariffs succeeded in keeping domestic grain prices artificially high, transferring immense wealth to a concentrated group of landowners. However, macroeconomic analysis reveals this functioned as a crushing, regressive tax on the British working class. Econometric models indicate that without the Corn Laws, domestic wheat prices would have been roughly 9% lower, freeing up significant capital for the bottom 90% of income earners. The cost of bread, a non-substitutable dietary staple, skyrocketed.

Stifling Domestic Industry

Because the working class was forced to allocate the vast majority of their wages simply to secure caloric baseline needs, aggregate disposable income plummeted. This consumption distortion severely hampered the growth of Britain's emerging domestic manufacturing and retail sectors, as citizens could no longer afford manufactured goods, generating immense systemic deadweight loss.

Humanitarian Crisis

The rigid adherence to these tariffs culminated in a demographic disaster during the 1840s. When the Irish Potato Famine struck in 1845, the Corn Laws prevented cheap foreign food from entering the market to relieve the starving population, drastically worsening the human toll and proving that absolute protectionism fatally disrupts supply elasticity during crises.

THE OUTCOME

The domestic friction caused by the tariffs eventually sparked massive civil unrest. Richard Cobden and John Bright formed the Anti-Corn Law League to dismantle the regime, recognizing that the tariffs were actively destroying the broader British economy to enrich a concentrated elite. In 1846, Prime Minister Robert Peel was forced to

repeal the Corn Laws. While the repeal fractured his political party, it ushered in a vital era of reciprocal free trade that ultimately catalyzed Britain's rise as the dominant global economic power of the 19th century. The tariffs had, in fact, actively held the nation's macroeconomic potential back.

CASE STUDY 2

The Smoot-Hawley Tariff Act of 1930

In the immediate wake of the 1929 stock market crash, the United States government panicked. Hoping to protect domestic farmers and industrial manufacturers from global deflationary pressures during the onset of the Great Depression, Congress

passed the Smoot-Hawley Tariff Act in 1930. The legislation raised import duties on thousands of agricultural and industrial goods, pushing the average ad valorem rate on dutiable imports to an unprecedented near-60%.

THE ECONOMIC AND DIPLOMATIC HARM

Immediate Diplomatic Alienation

The act fundamentally ignored the interconnected nature of global macroeconomics. Before the bill even passed, over 1,000 economists formally petitioned President Herbert Hoover to veto it, explicitly warning of the impending diplomatic fallout and supply chain destruction. They were ignored.

Asymmetrical Retaliation

The diplomatic backlash was immediate, fierce, and entirely predictable. More than 20 countries, including major trading partners like Canada and key European nations, immediately levied retaliatory tariffs and non-tariff barriers against American goods, shutting the US out of vital export markets.

Destruction of Export Markets

By attempting to aggressively shelter its domestic market, the US completely cannibalized its own export sector. American farmers—the exact demographic the bill was intended to protect—found themselves entirely shut out of the global market due to reciprocal duties.

