

Tariffs And Trade Wars: The Rise of Protectionism in The Global Economy

Fatma Pınar Eşsiz¹

Abstract

Over the past two decades, international trade has undergone a significant transformation shaped by political, strategic, and structural shifts in the global economy. Once viewed primarily as a vehicle for economic growth under the paradigm of globalization, trade is now increasingly used as a tool of geopolitical influence and state power.

This chapter explores the growing protectionist turn in global trade policy since the 2010s, through the lens of new mercantilism. From the United States' tariff-driven confrontation with China to Russia-related sanctions, India's agricultural trade barriers, and the EU's climate-oriented carbon border adjustment mechanism, trade policies are being strategically redefined beyond purely economic goals. These changes are deeply rooted in structural dynamics such as rising inequality, deindustrialization, job losses from technological change, and anti-immigration pressures.

Unlike classical protectionism, this new wave incorporates indirect trade barriers justified by environmental, security, and employment concerns. The chapter offers a theoretical and analytical framework for understanding how global trade is shifting away from multilateral liberalism toward nationally driven economic strategies. By connecting these developments within a coherent causal chain, the study aims to provide an original contribution to the literature on the political economy of global trade.

1 Assoc. Prof.Dr., Kırıkkale University, Department of Economics, fpessiz@kku.edu.tr, ORCID: 0000-0002-6486-3943

1. Introduction: The New Face of Foreign Trade

At the beginning of the 21st century, world trade experienced a golden age thanks to the opportunities offered by globalization. However, developments in recent years have begun to reverse this picture. Today, trade is no longer an economic activity limited to the flow of goods across borders; it has also become an integral part of international relations, geopolitical tensions, and strategic interests. Sometimes used as a bargaining chip and sometimes as a direct instrument of sanctions, trade has emerged as one of the most effective tools in power struggles between states.

In this new era, policies such as tariffs, import quotas, embargoes, export controls, and technology bans are shaped not only by economic considerations but also by strategic decisions. Examples such as US tariffs on China, trade sanctions against Russia, India's protective tariffs on agricultural products, and the European Union's carbon border adjustment mechanism clearly demonstrate that trade is now being used for multiple policy aims.

Since the 2010s in particular, inward-looking and populist discourses have gained strength in many countries, paving the way for the rise of protectionist tendencies in trade policy. In the United States, Donald Trump's "America First" policy not only led to higher tariffs but also undermined confidence in the global free trade system. The renegotiation of the North American Free Trade Agreement (NAFTA) into the United States-Mexico-Canada Agreement (USMCA), alongside tariffs and technology restrictions targeting China, exemplify this transformation (Saliya, 2025: 1). Similar trends are observed in Europe. Brexit can be interpreted as the materialization of the United Kingdom's criticism not only of political union but also of economic integration. This process can be seen as a symbolic example of "globalization clashing with the local" (Colantone & Stanig, 2018).

Behind these policies lie dynamics such as deepening socio-economic inequalities, anti-immigrant sentiment, deindustrialization, and unemployment caused by technological transformation. In this context, "new protectionism" stands out as a more comprehensive approach that is not limited to traditional tariffs and import quotas, but also includes indirect trade barriers justified on the grounds of environmental protection, national security, technology transfer, and employment. Hence, this new wave of protectionism is not purely economic; it is also part of a quest for social and political legitimacy (Bremmer, 2014). This chapter examines the new paradigm in which the global economy is shifting away from multilateral free trade toward protectionist tendencies. The contribution of the study lies both in the causal chain it constructs among these phenomena and in the

systematic integration of these dynamics with the conceptualization of “new mercantilism.”

2. The Hegemony of the Neoliberal Era and the Crisis: The Rise of Protectionism

Since the late 20th century, when globalization gained momentum, international trade has become not only a key driver of economic growth but also a cornerstone of the global order. Especially after the end of the Cold War, the spread of free-market ideology worldwide encouraged trade liberalization and enabled nation-states to establish relations based on mutual economic interdependence (Fukuyama, 1992). However, developments in the 21st century have shaken this approach. Economic nationalism, geopolitical tensions, and technological transformation have shown that trade is not merely a process of production and consumption; it can also be used as a tool of political pressure and strategic influence (Rodrik, 2011; Farrell & Newman, 2019).

This transformation has prompted states to reconsider and recalibrate their trade policies on a more defensive footing. Tariffs, export bans, protection of strategic sectors, restrictions on technology transfer, and economic sanctions have become integral elements of foreign policy (Hopewell, 2021). For example, US sanctions against Chinese technology companies such as Huawei and ByteDance (the owner of TikTok), as well as the EU's carbon border adjustment mechanisms, clearly demonstrate how trade regulation grounded in environmental and security concerns has become strategic.

