Proceedings of the 3rd International Conference on Financial Technology and Business Analysis
DOI: 10.54254/2754-1169/153/2024.19527

International Organizations Function in Developing Trade Policies

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Abstract: International organizations, such as the EU, UNCTAD, and WTO, play a pivotal role in shaping global trade policies, fostering economic cooperation, and reducing trade barriers. These organizations not only regulate international trade practices but also resolve disputes, ensuring stability and predictability. Trade policies significantly impact global exchange rates, influencing currency values based on trade surpluses, deficits, and capital flows. While free trade offers benefits such as increased economic growth, resource allocation efficiency, and innovation, it also presents challenges, including protectionism and unequal development stages among member states. The research also highlights the role of international organizations in driving sustainable trade practices, especially in promoting renewable energy technologies. However, the diverse interests of developed and developing countries, combined with bureaucratic delays, pose significant obstacles in achieving coherent and adaptive trade policies. This study underscores the need for balanced, inclusive trade policies that consider both economic and environmental objectives.

Keywords: International Trade, Trade Policies, Global Exchange Rates, Sustainable Development.

1. Introduction

1.1. Background

International organizations play a critical role as trade policy developers in an ever-more-interconnected world. The European Union (EU), United Nations Conference on Commerce and Development (UNCTAD), and World Trade Organization are important organizations regulating international trade, playing an instrumental role in framing the mechanisms and rules that govern international business. By promoting economic cooperation and reducing barriers to trade, they allow communication between member countries with low-cost power. In addition to this, these organizations also attempt to address the problems caused by globalization, such as trade imbalances and protectionism, through a network of accords and treaties. More than mere policymakers, these organizations manage trade practices and resolve disputes, maintaining a world in which global exchanges are stable and predictable. By providing a venue for negotiation and collaboration, international organizations contribute substantially to facilitating development across borders [1-3].

1.2. Importance of Trade Policies

International bodies are necessary in trade development since they lay down the guidelines that govern international economic policy. For example, the World Trade Organization (WTO) is crucial in creating a level playing field where trade negotiations and disputes are resolved among member countries. To facilitate international commerce between states, the WTO tears down national barriers in the form of tariffs and standards. Practicing economic interdependency and peace, it aligns with the theory of Neo-liberal constitutionalism and commercial liberalism. In addition, the Agenda for Sustainable Development includes development objectives that govern attractive work on trade and reinforce sustainable cultures of businesses in trading. The above strategy shows JICA not only fosters cooperation among international institutions but also addresses important global issues and ensures its trade policy is fair and sustainable [4-6].

1.3. Objectives

In scrutinizing trade policies, the key to discerning their impact on exchange rates and economic development is understanding them. Trade policies are efficient tools for economic growth, as they facilitate international trade and stimulate competitive advantage through access to a larger market, e.g., new markets or advanced capital outside a nation's borders. This is important for states partaking in de-globalization tendencies, where recent research suggests that trade networks change in a way that directly affects economic predictions. International sanctions can also have a severe bearing on technical innovation, which could seriously limit a country's ability to compete economically. Such constraints further underline the importance of robust research to reduce potential harms and enhance benefits, particularly when regulations may promote innovation. Trade policies have long-term effects on economic models and the manipulation of currency values, which is important for sustainable multilateral growth. Analyzing them in detail impacts macroeconomic regulation.

2. Case description

International organizations, which create norms and rules for trade liberalization or sustainability at the national level, are playing a growing role in shaping these policies. For example, the rules in international carbon markets have been shown to massively raise exports of renewable energy technology, such as Chinese photovoltaic (PV) systems. Research suggests that these measures push countries to greener trading behaviors by spurring the use of renewable energy and reducing reliance on fossil fuels. Like Ghana, countries aspiring to usher in a new era of renewable energy have seen inevitable shifts in their trade balance, which do not reveal themselves until capital is being committed and flow-carbon technologies are introduced. The cases reviewed in this paper draw attention to the intertwined nature of global markets and environmental stewardship and provide a model for how international organizations could help shape domestic trade policies by creating standards centered on the environment, which encourages countries to adopt more sustainable forms of enterprise [7].

