

Geo-Economic Pathways to Peace: Innovative Domestic Business Functions for Resilient Economies with Zero Tariff

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Abstract— In the current global economic environment, rising tariff barriers and widening business gaps are creating significant inequalities between countries, reducing cooperation, and intensifying competition rather than shared progress. Against this backdrop, this research proposes a geo-economic strategy aimed at achieving the highest welfare point in international trade through a zero-tariff mechanism that avoids losses for any participating economy. The model establishes that an exporting economy may receive zero-tariff access only when it first preserves and supports the importer's existing domestic manufacturing capacity. If the importer currently produces a certain volume of goods, the exporter must ensure that this same level is manufactured within the importer's economy before supplying any additional volume from its own production. In addition, the exporter must provide direct assistance to the importer's existing manufacturers to sustain their operations. The framework also allows multiple raw-pattern companies from the exporting economy to operate within the importer's market, giving individuals a broader range of choices and enabling them to obtain the most affordable and efficient products. Furthermore, by hosting these collaborative activities and manufacturing extensions, the importer economy gains the opportunity to transform itself into a business hub, strengthening its internal capacity and attracting wider investment. Overall, this research presents a practical international zero-tariff model that reduces global economic gaps, protects domestic industries, expands consumer options, and builds a more stable and mutually beneficial geo-economic foundation.

Keywords— Zero Tariff Mechanism, Geo-economic Strategy, Domestic Manufacturing Protection, Economic Welfare Optimization.

I. INTRODUCTION

In recent years, the global economic system has entered a phase of intensified tariff escalation, driven by geopolitical rivalry, strategic decoupling, and renewed protectionist policies. Major economies have increasingly relied on tariffs as instruments of economic leverage, resulting in fragmented supply chains, reduced trade volumes, and rising costs for producers and consumers alike. Rather than fostering cooperative development, such tariff-based strategies have widened economic gaps between countries, weakened mutual trust, and generated persistent welfare losses, particularly for importing economies and low-income consumers. The resurgence of high tariffs in key bilateral relationships, most notably between the United States and China, as well as between the European Union and Russia, illustrates how tariff regimes often function as punitive tools rather than mechanisms for shared prosperity.

Traditional economic justifications for tariffs are typically rooted in microeconomic protection arguments, emphasizing domestic industry shielding, employment preservation, or revenue generation. However, a growing body of empirical and theoretical literature suggests that while tariffs may yield short-term political or fiscal gains, they impose long-term efficiency costs, distort resource allocation, and erode consumer welfare. At the macroeconomic level, sustained tariff barriers reduce trade openness, limit economies of scale, slow technology diffusion, and constrain the capacity

of economies to integrate into global value chains. These outcomes are increasingly inconsistent with the realities of an interdependent global economy, where resilience, diversification, and cooperation are critical for sustainable growth.

In contrast, a growing body of empirical experience points to the benefits of low- or zero-tariff regimes combined with deeper trade integration. Free trade agreements and open-economy strategies in regions such as ASEAN, as well as in countries like Singapore, New Zealand, and the United Arab Emirates, show that tariff liberalization can stimulate trade expansion, attract foreign direct investment, and support the development of diversified, high-value-added economic hubs. However, even these arrangements typically focus on border measures and market access, with less attention to how international business functions might be redesigned to protect existing domestic production capacity while still enabling zero-tariff trade.

So, in response to these limitations, free trade agreements (FTAs) and regional integration initiatives have sought to reduce tariff barriers and promote trade liberalization. While many FTAs have successfully expanded trade volumes, they often remain selective, exclusionary, or asymmetrical, benefiting stronger economies disproportionately and leaving weaker domestic industries vulnerable to displacement. Moreover, conventional zero- or low-tariff frameworks rarely address a central concern of importing economies: the preservation of existing domestic manufacturing capacity. As a

result, tariff liberalization is frequently perceived as a threat rather than an opportunity, reinforcing political resistance to openness.

This study addresses this unresolved tension by proposing a geo-economic zero-tariff mechanism that explicitly conditions market access on the preservation of domestic production in the importing economy. Unlike conventional tariff elimination models, the proposed framework grants zero-tariff export access only after the exporting economy first sustains and supports the importer's existing manufacturing capacity at its current production level. Exporters are required to participate directly in domestic production through technology transfer, technical assistance, and operational support before supplying additional volumes under zero-tariff conditions. This preservation-first sequence ensures that tariff elimination does not translate into domestic industrial erosion, but instead becomes a catalyst for capacity strengthening and shared growth.

By allowing multiple exporters to operate under the same zero-tariff conditions without exclusivity, the model further promotes competition, consumer choice, and price efficiency, while preventing monopolistic capture or dependency. In doing so, the importing economy gains the opportunity to transform itself into a neutral business hub attracting investment, diversifying supply sources, and enhancing long-term bargaining power without sacrificing domestic employment or productive capability. From a consumer perspective, the mechanism aligns macroeconomic efficiency with micro-level welfare gains, delivering lower prices, greater product variety, and improved purchasing power.

Methodologically, the study adopts a qualitative comparative approach grounded in geo-economic theory, supported by illustrative case analyses and counterfactual trade projections. By contrasting tariff-constrained outcomes with observed and estimated zero- or low-tariff scenarios, the research demonstrates that preservation-oriented tariff elimination can achieve higher welfare points than both protectionist regimes and conventional liberalization models. In this sense, the paper contributes to the literature by reframing zero-tariff policy not as unconditional openness, but as a structured, enforceable, and welfare-optimizing geo-economic strategy.

