

# The Power of Trade – Protectionism and Liberalisation over the Past 400 Years\*

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*Foreign trade, including various tariff measures and their impact on individual economies and the global economy, has been a topic of great interest in every era, including the present. This paper reviews key tariff and trade policy measures from the past 400 years. We consider it essential to emphasise that our paper takes an economic history approach and is not intended to evaluate current or future customs measures. In recent centuries, cycles of liberalisation and protectionism have alternated in international trade. Throughout history, tariffs and other restrictions have served to protect domestic sectors from foreign competition or to acquire and strengthen economic power, while increasing state revenues has also been among the objectives. Protectionist measures were typically accompanied by price increases even in the short term, although they also stimulated domestic production growth. However, in addition to the macroeconomic effects, the international political and social consequences of trade policy instruments should also be considered.*

## 1. Tariffs as industrial policy instruments

Industrial policy is a form of state intervention and regulation aimed at promoting economic development and supporting domestic industrial production. As early as the 1500s and 1600s, some countries were already using various trade measures to achieve their economic and political goals. However, industrial policy only emerged in an organised, centralised form in the latter half of the 17<sup>th</sup> century, with its full development due to the Industrial Revolution. Technological progress transformed the social and economic environment, new industrial centres emerged, and states began to realise industry's multiplier effect on economic development.

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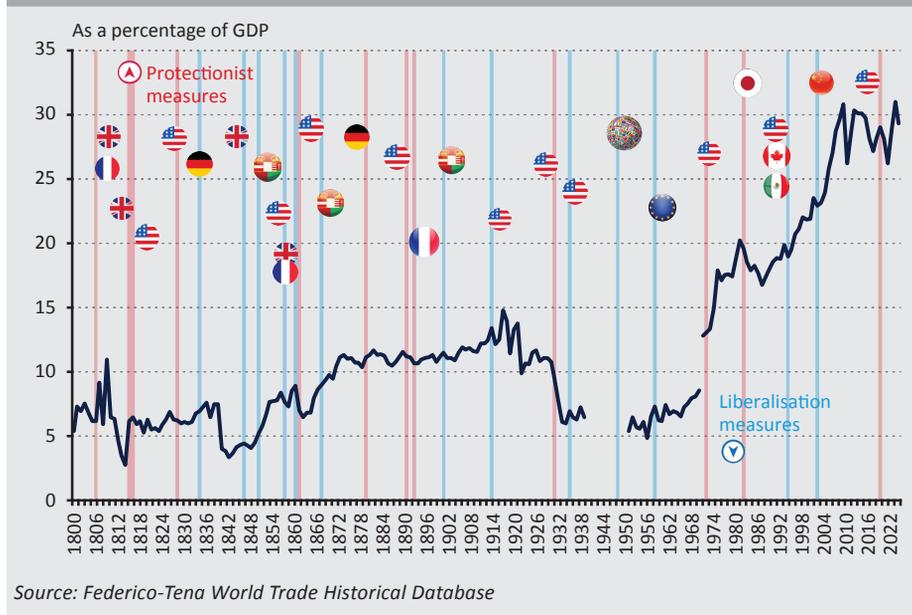
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Tariffs and other trade measures constitute a group of industrial policy instruments. Other industrial policy instruments include subsidies, public investments, infrastructure development, regulation and support for technological development. In this paper, *we focus on tariffs and other trade policy instruments*. Tariffs play an important role in industrial policy as they affect international trade and the structure and competitiveness of the economy. Tariffs enable the protection of domestic industries from foreign competition, thereby stimulating domestic production. They can contribute to increasing employment in protected sectors and supporting technological development. However, tariffs and other trade restrictions can also have negative effects. They typically result in higher prices and reduce competition, which can lead to industrial distortions and create trade tensions between partner countries.

