Background Guide

United Nations Economic and Social Council

Agenda: Tackling the Global Economic Slowdown and National Protectionism

Strawberry Fields High School Model United Nations Conference 2020

Index

Letter from the Executive Board

Greetings Delegates,

It is an honour to be serving as a part of the Executive Board at the online edition of the SFHS MUN, 2020. Please consider that the following guide, as the name suggests, is merely to provide you with the background of the agenda. Your real research lies beyond this guide and we hope to see some strong content and debate come our way.

The agenda at hand is vast and multifaceted and a successful discussion on it would entail the collective participation of all of you. It shall be your prerogative to decide the direction in which you want to take this committee. The background guide is designed to help everyone to get a basic understanding of the agenda and we strongly recommend that you research on various things on your own. We also suggest understanding how various rights get affected (legally). We expect all of you to go through the UNA-USA Rules of Procedure. If you're a first timer- do not feel taken aback on the research, foreign policy and other details of the allotted country. Take the initiative to research properly. Do research the updated information in accordance with the guide that has been given below for your convenience.

While it is a clear agenda, it still is open to interpretations and hence it becomes important for you to go through this guide properly. Delegates are required to direct the council at all stages, unless stagnation occurs. We hope to see a great level of effort and enthusiasm from you all, so that we all can take back a great experience.

Feel free to contact any member of the Executive Board in case you have any doubt or enquiry.

Happy Researching!

Regards,

Prabhmaan Singh Thapar
Chairperson

(+91-8837669384)

Razual Purewal
Vice-Chairperson

(+91-8591100039)

About the Committee

Chapter X of the Charter of the United Nations (1945) established the Economic and Social Council (ECOSOC) as a founding body and one of the six principal organs of the United Nations (UN). ECOSOC indirectly oversees the allocation of 70% of UN resources through its oversight of 14 specialised agencies and 13 functional and regional commissions. The Council is mandated to serve as the primary body for policy dialogue on economic, social, cultural, educational, and health-related topics; to advise and coordinate the activities of Member States and other UN entities on matters within this mandate; and to lead discussion on the implementation of the international development framework.

ECOSOC has undergone several reforms since its inception. In the 1960s and 1970s, developing Member States broadened the agenda of the UN and sought a stronger focus on urgent issues such as the promotion of development and the elimination of poverty. General Assembly resolution 2847(XXVI) (1971) increased ECOSOC membership from 27 to 54 in order to better reflect the UN's economic and geographic diversity. The General Assembly then adopted resolution 32/197 in 1977 to address the "Restructuring of economic and social sectors of the United Nations System" and to improve ECOSOC's effectiveness by increasing coordination with its subsidiary bodies. To avoid any duplication of work due to broad mandates, General Assembly resolution 50/227 of 1995 clarified that the role of the General Assembly is to provide policy guidance while ECOSOC's focus is on coordination of work. This interpretation was reinforced by General Assembly resolution 57/270 in 2002.

The General Assembly has implemented additional reforms over the past several years to strengthen the working methods of ECOSOC through resolution 68/1 of 2013. The 2013 reforms included an expansion of its functions and powers to enable ECOSOC to take the lead on identifying and discussing emerging challenges; to act as a policy forum for global leaders, especially concerning the integration of sustainable development efforts; and to provide a platform of accountability for all levels of monitoring and reporting on universal commitments. These reforms reinforce ECOSOC's critical role in preparing, monitoring, implementing, and facilitating global discussions around the 2030 Agenda for Sustainable Development (2015) and the Sustainable Development Goals (SDGs).

Governance, Structure, and Membership

ECOSOC is comprised of 54 members, each of which is elected by the General Assembly for overlapping three-year terms. The members are elected according to the geographical distribution of UN Member States to ensure representation from all regions and levels of development: seats are allocated to African Member States, 11 to Asian Member States, six to Eastern European Member States, 10 to Latin American and Caribbean Member States, and 13 to Western European and Other Member States. Each member has one representative and one vote in ECOSOC, and all decisions are made by a simple majority of those members present and voting. ECOSOC is governed by a President, Vice-President, and Rapporteur, in tandem with a Bureau consisting of five representatives: The President and four Vice-Presidents. All of these representatives are elected to one-year terms at the outset of each session. The Bureau is responsible for setting ECOSOC's agenda, devising action plans, and collaborating with the Secretariat on administrative duties. Its presidency rotates equally among regional blocs.

