

# The Protectionist Threat to Industrial Development

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# The protectionist threat

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Two sources of threat to trade-led industrialization (including in agribusiness, services, etc.)

## DEMAND SIDE

- High-income countries questioning trade deficits (Klein & Pettis 2020)
- Growing inequality fuelling calls for protection in the US and UK
- Not inevitable — inequality has not risen in Germany or France during hyperglobalization (Milanovic 2016)

## SUPPLY SIDE

- Low- and middle-income countries restricting exports of raw materials and food crops
- Threatens access to intermediate inputs crucial for manufacturing exports
- Advanced technology export restrictions as sabotage more limited

# Protectionism is rising, but only in a few import markets

15%

US global export share today, down from  
20%

13

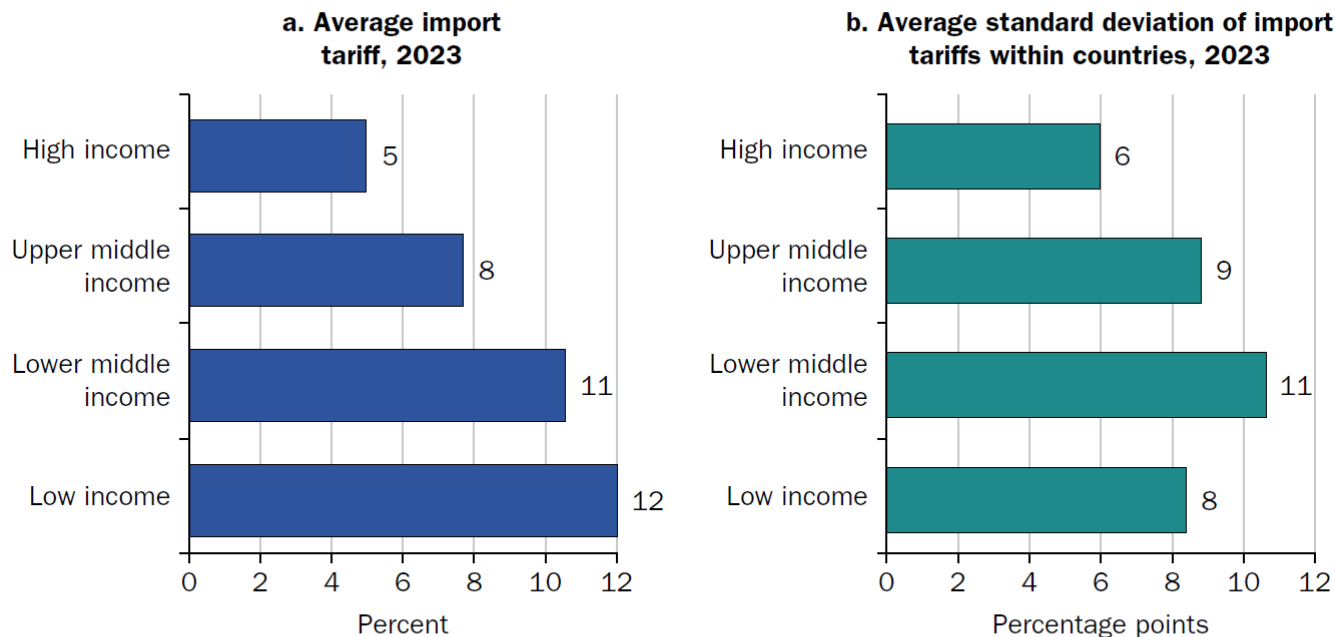
Products targeted by EU CBAM +  
Deforestation rules

S–S

South-South trade is the biggest growth  
opportunity

- US and to a lesser extent UK are exceptional in the rise of protectionist politics and trade barriers
  - Most countries export less than a fifth to the US, and this is declining
  - North American countries are most exposed (e.g., Haiti, Mexico, Canada)
- EU protections limited to a 13 commodities linked to climate change (e.g., steel, fertilizer, cocoa, palm oil)
  - For now, most manufacturing or services exports unaffected
- Middle-income countries growing faster than high-income ones offer the largest export growth opportunity
  - New regional agreements (AfCFTA, RCEP) create space to experiment with new exports in local markets
  - Challenge: many Southern countries export similar goods — heterogeneous growth paths needed

