A Historical Overview of 21st-Century Protectionism: How Did We Arrive at This Point?

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Abstract

The main goal of this paper is to situate current trade policy debates in a proper historical context by analyzing the main trade policy milestones of the 21st-century. It does not attempt to offer an extensive historical overview of trade policy, which has been done masterfully by other scholars, but to analyze the events that have led to a stagnation of the multilateral trade system and rising protectionism. This paper begins with the winding road of trade liberalization since World War II, briefly tracing how we arrived from the early stages of the Bretton Wood System to the current moment of stagnation of the multilateral system and rising protectionism. It then turns to four key events to understand the current new reality: China's accession to the World Trade Organization (WTO) in 2001, the Global Financial Crisis (GFC) of 2008 to 2009, the trade war between the United States and China, and the effects of the COVID-19 pandemic in trade policy dynamics. It concludes with some final comments on the relevance of understanding current trade debates from a historical perspective.

Keywords: Protectionism, Multilateralism, Trade Agreements, COVID-19 pandemic.

Resumen

El objetivo principal de este artículo es situar los debates actuales sobre política comercial en un contexto histórico adecuado mediante el análisis de los principales hitos de la política comercial del siglo XXI. No pretende ofrecer un panorama histórico extenso de la política comercial, hecho magistralmente por otros académicos, sino analizar los eventos que han llevado al estancamiento del sistema multilateral de comercio y al creciente proteccionismo. El artículo comienza con el sinuoso camino de la liberalización comercial desde la Segunda Guerra Mundial, y describe brevemente cómo llegamos desde las primeras etapas del Sistema Bretton Wood hasta el momento actual de estancamiento del sistema multilateral y creciente proteccionismo. Luego pasa a cuatro eventos clave para comprender la nueva realidad actual: la adhesión de China a la Organización Mundial del Comercio (OMC) en 2001, la Crisis Financiera Global (GFC) de 2008 a 2009, la guerra comercial entre Estados Unidos y China, y los efectos de la pandemia de COVID-19 en la dinámica de la política comercial. Concluye con algunos comentarios finales sobre la relevancia de comprender los debates comerciales actuales desde una perspectiva histórica.

Palabras clave: proteccionismo, multilateralismo, acuerdos comerciales, pandemia de COVID-19.

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"More than at any point in the past seven decades we seem to be in danger of forgetting (the Bretton Woods) lessons"

Roberto Azevêdo (2019),
Former WTO Director-General.

Introduction

This paper does not attempt to offer an extensive historical overview of trade policy, which has been done masterfully by other scholars (e.g., Wilkinson, 2006; Bhagwati, 2003; Baldwin, 1989). Instead, its main goal is to situate current trade policy debates in a proper historical context by analyzing the main trade policy milestones of the 21st-century. This paper begins with the winding road of trade liberalization since World War II, briefly tracing how we arrived from the early stages of the Bretton Wood System to the current moment of stagnation of the multilateral system and rising protectionism. It then turns to four key events to understand the current new reality: China's accession to the World Trade Organization (WTO) in 2001, the Global Financial Crisis (GFC) of 2008 to 2009, the trade war between the United States and China, and the effects of the COVID-19 pandemic in trade policy dynamics. It concludes with some final comments on the relevance of understanding current trade debates from a historical perspective.

The Winding Road of the World Trade System Since the World War II

The rise of protectionism in the 1930s was believed to be one of the primary causes of World War II (WWII), and global leaders were anxious to prevent this from happening again. As a result, they convened in Bretton Woods, New Hampshire, in 1944 to discuss the need for international institutions to lend order to the world economy. A year later, the majority of these countries reconvened to discuss the establishment of a new International Trade Organization (ITO), but their plan never came to fruition due to isolationist politics in the United States (U.S.), with the ITO bill never sent by President Truman to Congress for final approval. Thus, the lack of support from the U.S. was the final nail in the ITO coffin. In its place, the General Agreement on Trade and Tariffs (GATT) became the de facto Bretton Woods institution under which international trade was liberalized in the post-WWII era. Designed solely to govern trade in goods, GATT was limited in the scope and control it could exert over trade policy.

The GATT's first meeting, held in Geneva in 1947, resulted in the reduction of tariffs and created steps towards the liberalization of global trade. The Cold War incentivized the United States to push its democratic agenda, including liberal trade policies, on a global scale as the liberalization of trade continued through the economic growth of the 1950s and 1960s. In the 1970s, however, economic decline and the emergence of the East Asian newly industrializing economies (NICs) triggered a return to protectionism. Since GATT restricted the use of tariffs, many countries resorted to non-tariff barriers (e.g., quotas, subsidies). The 1982 ministerial meetings of the GATT reached a nadir in its history. It was the first time since WWII that there was a decrease in international trade, which highlighted the shortcomings of the trading system as the number of GATT members increased and the global economy

grew more complex. Global leaders began realizing the need for a more effective trade organization, one that would be broader in scope and administrative capability (Grant & Kelly, 2005). The U.S. led the way in pushing for free trade ideology, heavily influenced by the leadership and economic values of the Reagan and G.H.W. Bush administrations.

The eighth GATT Round in 1986, also known as the Uruguay Round, underscored the need to organize and promote liberalization efforts for an economy moving into the 21st century. The inclusion of agri-business, services, intellectual property (IP), and trade-related investment was discussed, and it became clear that an agreement made solely for goods had become obsolete. The Uruguay Round didn't conclude until 1995.[1] While this lengthy session took place, leaders of the United States, Canada, Japan, and the European Union discussed creating an international trade organization to more effectively cover global trade flows not included in the original GATT.

The World Trade Organization (WTO), founded in 1995, differed from the GATT in fundamental ways to address some of the latter's weaknesses. Most importantly, new and binding procedures for settling disputes were implemented, as this was a major downfall of the GATT. Especially contentious issues in the Uruguay Round—such as agriculture, IP, and services—were also incorporated into the WTO. In contrast with the provisional nature of the GATT, everything decided upon within the WTO was mandatory for participating nations.[2]

While the WTO's structure increased efficiency in settling disputes and upholding rules over trade policy, its creation also raised concerns about national sovereignty. Many anti-globalists feared the implications of the WTO and wanted to see its collapse. The first ministerial conference of the WTO was held in Singapore in 1996. At this round, working groups were established around four main issues, which came to be known as the "Singapore Issues." These included transparency in government, trade facilitation, trade-related investment, and competition policy.

