Group of Twenty (G20)

Reducing international barriers

MODEL UNITED NATIONS
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Introduction

The establishment of faster and cheaper global shipping networks has led to a significant shift in consumer demand from locally/nationally produced goods and services to purchasing internationally produced goods and services, a shift that has resulted in the exponential growth of international trade over the past few decades. According to the 2018 WTO (World Trade Organisation) statistical review, international trade accounts for nearly 50% of the global GDP.

As the political, economic and social aspects of life are becoming more international, alongside the rise of globalisation and the invention of the internet. Governments that fail to see the potential benefits of globalisation scramble to institute barriers to protect local businesses and keep economic growth at a stable positive rate. This view of globalisation being bad for economic growth has lead to the institution of stricter trade policies, making it harder for foreign companies to expand beyond the borders of their own country. The most common forms of trade barriers placed by governments are tariffs, quotas and other non-tariff barriers. The primary goal of trade barriers is to raise the prices of goods and services making them a less favourable choice in the eyes of the domestic consumer. The inception of a global trade market has provided an unprecedented amount of information and potential wealth, that would otherwise be unreachable. Although globalisation is on the rise, trade barriers seek to limit its true benefits. Allowing for international free trade also encourages competition, which pushes companies to innovate and improve their goods and services to attract more consumers.

Definition of Key Terms

Tariffs

Tariffs/Import tariffs are government enforced taxes placed on imported goods and services. The purpose of tariffs are to reduce the amount of foreign goods and services being imported by increasing their overall prices, thus making them look less appealing to domestic consumers. In most cases tariffs are imposed in order to protect domestic industries from foreign competition, the use of tariffs often have significant drawbacks such as the possibility of trade wars, or the higher prices paid by the consumer

Quotas

Quotas are government-imposed restrictions on the volume of a specific good or service which can be imported into or exported from a country. Governments often uses quotas to control the amount of harmful goods (cigarettes/recreational drugs) that are imported into the country, in some cases quotas are used to restrict the amount of a domestic good being exported (E.g. Russia places a quota on the amount of wheat that it will export).

Embargoes

An Embargo is an official ban issued by the government on the import of a specified good, embargoes can also be directed towards a specific country in order to restrict all the trade between firms in these two countries.

Trade War

A trade war is a case in which two or more countries place tariffs or impose quotas in an attempt to harm/reduce the GDP of another country. The severity of the trade barriers imposed during a trade war escalate exponentially. Trade wars often arise from national governments imposing trade barriers in order to protect a domestic industry and stimulate economic growth. Trade wars always have detrimental effects on the economies of all involved nations in the long run.

Protectionism

Protectionism is the economic stance taken by a nation's government where it removes all foreign competition through the means of imposing tariffs, quotas and other forms of trade barriers. Protectionism is often adopted to protect infant (growing/new) domestic industries, allowing them to grow internally before facing international competition.

Free Trade Agreements (FTA)

FTAs are agreements held between two or more nation to impose no trade barriers on imports from a partner nation. The purpose of these agreements is to encourage trade and economic development between the different participating economies through the means of a trade barrier free market.

Customs Union

Customs unions are essentially trade agreements held between two or more countries, which compose of a free trade area and a common external tariff. As a result of the common external tariff all goods entering the union area pay the same customs duties regardless of the country of entry.

Globalisation

Globalisation is the increasing spread and interconnectedness of goods, services, technology, information and cultures across national borders. The growth of globalisation is the direct result of the increasing co-dependence between nations, the process of globalisation has been shown to have both positive and negative implications for domestic economies.

Gross Domestic Product

Gross Domestic Product or GDP as it is more commonly referred to is the total value of all the goods and services produced within a nation's borders. GDP is often used as a means of measuring annual economic growth.

Net Export

The difference in the total value of a country's exports and imports over a given period of time (usually on an annual basis).

Trade Surplus

A trade surplus is the technical term given when the value of a country's exports exceeds the value of its imports. A trade surplus often exhibits the inflow of foreign capital into national economies.

Trade Deficit

A trade deficit is the technical term used to define the exact opposite of trade surplus, when the total value of a country's imports exceeds the total value of its exports.

