Committee: ECOFIN

Question of: Trade Barriers and Development

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Introduction:

Trade barriers can be defined as anything imposed by a Government which reduces the competitiveness of imported goods or services, therefore making them less desirable to domestic consumers. They are imposed by governments so that they can reduce the amount of goods imported. Trade barriers are often used as a method of protectionism; this is when countries attempt to shield their domestic economy. However, trade barriers hinder the development of Low Income Countries (LICs) as they are unable to export their goods, and so grow their economy. Currently, there are fewer trade barriers than there have been historically, as following the Second World War, there was a shift towards Free Trade. Free trade is international trade without restrictions, and can be beneficial to the global economy, as will be outlined later in this research paper.

There are different forms of trade barriers – generally classified as tariff barriers and non-tariff measures. Tariff barriers are when Governments impose tax or duty on a specific class of import. Non-tariff measures are any other barriers that do not include taxes, including quotas, regulations, export subsidies, embargos etc.

The Issue:

Trade barriers hinder the economic growth and so development of developing countries as they make it more difficult for local producers to receive the best prices for their goods and services. For example, a farmer may be able to find the best price for their agricultural good in another country, however non-tariff barriers may be in place. This would mean that before importing their good, they would have to undergo processes such as expensive licensing, lengthy customs procedures, or high product standards which their good may not meet.

As the trade barriers hinder small local producers in developing countries from exporting, or reduce the profit they can make, developing countries are then unable to grow economically. One component of economic growth is having exports greater than imports; therefore, if the country is unable to export, it is unable to experience the economic growth that would allow it to develop. In addition, if the local producers are unable to obtain a reasonable price for their good, the profit that they are able to make is reduced and so is their taxable revenue. This means that the country's tax revenue is not as high, therefore there is a smaller amount of money to be spent on development within the country.

According to the World Trade Organisation's report "Africa can help feed Africa: removing barriers to regional trade in food staples", farmers within Africa would be capable of growing enough food to feed the continent and avoid future food crises if countries removed trade barriers. This would encourage economic growth and development as not only would the farmers have wider market access, but the crops grown and exported would sustain a healthy workforce who can be more productive in their respective economies.

Tariff Escalation

Tariff escalation is a significant trade barrier as it has the effect of removing the incentive for developing countries to manufacture exports. According to the WTO, tariff escalation is when countries impose 'higher import duties on semi-processed products than on raw materials, and higher still on finished products'. This means that despite goods being costlier to produce and so typically would be more profitable, as the level of processing increases, tariff escalation has the effect of making it more desirable for countries to simply export their raw materials as they will be more able to compete and obtain more profit. Whilst this allows more developed countries to both protect their own manufacturing industries as well as obtain cheaper raw materials, it is a significant hindrance to the development of LICs as it discourages the development of processing industries in the countries.

Benefits of Trade Barriers

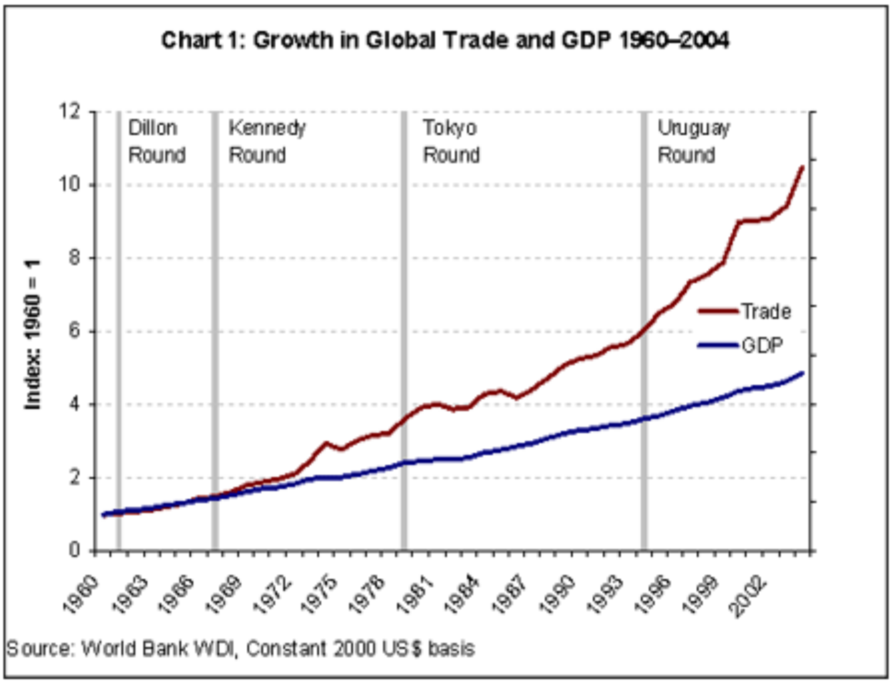
Whilst these measures to protect industries can be harmful to other economies, there are arguments in favour of trade barriers. Some countries may wish to grow 'infant industries' (those which they have the potential to develop an advantage in) and so believe that trade barriers are necessary to protect this industry against existing, more efficient industries in other countries. Another reason for trade barriers is the protection of jobs, as by preventing foreign goods from entering a country, the demand for domestic goods is maintained and so the derived demand for labour is also maintained. In addition, some countries may wish to utilise trade barriers to prevent goods that have negative externalities (costs suffered by a third party when a transaction takes place) from entering their country. An example of this could be if there was an outbreak of a disease amongst cattle in one country and so another country banned imports of meat from that country. Some countries also opt for protectionist methods for political reasons – such as trying to protect what they perceive to be a vital industry.

