BAUMUN'24 ECOFIN Study Guide

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#WelcomeToBosphorus

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Letter from the Secretary-General

Dear Participants,

On behalf of the Secretariat and the entire Organization Team, it is my honor to extend a warm welcome to you all for the BAUMUN'24. As Secretary-General, I am thrilled to see intelligent, driven people from diverse organizations come together to have fruitful discussions and diplomatic engagements.

You will have the chance to participate in inspiring debates, negotiation sessions, and social events during the conference. There is no doubt that the diverse range of experiences and perspectives that each delegate brings to the table will enhance the success and energy of this conference.

Our dedicated team has put in endless hours to make sure that every detail of the conference is well thought out to give every participant a fulfilling and unforgettable experience. Through our committees and social events, we hope to establish an atmosphere that promotes friendship, teamwork, and a profound understanding of the UN's principles.

I invite you to approach each session of this intellectual experience with an open mind, a cooperative spirit, and a dedication to finding common ground. Your enthusiastic and active participation is what will make this conference a success, and I do not doubt that your efforts will make it something remarkable.

Once again, welcome back to the BAUMUN'24 and Welcome Back to Bosphorus. May your time here be filled with meaningful discussions, lasting connections, and a sense of accomplishment as we work together to empower tomorrow.

Sincerely,

İlgim Mina ABAT

Secretary-General of BAUMUN’24

Letter from the Chairboard

Dear delegates,

It is our utmost honor to be serving as your chairboard for the 2024 edition of BAUMUN.

We are looking forward to the unique and wonderful debates we will be having and seeing ECOFIN in action as your Board! We wish you all the best of luck and a remarkable experience.

If you have any questions or concerns ahead of the conference, please do not hesitate to contact via: ralhariri5@gmail.com

Kind Regards,
Roya Alhariri & Hasan Al-Emran
Board of ECOFIN, BAUMUN'24

I. Introduction to the Committee

The Economic and Financial Committee (ECOFIN), one of the six main committees of the United Nations General Assembly, is tasked with addressing issues related to economic development and international financial stability. As a pivotal body within the UN framework, ECOFIN convenes to deliberate on a wide array of topics crucial to global economic governance, ranging from macroeconomic policy coordination to trade regulation and financial market stability. With a mandate encompassing both developed and developing nations, ECOFIN serves as a platform for member states to collaborate on formulating policies that promote sustainable economic growth, alleviate poverty, and mitigate the adverse impacts of financial crises. Its multifaceted agenda reflects the intricate interplay between domestic policies and international economic dynamics, highlighting the imperative for cooperative solutions to pressing economic challenges in an increasingly interconnected world.

In the context of Model United Nations (MUN), the simulation of ECOFIN provides delegates with a unique opportunity to delve into the complexities of global economic affairs and engage in diplomatic negotiations aimed at fostering consensus and advancing collective interests. Participants are tasked with representing the diverse perspectives of member states, advocating for policies that balance national interests with the broader goal of achieving equitable and inclusive economic development. Through rigorous debate and strategic diplomacy, delegates are challenged to craft comprehensive resolutions that address the multifaceted dimensions of the issues at hand, demonstrating not only their understanding of economic principles but also their proficiency in the art of international negotiation and compromise. As such, the simulation of ECOFIN offers a dynamic platform for delegates to enhance their analytical skills, diplomatic acumen, and global awareness while contributing to the formulation of pragmatic solutions to real-world economic challenges.

II. Introduction to the Agenda Item: *Addressing Inflation Through Reforms in International Trade and Commerce*

Inflation is a persistent issue that poses significant challenges to world economies. Although in moderation it can be considered a sign of a healthy economy, high rates of inflation lead to extreme instability in the economy, destroying purchasing power, and preventing growth in a sustainable manner. In the scope of the global economy, national borders do not confine the dynamics of inflation but rather, they are shaped by many factors which include international trade and commerce.

