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Sustainability and Economics International Trade Policy and WTO

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Abstract—
"International trade, as a major factor of openness, has made an increasingly significant contribution to economic growth".

The purpose of this series of studies is to analyze policy issues and to stimulate discussions in the area of international trade and development and background information on the GATT and WTO, free trade and globalization.

Study presenting a trade policy framework developed by International Trade Center, providing the trade policy instruments that governments can use to support the competitiveness of firms at each stage of the supply chain – outlines how trade policy options can influence national export competitiveness.

Discusses in detail the trade policy instruments corresponding each of the following objectives:
Creating competitive infrastructure services; promoting exports and foreign investment; moving goods across borders effectively; addressing export market issues; and improving inputs and capital goods; considers how to tackle the overriding constraints faced by both public and private sectors, related to every stage of production and distribution of goods and services for export.

This paper also provides a survey of the literature on trade theory, from the classical example of comparative advantage to the New Trade theories currently used by many advanced countries to direct industrial policy and trade. An account is provided of the neo-classical brand of reciprocal demand and resource endowment theories, along with their usual empirical verifications and logical critiques. A useful supplement is provided in terms of Staffan Linder's theory of "overlapping demand," which provides an explanation of trade structure in terms of aggregate demand. Attention is drawn to new developments in trade theory, with strategic trade providing inputs to industrial policy. Issues relating to trade, growth, and development are dealt with separately, supplemented by an account of the neo-Marxist versions of trade and underdevelopment
The negative effects of trade openness are discussed and measures provided.

Keywords*: WTO, Globalization, Trade Policy, Export Strategy, Competitiveness, Export Promotion, Comparative Costs, Overlapping Demand, Strategic Trade, New Theories of Trade, Trade and Development.*

1. INTERNATIONAL TRADE POLICY

Introduction

Export performance has been critical for the economic development of many developing countries in recent years. It has contributed to faster growth and poverty reduction. Exporting has produced economic benefits deriving from efficiency gains associated with exploiting comparative advantages and improved allocation of scarce resources.

2. TRADE LED GROWTH

There are now many examples of developing countries that have been able to develop competitive export industries and have been rewarded with remarkable economic growth: the Republic of Korea and Chinese Taipei in the 1960s; Southeast Asian countries such as Thailand, Malaysia and Singapore in the 1970s; China in the 1980s; and Central and South American countries in 1990s, such as Chile. These countries were also able to tap into the phenomenal growth in international trade. Between 1950 and 2005 the volume of world trade increased 27 times, from US$ 296 billion to over US$ 8 trillion. Despite international trade experiencing a contraction of 12.2% in 2009 in the wake of the financial crisis, trade is again on the upswing. This is evidenced by a record-breaking 14.5% surge in the volume of exports in 2010.

3. TRADE POLICY OPTIONS FOR NATIONAL EXPORT

Competitiveness

Export competitiveness refers to 'the capacity to produce, distribute and sell products and services as or more effectively and efficiently than is done by the relevant competitors'. In the current globalized trading environment, the notion of competitiveness has taken on added importance and emerged as a key indicator and determinant of 'successful' nations. Christian Ketels, an economist specialized in competitiveness strategy, suggests: 'Exports are an important diagnostic tool that can help signal whether more fundamental conditions in the economy are right.

The trade policy instruments that impact each stage of the supply becomes clear that the same trade policy instruments regularly affect different stages. Accordingly, trade policy instruments can be classified as:

- Create competitive infrastructure services
- Promote exports and foreign investment
- Move goods across borders effectively
- Address export market issues
- Improve inputs and capital goods.

Infrastructure services – including transportation, energy and telecommunications – account for a large proportion of the costs of export-oriented and other developing and transition economy businesses. The term 'infrastructure' typically refers to 'the basic physical and organizational structures and facilities. Experts increasingly believe that exposing infrastructure service providers to competition is at least as important to improving performance as the injection of private capital financing, and should, where possible, precede rather than follow privatization. It may be easy to make such a recommendation, but it is harder to follow it in practice. Even in developed economies, reforms have tended to proceed in an incremental fashion, seeking practical solutions to particular problems that have presented themselves, and with much 'learning by doing', rather than following an overall 'rational plan'.

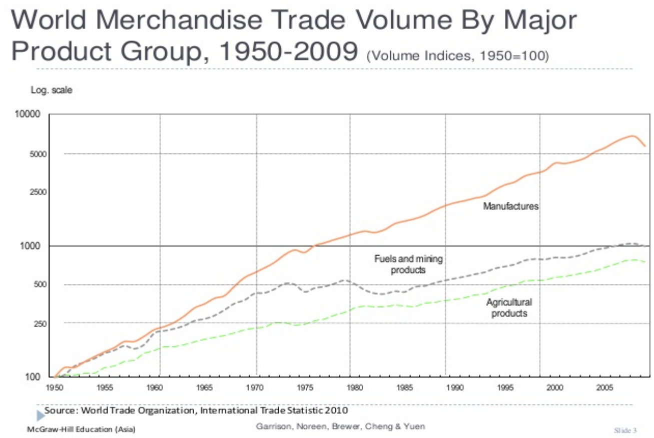
4. PROMOTE EXPORTS AND FOREIGN INVESTMENT

There are five areas in which exports and foreign investments are related. The first four relate to inward foreign investment. The last one relates to outward foreign investment.

