Chapter 1

The Evolution of Protectionism in International Trade

İsmail Çifçi[1], Rabia İnci Özbek Çifçi[2]

Abstract

This study examines the evolutionary process of protectionism in international trade from Antiquity to the present day. While the ontological necessity of trade and specialization are explained through the views of Plato and Aristotle, the transition from mercantilist zero-sum trade to the liberal views based on mutual gain by Smith and Ricardo is analyzed. The principle of reciprocity in tariffs, which prevailed from 1934 to 2018, has given way to the principle of restriction in tariffs following the China Shock triggered by China's accession to the World Trade Organization (WTO) in 2001 and the USA's subsequent shift towards strategic protectionism. China's emergence as a major actor in global production, trade, and technology, combined with the record US-China trade deficit reaching $418 billion in 2018 and domestic economic pressures in the US, have steered the US towards protectionist policies. Since deep Global Value Chains (GVC), established through modern transportation and communication technologies, have made countries interdependent, this tension between the US and China negatively affects global efficiency and production through a multiplier effect. The trade war causes the postponement of investment decisions, rising costs, declining efficiency, and a significant reduction in global welfare by increasing Trade Policy Uncertainty (TPU). The new tariffs implemented in 2025 indicate that these protectionist measures and the climate of uncertainty suppressing investments will evolve into a permanent structural element of the global economy.

1 Asst. Prof. Dr., Kütahya Dumlupınar University, Department of Economics, 43100 Kütahya, Türkiye, e-mail: ismail.cifci@dpu.edu.tr ORCID ID: 0000-0002-8853-030X

2 Asst. Prof. Dr., Kütahya Dumlupınar University, Department of Economics, 43100 Kütahya, Türkiye, e-mail: rabiainci@dpu.edu.tr ORCID ID: 0000-0003-3224-3333

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Introduction

Although the motivations for countries to trade with one another have varied across different periods, they are fundamentally aimed at meeting human needs. The idea that trade is a necessity among humans is rooted in Ancient Greek thought. In his work *The Republic*, Plato (427-348 BC) states that humans are not self-sufficient and therefore must engage in mutual exchange. Plato explains that people are not born equal; everyone possesses different natural talents and qualities, and has different levels of efficiency in different tasks. He argues that it is more beneficial for individuals to work in tasks where they have high efficiency and, through specialization, to exchange the goods they produce for other goods they need. Plato states that individuals come together because of their lack of self-sufficiency, and this gathering constitutes the state. In *The Republic*, Plato expresses that, just like individuals, states cannot be self-sufficient; therefore, states must produce more goods than their own requirements in order to import goods, and these surpluses must be traded.

Aristotle (384-322 BC), in his work *Politics*, explains that societies are not self-sufficient, and that the differentiation of resources and needs makes trade among humans mandatory. On the other hand, the necessity of trade among humans was also emphasized by Cicero (106-43 BC): *'Nature has not given all things to all men, in order that human society might be bound together by mutual services and exchange'* (Miller, 1913). The idea of the necessity of foreign trade also manifests itself in Late Antiquity. In Grotius's translation of Libanius's (AD 314–393) views on foreign trade, the necessity of foreign trade is explained as follows:

> *"God did not bestow all products upon all parts of the earth, but distributed His gifts over different regions, to the end that men might cultivate a social relationship because one would have need of the help of another. And so He called commerce into being, that all men might be able to have common enjoyment of the fruits of the earth, no matter where produced."*
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> *Libanius (ad 314–393), Orations (III); Froese (2020, p. 7).*

Trade has been a vital activity for humanity throughout history; commercial activities, which were limited under the barter economy, gained a larger and global dimension with the invention of money. Beyond meeting the need for goods, commercial activities between countries or regions have also served as a vehicle for the dissemination of culture, technology, and religion. Significant developments shaped world trade in the period spanning from the Middle Ages to the Modern Age. In the Middle Ages, global commercial activities were neither widespread nor rapid. The discovery of new land and sea routes, along with various military campaigns, contributed significantly to the development of trade. Although it is difficult to explain the commercial and economic systems of the Middle Ages period by period here, the Islamic World and the East (China) were at the center of world trade during this era. While China, Egypt, and Syria formed the hubs of trade via the Silk Road and the Spice Road, the Feudal system, characterized by lordships, prevailed in Europe. These European fiefdoms generally attempted to be self-sufficient, causing commercial activities to remain quite restricted. Commercial activities began to flourish with the Crusades, and city-states such as Venice and Genoa became the pioneers of trade. In addition to the activities of city-states, unions established in Europe (such as the Hanseatic League) and fairs also fostered the growth of trade. However, the European economy and trade of the Middle Ages came to a standstill in the 14th and 15th centuries due to the Hundred Years' War and the Black Death epidemic (Günay, 2022, p. 72-76; Genç, 2011, p. 133-135).

1. Origins of Trade Thought and Mercantilist Protectionism

Significant political, social, and economic developments occurred in 15th and 16th-century Europe, marking the transition from the Middle Ages to the Modern Age. This period is generally characterized as an era where rationalist thought prevailed over scholastic thought. Commercial activities increased significantly with the Renaissance, the Reformation, the discovery of the American continent, overseas expeditions, the collapse of feudalism, the establishment of nation-states, and the widespread use of gunpowder, the compass, and the printing press. In the geographical sphere, European countries initiated overseas expeditions in search of wealth with the aid of the compass. In this framework, the discovery of America and reaching India by circumnavigating the Cape of Good Hope caused major trade centers to shift from Mediterranean ports to port cities on the Atlantic Ocean and the North Sea, leading cities like London and Amsterdam to rapidly become trade hubs.

In the 15th and 16th centuries, centralized large states began to replace fiefdoms, thus initiating a process of transition from local economies to national economies, where the interests of national economies were prioritized. The ideas that influenced the economic life of Europe between the years 1450-1750 are referred to as mercantilism. Before the mercantilist period, world trade was limited. The exception to this was the Islamic World and the East (China, India) during the Middle Ages. Many ideas forming the basis of mercantilism stemmed from the events of the period; these can be listed as: Geographical discoveries, the population explosion in Europe, the development of the merchant class, the cultural effects of the Renaissance, precious metals obtained through geographical discoveries, the formation of nation-states replacing feudalism and the increase in the authority of kings, and the change in religious views regarding issues such as profit and wealth accumulation (Tekeoğlu, 1993, p. 14-15; Seyidoğlu, 2009, p. 20).

The mercantilist period is the era in which commercial capitalism developed, preparing the conditions for capital accumulation and the market economy in Europe. Mercantilist views essentially served the purpose of increasing the authority of kings and supporting national unity during the formation process of new nation-states. Mercantilism determined the principles of economic policies for newly established nation-states for three hundred years. During the mercantilist period, commercial capital created monopolies in both domestic and foreign trade. While the creation of monopolies by commercial capital served the interests of nation-states on one hand, it was necessary to eliminate the high risks in trade with overseas countries on the other. The establishment of monopolies in trade constituted a significant source of revenue for nation-states.

