

## **BALTIC MODEL UNITED NATIONS 2019**

### **Tackling the issue of multilateral trade challenged by increasingly unilateral trade measures.**

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#### **INTRODUCTION**

In the current environment of multilateral negotiations, unilateral trade measures provide an alternative venue to pursue trade liberalization and establish new rules on emerging issues. The granting of non-reciprocal trade preferences on a unilateral basis has been a traditional mechanism for developed-developing country trade relationship and has grown significantly throughout the first two decades of the twenty-first century. While non-reciprocal preferences constitute an important aspect of international trade and investment strategies, these agreements have a range of disadvantages, for instance, in trade facilitation and dispute settlement, leading to a debate over their long-term economic effect and whether they serve to facilitate future multilateral agreements or lead to the creation of competing trade blocs.

#### **DEFINITION OF KEY TERMS**

##### **Free Trade**

The interchange of goods and services unhindered by tariffs, quotas, subsidies, or prohibition on goods and services. In other words, free trade is a policy by which government does not interfere in business affairs via tariffs and subsidies. This, however, does not necessarily imply that a country abandons all control and taxation of imports and exports.

##### **Unilateral Trade Agreement**

A commerce treaty a nation imposes without the reciprocation of others. Such situation occurs, for example, when a country imposes a trade restriction (i.e. tariffs) on all imports in order to boost domestic economic growth. It also applies when

developed countries grant preferential tariffs on imports from developing countries in order to aid them in terms of competitiveness of their products.

### **Bilateral Trade Agreement**

Commerce treaties between two countries, giving each party favoured trade status pertaining to certain goods obtained from the signatories - the two countries will reduce/eliminate tariffs, import quotas, export restraints, and other trade barriers to encourage trade and investment.

### **Multilateral Trade Agreement**

Commerce treaties between three or more nations, making all signatories treat each other the same. Such agreements often concern the reduction of tariffs in order to ensure expedient conditions for country's net exports.

### **MFN clause**

“A most-favored nation (MFN) clause requires a country to provide any concessions, privileges, or immunities granted in a trade agreement to one nation to all other World Trade Organization member countries. Although its name implies favoritism toward another nation, it denotes the equal treatment of all countries.” (*Investopedia*)

## **GENERAL OVERVIEW**

### **a) Current situation and the problem**

Throughout the history, wars and economic depressions had led to increases in protectionism; i.e. the emergence of mercantilism (essentially an economic counterpart of political absolutism) in the 17<sup>th</sup> and 18<sup>th</sup> century Europe, Britain's Corn Laws... Furthermore, the 1930s and 1940s era of the Great Depression, paired with the U.S. imposition of the Smoot-Hawley tariffs and the subsequent retaliatory responses, resulted in the virtual halting of the international commerce under the auspices of protectionism.

Accordingly, twenty-three countries, led primarily by the United States, Canada and the United Kingdom, negotiated the General Agreement on Tariffs and Trade

(GATT). The aim was to create an agreement that would ensure post-war stability. Hence a new template of rules to regulate international trade between contracting parties as well as a forum for negotiations on cutting tariffs had been established.

Over the past 80 years, trade agreements had, rather naturally, undergone major changes; both in terms of form and content. Along with the new dispute settlement mechanisms, these agreements were thus brought together into a new World Trade Organization (WTO), which now serves as a place where trade policy issues are addressed, disputes arbitrated and legal frameworks derived and enforced. As such, multilateral trading systems, as embodied by the WTO, have gradually emerged as a relatively prevalent and primal venue for the removal of barriers to the international trade.

The cornerstone of multilateral trade is equal treatment of all signatories. It standardizes commerce regulations for all trade partners and most importantly, it benefits emerging markets as it does not allow for favouritism towards the country with the most buoyant and dynamic economy.

With the objective of improving the trading prospects of developing countries, the WTO launched the latest round of trade negotiations, known as the Doha Round (2001). Its failure, however, kindled doubts over the WTO's effectiveness and efficiency, questioning the organisation's ability to serve as a negotiating platform and manage multilateral trade administration and disputes.

The symptom of the collapse had been, rather doubtlessly, the unseen surge in preferential and unilateral trade agreements. Such inclination can be explained from a variety of different perspectives. Firstly, with regards to the links between trade and the environment, there had been a large influx of proposals addressing the issue of trade measures for environmental purposes. While some states regard the 'unilateral trade rules' as a system allowing them to conduct their own environmental policy without being barred by trade restrictions, others consider such measures as a mere façade for protectionism and green imperialism.

Additionally, other possible explanations for the more challenging multilateral environment today include the greater number of participants, the growing role of developing countries in the world trade and the fact that their priorities sometimes differ from those of developed countries.

Notwithstanding the appeal of unilateral trade measures in the short-run, its advantages tend to disappear over time. From the economic point of view, this occurs mainly when countries retaliate and add their own tariffs, resulting in a decrease in

exports. As a result, employment tends to fall too, hindering the global trade as a whole.

