The Impact of Trade Protection Policies on the Macroeconomy

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Abstract. Against the backdrop of the deepening development of economic globalization, trade protectionism has gradually risen and become an important destabilizing factor affecting global economic development. This paper focuses on the impact of trade protection policies on the macroeconomy. By combining theoretical analysis with case studies, this paper takes the EU's anti-subsidy investigation on Chinese electric vehicles as a typical case to deeply analyze the impact mechanism of trade protection policies. The study found that the rise of trade protectionism stems from multiple factors such as economic, political, and social factors. Although trade protection policies have a stimulating effect on some macroeconomic indicators in the short term, they will undermine the competitiveness and innovation of the economy in the long run, hinder economic growth, undermine the international trade order, disrupt the industrial chain, and hurt employment. In the face of trade protectionism, the international community needs to strengthen cooperation and maintain the free trade order through multilateral consultations. Countries should also accelerate industrial upgrading and transformation to jointly promote the stable development of the global economy.

Keywords: Trade Protectionism, Macroeconomy, European Union.

1 Introduction

With the continuous advancement of globalization, the economic ties between countries in the world are becoming closer, and the flow of goods, services, capital, and technology is accelerating around the world. The global economy is showing a trend of interdependence and common development. However, in sharp contrast to globalization, trade protectionism has gradually risen in recent years and has become an important destabilizing factor affecting the development of the global economy.

The resurgence of trade protectionism has complex and diverse factors. The primary factor is the economic level. Since the outbreak of the global financial crisis in 2008, the global economy has continued to be unbalanced, and the problem of uneven distribution of benefits brought by free trade has become prominent. The interests of some groups have been damaged, leading to their resistance to free trade, which in turn has promoted the rise of trade protectionism. The impact of the COVID-19 pandemic has further exposed the vulnerability of the global supply chain. Countries have taken protectionist measures into consideration for the security of the supply chain. At the same

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time, developing countries are rising rapidly and having fierce competition with traditional developed countries, exacerbating the latter's anxiety. As a result, traditional economic powers try to consolidate their economic position through trade protectionism. The deeper reasons come from the political and social levels. At the social level, the rise of populism has fueled trade protectionism. The implementation of trade protectionism can increase the support rate of the ruling party, which has led to political tasks proposing protectionist policies to cater to the public's dissatisfaction with globalization due to imbalanced distribution and to achieve political interests. In terms of geopolitics, the game between major powers has become an important background for the rise of trade protectionism. For example, the United States has launched tariff challenges against China and other regions and international organizations such as the European Union, which not only caused serious damage to free trade but also prompted countries to take measures to protect their industries. In addition, some countries will adopt trade protectionist measures to protect their energy security, and carbon tariffs and carbon emission standards are increasingly becoming the main tools in trade frictions [1].

multi-dimensional and profound impacts on the global macro-economy. From the perspective of direct trade effects, trade protection policies have suppressed the scale of international trade. Export companies in various countries are facing severe challenges, with reduced orders and declining profits. Many companies are even in the predicament of suspension of production and bankruptcy. From the perspective of the industrial chain, trade protectionism hinders the normal operation of the global industrial chain, trade costs between countries have risen sharply, and the risk of supply chain disruptions has increased significantly, seriously weakening the stability and competitiveness of the global industrial chain. From the perspective of enterprises, trade protectionism has worsened the survival environment of enterprises, caused many enterprises to shrink in size, and increased the number of unemployed people, affecting social stability and significantly inhibiting economic development. From the perspective of global economic governance, trade protectionism undermines the multilateral trading system with the World Trade Organization at its core, shakes the foundation of the global economic governance system, and makes global economic cooperation face numerous difficulties.

In the face of the challenges brought by trade protectionism, the international community should work together to deal with it. On the one hand, should strengthen communication and cooperation among countries, jointly maintain the free trade order through multilateral consultation mechanisms, and resist trade protectionism. On the other hand, international organizations such as the World Trade Organization should play an active role, formulate relevant rules and supervise their implementation, and provide a fair and effective platform for resolving trade disputes. At the same time, countries should accelerate their industrial upgrading and transformation, reduce external dependence, enhance their ability to deal with trade protectionism, and jointly promote the stable development of the global economy.

2 Analysis of the Impact Mechanism of Trade Protection Policies on the Macroeconomy

2.1 The Impact of Trade Protection Policies on International Trade

Breaking the International Trade Pattern and Disrupting the International Trade Order. Under the framework of the World Trade Organization, international trade order is fair, free, and open. However, the rise of trade protectionism in recent years has undermined the international trade order at the institutional, practical, and interactive levels.

