

Impact of Protectionism and Trade Wars on the Contemporary Developing Economies and Legal Healing

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ABSTRACT

The purpose of this paper is to examine neutrally/without bias how the rising protectionism and trade wars followed in developed economies like the United States of America (USA), European Union (EU) and other developed economies have affected the developing economies like India, South Africa and so on specifically since the year 2010. Worth mentioning that just like pain killer provides a instant relief to an individual, Protectionism and Trade War might deliver temporary relief to a economy; however, in the long term, Protectionism and Trade War diminishes efficiency, innovation, and global economic welfare.

When the developed economies (for instance the US, UK, EU, Japan, and so on) adopt the protectionist measures— export controls, tariffs, import quotas, subsidies, and non-tariff barriers—the repercussions spread its wings across the entire global economy. Consequently, The effects on developing economies include higher costs, slower growth, unemployment risks, and the stalled convergence.

It is pertinent to mention that the practice of following Protectionism and trade wars poses a serious risk to the developing economies and it is necessary to clear the air about it. Reason can be attributed to their dependence on exports, imported inputs, and the global value chains. Consequently, The side-effects include higher costs, slower growth, unemployment risks, and the stalled convergence. To manage this dilemma in present facts and circumstances , the aforesaid developing countries requires a resilient trade-law frameworks both within their borders and in alignment with the multilateral system (WTO). Thereafter, it must be complemented by the domestic regulatory, investment and the export support laws.

Coming to factsheet, some repercussions of protectionism and trade wars on Developing Economies have been quantified and presented as follows:

- **World Bank**

The Foreign Direct Investment and investment flows are volatile. As per UNCTAD's World Investment Report 2025, global FDI fell tectonically in 2024 (FDI down ~11% to ~US\$1.5 trillion)

- **World Trade Organization**

A working paper of IMF cited by the World Bank suggested the GDP losses to around 5%. Moreover, welfare costs up to ~12% under the severe decoupling scenarios.

- **Removing Trade Restrictions**

The stock of the import-restrictive measures in force is gigantic and growing also : In the mid-October 2024 the World Trade Organization estimated that the trade restrictions have been affecting about US\$2.95 trillion of world imports (i.e.~11.8% of world imports).

- **And host of other factors.**

Proposed Legal Solution

Finally, an integrated set of legal reforms, also termed as legal healing measures have been proposed. They are inclusive of

- Anti-Dumping Procedures
- Customs Digitization

- *Targeted Social-protection entitlements*
- *Competition and Industrial policies.*
They are designed to address short-term disruption while maintaining long term openness.

Keywords: *Protectionism, Developing Economies, Trade Wars, Customs digitization, Legal Reforms, Anti-Dumping Procedures, Global Economic Welfare, Competition and Industrial Policies, World-Trade Organization.*

Introduction

Table of Sensitive/key facts & figures: How protectionism and trade wars led by developed economies have hit drastically the present day developing economies.

Repercussion	Quantum	Time	Analysis and Interpretation
Global Estimate of Welfare loss from tariffs	As per the estimates of National Bureau of Economic Research, there was a significant welfare loss due to tariff escalation in US-China episodes	The study that analysed US-China tariffs of 2018-2019 and its paper published in 2021.	Firstly Trade War shocks lowered the income, then reallocated production and finally raised consumer prices among trading partners
Fall in FDI into Developing Economies	FDI into Developing Economies has fallen to US\$435 billion in 2023 — lowermost since 2005.	2023 (reported as in June 2025)	Decrease in FDI reduces investment, jobs and also technology transfer in Developing Economies
Decline in Exports to a major market (For Instance: India → US)	India's exports to the United States has fallen to 28.5% (From USD 8.83 bn → USD 6.31bn) between the month May–Oct 2025 (reported)	May–October 2025	Quick Tariff or change in Market Access can drastically lead to reduction in export revenue for the labour-extensive sector

Since the mid-20th century, the adoption of the Global trade liberalization contributed substantially to the growth and poverty reduction in many developing economies. Nevertheless, recent years have witnessed the re-emergence of protectionist policies by developed economies: higher tariffs, difficult trade remedies, subsidies, export controls and the non-tariff barriers. The aforesaid practices — whether creating in the major economies or proliferating across the various regions — can lead to emergence of distortions that affect developing countries in complex ways. In consequence, they vary/alter the relative prices, interrupt in global value chains in which many developing economies participate, reduce foreign direct investment (FDI) flows, and finally raise uncertainty that suppresses investment and employment. As a result, growing use of trade restrictions and geopolitical economic competition (often cast as “trade wars” between the major powers) has directed the attention of authorities to the state of urgency to understand both the impacts on developing economies and the legal frameworks required so as to protect development objectives while complying with international obligations.