Throughout history, cycles of protectionism and liberalisation have alternated (Figure 1), shaped by political, economic and social goals and factors. In the 16<sup>th</sup> and 17<sup>th</sup> centuries, with the spread of global trade networks and colonisation, the world's economies became more open. The development of trade based on the Portuguese, Spanish, Dutch and English colonies created new opportunities and laid the foundations for a globalised economy. Subsequently, however, protectionism came to the fore with mercantilism.

**Figure 1**  
Evolution of trade openness based on the ratio of global exports to global GDP (1800–2023)



## **2. The age of mercantilism: convergence through isolation**

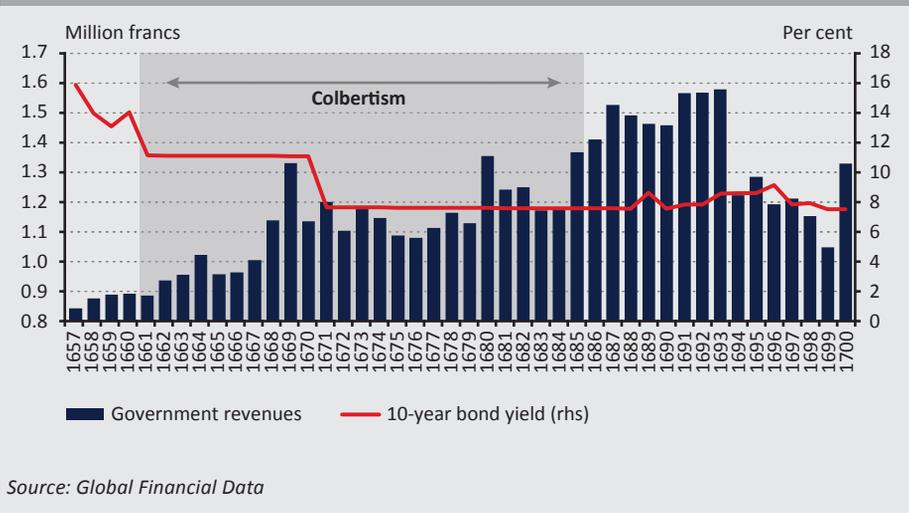
Mercantilism, the first complex national economic strategy, spread through the major Western European economies in the 17<sup>th</sup> century. This trend of economic policy and theory merged with absolutism in France and Spain and manifested itself in offensive economic policy measures. In England, it became one of the foundations of the new constitutional monarchy, while the German Empire's "Reichsmerkantilismus" served as a striking example of partial isolation.

Mercantilist economic policy aimed to protect domestic industry and create a strong economic hinterland to finance the frequent wars that characterised the period. In a world of new economic opportunities opened by colonisation, mercantilism emphasised achieving a surplus in the foreign trade balance and state intervention.

Mercantilist economic policy viewed the imposition of tariffs and the accumulation of precious metals as the basis of economic welfare and power. To increase the price competitiveness of domestic production sectors, protective tariffs were introduced to try to squeeze out imports and encourage exports. The colonial hinterland played a key role in protectionist economic policy, providing the necessary raw materials for the mother country, while manufactured industrial products were exported back to the colonies.

In France, foreign goods were kept out by imposing tariffs, and domestic industrial companies were supported with low-interest loans in the 1660s and 1680s. The introduction of an income tax-based reform of the state tax system is associated with the name of Jean-Baptiste Colbert, Minister of Finance, who also balanced the fiscal budget by increasing government revenues. This also made budget financing significantly cheaper (*Figure 2*). Due to the low profitability of agricultural products, Colbert favoured the export of industrial goods, which led to a significant decline in agricultural production, sometimes causing chronic food shortages and famines.

**Figure 2**  
**French government revenues and budget financing costs (1657–1700)**



Source: Global Financial Data

### 3. Mercantilism in England – role of the Navigation Acts in British hegemony

The Navigation Acts were a series of laws enacted by the English Parliament in the 17<sup>th</sup> and 18<sup>th</sup> centuries. Their purpose was to control maritime trade and increase revenues from the colonies. The acts were a milestone in England’s rise as a naval power and placed all colonies under the authority of the English Parliament.

