

Trade Wars: Implications for Management Accountants in Fluid Scenarios

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Abstract

In recent weeks, the term "trade war" has emerged as a central theme in global economic discourse, particularly due to the imposition of tariffs by U.S. President Donald Trump. This paper explores the complexities of trade wars and their implications for management accountants, emphasizing the importance of understanding these dynamics for effective cost management, decision-making, and strategic planning.

A trade war fundamentally involves countries imposing tariffs and trade barriers in response to perceived unfair practices, which can distort pricing and disrupt international supply chains. The consequences of such economic conflicts extend beyond immediate financial impacts; they can reshape global trade relations and influence national economic strategies, as exemplified by Australia's aspirations to become a renewable energy superpower amid rising protectionism.

The paper discusses the economic implications of trade wars, including the escalation of retaliatory tariffs and their historical context, highlighting the lessons from past protectionist policies. It also considers Australia's current economic challenges in a rapidly changing geopolitical environment, where increasing nationalism and isolationism necessitate a re-evaluation of traditional trade approaches. Various strategies, such as "friendshoring" and leveraging Australia's renewable energy resources, are proposed as potential pathways for navigating these challenges.

Furthermore, the role of management accountants is examined, emphasizing their critical position as strategic advisors during trade wars. The paper outlines proactive strategies for management accountants, including supply chain reassessment, cost analysis, stakeholder communication, scenario planning, and the application of game theory in negotiations. By remaining informed and adaptable, management accountants can guide their organizations through the uncertainties of trade wars, ultimately positioning them for success in a complex global landscape. The conclusion underscores the importance of resilience, collaboration, and strategic foresight as Australia seeks to capitalize on emerging opportunities in renewable energy while navigating the intricate dynamics of international trade.

Introduction

In the last 6-weeks, the term "trade war" has gained prominence in the global economic dialogue, particularly following the daily tariffs announced by U.S. President Donald Trump. His aggressive trade policies and imposition of tariffs on various goods have sparked significant debate about the potential consequences for economies worldwide. For management accountants, understanding the intricacies of trade wars is crucial, as the ramifications can directly affect cost management, decision making and strategic planning. It also has a significant impact on the sustainability issues impacting the environment, society and governance (ESG).

What is a Trade War?

At its core, a trade war occurs when countries impose tariffs or other trade barriers on each other in response to trade practices that they view as unfair. Tariffs are essentially taxes levied on imported goods, making them more expensive for consumers and businesses. This tactic aims to protect domestic industries from what is perceived as foreign competition (e.g. dumping) but often leads to unintended consequences that ripple through the economy.

For instance, Trump's proposed 25% tariff on Canadian-built cars could raise the price of a \$32,000 vehicle to \$40,000. While this might give a competitive edge to U.S.-manufactured cars, it also inflates costs for consumers and can lead to a decline in overall demand.

The Weapons of Trade Wars

Tariffs are the most visible weapon in a trade war, but they are not the only tool at a country's disposal. *Non-tariff measures*, such as *quotas* and *import restrictions*, also play a significant role. Quotas limit the quantity of a product that can be imported, creating artificial scarcity that drives up prices. For example, if the U.S. imposes a quota on Canadian cars, once the limit is reached, no additional cars can enter the market, further exacerbating price increases.

Moreover, countries can deploy more covert tactics, such as *cancelling export permits* or *delaying shipments*, which can disrupt supply chains without a formal declaration of war. Such actions can significantly impact businesses reliant on international markets, complicating financial forecasting, pricing of products and services and inventory management for management accountants.

The Economic Implications of Trade Wars

The impact of trade wars extends beyond theoretical economic models; it affects real-world financial decision-making. As tariffs and trade barriers increase, costs rise for manufacturers who rely on imported components. For management accountants, this means a need to reassess cost structures, pricing strategies, and profit margins.

Moreover, the interconnectedness of global supply chains means that a trade war initiated by one country can have far-reaching effects. For example, if the U.S. imposes tariffs on goods from China, American companies that source parts from Chinese manufacturers will face higher costs. These increased costs could then be passed on to consumers, leading to higher prices for end products and potentially reduced sales. This situation places management accountants in a challenging position, where they must navigate fluctuating costs and advise their organisations on how to maintain profitability.

The Escalation of Trade Wars

The current trade wars have escalated quickly, resulting in a tit-for-tat scenario where countries such as Canada and Mexico, and the European Union (EU) have retaliated with their own tariffs and trade restrictions. This escalation can create a cycle of increasing barriers that ultimately harms both economies.

Historical examples, such as the *Smoot-Hawley Tariff of the 1930s*, illustrate the dangers of protectionist policies. The Smoot-Hawley Tariff, aimed at protecting American industries, led to a significant decline in international trade and is widely regarded as exacerbating the *Great Depression*

(Wright, 2025). Economists generally agree that trade wars create more losers than winners, and management accountants must be prepared to respond to the fallout from such decisions.

