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Research on the Causes of Supporting Trade Protectionism in Times of Economic Recession

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Abstract: Trade protectionism has appeared many times in history during economic downturns. Free trade is believed to help economic growth, but governments often use tariffs and other barriers to protect local industries, keep jobs, and respond to political pressure in crises. Using a historical case study method with academic research, policy reports, and trade data, this study explores the reason protectionist policies serve as one of the main government policies during economic downturns, and uses a series of special periods, such as the Great Depression, the 2008 financial crisis, the US-China trade war, and the COVID-19 pandemic, as case studies to examines the government actions and economic conditions that led to protectionism in different crises. The findings demonstrate that protectionism can generate short-term economic economic benefits for countries and societies in the early stages of a crisis, but as policies are pursued over time, it can raise consumer costs, cause trade retaliation, and disrupt global supply chains, which can lead to long-term social problems. While it remains a powerful policy instrument, excessive reliance on protectionism can undermine global economic stability.

Keywords: Trade protectionism, Economic downturns, Tariffs, Non-tariff barriers (NTBs), Strategic trade policies

1. Introduction

Globalization has greatly influenced modern trade policy, promoting economic integration and interdependence among countries. During periods of economic growth, governments tend to reduce trade barriers, promoting free trade agreements, market liberalization, and global supply chain expansion. This approach is driven by the belief that open markets enhance economic efficiency, consumer welfare, and international competitiveness. However, during economic downturns, governments often resort to protectionist measures such as tariffs, import restrictions, and subsidies to protect domestic industries from foreign competition. As economic policies for special times, protectionist policies will be pursued with more support and at a faster pace in times of recession. For example, the Smoot-Hawley Tariff Act of 1930 enacted during the Great Depression worsened global trade conditions [1]. Similarly, during the 2008 global financial crisis, the number of countries erecting trade barriers to protect their economies increased dramatically [2]. More recently, the 2018-2020 Sino-US trade war and the 2020 COVID-19 global pandemic have caused significant global economic disruptions, prompting governments to implement protectionist measures such as supply chain localization and strategic export restrictions to safeguard national economic security [3-4].

In response to this phenomenon, this study explores why protectionism gains support during economic downturns and analyzes the strategic motivations behind these policy shifts. By comparing four major economic crises, including the Great Depression, the 2008 global financial crisis, the U.S.-China trade war, and the COVID-19 pandemic, the study provides insights into the evolving role of protectionism in modern trade policy. The findings will contribute to the ongoing debate about whether protectionism is an effective crisis response or simply a short-term political tool with long-term economic consequences. Understanding these patterns can help policymakers develop more balanced trade strategies that safeguard national interests while minimizing the risk of economic isolation and protracted trade conflicts.

2. The role of crises in shaping protectionist policies

Trade protectionism has long been a subject of debate in economic and political theory. Economic theory holds that free trade permits countries to specialize in the division of labour based on comparative advantage, increasing economic efficiency while improve overall economic welfare. Nonetheless protectionist policies continue to emerge, especially during economic downturns. Keynesian economic thought provides a rationale for protectionism in times of crisis. Ehrlich & Gahagan emphasize that the way nationalism and populism challenge traditional views on free trade is by prioritizing national sovereignty and economic stability over trade liberalization in the formulation of economic policies [5]. When aggregate demand declines, governments may resort to tariffs and subsidies to protect domestic industries and maintain employment. For example, the 2018 US tariffs, are primarily politically motivated responses to economic difficulties, particularly targeting industries in politically competitive regions [2].

In addition, democratic governments are highly sensitive to voter sentiment, especially during economic downturns. Mansfield & Milner argue that political leaders tend to use trade policy as a tool to gain electoral support [6]. And Ehrlich & Gahagan further illustrate how political leaders use anti-globalization sentiments to appeal to disenfranchised workers, thus contributing to the spread of protectionist rhetoric among voters [5]. This trend was evident in the 2016 US presidential election, when protectionist policies were seen as a mechanism to restore domestic manufacturing employment.

