İNANÇ MODEL UNITED NATIONS 2025

“CONTEMPLATING DIPLOMATIC FRACTURES WHILE BREAKING THE CYCLE OF SOCIOPOLITICAL INJUSTICE AND APATHY’’

De-escalating the economic tension caused by the American Tariff Crisis

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Committee: General Assembly 2- Economic and Financial Affairs Council

Issue: De-escalating the economic tension caused by the American Tariff Crisis

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Introduction

The growing issue of the American Tariff Crisis has become a significant source of economic tension that has reshaped the global trade dynamics. With the restrictive tariff decisions made by the United States, the global supply chains were affected leading to an escalation of global instability. As the world's largest economic actors, China, and the European Union took multiple steps towards the escalating issue of American tariffs with shifting trading policies in which multiple aspects were taken into consideration.

As one of the significant factors in the global economic balance, the tariff rates which are set for international trade, not only affects national economies but also the diplomatic relations resulting in uncertainty for investors, producers, and consumers. In an industry where predictability and stability are sought, the ongoing changes in the American tariffs make the maintenance of such an industry difficult.

It should be noted that without a multilayered approach, the ongoing obstacle can not be fully resolved under the current conditions. Coordinated actions between the EU and the U.S. must be strengthened through structured cooperation to effectively address the issue.

Definition of Key Terms

Demand: The amount of money that a consumer is willing to pay for a product or service.

GDP: Gross Domestic Product

Gold Standard: A system where a country's currency is directly backed by an amount of gold.

Reciprocal Tariffs: A tariff that is applied to equalize the tariff rate between countries which can be used as a penalty in situations where a country sets their tariffs too high, making the trade between countries unequal.

Retaliatory Tariff: A tax applied by a country on the products which are imported from another country, usually as a response to the second country's trade actions involving, the imposition of tariffs and trade barriers that are harmful. The motivation behind this strategy is to put pressure on the other country to reverse its original policies where the affected industries will be protected with more balanced trades.

Supply: The amount of goods or services that a supplier is willing to and able to bring to the market for a selected price.

Supply Chain Disruption: Unexpected events or conditions that disrupt the flow of goods in the supply chain which is the route between the suppliers and consumers.

Tax: The money that is paid to the government according to the consumers' income or the purchased goods or services' cost.

Tariff: A form of tax applied on the import or export of goods between countries. It is used to control and regulate the taxes on foreign products in order to promote and protect the domestic industry and economy.

Trade Barriers: Regulations and policies where international trades are limited/restricted.

Trade War: An economic conflict between countries, resulting in the formation of multiple policies which form trade barriers.

General Overview

The American Tariff Crisis represents a significant turning point in the history of the global economy, marking a shift in long-standing principles adopted by nation-states. Throughout human history, money always held an important role, representing power and dominance which has not changed today. After World War 2, where the United States adopted a framework called the "Gold Standard", the U.S. currency became a global currency which was widely trusted by all due to the physical equivalent it had. Even after the "Gold Standard" was no longer implemented, the understanding of trust for the U.S. dollar always kept its strength, leading to an increase in the currency's value.

Economic Strength and the U.S.

Looking at the current global economic dominance, where a modern capitalist market system is adopted, open markets where free competition with low trade barriers are present. However, evaluating the past actions of the U.S., it is seen that the nation has adopted mercantilist tendencies where the strength of the country is sought primarily through the economic power it holds, which is mostly achieved through the limitations of foreign competition. Since other countries are restricted from a direct interference to other countries' trade decisions, one of the primary tools used for limitation is tariffs where the goods exported by other nations is presented with a high tariff pay, decreasing the accessibility of the product and increasing the purchases of national products. By creating the impression that the foreign products are too pricey, the U.S. government achieves to increase the demand for national production.

This interference with global trades resembles classical mercantilism where a nations' hegemony is pursued through economic power. Observing the U.S. actions it can be seen that this hegemony is achieved through the setting of elevated tariffs implemented by the government where the power of other nations in the U.S. market is decreased. This decrease of power for other nations may increase national production, however also leads to global trade imbalances and disrupts the flow of goods.