In this context, trade has become a geopolitical issue—an “economic battlefield” where states can advance their interests through economic means (Blackwill & Harris, 2016: 219–220). This change has also led to a redefinition of the concept of economic security. Strategic vulnerabilities in supply chains, the control of high-tech products such as microchips, and access to critical raw materials have expanded the security agendas of nation-states and shifted political economy relations onto a security axis (Allison, 2017). In this framework, trade is no longer solely a mechanism that fosters interdependence and peace, as envisioned in classical liberal theories; it has also become a new front in hegemonic power struggles and regional rivalries. Accordingly, this section first explains the return of national priorities and then discusses the concept of geoeconomic security.

2.1. “My Country First”: The Return of National Priorities

In the last quarter of the 20th century, particularly after 1980, the neoliberal economic approach became the dominant paradigm worldwide. Shaped under the leadership of US President Ronald Reagan and UK Prime Minister Margaret Thatcher, principles such as the free market, global integration, and limited state intervention constituted the basic policy framework (Harvey, 2005: 1–4). The establishment of the World Trade Organization (WTO) in 1995 and China’s accession in 2001 fostered the institutionalization and deepening of global trade; foreign trade was seen as the engine of growth.

However, the 2008 Global Financial Crisis caused a serious rupture in neoliberal globalization. Global stagnation, rising inequality, and a weakening middle class led to a reappraisal of market-oriented policies. In the post-crisis period, especially in Western countries, claims that “prosperity does not spread” and that global trade primarily benefits multinational corporations resonated in public and political arenas (Rodrik, 2011; Stiglitz, 2017). From the 2010s onward, increasingly powerful inward-looking and populist discourses heralded a significant transformation in trade policies. This new trend went beyond classical protectionism and took on a more complex structure intertwining economic reflexes with social and political dynamics. In particular, the “America First” rhetoric of the Trump administration not only increased tariffs but also eroded confidence in the multilateral free trade regime (Bown & Irwin, 2019; Saliya, 2025). In this context, the renegotiation of NAFTA into the USMCA, high tariffs on China, sanctions on technology companies such as Huawei, and export controls are among the striking examples of this new protectionism (Evenett, 2020; Hopewell, 2020).

To make sense of new protectionist tendencies, it is necessary to examine both the historical origins of protectionism and its current transformation. Approaches to the concept vary considerably in the literature. While there is no common definition of the term’s scope and content, some common themes emerge: discriminatory practices against foreign economic actors and regulations that restrict foreign trade. The extent to which protectionist measures interfere with market functioning and distort competition is also a complementary dimension often considered (Altenberg, 2016).

The roots of protectionism lie in the mercantilist approach to political economy that emerged in the 16th century. Mercantilism assessed a state’s economic power according to its precious metal reserves and foreign trade surplus; therefore, encouraging exports and restricting imports through

tariffs were adopted as key policy instruments. Within this framework, the state actively intervenes in the economy to increase national capital accumulation.

Today, the wave of protectionism that emerged especially after the 2008 crisis has evolved into a more complex structure that is not limited to classical tariffs and includes technological, strategic, and digital elements. This transformation is described by some as “new mercantilism” or “geoeconomic protectionism” (Bremmer, 2010; Farrell & Newman, 2019; Hopewell, 2020). In this trend, an adaptation of certain assumptions of classical mercantilism to contemporary conditions, the accumulation of precious metals has been replaced by technological superiority, data sovereignty, and control over strategic sectors. States are redefining economic development not only in terms of growth but also in terms of national security, supply chain sovereignty, and strategic autonomy (Luttwak, 1990; Blackwill & Harris, 2016).

Neo-mercantilist policies often aim for long-term interests rather than short-term gains. According to this perspective, the global economy is an arena where one actor’s gains may come at another’s expense. Hence, economic and national interests are intertwined. Strategic resources and supply chains are particularly important. Countries that can maintain technological, market, or resource superiority in certain areas hold advantages. While these areas may be narrower for smaller states, great powers seek broader control (Collins & O’Brien, 2022: 636). In this context, sectors such as semiconductors, artificial intelligence, and green technologies have become the center of global competition, and the goals of reducing foreign dependence and increasing domestic capacity in these areas are now priorities of state policy (Dachs et al., 2025: 754).

Competition in these strategic sectors is not only economic but also geopolitical. The intensifying technological and commercial rivalry between the US and China is among the most visible manifestations of neo-mercantilist policies today. Both countries have implemented extensive state interventions, stimulus packages, and trade restrictions to increase strategic autonomy, gain greater control over global value chains, and retain technological leadership. Another factor steering the US toward these practices is that China accounts for the largest share of the US trade deficit (Koçakoglu & Özyayın, 2020: 639).

Similar protectionist tendencies have manifested themselves in Europe. Brexit made the UK’s criticisms of the EU visible not only politically but also in terms of economic integration and has been evaluated as one

institutional reflection of the anti-globalization discourse (Colantone & Stanig, 2018; Rodrik, 2018). In this context, Brexit can be interpreted as a symbolic manifestation of “globalization’s conflict with the local.” Regional inequalities, immigration, and multiculturalism debates deepened political polarization, leading a significant segment of the British public to distance themselves from global economic integration (Goodwin & Heath, 2016).

