Forum: *Economic and Social Council (ECOSOC)*

Issue: *Measures to reduce trade barriers with the goal of increasing emphasis on free trade*

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Introduction

The United Nations Sustainable Development Goal 8 (SDG 8) promotes inclusive and sustainable economic growth, furthers full and productive employment, and advocates for decent work for all. In direct contrast to the notion proposed by SDG 8 are trade barriers. The presence of trade barriers—often in the form of tariffs—actively discourages international trade and hinders the growth of developing and less developed countries. When tariffs are passed, it discourages foreign industries from entering the market. This results in a decrease in the supply of a particular good, raising domestic prices. Numerous studies have been conducted on the effects of passing a tariff and all studies point to one commonality: tariffs increase consumer prices. A study from the Federal Reserve and the University of Chicago found that consumers took up anywhere between 125 to 225 percent of the costs of washing machine tariffs passed by president Trump in January of 2018. Furthermore, countries passing tariffs to safeguard national security (i.e. Trump's steel and aluminum tariffs) carries tremendous impact to MEDCs and LEDCs alike, exacerbating pre-existing economic disparities. While the international community should work and strive to lessen the amount of tariffs present, knowing the rationale and goals behind these tariffs are necessary to ensure that future trade policies don't result in more conflicts in the future.

To find out why many trade barriers are instituted, one must first locate their most common reason and justification: national security. Under the flag of national security, governments have taken actions with intended or unintended outcomes, and the consequences have become increasingly more challenging to handle. The idea of national security lacks a definitive conceptual boundary and thus can be used to entice and justify many political projects at the international levels of politicking. In theory, tariffs are aimed at developing domestic production and business competition by limiting the number of imports from foreign countries. This revitalizes troubled economics in the short term, and many countries cite this economic growth as paramount towards their "national security." However, there are several caveats to passing tariffs. Tariffs, by forcefully limiting foreign resources, encourage wasteful use of resources, enhance market fluctuation and instability, and increase prices for consumers. These effects are especially evident when global economic powerhouses like the United States pass tariffs, akin to the U.S-China trade war damaging multiple economic sectors including technology, agriculture, and automobile industries. While the original drafters of the national security provisions of trade agreements realized the gravity of this issue, they hoped for the good-faith application of such a sensitive measure. Historically, countries are hesitant to impose tariffs under the title of national security. It was a mutual position most countries took seemingly for good faith. But good faith seems to be rapidly disappearing in today's world trade policies, and new rules need to be instituted to ensure the title of national security isn’t constantly recycled to justify tariffs.

Definition of Key Terms

National Security

National security is most commonly defined as the ability of a state to cater to the protection of its citizenry. While commonly conceived as militaristic in nature, national security covers dimensions of not only military, but energy, economic, and political security. A country’s political position, economic situation, and military power can all dictate their definition of national security and what aspect of national security they prioritize. In the context of this issue, economic security refers to the ability to maintain and develop the domestic economy. This includes protecting markets and businesses at home and ensuring a standard of living within a country.

Trade Barriers/Tariffs

Trade barriers center around policies that block access to trade, whether it be thorugh tariffs or entire trade embargos. Tariffs are taxes imposed on foreign goods and services. Tariffs serve to raise the costs of imported goods and services, making domestic alternatives more desirable and affordable. In addition to lessening the competitiveness of imports, tariffs can also be introduced to restrict trade and safeguard domestic industries. While tariffs are usually levied to reduce trade deficits or increasing domestic production, there is a near-unanimous consensus among economists that tariffs are overall detriments to the global economy. The harms stem from stunting mutually beneficial exchanges and raising costs for related goods. Furthermore, they can serve to dampen international relations and prompt other countries to respond with retaliatory tariffs of their own.

Trade War

A trade war is a protectionist policy aiming to reduce trade imbalances and competition from foreign industries. Occurring when countries pass a series of tariffs and quota restrictions in an attempt to damage each other's economy, a trade war proves to be detrimental for all parties involved. In the short run, the tariffs can yield to domestic industries gaining a comparative advantage. However, in the long run, they depress economic growth and may trigger inflation due to higher import prices.

