

Forum: Special Conference on International Development

Issue: Promotion of free trade initiatives

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Introduction

Free trade has been a key part of recent economic plans, seen as a way to increase worldwide prosperity. These initiatives aim to create a smooth flow of goods and services as well as capital across borders by removing or lessening at least several trade barriers such as tariffs, quotas, subsidies, etc. Supporters of free trade claim that free trade promotes innovation, increases efficiency, lowers consumer prices and encourages international collaboration. Nations use this mechanism to powerfully focus on industries offering them a meaningful competitive advantage, thus substantially increasing productivity and accelerating growth. However, the large expansion of free trade faces several challenges and many controversies. Some critics argue that although free trade can increase the total global wealth by an important amount, a large portion of its advantages are distributed unevenly, thus worsening economic inequalities within and among many countries.

Free trade agreements are frequently capitalized upon more easily by a significant number of wealthier countries and large multinational corporations. But, a large number of smaller economies or local businesses may find themselves struggling to maintain competitiveness. Furthermore, the important ecological costs of heightened production, increased transportation and large potential for resource exploitation create serious concerns regarding the long-term sustainability of free trade. The debate over free trade represents a significant conflict between global integration and the necessity of social justice, cultural conservation and environmental protection. Although the main purpose of free trade is to be the new drive behind economic dominance, the implementation must address the broad issues accompanying it. In a world that is rapidly globalizing, it is important to question how free trade policies help with economic advantages and ethical practices while allowing sustainability, equality and local autonomy. By addressing these challenges, free trade can achieve its promise of creating a more prosperous and equal global economy.

Definition of Key Terms

Free trade: Free trade is the “international buying and selling of goods, without limits on the amount of goods that one country can sell to another, and without special taxes on the goods bought from a foreign country” ([Cambridge Dictionary](#)).

Free trade agreement (FTA): “A Free trade Agreement (FTA) is an agreement between two or more countries where the countries agree on certain obligations that affect trade in goods and services, and protections for investors and intellectual property rights, among other topics” ([International Trade Organization](#)).

Tariffs: Tariffs are taxes imposed on imported goods and services. Tariffs aim to protect domestic industries by making foreign products more expensive.

Quotas: Quotas are physical limits on the quantity or value of a particular good that can be imported or exported during a specific period of time. Quotas aim to restrict trade to protect local markets.

Subsidies: Subsidies are financial assistance provided by governments to domestic producers aiming to make their goods or products more competitive in the global market.

Protectionism: “Economic ideology that advocates using tariffs and other government restraints to protect domestic businesses from international competition” ([Legal Information Institute, Cornell Law School](#)). Protectionism is seen as the opposite of free trade.

Globalization: Globalization is the process of increased interconnectedness and interdependence between different countries.

Trade liberalization: Trade liberalization is the process of reducing or completely eliminating trade barriers. Trade liberalization aims to promote freer and more open trade between countries.

Dumping: Dumping is the economic practice of exporting goods at prices lower than their production cost or domestic market value in order to gain a competitive advantage in a foreign market.

Comparative advantage: Comparative advantage is “the idea that countries should only export the goods that they are able to produce more efficiently than other countries and import the goods that other countries are able to produce more efficiently than them” ([Cambridge Dictionary](#)). Comparative advantage aims to maximize overall economic benefits.

Multinational corporations (MNCs): Multinational corporations are large companies that operate in multiple countries. These corporations usually benefit from free trade by accessing global markets and resources.

Trade deficit: A trade deficit occurs when a country’s imports exceed its exports. A trade deficit is a trade imbalance where there is a negative balance. A positive trade balance is called a trade surplus and occurs when a country’s exports exceed its imports.

Sustainable trade: Sustainable trade practices prioritize environmental conservation, social equity and economic stability. Sustainable trade aims to ensure long-term benefits.

Sustainable trade index (STI): “The Hinrich Foundation Sustainable Trade Index was created to

provide a framework to measure the relative capacity of economies to achieve sustainable growth through global trade and investment. The index uses indicators across economic, social, and environmental factors to rank participating economies. The STI provides a tool for policy, business, and academia to shape priorities in advancing the role of global trade in building sustainable economies” ([The Hinrich Foundation](#)).

