CANIMUN

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

SOUTH-EAST ASIAN TRADE AND DEVELOPMENT CONFERENCE

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CANADA
United Nations Association in Canada
Association canadienne pour les Nations Unies

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Note: (*) asterisk indicates sections that are highly recommended to read if you are not familiar with the principles of Economics. However, if you have taken a first-year level university introduction to economics class (e.g. ECON 1000) these sections are optional to read over, but even for delegates with a strong understanding of economics we recommend that you read over these sections for review.

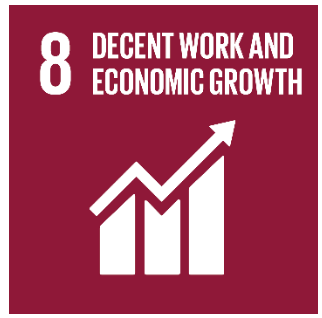
COMMITTEE ABSTRACT

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 with the mandate to promote global convergence of the new international economic order. In contrast to the traditional Bretton Woods international economic institutions, namely the World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank (WB), UNCTAD's work provides an alternative to mainstream economic policy making. In response to the historic price decline of primary products relative to manufactured goods, causing a deterioration in terms of trade for primary commodity exporters, UNCTAD's work is focused on reducing the asymmetries across international flows of trade, finance, technology, and vulnerabilities to external shocks to developing economies. The focus of the South-East Asia Trade and Development Conference is to provide real economic and public policy solutions to the most pressing issues of the day. After having experienced high consecutive capital inflows to South-East Asia, a major regional concern is the formation of asset bubbles which threatens economic stability. In addition to the looming economic concerns, China's territorial claims in the South China Sea have increased regional political tensions between ASEAN member-states and China. Growing territorial disputes are at the verge of triggering an all-out global trade war. We arrive in 2024, an ensuing regional trade crisis threatens sound growth, investment, and development. As part of the fifteenth session of the United Nations Conference on Trade and Development you will establish innovative trade, development, and political solutions in response to global economic havoc. Through UNCTAD's think, debate, and deliver mandate you will be part of a diverse forum developing real policy solutions inclusive of the United Nations Sustainable Development Goals (SDGs).

Can you prevent the next global trade war?

WELCOMING STATEMENT TO THE CANIMUN UNCTAD COMMITTEE

Welcome delegates to the Canadian International Model United Nations (CANIMUN) committee on the United Nations Conference on Trade and Development (UNCTAD). We would like to convey our warmest greetings to our delegates from across Canada and around the world who have traveled to our Nation's Capital (Ottawa) to participate in this influential event. Most importantly, we would like to express our gratitude to everyone from the Canadian International Model United Nations (CANIMUN) and the United Nations Association in Canada (UNA-Canada) for making this opportunity available to so many Canadians and people from around the world. The challenges facing progressive international trade and development continue to present a barrier to global peacebuilding and security. Given the rise of national unilateralism in the global trade landscape, the United Nations Conference on Trade and Development plays an essential role in balancing the benefits from unfettered market access while taking into account global inequities. By formulating positive agenda policies, through UNCTAD's think, debate, and deliver mandate, you will be at the centre of solving the most imperative global economic confrontation.



ABOUT THE AUTHORS

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THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT:

OVERVIEW

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 with the UN General Assembly mandate to promote global convergence of the new international economic order.[1] In contrast to the traditional Bretton Woods international economic institutions, namely the World Trade Organization (WTO – formerly the General Agreement on Trade and Tariffs), International Monetary Fund (IMF), and World Bank (WB), UNCTAD's work provides an alternative to mainstream economic policy making. The UNCTAD was established after the failure of the International Trade Organization (ITO). The ITO was established by the Havana Charter (1847-1948) in which countries negotiated a new international trading system with a focus on giving technical assistance to developing countries and strict rules on establishing international commodity agreements.[2] However, the Havana charter was never ratified by the United States in objection to the ITO's inclusive international trading system. The failure of the ITO signified a new global economic order under which selective protectionism eliminated the possibility of inclusive development. As the industrialized countries moved ahead with greater economic integration, under the General Agreement on Tariffs and Trade (GATT), many developing countries felt discriminated against. In 1964 the Group of 77 (United Nations coalition of developing nations) formed the UNCTAD as a commission of the United Nations System serving a dual role under the General Assembly and the Economic and Social Council.

The centre of UNCTAD's work is focused on reducing the asymmetries across international flows of trade, finance, technology, and vulnerabilities to external shock to developing economies by advanced economies.[3] In response to the ongoing trade and development issues not addressed by the traditional Bretton Woods system, the UNCTAD achieved initiatives such as establishing special drawing rights (SDR's), 0.7 percent of GDP aid target, Global System of Trade Preferences (GSTPs), need for external debt relief aid, and inclusion of the Sustainable Development Goals (SDGs). The UNCTAD provides a wide-ranging critique of neoclassical economic ideology on trade and development issues. The UNCTAD provides an alternative to finance-driven globalization, which has allowed "the financial sector expand significantly and international capital mobility…has soared following successive waves of financial innovation and market deregulation".[4] Today the UNCTAD is governed by 194 member states with a primary focus on sustainable development focusing on trade, finance, investment and technology. Simply, the UNCTAD's mandate can be summed up in

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[1] Saad-Filho, Alfredo and Joanne Tomkinson. "Walking the Tightrope: UNCTAD, Development and Finance-Driven Globalization: Assessment: UNCTAD Trade and Development Report 2015." *Development and Change* 48, no. 5 (2017): 1168-1181.

[2] Karshenas, Massoud. "Power, Ideology and Global Development: On the Origins, Evolution and Achievements of UNCTAD: Focus: The Origins, Evolution and Achievements of UNCTAD." *Development and Change* 47, no. 4 (2016): 664-685.

[3] Saad-Filho, Alfredo and Joanne Tomkinson. "Walking the Tightrope: UNCTAD, Development and Finance-Driven Globalization: Assessment: UNCTAD Trade and Development Report 2015." *Development and Change* 48, no. 5 (2017): 1168-1181.

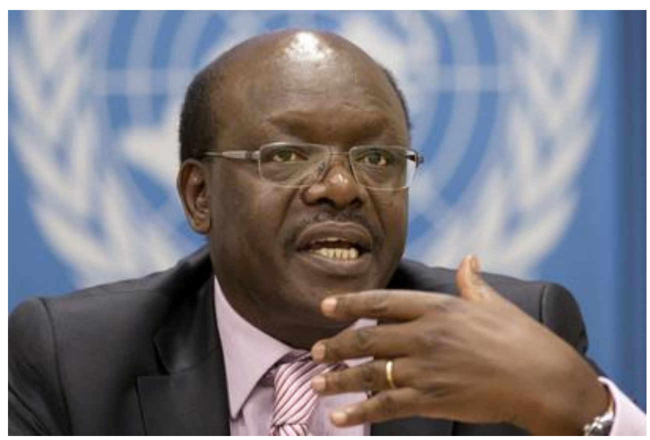
[4] United Nations Conference on Trade and Development. *Trade and Development Report 2015*. Geneva: United Nations, 2015. https://unctad.org/en/PublicationsLibrary/tdr2015_en.pdf.

three words: think, debate, deliver.[5] In tandem as a negotiating forum, the UNCTAD carries out economic research producing innovative policy recommendations to support government decision-making and offers direct technical assistance to help countries integrate into the global economy. However, UNCTAD is not an autonomous institution, which does not have the political nor financial mandate to see its policies come to fruition; rather, UNCTAD works as a forum to reach workable compromises between advanced and developing economies on issues of trade and development.[6] Although, with the uncertainty of the WTO's 2014 Doha (Development) Round of trade negotiations, the UNCTAD could serve as an alternative in promoting inclusive international economic integration.

UNCTAD CASE STUDY

GENERALIZED SYSTEM OF PREFERENCES (GSP) AND GLOBAL SYSTEM OF TRADE PREFERENCES AMONG DEVELOPING COUNTRIES (GSTP)

The Generalized System of Preferences (or GSP) is a preferential tariff system which provides tariff exemptions from more general rules of the World Trade Organization (WTO). The Generalized System of Preferences is a system of exemptions adopted from the most favoured nation principle (MFN). The MFN principle obliges member countries of the WTO to treat the imports of all other WTO member countries no worse than they treat the imports of their "most favoured" trading partner. In contrast to the MFN principle, a Generalized System of Preferences (GSP) allows selected products originating in developing countries increased market access to developed countries by granting reduced or zero tariff rates over MFN rates.[7] An important caveat of UNCTAD's GSP scheme is that a system of trade preferences for other countries could only be established if such tariff systems where "generalized, non-reciprocal, [and] non-discriminatory system of preferences in favour of the developing countries" (Resolution 21 (ii) UNCTAD).[8] Therefore, developed countries could not establish GSP schemes that only benefit a few of their trading partners. GSP systems had to be generalized and non-discriminatory in nature.