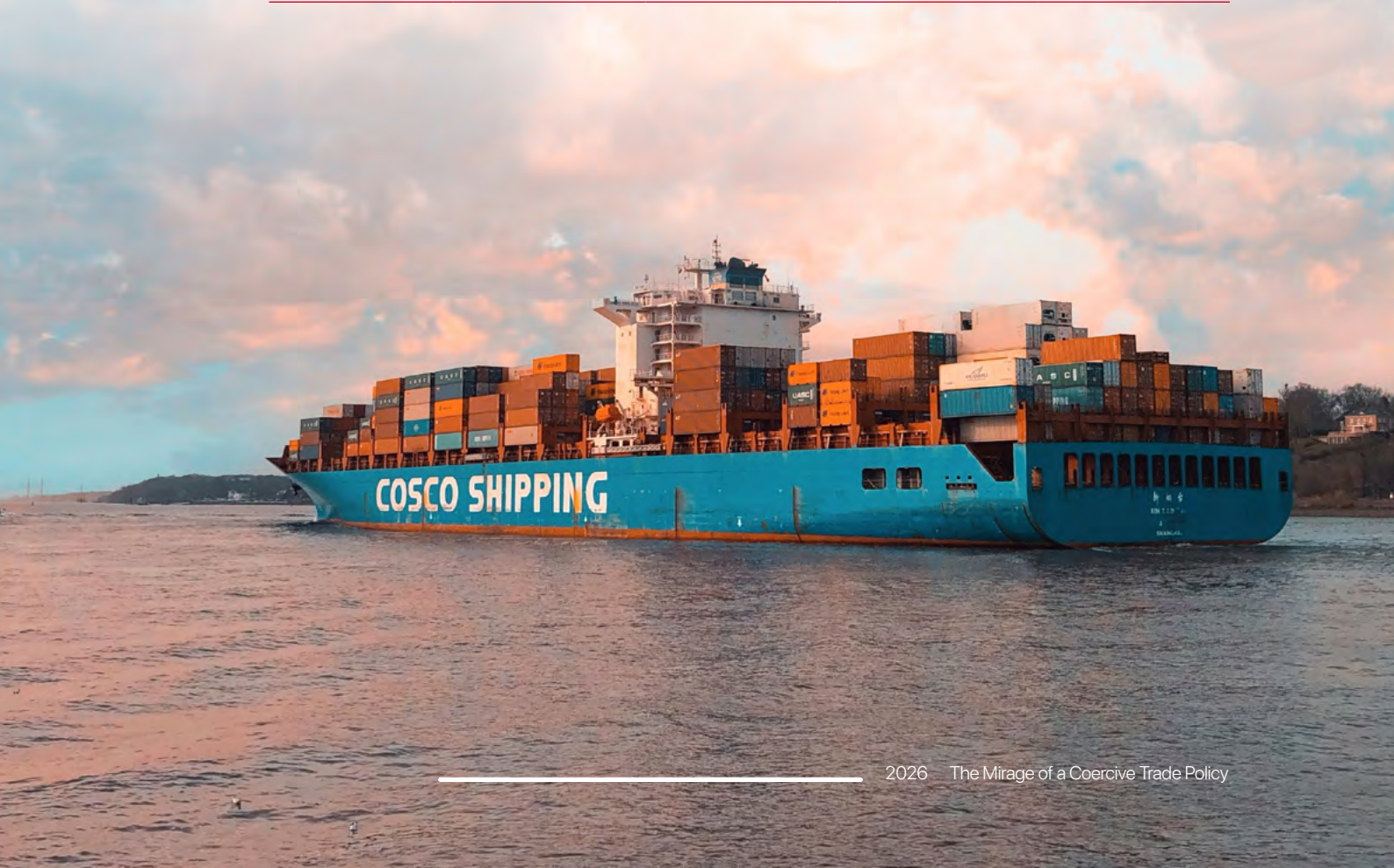
THE OUTCOME

Smoot-Hawley is universally recognized as one of the most disastrous economic policy failures in modern history. Rather than sheltering domestic industries, the ensuing retaliatory trade war caused global trade volumes to plummet by a staggering 66%. The empirical data is damning: US exports collapsed from approximately \$5.2 billion in 1929 to a mere \$1.7 billion by 1933. The tariffs deepened,

broadened, and prolonged the Great Depression worldwide, validating the hypothesis that unilateral trade coercion destroys diplomatic soft power and inflicts profound, long-term domestic economic harm. The disaster was so undeniable that in 1934, the US passed the Reciprocal Trade Agreements Act to desperately roll back the tariffs and attempt to restore global trade flows.

HISTORICAL CASE STUDIES IN TARIFF RETALIATION AND ECONOMIC CONTRACTION

Protectionist Event	Stated Intent of Tariffs	Peak Effective Tariff Rate	Immediate Retaliation / Blowback	Long-Term Macroeconomic Outcome
British Corn Laws (1815–1846)	Protect domestic land-owning aristocrats	~28% (Sliding Scale)	Massive domestic civil unrest; starvation during famine	Suppressed industrial growth; repealed in 1846 to save the economy.
Smoot-Hawley Act (1930)	Protect US farmers & industry during the Depression	~60% (Record Highs)	20+ nations levied reciprocal tariffs instantly	US exports collapsed by 67%; worsened the global Great Depression.
USMCA Tariffs (2025)	Border security leverage & domestic manufacturing	25%	Canada instantly levied \$107B in retaliatory tariffs	Fractured North American supply chains; fueled domestic inflation.



