

The Impact of Rising Trade Protectionism on the Global Business Environment

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Abstract

This paper examines the profound implications of rising trade protectionism on the global business environment. In recent years, the global trade landscape has undergone significant transformations, with the implementation of protectionist policies leading to alterations in international trade flows and structures. This trend has not only impacted traditional trade but has also catalyzed the rapid development of digital and service trade sectors. In response to these challenges, multinational corporations have strategically adjusted their global operations, restructuring supply chains to enhance resilience and flexibility. Supply chain reorganization is manifested through changes in geographical distribution, increased vertical integration, and shifts in division of labor patterns. Concurrently, the innovation strategies of multinational corporations are evolving, characterized by a synthesis of global coordination and localized innovation. Furthermore, digital transformation has emerged as a pivotal strategy in addressing trade uncertainties, driving the intelligent upgrading of industrial chains. The application of technologies such as big data, artificial intelligence, and blockchain has significantly enhanced the visibility and predictive capabilities of supply chains. While trade protectionism presents numerous challenges, it has also created opportunities for industrial upgrading in some emerging market economies. Looking ahead, the construction of a more open, inclusive, and sustainable global trade system necessitates collaborative efforts from governments, businesses, and international organizations.

Keywords

Trade Protectionism, Global Supply Chain Restructuring, Multinational Corporation Innovation Strategy, Industrial Chain Digital Transformation, International Economic and Trade Landscape

1. Introduction

In recent years, the global trade pattern has been undergoing profound changes,

with trade protectionism exhibiting a marked upward trend. This trend has not only affected international trade flows but has also exerted a broad and far-reaching impact on the global business environment. The rise of trade protectionism stems from the confluence of multiple factors: weak economic recovery following the global financial crisis, exacerbation of income inequality, and difficulties in industrial structure adjustment (Rodrik, 2018). Simultaneously, the rapid rise of emerging economies has sparked concerns among developed countries regarding their economic status. Against this backdrop, some countries have begun to implement various forms of trade protection measures, such as raising tariffs, imposing non-tariff barriers, and tightening foreign investment access. While these measures may provide short-term shelter for certain domestic industries, they are likely to harm global economic growth and welfare in the long run. Existing research indicates that trade protectionist policies reduce economic efficiency, suppress innovation drive, and distort resource allocation (Grossman & Helpman, 2021). Trade protectionism may also trigger retaliatory measures from trading partners, exacerbating international economic and trade frictions. In today's highly developed global value chains, the negative impact of trade protectionism may be further amplified through the transmission of industrial and supply chains. Therefore, an in-depth analysis of the impact of rising trade protectionism on the global business environment is of great significance for understanding the current international economic and trade situation and formulating response strategies. This paper will discuss this issue from multiple dimensions, including the impact on international trade patterns, multinational corporation operations, global industrial chain restructuring, and international economic governance, aiming to provide references for relevant policy-making and corporate decision-making.

2. The Impact of Trade Protectionism on International Trade Patterns

2.1. Changes in Trade Volume and Structure

The rise of trade protectionism has had a significant impact on global trade volume and structure. In terms of trade volume, protectionist measures have directly led to a decline in the trade volume of certain goods and services. For instance, after the United States imposed Section 301 tariffs on Chinese goods in 2018, ranging from 7.5% to 25% on approximately \$370 billion worth of Chinese imports, there was a noticeable decrease in bilateral trade volume between the two countries (Li et al., 2020). The EU has also implemented various trade defense measures, including anti-dumping duties on steel products and increased scrutiny of foreign investments (Hua, 2019). This impact is not limited to directly sanctioned goods but extends to other sectors through industrial linkage effects. Trade protectionism has also altered the geographic landscape of global trade. Some countries, in an effort to circumvent trade barriers, have begun to seek alternative markets or supply sources, leading to changes in the structure of trading partners. For example, China has intensified its trade cooperation with countries along the "Belt and

Road” initiative. According to official statistics, China’s trade with Belt and Road countries reached \$2.07 trillion in 2020, an increase of 19.4% year-on-year, accounting for 32.9% of China’s total foreign trade. Key developments include increased infrastructure investments, establishment of economic corridors, and growth in cross-border e-commerce (Zhan & Lu, 2021). Furthermore, trade protectionism has influenced the structure of goods and services trade. High-tech products and key components, due to their strategic importance, often become the focus of trade restrictions. This has prompted some countries to accelerate localized production or seek alternative suppliers, thereby changing the layout of global industrial chains. Meanwhile, service trade, especially digital service trade, has shown relatively stronger growth momentum due to its characteristics of being difficult to regulate and restrict. According to Halimy et al. (2023), digital trade has grown at an annual rate of 14% since 2020, significantly outpacing traditional trade growth. Overall, the rise of trade protectionism has intensified the uncertainty and complexity of global trade patterns, posing new challenges to the internationalization strategies of enterprises in various countries.

