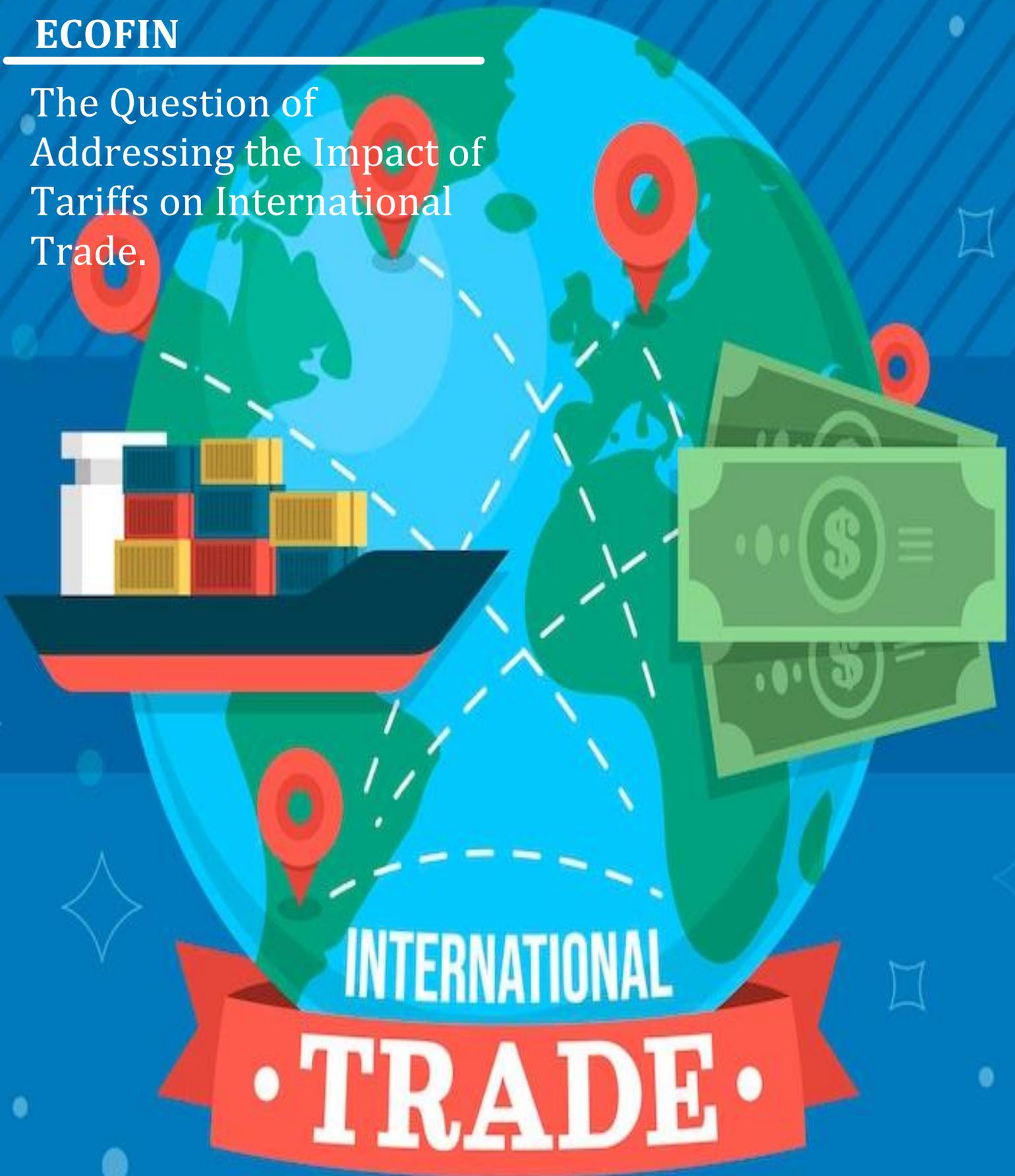


ECOFIN

The Question of
Addressing the Impact of
Tariffs on International
Trade.