ECOSOC meets twice annually for one organisational session and one substantive session. During organisational sessions, items such as agenda setting and elections to the Bureau take place. During substantive sessions, meetings are divided into five segments focusing on separate thematic aspects of the Council's work. The working methods of the Council were further reformed through General Assembly resolution 68/1 in 2013, and its substantive work is now organised as follows:

- **High-level Segment (HLS):** The HLS includes a thematic Annual Ministerial Review, a biannual Development Cooperation Forum (DCF), and ministerial-level meetings of the High- level Political Forum on Sustainable Development (HLPF).

- **Integration Segment:** This segment consolidates important messages on primary themes and action-oriented recommendations from the Council system to harmonise the work of ECOSOC members, subsidiary bodies, and stakeholders.

- **Operational Activities for Development Segment:** This segment helps ECOSOC guide subsidiary bodies on efficient coordination of funding and policy implementation in accordance with the Quadrennial Comprehensive Policy Review.

- **Coordination and Management Meetings:** At these meetings, the Council reviews the work of its subsidiary bodies and considers the coordination of work across thematic issues within its mandate, such as gender mainstreaming. The Council works closely with the Secretariat of the Chief Executives Board for Coordination during these meetings.

- **Humanitarian Affairs Segment:** This segment serves as a thematic forum for discussing operational challenges and normative progress on humanitarian policy.

ECOSOC oversees 14 subsidiary bodies that hold their own sessions and provide recommendations, draft resolutions, and annual reports to the Council. The two most common types of subsidiary bodies are functional and regional commissions, but other subsidiary bodies include standing, ad hoc, expert, and other related bodies and committees. Each subsidiary organ has adopted specific methods of work to align with its mandate, and methods are updated regularly. Types of subsidiary bodies include:

- **Functional Commissions:** The nine functional commissions are "deliberative bodies whose role is to consider and make recommendations on issues in their areas of responsibility and expertise." Functional commissions, in particular, have a responsibility to follow-up on the thematic considerations of major UN conferences and take measurable action in accordance with the role of ECOSOC.

- **Regional Commissions:** The five regional commissions aim to foster economic integration, oversee the implementation of regional sustainable development initiatives, and help address economic and social issues in sub-regions by promoting multilateral dialogue, cooperation, and collaboration within and between regions. As regional commissions target problems and challenges within their geographical scope, members in most cases are Member States from this region.

- **Expert Bodies:** The bodies that fall into this category are focused on specific topics that ECOSOC has identified as important and deserving of additional attention or particular expertise. These bodies consider issues falling within a narrower scope of the Council's work, with explicit mandates to improve the information, guidance, policy or regulations on the issue, with the particular aim of providing coherence and consistency at the international level. Expert bodies are composed of either governmental experts, as in the case of the UN Committee of Experts on Global Geospatial Information Management, or members serving in their personal capacity, as in the case of the UN Permanent Forum on Indigenous Issues.

Mandate, Functions, and Powers

The Charter of the United Nations mandates ECOSOC to "make or initiate studies and reports with respect to international economic, social, cultural, educational, health, and related matters" including human rights and freedoms, to the General Assembly and its specialised agencies. ECOSOC may also provide information to and assist the Security Council when necessary. As emphasised by recent reforms accentuating this role, ECOSOC also provides coordination, monitoring, and advice to UN programs, agencies, and funds on international development policies and their implementation. Examples of this coordination role include facilitating cooperation between economic institutions like the World Bank and International Monetary Fund in 1998 and establishing what has become ECOSOC's HLS in 2007.