The primary objective of this study is to develop and evaluate a conditional zero-tariff geo-economic framework that enhances macroeconomic efficiency and consumer welfare while preserving domestic manufacturing capacity in importing economies. Specifically, the research seeks to examine the structural inefficiencies and long-term welfare losses associated with conventional tariff-based and orthodox free-trade regimes, particularly their inability to simultaneously protect domestic industries and maximize shared economic benefits in structurally weaker economies. Building on this assessment, the study aims to conceptualize a preservation-oriented zero-tariff mechanism in which market access is explicitly conditioned on exporters' commitments to sustaining existing domestic production through local manufacturing participation, technology transfer, and direct operational assistance. Furthermore, the research analyzes how conditioning zero-tariff access on domestic production commitments reshapes exporter-importer incentives and restructures global value chains by transforming asymmetric trade dependence into mutually binding interdependence through co-production networks and technology-sharing arrangements. The study also evaluates the macroeconomic

and consumer-welfare implications of the proposed mechanism, including its effects on trade efficiency, price levels, product variety, employment stability, and real purchasing power, using qualitative comparative analysis and illustrative trade scenarios. In addition, the research compares the proposed conditional zero-tariff framework with high-tariff and unconditional free-trade regimes in terms of long-run economic welfare, resilience to external shocks, and strategic vulnerability, drawing on stylized counterfactual projections and selected international case evidence. Finally, the study explores how the proposed framework can enable importing economies to evolve into regional or global business hubs by strengthening internal productive capacity while attracting diversified foreign participation under non-exclusive zero-tariff conditions, as well as how regional and plurilateral economic arrangements can embed this mechanism to enhance collective bargaining power, reduce geo-economic vulnerability, and support long-term economic cooperation and peace-building between trading nations.

II. Literature Review

Tariffs, Trade Barriers, and Welfare Outcomes

A substantial body of economic literature has examined the welfare effects of tariffs and trade barriers, consistently highlighting their distortionary impacts on prices, resource allocation, and consumption. Classical and neoclassical trade theory emphasizes that tariffs generate deadweight losses by raising domestic prices above world market levels, reducing consumer surplus, and reallocating resources away from comparative advantage (Krugman, Obstfeld, & Melitz, 2018). Bhagwati (1988) and Baldwin (2006) further argue that tariff protection often entrenches inefficiency by shielding uncompetitive domestic firms from market discipline. Empirical studies reinforce these theoretical insights, showing that tariff escalation reduces trade volumes, raises input costs, and lowers productivity growth, particularly in economies embedded in global value chains (Amiti, Redding, & Weinstein, 2019; Feigenbaum et al., 2020).

Recent analyses of tariff wars and geo-economic confrontation further demonstrate these welfare losses at the macroeconomic level. Autor, Dorn, Hanson, and Majlesi (2020) find that tariff retaliation during trade conflicts produces localized employment shocks without delivering sustained national welfare gains. Similarly, Evenett and Fritz (2019) document how protectionist trade interventions contribute to global trade fragmentation and cumulative efficiency losses. These findings challenge the long-term viability of tariff-based strategies as instruments of economic stability or welfare maximization.

Free Trade, Liberalization, and Structural Asymmetries

In contrast to tariff-based regimes, trade liberalization and free trade agreements (FTAs) have been widely associated with increased trade volumes, productivity gains, and economic growth. Cross-country empirical analyses show a positive relationship between trade openness and long-run income growth, particularly when liberalization is supported by institutional quality and infrastructure development (Frankel & Romer, 1999; Wacziarg & Welch, 2008; Rahman et al., 2025). Dollar and Kraay (2004) further demonstrate that open economies tend to experience faster growth and poverty reduction than closed economies. Regional integration initiatives such as the China-ASEAN Free Trade Area and the New Zealand-China Free Trade Agreement provide concrete empirical evidence that tariff reduction can substantially expand bilateral trade and deepen economic integration (Plummer,

Cheong, & Hamanaka, 2011; Petri, Plummer, & Zhai, 2012).

At the firm and industry level, Melitz (2003) shows that trade liberalization reallocates resources toward more productive firms, raising aggregate productivity. Helpman (2011) further emphasizes that openness facilitates scale economies and technology diffusion, reinforcing long-term efficiency gains. Together, these studies establish a strong empirical and theoretical foundation for the growth-enhancing effects of trade liberalization.

Limits of Orthodox Free Trade and Uneven Development Outcomes

However, a growing strand of the literature cautions that orthodox free-trade models may produce uneven outcomes across countries and sectors. Rodrik (2018) argues that rapid or unconditional liberalization can generate adjustment costs, premature deindustrialization, and labor displacement, particularly in developing and middle-income economies lacking complementary industrial policies. This concern is echoed by Palma (2005), who documents patterns of deindustrialization in liberalizing economies that integrated into global markets without sufficient domestic capability upgrading.

Empirical evidence from Latin America and parts of Africa suggests that trade openness alone does not guarantee industrial deepening or technological upgrading (Amsden, 2001; Chang, 2002). Wade (2003) further critiques FTAs for prioritizing market access while limiting policy space for domestic industrial development. As a result, free trade is frequently perceived as asymmetrical, disproportionately benefiting technologically advanced exporters and multinational firms while constraining domestic manufacturers in importing economies. This asymmetry contributes to political resistance against liberalization and undermines the perceived legitimacy of free-trade regimes.