Background Information

The concept of free trade, or a trade policy that does not restrict exports or imports, emerged as early as the 16th century in Imperial Spain. As the idea continued to develop, Spain was the first to set forth and adopt the notion of free commerce on land and sea. By the late 18th century, Adam Smith and David Hume had propelled the idea of free trade into the recognizable, modern form- one promoting free trade and against mercantilism. Historically, free trade has boosted economies through better division of labor. Better division of labor and the presence of free international trade lead to two things: an expanded range of goods and services and a drastic increase in both the quantity and quality of goods provided. However, there is one exception to free trade: national security and defense. Adam Smith covered this topic extensively in *The Wealth of Nations*, stating that a nation should not completely depend on other nations for resources crucial for national security. While the idea of national security and a certain level of independence has evolved into a more multifaceted and complicated issue compared to that of the 18th century, we must ask ourselves whether, in the 21st century, such tariffs are still justified. In addition to the talks surrounding national security as a tariff justification, an increasing number of countries are passing tariffs as short term relief for economic hardship.

Key Issues

Trade Balance

Maintaining trade balance remains the most volatile point of dispute between countries and their tariffs. Trade balance is the difference between the value of a country's exports and imports. Basic economic theory suggests that a trade deficit, if persistent, causes an outflow of domestic money into foreign countries, threatening domestic jobs and depreciating the currency. The implications of a trade deficit often prompt countries to set high trade barriers in the form of tariffs to help domestic industries by limiting the competition. However, the United States, as the world's largest deficit nation, has proved these theories wrong, as demand for value of the dollar remains high. The ability of the United States to largely be exempted from the consequences of a high trade deficit may largely revolve around its status as the world's largest economy. However, this status does not exempt all the internal partisan and political disagreements regarding this subject in the US. Moreover, while free-market proponents believe that trade deficits or surpluses will automatically correct themselves in time, many developing nations have felt the effects of trade deficits. Research from the United Nations Conference on Trade and Development (UNCTAD) showcases that increased openness to trade in Sub-Saharan Africa has been accompanied by current account deficits, a concerning statistic as these deficits can be a prelude of future debt burdens and financial crises.

Trade War

A trade war occurs when a country imposes retaliatory tariffs as a response to foreign countries imposing similar protectionist policies. As it escalates, a trade war can significantly reduce international trade, dampen economic development, and spark tensions between countries. Trade wars are often byproducts of countries imposing tariffs to try to protect their national interest— under the title of national security—by providing advantages to domestic industries. Tariffs under the guise of national security are often controversial, and thus are more likely to prompt retaliatory responses from other member states. An obvious example is the ongoing trade war between the United States and China. However, there seems to be a rise in the number of trade wars as of late, with Japan assuming a similar stance as the United States in limiting South Korean chemicals and imports due to national security concerns. This poses a severe problem to the global economy, and more trade wars can threaten to undo the fifty years of work on increasing trade liberalization.

Increased Dependency

Many less developed and developing countries need to address the reasons why incremental increases in GDP, financial flow, and trade have not stimulated job creation and economic diversification. The core problem lies in the lack of structural transformation, or a country's transition into a more diversified economy, leading to economic growth being solely dependent on the most profitable sectors (ie. natural resource extraction industries). Not only does this severely limit the opportunities for economic growth, but it has the potential to impede the development of more dynamic and diverse economic activities. Economic dependency often hinges on natural resources such as oil, which is plagued by frequent price booms and busts. As a result, the lack of economic diversity heightens the economic vulnerability of these countries, and ultimately, may prompt countries to pursue protectionist policies to safeguard these industries. Partnered with the degenerative impacts of tariffs in the long term, these countries become increasingly dependent on that single resource.