Resolution 21 (ii) from UNCTAD II Conference, New Delhi, 1968

"the objectives of the generalized, non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced among the developing countries, should be:

(a) to increase their export earnings;

[5] United Nations Conference on Trade and Development. *UNCTAD At A Glance.* Geneva: United Nations, 2017. https://unctad.org/en/PublicationsLibrary/osgciomisc2017_en.pdf?user=17.

[6] Karshenas, Massoud. "Power, Ideology and Global Development: On the Origins, Evolution and Achievements of UNCTAD: Focus: The Origins, Evolution and Achievements of UNCTAD." *Development and Change* 47, no. 4 (2016): 664-685.

[7] "About GSP." *United Nations Conference on Trade and Development*. Accessed January 11, 2019. https://unctad.org/en/Pages/DITC/GSP/About-GSP.aspx.

[8] Ibid.

(b) *to promote their industrialization; and*
(c) *to accelerate their rates of economic growth."*[9]

In 1968 UNCTAD was the first international trade organization to implement a formal GSP system. In 1971 the World Trade Organization (WTO) adopted its own GSP system based off UNCTAD's GSP system, and in 1979 the WTO made the GSP a permanent exemption to the MFN obligation by use of an enabling clause. A GSP system to facilitate fair international trade has been criticized for not providing necessary protections to domestic producers of simple manufactured goods in developed countries. Therefore, many of the goods most critical for developing countries' exports have been denied recognition under the GSP system. This has led to criticism that a GSP system does not cover products of greatest export interest to low-income developing countries.[10] In retrospect the GSP has proved to have mixed results affecting developing countries unevenly with the richer developing countries benefiting the most. Currently, there are 13 national GSP schemes notified to the UNCTAD secretariat. The following countries grant GSP preferences: Australia, Belarus, Canada, the European Union, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America. To complement the GSP the Global System of Trade Preferences among Developing Countries (GSTP) is a preferential trade agreement (signed 13 April 1988) which encourages south-south cooperation.[11] Unlike the GSP, the GSTP is exclusive to the Group of 77 in applying the principle of mutuality of advantages, which ensures an equitable distribution of the gains from trade taking into account respective levels of economic and industrial development. The GSP and GSTP are major accomplishments led by the UNCTAD; however, it has been found that GSP and GSTP systems have had mixed results. Most notably GSP and GSTP systems foster countries' exports in the short-run but hamper exports in the long-run.[12]

UNDERSTANDING UNCTAD'S PRINCIPLES AND THE BENEFITS OF INTERNATIONAL TRADE

The overall principle of the UNCTAD is to support developing countries to access the benefits of a globalized economy more fairly and effectively. UNCTAD equips the least-developed countries (LDCs) to manage the potential drawbacks of greater economic integration. UNCTAD's work can be summarized in three words: think (1), debate (2), and deliver (3):[13]

(1) UNCTAD carries out research, produces innovative analysis and makes policy recommendations to aid government decision making.
(2) UNCTAD is a forum where representatives of all countries can freely engage in dialogue to promote consensus at a multilateral level.

[9] Ibid.

[10] German Council of Economic Experts. *The Dark Side of the Generalized System of Preferences.* Bayreuth: German Council of Economic Experts, February 2010. https://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Arbeitspapiere/The_Dark_Side_of_the_Generalized_System_of_Preferences.pdf.

[11] United Nations Conference on Trade and Development. *Agreement on the Global System of Trade Preferences Among Developing Countries.* Belgrade: UNCTAD, April 12, 1988. https://unctad.org/en/Docs/ditcmisc57_en.pdf.

[12] German Council of Economic Experts. *The Dark Side of the Generalized System of Preferences.* Bayreuth: German Council of Economic Experts, February 2010. https://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Arbeitspapiere/The_Dark_Side_of_the_Generalized_System_of_Preferences.pdf

[13] For information on the functioning of the committee please refer to: United Nations Conference on Trade and Development. *Provisional Rules of Procedure of The Conference.* Geneva: United Nations, 2010. https://unctad.org/en/Docs/tdrbpconf7d9_en.pdf.

(3) UNCTAD turns research into practical applications by offering technical assistance to help countries build capacities to integrate into the global economy.[14]

UNCTAD measures progress by the 2030 Agenda for Sustainable Development, which recognizes international trade as an engine for inclusive economic growth and poverty reduction as a means to achieve the Sustainable Development Goals (SDGs). UNCTAD's work at the national, regional, and global level helps countries:

- Comprehend options to address macro-level development challenges.
- Achieve beneficial integration into the international trading system.
- Diversify economies to make them less dependent on commodities.
- Limit their exposure to financial volatility and debt.
- Attract investment and make it more development friendly.
- Increase access to digital technologies.
- Promote entrepreneurship and innovation.
- Help local firms move up value chains.
- Speed up the flow of goods across borders.
- Protect consumers from abuse.
- Curb regulations that stifle competition.
- Adapt to climate change and use natural resources more effectively.[15]

In fulfilling UNCTAD's mandate UNCTAD supports the 2015 Addis Ababa Action Agenda Financing for Development, which supports mobilization of resources to achieve the SDGs.[16] Specifically, the 2015 Addis Ababa Agreement provides a new social compact to provide social protection and essential public services for all, a global infrastructure forum, a "least developed country package", technology facilitation, enhanced international tax cooperation, and mainstreaming of women's empowerment into financing for development.[17] As shown, UNCTAD promotes a comprehensive "positive agenda" policy for developing countries involved in international trade negotiations. The positive agenda policy is designed to assist developing countries to better understand the complexity of multilateral trade negotiations and formulating their positions.[18] Given the importance of international trade and its impact on development in UNCTAD's work, an understanding of the

[14] United Nations Conference on Trade and Development. *UNCTAD At A Glance.* Geneva: United Nations, 2017. https://unctad.org/en/PublicationsLibrary/osgciomisc2017_en.pdf?user=17.

[15] United Nations Conference on Trade and Development. "About UNCTAD." *United Nations Conference on Trade and Development.* https://unctad.org/en/Pages/aboutus.aspx.

[16] United Nations Department of Economic and Social Affairs. "About the Conference." *Third International Conference on Financing for Development.* 2015. https://www.un.org/esa/ffd/ffd3/conference.html.

[17] United Nations General Assembly. *Outcome of the Third International Conference on Financing for Development*. United Nations, 2015. http://undocs.org/A/70/320.

[18] United Nations Conference on Trade and Development. *A Positive Agenda for Developing Countries: Issues for Future Trade Negotiations.* Geneva: United Nations, 2000. https://unctad.org/en/docs/itcdtsb10_en.pdf.

benefits and cost of free trade would prove useful in stimulating debate in the conference. To appreciate the ingenuity of international trade, and more generally why countries decided to trade, read the "The Traditional Ricardian Trade Model" section in the attached appendix (See Appendix: Graph A). The benefits of international trade can be broken down into the following general arguments:

(1) The efficiency case for free trade.
(2) Protected markets limit gains from external and internal economies of scale.
(3) Barriers to trade encourage rent seeking.
(4) Political argument for free trade.[19]

(1) The efficiency case for free trade is the reverse of a cost-benefit analysis of a tariff (See Appendix: Graph B). For a small open economy tariffs and non-tariff barriers cause a net loss by distorting incentives of both producers and consumers. Conversely, a move towards free trade eliminates tariff and non-tariff barrier distortions and increase national welfare. However, tariff and non-tariff distortions tend to be modest in size because for the world as a whole production costs less than 1 percent of GDP.[20]

(2) Cost-benefit analysis as presented in the above argument does not represent all the substantial gains from trade, especially for small and developing economies. One kind of additional gain is economies of scale. Internal economies of scale occur when the cost per unit of a good depends on the size of an individual firm (i.e. cost decrease as the firm produces more). External economies of scale occur when the cost per unit of a good depends on the size of the industry, but not necessarily on the size of any one firm (See Appendix: Graph F). Protected markets limit gains from external economies of scale by inhibiting concentration of perfectly competitive industries. Protected markets also limit gains from internal economies of scale by fragmenting production internationally, which reduces competition and increases the number of firms entering the market.[21] As shown in the Appendix (See Graph F) barriers to international trade impede the formation of efficient internal and external economies of scale because such barriers increase production costs.

(3) Barriers to international trade encourage rent seeking. For example, when imports are restricted with an import quota, rather than a tariff, a government has to issue import licenses and economic rent accrue to whoever receives these licenses. In effect, the government is incentivized to restricted trade (through import quotas) because they receive the rent (tax) from firms that receive the licenses. Often a tariff-rate quota (TRQ) incentivizes producers to over import into the domestic market so that they receive the preferential tariff-rate before the quota is reached. This can result in stockpiling of goods which create market distortions. Therefore, barriers to international trade distort incentives resulting in an inefficient allocation of resources.[22]

[19] Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz. *International Economics: Theory and Policy*. 10th ed. Boston: Pearson, 2015.

[20] Ibid.

[21] Ibid.

[22] Ibid.