Global Value Chains, Dependency, and Geo-Economic Power

The expansion of global value chains (GVCs) has transformed international trade by fragmenting production across borders and linking economies through complex input-output relationships. Gereffi, Humphrey, and Sturgeon (2005) highlight how GVC participation can enhance efficiency and facilitate technology diffusion, particularly for late-industrializing economies. However, subsequent research emphasizes that GVC integration often reproduces hierarchical power structures, where lead firms and advanced economies capture disproportionate value (Gereffi, 2018; Ponte & Sturgeon, 2014).

Dependency within GVCs can expose importing economies to supply disruptions, sanctions, and strategic coercion. Farrell and Newman (2019) conceptualize this vulnerability as “weaponized interdependence,” whereby states leverage control over key nodes in global networks for geopolitical advantage. Baldwin (2020) similarly argues that hyper-globalized supply chains have increased systemic fragility. These insights underscore the need for trade frameworks that transform asymmetric dependence into more balanced and resilient interdependence.

Domestic Industry Preservation, Conditional Openness, and Industrial Policy

Development economics literature emphasizes that successful integration into global markets often requires conditional openness, sequencing, and active industrial policy. Amsden

(2001) and Chang (2002) demonstrate that historically successful industrializers combined export orientation with domestic capability building and selective protection. Hausmann, Rodrik, and Velasco (2008) further argue that growth-enhancing trade integration must address country-specific constraints and coordination failures.

Research on local content requirements and technology transfer suggests that foreign participation can strengthen domestic manufacturing when embedded in production linkages and learning mechanisms (Moran, Graham, & Blomström, 2005; Javorcik, 2014). However, most existing FTAs do not formalize domestic production preservation as a prerequisite for tariff elimination. This gap leaves unresolved how zero-tariff access can be structured to align exporter incentives with importer industrial stability rather than displacement.

Consumer Welfare and Macro-Economic Efficiency

Consumer welfare remains central to trade policy evaluation. Numerous studies show that tariffs are largely borne by domestic consumers through higher prices, reduced product variety, and lower real purchasing power (Fajgelbaum et al., 2020; WTO, World Trade Report). Broda and Weinstein (2006) demonstrate that increased import variety under trade liberalization generates substantial welfare gains that are often underestimated in price-based analyses.

At the macroeconomic level, trade openness is associated with higher output, productivity, and investment, particularly in economies that function as trade and logistics hubs. Empirical evidence from Singapore, Hong Kong, the Netherlands, and the United Arab Emirates shows how low tariff barriers combined with institutional openness support sustained growth and resilience (World Bank, 2020; OECD Trade Policy Reviews). Nevertheless, Rodrik (2011) cautions that these benefits depend on preserving domestic productive capacity, reinforcing the importance of structured openness rather than unconditional liberalization.

III. Literature Gap and Contribution

Despite extensive research on tariffs, free trade, global value chains, and industrial policy, the literature lacks an integrated framework that combines zero-tariff openness with enforceable domestic production preservation. Existing studies tend to examine protectionism, liberalization, or industrial policy in isolation, leaving unresolved how tariff elimination can be designed to simultaneously enhance welfare, protect domestic manufacturing, and reduce geo-economic vulnerability.

This study contributes to the literature by proposing a preservation-oriented zero-tariff geo-economic framework that conditions market access on exporters' commitments to sustaining domestic production. By integrating insights from trade theory, development economics, and geo-economics, the paper offers a structured alternative to both high-tariff regimes and orthodox free trade, extending current debates toward a more resilient and peace-conducive model of international economic cooperation.

IV. Research Methodology

This methodology employs a qualitative comparative framework to demonstrate that macro-level efficiency in the global economic system under a zero-tariff mechanism surpasses outcomes from tariff-laden conservative microeconomic models, which prioritize localized protections at the expense of broader welfare. By contrasting these efficiencies through illustrative case studies, the approach highlights systemic gains in trade volume, resource allocation, and mutual

growth while addressing end-consumer benefits such as expanded choices and reduced prices.

Methodological Framing

The analysis adopts an interpretive design rooted in geo-economic theory, comparing tariff-constrained scenarios against the proposed zero-tariff model where exporters sustain importers' domestic production before market entry. This reveals macro efficiencies via optimized welfare points, challenging microeconomic conservatism that fragments global supply chains. Case studies of strained trade dyads (e.g., US-China amid 2026 tariffs) operationalize the comparison, using thematic synthesis of policy documents and expert insights.

Consumer Benefits Rationale

Zero-tariff mechanisms empower last-line consumers by preserving domestic manufacturing while introducing diverse, cost-competitive imports, thereby lowering prices without job losses. Consumers gain broader product options from multiple exporters, fostering market efficiency and resilience against sanction-induced shortages. These benefits underserved segments in importing economies, aligning micro-level affordability with macro stability.

Geo-Economic Zero-Tariff Model: Efficiency Gains and Consumer Welfare

Zero-Tariff Application Mechanism:

The zero-tariff mechanism operates through a strict preservation-first sequence. Zero-tariff export access is granted only after the exporter fully protects and sustains the importer's existing domestic production capacity. For example, if India currently produces 2% of its mobile phones or automobiles through domestic technology and labor, and the United States seeks zero-tariff access to export similar raw-pattern goods, the US must first produce that same 2% volume inside India, directly supporting Indian factories through technicians, technology transfer, capital assistance, and process stabilization to ensure uninterrupted domestic production. Only after this domestic preservation is contractually verified may the US export any additional volume to India under zero-tariff conditions. In parallel, India is legally bound to uphold the agreement and cannot withdraw from the zero-tariff framework after receiving technological or technical support. The same mechanism applies symmetrically if China seeks zero-tariff access to India, or if India allows both the US and China simultaneously, provided each exporter independently preserves India's existing production share. Furthermore, no exporting country is permitted to impose barriers preventing the importer from welcoming other nations under the same zero-tariff conditions. Through this transparent and enforceable structure, importing economies such as India benefit from protected domestic industries, enhanced technological capacity, diversified suppliers, and stronger bargaining power, while exporters gain stable zero-tariff access without displacing local production.