Vague Definitions

Vague definitions have also been one of the core issues concerning the justification of tariffs. One example would be the clashing definitions of the word “security interest” between the World Trade Organization (WTO) and the United States. In a panel concerning Russia’s trade restriction on Ukraine, the United States and the WTO clashed over Article XXI(b) in the 1948 Final Geneva Act, which states “to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests.” While the WTO states that the measures taken by each member state are subjected for review, the United States claims that the language of the article means that only the country taking action can determine whether if its policies are necessary to protect its essential security interests— or in other words, countries get to “self judge” whether their actions are justified.

Lack of Authoritative Power from the WTO

Following up on the previous issue, another problem lies in the fact that the WTO constantly finds itself in a lose-lose situation. Take for example the dispute with the United States: If the WTO did not rule against the United States regarding the ability to “self judge” one’s actions, then it directly dampens the WTO’s credibility as a mediator for global economic affairs. Along with obvious repercussions, this could further exacerbate the problem of countries abusing national security grounds to place tariffs. However, if the WTO were to rule against the United States, then it only adds to the United States’ grievances and anger against the Appellate Body, the main dispute settlement body of the WTO. The United States then can proceed to block adverse rulings, rendering the Body inoperative. Furthermore, ruling against the United States can prompt President Trump to follow up on his threat of leaving the WTO.

Dispute Settlement

While the WTO already serves as a platform for multilateral discussions and settling disputes, it is evident that it does so inefficiently. Currently, the WTO takes too long to mediate conflicts due to its long and complicated procedure for settling disputes; it can take up to five years to see the initial complaint from one member reach the final panel ruling. The inefficiency lies not only in the long, strenuous, court-like process of dispute settlement, but also because of countries blocking adverse rulings. In the case of the United States, blocking appointments of new members in the Appellate Body (the WTO body that hears trade appeals and disputes) has resulted in the paralysis of the body. The lack of efficiency encourages countries to bypass the WTO process and makes bilateral discussions a much more desirable alternative. Bilateral agreements can inadvertently trigger conflicts as there might be competing bilateral agreements between other countries. This whittles away the advantages that the free trade agreement discussed between the two original nations.

National defense and security are often the reasons stated to justify the imposition of tariffs, and of all the possible reasons to halt free trade, national security might be the most reasonable. National security is vital to ensure and maintain economic prosperity. However, tariffs under the title of maintaining "national security" are only a plausible, not probable, justification. Given the potential detriment and economic drawbacks when imposing a tariff, they should be thoroughly examined to see whether there is a true national security concern or if the tariffs are merely protectionist in intent.

Major Parties Involved and Their Views

Developing countries

It is often the case that developing countries institute the most tariffs—in fact, out of the ten countries with the highest tariff rate, none of them are developed countries. In developing countries, tariffs are the main source of government revenue. By taxing an import that the country lacks—oil, for example—the government can generate steady income. Aside from garnering government revenue, these tariffs also shield domestic industries (which are often less developed and efficient) from dominant foreign competitors. However, these tariffs also impart domestic consequences: reduced competition allows the price to rise. In the long term, this price increase would mean that the impoverished and poor in these countries will be unable to purchase such products, resulting in surpluses and economic busts.

Japan

Although fervently against the United States' tariffs and filing multiple complaints to the WTO, Japan has announced the restriction of three chemicals — hydrogen fluoride gas, fluorinated polyimide, and photoresists — to South Korea over national security concerns. The chemicals are most often used for the creation of semiconductors and flatscreens, things crucial for the South Korean economy. Japanese officials hinted that South Korea does not adequately oversee the use of those chemicals. Although the chemicals do have some military applications, South Korean officials have repeatedly denied said allegations and claim no wrong-doing.

People's Republic of China (PRC)

Since the formation of the People's Republic of China, the government has slowly been decentralizing and furthering its efforts to increase international trade, surpassing the United States as the largest trading nation in 2013. China's influence on the global market is matched only by that of the United States, and China has repeatedly denounced the United States' protectionist measures. On June 2, 2019, China announced the release of a white paper titled "China's Position on the China-US

Economic and Trade Consultations," which criticizes the United States for not attending talks with China and reaffirms China's belief that cooperation is the only way to resolve the trade war.

