



AN AVALON PERSPECTIVE

Taller Boundary Walls, Barbed Wire Reinforcements:

*The Curious Case of Increased Trade
Protectionism Across the World*

The best of times

2025 and the initial months of 2026 have been strange for the world. The US tariff flip-flops followed by the tensions in the Gulf and the closure of the Hormuz strait have caused much uncertainty across the world. But when you look at the hard data, global good trade grew at 7% and services trade at 8% in 2025. So, is there a cause of concern? Our approach has been to look at long-term data to study the trends overlooking the noise, and yes, we find that there are some concerning trends.

Over the last 4 decades, global trade expanded exponentially. Between 1985-95, nations were gradually transitioning to democracies and embracing policy shifts to improve foreign reserves. As a result, a wave of trade liberalization swept the world. Establishment of foundational regional blocs like European Economic Community and the North American Free Trade Agreement soon followed. In 1995, at the close of successful trade negotiations called the Uruguay round, the World Trade Organisation (WTO) was formed, marking the first coordinated lowering of tariffs and trade barriers. The share of global trade in the world GDP rose to 21% in '95, up from 13% in 1970.

World Imports, USD Bn. (Current), 1970-2024

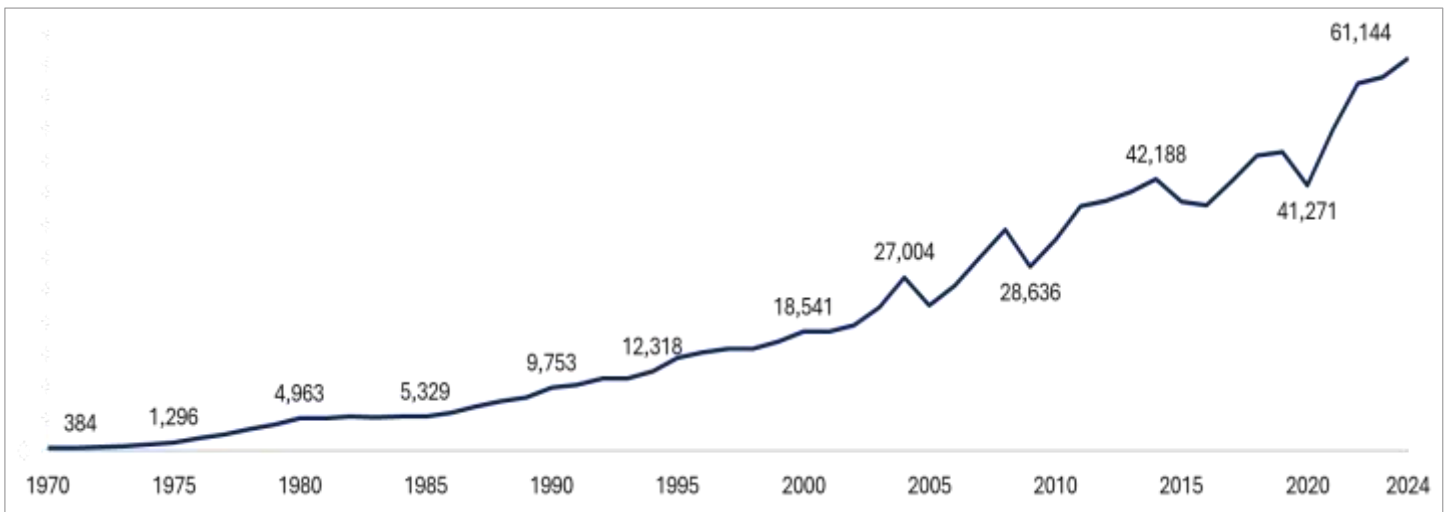


Figure: World Imports, 1970-2024, Source: UNCTAD, World Bank Data

By the late 1990s, the collapse of the Soviet Union brought more Eastern European countries into the fold of trade liberalization. Latin American and South Asian countries - under the influence of the World Bank and IMF, and key economists at the helm of national policy making - were starting to open national economies. At the close of the millennium, international trade and global value chains (GVCs) had taken firm hold across the world.