This paper clears the doubts about the various economic channels through which protectionism and trade wars harm the developing countries? Which of the domestic and international legal tools can alleviate the abovementioned harms without intensifying the global fragility? What are the tradeoffs — legal, political and administrative — of different legal responses? Answers to the aforesaid dilemma combine economic theory, recent empirical studies, and practice-oriented law-and-policy design.

Review of Literature

The available literature on protectionism spans many decades. The Classical trade theory outlines the gains from free trade and also considers static and dynamic costs of protection. However, the Empirical studies indicates mixed short-term effects that depends on the sectoral structure and accompanying industrial policies. Moreover, the recent research pinpoints on the supply-chain

exposures: producing disproportionate losses in the producer countries that are dependent on intermediate exports.

Adding further, the Scholars also have undergone and studied the environmental and social externalities of protection. Few pieces of work have founded that the certain protectionist policies may temporarily safeguard the jobs; however, at the cost of long-term productivity and, in few cases, environmental outcomes. Moreover, The legal literature criticises the misuse of the trade remedies and is following the discretionary application of anti-dumping rules, pinpointing procedural delays, absence of sufficient transparency, and finally the risk of protection that is being masked as legitimate remediation.

This paper has been composed on these contributions by synchronising economic impacts with a legal reform agenda that is practical and that is targeted at contemporary developing economies.

Objective

The objective of this research paper is twofold: (1) to form an opinion of the economic and distributional consequences of the protectionism and the trade wars for the contemporary developing economies, and (2) to provide and justify a blueprint of the legal reforms i.e. 'legal healing' which can mitigate the harm, preserve the necessary flexibility for the policymakers, and in addition to give an encouragement to inclusive transition toward more resilient trade structures.

Limitations

This research paper is constrained by the number of factors:

- Rapidly evolving geopolitics after the year 2023–2024 (inclusive of the new tariff announcements and the trade policy actions),
- Limited accessibility/availability of the synchronised firm-level data across the many developing economies and the issues of potential measurement in capturing supply-chain linkages. Moreover Continuous monitoring by the international organisations like WTO, World Bank, UNCTAD, and national statistical offices is essential

Mechanisms about How Protectionism and Trade Wars Hit the Developing Economies

• Price and Welfare Channels

The Tariffs shoot up import prices, reduce consumer real incomes, and distort the consumption and consequent production. For the developing countries that import the intermediate goods, "the tariffs applied by the destination markets or on their inputs elsewhere" could raise both the production costs and reduce competitiveness. When the major markets impose the tariffs, the exporters (from developing countries) face either the lost demand or else the need to absorb part of the tariff (lowering producer prices), with the adverse effects on profits and employment.

• Global Value Chain (GVC) Disruptions

A defining feature of modern trade is the fragmentation of production. Developing economies often participate in GVCs by supplying intermediate goods or providing assembly operations. Tariffs and trade restrictions introduced by major economies cause firms to re-route supply chains, sometimes benefiting nearby third countries but often generating transitional losses. Research on recent tariff episodes shows that supply-chain-intensive sectors in developing countries faced amplified shocks due to higher input costs and restructuring needs.

• Terms-of-Trade and Demand Shocks

The Protectionist measures adopted by large economies may depress the global demand for certain goods (e.g., commodity exports, machinery,) and worsen further the terms-of-trade for the commodity-dependent developing countries. The Retaliatory duties put a limit on market access and create uncertainty about the future demand, thus finally reducing investment in the export sectors.

• FDI and Technology-Transfer Effects

Trade openness has historically been associated with higher FDI inflows and technology transfer. Protectionism and trade wars raise risk level and encourage firms to relocate investment to countries perceived as safer or as offering more stable market access — potentially diverting away FDI from some developing economies, or attracting only low-value-adding activities.