(4) A political commitment to free trade may be a good idea in practice even though there may be better policies in principle. However, international trade is dominated by special-interest politics rather than consideration of national cost and benefits. Given the "politicization of free trade" a select set of tariffs and export subsidies could increase national welfare but could also be hijacked by interest groups used as a device for redistributing income to politically influential sectors. As a result, it is a better political commitment to grant free trade across the board so there is no "political incentive" to discriminate between sectors.[23]

UNDERSTANDING THE COSTS AND DETERMINANTS OF INTERNATIONAL TRADE

The UNCTAD was established as an alternative to the WTO multilateral fora. There are significant costs when engaging in international trade for small developing states. Given the need to establish UNCTAD in 1964 these costs were recognized as a threat to sustainable development.[24] At the turn of the 21st century UNCTAD emphasized that free trade should be the ultimate aim of every nation once all economies have reached the same level of development. It was argued there is a need for revision of international trade rules, which should pay more attention to the level of development and industrial capacity of developing countries.[25] UNCTAD takes a critical approach in understanding the impact of free trade; therefore, understanding the costs of international trade will prove useful in this conference. The costs of international free trade can be broken down into the following arguments against free trade:

(1) Terms of Trade Argument for a Tariff.
(2) Domestic Market Failure Argument Against Free Trade.
(3) Infant Industry Argument.[26]

(1) For a large country that is able to affect the prices of foreign exports a tariff can lower the price of imports generating a terms of trade benefit (See Appendix: Graph C). However, the terms of trade benefit must be set against the cost of the tariff, which arises due to distortion of production and consumption incentives. An export subsidy would worsen the terms of trade because it lowers the foreign price of the good exported proportional to the size of the subsidy. Therefore, a small (optimum) export tax would raise the price of exports to foreigners given that the country is a large open economy. If the gains attributed to the lower world price exceed the price

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23 Ibid.

24 United Nations Conference on Trade and Development. "History." *United Nations Conference on Trade and Development*. https://unctad.org/en/Pages/About%20UNCTAD/A-Brief-History-of-UNCTAD.aspx.

25 United Nations Conference on Trade and Development. *Free Trade or Fair Trade? An enquiry into the causes of failure in recent trade negotiations.* Geneva: United Nations Conference on Trade and Development, 2000. https://unctad.org/en/docs/dp_153.en.pdf.

26 Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz. *International Economics: Theory and Policy*. 10th ed. Boston: Pearson, 2015.

distortion costs to producers and consumers then a small tariff can improve a large economy's terms of trade.[27] As a result, a country that can impact world prices can gain from trade protectionism. It is important to note over the long-run restrictions on imports have no impact on a country's macroeconomic trade balance (See Appendix: Graph E).

(2) If a market in the domestic economy of a given country is not performing correctly then tariff and non-tariff barriers can result in a marginal social benefit (See Appendix: Graph D). If production of a good yields experience that will improve technology for the economy as a whole, but firms in the sector cannot appropriate the benefits, then there is an additional benefit that is not captured under the cost-benefit analysis diagram. For example, in the United States an import quota on automobiles has been supported on the grounds that it is necessary to save the jobs of autoworkers. In a market which is malfunctioning it can be advocated to use trade protectionism as a "second best" policy to mitigate the negative impacts of market failure in the domestic economy.

(3) The infant industry argument states that temporary trade restrictions are necessary to help a domestic industry get started. After a period of protection it is believed that these industries will mature and be able to compete with foreign firms. However, this argument against free trade is often counter-argued with the fact that if an industry is to be profitable in the long-run then the industry would be willing to incur temporary losses (offset against future gains). However, due to barriers to entry (e.g. infant industry not appropriating external economies of scale benefit) it can be difficult for an infant-industry to compete thus trade protectionism is preferred (See Appendix: Graph F).

UNCTAD's work and the arguments presented against free trade show there are significant barriers to enter the international trading fora for least-developed countries. However, UNCTAD acknowledges that the expansion of trade has fueled economic growth, created jobs, and increased household incomes around the world as a key factor behind the rise of the global south.[28] Simultaneously, the trend towards nationalist unilateralism in the global international trading fora jeopardizes UNCTAD's progress towards the 2030 Agenda for Sustainable Development. Are you up for the challenge of debating a positive trade agenda admits political turmoil?

DEVELOPMENT THEORY AND INTERNATIONAL TRADE

INTRODUCTION TO TRADE AND DEVELOPMENT

Over the years the economies of the world have become increasingly connected through international trade of goods and services. *Globalization* is the most common word used to describe this increase in interconnectedness. Proponents of Globalization (and in international trade) believe that increased connectivity spurs exciting business opportunities, efficiency gains from trade, more rapid growth of knowledge and innovation, and transfer of such knowledge to developing countries, facilitating faster growth, and a world too interdependent to engage in war. Globalization is seen as having more potential benefits for developing countries than developed countries. Faster diffusion of technologies can lead to shorter time in between innovation and application, leading to faster economic prosperity for developing countries. Countries such as India and China have recently used globalization to their benefit, greatly reducing the levels of poverty in those countries, and other like South Korea and Taiwan have already used international trade to rapidly develop their economies to become competitive on the world stage.

[27] Ibid.

[28] Kituyi, Mukhisa. "The Costs of Trade War." *United Nations Conference on Trade and Development.* 2018. https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1784.

Despite the possible benefits of globalization for developing countries, there are risks as well. For those against globalization, it is seen as a cause of accentuated inequalities across and within countries accelerating environmental degradation, and consolidation of global hierarchy to the benefit of the rich countries leaving many regions behind. The main concern is the possibility of developing countries falling into a pattern of dependence. Critics argue that people living near the poverty line could find it hard to break out of poverty without concrete public action. Additionally, there are fears that this current wave of globalization will have the same or similar effects as the last wave of globalization. The last wave, of course, being colonial expansion that saw the subjugation and exploitation of peoples and lands from a wealth of countries, which are still being felt today.

FORMAL STEPS TOWARDS TRADE LIBERALIZATION

To create an environment that is beneficial for all requires international agreements that level the playing field. In 1947, there were rounds of discussion between many of the world's governments that lead to the General Agreements on Tariffs and Trade (GATT), which further lead to the establishment of the World Trade Organization (WTO) in 1995. However, thus far the balance has greatly benefited the wealthier countries and left many of the poor countries in difficult positions. This outcome is mostly[29] caused by trade barriers on agriculture goods, put in place by developed countries that most frequently champion the potential gains from open trade. Agriculture is an area that developing countries can benefit from as agriculture work is usually low skilled and requires low amounts of capital compared to manufacturing. Despite this, the OECD estimates that in 2010, its members provided $227 billion USD in support to their agriculture sector, whereas the support provided to developing countries amounted to $130 billion USD in the same year.

While there are international changes that must be made, there are also national changes too. Issues of corruption in the governments of developing countries stifle economic growth and limit the benefits of foreign aid. Additionally, codes of conduct for multinational corporations should be established and further enforced to stop the exploitation of land and people. Finally, the worst possible affect the wave of modern globalization can have on a country is for the country to be entirely excluded from the fruits of globalization. It is not whether globalization maximizes developing economies growth, but how can globalization best be harnessed to allow for sustainable growth.

KEY ISSUES OF TRADE AND DEVELOPMENT

Through much of the developing world, exporting primary products has been the largest share of GDP. Commodities such as coffee, cotton, cacao, sugar, palm oil, and other agricultural goods are staples in Latin American countries. For some countries, agricultural exports can contribute up to two fifths of all exports. In the Middle-East and elsewhere, the export of both refined and unrefined petroleum to countries around the world can account for as much as 70 percent of the national income. For Venezuela, Yemen, and Algeria received over 90 percent of export earnings from fossil fuels, while Nigeria and Iran are just below that rate at 89 percent. This high dependence on one or two commodity exports can cause inconsistent growth and uncertainty due to the volatility of these commodity prices on the world market.

Venezuela is a well-documented case of the dangers of relying heavily on one export. From the early 2000s to 2014, Venezuela's GDP grew substantially. However, during this time, the share of export earnings from oil remained around 90 percent. When the price of oil started to collapse the Venezuelan economy crashed because the government was unwilling to use the capital produced during the oil boom to invest in other industries, which fragmented Venezuela's economy.

TRADITIONAL THEORY OF INTERNATIONAL TRADE

The traditional theory of international trade is almost entirely dependent on one concept: comparative advantage. This concept understands the different people possess different skills and resources, and that they usually find it profitable to engage in what they are good at. The idea is that a country that can produce a

[29] Michael P. Todaro, and Stephen C. Smith. *Economic Development: Twelfth Edition.* (New York: Pearson, 2014).

commodity at a lower opportunity cost than any of the alternative commodities that can be produced. Thus, a country has a comparative advantage in relation to other countries if they can produce the same good at a lower opportunity cost. This comparative advantage will cause specialization, which in essence is the concentration of resources (capital, labour, land, etc.) used in the production of relatively few commodities.