The advent of the 21st century brought periodic shocks to global trade, such as the 2008 financial crisis. However, tariffs, a key trade policy control, lowered continually. Between the late 1990's and 2008, the share of traded goods to world GDP rose again from 39% to 61%. In 2013, the landmark Trade Facilitation Agreement was adopted. International trade was thriving.

Since 2018, however, much of this has changed.

Amid key events like heightened trade tensions between China and the US in 2018-19, the COVID-19 pandemic in 2020 and the Russia-Ukraine war in 2022, the previously falling global tariff rates have plateaued. This has been accompanied by increased trade policy activity and a sharp rise in harmful, non-tariff trade barriers.

Effectively Applied Trade-Weighted Average Tariff Rates, Non-Agriculture and Non-Fuel Products, Global, 2000-23%

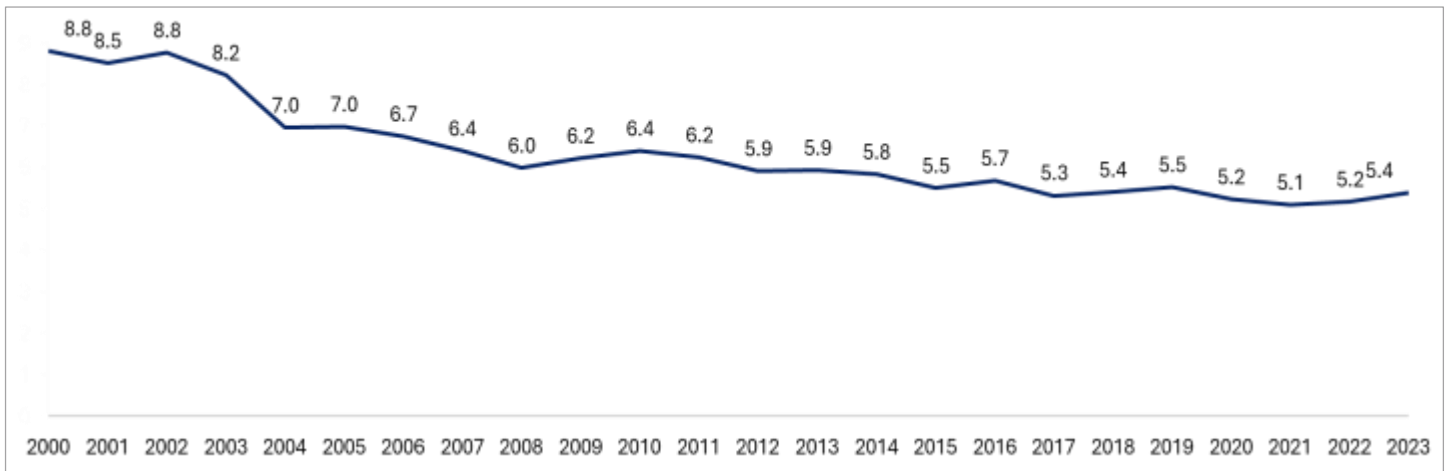


Figure: Effectively Applied Trade-Weighted Average Tariff Rates, Global, source: UNCTAD database

Many reasons can be tacked to this development. At the outset, trade policy is no longer as removed from domestic politics as it once was. While earlier trade policy was a more straightforward application of agreements and market access – dealt with by seasoned policymakers - it is now a key public policy agenda. To regulate behaviours of international partners, pressurise, reward or collaborate, trade policy has become the preferential tool, paving the way for ‘deep trade’ agreements and a marked increase in trade policy activity.

