

Forum: Economic and Social Council

Issue: Developing measures to effectively mitigate the impact of or terminate trade wars

Student Officer: Antonis Chronis

Position: Deputy President

INTRODUCTION

The phenomenon of trade wars traces many centuries back and stems from the early 17th century. It is with no doubt that its effects and outcomes still seem to interest the current governments of many major countries such as the United States of America as well as China, since both parties have much to gain from the situation.

The dependence of states on economic tariffs and sanctions finally became clear after the end of the Second World War. Nations managed to achieve certain plans set, which engaged militarily, politically and socially, which could never be implemented without the financial assistance that was provided by governments and multinational

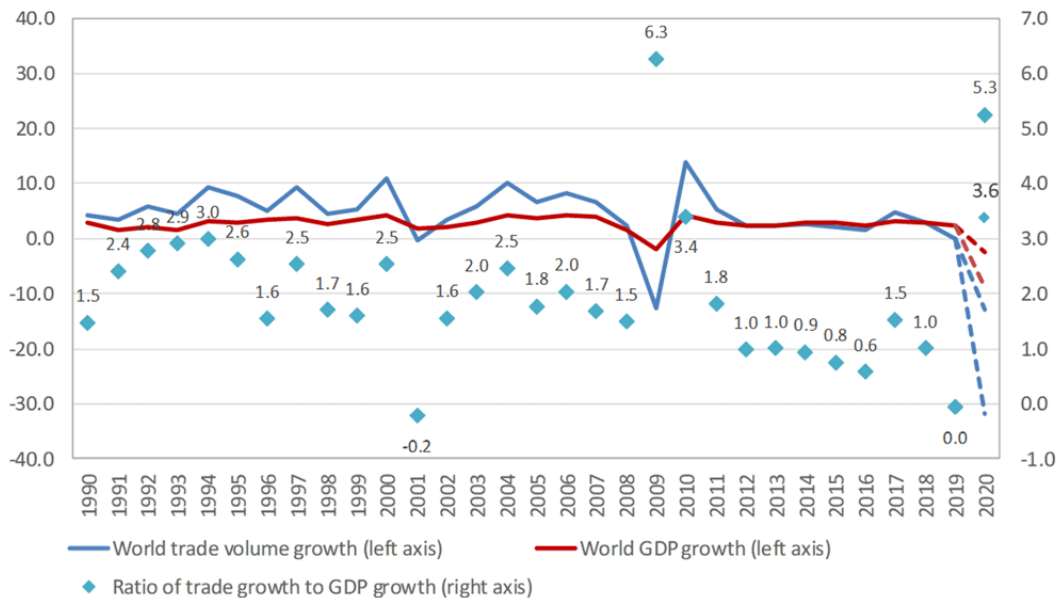


Figure 1 depicts the ratio of the international trade industry as well as the global GDP growth during a period of 30 years.¹

¹ Image source: "World Trade Organization." World Trade Organization, 2020, https://lh3.googleusercontent.com/zxHUBi9Vx4c6pkattx8VSmhfOkuldpyQvH16K6auaHZNbhWrJ1_61VuPHp1hw6vc5moibQ=s150

organizations. Nowadays, these multinational organizations and governments (e.g. USA-China) have been imposing economic sanctions and/or tariffs on other parties in order to engage in diplomatic and political strategies. These actions severely damage the economic and trade field of the targeted country since most of the time both sectors are “harassed” or “threatened” by the goals and plans of the “attacking” state.

Although several analysts and specialists argue that economic sanctions and tariffs have been positively impacting and improving the foreign policies, it is vital to examine and determine the negative effects that trade wars have on an economic and social level in different nations, whose policies highly differ from each other.

It is self-explanatory that the countries involved in a trade war experience a negative impact on their exports, especially the ones that are imposing the economic sanctions. Generally, their economic status is severely harmed since the tariffs imposed increase the prices of specific exported goods, making them undesirable or difficult to sell in foreign nations. Despite that fact, the financial status of uninvolved states is impacted as well. The trade barriers set by governments are preserving states from intervening in the global market, thus limiting the use of goods in certain countries, which could finally lead to the outbreak of an embargo.

