

**Committee:** Group of 20 (G20)

**Issue:** The Question of Protectionist Policies and Trade Wars

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**Position:** President

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## **PERSONAL INTRODUCTION**

Dear delegates,

My name is Kally Glentze and I am currently attending 12th grade in Campion School, Athens. DSTMUN will be my 11th conference and my 4th time chairing. I look forward to be given the chance to help you all as well as hear your perspective upon the topics of this committee.

Primarily, I wish to congratulate you on your participation and interest in this year's DSTMUN. I believe that it is important for people our age to be aware of worldwide issues whilst collaborating in order to find liable solutions. The purpose of this study guide is to guide you into understanding the question of protectionist policies and trade wars. I would like all of you to read this prior to the conference and use this as an initial stage in your preparation to find solutions. Therefore, by any means this study guide should not be your only research.

The topic of protectionist policies and trade wars is one of high importance as it never settles. Keeping this in mind, it is necessary for you to know your country's policy and stance upon the issue. With all the necessary input from both the chairs and you both prior and during the conference I can guarantee that the conference will run smoothly during the three days and that we will have a wonderful time. I look forward to meeting you all and I hope for a fruitful debate ahead! If you have any questions, concerning either the topic, your country's stance or the rules of procedure please to not hesitate to contact me through email, [kglentze@campion.edu.gr](mailto:kglentze@campion.edu.gr). However, I do encourage additional personal research before the conference! I wish you all good luck and anticipate DSTMUN 2nd conference.

Kind regards,

Kally Glentze

## TOPIC INTRODUCTION

In order to understand the importance and relativeness of trade wars and protections policies it is important to look at the international situation before 60 years. Back then, the phenomenon of free trade was quite rare i.e. countries were unable to import and export at ease. So, consumers in countries such as Greece would not be offered the choice of buying products and goods such as Italian pasta, crude oil, cars and computers. However, countries began to enforce free trade agreements, which allowed for goods to be both imported and exported with no tariffs.

Trade wars initiate when the trade market makes it difficult for local companies, firms and manufacturers to compete with the imported goods. This leads to a certain amount of unemployment; depending on the severity. Therefore, the imposition of duties and tariffs on imported goods takes place. As a result, the countries which would import their goods find it difficult to pay for the increased costs, thus there is a decrease in quantity supplied. If the imports were to continue, the price of the product would increase substantially as the costs of the tariffs are added, thus decreasing quantity demanded due to the constraints of price. Simultaneously, the local firms find an opportunity for their products to sell as quantity demand increases and so does the quantity supplied. Due to production increasing inside the country, unemployment also decreases.

Trade wars derive from the intention of countries to protect their domestic firms and promote their domestic economy. This will promote internal businesses as their costs will be much less than imported goods as they do not have the additional costs of tariffs. However, this has two effects for consumers. Some consumers will be pleased with this as the prices for domestic products will remain the same. However, those who tend to consume imported products will have difficulty as a larger amount of their income will be allocated for these products which will be bought at higher prices than before. This will lead to a discouragement for the consumers to continue purchasing imported products.

Through the imposition of tariffs, other countries are less likely to continue exporting their goods which reduces the competition aspect of domestic firms. Companies can in this way raise prices as they do not need to fear being outcompeted by foreign companies with lower prices. This will again lead to a greater amount of an individual's income spent on ordinary goods which may lead to a greater amount of saving by consumers as they fear the future outcome. As money is saved rather than spent, problems in the country's economy may be caused.

Finally, trade wars result in country's relations and alliances to tear apart. This could lead to the repetition of historical events and larger social issues amongst

the countries which can lead to an economic war amongst them. Also, as there are larger production costs due to the absence of raw materials and the inability to import goods, further social problems may arise.

## **DEFINITION OF KEY TERMS**

### **Trade protection**

Government intervention in international trade through the imposition of trade restrictions (or barriers) to prevent the free entry of imports into a country and protect the domestic economy from foreign competition.

### **Protectionist policies**

This refers to policies which are imposed in order to protect domestic products, industries or firms through the imposition of tariffs or subsidies.

### **Trade wars**

A trade war occurs when an individual country or countries retaliate each other through the imposition of tariffs or through the placement of restrictions in relation to another country's imports.

### **Subsidies**

Subsidies refer to payment by the government to firms in order to lower costs and prices, thus increasing supply. This is an action taken usually results in greater consumer and producer surplus as more will be consumed by consumers therefore produced by producers. However, the government will have to spend more of government spending which is bad for the society.

