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Protectionism has gripped us all – and goes far beyond tariffs

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Abstract

The current political climate in the global economy is bringing every protectionist out of the closet. A closer look at the measures adopted shows that tariffs are overshadowed by other protectionist measures. Moreover, the regional distribution of protectionism reveals that all the major economic powers are up to their necks in harmful interventionism. This happens despite a very poor track record of success of past protectionism waves.

Zusammenfassung

Das derzeitige politische Klima in der Weltwirtschaft bringt jeden Protektionisten aus seinem Versteck hervor. Ein genauerer Blick auf die beschlossenen Maßnahmen zeigt, dass die Zölle von anderen protektionistischen Maßnahmen überschattet werden. Außerdem zeigt die regionale Verteilung des Protektionismus, dass alle großen Wirtschaftsmächte bis zum Hals in schädlichem Interventionismus stecken. Dies geschieht, obwohl die Erfolgsbilanz vergangener Protektionismuswellen sehr dürftig ist.



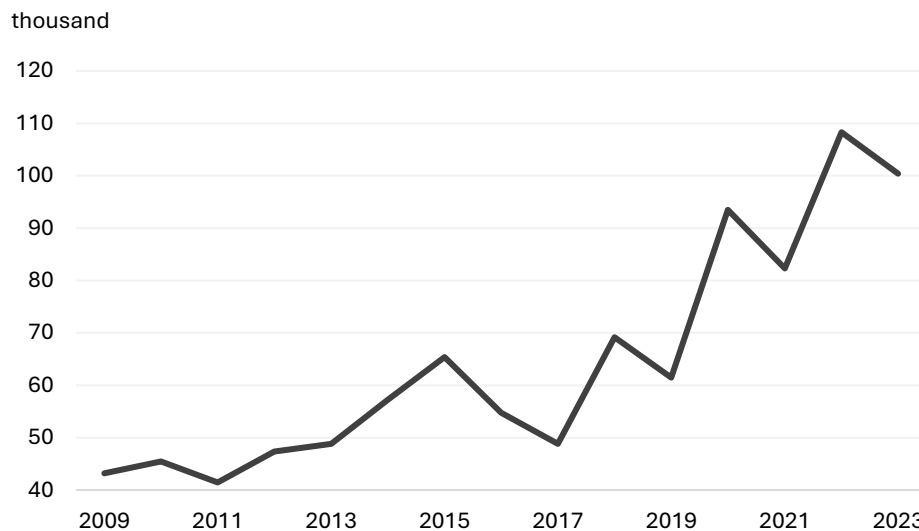
Introduction

When the Smoot-Hawley Tariff Act was proposed in the US by senator Reed Smoot and representative Willis C. Hawley in 1929, it faced fierce opposition from economists.¹ In an unprecedented move, over thousand economists from across the country signed a letter urging President Herbert Hoover to veto the bill. The letter highlighted concerns about the act's potential not only to trigger retaliatory measures and stifle international trade, but also to harm domestic consumers via rising prices and eventually to exacerbate the economic downturn.

Despite the letter and the protests from the economic community, Hoover signed the bill into law in June 1930. As predicted, the Act triggered retaliatory tariffs from US trading partners, leading to a collapse in global trade and exacerbating the negative impact of the Great Depression.²

The current wave of protectionism is already well advanced as it began after the Great Financial Crisis. However, a noticeable acceleration of measures aimed at harming trading rivals occurred only more recently, with the first presidency of Donald Trump 2017-2021, and it has continued ever since (**Fig. 1**).

Figure 1. Total number of interventions by governments worldwide that involve discrimination against foreign commercial interests



Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

¹ The full text of the Act is available at: <https://fraser.stlouisfed.org/title/tariff-1930-smoot-hawley-tariff-5882>.

² For quantitative analyses of the Act's economic impact, see, for instance, Mitchener, K. J., O'Rourke, K. H. & Wandschneider, K. (2022). The Smoot-Hawley trade war. *The Economic Journal* 132(647), 2500-2533, and Douglas, A. I. (1996). The Smoot-Hawley tariff: A quantitative assessment. NBER Working Paper No. 5509.