First, at the institutional level, trade protectionism weakens multilateral rules. The multilateral trade rules under the WTO framework should be rules that all countries should abide by, but some countries attempt to rebuild international trade rules that are more beneficial to their development through trade protectionism.

Specifically, in practice, since taking office in his first term, Trump has withdrawn from international agreements or organizations such as the Paris Agreement, while actively building "mini-multilateral economic and trade systems" such as the Trans-Pacific Partnership(TPP) [2] At the same time, the United States has proposed to reform the multilateral trading system based on the principle of American priority, advocated unilateralism, and required all countries to implement the same tariff level as the United States to achieve "reciprocal trade" [3]. These actions are aimed at reconstructing a rule system that is beneficial to the United States and forming a "rule hegemony " centered on the United States, which fundamentally deviates from the principle of non-discrimination advocated by the WTO.

The deeper damage lies in the escalation of trade disputes between countries, which leads to the collapse of the multilateral order. When a country adopts a trade protection policy, it harms the interests of other countries. The country whose interests are damaged will often take countermeasures, triggering a vicious cycle of trade friction. The spillover effect of this bilateral friction will spread rapidly, causing countries to follow suit and set up trade barriers to protect themselves, and the multilateral mechanism will fail, eventually leading to the fragmentation of the global order.

Blocking Trade Liberalization and Global Economic Growth and Hindering the International Division of Labor. Trade protectionism often uses tariff barriers as the main means, which usually increases the cost of imported goods, making imported goods lose their competitive advantage and reducing consumer demand for imported goods, thus leading to a reduction in the scale of imports. This restricts the expansion of international trade. Trade protectionism also interferes with the market mechanism, making it impossible for resources to be optimally allocated globally based on comparative advantages. Domestic industries protected by trade protection policies lack competitive motivation and competitiveness, and other industries with greater potential may be neglected and lack resources. Distorted global resource allocation will reduce the operating efficiency of the global economy. Finally, trade protectionism hinders technological exchanges.

2.2 The Impact of Trade Protection Policies on Economic Growth

Impact of Trade Protection Policies on GDP. Friedrich List's infant industry protection theory points out that the state develops infant industries by developing productive forces and implementing tariff policies [4]. In the short term, based on the infant industry protection theory, the government uses trade protection measures such as tariffs and quotas to restrict the supply of foreign products. This creates space for domestic infant industries to survive and develop. Under protection, related domestic industries develop and begin to produce products that were originally dependent on imports, gradually achieving import substitution. As domestic products gradually occupy the local market, dependence on imported products decreases, and the trade deficit improves. In the process of gradually achieving import substitution, orders for infant industry products increase, enterprises gradually expand their production scale, production facilities and human resources are more fully utilized, and capacity utilization gradually increases. The increase in capacity utilization promotes the expansion of enterprise production scale and improvement of production efficiency, thereby increasing product added value, which increases industrial added value and directly drives GDP growth.

However, the long-term use of trade protection policies may undermine the fair environment of international trade, trigger retaliatory measures from other countries, and hinder exports. At the same time, due to the lack of external competitive pressure, domestic enterprises lack innovation motivation and reduce economic efficiency. All these will lead to the reduction of industrial scale and slow down GDP growth.

Impact of Trade Protection Policies on Investment. Investment is mainly divided into policy-oriented investment and market-driven investment. Policy-oriented investment is an investment behavior generated by policy incentives under the guidance and support of policies. Market-driven investment is an investment decision made independently by investors under the influence of market supply and demand, price signals, and expectations of future returns, aiming to maximize profits and enhance market competitiveness.

In the short term, domestic protected enterprises have developed well due to policy protection, whose willingness to invest has increased, and policy-oriented investment has also increased significantly. At the same time, protectionist policies create a development dividend-driven period for specific industries, attracting many companies to invest, thereby promoting short-term investment growth. However, this investment growth is mainly a policy-driven result rather than a natural market demand. In the long run, trade protection policies may lead to a loss of investment efficiency. Due to the increased market uncertainty brought about by trade protectionism, international investors' confidence in the country's market will decline, which will in turn reduce foreign investment inflows and inhibit market-driven investment. Due to the lack of external competitive pressure and insufficient innovation motivation, domestic enterprises' investment decisions are no longer entirely based on the needs of market competition and efficiency improvement, which reduces investment efficiency. Resources may flow to protected industries, while potential innovative industries may lack investment and resources, hindering the optimization and upgrading of industrial structure. At the same time, excessive and duplicate investment by local enterprises in protected industries may cause overcapacity, seriously affecting long-term economic efficiency and sustainable development.