Mercantilism: Mercantilism is “an economic theory developed in the 16th to 18th centuries that says that a government should control the economy and that a nation should increase its wealth by selling more than it buys from other nations” ([Cambridge Dictionary](#)).

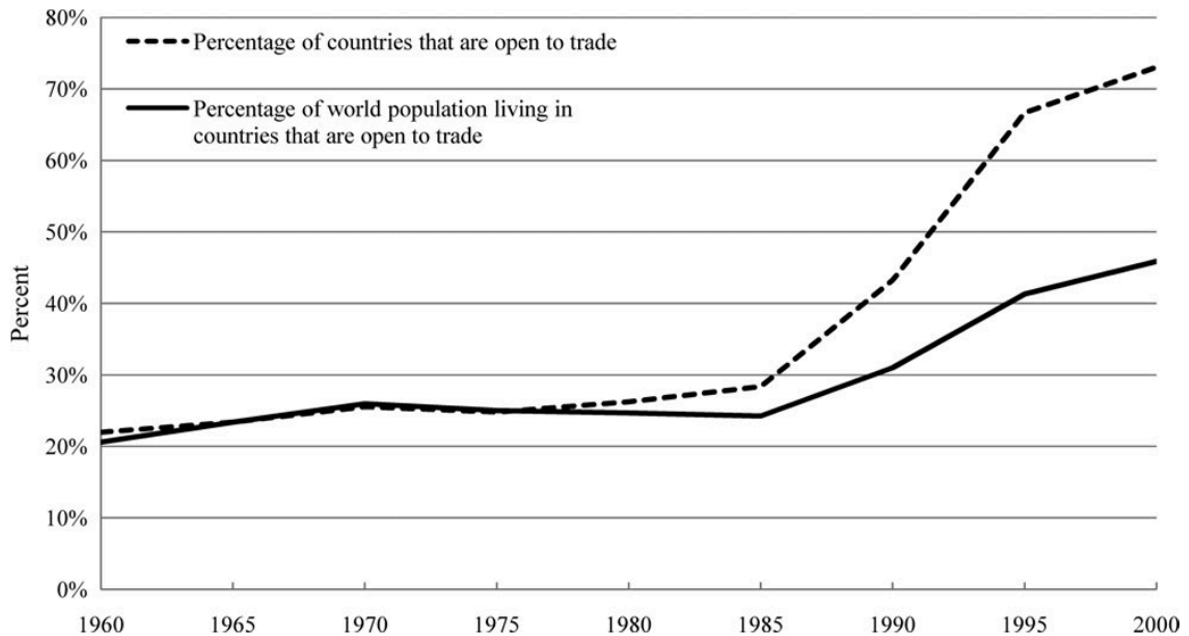
General Overview

Historical Context of Free Trade

During the 16th and 17th centuries, many European countries were in the practice of mercantilist policies which meant they gave the highest priority to becoming wealthy through the reduction of imports. This way of earning money was highly dependent on the trade and imports. “Trade agreements during this period were often structured to reinforce mercantilist objectives, granting exclusive trading rights to favored nations and establishing tariffs that discouraged competition. Such measures aimed to secure national interests, fostering rivalries that influenced international relations significantly” ([International Law Editorial](#)). Some economists such as Adam Smith who wrote *The Wealth of Nations* (1776) and David Ricardo who wrote in *Principles of Political Economy and Taxation* (1817) initially developed the theoretical foundation for free trade through the concept of competition in the market and the theory of comparative advantage. Britain was the leader in adopting free trade policies that became widespread around the mid-19th century. Britain removed the Corn Laws in 1846 to diminish the cost of food and stimulate competition. The Cobden-Chevalier Treaty (1860) is another great example. This Anglo-French treaty was one of the early instances of bilateral trade agreements. It aimed to reduce barriers and other European countries have been encouraged to follow this example. The machinery of the Industrial Revolution in production and transportation technologies also increased trade economics and promoted free trade by increasing the efficiency of the global market.

