

THE UNGODLY PLOY

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After a spell of volatility, the United States and China have finally reached a temporary 90-day truce: the US will reduce tariffs on Chinese imports from 145% to 30%, while China will lower its tariffs on US goods from 125% to 10%. This results in a 115% average cut in tariffs between the two.

This ceasefire—though fragile—holds positive implications for calming global markets and de-escalating the broader trade war, given that the US and China jointly represent 43% of the global economy. The deal thus serves as a global stabilizer, particularly for the trade and shipping sectors. What makes this development remarkable is the context in which it emerged. Just weeks ago, diplomacy seemed dead in the water: President Trump was boasting about winning 200 trade deals, while Chinese diplomats labeled the US a “bully” unfit for negotiations.

Nonetheless, the pause has arrived; albeit not as a triumph of diplomacy, but as a strategic stalemate. This “eye for an eye” détente is more than a numeric negotiation. It reflects a tectonic ideological conflict: rule-based cooperation versus belligerent unilateralism.

Consider the World Trade Organization (WTO), a Geneva-based body comprising 166 member states, including both the US and China. Its purpose is to ensure smooth, predictable, and rules-based global trade. The US, however, has blatantly violated WTO norms. Its recent tariffs far exceed the WTO’s “bound rates”—the maximum allowable—and instead assert a unilateral justification based on “national security.” This erosion of multilateralism may embolden other countries to do the same, intensifying global trade tensions.

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The Game Theory Behind It

To understand how we got here, game theory offers critical insights. Specifically, the concept of Nash Equilibrium: a situation where no player can improve their position by changing their strategy alone, assuming others' strategies remain unchanged.

If the US imposes tariffs, others must decide whether to retaliate or absorb the cost. In most cases, mutual retaliation becomes the default outcome; not because it's optimal, but because it's safer. If one side drops tariffs unilaterally, it risks being exploited.

Nash Matrix	Other countries: Low Tariff	Other countries: High Tariff
US: Low Tariff	Both win (High GDP)	US loses, Other country gains
US: High Tariff	US gains, Other country loses	Both lose (trade war)

Thus, the current (sans permanent deals) tariffs represent a lose-lose equilibrium, where economic pain is accepted as collateral damage in a geopolitical contest.

Logic on the Cliffhanger

The logic behind these tariffs is not just flawed, it's fundamentally irrational.

1. The Myth of the Trade Deficit:

Trump often treated the U.S. trade deficit like it is a sign the country was losing. But this way of thinking is based on an old idea that a country must export more than it imports to be successful. In today's world, that logic doesn't really hold up. A trade deficit simply means the U.S. buys more from other countries than it sells to them. That's not necessarily a bad thing.

Here's the missing part many people overlook: when the U.S. runs a trade deficit, it also gets investment from the rest of the world. Other countries take the dollars they earn from selling to the U.S. and use them to invest in American businesses, real estate, government bonds, and other assets. This is actually how the global economic system works. There's a basic rule in economics:

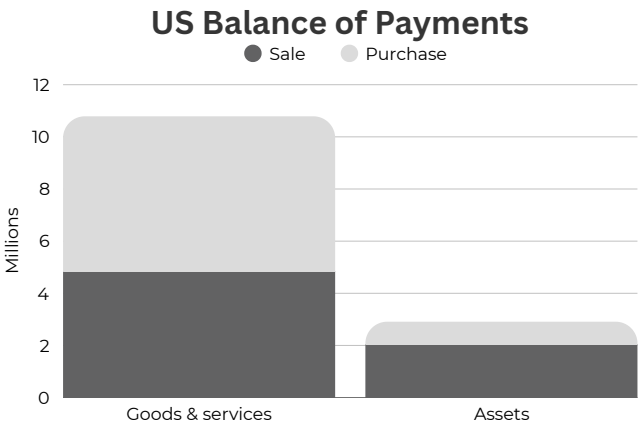
Trade balance + Investment flows = Zero

So, if the U.S. is importing more than it exports (a trade deficit), it must also be getting money from abroad (an investment surplus). That's how the numbers balance out.
Why does this happen to the U.S. specifically?

