Issue: Addressing the effects of trade protectionism
Forum: General Assembly 2
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Introduction

Trade protectionism is the practice of limiting the imports of goods in order to protect domestic businesses and producers of such goods against international competition. Most countries participating in international trade also make use of some form of protectionist practices such as tariffs (World Bank, 2019) or import quotas. More excessive amounts of protectionism are more likely to be utilized by (neo)mercantilist states.

Definition of Key Terms

Tariff: The taxation of imported goods. Tariffs can vary based on the source country, and on different products. For a list of global average tariff percentages, see the World Bank tariff indicator.
Import quota: A physical limit set on the import of a certain good, often also specified to which source the quota applies, or which sources are exempted. For reference see the recent American-Chinese trade dispute (Patton, 2018; Reid, 2018).
Mercantilism: Economic policy with the purpose of minimizing imports whilst maximizing exports, often achieved through government intervention of an economy. Mercantilist states have a strong focus on manufacturing and seek to manufacture as much of their own - and imported - raw materials as possible, whilst importing as little as possible finished goods. Other signature policies of (neo-)mercantilism are the strong protection of domestic wealth circulation, that nothing is imported which can be produced domestically, and a large working population related to manufacturing or trade.
Infant industry: An emerging industry or business within a country or economy. Protectionism is often used to protect infant industries because they cannot compete with international competitors in their early phases. In order to prevent infant industries from collapsing before coming to fruition, a government may use protectionism to discourage the import of goods from competitors to the national sector.
Dumping: Dumping is a practice sometimes utilized by protectionist economies in order to create an unfair, or at least more competitive, environment in the international market. There are several types of dumping which a country could employ, each with respect to a different field of an economy. According to the rules of the WTO, dumping is allowed as long as it does not cause material harm to the importing country.
Environmental Dumping: (Not to be confused with the physical act of dumping waste) A country with more lenient environmental protection laws may be more favorable for companies employing harmful production methods.
Social Dumping: Low societal norms or weak protective legislation may provide a cheaper, less demanding, workforce for companies willing to exploit such opportunities. Consider

child labor in India (Lieten, 2004) or the general working conditions in China (Chan, 2016) as examples of social dumping.

Monetary Dumping: Perhaps one of the more complicated dumping strategies and the origin of the term "dumping" involves the intentional dumping of a local currency to forcibly lower its relative value to other currencies. By having a cheaper currency, it may become more expensive to import from other markets, and cheaper for other markets to import your products. For some more complex economic theory on this subject, you could read up on the Marshall-Lerner Condition (Wikipedia; Rose, 1991).

Tax Dumping: By lowering taxes for companies and persons, internationally operating companies may prefer this tax climate and move their (tax-paying) headquarters to the more favorable climate. Although lower taxes generally reduce tax revenue, having a positive influx of tax paying companies moving into a country can cause a net increase of tax revenue. Countries that use tax dumping to attract businesses are often referred to as

Tax Havens: Tax havens have varying definitions depending on which methods used to determine what makes one a tax haven. For example, in a 2006 study by F. Weyzig and M. van Dijk the Netherlands was definitively defined a tax haven, but a 1994 study done by J. Hines Jr. and E. Rice concluded it not to be one.

Trade Deficit: A country's exports generate less wealth than their imports cost, forming a negative balance. A trade deficit causes an economy to "lose" wealth to other economies, which can in some cases be bad.

Trade Surplus: The opposite of a trade deficit, when a country receives more money through exports than it spends on imports. Mercantilist states often rely on trade surpluses to fund their economic strategy.

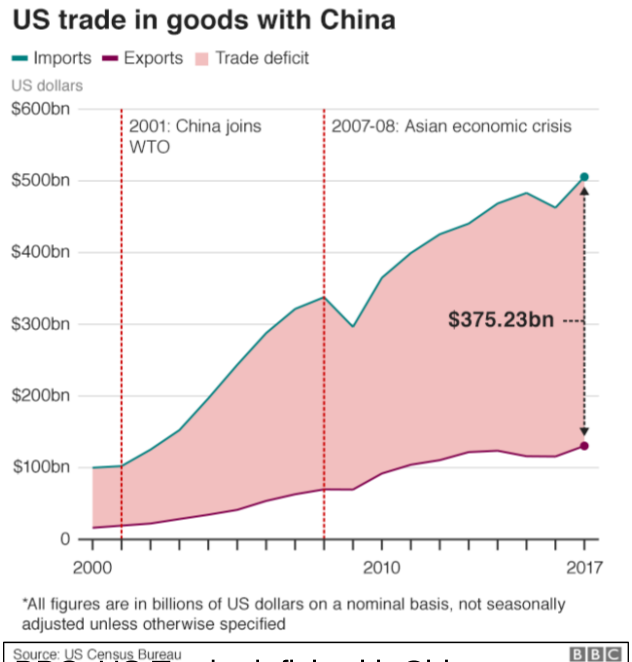
World Trade Organization (WTO): A major intergovernmental organization tasked with mediating disputes and forming agreements on international trade. The two primary functions of the WTO are oversight in the implementation of agreements, and the presence of a forum to settle trade disputes. In general, the WTO works to prevent "unfair" measures such as targeted tariffs, so that world trade can be "free" between all member states. Not all states are members of the WTO, as some are only allowed as *observer states* and others are not any part of the WTO. There seems to be a consensus that the WTO is beneficial to international trade and wealth (Goldstein, 2007; Tomz, 2007; Nicita, 2013)