After the Singapore meeting in 1996, the 1999 Seattle ministerial conference, which took place amid massive anti-globalization protests, marked an important milestone for the WTO. Over 40,000 protesters demonstrated, angered by environmental degradation and labor rights; the WTO's poor incorporation of developing nations only exacerbated this ire. The Seattle meeting was a patent failure. Up to this point, negotiations had followed a "green room" setup, where a few key G-7 decision makers would be in the room negotiating, rather than all WTO member countries. This exclusion of developing nations made decisions less effective and many saw this as a violation of the multilateral norms upon which the WTO had been founded (Grant & Kelly, 2005; Hopewell, 2016; Jones, 2015). Massive anti-WTO social movements and the developing countries themselves began demanding more transparent and inclusive styles of negotiation (Casey-Sawicki, 2018).

After the Seattle debacle, and without sufficiently addressing those earlier demands, a WTO ministerial meeting was held in Doha, Qatar, in November 2001 and the ninth negotiation Round of the GATT/WTO was officially launched. The main objective was to involve developing countries more authentically in global trade negotiations. Doha presented a much less feasible destination for 40,000

[1] For more information about the Uruguay Round, visit <https://www.wto.org/english/thewto_e/minist_e/min98_e/slide_e/ur.htm>.

[2] For instance, by 2003, 146 countries were members of the WTO, and it had dealt with 298 cases.

protesters than Seattle, especially in the wake of the 9/11 terrorist attacks on the U.S. This meeting birthed the Doha Development Round, which sought to address issues on the "old" (agriculture, NTMs, and the market access for manufactured exports from South to North) and "new" (IPRs, services, and investment) trade agendas. Developing countries also had the opportunity to discuss the difficulties they had in implementing earlier commitments made under the Uruguay Round (Grant & Kelly, 2005). Targeted completion date of the Doha Round was 2005; however, by 2008, the negotiations were stalled, and the round has not ended as of publication date. Many developing countries had been under the impression that the Doha Round would correct past mistakes around transparency and inclusiveness. In particular, they hoped to see more favorable decisions made regarding market access for agriculture and industrial goods. Yet the U.S. and the EU refused to offer significant concessions on both (Bhagwati et al., 2016). The stagnation of the Doha Round was accompanied by (and in part a consequence of) important events in the multilateral system. One was the decreasing U.S. support of multilateralism and especially of the international trading system over time, something that Allee (2012) attributed to three factors: "the decline in U.S. hegemony; the role of ideas, and, particularly, the change from the free trade mentality to one that focuses more on the unfair practices of other nations; and the role of domestic interest groups, and, particularly, the increasing effectiveness of import-competing interests" (p. 235).

The decreasing support of developed nations for the international trading system led developing countries to have a more active role in the defense of the system. In particular, countries such as Brazil, Russia, India, and China (BRICs) have become important supporters of a more balanced agenda between the developing and developed world. However, as Vickers (2012) said, while these emerging economies "show greater activism in the organization, activism does not equate with leadership" (p. 254). In that sense, it is key to understand the role of the G20 developing nations' group (different from the G20 of developed economies) in the Doha Round and the high-profile role played by Brazil and India especially.[3] The other two emerging economies with an increasing role in the international trading system, Russia and China, were in different circumstances than that of Brazil and India. Russia did not join the WTO until 2012, and China was concentrating on implementing its 2001 accession commitments. The increasing role of these non-central economies is not only explained by their economic growth, but also their very active trade and investment relations—especially with East Asia countries—which challenge the centralized management of the world trading system by central economies. As Vickers (2012, p. 256) has cautioned, this "shift of systematic influence" signaled a drastic restructuring of the international economic order, and it reflected a "balance of power [that is] more multipolar, even multicultural."

A third significant ministerial conference, albeit short-lived, met in Cancun, Mexico, in 2003, and erupted in violence.[4] The ministerial meeting held in Hong Kong in 2005 and Geneva in 2009 ended in similar stalemates.[5] The developing nations tried to be involved in the negotiations and advocated for their

[3] G-20 is a coalition of developing countries "pressing for ambitious reforms of agriculture in developed countries with some flexibility for developing countries." See *Groups in the WTO,* < https://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.pdf>.

[4] To learn more about this Ministerial Conference in Cancún, visit <https://www.wto.org/english/thewto_e/minist_e/min03_e/min03_e.htm>.

[5] The last 3 ministerial conferences (Bali in 2013; Nairobi in 2015, and Buenos Aires in 2017) were not without difficulties, but in each of them historical results were achieved. For instance, the "Bali Package", which includes "a series of decisions aimed at streamlining trade, allowing developing countries more options for providing food security, boosting least-developed countries' trade and helping development more generally" (see Ninth WTO Ministerial Conference, <https://www.wto.org/english/thewto_e/minist_e/mc9_e/mc9_e.htm>).

interests, but gridlocks between them and developed countries prevented much from getting done. Within the context of these aforementioned events, there are at least two relevant examples that show how the global trading system is currently in the midst of profound changes: first, the "mega-regional agreements" that facilitate easier consensus by omitting some countries, and second, the "regionalization and bilateralization of trade," which has led to more RTAs. Moreover, the 2008-09 GFC has likely contributed to the "second wave" of protectionism, or the "protectionism resurrection." For example, the WTO has increased restrictive measure by 11 percent between 2008 and 2016 (Albertoni, 2018, pp. 156-157).[6]

Perhaps most absent in the Doha Round was sound U.S. leadership. In fact, the early 2000s marked the beginning of mini-trade wars by the United States. In 2002, for example, President George W. Bush instituted temporary tariffs on steel imports. The EU retaliated by placing tariffs on U.S. goods such as Florida oranges and American-made cars. The WTO found that the actions of the U.S. were in violation with its rules, and they ended 18 months after implementation.