This committee will play a role in understanding the many facets of inflation and addressing the relationship between inflation and international trade. As measures to combat inflation are discussed, reforms in international trade and commerce must also be brought to light. Through exploring monetary and fiscal policies, trade agreements, and supply chain disruptions, certain intricacies of policy-making in the context of inflation management will arise as we recognize that actions taken on the global scale can reverberate across borders, affecting all economies. Thus, we must not only focus on managing inflationary pressures but also promote sustainable economic development and inclusive growth on the international level.

III. Key Terms

Economic Inflation: Economic inflation refers to the sustained increase in the general price level of goods and services in an economy over time. It indicates a decrease in the purchasing power of money, meaning that the same amount of currency buys fewer goods and services.

Purchasing Power: The ability of a consumer or entity to buy goods and services that can be acquired for a specific currency or income level. An increase in purchasing power means that a consumer can buy more goods and services with the same amount of money and vice versa.

Economic Market: The system where buyers and sellers interact to exchange goods, services, or resources. This system is governed by the principle of supply and demand.

Financial Market: A financial market is a marketplace where individuals, businesses, and governments trade financial assets such as stocks, bonds, currencies, and derivatives. Financial markets facilitate the allocation of capital and resources.

Consumer Price index (CPI): Measure that tracks the average change over time in the prices paid by urban consumers for a basket of goods and services. It is typically used as an indicator of inflation, reflecting how the cost of living is changing for consumers. It is widely used by governments, business, and individuals to monitor inflation, adjust financial contracts, and make economic policy decision.

International Trade and Commerce: International trade refers to the exchange of goods, services, and capital across national borders. It involves importing goods and services from foreign countries and exporting domestically produced goods and services to international markets. International trade is driven by comparative advantages, among other factors.

Commerce encompasses the activities related to the buying and selling of goods and services. It includes various aspects such as production, distribution, marketing, and retailing. International trade and commerce intersect in the context of cross-border transactions and global supply chains, where goods and services are exchanged between buyers and sellers in different countries.

Exchange Rate: An exchange rate is the rate at which one currency can be exchanged for another. It plays a crucial role in international trade and commerce by determining the cost of goods and services in foreign markets. Fluctuations in exchange rates can impact inflation by affecting the prices of imported and exported goods.

Interest Rate: The cost of borrowing money or the return on investment expressed as a percentage of the principal amount. It represents the compensation that lenders receive for postponing the use of their money, or the cost that borrowers pay for accessing funds. Central banks typically adjust interest rates by either raising them to cool down economic activity or lowering them to stimulate economic activity and encourage spending.

Nominal vs. Real Income: Nominal income refers to the amount of money an individual or entity earns in absolute terms, without adjusting for inflation or changes in purchasing power. Real income takes into account the effects of inflation or changes in purchasing power on nominal income. It represents the actual purchasing power of income after adjusting for changes in the general price level of goods and services over time.

Tariffs and Trade Barriers: Tariffs are taxes imposed on imported goods and services, while trade barriers refer to any measures that restrict international trade, such as quotas, subsidies, and administrative barriers. Tariffs and trade barriers can affect inflation by altering the cost and availability of imported goods in domestic markets.

International Monetary Fund (IMF): The International Monetary Fund is an international organization that promotes global monetary cooperation, exchange rate stability, and economic development. It provides financial assistance to member countries facing balance of payments problems and offers policy advice on macroeconomic issues, including inflation management.

World Trade Organization (WTO): The World Trade Organization is an intergovernmental organization that regulates international trade and commerce. It facilitates trade negotiations, resolves trade disputes, and monitors the implementation of trade agreements among its member countries. The WTO plays a key role in promoting trade liberalization and addressing inflationary concerns in the context of international trade reforms.

IV. Understanding the Dynamics of Inflation

A. Causes

At its roots, inflation can be caused by three main factors: changes in money supply, supply shocks, and inflation expectations.

Money Supply: In order to achieve price stability, manage economic fluctuations, and achieve sustainable economic growth, central banks of nations employ a set of actions called **Monetary Policy**. In some cases, lax monetary policy can lead to long-term increased inflation rates. The quantity of money theory states that: if the amount of money in an economy doubles, all else equal, then prices will also double. Simply, when there is too much money, people end up spending more. This makes prices increase because demand of goods has now exceeded the available supply. Thus, if money supply becomes relatively too big to the size of an economy, then the value of the currency diminishes, which leads to weaker purchasing power and rising prices.