Because:

- 1.The U.S. economy is seen as stable and safe for investment.
- 2.It has a growing population due to immigration and higher birth rates (compared to aging Europe).
- 3.Many countries want to store their wealth in dollars or in U.S. assets.
- 4.When foreign investors buy U.S. assets, they need to convert their local currency into dollars. This demand strengthens the dollar, often leading to currency appreciation.

Paradoxically, strong investment flows into the U.S. can actually widen the trade deficit.



A stronger dollar makes U.S. exports more expensive for foreign buyers and imports cheaper for Americans, which is nudging a reduction in exports and an increase in imports. But this doesn't necessarily signal economic trouble.

In short, a trade deficit is not necessarily a problem, it's often a sign that foreigners trust the U.S. economy and want to invest in it.

2. The Fiscal Trap:

The US has responded to capital inflows not by building infrastructure but by overspending on consumption, mirroring Greece's pre-crisis behavior. The \$1 trillion trade deficit aligns with the \$1.3 trillion federal budget deficit. The government is not investing productively (the investment earlier described) but rather consuming recklessly.

This pattern mirrors fiscal vulnerabilities in developing economies like Pakistan: low investment, high consumption, rising debt.

3. Revisiting the tariff formula:

The logic used by the US Trade Representative (USTR) to set tariffs is counterintuitive. It calculated protectionism by dividing a country's trade surplus with the US by its exports to the US, ignoring services entirely.

Are Trump's tariffs "reciprocal"?	Actual MFN trade-weighted average tariff (US goods to trade partner)		Trump proposed tariff change (Trade partner goods to US)
	Non-agricultural	Agricultural	
1 European Union	0.90%	4.20%	20%
2 Canada	1.90%	11.60%	25%
3 Mexico	3.00%	17.30%	25%
4 China	4.10%	16.10%	34%
5 United Kingdom	0.50%	9.20%	10%

Source: NimbleFins



Experts argue the formula was so arbitrary it may as well have come from a large language model; it is also glaring if we compare the actual tariff imposed versus the US's reciprocal one. Worse still, some tariffs were finalized just a day before their implementation, according to The Wall Street Journal.

Ramifications if this logic goes unchecked

The consequences of this protectionist logic are already reverberating across the global economy. Trade between the United States and China has plummeted by 30–40%, while global equity markets have lost over \$10 trillion in value. The S&P 500 saw a dramatic plunge of more than 10% in just two days—matching the intensity of some of the worst financial shocks in recent memory, including the crashes of 1987, 2008, and the onset of COVID-19.

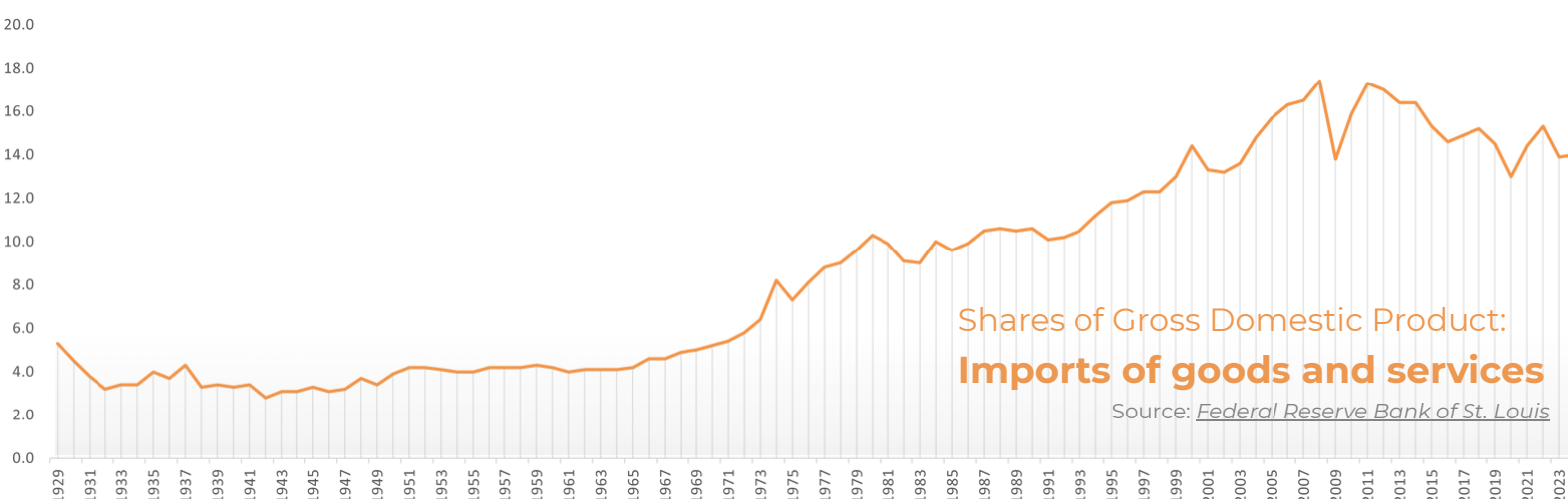
According to the World Trade Organization's April report, global goods trade growth could drop from 2.7% to 2.5%, while global GDP might fall from 2.8% to 2.2%. Rising policy uncertainty alone could cut global trade by 1.5% and reduce GDP to as low as 1.7%.