China's Accession to the World Trade Organization in 2001

The singularly important event in terms of trade policy dynamics during the 21st century was China's accession to the World Trade Organization (WTO) in December 2001. Trade policy experts had downplayed the effect of China's WTO accession because the U.S. had granted China the most-favored nation (MFN) status as far back as the 1980s (Autor et al., 2016).[7] Yet studies on the impacts conducted a few years after China's entrance demonstrate that China has been the main beneficiary, including "US$31 billion a year from trade reforms in preparation for accession and additional gains of $10 billion a year from reforms after accession" (Ianchovichina & Martin, 2004, p. 3). In addition, among China's commitments in its accession to the WTO were reforming its system of tariffs and quotas to ease the circulation of commodities; changing its practice of state trading to encourage volume control; and introducing critical service sectors, including "telecommunications, distribution, banking, insurance, asset management, and securities to foreign direct investment" (Lardy, 2001, para. 11). More specifically, Lardy (2001) argues that "the protocol governing its accession sets forth China's commitment to abide by international standards in the protection of intellectual property and to accept the use by its trading partners of a number of unusual mechanisms that could be used to reduce the flow of Chinese goods into foreign markets" (para. 11).

China's accession to the global trading system was also an institutional signal to the rest of the world about its intention to compete under the same rules. In this regard, Lardy (2001, para. 24) notes that being part of the WTO "impel[s] China to be accountable to an internationally agreed set of rules and bind[s] them to wide-ranging economic and systemic changes in order to meet the commitments they have agreed to undertake as a part of WTO accession". However, China has evaded full compliance with

[6] As of January 17, 2020, 303 RTAs were in force. See World Trade Organization, 'Regional Trade Agreements', <https://www.wto.org/english/tratop_e/region_e/region_e.htm#facts>.

[7] Studies have shown that the possibility of a return to non-MFN tariffs, which averaged 37.0% in the late 1990s and compared to average MFN tariffs of only 3.4% in those years (Pierce & Schott, 2016), "dissuaded Chinese firms from investing in exporting to the U.S. WTO accession removed this uncertainty and encouraged China-U.S. trade" (Autor et al., 2016, p. 11). Also see Salam, R. (2018), Normalizing trade relations with China was a mistake, *The Atlantic*, < https://www.theatlantic.com/ideas/archive/2018/06/normalizing-trade-relations-with-china-was-a-mistake/562403/>.

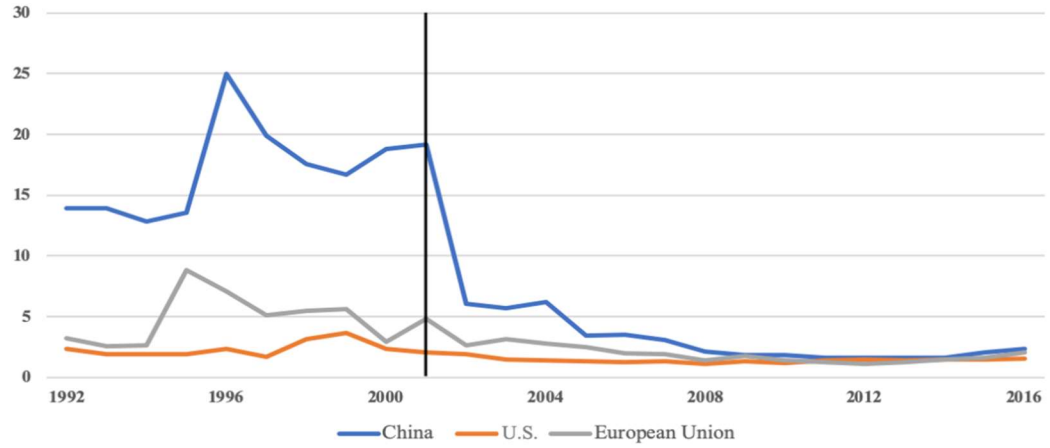
its commitments and its current trade tensions with the U.S. has triggered a debate about whether letting China into the WTO was a mistake. Levy (2018, para. 3) reminds us that during the 15 years of negotiation leading up to China's accession, WTO country members had set several conditions for China's admission, which "involved concessions such as dropping tariffs on many categories of goods, opening up agricultural trade, and allowing in foreign service providers. In contrast, the U.S. did not need to make any new market-opening concessions".

Autor et al. (2016) see China's accession to the WTO as one of the three 'China Shocks' to the global economy. The first shock occurred in the 1980s and 1990s with the economic opening of China and the take-off of India's growth, which expanded production based on low-skilled labor. According to Reisen and Stemmer (2018), the second 'China shock' spans the time of its accession to the WTO in 2001 up to the 2008-09 GFC, and is based on the "pervasive convergence of poor countries largely due to increasingly China-centric growth and higher raw material prices." The third shock is still underway and started with the 2008-09 GFC. This period has seen a reversal of previous trends "as China is transforming its production and trade patterns toward consumption, away from investment and intermediate trade" (Reisen and Stemmer, 2018).

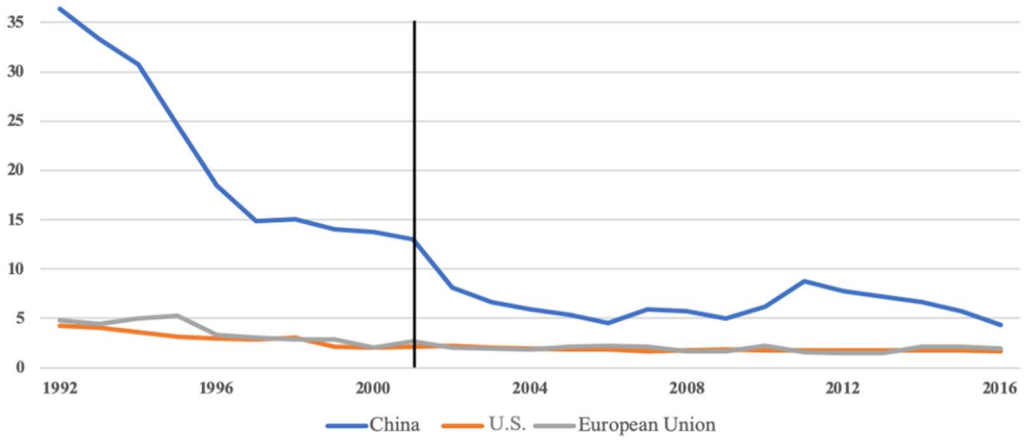
According to the World Bank (2020a), since its accession to the WTO, China has reduced tariff rates considerably for both primary and manufactured products thereafter. While China's average tariff rate for primary products five years before its accession to the WTO (1996 to 2000) was 19%, the average was 8% between 2001 and 2006 (World Bank, 2020c). For manufactured products, the averages were 15% and 7%, respectively, before and after the accession. Since the GFC, China's tariff rate reductions have approximated average tariff rates in the U.S. and the EU (see Figure 1).