The first Navigation Act was enacted in 1651, stipulating that goods could only be transported to England by ships with English crews, carrying English goods, or vessels registered in the country of the goods’ origin. This excluded the Netherlands, which dominated maritime trade, from intermediary trade with English territories. The Act contributed to the rapid growth of the English fleet while putting the Netherlands at a disadvantage. The English colonies could only trade through England, which increased English revenues but made goods more expensive for the colonies. As a result of the Act, war broke out in 1652, ending in the defeat of the Netherlands in 1654, giving England a dominant role in intermediary trade.

The first Navigation Act was followed by others throughout the 17<sup>th</sup> and 18<sup>th</sup> centuries, which tightened and expanded the regulation of English (and later British) maritime trade and strengthened English dominance. The measures included further regulation of colonial trade: certain colonial goods could only be exported

to England or from England to English colonies, the colonies were not allowed to trade directly with other countries, colonial export duties were introduced, and measures were taken against the increasing spread of smuggling. Customs revenues and English trade dominance increased, but the Acts caused tension on the international and colonial levels.

It has long been debated whether British mercantilist policy played a role in the deterioration of Anglo–American relations, but the extent to which it contributed to the outbreak of the American War of Independence remains questionable. According to estimates by *Harper (1939)*, the restrictions represented a cost equivalent to 2.3 per cent of colonial income in 1773. However, 90 per cent of these costs were concentrated in the southern states (especially the tobacco plantations of Maryland and Virginia), reducing the region’s income by 2.5 per cent (*Irwin 2020*).

By the end of the 18<sup>th</sup> century, due to the expansion of long-distance trade, interconnected trade networks and production capacities, it became increasingly clear that mercantilist policies limited economic growth. According to Adam Smith, mercantilism mistakenly identified wealth with the accumulation of precious metals, whereas, intrinsically, true prosperity can only be achieved through the division of labour and efficient production. In parallel with the development of free trade, mercantilism gradually receded into the background from the end of the 18<sup>th</sup> century, but in later periods of economic history the customs practices of this economic philosophy reappeared again and again.

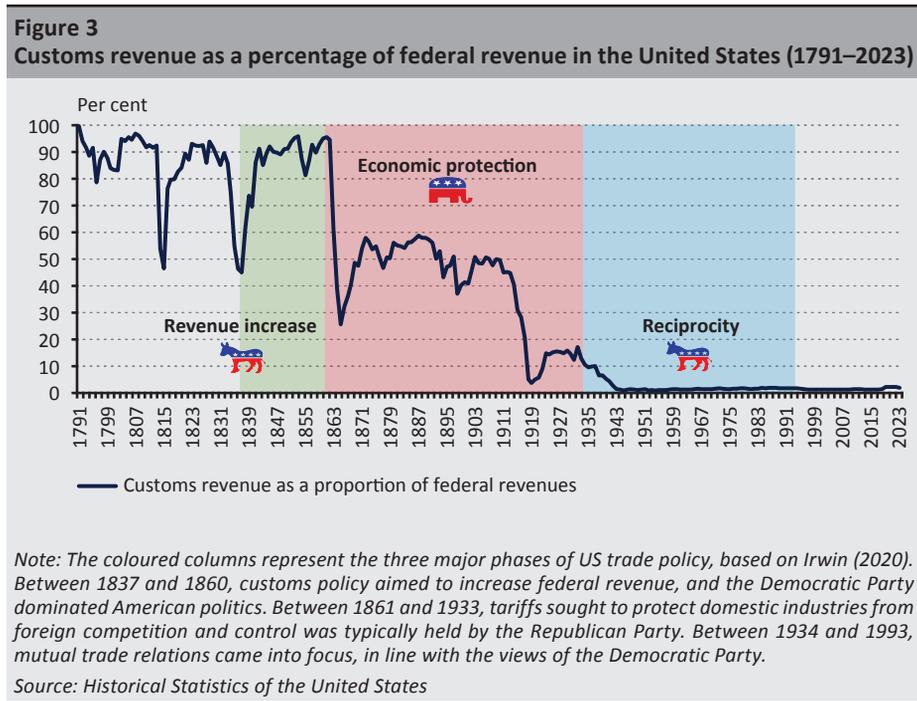
#### **4. The impact of Napoleon’s Continental System on international trade**

