Research Report

Special Conference 2 on Globalization

Evaluating the use of technology in reducing trade barriers

MUNISH '11

Please think about the environment and do not print this research report unless absolutely necessary.

Forum	Special Conference 2 on Globalization
Issue:	Evaluating the use of technology in reducing trade barriers
Student Officer:	Līza Leimane
Position:	Deputy Chair

Introduction

Trade has been happening for almost as long as humans have existed. Once communication was established in pre-historic times, trade was bound to take place. The exchange of goods between two parties (whether it was individuals or group of people) has taken place for a long time. This mainly happened because humans haven't been able to be self-sufficient as of yet. Therefore, they would exchange good of their own for something that they need and/or want.

Nowadays, trade isn't only happening between individuals or small groups. It is taking place on a global scale, countries importing and exporting their goods. Due to different climates they are not able to be completely self sufficient and need to import some goods. However, the exchange can be made a little bit difficult. Trade barriers can create obstacles for import and export.

This issue focuses on trade barriers and how modern technology could help in reducing them.

Definition of key terms

World Trade Organization (WTO):

WTO was established in 1995 and it covers and controls trade all over the world. The WTO has few objectives of which some include: final removal of all barriers for trade and settling trade disputes between two trading partners. The types of trade that WTO deals with, include: manufactured goods, raw materials, agricultural services, and intellectual property rights. WTO also monitors whether countries are following free trade rules. One of the aims of WTO is to bring together countries that belong to various custom unions, allowing the opportunity to take decisions on multilateral trade agreements.

Trade blocs:

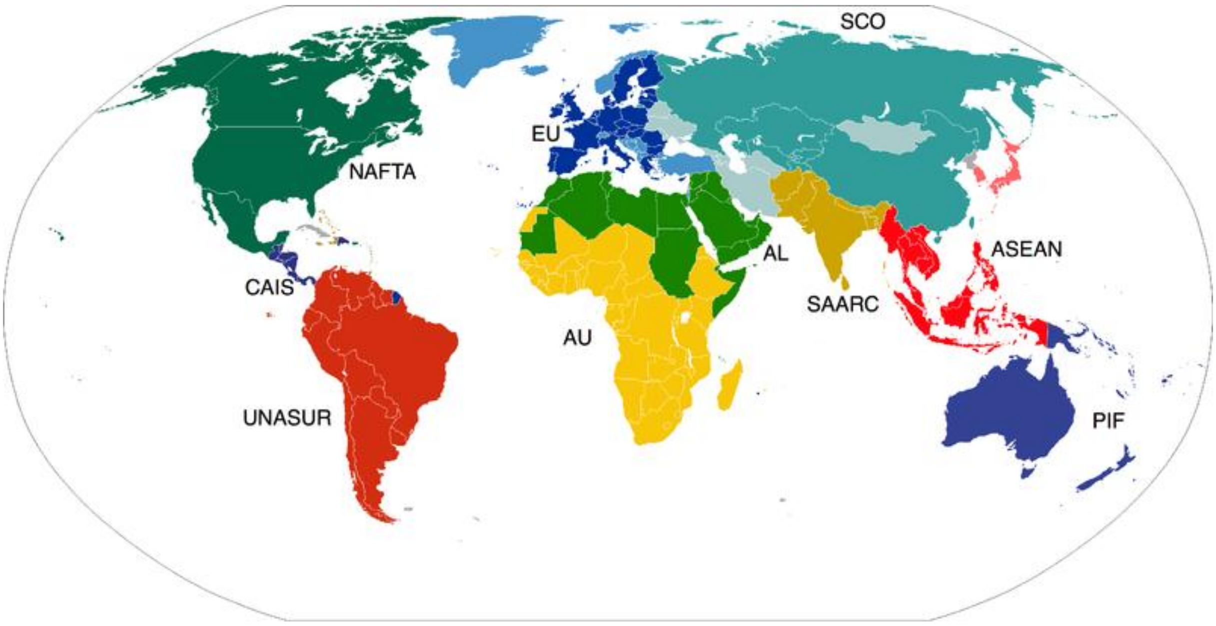
Countries sometimes create unions in order to try and increase the volume and value of their trade. These groups/unions are called trading blocs in which it is possible to eliminate custom duties between member states (it reduce the price of products). Trade is made easier within a certain area (where the member states are situated geographically) but it is harder for countries outside the trade bloc to trade with countries within it. This is because member states might set quotas or increase taxes on imports so that it is not beneficial for other to import good into their country. The two biggest trading blocs are EU (European Union) and NAFTA (North American Free Trade Agreement).

Free trade:

In theory, free trade means that there are no trade barriers or obstacles for trade to happen between any given nations. However, with the trade blocs and other types of barriers (explained below), this type of trade is almost impossible to achieve.

General overview

EU and NAFTA aren't the only trade blocs in the world. There are many others too even though we might hear about them less. The map below shows the location of different trade blocs around the world[1].



Trade has always been an important part of economy, either on local or global scale. Increasingly so during the last centuries when new parts of the world were discovered. At firs there were many colonies from which materials and products were imported to countries that had occupied them. After a while these colonies gained independence and have been trying to keep these trade links and establish new ones. Countries have been trying to limit import of products for the benefit of the county. In order to limit imports countries put tariffs or sanctions on products from countries outside their country or the trading bloc, making it more complicated for others to establish trade links.

The developing nations rely heavily on the growth of national and global economics. The global and national markets are boosted by increase in trade. However, because different countries have different regulations, sometimes it is hard for nations to trade with each other. Trade is beneficial for both parties involved in the process – whether is selling assets or buying them.

