

Economic Environment and Business Strategy
Prof. Sukumar Vellakkal
Department of Economic Sciences
Indian Institute of Technology Kanpur
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Trade Agreements

Welcome to this session on trade agreements, the WTO, and regional blocs. International trade today is governed by two broad frameworks, the multilateral system under the World Trade Organization and the growing network of regional trade agreements. The WTO, established in 1995, provides a rule-based global framework that ensures transparency, predictability, and fairness in international trade. It covers goods, services, and intellectual property rights and plays a crucial role in dispute resolution. Alongside the WTO, we see a rapid rise in regional trade agreements, such as the European Union, NAFTA, ASEAN, and RCEP. These arrangements go beyond WTO commitments, encompassing deeper integration, including common markets, the free movement of capital and labor, and harmonized policies.

In this session, we will first explore the principles, functions, and agreements of the WTO, including its role in agriculture, services, and intellectual property. We will then turn to regional agreements, examining their types, features, and real-world examples, with a special focus on India's trade agreements. By the end of this session, you will understand how multilateral and regional systems interact, sometimes complementing each other, competing, and occasionally seeking integration to shape the global trade environment, and what this means for economic policy and business strategy. So, let me begin with the trade agreements: what is the formal definition? It refers to formal arrangements between countries that govern international trade in goods, services, and investments.

The primary objectives of trade agreements are to reduce or eliminate trade barriers, such as tariffs and quotas, and to promote fair competition and increased productivity in trade relations. In addition, they aim to support economic growth and development. Broadly, there are three types of trade agreements: multilateral agreements, which are global agreements under the WTO framework, including GATT and TRIPS, among others. Regional agreements are agreements between specific groups of countries, such as the EU, NAFTA, and ASEAN. Bilateral agreements are agreements between two countries.

For example, the India-Japan CEPA agreement is purely a bilateral trade agreement. Let me now start with the World Trade Organization, which was set up in 1995. It is a multilateral organization headquartered in Geneva that regulates international trade. Prior to 1995, there was the General Agreement on Tariffs and Trade, commonly referred to as GATT.

The GATT provided the foundation but was mainly limited to goods. When the WTO was established, it initially served as a guard, and its rules were not binding; they were primarily guiding principles rather than binding obligations. The WTO was established to facilitate a smooth, predictable, and free flow of trade across countries. Additionally, it aims to establish a legal and institutional framework for implementing trade agreements and resolving disputes. Therefore, it is essential to remember that the WTO is not a UN specialized agency.

However, it cooperates with UN agencies on trade and development issues. So, let us make a distinction between GATT and the WTO. As I mentioned, the GATT period was from 1947 to 1994, and it mainly provided provisional and ad hoc arrangements. Importantly, it focused mainly on trade in goods, and dispute settlement was based on consensus. That meant there was weaker enforcement, and there were no binding laws or gay rules that the member countries had to follow.

However, when the WTO was established in 1995, it became a permanent and legally binding institution. Its broader scope covers not only goods but also services and intellectual property rights. The advantage of the WTO over GATT is that it has a stronger dispute settlement mechanism. That means it is faster, binding, and enforceable. As a result, member countries must follow these rules and regulations strictly.

The key shift from GATT to the WTO is the transition from a temporary framework to a permanent global trade organization, namely the World Trade Organization (WTO). So, let me now list some basic principles of the WTO. One of the core principles is non-discrimination. Non-discrimination means equal treatment for all WTO members, with no distinction based on any other factors.

That means the most favored nation clause applies to each one. Additionally, there is national treatment. That means a member country of the WTO should not discriminate between domestic goods and imported goods. That means imported goods must be treated no less favorably than domestic goods. That means the government should not support domestic goods over imported goods, but rather explicitly favor domestic goods over imported goods.

Similarly, it should not encourage any other actors in the country to favor domestic goods over imported goods. That means letting both imported and domestic goods compete and based on that competition, allowing them to gain market share. Then comes

transparency and rule-based trading. That means open negotiations and commitments. Furthermore, there is predictability.

Predictability, especially in binding tariff commitments, ensures certainty for businesses. That means a well-established, predictable method for tariff movements and changes is listed in the WTO. Additionally, there is a competition promotion aimed at preventing unfair trade practices, such as dumping and subsidies. I have already mentioned that dumping means selling a product in the foreign market at a lower price than in the domestic market. So that is not allowed.

And then comes the encouraging development, which involves overall care for economic growth and sustainability, including special provisions for developing and least developed countries. Let me also list some of the key functions of the WTO. One is to facilitate the implementation and administration of international trade. This involves administering multilateral trade agreements and providing a legal framework for trade negotiations and dispute resolution. Then comes monitoring, which involves reviewing members' trade policies through the trade policy review mechanism.

That means each member country's trade policies will be scrutinized by the WTO. It also has a dispute settlement mechanism to ensure a fair, rule-based resolution of trade disputes between countries. There is also capacity building, which helps developing countries build trade-related infrastructure and develop relevant skill sets. Finally, it promotes free and fair trade worldwide through cooperation and lobbying. I would also like to list some of the special concerns of the WTO.