• Distributional and Poverty Impacts

Even if aggregate GDP losses are moderate, distributional effects can be severe: tariff-inflated prices hit low-income households harder; employment losses in export-oriented manufacturing or

agriculture increase poverty. Evidence suggests that the net effect on poverty depends on how trade shocks interact with labor market structures, social protections, and domestic policy responses.

Case Studies and the Empirical Lessons

- **The US–China Tariff Episode (2018–2021 and Thereafter)**

Following of tit-for-tat tariff escalation between two largest economies, United States of America and China, has led to the canonical modern trade war. Many techniques of analyses have quantified both the direct and the indirect effects: the U.S. tariffs on Chinese imports and in turn the Chinese retaliatory tariffs has raised costs for downstream industries, which led to the partial diversion of the trade to the alternative suppliers (consequently benefitting some of the exporters in Asia and Latin America), and resulted in “produced aggregate welfare losses” globally. For Instance, One of the influential working paper estimated the substantial reallocation across the different sectors and countries, thus exposing developing economies to both the opportunity and the risk: some sectors have gained the export volumes to the China (or to the U.S.), whereas others shrank due to the higher cost of production (input costs) or lost access to the supply chains. Adding further, the Empirical work also documents the higher consumer prices in the U.S. for the affected goods and the disruptions in the manufacturing linkages that harmed and troubled workers in developing-country supplier firms.

- **Tariff Disruptions and Least-Developed Countries (LDCs)**

The UNCTAD and the other analyses highlight that recent tariff changes have been able to disproportionately increased barriers that has been faced by some LDCs; thus, undermining their efforts to raise export shares. Tariff hikes on key markets effectively erode competitiveness in the sectors where the LDCs hoped to expand. And for the economies emphasizing on a narrow set of exports, even the moderate tariff hiked by the major buyers can result into large income swings.

- **Supply-Chain Realignments and Agricultural Markets**

Trade tensions and export controls in agriculture and energy commodities have a direct effects on food security and price volatility in import-dependent developing countries. Modeling of “trade war 2.0” scenarios shows how blocking a major exporter’s market access can lead to global price shifts, benefiting some exporters (who fill the gap) while harming net importers. These effects carry welfare implications for low-income consumers and for fiscal balances of countries supporting agriculture.

International Legal Architecture and Limitations

- **WTO Rules and Dispute Settlement**

The World Trade Organization delivers the primary multilateral rulebook for trade that includes disciplines on tariffs, non-tariff barriers, anti-dumping, safeguards, and countervailing duties (AD/CVD), and subsidies. The dispute settlement mechanism of WTO has many times allowed developing countries to prevail against larger trading partners; however, practical capacity constraints (legal expertise, resource costs) and recent political paralysis in appellate functions have weakened its deterrence capacity. Consequently, The Developing economies confront both a legal avenue (like WTO litigation) and real-world barriers to using it effectively.

- **Unilateral Trade Remedies and their Risks**

Many countries use Antidumping and Countervailing Duties and thus safeguard measures to protect the domestic industries. While this seems legitimate under WTO law (when applied according to rules, excessive or misused trade remedies) by large economies can amount to disguised protectionism, thus harming exporters disproportionately in developing countries who lack compensating measures. Moreover, export controls (for technology or essential goods) have emerged as strategic tools of economic statecraft, complicating traditional trade-law analyses.

- **Regional and Preferential Trade Agreements**

In response to the multilateral limits, many of the developing countries rely on regional trade agreements (RTAs) and the preferential schemes to maintain market access. RTAs have the potential to mitigate some tariff shocks by securing preferential treatment; but the overlapping rules of origin, administrative costs, and the limited scope of some of the agreements (e.g., excluding investment or services) constrain their effectiveness.

Laws and Legal Capacities Required by the Developing Economies

Developing countries need to follow a layered legal strategy i.e.

- They require International law engagement to defend market access and challenge the aforesaid discriminatory measures,
- The Domestic law reforms to build the resiliency, and
- The Regional cooperation to multiply the bargaining power.