Hurting diplomatic relations, discouraging the trade industry and decreasing the rate of the economic growth, are among others, issues that occur in a state when a trade war outbursts. Hence, it is vital to develop measures as well actions in order to mitigate and limit the impact of trade wars.

DEFINITION OF KEY-TERMS

Trade War

A trade war is a situation between two or more countries, where both parties aim to damage and sever each other’s trade through trading of tariffs or certain restrictions. It should be noted that trade wars differ from other initiatives to control the exports and the imports such as sanctions. The trade has, instead, implications in the trade relations between two or more member states and only engages in the trade field.

Embargo

An embargo is a government order that restricts commerce with a specified country or the exchange of specific goods. It should be kept in mind that embargoes are

basically a more extreme and direct type of trade war, however it should not be misinterpreted and considered as a trade war.²

Quota

A quota is a government-imposed trade restriction that limits the number or monetary value of goods that a country can import or export during a particular period.³The imposition of Quotas is a really common phenomenon in the outbreak of a trade war that among others (e.g. economic tariffs and sanctions) results in tension of the conflict and may be a reason for the escalation of the issue.

Trade Barrier

Trade Barriers are policies set by the government that aim to set regulations on international trade. Such regulations make the trading procedure harder and more expensive due to the imposition of high tariffs.

Economic Sanctions

Economic sanctions are financial penalties and restrictions imposed by a party either single or multiple against a target (independent state, individual or group) Economic sanctions could embody various kinds of trade barriers, tariffs, and restrictions on economic transactions.

Economic Tariffs

A tariff is an imposed tax by a certain nation, individual or group on the groups as well as services imposed from another country.

Protectionism

Protectionism refers to government policies that restrict international trade to help domestic industries. Protectionist policies are usually implemented with the goal to

² Liberto, Daniel. "What Is an Embargo?" *Investopedia*, Investopedia, 29 Jan. 2020, www.investopedia.com/terms/e/embargo.asp

³ Liberto, Daniel. "What Is an Embargo?" *Investopedia*, Investopedia, 29 Jan. 2020, www.investopedia.com/terms/e/embargo.asp

improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.⁴

Gross Domestic Product (GDP)

The Gross Domestic Product is the complete market and/or monetary value of services and products or goods that are manufactured within a period of time in a country, which is seriously impacted during a trade war.

BACKGROUND INFORMATION

History of Trade Wars

Trade wars are not a diplomatic strategy that was developed in modern society. Such conflicts and “wars” have been taking place as long as nations were developing trade relations and were conducting trade of certain goods with each other. Nations have been fighting over colonial privileges such as rights to trade exclusively with overseas colonies since the 17th century and preserved even after colonialism.

19th and 20th Century

Following the Opium Wars (1839–1860) between the British Empire and China regarding the illegal British exports of opium in Pakistan, there are several other trade wars that are to be seen. In 1930 the United States of America enacted the Smoot–Hawley Tariff Act, where the American agricultural imports were raised by 40%. The aforementioned act led to the retaliation of other nations against the USA through the imposition of even higher tariffs that the global trade could not withhold, which finally resulted in the Great Depression.

21st Century

In 2009 a trade war erupted between the United States of America and China. The trade conflict began in the beginning of September, when the Obama Administration announced the imposition of tariffs on tires exported by China. The response of the Chinese government concerned the alleged illegal trade activities of the USA’s imports on chicken products, which lead to the alliance of the European Union with the United States against China regarding the deprivation of trade on raw products. Bearing the financial crisis of 2009 and

⁴ Chappelow, Jim. “Protectionism Definition.” *Investopedia*, Investopedia, 29 Jan. 2020, www.investopedia.com/terms/p/protectionism.asp.

period of the economic recession in mind, China raised its share on the United States markets for the manufacturing process of goods.