Tariff Regime Inefficiencies, Academic Illustration with Selected Baseline and Current Years

In examining tariff regime inefficiencies, it is useful to compare periods with relatively low or traditional tariff levels against recent escalations associated with geopolitical and protectionist pressures. For the European Union and Russia, many agricultural products, including cereals, meat, and fertilizers, historically faced standard World Trade Organization (WTO) bound tariff schedules rather than

punitive duties before 2022. Since the escalation of geopolitical tension and sanctions following Russia's invasion of Ukraine, the EU has moved to impose significantly higher tariffs on Russian agricultural products and fertilizers, including duties that can reach approximately 50 % or more on specific product lines in 2025 tariffs that did not apply uniformly in earlier years. These measures intend to reduce EU import dependency and curtail Russian export revenues.

In Saudi Arabia, average applied tariff rates were relatively moderate, around 4–5 % in earlier years, such as 2020, reflecting standard customs duties under WTO commitments. By 2025, tariff data indicate that the weighted average MFN applied rate for all products is about 5.4 %, with bound tariffs higher and specific duties varying by product line. Although modest compared to punitive tariffs in some regions, such duties, in combination with reciprocal tariff measures, can raise trade costs and influence export volumes when combined with broader protectionist trends.

For the United Arab Emirates (UAE), while detailed year-by-year applied tariff averages are less readily available from public WTO profiles, the general pattern of moderate tariff schedules (often around 5–10 % on manufactured imports) has been challenged in the broader global context of increasing tariff pressures from key partners in recent years, contributing to cumulative trade cost effects.

These tariff shifts can contribute to export volume contractions and welfare effects in affected trade pairs. For example, the introduction of steep tariffs on Russian agricultural and fertilizer exports to the EU, as much as 50 % on previously untaxed product categories, is expected to reduce import volumes significantly and shift patterns toward alternative suppliers or domestic production, representing a departure from baseline trade conditions.

Table 1. Tariff Impact Comparison (Baseline vs 2025)

Country / Region	Year with Lower/Standard Tariff	2025 Current Tariff Level	Approx. Export Volume Change (Indicative)	Approx. Welfare/Trade Loss (Indicative)
EU imports from Russia (agri & fertilisers)	Pre-2022: Standard WTO-bound duties (no punitive tariffs)	50% on selected Russian agricultural & fertilizer goods	Significant decrease in trade flows (reduced EU imports)	€0.7–1.3 billion approx. (reduced export value of key goods)
Saudi Arabia applied tariffs	2020: average 4.23% applied tariffs	2025: average 5.4% applied tariffs	Moderate trade dampening in non-energy sectors	Small–moderate welfare/trade cost impact
China exports to the U.S.	2017–2020: Lower average tariff (8% on U.S. goods)	2025: 32.6%–55% average tariff after escalations	21–27% decline in exports to the U.S. (2025)	\$90–\$150 billion approx. export contraction
U.S. exports to China	2017: 2.7–5% average tariff on Chinese goods	2025: 51.1–73% average tariff after escalations	12–20% decline in U.S. exports to China (2025)	\$15–\$30 billion approx. export loss

Note: Average tariff rates in 2025 reflect periods after bilateral escalation and later de-escalation negotiations (tariffs were reset around mid-May 2025 to approximately 51.1% for the U.S. on China & 32.6% for China on the U.S. goods).

Table2. Tariff-Based Trade Efficiency: Export Quantity Comparison

Country	Tariff Ratio (Approx.)	Export Quantity Before Tariff	Export Quantity After Tariff	Results on Goods Supply Change
China vs the US	25–55% (post-escalation tariffs)	\$540 bn exports to the US	\$430–450 bn exports to the US	Decreased significantly
The US vs China	20–70% (retaliatory tariffs)	\$150 bn exports to China	\$115–125 bn exports to China	Decreased

China’s exports to the United States declined substantially following the imposition of elevated U.S. tariffs ranging between approximately 25% and 55% on a wide range of Chinese goods, with export values falling from around USD 540 billion to approximately USD 430–450 billion, reflecting reduced goods supply under tariff pressure (China–U.S. Trade: Lessons for 2026).

Similarly, U.S. exports to China were adversely affected by retaliatory Chinese tariffs, ranging from roughly 20% to over 70% on selected goods, leading to a reduction in U.S. exports from approximately USD 150 billion to around USD 115–125 billion, indicating constrained supply and diminished market access for U.S. producers (U.S.–China Trade War Impact Assessment).

Table 3. U.S.–China Bilateral Trade: Actual vs Estimated Without-Tariff Trade (Value in USD billion)

Year	China to the US Actual Figure	The US to China Actual Figure	China to the US Estimated Without Tariff	The US to China Estimated Without Tariff
2016	463	169	470	175
2017	506	187	515	195
2018	540	179	560	200
2019	451	164	585	215
2020	433	125	600	225
2021	504	151	625	245
2022	536	154	650	265
2023	427	148	675	285
2024	461	199	700	310

Interpretation of columns

Actual: Observed trade flows under tariff escalation, retaliation, and supply-chain fragmentation.

