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**AGENDA - DISCUSSING THE IMPACT OF COVID-19 ON
WORLD TRADE WITH SPECIAL EMPHASIS ON PROTECTIONIST
POLICIES ENFORCED BY MEMBER NATIONS**

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LETTER FROM THE EXECUTIVE BOARD

Dear Delegates,

It is with great pleasure that we welcome you to the simulation of the World Trade Organisation at Techfest World MUN 2020. Over the course of this conference, you shall have the privilege of being part of a new, technical, challenging and yet absolutely fascinating committee.

As the name suggests, this document is just to give you an idea about the committee and agenda in order to channel debate in the right direction and is by no means a substitute for research from your end. We expect the delegates to do extensive research about their trade policies in order to be able to do justice to the debate on an agenda as crucial as the one we have on hand.

We strongly urge delegates to be very well aware of basic economic concepts as well as the fundamentals of supply chain as they're critical to the debate.

We sincerely hope that you put in your best for this conference and bring to us debate that is thought provoking for everyone involved in this committee.

Happy Researching!

Chairperson

Satrajit Sahani

Vice-Chairperson

Aarya Singh

INTRODUCTION TO THE WORLD TRADE ORGANISATION¹

The WTO provides a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application. The current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties). Decisions in the WTO are generally taken by consensus of the entire membership. The WTO's founding and guiding principles remain the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members, and a commitment to transparency in the conduct of its activities. The opening of national markets to international trade, with justifiable exceptions or with adequate flexibilities, will encourage and contribute to sustainable development, raise people's welfare, reduce poverty, and foster peace and stability. At the same time, such market opening must be accompanied by sound domestic and international policies that contribute to economic growth and development according to each member's needs and aspirations.

WHAT ARE PROTECTIONIST POLICIES?

Protectionism² refers to government policies that restrict international trade to help domestic industries. Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.

¹ https://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm

² <https://www.investopedia.com/terms/p/protectionism.asp#:~:text=Protectionism%20refers%20to%20government%20policies,for%20safety%20or%20quality%20concerns>

Tariffs, import quotas, product standards, and subsidies are some of the primary policy tools a government can use in enacting protectionist policies.

TOOLS OF PROTECTIONISM³

1. TARIFFS

In general, all forms of import tariffs are charged to the importing country and documented at government customs. Import tariffs raise the price of imports for a country. There are three main import tariff concepts that can be theorized for protective measures:

a. Scientific Tariff

Scientific tariffs are import tariffs imposed on an item by item basis, raising the price of goods for the importer and passing on higher prices to the end buyer.

³ Ibid

b. Peril point import tariffs

It is focused on a specific industry. These tariffs involve the calculation of levels at which import tariff decreases or increases would cause significant harm to an industry overall, potentially leading to jeopardy of closure due to an inability to compete.

c. Retaliatory tariffs

Tariffs enacted primarily as a response to excessive duties being charged by trading partners are known as Retaliatory Tariffs.

2. IMPORT QUOTAS

They are non-tariff barriers that are put in place to limit the number of products that can be imported over a set period of time. The purpose of quotas is to limit the supply of specified products provided by an exporter to an importer. This is typically a less drastic action which has a marginal effect on prices and leads to higher demand for domestic businesses to cover the shortfall.

Quotas can also prevent dumping (when foreign producers export products at prices lower than production costs). The most severe type of quota is an embargo, in which the importation of designated products is completely prohibited.

3. PRODUCT STANDARDS

Product standard protectionism can be a barrier that limits imports based on a country's internal controls. Some countries may have lower regulatory standards in the areas of food preparation, intellectual property enforcement, or materials production. This can lead to a product standard requirement or a blockage of certain imports due to regulatory enforcement. Overall, restricting imports through the implementation of product standards can often lead to a higher volume of product production domestically.

Case Study: French cheeses are made with raw instead of pasteurized milk, which must be aged at least 60 days prior to being imported to the U.S. Because the process for producing many French cheeses often involves aging of 50 days or fewer, some of the most popular French cheeses are banned from the U.S., providing an advantage for U.S. producers.