But this process is not taking place evenly across countries. Also, the nature of protectionism – in terms of measures undertaken – changes. While Donald Trump’s professed love of tariffs continues and sends shockwaves across the capital markets, both the US and other major global players are increasingly turning to alternative forms of government interventions that harm foreign commercial interests. This note summarizes the recent patterns of protectionism worldwide. It shows how deep the global economy currently is in the protectionist swamp, with a specific focus on cross-country differences and the changing composition of implemented interventions.

1.01 of “old” and “new” protectionism

Protectionism is a foreign trade policy typically introduced with the argument that domestic producers should be protected against foreign competition. The standard instruments of the “old” protectionism are tariffs and import quotas. But the last few decades have seen the emergence of a “new” protectionism, with a long list of impediments to free international transactions. The common feature of these measures is that they are less apparent and more subject to discretionary treatment of foreign counterparties than the traditional instruments of the old protectionism. As such, these barriers are politically much easier for lobbies to advocate and for governments to implement.³

Based on the Global Trade Alert (GTA) – a comprehensive database collecting detailed information about various forms of government intervention that affect cross-country economic relations – the different measures can be classified in nine broad categories, as shown in **Table 1**.⁴

³ For a textbook analysis of old and new protectionism, see, for instance, Gandolfo, G. (2004). *Elements of International Economics*. Springer, Berlin.

⁴ Cross-country economic relations include trade of goods and services, but also investment and labor force migration flows. The interventions captured by the GTA range from national legislation acts to contract terms of individual state agencies. Each database entry provides information, among others, about the direction of the change (harmful or liberalising), the announced policy instrument, the sectors targeted by the statement, and the potentially affected trading partners.

**Table 1. Classification of government interventions adopted in the GTA database**

Categories of interventions	Interventions
Export and import policy instruments	1) Export ban, 2) export licensing requirement, 3) Export quota, 4) Export subsidy, 5) Export tariff quota; 6) Export tax, 7) Export tax incentive, 8) Export-related non-tariff measure, nes*, 9) Other export incentive, 10) Import ban, 11) Import incentive, 12) Import licensing requirement, 13) Import monitoring, 14) Import quota, 15) Import tariff, 16) Import tariff quota, 17) Import-related non-tariff measure, nes*, 18) Internal taxation of imports, 19) Foreign customer rule, 20) Trade balancing measure, 21) Trade finance, 22) Trade payment measure
Capital controls and exchange rate policy	1) Control on personal transactions, 2) Controls on commercial transactions and investment instruments, 3) Controls on credit operations, 4) Competitive devaluation, 5) Repatriation & surrender requirements, 6) Trade payment measure
Foreign investment policy	1) Entry and ownership rule, 2) Financial incentive, 4) Treatment and operations, nes*
Labor force migration policy	1) Labor market access, 2) Post-migration treatment
Localisation policy	1) Local labor, 2) Local operations, 3) Local sourcing
Public procurement policy	1) Public procurement access, 2) Public procurement localization, 3) Public procurement preference margin, 4) Public procurement, nes*
Subsidies and state aid	1) Bailout (capital injection or equity participation), 2) Financial assistance in foreign markets, 3) Financial grant, 4) In-kind grant, 5) Interest payment subsidy, 6) Production subsidy, 7) State loan, 8) Tax or social insurance relief, 9) State aid, nes*
Trade defense instruments	1) Anti-Circumvention, 2) Anti-Dumping, 3) Anti-Subsidy, 4) Safeguard
Other instruments	1) Intellectual property protection, 2) Sanitary and phytosanitary measure, 3) Technical barrier to trade