Comparative advantage and specialization can be explained through the understanding the theory of factors of endowment. This theory states that countries will tend to specialize in the production of commodities that make use of their abundant factors of production, such as land or capital. Therefore, countries with cheap labour will have a cost advantage over countries with high labour costs and should focus on labour intensive productions, and countries with a lot of capital per worker will have an advantage over countries with low levels of capital per worker in capital intensive jobs.[30] Developing countries tend to have the advantage of cheap labour, whereas developed countries have the advantage of capital with high levels of capital concentration. Due to this distribution, it is traditionally argued that developing countries should focus on producing primary commodities and trade them for high tech and manufactured goods that require capital produced by developed countries. This way developing countries can realize the potential benefits of free trade by acquiring these goods easier than if they were to produce them on their own. However, this theory does not explore the importance of diversification of manufacturing's share of the GDP, and as discussed above, can lead to dependence on one or two commodities and a stagnation in development.

ARGUMENTS FOR TRADE THEORY AND DEVELOPMENT

1. Trade is a stimulant for economic growth, it enlarges a countries consumption capacity, increases world output, provides access to scarce resources, and provides access to the worldwide market for products from developing countries.
2. Trade promotes greater international and domestic equality by equalizing factor prices, raises the real income of trading countries, and makes efficient use of countries factors of endowment.
3. Trade promotes development by rewarding sectors of the economy which developing countries have a comparative advantage. Trade also enables developing countries to take advantage of economies of scale.
4. With free trade, international prices and costs of production dictate how much a country should trade in order to maximize national welfare. Government interference through promoting exports or restricting imports distorts prices and production costs, which reduces efficiency.
5. International policies should be outward oriented to promote development. Self-reliance through partial or full isolation is inferior to free trade.

CRITIQUES OF THE TRADITIONAL FREE TRADE THEORY

Traditional free trade theory holds a number of assumptions that rarely, if not never, hold true in the real world practice. To understand why free trade is not a reality and why international trade in the real world does not always match the arguments outlined above, these traditional assumptions must be examined.

1. All productive resources are fixed in quantity and constant in quality across nations and are fully employed.

This first assumption is crucial to the traditional trade and finance theory. However the reality is the world economy is characterized by rapid change with factors of production never remaining constant in either quantity or quality. It is argued that this is especially true for resources crucial to growth and development such as physical capital, upgrading technical skills, entrepreneurial skills, and scientific capabilities. Therefore, relative factors of endowment and comparative costs are not a given, but in a constant state of change, and are determined by international specialization rather than determining international specialization.

Unemployment is a constant issue for all countries, but especially in the developing world. According to a UN report, in 2017, approximately 1.4 billion people (about 42 % of the global workforce) are classified as

[30] Michael P. Todaro, and Stephen C. Smith. *Economic Development: Twelfth Edition.* (New York: Pearson, 2014).

being in vulnerable forms of employment.[31] This means these people are more than likely working in the informal sector, which has lower pay and working conditions. Vulnerable employment was at 75 percent in developing countries at the time of the report (2017) but was expected to rise by 17 million in 2018 and 2019.[32]

2. Technology is either fixed or is similar and freely available to all nations. The spread of tech works for the benefit of all, and consumer preferences are independent from the influence of producers.

While productive resources are rapid in their rate of change, technology is even more so. Technology has also been changing the international trade relationships of the world since the 1950s. Goods that could be staple exports for developing countries, such as rubber, cotton, and wool, have been replaced by synthetic substitutes, which are artificially produced. On the other hand, developing countries can gain from Western research and development by imitating their technology products. Using their cheaper labour, developing countries can close the gap by producing tech goods for developed countries and learn from the work developed nations do, to their own benefit. This is the strategy that China has largely followed with striking progress.

3. Within a nation, factors of production between productive activities, and the economy is characterized by perfect competition. Additionally, there is no risk or uncertainty.

In developing countries, which are largely focused on one or two primary resource production, much of their infrastructure (i.e. roads, railways, and seaports) will be strategically placed. With infrastructure being inflexible and dependent the more a developing country invests in their few productions the sunk cost would be too great to simply invest in alternative industries. The assumption of no risk or uncertainty is also flawed. Developing countries are commonly dependent on one or two primary resources, and commodities are notoriously volatile. Additionally, the lack of uncertainty or risk in a competitive environment is counter intuitive. Perfect competition is built in uncertainty.

4. Governments play no role in international economic relations, and prices are therefore set by the force of supply and demand.

Governments always play a role in the private sector. In fact despite the advice to the developing countries from developed countries, the United States and the United Kingdom offer protections to many sectors like the financial sector, protecting high paying jobs. Additionally, countries that experienced development in the past like South Korea and Japan have the leadership of their governments to thank in many cases.

5. Trade is always balanced for all countries, and countries can quickly adjust to changing world prices.

Trade balance is never equal. According to the OECD, none of its members are at trade balance.[33] Not only is this an unreasonable assumption, it would be incredibly difficult to achieve let alone maintain for more than one quarter.

6. Benefits of trade that accrue for a country benefit the nationals of that country.[34]

With the increase in the ownership of multinational corporations, it becomes increasingly prevalent that the middle and lower income levels do not benefit from national exports. Therefore, while it could appear that trade is being conducted between two countries, it is often between a developed country and an individual or company from a developed country. This situation leaves little to be gained from the trade for the nationals of the developing country.

[31] United Nation Sustainable Development Goals. "Unemployment to remain High , Quality Jobs Harder to Find - UN Labour Agency." January 23 2018. https://www.un.org/sustainabledevelopment/blog/2018/01/unemployment-remain-high-quality-jobs-harder-find-2018-un-labour-agency/.

[32] United Nation Sustainable Development Goals. "Unemployment to remain High , Quality Jobs Harder to Find - UN Labour Agency." January 23 2018. https://www.un.org/sustainabledevelopment/blog/2018/01/unemployment-remain-high-quality-jobs-harder-find-2018-un-labour-agency/.

[33] Organization for the Economic Cooperation and Development. "Current Accounts Balance." January 2019, https://data.oecd.org/trade/current-account-balance.htm.

[34] Michael P. Todaro, and Stephen C. Smith. *Economic Development: Twelfth Edition.* (New York: Pearson, 2014).

TRADE STRATEGIES

The two traditional trade related methods to development are Import Substitution and Export Promotion. As the names suggest, one is outward looking and the other inward. Import substitution focuses on providing assistance to local manufactures in the production of goods the country would otherwise import. This can be facilitated through quotas or tariffs. Export promotion is when the government takes action to increase the volume of the countries exports by providing incentives. This method of growth has seen success in countries like South Korea, Taiwan, and Singapore.[35] Thinking about the interconnection between trade and development is critical to understanding the challenges UNCTAD confronts with economic dependent relationships.

UNCTAD COMMITTEE: SOUTH-EAST ASIAN TRADE AND DEVELOPMENT CONFERENCE

BACKGROUND

EAST CHINA SEA (ECS)[36]

China and Japan have significant historical claims to the ownership of the Senkaku/Diaoyu Islands located off mainland China northeast of Taiwan. Beijing claims the Ming Dynasty regarded the islands as part of their maritime territory. China's Qing Dynasty claimed that the Senkaku/Diaoyu Islands are under Taiwan's jurisdiction. Japan claims the territory was cede to them by China and Taiwan when the Shimonoseki Treaty ended the 1894-1895 Sino Japanese War.[37] After World War II the United States administered the Senkaku/Diaoyu Islands after signing the Treaty of San Francisco. In the meantime the United States administered Nansei Shoto and other Ryukyu Islands (chain of islands stretching southwest from Japan to Taiwan), until they were returned to Japan under the 1971 Okinawa Reversion Treaty. However the relative complacency of territorial claims was short lived after World War II.

In 1968 the United Nations Committee for the coordination of Joint Prospecting for Mineral Resources in Asian Offshore Areas found significant oil and gas reservoirs comparable to the Persian Gulf. [38] The discovery of these vast energy reserves in the East and South China seas increased geopolitical strategic interest in the region from China, Japan, Taiwan, South Korea, Indonesia, and the United States. In President's Xi Jinping's November 29th, 2014, speech to the Communist Party's Foreign Affairs Conference, he stressed the importance of an expansionist foreign policy using military activity in the region to restrict U.S. geopolitical influence by effectively applying China's regional power and influence. Meanwhile, the United Nations

[35] Ibid.

[36] Haruki, Wada. "Resolving the China-Japan Conflict Over the Senkaku/Diaoyu Islands." *The Asia Pacific Journal*. October 25, 2010. https://apjjf.org/-Wada-Haruki/3433/article.html.

[37] Chapman, Bert. "Geo-political Implications of the Sino-Japanese East China Sea Dispute for the U.S." *Geopolitics, History, and International Relations* 9(2): 15-54.

[38] United Nations Economic Commission for Asia and the Far East. *Report of the Sixth Session of the Committee for Co-ordination of Joint Prospecting for Mineral Resources in Asian Offshore Areas (CCOP) and the Report of the Fifth Session Its Technical Advisory Group.* United Nations, June 26, 1969. https://digitallibrary.un.org/record/749090/files/E_CN.11_L.239-EN.pdf.

