

Committee: Economic and Social council

Issue: Assessing the threats posed by a trade war

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INTRODUCTION

A trade war is composed by a series of protectionist moves between two countries or more. That is achieved by making imported goods more expensive thus making them less attractive to the people and manipulating them into purchasing domestic products.

The current one we are about to face, but are trying to avoid, is the tit for tat streak between the United States of America (U.S) and People's Republic of China (P.R.C). It all started when president Trump imposed tariffs on imported washing machinery and solar panels. Later on taxes on steel and aluminum were raised; the U.S president is indirectly trying to revive the U.S factory. Moreover he has stated that the country had been disadvantaged from trade specifically having a deficit of \$500 billion a year, and he isn't willing to let this continue.

Specialist argue about what exactly the financial phenomenon is. one the one hand some suggest that it has already developed into a trade. On the other hand there are those who imply that this is simply a dispute and a true trade war would have greater dimensions and would be catastrophic.

DEFINITION OF KEY TERMS

Trade war

"A situation in which two or more countries raise import taxes and quotas to try to protect their own economies."¹

Tariff

"A charge or list of charges either for services or on goods entering a country."²

Quota

¹ <https://dictionary.cambridge.org/dictionary/english/trade-war>

² <https://dictionary.cambridge.org/dictionary/english/tariff>

“A fixed, limited amount or number that is officially allowed”³

Protectionism

“Protectionism is the policy some countries have of helping their own industries by putting a large tax on imported goods or by restricting imports in some other way.”⁴

Subsidy

“A subsidy is money that is paid by a government or other authority in order to help an industry or business, or to pay for a public service.”⁵

Free trade

“Free trade is trade between different countries that is carried on without particular government regulations such as subsidies or taxes.”⁶

Tit for tat

Actions taken in order to punish another for going against you but of the same amount, “equivalent retaliation”.

BACKGROUND INFORMATION

Protectionism

Throughout history, protectionist policies have been used through the use of tariffs, quotas, subsidies etc. as means of protecting and promoting domestic industries. However they have been shown to create a decline in growth and innovation since companies produce strictly for domestic use. Furthermore protectionism counteracts on other countries that start to adopt similar strategies in order to maintain their revenue. Lastly it has been shown to create self-sufficient economies, bolster monopolies, overthrow free trade and foreshadow economic crises.

Previous trade wars

Trade wars are no recent phenomenon, the world has faced multiple ones in the past. The reason this is important is that one can study and analyze previous conflicts in order to exhume the useful information that will help us solve future strifes.

2009 Dispute

³ <https://dictionary.cambridge.org/dictionary/english/quota>

⁴ <https://www.collinsdictionary.com/dictionary/english/protectionism>

⁵ <https://www.collinsdictionary.com/dictionary/english/subsidy>

⁶ <https://www.collinsdictionary.com/dictionary/english/free-trade>

In 2009 a similar dispute was occurring between the U.S and China. “The spat began on Sept. 11, when the Obama Administration announced it will slap tariffs of as much as 35% on Chinese-made tires, effectively pricing them out of the low end of the American market. Two days later, China's Ministry of Commerce said it would start antidumping investigations against imports of some U.S. chicken products and auto parts.”⁷ Later on the U.S and Europe joined forces against China because of their deprivation of trade on essential raw materials , raising fears of a damaging east-west trade war in the depths of the global recession. In 2009 ,at a time of financial crisis and economic recession,China found the opportunity to take advantage of the rest of the world by increasing its share of U.S. markets for manufactured products.

1930 Tariff act

“The 1930 Tariff act, commonly known as the Smoot-Hawley Tariff act, raised tariffs on American import, but instead of reviving the economy it exacerbated the great depression. Countries around the world were striking each other with tit for tat tariffs. European countries put a tax on American goods, which slowed trade between the U.S and Europe making harder for the U.S to crawl out of its economic slump. Countries were blaming each other for their struggles, all of that eventually escalated, turning a trade war into a real war.”⁸

Causes of a trade war

The initial and obvious reason the U.S started this dispute was to revive the economy, reinforce domestic businesses and reduce the trade deficit. Nevertheless this whole act is also a display of power. Trump believes that when the U.S imports something from another country, even if comparative advantage makes it reasonable for them to do so, they have “lost”. However that doesn’t only go for the U.S government ,same goes for the Chinese leader that would be showing weakness and lose the advantage if he didn’t act back.