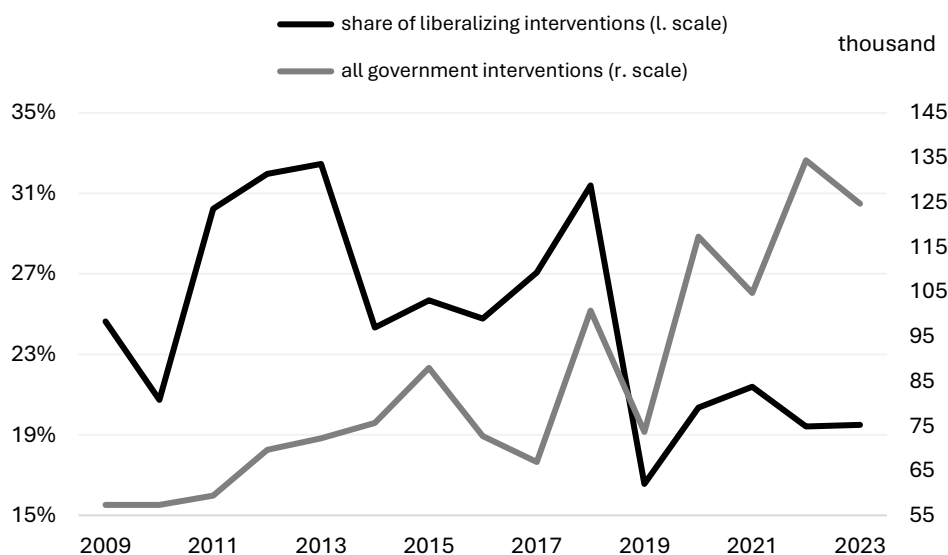
* not elsewhere specified

Source: Own elaboration Flossbach von Storch Research Institute based on Evenett, S. J. & Fritz, J. (2020). The Global Trade Alert database handbook. Manuscript, 26 October 2022.



Government interventions might in principle imply liberalizing or restrictive changes in the treatment of foreign versus domestic interests. The GTA database records for every entry information about the type of intervention – being almost certainly discriminatory (red), likely discriminatory (amber) or non-discriminatory and thus liberalizing (green). Most government interventions have been discriminatory, with the share of liberalizing interventions remaining relatively stable at 25-30% until 2018. However, due to intensifying tensions in international trade and investment transactions, this share declined to around 20% in recent years (**Fig. 2**).

Figure 2. Total number of government interventions (liberalizing and harmful) and the share of liberalizing interventions worldwide

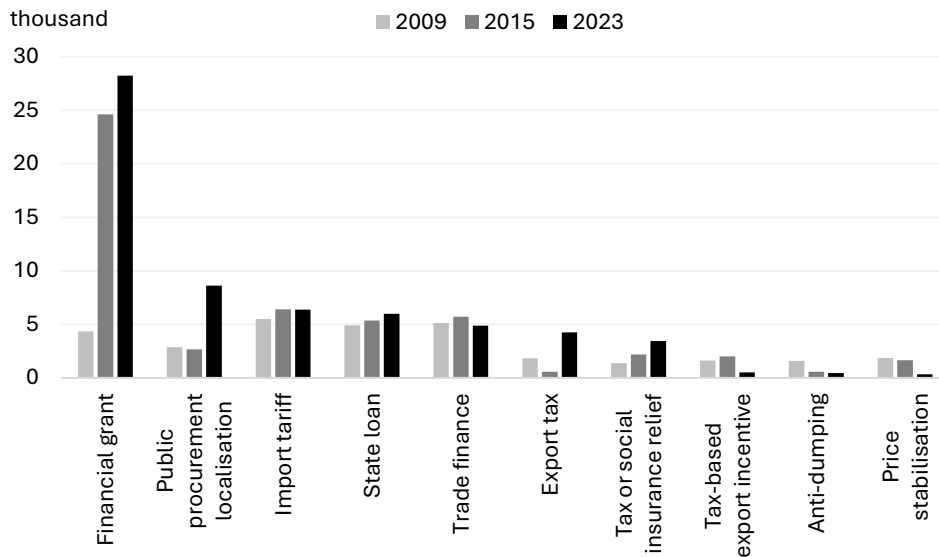


Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

Among harmful interventions, import tariffs, trade finance and state loans were the most intensively implemented measures in 2009. Although they have since remained at the top of the preferred intervention list, financial grants and public procurements have significantly gained in popularity recently (**Fig. 3**). Since the latter measures – plus state loans – usually involve the use of public funds to finance certain entities or projects, they are likely to deteriorate public finances in the implementing countries. This contrasts with the effects of import tariffs, which normally generate some positive – albeit small – fiscal contributions. Moreover, such interventions may distort resource allocation if public money supports inefficient production activities.