WTO has taken an initiative to try and lessen the trade barriers by setting up the The Agreement on Technical Barriers to Trade (TBT Agreement) which was set up in 1995. The aim of this treaty is to ensure that regulations, testing and certification doesn't create obstacles to trade.

[1] Active trading blocs. http://en.wikipedia.org/wiki/File:ActiveBlocs.PNG

Trade barriers are usually created by national governments. There are different types of trade barriers. The two main distinctions are made between tariff and non-tariff trade barriers.

Tariff barriers are when there is a tax on the goods that are imported into the country. It increases the price of a product and makes it more expensive to sell. In turn, customers are more likely to choose products that are cheaper and are less likely to buy the imported goods.

There are several different types of non-tariff barriers (NTBs). These barriers try to prevent an asset or a good entering the market altogether. Some examples of NTBs are:

- Import quotas: there is a fixed number on the number of goods/assets that can imported in a country;
- Subsidies: governments may subsidize different local firms; this makes local products more able to compete with non-local products because their price is reduced;
- Embargo: when a country (or an organization) bans all imports from another one. One example would be the embargo that is placed on North Korea;
- Voluntary Export Restraints (VER): is quite the opposite to an embargo. When VER is imposed, it means that a country limits itself on the exports;
- Local content requirements: sometimes, companies assemble its goods in the market where it will sell it. This way the price of a product may go down, also reducing the costs of transportation. In this case, "the company may be forced to produce a minimum percentage of the value added locally". It creates employment within the country and the imports can be reduced by a bit.

Nowadays, a lot of trade barriers are controlled by using modern technology. Internet and different software help keeping track of imports and exports. It is easier to monitor whether countries do or do not follow different regulations. For example those set up by the WTO. Moreover, supply chain management (monitoring in which parts of the world what bit in the production chain is happening) can be done from all over the world, again with the aid of technology. Software can help in determining whether or not a product has reached all (safety) requirements for it to enter a country. Internet can be used to exchange information between countries on trade (whether it is within a trade bloc or not).

Major parties involved

World Trade Organization (WTO):

Established in 1995. It covers and controls trade all over the world. The types of trade include: manufactured goods, raw materials, agricultural services, and intellectual property rights. WTO also monitors whether countries are following free trade rules. The aim of WTO is to bring together countries that belong to various custom unions, allowing the opportunity to take decisions on multilateral trade agreements. Right now, it has a total of 153 member states.

Timeline of key events:

120’000 BC	first record of long-distance commerce
	Instability and near collapse of the trade network happened after the fall of the Roman empire (mostly in Western Europe and/or western world). Trade continued in thee kingdoms of Africa, Middle East, India, China and Southeast Asia, unaffected by this.
1498	Vasco da Gama triggers European Spice trade. Prior to this, the flow of spice into Europe from India was controlled by Islamic powers.
1799	Dutch East India Company, previously the world's largest company, becomes bankrupt, one of the reasons being competitive free trade.
1929-late 1930s	Great Depression resulting in great drop in trade.
1947	23 countries agree to sign the General Agreement on Tariffs and Trade (GATT) to promote free trade.
1995	GATT is replace by WTO although the agreement is still a framework for WTO

Previous attempts to solve this issue

The Agreement on Technical Barriers to Trade (TBT Agreement)

As stated before, the TBT agreement was set up in 1995. The aim of this treaty is to ensure that regulations, testing and certification doesn’t create obstacles to trade. The last renegotiation happened in Uruguay round of GATT and the way it was adjusted then, is how it works under the WTO framework and how we see it today. The agreement prohibits requirements that are created purposefully to limit trade, but not other technical requirements that are created on legal grounds or for benefit of the environment.

General Agreements to Tariffs and Trade (GATT)

This was established in 1947 and signed by 23 countries at first. It was the outcome of a failed attempt to create International Trade Organization (ITO). In 1995 it was replaced by WTO even though the guidelines of GATT are in the framework of WTO. GATT has happened in eight rounds, each round taking place in a different part of the world. The round goes on for several years and tries to achieve reduction in tariffs. Even though GATT doesn’t technically exist anymore, the rounds still happen and the Doha (most recent) round that started in 2001 has not been concluded yet.

Possible solutions

It would be hard to completely eliminate trade barriers. That would probably happen only in a perfect world. This is because governments would always put the country's interest first. However, new software could be developed that would speed up the process of ensuring that products follow the rules set up by different countries. Computerizing the process would make it more foreseeable and easier to track. Moreover, as stated before, trade began in pre-historic times because of communication. It has always been an important factor in trade. Improved communication could help strengthening relations between countries and maybe they would consider trading with one another, reducing trade barriers.

Appendices:

I. Technical Barriers to Trade <http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm>
II. The Agreement on Technical Barriers to Trade <http://www.wto.org/english/tratop_e/tbt_e/tbtagr_e.htm>
III. General Agreement on Tariffs and Trade <http://www.ciesin.org/TG/PI/TRADE/gatt.html>

Reference list:

Agreement on Technical Barriers to Trade. Web. 04 Sept. 2011. <http://en.wikipedia.org/wiki/Agreement_on_Technical_Barriers_to_Trade>

Trade Barrier. Web. 31 Aug. 2011. <http://en.wikipedia.org/wiki/Trade_barrier>

World Trade Organization. Web. 31 Aug. 2011. <http://www.businessdictionary.com/definition/World-Trade-Organization-WTO.html>

Trade. Web. 31 Aug. 2011. <http://en.wikipedia.org/wiki/Trade>

General Agreement on Tariffs and Trade. Web. 31 Aug. 2011. <http://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade>