



Recalculating Routes: Navigating Rising Protectionism and Supply Chain Disruptions?

2025



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01

Trade and
Investment



Abstract

Comprising 85% of global Gross Domestic Product, 75% of international trade, and two-thirds of the world's population, the G20 stands as a potent platform for discussing trade cooperation and interdependence. However, over the past decade, major economies have increasingly invoked the 'national security' argument to justify protectionist policies. This trend, aligned with a globalisation backlash, geopolitical uncertainty, international institutional dysfunction, and rising nationalism, has reshaped the global trade landscape. As a result, tariffs and trade restrictions have emerged at the epicentre of global economic discussions. They have disrupted supply chains, heightened trade tensions, and disproportionately impacted developing economies, making global value chains less resilient.

This policy brief examines recommendations for G20 countries to enhance trade stability and supply chain resilience. It emphasises the need for coordinated action to mitigate risks, promote trade diversification, and strengthen South–South integration. Additionally, it analyses how green protectionism, climate-related trade measures, and colonial patterns in green technology supply chains may further marginalise the Global South.

Keywords: Trade Policy, Supply Chains, Protectionism, Green Protectionism, G20, Emerging Economies

Diagnosis

The current global trade landscape is increasingly marked by a resurgence of protectionism, often justified through 'national security' arguments. Over the past decade, countries have increasingly adopted unilateral measures – ranging from tariffs to import bans – that seek to insulate domestic markets from external vulnerabilities. Recent examples include import restrictions from Russia to Kazakhstan,¹ the EU tariffs on Chinese electric vehicles (EVs),² and the US's renewed imposition of tariffs on imports from Canada, China, and Mexico under the so-called 'reciprocal tariffs' doctrine.³ While strategic protectionism can, in some cases, support domestic development, deglobalisation-driven protectionism – aimed at reducing interdependence – generates considerable geopolitical and economic disruptions.

Such measures tend to provoke retaliatory responses that escalate into broader trade conflicts. For instance, after the EU sanctioned Chinese EVs in 2024, China responded by taxing European brandy imports. A similar pattern emerged when several Latin American countries threatened retaliatory action against US tariffs in 2025.⁴ These retaliatory dynamics erode trust among trading partners, stall collaborative projects in strategic sectors such as digital infrastructure and renewable technologies and weaken the cooperative frameworks necessary for collective action in global governance.

¹ Reuters, 'Kazakhstan hopes to resolve agricultural trade tension with Russia within a week,' October 31, 2024.

² Ryan Featherston, 'Slamming the Brakes: The EU Votes to Impose Tariffs on Chinese EVs,' Center for Strategic and International Studies, December 16, 2024.

³ The White House, 'Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China,' February 1, 2025.

⁴ Mucahithan Avcioglu and Gokhan Ergocun, 'Americas divided: How countries are responding to Trump's tariffs,' Anadolu Ajansi, February 14, 2025.

Simultaneously, supply chains have become more vulnerable. The World Bank's Daria Taglioni argues that modern supply chains are so deeply intertwined that even partial decoupling leads to inefficiencies and rising costs.⁵ The issue is further exacerbated by the concentration of production and processing capacity in a few countries. China, for example, is responsible for 60% of global production of 20 critical minerals and 85% of rare earth processing.⁶ This excessive concentration creates systemic risk and makes global trade networks particularly susceptible to political or environmental disruptions. Furthermore, emerging economies that depend on imported inputs or a narrow range of export commodities are disproportionately exposed to shocks resulting from protectionist disputes between major powers.

The consequences for small and vulnerable economies are particularly severe. As large economies shift trade policies rapidly and unpredictably, developing countries – especially those with less diversified exports and limited institutional capacity – struggle to adapt. Although some have sought to reposition themselves by forging new partnerships and exploring South–South trade routes, these efforts remain constrained by structural barriers, including limited infrastructure, lack of access to digital technologies, and persistent innovation gaps.⁷

This context of rising protectionism intersects with the global push for climate transition, giving rise to a new and complex layer of green protectionism. A key example of how climate policies can function as protectionist tools is the EU's Carbon Border Adjustment Mechanism (CBAM). Introduced under the EU's 'Fit for

⁵ Daria Taglioni, *'Protectionism Is Failing to Achieve Its Goals and Threatens the Future of Critical Industries,'* World Bank Group, August 29, 2023.

⁶ Manish Vaid, *'Navigating the Critical Mineral Maze: India's Strategic Shift Away from Chinese Minerals,'* Observer Research Foundation, October 7, 2024.

⁷ Jia Hui Tee, *'Trade protectionism: A quest for economic resilience among small economies,'* Hinrich Foundation, March 25, 2025.

55' package, the CBAM imposes tariffs on imports based on the carbon intensity of their production processes. While it aims to prevent 'carbon leakage,' in practice it creates significant compliance challenges for exporters in the Global South. Many lack the technical infrastructure to measure and report emissions at EU standards and receive limited assistance to build such capacities. This can result in higher trade costs or loss of market access in strategic sectors such as steel and fertilisers.

At the core of these challenges lies a growing critique of how green technology supply chains are replicating colonial patterns. While countries in the Global South provide the raw materials essential to the green transition – such as lithium, cobalt, and rare earth elements – they often remain excluded from the high-value stages of production and innovation. Manufacturing, branding, and distribution remain concentrated in developed economies. This perpetuates an extractive model in which natural resource-exporting countries assume the environmental and social burdens, while others capture the economic gains.