Figure 3. Top 10 government interventions worldwide in 2009, 2015, and 2023



Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

It is important to note that the GTA database likely underestimates government interventions, especially in cases where protectionism is embedded in regulations, subsidies, or fiscal policies that do not fall under explicit trade-related policies. This seems, for example, the case of environmental regulations – intensively adopted in the EU – or fiscal stimulus with domestic content requirements – such as the Inflation Reduction Act in the US. These measures can much harder be classified as trade interventions and are likely to fall outside the GTA database.

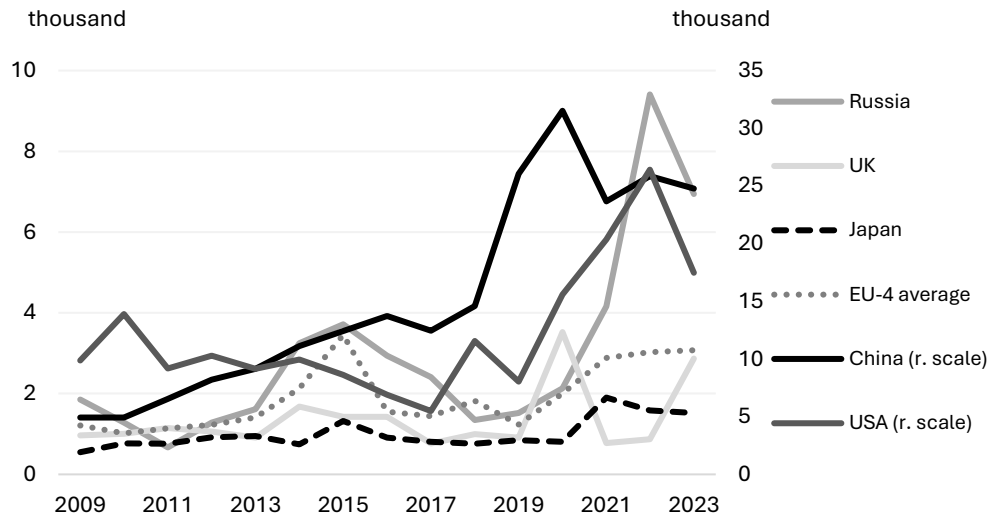
Geography of protectionism

Figures 4 – 6 summarize the main trends of harmful interventions introduced by the major global players since 2009. The US and China have ever since had a long tradition and global leadership in implementing protectionist measures. But the recent trade war, instigated with the first Trump Administration, led to a substantial intensification of harmful policy interventions by both countries relative to the rest of the world (Fig. 4). Moreover, with the war in Ukraine, also Russia emerged as a passionate issuer of measures aimed at harming its trade partners. But the four largest EU countries (Germany, France, Italy, and Spain – EU-4 average in Fig. 4 – 6), too, have recently intensified the implementation of harmful measures. Beyond these recorded interventions, EU members have recently adopted various measures – some originating at the EU-level – that are not recorded in the GTA database but are likely to discriminate against foreign commercial interests. These include, for instance, the German supply chain law



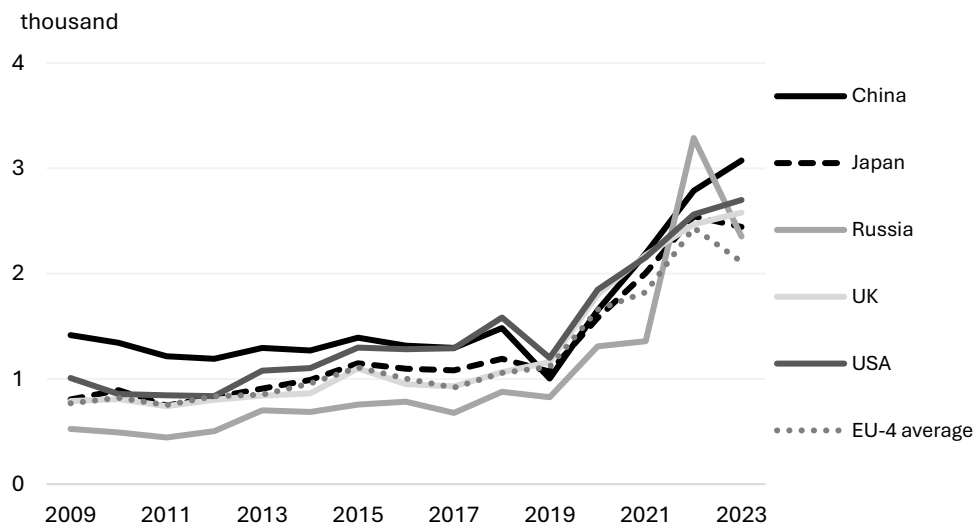
(Lieferkettensorgfaltspflichtengesetz) from January 1, 2023, which obliges companies to comply with requirements regarding human rights and environmental risks in direct suppliers.