Exchange Rates

Exchange rates determine the value of a specific country's currency relative to a base currency like the US dollar ($) or relative to another county's currency. Given the ubiquity of the US dollar's value it is taken as the base currency for comparison for measuring appreciation or deprecation in the value of a currency.

Currency Devaluation

Currency Devaluation is the intentional and government conducted reduction in the value of a nation's currency, relative to other countries. Governments generally use currency devaluation to correct large trade deficits. By devaluing a currency, it reduces the cost of a country's exports as well as increase the cost of imports, thus making them less competitive/favourable in the eyes of domestic consumer.

General Overview

In the current global economic climate, the word “trade barriers” is often thrown around to garner attention towards a certain cause or economic policy, but to fully grasp its importance we must first explore what is the main catalyst for the institution of trade barriers and its consequences on international relations and trade. As mentioned before, protectionism is one of the main reasons why nations embrace trade barriers. They do so in an attempt to protect growing/infant industries from foreign competition and to ensure a stable rate of employment and economic (GDP) growth. But the effects of imposing trade barriers reach far beyond the borders of a domestic economy, trade barriers often severely impact the efficiency of multiple economies, impeding their ability to grow in both value and output in the process. And understanding how to prevent protectionism is essential towards creating an efficient global economy.

Protectionism

As mentioned in the definitions, protectionism is when a nation imposes tariffs on certain goods or services to protect domestic industries. Protectionist trade policies serve to protect domestic revenues of local businesses from external competitions allowing them to grow in scale, a growth that translates to an annual increase in GDP. One of the main arguments against free trade is that, international competition will drive local business and industries out of business rendering a large number of people unemployed, the decline in output caused by the shutting down of factories, offices, etc will be shown by a decline in the nations GDP and Real output. Therefore, by imposing tariffs on foreign goods and services, governments are accelerating the growth of domestic trade, they are also raising valuable tax revenue from the tariffs imposed, these revenues can be reinvested into the country’s infrastructure or education.

Major Parties Involved

World Trade Organisation (WTO)

The World Trade Organisation or the WTO is a globally active international organisation that deals with the rules of trade between nations. The WTO’s main goals are to reduce trade barriers and to mediate any trade disputes between nations. The organisation is governed by its member nations, all decisions made by the organisation revolve around the central goal of smooth and trade barrier free international trade. The WTO often makes the case that a trade barrier free economy would lead to increased global wealth.

European Union (EU)

Established on the 1st of November 1993, the European Union is an economic (customs union) and political union comprising of 28 member states. The EU was created in the aftermath of the second world war to promote economic cooperation between its member nations. As the EU grew in size it sought to create a large singular market to achieve its full economic potential. The abolition of border controls and trade barriers between EU countries allowed goods, services, people and capital to move freely across most of the European continent. The creation and the adoption of the Euro only cemented the economic strength and stability of the EU. Ever since its inception the EU has sought to improve relations between its member states and make them more economically interconnected by reducing borders and trade barriers, thus allowing for the free movement of information, capital and people.

United States of America (USA)

Given the United States of America's significant economic influence it has built up strong trade barrier free economic relations with various nations across the globe. One of the most prominent of these free trade agreements being NAFTA (North American Free Trade Agreement). Enforced on January 1st, 1994, the NAFTA created free trade amongst Canada, the USA and Mexico, allowing for economic interdependence and joint economic growth.

The US is currently a part of 13 different free trade agreements and is in partnership with a few multilateral Free Trade Agreements(FTAs) like ASEAN (Association of SouthEast Asian Nations). Although the US is the largest participating member of the WTO, it has in recent years been more conservative on the idea of free trade. With the current presidency announcing plans to withdraw from NAFTA and escalating a trade war between China and itself, the image of the USA being an advocate for global free trade is slowly fading away.

The Consumer

The consumer is the individual that drives an economy forward, the allocation of resources towards the production of a specific good or service is based on the demand created by the consumers, the private individual that chooses to buy brand A instead of brand B. The reduction of trade barriers significantly benefits the individual, the reduction or elimination of trade barriers reduce cost of consumption as cheaper internationally produced goods flood the market, consumers can now spend the money saved on purchasing a cheaper product elsewhere, thus increasing overall demand and consumption in the economy. Alongside the cheaper goods and services, the increased sharing of information act as a catalyst to accelerate technological and societal progression.

