

G20

MetMUNC XLVIII

Topic: Fair Trade

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In the competitive commercial market of the 21st century, developed countries and private industries often aim to gain an upper hand over their competitors. More times than not, this attempt at economic advantage is illegal and harms the general public. The definition of free trade is that international trade should be left to its natural course without tariffs, quotas, and other restrictions.¹ These policies are imposed to promote domestic consumerism and ensure that people spend their money on their own country's product(s). However, this policy harms the typical consumer if they are looking to buy another country's product and now have to pay more for it than their own citizens. This inhibits foreign trade and prevents the flow of resources and products. Therefore, at the most recent G20 summit in Japan, world leaders confirmed their commitment toward “strong, sustainable, balanced and inclusive growth” through open dialogue and “actions to enhance confidence.”²

One of the problems inhibiting free trade is high trade and geopolitical tensions between numerous countries. Global economic growth has also been consistently low, affecting the ability of nations to trade. Also, growing political tensions have negatively affected the amount of trade between countries which has limited traditional consumerism. Finally, different regional trade blocs have been formed, which tend to exclude other countries from trading with those that are

¹ <https://www.dictionary.com/browse/free-trade>

² <https://www.weforum.org/agenda/2016/05/world-free-trade-areas-everything-you-need-to-know/>

allied. The delegates' role in this committee will be to form inclusive, productive, and economically beneficial trade agreements with one another in order to facilitate international trade.

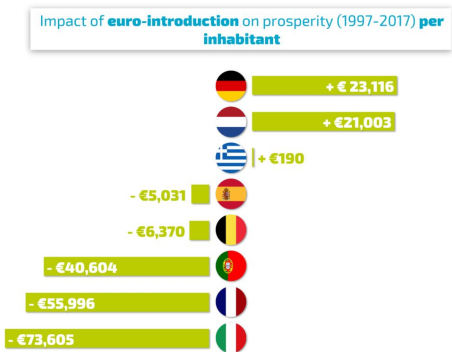
History:

There is a broad consensus among economists that protectionism has a negative effect on economic growth and economic welfare, while free trade and the reduction of trade barriers has a positive effect on economic growth. However, liberalization of trade can cause significant and unequally distributed losses, and the economic dislocation of workers in import-competing sectors.³

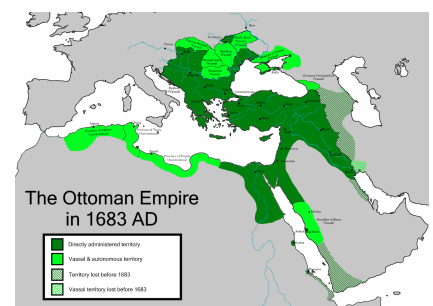
In the past economists who advocated free trade believed trade was the reason why certain civilizations prospered economically. For example, the flourishing of early Mediterranean

cultures such as those in Egypt, Greece and Rome, and Asian cultures like Bengal (East India) and China could be attributed to free trade. The great prosperity of the Netherlands after throwing off Spanish Imperial rule and pursuing a policy of free trade made the free trade/mercantilist dispute the most important question in economics for centuries⁴. Free trade policies

have battled with mercantilist, protectionist, isolationist, socialist, populist and other policies over the centuries. The Ottoman Empire had liberal free trade policies by the 18th century, with only 3% tax for imports and



Source: CEP (Centre for European Policy)



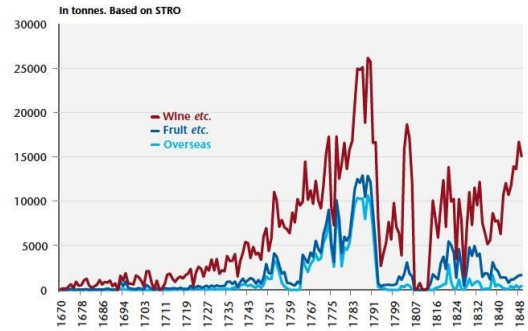
³ <https://www.wilsoncenter.org/chapter-3-trade-agreements-and-economic-theory>

⁴ <https://www.investopedia.com/articles/investing/011916/brief-history-international-trade-agreements.asp>

exports in 1790. Ottoman free trade policies were praised by British economists advocating free trade⁵.