Global View

From a global perspective, the crisis represents how today's economies rely on consumption which is directly related to cost levels, leading to the significant role of tariffs. The economic competition between the world's largest economic leaders; the U.S., China and the EU have shaped the rapid changes in the American tariffs where the low-cost manufactured goods had to face reduced consumption in the U.S. caused by the increased tariffs where several actions by the EU were taken addressing the problem, hoping to lead to stability in the global trade system.

Overall

Overall, the American Tariff Crisis represents how rapid the global economic balance may change when powerful nations implement protectionist policies. Economic policies lead to broad consequences that transcend national boundaries in a global system established by capitalism but also affected by mercantilist understandings. In order to avoid long-term harm to the stability of the world economy, the crisis emphasizes the critical need for increased collaboration and more stable trading patterns.

Major Parties Involved

United States of America (USA)

The United States of America, located in North America, with an outgrowing population of 350 million, is one of the leading economies in the world. With the operation of mixed economies, the nation is mostly considered capitalist. With one of the highest importer and exporter of services and goods, the US holds a sublime position in the global trade flows, meaning that the tariffs set by the U.S. government has a great influence on other nations. Having trade relations with more than 200 nations, jurisdictions, and regional organizations around the world, the goods exported to the world totaled $2.1 trillion in 2022, with Canada being the largest purchaser with a rate of 17.3 percent. As the central builder and shaper of the outgrowing tariff crisis, the U.S. also holds the greatest capacity to determine whether tensions escalate further or move towards de-escalation.

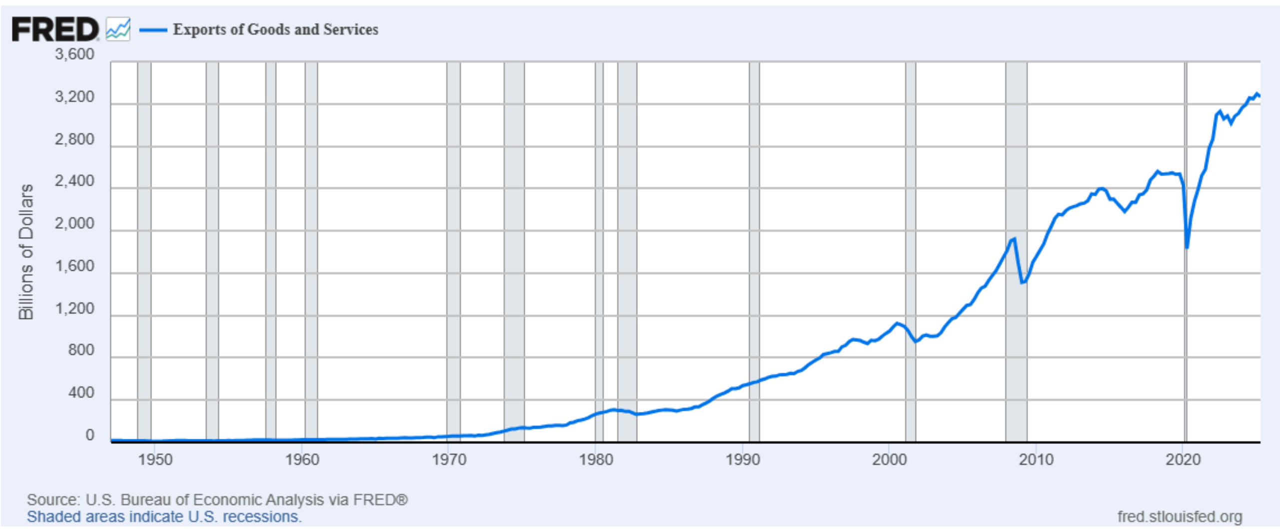


Image 1: A Guide to the National Income and Product Accounts of the United States (NIPA) (FRED, 2025)

With WW2, the global economic countenance started to shift accompanied by the usage of the "Gold Standard" by the US government, the US dollar became the anchor currency. Being convertible to gold, the trust for the US dollars increased significantly and the demand escalated, making the gold reserves insufficient and this system unsustainable. In 1971, President Nixon put an end to this system which led to the modern fiat money system where currencies do not have a physical equivalent.