The structural factors behind the rise of this new wave of protectionism are not only economic but also socio-political. Welfare losses from globalization for certain social groups, deindustrialization, the disruptive impact of technological change on labor markets, and cultural backlash driven by increasing migration flows provide the social legitimacy for these policies (Rodrik, 2011; Bremmer, 2014). Unemployment in traditional manufacturing centers, the expansion of low-wage services, and deepening inequality facilitate the promotion of exclusionary and protectionist policies, especially among low- and middle-income groups (Autor, Dorn & Hanson, 2016).

In this context, “new protectionism,” unlike classical tariff-based approaches, extends beyond economic interests and reflects a reflex to protect cultural and political identities. Thus, protectionism today is being reconfigured not only as an economic tool but also as an essential component of populist politics and the emphasis on national sovereignty (Norris & Inglehart, 2019).

Table 1. Free Trade and Protectionism Periods in the World Economy (1500-2025)

Years	Trade Policy Trend
1500-1776	Mercantilism
1776-1875	Transition
1875-1914	Free
1914-1944	War
1944-1970	Liberalism
1970-1980	Crisis
1980-2008	Neo-Liberal
2008-2018	Crisis
2018-	New Protectionism

Source: Helleiner, 2002; Rodrik, 2011; Baldwin, 2016; Yilmaz and Divani 2018.

The table above periodizes the historical evolution of free trade and protectionism in the world economy. Protectionist periods dominated

by mercantilism and economic nationalism since the 1500s started to be replaced by free trade tendencies with classical economic thought in the late 18th century. The liberal waves of the late 19th and early 20th centuries enabled the expansion of global trade; however, wars, economic crises, and political polarization brought new protectionist waves. Especially after the 2008 global financial crisis and, from 2018 onward, the escalation of trade wars mark a resurgence of state intervention and economic nationalism.

2.2. The Nature of New Mercantilism: Geoeconomic Security and Weaponized Trade

Mercantilism, practiced from the 16th century until the rise of classical economics, defined national wealth in terms of gold and silver stocks and recommended using trade surpluses to increase state power. Supported by state intervention, protectionism, export incentives, and powerful navies, this system treated trade as a zero-sum game. By the late 18th century, classical economists such as Adam Smith and David Ricardo severely criticized mercantilist thinking and argued that free trade benefits all parties. With these developments, mercantilism receded from prominence until the late 20th century. However, transformations in the global system—especially the conduct of geopolitical competition through economic instruments—have revived mercantilist-style policies adapted to new conditions. In this process, termed neo-mercantilism or new mercantilism, the basic assumptions of classical mercantilism are preserved but linked directly to geoeconomic security and national sovereignty.

In this new era, “mercantilist” policies go beyond the classical accumulationist approach and center on energy, technology, digital infrastructure, data, and supply chains, following a logic of “geoeconomic security.” Geoeconomic security refers to states’ deliberate, systematic use of economic instruments to protect national security and strategic interests. These instruments include trade policies (tariffs, export controls), investment controls (e.g., restrictions on Chinese investment), sanctions, energy dependency management (pipelines, LNG exports), and access to financial infrastructure (e.g., the SWIFT system). The preservation of technological superiority, data security, energy supply, and access to rare earth elements has become more important than traditional export surpluses (Blackwill & Harris, 2016). Economic instruments have become bases for achieving political goals, and discourse on “economic warfare” has become prominent, with economic tools as consequential as military-political instruments (Farrell & Newman, 2019).

Although trade disputes have periodically arisen since antiquity, rising trade tensions and reciprocal tariffs between the US and China in recent years have made the discourse of trade wars more visible globally. Table 2 and Chart 1 provide comparative views of foreign trade interventions implemented between January 2010 and August 2025, the most affected products, and the distribution of interventions by country.

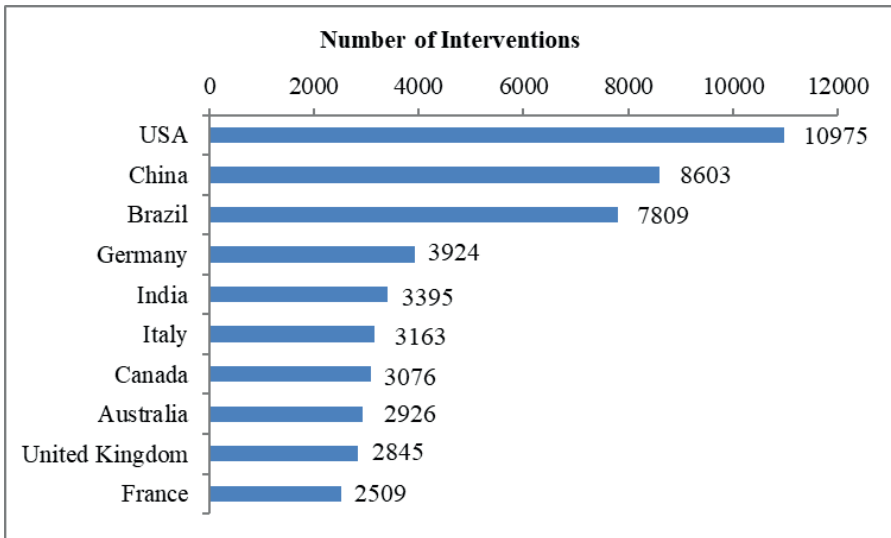
Table 2. Types of Interventions and Affected Products between January 2010 and August 2025 (Top 10)