2.2. Evolution of Trade Policies and Rules

The rise of trade protectionism has driven significant changes in national trade policies and international trade rules. At the national level, many countries have begun to adjust their trade policies, strengthening the protection of domestic industries. This trend is reflected in the adjustment of tariff policies, the increase of non-tariff barriers, and the tightening of foreign investment access policies. For example, the United States has implemented high tariffs on specific countries and products through measures such as “Section 301 investigations” (Bown & Kolb, 2019). The European Union has strengthened security reviews of foreign investments, especially in high-technology fields. These policy changes have not only directly affected cross-border trade and investment activities but have also increased the uncertainty of international economic and trade relations. At the international rules level, the multilateral trading system led by the World Trade Organization (WTO) has faced severe challenges. Some countries have begun to bypass the WTO mechanism, advancing their trade agendas through bilateral or regional trade agreements. Simultaneously, the emergence of new issues such as the digital economy and intellectual property protection has necessitated corresponding adjustments and improvements to international trade rules. These changes reflect the profound transformation of the global economic and trade landscape and highlight the predicament and reform needs faced by the existing international trade governance mechanism.

2.3. Intensification of Trade Frictions and Disputes

The rise of trade protectionism has inevitably led to a significant increase in international trade frictions and disputes. These frictions and disputes not only involve traditional goods trade areas but have also expanded to multiple aspects

such as service trade, intellectual property protection, and technical standards. The U.S.-China trade war is a typical representation of this trend, where differences in intellectual property, technology transfer, and industrial subsidies have triggered a series of trade sanction measures (Qiu et al., 2023). In addition to trade conflicts between major powers, regional and sectoral trade disputes have also shown an increasing trend. These disputes often involve specific industries or products, such as steel, automobiles, and agricultural products. The intensification of trade frictions has not only directly affected the economic interests of relevant countries and industries but has also negatively impacted the global trade environment and economic growth prospects. Frequent trade disputes have also increased operational risks and uncertainties for enterprises, forcing them to adjust their global supply chains and market strategies. In this context, an effective trade dispute resolution mechanism becomes particularly important. However, the effectiveness of the WTO dispute resolution mechanism has been questioned, further exacerbating the complexity of the international trade environment.

3. The Impact of Trade Protectionism on Multinational Corporation Operations

3.1. Restructuring of Global Supply Chains

The rise of trade protectionism has posed severe challenges to the global supply chain management of multinational corporations, prompting them to undertake deep restructuring. Traditional global supply chain models emphasized efficiency and cost control, but in the new trade environment, supply chain resilience and diversification have become key considerations. Many multinational corporations have begun to adopt “China + 1” or diversified sourcing strategies to disperse risks and ensure supply chain stability. The “China + 1” strategy refers to companies maintaining China as their primary production base while establishing additional manufacturing facilities in other countries (such as Vietnam, India, or Malaysia) to reduce dependence on a single market and address challenges posed by trade barriers. For example, Apple has set up production lines for AirPods in Vietnam, while Samsung has expanded its smartphone production in India (Gereffi & Fernandez-Stark, 2022). This transformation involves not only the geographical distribution of suppliers but also the localization of core component production and internal control of key technologies. For example, some electronic product manufacturers have begun to shift part of their production capacity from China to countries such as Vietnam and India to cope with the tariff pressure brought by U.S.-China trade frictions. Simultaneously, multinational corporations are strengthening the digital and intelligent management of supply chains to improve supply chain transparency and response speed. This supply chain restructuring has not only affected the business models of multinational corporations but has also driven the adjustment of global industrial layout, bringing opportunities for industrial upgrading in some emerging economies.