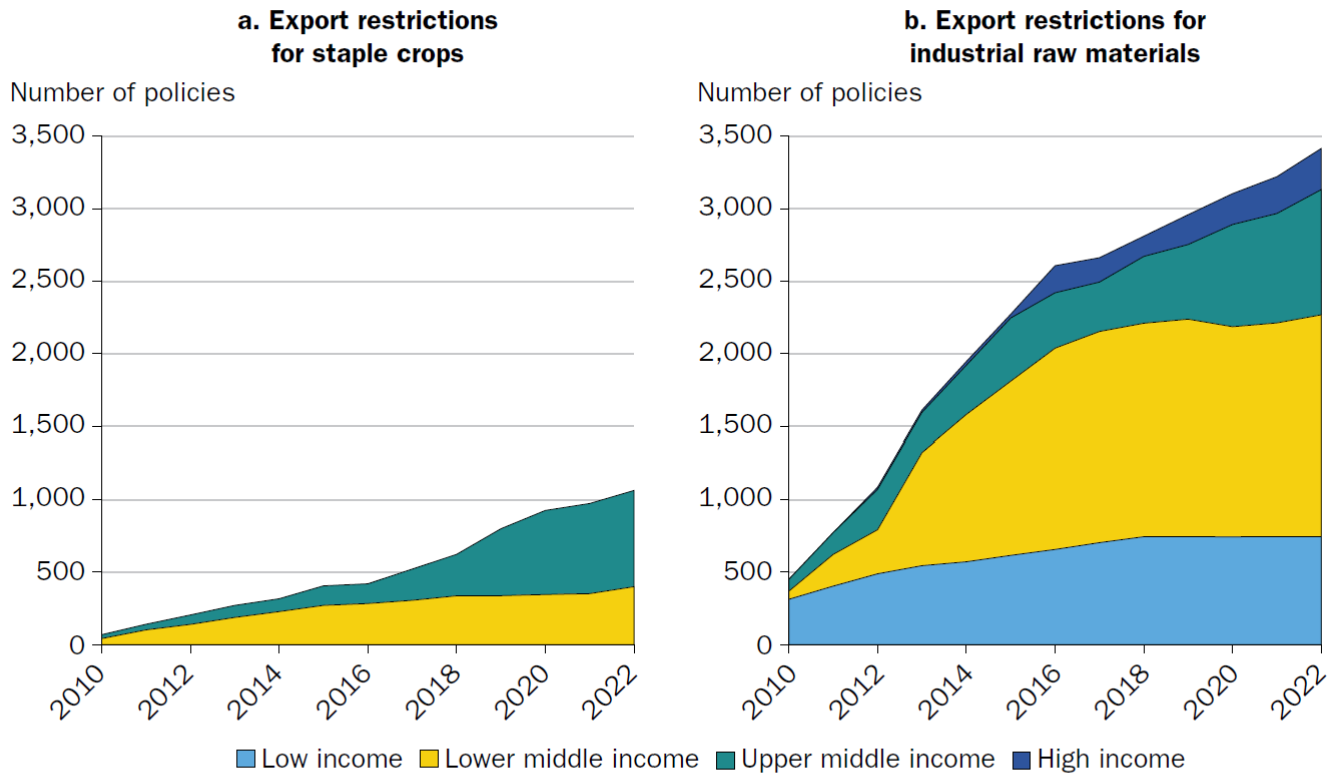
**Figure 2.2** Average tariff levels and dispersion within countries, by income group



Sources: Base pour l'Analyse du Commerce International (BACI) (database), Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), [https://www.cepii.fr/DATA\\_DOWNLOAD/baci/doc/baci\\_webpage.html](https://www.cepii.fr/DATA_DOWNLOAD/baci/doc/baci_webpage.html); World Integrated Trade Solution (WITS) TRAINS (Trade Analysis and Information System) tariff data, World Bank, <https://wits.worldbank.org/>.