Timeline of Key Events

Date	**Description of event**
October 30th, 1947	General Agreement on Tariffs and Trade is signed (first post WW2 free trade agreement)
January 1st, 1958	Establishment of the European Economic Community (EEC)
January 1st, 1995	Formation of the World Trade Organisation
November 30th, 1999	Seattle Anti-Globalisation movement
January 11th, 2007	Vietnam joins WTO, WTO reaches 150 members
September 15th, 2008	Lehman Brother files for Bankruptcy, considered the beginning of the global economic downturn
June 23rd, 2016	United Kingdom votes to leave the European Union
January 22nd, 2018	USA imposes tariff and quotas on Chinese made solar panels And washing machines
March 8th, 2018	USA imposes a 25% tariff on steel imports and 10% tariff on aluminium

September 18th, 2018	China places a 10% tariff on $60 billion worth of American imports
October 11th, 2019	Trump administration announced that the US and China had reached An agreement for a first phase of a trade deal

Past Attempts to Resolve the Issue

As shown in the timeline there have been various attempts to create organisations and solutions to help reduce trade barriers across the world. The World Trade Organisation alone has had several attempts at opening up global trade, but its main focus has always been to solve the problem slowly, discussing one trade dispute at a time. Over the past few decades the WTO and other multilateral government organisations have been able to reduce trade barriers and improve economic relations between disputing nations. The WTO goes through a rigorous process of economic simulation and discussion before deciding on the outcomes and trade solutions for disputes, these solutions are often based on the broad principals held by the WTO and signed off on by its member nations.

- General Agreement on Tariffs and Trade (GATT)
- General Agreement on Trade in Services (GATS)
- Trade-Related Aspects of Intellectual Property Rights (TRIPS)

The first two principles are used as guidelines when dealing with the most common forms of international trade disputes (disputes regarding barriers placed on the imports of goods and services). The United Nations is also equally involved in the discussion around trade disputes and global trade reform. Although most of the WTOs member nations agree that protectionist policies are detrimental to stable economic growth, the real problem stems from the inability to gain unanimous support behind a single solution. Member nations still cannot agree upon the most efficient way of instituting global scale macroeconomic policy to reduce trade barriers.

Possible Solutions

We already know that past attempts to create a unanimous solution that would abolish trade barriers and create a global single market have failed due to disagreements between nations about deploying macroeconomic policies, protecting self-interests, etc. This means that there are only one of two ways to reduce the use of trade barriers around the world, one being the use of a general agreement on the reduction of tariffs in trade and the other could be a tailored economic plan for each member state (of the WTO) that would outline how they could move towards being trade barrier free and how their economies would benefit from such a shift.

The first method requires all the member states of the WTO or another large multilateral trade organisation such as the United Nations Conference on Trade and Development (UNCTAD) convene and set up new organisations to or create a set of rules and regulations around the dismantling of trade barriers. It is also important to help developing countries grow financially in a stable manner, allowing them to freely trade in a globally open market would be one of the key factors behind this growth. Although the second solution is more optimistic, it provides a holistic approach towards reducing trade barriers, it adopts a more individualised plan and solution compared to the traditional one size fits all solution of regulation and guidelines. By creating individualised plans, member states are more likely to cooperate because it would be in their best interests to move towards a more tariff and quota free trade system. This solution would still have significant drawbacks like the logistical costs of creating individualised plans or the time taken for implementation for these plans.

Another possible solution to reducing trade barriers would be to further institute single unified currencies like the Euro which would help increase open trade as they decrease the additional transactional costs and complications of converting currency. Lastly the institution of larger customs unions would facilitate more open trade between countries and significantly reduce trade barriers, customs unions like the EU, ASEAN, MERCOSUR and NAFTA should serve as examples to encourage regions of neighbouring countries to set up customs unions to eliminate trade barriers and trade more between each other.

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Additional resources

- Introduction to trade barriers: https://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp
- 2018 Statistics about global trade: https://www.wto.org/english/res_e/publications_e/world_trade_report18_e.pdf