4. GOVERNMENT SUBSIDIES

Government Subsidies can be direct or indirect. Direct subsidies provide businesses with cash payments. Indirect subsidies come in the form of special savings such as interest free loans and tax breaks. When seeking to boost a country's balance of trade, a country might also choose to offer subsidies to businesses for exports. Export subsidies provide an incentive for domestic businesses to expand globally by increasing their exports internationally.

ARE PROTECTIONIST POLICIES GOOD?

The short answer is yes and no or diplomatically put, 'it depends'. If you ask the developing countries or a country trying to grow strong in a new industry, then protectionism is a great strategy for them to give the time to ventures to develop their competitive advantages. In addition to that it also jobs for domestic workers.⁴ The protection of tariffs, quotas, or subsidies allows domestic companies to hire locally. This increase in both local jobs and opportunities can subsequently lead to a higher GDP and increasing trade balance due to lowering of the import levels. Studies in successfully industrialized countries such as Singapore and South Korea show that nations such as these have often protected their manufacturing industries from imports during the early stages of industrialization.

However all of this could come done crumbling if other countries as well retaliate by imposing protectionist policies. In the long term, trade protectionism weakens the industry. Without competition, companies within the industry do not need to innovate. Eventually, the domestic product will decline in quality and be more expensive than what foreign competitors produce. Protectionism ends up lowering international trade for everyone. One of the strongest tools in anti-protectionism is the free trade agreement (FTA). It reduces or eliminates tariffs and quotas between trading partners. One of the largest agreements is the North American Free Trade Agreement. It is between the United States, Canada, and Mexico. Free trade agreements could advance the world economy. Although unfavourable to uncompetitive domestic industries, these boost local industries that can produce at better economies of scale than those of other nations.

In all of this, the immediate losers are the global consumers who will be forced to pay inflated prices. High costs could create inflation around the world.⁵

⁴Foundation for Economic Education., Protectionism and Unemployment,
<https://fee.org/articles/protectionism-and-unemployment/>

⁵ <https://www.thebalance.com/what-is-trade-protectionism-3305896>

EFFECTS OF COVID-19 ON WORLD TRADE

The wide range of possibilities for the predicted decline is explained by the unprecedented nature of this health crisis and the uncertainty around its precise economic impact. But WTO economists believe the decline will likely exceed the trade slump brought on by the global financial crisis of 2008-09. Due to the direct effects of the pandemic, depressing both supply and demand, as well as to a much lesser extent trade measures, the WTO has projected that global trade will decline by 13% to 32% this year. Keeping trade open in the face of the pandemic has been the subject of trade initiatives led by Singapore, New Zealand, Canada and Switzerland. These initiatives have been circulated to the 164 Members of the WTO and have gained additional adherents.⁶

Estimates of the expected recovery in 2021 are equally uncertain, with outcomes depending largely on the duration of the outbreak and the effectiveness of the policy responses.

The WTO Director-General Roberto Azevêdo has stated that⁷, "This crisis is first and foremost a health crisis which has forced governments to take unprecedented measures to protect people's lives. The unavoidable declines in trade and output will have painful consequences for households and businesses, on top of the human suffering caused by the disease itself. The immediate goal is to bring the pandemic under control and mitigate the economic damage to people, companies and countries. But policymakers must start planning for the aftermath of the pandemic. These numbers are ugly – there is no getting around that. But a rapid, vigorous rebound is possible. Decisions taken now will determine the future shape of the recovery and global growth prospects. We need to lay the foundations for a strong, sustained and socially inclusive recovery. Trade will be an important ingredient here, along with

