INTERNATIONAL TRADE

Course Code: LAL202

ASSIGNMENT

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1 Functions of World Trade Organization

The World Trade Organization (WTO), established in 1995 as the successor to GATT, serves as the primary institution governing global trade. With 164 member countries, it performs eight critical functions:

1.1 Trade Negotiations

The WTO provides a forum for multilateral trade negotiations to reduce barriers and establish rules for international commerce. Through rounds of negotiations like the Doha Development Round, the WTO has achieved significant tariff reductions, with average industrial tariffs dropping from around 40% in 1947 to less than 4% today in many developed economies.

1.2 Implementation and Monitoring of Trade Agreements

The WTO oversees the implementation of multilateral agreements covering goods, services, and intellectual property through:

- Regular trade policy reviews
- Notification requirements for new trade measures
- Committees that meet to discuss specific agreements

This monitoring ensures transparency and helps identify potential issues before they become disputes.

1.3 Dispute Settlement

The WTO's dispute settlement mechanism provides a structured process for resolving trade conflicts through:

- Consultations between disputing parties
- Panel proceedings with expert examination
- Appellate review when necessary

Since 1995, over 600 disputes have been brought to the WTO, demonstrating the system's importance for maintaining rule-based trade relations.

1.4 Technical Assistance and Training

The WTO provides capacity-building support to developing and least-developed countries through:

- Training courses on WTO agreements

- Trade policy workshops and e-learning programs
- Internship opportunities for government officials

These programs help developing countries understand their rights and obligations and effectively engage in the multilateral trading system.

1.5 Trade Policy Reviews

Through its Trade Policy Review Mechanism, the WTO conducts regular assessments of members' trade policies to:

- Enhance transparency in trade practices
- Evaluate compliance with WTO rules
- Provide information for policymakers and businesses

Review frequency depends on a country's share of world trade, ranging from every two years for the largest trading entities to every six years for smaller economies.

1.6 Cooperation with Other International Organizations

The WTO collaborates with institutions like the IMF, World Bank, UNCTAD, and UN agencies to promote coherence in global economic policy through:

- Joint research and technical assistance programs
- Policy coordination initiatives like "Aid for Trade"
- Shared expertise on development challenges

1.7 Research and Economic Analysis

The WTO conducts extensive research on trade trends, policies, and their impact on development through:

- Annual World Trade Reports
- Statistical publications on global trade flows
- Working papers on emerging trade issues

1.8 Forum for Trade Policy Discussion

Beyond formal negotiations, the WTO facilitates dialogue on trade concerns through:

- Regular meetings of councils and committees
- Public forums with diverse stakeholders
- Ministerial conferences held approximately biennially

These discussions help build consensus, identify emerging challenges, and promote collaborative approaches to global economic issues.

2 Eight Important Free Trade Agreements India is In

2.1 India-ASEAN Free Trade Agreement

Member Countries: India and 10 ASEAN members - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Purpose: Implemented in 2010, this agreement aims to create one of the world's largest free trade areas by eliminating tariffs on over 90% of items traded. It has boosted bilateral trade from US$43 billion in 2009-10 to over US$110 billion by 2022-23, benefiting Indian exports of pharmaceuticals, engineering goods, chemicals, and textiles.

2.2 South Asian Free Trade Agreement (SAFTA)

Member Countries: India, Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka (SAARC members).

Purpose: Implemented in 2006, SAFTA aims to promote regional economic integration through tariff elimination, customs harmonization, and fair competition. India has reduced tariffs to near-zero for products from least developed member countries, strengthening economic ties with neighbors despite political challenges with Pakistan.

2.3 India-Japan Comprehensive Economic Partnership Agreement (CEPA)

Member Countries: India and Japan

Purpose: In force since 2011, this agreement eliminates tariffs on approximately 90% of Japanese exports to India and 97% of Indian exports to Japan. It has attracted Japanese investments in India's automotive, electronics, and infrastructure sectors while facilitating technology transfer and supporting initiatives like "Make in India."

2.4 India-South Korea Comprehensive Economic Partnership Agreement (CEPA)

Member Countries: India and South Korea

Purpose: Implemented in 2010, this agreement eliminates tariffs on approximately 85% of Indian exports to Korea and 93% of Korean exports to India. Bilateral trade has grown from US$12 billion to over US$27 billion, encouraging Korean companies like Samsung, LG, and Hyundai to expand manufacturing in India.

2.5 India-Singapore Comprehensive Economic Cooperation Agreement (CECA)

Member Countries: India and Singapore

Purpose: India's first comprehensive trade agreement (2005) covers goods, services, investments, and economic cooperation. It eliminates tariffs on most bilateral trade and liberalizes services sectors including finance, telecommunications, and professional services. Singapore has emerged as a major trade and investment partner, serving as a gateway for Indian companies to access the broader ASEAN market.