Moreover, interest groups and industries that benefit from trade barriers will strengthen protectionism in order to protect their own interests during the decision-making process., such as interest groups and industries that benefit from trade barriers, also reinforce protectionism. In the case of steel and aluminum, for example, the production of steel and aluminum is key to the production of defense products, so protecting the steel industry is crucial to national security interests, and the government is unanimous in its belief that dependence on foreign imports undermines national security [7]. For this reason, in the case of steel and aluminum, the government has implemented protectionist policies, including tariffs on imported steel and subsidies for domestic production, to protect these industries from foreign competition [7].

Economic crises create many special conditions that make protectionism, which is considered flawed under general conditions, more politically and socially acceptable. During the Great Depression, countries adhering to the gold standard were more likely to impose high tariffs due to monetary policy constraints [1]. Similarly, global crises such as the COVID-19 pandemic have heightened concerns about the security of international supply chains and national resilience [4]. These have reinforced economic protectionism, with people believing that they need to focus more on their own interests and are unwilling to take on international destabilizing economic risks.

The economic impact of protectionist policies has long been debated, with historical results suggesting both benefits and drawbacks. While protectionism can provide temporary relief to domestic industries, it often leads to inevitable negative consequences, including higher production costs for enterprises, disruptions in global supply chains, trade inefficiencies, retaliatory measures from trading partners, and tensions in diplomatic relations, which impede long-term economic cooperation [8]. These suggest that while protectionist policies may bring short-term economic stability, they often create long-term inefficiencies that undermine global trade integration. However, since people are mostly not optimistic about the current complex situation of international economic and political situation, protectionism remains a potential economic policy choice for many countries.

Moreover, a major shift in modern protectionism is the increasing use of non-tariff measures (NTMs). Contemporary protectionism relies more on regulatory barriers, subsidies, and export controls than on traditional tariffs [9]. This reflects a broader shift in current trade policy, with countries making greater use of implicit trade barriers to navigate global trade rules while still protecting domestic industries. Additionally, the shift to regionalization of trade, driven by US-China trade tensions and the restructuring of global value chains, suggests that protectionism is evolving. Rather than taking direct trade restrictive measures, governments are adopting strategic trade policies to balance national security concerns and economic competitiveness [10].

3. Case studies

3.1. 1930 Great Depression

The Great Depression, which began in 1929, was one of the worst economic downturns in modern history, resulting in widespread unemployment, industrial collapse, and financial instability. In response to these economic woes, the U.S. government implemented the Smoot-Hawley Tariff Act of 1930. The act significantly increased tariffs on more than 20,000 imported goods, raising the average tariff rate from 38% to 59% [1]. Policymakers believed that protecting domestic industries from foreign competition would revive economic activity and safeguard jobs, especially in sectors such as agriculture and manufacturing that were severely affected by the decline in global demand. However, the consequences of this policy were far more damaging than expected.

The motivations behind the Smoot-Hawley Tariffs were primarily driven by domestic political pressures. As the economic crisis worsened, U.S. lawmakers faced growing demands from industry lobbyists and agricultural groups that were struggling to compete with cheaper foreign imports. The government sought to protect American businesses by restricting access to the domestic market, a move that was widely supported by voters who viewed international competition as a direct threat to their livelihoods [8]. These protectionist measures were particularly attractive in countries such as the United States, where monetary policy was constrained by adherence to the gold standard [1]. Without the flexibility to devalue the currency as a means of restoring economic balance, tariffs became an alternative mechanism to support domestic industries.

Despite the intended goal of economic recovery, the tariff policy had devastating consequences. Many of the United States' major trading partners, including Canada and European countries, imposed their own tariffs on U.S. exports, leading to a rapid decline in global trade. Between 1929 and 1933, world trade volumes fell by approximately 25%, exacerbating the global recession [1]. This sharp contraction in trade severely impacted the U.S. export sector, particularly in agriculture and manufacturing, leading to massive declines in output and employment. As import prices rose, American consumers and businesses faced higher costs, further reducing purchasing power and hampering industrial production. Tariffs also exacerbated diplomatic tensions, worsening international relations at a time when global cooperation was critical to economic stability [8].