Committee: ECOFIN

Topic: The Question of Addressing the Impact of Tariffs on International Trade

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Summary:

International trade refers to the exchange of goods and services across national borders. Tariffs are used by governments to regulate international trade as they place taxes on imported goods. Trade usually encourages economic growth as it allows countries to specialise in certain goods and focus on industries where resources can be allocated efficiently in order to have a comparative advantage through lower opportunity cost than competitors (producing a specific good or service by sacrificing production of fewer alternative goods than another country). Tariffs can protect domestic industries and restrict global trade as prices will be increased on imported goods, therefore encouraging consumers to purchase goods made in their own countries.

As international trade has expanded due to globalisation, many countries have reduced their tariffs to encourage free trade. However, some nations still impose tariffs to protect local industries or as a response to unfair trade practices such as misleading consumers or restricting competition. Examples of countries include China and the US which remain impacted by steel and aluminium tariffs. High tariffs will raise prices for consumers and low tariffs can increase competition in markets, but this can negatively impact domestic producers.

Tariffs were originally used as a major source of government revenue and a way to protect developing industries. Throughout the 19th and early 20th century, many industries have relied on tariffs to support industrial growth. Following WW2, the General Agreement on Tariffs and Trade (GATT) was created, which helped work towards reducing tariffs and promoting free trade.

This topic remains very important as tariffs have a direct impact on economic stability and diplomatic relations between countries. High tariffs increase cost of goods; low tariffs increase competition there will be reduced price of foreign goods so domestic industries must improve efficiency in order to keep prices low and competitive. However, this can put strain on domestic producers as they have to compete with foreign producers. This means that governments must balance free trade with the need to protect national economic stability.

Tariffs have a variety of effects on all parties. Consumers may face higher prices on imported goods and businesses involved with importing and exporting goods. Workers can be affected too based on whether there is job loss or creation as a result of international competition as if imported goods were cheaper, domestic goods may have less demand, therefore firms will produce less and jobs will be lost. This essentially means if there is more demand for goods, firms need hire on more employees, therefore creating jobs. Governments are also affected by tariffs as high tariffs can limit a countries access to global markets and foreign goods, such as raw materials and commodities.

Numerous attempts have been made to try and address the challenges around tariffs and international trade. Institutions such as the World Trade Organisation (WTO) aim to manage rules associated with trade and disputed between countries. Despite this disagreements still remain over fair trade.

Major Countries / Organisations Involved:

United States: One of the world's largest trading nations and frequently uses tariffs to protect domestic industries such as steel and agriculture.

China: The world's largest exporter and often is involved in tariff disputes due to trade imbalances and industrial policies.

United Kingdom: Now sets its own tariff and trade policies following Brexit.

France: Represents the European Union's trade interests and supports common external tariffs within the EU.

Russia: Is affected by international sanctions and trade restrictions that influence its tariff policies.

European Union (EU): A major trading bloc that removes tariffs between member states while applying common external tariffs.

World Trade Organisation (WTO): Oversees global trade rules and resolves disputes related to tariffs and international trade.

Timeline of events:

19th Century: Tariffs widely used to protect domestic industries and generate government revenue.

1947: General Agreement on Tariffs and Trade (GATT) established to reduce global tariffs.

1995: World Trade Organization (WTO) was created to regulate international trade rules.

2018 to 2020: United States and China trade dispute that led to increased tariffs.

2020 to 2022: COVID-19 disrupts the global trade and supply chains.

Definition of Key Terms:

International Trade: Is the exchange of goods and services across national borders.

Tariffs: Are taxes imposed by governments on imported or exported goods.

Comparative Advantage: When a country can produce a good or service at a lower opportunity cost than another country.

Opportunity Cost: The value of the next best alternative that is sacrificed when making a decision.

Globalisation: When organisations develop international influence and operate on a global scale.

Free Trade: Trade between countries with no restrictions such as tariffs.

General Agreement on Tariffs and Trade (GATT): An international agreement created after World War 2 to reduce tariffs and promote free trade.

World Trade Organisation (WTO): An international organisation that manages global trade rules and resolves trade disputes between countries.