Overlaying these economic and environmental disruptions is the ongoing institutional crisis of the World Trade Organization (WTO). Long regarded as the backbone of a rules-based global trade system, the WTO has seen its credibility eroded by the paralysis of its Appellate Body. Despite efforts by some members to implement alternative dispute resolution mechanisms – such as the Multi-Party Interim Appeal Arbitration Arrangement – the lack of universal participation has weakened the system's legitimacy.⁸ The failure to build consensus around dispute resolution and the absence of clear global rules on green trade and digital commerce have left a regulatory vacuum. In this environment, countries are increasingly turning to unilateral or bilateral mechanisms, undermining multilateralism and exacerbating fragmentation.

⁸ José Alfredo G. Lima e Victor Prado, 'Recomendações sobre política de comércio exterior,' CEBRI, 2022.

In sum, the convergence of trade protectionism, supply chain fragility, geopolitical rivalries, and institutional deadlock is creating a dangerous environment for global commerce. At the same time, the rise of green protectionism and the replication of colonial patterns in clean-tech industries threaten to leave developing economies behind. The challenges are clear: trade wars, cooperation breakdowns, supply concentration risks, institutional paralysis, and climate injustice. What remains to be defined is the G20's collective response. Rather than attempting to eliminate interdependence – a futile and costly endeavour – member states must focus on managing it effectively through diversification, governance reform, and inclusive green integration. Without decisive action, the global trade system risks becoming more unequal, unstable, and unsustainable.

Recommendations

The global economy is at a crossroads. The consequences of unchecked protectionism are already unfolding – and the risks are only growing. In this context, the G20 must act decisively to reinforce a rules-based, inclusive, and resilient trade system. The following policy recommendations outline strategic actions that member states can take to meet this urgent challenge:

1. Diversify and regionalise supply chains

1.1) Invest in South-South value chain integration, with a particular focus on Latin America, Africa, and Southeast Asia, reducing overdependence on concentrated hubs.

1.2) Encourage the creation of collaborative vulnerability maps to identify critical bottlenecks in supply chains and promote regional substitution strategies.

1.3) Strengthen regional economic blocs such as the African Continental Free Trade Area, Mercosur, and the Association of Southeast Asian Nations to facilitate trade among developing nations and reduce reliance on developed markets.

Rationale: Highly concentrated supply chains are vulnerable to geopolitical shocks and trade disputes. Diversifying and regionalising supply networks reduces systemic risk, enhances local capacity, and fosters inclusive growth across developing economies.

2. Reinforce the WTO

2.1) Facilitate G20-led mediation to resolve the Appellate Body impasse, ensuring procedural clarity and timely dispute resolution.

2.2) Promote broader adoption of the Multi-Party Interim Appeal Arbitration Arrangement among willing WTO members.

2.3) Establish a G20 technical task force on dispute settlement reform, with participation from developing countries, civil society, and the private sector.

Rationale: The paralysis of the WTO's Appellate Body has weakened the credibility of the multilateral trading system and fuelled unilateral protectionism. Restoring a functional dispute resolution mechanism is essential to ensure legal predictability and peaceful settlement of trade disagreements.

3. Address green protectionism and ensure a just transition

3.1) Develop G20 guidelines on climate-aligned trade measures, based on WTO principles of non-discrimination and proportionality, to guide the implementation of mechanisms like CBAM and ensure their compatibility with multilateral trade rules.

3.2) Establish a Climate-Technology Access Facility under the joint auspices of the WTO and the UN Framework Convention on Climate Change, funded by G20

members, to finance capacity-building, emissions reporting systems, and green industrial upgrading in low- and middle-income countries affected by climate-related trade instruments.

Rationale: Green trade measures, when designed without inclusive processes or support mechanisms, risk reinforcing historical asymmetries. Current frameworks such as the CBAM pose significant compliance and competitiveness burdens for low-income exporters. By creating common G20 guidelines, dedicated financing instruments, and minimum consultation standards, member states can ensure that climate policies promote a just transition rather than act as disguised protectionism.

4. Enhance infrastructure and innovation capacity in developing countries through G20 instruments

4.1) Leverage and expand G20-endorsed platforms, such as the Global Infrastructure Hub and the Global Infrastructure Facility, to mobilise investment in sustainable and digital infrastructure projects across developing economies.

4.2) Foster South–South cooperation and innovation exchange by promoting regional technology and innovation clusters through G20 technical dialogues and knowledge-sharing platforms.

Rationale: Access to physical and digital infrastructure is a prerequisite for participation in modern global value chains. Without targeted investment and cooperation, developing countries risk being excluded from the green and digital transformation of global trade.

5. Mitigate asymmetric trade shocks on small and vulnerable economies

5.1) Create a WTO-coordinated Rapid Response Mechanism for Trade Shocks, triggered by external tariff changes by major powers, with temporary access to technical and financial support.

5.2) Align national trade facilitation plans with WTO Trade Facilitation Agreement flexibilities (Articles 21–22) enabling small states to adopt phased commitments during geopolitical disruptions.

Rationale: Major power conflicts generate spillovers that small economies are ill-equipped to absorb. Adaptive and anticipatory instruments within multilateral trade frameworks can preserve inclusion and stability

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The Institute for Global Dialogue (IGD)



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