How the US-China trade war has escalated

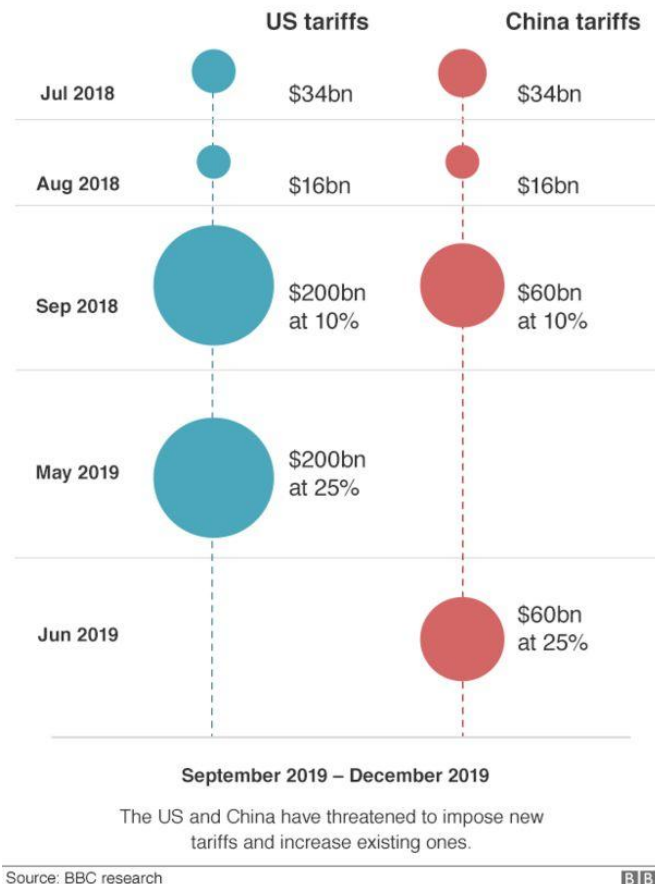


Figure 2 depicts the complete escalation of the US-China trade war by delivering the dates and exact raises/reductions of trade based tariffs⁵

One of the most recent trade war issues to be discussed is the imposition of tariffs on every aluminum and steel product made by the Trump administration in 2018. These tariffs severely impacted the status of the imports as well as exports of the European Union, Canada, China and Mexico, which urged Canada to impose temporary tariffs on American steel and other similar products. It additionally caused the imposition of further tariffs by the EU on the American agricultural imports and products. Finally, by 2019 Chinese imports heavily affected nearly US\$200 billion of imports. Hence, China imposed strict tariffs on all American imports, thereby damaging the economy of both nations. Studies by

⁵ "How the US-China trade war has escalated." BBC, https://ichef.bbci.co.uk/news/410/cpsprodpb/120B1/production/108550937_us_china_timeline_trade_v3_640-nc-3.png

the International Monetary Fund (IMF) have shown that the USA importers have accepted the costs of the tariffs imposed by China. Nevertheless, tensions in the trading field between these two states ended on January 15, 2020 during the meeting of the US president and the Chinese vice Premier signed the One Trade Deal.

Huawei and 5G Technology

It should be mentioned that the Chinese company Huawei faced many difficulties throughout the escalation of the trade war between the U.S. and China, bearing the strict regulations the Trump Administration imposed in mind, which focused on banning all companies (including Huawei) from utilizing information and communications technology from any party considered a national security threat. The United States of America further moved to adding the company to the "Entity List", which is to be considered as a black-list. Although the One Trade Deal agreement between these two parties managed to de-escalate the issue and provide solutions to it, the U.S.'s pressure on the company remained stable, which has caused tensions within the technological industry.



Figure 3 depicts a 5G protest that took place in Amsterdam, Netherlands regarding the alleged health issues that can occur when this connection is used⁶

The 5G Technology, which was developed by this company, has been one of the main reasons why the U.S. imposed such regulations on it. In order to block China's development efforts to spread the 5G connection and in order to lead this international technological efforts upon

⁶ Image source: Image was taken by myself during my stay in the Netherlands in January 2020

this issue, the Trump Administration has yet to reduce the regulations imposed.