Consequences of a trade war

A trade war of such magnitude and between such powerful countries is bound to have local and global repercussions.

⁷ <http://content.time.com/time/business/article/0,8599,1922155,00.html>

⁸ www.cnbc.com/video/2018/03/16/heres-what-happened-during-the-last-major-u-s-trade-war.html.

First of all this knee-jerk protectionism will hurt the working class, and local businesses that rely on foreign product, and the vast majority of the industries that transform steel and aluminum, such as automakers construction companies etc. Not only that but also” domestic supply alone will not be able to meet rising domestic demand, so these businesses still need to rely on foreign suppliers.”⁹ Since businesses dependent on trade they will somehow have to counterbalance the deficit ,which will happen at the expense of the consumers, meaning that the costs go up but the quality remains the same. Something that could possibly lead to financial stagnation and or poverty. Not to mention that with the implementation of such trade restrictive policies the GDP of a country decreases ,which is an indicator of a country’s economic health.

In general,”tariffs tend to raise prices for consumers, raise costs for businesses using the imported materials in manufacturing and marginally detract from economic growth.”¹⁰

What’s more, although this might seem as a given, relationships between nations can get ruined which puts world peace and security at stake, and slows down development .

So far one would notice that the economic fallout ,is quite limited. Unfortunately, it’s not because there won’t be any, it’s expected shortly. Nonetheless there are different explanations as to why we haven’t seen any of them yet. One is the belief that the U.S government will come to reason. Second, that a trade war is easy to win, as quoted by Mr. Trump, and that China will back down and not retaliate. While the third is that the macroeconomic effects of tariffs and retaliation will be relatively small.

Beneficiaries of a trade war

No matter how much damage a trade war would cause something positive will come out. The initial beneficiary is supposed to be the U.S businesses and industries, however with the U.S going against China they are pushing China and Europe closer together, and promoting trade between them, further isolating America.

Additionally, local manufacturers, meaning the American steel and aluminum industries, will benefit from these this war since it means less competition for them.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America

⁹ https://www.washingtonpost.com/blogs/plum-line/wp/2018/03/02/the-real-reason-trump-wants-to-start-a-trade-war/?utm_term=.c416a6d7b554

¹⁰ <https://www.cnbc.com/2018/03/13/why-there-are-no-real-winners-in-a-trade-war.html>

As the initiator, the U.S plays a determinative role in this particular trade war. The strategy they are following is a rather irrational ,even childish one would say. It relies on winning and enhancing the country short term, while disregarding long term consequences and its effects on global economy and international/free trade.

People’s Republic of China

The Chinese economy is dependent on exports, and nearly 20 percent of its exports go to the United States. However in the case of a trade war china would be the game changer. If they decided to stop trading with countries the entire economy would collapse.

Eurasian countries

Eurasian countries are the most probable allies of China, gearing up against the U.S. An alliance between the aforementioned would benefit them in order to defend against the U.S, by strengthening trade relations. In that way they wouldn’t depend on the U.S and wouldn’t be touched by any sudden economic movement .

World Trade Organization (WTO)

The World Trade Organization was the successor of the General Agreement on Tariffs and Trade (GATT) which established after World War II, in order to regulate international trade. Nowadays it operates as a system of trade rules, also settling trade disputes between countries .

The Organization for Co-operation and Economic Development (OECD)

The OECD is an Organisation composed of 34 countries, supporters of open trade finance, its purpose is to ensure economic and social well being around the world. The OECD provides a forum where governments can work together ,seek solutions to common problems and measure productivity and global flows of trade and investment.