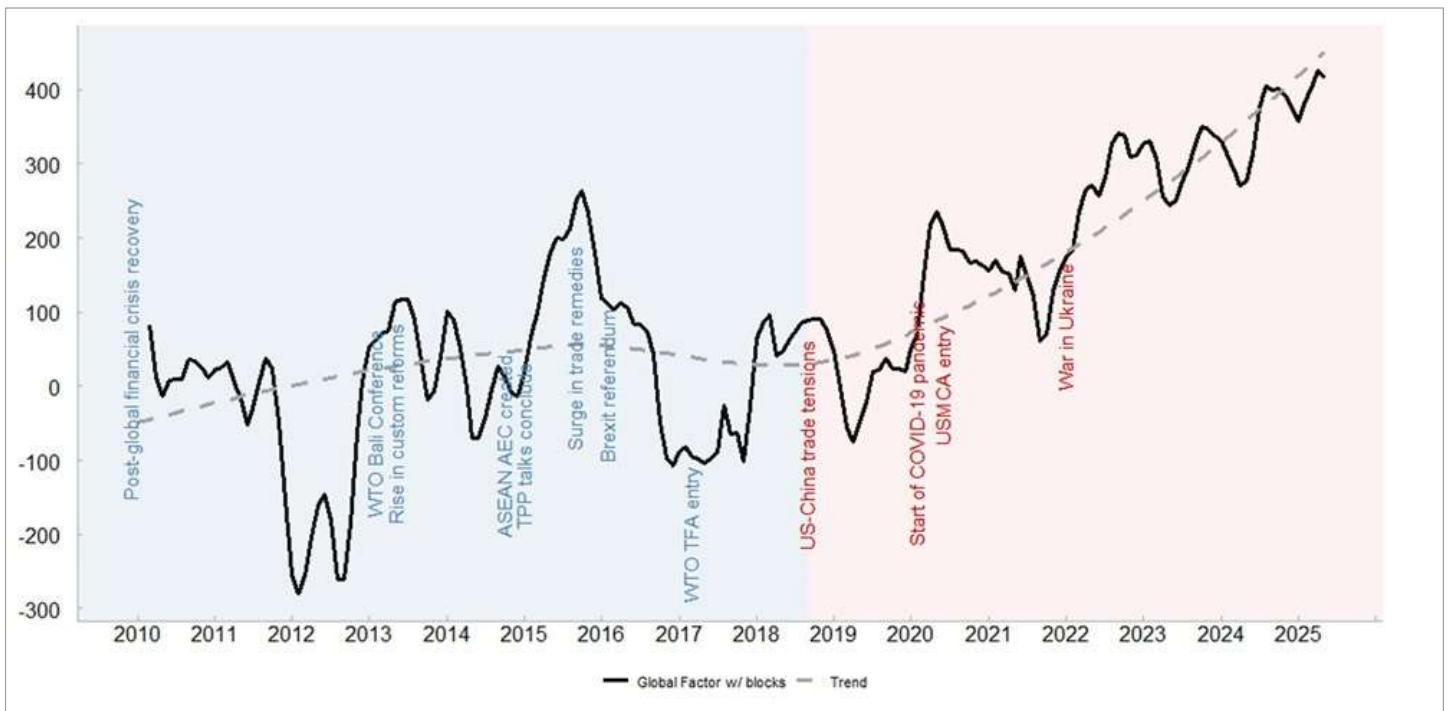


Figure: Trade-Policy Activity Index, developed by the WTO

The impetus for advanced economies like the US to participate in such tactics also came from the threat posed by emerging economies as import competition. Between 1964 and 2023, the share of developing countries in world trade rose from 22% to 44%. The ability of ‘late comers’, leveraging labor costs and ‘learning by doing’, chipped away at competitive advantages of advanced economies. Unconventional barriers therefore became more common: for example, ‘tariff escalations’, whereby higher tariff is applied to finished goods rather than intermediate/raw materials, actively preventing emerging economies from moving up the value chain. Emerging economies, on their part, began retaliating with commensurate protectionist measures.

Another key threat to advanced economies, triggering trade protectionism, was growing deficits. Across the West, trade deficits even at present are at record highs. In the last quarter of 2024, the US had a USD 333 bn. deficit, whereas the United Kingdom stood at USD 49 bn. and France at USD 22.7 bn. Such stalling of the trade balancing mechanism has been a steady trend over the last decade. This is in no small part due to China. In 2024, US’s deficit with China was about USD 355 bn. After becoming a global value chain hub, China cemented its position as a global leader in finished good exports over the years. It supplemented these with state-sponsored policies to build in-house capabilities and an overcapacity. It then proceeded to ‘dump’ exports at much cheaper rates.

