



Florida High Schools Model United Nations

FHSMUN SARASOTA 16

GENERAL ASSEMBLY SECOND COMMITTEE

INTERNATIONAL TRADE AND DEVELOPMENT: TARIFFS AND OTHER BARRIERS TO TRADE

Authors: Asvin Srinivasan and Brian D. Sutliff

“...trade wars are good, and easy to win.”¹

“Trade wars produce no winners.”²

“Goal #10: Reduce inequality within and between countries”³

Introduction

As the volume of trade between nation states and trading blocs has accelerated in the past few decades, its impact has been felt across a wide swath of populaces, social classes and economic activities. Most academics, politicians and researchers agree that these increases in globalization of goods and services have generated vast amounts of wealth (and are responsible for lifting vast parts of the population in developing countries out of absolute poverty). According to research from the World Bank, “Developing countries now constitute 48 percent of world trade, up from 33 percent in 2000, and the number of people living in extreme poverty has been cut in half since 1990, to just under one billion people. Trade has helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increases.”⁴ The same report goes on, however, to describe how these benefits have not always been distributed equally. “As with extreme poverty, constraints that affect the poorest 40 percent of the population can limit their ability to benefit from overall economic growth, and there is no automatic “trickle-down” effect.”⁵

Concerns about job losses as well as the elimination of domestically-based firms and industries are the most frequently cited reasons for enacting trade barriers in the twenty-first century; security and cultural concerns are also frequently invoked reasons. Discussions about tariffs, taxes on imported goods, currently dominate the headlines about trade issues but

¹ Then candidate, now US President, Donald J. Trump, March 2, 2018.

² Douglas A. Irwin, “The Truth About Trade: What Critics Get Wrong About the Global Economy”, *Foreign Affairs*, June 13, 2016.

³ Sustainable Development Goals (SDGs).

⁴ <http://www.worldbank.org/en/topic/trade/publication/the-role-of-trade-in-ending-poverty>

⁵ <http://www.worldbank.org/en/topic/trade/publication/the-role-of-trade-in-ending-poverty>

delegates to the General Assembly Second Committee must also examine the impacts of: quotas; voluntary export restraints (VERs); content and licensing criteria; and other barriers to trade. Delegates to the General Assembly Second Committee must also assess the probity and impact of accusations of dumping and retaliatory countervailing duties as well as the international trade regime established in the wake of World War II, including the World Trade Organization (WTO) and its dispute settlement mechanism (DSM). Ultimately, the goal of creating a more inclusive and sustainable global trading community must serve as the foundation for these deliberations and resolutions.

Intertwined within this focus area is the movement of people via immigration (versus the movement of only good and services), which has also had wide ranging social impacts in both developing and developed countries. Most familiar may be the growing backlash against trade and immigration in the United States but similar sentiments have been observed in Europe and elsewhere. Meanwhile, highly uneven economic growth in developing countries combined with poor governance and lack of social safety nets has resulted in vast inequalities driving social upheavals. Although the populist uprising across the Arab world labeled the “Arab Spring” had a variety of causal factors, food insecurity brought upon due trade policies and lack of subsidies fueled the early days of the movement. Egypt witnessed “bread riots” where prices has risen by 37% in a year. With unemployment rising as well, more people depended on subsidized bread – but the government did not make any more available eventually leading to the President Mubarak’s downfall.⁶

The General Assembly Second Committee analyzes the interconnectedness of many of the topics discussed above including: issues relating to economic growth and development such as macroeconomic policy questions; financing for development; sustainable development; human settlements; globalization and interdependence; eradication of poverty; operational activities for development; agriculture development, food security and nutrition; information and communications technologies for development; and towards global partnerships.⁷

Importance of Trade to Development

International trade has been a significant component of economic development and growth for several thousand years and it remains a central component of most national economies. Trade permits countries, firms, and individuals to obtain desired and/or needed goods and services, capital inflows, and may assist countries in reducing tensions and avoiding armed conflict. Concerns about the fairness of trading arrangements also date back several thousand years, with citizens and governments seeking to protect themselves from the potential chicanery, vulnerabilities and power asymmetries that can develop.