3.2. 2008 Global Financial Crisis

The 2008 global financial crisis triggered a severe economic recession, characterized by shrinking global trade and rising unemployment. In response, many governments implemented interventionist policies to stabilize domestic economies and protect vulnerable industries.

Initially, many countries committed to free trade principles under the G20 commitments. However, as the crisis deepened and global demand contracted, international competition for limited market opportunities intensified. In response, many governments quietly adopted protectionist measures to shield key sectors from foreign rivals and stabilize their national economies. While protectionism during this period did not involve large-scale tariff increases like during the Great Depression, it manifested itself in non-tariff barriers, subsidies, and government bailouts that disproportionately favored domestic companies. Fajgelbaum et al. emphasize that in times of economic distress, governments are more likely to intervene in the market through strategic trade policies, often arguing that these measures are necessary to maintain employment and economic stability [2].

One of the most notable examples of post-crisis protectionism was the U.S. government's bailout of the auto industry. The U.S. government provided $80 billion in financial assistance to General Motors and Chrysler, arguing that these interventions were essential to saving millions of jobs in the Rust Belt. Meanwhile, these bailouts were accompanied by policies that favored U.S. automakers over foreign competitors, ultimately limiting foreign companies' access to government contracts and subsidies [6]. Similarly, the European Union and China implemented protectionist industrial policies, such as state subsidies for domestic manufacturers and regulatory barriers against foreign companies. This range of measures reinforced the global trend towards economic nationalism [3].

In addition to direct fiscal support, countries turned to non-tariff barriers (NTBs), which became the main form of protectionism after the crisis. Pawlak notes that during the crisis, the use of technical regulations, local content requirements, and state aid policies surged, allowing governments to protect domestic companies without openly violating international trade agreements [9]. These measures particularly affected developing economies, which lack the fiscal capacity to subsidize industry like wealthy countries. The financial crisis also exacerbated existing trade tensions as governments sought to prioritize national economic recovery over global trade liberalization.

The 2008 financial crisis demonstrated that even in a globalized world, governments are still willing to sacrifice trade liberalization in exchange for domestic economic security, especially when faced with significant political and social pressures [5]. While these protectionist measures provided short-term relief to distressed industries, they also introduced market distortions with long-term consequences. Crucially, in the post-crisis recovery phase, when restoring global trade flows and rebuilding international economic cooperation became essential, protectionist policies continued to hinder progress. Rather than promoting recovery through market opening, protectionism reinforced economic nationalism, leading to prolonged trade tensions and a more fragmented international trade environment in the years that followed.

3.3. The US-China Trade War

The US-China trade war that began in 2018 is a classic example of modern protectionism, reshaping the global trade landscape and exacerbating economic nationalism. The conflict was sparked by US concerns about its widening trade deficit with China and broader geopolitical tensions. The Trump administration has defended its aggressive tariff policies as necessary to restore balance in the US-China trade relationship and protect US industries from what it calls unfair competition and Chinese government-backed economic practices. These measures are seen as essential to revitalizing US manufacturing and reducing reliance on foreign supply chains, especially in strategic sectors such as technology and heavy industry [3].

The scale of protectionist measures implemented by the United States is very extensive. By 2019, the United States had imposed tariffs on $360 billion worth of Chinese imports, targeting a wide range of products, including electronics, steel, and consumer goods. In retaliation, China imposed tariffs on $110 billion worth of US exports, which particularly affected agricultural products, automobiles, and industrial components, these sectors vital to the U.S. economy and politically sensitive regions such as the Midwest and Rust Belt [2]. The trade war has escalated to the point where it has gone beyond traditional tariff barriers, with the U.S. government also imposing export controls, technology restrictions, and sanctions on major Chinese companies such as Huawei and other state-linked technology companies [7]. These actions highlight that the current protectionism has evolved from purely economic considerations to concerns about national security and technological dominance.

Political considerations have played a key role in the escalation of the trade war. Trump's protectionist policies derive from the desire to bring manufacturing jobs back to U.S., to reduce dependence on Chinese manufacturing products, and to expand domestic demand. Over the past few decades, the “Rust Belt” states of industrial decline have become major political battlegrounds, as economic decline and growing unemployment have made trade protectionism one of the effective tools for winning voter support in these areas [5]. Trump’s protectionist policies provided him with good base support to win the election. [5]. In addition, the political appeal of economic nationalism has led to bipartisan support for tough trade measures against China, which reinforces the view that decoupling is necessary for long-term national security and economic stability.

