



Forum: ECOSOC

Issue: The Rise of Protectionism and its Influence on the World Economy

Student Officers: Ksenia Shemyakina and Anastasia Vlasova

Introduction

Protectionism is the economic policy of restricting imports from other countries through methods such as tariffs on imported goods, import quotas, and a variety of other government regulations. It is believed that protectionism has a negative effect on countries economy, while free trade and reducing trade barriers is leading to economic growth. In fact, protectionism can be used by countries with negative balance of trade, depressions (or recessions) by reducing imports, increase exports by developing more profitable and competitive industries and protect domestic industries from imports that will hinder their growth in order to improve country's trade balance. Talking about downsides, it must be mentioned that in the long term, trade protectionism weakens the industry as without competition, companies within the industry have no need to innovate. Eventually, the domestic product will decline in quality and be more expensive than what foreign competitors produce.

Definition of key terms

Protectionism – an economic policy aimed at restricting imports of foreign goods into a country in order to stimulate and support domestic industry.

Negative balance of trade – economic situation when a country's import of goods is bigger than its export.

Depression – a long and severe recession in an economy or market.

Recession – a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

Beggar-thy-neighbour – an economic policy through which one country attempts to remedy its economic problems by means that tend to worsen the economic problems of other countries.

Background information

Historically, protectionism was associated with economic theories such as mercantilism (which is focused on achieving positive trade balance and accumulating gold), and import substitution. Throughout history wars and economic depressions (or recessions) have led to increases in protectionism, while peace and prosperity have tended to encourage free trade. The European monarchies favored protectionist policies in the 17th and 18th centuries in an attempt to increase trade and build their domestic economies at the expense of other nations.

However, most of economists agree that protectionism has negative impact on economy and results in deadweight loss, unlike in a free market. Trade protectionism has certain long and short-term effects on a nation's macro-economy and often the global economy: market distortion and loss of allocative efficiency; higher prices for consumers. Tariffs push up the prices for consumers and insulate inefficient sectors from genuine competition. They penalize foreign producers and encourage an inefficient allocation of resources both domestically and globally. It may also lead to reduction in market access for producers: export subsidies depress world prices and damage output, profits, investment and jobs in many lower-income developing countries that rely on exporting primary and manufactured goods for their growth. Protectionism can be an ineffective and costly means of sustaining jobs.

However, there are some important advantages if a country is trying to grow strong in a new industry, tariffs will protect it from foreign competitors. That gives the new industry's companies time to develop their own competitive advantages. Protectionism also temporarily creates jobs for domestic workers. The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally. This benefit ends once other countries retaliate by erecting their own protectionism. As was mentioned above, protectionism should be used if country's economy is in a recession.

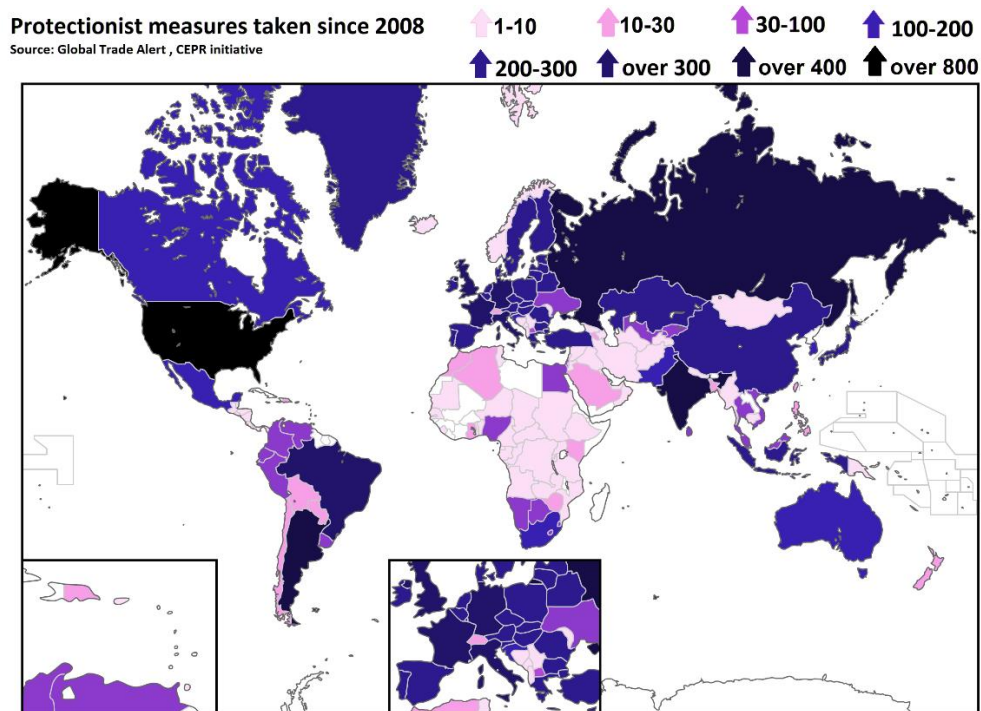
Major countries and organizations involved