Commission on the Law of the Sea (UNCLOS) has proven to be ineffective in the region because the law encourages a “display of sovereignty” while “penalizing states appearing to acquiesce to a rival’s territorial claim.”[39] Given the unique geography of the region the UNCLOS generally fails to accommodate territorial disputes. On top of the geo-strategic and natural resource abundance of the region, in 2015 trade in goods between China, Japan, Taiwan, South Korea and the United States was estimated to be $973.6 billion representing 35.1 percent of the United States’ international trade.[40] Home to the world’s eight out of fourteen busiest shipping ports trade plays a significant role in delicately balancing the region’s political-economic stability.

SOUTH CHINA SEA (SCS)[41]

In the South China Sea the core of the dispute lies in the question of sovereignty. The ability of a regional power to gain exclusive jurisdictional rights over the seabed and surrounding waters is on upmost importance to Southeast Asian countries’ territorial integrity.[42] However, the interconnected nature of the region’s economic interdependence has presented a conundrum between a state’s territorial sovereignty and economic development. Regionally, China is a major player in the South China Sea dispute claiming 80 percent of the waters along with the Paracel and Spratly Islands. Over the past few decades China has had countless diplomatic and military confrontations over the sea with Vietnam, Philippines, Brunei, Taiwan and India among other Southeast Asian nations. Military conflicts between China and Vietnam in 1988 over the Spratly Islands resulted in 80 Vietnamese casualties in the Johnson South Reef Skirmish. In 1995 China claimed the Mischief Reef as the first case where China seized a claim by an ASEAN member-state.[43] However, at the China-ASEAN summit of 2002 the two parties issued the Declaration on the Conduct of Parties in the South China Sea (DOC). The DOC affirmed that the two Parties would not resort to threat or the use of force in accordance with UNCLOS and international law. Since the DOC was only a political statement without any legally binding power many ASEAN member-states sought to establish a legally binding Code of Conduct in the South China Sea (COC). The first COC negotiations were initiated in 1996, however, it was not until late 2016 consultations between China and ASEAN member-states gained momentum. On August 2, 2018, Singapore's Foreign Minister Vivian

[39] Chapman, Bert. “Geo-political Implications of the Sino-Japanese East China Sea Dispute for the U.S.” *Geopolitics, History, and International Relations* 9(2):15-54.

[40] Ibid.

[41] Stearns, Scott. “Challenging Beijing in the South China Sea.” *Voice of America.* July 31, 2012. https://blogs.voanews.com/state-department-news/2012/07/31/challenging-beijing-in-the-south-china-sea/.

[42] Yoshimatsu, Hidetaka. “China, Japan and the South China Sea Dispute: Pursuing Strategic Goals Through Economic and Institutional Means.” *Journal of Asian Security and International Affairs* 4, no. 3 (December 2017): 294–315. doi:10.1177/2347797017733821.

[43] Ibid.

Balakrishnan announced that both sides have reached an agreement on a draft text of the COC agreement.[44] However, major hurdles are still to overcome on the agreement's geographic scope, potential dispute settlement mechanism, and details of resource exploration and development. The lack of an effective dispute settlement mechanism in the COC means that the COC is primarily concerned with removing the catalyst for conflict, which is not an effective long term political solution to the regional tensions. For example, in January 2013 the Philippines took the South China Sea dispute to an arbitral tribunal under the UNCLOS convention challenging China's claim to the historic "nine-dash line" claim.[45] The U-shaped nine dash line encompasses the South China Sea including the Paracel and Spratly Islands marking China's territorial claim since 1947. To further territorial tensions in July 2016 the Permanent Court of Arbitration (PCA) in The Hague rejected China's claim asserting the Philippines right to the territory.

In terms of trade, China has utilized the tools of trade policy as an arm of economic statecraft. Specifically, China has used trade policy as a means to exert pressure on Southeast Asian state's territorial water claims. For instance, in 2010 the Chinese trawler, Minjinyu 5179, operating in disputed waters collided with a Japanese Coast Guard patrol boat near the Senkaku Islands.[46] After a diplomatic spat between China and Japan ensued, the Chinese customs office stopped all exports of rare earth elements to Japan. Much of the Chinese exports restricted were essential to industrial inputs used in many high-tech goods (e.g. hybrid cars, mobile phones, and solar technology). China's use of asymmetric trade dependence as a policy of political and economic statecraft is representative of the regions diplomatic segmentation. Similarly, China has also employed a regional "estrangement strategy" between the Philippines and Vietnam. Between 2005 and 2013 China's share of Vietnam's total trade increased from 13.5 percent to 19 percent.[47] As a result of China's share of Vietnam's total trade China could extort Vietnamese territorial claims through the levers of strategic trade policy. However, China did not resort to using trade policy as a tool of statecraft; instead, China re-established diplomatic relations by establishing a joint working group to explore cooperative development projects in disputed waters and a diplomatic hotline between each countries respective department of fisheries. China's end goal was still achieved by estranging relations between Vietnam and the Philippines as a mechanism to disrupt a regional alliance between Vietnam, Philippines, and the United States against Beijing.

For India the South China Sea is of great strategic interest with upwards of 50 percent of India's sea-borne international trade passing through the strait.[48] In 2015 India became the third largest energy consumer in the world with 4.2 percent annual consumption growth.[49] Given India's increasing energy demand securing new energy resources is pivotal to India's future economic growth. With the South China Sea containing upwards of 11 billion barrels of oil and 190 trillion cubic feet of natural gas reserves the region's geographic proximity

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[44] South China Sea Expert Working Group. "A Blueprint for a South China Sea Code of Conduct." *Center for Strategic and International Studies*. October 11, 2018. https://amti.csis.org/expert-working-group-scs/.

[45] Permanent Court of Arbitration. "Press Release: Arbitration Between the Republic of the Philippines and the People's Republic of China." *The Hague Permanent Court of Arbitration.* October 29, 2015. https://www.pcacases.com/web/sendAttach/1503.

[46] Yoshimatsu, Hidetaka. "China, Japan and the South China Sea Dispute: Pursuing Strategic Goals Through Economic and Institutional Means." *Journal of Asian Security and International Affairs* 4, no. 3 (December 2017): 294–315. doi:10.1177/2347797017733821.

[47] Ibid.

[48] Chong, Byron. "India and the South China Sea." *Centre for International Maritime Security*. February 21, 2018. http://cimsec.org/india-south-china-sea/35520.

[49] Ibid.

makes it the prime natural resource supply to satisfy India's growing demand.[50] Through New Delhi's Look East Policy (LEP) India hopes to ensure stability in the region and keep shipping lanes open; maintain amicable relations with regional powers; and, ensure no hegemon dominants the region.[51] As recent as June 2017 China and India's Doklam standoff (trijunction land border between a disputed area between India and China) between the Indian Armed Forces and People's Liberation Army increased tensions between the two hegemonic powers. In September 2011 China and Vietnam signed an agreement seeking to contain the disputed area in the "nine-dash line"; however, India's state-run oil exporter (Oil and Natural Gas Corporation ONGC) signed a three-year investment agreement with PetroVietnam granting India's ONGC exploration rights in the South China Sea.[52] In response to India's oil extraction rights in the disputed territory with China the PRC's Foreign Ministry stated "...for oil and gas exploration activities, our consistent position is that we are opposed to any country engaging in oil and gas exploration and development activities in waters under China's jurisdiction."[53] Amongst other confrontations between regional powers it is pivotal to New Delhi's strategic interests that the South China Sea does not turn into China's playground. In the East China Sea and South China Sea it is apparent the utilization of the regions' resources to prop up industrial growth has transformed the nature of regional diplomatic relations from cooperation to conflict.

PRESENT SITUATION: 2024 SOUTH-EAST ASIAN TRADE AND DEVELOPMENT CONFERENCE

The most prominent overarching risks to regional growth in 2024 is the possibility of a more rapid monetary policy contraction in advanced economies; the rapid rise in private-sector debt; and the broadening of trade restrictions globally, coupled with limited progress in regional trade agreements.[54] During the last five years the external positions of Emerging Asian economies have remained generally robust, although the direction of recent current account trends varies and foreign direct investment (FDI) net inflows have weakened in some countries. The weakening of FDI net inflows is a result of the acquisition of foreign assets and repayments of intra-company loans in ASEAN member states.[55] Complementary to the decrease in FDI flows the regions central banks anchor their monetary policy on benign inflation in spite of price pressures from wage gains and strong labour markets. Stability in regional monetary policies over the past five years has supported low-risk palpable optimism in capital markets. Relative regional economic stability has poised South-East Asia

[50] U.S. Energy Information Administration. "Contested areas of South China Sea likely to have few conventional oil and gas resources." *U.S. Energy Information Administration*. April 3, 2013. https://www.eia.gov/todayinenergy/detail.php?id=10651.

[51] Chong, Byron. "India and the South China Sea." *Centre for International Maritime Security*. February 21, 2018. http://cimsec.org/india-south-china-sea/35520.

[52] Reuters. "China paper warns India off Vietnam oil deal." *Reuters*. October 16, 2011. https://in.reuters.com/article/idINIndia-59915220111016.