In the mercantilist period, privileged trading companies (Chartered Companies) operating at the joint-stock company level not only held commercial monopolies but also became important instruments of colonization, serving as the source of capital accumulation. These joint-stock companies, which were significant revenue sources for nation-states, were not only granted trade monopolies but were also protected by state power. Companies in the mercantilist period did not content themselves with merely trading; they established armies, minted money, and could wage war. These companies can be considered the state-supported ancestors of today's multinational corporations. Mercantilists argued that the merchants' profit was identical to national interests and that this constituted the power of the country. Since there was an alignment between the interests of strong states and merchants, mercantilist thought shaped world trade for approximately three hundred years as the doctrine of absolute monarchies and newly developing states (Kazgan, 2002, p. 43).

The Mercantilist doctrine can be explained by three fundamental factors: the principle of a national and strong state, the passion for profit and the possession of precious metals, and the principle of foreign trade. The mode of thought advocating the supremacy of the church and supernatural phenomena in the Middle Ages gave way to the supremacy of wealth and the nation-state in the Mercantilist period. In this era, the supremacy of the state and the desire for wealth were linked to the wealth of merchants. In the Mercantilist period, the source of wealth was precious metals. According to mercantilists, precious metals are permanent, while goods are transient. Therefore, precious metal deposits had to be operated, their outflow from the country prevented, and overseas countries exploited to obtain precious metals. According to the mercantilist view, the purpose of foreign trade was to ensure the inflow of more precious metals into the country. Countries that did not possess gold and silver stocks were required to develop their national industries and engage in exports. For this reason, it became mandatory for the state to be strong and to intervene in the economy. At the foundation of economic intervention lay the intervention in foreign trade. Foremost among these measures were the promotion of exports to increase the country's gold and silver stocks, the restriction of imports as much as possible, and the conduct of foreign trade via the country's own vessels. To achieve this, it was necessary to possess a strong army and navy, as well as a robust merchant fleet. Countries possessing these assets would acquire more colonies, hold control over maritime trade, and attain the desired wealth (Tekeoğlu, 1993, p. 18).

In the Mercantilist period, foreign trade was viewed not merely as an exchange but as a source of wealth and an economic war. During this era, a foreign trade surplus was regarded as the source of a country's wealth; the more a country exported and the less it imported, the more its gold and silver stocks would increase. Since global gold and silver stocks were limited, global wealth was also considered fixed. Therefore, a country could only become wealthy through the impoverishment of another. Consequently, foreign trade was perceived as a struggle where one side won and the other lost (a zero-sum game).

One of the most important policies for preserving national wealth during this period was restricting imports; specifically, while the importation of final goods was restricted, the importation of intermediate goods was permitted. Colonies existed solely for the benefit of the mother country, and they were prohibited from trading with other nations. These practices during the Mercantilist period caused significant changes in world trade; with geographical discoveries, important trade centers such as Venice and Genoa lost their prominence, shifting to colonial powers like Spain, Portugal, England, and the Netherlands. Foreign trade was not conducted peacefully during the Mercantilist period. The purpose of trade was a monopolistic activity based on exploitation and supported by the military, aimed at increasing the power of the states. In this period, countries utilized trade as a weapon to increase their political power and protect their industries.

"Trade Wars" in the Mercantilist period were waged in the literal, not metaphorical, sense. Colonial powers such as Spain, Portugal, England, and the Netherlands clashed numerous times to increase their commercial dominance. The fundamental logic of trade war was to increase one's own welfare while harming the neighbor (beggar-thy-neighbor policy) (Salvatore, 2013, p. 32-33).

2. The Industrial Revolution and Liberal Era: The First Golden Age

The emergence of the Industrial Revolution and the idea of free trade mutually reinforced one another in international economic thought. The mercantilist views that shaped the trade policies of European countries in the 15th and 18th centuries began to undergo a transformation with the rise of industrial capitalism from the second half of the 17th century onwards. The rising entrepreneurial class in Europe opposed state interventions, advocating for liberty, individual enterprise, and the restriction of public interventions to serve their own interests. Capital accumulation resulting from trade and colonialism, alongside the slave trade, created the bourgeoisie, which subsequently boosted investment and production. Developments in technology and innovation increased mass production, thereby pushing countries to seek new markets. However, at a time when all countries adhered to mercantilist views and maintained high tariff walls, there was a need for a market for the goods produced through mass production, as well as for the ideas that would constitute the infrastructure for such a market. Thinkers such as Petty, Locke, Hume, Law, Cantillon, Smith, Ricardo, and Mill pioneered liberal thought in foreign trade. Under mercantilist thought, a nation's wealth depended on its stock of gold and silver; if countries did not possess these mines, they were required to engage in export activities to earn them, while implementing highly restrictive policies to prevent the outflow of gold and silver (Küçükaksoy et al. 2015, p. 692). This situation led to international trade being viewed as a zero-sum game, where the prevailing view was that trade benefited one nation to the detriment of another.

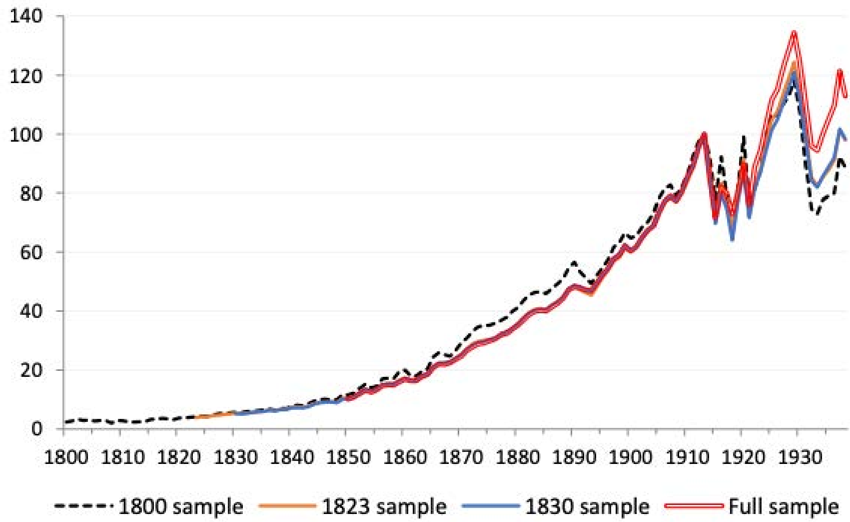
In response to the Industrial Revolution, capital accumulation, mass production, and entrepreneurs' demands for free trade, Adam Smith, in his work *The Wealth of Nations* published in 1776, opposed Mercantilist views. He explained through the Theory of Absolute Advantage that the wealth of nations would increase mutually not by accumulating gold and silver, but through the division of labor, specialization, and free foreign trade conducted between countries. According to Smith, the foundation of trade and wealth rests on absolute advantage. Accordingly, if one nation is more efficient than another in the production of a good, it should specialize in that good and exchange its surplus production for the good in which the other nation possesses an absolute advantage. This specialization, through the most efficient use of resources, would increase the total production of both goods, and this increase would constitute the gain shared between the nations. For this reason, Smith advocated for the minimum possible government intervention in the economy. David Ricardo, in his work in 1817, generalized Smith's theory and explained how free foreign trade would increase the welfare of countries through the Theory of Comparative Advantage. In Smith and Ricardo's theories, contrary to the mercantilist view where one wins while the other loses, countries win together by engaging in foreign trade. The factors ensuring that both countries win are the division of labor, specialization, and free foreign trade between countries.