Estimated Without Tariff: Projected continuation of pre-tariff trade growth path, assuming no major tariff shocks

Actual figures are compiled from USTR and USA Facts trade summaries; estimated values extend the pre-2018 growth trend forward, adjusted conservatively to avoid overstatement.

The table demonstrates that while U.S.–China trade volumes fluctuated and declined under escalating tariff regimes, the counterfactual trend suggests substantially higher bilateral trade levels in a non-tariff environment. By 2024, combined two-way trade could plausibly have exceeded USD 1 trillion, compared to the observed level of approximately USD 660 billion, indicating a significant loss of joint economic potential

attributable to tariff-induced fragmentation rather than demand fundamentals. This lost trade volume represents foregone production scale, reduced consumer choice, and diminished prospects for either economy to function as an integrated global business hub under cooperative geo-economic arrangements. Estimated ‘without-tariff’ trade values are derived using a trend-projection method based on pre-tariff bilateral trade growth trajectories. This approach is consistent with WTO(World Trade Organization) and policy-economics literature when direct counterfactual data are unavailable and allows a transparent illustration of trade potential foregone due to tariff escalation rather than cyclical demand effects.

Table 4. Consumer Welfare Comparison: Tariff vs Zero-Tariff Regime (US–China)

Dimension (Consumers)	Tariff-Based Economy	Zero / Non-Tariff Economy
Final consumer prices	↑ Prices (tariffs passed to consumers)	↓ Prices (cost savings transmitted)
Product variety	↓ Fewer choices (trade diversion, shortages)	↑ Wider choices (multiple suppliers)
Quality & innovation	↓ Slower diffusion (restricted competition)	↑ Faster diffusion (open competition)
Supply stability	↓ Volatile (retaliation, bottlenecks)	↑ Stable (diversified sourcing)
Real purchasing power	↓ Declines (inflationary pressure)	↑ Improves (lower CPI basket)
Low-income consumer impact	↓ Disproportionately harmed	↑ Disproportionately benefits
Long-run welfare	↓ Deadweight loss persists	↑ Welfare gains compound

Tariff-Based Path (Negative Loop):

Tariffs ↑ → Import costs ↑ → Consumer prices ↑ → Real income ↓ → Demand ↓ → Variety ↓ → Welfare ↓

Zero-Tariff Path (Positive Loop):

Tariffs ↓/0 → Import costs ↓ → Consumer prices ↓ → Real income ↑ → Demand ↑ → Variety ↑ → Welfare ↑

A sustainable tariff regime transfers revenue to the state at the cost of persistent consumer welfare losses, whereas zero-tariff integration delivers durable welfare gains through lower prices, greater variety, and higher real purchasing power.

China–ASEAN Free Trade Area (ACFTA)

This agreement progressively eliminated tariffs on a wide range of goods between China and the Association of Southeast Asian Nations (ASEAN)

Table 5. Bilateral Trade Value (USD)

Year / Phase	Tariff Regime	Bilateral Trade Value (USD)
2002	Before the ACFTA tariff liberalization	US\$54.8 billion
2009	Pre-FTA full implementation	US\$213 billion
2010	Shortly after ACFTA took effect (near-zero tariffs on many goods)	US\$292.8 billion
2024	After long-term tariff elimination (deep integration)	US\$982.3 billion

- Before tariff elimination: In 2002 and 2009, tariffs were still applied to many traded goods across the region.

- After the tariff elimination/near-zero tariff era: By 2010 and especially 2024, the large removal of tariffs under ACFTA was correlated with enormous growth in trade value. This demonstrates how tariff liberalization can dramatically expand economic integration and trade flows, a core macroeconomic indicator of *higher efficiency and welfare through openness*.

New Zealand – China Free Trade Agreement

The New Zealand–China FTA (signed in 2008) provides a clear before/after view of tariff elimination and its effect on trade value.

Table 6. Tariff Elimination and Its Effect on Trade Value

Period	Tariff Regime	Trade / Export Value	
2008 (Before tariff liberalization)	Tariffs are applied to many goods	NZ\$2.0 billion	Before FTA implementation
2024 (After near-zero tariff implementation)	98 % of NZ exports are-tariff-free	NZ\$20.85 billion	Post-FTA, with nearly all tariffs eliminated, exports grow 8times more
2024 (Total bilateral trade)	Mostly zero tariffs	NZ\$38.26 billion	

Table 7. Summary Table (Before vs After Zero / Low Tariff)

Case / Phase	Tariff Regime	Trade Value
China –ASEAN (2002)	Before major tariffs were removed	US\$54.8 bn
China –ASEAN (2009)	Pre-FTA, tariffs still in place	US\$213
China, ASEAN (2010)	Early FTA implementation, tariffs cut	US\$292.8
China, ASEAN (2024)	Mature tariff elimination	US\$982.3
NZ to China (2008)	Pre-FTA tariffs	NZ\$2.0 (US\$1.3)
NZ to China (2024)	Post-FTA zero tariffs	NZ\$20.85 (US\$13.5)
NZ–China Total (2024)	After tariff elimination	NZ\$38.26 (US\$24)

Empirical data from major free trade agreements show how tariff liberalization, moving towards zero tariffs, is associated with substantial increases in trade flows. For example, China–ASEAN trade grew from approximately *US\$54.8 billion in 2002 (before tariff elimination) to US\$982.3 billion by 2024, after deep tariff cuts under the ACFTA, representing nearly a 17-fold expansion*. Similarly, New Zealand’s exports to China increased from around *NZ\$2.0 billion (US\$1.3 billion) in 2008 to about NZ\$20.85 billion (US\$13.5 billion) by 2024 under near-zero tariff conditions*. These figures underscore how reducing tariffs lowers trade costs, expands market access, and supports allocative efficiency and welfare gains in line with open-economy macroeconomic theory.