- Exports and access to efficient service providers;
- The role of foreign investors in the access of exporters to credit and other forms of financing;
- Access to global supply chains;
- Export competitiveness and access to technology and know-how;
- Exports and outward FDI as alternative sources of supply. This is related to the choice of firms to export or to supply foreign markets by their subsidiaries established in those markets.

5. FDI AS A DRIVER OF THE GLOBAL ECONOMY

Global merchandise trade grew faster than global output from 1950 to 2009, demonstrating that global trade in goods has become an important driver of global output growth.



Source: WTO and International trade statistics

The fig. shows that global trade in services has been growing on average even faster than merchandise exports.

6. THE IMPACT OF TRADE POLICIES IN INDIA

The post independence-era Indian economy (from 1947 to 1991) was a mixed economy with an inward-looking centrally planned Interventionist policies and import-substituting economic model that failed to take advantage of the post-war expansion of trade and that nationalized many sectors of its economy. India's share of global trade fell from 1.3% in 1953 to 0.5% in 1983. This model contributed to widespread inefficiencies and corruption, and it was poorly implemented.

7. INDIA'S SHARE IN WORLD EXPORTS

- Before Independence (1 per cent)
- Prior to 1980's (0.5 per cent)
- 2000-2010 (0.7-1.4 per cent)
- 2013 (1.3 per cent)
- 2014 (1.7 per cent)
- China's share in 2013 (11.8 per cent

8. COUNTRIES SHARE IN GLOBAL MERCHANDISE EXPORTS IN 2014

- China (12.4 per cent)
- USA (8.6 per cent)
- Germany (8.0 per cent)
- Japan (3.6 per cent)
- France (3.1 per cent)
- India (1.7 per cent)

9. INDIA'S EXPORT DESTINATIONS IN FEB 2015

- USA (42.4 bn$)
- UAE (33bn$)
- Hongkong (13.5 bn$)
- China (12bn$)
- Saudi (11.2bn$)
- Singapore (10bn$)

10. EXPORT ITEMS IN FEB 2015

- Petroleum products (56.7bn$)
- PearlsPrecious and semi-precious stones (24.6bn$)
- Gold,other prec.metals,Jewellery(13.2 bn$)
- Drug formulations(11.2bn$)
- RMG Cotton(9.3bn$)

11. TOP IMPORT ITEMS IN FEB 2015

- Petroleum crude (116.4bn$)
- Gold (34.4bn$)
- Pearls,Precious,Semi-precious(22.5bn$)
- Petroleum products(21.9bn$)
- coal.,coke (17.7bn$
- Telecom equip (14.7 bn$)
- Iron&Steel (12.3bn$)

12. SHARE OF TOP INVESTING COUNTRIES IN INDIA(APR 2000-FEB 2013)

- Mauritius (38.14 per cent)
- Singapore (9.98 per cent)
- UK (9.15 per cent)
- Japan (7.52 per cent)
- USA (5.79 per cent)
- Netherlands (4.58 per cent)
- Cyprus (3.58 per cent)
- Germany (2.74 per cent)
- France (1.86 per cent)
- UAE (1.26 per cent)

13. SECTOR-WISE FDI INFLOWS(APR 2000-FEB 2013)

Service sector (19.37 per cent)

Construction & Development (11.48 per cent)

Telecom (6.60 per cent)

Computer Software &Hardware (6.09 per cent)

Drugs & Pharma (5.38 per cent) Chemicals (4.62 per cent)

Role of WTO in International Trade: The WTO acts as conductor, tribunal, monitor and trainer.

The WTO's mission is to open markets gradually while ensuring that rules are respected. The origin of the organization dates back to the end of World War II when the idea of peaceful cooperation among peoples was emerging. In 1947, a number of countries decided to open up their markets on the basis of common principles, and founded the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT). In the current round of trade negotiations, the WTO is seeking to make further advances in equitable trade.

14. OBJECTIVES OF WTO

- Important objectives of WTO are mentioned below:
  i. To implement the new world trade system as visualised in the Agreement;
  ii. To promote World Trade in a manner that benefits every country;
  iii. To ensure that developing countries secure a better balance in the sharing of the advantages resulting from the expansion of international trade corresponding to their developmental needs;
  iv. To demolish all hurdles to an open world trading system and usher in international economic renaissance because the world trade is an effective instrument to foster economic growth;
  v. To enhance competitiveness among all trading partners so as to benefit consumers and help in global integration;
  vi. To increase the level of production and productivity with a view to ensuring level of employment in the world;
  vii. To expand and utilize world resources to the best;
  viii. To improve the level of living for the global population and speed up economic development of the member nations

15. WTO-BENEFITS TO INDIA

- It is estimated that largest increase in the level of merchandise trade in goods will be in the areas of clothing (60 per cent), agriculture, forestry and fishery products (20 per cent) and processed food and beverages (19 per cent). India's competitive advantage lies in these fields.
- Hence, it is logical to believe that India will obtain large gains in these sectors. India's textile and clothing exports will increase due to the phasing out of Multi-fibre An'angement (MFA).
- The reduction in agricultural subsidies and barriers to export of agricultural products, agricultural exports from India will increase.
- The multilateral rules and disciplines relating to anti-dumping, subsidies and countervailing measures, safeguards and disputes settlement machinery will ensure greater security and predictability of international trade. This would be favourable environment for India's international business.

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