Note: Most-favored nation (MFN) tariff rates are used. Panel b presents the average standard deviation of MFN tariffs across Harmonized System (HS) six-digit products within countries by income group. Within-country the average tariff is value-weighted, but averages across income groups weight countries equally. The rankings between income groups are identical using applied tariff rates, though average rates are slightly lower. The sample covers 187 economies (66 high income, 49 upper middle income, 50 lower middle income, 22 low income).

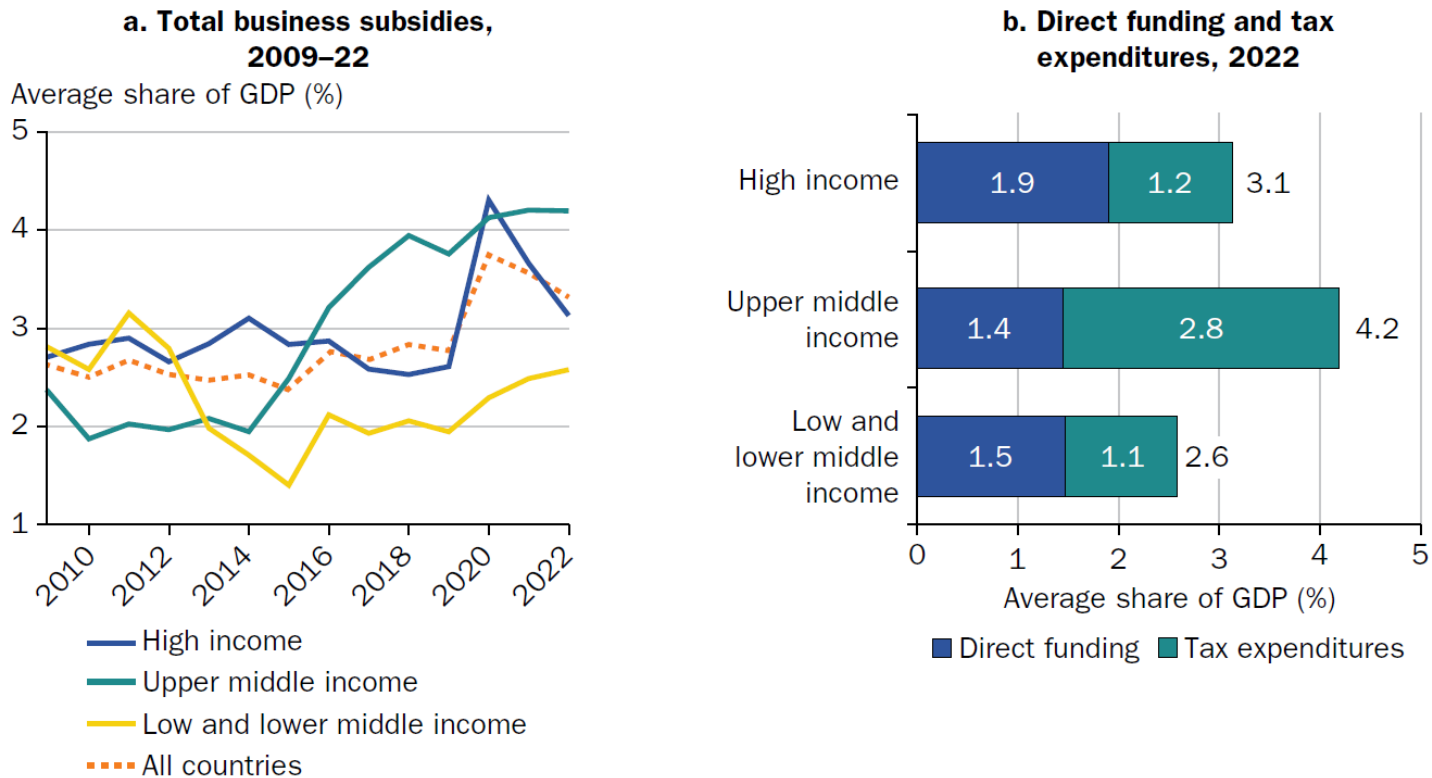
**Figure 2.3** Rising export restrictions, by income group



Sources: Export Restrictions on Staple Crops (database), Organisation for Economic Co-operation and Development, <https://www.oecd.org/en/topics/sub-issues/agro-food-trade/export-restrictions-on-staple-crops.html>; OECD 2024.