Developing countries were similarly hit by import competition, fuelled in part by internal struggles of building a strong manufacturing base and other domestic capabilities. In 2023, combined, their deficits reached USD 97 tr.

Merchandise Trade Balance for Key Nations, USD Mn., 2005-2024

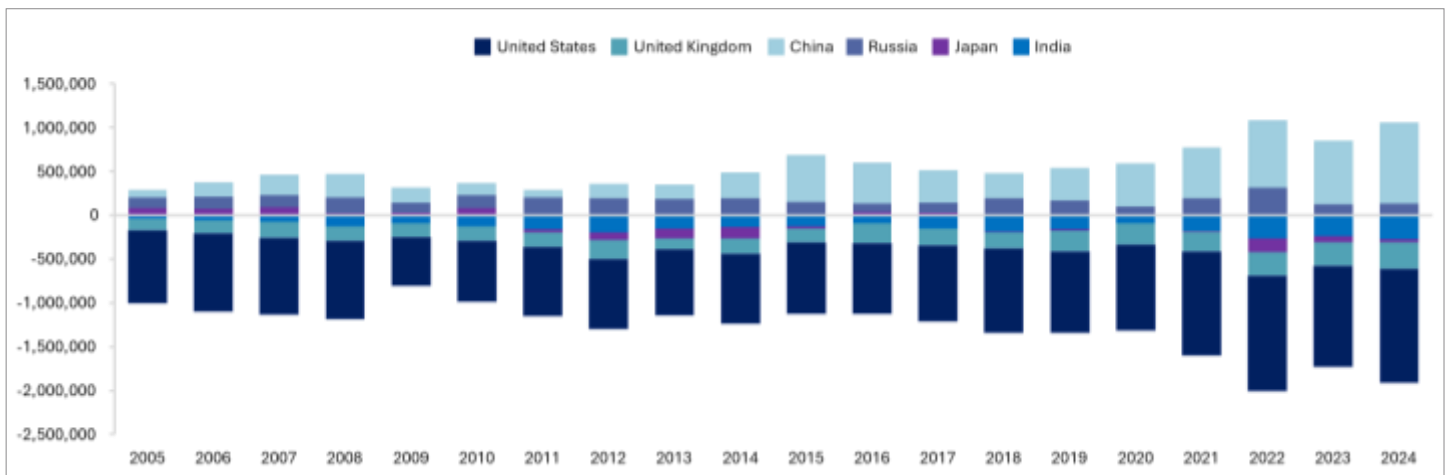


Figure: Merchandise Trade Balance, Key Nations, Source: UNCTAD database

It was at the same time that the WTO’s influence, along with other economic multi-lateral organisations, was starting to dwindle. Since 2018, the WTO has failed to resolve many critical conflicts, either due to blocks from the US, China’s refusal on sharing data or many countries refusal to let go of ‘developing countries’ statuses and key exemptions. Its failure to conclude the Doha Round evidenced this plainly. Since 2019, over 600 dispute cases in the WTO have remained unresolved.

To counter the China threat, capitalize on it, and to substitute international cooperation in the wake of WTO’s decline, regional blocs like ASEAN, BRICS, Cotton-4 and USMCA started gaining prominence. The growing gap between MFNs (rates applied equally to all WTO members) and effectively applied rates (the lowest rate applicable under preferential agreements) highlights this change.

