

**TOPIC A: "TRADE WARS AND RISING  
PROTECTIONISM: THE ECONOMIC AND SOCIAL  
COSTS OF GLOBAL FREE TRADE SLOWDOWN"**



**ECONOMIC AND SOCIAL  
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## TOPIC A: “TRADE WARS AND RISING PROTECTIONISM: THE ECONOMIC AND SOCIAL COSTS OF GLOBAL FREE TRADE SLOWDOWN”

*“There is no escape from the vast imbalances in international trade and finance. They will be corrected, sooner or later, by the inexorable principles that govern human action.*

-Hans F. Sennholz

Following the devastation of the Second World War, governments recognized that rebuilding national economies required more than internal measures; it demanded an international framework that could encourage cooperation and reduce the risks of renewed conflict. Alongside the creation of the International Monetary Fund and the World Bank, governments attempted to establish a third institution to regulate international commerce: the International Trade Organization (ITO). Negotiated at the 1947 United Nations Conference on Trade and Employment and supported by more than 50 countries, the ITO was intended to complement the Bretton Woods institutions<sup>1</sup> as part of a comprehensive framework for economic cooperation.

However, political resistance prevented its ratification, leading to the collapse of the project. What remained was the General Agreement on Tariffs and Trade (GATT), signed in 1947 as a provisional treaty to reduce tariffs and establish basic rules of international exchange. Over the next five decades, the GATT became the *de facto* framework for world trade, evolving through nine negotiation rounds aimed at reducing tariffs.<sup>2</sup>

Its achievements were limited in scope,<sup>3</sup> but it nevertheless laid the groundwork for a more integrated world economy. By the 1990s, the technological revolution brought by the rise of telecommunications and the internet, coupled with geopolitical changes such as the end of the Cold War, accelerated the trend toward globalization. In 1995, the World Trade Organization (WTO) was finally established with 123 original members. Unlike the GATT, the WTO included a formal dispute settlement mechanism that could issue binding rulings, representing a major step towards institutionalizing global trade governance. Furthermore, the establishment of the WTO expanded the agenda of trade to services, intellectual property, and investment-related measures.

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<sup>1</sup> “Bretton Woods institutions” is a collective term for the International Monetary Fund (IMF) and the World Bank, both established at the United Nations Monetary and Financial Conference held in Bretton Woods, New Hampshire, in 1944.

<sup>2</sup> The GATT succeeded in reducing average tariff levels on industrial products from around 22% in 1947 to less than 5% by the late 1980s.

<sup>3</sup> For instance, it did not adequately address non-tariff barriers, trade in services, or agricultural protections.



During this period, regional trade agreements such as the North American Free Trade Agreement (NAFTA), the European Union's single market, and Mercosur strengthened the perception that global commerce was not only desirable but inevitable. Outsourcing and global supply chains became standard business practices, reflecting the unprecedented interconnection of markets.

However, the prevailing enthusiasm for open markets has diminished over the past few years. Several factors explain this shift. The benefits of globalization, while substantial overall, have not been evenly distributed. In developed economies, the relocation of industries to lower-cost production affected communities that had long depended on factories for stable employment, resulting in increased unemployment and fueling political discontent and skepticism toward international trade. In contrast, many developing economies, although experiencing rapid growth through expanded exports, became highly dependent on external demand and foreign investment. This dependency exposed them to volatility when global demand slowed or when international capital flows shifted suddenly, creating economic uncertainty. Financial crises, such as the 2008 global recession, exposed the vulnerabilities of an interconnected economy and weakened trust in free trade as an unquestioned good.

Furthermore, rising geopolitical tensions, especially between major economic powers, have transformed trade into an instrument of strategic rivalry. The United States and China, in particular, have engaged in tariff escalations and reciprocal restrictions on technology and investment, marking a clear departure from the cooperative spirit that had once characterized the multilateral system<sup>4</sup>.

In this context, protectionism has re-emerged as a defining feature of international trade. Protectionism refers to government policies that restrict international trade to protect domestic industries from foreign competition, often through tariffs, quotas, subsidies or regulatory barriers. Proponents argue that such measures preserve jobs, strengthen national security, and prevent dependency on unstable global markets. This broader shift towards protectionism has manifested worldwide.

In North America, the United States has played a central role in this shift. Tariffs on Chinese imports have risen to as much as 25%, impacting a wide range of goods—from electronics to agricultural products—and triggering reciprocal actions from China. Trade agreements have also reflected this trend: the renegotiation of the North American Free Trade Agreement into the United States-Mexico-Canada Agreement (USMCA) incorporated stricter labor

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<sup>4</sup> Yuki Kobayashi, China's Rare Earth Export Restrictions and Other Countries' Responses: Strategies for the Main Battleground of Economic Security, SPF China Observer, No. 62 (2025/07/09), Sasakawa Peace Foundation.



provisions and rules of origin designed to favor domestic industries, evidencing a more defensive approach to trade.