As such, there is a constant need to keep the global-regional interaction on a supportive course and hence it's necessary to avoid the risk of the transition from liberalizing regional arrangements into hostile blocs with adverse effects on international security and global prosperity.

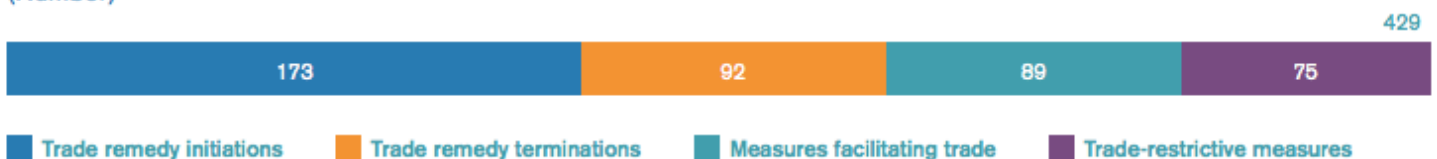
## b) Statistics

- 80% of the WTO members have ratified the Trade Facilitation Agreement (TFA) of 2017. Its full implementation should, according to a 2015 study carried out by WTO economists, reduce global trade costs by an average of 14.3 per cent, with developing countries having the most to gain.
- In 2017, top three merchandise traders were China, the United States and Germany. They accounted for over 30% of world merchandise trade.
- The European Union remains the largest regional trade agreement accounting for 34% of world trade (2017).
- In March 2018, 44 African countries signed the African Continental Free Trade Area (AfCFTA), aiming at the acceleration of economic integration in Africa as well as the increase of trade within the continent. As such, the intra-Africa trade grew from 15.2 per cent in 2014 to 19.6 per cent in 2016. This is considerably higher than the 10.3 per cent share of intra-Africa trade in 2008.

*Source of information: World Trade Statistical Review; attached in the appendix*

## Overview of trade measures, mid-October 2017 to mid-May 2018

(Number)



Source: WTO Secretariat.

## c) Major parties involved

## **WTO (World Trade Organization)**

WTO is the only international trade organization dealing with the global rules of trade, ensuring that trade runs as freely and predictably as possible. What lies at the very forefront of the system – known as the multilateral trading system – are the WTO's trade agreements, signed by the vast majority of the world's trading economies.

The WTO thus serves as a forum for negotiations, paying special attention to the concept of reciprocity – i.e. central element of multilateral trade negotiations. As such, the WTO launched the Doha round of negotiations in 2001, hoping to lower trade barriers, contribute to the development in poor nations and tackle issues like agricultural subsidies that were not resolved in previous pacts (such as the GATT).

However, the collapse of the Doha Round gave the WTO members the incentive to pursue non-cooperative strategies via the adoption of protectionist policies. Accordingly, the failure to achieve this highly ambitious agenda had, in essence, undermined the credibility of the multilateral trading system.

Even with Doha stalled, WTO talks have continued on the basis of plurilateral negotiations.

## **United States of America**

The United States has unilateral trade policies under the Generalized System of Preferences (GSP), allowing developing countries to use trade to grow their economies on the basis of preferential tariff grants. As such, the United States may decide that the disadvantages of globalization outweigh the benefits and hence put more emphasis on preferential agreements in line with other OECD countries.

Furthermore, America's withdrawal from the Paris Climate Accord and the Trans-Pacific Partnership reflects its deep scepticism of multilateralism as well as a preference to deal with trading partners on unilateral/bilateral basis.

## **China**

After its accession to the World Trade Organisation in 2001, China significantly lowered import tariff rates and non-tariff barriers, liberalized the right to trade, boosted the services sector and reduced restrictions on foreign investment. As such, it

is widely regarded as having been the biggest beneficiary of globalised trade in the 17 years since its accession to the WTO - its GDP rose six times and its merchandise exports accounted for 13% of the world total in 2017.

## TIMELINE OF KEY EVENTS

**January 1948** – GATT agreement came into force

**January 1994** – NAFTA agreement came into force

**January 1995** – WTO is created in Geneva

**November 2001** – WTO members meeting in Qatar to agree on the Doha Development Agenda

**December 2001** – China formally joined the WTO

**2008** – the Doha Round collapse

**November 2010** – G20 meeting of major economic powers in Seoul

**December 2011** – Russia joined the WTO after 18 years negotiating its membership

**February 2017** – Trade Facilitation Agreement (TFA) entered into force

## APPENDIX

World Trade Statistical Review:

[https://www.wto.org/english/res\\_e/statis\\_e/wts2018\\_e/wts2018\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf)

Document outlining the concept of multilateralism as a whole in the 21st century:

[http://mercury.uni-koeln.de/fileadmin/user\\_upload/E-paper\\_no3\\_r2010.pdf](http://mercury.uni-koeln.de/fileadmin/user_upload/E-paper_no3_r2010.pdf)

A rather useful document concerning the future of multilateral trading system in a multi-polar world: [https://www.die-gdi.de/uploads/media/DP\\_8.2008.pdf](https://www.die-gdi.de/uploads/media/DP_8.2008.pdf)

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