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Group Of Twenty (G20)

Reducing Trade Barriers

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Forum: Group of Twenty (G20)

Issue: Reducing Trade Barriers

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Introduction

The international trade market has grown exponentially in the past decades, as globalization continues to influence international exchange. The exchange of goods, services, people and ideas has become faster, easier and therefore cheaper. According to the WTO international trade accounts for about 50% of the world GD (World Trade Organisation). The global market has been recovering from its biggest recession in 2009 after the financial crisis in 2008. International trade is the exchange of goods and services across international barriers or territories. Although international trade has always been a prominent source of income for most nations through channels such as Uttarapatha, Silk Road, Amber Road, scramble for Africa, Atlantic slave trade, salt roads, only in the last century has its importance become more apparent.

As the exchange of goods, services and ideas between countries becomes increasingly apparent, the integration and amalgamation of different cultures will continue to occur. Increasingly specific parties and individuals pertaining to various political ideologies have seen this process of globalization as a barrier to economic growth within a country, leading to stricter international trade agreements. There are many factors which can implement barriers and lead to a decrease in and availability of international trade; most common are tariffs, quotas and non-tariff barriers. Most trade barriers operate behind the same principle, the implementation of some sort of cost on trade, which in turn raises the overall price of the good or service which is being traded. Generally, economists will argue that trade barriers between countries are detrimental and decrease economic efficiency, as it decreases the ability for free trade to transpire.

Trading globally gives households and firms the opportunity to be introduced and exposed to all types of new and otherwise exclusive products. However trade barriers can restrict and limit ones opportunity to invest and explore products which would typically not be found in the domestic market. Trading globally also increases competition in the market, which can have positive and negative effects on domestic markets. Especially in recovering or infant markets, an increase in competitions can lead to unemployment and lower wages among remaining employees.

Definition of Key Terms

Import Tariffs

By increasing the price of imported or purchased overseas goods and services, a tariff is used to restrict the import of a foreign good by making it look less attractive to consumers. An Import Tariff is essentially a tax imposed on imported goods. While governments can impose tariffs to protect domestic industries from foreign competitions, tariffs may possibly hamper innovation, encourage xenophobia, lead to trade wars and hurt consumers.

Exchange Rates

Exchange rates determine the value of a specific countries currency relative to other countries currency. Typically exchange rates are expressed and quoted in values against the US dollar, however they can also be quoted against various other countries currencies which is known as a cross currency or cross rate.

Quotas

A quota is a legislation which the government imposes which restricts the volume of a specific good or service which can be imported into the country. A quota determines the amount of a good which can be produced, sold, exported or imported. Governments impose quotas in order to limit and restrict the volume of trade between them and another country.

Protectionism

Protectionism is one of the general theories and motives towards further implementing trade barriers. It can be summed up to the act of protecting and shielding a country's domestic industries from foreign competition through taxing import, implementing tariffs, quotas and other non-tariff barriers

Frictionless Trade

Frictionless trade or markets are a situation where all costs and restraints associated with transactions between multiple parties are non existent. It is essentially a financial market without transaction costs.

Globalization

Globalization is the process of the worlds industries, societies and cultures becoming increasingly more interconnected. This process is a result of massively increased trade and cultural exchange. This process can have both positive and negative effects on societies across the globe

Trade Surplus

Unlike a trade deficit, a trade surplus occurs when the net value of exports exceeds the net value of imports. A trade surplus can represent possible inflow of foreign income into the domestic market.

Gross Domestic Product (GDP)

Gross Domestic Product is the total net value of all goods and services produced domestically within a country. GDP is a method of measuring aggregate demand in a country as well as measuring how economic growth occurs over a period of time.

Trade Deficit

A trade deficit occurs when the net value of imports exceeds the net value of exports. A trade deficit can represent a possible outflow of domestic income to foreign markets.

Net Export

The annual difference between exports and imports of a single country.

Free Trade Agreement (FTA)

An agreement between countries, which reduces trade barriers, such as import/export tariffs and quotas. These agreements try to encourage the openness of trade policies and strive for a free market where there or little to no restrictions on trading internationally.

Trade War

A trade war is a situation where countries try to damage a countries GDP or trade through the means of imposing tariff or quota restrictions. As trade wars escalate the barriers for international trade between countries increase exponentially. A trade war can often occur when the local government or state attempts to protect a domestic industry and stimulate job growth. In the long run trade wars and the tariffs placed on other countries depresses economic growth for all countries involved.