Napoleon’s trade blockade (1806–1814) aimed to weaken the British economy and establish a continental trade system. To this end, the import of British goods to Europe was banned. As a result of this measure, smuggling became widespread, and the negative economic effects of the blockade (e.g. price increases, factory closures) were more severe in Europe, as British trade shifted to new markets.

The Napoleonic Wars had a negative impact on the United States as well. At the end of 1807, President Jefferson and the US Congress decided to impose an embargo to protect American ships and sailors from naval engagements between the British and the French. As a result, the country came extremely close to completely cutting itself off from international trade, to a state of autarky. The embargo lasted for 15 months and, as research shows, resulted in a welfare loss equivalent to 4.4–5.0 per cent of GDP (*Irwin 2005; Irwin 2020; Arkolakis et al. 2012*).

The Napoleonic Wars did not bring an end to trade restrictions. The United Kingdom enacted the Corn Laws (discussed in detail in the next section), while the United

States introduced its first protective tariffs. The American tariffs imposed earlier were primarily intended to increase government revenues, the Customs Act of 1816 was the first to aim at protecting domestic industry. Until the start of the Civil War, customs duties accounted for the vast majority of federal revenues (*Figure 3*).



## 5. The Corn Laws – the last restriction on free trade

The British Corn Laws were primarily tariffs and other trade restrictions imposed on imported grain in the first half of the 19<sup>th</sup> century. The law was enacted in 1815 (see *Table 1 in the Annex*) when – as the Napoleonic Wars ended – grain prices started to drop. These laws aimed to keep prices elevated to protect domestic producers from foreign competition.

The restrictions harmed industrial production and caused social tensions and a deterioration in the United Kingdom’s trade balance. The imposition of tariffs made imports more expensive, while higher domestic grain prices led to food price increases. As a result, the cost of living rose, leading to social tensions. Due to high food prices, wages also had to be raised to ensure workers could make a living, which increased the cost of industrial production and thus reduced the competitiveness

of British industry in the international market. British grain producers benefited from higher prices, which increased their incomes and encouraged agricultural production.

The consequences of the 1845 famine led to the repeal of the Corn Laws. Although opponents had campaigned for free trade and the repeal of the Act from the outset, the restrictions remained in place for decades. However, in 1845, famine struck Ireland due to the potato blight, which increased demand for cheap grain. Under growing social and economic pressure, Prime Minister Sir Robert Peel repealed the Corn Laws in 1846, paving the way for free trade and lower food prices.