ECOSOC fulfils its mandate both through its subsidiary bodies and in consultation of a broad range of civil society actors (CSAs). At present, there are 5,083 non-governmental organisations (NGOs) with consultative status that may attend and participate in various UN meetings, conferences, and special sessions to voice their concerns to the international community. Consultative status is granted by ECOSOC's Committee on NGOs, which was established in 1946 and is comprised of 19 Member States. The Committee on NGOs reports directly to ECOSOC on the procedural and substantive matters raised by CSAs. ECOSOC resolution 1996/31 of 1996 defines the principles, eligibility requirements, rules, procedures, obligations, and responsibilities for NGOs and the UN in establishing the consultative relationship. On 11 June 2018, the Committee on NGOs adopted the report of its 2018 resumed session, in which it recommended that ECOSOC grant consultative status to 209 NGOs.

Pre - COVID-19 Status of Economies

The current global economic crisis cannot be solely blamed on the outbreak of COVID-19 but rather is caused due to structural problems in global economies. Even before the outbreak, the European economy was left with little to no monetary policy room in order to tackle any contingent problems due to negative interest rates, Latin America was the slowest growing region in the southern hemisphere and emerging market economies like India and China were also facing economic issues which required structural changes in their economies to tackle demand and debt problems respectively. The United States of America was perhaps the only sound economy, which was undergoing its largest boom period ever, but fears of recession were growing characterised by an inverted yield cover. The US-China trade war, discussed in detail further, was also taking a toll on the economies of US and China thereby indirectly influencing the economies of other countries which were dependent on these two economic powers for trade.

Even before the outbreak of the pandemic, the IMF in the WEO released projected growth figures at 3.3% for 2020 and 3.4% for 2021 signalling negative surprises to economic activity in emerging market economies, especially India. The economists, however, expected positivity in the economy as they expected the slowdown to bottom out due to accommodative monetary policies all over globe, Good news on the US-China front and easing of geopolitical tensions, Less fears of a no deal Brexit etc.

Pre-Covid-19, many economies were already facing many structural problems. India was (and still is) facing structural reforms as banks and financial institutions were not incentivised enough to undertake retail lending and were undertaking majorly corporate lending, despite growing corporate Non Performing Assets on the Banks's Balance sheet, which meant less money in the hands of the consumers and more money with the producers. The interest rates were not following a downward trend in the RBI policy rate due to a high credit default risk spread.

In China, the economy is facing a problem of over-mounting debt which is at nearly 300% of its GDP thereby making it nearly impossible for the corporations in China to take any further loans due to the companies being over leveraged. However, like Japan, China has been a magic economy and even with such levels of debt which would've led to loss of confidence and a recession in other countries, China still continued to grow its economy by taking certain capacity reduction measures for optimal utilisation of its resources. In wake of the pandemic, Chinese administrators will do anything possible to reach as close as humanly possible to their GDP targets. The USA was experiencing its longest boom period before the outbreak of covid-19 thanks to President Trump's debatable but successful economic and financial policies. However, there were growing fears in the US over a recession due to the inversion of the yield curve and the length of the boom period which made people sceptical about the continuation of goof days for the US economy. In the US, the main economic problem faced by the country was a loss of confidence among people in its economy. The gap between the real economy and the stock market continues to exist which might be a sign of an impending bubble.

In Europe, bond yields and policy rates were negative implying that the government, banks and corporations were actually giving money in the hands of the people for taking a loan and charging money from them for parking their money in government and corporate bonds. The bond yields were negative because many foreign investors had invested in European bonds which led to excessive demand for them, thereby driving the price up and the yield down (bond prices and bond yields have an inverse relation). Policy rates were negative in order to incentives people to undertake economic activity and to push inflation up to a suitable level of 2% (from near 1%) in order to facilitate growth.

The Impact Of COVID - 19 on Economies

Amid the coronavirus pandemic, several countries across the world resorted to lockdowns to “flatten the curve” of the infection. These lockdowns meant confining millions of citizens to their homes, shutting down businesses and ceasing almost all- economic activity. According to the International Monetary Fund (IMF), the global economy is expected to shrink by over 3 per cent in 2020 – the steepest slowdown since the Great Depression of the 1930s.

China’s GDP dropped by 36.6 per cent in the first quarter of 2020, while South Korea’s output fell by 5.5 per cent, since the country didn’t impose a lockdown but followed a strategy of aggressive testing, contact tracing and quarantining.
In Europe, the GDPs of France, Spain and Italy fell by 21.3, 19.2 and 17.5 per cent respectively.