⁶ <https://voxeu.org/content/covid-19-and-future-world-trade>

⁷ https://www.wto.org/english/news_e/pr855_e.htm

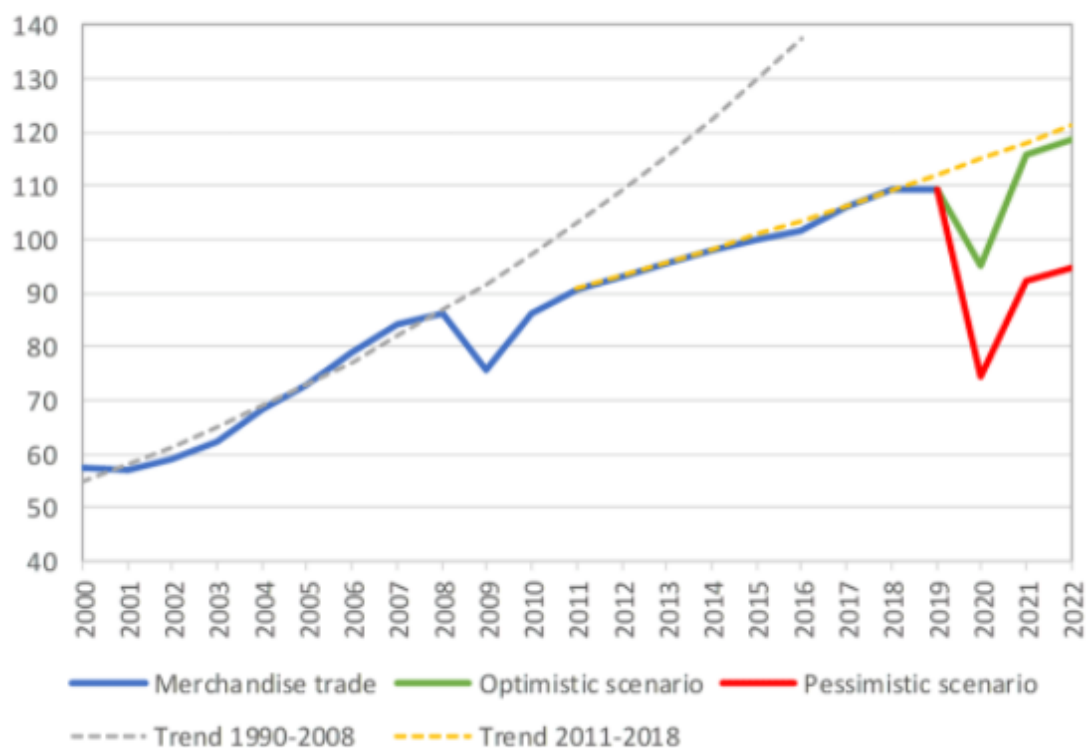
fiscal and monetary policy. Keeping markets open and predictable, as well as fostering a more generally favourable business environment, will be critical to spur the renewed investment we will need. And if countries work together, we will see a much faster recovery than if each country acts alone."

The evolving shape of world trade, including global supply chains, will be shaped primarily by how businesses view future economic conditions. Outside of supporting the production and stockpiling of medical supplies and vaccines, technology and market forces will be much greater factors determining trading patterns than government policies, including the use of regional trade agreements.

Regional trading arrangements can be useful for exploring paths forward for rule-making where progress would be more complicated to achieve on a global basis. In addition, regional integration can be productive and should be fostered. Nevertheless, in terms of total trade flows, sub-multilateral agreements are not determinative. Businesses still have to serve markets wherever they are located and will continue to need to reach out beyond the regions in which they are located.