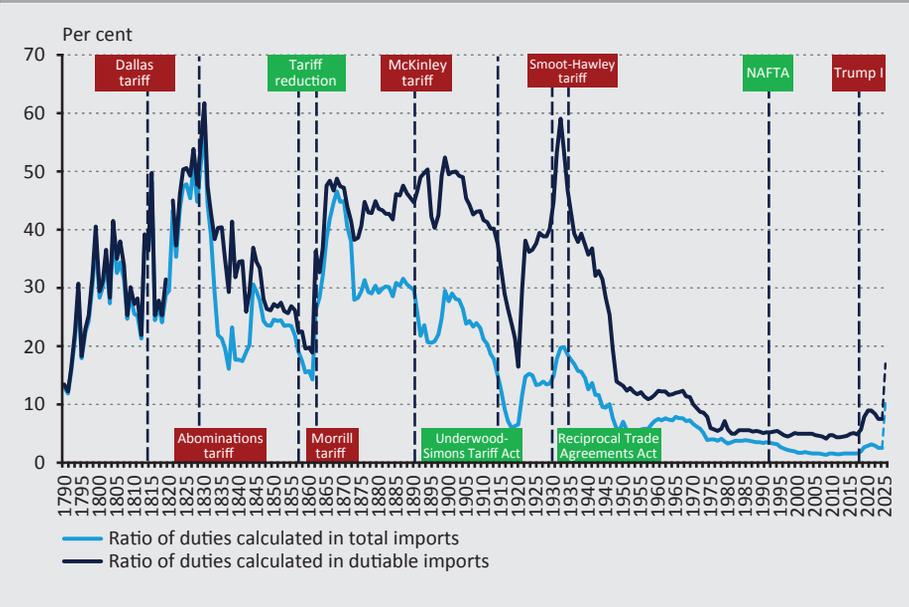
Free trade expanded the United Kingdom's trade relations and made the country the world's leading trading power. Lower food prices allowed industrial wages to stabilise, increasing the competitiveness of British industry. The macroeconomic effects of the Act were not significant, but it had a major impact on income distribution. It adversely affected the top 10 per cent of society, while the welfare of the bottom 90 per cent improved (*Irwin – Chepeliev 2021*).

## **6. Trade developments in a changing global economy**

In the mid-19<sup>th</sup> century, the leading economies moved towards free trade. As a result of negotiations and agreements between Prussia and the German states, the German Customs Union Treaty came into force in 1834, creating the Zollverein, which was joined by additional German territories in the following years. The customs union played an important role in the formation of modern Germany. In 1850, the Habsburg Empire incorporated the various parts of the empire into a single customs territory, thus bringing the historical Hungarian territories into a single trade zone with the Austrian imperial territories.

In 1860, the United Kingdom and France signed a free trade agreement. The Cobden-Chevalier Treaty provided a pattern for other countries to conclude free trade agreements. In the United States, the highest customs tariffs in US history were introduced in 1828 (*Figure 4*), but by the middle of the century, liberalisation had also begun overseas.

**Figure 4**  
Share of customs duties in total imports and imports of dutiable products in the US (1790–2025)



Note: Green indicates customs duty reductions, red indicates restrictive measures.

Source: US International Trade Commission, Douglas A. Irwin

In the final decades of the 19<sup>th</sup> century, protectionism gained ground again. The newly unified nation-states of Italy and Germany sought to strengthen their domestic industry and agriculture by imposing tariffs; furthermore, the United States and France also introduced trade restrictions. In the USA, protectionist measures benefited industrial production in the northern states by protecting them from foreign competition. However, the southern states were more dependent on imported products, and rising prices caused problems. After the Civil War, the Republican Party, which represented northern interests, came to power, and tariffs remained high for a long time.

The French Méline Tariff of 1892 had wide-ranging social effects. The Méline Tariff aimed to protect French agriculture from foreign competition by raising tariffs on agricultural products. A study by the Banque de France concluded that the tariff increased relative prices in agriculture – a sector employing low-skilled labour – compared to industry, thereby reducing the returns to education, which in turn influenced decisions to have children. As a result of the tariff, in counties where grain production accounted for a high share of local employment, educational attainment declined, and birth rates increased (Bignon – García-Peñalosa 2018).

## **7. Global trade in the 20<sup>th</sup> and 21<sup>st</sup> centuries – competition and inter-connection**

The 20<sup>th</sup> century began with trade liberalisation measures, which led to a general reduction in customs tariffs. The customs system was modernised in the Austro-Hungarian Empire. The dual customs system was unified, and a new taxation system was introduced. The economic reform aimed to strengthen integration and increase competitiveness. In the United States, the Underwood-Simmons Act significantly reduced tariffs and introduced the first federal income tax.