In Europe, protectionism has taken the form of both internal and external measures. Some member states, such as Hungary and Poland, have adopted policies to support domestic sectors, raising questions about the integrity of the European Union's single market. Externally, the European Union has imposed tariffs on imports from countries accused of unfair practices, such as its tariffs on steel and aluminum imports from the United States, which contributed to transatlantic trade tensions.

In Asia, large economies such as India and Indonesia have embraced policies that prioritize local production. India's "Make in India" initiative has been accompanied by higher tariffs on a wide range of imports, from textiles to electronics, in an effort to promote domestic manufacturing. Indonesia has adopted restrictions on certain agricultural imports to support local farmers, a strategy that has raised concerns about food prices and regional trade frictions. Latin America has also witnessed similar developments: Brazil and Argentina have increased tariffs and quotas on agricultural goods to protect local producers.

While these protectionist policies aim to stabilize domestic markets and support national industries, they raise alarms about their broader consequences. The World Trade Organization has repeatedly warned that tariffs and import restrictions increase consumer prices by making imported goods more expensive, a burden that falls disproportionately on lower- and middle-income households. The U.S.–China trade dispute offers a clear example: tariffs on Chinese electronics, textiles, and household items have led to higher prices for American consumers.

Beyond the immediate costs, protectionism may undermine economic growth by reducing rivals and innovation. When domestic industries are isolated from foreign competition, they often have fewer incentives to modernize or improve efficiency. The WTO warns that rising protectionism risks reversing thirty years of progress in narrowing income disparities between higher- and lower-income economies, undermining one of globalization's most significant achievements.

The rise of protectionist measures has also intensified diplomatic relations. Tariff battles between major economies, most notably the United States and China, have generated uncertainty in global markets and created obstacles for cooperation on broader international challenges, from climate action to security. Furthermore, by disrupting global supply chains, protectionism affects industries that depend on cross-border components, raising production costs and limiting consumer choice.



In the long term, experts warn that the spread of such policies may accelerate economic fragmentation, with severe consequences: research suggests that global GDP could decline by an average of 2% if trade and foreign investment continues to divide, and in a worst-case scenario, real incomes worldwide could fall by as much as 5%. This trajectory threatens not only the stability of the global economy but also the cooperative framework built since the aftermath of the Second World War.

In response to these growing challenges, the international community has taken steps to address the rise in protectionist trade measures and the resulting fragmentation of the global economy. Although the World Trade Organization (WTO) remains a central institution for global trade governance, its ability to resolve disputes has been significantly weakened. The ongoing paralysis of the WTO's Appellate Body has left many cases unresolved, prompting member States to turn to alternative mechanisms such as the Multi-Party Interim Appeal Arbitration Arrangement (MPIA)—a provisional solution adopted by a subset of members. While not universally accepted, the MPIA offers a temporary path for appeals and reflects broader efforts to preserve multilateral cooperation.

In light of these developments, the challenges posed by rising protectionism remain pressing. Strengthening dispute resolution mechanisms, encouraging constructive dialogue among trading partners, and adopting policies that balance national priorities with shared global interests are essential to prevent further disruption. Coordinated action is crucial to ensure that the gains achieved over decades of economic integration are not lost, and to secure a stable and inclusive path for the global economy in the years ahead.





## KEY QUESTIONS:

- What underlying economic, political, and technological factors are driving the resurgence of protectionist policies worldwide, and how do they differ across regions?
- In the face of increasing protectionist measures, how can international institutions like the WTO and United Nations enhance their mechanisms to maintain fair, effective, and resilient trade governance?
- How might rising protectionism affect global inequality, and what measures could mitigate its impact on vulnerable populations and emerging economies?
- How can States balance national economic priorities with the long-term benefits of multilateral trade? What policy tools or frameworks might allow for both domestic protection and global cooperation?
- What responsibilities and opportunities do regional trade blocs have in mitigating protectionism, promoting cooperation, and shaping the future of global trade governance?
- What lessons can be drawn from past trade conflicts—such as the U.S.–China tariff escalations—to guide current and future trade negotiations?
- How can technological change and digital trade be leveraged to promote openness in global markets, even in a climate of rising protectionism?
- What role should civil society, the private sector, and international organizations play in promoting transparency and accountability in trade policy decisions?
- In a world facing simultaneous challenges such as climate change, pandemics, and economic crises, how can trade policy be coordinated to support both national resilience and global recovery?
- Should there be limits on the use of protectionist measures during global economic crises, and how could these limits be monitored or enforced internationally?
- How might protectionist trends impact investment flows and development aid, and what strategies can ensure that global development goals remain attainable?



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