Supply Shock: When certain events such as war or natural disasters occur, they cause a disruption in production. This effects the availability of outputs. Other factors such as increasing oil prices cause elevated production costs. Supply shocks are defined as sudden and unexpected changes in availability or cost of key inputs. This disrupts the production process and causes inflationary pressures onto an economy. This is because decreased supply or increases in production costs fall back on the consumer in the form of elevated prices.

Expectations: The beliefs and perceptions of people, firms, and financial markets also play a role in influencing wages and prices thus they can affect the way in which inflation occurs. According to the adaptive expectations theory, people form their inflation expectations based off of past experiences and observations of recent price changes. Therefore, once higher inflation is anticipated, wage demands and the way in which firms will set the prices of their goods and services will change accordingly. This causes a self-reinforcing cycle of rising wages and prices.

B. Effects of Inflation

1. Effect on Consumer:

Households are worse off if their nominal income, which they receive in current money, does not rise in parallel with prices, because they can afford to buy fewer items. In other words, their purchasing power or real (inflation-adjusted) income decreases. Real income serves as an indicator for the level of living. As actual incomes rise, so does the level of living, and vice versa.

In reality, prices fluctuate at varying rates. Some, like commodity prices, vary every day; others, like contract salaries, take longer to adapt (or are "sticky," in economic terminology). In an inflationary environment, unevenly growing prices ultimately diminish some consumer purchasing power, and this loss of real income is the single worst aspect of inflation.

Inflation can also distort long-term purchasing power for fixed-interest rate receivers and payers. Consider pensioners who receive a fixed 5% annual increase to their pension. If inflation exceeds 5%, a pensioner's purchasing power declines. On the other hand, a borrower who pays a 5% fixed-rate mortgage would benefit from 5% inflation because the real interest rate (the nominal rate minus the inflation rate) would be zero; paying back this debt would be less challenging if inflation increased, as long as the borrower's income kept up with inflation. The lender's real income, of course, falls. When inflation is not included into nominal interest rates, some people gain purchasing power while others lose it.

2. Deflation and Inflation:

Many countries have experienced extreme inflation—in some cases hyperinflation of 1,000 percent or more per year. Zimbabwe suffered one of the worst episodes of hyperinflation in history in 2008, with annual inflation estimated to be 500 billion %. Such high levels of inflation have proved devastating, and countries have had to implement costly and painful economic measures to bring inflation back to sustainable levels, even giving up their national currency, as Zimbabwe did.

High inflation harms an economy, but deflation, or declining prices, is also undesirable. When prices are declining, individuals postpone purchases if possible, anticipating more reduced prices in the future.

For the economy, this means less economic activity, fewer earnings to producers, and slower economic growth. Japan is one country that has had a prolonged period of almost no economic growth, owing primarily to deflation. Preventing deflation during the global financial crisis that began in 2007 was one of the reasons why the US Federal Reserve and other central banks around the world kept interest rates low for an extended period of time and implemented other monetary policies to ensure financial systems had sufficient liquidity.

Most economists now feel that low, stable, and, most importantly, predictable inflation benefits the economy. When inflation is relatively small and predictable, it is easier to incorporate it into price-adjustment contracts and interest rates, decreasing its distorting effect.

Furthermore, knowing that prices would be slightly higher in the future encourages consumers to make purchases sooner, thereby increasing economic activity. Many central bankers have made their major policy priority maintaining low and steady inflation, an approach known as inflation targeting.

3. **Effect on Currency:**

Inflation is more likely to have a major negative rather than positive impact on a currency's value and foreign exchange rate. A very low inflation rate does not ensure a favorable exchange rate for a country, yet an exceptionally high inflation rate is quite likely to have a detrimental impact on the country's exchange rates with other countries.