One of the guiding principles of the WTO is to support least-developed countries as well as net food-importing developing countries. Special provisions and special treatment are provided for these countries to protect their national interests. Additionally, there are non-trade issues, such as increasing attention to environmental concerns, climate change, food security, and public health. There is also policy coherence, which means that, as I mentioned, the WTO is not a UN agency. However, to ensure policy coherence, cooperation is maintained with the IMF, World Bank, and other international institutions.

Additionally, the WTO provides technical assistance, training, and advisory support to developing and transitional economies. So, what does the WTO not require? In this case, I am simply showing you the world map, which includes WTO members and non-members. As you can see, most countries are members of the WTO. Additionally, some members and observers are involved in the ongoing accession process. However, it is evident that almost all countries in the world are members of the WTO.

So, these members are free to establish their own national trade and non-trade policy objectives. In this case, the WTO-1 intervened. Then it retains some import restrictions under certain circumstances, especially to protect domestic stakeholders, such as farmers,

small-scale and medium-sized industries, and entrepreneurs. At that time, the WTO would not intervene in such a restriction when member countries are involved. Member countries can maintain their own administrative and legal systems and utilize different national trade regulations.

That means no uniformity is required across member countries. There is also flexibility, so WTO rules aim to harmonize trade while respecting national sovereignty. That means the WTO won't direct each member country on how to frame, design, and implement its trade policies. However, it provides a broad framework for implementing measures to ensure the core principles of fair competition, free trade, and the removal of barriers in international trade, among others. So, let me summarize this discussion in a nutshell again: the basic structure of the WTO agreements encompasses the six main areas that fall under the WTO agreement; this means the broader umbrella is the agreement establishing the WTO.

Then come the basic principles, which include guards on goods, guards on services, and trips on intellectual property, all of which are separate domains. The other key elements are the market access commitments, which are outlined in country-specific schedules of commitments. Additionally, in terms of services, there are country schedules of commitment and MFN assumptions. Apart from these, there are dispute settlement mechanisms, and to ensure transparency, trade policy reviews are conducted under the framework of the WTO. Overall, the WTO oversees about 30 different trade agreements that have the status of international legal treaties. So, the member countries must sign and ratify all WTO agreements upon accession.

I am listing some of the multilateral agreements that fall under the WTO, for example, the Agreement on Agriculture. Similarly, there are various multilateral agreements within the WTO framework, including those on sanitary and phytosanitary measures, textiles, technical barriers to trade, customs valuation, and anti-dumping measures. Overall, the agreements under the WTO can be categorized into two broad groups: multilateral agreements, which are binding on all WTO members; each member of the WTO is required to follow these. One of these is the GATS, which stands for the General Agreement on Trade in Services. The second is called TRIPS.

You might have often heard the term TRIPS in the context of the WTO. It refers to the trade-related aspects of intellectual property rights. The WTO sets global standards for patents, copyrights, trademarks, and other forms of intellectual property. There are also plurilateral agreements. These are binding only on the signatory members.

For example, there is an agreement on trade in civil aircraft, followed by an agreement on government procurement and an international dairy agreement. Then, an international agreement on bovine meat was reached. These are all plurilateral agreements, meaning

they are binding only among the signatory members who agree on these specific aspects. Let me now discuss one of the agreements in more detail, specifically the Agreement on Agriculture.

It mainly has three pillars. The first is domestic support, the second is market access, and the third is export subsidies. So, let me begin with the first one; it is related to domestic support. Domestic support mainly refers to agricultural subsidies, which are categorized into boxes labeled green, amber, and blue by the WTO. Therefore, the green box encompasses subsidies that are deemed non-trade-distorting, meaning they do not adversely affect international trade.

These are allowed without limits as long as they are not linked to current production. For example, R&D, environmental programs, and extension services are not directly linked to production. These include agricultural research, environmental research programs, and extension services. Then the amber box comes. The amber box includes subsidies that distort trade, covering trade-distorting subsidies that affect production or prices.

So, this must be reduced over time. WTO member countries need to gradually reduce trade-distorting subsidies. Consider policies such as minimum support prices (MSP) or input subsidies for power and fertilizers. As you are aware, these are subject to reduction commitments, and if countries provide MSPs, it will impact international trade. Finally, the blue box allows subsidies tied to production-limiting programs. In other words, countries can provide support without encouraging farmers to produce more.

That means that, in order to discourage some production, countries can provide subsidies that fall under the blue box of the Agreement on Agriculture. Then, moving to the second pillar, market access, member countries agree to reduce tariffs on agricultural imports. Developed countries commit to an average reduction of 30 percent over a five-year period, with a minimum of 15 percent per tariff line. For developing countries, the WTO has provided some leniency, with tariff reductions of over 24 percent from the existing rate over time and a minimum of 10 percent per tariff line over a 9-year period. The least developed countries were exempt from reductions, meaning they could continue with their existing tariffs but had to bind them over time.

