



DOES PROTECTIONISM REALLY PROTECT?

(Registered on June 20, 2025)

PIERRE: After decades of globalisation, barriers to global trade are on the rise. So how can we explain this resurgence of protectionism in developed countries and, above all, is it really effective in protecting economies from foreign competition? My name is Pierre, I work at the Banque de France, and today, together with Jean-Sébastien and Narjis, I am here to help you understand what's really at stake with customs barriers.

JEAN-SÉBASTIEN: Hello, my name is Jean-Sébastien, I'm 24 years old and I'm finishing a master's degree in history at the Sorbonne.

NARJIS: Hello, my name is Narjis, I'm 20 years old and I'm in my third year of a bachelor's degree in economics and society in Lyon.

PIERRE: Since World War II, economies have been opening up to one another. Goods, services, capital, and people have moved around with fewer and fewer barriers. That's known as free trade. And customs barriers, which limit these exchanges, are a form of protectionism.

NARJIS: For me, protectionism is a strategy that a country adopts to discourage its citizens from importing goods and therefore to encourage domestic production in order to boost its economy.

PIERRE: In concrete terms, customs barriers can take several forms:

- Tariffs, i.e., taxes paid by domestic companies when they import goods produced abroad;
- Quotas, which limit the quantity of goods sold or purchased abroad. For example, between 1991 and 2000, the European Commission limited the number of Japanese vehicles that could be exported to the European Union.
- Other barriers, such as technical or health standards, which are referred to as non-tariff barriers.

Agreements between countries have helped reduce customs barriers, particularly during negotiations at the World Trade Organization (WTO), which brings together 166 countries and applies a key principle, that of the most-favoured-nation. In practice, when one country grants a trade advantage to another, it must extend that advantage to all its partners. This is known as multilateralism.

Free trade is based on a simple idea, which is 200 years old but still relevant today: it is in every country's interest to specialise in what it does best. This is David Ricardo's famous theory of comparative advantage.

JEAN-SÉBASTIEN: Except that you also have to take a more micro approach and look at individual industries and sectors to see who actually wins and who loses. For example, Manchester may gain and London may lose. I believe the pitfall is often to present free trade as a win-win situation.

PIERRE: When a country specialises and opens up to international trade, the least competitive sectors may suffer. And free trade therefore becomes controversial. Achieving a balance between free trade and protectionism is nothing new:

- In the 1930s, the United States raised its tariffs under the Hawley-Smoot Act. Its partners, particularly in Europe, responded by imposing their own tariffs. International trade collapsed and the Great Depression worsened.

- More recently, in the 1980s, the United States erected tariffs against Japan to protect certain companies, such as Harley-Davidson, which were facing competition from modern and, above all, cheaper Japanese motorcycles.

- In 1989, in Seattle, tens of thousands of people demonstrated against the WTO and the negative effects of free trade. Clashes with the police were violent.

NARJIS: Of course, there are environmental issues at stake because all the transactions that have taken place thanks to international trade generate a huge amount of greenhouse gases. So, inevitably, they have a fairly significant ecological impact.

PIERRE: More recently, in 2018, Donald Trump launched a trade war against China. The range of goods targeted was broad: solar panels, steel, washing machines, etc. And this protectionist policy continued under Joe Biden.

But the World Trade Organization, which is supposed to arbitrate trade disputes, has been weakened: its Dispute Settlement Body is no longer functioning because no new judges have been appointed. As a result, multilateralism is giving way to bilateral or regional trade agreements.

In this context, production chains are becoming more complex.

JEAN-SÉBASTIEN: This globalised production chain reminds me of an anecdote from when we were learning about the iPhone production process. The iPhone's processor is manufactured in China, its design is Californian, and it is exported from Ireland. A globalised production chain. It is a production chain, as the name suggests, but in which each component is produced in the country or region that specialises in the production of that component.

PIERRE: So your smartphone crosses several borders before it ends up in your pocket. In the case of cars, components can cross the same border several times during the manufacturing process. For example, between the United States and Mexico or Canada, before being assembled and then distributed for sale. This phenomenon is known as value chain fragmentation. Each step is carried out where it costs the least. But this logic of efficiency has a downside: value chains are becoming more vulnerable to tariffs.

JEAN-SÉBASTIEN: Tariffs may act as compensatory measures or erase the advantages of specialisation. If a country is very good at producing a good and I impose a high tariff, the competitive advantage it has, thanks to cheaper labour or a technological advantage, will be erased by this tariff. So obviously, this has significant long-term consequences for the value chain.

PIERRE: In 2025, when tariffs averaged between 2% and 3% in developed economies, Donald Trump announced that tariffs would be raised up to 145% depending on the country and good. Why? First, to reduce the US trade deficit. Second, to collect customs revenues to offset tax cuts. Donald Trump also wants to exert geopolitical pressure on certain countries. And finally, to encourage the relocation of industries to the United States.

But will it work? This model has its limits.

NARJIS: I believe that tariffs will lead to a rise in inflation, since importers will want to pass on the increase in import costs to their prices. So inevitably prices will rise and this will create inflation. Because by definition, inflation is a general increase in prices.

PIERRE: If companies don't have local suppliers, they have no choice: they must buy abroad and may pass on the higher purchase costs to consumers by setting higher prices, with the risk of fueling inflation at the expense of purchasing power. But fighting inflation is the job of the Fed, the US central bank. To do this, the Fed has one tool: it sets interest rates. High interest rates lead businesses and households to borrow less, which slows demand for goods and services and curbs inflation.

JEAN-SÉBASTIEN: What makes the United States unique is that its national currency is also the currency used for international trade. So when the Fed decides to change its key interest rates, this decision has global implications because the dollar is the global currency.

PIERRE: But with high interest rates, financial investments in dollars become more attractive than investments in other currencies. This strengthens the dollar against other currencies. And a stronger dollar makes imports cheaper, even when taxed. Tariffs are therefore less effective in reducing the trade deficit. This is what happened between 2018 and 2020: The US trade deficit did not decrease. Why? Because the US deficit reflects a fundamental imbalance, the fact that the United States consumes more than it saves. Conversely, countries such as China and Germany have trade surpluses because they save more than they consume.

In 2025, against a backdrop of persistent inflation in the USA, rates remained high, particularly in relation to the Eurozone. This should have strengthened the dollar. However, the dollar depreciated against a backdrop of great uncertainty about economic policy and asset yields in the USA.

Another limit of protectionist measures can be seen when other countries retaliate. For example, in 2023, China restricted exports of certain strategic metals, such as gallium and germanium, which are essential to the electronics industry.

Finally, companies adapt. In the 1980s, Japanese motorcycle manufacturers, which we mentioned earlier, set up factories in the United States to circumvent import quotas. Today, some Chinese goods are exported from Mexico or Vietnam to avoid US tariffs. This is known as tariff jumping.

And in Europe, what is the impact of these US protectionist measures? The impact is mixed. While the United States accounts for only 7% of French exports, compared with 10% for Germany, certain sectors, such as aerospace, chemicals and wine, are nevertheless more exposed. But while competing countries are also affected by protectionist measures, the impact is less severe.

Now you know almost everything there is to know about tariffs and protectionism. If you have any questions about the economy, please write to us at podcasts@banque-france.fr or on the Banque de France Instagram account. Thank you for listening to L'éco en court. If you enjoyed this episode, don't hesitate to subscribe to L'éco en court and share the link with your friends. Join us again soon!