Topic 2: Addressing the role of Tariffs in shaping global trade

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Kuwait International Model United Nations

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Table of contents:

Introduction
Topics of discussion
Keywords
Key actors
Background information
Timeline
Previous Attempts
Potential Solutions
Work Cited

Introduction:

In its most basic form, a tariff is a levy imposed on commodities or services during their transit between nations. Because the terms "tariff" and "customs duty" are frequently used interchangeably, you might also see them referred to as such. Usually, the nation importing the products imposes tariffs. They have two economic functions: they safeguard domestic industries that produce identical goods and bring in money for the importing nation. To enable domestically manufactured items to be offered at a more competitive price, some tariffs, known as protective tariffs, impose a higher tax on imported goods. Nearly all nations have some sort of tariff. Rich nations typically keep their tariffs lower than those of underdeveloped nations. There are a number of reasons for this, including the fact that developing nations may have fewer sources of government income or more delicate industries that they would like to safeguard. For example, until income taxes replaced tariffs as the primary source of funding in the 1930s, the United States maintained high tariffs for decades. As the United States prioritized trade expansion as a key component of its worldwide strategy following World War II, tariffs continued to fall.

Topics of discussion:

Protection of Domestic Industries: Tariffs play a crucial role in shielding domestic industries from foreign competition by making imported goods more expensive. This protection can foster local economic growth and preserve jobs in certain sectors.

Developing countries: Examining what tariffs mean for developing economies.

Economic Impacts of Tariffs: Analyzing the way tariffs impact on national industries, prices, and international trade.

Role of International Organizations: Assessing how different international organizations such as the WTO can moderate tariff contention and regulation of fair trade.

Key Words:

Quota: Limited amounts of specific goods that you can import during specified periods at reduced or zero rates as against normal customs duties. Also, The amount you can import can be expressed in quantity, value, volume, or weight.

Import duty: A payment levied on the import of goods.

Export tariffs: An export tariff is a tax imposed by a country's government on goods being exported from that country.

Key Actors:

Large Economies:

USA, China, EU: The role that these countries play helps manage international trade in these subjects as well as tariffs.

India: It is a large trader and an important part of the global economy balancing the protection with the opening up in trade.

Emerging Economies:

Brazil, South Africa, Indonesia, Nigeria: International groups create tariff policies to help local businesses that want to sell in foreign markets.

International Organizations:

World Trade Organization (WTO): Trade disputes and tariff reduction agreements.

IMF: Economic policies such as trade tariffs are advised on.

Background information:

Historically, tariffs have played a significant role in international trade and in shaping relationships between nations and their economies. Tariffs were once used to control trade flows, give protection to domestic markets, and encourage economic stability. However, their function has changed greatly over time, particularly under the impact of globalization and different international agreements on trade. During the 19th and till the early 20th, most of the countries in the world heavily relied on tariffs as their most important means for government income. Although with the expansion of global trade networks, there has indeed been a shift in emphasis from imposing high tariff barriers, the movement has been towards cooperation and interdependence. Hence the free trade agreements and organizations like the World Trade Organization (WTO) came into being with the aim of setting fair trade practices. Tariffs have continued to be, however, a medium of major confrontation in trade policies and would continue to reflect the political, economic, and strategic interests of the countries. Indeed, it remains an area of sharp contention concerning how finely the balance between protecting local economies and furthering the global economy must be struck.

Timeline:

1760s: Countries like Britain lay tariffs for the protection of domestic industry and to aid exports, a policy stemming from mercantilism, meant to build a cache of wealth.

1773: The Tea Act was a measure to levy a tax on American colonies, and in that respect, tariffs were instrumental in the resistance movement by America that ultimately led to the Boston Tea Party and to the American Revolution.

1816: In the aftermath of the War of 1812, the United States put up its first tariffs to help its infant domestic industries.

1846: Britain abolished the Corn Laws, thus denouncing protectionism for free trade; this event changed opinions globally toward reducing tariffs.

1860: The Cobden-Chevalier Treaty became one of the first noteworthy modern trade agreements, achieving a decrease in tariffs on manufactured goods and promoting free trade between Britain and France.