Figure 4. Yearly number of harmful interventions implemented by the respective economy



Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

Figure 5. Yearly number of interventions aimed at harming the respective economy



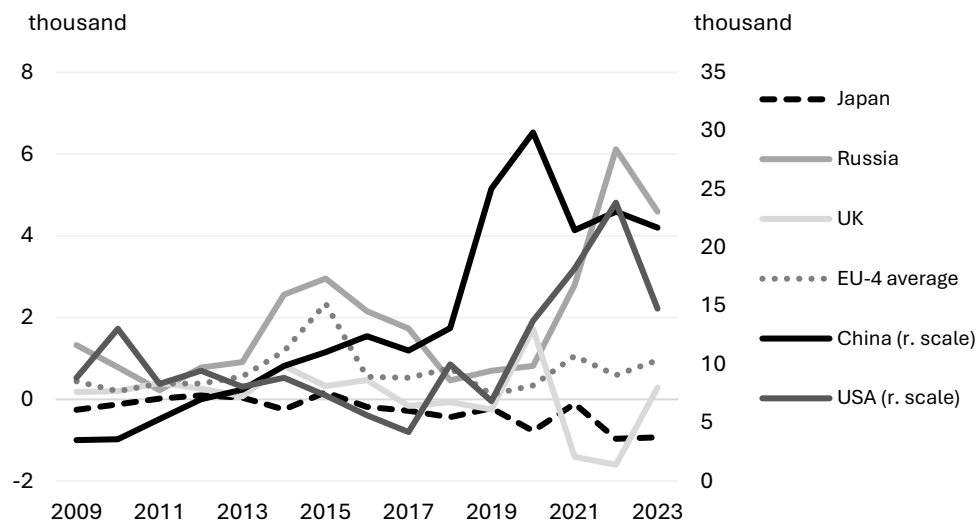
Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

The picture is more equilibrated when looking at the number of harmful interventions by which the respective economies were affected. All big global players were hit to the almost same degree (**Fig. 5**).



The country-level comparison between the number of harmful interventions implemented and the number of measures affecting an economy reveals a positive balance in the US, China, Russia, and the EU-4, with more interventions implemented than affecting the respective economy. In the UK, the balance turned negative after Brexit, whereas it stayed almost always negative in Japan (Fig. 6).

Figure 6. Yearly balance between the number of interventions implemented and affecting the respective economy



Source: Own elaboration Flossbach von Storch Research Institute based on the Global Trade Alert (GTA) database

Conclusion

The likelihood that this wave of protectionism will eventually escalate into a negative-sum game is high and increasing with the growing intensity of harmful government interventions worldwide. With Donald Trump settling into office and eager to fulfill his campaign promises, the global economy should brace for a wave of new US tariffs, soon to be met with retaliatory measures. However, based on past experience, as non-tariff measures gain prominence, the negative sum of protectionism will extend beyond tariffs, stemming from a wide range of harmful measures. Since these measures – beyond involving hidden costs of increased government spending – tend to shift resources toward less efficient domestic industries, they could lead to greater inefficiencies in production than tariffs.

Although all parties involved are likely to ultimately suffer economic losses, their distribution will most probably be uneven, depending on the relative intensity of involvement in the protectionist race. But as all major trading powers show a strong bias towards protectionism, the negative consequences are unlikely to remain at home but will be felt by the entire global community. The hope remains that the major powers can still turn the corner in the other direction.



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