World War I brought about drastic changes in international trade relations. Naval blockades reduced the flow of goods, and the countries involved in the war focused on developing their domestic industries to meet the needs of the war, which led to a decline in free trade. In 1916, global exports accounted for nearly 15 per cent of global GDP, but by 1921 this figure had fallen below 10 per cent, a level not seen since the 1870s (*Figure 1*). European economies became heavily indebted, while the economic power of the United States grew. After the war, the Republican Party came to power in the United States, strengthening protectionist views. Americans were concerned that European countries would take advantage of low tariffs and flood the United States with their products, so tariffs were raised in 1921 and 1922.

The increased supply during the war and the recovery of European agricultural production in the second half of the 1920s led to overproduction, which in turn resulted in a decline in agricultural prices. During the 1928 presidential campaign, Herbert Hoover promised to raise tariffs on agricultural products, but other sectors of the economy soon demanded protection as well. Finally, during the Great Depression, the Smoot-Hawley Tariff Act was enacted, which (together with retaliatory measures) further exacerbated the crisis. According to estimates by *Crucini and Kahn (1996)*, as a result of the tariffs in the early 1930s, US GNP may have fallen by 2 per cent. Compared to the fluctuations typical during the crisis, the impact does not seem significant; however, if introduced at any other time, the Smoot-Hawley Tariff Act alone would have led to a recession. After the global crisis, a comprehensive customs policy law was enacted in the United States, which significantly reduced tariffs and gave the president greater power over customs policy.

World War II resulted in dramatic losses and transformed the global trading system. The USA and Western Europe moved towards free trade. Reconstruction required vigorous international trade, and the negative experiences of protectionist policies between the two world wars encouraged countries to cooperate under more liberal rules (*Botos 2009*). The Bretton Woods system was established in 1944, the General Agreement on Tariffs and Trade (GATT, later WTO) was adopted in 1947, and the European Economic Community (EEC, EC, later EU) was established in 1957.

By contrast, a closed economic system was developed in the Soviet Union and the countries in its sphere of influence. In the 1970s and 1980s, the United States adopted protectionist measures. The Nixon administration introduced dutiable imports to encourage other countries to revalue their currencies against the US dollar, and from 1981, the Japanese authorities resorted to voluntary export restraints to prevent stricter measures that American car manufacturers were pushing for (*Collins – Dunaway 1987*). However, trade liberalisation continued, particularly after the regime change in Eastern and Central Europe. In the 1990s, the North American Free Trade Agreement (NAFTA) was adopted, and European integration deepened. China joined the WTO in 2001, which contributed significantly to the expansion of international trade.

From the second half of the 20<sup>th</sup> century, liberalisation of international trade was typically in the interest of the dominant economies. *Furceri et al. (2018)* examined the macroeconomic effects of tariffs using data from 151 countries between 1963 and 2014. They concluded that a 3.6-percentage point (one standard deviation) increase in tariffs over five years results in a 0.4-per cent decline in output through the decrease in labour productivity. Advanced economies benefit more from free trade, and thus the output decline is greater in these countries, at 1 per cent. The authors also find that the effects of trade policy are asymmetric, with tariff increases hurting the economy more than reductions benefit it.

*Alvarez and Yilmazkuday (2025)* studied the pass-through of tariffs to inflation based on US data from 1990 to 2024. The results show that a 1-per cent increase in tariffs raises inflation by 0.09–0.1 per cent, depending on whether trading partners also impose tariffs. Consumption falls by 0.27–0.29 per cent, while output declines by 0.02 per cent. The authors conclude that protectionism has inflationary and recessionary effects. At the same time, the welfare costs of tariffs can be reduced through expansionary monetary policy.