Certain important sectors of the economy affected by COVID-19 include:

Oil and Natural Gas

Due to the fall in travel, global industrial activity has been affected. Oil prices fell further in March as the transportation section, which accounts for 60 per cent of the oil demand, was hit due to several countries imposing lockdowns.

Not only oil, early this year in China, due to COVID-19 related containment measures, the demand for natural gas fell, as a result of which many Chinese LNG buyers halted their imports as storage tanks filled.

Industrial Metals

Due to lockdowns in China, followed by in the US and Europe, the demand for industrial metals reduced as factories shut down. As per IMF, China accounts for roughly half of the global demand for industrial metals.

Food and Beverages

IMF projects a decrease in food prices by 2.6 per cent in 2020, caused by supply chain disruptions, border delays, food security concerns in regions affected by Covid-19 and export restrictions.

In the lockdown period, while the price of cereals, oranges, seafood and arabica coffee has increased, prices of tea, meat, wool and cotton have declined. Further, the decline in oil prices has put a downward pressure on the prices for palm oil, soy oil, sugar and corn.

How have Countries coped?

According to an assessment by the World Economic Forum (WEF), supporting SMEs and larger businesses is crucial for maintaining employment and financial stability.
Many advanced economies in the world have rolled out support packages. While India's economic stimulus package is 10% of its GDP, Japan's is 21.1%, followed by the US (13%), Sweden (12%), Germany (10.7%), France (9.3%), Spain (7.3%) and Italy (5.7%).

However, the WEF notes, *"...there is concern that the size of packages may prove insufficient for the duration of the crisis; that disbursement may be slower than is needed; that not all firms in need would be targeted; and that such programmes may be overly reliant on debt financing."*

In Asia, countries including India, China, Indonesia, Japan, Singapore and South Korea account for about 85% of all the Covid-19 cases on the continent.

South Korea stands out, since business and economic activities were not completely stopped and therefore, their economy was not severely affected.

Further, even as economic activity resumes gradually, the situation will take time to normalise, as consumer behaviours change as a result of continued social distancing and uncertainty about how the pandemic will evolve.

For instance, in its World Economic Outlook report for 2020, the IMF mentions that firms may start hiring more people and expanding their payroll only slowly, as they may not be clear about the demand for their output.

Therefore, along with clear and effective communication, broad monetary and fiscal stimuli will be required to be coordinated on an international scale for maximum impact, and, *"would be most effective to boost spending in the recovery phase."*

The outbreak of pandemic Covid-19 all over the world has disturbed the political, social, economic, religious and financial structures of the whole world. World's topmost economies such as the US, China, UK, Germany, France, Italy, Japan and many others are at the verge of collapse. Besides, stock markets around the world have been pounded and oil prices have fallen off a cliff. In just a week 3.3 million Americans applied for unemployment and a week later another 6.6 million people started searching for jobs. Also, many experts on economic and financial matters have warned about the worsening condition of global economic and financial structure. Such as Kristalina Georgieva, Managing Director of International Monitory Fund (IMF), explained that "a recession at least as bad as during the Global Financial Crisis or worse". Moreover, Covid-19 is harming the global economy because the world has been experiencing the most difficult economic situation since World War-II. The human cost of the Coronavirus pandemic is immeasurable. Therefore, all countries need to work together with cooperation and coordination to protect the human beings as well as limit the economic damages.

For instance, the lockdown has restricted various businesses such as travelling to contain the virus, consequently, this business is coming to an abrupt halt globally.
Keeping in a view the staggering situation G-20 nations called an emergency meeting to discuss worsening conditions and prepare a strategy to combat

Covid-19 as losses could be reduced. The spread of the epidemic is picking up speed and causing more economic damages. It is stated by the U.S. official from federal reserves that American unemployment would be 30% and its economy would shrink by half. As for as the jobs of common people, there is also a real threat of losing their jobs because with business shutting down that shows that companies will be unable to pay to workers, and as a result, they have to lay off them. While when it comes to the stock market, it is severely damaged by Covid-19, such as seen with the stock market of the United States being down about 30%. By looking over the existing condition of several businesses, most of the investors are removing its money from multiple businesses in this regard $83 billion has already removed from emerging markets since the outbreak of Covid-19. So, the impact of Covid-19 is severe on the economic structure of the world because people are not spending money resultantly businesses are not getting revenue therefore most of the businesses are shutting up shops.

It also observed that the economic recovery from this fatal disease is only possible by 2021 because it has left severe impacts on the global economy and the countries face multiple difficulties to bring it back in a stable condition. Most of the nations are going through recession and collapse of their economic structure that points out the staggering conditions for them in this regard almost 80 countries have already requested International Monetary Fund (IMF) for financial help, including the Prime Minister of Pakistan, Imran Khan, also requesting the IMF to help Islamabad fight against Novel Coronavirus.

Furthermore, there is uncertainty and unpredictability concerning the spread of Coronavirus. So, the Organisation for Economic Cooperation and Development (OECD) stated that global growth could be cut in half to 1.5% in 2020 if the virus continues to spread. Most of the economists have already predicted about the recession to happen because there is no surety and still no one knows that how for this pandemic fall and how long the impact would be is still difficult to predict. Besides, Bernard M. Wolf, Professor at the Schulich School of Business, said that *"it is catastrophic and we have never seen anything like this, we have a huge portion of the economy and people under lockdown that's going to have a huge impact on what can be produced and not produced"*.

As Covid-19 has already become a reason for closing the multiple businesses and closure of supermarkets which seems empty nowadays. Therefore, many economists fear and predicted that the pandemic could lead to inflation. For instance, Bloomberg Economics warns that "full-year GDP growth could fall to zero in a worse-case pandemic scenario". There are various sectors and economies that seem most vulnerable because of this pandemic, such as, both the demand and supply have been affected by the virus, as a result of depressed activity Foreign Direct Investment flows could fall between 5 to 15%. Besides, the most affected sectors have become vulnerable such as tourism and travel-related industries, hotels, restaurants, sports events, consumer electronics, financial markets, transportation, and overload of health systems. Diane Swonk, Chief Economist at the Advisory Firm Grant Thornton, explained that "various nations have multinational companies that operate in the world because the economy is global. For instance, China has touch-points into every other economy in the world, they are part of the global supply chain. So, one should shut down production in the U.S. by shutting down production in China". Besides, Kristalina Georgieva in a press release suggested that four things need to be done to fight against Covid-19 and avoid or minimise losses. Firstly, continue with essential containment measures and support for the health system. Secondly, shield affected people and firms with large timely targeted fiscal and financial sector measures. Thirdly, reduce stress to the financial system and avoid con tangent. Fourthly, must plan for recovery and must minimise the potential scaring effects of the crisis through policy action. Concerning the serious and worsening conditions all over the world, nations need cooperation and coordination among themselves including the help and mature as well as sensible behaviour of people to effectively fight against Coronavirus. Otherwise, because of the globalised and connected world, wrong actions and policies taken by any state will leave a severe impact on other countries as well. This is not the time of political point-scoring and fight with each other rather it is high time for states to cooperate, coordinate, and help each other to defeat this fatal pandemic first for saving the global economic and financial structure.

Oil Price Stability

Due to the outbreak of covid-19, there was a huge fall in global oil prices due to a demand slump. April's WTI crude oil futures were trading in the negatives on the last day before the expiry of the contract due to overwhelming selling pressure of these contracts as no one wanted to buy oil due to nationally imposed lockdowns in many countries which halted business activity. This fall in price of oil can be solely linked to a demand slump of oil. Due to this demand slump, many oil producers were left facing capacity issues as they had drilled the oil assuming it to be a moving commodity but due to the sudden outbreak of the pandemic, had to store it with them. Oil producing corporations were willing to face losses on trade just to clear out their inventories.

The OPEC-Plus deal between Saudi Arabia, Russia and major oil producing countries, brokered by the US, to cut their production of oil by a 10th of global supply in order to stabilise global oil prices. However, experts argue that these production cuts are not nearly enough given the slump in demand for oil. This deal comes at a time when Saudi Arabia and Russia were in an oil price war after Russia's refusal to cut production by 1.5 million barrels a day, proposed to keep oil prices moderate. This proposal came at a time when China, the world's biggest importer of crude oil started turning oil tankers away due to the ongoing pandemic. Oil price stability is of high political and economic importance as it defines geopolitical strength and also influences strength and valuation of currencies in the global market. Crude oil, till date is the largest source of energy and the biggest income/ outflow in the balance of payment accounts of various countries.

United States of America and China Trade War

Introduction

The United States and China are the two largest economies in the world. Chinese foreign trade grew rapidly after its ascension into the World Trade Organisation in 2001, with bilateral trade between the US and China almost US$559 billion in 2019.

However, that trade was lopsided, with the US running a large and growing trade deficit with China, which became a major political issue in the 2016 US presidential campaign. The US trade shortfall rose to US$375.6 billion in 2017 before the start of the trade war, from US$103.1 billion in 2002.

The deficit rose further to US$378 billion in 2018, before easing slightly to US$345.6 in 2019 after the start of the trade war, according to the Office of the US Trade Representative.

The US and China imposed additional tariffs on goods imported from the other country, meaning buyers in the opposing country would need to pay higher import taxes to bring their purchases into the country.

At its peak at the end of 2019, the US had imposed tariffs on more than US$360 billion worth of Chinese goods, while China had retaliated with import duties of their own worth around US$110 billion on US products.

US President Donald Trump promised during his 2016 presidential campaign to reduce the large trade deficit with China, which he claimed was based in large part on unfair Chinese trading practises, including intellectual property theft, forced technology transfer, lack of market access for American companies in China and an uneven playing Field caused by Beijing's subsidies for favoured Chinese companies.

China, meanwhile, believes the US is trying to restrict its rise as a global economic power.

Timeline of the trade war

6 July 2018

US places 25% duties on around US $34 billion of imports from China, including cars, hard disks and aircraft parts. China retaliates by imposing a 25% tariff on 545 goods originating from the US worth US $34 billion, including agricultural products, automobiles and aquatic products

23 August 2018

Washington imposes 25% tariffs on another US$16 billion of Chinese goods, including iron and steel products, electrical machinery, railway products, instruments and apparatus. China responds by applying 25% tariffs on US$16 billion of US goods, including Harley-Davidson motorcycles, bourbon and orange juice.

24 September 2018

US places 10% taxes on US$200 billion of Chinese imports. China responds by placing customs duties on US $60 billion of US goods

1 December 2018

Xi Jinping and US counterpart Donald Trump agree to a ceasefire at the G20 summit in Argentina, with the US suspending a tariff from 10% to 25% on US$200 billion of Chinese goods that was due to come into force on January 1.

14 December 2018

China suspends tariffs on US-made cars and car parts for three months from

January 1, and also resumes its purchase of US soybeans

10 May 2019

After trade negotiations break down, the US increases tariffs on US$200 billion worth of Chinese goods from 10% to 25%. China responds by announcing that it will increase tariffs on US$60 billion worth of US goods from June 1.

15 May 2019

US Department of Commerce announces the addition of Huawei to its “entity list’, which effectively bans US companies from selling to the Chinese telecommunications company without approval .

31 May 2019

China announces that it will establish its own unreliable entities list.

1 June 2019

China increases tariffs on US$60 billion worth of US products.

29 June 2019

Xi Jinping and Donald Trump agree a trade war truce at the G20 summit in Japan, delaying the imposition of new US tariffs of up to 25% on US$300 billion worth of Chinese goods.

1 August 2019

Donald Trump announces plans to impose a 10% tariff on US$300 billion of Chinese goods from September 1.

5 August 2019

US designates China as a "currency manipulator" after the yuan weakened to below 7 to the US dollar.

13 August 2019

Donald Trump announces that planned levies on many of the US$300 billion of Chinese products threatened to start in September 2019 have either been delayed or removed. Levies of 10% on US$155 billion of products such as including phones, laptop computers and video game consoles will be delayed until December 15.