In addition to this, there have been strong arguments, which claim that the 5G technology is capable of causing critical health consequences on people, due to its alleged high radiation status. Nevertheless, this point of view has not been scientifically proven.

Economic Impact of Trade Wars

The initiatives and actions that governments take as well as their policies are all known as protectionism. Protectionism is a commonly-known policy that is implemented during trade wars. Both protectionism and the trade wars have had a huge impact on the international economy and trade industry, which will be further elaborated throughout this whole section.

Although trade wars provide the global economy with a variety of crucial benefits and drawbacks, it is important to underline that such should be categorized in macroeconomic effects, sectorial effects and employment effects.

Macroeconomic Effects

It is well known that trade wars can benefit a country in a short-time period. Nevertheless, on a macroeconomic scope it is projected that the trade could meet a downfall in larger countries with high and big tariff increases. This phenomenon is mostly expected to take place in countries like Japan, the United States of America and China. Furthermore, bearing the contribution of the European Union in the trade industry and finally in the global economy in mind, it should be noted that the fall of the EU's (European Union) trade industry will result in its total collapse and destruction, thus damaging the global economy by the waste of trillions. Additionally, a further issue is going to rise, which concerns the value decrease of the basic income. There may be several states of America that are going to be benefited in terms of the trade industry facing small and expected real income losses.

Sectoral Effects

On a sectoral point of view, there are sectoral shifts that are expected either to rise or dramatically fall. The agricultural sector would face losses in certain countries whereas the economic downfall would have to be covered by the increase of the manufacturing production. It should be underlined, however, that in countries of high production both the agriculture as well as the

manufacturing production would meet a great fall. The reduction of trade would additionally lead to the reduction of the transport services. Hence, the major sectors of a country would most likely be reduced to minimum which would possibly lead to a possible bankruptcy of a state. The key factor that resulted in the decrease of the exports in the aforementioned sectors is based on the fact that the enormous increase of import tariffs would result in the reorientation of exports to domestic sales. Given the economic severity of such a situation, the increased rates of tariff protection, would cause the inefficient and non-effective allocation of specific resources that are necessary for the manufacturing industry.

Employment Effects

In accordance with the employment effects, it should be made clear that the sectoral and the employment effects are highly dependent on each other. If trade wars negatively affect the basic sectors of a country (e.g. agricultural, manufacturing, transporting etc.), these shocks would result in the reallocation of workers in the sectors mostly harmed, thus causing the decrease of the economic and trade status of a state. Private firms and businesses would be heavily affected as well, which would result in the reallocation of duties and working areas within such. The reallocation rates would rise and the lack of proficiency in the needed sectors will cause even higher economic harm.

In the current period of time, risking the global economy is not something that is dealt with easily, bearing the importance of the economy in mind. Trade wars are capable of harming the current international economic stability and tolerating the existence of such are, at some point, going to have tremendous effects on multiple factors of a society.

Sociopolitical Impact of Trade Wars

A further reason why the impact of trade wars should be mitigated, is mainly based on their social impact. As mentioned in the previous section, trade wars could potentially in extreme cases, have a huge impact on the life of people, due to the sectoral and the employment effects. The eventual destruction of the trade industry will finally lead to new economic depression that will definitely affect the civilians of countries all around the world. Nevertheless, trade wars can impact society on different fronts.

International Relations

It is certain that trade wars have been taking place between two or more nations that are aiming to damage each other's economy. Such tensions are worsening the relations between nations which are certainly preventing the implementation of a basic goal of the United Nations, namely fostering cooperation between nations. The attacks on the economy of the other state, which would at some point affect a country's population, could cause the rise of discriminatory behaviors and hatred against the other state. For example, in the situation of the USA-China trade war a general dislike is to be seen in the relations of the two trade-ruling nations. The tensions between the two states arose especially after the global pandemic of 2020, which originally would not have had such impact if their economic background was not negatively affected.