Intervention Type	Number of Interventions	Affected Products	Number of Interventions
Financial grant	11836	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	4413
Government loan	10873	Iron and steel	3957
Import tariff	8833	Plastics and products made from them	3640
Trade finance	6219	Optical, photographic, cinematographic, measuring, control, medical or surgical instruments and apparatus; parts and accessories	3493
Local content incentive	2766	Chemical products (not elsewhere classified)	3093
Loan guarantee	2238	Grain	3074
Tax or social security deduction	2025	Organic chemicals	2609
Anti-dumping	1814	Inorganic chemicals; organic and inorganic compounds of precious metals; rare earth metals, radioactive elements and isotopes	2586
Financial assistance in the foreign market	1704	Pharmaceutical products	2422
Localization of public procurement	1520	Animal, vegetable or microbial fats and their breakdown products; prepared edible oils; animal or vegetable waxes	2247

Source: Global Trade Alert, 2025.

The left panel shows that governments mostly prefer indirect support instruments rather than direct market intervention. The most common type is “financial grants” (11,836). This suggests that governments attempt to increase firms’ competitiveness via direct financial support. Financial grants are followed by government loans (10,873) and import tariffs (8,833). This ranking indicates that both incentive (subsidy) and protective (tariff) policies are used in tandem. Instruments such as trade finance and local content requirements are also widely used, indicating state efforts not only to boost exports but also to increase domestic production and localize supply chains.

Chart 1. Top 10 Countries with the Most Interventions between January 2010 and August 2025



Source: Global Trade Alert, 2025.

According to the chart, the United States is by far the country with the highest number of interventions (10,975), reflecting its increasing protectionism and strategic use of trade policy instruments. Emerging markets such as China (8,603) and Brazil (7,809) also exhibit high levels of intervention, often to protect domestic industries and build capacity in strategic sectors. Countries such as Germany (3,924), India (3,395), Italy (3,163), Canada (3,076), Australia (2,926), the UK (2,845), and France (2,509) display relatively fewer interventions, but they too adopt interventionist policies at times, especially during crises (e.g., the COVID-19 pandemic or global supply shocks).

In this context, the use of trade as a geostrategic tool has become notable. There are growing concerns that the current structure of international trade creates favorable conditions for using trade as a foreign policy instrument. “Weaponization of trade” refers to the strategic use of trade policy tools by one state to exploit another’s economic vulnerabilities in order to induce changes in the target’s economic, security, or diplomatic behavior. While international trade generally generates welfare gains, it also creates asymmetric interdependence. Such asymmetry can cause one party to incur greater damage than the other if economic relations are suspended, forming the basis for using trade as a coercive mechanism (Feldhaus et al., 2020: 4).

These geoeconomic definitions show that economic instruments can be used not only for market regulation but also directly toward national security objectives. Geoeconomic security explains how economic tools can be deployed as non-military but coercive strategies. In this framework, the use of economic interdependence—especially among great powers—has brought the concept of “weaponized trade” to the fore. This concept differs from “trade war,” which typically refers to the intensive use of trade instruments, especially tariffs, to achieve economic gains (e.g., improving the terms of trade). Weaponization of trade entails instrumentalizing trade policy to change the target country’s behavior not only economically but also in security or diplomatic realms. For example, as in the 1973 Oil Embargo, trade can be used as a direct coercive instrument to reshape a country’s security alliances (Feldhaus et al., 2020: 4). Harding and Harding (2017) argue that trade has evolved from being an implicit instrument of coercion to an explicit tool for achieving foreign policy objectives.

Although geoeconomic strategies and protectionist policies can protect national interests and manage dependencies in the short term, their long-term sustainability is debated. Rising global protectionism is likely to have extensive, multidimensional impacts on consumers, producers, governments, investment decisions, and trade flows. In particular, higher tariffs raise the prices of imported goods, weaken consumers’ purchasing power, and limit market access. The literature indicates that tariffs disproportionately affect low-income households, as these groups must allocate a larger share of income to basic consumption. Moreover, higher prices for imported intermediates encourage firms to source domestically at higher cost, increasing the likelihood that cost increases are passed on to final consumers. These developments affect firms’ employment policies and may lead to changes in wage levels (Kutlina-Dimitrova & Lakatos, 2017: 2). This, in turn, raises concerns about the adverse effects of protectionism on social justice and income distribution.

In sum, new mercantilism reintroduces the classical tendency to protect national wealth while integrating geoeconomic security and weaponized trade strategies. In this new conjuncture, the state seeks to protect not only economic but also strategic interests. The US–China rivalry is a critical arena where this transformation takes center stage. The declining effectiveness of international organizations such as the WTO supports the rise of trade wars and unilateral geoeconomic policy. In this environment, it is inevitable for Turkey and similar countries to redefine economic security and shift elements of defense strategy to the economic domain.