Below-mentioned are the concrete legal categories and recommended features to come out of the aforesaid dilemma.

Calibrated use of the Domestic Trade Remedies

- **Cautious and thoughtful Anti-dumping and Safeguard laws:** Modern AD/CVD and safeguard statutes ought to include rigorous evidentiary standards, temporal limits, and provisions to avoid protectionism. Rather the Independent domestic institutions (for instance trade remedy authorities) ought to be insulated from the political capture and ought to be equipped to perform analyses of economic injury.
- **Targeted safety measures for the vulnerable sectors:** Where the industrial policy targets to care and nurture infant industries, temporary safeguards (that comply with WTO rules) can buy the time—paired with the sunset clauses and adjustment assistance.

Strengthened trade-law capacity and WTO engagement

- **Investment in the dispute-capacity:** To Establish or finance the specialized legal teams (in the ministries of commerce/trade or the external counsel) to bring and defend the WTO cases and to employ interim dispute mechanisms.
- The Empirical evidence proves that the developing countries that litigate successfully often recover the market access and sets the precedents. Nevertheless, the resource constraints can be a barrier and pooled legal funds among like-minded countries or regional legal centers could help.
- **Proactive in notification and the compliance:** To Ensure that the trade measures are transparent and comply with the WTO notification requirements; the transparency lessens the victimization risk and improves the diplomatic leverage.

Investment and FDI-friendly legal frameworks

- **Mechanism of Investment screening and the protection balancing:** While the broad open investment regime attracts the FDI, targeted screening (for the national security or the critical infrastructure) can be a necessity in a more fragmented global economy. The Investor-State Dispute Settlement (ISDS) clauses ought to be balanced against sovereign regulatory space; the reformed investment treaties can clarify carve-outs and stabilization clauses.
- **Providing Incentives for the technology transfer:** The Laws that encourages joint ventures and local content in a manner consistent with the obligations, and the technology licensing frameworks could help ensure that FDI translates into upgrading.

Industrial policy and competition law

- **Clear legal frameworks for industrial policy:** Many developing countries pursue upstream capacity-building (e.g., semiconductor supply chain participation). Laws that allow for state support (subsidies, public procurement preferences) should be crafted to comply where possible with international obligations or be justified narrowly (e.g., for infant industry promotion, R&D). Transparent subsidy registries reduce trade tensions.
- **Competition law and state aid regulation:** Robust competition law protects domestic consumers and ensures state support does not entrench inefficiency. Crafting competition policy that complements industrial policy helps avoid distortive outcomes.

Digital trade, Data, and Services laws

- **Data governance and the cross-border data flow rules:** Services and the digital trade are increasingly vital for the development. The Laws that protect privacy but permit the cross-border flows for trade help sustain participation in digital GVCs.

- **E-commerce and fintech regulation:** The Modern trade agreements and the domestic statutes ought to address the e-commerce, digital taxation, and the platform regulation for capturing opportunities and reduce the vulnerabilities.

Export Controls and the Critical-Technology Laws

With the proliferation in the export control measures, the developing countries ought to adopt the clear export-control laws that are consistent with the non-proliferation and security obligations

Policy Designing That Balances Defensive and the Developmental Objectives

Legal responses should balance the immediate defensive needs (protecting the market access, challenging the discriminatory measures) with long-term development goals (poverty reduction, industrial upgrading). Key principles are as follows:

- **Transparency and the rule-based actions:** To Complain under the WTO or RTAs wherever appropriate. Avoid the broad, opaque retaliatory measures that harm the domestic welfare.
- **Complementary domestic reforms:** To Support the trade-law measures with the social protection, labor retraining, and the industrial policy to ensure that the workers and firms can adapt.
- **Temporal and targeted intervention:** To use the temporary measures (safeguards, subsidies) with the sunset clauses and the performance conditions for limiting long-run distortion.
- **Regional coordination:** To Pool the legal resources, harmonize rules of the origin, and consequently design contingency protocols for the supply-chain disruptions.

Implementation Challenges

- **Political Economy and Rent-Seeking**

The Trade provides a remedy and subsidies that risk capture by the incumbents. The Institutional design should include transparency, independent adjudication, and the stakeholder consultation to dodge protectionism being misused.