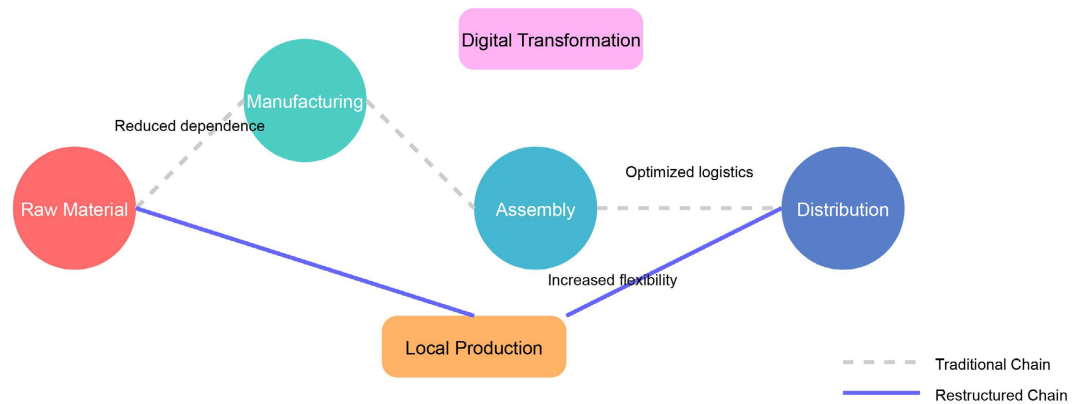


Figure 1. Global supply chain restructuring trends. Source: Author's compilation based on supply chain management literature.

As shown in **Figure 1**, the traditional linear supply chain model is transitioning towards a more flexible and diversified network structure. The new supply chain model emphasizes risk dispersion and rapid response capabilities, reflecting the strategic adjustments of multinational corporations in response to the challenges of trade protectionism.

3.2. Market Access and Localization Strategies

The rise of trade protectionism has forced multinational corporations to reassess their market access strategies and degree of localization. Faced with increasing trade barriers and market access restrictions, many multinational corporations have begun to increase their localization investment efforts in key markets. This strategic adjustment not only helps circumvent trade barriers but also better adapts to local market demands and policy environments. For example, some automobile manufacturers, when faced with the threat of increased import tariffs by the United States, chose to increase their production investments in the U.S. (Kutlina-Dimitrova & Lakatos, 2019). The deepening of localization strategies involves multiple aspects, including R&D localization, procurement localization, production localization, and management localization. This transformation poses new requirements for the organizational structure and operational models of multinational corporations, necessitating a balance between global unified standards and local adaptability. Meanwhile, the advancement of localization strategies has also brought new opportunities for multinational corporations, such as deeper integration into local innovation ecosystems and access to government support policies. However, excessive localization may lead to a decline in global operational efficiency and increased costs. Therefore, finding the optimal balance between globalization and localization has become an important challenge for multinational corporations.

3.3. Innovation Strategies and Technology Transfer

In the context of trade protectionism, multinational corporations' innovation

strategies and technology transfer policies are also facing significant adjustments. On one hand, countries are increasingly strict in controlling key technologies, with cross-border technology transfer facing more restrictions. This has forced multinational corporations to re-examine their global R&D layout and technology transfer strategies. Many companies choose to establish independent R&D centers in different countries to circumvent technology transfer restrictions and be closer to local market demands (Branstetter et al., 2021). On the other hand, trade protectionism has also prompted some countries to increase support for domestic technological innovation, creating new cooperation opportunities for multinational corporations. In this context, open innovation and ecosystem innovation models have received more attention. Through cooperation with local enterprises, universities, and research institutions, multinational corporations can not only share R&D costs and risks but also better integrate into local innovation networks. Furthermore, the development of digital technologies has provided new tools and methods for multinational corporations' innovation management, making cross-regional collaborative innovation possible. However, finding a balance between protecting core technologies and promoting global collaborative innovation remains an important challenge for multinational corporations.