Figure 1: The Evolution of Tariff Rates for Primary Products and Manufactured Goods Imposed by China, the U.S., and the EU.

A. Tariff rate, applied, weighted mean, primary products (%)



B. Tariff rate, applied, weighted mean, manufactured products (%)



Source: Author's creation based on World Development Indicators.

Finally, based on UNCTAD's Non-Tariff Measures (NTMs) dataset,[8] China increased NTMs after its accession to the WTO. While China had an average of 244 NTMs five years before its accession to the WTO (1996 to 2000), this average jumped to 1,582 between 2001 and 2006.[9] These barriers have made China the "country notifying the second largest number of technical barriers to trade (TBTs)," just after the United States (Ghodsi, 2020, p. 1667). This is in line with Evenett and Fritz (2018), who have shown that now, many countries are increasingly using nontransparent policy instruments (non-tariff or "murky" protectionism) as a main trade policy instrument. While China agreed to limit tariffs when it joined the WTO, its trade policy tools simply took on a new form. Garred (2018) found that China has also influenced international trade through export restrictions and value-added tax rebates. This international phenomenon of utilizing various trade policy tools suggests that today's trade war is nothing new to global trade, but rather "the latest example of an ongoing battle whose skirmishes have taken many forms" (Garred, 2019, para. 1).

Recently, much of Donald Trump's rhetoric throughout his 2016 candidacy for president framed his protectionist trade policy as a direct response to other global players who were "stealing" American jobs. However, research has found that support for protectionism was not due to globalization or trade shocks. There wasn't a significant correlation between households in economic distress and support for Trump. Instead, those voters who supported his policies felt the threat of a changing social dynamic at home, and a loss of U.S. dominance abroad (Noland, 2020).

Global Trade After the 2008-09 Global Financial Crisis

Since the 2008-09 global financial crisis, many countries have erected new trade barriers. However, traditional protectionist measures (e.g. tariffs) did not rise as dramatically as expected (Desilver, 2018). New trade policy tools that are less transparent have taken their place. Niu et al. (2018) show that although

[8] Examples of NTMs are sanitary and phytosanitary measures, technical barriers, quantity control guidelines, and price controls. See United Nations Conference on Trade and Development (UNCTAD), *Non-Tariff Measures data*, < https://trains.unctad.org/Forms/TableView.aspx?mode=modify&action=search>.

[9] U.S. average NTMs initiated by the U.S. five years before China's accession to the WTO (1996 to 2000) were 539. Between 2001 and 2006, this same figure for the U.S. was 328. See UNCTAD, *Non-Tariff Measures data*, op. cit.

average tariff rates have fallen since the GFC, there has been a sharp increase in the number of non-tariff measures. These tend to be more restrictive and are clustered in the form of technical barriers to trade as well as sanitary and phytosanitary standards, especially in Central Asia, North America, South Asia, and Europe.[10] Again, this contrasts sharply with global trends over the past 50 years, which saw a sustained opening of national markets. Since 2009, in contrast, G20 governments implemented restrictive measures on 9,041 occasions (Evenett & Fritz, 2018, 2017).[11] These are all examples of the rise of protectionism during the last decade. Recent studies have analyzed the impact that the 2008 financial crisis had on international trade policy instruments. Countries have overwhelmingly moved towards protectionist policies, with 70 percent of world trade impacted by these interventions (Evenett, 2019a).

While global crises induce more restrictive measures, nearly all of the policies implemented post-2008 have fallen within the boundaries of WTO rules. Non-tariff measures are more complex, harder to detect, and have "taken over the center stage of trade policy instruments" (UNCTAD, 2010, p. xiii). They also have greater power in influencing modern problems, such as environmental guidelines for the protection of firms and consumers. The counter-productive use of NTMs has gripped the attention of international agencies, which are now working to define, collect information on, and analyze this misappropriation of modern trade policy instruments.

Bilateral Tensions Between the U.S. and China in the Present and the Past

Since 2016, the U.S. has been leading trade wars with the world on multiple fronts. Yet signs of protectionist tension can be found as far back as 2009 during the Obama administration. The U.S., for example, limited the number of Mexican trucking firms that could operate within specific areas of the country. At the same time, Obama "softened his tough rhetoric on free trade, warning repeatedly against tit-for-tat protectionism in the midst of an economic crisis" (Alexander & Soukup, 2010, p. 324).[12] Concrete demands for protectionist policies under Trump began with requests filed in 2017 by the solar panel and washing machine industries. The U.S. International Trade Commission quickly discovered that foreign imports were harming domestic businesses, and the Trump administration imposed tariffs on solar panels and washing machines in January 2018. This affected approximately $8.5 billion in solar panel imports and $1.9 billion worth of washing machines, largely from China. China countered with tariffs on soybeans imports from the United States shortly thereafter, while Korea and China filed WTO disputes against the U.S.

The question here is how current trade tensions might differ from previous ones. What explains the length and depth of the current trade slump experienced in the wake of the 2008-09 GFC? Trade tensions or protectionist trends caused by economic shocks that spur the adoption of beggar-thy-neighbor measures are not new in economic history. But why might this time be different from previous trade

[10]An example of a technical barrier to trade is a safety standard for manufactured goods. Sanitary and phytosanitary measures concern safety standards for food or animals.

[11] When we refer to restrictive measures, we are talking about any kind of protectionist policy instrument that can take the form of a tariff or a non-tariff measure under the classification of the UN MAST classification, which can be found at <https://unctad.org/en/Pages/DITC/Trade-Ana lysis/Non-Tariff-Measures/NTMs-Classification.aspx>

[12] For more details, see The Economist (2009) *Obama and Trade: Low Expectations Exceeded,* <https://www.economist.com/united-states/2009/04/30/low-expectations-exceeded>.

disputes and protectionist spirals in history? Let's first revisit some similar situations in economic history, which may prove to be illuminating on the state of protectionism today.

In 1929, when the U.S. passed the Smoot-Hawley tariff act, raising tariffs by 60 percent for more than 3,000 products, at least 60 other nations implemented retaliatory measures against the U.S. This almost doubled the world's average level of trade protection, and world trade contracted (Boffa & Olarreaga, 2012). Between 1929 and 1933, total global trade decreased by 25 percent (Canto, 1983), and according to Irwin (1998), 70 percent of that global trade reduction could be attributed to the Smoot-Hawley tariff and the subsequent retaliatory measures it invoked. However, in 1934, the U.S. sought to promote economic recovery by reducing tariffs; the U.S. Congress passed the Reciprocal Trade Agreement Act, which reduced these tariffs (Irwin, 1998). Under the 1934 Trade Act, the executive took command of trade negotiations, and the U.S. signed bilateral trade agreements with 20 countries. Tariffs were eventually lowered to 50 percent of the rates established by the Smoot-Hawley act in 1929 (Canto, 1983).

Under section 301 of the Trade Act of 1974 and the Omnibus Trade and Competitiveness Act of 1988, the U.S. government demonstrated "increased willingness to threaten retaliation against protected foreign markets" (Gould & Woodbridge, 1998, p. 116). During this time (the late 1980s and early 1990s), a main objective was to induce macroeconomic reforms and trade opening in Japan. In 1993, U.S. President Bill Clinton said, "I am particularly concerned about Japan's growing global current account and trade surpluses and deeply concerned about the inadequate market access for American firms, products, and investors in Japan" (Clinton, 1993, para. 9). This is not too far from what we hear currently about China's current account surplus and trade practices. During the 1990s, through the use of various trade and non-trade mechanisms (e.g., antidumping duties and the use of countervailing sanctions), the U.S. threatened to implement protectionist measures against Korea, Japan, and European countries, seeking to improve U.S. access to these markets (Gould and Woodbridge, 1998). Evenett and Fritz (2018) identify at least three main differences between the 1980-90s trade tensions (mostly between the U.S. and Japan) and current Sino-U.S. trade disputes: Japan is not only a "military ally" of the U.S., but the country poses less of a threat both demographically and economically than China does. Moreover, unlike Japan, China has acted as "the host to the quantum of American foreign investment," which consequently led to "sustained criticism of discriminating against foreign multinationals inside its borders" (Evenett and Fritz, 2018, p. 13).

Beyond the bilateral differences between previous and current trade tensions, there are also major global factors that may be impacting the long-term consequences of current trade disputes and protectionist dynamics. Unlike what happened in the 1980s and 1990s, the high level of trade interdependence through global value chains (GVC) and preferential trade agreements (PTA) render seemingly bilateral trade conflicts far from solely bilateral; possible systemic consequences can be key explanatory variables in explaining why the current trade recovery is still relatively anemic compared to recovery from previous global trade collapses.[13] As Lamy (2013, para. 4) states, one of the major changes we see nowadays is the level of interdependency in trade:

[13] As Bussière et al. (2011) show, one of the distinctive characteristics of the post-2008-09 period was that trade decreased much more than output. In 2009, real world output contracted by 0.7 percent, whereas real trade flows fell by 11 percent. These features are surprising because they stand in sharp contrast with past experiences. That is why the dynamics of trade in 2009 became widely known as the "Great Trade Collapse" (Baldwin, 2009).

> Almost 60 percent of trade in goods is now in intermediates. ... An important consequence of the integration of production networks is that imports matter as much as exports when it comes to contributing to job creation and to economic growth. In 1990, the import content of exports was 20 percent; in 2010, it was 40 percent, and it is expected to be around 60 percent in 2030. This is why enacting protectionist measures in the modern world to protect jobs, such as raising import barriers, can have an inverse reaction in economies that are increasingly reliant on imports to complete their exports.

U.S.-China Trade Tensions Step by Step

The U.S.-China trade war has been mounting since Donald Trump hit the campaign trail. Trump spoke frequently of the U.S. trade deficit, which has been the world's largest since 1975. His move towards protectionism, and specifically policies pointed towards China, are supposed to improve national well-being; yet experts, economic theory, and history all prove that trade wars will only cause trouble (Thoms, 2019; WEF, 2019). Import tariffs bring economic losses to countries, producers, and consumers (Crowley, 2019) and it is estimated that the U.S. trade war has already lowered GDP by 0.6% (Amadeo, 2019). As studies have shown, most of these price increases are passed on to American consumers and not offset by production benefits. At the start of 2018, U.S. tariffs on Chinese imports were 3.1%, while Chinese tariffs on U.S. exports were 8%. In January of 2020, those rates stood at around 23.8% and 25.1%, respectively (Bown & Kolb, 2019). However, in December 2019, China and the U.S. agreed to pause the tensions as part of a compromise that "requires structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange" (USTR, 2019, para. 1).

Trump's legal authority to impose the first round of tariffs came from Section 301 of the U.S. Trade Act of 1974, which states that the president can impose tariffs if the U.S. International Trade Commission finds that imports are causing harm to an industry. However, Section 301 has rarely been used in recent history. The last use was in 2001 when George W. Bush imposed steel tariffs. Trump once again used a rarely used section of trade policy, this time, Section 232 of the Trade Expansion Act of 1962, to impose further tariffs. In April 2017, he instructed the Commerce Secretary to investigate the steel industry, and by March 2018 he imposed steel tariffs. These tariffs temporarily exempted several countries, including Mexico, Canada, Brazil, Australia, and Korea, as well as the European Union. China retaliated shortly after by imposing tariffs on $2.4 billion worth of U.S. goods, which closely matches the $2.8 billion that was affected by the steel tariffs. The steel tariffs continued to follow a tit-for-tat strategy, with the U.S. raising them for certain countries and those countries then retaliating. Although the tariffs were successful in creating U.S. jobs, they came at a high cost. Each of the 8,700 jobs costs about $650,000 to create. Poor, developing countries were hit the hardest by these tariffs, experiencing a 12% decline in steel exports to the U.S. and a 15.5% decrease in revenue (Bown & Kolb, 2019). Under Trump's leadership, the United States continued to impose new tariffs throughout 2018 and 2019 to protect industries such as automotive, consumer goods, intermediate goods, and technology. Unsurprisingly, these actions have sparked retaliation from countries on the receiving end, and this explains the current trade war. The mounting tariffs have also done more to deepen the U.S. trade deficit, rather than closing it. The deficit reached a "10-year high of $621 billion in 2018" (Curran, 2019), and economists believe that these tariffs have contributed to this gap by hindering economic growth rates for China and Europe.