- **Administrative and Capacity Constraints**

Many developing countries lack the technical expertise (economists, trade lawyers) that is required to design, implement, and litigate complex trade-law strategies. Consequently, "Establishing regional centers of excellence, donor-supported training, and legal aid for trade disputes" can mitigate this.

- **International Asymmetries and Power Politics**

Smaller economies, even with the legal rights, face the intimidation and pressure. In consequence, Building the coalitions and leveraging multilateral institutions are necessary but not always sufficient. Reason being diplomacy and diversified market access strategies matter.

- **Measurement and Evidence Gaps**

Sound trade remedies and industrial policies necessitate good data on trade flows, input-output linkages, and the labor market impacts. So Strengthening "statistical systems" and commissioning "independent impact assessments" should be prioritized.

Recommended Legislative Checklist for Developing Economies

Below-mentioned is a concise and the actionable checklist for the lawmakers:

- **Industrial and subsidy law**
 - To Enact an industrial policy framework that defines the goals, eligibility, monitoring, and sunset rules for the subsidies.
 - To create a public subsidy registry for better transparency.
- **Trade and dispute readiness**
 - To create or strengthen the "trade litigation unit" with the budgeted authority.
 - To Join or form the regional legal defense funds for financing WTO litigation.
- **Competition and state-aid**
 - To Strengthen "competition authority independence" and capacity to prevent "anti-competitive behaviors" tied to state support.

- **Investment and FDI**
 - To revise the bilateral and the multilateral investment treaties so as to preserve regulatory space while offering the credible protection to the investors.
 - Implement the targeted, transparent investment incentives tied to the performance benchmarks (employment, technology transfer).
- **Social protection and retraining**
 - To codify the “automatic unemployment support triggers” tied to trade-shock indicators.
 - To Legislate the public–private retraining programs with the financing rules.
- **Digital trade and data**
 - To enact the pass data-protection laws compatible with the cross-border trade needs, and create exceptions for the trade-critical data flows with the safeguard
- **Export controls and strategic goods**
 - To enact the clear, narrowly tailored “export-control legislation” with the “transparent licensing procedures”.
- **Regional contingency protocols**
 - To negotiate the RTA clauses thus enabling rapid tariff reductions or the harmonized sanitary measures during the supply-chain disruptions.
- **Monitoring and evaluation**
 - To mandate the “periodic impact reviews” of trade measures, subsidies, and the remedies with the public reporting.

Discussion: Trade-offs and Normative Considerations

The Law/Legal tools to respond to the protectionism involve the tradeoffs. While Stricter trade remedies protect firms but it may invite the retaliation and inefficiency. However, The Subsidies spur industrialization but risk fiscal strain and the trade disputes. The Laws ought to be evaluated not only on economic criteria but also on the political feasibility and distributive justice. Important to mention that the legal responses that are transparent, time-bound, and tied to “productivity-enhancing conditions” are more defensible in the multilateral fora and beneficial domestically.

Moreover, The role of the international institutions is crucial. Interestingly, where the WTO functions effectively, it helps in deterring “beggar-thy-neighbor policies” and provides redressal. Nevertheless, the credibility of the multilateral adjudication is dependent on the sustained political support from the major powers. Recent strains underscore the need for the complementary regional arrangements and the coalitions.

Conclusion

Long cut short, Protectionism and trade wars pose significant risks to the developing economies across the globe through price, supply-chain, investment, and distributional channels. Consequently, The legal response must enhance capacity to use the multilateral dispute settlement; multipronged:

- For crafting “domestic trade-remedy laws” that are evidence-based and time-limited;
- Formodernizing industrial, investment, competition, and social-protection laws to support the adjustment and upgrading; and
- For pursuing regional cooperation for amplifying bargaining power and stabilizing supply chains.

Moreover, Policymakers must fight back the temptation of “blanket protectionis” and instead build rule-based, transparent, and targeted legal regimes which in consequence preserve “long-run competitive incentives” and “social protections”. International assistance (the technical, legal, and the financial) can help in overcoming in capacity constraints and ensure that the developing economies are not passive victims of protectionist shocks, but instead are “active actors” in shaping the resilient trade and legal frameworks.