### **Tariffs**

Tariffs are taxes imposed on imported goods; they are the most frequent form of trade restriction. Tariffs may serve two purposes: to protect a domestic industry from foreign competition (a protective tariff); or to raise revenue for the government (a revenue tariff).

### **Standardization**

This is a process of creating standards to guide the creation of a good or service based not on the consensus of all the relevant parties in the industry. These 'standards' ensure that goods or services produced in a specific industry are consistent in quality and equivalent in other comparable products or services in the

same industry. This helps ensure safety, interoperability and compatibility of goods in a market.

### **Retaliation**

This is the action of which one country suffers from the consequences of tariffs from another country and chooses to 'retaliate' by also adding a certain tariff or quota.

### **Free trade**

Free trade eliminates tariffs and quotas between trading partners ensuring no restrictions of trading between countries.

### **Trade deficits**

This is when the costs of a country's imports is greater than the value of the same country's exports. Therefore, costs are larger than revenue which causes issues in the government and society.

### **Monetary policy**

This is a macroeconomic term which has direct control from central banks. This control is a result of the change in money supply which influences the interest rates. Monetary policies are demand-side policies which is undertaken by the central bank in order to manipulate the AD [aggregate demand (total demand)] to achieve price stability and low unemployment.

## **BACKGROUND INFORMATION**

### **Impact of trade wars in the past (the Great Depression and the 1930s)**

The Great Depression was a severe economic fall worldwide which lasted for 10 years. During the Great Depression the Smoot-Hawley Tariff Act was a policy implemented by president Hoover. This was a way which was thought to help the unemployment levels of the workers in agriculture which at the time were struggling. As the farmers were struggling; thousands of them were bankrupt. The tariffs imposed drifted from the main focus of helping the agricultural products and instead covered other goods.

At the time there was a tariff surplus as the exports were more than the imports; thus the revenue was greater than the expenditures. However, the tariffs did not have a positive effect on the US as their trade partners were not exporting as many goods to the USA as they imported a small amount and exported at higher

prices. As a result there was a retaliation of tariffs imposed. The exports of the USA then fell by 40% as a result of the retaliatory tariffs and the imports also fell by 40%. There were problems for both the internal industries and the country's relations with other countries.

President Hoover's act of imposing the Smoot-Hawley Tariff did not cause the Great Depression but did worsen it economically. At the time, if the Tariff Act was correctly imposed the country would have maintained its social relations and also reduced unemployment rather than rising it which is seen through the figures of a loss of 40% of their exports.

### **Impact of trade wars in present times (iPhones)**

Apple devices specifically iPhones are one of the most well-known products sold worldwide. The company itself is associated with the US however, the products are manufactured in China. This is due to China having lower producing costs which makes it easier for Apple. If the same money was invested in the manufacturing of Apple products, in China more would be made and in the US there would be less made due to higher production costs. These products are then exported to and from America and China. The US benefits as they make a large amount of profit due despite the low production costs, the products are sold at a higher price. China also benefits as their unemployment rate is at minimum as a large amount of workers are needed for the manufacturing of Apple products. Both countries however, suffer from either unemployment or loss of profit.

However, this would only be possible through free trade which is not currently the case anymore. The US has imposed tariffs on Chinese products which are worth US\$250 billion. If China retaliates figures show that there will be an additional US\$250 billion.

Figure 1.0 values of tariffs set from the US China however chose to retaliate with a total sum of tariffs of US\$110 billion. This does not allow for free trade between the countries which harms both Apple company and also Huawei, a famous Chinese phone company. Figure 1.0 represents the figures dated at 2018 however the situation has worsened from both parties. President Donald Trump has decided to ban the ability of any US company get in business with Huawei without direct government approval. The company was officially added to the U.S. Government's entity list on May 16, 2019.

This has caused large political issues through the inability of Huawei to excel as a company as well as sell and trade with the US. Through this China has also chosen to retaliate with tariffs. Also, there is a large social frown upon purchasing Apple products in China as a retaliation on the ban of Huawei products in America.

This will cause both negative effects for primarily the companies themselves, the relations amongst the countries and ultimately towards the consumers which tend to pay for the conflicts amongst countries. Many Apple users in China have chosen to invest in Huawei products instead in order to support the company as result of the US's actions.

### MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

#### United States of America (USA)

The United States of America has a long history of protectionist policies, however, in the light of globalization, under the administration of Theodore Roosevelt onwards, the USA has become a major party in International Trade. They are part of the World Trade Organization and have various bilateral, and free trade arrangements. However, under the current administration of President Donald Trump, who wishes to impose further tariffs, USA's policies might shift towards protectionism. Though not having changed protectionist policies, he has taken measures such as withdrawing from the Trans-Pacific Partnership which had the goal of protecting the US's economy which could be interpreted as protectionist.