LEDC: Less Economically Developed Country

General Overview

International trade has been the source of countless economic theories as to how such trade can be utilized most efficiently. Although the usage of protectionism has political motivation, and therefore relies on opinion, there is some degree of scientific consensus on the effects of protectionist measures. Although exceptions exist for all the following principles, and practice does not always follow the theory, protectionism is generally counterproductive for economic growth (Fairbrother, 2014; Mankiw, 2015) in the long term, and often also on a shorter timescale. There is no debate that the global economy suffers from protectionist strategies employed by major economic players, but it may have positive effect for an individual economy.

A good example of a heavily governed, protectionist, economy is China's. Although many economic models expected a market such as China's to fail, it actually sustained the largest economic surge in recorded history (World Bank, 2018), contrary to predictions and commonly held beliefs (Allen, 2005). Whether China is an outlier by chance, or the effects of the protectionist strategy are only just starting to wear off is not yet clear, but China's success does formulate a powerful argument in favor of protectionism.



BBC: US Trade deficit with China.

More argumentation in favor of protectionism can be found in the failing of the Ottoman Empire's free economy in the early 19th century. It was the overpowering competition of this era that prevented the Ottomans to grow into an economic superpower (Lewis, 1958), and as the Ottoman model of free trade did not protect domestic over international commerce, their economy swiftly tanked.

Evidently, there is more nuance to the issue rather than protectionism being evil, international free trade being economic perfection. Only by attempting to understand the effects, costs, and advantages of certain protectionist policies, can we adapt our economies and propose international agreements to protect our economies from harm.

Protectionist practices, no matter how beneficial to domestic economy, often have a negative impact on the economies with which one trades. Protectionism is therefore often frowned upon in the international community, or even faced with retaliation (Remember the American-Chinese trade dispute mentioned earlier, which was started by US President Donald Trump raising tariffs because of their trade deficit with China, followed by Chinese tariffs against the United States being raised in retaliation (Patton, 2018; Reid, 2018)).

By raising import tariffs consumers will have to pay more for imported goods, supposedly incentivizing the purchase of local products. Tariffs can therefore protect a domestic business from international competition (Comolet, 2010), which can be especially helpful for infant industry. However, if there is not enough domestic production to satisfy demand, an economy can *overdiversify*, which prevents the specialization necessary for modern economies to function (Jungmittag, 2004). Think of how it would be inefficient for a country to produce every product they need themselves, without importing anything.

Free markets are however prone to *overspecialize*, where they may be leaders in certain industries, but lack a diverse enough economy to handle modernization or other changes in demand (Comolet, 2010). As with most economic topics, a balance must be found between diversity and specialization, as too much of either has a negative impact (Comolet, 2010).

Import quotas are a product-specific method of limiting imports quantity. Import quotas are occasionally implemented in conjunction with international treaties, for example to set a goal for a certain amount of imports from a certain country. The United States allows up to 418.214 tons of beef to be imported from Australia each year, with no import tariff on this beef. There is a quota set at 64.705 tons of beef from all non-specified sources, with a tariff of 4.4 cents/kg of beef imported (USDA, 2016). Although these numbers may appear quite unimportant, burger manufacturers in the United States saved a total of 18 million USD in taxes by importing from Australia instead of for example France.

U.S. Tariff Rate Quotas and Imports of Beef in 2015

Country	U.S. Imports[1]		Tariff-rate Quota	Quota Fill-Rate	Rate of Duty	
	Tons	*Million US*	*Tons*		*In-Quota*	*Above-Quota*
Canada	199,190	$1,102	Unlimited	N/A	0%	N/A
Mexico	136,104	$1,002	Unlimited	N/A	0%	N/A
TRQ countries						
Argentina	0	$0	20,000	0%	4.4 cents/kg	26.4%
Australia[2]	412,203	$2,469	418,214	99%	0%	21.1%
Japan	183	$15	200	92%	4.4 cents/kg	26.4%
New Zealand	209,768	$1,163	213,402	98%	4.4 cents/kg	26.4%
Uruguay	19,760	$238	20,000	99%	4.4 cents/kg	26.4%
Other[3]	44,362	$240	64,805	68%	4.4 cents/kg	26.4%
Total TRQs	**686,276**	**$6,227**	**736,621**	**93%**		

[1] Imports include fresh/chilled and frozen beef only. Prepared and processed products are not subject to TRQs. Volumes are published by Customs and Border Protection, value is published by U.S. Census Bureau.