Chart 1 - World merchandise trade volume, 2000-2022

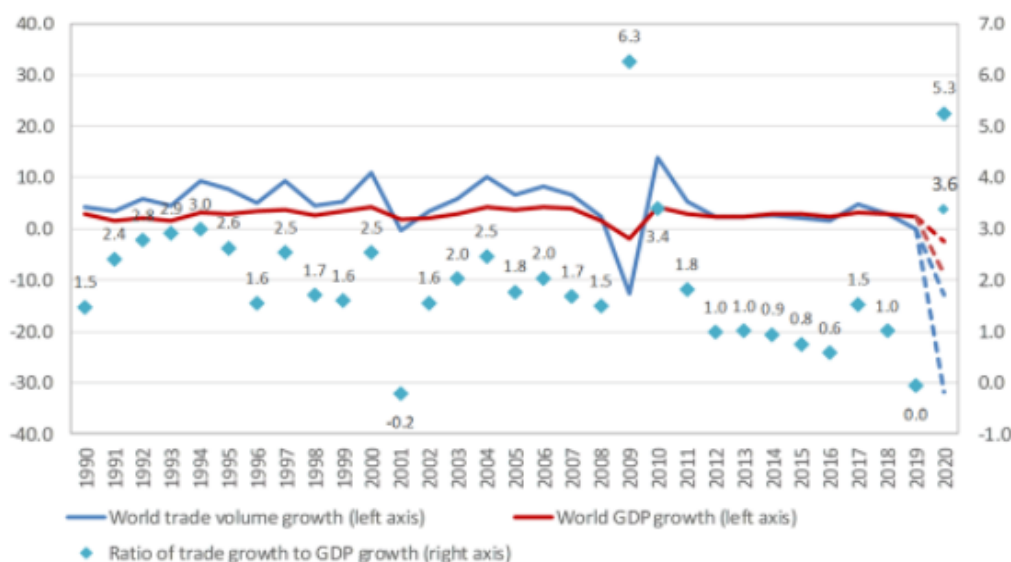
Index, 2015=100



Source: WTO Secretariat.

Chart 2 - Ratio of world merchandise trade growth to world GDP growth, 1990-2020

% change and ratio



Source: WTO Secretariat for trade and consensus estimates for historical GDP. Projections for GDP based on scenarios simulated with WTO Global Trade Model.

There are several trade-related measures governments have introduced in response to the COVID-19 pandemic. A significant number of these measures are temporary export restrictions imposed on medical goods. There have also been several trade-facilitating measures, such as the temporary and unilateral withdrawal of tariffs to facilitate imports of these products. Some non-tariff measures associated with trade in these goods (e.g. the elimination of non-automatic licensing procedures or the introduction of special export licensing requirements) are also being taken by members to combat the impact of the crisis. A number of members have adopted measures to temporarily prohibit or restrict exports of food and agricultural products.⁸

⁸ Four members (Kyrgyz Republic, North Macedonia, Thailand and Ukraine) notified under Article 12 of the Agreement on Agriculture, export prohibitions or restrictions measures (WTO official documents numbers G/AG/N/THA/107, G/AG/N/KGZ/8, G/AG/N/MKD/26 and G/AG/N/UKR/37 – accessible via <https://docs.wto.org>). Unlike the three other notifying members, Ukraine did not specifically attribute its export-limiting measures to COVID-19. Egypt notified export prohibitions on various fruits and vegetables to the Committee on Market Access in WTO official document number

Some of the export bans introduced earlier have now been lifted. For example, Cambodia, India and Viet Nam (the third-largest rice exporter) initially introduced temporary export prohibitions which have now been lifted.

COVID-19 AND PROTECTIONIST POLICIES

In the post-pandemic environment, many countries are likely to intensively dedicate their efforts towards rebooting their industries and protecting their vital and essential supplies. Ensuring availability of essentials for the future in case such a pandemic situation arises, can be achieved by protecting their critical domestic industries and diversifying their supply chains, both of which would require targeted policy measures. Trade policies can, thus, be expected to become more conservative.⁹

The World Trade Organization, Organization for Economic Cooperation and Development and the United Nations Conference on Trade and Development¹⁰ reports of G20 trade and investment measures covering mid-October 2019 to mid-May 2020 detail myriad measures affecting trade in goods and services, and investment adopted as a response to COVID-19 by virtually all G20 members.

The most common measures are export licensing requirements or related export restrictions on medical ventilators and/or personal protective equipment (PPE), adopted among others by Argentina, Australia, Brazil, the European Union, India, Indonesia, the Republic of Korea, Russia, Saudi Arabia, Turkey and the United States.

G/MA/QR/N/EGY/1/Rev.1. The Russian Federation, the world's largest wheat exporter, took temporary export-restrictive measures, pursuant to the Decision of the Eurasian Economic Commission N43 and the Government Order N385 from 31 March 2020. The list of goods and services measures adopted by members is regularly updated and available on the dedicated page of the WTO website, https://www.wto.org/english/tratop_e/covid19_e/notifications_e.htm.