Given the emphasis on ending extreme poverty and hunger in both the previous Millennium Development Goals (MDGs) and the current Sustainable Development Goals (SDGs), it is essential that the benefits and costs of international trade and barriers to trade be evaluated, particularly in light of the creation of the UN System and vital international financial

⁶ <https://www.theguardian.com/lifeandstyle/2011/jul/17/bread-food-arab-spring>

⁷ <http://www.un.org/en/ga/second/index.shtml>

institutions (IFIs), including the International Monetary Fund (IMF), World Bank Group, and the then General Agreement on Tariffs and Trade (GATT) [GATT transitioned into the World Trade Organization on January 1, 1995.] at the end of World War II.

In the aftermath of World War II and the subsequent decolonization of the majority of today's developing countries, an emerging liberal, later sometimes designated neoliberal, consensus about the virtues of free trade became nearly economic dogma in the most highly developed Western democracies; the Soviet Union and its Communist allies sought to trade primarily within the Communist world and/or with developing countries that did not always share this reverence for capitalism and free trade. As the highly developed industrialized countries of the West, and certain developing countries, particularly in East and Southeast Asia, gained enormously from trade and access to capital, and as the Communist system largely disappeared after 1989 and the fall of the Berlin Wall and Chinese economic reforms, more developing countries opened their economies and markets in the 1990s. These transitions were not seamless and economic dislocations occurred frequently, including job losses and capital flight, but living standards broadly rose and consumers and firms gained access to increasingly diverse resources, goods, services, and markets. With the growth in trend of goods and services, as well as related stock market developments, developing countries also sought, and crucially received, entrance into the World Trade Organization, including its rules-based dispute settlement mechanism (DSM). Armita Narlikar notes that "if the WTO collapses, rich countries would easily be able to crank up tariffs against poorer countries, while introducing many other protectionist measures to discourage imports."⁸

Tariffs

The most widely cited trade barrier *du jour*, tariffs, are designed to: 1) reduce and/or eliminate imports by driving up prices; and/or 2) increase government revenues through the collection of tariff revenues. Since at least the musings of Alexander Hamilton in the 1790s on the benefits to "infant industries", some governments and economists have praised "protective" tariffs as essential means to improve domestic competitiveness and to protect jobs and indispensable cultural heritage, including Harley Davidson motorcycles. Under existing international trade rules and agreements, the unilateral imposition of tariffs may violate World Trade Organization (WTO) norms; furthermore, countries that may impose tariffs without first utilizing the WTO's dispute settlement mechanism (DSM) can face retaliatory tariffs from affected countries. Attempting to target specific countries for tariffs does not always work, but "if restrictions were levied against all foreign imports...those barriers would hit innocent bystanders..."⁹ In the case of targeted tariffs, companies may be able to avoid and/or mitigate the impacts of the tariffs through setting up factories and operations in other countries; relative weakening of currencies, such as China's *yuan* in relation to the US dollar, may also reduce

⁸ Armita Narlikar, "A Trade War on the Poor: How a Collapse of the WTO Would Hurt the Worse Off", *Foreign Affairs*, March 5, 2018.

⁹ Douglas A. Irwin, "The Truth About Trade: What Critics Get Wrong About the Global Economy", *Foreign Affairs*, June 13, 2016.

and/or eliminate the impact of tariffs.¹⁰ A further issue to consider is the duration of tariffs, and trade barriers, overall. Douglas Irwin argues that “history ... reveals that trade barriers are easy to impose and hard to remove”¹¹; economist Eduardo Porter recently noted that US light pickup sales derive in part from retaliatory tariffs imposed in 1982 by the US against [then West] German car and truck manufacturers as a result of European tariffs against US chicken exports.¹² Governments must also remember that tariffs and other trade barriers are not imposed in a vacuum; strife or disharmony in economic policy can easily be shifted or transferred to other areas of mutual emphasis and/or concern. Turkey’s recent retaliatory tariffs aimed at the US stemmed from the US government increasing tariffs on Turkish exports to the US in the wake of an escalating argument over Turkish imprisonment of a US pastor¹³, although disagreements over approaches to the Syrian civil war and treatment of the Kurds may have also influenced these policy decisions.