Throughout its history, the US has moved forward with multiple economic strategies and policies shaped by global situations which have determined the global economy that is present today. Alongside with the outgrowing power of other competitive countries such as China, it could be stated that the USA has decreased their support for the open markets and free trade agreements and revolved their focus to maintaining and protecting its own industries along with the protection of their global economic power. The American Tariff Crisis has occurred as a result of the constant revolution of policies and the non-ending influential power the US holds globally.

People's Republic of China

The People's Republic of China, located in Eastern Asia, is recognized as the world's largest trading nation, and the second largest economy. The country has a population of over 1.4 billion people and an export to import ratio of 133.003 % in December 2023, representing the strength of their economy. Being the USA's biggest competitor and raw material/product supplier, China's global economic strength has increased significantly in the last few years.

As the leading nation in many areas such as electronics and textiles, it can be seen that China combines exceptionally high production speed with low manufacturing costs, making it one of the most competitive and affordable suppliers in global markets, unlike the US where production speed is lower and manufacturing costs are comparatively higher.

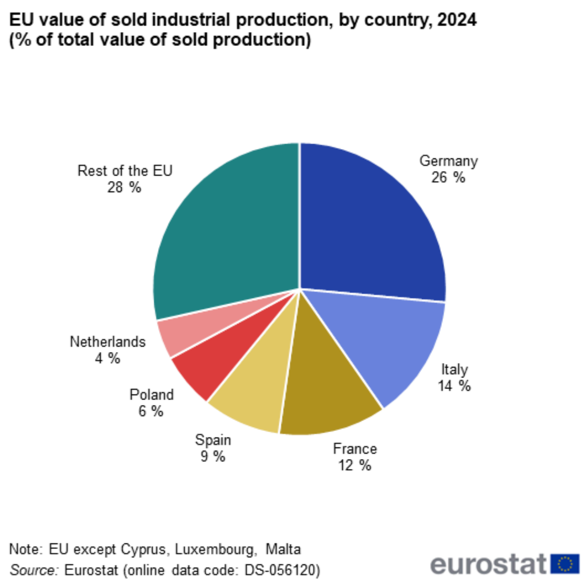
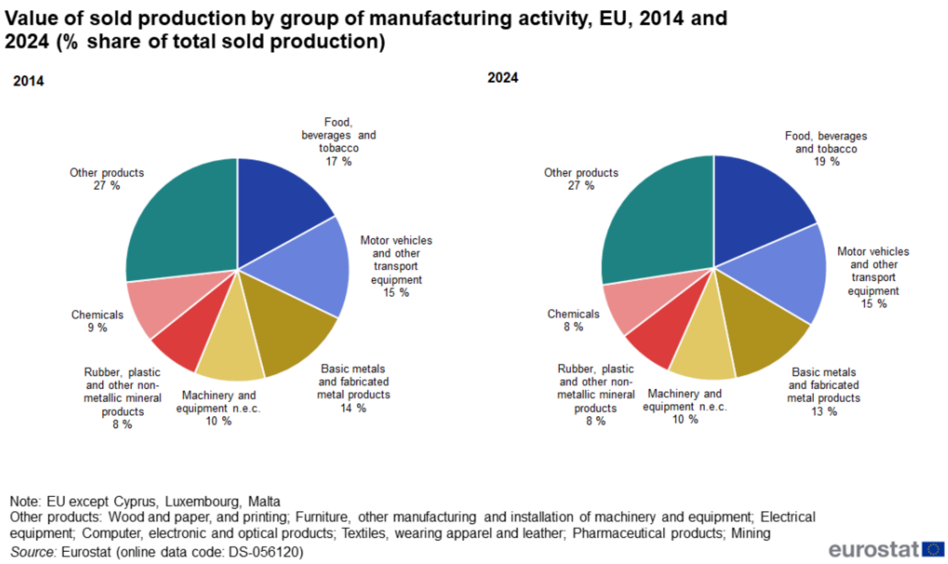