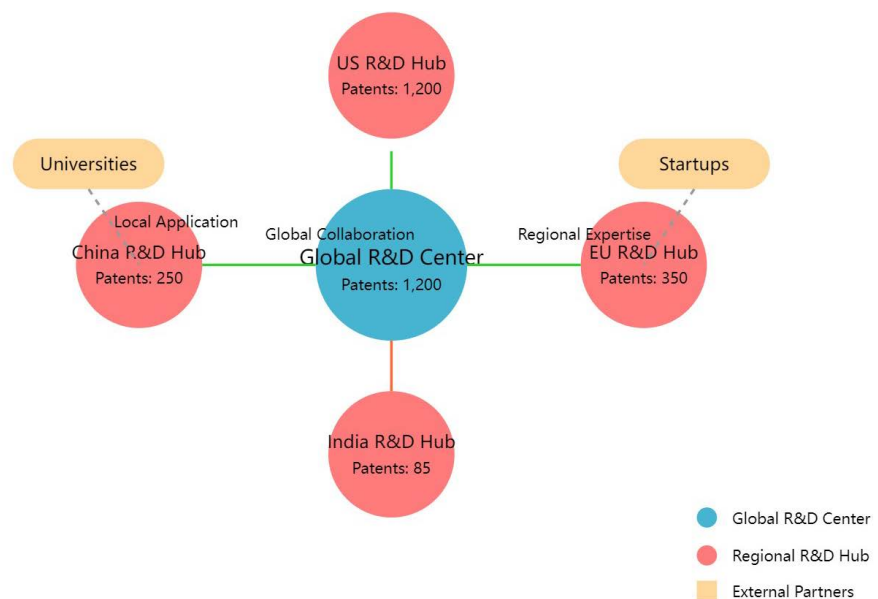


Figure 2. Adjustment of multinational corporations' innovation strategies. Source: Compiled based on WIPO (2023) data.

As shown in **Figure 2**, multinational corporations are transitioning from traditional centralized R&D models to distributed innovation networks. This new innovation model involves not only the adjustment of global R&D layout within the company but also deep cooperation with external innovation entities (such as universities and startups). This reflects the comprehensive reconstruction of innovation strategies by multinational corporations in response to the challenges of trade protectionism.

4. The Impact of Trade Protectionism on Global Industrial Chains

4.1. Changes in the Geographical Distribution of Industrial Chains

The rise of trade protectionism is reshaping the geographical distribution pattern of global industrial chains. The traditional layout of global industrial chains was primarily based on comparative advantage theory, pursuing maximum production efficiency. However, in the new international trade environment, industrial security and supply chain stability have become more important considerations. This has led to new geographical distribution characteristics of global industrial chains: regionalization trends are evident, strategic industrial chains are returning, and emerging market countries are rising in their position within global industrial chains. For example, in the electronic product manufacturing field, some production capacity has shifted from China to countries such as Vietnam and India, forming new regional production networks (Miroudot & Nordström, 2020). Simultaneously, some developed countries have begun to emphasize the localized production of key industries, such as semiconductors and medical equipment. This geographical restructuring of industrial chains has not only affected international trade flows but has also had a profound impact on countries' industrial policies and economic development strategies. However, the adjustment of industrial chains is a complex and lengthy process, involving significant sunk costs and path dependencies, making it difficult to achieve radical changes in the short term.

4.2. Vertical Integration and Restructuring of Industrial Chain Division of Labor

Trade protectionism has driven an increase in the vertical integration of global industrial chains and a reorganization of division of labor patterns. Faced with an uncertain trade environment, many enterprises have chosen to strengthen control over core links, increasing the vertical integration of industrial chains. This trend is particularly evident in high-tech industries, such as Apple's move to develop its own chips, reducing dependence on external suppliers. Concurrently, the division of labor pattern in industrial chains is also changing. The traditional "snake-like" production network (where products are processed back and forth between different countries multiple times) is gradually transitioning to a "spider web" model (where multiple components are produced in parallel at different locations and then centrally assembled). This transformation helps reduce the complexity of cross-border trade and the risk of being affected by trade policies. Furthermore, the development of digital technologies has provided new possibilities for industrial chain restructuring, such as 3D printing technology enabling the localization of some production links. However, the restructuring of industrial chains also faces numerous challenges, such as increased coordination costs and weakened economies of scale, requiring enterprises to find a balance between efficiency and flexibility.