Quotas

The concept of imposing strict limits on the quantities of goods and services imported from specific countries, known as quotas, is another trade barrier that is often used to “protect” or insulate home markets from rapid influxes of imports that may disrupt and/or eliminate market share for domestic firms. Quotas may or may not lead to immediate price increases for firms and consumers but, whenever possible, firms may engage in diversionary tactics, such as moving production facilities, similar to those used to circumvent tariffs and other trade barriers. As with other trade barriers, quotas may be seen as targeted and/or discriminatory. Quotas may also enrich the same producers that see their market share limited, particularly if those producers decide to focus on higher value-added goods and services. Georgetown Business professor Pietra Rivoli argues that “based on the market prices prevailing during the 2004-2008 period, the textile and apparel quotas granted to China [for the US market] during that period represented a gift of approximately \$1.5 billion [USD] to the Chinese government.”¹⁴ In October 2018, Brazil lodged a complaint with the World Trade Organization (WTO) against China’s combined tariff-quota-automatic licensing policies on sugar, arguing that China violated a total of 30 WTO rules, including selectively enforcing “automatic licensing” provisions and extending “temporary safeguard” measures past their allowable expiry date.¹⁵ As with tariffs, quotas can limit market access for importers but there are also significant economic incentives to circumventing quota regulations and/or enforcement.

¹⁰ Keith Bradsher, “The Number 7 Could Make China’s Currency a Trade-War Weapon”, *New York Times*, October 30, 2018.

¹¹ Douglas A. Irwin, “The False Promise of Protectionism: Why Trump’s Trade Policy Could Backfire”, *Foreign Affairs*, May/June 2017.

¹² Eduardo Porter, “Trade Wars Can Be a Game of Chicken. Sometimes, Literally”, *New York Times*, March 13, 2018.

¹³ *British Broadcasting Corporation (BBC)*, “Lira rallies after Turkey raises tariffs on US imports”, August 15, 2018.

¹⁴ Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*, John Wiley & Sons, Hoboken, NJ, 2015, pp. 180-81.

¹⁵ *Reuters*, “Brazil Launches Trade Dispute Against China Over Sugar-WTO”, October 22, 2018.

Voluntary Export Restraints (VERs)

Another measure to reduce foreign competition in domestic markets is to negotiate acceptable limits on total imports into the desired market, without that home market's government imposing quotas. These agreements are often known as voluntary export restraints (VERs), although there are always disputes as to how voluntarily the exporting country's government and firms enter into these arrangements. In the early 1980s, the Reagan administration and the US Congress urged Japan to limit its automobile exports to the US or face severe penalties, including strict quotas. Ultimately, Japan and its automakers agreed to limit exports to the US to 1.68 million cars and trucks per year, with a graduated annual increase built into the agreement. Japanese automakers sometimes sought to sell more luxury and higher value-added vehicles in the US market and US car manufacturers experienced significant profit increases as a result of decreased Japanese competition. US consumers paid significantly higher prices for cars and trucks between 1981-1994 as a result of this arrangement. Daniel Benjamin argues that between 1986-1990, car prices in the US averaged \$1,200 USD, using the value of the US dollar in 1983, higher than without the voluntary export restraint (VER) and that US consumers "suffered a loss of \$13 billion, measured in 1983 dollars."¹⁶ While the voluntary export restraint (VER) agreement with Japan limited Japanese car exports to the US in the 1980s and early 1990s, South Korea¹⁷ and other car-producing countries also sought to boost their exports to the US market.

