



Forum: Economic and Social Council

Issue: The Question of Protectionism originated by trade wars between nations

Student Officer: Lionel Yerbanga

Position: President

Introduction

You've probably noticed that most imported goods are cheaper than domestic goods. For the customer, it is a good thing, but from an economic perspective, it is a bad thing. For this reason some countries apply protectionism, to protect their domestic goods from international goods.

Definition of Key Terms

Trade war

A trade war is a side effect of extreme protectionism: states create trade barriers as a response to each other.

Protectionism

Protectionism is a policy to protect domestic goods from (unfair) competition from international ones in trade wars. The four primary tools of protectionism are tariffs, subsidies, quotas, and currency manipulation.

Tariff

This is a tax added to imported goods, which raises their price. Domestic goods are then more attractive for customers. It works best in countries with a lot of imports.

Subsidy

A subsidy comes in the form of tax or payments: the production costs are lowered by the government, and the sale price is also lowered. It is mostly used by countries with lots of export because the sale price remains low even after exporting.

Free trade agreement

An agreement to eliminate tariffs and quotas between trade partners: the largest FTA is the North American Free Trade Agreement between the USA, Canada, and Mexico.

General Overview

The Great Depression

The Great Depression was the worst economic downturn in the history of the industrialized world and lasted 10 years.

The stock market was expanding and reached a peak in August 1929. At that same time, the agricultural sector was struggling due to drought and fallen food prices. Banks had too large loans that couldn't be liquidated. In the summer, the American economy had a recession



because customers spent less. The factory production also slowed down as a reaction to this. Nonetheless, the stock prices continued rising very high.

Nervous investors sold their shares: 12,9 million shares have been sold on Black Thursday. It led to a stock market crash, which had been feared by many people. Consumer confidence dropped and factories and business took their precautions by reducing the costs by means such as slowing down the production and/or firing employees. Many citizens were forced to fall into debt. This situation had been spread a bit around the world, especially Europe. Those who still had enough money in their banks lost their trust in them and massively demanded cash deposits. This forced many banks to go into debts and led to the closing of thousands of banks in the United States.

The number of unemployed had risen a lot. Farmers could not afford anymore to harvest their crops, while other people starved because of this. The Dust Bowl, which is a severe drought in the High Plains and high wind from Texas to Nebraska, killed people, livestock and crops and forced many people to leave the farmlands to live in the cities for work purposes.

Hoover believed that the government shouldn't intervene in the economy, but Roosevelt did believe it. He had been elected, and the economy grew again during his presidency.

The Smoot-Hawley Tariff Act, an act of protectionism, had deepened the Great Depression in the 1930s. And however the Fordney-McCumber Tariff was started in 1922, this hasn't stopped the Great Depression to happen.

US-China trade war

Currently, there is a trade war ongoing between the United States of America and the People's Republic of China.

It started with Trump and his "America First" policy. He wants the world to prefer trading with America instead of China. One of his actions was imposing a tariff of 25% on imported steel and 10% on imported aluminum. China is the largest exporter of steel and the USA has the largest nominal GDP, so of course, China would feel that.

A month after announcing these tariffs, the USA announced new tariffs that target China specifically. China replied to this action and also imposed tariffs on American exports. And as a reaction to that, the United States asked for further tariffs on Chinese exports.

Consequences of protectionism

In the short term, protectionism works in the country where it is applied. However, in the long term, the country gets less competitive in international trade.

The United States, as well as China, belong to the top three of the largest economies in the world (measured by PPP). The trade war between these two has consequences for the whole world, especially Canada, Saudi Arabia, Taiwan, Costa Rica, Korea, Chile, Thailand and Japan. The supply chain is nowadays very complex, and a tariff on for example imported steel in the



USA could have a big impact elsewhere. This is why this trade war impacts many countries that don't seem to have any links with this.

The United States as a whole benefit from this trade war currently, but some states have it worse than others. Donald Trump sees the trade war from a businessman's perspective, which is not always optimal. The ongoing trade war slows down the growth of the global economy.

Major Parties Involved

United States of America

Currently, a big trade war is going on between the United States and China. The largest economy in the world by nominal GDP can influence the whole world with their protectionist acts.

China

China is the largest economy in the world by PPP. It is involved in a trade war with the United States and can just like the USA influence all the countries with their protectionist acts.