Inflation is intimately linked to interest rates, which can affect exchange rates. Countries try to balance interest rates and inflation, but the relationship between the two is complicated and frequently difficult to control.

Low interest rates encourage consumer spending and economic growth, and they generally have a beneficial impact on currency values. If consumer spending rises to the point that demand exceeds supply, inflation may occur, which isn't always a terrible thing.

However, low interest rates do not typically attract investors from other countries. Higher interest rates tend to attract foreign investment, which boosts demand for a country's currency. It is a delicate balance, as is the consequent impact on a country's exchange rate.

In general, high inflation devalues a currency since purchasing power is lowered. Goods are more expensive, which discourages investors from conducting business. When inflation is low, more money flows into the country, increasing the currency's purchasing power and hence improving its exchange rate.

The perceived desirability of retaining a nation's money ultimately determines its value and exchange rate. A variety of economic factors influence this perception, including a country's political and economic stability. The safety of storing monetary assets in a currency is the first issue for investors, regardless of the gains they may make.

If a country is perceived to be politically or economically unstable, or if there is a significant risk of a sudden devaluation or other change in the value of the country's currency, investors tend to avoid it and are hesitant to hold it for long periods of time or in large quantities.

C. Measurements of Inflation:

The government calculates inflation by comparing the present prices of a set of products and services to their previous prices. That turns out to be more complex than it seems. This is how inflationary measurements operate.

The Bureau of Labor Statistics (BLS) produces the Consumer Price Index (CPI), which is the most generally used indicator of inflation. The main CPI (CPI-U) is intended to assess price increases experienced by urban consumers, who account for 93% of the US population. It is, however, an average and does not reflect any particular consumer's experience. Each month, the CPI is calculated using 80,000 items from a set basket of goods and services that represent what Americans consume in their daily lives, such as gasoline at the pump, apples at the grocery store, cable TV bills, and medical appointments. The BLS utilizes the Consumer Expenditures survey, a survey of American families, to select which products to include in the basket and how much weight to give each item. Prices are weighted based on their importance to the average customer. Americans spend more on chicken than tofu, thus changes in chicken prices have a higher influence on the CPI.

1. **How does the government get data on prices for the CPI?**

Every month, the BLS conducts two surveys to obtain pricing data: one for most products and services, and the other for housing. For the majority of products and services, BLS agents visit (online or in person) or phone numerous establishments around the country to determine how much different things cost. During each journey, the data collector notes the pricing for the same items and services as the previous month. costs in New York, Los Angeles, and Chicago, as well as food and energy costs across the country, are collected monthly. Prices for commodities from all other sources (which often account for a lesser portion of the total basket) are updated every other month.

2. **How are Changes to the CPI Recorded?**

The BLS tracks the change in prices from one month to the next. The CPI increased by 1.3% between May and June 2022, after accounting for the typical seasonal changes, but remained unchanged between June and July 2022. The CPI can be variable from month to month, but the monthly change over several months can be a good indicator of inflation. Another regularly used statistic published by the BLS and frequently reported in the news compares the CPI in one month to the same month a year before - in other words, how much prices have climbed in the previous 12 months. In July 2022, for example, the CPI was 8.5% higher than the previous year's estimate. This strategy is less impacted by a month with a very tiny or big shift, although both methods of reporting CPI changes are reliable.

D. Policies:

There are several reasons why it is difficult to manage inflation. When prices rise, workers want higher wages. Workers who are paid more may afford to buy more items, which increases demand, which raises prices, potentially leading to a wage-price cycle. Inflation is particularly difficult to manage since the techniques for combating it, such as raising interest rates, take time to influence the economy. It is the job of a country's central bank to control inflation through monetary policy. Monetary policy is largely concerned with altering interest rates to manage inflation. However, governments, through fiscal policy, may help to combat inflation. Governments can decrease expenditure(spending) and raise taxes to assist lower inflation. Governments have limited tools to combat inflation. They can cap prices, but the comprehensive price restrictions needed to effect inflation have a poor track record. Contractionary monetary policy is currently the favored technique of reducing inflation, although so-called soft landings are difficult to achieve.