1930: In the United States, the tariff was elevated to center stage with the passage of the Smoot-Hawley Tariff Act. Global trade contraction was largely owed to the newly imposed obstacles at the brink of the Great Depression.

1934: The Reciprocal Trade Agreements Act gave the President of the U.S. discretionary authority to negotiate further tariff reductions, formally beginning the age of trade liberalization.

1947: The General Agreement on Tariffs and Trade (GATT) was established as an instrument for reducing tariffs and other trade barriers, laying the groundwork for the liberalization of the world trading system under the future framework of the World Trade Organization (WTO).

1960s–1970s: GATT negotiations led to significant tariff reductions, particularly among industrialized countries, fostering globalization.

1994: NAFTA reduced tariffs between the U.S., Canada, and Mexico, promoting intraregional trade.

1995: GATT transformed into the WTO, strengthening the mission of tariff reductions and trade liberalization.

2001: With lower global tariffs, emerging economies such as China became significant players in world trade, owing to the membership policy of the WTO.

2018: The tension will be at its peak between the US and China with both countries applying high tariffs on billions of dollars in goods, inviting the discussions on the protectionism issues in the globalizing world.

2020s: Tariffs on vital goods like semiconductors will determine the transition toward "strategic tariffs" to secure national security and economic independence.

Today: Green technologies (i.e., solar panel) will dictate future trade policies, as nations are reevaluating tariffs amid global challenges, such as climate change and geopolitical tensions.

Previous Attempts:

Mercantilism and Early Tariff Policies

From the sixteenth to the eighteenth centuries, governments in Europe adopted tariffs to shield their domestic industries and amass wealth through the mercantile system. As the Navigation Acts of Britain and other such measures enforced customs and trade restraints, it helped economic supremacy as the groundwork for the use of tariffs went global.

19th Century Shifts: Protectionism to Free Trade

Tariffs during the 19th century were crucial to both industrialization and political conflicts. Britain's Corn Laws, which aimed to protect domestic grain, sparked widespread discontent, ultimately leading to their repeal in 1846. This repeal signaled a significant shift toward free trade. Furthermore, the Cobden-Chevalier Treaty of 1860 reduced tariffs even more, fostering international trade between Britain and France. Although many benefitted from these changes, there were still numerous challenges that arose as a result.

Tariffs During Economic Crises

The 1930 Smoot-Hawley Tariff increased U.S. tariffs to protect its domestic industries but contributed to a decline in global trade during the Great Depression. This led to the creation of the Reciprocal Trade Agreements Act in 1934, which opened the U.S. market by giving authority to the President in negotiating tariff reductions.

Post-War Global Trade Liberalization

The establishment of GATT in 1947 aimed to reduce tariffs and promote free trade globally, which later evolved into the WTO in 1995. Modern agreements like NAFTA (1994) significantly lowered tariffs, while emerging economies like China leveraged reduced barriers to become key players in global trade.

Potential Solutions:

Promoting Multilateral Agreements

Enhancing global institutions (such as the World Trade Organization: WTO) can significantly aid in harmonizing tariff policies and resolving disputes. Collaborative agreements, however, reduce tariff disparities and foster equitable trade. This benefits both developed and developing economies, although achieving such harmony can be complex. Because of these intricate relations, it is crucial to navigate the challenges that arise in international trade negotiations.

Balancing Protectionism and Free Trade

Nations can embrace a somewhat balanced strategy by implementing tariffs judiciously to safeguard essential domestic industries. However, this must be done while simultaneously lowering barriers to international trade. By doing so, countries can foster economic growth locally, without hindering (the) broader global trade relationships. Although the balance is delicate, it is possible to achieve mutual benefits.

Incentivizing Sustainable Trade Practices

Restructuring tariffs can promote sustainable and ethical practices; for example, imposing higher tariffs on (environmentally harmful goods) while offering

lower tariffs on green technologies may align trade with global environmental goals. However, this approach requires careful consideration, because it (could) potentially impact various industries. Although such measures might provoke opposition, they ultimately contribute to a more sustainable future.

Enhancing Regional Collaboration

Regional trade agreements (like NAFTA and the European Union) can act as templates for reducing tariffs among adjacent nations. However, expanding these frameworks can improve trade efficiency, although it must respect local economic conditions. This is vital because each region has its unique market dynamics.

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