The difficulty of consuming mass production in Europe within the domestic market and the constantly increasing need for raw materials pushed countries towards free trade. The trade-restricting policies and high customs duties of the Mercantilist period gave way to trade-liberalizing low customs tariffs. In addition to these, developments in logistics (steam trains and ships) caused unprecedented increases in world trade by transporting goods cheaply to all corners of the world. A rapid and stable growth in world trade occurred during a large part of the 19th century. The period between 1850 and 1914, during which world trade increased rapidly and globalization accelerated, is termed the First Golden Age. In the First Golden Age, global trade networks expanded, trade in goods and capital became relatively liberalized, and the Gold Standard mechanism, the payment system between countries, continued stably. However, World War I, the Great Depression, and World War II marked a period where world trade was severely restricted, trade wars and beggar-thy-neighbor policies intensified, and the First Golden Age came to an end in 1914.

3. The Era of Wars and Depressions: The Return of Protectionism

The period between World War I and World War II was an era characterized by a rapid decline in global trade volume, countries exhibiting autarkic tendencies, and a significant rise in protectionism. While world trade experienced rapid and stable growth prior to World War I, with the outbreak of the war, governments suspended trade-enhancing policies, and economic resources began to be utilized largely for military purposes. With the advent of World War I, countries began printing unbacked money to finance the war; this led to the collapse of the gold standard, triggered mutual currency wars, and resulted in the prevalence of ultra-nationalist and protectionist policies. In a study compiling world trade data between 1800 and 1938, Federico and Tena-Junguito (2016) demonstrated the trajectory of trade volume during the 1800–1938 period with the aid of the figure below.

Figure 1: World Trade Indexes from 1800 to 1938, 1913=100



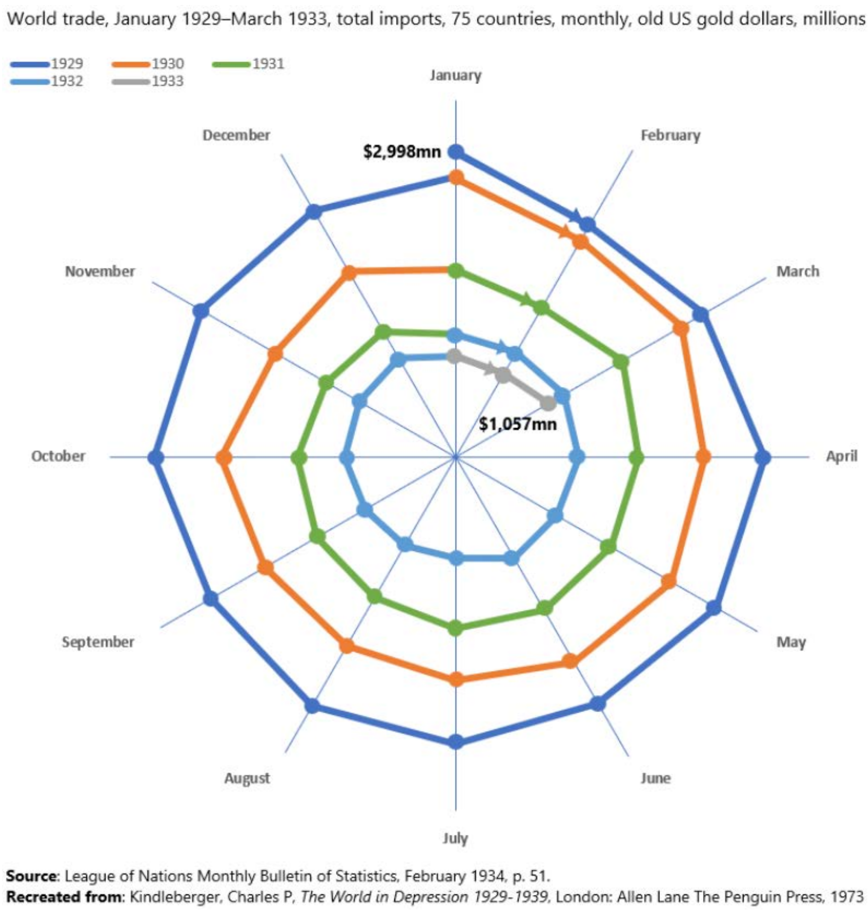
Source: Federico and Tena-Junguito (2016, p. 32).

Federico and Tena-Junguito (2016) calculated the world trade index in the figure above using different sample periods, taking the year 1913 as the base. As can be seen from the graph, foreign trade volume grew steadily and rapidly during the approximately 100-year period from 1817 to 1913. The drivers behind this rapid growth in trade include innovations brought about by the Industrial Revolution, mass production, the development of road, maritime, and railway transportation, and the liberal policies pursued by countries. The outbreak of World War I caused world trade to decline by approximately 25%, and this decline continued until 1918. World trade returned to its pre-war 1913 level in 1925 and grew until 1929, the year of the Great Depression, reaching a level approximately 30% higher than the pre-war peak. However, the Great Depression of 1929 disrupted the positive trend in trade following the end of World War I, causing a massive contraction in world trade from 1929 to 1933, which is considered the deepest year of the Great Depression (Federico & Tena-Junguito, 2016, p. 31-35).

The collapse of the gold standard in the interwar period led to excessive volatility in exchange rates. Although countries desired to return to the stable pre-war era, trade polarizations, competitive devaluations, and the

Great Depression steered nations towards protectionism. The United States became the pioneer of protectionism in global trade with the adoption of the Smoot-Hawley Tariff Act in 1930. By raising import tariffs to approximately 59% by 1932, the U.S. pursued a beggar-thy-neighbor policy, the aim of which was to restrict imports, stimulate domestic production, and export unemployment. In response to the tariff hikes enacted by the U.S. through the Smoot-Hawley Tariff Act in 1930, 60 of the U.S.'s trading partners (particularly European countries) retaliated by doubling their own customs tariffs. As a result of mutual tariff increases, world trade contracted by a significant rate of 60%. While American imports in 1932 fell to 31% of their 1929 level, the decline in exports was even greater. Consequently, the trade war contributed significantly to the global spread and deepening of the 1929 crisis (Salvatore, 2013, p. 278-279).

Figure 2: The Kindleberger Spiral



Source: Trade B Blog (2025).