3. The Big Break in Supply Chains: COVID-19 Pandemic

Global supply chains are production and distribution networks in which stages such as design, manufacturing, marketing, and distribution are carried out across multiple countries, largely managed by multinational firms in an integrated manner. Firms face various internal and external risks. On the supply side, these include facility fires, natural disasters, financial fluctuations, political instability, cyberattacks, quality problems, and delivery disruptions. Such risks can disrupt production and negatively affect operational continuity and cost structures. On the demand side, factors such as product reputation, new market entrants, policies restricting market access, macroeconomic crises, and exchange rate volatility are key risks that directly affect revenues and marketing strategies (Miroudot, 2020: 117–118).

In this context, supply chain management (SCM) plays a central role in holistically managing these risks. SCM not only coordinates the flow of goods and services but also anticipates vulnerabilities along the chain and provides strategic plans for risk mitigation. An effective approach includes developing alternative sources of supply, establishing flexible logistics structures, increasing traceability via digital technologies, and strengthening stakeholder cooperation. In this way, firms become more resilient to both supply- and demand-side shocks and safeguard operational sustainability.

However, the COVID-19 pandemic that began in 2020 revealed how fragile global value chains—one of the most tangible outcomes of globalization—can be. The crisis, which started in Wuhan, China, soon caused disruptions in production and logistics worldwide (Evenett, 2020). For example, factory shutdowns in Hubei province—an important high-tech hub integrated into global supply chains with concentrations in automotive, electronics, and pharmaceuticals—had ripple effects (Javorcik, 2020: 211). Subsequently, port closures, rising transport costs, and container shortages significantly impeded the movement of raw materials, intermediates, and

final goods. These disruptions caused delays and product shortages in markets (Şahin, 2024: 59). There were acute shortages in strategic products such as masks, medical equipment, vaccines, and later chips, food, and energy (Evenett, 2020). This supply shock disrupted production processes, raised costs, and generated inflationary pressures, leaving deep negative effects on the global economy (UNCTAD, 2021).

This situation triggered the search for “strategic autonomy” in critical sectors and spurred policies to reduce external dependence. The EU announced a vision of “open strategic autonomy” and emphasized self-sufficiency in areas such as health, digital technology, and the green transition (Codagnone, 2021). The US sought to revitalize domestic semiconductor manufacturing through the CHIPS and Science Act (AUSGI, 2022). Japan and South Korea similarly supported reshoring in critical sectors.

In the aftermath of COVID-19, “security of supply” has become a new normative reference point for trade policy. States now aim to create a production–trade architecture based on risk management, not just efficiency (UNCTAD, 2021).

4. Case Studies: Reflections of Protectionism and Blocs

Rapid economic integration driven by globalization deepened interdependence among countries and created a system in which trade cooperation was reinforced by institutional structures. Regional blocs such as the EU, NAFTA, and APEC played important roles in boosting growth and trade. However, rising geopolitical uncertainties, economic nationalism, and populist policies have led some countries to question these integrations and to take steps toward decoupling from the global trade regime. The UK’s decision to leave the EU is one of the most striking examples. This process, dubbed Brexit, was not only a political rupture but also a new point of departure for debates about how economic cooperation can unravel. In this framework, this section discusses the effects of Brexit on the new trade regime, border issues regarding Northern Ireland, and the redefinition of relations with the EU. It also addresses structural debates on the sustainability of regional integrations, trade diversion, and the future of the global trading system.

4.1. Brexit: A Tale of Divergence and Its Trade Consequences

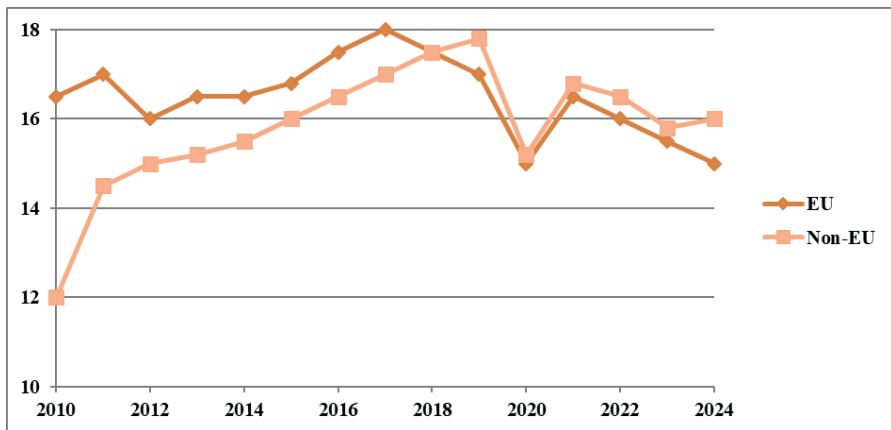
The EU’s Single Market provides significant advantages to member states by enabling businesses to trade at low cost under harmonized rules. The right of free access allows businesses to operate from a single base and

conduct transactions with simpler procedures and lower costs. Common, harmonized regulations across member states lower compliance costs and reduce the complexity of implementation. This common regulatory framework enhances the predictability of legal and administrative rules, reduces uncertainty for firms and consumers operating across borders, and strengthens mutual trust (Kılıcı, 2018: 2).

