World Trade Organization: Development of Global Trade
St. John's Preparatory School - Danvers, Massachusetts - December 2019

Committee Description

Originally created after WWII, the World Trade Organization was created in order to avoid future trade conflicts. It is the only current global international organization dealing with the rules of trade between nations. They deal with trade issues on a global level while agreements like NAFTA, strictly focus on the North American region, or the Doha Agenda from 2001, which is focused instead on the trade of developing countries and further allowing them to prosper and grow, are dealt with by the individual nations. Each member has of the WTO has equal power to the next and decisions are based on a global consensus. At the heart of the WTO are its agreements, negotiated and signed by the bulk of the world's trading nations and ratified by their governments. The goal is to ensure that trade flows as smoothly, predictably and freely as possible" (WTO.org). There are 164 member states in the World Trade Organization, and it is a voluntary decision whether or not to participate in it. Some countries choose just to observe the World Trade Organization's actions. The WTO negotiates international trade standards and arbitrates trade disputes in order to create the stability necessary for investment and business and trade to flourish. Unexpected changes in trade practices, such as imposing tariffs, create uncertainty and hurt investment as markets become volatile. While WTO members may want to retaliate against violators, the WTO discourages this in favor of taking a multilateral approach to all solutions to resolve issues and keep the markets working. Delegates should explore the workings of the WTO (at the link below) to fully appreciate their participation in this committee.

https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm

Statement of the Problem:

Global trade is the import and export of goods and services across international boundaries. All nations benefit from it as their economy is boosted. The problem though is that bigger and more industrialized nations tend to get more favorable treatment compared to lesser developed nations hence causing an unequal gap between the two. This is due to an economic practice known as trade barriers. They take many forms, but are not limited to tariffs, import and export licenses, import quotas, subsidies, and other trade restrictions.

Higher income countries tend to have the least trade barriers usually due to the fact that they tend to have more resources overall. They also have a big consumer market that companies would love to tap into. Meanwhile when the focus shifts to the lesser developed and low income countries they tend to have higher trade barriers when compared to the trade giants. This pattern occurs since these kinds of nations have smaller population hence a smaller consumer market. But when it comes to the advantages the smaller countries have, it can vary from geography to natural resources. A country can utilize their geography to their aid, for example: Panama and the Panama Canal. In terms of natural resources, it can be both helpful and hurtful to a nation. It can aid a sovereign state by giving them short term income. A good example would be the rich oil producing nations of the Middle East. With oil consumption around the world at an all time high, the trade has become lucrative, but there is a catch, which is the fact that natural resources can be unreliable at times. Sometimes the raw materials have been depleted or the prices for that particular resource have dropped so significantly that local companies can't make maintain a stable profit. This can lead to many more devastating effects such as mass unemployment, tanking economy, and a rise in poverty. To prevent such an outcome, some smaller and less developed countries attempt to diversify their economies by using the money they gained from

the materials. By doing this, they cut their overreliance on the resource while reinvesting this capital back into the economy, making it stronger as a result.

The developed and wealthy nations on the other hand are in a very peculiar situation. They have a bigger consumer market and more expendable income than the lesser developed countries. Due to these reasons, companies are attracted to them. Not only do these kinds of sovereign states have the means of growing their economies without much struggle, but they also have the power to place trade barriers on others. Even when it can affect their economies, it doesn't have as much of an impact since they are so financially strong that they can take a hit. One of the disadvantages they face though is the fact that if they don't have a consistent flow of raw materials pouring into their countries then the economy starts to slow. This is especially true for nations who rely on these resources.

History of the Problem

The Doha Development Round is crucial for understanding the struggle of trying to reduce the trade gap between the wealthy developed nations and their poorer less developed counterparts. Named after the Qatari capital of Doha, the negotiations commenced in 2001 with the ambitious goal of lowering trade barriers as well as helping developing countries grow. The negotiations were originally supposed to conclude in 2005, but they stalled due to the two sides refusing to make concessions. The controversial areas of the negotiations, that paralyzed it, was the fact that the western nations had came up with a plan to develop other countries without having the import barriers lowered. What changed was that sovereign states such as China and India started to export more than import, which caused the makers of the proposed deal to amend it. The new amendment would include nations such as India and China to lower their import barriers and to reduce the subsidies of farmers. The two countries refused this due to the impacts that it would have on their states. The reduction of these subsidies would have had terrible effects because they are supposed to ensure that the effects of bad weather on the food supply are mitigated. The reduction of these subsidies would have resulted in a country's food production being threatened. The westerners wanted the reduction so that the developing countries could export more food and bring western services into their markets. The other issue that caused the talks to stall were the "currency wars". This was the attempt by a country's central bank to use expansionary monetary policies to deliberately lower the value of its national currency. This was a threat to the developing countries since it increases their inflation, which hurts their economies. But even 14 years after the Doha Development Round began, the nations failed to come to an agreement hence leaving the issue unresolved.

Questions to Consider

- How do the current trade regulations disadvantage developing nations' economies?
- How do current trade practices disadvantage developing nations' economies?
- How can small nations have a more effective voice in the WTO?
- How can we help LDCs in the future?

Recommendations for Research

- Focus more on colonialism (at least a page of history). This is an important part of any conversation on global trade and commerce and why imbalances exist between MDCs and LDCs.
- In terms of potential solutions, microfinance is often discussed as a viable option for aiding small businesses in LDCs (see the Grameen Bank and Yunus, etc.). Microfinance is not without its critics, but it should be part of the conversation in some way
- It may be slightly outside the scope of this committee, but I think it's also worth considering how the global financial system disadvantages LDCs. For example, the World Bank and IMF are structured in a way that disproportionately concentrates decision-making power with a few large countries. (61% of IMF votes held by 14 out of 186 members). This, in turn is reflected in how MDCs are able to leverage trade negotiations in their favor.

- One major item to consider is the shift from bilateral to multilateral trade relationships. In other words, LDCs often get overlooked in member-based trade systems. How do we find a system that is fair for all members rather than just the primary players.
- From an economics standpoint, increased globalization gives way to comparative advantage, which in turn increases aggregate growth levels in open economies.
- Another topic we talk about a lot with international development is the New International Division of Labor. With innovations in supply chain management and product development models, LDCs are positioned to move into low-cost, low-reward manufacturing jobs where the proportional value added is not actually retained in that LDC's economy.
- Another issue is the proliferation of **unidirectional free trade**. Essentially, MDCs leverage their advantageous geopolitical and economic position to negotiate unidirectional deals that are not equitable. In other words, Western democracies negotiate one-sided trade deals with LDCs because of balancing desire for free trade options with protectionism amongst national industry.

Works Cited

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