23 August 2019

China announces tariffs of 5 and 10% on US$75 billion of US goods from September 1 and December 15. China also confirms it will reinstate tariffs on US cars and car parts from December 15.

1 September 2019

US tariffs on more than US$125 billion worth of Chinese imports begins as expected.

11 September 2019

China announces that it will offer exemptions to 16 types of US imports from additional tariffs, which include products such as pesticides, animal feeds, lubricants, and cancer drugs. Donald Trump agrees to delay new tariffs on US$250 billion worth of Chinese goods from October 1 to October 15 as a good will gesture to avoid the 70th anniversary of the People's Republic of China.

13 September 2019

China announces it will exclude imports of US soybeans, pork, and other farm goods from additional trade war tariffs.

11 October 2019

US announces that it will delay a planned tariff increase of 25% to 30% on US$250 billion of Chinese goods set for October 15 following trade talks in Washington.

13 December 2019

China and the US agree to a phase one trade deal days before a 15% tariff was set to be imposed on around US$160 billion of Chinese goods. The US agree to reduce tariffs on US$120 billion of Chinese goods imposed in September. China suspended tariffs on US goods also due to come into force on December 15.

15 January 2020

China and the US sign a Phase One trade deal. As part of the deal, China agree to buy an additional US$200 billion of American goods and services over the next two years. The deal results in the suspension of a planned December tariff on around US$162 billion in Chinese goods, with an existing 15% duty on imports worth around US$110 billion halved.

14 February 2020

China halves additional tariffs on US$75 billion of American products imposed in 2019, including automotive and agricultural goods like pork, chicken, beef and soybeans, chemicals, crude oil, whiskey, and seafood. China also lifted an import ban on live poultry products from the US.

12 May 2020

China announces a second batch of trade war tariff exemptions covering 79 American products, including ores, chemicals and certain medical products.

14 May 2020

China allows imports of barley and blueberries from the US.

Impact of COVID-19 on the Trade War

The U.S. and China seemed to be starting the year out strong after on January 15, President Trump and China's chief trade negotiator, vice-premier Liu He, signed the "phase one" of a trade deal meant to halt the countries' almost two-year-old trade war.

Just days later, it became apparent that a new coronavirus outbreak that had started in the central industrial hub of Wuhan was spreading fast across China. Businesses, which were already preparing to close down during the weeklong Lunar New Year holiday at the end of January, have stayed shuttered for weeks afterwards, putting a strain on consumption and making a serious dent in China's manufacturing productivity and exports.

China's exports collapsed by 17.2% in January-February compared with the same period last year, according to data released Saturday. Moreover, the country reported a rare trade deficit, of $7.1 billion, the first since March 2018.

The data call into question China's ability to purchase, as agreed in the trade deal, $77 billion worth of goods from the U.S. this year including agricultural and energy products, services and manufactured goods.

COVID-19 also adds to the uncertainty of U.S. companies operating in China, which were hoping for a respite from the countries' trade frictions. A study released Tuesday by the American Chamber of Commerce in China (AmCham China) showed that uncertainties in the China-U.S. economic relationship were the primary reason, selected by 28% of respondents, for paring down investment in China, followed by the country's slowing economic growth.

China's imports from the U.S. have grown by 2.5% in the First two months of the year compared to the same period last year, while exports plunged 27.7%, according to Chinese customs data.

The drop was heavily influenced by factory shutdowns across China in January and February when authorities tried to contain the coronavirus outbreak. The numbers could, however, understate the depth of China's economic slowdown, says Rory Green, an economist at the London-based consultancy TS Lombard. The data doesn't account for seasonality, as February's weak factory output was compared to similarly low production levels last year, when the Lunar New Year holiday fell in February.

More concerning data came out earlier this month. The manufacturing purchasing managers' index (PMI), a gauge for manufacturing activity, crashed to a record low of 35.7 in February – below the 38.8 index registered in November 2008, at the start of the global recession. A Figure under 50 signifies contraction. While there is widespread expectation that China's economy will struggle in the First quarter of the year, with some observers expecting the First economic contraction since 1976, there will be room for the economy to recover by the end of the year, says Sun Lijian, director of the Financial Research Centre at Fudan University in Shanghai. A key factor is how quickly the epidemic is controlled and businesses can resume normal operations. Nevertheless, the companies are bracing for a drop-in revenue due to the outbreak

What is Trade Protectionism?

