



Thomas Sampson

Alexis Papazoglou

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Do Trump's tariffs signal the end of globalisation?

In this second instalment of his interview with Alexis Papazoglou, Thomas Sampson highlights the many uncertainties the future of global trade faces and argues that the biggest policy question for countries around the world is whether they need to design a new economic model that no longer relies on trading with the United States. This conversation took place on Wednesday April 9, hours before Donald Trump temporarily paused all tariffs above 10 per cent, with the exception of China, but the transcript has been updated accordingly since then.

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How easy will it be for global trade to adjust to the new tariffs and for countries that previously exported large amounts of goods to the US to find new markets elsewhere?

Perhaps the most important thing to say is that adjustment is not going to be costless. During the first Trump administration, after the US increased tariffs on China, many Chinese firms shifted production out of China by investing in other Asian economies around the tariffs. So we did see a shift in trade patterns.

Likewise this time, new trading patterns will emerge. But the process of adjustment will be costly and it will take months or even years for trade to shift.

We've heard some dramatic statements since Trump first imposed the US tariffs, things like "it's the end of globalisation" and global trade as we know it will be a thing of the past. How do you assess the longer-term impacts of these tariffs, if they are not just a short-term negotiation tactic by Trump and, in some form or other, are here to stay?

If these tariffs are here to stay, [and this is a big "if", given that Trump has already paused all the tariffs above 10 per cent, bar the ones imposed on China] it's the biggest increase in trade barriers

we've seen in the past century. It's a very big shock – a seismic change in the global trading environment.

Looking forward we can imagine two worlds: One in which the US keeps these tariffs and some countries such as China and the EU retaliate against the US. As a result, the US gets becomes increasingly cut off from the rest of the world and becomes a much more isolated, protectionist economy.

But then the follow-up question is, will we also see increased trade barriers between other countries? Do we, for example, end up with much higher tariffs between the EU and China, or between the EU and Korea? That would lead to the second world, one in which the trade war becomes global leading to a more widespread collapse in trade.

Although the US is the world's largest economy, it only accounts for around 10 per cent of global goods trade. So cutting the US out of goods trade would be costly, but not impossible. By contrast, if there is a trade war between all countries, that would be the "end of globalisation" scenario.

So far it looks like retaliation's being targeted at the US, while the rest of the world is trying to maintain existing trading relations between themselves and avoid a global trade war. If this pattern holds, the world will divide into two blocks: the US on its own and the rest of the world on the other side. But you will still have a more fragmented global economy because the US will lie outside the global trading system.

What do you think will determine which scenario ends up playing out? Whether countries outside the US will continue to trade at the level they're trading now or even more so to make up for the fact that they'll be trading less with the US, or whether we're going to end up with all countries starting to put up trade barriers.

Success in reducing trade barriers and negotiating trade agreements always comes down to whether countries can find a way to cooperate. Left to their own devices most countries have protectionist instincts. But if all countries were to act on those instincts, everyone ends up worse off. In a trade war we all lose. So, the question is whether other countries will continue to find ways to cooperate among themselves, and follow World Trade Organisation rules.

I think so far the signs are that they are willing to do that, that other countries understand the benefits that come from cooperation and don't want to blow up the whole global trading system just because of a change in US policy.

But the concern is that if we start to see diversion of Asian exports away from the USA into Europe, that will put pressure on European manufacturers and in turn that will create pressure for the EU to raise tariffs on China and other Asian countries. That could be how you end up with more fragmentation in the global trading system. The EU and China are going to be the biggest players in this and they need to find a way to work together to avoid that situation.

So far the visible impacts of the tariffs has mainly been seen in stock markets and particularly U.S. and Asian stock markets (as well as the US bond markets). How likely do you think it is that this ends up infecting the actual economy and turning into global economic recession?

Unless the US reverses course and removes the tariffs [which it has done, temporarily at least and to some degree] the effects will definitely also show up in the real economy.

The immediate effect is going to be higher import prices in the US, which will raise living costs for US households. And on the flip side there will be reduced exports for countries exporting to the US. This is undoubtedly going to act as a drag on global growth over the next few months.

The question everyone is interested in is does this mean we're in for a global recession? There are other factors that play into that, so it would be unwise to give a straight "yes or no" answer on whether we're going to have a recession. I think what we can say is that the tariffs increase the probability that there will be a recession.

And for the UK, the spillover effects of lower global growth on the UK economy may be a bigger risk than the direct effect of the 10 per cent tariff facing UK exporters to the US. That will be a big source of concern in Downing Street at the moment.

Given that Trump has now paused tariffs for three months at 10% for all countries but China, it has created a level of uncertainty about whether these tariffs are here to stay or whether they are just a negotiation tactic and likely to be lifted. What does this level of uncertainty about the future of the conditions of trade mean for the world economy? Is this level of uncertainty better or worse than knowing that the tariffs are set, even if at the original higher levels?

Uncertainty here will have two main effects. First, when the future is uncertain, firms are reluctant to invest, meaning uncertainty acts as a drag on growth. Second, firms will make contingency plans in case the higher tariffs do eventually come into effect. They'll look for new export markets and some firms may make plans to shift production to countries with lower tariffs. So, the pause does not mean the problem has gone away. But it does give firms a little time to plan how to adapt. And although it is preferable than implementing the tariffs immediately, it still means the rest of the world will view the US as an unreliable trade partner.

Is there any aspect of this new world of US tariffs that we haven't covered that you think people aren't talking about?

I think a big strategic question that all countries outside the US now face is to what extent do you need an economic model that doesn't rely on trade with the US? Since the Second World War, Europe and many Asian economies have relied on the US as a key export market and as a political, economic and military ally.

Whether that continues to be the case is now uncertain. So, the question for countries is: do you

hope this is a blip and that either Trump reverses course or in four years you have a new president who recommits the US to a more traditional trade policy? Or do you decide that these tariffs reflect the future of U.S. policy and that therefore it's important to decouple from the US.

I don't know what the answer to that question is. But it's clearly what countries now have to grapple with at the highest level. What answer countries reach will shape how the global economy looks like going forward.

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Alexis Papazoglou is managing editor of the British Politics and Policy blog. He was previously the senior editor for the online magazine of the Institute of Art and Ideas. Prior to that he was a philosophy lecturer at Royal Holloway and Cambridge University. He has written on the intersection of current affairs and philosophy for The Guardian, The New Republic, The Atlantic, and WIRED among other publications. He was the producer and host of the podcast The Philosopher & The News from 2021 to 2023.

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