[53] Raman, B. "South China Sea: India Should Avoid Rushing In where Even U.S. Exercises Caution." *South Asia Analysis Group*. September 17, 2011. https://web.archive.org/web/20110924183534/http://www.southasiaanalysis.org/papers48/paper4702.html.

[54] OECD (2018). *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. OECD Publishing, 2018. http://dx.doi.org/9789264286184-en.

[55] ASEAN Secretariat & United Nations Conference on Trade and Development. *ASEAN Investment Report 2017*. Jakarta: Association of Southeast Asian Nations (ASEAN), 2017. https://unctad.org/en/PublicationsLibrary/unctad_asean_air2017d1.pdf.

to maintain its growth momentum, averaging 5.2 percent per year because of robust infrastructure initiatives and private spending.[56] However, a possible escalation of a trade war between the United States and China is a significant risk to regional growth. Recently the associated rise in economic uncertainty - compounded with higher interest rates in the United States - has put pressure on the currencies of the countries weakening their external positions.[57] Though relative stability has persisted, unilateral expansionism threatens the region's economic invariability.

In recent years, tensions over the territorial claims in the South China Sea have risen as attempted legal resolutions have been ignored and military action has increased. The disputes started in the 1970s as countries in the region started laying claim to islands in the sea after the discovery of natural resources under the ocean floor. It is estimated that there is 11 billion barrels of untapped oil and 190 trillion cubic feet of natural gas in the area. Additionally, roughly 40 percent of all liquified natural gas trade transits through the South China Sea, and a total of US$3.37 trillion traveled through the sea passages in 2016.[58] It is also estimated by 2035, 90 percent of Middle Eastern fossil fuels exports will travel through this economic corridor.[59] China is the most powerful (both economically and militarily) claimant to territory in the South China Sea making the largest claim of all involved countries. China's claims are in contention with all countries that border the South China Sea, including Taiwan, Vietnam, Philippines, Malaysia, and Brunei. However, these countries are not united in their conflict with China as many of them have overlapping claims. There has been involvement from the Navies of Australia, Britain, the United States, and Japan.[60] Should tensions continue to rise in the region the entire global economy could be impacted, as one of the main sea trade passages could be obstructed.

Another conflict in the region is the territorial disputes in the Kashmir region that is bordered by India, China, and Pakistan. This particular conflict has high stakes as all three countries involved are nuclear powers. The region saw a number of conflicts in the second half of the 1900s with three wars between India and Pakistan (1947, 1965, and 1971) as well as a war between India and China (1962). While there have been peace initiatives since 2000, continuous border conflicts between India and Pakistan endure.[61]

There are a number of conflicts that have potential to rise into global political and economic issues. In Asia there are some of the most populous states with China, India, and Indonesia. These countries have fast growing economies and are keen to increase their influence in the global political order. Additionally, more established global powers are at play with Japan, the United States, and Britain, as they try to maintain peace while ensuring the outcomes are beneficial for their domestic security. A major regional challenge is consolidating regional security with unfretted market access which aligns with the 2030 Sustainable Development Goals (SDGs).

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[56] OECD (2018). *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. OECD Publishing, 2018. http://dx.doi.org/9789264286184-en.

[57] Reynolds, Oliver. "Economic Snapchat for ASEAN." *Focus Economics*. December 14, 2018. https://www.focus-economics.com/regions/asean.

[58] Council on Foreign Relations. "Territorial Disputes in the South China Sea." *Council on Foreign Relations*. 2018. https://www.cfr.org/interactives/global-conflict-tracker?marker-7#!/conflict/territorial-disputes-in-the-south-china-sea.

[59] Council on Foreign Relations. "China's Maritime Disputes." *Council on Foreign Relations*. 2019. https://www.cfr.org/interactives/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide#!/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide.

[60] Ibid.

[61] Peaceinsight."Kashmir: Conflict Profile." *Peaceinsight.* 2010. https://www.peaceinsight.org/conflicts/kashmir/.

It is shown that in the process of trade policy making the impact of political factors is both national and international. In a national context behind each trade policy lie the continual power struggles between competing interest groups. Internationally, trade policies reflect the will of the government in power to maximize social welfare through strategic policy choices.[62] Now, your challenge as an UNCTAD delegate is to consolidate how regional political factors will influence your country's trade policy, while accounting for your delegation's international economic and foreign ambitions. Can you prevent the next global trade war?

62 WANG, FANG. "South China Sea Territorial Disputes and Sino-Philippine Trade." *经济与政治研究：英文版* 3, no. 2 (2015): 85-111.

RISKS AND CONSIDERATIONS: QUESTIONS TO CONSIDER

China's medium term growth was slowing to 6.2 percent in 2019. By 2024 China's growth has rapidly declined as a result of excess capacity and financial market vulnerabilities. Due to a slowing economy China pushes for an aggressive military and trade agenda. How will China's policy influence regional trade and diplomatic relations?

India's economic growth will draw support from expansion of private consumption and investment following foreign ownership liberalization in select industries. India's expansionary fiscal policy continues to boost growth in 2024 despite soaring inflation and unemployment. However, the ensuing conflict in Kashmir, with the election of nationalist BJP, threatens India's relative economic stability. How will India consolidate political instability while protecting its domestic market stability?

Could India expand its influence in South-East Asia to diversify its market amidst the crisis in Kashmir? How will China respond to India's new role in the South China Sea?

What other maritime border disputes are ongoing in the world? Could actions in the South China Sea affect how those disputes are conducted?

Given that the South China Sea is rich in natural resources, with 11 billion barrels of untapped oil and 190 trillion cubic feet of natural gas, how does this influence your strategic interest in the region?

By 2024 China's One-Belt One-Road (OBOR) has made significant headway. Establishment of the China-Pakistan Economic Corridor (CPEC) through the Gilgit-Baltistan region, which lies in Pakistan occupied Kashmir, to Pakistan's deep-water port Gwadar is key to China's economic interests. Given India's interest in the South China Sea, how will India's policy towards Kashmir impact China's policy in the South China Sea?

How can a country not involved in these disputes stand to benefit?

How can the application of tariff rate quotas (TRQs) benefit your regional and global economic position given your country's economic structure and political position?

Each country's historical claims to the region has shaped the nature of diplomatic relations in the region. What factors are of interest to your country's foreign policy given the wider historical context of regional territorial disputes?

ADDITIONAL SOURCES FOR RESEARCH

Note: The sources below are only intended to be general resources to start your research. Consult other online resources for country specific information and further analysis.

ASEAN Secretariat & United Nations Conference on Trade and Development. *ASEAN Investment Report 2017*. Jakarta: Association of Southeast Asian Nations (ASEAN), 2017. https://unctad.org/en/PublicationsLibrary/unctad_asean_air2017d1.pdf.

Council on Foreign Relations. "China's Maritime Disputes." *Council on Foreign Relations: China's Maritime Disputes a CFR InfoGuide.* https://www.cfr.org/interactives/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide#!/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide.

Department of Economic and Social Affairs (United Nations). "Home." *Economic Analysis & Policy Division.* https://www.un.org/development/desa/dpad/

OECD (2018). *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. OECD Publishing, 2018. http://dx.doi.org/9789264286184-en.

Principles of Economics. "Chapter 33. International Trade." *Principle of Economics: Introduction to International Trade*. https://opentextbc.ca/principlesofeconomics/chapter/introduction-to-international-trade/.

United Nations Conference on Trade and Development. *Provisional Rules of Procedure of The Conference.* Geneva: United Nations, 2010. https://unctad.org/en/Docs/tdrbpconf7d9_en.pdf.

United Nations Conference on Trade and Development. *UNCTAD Annual Report 2017*. Geneva: United Nations, 2017. https://unctad.org/en/PublicationsLibrary/dom2018_en.pdf.

United Nations Conference on Trade and Development. "About UNCTAD." *United Nations Conference on Trade and Development*. https://unctad.org/en/Pages/aboutus.aspx.

United Nations General Assembly. *International Trade and Development Report of the Secretary-General.* United Nations, August 17, 2018. https://unctad.org/meetings/en/SessionalDocuments/a73d208_en.pdf.

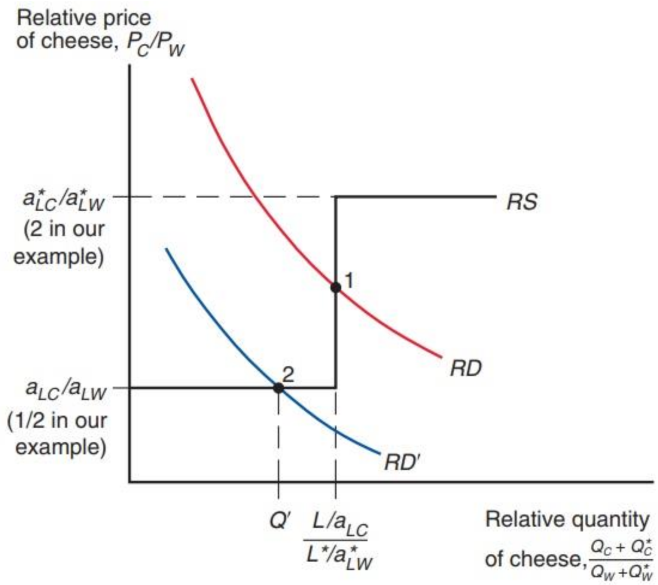
United Nations Conference on Trade and Development. *Trade and Development Report 2015*. Geneva: United Nations, 2015. https://unctad.org/en/PublicationsLibrary/tdr2015_en.pdf.