By the late 19th century, protectionist policies were brought back by many countries to confront economic competition. The Great Depression (1929) deepened the tendency to protectionism. After the adoption of the U.S. Smoot-Hawley Tariff Act (1930), high tariffs were enforced. “With the U.S. and Britain emerging from World War II as the two great economic superpowers, the two countries felt the need to engineer a plan for a more cooperative and open international system. The International Monetary Fund (IMF), World Bank, and International Trade Organization (ITO) arose out of the 1944 Bretton Woods Agreement. While the IMF and World Bank would play pivotal roles in the new international framework, the ITO failed to materialize, and its plan to oversee the development of a non-preferential multilateral trading order would be taken up by the GATT, established in 1947” ([Johnston](#)). The General Agreement on Tariffs and Trade (GATT) was

established in 1947 to secure member nations. This led to the creation of what is now known as the modern-day trade system by the reduction of tariffs and other trade barriers. The World Trade Organization (WTO) replaced GATT as a formal institution in 1995. The WTO now conducts supervision of global trade and provides resolutions to disputes in global trade.



Graph 1: Openness to Trade, 1960–2000

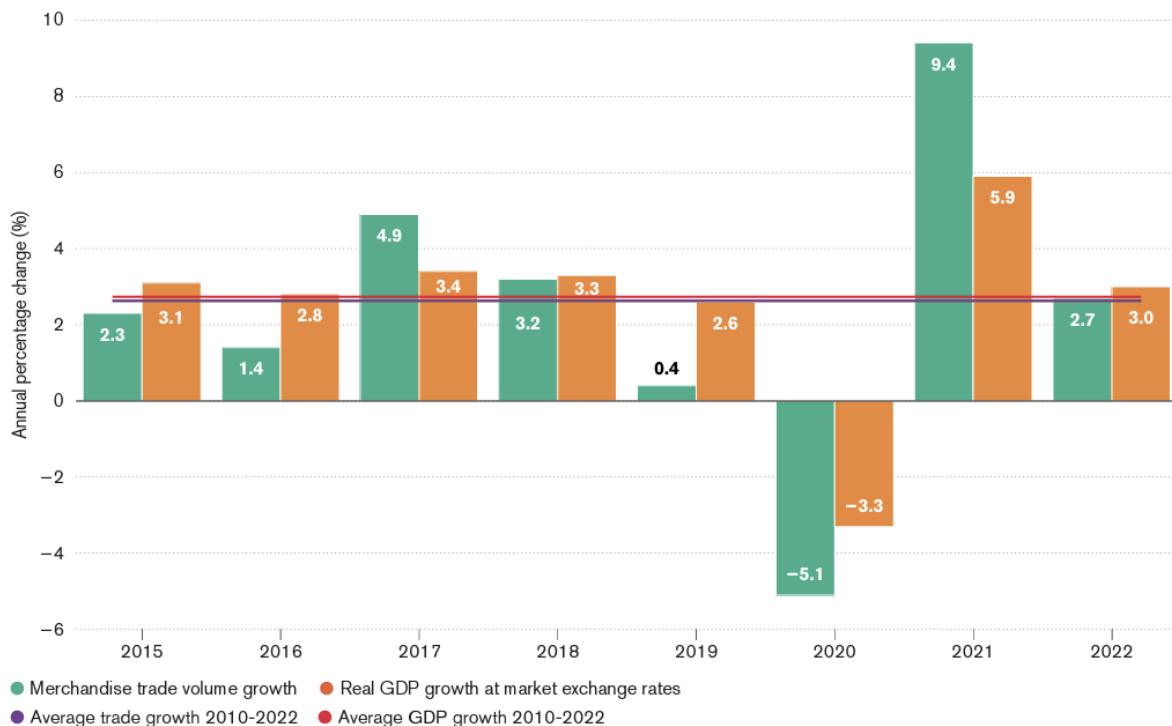
Benefits of Free Trade

One of the many advantages of free trade is that it enables countries to specialize in the industries in which they are most productive. Consequently, the process becomes more efficient and more output is created. By opening markets, businesses can scale up their productions and access a broader customer base, thus boosting economic growth. Countries that are involved in free trade generally attract foreign investment which is a key factor in fostering industrial development and job creation. The removal of tariffs and other trade barriers causes an increase in competition among producers which results in the reduction of the prices for goods and services. On the other hand, free trade is a tool that provides consumers with access to a wide range of goods and services from different countries.