Changing Times:

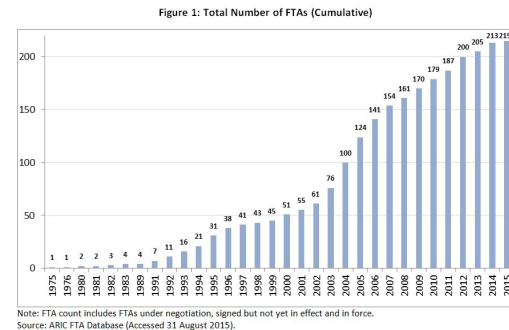
However, with increased competition in relation to arms, technology, and influence, countries have looked to gain an edge over others through their economies. This has



led to the breakdown of free trade and the mass implementation of tariffs, restricting laws, and other barriers. Instead of countries looking to expand their trade, they aim to acquire the materials needed without benefitting a competing country. This has led to a culture of economic independence which has recently been seen in the petroleum business. Countries such as the United States who ideologically differ from Middle Eastern countries such as Afghanistan and Iraq have created new forms of renewable energy to circumvent this need for trade. Due to these ideological differences, the two countries have placed greater trade restrictions on each other to promote their own economy.

Often when creating free trade agreements (FTAs), countries will single out their economic allies and propose a treaty with them. For example, the United States has FTAs with 20 countries that they deem helpful for economic growth. Also, regions will create free trade agreements due to geographic convenience and mutual protection.

These include the North American free trade agreement, the trans-pacific partnership, and the numerous EU agreements.



Some countries benefit from free trade agreements, but many suffer. The price of products may increase for citizens. For example, research found that if a person bought a random



group of certain items around the world, it would cost \$1,757 in Tokyo, \$1,969 in New York City, \$2,012 in Dubai, United Arab Emirates; \$2,450 in Copenhagen, \$2,441 in Vienna, \$2,540 in Cape Town, South Africa, \$2,965 in Reykjavik, Iceland, and \$3,387 in Sao Paulo⁶. This is alarmingly

in affecting the economies of the nations which cities are in.

One of the major factors that affects the prices of goods is the difference in taxes and

import duties across countries. Brazil, for example, has an extremely high import duty of 60%, which makes imported goods such as cars

and phones much costlier there. Many products are cheaper in Japan thanks to lower import taxes and

better wholesale prices. With respect to oil prices, the prices vary significantly because of subsidies in some countries and fuel taxes in other countries. This is the reason why gas is absurdly cheap in oil producing nations such as Venezuela and Saudi Arabia. However, In the U.S., the taxes vary from state to state.

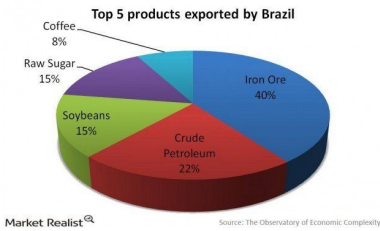
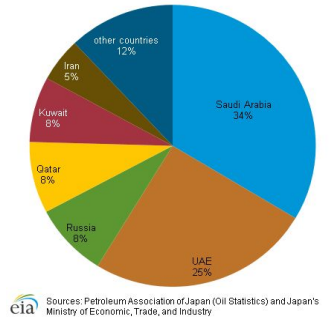
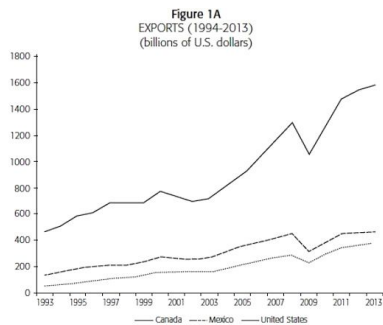


Figure 4. Japan's crude oil imports by source, 2015



Sources: Petroleum Association of Japan (Oil Statistics) and Japan's Ministry of Economic, Trade, and Industry



6 Source: Developed by the author using data from International Monetary Fund (2013).

Notable Free Trade Agreements:

Since January of 1994, Canada, the United States, and Mexico have been member countries of the North American

<https://www.investopedia.com/financial-edge/0912/why-the-same-goods-have-different-prices-around-the-world.aspx>

Free Trade Agreement (NAFTA). This has been beneficial to primarily Canadian and American small and medium-sized businesses. Since tariffs were abolished in 2008, North American trade supports more than 140,000 businesses and over 3 million jobs in the U.S. Additionally, Canada has had 4.7 million new jobs added since 1993 due to this unrestricted trade. In Mexico, the price of household goods has halved since the creation of this FTA, and farm exports have tripled since 1994.

In January 1992, the AFTA, or the Association of Southeast Asian Nations Free Trade

Area was created. This agreement includes countries such as Brunei,

Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam,

Laos, Myanmar and Cambodia. Since this creation, nearly all export

and import duties have been lifted, and 90% of the tariffs on imported

goods from China have been eliminated⁷. The AFTA GDP was US

\$2.3 trillion in 2012 and has continued to grow since then, supporting

the 600 million combined population.

