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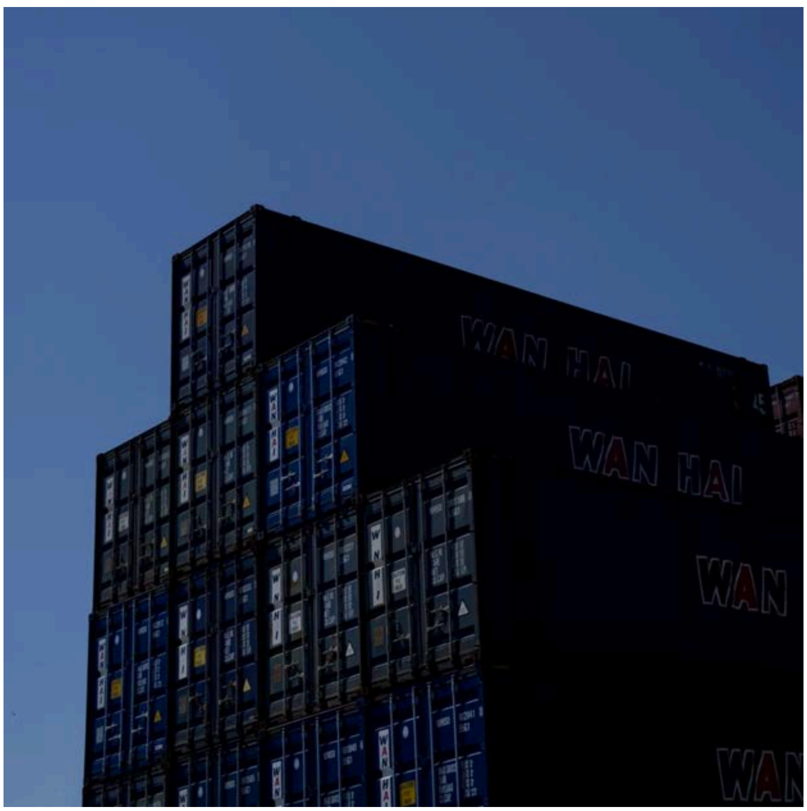
ECONOMY | TRADE

Trade War Explodes Across World at Pace Not Seen in Decades

Proliferating tariffs engulfing U.S., China and their partners draw parallels to 1930s protectionist spiral

By *Jason Douglas* Follow and *Tom Fairless* Follow

March 24, 2025 9:00 pm ET



As hurdles to trade increase, the risks include slower growth and higher inflation. PHOTO: ERIC THAYER/BLOOMBERG NEWS

Barriers to open trade are rising across the world at a pace unseen in decades, a cascade of protectionism that harks back to the isolationist fervor that swept the globe in the 1930s and worsened the Great Depression.

It isn't just President Trump's extensive new tariffs, which have set off a barrage of retaliatory measures across Europe, China and Canada targeting hundreds of U.S. goods.

Even before Trump retook the White House, many countries were increasing trade barriers, often against China, as they tried to beat back a flood of electric cars, steel and other manufactured goods pressuring their homegrown industries.

Now those efforts are proliferating as countries brace for a new wave of goods redirected across the globe by the U.S.'s rising tariff shield. The European Union said this month it plans to toughen measures to protect its steel and aluminum producers from imports diverted from the U.S. by Trump's 25% tariffs on those two metals.

Economists and historians say the flurry of recent moves suggest the world could be heading toward the largest, broadest surge in protectionist activity since the U.S. Smoot-Hawley Tariff Act of 1930 touched off a global retreat behind tariff walls that lasted until after World War II.

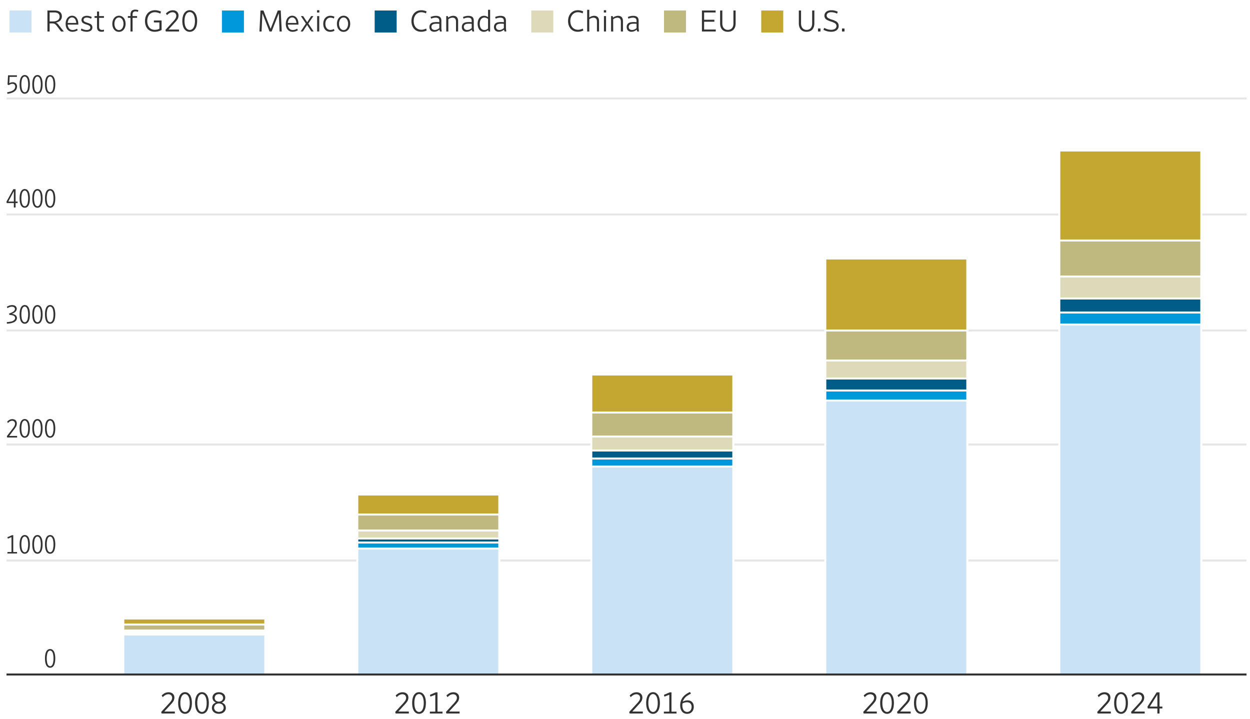
Economists don't think the world is headed for anything like the Depression of the 1930s, or a rerun of that decade's collapse in global trade. Average tariff rates globally are still much lower than in the 1930s and 1940s.

But they do warn of lasting damage, both economically and diplomatically, as tariffs and other hurdles to trade increase. Among the risks: slower growth, higher inflation and a collapse in global cooperation that further fractures longstanding alliances.

Trading Blows

The U.S. and other major economies are tightening import controls

Number of import curbs in force



Note: Note: As of Dec. 31. Includes tariffs, antidumping duties, import quotas and other restrictions.
Source: Global Trade Alert

The World Trade Organization, which traces its roots to the post-World War II accord among advanced nations to curb the beggar-thy-neighbor policies of the 1930s, has largely lost its relevance as an arbiter of disputes and cheerleader for integration.

Trump, who says free trade has allowed other countries to take American jobs and industries, is poised to take his trade fight to a whole new level, risking a much bigger retaliatory onslaught. He has said he wants to tariff imports of semiconductors, drugs and cars and is set to debut a plan on April 2 to hit major U.S. trading partners with “reciprocal” levies linked to tariffs, taxes and other perceived impediments to U.S. commerce.

In addition to the many high-profile steps taken against the U.S. in recent weeks—including new Canadian levies on American computers and sports gear—many countries have been stepping up pressure on China.

In February, South Korea and Vietnam imposed stiff new penalties on imports of Chinese steel following complaints from local producers about a surge of cutprice competition. Similarly, Mexico has begun an antidumping probe into Chinese chemicals and plastic sheets, while Indonesia is readying new duties on nylon used in packaging imported from China and other countries.

Even sanctions-hit Russia is seeking to stem an influx of Chinese cars, despite warm relations between Russian President Vladimir Putin and Chinese leader Xi Jinping. Russia in recent weeks increased a tax on disposing of imported vehicles, effectively jacking up their cost. More than half of newly sold vehicles in Russia are Chinese-made, compared with less than 10% before its 2022 invasion of Ukraine.

"We do seem to be on the threshold of a much broader, if not all-out, trade war," said Eswar Prasad, professor of trade policy at Cornell University and a former International Monetary Fund official. In this hostile new landscape, "it's every country for itself," Prasad said.

The World Trade International Bridge on the U.S.-Mexico border. PHOTO: CHRISTOPHER LEE FOR WSJ

In all, there were 4,650 import restrictions in force among the Group of 20 leading economies as of March 1, including tariffs, antidumping duties, quotas and other import curbs, according to Global Trade Alert, a Switzerland-based nonprofit that tracks international-trade policy. That is up 75% since the start of Trump's first term in 2016, and almost 10 times the number of such restrictions in force at the end of 2008.

In the U.S., more than 90% of 5,200 product categories are subject to harmful import restrictions, up from half just before Trump's first term in office, Global

Trade Alert data show. According to the Tax Foundation, a think tank that scrutinizes tax policy, the average tariff rate facing goods imported into the U.S. is now back to where it was in 1946, at 8.4%, compared with 1.5% when Trump first took office in 2016.

If Trump follows through on all his remaining tariff threats, tariffs on U.S. imports could hit 18% on average, Fitch Ratings estimates—the highest level in 90 years.

Echoes of Smoot-Hawley

In the 1930s, tariffs were the death knell for global trade, which was already cratering as the U.S. and other economies sank into depression and mass unemployment. The Smoot-Hawley Act, an effort to protect American farms and factories from foreign competition, paved the way for an increase in tariffs on imports to the U.S. to about 20%. Major economies raised trade barriers in response.

After the war, in 1947, the U.S. and almost two dozen other countries signed the General Agreement on Tariffs and Trade in an effort to lower barriers to international trade and rebuild a shattered world economy. Average tariffs among major economies fell from around 22% in 1947 to 14% in 1964 and to 3% in 1999. In 1995, the WTO took the place of GATT.

The drop in tariffs led to a surge in global trade that lowered prices for consumers. But falling trade barriers were also blamed for hollowing out industries in advanced economies as jobs moved to lower-cost countries such as China.

That fueled a backlash, leading to new tariffs during the first Trump administration, many of which remained in place under President Joe Biden. Meanwhile, more countries targeted China, whose weak domestic economy left it unable to absorb all the goods its factories produced, resulting in a deluge of cut-rate products worldwide.

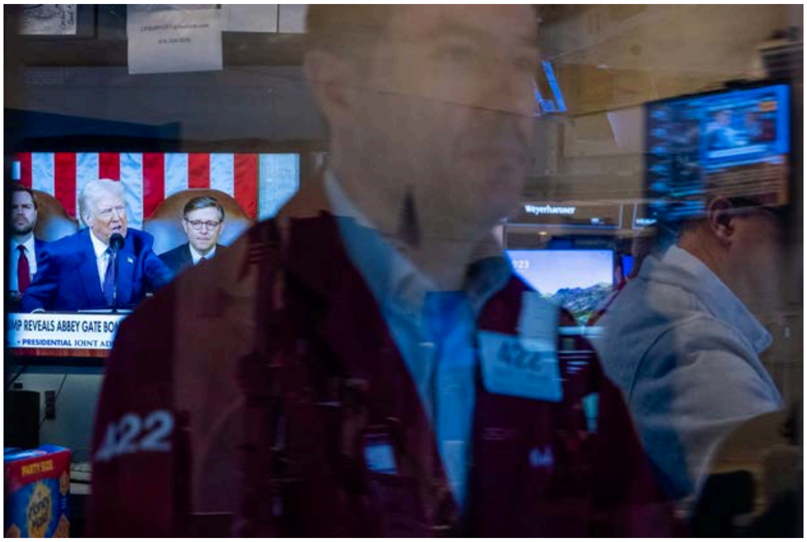
Trump's latest fusillade has included 25% tariffs on Mexico and Canada and 20% tariffs on China. China has responded with tariffs on American soybeans and other retaliatory measures, while the European Union has announced plans for 50% tariffs on imports of American whiskey and motorcycles starting April 1.

For Trump, the decades during which global trade expanded were a catastrophe for the U.S. His goal is to eliminate the U.S.'s yawning trade deficits with China, Mexico, Vietnam and the EU and to restore America's manufacturing might in everything from computer chips to containerships.

The president and his supporters say his policies will create new jobs, boost investment in the U.S. and usher in a new age of economic vitality.

The fallout of the widening trade war might be less painful today than during the 1930s, given changes in the world economy. For many rich nations, services are more important than goods, and central banks and governments have learned valuable lessons about stabilizing economies with stimulus.

Some countries, such as Australia and Japan, have resisted retaliating against Trump's new levies, citing the blowback to their own economies. Such pragmatism might keep the trade war from spiraling out of control, said Frederic Neumann, chief Asia economist at HSBC in Hong Kong.