Global competitors refrain companies from innovating, improving the quality and the reduction of costs. Trade is actually a mechanism that transfers technology and skills from one country to another, thus improving the economies' productivity and industrial capacity. As the trade develops industries, it makes the export-oriented sectors provide employment. Workers in competitive industries usually get a pay boost because of an increased demand for skilled labor. "Free trade improves efficiency and innovation. Over time, free trade works with other market processes to shift workers and resources to more productive uses, allowing more efficient industries to thrive. The results are higher wages, investment in such things as infrastructure, and a more dynamic economy

that continues to create new jobs and opportunities” ([Boudreaux and Ghei](#)).

Free trade agreements are the basis for cooperation and peaceful coexistence between nations which significantly decreases the probability of conflicts occurring between countries. Economic integration allows diplomatic resolutions and shared interests among trading partners. Poor countries can export their commodities to develop the nations which will drive growth and reduce poverty. The good thing about free trade is that it promotes the diversification of industries from the newly developed economies and decreases their reliance on specific sectors or commodities. Trade unites people and cultures by bringing them closer which allows mutual understanding and sharing of values. A society’s exposure to international products, media and ways of thinking helps them evolve in different ways. Free trade is a catalyst for economies to adjust quickly to global realities and trends which enhances their resilience to external shifts. The competitive forces of free trade usually encourage nations to adopt better business practices, governance and infrastructure improvements. “Free trade promotes fairness. When everyone follows the same rules-based system, there is less opportunity for cronyism, or the ability of participating nations to skew trade advantages toward favored parties. In the absence of such a system, bigger and better-connected industries can more easily acquire unfair advantages, such as tax and regulatory loopholes, which shield them from competition” ([Boudreaux and Ghei](#)).



Source: WTO for merchandise trade volume, consensus estimates for GDP.

Graph 2: World merchandise trade volume and GDP growth 2015-2022



Source: WTO and UNCTAD.

Graph 3: World merchandise trade volume 2019-2023

Challenges and Criticisms of Free Trade

The problems and criticisms that come with free trade show the potential negative effects, particularly on vulnerable industries, economies and groups. The most important beneficiaries of free trade are the developed nations with the developing ones lacking the necessary infrastructure, technology and resources required to compete effectively in the open markets. Although free trade can lead to overall economic growth, the gains are not always equal. Wealthier nations and large corporations often thrive more and this exacerbates the gap between the rich and the poor. Free trade can also make domestic enterprises less competitive which results in shutting them down and job losses because they cannot compete with the cheaper imports from other countries. Employees in the areas that can be impacted by international competition might either be laid off or be forced to work for lower paychecks. Free trade agreements may restrict a nation from enacting policies that support domestic industries, protect labor rights or ensure environmental quality and sustainability. International companies may litigate against governments for violation of trade agreements, thus challenging national sovereignty.

Free trade can encourage more production of goods which leads to the exhaustion of natural resources and the environment. All of these processes involve long-distance transportation that releases certain amounts of gases into the atmosphere and contributes to the world’s greenhouse gas emissions. Another effect of free trade is the encouragement of companies to relocate production to some countries with lower wages and weaker labor regulations. In some cases, workers in developing

countries may endure exploitation by working in extremely dangerous conditions and also receive low compensation. The spread of global companies under free trade can be the beginning of a new era where the influence of local culture disappears leaving the world as a monolithic entity. Globalization can create trade imbalances among some countries which have become dependent on importing goods whereas others have taken control of the market by exporting. These trade deficits will put these countries into more debt by pushing them to borrow money to buy more. In the absence of regulations on competition in international markets, the ones in power can get additional benefits. Overreliance on worldwide supply chains subjects economies to shocks such as pandemics, natural disasters or geopolitical tensions. Import dependence on basic commodities such as medical supplies can also be detrimental to national security. Industries that start to develop in developing countries may have problems competing with companies from other countries that have been already established without the help of beneficial measures. The poor countries tend to rely on the export of raw materials and the importation of processed goods which discourages economic growth and complicates the improvement of value addition. One last thing is that FTAs are intricate and consume a lot of time to be negotiated which allows potential for conflicts among the stakeholders. Free trade agreements can be too expensive for countries with limited administrative capacity, especially those that are small.