⁹ https://www.ey.com/en_in/tax/trade-policy-scenario-in-post-covid-19-era

¹⁰ https://www.wto.org/english/news_e/news20_e/trdev_29jun20_e.htm

MEASURES TAKEN BY NATIONS

During the pandemic, Canada will subject certain investments to additional scrutiny under the Investment Canada Act. The European Union issued new screening guidelines for investments in health, medical research, biotechnology and essential infrastructure. France included biotechnologies in the list of critical technologies subject to additional screening. Italy included food security, health, banks, insurance companies and financial infrastructure as sectors subject to investment screening during the pandemic. Both France and Italy will review, during the pandemic, foreign acquisitions of 10% or more of shares of companies listed in the EU.

In addition, the Indian government now requires that an entity of a country sharing a land border with India obtain permission from such government before investing in an Indian company and targeted a number of Chinese apps for retaliation in response to a June 16 border incident.

Several reports suggest that some American and European manufacturers intend to relocate their factories out of China or at least have alternate sources in geographically diverse locations. Japan is reported to be offering support to its industries to relocate back home

Using National Security provision for protectionist policies

National Security exceptions are provided for in the WTO and many regional trade agreements to impose further trade and investment restrictions. Before COVID-19, the U.S. was already using Section 232 of the 1962 Trade Expansion Act to¹¹ restrict imports of steel and aluminium and had threatened to¹² impose trade restrictions against Mexico under the International Emergency Economic Powers Act.¹³

¹¹<https://www.whitehouse.gov/presidential-actions/proclamation-adjusting-imports-derivative-aluminum-articles-derivative-steel-articles-united-states/>

¹²<https://www.reuters.com/article/us-usa-trade-mexico-legal-analysis/trumps-mexican-tariffs-test-limits-of-us-emergency-powers-legal-experts-idUSKCN1T12AB>

¹³ <https://www.treasury.gov/resource-center/sanctions/Documents/ieepa.pdf>

In addition, the WTO and regional agreements also provide for exceptions to protect human life and health. Should the COVID-19 pandemic deepen in depth and breadth, a new virus spread, or the economic downturn empower interest groups to seek protection, several countries could use national security and/or public health exceptions to justify protectionism, which could cover much more than ventilators or PPE.

INTERNATIONAL ORGANISATION RESPONSES¹⁴

The G20 Finance Ministers issued a communiqué on 15 April 2020 which includes a "debt service suspension initiative for the poorest countries", aimed at assisting LDCs and other countries eligible for the support of the International Development Association (IDA).¹⁵ With this initiative, principal repayments and interest payments were suspended from 1 May 2020 until the end of 2020, but this requires certain commitments from beneficiary countries.

Several LDCs have already requested emergency financial assistance from the IMF. As of 07 June 2020, over 60 per cent of LDCs had benefitted from at least one of the following four categories of programmes: catastrophe containment and relief trust (debt relief service); augmentation of extended credit facility (lending arrangements for balance-of-payments problems); and rapid financing instrument and rapid credit facility (arrangements to provide liquidity). The total amount of IMF emergency financing support to LDC has surpassed US\$ 5 billion (US\$ 3.7 billion in special drawing rights).¹⁶ The Rapid Financing Instrument and the Rapid Credit Facility account for over 90 per cent of total IMF emergency financing support to LDCs.

¹⁴ https://www.wto.org/english/tratop_e/covid19_e/ldcs_report_e.pdf

¹⁵ G20 Finance Ministers' Communiqué
[https://g20.org/en/media/Documents/G20_FMCBG_Communiq%C3%A9_EN%20\(2\).pdf](https://g20.org/en/media/Documents/G20_FMCBG_Communiq%C3%A9_EN%20(2).pdf)

¹⁶ IMF COVID-19 Lending Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/COVID-LendingTracker>, accessed on 07 June 2020. Special drawing rights refer to international reserve assets put in place by the IMF.