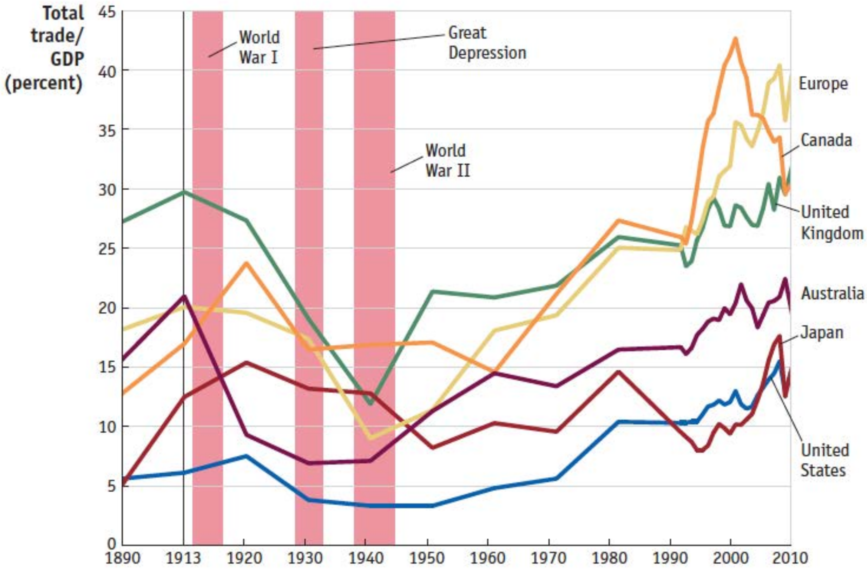
Charles P. Kindleberger (1973) illustrated how the trade war precipitated the collapse of world trade using a spiral diagram (referred to as the Kindleberger Spiral since that date). The Kindleberger Spiral depicts the monthly decline in world trade during the period from January 1929 to March 1933. The spiral shown above reveals that world trade contracted by approximately 65% between January 1929 and March 1933. The Kindleberger Spiral graphically illustrates the progressive month-by-month contraction of total imports across 75 countries. As can be observed from the graph, while the aggregate import value of these 75 countries stood at $2,998 million in January 1929, total imports decreased by approximately 65% to $1,057 million by March 1933.

During the World War II period (1939-1945), the conflict spread across a vast area. The gold standard collapsed, countries implemented competitive devaluation policies, and production and trade were reoriented towards wartime necessities. World War II caused a significant contraction in European economies and industries, the abandonment of liberal policies, and brought trade to a near standstill.

4. The Multilateral Trading System: GATT, WTO, and the Second Golden Age

World trade grew rapidly and steadily from 1817 until World War I. However, the outbreak of World War I led to the diversion of resources into the war economy, the collapse of the gold standard, and the adoption of intense protectionist measures by nations. These measures brought international trade to a standstill, resulting in the end of the First Golden Age. Figure 3 illustrates the foreign trade/GDP shares of Europe and five countries with significant shares in world production and trade for the period 1890-2010. Figure 3 demonstrates the sharp declines in countries' trade shares during World War I, the Great Depression, and World War II, indicating that countries were only able to return to pre-World War I levels in the 1970s and 1980s. Furthermore, Figure 3 shows that protectionist policies and beggar-thy-neighbor policies mutually reinforced one another, and that returning to previous levels was achievable only over a very long period through appropriate policies.

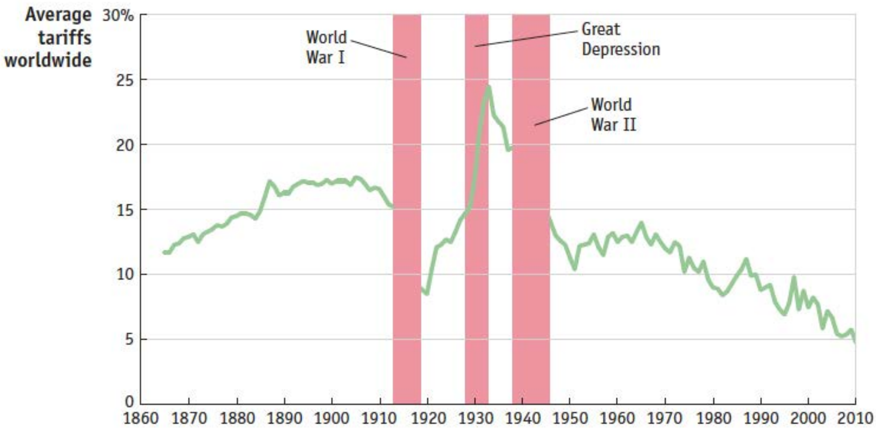
Figure 3: Trade in Goods and Services Relative to GDP



Source: Feenstra and Taylor (2014, p. 13).

Figure 4 illustrates the 150-year trajectory of protectionism and free trade trends globally for the period 1860-2010. It is observed that from 1860 to the outbreak of World War I in 1914, global customs tariffs fluctuated steadily around the 15% band. World War I, the Great Depression, and particularly the Smoot-Hawley Act caused global tariffs to peak. Figure 3 has already demonstrated how rising customs tariffs and non-tariff barriers worldwide reduced world trade.

Figure 4: Average Worldwide Tariffs, 1860–2010



Source: Feenstra and Taylor (2014, p. 14).

During the First Golden Age, foreign trade was generally conducted through bilateral agreements and hegemonic power relations. There were no institutions liberalizing trade in this period, and trade agreements were made based on bilateral negotiations. However, World War I, the collapse of the gold standard, the Great Depression, and World War II demonstrated the necessity of establishing institutions to regulate and liberalize world trade. Even before World War II had ended, the Allied countries decided to establish two international economic organizations under the leadership of the USA and the United Kingdom at the Bretton Woods conference in 1944, in order to liberalize international trade and stabilize the post-gold standard global payment system in the new world order. At the Bretton Woods conferences, it was decided to establish the World Bank (IBRD) for the reconstruction of European countries devastated after the war, and the International Monetary Fund (IMF) to create a new international payment system and prevent countries experiencing balance of payments crises from blocking trade.

While cooperation was achieved for the international payment system and the reconstruction of devastated countries, similar cooperation came to the agenda for the liberalization of international trade; however, the World Trade Organization could not be established because a consensus could not be reached among countries. At the conference held in Havana between November 1947 and March 1948, attended by 56 members of the United Nations, the establishment of the International Trade Organisation (ITO) was discussed, resulting in the Havana Charter. The draft was criticized in the

US Congress, and due to concerns about restrictions on US sovereignty and pressure from local interest groups, the charter was withdrawn in December 1950, thereby eliminating the possibility of establishing the International Trade Organisation (ITO). On October 30, 1947, the General Agreement on Tariffs and Trade (GATT), containing mutual tariff reductions, was signed between 23 member countries and the USA, entering into force on January 10, 1948. In the period from January 10, 1948, to January 1, 1995, the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO) which replaced it in 1995, constituted the foundation of the sole multilateral trading system agreed upon to regulate, simplify, and liberalize international trade (Karluk, 2009, p. 436; Seyidoğlu, 2009, p. 220; Jepma, et al., 1996, p. 315-316; Çifçi, 2024, p. 123-124).

The General Agreement on Tariffs and Trade (GATT) emerged after World War II with the aim of liberalizing trade and enhancing international cooperation among countries, working towards the simplification and liberalization of international trade. The general objective of GATT was to increase the welfare levels of member countries by increasing free trade among nations, ensuring the full utilization of global resources, and contributing to the development of production and international trade. Furthermore, the specific objective of GATT was to reduce tariffs and other trade barriers in order to achieve these general goals. GATT conducted multilateral negotiations to lower tariffs between countries and reduce other protective measures. GATT established a mechanism for the resolution of trade disputes among member countries and became an institution ensuring the orderly functioning and stability of international trade relations (Karagül, 2014, p. 101; Çifçi, 2024, p. 123-124).