Major Parties Involved and Their Views

The United States of America: The USA has been a supporter of free trade for a very long time, trying to bring up worldwide economic integration through the World Trade Organization and agreements such as the North American Free Trade Agreement (NAFTA), now the United States-Mexico-Canada Agreement (USMCA). Free trade enables American goods and services to come into new markets, thus becoming more influential in the geopolitical arena. But still, the USA in its foreign trade policy has recently demonstrated the combination of a trade liberalization process with a protectionist policy of safeguarding the domestic economy and the problem of trade deficits, mainly the one with China. Administrations in power have been promoting free trade as they confront fears of job losses, labor rights and environmental standards. The USA is a key actor in the international arena, as it keeps signing trade agreements to maintain its economic and strategic leading role in the world.

China: Trying to climb to the top of the economic ladder, China has created a policy of free exchange, the very foundation of which is the WTO membership and various undertakings such as the Belt and Road Initiative (BRI) to other markets across the world. Being the leading exporter country in the world, China benefits from the opening up of global markets by protecting some of the key industries located in the country that are of domestic interest. It is getting involved in the Regional Comprehensive Economic Partnership (RCEP) to support these trade connections in Asia. Meanwhile, China is being accused of unjust practices like the theft of intellectual property, state support and labor rights issues. The Chinese strategy of free exchange between countries is a

combination of the global business process and a priority of maintaining economic monitoring.

The European Union (EU): Free trade is the cornerstone of the EU's trade policy which is an assembly of member states that combine their economic clout to negotiate equitable agreements worldwide. The policy aims at trading liberalization and at the same time is also concerned with strict standards regarding the protection of the environment, sustainability and labor issues. Because of its large market size, the EU has signed significant agreements with countries like Canada, Japan and Mercosur which have significant economic impacts and great geopolitical influence. Intra-EU trade among member states is normalized by the EU's single market system which results in the integration of their economies.

India: India's approach to free trade is very cautious and the priority is to protect the domestic industries and agriculture. Even though India respects fair trade and market access for developing nations, it quite often refuses total elimination as it did in the case of withdrawal from the RCEP.

Brazil: Brazil practices both the protection of agricultural and industrial sectors along with the aid of free trade successfully. As the great power of the developing world, Brazil is one of the leaders in fighting for fair terms of trade and access to their markets.

Japan: Japan is a passionate supporter of free trade. Japan is involved in regional agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and such global alliances. Japan tries to involve its exports to impress and promote open access to foreign markets through partnerships, innovation and cooperation while protecting its strategic industries at the same time.

The World Trade Organization (WTO): "The overall objective of the WTO is to help its members use trade as a means to raise living standards, create jobs and improve people's lives. The WTO operates the global system of trade rules, helps developing economies build their trade capacity and seeks to create a more inclusive trading system. By lowering trade barriers through negotiations among member governments, the WTO's system also breaks down other barriers between peoples and trading economies" ([WTO](#)).

The International Monetary Fund (IMF): "The IMF has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. To fulfill these missions, IMF member countries work collaboratively with each other and with other international bodies ([IMF](#)).

The World Bank: The World Bank supports free trade to encourage development and poverty alleviation, especially in developing countries. It offers both financial and technical measures to help these countries be a part of global markets.

Timeline of Events

9 March 1776	Adam Smith publishes The Wealth of Nations.
17 June 1930	The Smoot-Hawley Tariff Act is signed.
22 July 1944	The Bretton Woods Agreement is signed.
July 1944	The International Monetary Fund (IMF) is established after the Bretton Woods Conference.
1946	Britain abolishes the Corn Laws.
30 October 1947	The General Agreement on Tariffs and Trade (GATT) is signed.
30 December 1963	The United Nations Conference on Trade and Development (UNCTAD) is established.
1 January 1994	The North American Free Trade Agreement (NAFTA) is signed.
1 January 1995	The World Trade Organization (WTO) replaces GATT.
2001	China becomes a WTO member.
2013	China's Massive Belt and Road Initiative is launched.
8 March 2018	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is signed.
1 July 2020	The United States-Mexico-Canada Agreement (USMCA) replaces the NAFTA.
15 November 2020	The Regional Comprehensive Economic Partnership (RCEP) is signed.