Image 2: EU value of sold industrial production, by country (Eurostat)

With the growing power of China, it is recognized that the US has adopted many strategies, focusing on keeping the economic power of the US stable and keeping the Chinese economic growth under control. These strategies mainly focus on the imposition of elevated tariffs where the US government sets high tariffs for Chinese imported products in order to decrease their sell rate due to the increased prices. The decreased demand for these products shift towards locally produced and domestic goods which increases the US economic strength, and places China at an economic disadvantage.

European Union (EU)

The European Union (EU), consisting of 27 Member States and it has the economic goal of achieving sustainable developments on steady economic growth and stable price levels and operating a highly competitive market economy with full employment and social development. As one of the biggest and most prestigious economic entities, the EU holds a share of 16.6% of global exports with a total GDP of over 18 trillion. With the power this union holds, a substantial number of agreements on topics such as negotiations and agreements where generating new market access, increasing trade and investment among the EU and other nations, and facilitating long-term sustainable growth.As a major importer and exporter of industrial machinery, motor vehicles, food, beverages, and fabricated products, the EU has a significant role in the global economy. The investors invested in the area are seeking predictable, stable environments where investment barriers are dismantled and the investments are protected. Even though the certain effect of the American tariff crisis can not be foreseen, it can be stated that according to Intereconomics, the ongoing US approach on trade and global economics is becoming a major



problem where long-existing alliances are shaken and the global trade stability is shaken. *Image 3: Value of sold products by group of manufacturing activity in the EU (Eurostat)*

Timeline of Key Events

1900	The "Gold Standard" was adopted in the United States which imposed that gold was the exclusive banking for the country's normal currency. This decision meant that dollar bills were convertible to a certain amount of gold, which assured "trust". This trust led to the American currency value being stabilized and maintaining continuous exchange rates with other countries.
1971	With president Nixon, the "Gold Standard" ended and the dollar was no longer directly convertible to gold. This led to the modern fiat currency system where money does not have a physical equivalent but rather backed up by the government trust, leading to the current U.S. dollar value.
2001	China became a part of the WTO which benefitted the country economically. Thus, this entry reduced U.S. manufacturing industry prices in the median industry by 8%, due to the increased role of China in the global economy.
2018	The U.S. imposed 25% tariffs on steel imports and 10% on aluminium imports leading to China requesting consultations with the U.S. including that the U.S. had imposed on steel and aluminium imports.
2018-2020	The EU starts adapting different safeguard actions along with coordinated countermeasurements in order to protect the market
2021	The U.S. and the EU started to re-establish historical transatlantic trade flows in steel and aluminium products where their collaboration was highlighted. This project reinstated trust where the U.S. allows duty-free importation of steel and aluminium from the EU at a historical volume and

	The EU temporarily lifts the tariffs imposed on U.S. goods.
2025	The U.S. and the EU announced a Joint Statement where the ensurement of fair, balanced and mutually beneficial trade and investments are aimed.

Previous Attempts to Resolve the Issue

EU (European Union) and U.S. Trade Negotiations

Multiple rounds of high-level EU and U.S. trade negotiations were initiated as a direct response to escalating American tariff policies.These negotiations aimed to re-establish a predictable and rules-based transatlantic trade environment by addressing both tariff and non-tariff barriers. In 2023, trade in goods and services between the EU and US reached a worth of €1.6 trillion annually, making the transatlantic relationship the most valuable economic relationship in the world. This means that every other day, €4.4 billion worth of goods and services cross the Atlantic between the EU and the US.