Dumping and Countervailing Duties

When countries experience a rapid influx of relatively inexpensive imports, one of the common refrains is that the exporting country is "dumping" cheaper products into this particular market. Legal and technical definitions of dumping are more limited and precise than those often employed in political rhetoric, in part because the World Trade Organization (WTO) permits injured states to impose anti-dumping measures, often referred to as countervailing duties, when legitimate injuries are properly established and documented. For many economists, dumping is not merely the selling of an imported good or service below the domestic producers' market or break-even prices; rather, it requires that the exporter is selling at a price below which he/she/they cannot equate marginal cost (MC) and marginal revenue (MR). Anti-dumping measures can be effective at preventing a glut of low-price imports from flooding domestic markets, but they drive up prices for consumers, and at times, firms. Arguments against anti-dumping measures include: 1) they may encourage cartel-like behavior, with all sellers keeping prices artificially high; 2) they may lead to an overall diminution of the markets for goods and services for all buyers and sellers; and 3) discouraging innovation and related investment.¹⁸

¹⁶ Daniel K. Benjamin, "Voluntary Export Restraints on Automobiles", *Property and Environment Research (PERC)*, Vol. 17, No. 3, September 1, 1999.

¹⁷ Hyundai Motor Manufacturing Alabama (HMMA), "A Look Back – Hyundai Enters the US Market", 2018. Found at: <https://www.hmmausa.com/a-look-back-hyundai-enters-the-u-s-market/>

¹⁸ *The Economist*, "Dumping and tub-thumping", April 9, 2016.

Content and Licensing Agreements

Many governments have joined bilateral and multilateral trade agreements that require that specific percentages of the content of goods sold within the geographic areas covered by the agreement must be assembled, manufactured, and/or produced within that delimited area or face tariffs and other trade restrictions. While many of the agreements are commonly referred to as “free trade” compacts, in reality they are more accurately described as preferential trade agreements (PTAs). In the recent negotiations to update the North American Free Trade Agreement (NAFTA), now known as the US Mexico Canada Agreement (USMCA), at least 75% of any car or truck sold within these 3 countries must be produced within them to avoid tariffs, up from 62.5% previously; furthermore, at least 40% of the car or truck must be produced by workers in those countries earning at least \$16 USD per hour.¹⁹ While these and other provisions of many of these preferential trade agreements (PTAs) are often hailed by their advocates as both advancing freer and fairer trade and protecting domestic industries and jobs, depending on the levels of tariffs and other penalties for non-compliance, there may be greater incentives to operating, at least partially, outside of the area governed by the preferential trade agreement (PTA).

Want to Trade? Let’s Make a Deal.

While public pronouncements and current news stories often portray a bleak picture of global trade prospects, particularly the potential intensification of the incipient US-China trade war, countries and businesses continue to sign preferential trade agreements (PTAs), often referring to them as free trade agreements. After the US withdrew from the Trans-Pacific Partnership (TPP), China embarked on the creation of the Regional Comprehensive Economic Partnership (RCEP), a 16-country trade pact that would not include the United States. The European Union (EU) has been signing multilateral trade agreements with Canada, the Comprehensive Economic and Trade Agreement (CETA), and Japan, although concerns over the final status of the United Kingdom’s “Brexit” portend prospective difficulties after March 2019.²⁰ The aforementioned transition from NAFTA to the US Mexico Canada Agreement (USMCA) largely continues and updates NAFTA’s original framework, emphasizing continuity over change.

UNCTAD

In comparison to trade bodies that oversee specific trade arrangements such as the World Trade Organization (WTO), the Free Trade Commission (FTC) which oversees NAFTA’s performance and evolution into the US Mexico Canada Agreement (USMCA), the United Nations Conference on Trade and Development’s (UNCTAD) focus tends to be more on trade as it impacts economic development (especially in developing countries). Primary objectives of UNCTAD include:²¹

¹⁹ Shawn Donnan, Andrew Mayeda, Jenny Leonard, and Jeremy C.F. Lin, “Trump’s ‘Historic’ Trade Deal: How Different is it from NAFTA?”, *Bloomberg*, October 2, 2018.

²⁰ David Francis, “As the US Retreats on Trade, the World Moves Forward”, *Foreign Policy*, July 12, 2017.

²¹ https://unctad.org/en/PublicationsLibrary/osgiomisc2017_en.pdf?user=17

- Develop economic research, and policy recommendations to support government decision-making.
- Provide a forum where representatives of all countries can freely engage in dialogue, share experiences and tackle critical issues affecting the global economy.
- Offer direct technical assistance to help countries build the capacities they need for equitable integration into the global economy and improve the well-being of their populations.