The trend towards trade liberalisation reached a turning point in 2018 when Donald Trump imposed tariffs on numerous American-imported products. The measures mainly affected goods from China and led to a trade war between the two countries. In the USA, prices for intermediate and final goods rose significantly, the range of products available narrowed, supply chains were transformed, and tariffs were fully passed on to the prices of imported products. Similar effects were observed in countries that introduced retaliatory measures. Tariffs may have reduced US GDP by 0.2–0.3 per cent, the capital stock by 0.1 per cent, while increasing core PCE (Personal Consumption Expenditures) inflation by 0.1–0.3 percentage points (*Amiti et al. 2019; Fajgelbaum et al. 2020; Barbiero – Stein 2025; York 2025*). Rivalry with China did not ease during the Biden administration, and the rather protectionist Inflation Reduction Act (IRA) was passed, which, among other things, links an industrial development programme worth several hundred billion dollars to climate protection (*Farkas et al. 2023*). However, the programme's future has

become uncertain due to the different energy policy goals of the second Trump administration.

More recent literature shows that imposing trade restrictions typically harms the macroeconomy. *Auclert et al. (2025)* examine the short-term effects of import tariffs on GDP and the trade balance. They conclude that tariffs have a recessionary effect if intertemporal and export substitution are more significant than import substitution, which is typically the case in practice. Retaliatory measures by trading partners further exacerbate the situation. Research by *Baqae and Malmberg (2025)* focuses on capital stock, considering the long-term effects of trade wars. Capital investments require imported inputs, and thus tariffs reduce capital stock by raising the relative price of capital compared to labour. When capital stock adjusts, the decline in wages and consumption is greater than in static models, and accordingly adjustment does not mitigate but rather amplifies the negative effects of tariffs.

*Irwin (2025)* summarises the literature on the effects of trade reforms in developing countries. In general, it can be concluded that more liberal trade policies have yielded measurable economic benefits. Numerous studies using different methodologies have concluded that economic growth was 1.0–1.5 percentage points higher in countries implementing reforms. At the same time, however, there is considerable heterogeneity, as the degree of liberalisation and the macroeconomic environment vary, and microeconomic results show that lower tariffs on intermediate goods increased productivity in sectors producing domestic final goods.

## **8. Conclusion**

The overview of the centuries-long history of global trade processes reveals vital lessons. Periods of protectionism and liberalisation have alternated depending on which trade policy measures served the economic and political interests of the dominant powers at the time. As a general observation, it can be noted that the imposition of tariffs and other restrictions typically led to price increases, while supporting growth in protected sectors (agriculture and/or industry).

In addition to macroeconomic effects, it is also worth considering the distributional impact of trade policy measures, at both the domestic and international levels. The English Navigation Acts essentially led to war with the Netherlands, generated tensions in the colonies and probably played a role in the outbreak of the American War of Independence. However, they enabled England to become a dominant maritime power. Napoleon's trade blockade supported belligerent purposes. The British Corn Laws provided advantages to landowners, while their repeal put a broad section of society in a more favourable position. In the United States, trade restrictions helped the development of northern industry while adversely affecting the southern states, leading to conflict.

Tariffs and other instruments influence incentives in an economy and, like all political decisions, provide advantages to one group in society while providing none or fewer advantages to others. In addition to the economic objectives of measures, their political and social consequences must also be considered.