1. Price Controls:
Price restrictions are government-mandated price ceilings or floors that apply to certain items. Wage restrictions can be used in conjunction with price controls to reduce wage-push inflation. In an effort to combat growing inflation, President Richard Nixon of the United States imposed broad price restrictions in 1971. Price restrictions, while originally popular and thought to be effective, were unable to keep prices under control when inflation reached its worst level since World War II in 1973. Despite certain intervening events (e.g., the collapse of the Bretton Woods System, low harvests, the Arab oil embargo, and the complexity of the 1970s price control system), most economists believe the 1970s provided sufficient evidence that price controls are an inefficient instrument for regulating inflation.

2. Contractionary Monetary Policy:
Contractionary monetary policy is becoming an increasingly common tool for managing inflation. A contractionary policy aims to lower the money supply in an economy by raising interest rates. This slows economic development by making loans more costly, resulting in lower consumer and industry expenditure. Higher interest rates on government securities also limit growth because they encourage banks and investors to buy Treasuries, which offer a fixed rate of return, rather than riskier equity investments that benefit from low rates. Below are some of the techniques via which the U.S. central bank, the Federal Reserve, combats inflation.

a. **Federal Funds Rate:**

The federal funds rate is the interest rate at which banks lend each other money overnight. The federal funds rate is not determined directly by the Federal Reserve. Instead, the FOMC establishes an ideal range for the fed funds rate and then changes two additional interest rates—interest on reserves and the overnight reverse repurchase agreement (RRP) rate—to bring interbank rates within that range. The term "interest on reserves" refers to the interest rate that banks earn on deposits with the Federal Reserve. Because the United States has never defaulted on its debt, interest on reserves is regarded as a risk-free rate, and hence the lowest interest rate any rational lender should take.

The overnight RRP rate works similarly. It exists because not all financial institutions maintain deposits with the Federal Reserve. The overnight RRP allows these institutions to basically buy a federal security at night and resale it to the Fed the following day. The ON RRP rate is the difference between the prices at which the security is purchased and sold. By boosting these rates, the Federal Reserve encourages banks and other lenders to raise interest rates on riskier loans and transfer more of their money to the risk-free Federal Reserve, decreasing the money supply and therefore lowering inflation.

b. **Reserve Requirements:**

Until March 26, 2020, the Federal Reserve also controlled the money supply through reserve requirements, which were the amount of money banks were legally required to maintain on hand to meet withdrawals. The more money banks had to keep back, the less they could lend to customers. Although reserve requirements were reduced to zero in March 2020, the Fed has the option to reinstate reserve requirements in the future.

c. **Discount Rate:**

The discount rate is the interest rate applied to loans provided by the Federal Reserve to commercial banks and other financial institutions. The lending facility used to make these short-term loans is known as the discount window. The discount rate, which is the same throughout all Reserve Banks, is determined by agreement between each regional bank's board of directors and the Fed's Board of Governors. Though the discount window's principal goal is to meet banks' short-term liquidity requirements and ensure banking system stability, the discount rate is yet another interest rate that must be raised to control inflation.

VI. The Role of International Trade and Commerce in Inflation

The dynamics of inflation are significantly impacted by international trade and commerce in the complicated landscape of today's global economy. International trade in goods and services can affect a number of factors, including prices, production costs, and supply chain disruptions, that have been linked to increasign inflationary pressures in both exporting and importing nations.

A. Trade Deficits and Exchange Rates

Trade deficits and exchange rates play a very important role in connecting inflation and international trade. A nation is said to be in a trade deficit if its imports exceed its exports. The demand for imported goods raises prices when a country imports more than it exports, what economists would call “imported inflation.” This situation will continue to worsen as domestic producers also raise their prices to remain in competition as import prices rise.

As an example, the Bureau of Economic Analysis approximates that during February 2024, the trade deficit for the United States was almost $69 billion USD. The trade imbalance and high demand for imports makes the U.S. economy particularly prone to inflation brought on by growing import costs.