#### China

China is a strong proponent of free trade, being a nation that widely profits from exporting goods of low cost to other countries. China currently has 13 Free trade arrangements and many more other bilateral agreements. In response to the USA's movement towards protectionism, China might also change their policies.

#### United Kingdom (UK)

The UK, having been part of the EU, enjoyed free trade and a single market in which they could trade without barriers such as protectionism. With the recent "Brexit", Britain may have to withdraw from the single market, and their policies on protectionism might change. The UK is currently the worst performer of the Group of 7 and is experiencing inflation and a drop in the value of the pound as a direct result of Brexit. The UK might change its protectionism policies to defend its economy.

#### European Union (EU)

The EU is currently the world's largest trader and accounts for 20% of the world's trade. The EU is a single market which holds free trade as one of its principles, allowing member states to profit from free trade. The EU is a firm believer that trade can be used to develop less economically developed countries economies through allowing lower tariffs to support small businesses and create jobs. Despite

this, the EU still has substantially high agricultural tariffs, which is especially damaging towards less economically developed countries as agriculture is generally their largest export.

### World Trade Organization (WTO)

The WTO acts as a forum where trade disputes can be solved and free trade arrangements can be supervised. The WTO sets ground rules and guild lines for international trade and aims to liberalize trade, encouraging free trade arrangements.

### TIMELINE OF EVENTS

Date	Description of event
March 1, 2018	Trump announced steel and aluminum tariffs on imports from all countries.
June 1, 2018	The United States moves forward with 25 percent tariffs on steel and 10 percent on aluminum for the European Union, Canada, and Mexico by ending their previously granted exemptions.
June 22, 2018	The European Union activates its previous tariff threat on the United States
July 6, 2018	US tariffs on \$34 billion of Chinese imports go into effect. In parallel with President Trump's tariffs, China's tariffs on another \$34 billion of US imports also go into effect.
September 24, 2018	US tariffs on \$200 billion of Chinese imports take effect, along with retaliatory tariffs by China on \$60 billion of US imports.
September 30, 2018	The North American Free Trade Agreement (NAFTA) is renegotiated. The new deal, called the United States-Mexico-Canada Agreement, will not go into effect before 2020.
December 1, 2018	After the G20 meeting in Buenos Aires, Presidents Trump and Xi announce a deal to halt the escalation of tariffs while they negotiate over trade concerns.
June 29, 2019	At the G20 meeting in Osaka, the United States and China formally agree to

	restart trade talks after concessions from both sides.
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## RELEVANT RESOLUTIONS, TREATIES AND EVENTS

### The Smoot-Hawley Act of 1930

The Smoot-Hawley Act of 1930 led to the increase of an average of 40 to 48 percent to 900 import tariffs. It has been said to have led not only to the worsening of the Great Depression but also as a contributor to the beginning of the Second World War. As a way to support US farmers that had found difficult times in the Great Depression, the Smoot-Hawley Act raised tariffs that were already high on foreign agricultural imports. However, this only led to the increase of food prices which made countries retaliate by adding their own tariffs therefore creating a decrease on global trade by 65%. As a result of this act, world leaders now advocate for free trade agreements that encourage increased trade for the participants.

The United States of America held many characteristics of a traditional economy before the devastating events of the Great Depression. As the world recovered from the First World War, food prices increased dramatically which created problems for American farmers (As farmers made up approximately 25 percent of Americans). Speculations for farmland not only put thousands of farmers in debt but also led to some losing their land as they faced competition from cheaper imports. Therefore Congress chose to raise farm tariffs to the same level as tariffs on manufactures goods were proposed by the bill. However newspapers, economists and business leaders completely opposed the bill as it would act as a barrier between the US and international trade and lead to future price increases. However, before anything could be decided on the bill the Wall Street Crash happened in October in 1929.

Following the crash of the stock market, tariffs forced import prices up 45% as millions of Americans had lost everything. Soon, imports became accessible to only the wealthy and those who were recently unemployed could only afford basic domestic goods.

How would this connect to today's economy? President Donald Trump mentioned in his campaign for the return of trade protectionism in order to increase jobs for Americans. Following his election, the USA was withdrawn from the Trans-Pacific Partnership and plans to renegotiate the North American Free Trade Agreement between the USA, Mexico and Canada. After announcing a 25 percent tariff on steel, the EU, Japan and China retaliated with their own measures. Protectionism would only hurt the American economy now as US exports, such as



oil, commercial aircrafts, food and automobiles, would suffer if a trade war were to happen.