The economic consequences of the trade war are far-reaching. For many American companies rely on Chinese-made parts and raw materials, the tariffs have undoubtedly increased production costs for companies. Consumers also face rising prices for everyday goods, which undermines the argument that tariffs policy only hurts China and benefit U.S. industries [2]. At the same time, the policy’s disruption of global trade relations is also evident. Additionally, the rise of strategic trade policies also reflects the trend of trade protectionism intertwined with concerns about national security issues [8].

3.4. Economic crisis during the COVID-19 pandemic

The COVID-19 pandemic triggered an unprecedented global economic crisis with devastating effects on supply chains, labor markets, and international trade. Being different from the purpose of tariff policies in previous economic crises, where protectionism was justified by employment issues or electoral pressure, governments this time have viewed trade restrictions as necessary measures for national security and public health [4].

One of the most direct protectionist responses to the pandemic has been the large-scale export bans on medical supplies and medicines imposed by many countries. These restrictions have led to shortage of medical supplies in import-dependent countries, exacerbated global health inequalities, and strained diplomatic relations. For example, China temporarily halted exports of medical masks and test kits to ensure domestic reserves, while the European Union imposed controls on the distribution of vaccines produced within its borders [3]. Many governments have launched “self-sufficiency” programs, seeking to reduce dependence on foreign suppliers for strategically important goods such as semiconductors, pharmaceuticals, and food. In the United States, there were bipartisan supports for policies aimed at reshoring manufacturing in industries critical to national security, particularly in response to supply chain disruptions in China and Southeast Asia [8]. Similarly, the EU has introduced a policy of “strategic autonomy” that emphasizes the need to localize production of key goods to minimize external vulnerabilities.

The rise of non-tariff barriers (NTBs) during the pandemic also reflects a more complex form of protectionism. Instead of directly imposing tariffs, governments use regulatory barriers, procurement policies, and government subsidies to strengthen domestic industries while limiting foreign competition. Pawlak highlights that the use of local content requirements and state aid programs has increased significantly during the pandemic [9]. While these requirements and programs are not explicitly protectionist, they are actually designed to enable governments to favor protectionist policies without violating international trade agreements. This is indicative of a broader trend in modern protectionism, which increasingly relies on non-tariff instruments such as technical standards, local content requirements, subsidies, and public procurement preferences rather than traditional tariffs. These tools are often less visible but equally effective in limiting foreign competition. Unlike earlier protectionist approaches that imposed explicit import tariffs, modern strategies work through regulatory frameworks and economic incentives, subtly reshaping trade flows while maintaining a formal commitment to free trade principles. However, while some degree of supply chain restructuring is necessary to address the vulnerabilities exposed by the pandemic, excessive protectionism has also created new trade tensions, especially between advanced economies and their traditional trading partners.

4. Conclusion

As evidenced by the Great Depression, the 2008 financial crisis, the Sino-US trade war, and the COVID-19 pandemic, governments have consistently used tariffs, non-tariff barriers, and state interventions to protect domestic industries, maintain jobs, and respond to political pressures. The shift from traditional tariffs measures to strategic trade policies, industrial subsidies, and supply chain interventions highlights the evolving nature of protectionism in the context of modern globalization [4]. While these measures may offer short-term relief, they also carry the risk of higher consumer costs, trade retaliation, and long-term economic inefficiencies [9].

While protectionism remains a powerful policy tool, excessive reliance on it can undermine global economic stability and international cooperation [8]. Policymakers must strike a delicate balance between economic security and global trade integration, ensuring that short-term crisis responses do not hinder long-term economic growth.

In future research, the current research topic can be deepened by conducting empirical data analysis, such as evaluating the economic impact of protectionist policies on trade volume, employment, and inflation across countries. The scope can also be expanded to include comparative studies between developed and developing economies, exploring how institutional capacity and political systems affect protectionist strategies.

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