A trade war between the two largest countries in the global economy also creates a level of uncertainty that has made international leaders uneasy. The role of the dollar-based payment system as the backbone of global commerce also gives America additional ways of influencing trade, which "has been weaponized" (The Economist, 2019, p. 13). For instance, a Chinese technology company was banned from doing business with America, which effectively isolated it from the global financial system. As foreign trust in the Federal Reserve declines, global business leaders are looking for alternatives in a "post-American era" (The Economist, 2019).

While analyzing the U.S.-China trade war can provide valuable insights, it is important to view this in the context of the global trading environment. Evenett (2019b) argues that the energy spent on bilateral trade fights may be disproportionate to their actual effect on the global economy. For example, just 2.6% of traded goods have been affected by these bilateral disputes, and U.S.-China trade accounts for only 4.4% of traded goods. Meanwhile, 16.5% of goods are impacted by tariffs of any nature, and 27.2% of world trade is affected by foreign firms trying to compete with subsidized domestic producers. Most of the goods traded globally are influenced by more than a bilateral trade dispute, and this fact shouldn't be overstated by the attention that something like the U.S.-China trade war garners.

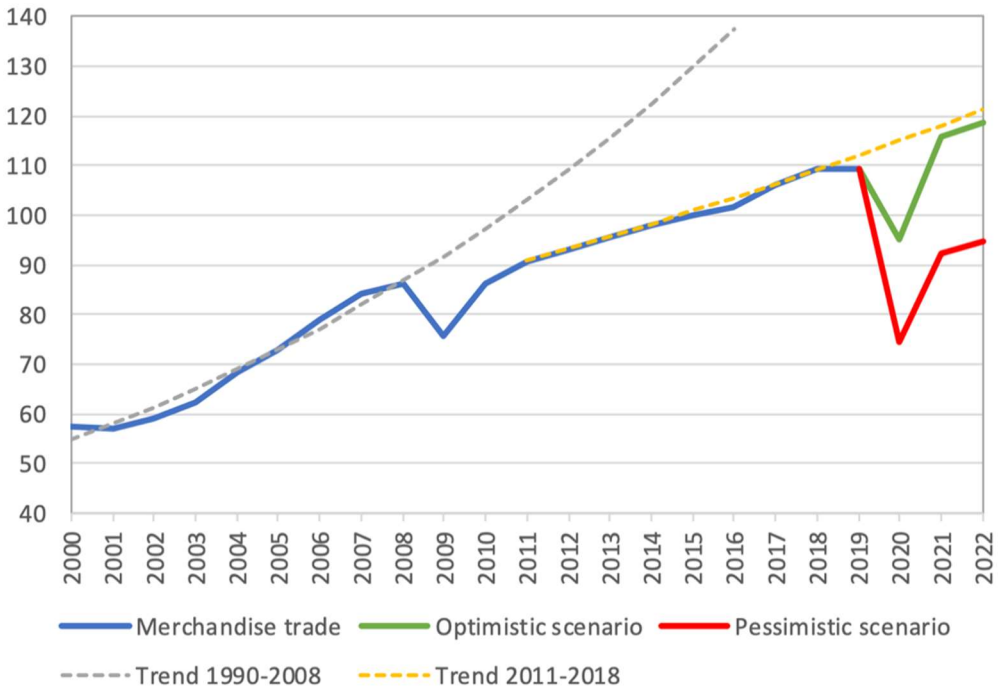
Rising Protectionism vis-à-vis the COVID-19 Pandemic

Although this paper concentrates primarily on understanding trade protectionism mostly until 2019 (in part, due to the amount of data available on the variables of interest), it is important to highlight that, at the time it is being written, we are in the midst of a global health crisis. The COVID-19 pandemic, which will have an unprecedented impact on the global economy and multilateralism, is causing even more uncertainty in international markets (Baker et al., 2020; Albertoni & Wise, 2020; Pinna & Lodi, 2021). We still have limited data on the trade and economic impact of this pandemic; however, it is important to consider this shock at least as part of this descriptive analysis. After all, the goals of this paper are to capture and explain global trade policy dynamics within a highly uncertain context in the world economy. Thus, it is relevant to consider how countries are responding to the COVID-19 pandemic. As the World Bank (2020b) states in its first 'Global Economic Prospects' after the start of the pandemic:

> The COVID-19 pandemic is expected to result in a 5.2 percent contraction in global GDP in 2020—the deepest global recession in eight decades, despite unprecedented policy support. Per capita incomes in the vast majority of emerging market and developing economies (EMDEs) are expected to shrink this year, tipping many millions back into poverty. The pandemic highlights the urgent need for health and economic policy action, including global cooperation, to cushion its consequences, protect vulnerable populations, and improve countries' capacity to prevent and cope with similar events in the future. Once the health crisis abates, structural reforms that enable strong and sustainable growth will be needed to attenuate the lasting effect of the pandemic on potential output.

From the side of the WTO (2020) there has been a special concern on the inevitable negative impact the COVID-19 pandemic has already on global trade, which is expected to fall between 13% and 32% in 2020 because of the pandemic's disruption of "normal economic activity and life around the world" (p. 1) (Figure 2).

Figure 2: WTO forecast: The Greater Trade Collapse of 2020 After COVID-19



Source: Baldwin and Evenett (2020, p. 4) based on WTO (2020). Notes: Trade volumes are an average of exports and imports; Figures for 2020 and 2021 are projections. (2015 = 100).