The World Trade Organization (WTO)

As the successor of the General Agreement on Tariffs and Trade (GATT), the World Trade Organization has been and remains the main regulator of global trade. The WTO has significantly increased the volume of global trade, and studies indicate that on average, countries would have faced an increased 32 percent in trade tariffs without the WTO. The WTO also serves as the mediator between countries over trade disputes, providing a platform for communication and settling disputes, which serves as their method of global trade regulation. Regarding tariffs under national security, the WTO believes that its Dispute Settlement Panel has the final say on whether the actions taken in response are justified.

United States

The United States' position on this issue is simple- putting America first. From the aluminium and steel tax to the renegotiation of NAFTA, Trump's policies emphasize a certain degree of unilateralism and protectionism, which the United States claims is vital for its national security. Ongoing dispute with the WTO over Article XXI(b) might see the United States live up to its promise and withdraw from the organization, which it has called unfair and seriously flawed. The United States has additionally withdrawn trading privileges with India and removed aircraft subsidies with the European union, prompting negative responses and retaliatory tariffs from the two. China-specific tariffs implemented by the United States in July 2018 has ignited tensions between the two economic powers. What resulted was a lengthy trade war that involved complaints to the WTO and over 700 billion dollars worth of tariffs just between the two countries. Currently, the United States has called for and off talks with China, and their next course of action remains unclear.

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event
June 17th, 1930	**The Smoot-Hawley Tariff Act** Also known as the Hawley-Smoot Tariff Act, this act increased import tariffs at a time when the United States already had high tariff rates. Resulting in increased tariffs on around twenty thousand goods, the average import tax rate of the United States skyrocketed to the forty percent range, prompting

retaliatory tariffs from other countries. The general consensus among economists is that the passage of this act further exacerbated the downward economic spiral caused by the Great Depression.

October 30th, 1947

Signing of the General Agreement on Tariffs and Trade (GATT)

Two years after the conclusion of World War II and the creation of the United Nations, GATT was signed by twenty-three nations and was put into effect on January 1st, 1948. GATT facilitated eight trade rounds, which are talks concerned on reducing trade barriers and tariffs, between 1949 and 1986, and the world had seen drastic cuts to the tariffs as a result of increased communication and discourse. Notable achievements include the 1956 tariff cuts, which slashed global tariffs by 2.5 billion dollars, worth roughly 23 billion dollars in 2018.

September 22nd, 1985

The Plaza Accord

Signed on September 22, 1985, the Plaza Accord was a joint agreement between the United States, Japan, West Germany, France and the United Kingdom. Set to depreciate the United States' currency and reduce trade deficits, the agreement saw governments intervene in currency markets. By depreciating the dollar, exports from the United States became cheaper for its trading partners, incentivizing the purchase of American goods. The Plaza accord succeeded in lessening the U.S trade deficit with the Western European countries but failed to alleviate the trade deficit with Japan. This is largely due to Japanese restrictions on imports.

January, 2018 ~ Present

Aftermath of Trump's "America First" Policy

Trump has promised to pursue an "America First" policy since his presidential run in 2016. In January 2018, Trump imposed tariffs on washing machines and solar panels, followed by additional tariffs to steel and aluminum in March 2018. These tariffs angered U.S trade partners, prompting retaliatory tariffs from countries such as India and China, the latter marking the start of a lengthy trade war, severely damaging the stability of the global economy. Although recent agreements have seen some tariffs between the United States and China relaxed, there is still a certain ambiguity as to how this issue will be resolved.

December 2nd, 2018	**US and China agree to temporary truce** China and the United States agreed to a temporary truce to de-escalate tensions over the trade war. The agreement states that both parties would refrain from imposing tariffs for 90 days, or until March 1st, 2019. More specifically, China would purchase more US products from the energy and agricultural sector while the United States will not impose an additional 267 billion dollars tariff they have previously threatened China with.
September, 2019 ~ Present	**China and the United States agreed to more trade talks** Both the United States and China had agreed to high levels of trade talk in Washington, and both sides agreed to work together and take practical actions in resolving the conflict. China has promised to exempt the United States from additional import tariffs, covering items such as seafood and lubricants. In the status quo, the two countries are discussing ways to reduce the remnant of the trade war, and are striving towards better communication and trade agreements.