The UK's departure from the EU was thus not only a political rupture but also a structural transformation of long-standing economic integration. The exit, which officially took place on January 31, 2020, led the UK to reshape its trade policies and redefine its trade regime.

In this new process, the Trade and Cooperation Agreement (TCA), which regulates the future of UK–EU relations, entered into force on January 1, 2021. Under the TCA, UK–EU trade continues without tariffs and quotas; however, because the UK is no longer an EU member, the re-establishment of a customs and regulatory border has increased trade costs (Freeman et al., 2022; Crowley et al., 2022: 47).

Figure 1. UK Exports (2010-2024)



Source: Webb and Ward, 2025.

Figure 1 shows that the UK's goods exports to the EU failed to show a steady recovery after Brexit. Goods exports, which hovered above £215 billion in 2017–2019, did not reach those levels after the UK's departure. As of 2024, goods exports to the EU amounted to £177 billion, indicating persistent structural change in the UK's foreign trade.

This development prompted the UK to diversify its trade relations and reposition itself globally by concluding independent free trade agreements (FTAs) outside the EU. The Comprehensive Economic Partnership Agreement (CEPA) with Japan, which entered into force in 2021, stands out as the UK's first major bilateral FTA (Gov UK, 2025). Subsequently, agreements with Australia and New Zealand covering agriculture, digital trade, and services entered into force in 2023. The Digital Economy Agreement (DEA) with Singapore includes innovative provisions on data flows, cybersecurity, and e-commerce (UK Gov, 2025). The UK also took strategic steps to strengthen multilateral cooperation. In particular, its accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), completed in 2023, demonstrates the UK's aim to deepen integration in the Asia-Pacific. The CPTPP is not limited to trade in goods; it encompasses more than 30 chapters, including technical barriers to trade, SPS measures, competition, public procurement, services and investment, e-commerce, telecoms and financial services, environment and labor, and intellectual property rights (STM, 2023). It is one of the largest trade agreements concluded after Brexit (Üren, 2024).

Brexit also affected political and economic balances on the island of Ireland. EU membership had facilitated integration between the Republic of Ireland and Northern Ireland. During the Brexit process, both expressed a preference to remain aligned with the EU, bringing independence debates back onto the agenda (Cengiz & Kutlu, 2021: 365). In this context, the Northern Ireland Protocol and associated border arrangements play a critical role for both economic integration and political stability.

The Northern Ireland Protocol is a unique arrangement that has been at the center of post-Brexit crises both large and small. The Protocol aims to avoid a hard border on the island of Ireland by keeping Northern Ireland—unlike the rest of the UK—aligned with certain EU customs and Single Market rules for goods. It is grounded in the Good Friday/Belfast Agreement and was adopted in the Withdrawal Agreement negotiations. Without the Protocol, Brexit would have made border controls inevitable (Araujo, 2022: 532).

In conclusion, Brexit has profoundly affected not only the UK's trade regime but also political and regional balances. Although the post-Brexit trade agreements reflect an effort to reposition globally, fully replacing the regulatory harmonization and low-cost advantages provided by the EU appears challenging.

4.2. Regional Blocs: Global Trade Squeezed Between Power Centers

Recent developments have weakened the multilateral trading system and led to the re-emergence of regional trade blocs. In particular, gridlock within the WTO has encouraged countries to pursue regional agreements that are more flexible, faster, and aligned with strategic interests. New-era regional arrangements such as the Regional Comprehensive Economic Partnership (RCEP), the CPTPP, and the African Continental Free Trade Area (AfCFTA) are mega-blocs that go beyond classic FTAs to encompass investment, the digital economy, intellectual property, and competition policy. RCEP, the largest trade bloc, brings together ASEAN countries with China, Japan, South Korea, Australia, and New Zealand, covering around 30% of the world's population and GDP at signing. The CPTPP, with its members, represents around 14.5% of global GDP and includes advanced standards in services, environment, digital trade, and investment. The AfCFTA, with 55 participating countries targeting a market of about 1.3 billion people, aims to promote Africa's economic integration (WEF, 2023).

Traditional blocs are also evolving. The EU has deepened from a customs union to a monetary union and a regulatory polity with increasing political integration. NAFTA's evolution into the USMCA introduced new rules prioritizing US interests in areas such as automotive, digital trade, and intellectual property (Oustr, 2025).