Conclusion

The intended and unintended consequences of bilateral, multilateral, and even global trade wars are likely to be more severe and long-lasting than often publicly allowed by their respective advocates, although perhaps not as long as anticipated by a number of their critics. Ensuring equitable and, relatively, free trade will ultimately fall to countries and the organizations that they create and/or support, including the UN System and the World Trade Organization (WTO). Governments' respective levels of support for the prevailing system of generally liberalized free trade will determine the imposition or removal of existing and future trade barriers and the fates of these organizations.²²

Guiding Questions

What are your government's current policies regarding the imposition of, and response to, trade barriers, such as tariffs, quotas, voluntary export restraints, dumping, and content and licensing requirements? Does your government currently impose trade barriers on imported goods and services? If so, what kinds of trade barriers and to what extent/percentage?

Is your country a member of the World Trade Organization (WTO)? If not, does your government hope to join the WTO in the near future?

Is your country a member of any bilateral and/or multilateral trade agreements? If so, which ones and why? Does your government anticipate joining any other bilateral and/or multilateral trade agreements in the near future?²³

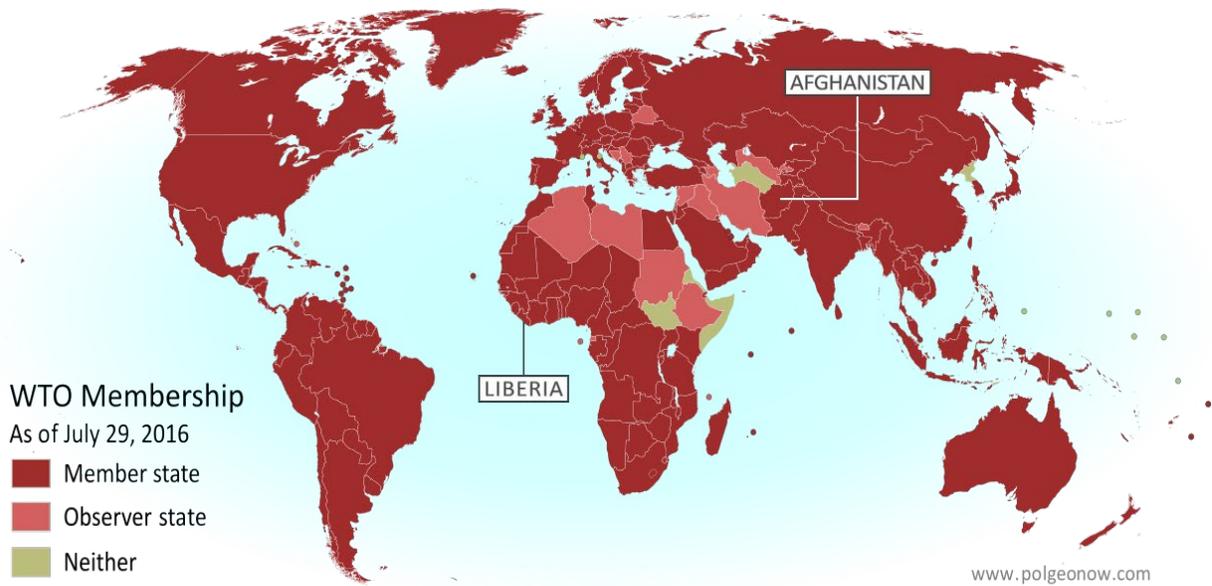
UN Resolutions:

United Nations General Assembly resolution 72/202 (A/RES/72/202), "International trade and development", December 20, 2017.

United Nations General Assembly resolution 72/201 (A/RES/72/201), "Unilateral economic measures as a means of political and economic coercion against developing countries", December 20, 2017.

²² Arvind Panagariya, "The Trade War Has Claimed Its First Victim", *Foreign Policy*, October 19, 2018.

²³ Delegates may wish to access "Trade Map" from the International Trade Centre/UNCTAD at: https://www.trademap.org/stAbout_TradeMap.aspx?nvpm=1||||||||||||



Where Global Tariffs Are Highest And Lowest

Average weighted tariff rate applied across all products in 2016 (%)