At the same time as globalization of the world economy progresses, international organizations face severe constraints when shaping trade policy. One big problem is that the economic interests and stages of development in member states vary, often making their priorities and expectations divergent. It is, for instance, the case that developed nations may impose more rigid trade restrictions to safeguard their sectors, while developing nations might advocate for less restricted policy to be given an equal chance for development. Protectionism has also been on the rise, with a number of countries showing more inclination to prioritize their industry than form coalitions. On top of that, the bureaucratic nature often found in multinational corporations may drag on reaction times to developing global trends or trade conflicts by slowing down decision-making processes. The above challenges will ultimately lead to a less coherent trade policy formulation process and necessitate adaptive and inclusive approaches that factor in the diverse perspectives of all members [8].

3. Analysis on the Problem

3.1. Impact on Global Exchange Rates

Trade policies matter to exchange rates, and vice versa, because the relationship is as old as global economics gets. Trade policy has a direct effect on the flow of goods and services between nations, which affects their exchange rates. For instance, it is observed that a country following protectionist trade policies could cut down on its imports, consequently reducing the demand for foreign currency, hence appreciating its own domestic currency. On the other hand, a country that supports free trade could also be subject to more imports and exports, leading to exchange rate changes based on the balance of payments (Krugman, 2018). A significant factor in determining the value of a currency is trade surpluses or deficits. A trade surplus, indicating that a country exports more than it imports, tends to drive the value of its currency higher. Foreign buyers must buy the exporting country's currency to pay for goods, which pushes demand for that specific currency. Alternatively, a trade deficit—when imports exceed exports—tends to cause currency depreciation. As an importing country, the global market needs additional foreign exchange to pay for its imports, resulting in more supply of the currency, thus lowering its value. Exchange rates are therefore influenced largely by capital flows and, in consequence, also by speculations. If foreign capital starts to pour into a country, its currency will usually strengthen as demand for it increases. Similarly, if capital starts to flow out of a country, its currency could weaken. Investors speculate with money and may buy or sell currencies based on their expectations of future movements between that currency and others. In some cases, speculators may buy a currency they expect to appreciate and push up its price or sell one before it falls [9].

3.2. Pros and Cons of Free Trade

There are several advantages to free trade, such as the elimination of tariffs and other taxes. Free trade fosters economic growth, improves resource allocation through the specialization of production and helps efficiency by trading for goods that countries do not produce, thus increasing productivity. Moreover, free trade gives consumers access to a wider variety of goods and services at competitive prices. Similarly, when these staffing firms group together and begin to compete with each other, the existing competition is heightened, which can trigger innovation through necessary improvements in products or services.

Although free trade is beneficial, it also has drawbacks. It exposes domestic industries to international competition, and if they are unable to compete with lower import prices, it can harm them. This situation means that in some sectors, there will be job losses due to companies reducing or closing their activities because they cannot compete with international competition. Free trade can also exacerbate income inequality by benefiting some groups of the population more than others, with some consumers and industries reaping benefits while workers from specific segments may work for below-average wages or become jobless due to their industry being unable to compete globally in the tradable goods sector [10].

3.3. Pros and Cons of Protectionism

Protectionism, such as through the imposition of tariffs, quotas, or other trade barriers, can insulate domestic markets from foreign competition and has several advantages and disadvantages. One major benefit is the protection of domestic industries, especially those with large-scale benefits, like emerging sectors or those deemed critical for national security. Protectionism helps preserve jobs and ensures the country retains economic sovereignty. Additionally, protectionism can save some domestic jobs from vulnerable sectors by raising (relative) prices of imported goods, thus encouraging consumers to buy domestic products.

The obvious downside is that protectionism often raises consumer prices. Higher prices on imported goods, due to tariffs and quotas, result in higher costs for consumers, which can lower overall consumer welfare. Furthermore, protectionism can provoke retaliation from other countries and result in trade wars that are damaging to the world economy. This can be seen in the recent trade tensions between the US and China, where both countries resorted to tariff barriers on their goods, causing a breakdown in global supply chains and creating uncertainty among potential investors. Protectionism can also lead to lower economic efficiency and growth by distorting market signals, encouraging industries to remain inefficient over time.

4. Suggestions

4.1. Balancing Free Trade and Protectionism

Sustainable growth requires a nuanced approach that balances free trade with protectionist measures to protect domestic interests. A way to achieve this is by adopting adaptive trade policies that are responsive to changes in the international economy. Governments can use selective protectionism with respect to balance their trade presumption by charging taxes in specific sectors that are important or need strengthening. However, these measures should be provisional and phased out as industries become internationally competitive. Additionally, trade measures targeted at promoting healthy competition among economies while preventing the stagnation of product lifecycle innovations can be useful. For instance, anti-dumping laws and state support for R&D can help domestic industries without resorting to full-blown protectionism. These policies can be designed to protect sectors based on their ability while promoting innovation and efficiency. The importance of international trade agreements in sustaining this equilibrium cannot be overstated. Trade agreements should include a level of flexibility that allows countries to act protectively towards certain sectors if needed while fundamentally supporting free trade. For example, the WTO includes broad exceptions for national security or balance of payment crises.