Trade-Weighted Average Tariff Rates, Non-Agriculture and Non-Fuel Products, Global, 2002-23%

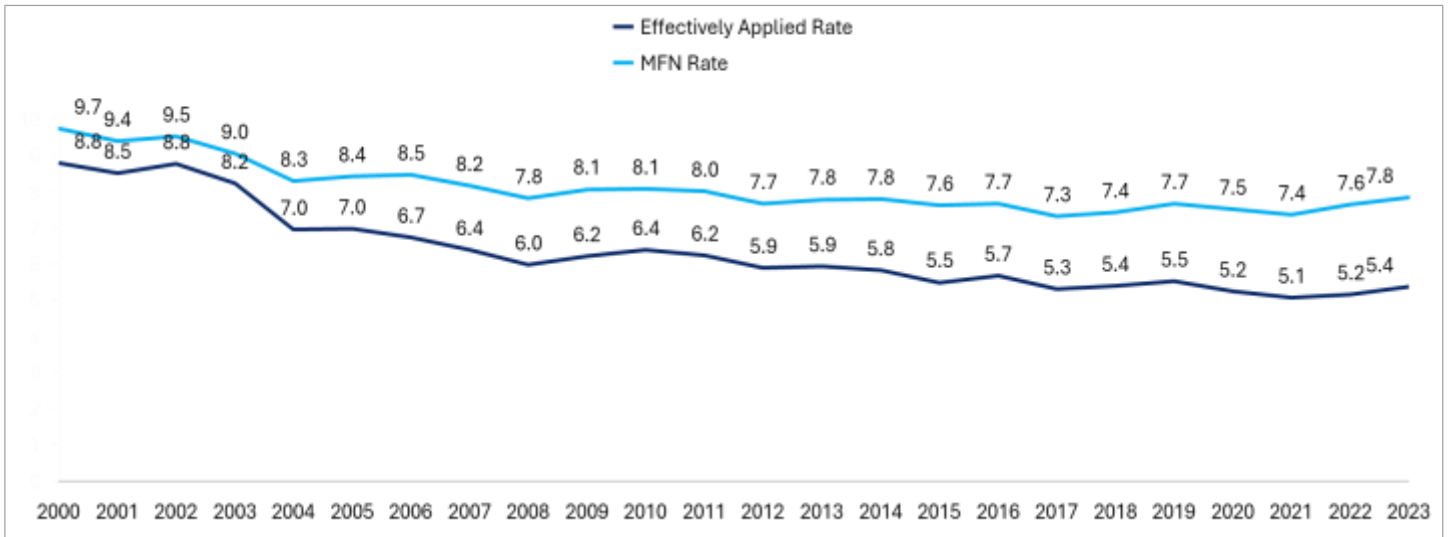


Figure: Effectively Applied and MFN Trade-Weighted Average Tariffs, Global, Source: UNCTAD database

More frequently, mini-lateral deals started being made. Tactics like ‘friend-shoring’ took hold. Today, in place of direct tariff rate manipulations, greater emphasis is being placed on barriers like anti-dumping duties, counter-veiling duties, licenses, anti-subsidies and FDI restrictions.

of Harmful Trade Interventions Announced Annually, 2008-25, Global



Figure: Number of Harmful Trade Announced Between 2008 and 2025, Source: Global Trade Alert

