Issue description

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Issue of: The effects of tariffs on global trade

Submitted by: Shaan Bhasin, Deputy Chair of the G13 Summit

Edited by: Márton Levente Sipos, President of the General Assembly

Csanád Végh, Deputy President of the General Assembly

Introduction:

By definition, tariffs are a tax or duty to be paid on a particular class of imports or exports. According to digital marketing analyst Brent Radcliffe, in simplest terms, a tariff is a tax, and it adds to the cost of imported goods and is one of several trade policies that a country can enact. Tariffs and Trade Barriers have long been implemented by nations in order to protect new industries that are "in their early stages of development, and in need of protection from predatory competition through tariff and non-tariff barriers until it is established" — these are called infant Industries. Furthermore, Tariffs and Trade Barriers are utilised by developing economies but are also by more advanced economies with developed industries. Why? Tariffs and trade barriers protect domestic employment, protect consumers, infant industries and finally help ensure and further strengthen national security. Now it's important to understand the fundamentals behind tariffs, but the heart of the issue lies in the effects that they have on global trade. Tariffs pose a significant effect to global trade because they are often used by nations in conflict. A trade war is a prominent example: it's an escalation of policies between two or more countries that aim to create barriers on each other's trade, and is accomplished by imposing tariffs on imports. Countries may raise their tariffs in order to threaten another nation, and in doing would have seismic global effects. In the example of the US-China trade war, UN trade officials warn that a US plan to raise tariffs on Chinese goods next month would have massive implications for the global economy. Though in theory tariffs pose many feasible solutions to both struggling and thriving economies and protect these countries in many regards, they are easily manipulated and used as a means of dispute, thus having a dangerous effect on global trade.

Definition of key terms:

Tariffs: A schedule of duties imposed by a government on imported or in some countries exported goods.

Trade barrier: A government imposed restriction on the free international exchange of goods or services.

Trade flow: Trade flows are the buying and selling of goods and services between countries. Trade flows measure the balance of trade (exports – imports).

Non-tariff measures (NTMs): Non-tariff measures (NTMs) are policy measures — other than ordinary customs tariffs — that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.

KARINTHY FRIGYES BILINGUAL HIGH SCHOOL
HU-1183 BUDAPEST, THÖKÖLY STREET 7.
E-MAIL: INFO@KARMUN.HU
@KARMUN2019
@KARINTHYMUN

General overview:

The effects of tariffs on global trade have long been a topic of discussion and rightfully so. When they are used improperly by nations, they have serious repercussions to the trade world. Let's look at an example: today, the world is witnessing a prime case of tariff conflict with two of the world's preeminent superpowers - USA and China. In short, this trade war was instigated by president Trumps campaign promise that, as quoted during a signing of executive order regarding trade, he would fix China's "long-time abuse of the broken international system and unfair practices." America has long claimed that China has been violating intellectual property rights, using unfair trade practices and theft of intellectual property for their greater benefit (the US estimate that they have suffered approximately 226-600 billion each year in losses,) thus putting a disadvantage and harming. both the U.S and their allies' business interests as well as their international trade agreements. In recent news, the Trump administration have filed a request for consultation to the World Trade Organisation in order to escalate these claims. The US has also taken the problem into their own hands and publicly stated that they will increase tariffs on Chinese goods if China is not able to compromise on a trade deal by 1 March. Now though this issue could be delved into far deeper, what we can extract from this is that this dispute is the perfect model of what effects improper use of tariffs has on global trade.

In this case, first and foremost, global stock markets tumbled in fear of a trade war between two of the world's largest economies. Pamela Coke-Hamilton, UNCTAD's head of international trade, states that in the coming years, the trade war between the US and China can have "implications for the entire international trading system and will be significantly negative." She additionally states that "smaller and poorer countries would struggle to cope with the drastic external shocks." Diving deeper into this, the trade war can also mean that many nations will choose to shy away from trade dealings and thus the entire globe will suffer. Asian countries, though, will feel the greatest effect: despite Asia being the hotspot of global trade, with China's recent actions mixed with the high costs of the trade war means that companies are slowly exiting away from current east Asian supply chains. Thus many Asian countries will suffer from the lack of business and services in their area. Even more prominently, though, without the cooperation and compliance of such Asian countries, the global economy and global trade will suffer.