World Trade Organization (WTO). "Trade Profiles." *World Trade Organization (WTO) World Trade Profiles Database*. 2019. http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E.

World Trade Organization (WTO). "Regional Trade Agreements Information System (RTA-IS)." *World Trade Organization.* January, 2019. http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

ECONOMIC MODELS APPENDIX

TRADITIONAL RICARDIAN TRADE MODEL[63]



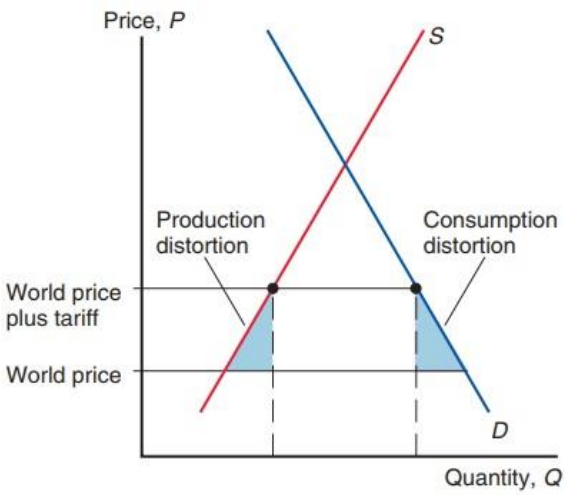
GRAPH A

In analyzing trade between two markets (e.g. trade between wine and cheese between two countries) it is essential to conduct a general equilibrium supply and demand analysis. Graph A represents relative supply and demand, which is the number of pounds of cheese supplied/demanded divided by the number of gallons of wine supplied/demanded. In graph A the price is determined by the intersection of world relative supply and world relative demand. Home will produce cheese if the opportunity cost to produce cheese is lower in Home than in Foreign (*). Foreign (*) will produce wine as long as the opportunity cost to produce wine is lower in Foreign (*) than in Home. However, Home will specialize in cheese production if the relative price of cheese exceeds its opportunity cost in terms of wine. Foreign (*) will specialize in wine if the relative price of cheese is less than its opportunity cost in terms of wine. As long as the relative price of the good exceeds its opportunity cost the good will be produced and traded. If the relative price is less than the opportunity cost the good will not be produced. Given that the opportunity cost to produce cheese is lower in home than in foreign (*), home will be more efficient in producing cheese and will therefore have a comparative advantage in cheese production. Meanwhile, foreign (*) will have a comparative advantage in wine production because it has a lower opportunity cost in the production of wine relative to home (thus being more efficient at producing wine). When both countries trade in the specialized good they have a comparative advantage they increase their production and consumption possibilities. Hence, Home will get cheaper wine and Foreign will get cheaper cheese when they engage in trade than autarky. The fundamental idea behind the Ricardian Trade Model is that trade between two countries can benefit both countries if each country exports the good in which it has a comparative advantage. [64]

[63] Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz. *International Economics: Theory and Policy*. 10th ed. Boston: Pearson, 2015.
[64] Ibid.

CASE OF THE SMALL OPEN ECONOMY (TARIFF ANALYSIS)[65]

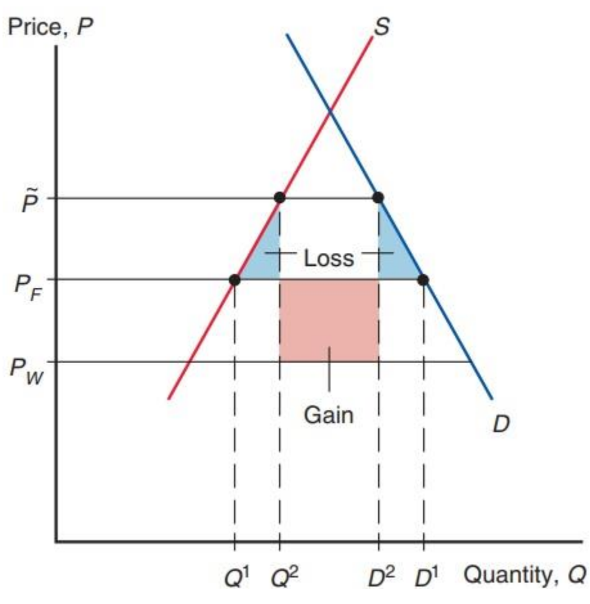
GRAPH B[66]



A small open economy does not have a large share of any world market in the production of a good. Therefore, they cannot easily influence the world market relative price of the good. In this scenario (like a country like Canada) a tariff on an imported good would increase the price of the good for both producers and consumers (how much for each producer and consumer depends on elasticity of the supply and demand curves). As indicated in graph B the tariff would reduce the amount produced equivalent to the distance between the intersection of red supply curve/world price line and to the intersection of the red supply curve/ world price plus tariff line. Similarly, demand would fall from the intersection of the blue demand curve/world price line to the intersection of the blue demand curve/world price plus tariff line. As a result, it is important to understand that tariffs, for a small open economy, are not beneficial to international trade because they result in a production and consumption distortion (deadweight loss) equivalent to the areas of the blue triangles in graph B.

CASE OF A LARGE OPEN ECONOMY (TERMS OF TRADE ARGUMENT FOR A TARIFF)

GRAPH C[67]



In the case of a large open economy, like the United States, the imposition of a modest tariff can have a net welfare benefit. For a large open economy, a tariff lowers the price of imports thus generating a terms of trade benefit. However, this gain (red rectangle) must be set against the costs of the tariff (blue triangles). The tariff lowers the price of imports because the tariff reduces world demand for the good which reduces the world price (i.e. fall from Pf to Pw in graph C). In the domestic market the tariff on the good increases the domestic price of the good (i.e. price increases from Pf to P). If the fall in the world price is greater than the rise in the domestic price, then there would be a net benefit for a large country because the country would collect additional revenue equal to the area of the red rectangle in graph C. Although this is a sound economics argument for a large open economy there are

65 Ibid.

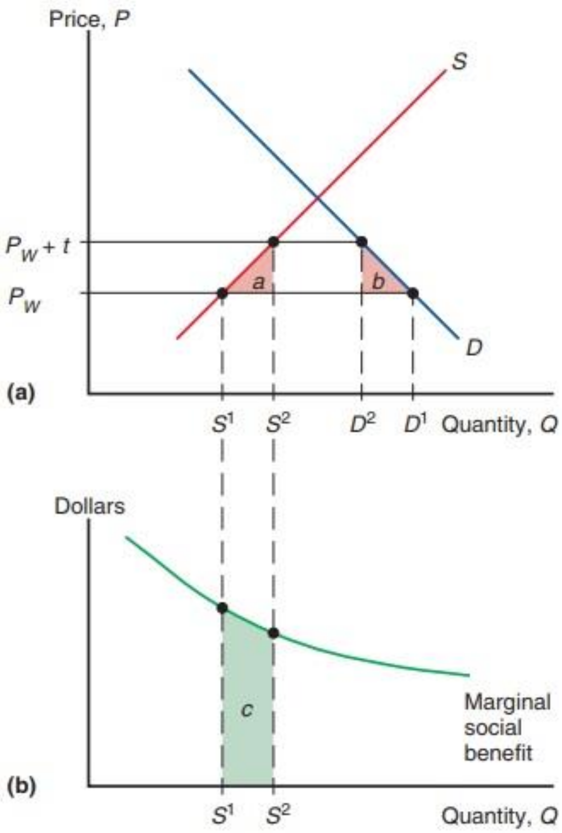
66 Ibid.

67 Ibid.

still negative effects because the country is using national monopoly power to extract gains at other countries' expense. The danger of using this predatory policy is that the large country would most likely receive retaliation from other large countries.