Relevant UN Treaties and Events

- ***A/RES/73/240***: This resolution calls for stronger cooperation between countries and organizations in order to achieve inclusive economic growth and urges countries to refrain from using trade measures not in accordance with international law.
- **Charter *of the United Nations***: The UN Charter reaffirms the importance of cooperation when it comes to resolving global economic and political issues, and promotes the usage of trade talks and agreements as a means to achieve said goals.

Evaluation of Previous Attempts to Resolve the Issue

Doha Development Agenda (2001)

The Doha Development Agenda is the trade negotiation round of the WTO, which started in 2001. The objective of the Doha Development Agenda was to lower trade barriers and facilitate more global trade, prioritizing developing or less developed countries. The talks started in November 2001 and were expected to finish by January 2005. However, the deadline was pushed to 2006 before the talks were completely suspended later that year. The termination of the talks was primarily due to the United States and the European Union refusing to reduce domestic agricultural subsidies.

Establishment of International Organizations

Many organizations have been created as a means to ensure free trade persists and that policies from different member states don't harm the global economy. From the World Trade Organization to the International Monetary Fund (IMF), these organizations have been formed to help impoverished nations and encourage international trade. Whether it is through the implementation of trade rounds or monetary policy suggestions, support for developing countries have undoubtedly increased. While these organizations have drastically improved and safeguarded free trade (the average tariff level for major trading nations in 1947 was 22%, and in 1999, that figure has lowered to 5%), there is still much to be improved upon. Many countries have called out the WTO and IMF alike for their structural under-representation and lack of transparency. Evident from the Doha Development Rounds, developing countries saw their hopes for development side-lined due to conflicting economic interest with global powers.

Possible Solutions

Rebalancing WTO and Compensatory Liberalization

Under WTO rules, a country can impose tariffs for a variety of reasons, including retaliatory tariffs in response to foreign tariffs as a means of a safeguard. Rebalancing could take place through compensation in other areas, such as in the form of trade liberalization when governments impose safeguard measures. In essence, national security measures are like safeguard measures as there is often no debate about their consistency with the rule. Currently, countries can impose tariffs at will and pursue a protectionist policy, but later invoke Article XXI, justifying the tariffs under national security during WTO litigation. It would be ideal to have the national security trade restrictions notified immediately, which fosters proper debate and discussion by bringing these cases to attention earlier.

This also prompts WTO members to think carefully about the proper scope of the national security exception. Furthermore, it could be proposed that if a country were to pass certain safeguards, then the country would also need to have compensatory liberalization. For example, if a country were to impose import tariffs for national security reasons, then its government must identify a certain number of goods that it will consider negotiating to liberalize.

Clearer Definitions

Since no agreements in the WTO are complete without minor ambiguities, countries are seemingly able to adopt whatever definition or interpretation that best serves their interest. WTO members have repeatedly voiced different positions and interpretations about terms enlisted in the 1948 Final Geneva Act or other relevant documents. Ambiguity amplifies the disagreements between countries and within the WTO, with the United States blocking appointments and reappointments of the Appellate Body members for over a year and a half as a concrete manifestation of said disputes. Delegates would need to lobby and come up with definitions on which countries can agree on, or at the very least, settle for.

Assisting Troubled Economies

History has shown time and time again that a country with a struggling economy (i.e. The United States during the Great Depression) turns towards protectionist or isolationist policies. While said policies do, in the short run, offer relief for domestic industries and alleviate some economic hardships, they eventually worsen the situation as they lessen productivity and heighten inflation. Providing adequate resources and technology to developing countries facing similar problems would be vital not only to ensure that their economy improves but also to diversify their industries, enabling them to participate in international trade.

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