The World Bank has committed US\$ 160 billion to fight the pandemic with nearly one-third going to IDA-eligible countries. This covers a considerable number of LDCs.¹⁷ So far, nearly US\$ 700 million has been allocated to LDCs in COVID-19 Preparedness and Response Projects under the COVID-19 Fast Track Facility. In addition, nearly US\$ 200 million will be provided under the Pandemic Emergency Facility (PEF) to IDA-eligible countries.¹⁸

The International Finance Corporation (IFC) has announced the allocation of US\$ 14 billion to support the health systems (US\$ 6 billion) and the businesses and livelihoods of developing countries (US\$ 8 billion);¹⁹ 40 per cent of the US\$ 8 billion package is dedicated to businesses of LDCs and other IDA-eligible countries. The key objective of this support is to provide access to working capital and trade finance.²⁰

LDC-focused components form an integral part of support announced by regional development banks. For example, out of US\$ 10 billion announced by the African Development Bank under the COVID-19 Response Facility, US\$ 3.1 billion has been allocated to concessional support to the beneficiaries of the African Development Fund, which includes all African LDCs.²¹ The support of the Asian Development Bank (ADB) in tackling the COVID-19 pandemic amounts to US\$ 20 billion, including US\$ 2.5 billion to be provided in concessional and grant form.²² In terms of LDC-specific support, the ADB has already approved a grant to Afghanistan (US\$ 40 million) to improve hospitals and purchase medical products, and loans to

¹⁷ <https://ida.worldbank.org/about/borrowing-countries>

¹⁸ <https://www.worldbank.org/en/news/press-release/2020/04/27/pef-allocates-us195-million-to-more-than-60-low-income-countries-to-fight-covid-19>

¹⁹ <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/CCCB1EAC6F61E32C8525852E0068124B>

²⁰ It is implemented through the following four programmes: Trade Finance Programme (US\$ 2 billion); Real Sector Response Facility (US\$ 2 billion); Working Capital Solutions Program (US\$ 2 billion); Global Trade Liquidity and Critical Commodities Finance programmes (US\$ 2 billion) to support local banks in providing finance to businesses.

²¹ <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-unveils-10-billion-response-facility-curb-covid-19-35174>

Bangladesh (US\$ 500 million) and Bhutan (US\$ 20 million) to provide social relief packages.

CONCLUSION

There is no doubt that the impact of COVID-19 on world trade has been huge. The protectionist policies implemented by various nations have either been for their benefit or to disprove the actions of another nation or for holding them responsible for the consequences. While the world is fighting the COVID-19 pandemic currently, one of the massive consequences of the pandemic on the economy has been largely sidelined. The possibility of an even larger number people out of jobs and livelihoods is as real as ever. Countries and International Institutions must be proactive in devising policy measures and assessing the true value of protectionist policies not just currently, but also after the pandemic.

QUESTIONS A RESOLUTION MUST ANSWER

1. What role can the WTO play in helping the developing nations overcome the consequences of the Pandemic?
2. What is the possibility of a middle ground between protectionism and free trade and how do we achieve it?
3. How can the WTO contribute to better policy formulations in case of future pandemics?
4. Due to the high possibility of a depression in the world economy, what preventive measure should nations take to lower its impact? How do we implement those measures?

5. What policies can be devised to help nations and their new industries in growing and surviving in a competitive market without the use of traditional protectionist tools?

FURTHER READINGS

https://www.wto.org/english/docs_e/legal_e/legal_e.htm#wtoagreement

https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

<http://www.oecd.org/coronavirus/policy-responses/the-impact-of-the-coronavirus-covid-19-crisis-on-development-finance-9de00b3b/>

<https://voxeu.org/article/coping-disasters-lessons-two-centuries-international-response>

<https://www.imf.org/en/About/FAQ/imf-response-to-covid-19>

<https://blogs.worldbank.org/psd/remittances-times-coronavirus-keep-them-flowing>

<https://fas.org/sgp/crs/row/R46270.pdf>

https://www.wto.org/english/tratop_e/devel_e/a4t_e/wbg_presentation_trade_policy_response_covid19_updated.pdf

<https://www.weforum.org/agenda/2020/04/protectionism-africa-pandemic-coronavirus-covid19>