07

INDIA AND CHINA'S RESPONSE TO 2026 US SANCTIONS

The reaction to the aggressive expansion of the Trump administration's tariff policy in late 2026 perfectly illustrates the ultimate failure of trade barriers as a coercive diplomatic weapon. When the US House of Representatives advanced the *Lindsey O. Graham Sanctioning Russia and Iran Act of 2026*—granting the US President the executive authority to impose up to 100% tariffs on nations purchasing Russian energy—the assumption in Washington was that the threat of losing access to the American consumer market would force immediate compliance. Instead, the legislation was met with categorical rejection by sovereign economic powers, exposing the profound limits of American economic coercion.

US TRADE EXPOSURE & INFLATIONARY RISK TO SECONDARY SANCTIONS (2025 DATA)

Trading Partner	Total US Imports (2025)	Top Import Category	Value of Top Import	Total US Exports (2025)	US Trade Deficit
China	\$331.8 Billion	Consumer Goods	\$141.9 Billion	\$164.2 Billion	\$167.6 Billion
India	\$151.1 Billion	Consumer Goods	\$57.9 Billion	\$88.3 Billion	\$62.9 Billion
Combined Risk	.9 Billion	-	\$199.8 Billion	\$252.5 Billion	\$230.5 Billion

Source Data: US Bureau of Economic Analysis (BEA) 2025 Annual Trade Balance Report

THE INELASTICITY OF ENERGY DEMAND AND SOVEREIGN CALCULUS

The premise that a punitive tariff could compel New Delhi or Beijing to instantaneously sever their primary energy supply lines relies on a fundamental misunderstanding of price elasticity and macroeconomic survival. For developing superpowers, base-load energy demand is highly inelastic. India, for instance, is structurally dependent on foreign markets for over 88% of its crude oil requirements.

Following the global market bifurcations of 2022, India's supply matrix shifted dramatically to optimize costs. By FY2026, India purchased \$40.8 billion in Russian crude oil, accounting for nearly one-third of its total annual imports. By July 2026,

this dependency had deepened drastically, with Russia supplying nearly 52% of India's imported crude in a single month—totaling a record \$7.3 billion and vastly outpacing traditional suppliers like Saudi Arabia and the UAE.

This procurement strategy is not driven by ideological alignment, but by strict economic efficiency. In July 2026, India paid an average of \$658.60 per tonne for Russian crude, compared to a baseline average of \$669.00 per tonne for its total oil imports. For a nation of 1.4 billion people, securing this discounted energy is an existential macroeconomic priority required to contain domestic inflation and subsidize industrial growth.

THE DIPLOMATIC REBUFF

Sovereign Defiance Over Trade Concessions

Faced with the threat of 100% blanket tariffs on its US-bound exports, the Indian government did not capitulate. Instead, the Ministry of External Affairs (MEA) issued a firm diplomatic rebuke, stating that India remains “firmly committed” to its domestic energy security and will ensure it through “diversified sourcing and on the basis of evolving market dynamics.”

This sovereign defiance was strongly backed by domestic economic consensus. Leading Indian economic think tanks, such as the Global Trade Research Initiative (GTRI), explicitly advised the government to ignore the US tariff threats. The

GTRI argued that the sanctions bill was a “blunt and dangerous attempt to pressurize India,” noting that discounted Russian oil is vital to stabilizing global supplies and domestic prices.

The macroeconomic rationale guiding New Delhi is absolute: accepting the unilateral dictates of a foreign power regarding vital energy procurement establishes an unacceptable geopolitical vulnerability. For the Indian government, absorbing the deadweight loss of potential US tariffs on its textile and IT exports is mathematically and politically preferable to triggering a catastrophic domestic energy crisis.

CHINA'S STRATEGIC CALCULUS AND THE ACCELERATION OF DECOUPLING

China's response to the tariff threats further validates the failure of secondary sanctions. As the world's largest importer of Russian crude—purchasing over \$62.59 billion in 2024 alone—Beijing views US tariff escalations not as a deterrent, but as an affirmation of its long-term strategy

to insulate its economy from Western financial hegemony. Because the Trump administration had already normalized sweeping universal tariffs against Chinese goods throughout 2024 and 2025, the marginal coercive power of an *additional* tariff threat regarding Russian oil is effectively zero.