### **The Maastricht Treaty of 1992**

The Maastricht Treaty is formally known as the Treaty of the European Union and is also responsible for the creation of the European Union as a result of the international agreement. Since the primer agreement of the European Union there have been various amendments by various treaties. For this to happen the Maastricht Treaty was signed on February 7th, 1992. The 12 member nations which signed it were Belgium, Italy, Luxembourg, France, Netherlands, West Germany, Denmark, Ireland, United Kingdom, Greece, Portugal and Spain.

Citizenship is the classification of individuals being citizens of not only their country but also an EU citizen. This was one of the major areas of impact as a result of the Maastricht Treaty. This enabled people to run for local office and for European Parliament elections in the EU country which they lived in. As well as joined countries in the European Union together to act as one economic unit in the world economy.

The European Union is currently known to share one central banking system [European Central Bank (EU)] as well as share the common currency of euros. Euros came about as a currency through the initial desire of free movement of capital amongst the various countries which were part of the EU. The national central banks began to have an increase in co-operation until there was the formation of the central banking system and the introduction of the Euros. The formation of ECB employed monetary policy. This explains as to why countries whom wished to join the euro had to have a stable amount in inflation, public debt, interest rates and exchange rates.

### **PREVIOUS ATTEMPTS TO SOLVE THE ISSUE**

The issue of protectionism in international trade is a widely discussed topic with many variables and pros and cons to consider. Many treaties and agreements have come into effect which aim to improve free trade and limit protectionist policies. However, it is nearly impossible to evaluate their effectiveness as there are so many variables to consider and no single attempt can be proven definitively to have improved free trade.

One can confirm that there are examples of free trade such as the European Single market that have proven to be effective in stimulating the global market and developing economies. Measures to combat high tariffs of individual countries have

been put in place and there are certain ground rules as established by the WTO, however, there is still an issue with protectionism. There are no concrete measures in place to prevent a protectionist “arms race”, and with Donald Trump as the president of USA, who has repeatedly expressed his desire for an increase in tariffs and protectionist policies, this might be a rising threat to the global market.

## POSSIBLE SOLUTIONS

In order to deduce possible solutions it is important to understand the issue. Protectionist policies and trade wars are a large economic and political issue which influences consumers and producers all around the world. Ideally, the world would have free trade and there would be no issue amongst nations for situations such as these. However, these are real life issues which need to be solved.

Organizations such as the World Trade Organization have various functions and objectives which promote trade liberalization. Trade liberalization is a term which refers to the removal of trade restrictions between countries. Through these organizations there are certain trading rules set which all member countries must follow. This is important as there is no option for a certain nation to impose taxes which are much higher than others. Thus allowing for a stable economy on both a domestic and an international level. Also disputes such as those on the Banana Wars are settled without a large harm such as the effects of the Great Depression.

Formation of various unions is also a plausible solution as there are many benefits to formations of unions such as the European Union. The European Union shares a common currency of Euros. This not only makes trades easier, the exchange rates are not an issue. It is also establish that there are some set and agreed upon outlines, legislations and rules which should be followed. This can be done by the G20 itself in order to establish how trade disputes can be avoided. As well as how behaviors, attitudes and actions play a large role in the outcome of a country’s trade situation.

Another vibrant issue is that governments tend to have various distrust issues amongst them and therefore the G20 could also serve as an international platform where the governments are promoted to build trust amongst themselves. This should be tackled directly but also indirectly. For example, through the controlling of external factors such as corruption and bribery as these two are aspects which negatively affect free trade as alliances amongst countries are ruined. Therefore the ultimate goal of G20 be a common market on a worldwide basis. So that the barriers which the current “international free trade” has, be resolved and ultimately unify.

As aforementioned, a monetary policy system could also be a solution as there would be surveillance and therefore governments do not feel as if there is

someone competing with them or only functioning for personal benefit. However, a major issue which is not generally thought of is the issue of governments being unaware of the actual issues which protectionist policies, for example, may affect the government and their country. Therefore, it is important to keep governments informed of the positives and negatives which protectionist policies obtain. This could prevent negative outcomes in both a local scale but also a world-wide scale. Finally, it is important for further reports to be accessible to governments of economic developments which have occurred in the past in order to prevent the same mistakes in the present and future world! This could also help ensure that countries are keeping personal track of their whereabouts in the economic world.

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