Trade protectionism is a policy that protects domestic industries from unfair competition from foreign ones. The four primary tools are tariffs, subsidies, quotas, and currency manipulation. Protectionism is a politically motivated defensive measure. In the short run, it works, but it is very destructive in the long term. It makes the country and its industries less competitive in international trade.

Four Protectionist Policies

The most common protectionist strategy is to enact tariffs that tax imports that immediately raise the price of imported goods. They become less competitive when compared to local goods. This method works best for countries with a lot of imports, such as the United States.

The chart below shows the share of tariffs collected on U.S. imports since 1790. Tariffs hit a record 57.3% in 1830 due to the Tariff of Abominations. They hit a record low in 2008 at 1.2%

The Use of Subsidies

Governments also frequently subsidise local industries to help them compete in the global market. Subsidies come in the form of tax credits or direct payments. The most commonly used are farm subsidies. That allows producers to lower the price of local goods and services. This support makes the products cheaper, even when shipped overseas. Subsidies work even better than tariffs. This method works best for countries that rely mainly on exports.

But sometimes subsidies can have the opposite effect. The Agricultural Adjustment Act of 1933 allowed the government to pay farmers not to grow crops or livestock. The government wanted to control supply and increase prices. Farmers could also let their fields rest and regain nutrients due to overproduction. It helped the agriculture industry but raised food costs during the Depression.

Using Import Quotas and Currency Manipulation

A third method is to impose quotas on imported goods. This method is more effective than the first two. No matter how low a foreign country sets the price through subsidies, it can't ship more goods.

Most textbooks omit the fourth type of trade protectionism because it is subtle. It is a deliberate attempt by a country to lower its currency value. This currency manipulation would make its exports cheaper and more competitive. This method can result in retaliation and start a currency war. One way in which countries can lower their currency's value through a fixed exchange rate, like China's yuan. Another way is by creating so much national debt that it has the same effect. Some countries criticise the U.S. government for doing that, creating a U.S. dollar decline.

Anti-Protectionism

Since the Smoot-Hawley Act, most countries have been anti-protectionist. They realise protectionism lowers 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.

The largest agreement is the North American Free Trade Agreement. It is between the United States, Canada, and Mexico. The Trans-Pacific Partnership would have been larger, but President Trump withdrew the United States from that agreement. As a result, the other involved countries have formed their own accord. If China decides to join them, it will replace NAFTA as the world's largest trade pact.

Also, in the running for the world's largest trade agreement would have been the Transatlantic Trade and Investment Partnership. It was between the European Union and the United States. But the Trump administration has not pursued it.

Another large multilateral trade pact is the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR), between the United States and Central America.

There are also bilateral agreements with Chile, Colombia, Panama, Peru, and Uruguay. The United States also has agreements with the Middle Eastern countries of Israel, Jordan, Morocco, Bahrain, and Oman.

But FTAs don't eliminate protectionist measures like subsidies or currency wars. One of the disadvantages of NAFTA was that subsidised U.S. farm products put Mexican farmers out of business. However, despite their disadvantages, for some countries and industries, free trade agreements have more pros than cons.

The Bottom Line

In a global economy, protectionism is damaging to everyone. Trump's "America First" economic policy could hurt the U.S. economy in the long run. Tariff imposition on imports from China, Canada, EU, Mexico, and India have triggered retaliatory tariffs. A trade war with these large economies leads to serious consequences for U.S. exporters and the labour force.

But the immediate losers will be the global consumers. They will be forced to pay inflated prices. High costs could create inflation around the world.

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.

Questions to Consider

- The way forward: how to stabilise and develop relief for economies- focus on packages, employment structures and cross border movements
- How will business be impacted? What's the status of Supply Chains? Are they being internalised?
- What will the expected growth be? Is business environment hostile? Will it continue to be the same?
- Investor inhibition? How to tackle it?

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