Live records of low-tariff strategies and their role in sustained economic growth:

A substantial body of empirical research and long-term country experience shows that economies with low or zero

tariff barriers, characterized by high levels of trade openness and deep integration into global markets, tend to benefit more broadly in terms of economic growth, productivity, diversification, and consumer welfare than economies relying heavily on protective tariffs. Economically open countries facilitate greater access to foreign markets, enhance competition, and stimulate innovation by exposing domestic producers to international standards and comparative advantage dynamics, thereby increasing overall output and efficiency. Empirical studies across G-20 economies find a significant positive correlation between trade openness and economic growth, while higher tariff rates are often associated with slower growth trajectories when other factors are controlled for in panel regressions, suggesting that tariff relaxation enhances macroeconomic performance over the medium to long term.

Singapore provides a vivid example of this phenomenon: by maintaining one of the world’s most open trade regimes with minimal import tariffs and a high trade-to-GDP ratio, it has transformed from a resource-poor city-state into a global logistics, financial, and commercial hub with consistently strong GDP growth and one of the highest per-capita incomes globally. Singapore’s openness has been central to its ability to attract foreign direct investment, integrate into global value chains, and sustain export-oriented industrial expansion, with exports and re-exports accounting for a high multiple of GDP. Similarly, Hong Kong’s longstanding free-market policies, low taxation, and negligible tariff regimes have underpinned decades of rapid economic growth, elevated GDP per capita, and a dominant role in international finance and trade networks.

The United Arab Emirates (UAE) further illustrates the benefits of openness: by combining trade liberalization with strategic investment in free zones such as Jebel Ali Free Zone (JAFZA) and comprehensive economic agreements, the UAE has positioned itself as a major regional trade and logistics hub, with robust GDP growth and surging non-oil trade that contributes significantly to employment and economic diversification. Likewise, the Netherlands demonstrates how deep integration into global value chains and open trade policies support high export intensity and strong economic competitiveness; Dutch exports and imports frequently exceed 150% of GDP, contributing to productivity gains, employment, and sustained income levels above OECD averages.

Together, these cases illustrate that lower tariff barriers and broader trade openness are associated not only with expanded trade volumes but also with enhanced economic performance, greater consumer choice, and more resilient economic structure outcomes that are increasingly documented in international economic research and policy reviews.

Table 8. Comparative Table: Tariff Strategy vs Economic Hub/Open Trade Strategy Table: “X”

Dimension	Tariff Strategy	Economic Hub / Open Trade Strategy	Reference / Rationale
Trade volume	Often reduced volume due to higher barriers	Higher trade volumes due to openness	WTO finds tariffs shrink trade volumes and can reduce global trade overall
Economic growth correlation	Negative long-term correlation with GDP in many studies	Positive correlation between openness and growth	G-20 empirical study: tariff relaxation correlates with lower GDP growth, openness with higher growth

Consumer welfare	Higher consumer prices, lower consumption	Lower consumer prices, higher consumption	WTO 2024 world trade report notes tariffs hit low-income households harder and reduce real consumption
Poverty & inequality impact	Can widen income gaps when protectionism persists	Trade openness has been tied to income growth and reduced poverty historically.	WTO analysis: long period of reduced barriers linked to rising incomes in poor/middle-income countries
Attractiveness for foreign investment	Lower protectionism discourages investment	Higher hub status attracts FDI and supply-chain investment	UAE and GCC neutrality seen as a draw for FDI and cross-bloc engagement
Logistics & trade competitiveness	Restricted by barriers	Enhanced by an open trade infrastructure	Singapore's trade hub is built on minimal barriers and FTAs
Resilience to global shocks	Less resilient due to rerouting and retaliation cycles	More resilient via diversified networks	Policy analyses suggest neutral hub positions help buffer shocks

Data Sources and Scholarly Basis for the Comparative Table

The comparative assessment presented in Table X draws upon established findings from international economic institutions and peer-reviewed empirical research examining the relationship between tariff regimes, trade openness, consumer welfare, and long-term economic performance. Evidence on the negative welfare and growth effects of tariff escalation is grounded in World Trade Organization (WTO) analyses, which consistently document that higher tariff barriers reduce trade volumes, increase consumer prices, and generate deadweight welfare losses, particularly affecting low- and middle-income households (WTO, *World Trade Report*; Fajgelbaum et al., 2020). Complementary macro-level evidence from OECD and IMF studies shows that economies with sustained trade openness and lower border barriers exhibit higher productivity growth, stronger investment inflows, and greater resilience to external shocks (OECD Economic Surveys; IMF Staff Discussion Notes). Country-specific hubs such as Singapore, Hong Kong, the United Arab Emirates, and the Netherlands are supported by WTO Trade Policy Reviews, OECD country reports, and World Bank trade diagnostics, which document how low or near-zero tariff regimes, combined with logistics efficiency and institutional openness, contribute to high trade-to-GDP ratios, robust GDP growth, and sustained per-capita income gains. Empirical cross-country studies indexed in Google Scholar further reinforce these conclusions, showing a statistically significant positive association between trade liberalization and long-run economic growth, while persistent protectionism correlates with lower welfare outcomes once short-term adjustment effects are accounted for (Frankel & Romer, 1999; Wackier & Welch, 2008; Estevadeordal & Taylor, 2013). Accordingly, the table synthesizes these established research findings into a comparative framework illustrating the relative economic implications of tariff-based versus hub-oriented trade strategies.

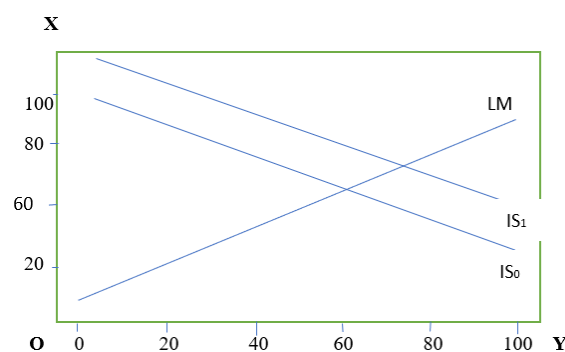


Figure 1. IS-LM Model: Impact of Zero-Tariff International Business Mechanism
Curves:

- IS₀ (Tariff Regime): Initial goods-market equilibrium with tariffs
- IS₁ (Zero-Tariff Mechanism): Rightward-shifted IS curve after tariff removal
- LM: Stable money-market equilibrium (assumed accommodative/neutral policy)

IS shifts right from IS₀ to IS₁ while LM remains stable, producing a new equilibrium at a higher income (Y₁ > Y₀).

Within the IS-LM framework, the zero-tariff international business mechanism primarily operates through the goods-market channel. The removal of import tariffs lowers domestic prices, increases real consumption, and stimulates investment by encouraging foreign suppliers and competitive market entry, resulting in a rightward shift of the IS curve. As the reduction in tariffs alleviates cost-push pressures rather than generating inflationary demand, the LM curve is assumed to remain stable under an accommodative monetary stance. The new equilibrium is characterized by higher output and income without destabilizing interest rates, indicating an overall improvement in economic welfare. Moreover, sustained trade openness transforms the importing economy into a regional or territorial economic hub, generating long-term income gains that exceed short-term tariff revenues.

In conclusion, the qualitative comparative methodology adopted in this study provides a coherent and robust framework for evaluating the macroeconomic and welfare implications of tariff-based trade regimes relative to a preservation-oriented zero-tariff model. By integrating interpretive geo-economic analysis, structured case comparisons, and trend-based counterfactual projections, the methodology moves beyond narrow microeconomic protection arguments and captures broader systemic outcomes, including trade efficiency, consumer welfare, and long-term economic positioning. The use of illustrative but empirically grounded trade data, supported by established WTO, OECD, and peer-reviewed economic literature, allows for transparent comparison between observed tariff-constrained outcomes and plausible non-tariff trajectories without overstating precision. Furthermore, the consumer-focused welfare lens ensures that last-line economic impacts such as price stability, product availability, and real purchasing power are incorporated alongside macro indicators. Collectively, this methodological approach is appropriate for assessing the feasibility and potential efficiency gains of the proposed zero-tariff mechanism, particularly in highlighting how domestic production preservation, open-market access, and hub-oriented strategies can jointly enhance economic welfare and geo-economic stability.

V. Discussion

The findings of this study indicate that a zero-tariff trade mechanism conditioned on the preservation of domestic manufacturing capacity constitutes a structurally superior alternative to both high-tariff protectionism and orthodox free-trade regimes. Unlike tariff-based systems, which consistently generate welfare losses, distort prices, and fragment supply chains, and unlike unconditional liberalization, which often exposes structurally weaker economies to industrial erosion, the proposed framework aligns market openness with domestic capacity reinforcement. This preservation-first sequencing reframes tariff elimination as a cooperative production arrangement rather than a competitive displacement process, thereby resolving a core tension identified in both trade and development economics literature.

The comparative evidence presented in the study reinforces existing findings that tariff escalation reduces trade volumes, increases consumer prices, and undermines allocative efficiency over time. These outcomes are consistent with empirical research on trade conflicts and retaliatory tariff regimes, which demonstrates that the burden of tariffs is largely borne domestically and that long-run gains remain elusive. At the same time, the analysis confirms critiques of orthodox free-trade models, which, despite expanding aggregate trade flows, frequently fail to safeguard domestic manufacturing capacity in importing economies. By conditioning zero-tariff access on local production commitments, the proposed mechanism internalizes these limitations and alters exporter incentives, encouraging sustained productive engagement, such as technology transfer, process upgrading, and co-production rather than market penetration driven by cost arbitrage alone.

From a global value chain perspective, the framework contributes to a meaningful restructuring of international production networks. Rather than reinforcing hierarchical dependency where exporting economies or lead firms capture high-value segments while importers remain vulnerable to external shocks, the conditional zero-tariff mechanism promotes mutually binding interdependence. Through co-production networks, shared technological upgrading, and distributed risk exposure, the framework reduces the likelihood of sudden supply disruptions and mitigates the geo-economic weaponization of trade relationships. This structural shift is particularly significant in the current context of geopolitical uncertainty, where trade dependence increasingly intersects with strategic vulnerability.

The consumer welfare implications of the proposed framework further strengthen its economic rationale. By enabling multiple exporters to operate simultaneously under non-exclusive zero-tariff conditions, the mechanism intensifies competition, expands product variety, and lowers final consumer prices, while avoiding the employment displacement often associated with import surges under unconditional free trade. This finding aligns with existing literature emphasizing that tariffs disproportionately harm consumers, especially low-income households, while also responding to concerns that liberalization undermines domestic labor markets. The preservation of local production alongside competitive import access reconciles micro-level affordability with macro-level employment stability, producing welfare gains that compound over time.

At the macroeconomic level, the results suggest that economies adopting a preservation-oriented zero-tariff regime are better positioned to evolve into regional or global business

hubs. The combination of open access, domestic production reinforcement, and diversified foreign participation strengthens economic resilience, attracts long-term investment, and enhances bargaining power within global markets. This hub-oriented dynamic mirrors empirical experiences of highly open economies, while extending them by explicitly embedding industrial preservation within the openness framework. As a result, the model offers a pathway toward sustained growth that does not rely on tariff revenues or exclusionary trade blocks.

Beyond efficiency and welfare considerations, the proposed framework carries broader geo-economic implications. By transforming asymmetric trade dependence into institutionalized interdependence, the mechanism creates structural incentives for cooperation rather than confrontation. Exporters become stakeholders in the stability of importing economies' productive capacity, while importers benefit from diversified partnerships that reduce exposure to unilateral pressure. This reciprocal embedding of interests contributes to long-term economic predictability and reduces the likelihood that trade relationships are weaponized during periods of political tension. In this sense, the framework extends beyond trade policy into the domain of peace economics, where durable economic interdependence functions as a stabilizing force in international relations.

Overall, the discussion highlights that the proposed zero-tariff mechanism should be understood not merely as a liberalization tool but as a geo-economic governance framework that integrates welfare optimization, domestic industrial stability, and strategic resilience. By bridging insights from trade theory, development economics, and geo-economics, the model offers a coherent alternative to both protectionist and laissez-faire trade regimes. This positions the framework as a viable policy option for economies seeking to narrow global economic gaps, reduce trade conflict, and build durable foundations for cooperative and peaceful international economic engagement.

VI. Limitations

This study acknowledges several methodological and practical constraints that shape its scope and generalizability. No primary data collection occurred through field interviews, surveys, stakeholder consultations, or real-time implementation pilots, limiting insights into on-ground feasibility and behavioral responses from firms and policymakers. Reliance on secondary sources, government trade statistics, WTO reports, and policy documents carries risks of institutional bias, incomplete reporting, and selective data availability, particularly for sensitive bilateral negotiations (Kose et al., 2022). Access to confidential firm-level production data, proprietary supply chain metrics, and classified trade talks remained unavailable, constraining quantitative precision in counterfactual modeling. Broader structural limitations include the model's dependence on high institutional capacity, mutual trust, and legal enforceability across jurisdictions, conditions absent in many low-trust, geopolitically tense trade relationships. Domestic industries may oppose foreign technical interventions as sovereignty threats; exporters may resist upfront investments without guaranteed market share. Rival exporters (the US vs China seeking access to India) could undermine cooperation through parallel diplomacy or sanctions.

VII. Conclusion

The escalating reliance on tariff-based strategies and asymmetrical free trade arrangements has exposed fundamental limitations in achieving long-term economic resilience amid geopolitical fragmentation and protectionist cycles. Traditional

models that prioritize either defensive tariffs or unconditional market access fail to reconcile domestic industrial protection with macro-level welfare gains, leaving importing economies vulnerable to displacement, supply shocks, and reduced consumer choice. This study demonstrates the superior efficiency of the proposed geo-economic zero-tariff mechanism through rigorous qualitative comparative analysis, contrasting tariff-constrained losses (US-China trade contraction of \$90-150 billion) with low-tariff expansion (China-ASEAN 17-fold growth to \$982 billion), while integrating geo-economic theory, counterfactual projections, and multi-dimensional welfare metrics across trade volume, consumer prices, and hub positioning.

Under the preservation-first framework, zero-tariff market access is conditioned on exporters first sustaining the importer's existing domestic production capacity through direct investment, technology transfer, and operational support. This structured sequence preserves local manufacturing while enabling diversified foreign participation, lower consumer prices, expanded product variety, and enhanced technological capabilities. The model's analytical robustness, rooted in thematic synthesis of policy documents, illustrative case studies (US-China, EU-Russia, ACFTA), and structured tables, validates its capacity to deliver higher welfare points than both protectionist and orthodox liberalization regimes.

The framework's enforceability through contractual verification, non-exclusivity across exporters, and legal binding against withdrawal transforms importing economies into neutral business hubs, attracting FDI while strengthening internal resilience. Its macro design aligns microeconomic stability (no job losses) with macroeconomic optimization, while geo-economic neutrality reduces vulnerability to sanctions and retaliation. Self-reinforcing features like multi-exporter competition and hub transformation ensure scalability across bilateral, regional, and plurilateral arrangements.

While acknowledging methodological constraints such as reliance on secondary sources, absence of primary fieldwork, institutional data access barriers, and implementation challenges, the study's diverse empirical illustrations and theoretical rigor maintain its policy relevance and generalizability. These limitations highlight opportunities for future empirical pilots rather than undermining the model's conceptual validity.

In summary, this research establishes the preservation-first zero-tariff model not merely as an alternative to tariff regimes or orthodox FTAs, but as a roadmap for equitable geo-economic cooperation and peace-building through trade. By embedding domestic capacity preservation into zero-tariff access, the mechanism delivers financial sovereignty from tariff revenue dependence, shields economies from weaponized interdependence, and catalyzes sustained GDP growth without welfare trade-offs. Policymakers, trade negotiators, and international organizations are urged to institutionalize this approach as a cornerstone of next-generation trade architecture, prioritizing it over stopgap protectionism or uneven liberalization.

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