4.3. Digital and Intelligent Transformation of Industrial Chains

While trade protectionism poses challenges, the digital and intelligent transformation of industrial chains is accelerating. This transformation is not only a strategy to cope with trade uncertainties but also an inevitable choice to enhance the overall competitiveness of industrial chains. The digital transformation is mainly reflected in the following aspects: The application of big data and artificial intelligence technologies has improved the visibility and predictive capabilities of supply chains, enabling enterprises to respond more quickly to market changes and policy adjustments. The introduction of blockchain technology has enhanced the transparency and traceability of industrial chains, helping to address increasingly stringent rules of origin and compliance requirements (Choi, 2021). The development of Internet of Things and 5G technologies has created conditions for realizing “smart factories” and “smart logistics”, improving the flexibility of production and distribution. Lastly, the application of cloud computing and edge computing has enabled multinational enterprises to coordinate global operations more effectively, reducing the management complexity brought by geographical distance. However, the digital transformation of industrial chains also faces challenges such as data security and non-uniform technical standards, requiring strengthened international cooperation to jointly formulate relevant rules and standards.

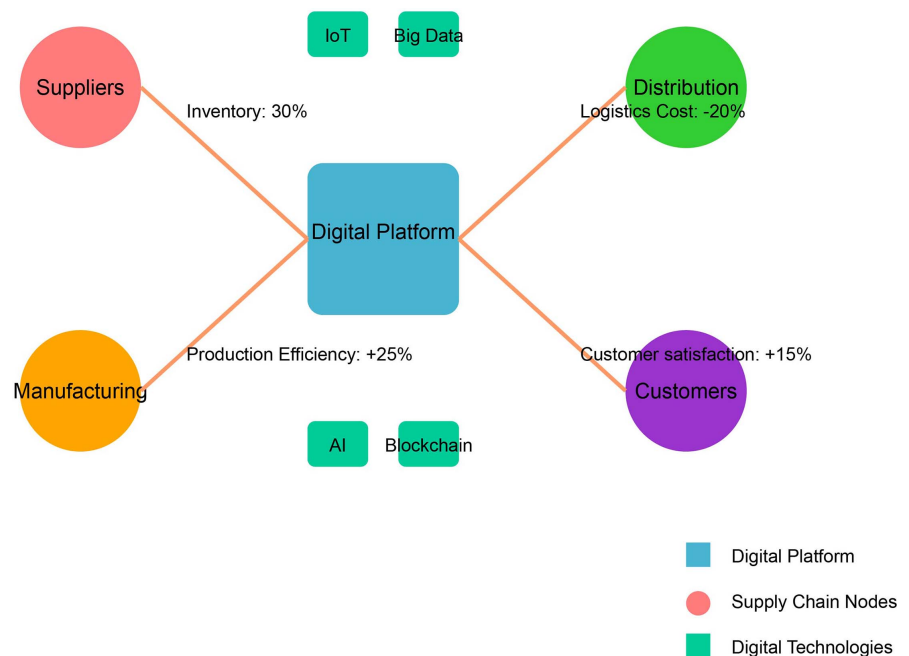


Figure 3. Digital transformation of industrial chains. Source: Author’s compilation based on Deloitte (2023) Digital Transformation Trends Report.

As shown in **Figure 3**, the digital transformation of industrial chains is reshaping the entire value creation process. The central digital platform connects key elements such as IoT devices, AI analysis, blockchain technology, and cloud computing, forming a highly integrated digital ecosystem. This transformation not

only improves the efficiency and flexibility of industrial chains but also enhances their ability to cope with the uncertainties brought by trade protectionism.

5. Conclusion

The rise of trade protectionism has had a profound and complex impact on the global business environment. It has changed international trade patterns, reshaped global industrial chains, and prompted multinational corporations to adjust their business strategies. These changes have not only brought challenges but have also created new opportunities. In the new trade environment, enterprises need more flexible and adaptive business models. Supply chain diversification and localization, adjustment of innovation strategies, and digital transformation have become key strategies for coping with trade protectionism. Meanwhile, these changes have also posed new requirements for the international economic governance system, calling for the establishment of more inclusive, fair, and sustainable global trade rules. Looking ahead, although trade protectionism may continue to exist in the short term, the long-term trend of economic globalization remains irreversible. Governments and enterprises need to find a balance between open cooperation and protecting their own interests, jointly maintaining the global free trade system. At the same time, the development of digital technologies provides new possibilities for reconstructing global value chains and enhancing economic resilience. In this new era full of challenges and opportunities, only enterprises and countries that continuously innovate and actively adapt can occupy advantageous positions in global competition. Overall, addressing the impact of trade protectionism requires joint efforts from governments, enterprises, and international organizations to build a more open, inclusive, and sustainable global economic order. The ability to navigate these complex waters will determine the future success of nations and businesses alike in an increasingly interconnected yet fractious global economy.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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