2.6 Asia-Pacific Trade Agreement (APTA)

Member Countries: India, Bangladesh, China, Laos, South Korea, Sri Lanka, and Mongolia

Purpose: One of Asia's oldest preferential trade agreements (1975), APTA promotes trade expansion through tariff concessions among developing countries. It covers over 4,000 products with concessions ranging from 20% to 100% and provides India with preferential access to the Chinese market, its largest trading partner in Asia.

2.7 India-Malaysia Comprehensive Economic Cooperation Agreement (CECA)

Member Countries: India and Malaysia

Purpose: Implemented in 2011, this agreement eliminates tariffs on approximately 91% of goods traded and improves market access for services in accounting, architecture, education, and tourism. Bilateral trade has reached approximately US$17 billion annually, with Malaysian investments flowing into Indian infrastructure projects.

2.8 India-UAE Comprehensive Economic Partnership Agreement (CEPA)

Member Countries: India and the United Arab Emirates

Purpose: One of India's most recent agreements (2022) aims to eliminate tariffs on most products exported between the two countries and enhance market access for Indian services providers. As India's third-largest trading partner, the UAE represents a strategic market with the CEPA targeting an increase in bilateral trade from US$60 billion to US$100 billion within five years.

3 India's Major Exports and Imports

3.1 Major Exports

3.1.1 Petroleum Products

Value: Approximately US$76 billion annually (2023-24)

Major Partners: United Arab Emirates, Singapore, Netherlands, United States, South Africa

Refined petroleum products represent India's largest export category (15-20% of total exports). Despite being a net importer of crude oil, India has developed substantial refining capacity (over 250 million metric tons annually), processing imported crude for export.

3.1.2 Engineering Goods

Value: Approximately US$112 billion annually (2023-24)

Major Partners: United States, United Arab Emirates, United Kingdom, Germany, Singapore

Engineering goods constitute India's most valuable export category, including automobile components, industrial machinery, electrical equipment, iron and steel products, and transport equipment. This sector benefits from India's skilled workforce, competitive manufacturing costs, and government initiatives like "Make in India" and Production-Linked Incentive schemes.

3.1.3 Pharmaceutical Products

Value: Approximately US$27 billion annually (2023-24)

Major Partners: United States, United Kingdom, South Africa, Russia, Nigeria

Known as the "pharmacy of the world," India supplies approximately 20% of global generic drug exports by volume. The country's pharmaceutical exports include generic medicines, active pharmaceutical ingredients, vaccines, and over-the-counter medications.

3.1.4 Agricultural and Allied Products

Value: Approximately US$53 billion annually (2023-24)

Major Partners: United States, Saudi Arabia, United Arab Emirates, Bangladesh, Indonesia

India exports a wide variety of agricultural commodities including basmati and non-basmati rice, marine products, spices, buffalo meat, and sugar. As the world's largest exporter of rice and a major exporter of spices, India leverages its diverse agro-climatic conditions and traditional agricultural knowledge while supporting millions of farmers through export-oriented agriculture.

3.2 Major Imports

3.2.1 Crude Oil and Petroleum Products

Value: Approximately US$172 billion annually (2023-24)

Major Partners: Iraq, Saudi Arabia, United Arab Emirates, Russia, United States

Crude oil represents India's largest import item (25-30% of total imports), with domestic production meeting less than 20% of consumption needs. India has diversified its oil supply sources in recent years to enhance energy security while pursuing strategies to reduce dependency through renewable energy development, improved efficiency, and strategic reserves.

3.2.2 Electronic Goods

Value: Approximately US$84 billion annually (2023-24)

Major Partners: China, Hong Kong, Vietnam, South Korea, Singapore

Electronic imports have grown rapidly with India's increasing digitalization, including mobile phones, computer hardware, semiconductors, consumer electronics, and electronic instruments. China dominates as the source (40% of total), highlighting gaps in domestic manufacturing capabilities that government initiatives like the Production Linked Incentive scheme aim to address.

3.2.3 Gold and Precious Metals

Value: Approximately US$58 billion annually (2023-24)

Major Partners: Switzerland, United Arab Emirates, South Africa, Australia, Peru

As one of the world's largest gold consumers, India imports significant quantities for jewelry manufacturing, investment, and cultural purposes. Gold imports typically account for 7-10% of India's total import bill despite government measures to reduce imports through duties and schemes like Gold Monetization and Sovereign Gold Bonds.