Moving out of the example of US and China, there are several other effects that tariffs have on global trade. In UNCTAD's report she further warns that "there'll be currency wars and devaluation, stagflation leading to job losses and higher unemployment and more importantly, the possibility of a contagion effect, or what we call a reactionary effect, leading to a cascade of other trade distortionary measures." Clearly, such aspects will severely damage global trade. Furthermore, manipulating tariffs can lead to effects on the business and consumer level and thus a weakening of global trade. Tariffs create "higher prices for goods which thus reduce consumption by individual consumers and by businesses. In the long term, these businesses may see a decline in efficiency due to a lack of competition, and may also see a reduction in profits due to the emergence of substitutes for their products." This, as a result, means that businesses are less effective and can lose much of the market which can be costly for global trade — with businesses less effective and the market being down, global trade too will be at a low.

To conclude, though tariffs have many logical reasons to be implemented, in many instances (such as the case of the US and China) when tariffs are used improperly they have drastic effects

KARINTHY FRIGYES BILINGUAL HIGH SCHOOL
HU-1183 BUDAPEST, THÖKÖLY STREET 7.
E-MAIL: INFO@KARMUN.HU
@KARMUN2019
@KARINTHYMUN

to the global trade. This includes effects on global stock markets, on smaller, more delicate economics who in many cases play a sizeable role in global trade.

Major Parties Involved:

World Trade Organisation (WTO): Often used as an organisation who mediates between two countries tariff wars. Further, as reported by the WTO themselves, they are the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

International Monetary Fund (IMF) Alike the WTO, the IMF work in facilitating trade among nations and aid in ensuring tariffs are not used to harm global trade. They are, as directly quoted from their website, an organisation of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade and sustainable economic growth.

United Nations Conference on Trade and Development: An annual conference hosted by the UN which focuses on facilitating trade among nations and aid in ensuring tariffs are not used to harm global trade.

International Trade Centre (ITC): The goal of the ITC falls in line with the IMF, WTO where they work facilitating trade among nations and aid in ensuring tariffs are not used to harm global trade. Specifically, as quoted directly from their website, the ITC's mission is to foster inclusive and sustainable economic development, and work s towards creating 'trade impact for good'. They also work on improving the performance of trade and investment support institutions for the benefit of small SME's (mall and medium-sized enterprises.).

International Chamber of Commerce (ICC): The ICC provides professional solutions and consulting in business, and provide strategies to ensure that tariffs are not used to harm global trade. Specifically, the ITC, as quoted on their website, a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services.

Timeline of events:

There is no necessary timeline of events. There are, though, prominent trade wars that have happened in history which can be used as case studies for your research:

- McKinley Payne-Aldrich Act of 1909
- Fordney-McCumber Tariff Act of 1922
- Smoot-Hawley Tariff Act of 1930 4
- Bush Steel Tariff of 2002
- U.S.-China tire Tariffs of 2009-12
- The US-China trade wars

Previous attempts to solve the issue:

Bilateral investment treaty: "Bilateral investment treaties (or BITs) are international agreements establishing the terms and conditions for private investment by nationals and companies of one state in another state." The agreements under the bilateral treaty provide guidelines for how tariffs can be used.

Economic integration: "Economic integration is an agreement among countries in a geographic region to reduce and ultimately remove, tariff and non-tariff barriers to the free flow

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E-MAIL: INFO@KARMUN.HU
@KARMUN2019
@KARINTHYMUN

of goods or services and factors of production among each other's; any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies are referred to as economic integration."

Incoterms: "Incoterms are a set of rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts." The guidelines outline responsible holders for tariffs, etc., and are used as a guideline for how tariffs should be implemented to allow to still allow for safe global trade

Free-trade zone: "A special area within a country where foreign companies can import materials, manufacture goods, export products, etc. without being limited by the usual rules and taxes." It is a place where there is safe global trade uninterrupted by misused tariffs.

Special economic zone: "An area with particular economic advantages, for example lower taxes than the rest of the country, to encourage investment and development there." Alike to the free-trade zone, the special economic zone is a place where there is safe global trade uninterrupted by misused tariffs.

Possible solutions and approaches:

Research further into the past solutions and agreements listed above, and formulate an approach that intertwines all aspects.

Keep in mind that tariffs are a crucial aspect to a nation's economic prosperity, and that many nations will want to have as much say as they can in how their tariffs should be employed.

Use today's US-China trade war as a case study, and create a resolution which affirms to these nations that, even though they are giving away a certain amount of their liberty regarding tariffs, if they abide, the successes of global trade will prove to be beneficial in the long term.

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