Impact of Trade Protection Policies on Consumption. In the short term, the prices of imported goods will rise due to the increase in tariffs, and they will lose their price competitiveness. Consumers may tend to choose similar domestic goods with relatively low prices, which will increase the demand for domestic goods. In terms of consumption structure, consumers will reduce their consumption of imported goods and increase the proportion of domestic goods consumption. In the long run, due to the restrictions on imports by trade protection policies, the types of goods that consumers can choose will decrease. Although the types of domestic goods may increase, it is difficult to completely make up for the vacancy caused by the reduction of imported goods, which will affect consumers' consumption experience and satisfaction and inhibit the growth of total consumption to a certain extent. Trade protectionism has caused economic growth to slow down and employment opportunities to decrease. Some companies that rely on imports and exports will face difficulties and must lay off employees and cut wages. The growth of residents' income is limited, purchasing power is reduced, and the demand for various consumer goods is suppressed, resulting in a decrease in total consumption. In terms of consumption structure, consumers tend to buy necessities and reduce consumption of non-necessities or high-end goods. The consumption structure is inclined to meet basic living needs.

In general, trade protection policies may stimulate the macroeconomy to a certain extent in the short term, but in the long run, they will undermine the competitiveness and innovation of the economy, hurt various indicators, and hinder economic growth.

2.3 Impact of Trade Protection Policies on Employment

Trade protection policies can reduce foreign competition, enabling domestic enterprises in protected industries to expand their production scale, increase demand for labor, increase employment opportunities, and reduce unemployment. However, industries that rely on imported raw materials may be hit by rising prices of imported raw materials, and their production scale may be reduced, resulting in employee unemployment. Export-oriented industries may see a sharp drop in export orders due to retaliatory measures taken by trading partners. Obstructed exports will force companies to reduce production, stop production, or even go bankrupt, resulting in a large number of employees being unemployed. According to surveys, the jobs saved by implementing trade protection measures will be offset by the jobs lost in export-oriented industries, and overall employment has not increased [5].

Secondly, trade protection policies have prompted resources to flow to protected industries, and labor has also shifted accordingly. This shift may lead to structural contradictions in which labor does not match jobs and may also increase the mismatch between workers and their abilities.

3 Case Analysis

This article will analyze the impact of trade protection policies on the macroeconomy by analyzing the case of the EU's anti-subsidy investigation on Chinese electric vehicles.

3.1 Case Process

China's electric vehicle industry has developed rapidly in recent years. According to data from the Chinese government website, from January to July 2023, 2,533,000 vehicles, with a year - on - year increase of 67.9%, were exported, setting a record high [6]. In terms of technological innovation, Chinese electric vehicles have made breakthroughs in core areas such as battery life and intelligent driving. Relying on technological and price advantages, China's electric vehicle exports continue to rise. According to data from the China Association of Automobile Manufacturers, China's new energy vehicle exports reached 1.203 million units in 2023, of which exports to the EU increased significantly, and its share in the EU electric vehicle market continued to expand.

The EU electric vehicle industry started earlier, but its development speed has gradually lagged behind that of China. Faced with the competition from Chinese electric vehicles, some EU member states and companies feel tremendous pressure. Against the backdrop of rising global trade protectionism, the EU formally launched an anti-subsidy investigation on October 4, 2023, because Chinese electric vehicles receive a large amount of government subsidies, prices are "artificially low" and distort the European market.

On September 13, 2023, the President of the European Union announced that the European Commission would launch an anti-subsidy investigation on Chinese electric vehicles. On October 4, the European Commission took the initiative to launch an anti-subsidy investigation on electric vehicles produced in China without the relevant industry applying for an investigation. On August 20, 2024, the European Commission disclosed the draft of the final investigation results on anti-subsidy for Chinese electric vehicles. On October 4, the EU passed the final anti-subsidy measures on Chinese electric vehicles and announced the results of the vote on imposing tariffs on Chinese electric vehicles. On October 29, it decided to impose anti-subsidy duties on electric passenger vehicles imported from China for five years [7]. As shown in Table 1, the EU imposes different anti-subsidy tariffs on different electric vehicle companies. The specific details are as follows.