The impact on the US economy could be especially severe. Unlike the 1920s, when America was largely self-sufficient, the country is now three times more import-dependent. The imposition of sweeping tariffs risks

triggering COVID-style supply chain disruptions. The Peterson Institute for International Economics modeled two possible scenarios. In a “low impact” scenario—with 60% tariffs on Chinese imports and 10% on others, assuming no retaliation—GDP contracts sharply. In the “high impact” scenario, which includes foreign retaliation and mass deportation of 8.3 million undocumented workers, US GDP could fall by 2.8% to 9.7% below baseline, translating into a staggering \$750 billion to \$2.57 trillion loss by 2028. Inflation could climb to between 6% and 9.3% by 2026, and consumer prices could be up to 28% higher by 2028. These pressures threaten the very fabric of America's economic and social stability.

Developing countries, however, stand to suffer even more disproportionate consequences and Pakistan is no exception. With the United States serving as Pakistan's largest single export market—importing \$5.4 billion worth of goods in 2023–24—any reduction in US import demand poses a direct threat.

Pakistan enjoys a \$2 billion trade surplus with the US, which plays a stabilizing role in its fragile current account. In contrast, the country runs a massive \$10.8 billion trade deficit with China, despite having a Free Trade Agreement in place.



According to the Pakistan Institute of Development Economics (PIDE), Pakistani textile exports could face a 30% drop in demand due to inflationary pressure abroad. Leading firms like Interloop and Nishat Mills may be forced to scale back operations, putting up to 500,000 jobs at risk. A projected \$1.5 billion decline in exports could trigger a 5–7% depreciation of the Pakistani rupee, deepening the trade deficit and intensifying inflationary pressures.

Trumponomics, veiled in fervor economics, has driven the global economy dangerously close to the edge. Its questionable premises—weaponizing trade deficits and clinging to tariffs as a blunt policy instrument—threaten to undo decades of hard-won global economic integration. What began as a battle over trade imbalances has now escalated into a larger struggle over trust, governance, and the very future of globalization.

The recent 90-day truce between the United States and China offers a temporary breather in what has otherwise been an escalating economic standoff. Yet, this *détente* is not a resolution; it is a pause that buys time. What lies ahead will depend on which path global actors choose.

Broadly, there are three plausible trajectories:

Reset and Reengage – A coordinated rollback of aggressive tariff measures, paired with transparent, time-bound negotiations across major trading partners. This route offers the highest chance of rebuilding institutional trust and stabilizing global markets.

Fragment and Realign – Bilateral and limited agreements emerge selectively, largely with geopolitical allies. Trade becomes increasingly regionalized, with countries outside these circles—particularly in Asia and the Global South—facing marginalization.

Escalate and Restructure – Negotiations collapse. Tariffs return in full force. Retaliation expands beyond goods to services and investment regimes. In response, non-US economies accelerate new trade blocs and regulatory alliances, carving out an alternative global order less dependent on American leadership.

Ultimately, this moment is not just about resolving a tariff dispute, it is a test of the world's commitment to cooperative economics over zero-sum politics. If multilateralism continues to erode, the international system may stumble into a prolonged phase of disorder, marked not by innovation and integration but by isolation and inequality. The clock is ticking and the truce, however welcome, may soon expire.

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