Implications for Australia

Last year, in April 2024, *Australian Prime Minister Anthony Albanese* delivered a pivotal speech outlining his vision for the nation's economic future, encapsulated in his "*Future Made in Australia*" plan. (Australian Government, 2024) His ambition was clear: 'to transform Australia into a renewable energy superpower'. At that time, he emphasised that the current decade represented a significant shift in how nations structure their economies, reflecting broader global changes.

After this speech, some commentators drew intriguing parallels to a lecture given by the renowned economist *John Maynard Keynes* in Dublin in April 1933, titled '*National Self-Sufficiency*'. At that time, the world was reeling from the Great Depression, economies were faltering, and faith in laissez-faire capitalism was waning. Many nations were gravitating towards nationalism and economic self-sufficiency as they grappled with shifting global dynamics. Keynes argued that while no one could foresee the future, countries had the right to reshape their economies in response to evolving challenges (Keynes, 1933).

The Modern Economic Landscape

Fast forward to the present, March 2025, and Australia stands at a crossroads, influenced by the global economy's ever-shifting currents. The resurgence of protectionism, particularly through the policies of U.S. President Donald Trump, poses significant implications for Australia. Trump has often touted tariffs as essential to securing national interests, linking economic security directly with national security. This shift signifies a departure from the previously dominant "*Washington Consensus*"—*i.e.*, a dogmatic belief that developing countries should adopt market-led development strategies that will result in economic growth that will "trickle down" to the benefit of all. This departure highlights a growing trend where nations are investing in their own industrial bases and economic sovereignty.

Australian Prime Minister Anthony Albanese now says that when strategic competition has become a fact of life, we must think differently about the role of government (Hutchens, 2025). Each country, he now suggests, has its own aspirations and must strive for its version of economic salvation.

Australia's Economic Challenges Ahead

Recently, a report from economists and researchers at UNSW and the *e61 think tank* echoed the sentiments of Keynes (1933), warning of the rising isolation of an island nation. The report highlighted the challenges Australia faces in a rapidly changing geopolitical landscape. The report warned that the established rules-based trading system is crumbling, giving way to power-based negotiations reminiscent of a contest among global "strongmen." As nations increasingly abandon open trade, Australia must confront the reality that its economic strategies may need to be significantly altered (UNSW, e61, 2025).

The authors emphasise that many nations are retreating from open trade and climate action, while others are pursuing these goals outside of any multilateral agreements. The report underscores a significant shift in economic policy, with countries increasingly focusing on industrial strategies that prioritise resilience and self-sufficiency. This transition is not merely a temporary response to current crises; rather, it reflects a long-term restructuring of global economic relations. This is particularly so in the areas of green energy and trade relations.

Green Energy: As Australia contemplates its position in this rapidly changing landscape, the report stresses the importance of understanding the implications of these developments. The authors argue that Australia's ambitious plans to become a *green energy superpower* now face considerable hurdles, particularly in light of shifting global commitments to climate action. With the uncertainty surrounding international agreements and the rise of protectionist policies, Australia's ability to export low-cost renewable energy could be severely impacted. This has serious implications for management accountants working in the ESG space.

In light of these challenges, *Professor Ross Garnaut*, the director of the *Superpower Institute*, has noted that despite the political hurdles, the business and climate case for renewables remains strong for Australia. He points out that the fundamental physics of climate change do not change with political events, and Australia's resource wealth positions it favourably to capitalise on the global shift towards renewable energy (Garnaut, 2024).

Garnaut (2024) argues that while the geopolitical landscape is fraught with uncertainty, the transition to renewable energy continues to present significant opportunities. He emphasises that Australia possesses some of the lowest-cost renewable energy resources, which can serve as a foundation for competitiveness across various energy-intensive industries. This shift could be particularly beneficial for rural and provincial areas, which are poised to see growth through the development of zero-carbon industries.

Friendshoring: In addition to focusing even more on green energy, another potential strategy that Australia could pursue is that of "*friendshoring*", i.e., building trade relationships based on trust and shared values rather than reliance on a fragmented global trading system. This approach suggests that while many countries are focused on building domestic manufacturing capabilities, Australia should seek to foster economic relationships with like-minded nations.

The ongoing discourse surrounding Australia's economic future reflects a broader conversation about the balance between national priorities and global interdependence. As Australia looks to redefine its economic strategies, it must carefully consider how to maintain its competitive edge while fostering a collaborative international environment. The challenges posed by rising nationalism and protectionism require a nuanced approach that balances self-sufficiency with the benefits of global trade.

As the debate continues, it is also vital to engage with the broader community to ensure that the transition to a more self-sufficient economy is inclusive and equitable. This means considering the social implications of economic policies and ensuring that all Australians benefit from the shift towards renewable energy. Collaboration between government, industry, and the community will be critical to crafting a sustainable economic future.

The Role of Management Accountants in Times of Trade Wars

As nations grapple with the complexities of 21st-century geopolitics, it is essential for management accountants to recognise that the landscape is fluid. Organisations are likely to make errors as they attempt to navigate these changes, but there is also a potential for innovation and growth. The lessons from history, particularly those articulated by Keynes in the early 1930s, remind us of the importance of adaptability and resilience in the face of economic upheaval. Simply adopting protectionist and industrial policies domestically will not enhance the agility needed to navigate the unpredictable global economy. These are important lessons not only for countries, but also for companies and the management accountants who present strategic decision information to senior management.