The gradual reduction of tariff walls by the General Agreement on Tariffs and Trade (GATT) through multilateral negotiations initiated the Second Golden Age, a period of rapid trade growth post-1950. Figure 3 and Figure 4 demonstrate that customs tariffs were continuously and gradually reduced following World War II, illustrating a liberalization process in which global economic integration reached its highest historical levels. The continuous and stable decline in tariff rates, and more importantly, the reduction and elimination of non-tariff barriers, constituted a fundamental factor that increased the welfare levels and production capacities of countries by lowering trade costs (Feenstra & Taylor, 2014, p. 14).

The United States' adoption of the Smoot-Hawley Tariff Act in 1930, which raised import tariffs to approximately 59% by 1932, drove other countries towards retaliation and economic nationalism, causing average global customs tariffs to rise to around 25%. The multilateral trade negotiations that commenced with the entry into force of GATT succeeded in significantly reducing customs tariffs. From its establishment in 1947 until its final meeting in 1994, GATT held eight major negotiation rounds. In each negotiation round, different issues in international trade were addressed, and significant decisions were made regarding trade liberalization.

Table 1: GATT Trade Rounds

Round Name	Dates	No. of Countries	Trade Volume (Billion $)	Tariff Reduction Rate (%)	Outcomes
Geneva Round	1947	23	10	-26	Tariff reductions on 45,000 items
Annecy Round	1949	13	-	-3	Tariff reductions on 5,000 items
Torquay Round	1950-1951	38	-	-4	Tariff reductions on 8,700 items
Geneva Round	1955-1956	26	2.5	-3	Tariff reductions on 7,000 items
Dillon Round	1961-1962	26	4.9	-4	Tariff reductions on 4,400 items
Kennedy Round	1964-1967	62	40	-38	Tariffs, Non-Tariff Measures (Anti-dumping)
Tokyo Round	1973-1979	102	155	-34	Tariffs, Non-Tariff Measures
Uruguay Round	1986-1993	123	3700	-40	Trade in Services, Intellectual Property Rights, **Establishment of WTO**

Source: WTO (2024), Seyidoğlu (2009, p. 223), Hinrich Foundation (2024), Çifçi (2024, p. 129).

Upon examining the GATT rounds in Table 1, it is observed that the Geneva Round of 1947 was highly successful in reducing tariffs. However, it is not possible to speak of comparable success in the subsequent four negotiations. It is evident that starting from the Kennedy Round, GATT demonstrated significant success in trade liberalization. To illustrate, while the average tariff rates on industrial goods were 40% in 1947 when GATT was established, this rate dropped to 4.7% in the Tokyo Round. As of 2010, the average customs tariff on industrial goods is approximately 3% in developed countries, whereas this rate is around 10% in developing countries. The tariffs applied by leading developed and developing countries across various sectors are presented below.

Table 2: Tariffs on Non-agricultural Products in Developed Countries in 2010 (%)

Sector	USA	EU	Japan	Canada
Fish and fish products	1.0	10.5	5.5	0.9
Minerals and metals	1.7	2.0	1.0	1.0
Petroleum	1.4	2.0	0.6	0.5
Chemicals	2.8	4.6	2.2	1.0
Wood, paper, etc.	0.5	0.9	0.8	1.1
Textiles	7.9	6.6	5.5	4.3
Clothing	11.7	11.5	9.2	16.9
Leather, footwear, etc.	3.9	4.2	9.0	4.3
Nonelectric machinery	1.2	1.9	0.0	0.5
Electric machinery	1.7	2.8	0.2	1.1
Transport equipment	3.0	4.3	0.0	5.8
Other manufactures	2.4	2.7	1.2	2.9
Average	3.3	4.0	2.5	2.6

Source: Salvatore, (2013, p. 222).

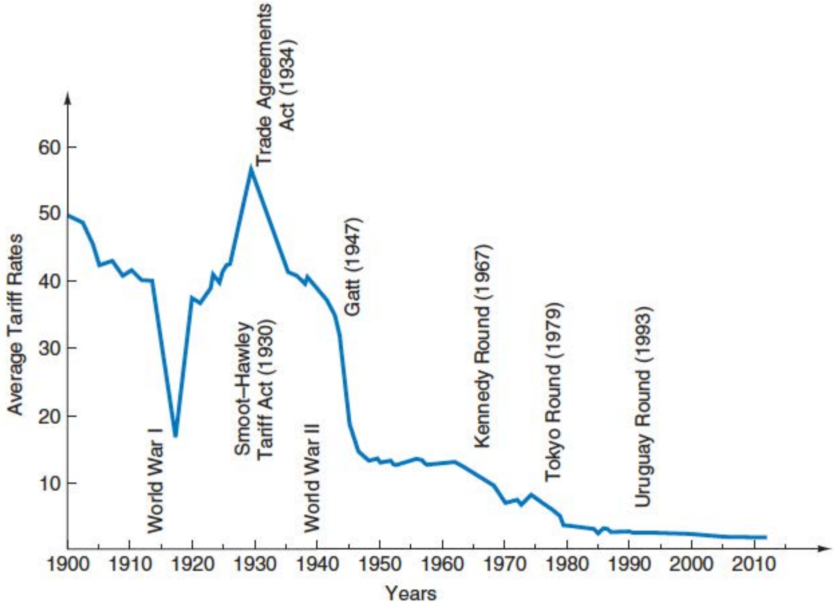
Table 2 presents the average customs tariff rates applied by the world's leading developed economies to non-agricultural goods in 2010. As can be observed from Table 2, while developed countries maintain very low tariff rates in the industrial sector (capital-intensive), high customs tariffs are applied in sectors such as Textiles, Clothing and Leather, and footwear, etc. (labor-intensive). This demonstrates that developed countries aim to protect labor-intensive sectors within their domestic markets. Table 2 also reveals that there are geographical variations in the customs tariffs of developed countries. For instance, the EU and Japan significantly protect the Fish and fish products sector, indicating that this sector is protected for socio-political reasons in both regions.

Table 3: Tariffs on Non-agricultural Products in Developing Countries in 2010 (%)						
Sector	**China**	**India**	**Brazil**	**Russia**	**Korea**	**Mexico**
Fish and fish products	10.9	29.8	10.0	12.2	16.1	16.6
Minerals and metals	7.4	7.5	10.1	10.0	4.6	3.8
Petroleum	4.8	3.8	0.2	5.0	4.1	0.1
Chemicals	6.6	7.9	8.3	6.4	5.7	2.6
Wood, paper, etc.	4.4	9.1	10.7	13.2	2.2	5.5
Textiles	9.6	14.7	23.2	11.0	9.1	13.9
Clothing	16.0	13.4	35.0	11.8	12.6	30.0
Leather, footwear, etc.	13.2	10.2	15.7	8.6	7.9	8.8
Nonelectric machinery	8.0	7.3	12.7	3.4	6.0	3.1
Electric machinery	8.3	7.2	14.1	7.4	6.2	4.0
Transport equipment	11.5	20.7	18.1	11.1	5.5	9.6
Other manufactures	11.9	8.9	15.3	11.3	6.7	5.7
Average	8.7	10.1	14.2	8.9	6.6	7.1

Source: Salvatore, (2013, p. 223).