Note: The sample covers 10 countries (4 upper middle income, 6 lower middle income) in panel a and 55 countries (8 high income, 17 upper middle income, 19 lower middle income, 11 low income) in panel b.

**Figure 2.4** Direct funding to businesses and tax expenditures, by income group



Sources: BOOST Open Budget Portal, World Bank, <https://www.worldbank.org/en/programs/boost-portal>; Global Tax Expenditures Database, Council on Economic Policies and the German Institute of Development and Sustainability, <https://gted.taxexpenditures.org>; Government Finance Statistics (GFS), International Monetary Fund, <https://data.imf.org/en/datasets/IMFSTA:QGFS>; Redonda et al. 2025.

# Protectionism against China creates export opportunities for other countries

## CHINA'S COMPETITIVE RISE

- Driven by market-oriented reforms and industrial policy with subsidies phased out as industries mature
  - China has lower average tariff than most countries (3.2% vs 5% HIC average in 2023)
  - Subsidies in line with other UMICs, but industrial policies often target innovation
- Mature industries remain competitive through domestic scale, supply chains, and R&D

## OPPORTUNITIES FOR BYSTANDERS

- Other countries' exports often substitute Chinese imports, not complement them (Fajgelbaum et al 2024)
- US-China tariff war coincided with increased exports from Mexico and Vietnam (Alfaro and Chor 2023, Iyoha et al. 2024)
- European exporters best positioned to fill gaps in US market; other regions could exploit these too (McKinsey Global Institute 2025)

*Both locally manufactured substitutes and transshipments have driven trade growth for bystander countries during US-China tensions.*

Sources: Fajgelbaum, P., Goldberg, P., Kennedy, P., Khandelwal, A. and Taglioni, D., 2024. The US-China trade war and global reallocations. American Economic Review: Insights, 6(2), pp.295-312; Alfaro, L. and Chor, D., 2023. Global supply chains: The looming "great reallocation" (No. w31661). National Bureau of Economic Research; Iyoha, E., Malesky, E., Wen, J., Wu, S.J. and Feng, B., 2025. Exports in Disguise?: Trade Rerouting during the US-China Trade War. Harvard Business School. McKinsey Global Institute. 2025. The Great Trade Rearrangement.

# Export restrictions on commodities in lower-income countries provide a laboratory for researchers

- Commodity export restrictions are a second-best industrial policy
  - Lower costs for downstream industries using commodity, when no fiscal space for subsidies
  - Most effective when commodity export share is very large → buyers willing to do downstream FDI
- But industrial development depends on many factors other market access, human capital, regulation
  - Good reason for scepticism that commodity export bans alone can promote development

## CASE STUDY: 2014 INDONESIA NICKEL and BAUXITE EXPORT MORATORIUM

- Nickel ore export ban triggered foreign investment in processing
  - Increased domestic value added and downstream entry, though many entrants are small (Kee and Xie 2015)
  - Dependence on imported steel remains — further study needed on aggregate productivity impact
- Bauxite ban does not lead to investment in bauxite processing, since other sources of bauxite exist (Bosker et al. 2025)
  - Though some aluminum smelters now coming online

Sources: Kee, H.L. and Xie, E., 2025. Nickel, steel and cars: Export ban and domestic value added in Indonesia. World Bank.

Bosker, M., van den Herik, E.M., Pelzl, P. and Poelhekke, S., 2025. The (un) intended consequences of export restrictions: Evidence from Indonesia. Centre for Economic Policy Research.

# Policy implications

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## NOT INSURMOUNTABLE

Trade shocks stress emerging economies but opportunities to grow agribusiness, local manufacturing, and tourism exist. Growing middle classes serve as an alternative source of demand (Goldberg and Reed 2023).

## EXPORT PROMOTION

The export promotion toolkit is cheap to implement, does not violate international trade rules. Public inputs include industrial parks, skills development, market access assistance, and quality infrastructure (Reed 2024)

## EXPERIMENTATION

Market incentives — subsidies, export restrictions, local content requirements — could theoretically yield gains if they address market failures, but more research is needed.

# New book out next Tuesday, March 17!

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