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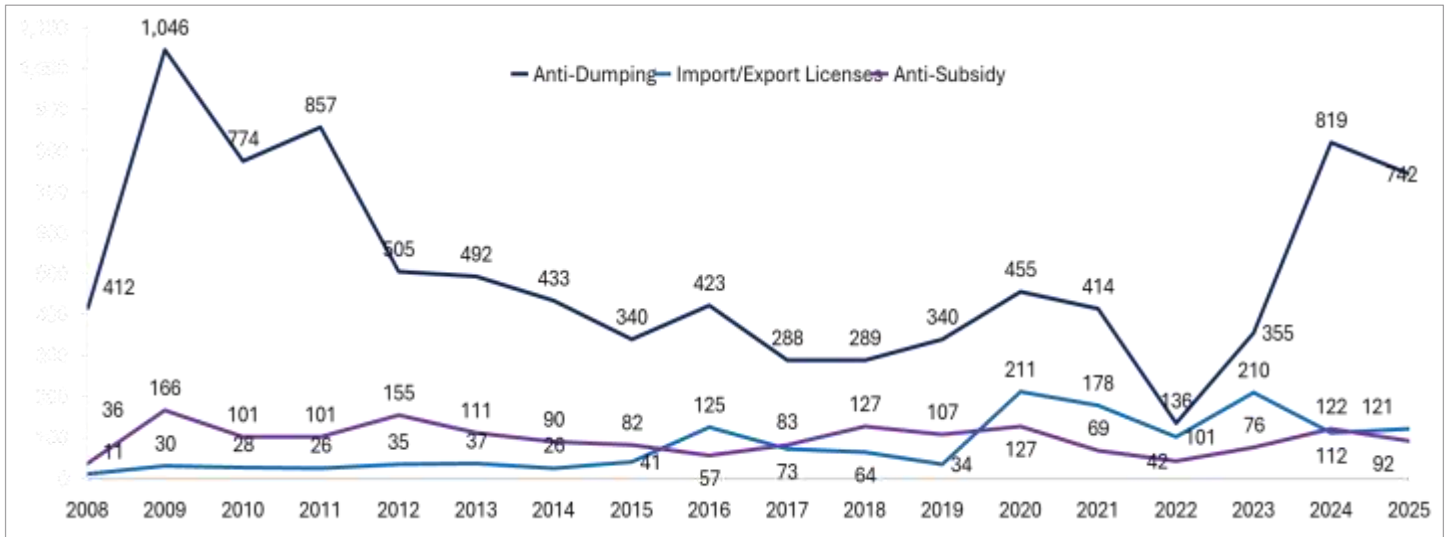


Figure: Number of ADD, CVD and Licensing Barriers Announced Between 2008-25, Source: Global Trade Alert

- The need to secure natural resources has also been a key cause of increased trade protectionism. Food security in countries like India and the Phillipines led to bans on agriculture exports. With the advent of AI and rising use of renewables in energy and transport sectors, critical natural resources are also facing bans like Nickel in Indonesia and Lithium reserves in Argentina .
- Services trade have been similarly hit by growing protectionism. Digital services trade had been thriving over the past two decades with e-commerce and the digital delivery of services like banking, finance and healthcare. However, between 2014 and 2025, barriers to digitally delivered services rose by 25% . With data localization, protection and surveillance restrictions, this is likely to grow in the future .
- Worldwide, between 2024 and 2025, 11.1% of total imports, close to USD 2,600 bn. worth, were hit by trade barriers. It would be easy to chalk up much of today's climate to Trump's extreme tariff policies and the United States. In truth, Trump has accelerated what was a gnawing, and persistent issue, only now brought to the forefront.
- Not only does protectionism hamper trade in real time, but it also creates an environment of uncertainty, stalling innovation, obstructing supply chains and diminishing capital flows. It is necessary, especially in an environment of international conflicts and climate disasters, that trade be approached globally with consensus and cooperation.
- Additionally, there is a strong case to be made for central appellate bodies like the WTO to go back to the drawing board. In this climate, the role of multi-lateral organizations to restore balance is as central as ever. For a WTO 2.0, it would be key to ensure mutual benefits during conflict resolution, and deal with a stern hand when it comes to players acting outside the rules of the game.
- But in a world where the UN itself is seeming increasingly ineffective, other multilateral bodies like UNICEF, Red Cross are struggling to get heard, can WTO discover its backbone? If so, how? There needs to be a multilateral will and empowerment and a willingness to give something for a global good, which seems difficult in these "me first" times. If not, the world seems to be headed to sub-regional agreements and an apartheid type regime where everyone trades with their friends only.

Our Values - The Avalon EDGE

E

ENTREPRENEURSHIP

Enterprising ownership to transform ideas into pragmatic and profitable solutions

D

DEDICATION TO EXCELLENCE

Commitment to premier quality and highest standards in everything we do

G

GREAT VALUE CREATION

Focus on delivering maximum client impact through innovation and collaboration

E

ETHICAL APPROACH

Respect, fairness, and transparency in all our interactions

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