The United States had a long story as a protectionist country, with its tariffs reaching their high points in the 1820s and during the Great Depression. Under the Smoot-Hawley Tariff Act (1930), the average tariff on imported goods was raised by roughly 20 percent.

The Great Britain began to abandon its protective tariffs in the first half of the 19th century after it had achieved industrial preeminence in Europe. Britain's spurning of protectionism in favor of free trade was symbolized by its repeal in 1846 of the Corn Laws and other duties on imported grain.

It was the damage and dislocation caused by World War I that inspired a continual raising of customs barriers in Europe in the 1920s.

Talking about current situation, the world's top 60 economies have adopted more than 7,000 protectionist trade measures on a net basis since the financial crisis and tariffs are now worth more than \$400 billion, a study of global data showed.



Talking about organizations involved, WTO (World Trade Organization), World Bank and National Banks must be mentioned.

Relevant treaties and UN resolutions

A/RES/33/196 – «Protectionism»

A document, which was adopted by UN in 1979. It disseminates the importance of free trade and largely directed to improve economy of developing countries. It suggests eliminating all forms of protectionist practices against the export of these states and other measures.

General Agreement on Tariffs and Trade (GATT)

A multilateral treaty, which was signed in 1947. It is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. The main purpose of the document, according to preamble, was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP11 or TPP-11

A trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. It was entered into force on 30 December 2018. TPP11 is a replacement of Trans-Pacific Partnership (TPP), which was not ratified as required and did not take effect.

Previous attempts to solve the issue

Heads of the G20 meeting in London on 2 April 2009 pledged "We will not repeat the historic mistakes of protectionism of previous eras". The Global Trade Alert, providing up-to-date information and informed commentary to help ensure that the G20 pledge is met by maintaining confidence in the world trading system, deterring beggar-thy's-neighbor acts, and preserving the contribution that exports could play in the future recovery of the world economy, monitors adherence to this pledge.

Possible solutions

The solution to this issue is covered in diplomatic discussions between states as if one leading country pursues a mercantilist trade policy in defiance of the global trading system, other countries are bound to follow. That will defiantly destabilize and damage world economy, making all states suffer. Besides, it may lead to collapse of the WTO, which means the increase of disputes due to the lack of norms and procedures. That is why, the main aim is to make free trade profitable for developed and developing countries by eliminating its disadvantages. Environmental safeguards can prevent destruction of natural resources and cultures. Labor laws prevent poor working conditions. Developed economies can reduce their agribusiness subsidies, keeping emerging market farmers in business. They can help local farmers develop sustainable practices.

Useful links and resources

Protectionism in the 21st Century Kommerskollegium 2016:2

<https://en.wikipedia.org/wiki/Protectionism>

<https://www.globaltradealert.org>

<https://vittana.org/13-most-valid-protectionism-pros-and-cons>

<https://www.thebalance.com/free-trade-agreement-pros-and-cons-3305845>