Mega-regional agreements such as RCEP and CPTPP are not only technical arrangements for liberalization; they are also strategic moves in a geo-economic arena marked by US–China competition. RCEP is seen as institutionalizing China's economic leadership in the Asia-Pacific (Hopewell, 2021), and the absence of the US allows an alternative trade order to emerge centered on China. In contrast, CPTPP was carried forward by US allies such as Japan and Australia after President Trump withdrew from the TPP in 2017 (Katada, 2021). Both blocs project power based not only on economic ties but also on regional dependency relationships. They reflect both a reconfiguration of global trade governance and efforts by major powers to rebuild geoeconomic spheres of influence.

While these integrations facilitate trade and reduce costs via regulatory harmonization among members, they can also pave the way for a new generation of protectionism through their exclusionary features. In particular, rules of origin, technical regulations, digital service standards, and harmonized non-tariff measures can become indirect but effective barriers for non-members. This challenges the WTO's most-favored-nation

(MFN) principle and undermines the coherence of global trade (Baldwin, 2006). The resulting “spaghetti bowl” of rules makes the trading system less transparent, predictable, and manageable (Bhagwati, 1995).

5. The Economics of a Tariff-Driven World: Winners and Losers

Tariffs are frequently used to pursue economic and political objectives. Whether to protect domestic production or reduce trade deficits, tariffs have heterogeneous effects across the global economy. Typically, they increase domestic prices, reduce real incomes, generate productivity losses, and may appreciate the domestic currency. These developments tend to neutralize the intended positive impact on the trade balance. The most unfavorable scenario is the emergence of a global trade war triggered by the spread of tariffs, trade restrictions, and retaliation among major economies (Dupuis & Genereux, 2017: 1).

To observe tariffs’ repercussions concretely, US tariffs targeting different sectors can be analyzed. Historically, the US has launched several episodes of tariff escalation, significantly increasing import costs. The Smoot–Hawley Tariff Act of 1930 raised duties on about 900 products by an average of 40–48%. Similar steps in subsequent periods contributed to contractions in world trade. A recent example is the tariffs imposed during Trump’s first term: 25% on more than 800 products imported from China, and 25% and 10% on steel and aluminum from the EU, Canada, and Mexico, respectively (Şanlı & Ateş, 2020: 85).

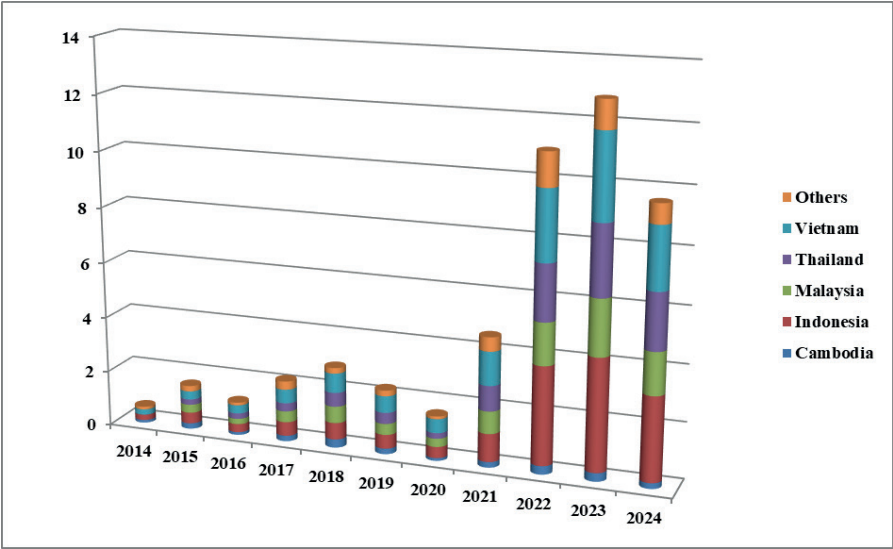
More recently, the “Liberation Day” tariffs announced by the US have created serious uncertainties for the global economy and geopolitical balances. Under the slogan “Make America Great Again” (MAGA), this approach reflects a strategy of exerting pressure through trade policy, citing concerns about foreign debt, competitiveness, job losses, and the dollar’s reserve status. These actions are not limited to tariffs; they sometimes include threats of additional sanctions on BRICS countries if they abandon the dollar in mutual trade, and attempts to compel other countries to supply critical minerals and raw materials needed by US industry. Political, diplomatic, and social issues can also be subjected to trade sanctions on national security grounds (Akman, 2025). Following tariffs imposed on steel, aluminum, and automobiles imported from Canada, Mexico, and China in February–March 2025, comprehensive “reciprocal” tariffs covering most trading partners were announced. These new tariffs—based on the ratio of the US bilateral trade deficit to imports rather than existing tariff differentials—exceeded market expectations (Conteduca et al., 2025).

Countries most affected by these policy changes include Canada and Mexico, whose economies are highly dependent on the US, and China, the main counterpart in the ongoing trade conflict. The US is pursuing a multi-pronged strategy of economic pressure on China—not only through tariffs, but also by encouraging US companies to reshore production and by imposing security-based restrictions on Chinese-origin FDI (Akman, 2025: 7–8).