DOMESTIC MARKET FAILURE ARGUMENT FOR A TARIFF[68]

GRAPH D



Graph D shows that a protectionist trade policy measure can be beneficial if there is an instance of a market failure (i.e. the labour market is not clearing, the capital market is not allocating resources efficiently etc.). For example, graph D (a) shows that the world price plus the tariff (Pw+t) yield a negative net loss for area (a), with supply reducing from S1 to S2, and area (b), with demand reducing from D1 to D2. In Graph D (a) this would be considered a net welfare loss if markets where performing normally. However, in this example the tariff acts as a protectionist measure that would allow the industry to produce the good. Overtime the experience and technological knowhow from production results in a positive marginal social benefit (e.g. employs people in the country) equal to area (c), which is subject to diminishing returns (i.e. decreasing downward sloping curve). If the marginal social benefit (area (c)) is greater than the loss from the protectionist measure (areas (a) and (b)), then the protectionist measure will have a positive net welfare benefit for the country due to the industry's market not properly functioning. However, it is important to note that a protectionist trade policy that results in a marginal social benefit should only be applied in the case where the market which is malfunctioning cannot be easily fixed (e.g. wages cannot be flexible because of minimum wage legislation). Otherwise, the market which is malfunctioning should always be corrected at the internal source without interfering in external economic relations.[69]

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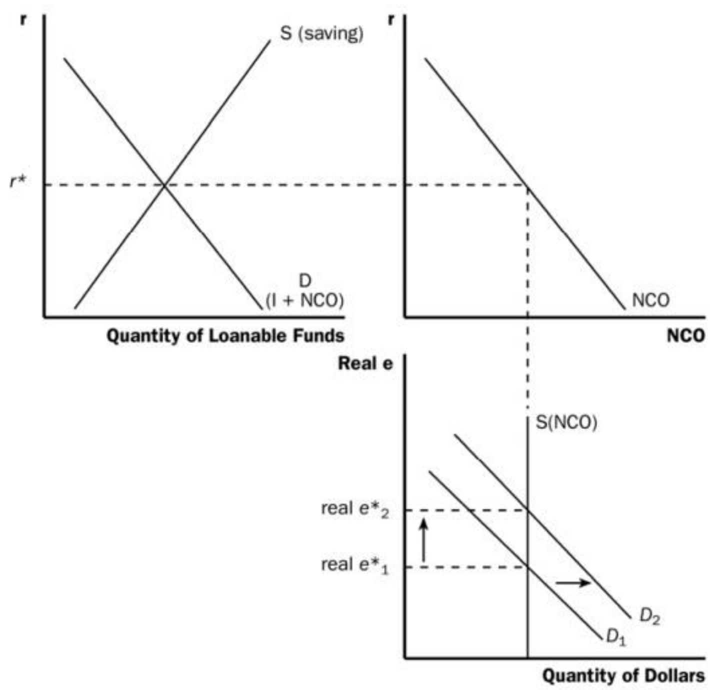
[68] Ibid.

[69] Ibid.

ROLE OF CAPITAL MOBILITY IN INTERNATIONAL TRADE (TRADE POLICY)[70]

GRAPH E[71]



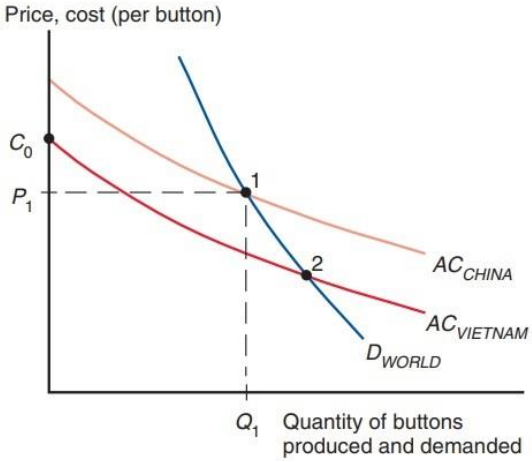
Graph E illustrates the fact that trade policies do not affect the trade balance in the macro-economy. If a country decides to place an import restriction on a good to protect its domestic industry this will reduce the amount the good is bought by domestic resident from foreigners. As a result of the import restriction foreign countries will export less and the domestic market would import less. Since there is less domestic currency going to foreign markets the demand for (domestic) dollars in the foreign exchange market will increase (i.e. increase from D1 to D2). As a result of the increased demand for dollars in the foreign exchange market the domestic real exchange rate would increase from real e*1 to real e*2. It is important to notice that Net Capital Outflow (NCO) (i.e. the purchase of foreign assets by domestic residents minus the purchase of domestic assets by foreigners) has remained unchanged because nothing has been affected in the national market for loanable funds (top left graph). Note that NCO is the same as the money supply in the foreign exchange market. Due to the appreciation in the real exchange rate (overtime) it would be more expensive for the domestic market to export goods, and it would become (relatively) cheaper for foreign markets to export goods into the domestic market. As a result, exports from foreign countries would increase and imports into the domestic market will increase, which would reduce demand in the foreign exchange market because NCO would increase as more domestic resident buy foreign goods. The increase in NCO from the domestic market would bring the real exchange rate back to real e*1. Therefore, the end result is that the import restriction does not impact the trade balance. In microeconomics tariffs and import restrictions do impact the trade balance; however, when considering trade restrictions under the condition of free capital mobility (i.e. interest rate parity condition holds) there is no impact on the trade balance because the macroeconomic identity NX (net exports) = NCO (net capital outflow) = S-I (savings minus investment) still holds. To reiterate, trade policy has no impact on trade balance when considering the macroeconomic implications for a country.

[70] Mankiw, N. Gregory, Ronald D. Kneebone, and Kenneth J. McKenzie. *Principles of Macroeconomics*. Seventh Canadian ed. Toronto, Ontario: Nelson Education, 2017.

[71] Ibid.

GAINS FROM EXTERNAL ECONOMIES OF SCALE[72]

GRAPH F [73]



If a market was not subject to barriers to entry external economies of scale would reduce the costs of production and increase consumer welfare. In Graph F Vietnam has a higher cost to enter the market with production costs starting at point C0. Meanwhile, China has been established in the market and has a production cost at P1 to produce buttons. As shown in the graph, if Vietnam was permitted to establish its industry without barriers to entry it could reap the gains from producing at point 2 (lower cost of production than China) because it is subject to a lower average total cost curve due to external economies of scale. However, if significant barriers to entry persist in Vietnam's button industry then consumers would have no other option but to buy buttons at China's (relative) higher cost of P1. This graph shows when an economy is subject to significant external economies of scale, without barriers to entry, there can be a significant gain from trade in that industry. On the other hand, if significant barriers persist (i.e. higher cost of production at C0) it would be in the interest of the industry to establish protectionist barriers as not to be decimated by cheaper foreign products if markets were open (i.e. unfettered free trade). The later argument is often used in support of the infant industry argument.

[72] Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz. *International Economics: Theory and Policy*. 10th ed. Boston: Pearson, 2015.

[73] Ibid.

GLOSSARY OF KEY TERMS: UNCTAD AND ECONOMIC

Average Cost: Is equal to the total cost (TC) divided by the number of goods produced (the output of a quantity, Q).

Balance of Trade (Trade Balance): The difference between the value of a country's imports and exports for a given period.

Comparative Advantage: The ability of an individual or group to carry out a particular economic activity (such as making a specific product) more efficiently than another activity (i.e. lower opportunity cost).

Diminishing Returns: The decrease in the marginal (incremental) output of a production process as the amount of a single factor of production is incrementally increased, while the amounts of all other factors of production stay constant.

Exchange Rate: The value of one currency for the purpose of conversion to another.

Export Subsidy: A government policy to encourage export of goods and discourage sale of goods on the domestic market through direct payments, low-cost loans, tax relief for exporters, or government-financed international advertising.

External Economies of Scale: Imply that as the size of an industry grows larger, or more clustered, the average costs of doing business within the industry fall.

Fiscal Policy: The use of government spending and tax policies to influence macroeconomic conditions, including aggregate demand, employment, inflation and economic growth.

Foreign Direct Investment (FDI): An investment made by a firm or individual in one country into business interests located in another country.

GATT: General Agreement on Tariffs and Trade.

Gross Domestic Product (GDP): Total market value of all final goods and services produced in a country in a given year.

Gross National Product (GNP): The total market value of all final goods and services produced by nationals in a given year.

GSP: Generalized System of Preferences, preferential market access.

GSTP: Global System of Trade Preferences among Developing Countries.

Import Substitution Industrialization (ISI): Is a trade and economic policy which advocates replacing foreign imports with domestic production.

Internal Economies of Scale: Average production costs for a business decrease as it increases overall product output, and average cost per unit falls until maximum efficiency is attained.
ITO: International Trade Organization.

Least Developed Countries (LDCs): Low-income countries confronting severe structural impediments to sustainable development. These countries are highly vulnerable to external shocks and have low levels of human assets.

Monetary Policy: Policy that affects the economy through changes in money supply and available credit.

Net Capital Outflow (NCO): Is the net flow of funds being invested abroad by a country during a certain period of time (usually a year).

Opportunity Cost: The loss of potential gain from other alternatives when one alternative is chosen.

Protectionism: The theory or practice of shielding a country's domestic industries from foreign competition by taxing imports.

Sustainable Development Goals (SDGs): A universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Tariff: A tax or duty to be paid on a particular class of imports or exports.

Tariff Rate Quota (TRQ): Two-tiered international trade tariff that combines two policy instruments (tariffs and quotas) to protect domestic production by restricting imports. The quota sets a quantitative threshold for a period of time with low or non-existent tariff rates. After the quota is fulfilled tariffs are raised substantially that are intentionally prohibitive.

Terms of Trade: The ratio of an index of a country’s export prices to an index of its import prices (often the ratio of relative prices).

Trade Policy: A government policy that directly influences the quantity of goods and services that a country imports or exports.

UNCTAD: United Nations Conference on Trade and Development.

WTO: World Trade Organization.