3.2.4 Machinery and Equipment

Value: Approximately US$51 billion annually (2023-24)

Major Partners: China, Germany, Japan, South Korea, United States

Capital goods imports reflect India's industrial development needs, including industrial machinery, construction equipment, electrical generators, and precision instruments. These imports support infrastructure development and manufacturing capacity enhancement while highlighting opportunities for greater localization through initiatives like the National Capital Goods Policy.

4 Current Developments in Trade War

4.1 US-China Trade Conflict

The trade war between the world's two largest economies continues to influence global trade patterns despite attempts at de-escalation:

Tariff Landscape: Most tariffs implemented during the Trump administration remain in place, with the US maintaining 25% tariffs on approximately $250 billion of Chinese industrial imports and 7.5% on $120 billion of other goods. In October 2023, the US announced targeted tariff increases on Chinese electric vehicles (100%), semiconductors, solar cells, and critical minerals.

Technology Dimension: The conflict has shifted toward technology competition with export controls on semiconductor technology, investment screening mechanisms, and restrictions on Chinese tech companies. China has responded with export controls on critical minerals like gallium and germanium, signaling its leverage in rare earth elements.

Economic Impact: The prolonged tensions have led to supply chain restructuring, with trade diversion benefiting countries like Vietnam, Mexico, India, and Malaysia. Studies estimate that the trade war has reduced global GDP by 0.3-0.5% while increasing consumer prices in both countries.

4.2 Rising Economic Nationalism and Industrial Policy

Major economies have implemented ambitious industrial policies aimed at strengthening domestic manufacturing and reducing dependencies:

Key Initiatives: The US Inflation Reduction Act and CHIPS Act, EU's Green Deal Industrial Plan, Japan's Economic Security Promotion Act, and India's Production Linked Incentive schemes all feature significant government support, preferential treatment for domestic production, and focus on strategic technologies.

WTO Concerns: These policies raise questions about WTO compatibility, with local content requirements, carbon border adjustments, and subsidy programs potentially violating rules against trade-distorting support. The continued paralysis of the WTO's Appellate Body limits resolution of these issues.

4.3 Supply Chain Restructuring and "Friend-shoring"

The combination of trade tensions, the pandemic, and geopolitical realignments has accelerated supply chain restructuring:

Strategic Realignment: "Friend-shoring" or relocating production to politically aligned countries has gained traction for critical technologies and inputs. The G7 nations have launched a Supply Chain Resilience Initiative, while Japan, Australia, and India established a trilateral initiative to reduce dependencies on China.

Resource Competition: Competition for control over critical minerals supply chains has intensified, with the US, EU, and Japan developing strategies to reduce reliance on concentrated sources while countries with resource advantages implement export restrictions to capture more value domestically.

4.4 Digital Trade and Technology Governance

Digital trade has emerged as a new frontier in trade conflicts:

Regulatory Divergence: Data localization requirements have proliferated globally, while the EU's Digital Markets Act, China's Data Security Law, and other regulations create distinct governance models. These divergent approaches complicate compliance for multinationals and potentially limit digital trade opportunities.

Digital Taxation: Several countries have implemented digital services taxes targeting large technology companies, prompting US threats of tariff retaliation. The OECD-led agreement on global minimum corporate tax aims to resolve these disputes but faces implementation challenges.

4.5 Regional Trade Blocs and New Alignments

As multilateral trade governance weakens, regional trade agreements have gained importance:

Regional Comprehensive Economic Partnership (RCEP): The world's largest free trade agreement, encompassing China, Japan, South Korea, Australia, New Zealand, and the ten ASEAN nations, entered into force in 2022. It strengthens integrated supply chains in the Asia-Pacific region while potentially increasing China's economic influence.

Indo-Pacific Economic Framework (IPEF): Launched by the United States in 2022, this framework involves 14 countries including India, Japan, and several ASEAN members. It focuses on supply chain resilience, clean energy, and fair taxation while avoiding traditional market access provisions.

4.6 Conclusion and Implications

The current landscape of trade conflicts carries significant implications for the global trading system:

Multilateral Challenges: The WTO faces unprecedented challenges with an impaired dispute settlement mechanism, limited negotiating progress, and divergent views on reform. The 13th Ministerial Conference in 2024 represents a critical opportunity for addressing these challenges.

Fragmentation Risks: The emerging separate technology ecosystems, overlapping regulatory regimes, and geopolitically influenced investment patterns create risks of economic fragmentation and reduced efficiency in the global economy.

Cooperation Opportunities: Despite tensions, shared challenges like climate change, pandemics, and food security create imperatives for cooperation. For countries like India, strategic flexibility is essential – maintaining autonomy in critical sectors while benefiting from global integration where advantageous.