Biggest U.S. trade deficits, by country

2017 deficit in goods, in billions (services are excluded)

RANK	COUNTRY	2017	2016	CHANGE	BIGGEST IMPORT
1	China	$375.2	$347	+28.2	Consumer electronics
2	Mexico	$71.1	$64.4	+6.7	Autos, electronics
3	Japan	$68.8	$68.8	0	Autos, electronics
4	Germany	$64.3	$64.7	-0.4	Autos, transportation
5	Vietnam	$38.3	$32	+6.3	Rice, crops
6	Ireland	$38.1	$36	+2.1	Chemicals, drugs
7	Italy	$31.6	$28.6	+3	Machinery
8	Malaysia	$24.6	$24.8	-0.2	Consumer electronics
9	Netherlands	$24.5	$23.6	+0.9	Chemicals, machinery
10 (tie)	India	$22.9	$24.4	-1.5	Manufacturing, clothes
10 (tie)	South Korea	$22.9	$27.6	-4.7	Autos, electronics

Source: Bureau of Economic Analysis, U.S. Census

Source:https://www.marketwatch.com/story/china

Even though trade deficits are perceived negatively because they can indicate issues with economic competitiveness and sustainability, they do not always have to be a cause for concern and may even have some advantages. A trade deficit can demonstrate strong domestic demand, good economic growth and an increase in consumer base along with higher investment opportunities for a nation. Also, trade deficits could be used to fund investment and consumption by the gain of money from abroad through borrowing or investments - this helps support economic activity in addition to employment.

Moreover, these types of trade imbalances may put pressure on domestic currencies which causes their loss of value (depreciation) to trading partners. When a country's currency weakens, the price for imported products and services goes up; this affects inflation trends inside an economy. For instance, the Turkish Lira went through substantial decrease in value in recent years against strong currencies such as the U.S. Dollar or Euro. Because of this there is an increase in import costs for goods like energy, food and raw materials. The inflation that followed has brought some difficulties to Turkey's economy, impacting how much consumers spend and weakening confidence in its currency.

Exchange rate volatility is the risk that is associated with the uncertainty of exchange rates in international trade. It is characterized by sudden and unpredictable fluctuations in currency values which contributes to inflation uncertainty. These fluctuations in exchange rates can disrupt businesses' pricing setting, leading to price increases due to increasing production costs, called **cost-push inflation,** because firms adjust their prices to reduce currency risks.

This can be seen through the Brexit decision of the United Kingdom, which illustrates how exchange rate volatility affects inflation. The British pound saw considerable fluctuations against other major currencies amid the Brexit referendum in 2016 before eventually recovering. The shifts in exchange rates had an impact on import prices in the UK, especially on goods originating from the European Union. This, in turn, increased the level of inflation volatility within the country's economy.

Therefore, by understanding he correlation of trade imbalances and exchange rates with inflation, we can determine the role that international trade and commerce play in inflation beyond national borders. This information also enables policymakers to create effective approaches for managing depreciation and rising inflation in order to promote economic stability.

B. Trade Agreements and Tariffs

Trade agreements have the ability to imoact the nature of global trade, which has a major effect on inflation dynamics. Trade agreements that work to remove trade restrictions like tariffs and quotas can boost consumer welfare, promote competition, and save production costs. On the other hand, abrupt modifications to trade agreements or the imposition of tariffs can cause supply chain disruptions, raise input costs, and fuel cost-push inflation.

At the center of trade policies lie tariffs, which are taxes imposed on imported goods and services. They serve many purposes, among them is protecting domestic industries, generating revenue, and addressing trade imbalances. However they can also negatively impact trade flows and cause for prices to rise for consumers, sometimes also hindering the efficiency of the economy.

Tariffs are also considered to be protectionist measures, which are measures used to protect domestic industries from foreign competition. These types of policies may offer short-term protection and benefits to domestic producers like increased market share or higher prices, but they can also lead to inefficiencies, reduced consumer welfare, and retaliatory actions from trading partners.