Embargo

An embargo is an official ban issued by the governing state on the import or trade of a specific good. An embargo can also be directed towards a specific country in order to restrict all trade between firms in these two countries, i.e. a ban on trade or other commercial activity with a particular country

Currency Devaluation

Currency devaluation is the deliberate and official lowering of the value of a country's currency, relative to other currencies. A country's government will typically devalue its currency in order to combat a trade imbalance. Devaluation of a currency should in turn reduce the cost of a country’s exports as well as increase the cost of imports, making consumers less likely to purchase foreign goods, further strengthening domestic business.

General Overview

In order to understand possible solutions to reducing trade barriers, we must most importantly understand what these barriers are and how they pose a threat to international trade and relations. Trade barriers pose barriers not only to the trade of goods within the international market but also restrict the ability for multiple economies to be as most efficient as possible, further stifling international relations as well as possibly limiting growth of developing nations. Typically, low income countries have more trade barriers than high income countries, however this limits their ability to interact in the global market, a grow from the result of exports. While large states tend to have a large amount of trade barriers, smaller nations typically have less trade barriers as they can’t fundamentally support themselves through only domestic products.

Protectionism

One major motives for states to impose import tariffs on certain goods or services is to protect infant industries and their domestic revenue. In order to make sure that a country's GDP shows annual growth, states will typically implement some form of trade barriers to make sure that the prominent domestic industries can thrive without competition from foreign markets. Protectionism is one of the main arguments against reducing trade barriers. One of the major concerns is that of unemployment and how an increase in unemployment leads to negative effects on a countries GDP and Real output. By imposing Tariffs and trade barriers a government can help facilitate domestic trade and decrease competition within a market. With less foreign competition and possible suppliers' companies must focus on increasing production within the countries, further protecting domestic employment and leading to economic growth. Another aspect that protectionism helps to deal with is protecting consumers and citizens of the state. A government could place a tariff on a certain important good if it feels its consumption endangers the citizens of the state. For example, the united states could place a tariff on chicken meat imported from china if it fears the meat may be tainted with a disease.

The idea and theory behind protectionism also ensures that infant industries are protected. An example of this can be seen through the Import Substitution Industrialisation (ISI) strategy employed by many developing nations. The government introduces tariffs on imported goods in industries which it hopes to help stimulate growth. The drastically increased price on foreign imported goods helps to stimulate the market for domestically produced goods while protecting industries that are in danger from foreign competition. Finally, certain governments also believe that such strategies help produce more security within the nation as industries such as defense and military, require increased security.

Impact of Trade Barriers on Businesses

Trade barriers can have large impacts on developing nations and small scale businesses, due to their restrictive nature in already relatively restrictive markets. Tariffs since typically imposed by high income businesses and states are usually anti-poor, yielding low rates for raw commodities and high rates for labor intensive processed goods. Trade barriers such as taxes on food imports or subsidies can also be detrimental to small businesses in developing countries, as it can lead to overproduction and dumping in the market, which in turn drives down prices and further hurts small businesses. Another negative aspect of trade barriers is that they limit the diversity of products available in the market, thus forcing businesses and consumers to choose inferior products for an increased price. Because of the restrictions in trade, exporting products becomes much harsher on small businesses due to the large process and tight regulations imposed on the products. It can even make this process more expensive on suppliers as they are as a result required to purchase licenses and other titles which allow them to trade.

Major Parties Involved

World Trade Organisation (WTO)

The World Trade Organization or the WTO is an international organization which aims to reduce trade barriers, as well as deal with an regulate the global rules of trade between nations. They seek to ensure that international trade runs smoothly, predictably and as free as possible. The WTO has a fairly strong view on trade barriers and believes that eliminating these barriers as well as implementing a stronger more connected global trading system could enable developing countries to eradicate extreme poverty.

United States of America (USA)

The United States of America has stayed fairly committed to facilitating free trade and encouraging the reduction of trade barriers throughout the years. Through the NAFTA Agreement, Mexico, Canada and the US agree to have open trade agreements across borders. NAFTA was an agreement signed on the 1st of January 1994, aimed at decreasing trade barriers and facilitating economic growth.

Currently the US has at least 20 Free Trade Agreements (FTAs) in effect with specific countries. The USA is a member of the WTO as well as the Marrakesh Agreement which established the WTO and set up the guiding rules which govern trade between WTO's 154 members. However recently the US has become less inclined to the openness and support of these fair trade agreements. With discussions of possibly dismantling NAFTA or the US pulling out of NAFTA, it seems that with the recent presidency the US has become more conservative in its approach to international trading.

European Union

The European Union was established November 1st 1993 and is a political economic union of 28 member states, located primarily across Europe ("What is Globalisation"). The European Union was created in order to improve relations between neighboring countries after the cold war and world war 2. The European union was established in order to ensure that specific freedoms between these countries remained intact; the movement of goods, services, people and money. On November 1st 1993 the Maastricht treaty went into effect, creating the euro, a currency which intended to be the single unified currency for all member states. The recurring and continuing goal of the European union is to improve relations between countries, reducing borders, becoming more interconnected and further reducing trade barriers in order to facilitate a free market space for trading.