Social Disorder

On a more economic scope, the phenomenon of income inequality would become more visible within a nation, based on the slight decrease of the basic income and the rise of tariffs in certain areas of the society. A further issue, namely the issue of social disorder, would rise, mainly due to the difference of the economic status between civilians. This issue would result in further conflicts between societies, whether such are based on economic or social affairs. More specifically, the basic socio-economic of unemployment would definitely cause chaos in a state, by strengthening the existence of social disorder. It is documented throughout the history that unemployment causes a variety of social issues, such as the dysfunction of a variety of sectors (educational, healthcare etc.). As history has previously proven, economic difficulties and more specifically unemployment are the key elements that increase the crime percentages. This self-explanatory negative effect has previously appeared after the outbreak of a trade war. The Smoot–Hawley Tariff Act of 1930 took place exactly when the Great Depression of 1929 sprung, as mentioned in one of the previous sections of the study guide. This traumatizing period was characterized by illegality and acts of violence in order to survive.

Although the example above could be considered as excessive, it should be made clear that such incidents can easily occur again. In order to prevent this issue from taking place again, methods of limiting the impact of trade wars should be developed for the sake of worldwide peace and prosperity.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

United States of America

The United States of America is undoubtedly the state that has engaged the most than any other country in the development of global trade the past century. It has a long history of carrying out several trade wars and imposing trade-based tariffs on many countries.

The involvement of the United States of America in the trade industry stems from the Smoot–Hawley Tariff Act, where tariffs of 50% on every imported good that entered the borders of the United States was set, which of course led to the Great Depression.

In 1950, the United States got involved in an additional trade war, between itself and China, which resulted in the increase of the trade barriers that were later reduced by the General Agreement on Tariffs and Trade by 25%.

In 2018, the United States began a further trade war with China, when it imposed trade tariffs on chinese products, which was raised to 20% of every exported product. It later (2019) was raised to 25% on \$200bn on Chinese products. The ongoing trade conflict continued until the president of the USA met with the Chinese Vice Premier and signed a One Trade Deal (15 January 2020) that put an end to the trade war, which could be the only measure the USA has taken to mitigate the impact of trade wars.

China

China's position in the history of the trade industry has shown some remarkable actions it has taken in order to rule the discussion of the global trade affairs.

However, none of its previous conflicts can be compared with the trade war that recently took place. After the escalation of the conflict by the Trump Administration, China started imposing the same tariffs on the USA's imports, which resulted in an economical issue in the USA. Nevertheless, as time went by, it seemed like China wished to put an end in the conflict, taking into consideration that it reduced the imposition of tariff on the USA's imports. At this point, it should be made clear that if China decided to impose such extreme tariffs on its exports to other countries, the international trade would collapse, bearing the power China holds in the trade industry in mind.

Exactly as mentioned in the attempts of the USA to tackle the issue, China shows little involvement in mitigating the impact of trade wars other than the aforementioned occasion.

European Union

The European Union (EU) has held a neutral position to the issue of trade wars, since its involvement in the past century has not been considered as critical. In fact, the

EU has developed several trade defense instruments in order to prevent the escalation of trade conflicts between the alliance itself with other major trade parties. It is certain that all members of the EU have been members of the World Trade Organization, whose main goal is to ensure a trade system that is on a sufficient legal background. Furthermore, the EU has established legislations and has drafted a really promising trade policy that prevents the extreme imposition of trade tariffs on certain imported goods.

World Trade Organization

As previously mentioned, one of the main goals of the World Trade Organization (WTO) is to develop legislation on the trade system in order to provide the global trade industry with a fair and lawful system. Although the WTO has put legal grounds on the issue, such have definitely been considered as not sufficient. Additionally, the WTO has power to put an end to several minor trade conflicts between nations and has already proven its worth several times in the past (2002 US steel tariffs).