THE LOSS OF SOFT POWER

The US attempt to use 100% tariffs to dictate the energy policies of sovereign nations perfectly validates the core hypothesis of this research. The threat did not achieve its short-term goal of denying Russia revenue; instead, it inflicted severe, long-term diplomatic damage on the United States.

By weaponizing trade against India—a critical strategic partner deemed essential by the US to balance power in the Indo-Pacific—Washington publicly alienated an ally. It pushed New Delhi to double down on its sovereign right to trade with Moscow, publicly exposing

the limits of US influence. More dangerously, by threatening catastrophic trade penalties over secondary geopolitical disputes, the US signals to the developing world that the USD-dominated financial system is an existential liability. This guarantees that massive economies like India and China will accelerate their investments in non-dollar payment infrastructures and alternative trade blocs (such as BRICS+), ensuring that future US tariff threats carry significantly less economic weight. Ultimately, the tariffs intended to project American power have only accelerated its structural decline.



CONCLUSION

THE STRUCTURAL FAILURE OF TRADE COERCION

The comprehensive historical record and contemporary macroeconomic data converge on a singular, unavoidable conclusion: while tariffs may provide fleeting political utility or temporarily shelter localized industries, they consistently inflict profound, long-term economic and diplomatic harm on the nation imposing them. As this report has demonstrated, the transition of US trade policy from traditional protectionism to aggressive geopolitical coercion represents a critical strategic miscalculation that fundamentally undermines American economic security and global soft power.

The historical precedents analyzed—from the regressive consumer tax imposed by the British Corn Laws to the catastrophic global trade collapse triggered by the Smoot-Hawley Tariff Act of 1930—establish a clear empirical pattern. Unilateral trade barriers inherently distort market equilibrium. They inevitably generate massive deadweight loss, forcing domestic consumers and businesses to absorb the frictional costs of supply chain destruction and inefficient capital allocation. Tariffs do not extract wealth from foreign adversaries; they function as a regressive, inflationary consumption tax levied directly upon the domestic populace.

This reality is starkly illuminated by the 2026 escalations. The *Lindsey O. Graham Sanctioning Russia and Iran Act* and the preceding USMCA tariff shocks illustrate the systemic danger of weaponizing market access. By threatening up to 100% tariffs on massive sovereign economies like India and China to dictate their Russian energy procurement, the United States fundamentally misunderstands the inelasticity of global energy demand and the limits of its own coercive leverage. As evidenced by New Delhi's firm diplomatic rebuff, sovereign nations will not sacrifice their baseline

macroeconomic stability—or the energy security of over a billion citizens—to appease unilateral American dictates.

Economically, the execution of these tariffs guarantees a severe domestic inflationary shock. The doubling of landing costs for hundreds of billions of dollars in essential imports—from active pharmaceutical ingredients to heavy machinery—cannot be absorbed by the global market. These costs are passed directly to American businesses, compressing margins, suppressing consumer disposable income, and trapping vital domestic resources in sub-optimal, artificially shielded sectors.

Diplomatically, the fallout is even more structural. By wielding tariffs as a blunt instrument against strategic partners, the United States rapidly dismantles decades of bilateral trust. This aggressive statecraft predictably invites asymmetrical retaliation, ranging from the restriction of critical mineral exports to the sudden revocation of US corporate market access. Most alarmingly, it provides the ultimate catalyst for global financial decoupling. The persistent, existential threat of sudden tariff annihilation based on secondary geopolitical disputes forces emerging economic superpowers to actively consolidate non-Western alliances, such as BRICS+, and rapidly accelerate the de-dollarization of cross-border trade.

Weaponizing trade through punitive tariffs creates an isolated, highly inflationary, and less efficient domestic economy. In its attempt to project strength and enforce compliance, a nation that indiscriminately deploys tariffs actively cannibalizes its own long-term prosperity, alienates its essential allies, and structurally locks itself out of the next century of global economic growth.



ONE WORLD OUTLOOK