4.2. Enhancing Economic Development through Trade

Trade has great potential to stimulate economic growth, but its advantages are not self-evident. For trade to have the most beneficial impact on economic development, countries need policies that build a foundation for long-term growth. One such policy is investing in education to improve employability. In an increasingly knowledge-based global economy, having a well-educated labor force is essential for ensuring nations and regions remain competitive. Investment in education, especially in science, technology, engineering, and mathematics (STEM), will equip many countries to participate successfully in the global economy. Investment in infrastructure development is another key area to increase the dividends of trade. Effective transport networks, sustainable energy supplies, and world-class communication systems can substantially reduce transaction costs, boost trade volumes, and attract foreign investment. New infrastructure can also integrate domestic firms into global supply chains and support the modern economy. Innovation is crucial when using trade for economic development. By promoting R&D and creating an enabling regulatory framework that encourages entrepreneurship, governments can foster innovation. A culture of innovation will help countries develop new goods and services demanded by the global market, thus enlarging their export markets. Innovations can also increase productivity, making domestic industries more competitive globally [11].

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4.3. Stabilizing Global Exchange Rates

The stability of global exchange rates is a key factor for providing economic security and cross-border transactions. Synergy in monetary policy with leading economies can lead to lower exchange rates. For instance, the 1985 Plaza Accord aimed to weaken a strong and unbalanced US dollar across major economies by intervening in currency markets. These actions can help prevent large currency devaluations and depressions in the global economy. Improved transparency in monetary policy is another key component of exchange-rate stabilization. Clear communication, or transparency from the central bank about its policy goals and the measures being taken to achieve them, reduces uncertainty for markets, leading to more stable exchange rates. For example, forward guidance on interest rates from the U.S. Federal Reserve has been instrumental in anchoring market expectations and reducing FX volatility. The credibility of monetary authorities, enhanced through greater transparency, contributes to exchange rate stability. Stabilizing exchange rates requires international cooperation. International financial institutions like the International Monetary Fund (IMF) are geared towards global cooperation and function as important mediums for dialogue and policy coordination across countries. IMF surveillance and advice can provide early warnings of risks to common exchange rate stability and recommend appropriate policy responses. Additionally, it can protect the currencies of countries experiencing balance of payments crises by imposing financial assistance conditionality from the IMF, thus preventing spillover effects in the global economy.

5. Conclusion

This analysis raises important points covering the complexities of international trade and economic policy. The relationship between trade policies and exchange rates is complex, involving variables such as trade surpluses/deficits and capital flows that also determine currency values. The implications of the analysis are significant for policymaking, highlighting the importance of understanding these contexts. The chapter examined the advantages and disadvantages of free trade, noting that while it promotes economic growth and efficiency, it can be controversial for domestic industries. Protectionism, on the other hand, can protect industries and jobs but often results in higher consumer prices and lower economic efficiency. The discussion suggests that adaptive regime selection, balancing sector-specific targeted free trade with ongoing protectionism, would be strategic. This requires greater international coordination, as recommended earlier, such as needed for MC11 negotiations on e-commerce rules and CSOs representation leading dialogue.

The analysis underscores the importance of investing in education, infrastructure, and innovation as crucial to benefiting from trade-led economic development. This aligns with the broader lesson of maintaining global stability and adapting trade policies to changing economic trends. Moving forward, international trade and economic development will likely continue through different combinations and forms, balancing open market free traders against shielded domestic protectionists. The economy is dynamic, and trade rules must be as well. This will require countries to adopt flexible, adaptive approaches that balance the benefits of open markets with the need to protect fragile sectors. The importance of global cooperation and governance will only increase as our world becomes more complex. Successfully responding to these challenges will require ongoing research and policy innovation. As new economic trends emerge while old ones advance, policymakers must consider the impacts of changing trade policies domestically and globally. Through sustainable economic development and fair competition in global markets, countries will be able to achieve broad-scale gains from trade coupled with economic stability.

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