The Joint Statement, issued by both parties includes commitment to rebuilding stability and predictability in EU–US trade and investment, ensuring advantages for businesses and citizens. This step highlights an initial step toward a broader process aimed at expanding trade and improving market access across additional sectors. The deal protects this relationship, and millions of EU jobs. The discussions focused on making regulations more compatible; simplifying customs processes, and finding common ground on new issues like digital trade, export controls, and supply-chain security. While the European Union remains convinced that high tariffs are detrimental to the global economy, the negotiated outcomes avoid harmful escalation and creates a basis for continued dialogue and the development of the transatlantic relationship, including in areas of shared strategic interest.

WTO (World Trade Organization) Based Multilateral Dispute Resolution Efforts

The World Trade Organization has been one of the primary international platforms attempting to manage and resolve tariff conflicts arising from U.S. trade policies. Under WTO rules, Member States can challenge the tariff measures they believe violate multilateral trade agreements, allowing disputes to be examined through an independent, rules-based process. In the context of the American Tariff Crisis, countries that are particularly affected by U.S. steel and aluminum tariffs, brought cases to the WTO Dispute Settlement Body, arguing that the tariffs were unjustified and inconsistent with global trade obligations.

The WTO's dispute system was intended to provide a rules-based avenue for resolving tariff conflicts, including those driven by U.S. concerns about China's trade practices. However, the American argument included that China's high tariffs and investment-related requirements created risks of forced technology transfer and intellectual property theft, causing problems caused by a combination of policies rather than a single one, which is a clear WTO violation. Since most of these policies did not directly break WTO rules when viewed individually, the WTO's legal system could not fully address the broader problem, which limited its ability to resolve the tariff dispute effectively since the U.S. blocked appointments to the WTO Appellate Body, slowing the dispute resolution system and limiting the enforcement of rulings.

Coordinated European Union Countermeasures and Safeguard Actions

The European Union responded to aggressive U.S. tariffs with unified, block-wide measures to protect its internal market, strengthen negotiating power, de-escalate through pressure, and prevent further economic disruption. Since the United States threatened a 20% tariff on EU goods worth €379 billion, the EU considered a unified retaliation plan. This included placing tariffs on about €95 billion of U.S. industrial and agricultural products. The EU also looked at possible limits on its own exports to the U.S., mainly steel and certain chemicals which were worth €4.4 billion. These actions included retaliatory tariff packages targeting selected U.S. goods, safeguard measures to shield vulnerable EU industries, especially steel and aluminum from market distortions. Protective regulations aimed at maintaining fair competition within the EU. In conclusion, these steps were part of the EU's strategy to protect its internal market and respond proportionately to U.S. tariff actions.

Possible Solutions

Possible avenues for addressing the ongoing tariff crisis can be considered by examining the limitations and opportunities that were revealed through previous international efforts. One approach involves enhancing the capacity of multilateral trade institutions to manage complex, multi-layered disputes, particularly where current WTO rules remain insufficient for addressing the effects of various national policies. Today, many trade conflicts are caused by a mix of tariffs, investment rules, subsidies, and regulatory barriers that may each follow WTO rules individually but create unfair conditions when combined. Strengthening these institutions would help them analyze and address these more complicated situations, rather than only reacting to single, easily identifiable violations.

Another possible solution to approach the issue could be improving the coordinated economic response designs which includes; safeguard mechanisms, determination of single-sided tariff decisions and stability maintenance. Strengthening and controlling these actions would help regulate stability and contribute to a more predictable and stable global trending environment which will be more preferred by the contributors and investors.

Conclusion

In conclusion, the escalating issue of the American Tariff Crisis demonstrates how a competition for economic dominance can become a war of instability and lack of trust where the people who make earnings from these areas and the investors are negatively affected. The economic war between the U.S. and other nations, mainly China, represents the distribution of economic power and control over the global supply chain where a solution is sought through an organization where global economic stability is the goal. Numerous attempts take place in the EU, though due to the complexity of the situation where the disruption has now become far away from simple tariff violations. Ultimately, de-escalation now requires a comprehensive, multilayered strategy that addresses each dimension of the issue in a coordinated and sustainable manner.

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