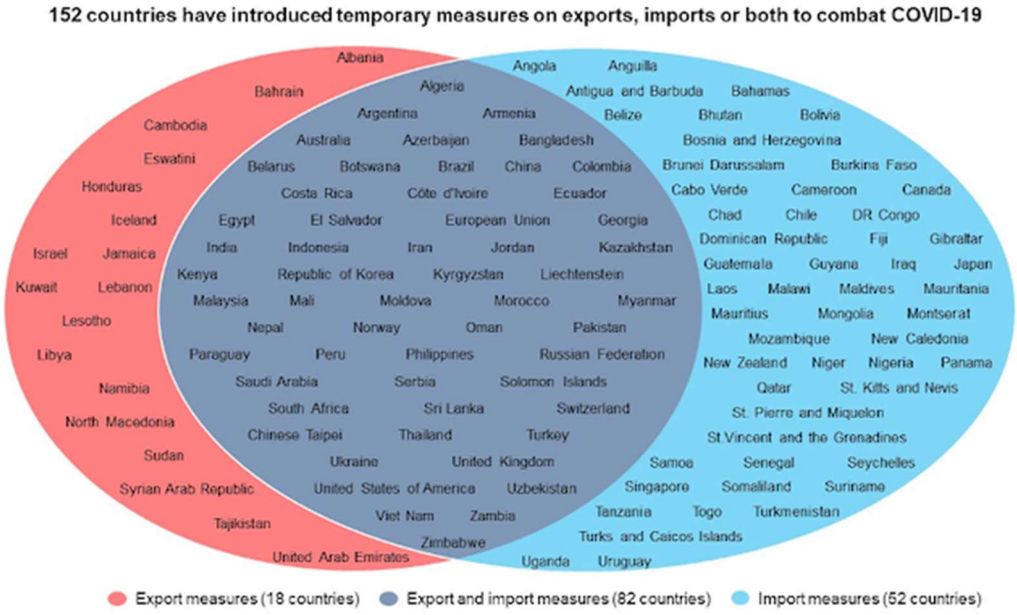
The WTO (2020) highlights that one of the main challenges of this pandemic is that it happens in a world interconnected by "complex value chains," which can be severely affected in this context of high economic uncertainty. More specifically, the WTO (2020, pp. 1-4) predicts:

> Trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products. … According to the OECD Trade in Value Added (TIVA) database, the share of foreign value added in electronics exports was around 10% for the United States, 25% for China, more than 30% for Korea, greater than 40% for Singapore and more than 50% for Mexico, Malaysia and Vietnam. Imports of key production inputs are likely to be interrupted by social distancing, which caused factories to temporarily close in China and which is now happening in Europe and North America. However, it is also useful to recall that complex supply chain disruption can occur as a result of localized disasters such hurricanes, tsunamis, and other economic disruptions. Managing supply chain disruption is a challenge for both global and local enterprises and requires a risk-versus-economic efficiency calculation on the part of every company.

Indeed, the impact that the current pandemic could have on global trade that might even surpass the damages inflicted by the 2008-09 GFC. This is why current studies already suggest that we could be looking at a "Greater Trade Collapse" (the GFC on trade was called the "Great Trade Collapse") (Baldwin

& Evenett, 2020, p. 3).[14] Recent studies have shown that as the pandemic has spread across the globe, governments all around the world responded "with a chain reaction of unprecedented trade policy measures" (Joller & Kniahin, 2020, p. 1). Around the world both import and export measures were quickly implemented to fend off a total collapse in domestic economies. Figure 3 shows the proliferation of such measures between April and June 2020.[15]

Figure 3: Unprecedented Trade Policy Response to COVID-19



Source: ITC Market Access Map COVID-19 (2020).

The reason why the collapse would be more catastrophic than during the GFC is twofold. For starters, the COVID-19 pandemic impacts every country, whereas the GFC primarily affected the U.S. and the UK (Baldwin, 2020). In addition, the present crisis is hitting both demand and supply, severely limiting the options for remedial economic policies. As Baldwin and Evenett (2020, p. 4) explain:

> While the point-of-impact of the 2008 financial crisis was the U.S. and the UK, today's crisis hit all the world's largest trading nations within a few months. The US, China, Japan, Germany, Britain, France, and Italy —all of which were hit hard by the virus in the first quarter— account for 60% of world supply and demand (GDP), 65% of world manufacturing, and almost as much of world manufacturing exports. While the Great Trade Collapse was primarily caused by a collapse in demand, today's "Great Lockdown," as the IMF is calling it, is a serious supply-side disruption that is affecting

[14] For more information about the idea of the "Greater Trade Collapse" of 2020, see Baldwin (2020) "The Greater Trade Collapse of 2020", *VoxEU.org*, <https://voxeu.org/article/greater-trade-collapse-2020>. For an insightful analysis of "the Great Trade Collapse", see Baldwin, R. & Evenett, S. (2009) *The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20*. Centre for Economic Policy Research (CEPR).

[15] For more information about trade policy measures generated in the context of the pandemic, see the daily tracker on the ITC Market Access Map: <https://www.macmap.org/covid19>.

> all sectors in all of the largest economies in the world. As in 2008, today's trade shock has been accompanied by rising concerns about a return to protectionism.

The COVID-19 pandemic has stopped globalization in its tracks. Understanding what happened in the decade after the GFC will help us forecast what could happen in the post-pandemic era. These extraordinary circumstances offer a natural experiment on the effect of drastically slowed trade on the global economy. As this paper shows, one of the contributions of this analysis is the empirical documentation of the damage that closed markets and trade nationalism can inflict upon the world economy. In essence, this paper is a cautionary tale about trade nationalism and the merits of a more open global trade regime. The empirical documentation of the damage currently at play is meant to alert us to what lies ahead in the near future and to better prepare us to cope with the challenges now faced by the global trade regime.

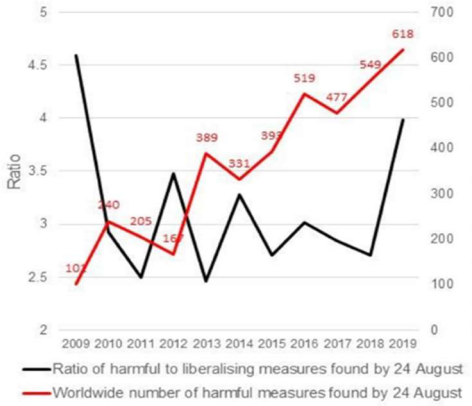
Final Comments on 21st-Century Protectionism from a Historical Perspective

The question raised by this historical review is to what extent protectionism will be the new norm. Blaming foreign influences for domestic distress is common practice for American politicians, which makes free trade an easy target during election season (Irwin, 2016). Even Democratic politicians, such as Hillary Clinton and Barack Obama, voiced concerns about free trade agreements. Donald Trump claims his protectionist policies will help Americans, but instead these reckless U.S. actions risk triggering a global trade war that will have adverse effects on all countries (Irwin, 2017). The trade war has already brought an annual loss of $68.6 billion to U.S. producers and consumers, and an aggregate loss of $7.8 billion to the U.S. economy (Fajgelbaum et al., 2019).