[2] Australia's total TRQ includes a WTO quota of 378,214 plus an FTA quota of 40,000 tons. Excludes 4,000 tons at reduced tariff.

[3] Open to other countries that do not have a country-specific quota.

Sources: U.S. Customs and Border Protection; FAS Global Agricultural Trade System; U.S. International Trade Commission Harmonized Tariff Schedule 2015.

This money saved changes the purchasing behavior of American consumers, as Australian beef may be cheaper than French beef, and more Australian beef can be imported than French beef. If France were a major beef producer, they may find these quotas to be unfair, and retaliate by raising tariffs on McDonald's burgers.

Dumping practices are especially characteristic of a protectionist economy tax because they create massive relativistic differences between countries. The advantages of social, tax and environmental dumping are relatively straightforward, so I will not go into further detail on those topics. Monetary dumping does deserve some further explanation but is generally not significant enough to crack your brains over. If you'd like to learn more about the effects of monetary dumping, you may like to read more about the Marshall-Lerner Condition. The paper cited in this report by A. K. Rose gives an interesting modern insight. If you cannot access the paper and would like some further assistance, do not hesitate to contact me.

In the international community, protectionism is often tolerated among countries that are underdeveloped or still developing, because their industry cannot compete with multinationals. The WTO and UN can book serious progress in advancing the economic status of LEDCs by supporting regulation aiding these countries and their infant industries.

Major Parties Involved

USA, China: Specifically for the USA-China trade dispute, the United States and China are in an interesting position defining the future of international trade. If both nations implement further protectionist measures, other countries may follow suit.

European Union: The European Union already has threatened tariffs, quotas, and other measures against the United States during their last protectionist wave. If trade with the United States begins to deteriorate, they may look more towards to east to suit their trading needs.

India: As India's Prime Minister Narendra Modi condemned US protectionism in 2018, he launched further protectionist measures supporting Indian industry. Especially labour-intensive goods, such as car parts, were shielded from international competition by the February 2018 tariff changes.

China's industrial superpower often makes Chinese products cheaper than domestically manufactured products in India. India's new protectionism may prove effective at keeping Indian manufacturers afloat.

Timeline of Key Events

1879	Protectionism returns to Europe (Bairoch, 1998) by the raising of tariffs in Germany. In this period, the United States had up to 50% tariffs on manufactured goods, marking an incredibly mercantile economy, whereas Europe saw numbers closer to 10% (Bairoch, 1995; Bairoch, 1998).
1947	The General Agreement on Tariffs and Trade is formed with the goal to minimize protectionist practices such as tariffs and dumping. Although only ratified by 23 countries in the beginning, the GATT would have 123 members when it became mostly redundant in **1995**.
1995	The WTO is founded, starting at 124 member states at its beginning. In **2019** there are 164 active member states associated with the WTO.
2013	Russia takes the crown as the most Protectionist economy in the world (The Moscow Times, 2014).
2013	The *Bali Package* is signed by all members of the WTO in **2013**, with the purpose to minimize trade barriers, supporting LEDCs in making technological advancements facilitating trade, giving LEDCs duty-free quota-free market

	access, and boosting food trade in order to promote food security. Read the appendix on the Bali Package for more.
2017	India introduces their "Make in India" initiative in **2017**, encouraging the purchasing of India-made goods, and increasing tariffs on imports.
2017	US International Trade Commission recommends the raising of tariffs on solar panels and washing machines because imports are hurting domestic industry. Trump follows through on the recommendations in late January **2018**.
2018	The Chinese government either as retaliation, or by coincidence, launches an investigation in their imports of US Sorghum (a grain), valued at approximately $1 Billion annually. They raise tariffs on sorghum in the month of April in **2018**.
Late 2018	As China undoes their tariffs on sorghum during negotiations in May, both China and South Korea file WTO complaints against the (still active) tariffs on solar panels and washing machines (PIIE, 2019).

Please read the full timeline on the US Tariff wars here: https://piie.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide

Possible Solutions

Although most of the world's protectionism may be relatively harmless, it is definitely worth assessing what progress can still be made to open up trade barriers. In order to give LEDCs more footing to progress their economies, the WTO member states may wish to further expand the protectionist policy they are allowed to use. However, the risks of such strategy are not to be underestimated, and clear guidelines must be made about any such changes.

Further agreements surrounding the advancement of protectionism in more developed countries is becoming gradually more important, as countries such as Russia, China, and the United States have all proposed or passed more protectionist legislation. In order to prevent the end of global trade partnerships, or *trade wars* breaking out in full out *economic wars,* global participation is imperative.

Appendix

https://www.wto.org/english/thewto_e/minist_e/mc9_e/balipackage_e.htm

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