An instance where inflation is exacerbated by tariffs can be seen in the United States-China trade war, where tariffs on imports are triggering inflationary effects on both economies. The U.S. enforced these tariffs as a response to what it considers unfair trading practices and violations of intellectual property rights from China. Consequently, China also placed more tariffs on certain American goods leading to an increase in tension within global trade relations. This resulted in disruptions within worldwide supply chains simultaneously causing raises in costs of production for businesses; these circumstances have led to prices of goods rising and it has demonstrated the unwanted effects tied with protectionist policies.

Compared to protectionism, trade agreements work towards liberalizing trade by decreasing some obstacles faced by nations. Their purpose is to cut down on trade barriers like tariffs, quotas and regulatory limitations. Discussing and implementing trade agreements can be intricate and sensitive in politics, but they help with economic integration and encourage cooperation between trading partners..

Trade agreements that exist within a region, like free trade agreements (FTAs) or custom unions, can play a role in encouraging economic integration and cooperation among the states involved. These agreements are designed to reduce tariffs and other trade obstacles within the area, thus fostering more business across borders as well as investments. The European Union has been an example of how effective regional trade agreements and economic integration can be. Through eradicating tariffs and establishing a single market, the EU members have experienced growth in trade, investment and economic prosperity. Yet, they still face some challenges like disparities in economic development among member states as well as discussions on sovereignty versus integration.

Multilateral Trade Agreements are a type of trade agreement which are discussed with the help of organizations like World Trade Organization (WTO). They have a goal to increase global trade liberalization and deal with tarde-related issues on a broader scale. However, the rise in bilateral and regional trade agreements has raised concerns regarding international trade's discontinuity and possible trade diversion. As an example, the Trans-Pacific Partnership (TPP) was a multilateral agreement covering 12 countries around Pacific Ocean that aimed to liberalize trade and investment within the area. Even though the TPP was expected to bring many economic advantages such as more market entry, regulatory uniformity and fair competition benefits, it also received criticism for possible negative effects on labor rights, environmental standards and affordable health care availability.

C. Global Supply Chains

The resilience of global supply chains and their susceptibility to disruptions is a critical considertation in the connection between international trade and inflation. Modern supply chains are characterized by their complexity and global reach, and they are vulnerable to disruptions from a number of sources such as natural disasters, geopolitical tensions, and pandemics. These types of occurrences can lead to production delays and shortages of critical inputs. For example, if factories close in one region may disrupt the production of components or raw materials, leading to shortages downstream. As businesses compete for limited supplies, prices for these inputs may rise, which leads to supply-side inflation.

Causes of supply-side inflation:

1. **Production delays and shortages:** The COVID-19 pandemic clearly brought to light the vulnerabilities of global supply chains. Disruptions to manufacturing, transportation, and logistics networks caused by lockdowns, travel restrictions, and labor shortages led to widespread shortages of food and medical supplies, and consumer electronics. In turn, this highlighted the importance of improving resilience and flexibility in supply chain management, prompting policymakers to shift their focus to evaluating the reliance on single-source suppliers and just-in-time inventory practicies because as businesses compete for limited supplies, prices for these inputs may rise, contributing to supply-side inflation.

2. **Reduced efficiency and increased costs:** The efficiency of production processes may also be reduced, leading to increased costs for businesses. For instance, reevaluating supply chains to source alternative inputs or transport goods through other transportation routes may incur additional expenses. These increased costs will transfer to the consumers through higher prices for the finished goods.

3. **Supply chain configurations:** When businesses decide to alter their supply chains by diversifying their sources or changing the country where they operate, it can lead to higher costs in the short term even if it ultimately may improve resilience.

V. Optional Reading

How Free Trade Can Flight Inflation: More Competition Means Lower Prices: https://www.foreignaffairs.com/articles/united-states/2022-06-14/how-free-trade-can-fight-inflation

The UK's Trade and Development agenda can help tackle global inflation and the cost of living crisis: https://odi.org/en/insights/the-uks-trade-and-development-agenda-can-help-tackle-global-inflation-and-the-cost-of-living-crisis/

Six Ways to Fight Inflation: https://www.crfb.org/blogs/six-ways-fight-inflation

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