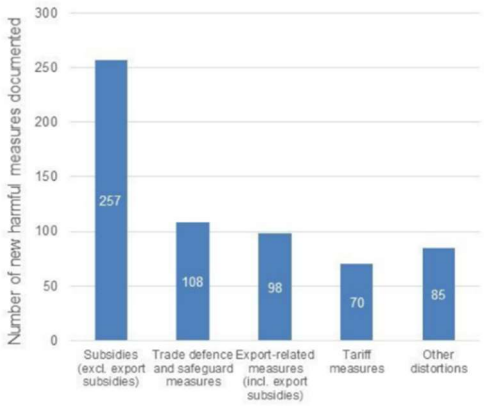
In the past decade, "murky" trade policies have further complicated this issue. As countries continue to move toward less transparent instruments, the ways in which we have historically measured their impact are becoming outdated. The opaque nature of those policies implemented over the past decade is a key element to be considered. As Evenett (2019c) has said (and the following figures show), "for every tariff hike this year, more than 3 trade-distorting subsidies have been imposed. Perspective needed in judging 2019 global trade policy dynamics—US-China is not the only game in town". Interestingly, in 2019, 618 new harmful trade measures were implemented worldwide, with 168 of them corresponding to China and the U.S. (GTA, 2019).

Figure 4: Putting 2019 Global Trade Policy Dynamics in Perspective

A. Harmful measures found by 2019



B. Types of measures used by governments



Source: Evenett (2019c) based on Global Trade Alert (2019).

Yet these non-transparent trade policies are not getting the media or academic attention needed to properly understand their effects (Evenett, 2019a). Most research focuses on tariffs, as we have the most data on these measures, rather than looking at ways in which global trade policy is evolving. This lack of appropriate data and research leads to "inadequate scrutiny bias" among leading scholars. They maintain that global trade was unaltered by the financial crisis, yet more comprehensive research on trade distortions could disprove this viewpoint (Evenett, 2019a).

This increasingly murky context explains why there is uncertainty about international trade across the globe. As the new Index of Trade Uncertainty shows, it is "rising sharply, having been stable at low levels for about 20 years" (Hites, et al., 2019, para. 6). This quickly increased in quarter three of 2018, the same time when the U.S.-China tariff war launched from Washington, D.C. This index movement has been tracking U.S.-China tensions closely. When officials announced that they were halting tariff escalations at the G-20 summit in the fourth quarter of 2018, the index went back down. It then spiked again when China implemented several tariffs on U.S. goods in March 2019. As the world's largest economies, the U.S.-China disputes set trends and frame how foreign officials view the global trade environment. Analysts have cautioned that the trade war is harming the global economy, and several have come together to urge China and the U.S. to find common ground (Donan, 2019). Both governments have promised trade talks yet coming to an agreement will prove to be difficult, especially since the U.S. has been unclear about what it wants out of these negotiations (Evenett, 2019a).

Conclusions

As this paper shows, one distinctive aspect of rising protectionism over the last decade is that it is occurring against a backdrop of increased global interconnectivity. In other words, countries around the world have become more integrated through preferential trade agreements and global value chains, even though they are erecting trade barriers 'within' these same trade venues. Earlier work on the political economy of trade protectionism offers compelling arguments about the circumstances under which

governments decide to protect their economies (Milner, 1999), and the recent literature tells us how PTAs and GVCs promote trade interdependences and openness. However, the question of now how these two trajectories—openness and protectionism—may simultaneously interact has been largely ignored.

As shown in this paper, under Bretton Woods, the world saw sustained trade liberalization for half a century. However, since the completion of the Uruguay Round in 1994 and the incorporation of the General Agreement on Tariffs and Trade into a newly created World Trade Organization in 1995, the world has experienced a rapid proliferation of preferential trade agreements, which have radically changed the internal logic of the global trading system. PTAs, for instance, have transformed the ways in which countries trade among themselves (Egger et al., 2011) and how they implemented liberalizing policies with closer trading partners (Cieślik & Hagemejer, 2011). In a similar way, GVCs have overhauled the ways in which countries and their large multinational corporations produce internationally. The ways these institutional trade and production mechanisms have also become channels for the spread of protectionism are subtle and enshrouded in significant economic uncertainty. This paper was motivated precisely by this contradiction and shows that protectionist trends over the last decade reveal a possible downside to the proliferation of PTAs and GVCs, as these have become the institutional locus for less observable, non-tariff measures. In other words, economic interdependence in the context of high economic uncertainty can devolve into a spiral of protectionism because "many governments simultaneously face pressure to reflate national economies and defend national commercial interests" (Evenett, 2019a, p. 26).

The broader research agenda on post-GFC trade policies is still limited: just one decade has elapsed after the GFC, and the emergence of new types and forms of trade protectionism are difficult to measure. Nevertheless, these phenomena have been under-researched. This paper contributes to this research agenda and the broader theoretical debate on trade policy substitution between NTMs and tariffs (Beverelli et al., 2019; Niu et al., 2018). The data limitations mentioned in earlier sections have given rise to a pattern of "omitted variable bias" in regression studies, which is "particularly important when analyzing the impact of commercial policy, as governments can substitute between transparent and murkier forms of protectionism" (Evenett, 2019a, p. 13). What we do know is that the more tariffs are lowered via binding rulings created by WTO rules, the more countries are coming to rely on NTMs. This raises a bigger challenge on the relationship between trade policy and transparency. It is precisely these opaque NTMs and their effects that this paper has sought to specify and quantify. As mentioned at the outset, the combined effects of the GFC, the U.S.-China trade war, and COVID-19 have rendered the international political economy a virtual social science laboratory in which the variables are still at play (Baker et al., 2020; Albertoni & Wise, 2020; Pinna & Lodi, 2021). Taking these extenuating circumstances into account, this paper leverages the findings in the literature since the GFC and gleans new insights to better understand the sheer volume and nature of 21st-century protectionism.

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