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## Annex

<b>Table 1</b>				
<b>Major trade policy regulations throughout history (1800–2018)</b>				
<b>Year</b>	<b>Customs legislation</b>	<b>Country</b>	<b>Description</b>	<b>Impact</b>
1806–1814	Continental blockade		Banned the import of British goods into Europe.	Serious negative effects in Europe, while British trade shifted towards new markets.
1815	Corn Laws		Preventing the inflow of cheap foreign grain to protect domestic producers.	Higher food prices, lower purchasing power, and slower growth.
1816	First protective tariffs		The first tariff measure aimed at protecting the domestic industry. Previously, tariffs primarily served to increase government revenues.	It benefited northern industry, while rising import prices caused problems in the south.
1828	Tariff of Abominations		The highest tariff in US history, introduced to protect the domestic industry.	It benefited northern industry, while rising import prices caused problems in the south.
1834	German Customs Union (Zollverein)		The customs union between the German states was established.	Growing trade, industry and infrastructure development
1846	Repeal of Corn Laws		The repeal of the Corn Laws enabled the import of cheap grain.	~+0.6–1.5% GNP per capita, falling prices, expanding consumption
1850	Customs reform		Establishing a common customs area to increase internal trade and unify the economy.	Developing industry, increasing integration
1857	Tariff reduction		A significant reduction in protective tariffs, especially for industrial products.	Lower prices, faster growth
1860	Cobden–Chevalier Treaty		Free trade agreement between the United Kingdom and France	GDP impact: UK: ~+0.7%, France: ~+0.5%, served as an example for other countries as well.
1861	Morrill Tariff		Raising tariffs to increase revenues and protect domestic industry.	A new protectionist period began in the US.
1867	Austro-Hungarian Compromise		The Austro-Hungarian Monarchy was created, and closer relations were established, affecting customs policy as well.	Developing industry, increasing integration
1879	Bismarck's protectionist tariff system		Protecting domestic industry and agriculture from foreign competition.	Increasing industrial production, but higher import prices
1890	McKinley Tariff		Protecting US industry and agriculture by significantly raising import tariffs.	Increasing industrial production, but higher prices and declining foreign trade
1892	Méline Tariff		Protecting agriculture from foreign competition and increasing tariffs on agricultural products.	Increasing agricultural production, but higher prices and social tensions

Year	Customs legislation	Country	Description	Impact
1900	Modernising the customs system		Economic reform, which unified the dual customs system and introduced new customs tariffs and a new taxation system.	Increasing industrial production and foreign trade, lower prices
1913	Underwood–Simmons Tariff		Significant reduction of import duties and introduction of the first federal income tax.	Lower prices, improved competitiveness, growing industrial production
1930	Smoot–Hawley-Tariff		The second-highest tariff in US history. It increased tariffs on more than 20 thousand imported products.	It exacerbated the effects of the Great Depression and led to retaliatory measures.
1934	Reciprocal Trade Agreements Act (RTAA)		A significant reduction in tariffs after the Great Depression. The US President is granted more power over customs policy.	Higher growth, lower prices
1947	GATT		An internationally recognised system of trade rules was established.	Reducing tariffs and trade restrictions
1957	Treaty of Rome		The European Economic Community (EEC) was established as the precursor to the EC and later, the EU.	GDP impact: ~+1.3–5.5% on average. About half of the increase in GDP per capita in the CEE countries between 2004 and 2019 is due to EU accession.
1971	“Nixon shock”		Introducing dutiable import to encourage other countries to revalue their currencies against the dollar.	It was phased out four months later when the major currencies were revalued at the Smithsonian Agreement.
1981	Japan voluntary export restraint		The number of Japanese cars allowed on the US market was maximised (between 1981 and 1994).	GNP impacts: USA: ~+0.2% Japan: ~(-0.4)%
1993	NAFTA		North American Free Trade Agreement	GDP impacts: USA: ~+0.08–0.5%, Mexico: ~+1.31%, Canada: ~(-0.06)% Development of supply chains, economies of scale
2001	China’s accession to the WTO		China joins the World Trade Organisation.	Faster commercial and economic growth.
2018	Tariffs of the first Trump administration		Imposition of tariffs on several imported products (e.g. steel, aluminium), mainly from China.	GDP impacts: USA: ~(-0.2)–(-0.3)% Core inflation: ~+0.1–0.3%

Source: Edited based on Caliendo – Parro (2015), Fajgelbaum et al. (2020), Grassi (2024), Irwin – Chepeliev (2021), Komlos (1991), Mayer et al. (2019), Timini (2023), Villareal – Fergusson (2014), and York (2025)