TIMELINE OF EVENTS

Date	Description of Event
22/1/2018	“U.S. imposes safeguard tariffs on washing machine and solar cell imports. “ ¹¹

¹¹ <https://www.bloomberg.com/news/articles/2018-07-06/the-trade-war-is-on-timeline-of-how-we-got-here-and-what-s-next>

1/3/2018	“Trump raises import taxes on steel and aluminum by 25 percent and 10 percent.
2-6/4/2018	China proposes tariffs against the United States, sparking week-long tit-for-tat that significantly escalates tensions.
16/4/2018	U.S. Commerce Department bans exports to Chinese telecom company ZTE.
13/5/2018	Trump tweets that U.S. will help revive ZTE
7/6/2018	Trump administration eases ban on ZTE.
15/6/2018	Trump announces 25 percent tariff on \$50 billion of Chinese goods. China responds with a targeted retaliation.
18/6/2018	Trump threatens to impose tariffs on additional \$200 billion worth of Chinese goods.
27/6/2018	Trump calls on Congress to “enhance” review process governing Chinese investment in U.S. technology.
6/7/2018	Washington levies tariffs on \$34 billion of Chinese imports and Beijing retaliates immediately.” ¹²
11/7/2018	U.S senate proposes non binding resolution in the name of restraining the imposing of tariffs.

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

- North American Free Trade Agreement (NAFTA) - <http://www.naftanow.org>
- General Agreement on Tariffs and Trade (GATT) - https://www.wto.org/english/docs_e/legal_e/gatt47.pdf
- United Nations Conference on Trade and Development (UNCTAD)- <http://www.unctad.org>

¹² https://www.washingtonpost.com/news/worldviews/wp/2018/07/05/a-timeline-of-how-the-u-s-china-trade-war-led-us-to-this-code-red-situation/?noredirect=on&utm_term=.a92e5fdfad04

- Meeting on: Trade Reform, Removal of Protectionist Measures Vital to Economic Growth, Second Committee Hears in Debate on Macroeconomic Policy Questions - <https://www.un.org/press/en/2013/gaef3376.doc.htm>
- MANUAL on STATISTICS of INTERNATIONAL TRADE in SERVICES - <https://www.oecd.org/trade/its/2404428.pdf>

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

So far there haven't been any official attempts to solve the issue, since this is a matter of governance. Nonetheless there has been a lot of discussion of economist, lawmakers, producers and others affected by the upcoming trade war, trying to discourage the leaders from acting irrationally and generally showing their disapproval.

In addition , U.S senate approves a resolution in order to curb the president's mounting tariffs saying that it is "an abuse of presidential authority ". In spite of the senates protests ,it is a non binding one meaning that the trade negotiators can ignore the senates guidance .

POSSIBLE SOLUTIONS

First and foremost ,it is crucial to inform countries of the negative effects of trade restrictive policies ,in order for them to truly understand why they wouldn't be beneficial, not just force anything. That can be achieved through annual reports of protectionist policies where the inefficiencies will be highlighted and evident to states.

The most popular approach to the issue proposed by multiple economists would be to abstain, and "walk away" from Trump's trade war. Meaning not to retaliate to the U.S's treats and tactics rather than focus on other trade relation and let "trump ruin his economy, not ours too".

Opposing opinions believe that, from the character and behavior the U.S. president has displayed, he interprets "inaction as weakness and an invitation to increase his aggregation"¹³

Another possible solution would be to solve the issue through peaceful multilateral negotiations. Diplomacy could play a major role in settling the situation and pleasing all sides and targeting the root causes of his crisis. In addition, regulations should be set in the name of the phenomenon not reappearing. Unless a long term solution is found ,in order for

¹³ <https://www.project-syndicate.org/commentary/china-europe-reaction-trump-trade-tariffs-by-dani-rodrik-2018-07>

governments to not impose dangerously high tariffs ,we will be called to face with same problem again in the future.

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