II. Inter-ASEAN Tariff, Percent

| | 2010 | 2014 | 2015 |
|-------------|------|------|------|
| Vietnam | n.a. | 6.46 | n.a. |
| Cambodia | 4.84 | 5.72 | n.a. |
| Laos | 1.38 | 0.78 | 0.48 |
| Myanmar | 1 | 0.55 | 0.20 |
| Philippines | 0.18 | 0.13 | 0.11 |
| Malaysia | 0.41 | 0.05 | 0.05 |
| Indonesia | 0.06 | 0.04 | 0.03 |
| Thailand | 0.01 | 0.01 | 0.01 |
| Brunei | 0 | 0 | 0 |
| Singapore | 0 | 0 | 0 |

Additionally, the European Union is one of the strongest Free Trade Agreements in the world. In this single market, there are no tariffs, quotas, or taxes on trade, and the free movement of goods, services, capital, and people are encouraged. As opposed to a typical free trade area, there are region wide regulations on other aspects of life that do not directly relate to the economies of the member countries. These regulations include those on working hours and conditions, as well as packaging. The creation of the EU started in 1957 with the Treaty of

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<https://www.investopedia.com/industries-most-likely-to-be-impacted-by-trade-disputes-with-china-in-2019-4580508>

Rome, but did not truly start to take form until 1986 with the Single European Act. Currently, the European Union is the largest importer and exporter of goods and has its own FTAs with countries such as South Korea, Mexico, and South Africa.

Finally, the Trans-Pacific Partnership, which was created in 2005, is on track to be the world's largest and most profitable FTA. The member countries are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S. and Vietnam. The goal of this is to "promote jobs and growth in the United States and across the Asia-Pacific region." This goal has been met and the further implementation of this agreement is a goal of President Trump and other nation's leaders as well. The total GDP of the 12 countries comprises 40 percent of global GDP and one-third of world trade (approximately \$27.7 trillion). The global benefits of the trade agreement are estimated to reach such heights as \$295 billion annually.

Also, the Transatlantic Trade and Investment Partnership (TTIP) is being negotiated between the United States and the EU. It's goal is to strengthen the relationship between these two economies, increase jobs, and yield economic growth. However, critics have pointed out that this might lead to corporate greed and not benefit the average citizen. Talks of passing this agreement began in 2013 under the obama administration, and the TTIP is currently in its 9th round of negotiations. ⁸

Obstacles to Free Trade:

On May 10th, the U.S. hiked tariffs on Chinese goods worth \$200 billion from 10% to 25%, jeopardizing a trade deal currently being

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<https://www.brookings.edu/blog/brookings-now/2015/04/20/International-Tensions>



negotiated by the two countries. The Chinese government has vowed to take "necessary countermeasures." If a full blown trade war arises numerous industries will be affected including the automobile industry, technology, and agriculture, as the U.S. and China are some of the leading nations in those industries. There is no telling if tensions have peaked and there will now be smooth sailing, if not the industries and countries might be in jeopardy.

In order to address trade disputes such as this one, different supranational peacekeeping organizations have been created. The primary body governing international trade is the WTO, or the World Trade Organization. Countries can appeal to this group if they feel that another country is infringing on their right to trade or illegally raising tariffs. For example, the U.S. appealed in 2017 when they believed China to be unfairly subsidizing aluminum products. The WTO is comprised of a rotation of judges, lawyers, and administrators that form the dispute settlement mechanism that is used.

The ISDS, or the investor-state dispute settlement is another major trade peacekeeping organization. It is made up of the International Center for Settlement of Investment Disputes (ICSID), and the 162 member states that are a part of this. It typically deals with foreign bus, and businesses in a host nation. For example, a Canadian gold mine in 2011 appealed to this power when they believed the Venezuelan government's nationalization of gold trade violated an investment treaty between the 2 countries. As opposed to the WTO, there are no permanent tribunals in this organization. Instead, it administers the process by which disputants choose an independent, ad hoc panel of arbitrators to hear their case. These arbitrators include professors, lawyers, and former judges.

Summary:

Overall, the main purpose of a Free Trade Area is to expand a region's advantage as a production for the world market. To do this, it is crucial to eliminate tariffs for greater efficiency in the long run. It is vital for delegates to understand what steps to take for a Free Trade Area, resulting in an end to tariffs and economic benefits. To do this, trade policies need to be taken into account and how their effects on individual nations.

Questions to Consider:

1. Is your country involved in any free trade agreements? If so, with whom? To what extent was this agreement successful?
2. What geopolitical tensions does your country have with other nations?
3. To what extent is there freedom of trade in your countries or what duties and taxes limit this?
4. Does your country favor imported or domestically produced goods?
5. What are your country's chief imports and what countries do they rely on?

Helpful Links:

<https://unu.edu/events/archive/conference/free-trade-agreements-and-constitutional-rights.html>

<https://www.globalpolicy.org/economic-expansion/international-trade-agreements-8-22.html>

<https://www.weforum.org/agenda/2016/05/world-free-trade-areas-everything-you-need-to-know/>

https://www.un.org/en/development/desa/policy/untaskteam_undf/thinkpieces/22_thinkpiece_trade.pdf