Table 3 presents the average customs tariffs applied by developing countries to non-agricultural goods in 2010. The data in the table indicates that these countries maintain higher tariffs to protect their industrial sectors. While it is observed that Korea and Mexico pursue relatively more liberal policies, it is noteworthy that Brazil and India are more protectionist. Similar to developed countries, the highest protection in developing countries is applied to the Clothing sector.

Figure 5: U.S. Ave7rage Tariff Rates on Dutiable Imports, 1900–2012.



Source: Salvatore, (2013, p. 282).

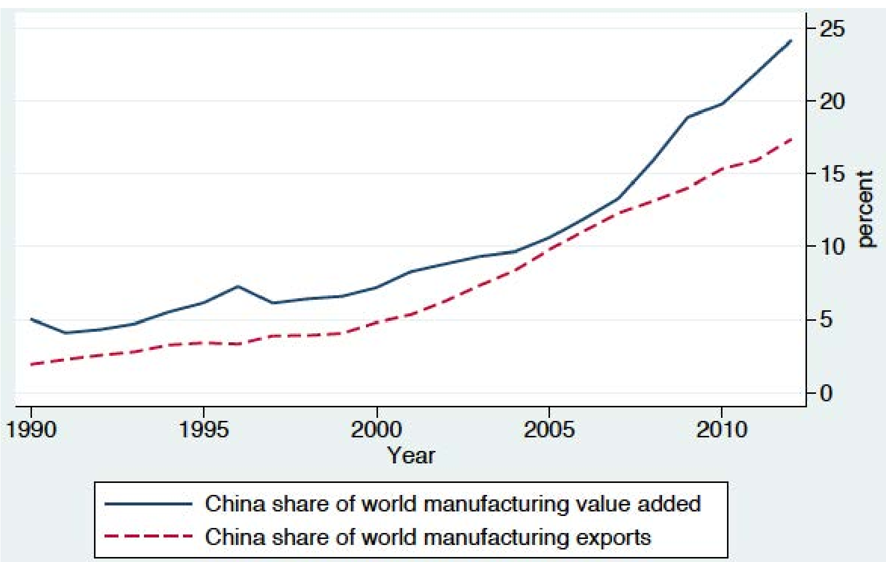
Figure 5 illustrates the transformation of U.S. trade policy from 1900 to 2010. The most notable point in Figure 5 is the Smoot-Hawley Act, which was enacted to counteract the effects of the Great Depression. In 1934, the U.S. moved away from the Smoot-Hawley Act with the adoption of the Reciprocal Trade Agreements Act, initiating a period of steady reduction in customs tariffs. The decline in U.S. tariffs accelerated from 1947 onwards with the commencement of GATT activities.

Following the establishment of GATT and its successor, the World Trade Organization (WTO), world trade witnessed its Second Golden Age. Advances in technology and communication facilitated the fragmentation of production (outsourcing and offshoring), thereby enhancing international trade not only quantitatively but also qualitatively. The expansion of global value chains meant that components of complex products were now manufactured across different countries; this emergence of international economies of scale contributed significantly to global efficiency. During this period, unprecedented growth was realized not only in the trade of goods but also in capital trade.

5. Axis Shift in Global Trade: The China Shock and U.S. Strategic Protectionism

The period from 1947 until the tariff hikes and trade wars initiated by U.S. President Donald Trump in 2018 represents an era where global trade in goods and capital increased rapidly, trade integration among countries intensified, and free trade prevailed globally. Throughout this process, the U.S. was the pioneer and supporter of multilateral trade liberalization negotiations. China entered a process of opening up in 1978, and through the liberal policies it implemented and its accession to the World Trade Organization in 2001, it reduced its average customs tariffs from 40% in 1990 to 10% (Bown, 2019, p. 3-4). Opening up to the world in 1978, China achieved a comparative advantage in the manufacturing industry in the 1990s, becoming the 'world's factory'. As illustrated in Figure 6, while China produced approximately 5% of world manufacturing in 1990 when it began to gain comparative advantage in the manufacturing sector, by 2012 it had come to produce approximately 25% of world manufacturing. China's share in global manufacturing exports, which was 3% in 1990, rose to 23% in 2012 (Autor et al. 2016, p. 5-8).

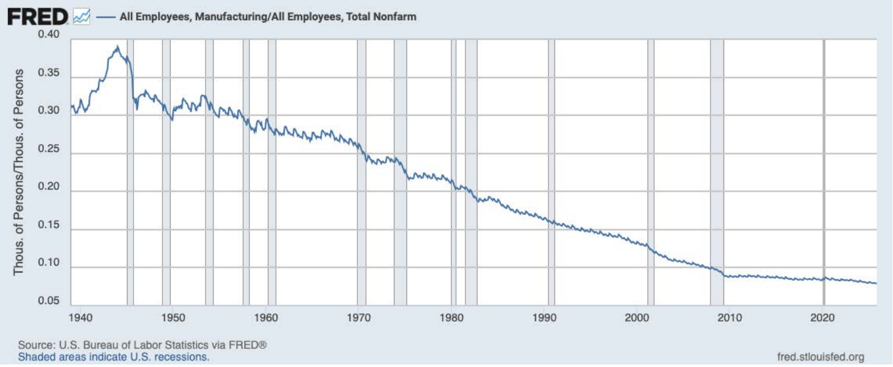
Figure 6: China's Share of World Manufacturing Activity



Source: Autor et al. (2016, p. 5).

Following China's accession to the WTO, its manufacturing exports grew by an annual average of 30% during the 2001–2006 period. Subsidies provided by China to its manufacturing industry, the application of low taxes on inputs, and the acceleration of the learning-by-doing process increased the productivity of Chinese firms, thereby enhancing China's competitiveness. This colossal trade shock exhibited by China drew attention as it caused employment and wage losses in the manufacturing industries of the U.S. and other countries (Amiti et al. 2018, p. 2). Figure 7 illustrates the U.S. manufacturing industry employment rates for the period 1939–2025. It is observed that U.S. manufacturing employment rose rapidly during the war period of 1939–1945 due to the war economy, but steadily declined in the post-World War II period from a rate of 30%, falling to as low as 8% by 2025.