In times of economic uncertainty and trade tensions, management accountants play a crucial role as strategic advisors within their organisations. Their expertise in financial management, cost analysis, and risk assessment positions them to provide valuable insights that can influence organisational strategy and operational decisions.

As economic conditions shift, management accountants must balance the need for accurate financial forecasting with the agility to respond to changing market dynamics. This requires a deep understanding of both the microeconomic factors affecting their specific industry and the macroeconomic trends shaped by global trade policies.

Navigating the Challenges as a Management Accountant

For management accountants, the implications of trade wars require proactive strategies to mitigate risks. Here are several approaches to consider:

Reassess Supply Chains: Evaluate supply chain dependencies and identify alternative suppliers or sourcing options to reduce reliance on affected markets. This may involve diversifying suppliers or negotiating new contracts that account for potential tariff impacts.

Cost Analysis and Pricing Strategies: Conduct thorough cost analyses to understand how tariffs will affect product pricing. Management accountants should work closely with pricing teams to adjust pricing strategies that account for increased costs while remaining competitive in the market.

Communication with Stakeholders: Keep open lines of communication with stakeholders, including executive leadership, to ensure that the financial implications of trade policies are well understood. Providing clear insights will help inform strategic decisions and align financial plans with overall business objectives.

Scenario Planning: Engage in scenario planning to model various trade war outcomes. This involves analysing potential tariff rates and their impact on financial performance, enabling organisations to prepare for different possibilities and make informed strategic decisions. As discussed next, the use of 'Game Theory' would be essential in scenario planning in today's fluid environments.

Use Game Theory: Game theory can be an effective concept for assessing international trade disputes in *uncertain* situations. It can help understand why both sides are strategizing and reacting the way they are. Game theory includes principles like:

- **Tit-for-tat strategies:** These occur when opponents continuously match each other's actions or try to one-up each other with similar actions. The actions of Canada, Mexico, and the EU to Trump's initial tariffs, and then the US countering with even higher tariffs, are clear examples of such strategies.
- **Nash equilibrium:** This is the most common explanation for opposing sides not cooperating and instead blocking each other. It essentially states that no side will gain by changing their strategy if the opposing side's strategy remains the same. It can lead to both sides continuing their strategy indefinitely until a state is reached that gives either side no incentive to deviate from their initial strategy. At this equilibrium state (named after the Nobel prize winning economist John Nash, who conceptualised Game theory), an agreement is made.
- **Bargaining strategies:** While forming an agreement in game theory, the concept of bargaining strategies comes into play. These are the strategies and approaches that each side uses to maximise their benefit while still coming to a mutual agreement. Bargaining

strategies can include: (a) initial offers, (b) counteroffers, (c) making concessions, (d) setting deadlines, and (e) the strategic use of information. All of these bargaining strategies have been on full display in Australia's trade negotiations with the Trump administration.

Management accountants are well versed in applying game theory outcome strategies in bargaining, such as '*pessimism maxi-min* (i.e., minimising one's pessimism), '*optimism maxi-max* (i.e., maximising one's optimism), and the *regret matrix* (when one regrets not having made a different decision when one had the chance). These matrices are used to better understand strategic choices that depend on the decisions of others in negotiations in which either side has no experience as to how the other side will behave. This is especially so, given Trump's every unpredictable behaviour in recent weeks.

Stay Informed: Continuous monitoring of trade policies and international relations is essential. Management accountants should stay updated on changes in tariffs and trade agreements, as these can significantly influence financial performance and strategic planning. Subscribing to industry reports, attending relevant seminars, and engaging with professional networks can provide valuable insights into emerging trends and potential risks associated with trade wars.

Conclusion: Preparing for a Complex Future

Trade wars are complex phenomena that can have profound implications for economies, industries, and individual businesses. For management accountants, the challenges presented by these conflicts necessitate a proactive and informed approach to financial management. By understanding the mechanisms of trade wars, analysing their economic impact, and employing strategic planning, management accountants can help their organisations navigate this turbulent landscape.

Australia stands at a pivotal moment with the potential to become a renewable energy superpower, an opportunity that extends beyond ambition to offer significant economic growth and job creation, particularly in areas historically dependent on traditional industries. By harnessing its abundant natural resources and investing in clean energy technologies, Australia can fulfil its domestic energy requirements and position itself as a major contender in the global energy market. However, realising this vision requires adept navigation of international relations and trade dynamics. The unpredictable geopolitical landscape demands that Australia not only advocate for its interests but also foster collaborations with nations that share similar goals. Building strong partnerships grounded in mutual respect and shared values is crucial to overcoming challenges and seizing opportunities in the renewable energy sector.

Therefore, as the global economy continues to evolve, staying informed and adaptable will be key. Trade wars may create uncertainty, but they also present opportunities for organisations that are prepared to respond effectively. Ultimately, the ability to analyse, strategize, and communicate insights will empower management accountants to guide their organisations through the complexities of trade wars and emerge stronger in an increasingly interconnected world.

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