These developments have highlighted the need for countries and companies to reduce overdependence on China, bringing the “China Plus One” strategy to the fore. The strategy seeks to diversify supply chains by expanding production or sourcing to countries other than China while maintaining a presence there, in order to mitigate risks amid rising geopolitical tensions. Beneficiaries include India, Vietnam, and Malaysia, particularly in semiconductors. India and Vietnam are positioning within the global semiconductor supply chain, while Malaysia is building on its well-established industry with over 50 years of manufacturing experience (Tan, 2025: 5).

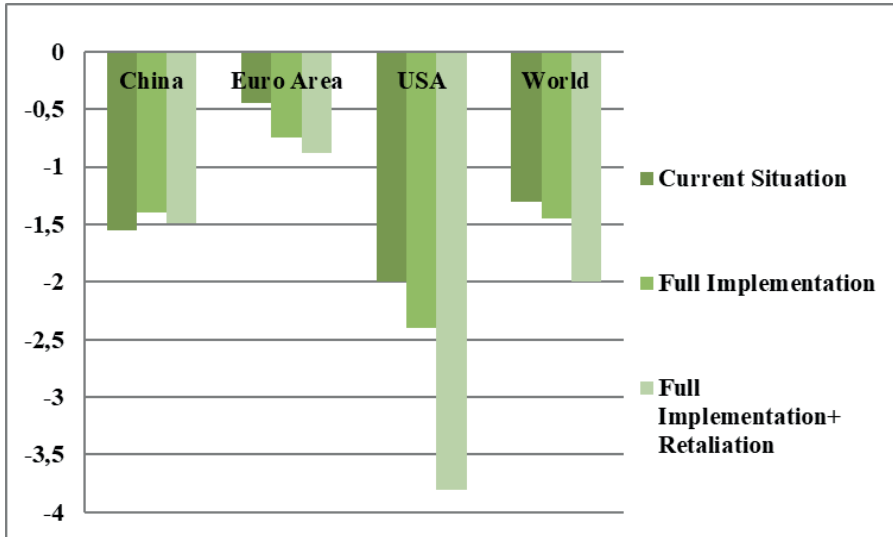
Rising labor costs in China are another reason why many Chinese and multinational manufacturers are relocating to these countries. According to the Rhodium Group, investments—especially in textiles, household goods, and consumer electronics—rose from an annual average of USD 240 million to USD 560 million during 2018–2021, with Vietnam at the center of this shift. The same report notes that a significant portion of China’s FDI in Southeast Asia is concentrated in four countries.

Figure 2. Chinese FDI to ASEAN Countries between 2014-2024 (Billion Dollars)



Source: Meyer and Kratz 2025.

The figure shows the distribution of Chinese FDI to ASEAN countries during 2018–2024. Around 56% of these investments went to Indonesia and Vietnam, with Thailand and Malaysia accounting for 18% and 14%, respectively. Indonesia, in particular, has gained momentum and has become a dominant recipient, attracting nearly 30% of total Chinese FDI to the region over the last three years. The main drivers include investment facilitation and infrastructure capacity in capital-intensive sectors such as electric vehicles (EVs). However, these data do not fully reflect the regional attractiveness of Thailand, Vietnam, and Malaysia. These countries remain important hubs for smaller-scale, diversified investments. In fact, these three accounted for 77% of Chinese investment flows in the last three years, suggesting that production is being reshaped not only by large capital projects but also by SMEs (Meyer & Kratz, 2025).

Figure 3. Projected Change in Welfare (%)

Source: Conteduca et al., 2025.

Figure 3 shows the estimated welfare impacts of the US tariffs in percentage changes. Conteduca et al. (2025) consider three cases (current situation, full implementation, and full implementation+retaliation) and show that tariffs affect not only target countries but also the imposing country. Despite potential short-term gains for domestic producers, aggregate welfare may decline significantly. In particular, consumer welfare falls due to higher import costs and reduced variety. Disruptions to global supply chains and retaliatory measures further contribute to welfare losses. Thus, protectionist policies can negatively affect not only trade volumes but also long-term economic welfare.

Conclusion

At the beginning of the 21st century, world trade—invigorated by globalization—has, in recent years, become as much a strategic and political instrument as an economic one. As confidence in the global free trade system has been shaken, countries are increasingly turning to protectionist policies, shaping international trade through tariffs, sanctions, and regulations in line with national interests. This transformation profoundly affects not only economic structures but also the nature of international relations. Combined with social issues such as rising inequality, unemployment, and migration, the new wave of protectionism has become part of a search for political

legitimacy as well as an economic choice. Today's trade policies have thus evolved away from multilateral free trade toward a more competitive, selective, and strategic structure.

This new era reflects a period in which globalization is contested, nation-states reassert themselves, and economic instruments serve political purposes. Trade is being repositioned not only as an exchange relationship but also as a multidimensional indicator of power with norm-setting, guiding, constraining, and punitive functions. The strategic nature of trade points to a structural transformation that requires rethinking both economic theory and international relations. In the coming period, the effects of these trends on the global economic order will likely become more evident, and international trade will continue to be a determinant not only of economic growth but also of the global balance of power.

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