Figure 7: Manufacturing Share of U.S. Nonfarm Employment, 1939 - 2025

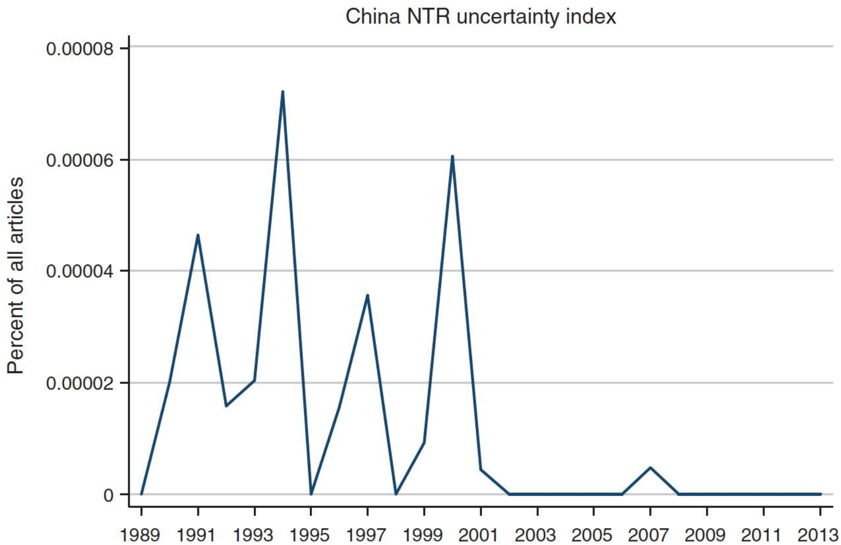


Source: FRED Economic Data (2025), https://fred.stlouisfed.org/graph/?g=1Gor#

The China shock caused the U.S. labor market to undergo a severe adjustment process, leading to rising unemployment rates and wage suppression, particularly in regions with a high concentration of low-skilled workers (Autor et al. 2016, p. 1).

China's accession to the WTO marked a watershed moment for the U.S. economy. Prior to joining the WTO, China's access to the U.S. market was contingent upon the annual renewal of Most Favored Nation (MFN) status; this condition created significant policy uncertainty for U.S. investors seeking to do business with China, thereby deterring U.S. investment in China. The U.S. Congress's granting of Permanent Normal Trade Relations (PNTR) status to China in 2000 permanently eliminated the risk of customs tariffs suddenly reverting to Smoot-Hawley levels. This development removed policy uncertainty for U.S. investors and provided the necessary incentive for U.S. firms to relocate their operations to China or establish long-term strategic partnerships with Chinese manufacturers (Pierce & Schott, 2016, 1632-1633; Handley & Limao, 2017, p. 2732).

Figure 8: China Most Favored Nation (MFN) Uncertainty Index



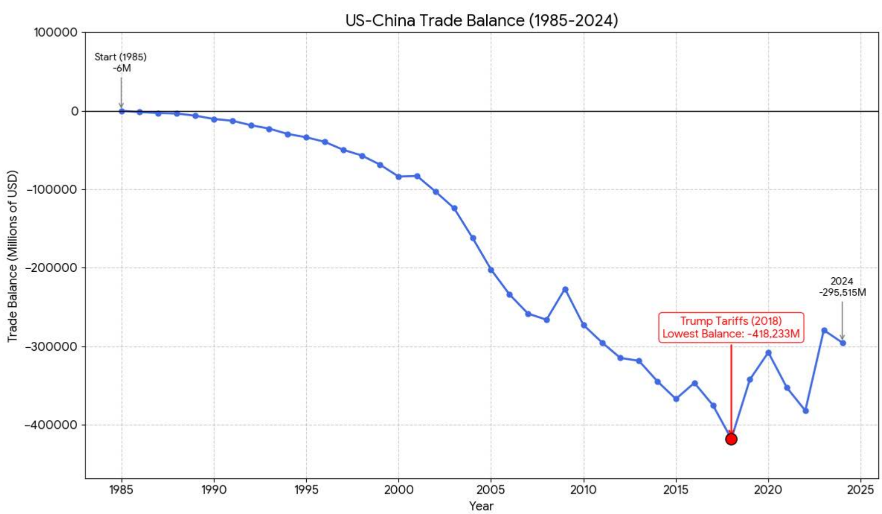
Source: Pierce and Schot (2016, 1637).

Figure 8 illustrates China's Most Favored Nation (MFN) uncertainty index, thereby depicting trade policy uncertainty. It is observed that prior to China's accession to the WTO, trade risk was high, volatile, and uncertain. Periods of elevated trade risk corresponded to periods of tension between the U.S. and China. Prior to 2001, the failure to grant NTR (Normal Trade Relations) status to China implied that average customs tariffs would surge from the 4% level to the Smoot-Hawley level of 37%. With China's membership in the WTO in 2001, trade risk was eliminated, and China began to access the U.S. market under Most Favored Nation status with low customs tariffs and without carrying trade risk. The acquisition of Most Favored Nation status enabled the deepening of commercial relations between China and the U.S. and the establishment of long-term relationships. Due to low labor costs in China, this situation led U.S. firms to shift production to China (Offshoring) and engage in Outsourcing, effectively moving global production to China. While the relocation of U.S. firms to China increased the global competitiveness of U.S. firms, it also facilitated the transfer of capital and technology to China, thereby enabling China to become a center of technology and innovation (Pierce & Schott, 2016, 1632-1633).

The utilization of the tariff instrument by U.S. President Trump in 2018, and the subsequent continuation of protectionist policies by President Joe Biden, has established the tariff not merely as a fiscal instrument, but also as a political and strategic policy tool. According to Irwin (2017, p. 9), the purposes for which countries impose tariffs are Revenue, Restriction, and Reciprocity. Historically, customs duties constituted one of the significant sources of revenue for the public treasury. However, since the beginning of the 20th century, the share of customs duties within budget revenues has diminished. From the 20th century onwards, governments have imposed customs tariffs not to generate income, but for the purposes of Restriction and Reciprocity. The most controversial objective of customs duties is to protect domestic producers from foreign competition. The fundamental motivation for protecting domestic producers involves safeguarding the interests of distinct economic classes within society (industrial manufacturing, agriculture, trade, etc.), economic geography, lobbying activities, and their political representation, as well as protecting industries deemed strategic by the government. Reciprocity, the other function of customs duties, refers to their utilization as a bargaining chip in negotiations regarding tariff reductions or market access between countries (Irwin, 2017, p. 8-9).

The fundamental reasons behind the tariff increases initiated by Donald Trump in 2018 in certain sectors, and subsequently continued, include the preservation of technological superiority, political pressures arising from significant employment and production losses, the elimination of high levels of bilateral trade deficits, and national security concerns (Kapustina et al. 2020, p. 1).

Figure 9: US-China Trade Balance 1985-2024



Source: United States Census Bureau (2025), https://www.census.gov/foreign-trade/balance/c5700.html

Figure 9 illustrates the foreign trade balance between China and the U.S. for the period 1985–2024. In 1985, the year the graph commences, the U.S. trade deficit with China was approximately $6 million; by 2001, this deficit had reached $83 billion. With China's accession to the WTO in 2001 and its acquisition of Most Favored Nation status, the U.S. foreign trade deficit increased rapidly. Although the U.S. trade deficit with China decreased slightly due to the 2009 global economic crisis, the deficit reached a peak of $418.2 billion in 2018, the year Trump imposed customs tariffs. By 2024, it is observed that the U.S. deficit with China has declined to $295.5 billion. The Trump administration argued that these customs tariffs were implemented to rectify the imbalance stemming from unfair trade practices and to prevent employment losses in the U.S. manufacturing sector. Another economic rationale for the tariffs highlights global overcapacity caused by China's State-Owned Enterprises (SOEs) and industrial subsidies, as well as the low exchange rate resulting from China's currency being kept undervalued for a prolonged period. It was argued that this situation pushed global prices down, thereby driving U.S. producers out of the market (Bown, 2019, p. 1).