Benefits of Removing Trade Barriers

Some countries and economists are of the belief that free trade (an absence of tariffs, quotas and regulations designed to reduce or prevent trade among nations) is beneficial to not only developing countries, but the global economy and therefore provides incentive for all nations to remove trade barriers. One benefit of free trade is more choice for consumers at the lowest price. This occurs because goods are produced in countries where they have absolute advantage – where it is most efficient to do so. Also, with the lack of barriers, firms' average costs are lower and so they can pass on this benefit in the form of lower prices.

Furthermore, international trade increases economic growth and so theoretically in the long term may create employment opportunities. However, the relationship between international trade and employment is complex and so this may not be the case – as outlined in 'The impact of trade on employment and poverty reduction' in the Fifth Session of the Trade and Development board. (See http://unctad.org/meetings/en/SessionalDocuments/cid29_en.pdf)

Moreover, free trade increases world output and wealth, as it allows countries to access a bigger market for their goods. For example, countries such as Qatar are very rich in oil however without world trade they would not benefit from this. In contrast, Japan has very few raw materials and so their GDP would suffer considerably without trade. The graph above shows the correlation between the increase in world trade and the increase in world output, in relation to the aforementioned rounds of the WTO.



Key States/Organisations involved:

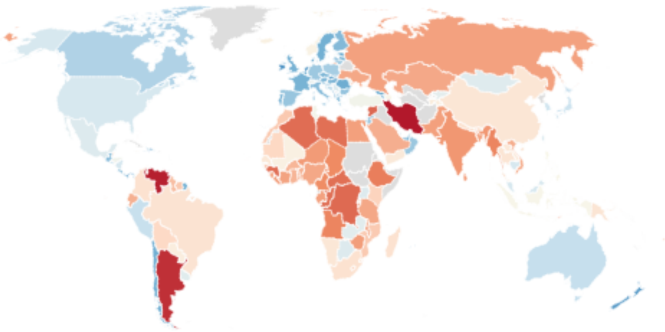
Generally, developing and low-income countries tend to have more protectionist measures, such as high tariffs, as shown in the table below of the highest tariffs. Weighted Mean Applied Tariffs for individual countries can be found on the World Bank's website (https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS)

Country	**Weighted Mean Applied Tariff**
Bahamas	18.66%
Benin	17.22%
Bermuda	15.61%

Gabon	14.54%
Laos	14.13%
Chad	13.92%
Central African Republic	13.88%

The choropleth map below shows the free trade rankings from 2014. Countries in red are those which are least open in terms of trade (so are more likely to be using trade barriers) and those in blue are most open and so have low tariffs and welcome free trade.

Free trade rankings, 2014



Previous Attempts to solve the issue:

The General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was the first worldwide multilateral free trade agreement. It was in effect between June 30, 1948 and January 1, 1995, when it was replaced by the World Trade Organisation, whose role will be explained later in this paper. It was formed in order to move away from the protectionism that contributed to The Great Depression and move towards free trade. They gave most favoured nation status to each other member country, so had to have equal tariffs for each country. They also implemented a ban on quotas – with some exceptions. Most relevantly, the developed countries which were members agreed to remove tariffs on the imports of developing countries, to allow their economies to grow.

The World Trade Organisation

The World Trade Organisation (WTO) is responsible for trying to increase free trade and so subsequently responsible for trying to reduce the amount of trade barriers in the global economy. Two thirds of the 164 members of the WTO are classified as developing countries and the organisation has worked and currently is working towards utilising world trade as a tool for development. They attempt to advance free trade through a series of 'rounds', with the previous round being the Uruguay Round (completed in 1994) and the current round being the Doha Round (which began in 2001). The Uruguay Round took seven years of talks, however was successful in achieving: cuts in tariffs of around 40%, cuts in agricultural subsidies allowing greater access to American and EU markets for developing countries' food exports and an agreement to allow full access for textiles and clothing from developing countries. It is also important to note that following the beginning of the Doha Round, 'WTO members have placed development issues and the interests of developing countries at the heart of the WTO's work' and have begun talks and initiatives such as 'aid for trade'.

Key Events

Date	Event
June 30th 1948	The General Agreement on Tariffs and trade. This was the beginning of an increased amount of global free trade, as has already been outlined.
1965	The introduction of the third provision in the GATT. Developed countries agreed to eliminate tariffs on imports of developing countries to boost their economies.
1st January 1995	The formation of the World Trade Organisation, whose work was and continues to be significant in tackling trade barriers.
1986-1994	Uruguay round of the WTO negotiations.
2001-present	Doha Round of the WTO negotiations.

Possible Solutions

When considering how to approach this issue, it is important to remember that as ECOFIN is not the security council, and so cannot condemn or deplore trade barriers. Instead, delegates may aim to:

- Reduce tariffs between developing countries,
- Reduce the use of non-tariff trade measures,
- Assess whether regulations which stop countries from exporting goods are in place to protect consumers or to reduce free trade (and so assess whether countries are acting within the rules of the WTO),

- Outline situations in which trade barriers may be deemed acceptable,
- Encourage small firms to export, if trade barriers are removed,
- Make the owners of small firms in developing countries aware of how to navigate lengthy export processes if they are in place,
- Or any other actions which are fitting with the policy of the country which they are representing.

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