TIMELINE OF EVENTS

DATE	DESCRIPTION OF EVENT
1839-1860	The Opium Wars were the first trade war to be documented after the Industrial Revolution
1929	The outburst of the Great Depression led to severe damage of the international trade and economy
1930	Smoot–Hawley Tariff Act accelerated and worsened the impact of the Great Depression due to the imposition of tariffs
30 October 1947	The General Agreement on Tariffs and Trade (GATT) , was the first agreement after the foundation of the UN that set specific regulations on the imposition of trade tariffs

January 1995	The General Agreement on Trade and Services (GATS) greatly impacted the international trade due to its extension to further service sectors
12 December 2001	United Nations Convention on the Assignment of Receivables in International Trade 56/81 is an important convention since it promotes trade activities between nations
5 March 2002	USA steel tariffs is a basic trade war since it proved on which levels trade wars can affect the GDP of a state
11 September 2009	USA trade tariffs on tires have dramatically seriously affected the international trade industry
1 March 2018	The USA trade tariffs on aluminium products caused international discussion upon the issue and created tensions between nations (Mexico, Canada etc.)
6 July 2018-15 January 2020	The US-China Trade War is the most recent example of a trade war which engaged in many different sectors of modern society (social, technological, economic etc.)

RELEVANT UN RESOLUTIONS, TREATIES AND EVENTS

General Agreement on Trade and Services (GATS), 1995

The General Agreement on Trade and Services (GATS) is a treaty proposed and submitted by the World Trade Organization. The main purpose of the treaty was to extend the trading system to further sectors such as the service sector.

United Nations Convention on the Assignment of Receivables in International Trade, 12 December 2001, 56/81

The goal of this convention is to promote the movement of products and services across nations through the increase of lower-cost credit. This convention sets a legal background on the trade industry, which is an important factor that needs to exist. The

law elaborated on this convention applies to conflicts of priority among competing parties, which actually determines the development of such issues.

The General Agreement on Tariffs and Trade (GATT), 30 October 1947

The General Agreement on Tariffs and Trade is a legal agreement signed and ratified by over 20 member states. It promoted international trade actions and movements, by limiting the impact or completely eliminating trade barriers between nations, which includes tariffs or quotas.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Non-Governmental Organizations (NGOs) such as the WTO (World Trade Organization) are aware of the consequences that can occur when a trade war outbursts. Such organizations devoted much time regarding the possible effects that could take place, without however proposing any way of dealing with this crucial issue. Nevertheless, WTO has several times de-escalated trade wars or imposed tariffs (e.g. 2002 USA steel tariffs). WTO has developed legislation on the issue that has however shown no extreme result to the mitigation or even termination of trade wars and similar activities. The World Economic Forum has been an additional organ that has engaged in the severity of this issue, acknowledging the importance of the situation. Nevertheless, no concrete actions by the United Nations or by any specific state have been made, in order to tackle this phenomenon.

POSSIBLE SOLUTIONS

Taking into consideration the complexity and the importance of the issue, there are different fields of combating it and mitigating its influence and effects.

Raising Awareness

Although raising awareness is an indirect way of tackling the issue, it is certain that it provides long term solutions to the mitigation of trade wars. It is surely important to clear out the negative impact trade wars have on the economic as well as social aspect of a nation, so as to fully comprehend the life-changing effects trade wars have. This way of raising awareness could be achieved through the publication of reports by

certain Non-Governmental Organizations focusing on the trade industry and economic affairs.

Improvement of supervision

To ensure that the imposition of tariffs and sanctions between states lose their broad impact to the state's economy, alliances such as the United Nations and the European Union should act as the observers and the mediators of the issue in order to monitor and limit as much as possible their influence.

Imposition of penalties

The imposition of penalties by the Security Council, such as the exclusion from international events, to states that do not follow the already existing legal background and impose extravagant tariffs that aim to completely damage both the economy and the trade industry of the targeted state. These penalties will be based on the breach or violation of the international law and more specifically the breach of the GATS (General Agreement on Trade in Services) and any further piece of international law that will be drafted in the future.

Creation of rules to the imposition of trade tariffs

The international trade community should suggest the creation and submission of rules that are agreed upon unanimously in order to set specific criteria, which are making sure that the amount of the imposed trade-based tariffs and generally the impact of trade wars is mitigated.

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