Another critical driver of the Trade War is the United States' objective to preserve its global technological leadership and constrain China's technological capacity. Kapustina et al. (2020, p. 2) indicate that the U.S. is concerned regarding China's ambition to achieve global leadership in 10 strategic industries—such as robotics, artificial intelligence, and lithium batteries—under the 'Made in China 2025' plan. The U.S. asserts that China compels American companies to establish joint ventures for technology transfer, violates intellectual property rights, and appropriates scientific and technical knowledge from American firms. The Trump administration argues that tariff hikes are necessary as the World Trade Organization (WTO) has proven insufficient in addressing the systemic non-market challenges posed by China (subsidies, mandatory technology transfer requirements, etc.) (Bown, 2021, p. 9). Through the imposition of customs tariffs and the provision of incentives to U.S. technology firms, the U.S. aims to maintain its global technological dominance. As another rationale for customs tariffs, the U.S. administration has contended that domestic steel and aluminum capacity is vital for the defense industry, and that foreign dependence on these critical raw materials undermines the defense base. Furthermore, the risk of domestic producers being driven out of the market due to global overcapacity and subsidies has been linked to the long-term erosion of U.S. military and economic power. Another significant factor underlying the sectoral distribution of customs tariffs is electoral strategies within U.S. domestic politics.

The customs tariffs initiated by the U.S. in 2018, which caused a disruption in international trade, rest upon three fundamental pillars. The implemented customs tariffs not only affected bilateral trade relations but also impacted global value chains and the multilateral trading system (Bown, 2023, 2019; Wu et al. 2020, 2). Table 4 presents a chronological summary of U.S. customs tariff implementations extending from 2018 to 2025:

Table 4: Chronology of US Tariff Implementations (2018 - 2025)

Date	Legal Rationale	Scope / Sector	Initial Tariff Rate	Notes / Key Updates
February 2018	Section 201 (Safeguard)	Solar Panels and Washing Machines	30% (Solar), 20-50% (Washers)	The first use of Section 201 since 2001; washing machine tariffs ended in 2023.
March 2018	Section 232 (National Security)	Steel and Aluminum (Global)	25% (Steel), 10% (Aluminum)	Primarily targeted allies; China was less affected due to pre-existing anti-dumping duties.
July 2018	Section 301 (China - List 1)	Industrial Tech / Machinery ($34B)	25%	Targeted products linked to the "Made in China 2025" strategic plan.
August 2018	Section 301 (China - List 2)	Semiconductors / Chemicals ($16B)	25%	Completed the initial $50 billion trade coverage announced in April 2018.
September 2018	Section 301 (China - List 3)	Intermediate & Consumer Goods ($200B)	10%	The rate was later increased to 25% in June 2019 following a breakdown in negotiations.
September 2019	Section 301 (China - List 4A)	Apparel, Footwear, etc. ($112B)	15%	Reduced to 7.5% on February 14, 2020, as part of the Phase One Agreement implementation.
December 2019	Section 301 (China - List 4B)	Toys and Consumer Electronics ($160B)	15% (Proposed)	Cancelled in December 2013 following the announcement of the Phase One Deal.

May 2024	Section 301 (Biden Revision)	EVs, Batteries, Chips, Steel, Solar	100% (for EVs)	Aimed at protecting strategic high-tech sectors from Chinese industrial overcapacity.
February 2025	Section 301 / IEEPA (Trump 2.0)	All Chinese Imports & Universal Baseline	60% - 100%+ (China), 10% - 20% (Global)	Projected escalation involving a universal baseline tariff on all imports and punitive rates on China.

Source: Bown (2023).

Fajgelbaum et al. (2019, p. 1) state that the full incidence of the customs tariffs implemented in 2018 fell not on exporters, but entirely on U.S. importers and consumers. This indicates that the terms-of-trade gain expected in trade theory did not materialize in the short run; on the contrary, U.S. firms and households faced an annual cost of approximately $51 billion (Fajgelbaum et al. 2019, p. 1; Amiti et al. 2019, p. 9). Furthermore, approximately 90% of the tariffs imposed in 2018 targeted intermediate goods, a move that disrupted the structure of global value chains (GVCs). The targeting of intermediate goods increased the input costs of U.S. firms, thereby weakening their global competitiveness and causing the redirection of approximately $165 billion in trade volume (Bown, 2019, p. 12).

Conclusion

This study examines the evolution of foreign trade from a broad perspective, ranging from Ancient Greece to Mercantilism, the Liberal Era comprising the First Golden Age and Second Golden Age, and finally to contemporary protectionist trends. Trade between communities dates back as far as human history. The purposes for which countries impose customs tariffs are Revenue, Restriction, and Reciprocity. While the purpose of customs duties in the Ancient Era was to generate revenue for the treasury, customs tariffs were implemented for protection purposes during the Mercantilist era. During the First Golden Age, a liberal era, tariffs for protection purposes weakened; meanwhile, from 1934 (when the U.S. abandoned the Smoot-Hawley Act via the Reciprocal Trade Agreements Act) until 2018, tariffs were applied with the objective of Reciprocity. Established after World War II, GATT and subsequently the WTO contributed significantly to global integration by gradually reducing customs tariffs and non-tariff measures until 2018. From 2018 onwards, with the policies of Trump initiating a trade war through raised customs tariffs, the world has entered an era of customs tariffs applied for the purpose of Restriction.

China's accession to the WTO in 2001 and its acquisition of Most Favored Nation status caused a significant structural transformation in global trade. China's integration into global trade transformed it into the world's production and trade hub, a situation that affected the entire world, particularly the United States. In this process, the decline in U.S. manufacturing employment from 30% to 8% was termed the 'China Shock', leading to socio-economic changes within the U.S. This situation, combined with the U.S. trade deficit with China peaking at $418 billion in 2018, and China becoming capable of competing with the U.S. in industry and technology, prompted the U.S. to implement protectionist policies.

Advances in technology, communication, and transportation have facilitated the rapid and simplified movement of goods and capital between countries, thereby creating a deep global value chain and rendering nations interdependent. Consequently, when a shock occurs in major actors within the global value chain, its repercussions spread globally through a multiplier effect. It is inevitable that the trade war between the U.S. and China, the world's two largest economies, will negatively impact not only these nations but also global production and efficiency. The engagement of the world's two leading economies in a trade war primarily increases Trade Policy Uncertainty, leading to the postponement of investment decisions and causing global production to remain below its potential. The trade war disrupts the global value chain, resulting in declining productivity, rising costs, and the misallocation of resources, which in turn leads to a significant reduction in global welfare. The new tariffs implemented by the U.S. in 2025 indicate that protectionist measures will persist, Trade Policy Uncertainty will become permanent, and global investments will be suppressed.

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