UN Involvement

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964. It is a global organization that is striving to take economic power and sustainable development to the world in a human-centered fashion. It focuses on helping developing countries. It gives them quick expert advice, access to the latest research and technical aids among other things. The UNCTAD not only aims to remove trade barriers and disparities in wealth among nations but also tries to obtain the goals set by the United Nations for a sustainable future. Its aims align with the UN's Sustainable Development Goals (SDGs). Other than environmental sustainability, it also contributes to poverty reduction and economic growth. Undoubtedly, UNCTAD is a significantly important and motivational institution that brings together many experts from all over the world to help others improve their lives. It gives technical aid, policy advice and capacity-building programs that allow market access, competitiveness of export and the integration of nations into global value chains.

Other than the UNCTAD, the UN has contributed significantly to free trade by focusing on equity, inclusivity and sustainability within the global trade system. UN agencies advocate for fair trade and argue that trade systems have, as their main objective, the redirection of the structural inequalities of the world in a way to help all countries, especially the least developed countries (LDCs). The UN also encourages sustainable trade practices that imply the adoption of green technologies and the reduction of the environmental impact of global trade. As the global economy moves forward, trade policies and initiatives need to align with climate goals. The UN encourages trade as a mechanism for poverty reduction and global development while balancing these with economic growth, social well-being and environmental sustainability.

Relevant UN Documents

The future we want- Resolution adopted by the General Assembly on 27 July 2012 ([A/RES/66/288](#))

Transforming our world: the 2030 Agenda for Sustainable Development- Resolution adopted by the General Assembly on 25 September 2015 ([A/RES/70/1](#))

International trade and development- Resolution adopted by the General Assembly on 21 December 2020 ([A/RES/75/203](#))

Protection of global climate for present and future generations of humankind- Resolution adopted by the General Assembly on 14 December 2022 ([A/RES/77/165](#))

International trade and development- Resolution adopted by the General Assembly on 19 December 2023 ([A/RES/78/134](#))

Evaluation of Previous Attempts to Resolve the Issue

Free trade promotion has received different levels of attention in the economic world based on how the general economic climate has been going, political tensions and the relation between national interests and multilateralism. Important initiatives like the GATT and later on the establishment of the WTO have done well in tariff reduction and establishing new rules for world trading. Regional agreements like the NAFTA, the CPTPP and the RCEP have been successful in promoting global and regional economic integration through trade. On the downside, these often do not encompass the LDCs, thus limiting their extent in bringing trade equality in the world. The United Nations is achieving notable progress in raising the living standards for people by the UNCTAD implementing developmental reporting and advisory programs alongside advocacy for equitable trade policies. On the other hand, their effectiveness is minimized by weak enforcement power and reliance on the member states.

Possible Solutions

There are so many aspects to this issue, thus so many solutions. Reforming multilateral trade systems and promoting inclusivity in trade agreements would be a good place to start. Think about strengthening institutions like the WTO or including the developing or least developed countries more in trade agreements. Making sure they can participate would make free trade more equitable. Try to take down regulations. Reducing trade barriers is the key to free trade. Meanwhile, enhance regional integration and address trade imbalances. Fixing trade imbalances would reduce dependency. Try to increase the environmental and labor standards. Balancing trade with sustainability is very important to the UN. Only addressing one aspect of this issue will not be effective. Make sure you are looking at the issue from multiple perspectives.

Notes from the Chair

Useful Links:

WHAT IS THE IMF?- International Monetary Fund

<https://www.imf.org/en/About/Factsheets/IMF-at-a-Glance>

About UN Trade and Development (UNCTAD)- UNCTAD <https://unctad.org/about>

WTO IN BRIEF- WTO https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.htm

WTO Annual Report 2024- WTO https://www.wto.org/english/res_e/publications_e/anrep24_e.htm

World Trade Report 2024 — Trade and inclusiveness: How to make trade work for all- WTO

https://www.wto.org/english/res_e/publications_e/wtr24_e.htm

World Trade Statistical Review 2023- WTO

https://www.wto.org/english/res_e/publications_e/wtsr_2023_e.htm

The 2030 Agenda for Sustainable Development- Sustainable Development Goals- The United Nations
<https://sdgs.un.org/goals>

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WTO | *the WTO in Brief*. www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.htm.

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