Association of Southeast Asian Nations (ASEAN)

ASEAN like many joint trading blocs is a group of South-East Asian countries who have joined together in order to increase economic growth in the local economy through the reduction of trade barriers. The ASEAN trading bloc has many similar economic objectives when compared to NAFTA and the EU. By forming a common market place for Southeast Asian nations, ASEAN helps to facilitate economic growth of some of the LEDC is the region, continuing to work towards the free movement of goods and people similar to the EU.

How Does reducing Trade barriers affect people?

Reducing trade barriers can have both positive and negative effects on individuals as this reduction allows increased globalisation. In one aspect this may allow for the increased sharing of information, but on the other hand could also force these special distinct individual cultures to merge together. Reducing trade barriers will also further allow for the increased distribution of shared resources and information, allowing for further progression of both technological and societal advancements.

Timeline of Key Events

Date	Description of Event
1995	Foundation of the World Trade Organization
1999	Seattle Anti Globalization movement
2008	World Financial crisis
2011	Russia joins WTO
March 22 2012	First around the world Fibre Optic cable implemented
2016	United Kingdom votes to leave the European Union
2016	Chinese stock Market Crash
January 22 2018	Trump Administration (USA) impose tariff and quotas on imported Chinese solar panels and washing machines
March 8 2018	Trump administration (USA) impose a 25 % tariff on steel imports and a 10% tariff on aluminium

Previous Attempts to Resolve the Issue

There have been several attempts and judgments implemented by the world trade organisation in order to help improve and sort out trade disputes between multiple countries. In these attempts the WTO and partner organisations have been able to reduce trade barriers, improving foreign and international trade.

These attempts include several agreements arranged by the WTO and signed by a large group of nations which set a guideline and rigid structure for implementation of tariffs and international trade.

- General Agreement on Tariffs and Trade (GATT)
- General Agreement on Trade in Services (GATS)

These two agreements listed above form the basic structure for the WTO when dealing with international trade disputes. Besides the WTO implementing agreements to help reduce trade barriers, the UN routinely comes together to discuss trade agreements and reforms. Many countries have all agreed that the removal of protectionist methods is vital towards economic growth, however the ability to come to a consensus on the removal of trade barriers and which macroeconomic policies to implement remains not as clear.

One of the most effective types of solutions to reducing trade barriers in the case of currency devaluation is the implementation of the euro. By establishing the European union and creating a single currency for a group of countries, free trade is more apparent as boundaries between countries are reduced.

Due to differences in opinions between economists and policy makers, there are some believe that reducing trade barriers cause more harm to economic growth then provide an increase in international trade. Recently in 2018, it was discovered that certain Italian parliament members had devised a “Plan B” to the European Union, setting out a firm strategy to reintroduce Italy’s formal national currency, the Lira.

Possible Solutions

In order to solve trade disputes and reduce trade barriers in an attempt to create a free and open market, one must limit the ability of nations to impose harsh tariffs, quotas and other non-tariff barriers. This can be done through establishing agreements such as the general agreement of tariffs and trade.

Another way to help further encourage the reduction of trade barriers, is through the introduction and establishment of organizations. Currently there are two main organisations set up to encourage free trade in an open market, by monitoring trade policies. In order to encourage free trade to exist naturally the WTO and other UN organisation create agreements which regulated and reduced tariffs, by providing a forum to resolve trade disputes. In order to make sure trade barriers around the world are reduced a key solution is the financial support for developing countries, allowing them to become active participants in the global economy. Examples of organisations that currently help to support such economies are the International Monetary Fund (IMF) and the World Bank.

In order to reduce trade barriers further implementation of single unified currencies like the euro would help to increase free trade due to the decrease in transaction complications, ie. difference in currency values relative to one another lead to complications in transactions.

Finally, the implementation of more trading blocs between multiple countries could help facilitate more open trade agreements, reducing trade barriers. Trading blocs such as MERCOSUR, NAFTA, EU and ASEAN have already allowed for neighboring countries in specific regions to reduce trade barriers and increase trade between each other.

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Additional Resources

- Crash Course on international trade: https://www.youtube.com/watch?v=geoe-6NBy10
- Alanis business Academy on trade barriers: https://www.youtube.com/watch?v=picGGrWX-qQ
- UN report on post 2015 UN development agenda: http://www.un.org/en/development/desa/policy/untaskteam_undf/thinkpieces/23_thinkpiece_trade1.pdf