Table 1. Specific amount of countervailing duty imposed [8]

Chinese electric vehicle companies	Anti-subsidy duty rate
Tesla	7.8 %
BYD	1 7%
Geely	1 8.8%
SAIC Motor	3 5.3%

Other Chinese BEV manufacturers cooperating with the investigation	2 0.7%
BEV manufacturers who do not co-operate with the investigation	3 5.3%

3.2 Case Results Analysis

Impact on International Trade. The EU launched an investigation because Chinese electric vehicles were subsidized, which deviates from the WTO's principles of fairness and freedom and undermines the trade order. The EU's anti-subsidy tariffs increased the export costs of Chinese electric vehicles, weakened their competitiveness in the EU market, reduced export volumes, restricted the scale of international trade, and prevented trade liberalization. According to data from the General Administration of Customs of the People's Republic of China, China exported 27,180 electric vehicles to the EU in June 2024, a 25% decrease from 36,217 in May and a 31% decrease compared with the same period in 2023. At the same time, it may seriously disrupt and distort the global automotive industry chain and supply chain, including the EU, and may even trigger a demonstration effect, triggering anti-dumping investigations on Chinese electric vehicles in other countries and regions, forming a chain reaction that affects the competition pattern and development trend of the global electric vehicle market [9].

Impact on Economic Growth. In the short term, EU electric vehicle companies will reduce the competitive pressure from Chinese car companies, expand their market share, and expand their production scale, which will drive the development of related industries, improve the trade deficit, and promote GDP growth to a certain extent. In the long run, the imposition of anti-subsidy tariffs will hinder technological exchanges and innovation, which may lead to insufficient development momentum for the EU electric vehicle industry, and it will be difficult for the industry to continue to expand, which will ultimately affect GDP growth.

In terms of investment, in the short term, EU electric vehicles can attract more policy-oriented investments due to trade protection policies. However, in the long run, this series of EU trade protection measures will interfere with the mutually beneficial industrial cooperation between China and the EU, increase market uncertainty, and may lead to a decline in international investors' confidence in investment development, thereby reducing investment in the EU electric vehicle industry and related fields [10]. At the same time, due to the lack of external competitive pressure, EU local companies lack innovative motivation, reduce investment efficiency, and over-concentrate resources in protected industries, which hinders the optimization and upgrading of industrial structure.

In terms of consumption, in the short term, EU consumers may lose their price competitiveness due to the rising prices of Chinese electric vehicles and turn to buying domestic products. However, European automakers are currently focusing on high-end products in the field of electric vehicles and cannot provide ordinary consumers with cost-effective options in the short term [10]. In the long run, the variety of products available on the market will be limited, and it will be difficult for EU consumers to buy cost-effective products, resulting in a worse consumption experience, which will, in turn, inhibit the growth of total consumption.

3.3 Impact on Employment

EU local companies may expand production and create more job opportunities in the short term. However, in the long run, as the inhibitory effect of trade protection policies on economic growth becomes apparent, business development will be limited, and employment will be reduced. However, the imposition of anti-subsidy duties may lead to higher import prices for related parts and components, and companies may reduce production, which will in turn lead to higher unemployment.

4 Conclusion

Against the backdrop of deepening globalization, trade protectionism has gradually risen, exerting multi-dimensional and profound impacts on the global macro-economy. This article takes the EU's anti-subsidy investigation into China's electric vehicles and the imposition of anti-subsidy duties as an example to deeply analyze the impact mechanism of trade protection policies.

The reasons for the rise of trade protectionism include economic, political, and social aspects. On the economic level, the global financial crisis has led to economic imbalances and uneven distribution of benefits. The COVID-19 pandemic has exposed the fragility of the supply chain. The rise of developing countries has intensified competition. On the political and social level, populism has risen, and the ruling party has used this to seek political benefits. Geopolitical games and energy security considerations have also played a driving role.

The impact of trade protection policies on the macroeconomy is complex. It breaks the original pattern of international trade, undermines the fair and free trade order, hinders trade liberalization and global economic growth, destroys the international industrial chain, and inhibits technological exchanges. From the perspective of economic growth, in the short term, based on the theory of infant industry protection, it may promote the development of domestic industries, drive GDP growth, increase investment, and stimulate consumption. However, in the long term, it will undermine the trade environment, trigger retaliatory measures, inhibit exports, reduce corporate innovation motivation and economic efficiency, hinder GDP growth, reduce foreign investment inflows, and inhibit total consumption. In terms of employment, it can increase employment in protected industries in the short term, but in the long term it will lead to increased unemployment in industries that rely on imported raw materials and export-oriented industries and may also cause problems with the mismatch between labor and jobs.

The EU's anti-subsidy investigation violates the principles of the WTO, increases the export costs of Chinese electric vehicles, and disrupts the global automotive industry chain. For the EU itself, although local companies benefit in the short term, in the long run, it will hinder technological innovation, suppress investment and consumption, affect GDP growth, and make it difficult to continue to increase employment, and the unemployment rate may rise. In the face of trade protectionism, the international community should strengthen cooperation and use multilateral consultations to maintain the free trade order. International organizations should play an active role, and countries need to accelerate industrial upgrading and transformation to jointly promote the stable development of the global economy.

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