The New York Stock Exchange floor. Tariffs are creating uncertainty and hurting stock markets. PHOTO: SPENCER PLATT/GETTY IMAGES

Economic toll

Still, widening trade conflict creates uncertainty for businesses and consumers, squeezing spending, investment and hiring. In the U.S., consumer confidence is sliding, stock markets have fallen, and surveys of businesses' investment intentions are weakening.

German automaker BMW said recently that it expected to take a hit of 1 billion euros, equivalent to about $1.1 billion, from U.S. levies on Mexico and imported steel and EU duties on China-made electric vehicles.

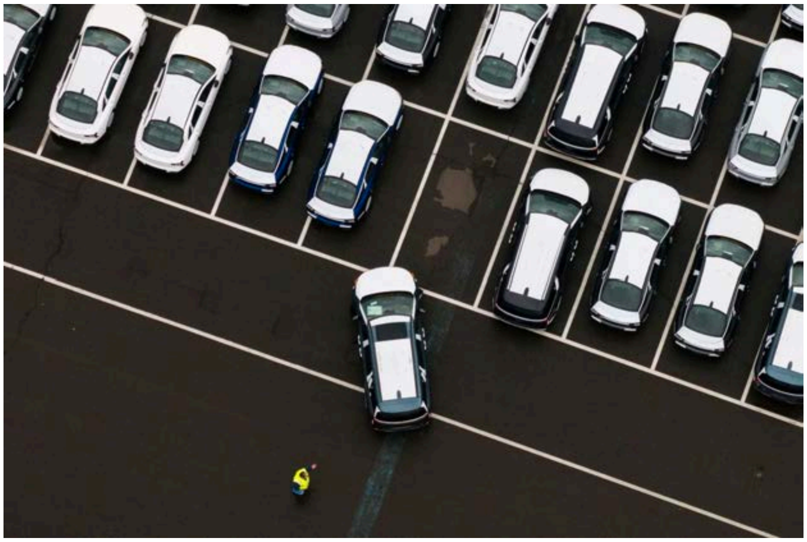
"If you overdo it with tariffs, it sends a negative spiral to all market participants," BMW Chief Executive Oliver Zipse said. "There are no winners in that game."

The global economy is already fracturing into blocs, with capital and trade flowing increasingly between geopolitical allies, according to the IMF.

Fitch Ratings said last week it expects global economic growth to slow this year, to around 2.4%, from 2.9% in 2024, citing the likely effects of the escalating trade war in the U.S. and beyond.

Protectionism everywhere

Other forces could maintain the momentum for more tariffs. Many Western economies are eager to protect critical industries such as EVs, green technologies and semiconductors from Chinese competition.



Vehicles at Washington's Port of Tacoma. Many countries want to use tariffs to protect critical industries such as EVs. PHOTO: DAVID RYDER/BLOOMBERG NEWS

Russia's invasion of Ukraine, meanwhile, and Trump's insistence that Europe bear more of the burden of protecting the continent, is reviving military spending—including a push to buy more from homegrown companies—and a desire for greater economic self-sufficiency.

"The narrative in the 1990s was that integration makes Europe and the U.S. better off and world challenges would be met jointly. That is gone," said Neil Shearing, chief economist at Capital Economics. Governments around the world are now seeking the capacity to act independently, he said.

Returning to the level of openness to trade that existed a decade ago will be tough, assuming countries even wish to do so. The world's trade referee, the WTO, has been sidelined by Washington, which has accused it of overreach into domestic-policy decisions and refused to approve judges to its top appeals panel since 2019. The big, multilateral efforts to reduce trade barriers that the WTO once shepherded are likely a thing of the past.

WTO spokesman Ismaila Dieng said member states continue to resolve disputes via other channels at the organization. WTO Director-General Ngozi Okonjo-

Iweala has said the organization was created to manage times like these and prevent tensions from escalating.

Bringing down trade barriers once they go up is hard, said Douglas Irwin, professor of economics at Dartmouth College and the author of a history of U.S. trade policy. That is because every trade restriction is a potential bargaining chip, so no one wants to "unilaterally disarm," he said.

Throw in geopolitical rivalries, especially with China, and domestic priorities such as rebuilding industries and rearming, and the chances for dialing back the current protectionist fervor look slim.

"That is why I worry the de-escalation scenario is a really tricky one," Irwin said.

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Appeared in the March 25, 2025, print edition as 'Barriers to Global Trade Rise At a Pace Not Seen in Decades'.

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