Canada

Canada is one of the 8 most-affected countries by the US-China trade war.

Saudi Arabia

Saudi Arabia is one of the 8 most-affected countries by the US-China trade war.

Taiwan

Taiwan is one of the 8 most-affected countries by the US-China trade war.

Costa Rica

Costa Rica is one of the 8 most-affected countries by the US-China trade war.

Korea

Korea is one of the 8 most-affected countries by the US-China trade war.

Chile

Chile is one of the 8 most-affected countries by the US-China trade war.

Thailand

Thailand is one of the 8 most-affected countries by the US-China trade war.

Japan

Japan is one of the 8 most-affected countries by the US-China trade war.

European Union

The European Union has established the Schengen Area, where a form of a free trade agreement is seen. It is an act of antiprotectionism. The EU has experience with this issue and is therefore involved.



Timeline of Events

1922	Fordney-McCumber Tariff
1929-1939	The Great Depression
1930s	Smoot-Hawley Tariff Act
1995	The Schengen Area is established
11 February 2013	First ideas about a Trans-Atlantic Trade and Investment Partnership
5 October 2015	The Trans-Pacific Partnership has been drafted
March 2018	US announces tariffs of 25% on steel and 10% on aluminum
April 2018	US targets China with their tariffs

Previous attempts to solve the issue

The Trans-Pacific Partnership was a proposed trade agreement between countries around the Pacific and the United States. It should have been the largest free trade agreement, covering 40% of the global economy. Unfortunately, the United States withdrew its signature, which is why the agreement could not enter into force. The remaining nations signed an alternative trade without a few clauses, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

The Trans-Atlantic Trade and Investment Partnership was the largest bilateral trade ever negotiated because it included the two largest economies in the world, namely the European Union and the United States of America. Together they represent 60% of global GDP. Trade barriers are low, but the T-TIP could have boosted overall trade. This agreement has not been signed by the United States.

The Schengen Area is a kind of free trade agreement and has solved this issue in most parts of Europe.

Possible solutions

Free trade agreements are the only way to solve the issue. But the United States of America has rejected two major agreements, the TPP and the T-TIP. It is unlikely that they will sign any agreement so large, that it could solve their trade war with China or solve a good part of the issue as a whole. The United States and China have such a big influence on the world, that solving the issue with them could solve the biggest part of the issue.

Useful documents

Two documents of the [United Nations Conference on Trade and Development \(UNCTAD\)](#) are useful for this topic:

1. [Chapter 1: International maritime trade and port traffic](#)
2. [Competition Policy and Public Procurement, China](#)



3. [Trade and Trade Diversion Effects of United States Tariffs on China](#)

Bibliography

- Amadeo, Kimberly. "Why Protectionism Feels So Good but Is So Wrong." The Balance, The Balance, 14 Dec. 2019, www.thebalance.com/what-is-trade-protectionism-3305896.
- Brett, David. "Schroders Global - Schroders." Which Countries Are Most at Risk from a Trade War? Five Questions Answered, www.schroders.com/en/insights/economics/which-countries-are-most-at-risk-from-a-trade-war-five-questions-answered/.
- Chen, James. "What Is a Trade War?" Investopedia, Investopedia, 18 Nov. 2019, www.investopedia.com/terms/t/trade-war.asp.
- "Great Depression History." History.com, A&E Television Networks, www.history.com/.amp/topics/great-depression/great-depression-history.
- "Schengen Area." Wikipedia, Wikimedia Foundation, 8 Jan. 2020, https://en.m.wikipedia.org/wiki/Schengen_Area.
- Top 10 Largest Steel Producing Countries in the World, 28 Aug. 2019, www.steel-technology.com/articles/top-largest-steel-producing-countries-in-the-world.
- "Transatlantic Trade and Investment Partnership (T-TIP)." United States Trade Representative, <https://ustr.gov/ttip>.
- Varblane, Urmas, and Mathias Juust. "Escalation of the China-US Trade War Could Lead to an Economic Crisis." ICDS, 22 Nov. 2019, <https://icds.ee/escalation-of-the-china-us-trade-war-could-lead-to-an-economic-crisis/>.
- "What Is the Trans-Pacific Partnership (TPP)?" Council on Foreign Relations, Council on Foreign Relations, www.cfr.org/background/what-trans-pacific-partnership-tpp.