This meant that they had to set a ceiling and could not raise it in the future. Moving on to the third pillar, export subsidies are the next consideration. Here again, the commitment varies from country to country, based on their income level. Developed countries were required to reduce the value of their export subsidies by 36 percent, and the volume of exported subsidies increased by 21 percent.

That means the national government is providing export subsidies, which allow them to sell their products more widely abroad, potentially distorting international trade. Therefore, to prevent this, countries need to agree to do so, as most have been providing

export subsidies. Over time, they agreed to reduce these subsidies. Therefore, developed countries have agreed to reduce their export subsidies by this amount. Similarly, developing countries also need to reduce and shorten their export subsidies over time.

This is within a 5-year timeframe; they need to achieve this by the year 2000. Additionally, there are several regional trade agreements. Regional trade agreements are treaties between two or more countries to facilitate trade and investment. As of 2025, nearly 361 RTAs were in force. Their goal is to eliminate tariffs, quotas, and other trade barriers among member countries.

In brief, the main way it deviates from the WTO agreement is that the WTO primarily applies to all member countries, whereas a regional trade agreement is between or among a few countries and falls outside the WTO's scope. So, RTS can vary in scope from simple tariff reductions among member countries to reducing tariffs on simple goods and charging tariffs on non-member countries on a uniform basis, if desired. That means everything, from a simple tariff reduction to deep economic integration. They play a major role in shaping global trade dynamics and complement multilateral agreements under the WTO. Examples include the RCEP between India and Japan, as well as the European Union.

The European Union is one example of a regional trade agreement. Then, NAFTA and ASEAN are two of the most notable regional trade agreements. There are different types of regional trade agreements; one is called a free trade area, commonly referred to as an FTA. Under an FTA, members remove trade barriers among themselves. Each member maintains its own external trade policy toward non-members; however, there are no trade barriers among members.

NAFTA and ASEAN are examples. Joining a customs union means removing trade barriers among its members and adopting a common external tariff. Unlike a free trade area, a customs union also adopts a common external tariff and uniform customs rules for non-members. For example, the Benelux agreement encompasses Belgium, the Netherlands, and Luxembourg, which form a customs union. That means that for non-members, a common tariff and uniform customs rules apply.

Then we have a common market. A common market is a feature of a customs union, in addition to the customs union's features, and it entails the free movement of goods, services, capital, and labor among member countries. The early phases of the European Union were characterized by a common market-type regional agreement. That means that before the full economic union was formed, the full EU Union was established. Then, the classic example of an economic union is the European Union. This means there is a common market, along with harmonized national fiscal, monetary, and social policies. The European Union has a common currency called the euro.

Additionally, this means it's an economic union, as they share a common currency and adhere to common fiscal and monetary policies. Furthermore, they follow common policies, which means there is also a European Central Bank. Therefore, all economic and trade policies will be harmonized for all member countries of the economic union, in our case, the European Union. So, here it often involves a common currency, as I already mentioned, the Euro, and coordinated economic governance. As I mentioned earlier, the European Union, in its current form, is an example of an economic union.

Let me summarize the differences and then the similarities among the various types of regional blocs. I am listing the free trade area, customs union, common market, and economic union. Across all these types of regional blocs, there is uniform free trade among members. However, differences in common external tariffs, the free movement of factors of production, and policy harmonization result in drastic differences among these trade blocs. Let me now briefly touch upon India's major free trade agreements.

As you may be familiar with the ASEAN-India Free Trade Agreement, it eliminates tariffs on almost 90% of traded goods. In addition, AFTA includes Bangladesh, China, India, South Korea, Sri Lanka, Laos, and Mongolia. The India-Japan SEPA eliminates duties on approximately 90 percent of bilateral trade between India and Japan, covering textiles, pharma, tea, and petrochemicals.

In addition, there is a BIMSTEC Agreement. This is still under negotiation among Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan, and Nepal. I have some screenshots of these trade agreements to provide you with additional information. Please review the content of this screenshot to gain further insights into India's free trade agreements. One of the outcomes of the regional trade agreement is to consider the impact on international trade and its volume. This can be understood through two concepts: trade diversion and the trade-creation effect of a regional trade bloc. Trade creation occurs when an efficient regional trade bloc replaces more costly domestic production and subsequently imports cheaper products from its member countries.

In this case, a trade agreement is formed, indicating that a welfare-enhancing situation exists. In contrast, these regional trade agreements may reduce welfare, meaning that international trade may shift from lower-cost outsiders to high-cost members, as the agreement is structured in a way that alters the trade instruments they need to purchase from member countries. And what if it leads to lower costs, shifting from the normal practice of buying from low-cost outsiders, specifically those outside this regional trade agreement? However, due to the regional trade agreement, if they purchase higher-cost output and import high-cost goods from member countries, then this means they face trade diversion, which is a welfare-deteriorating proposition. So, to explain this, consider three countries, A, B, and C, and assume that there is a regional trade agreement between A and B. In this case, A and B engage in a trade agreement, and C is the outsider country.

So, what if there is a trade bloc in which this agreement reduces tariffs between countries A and B? That means A and B maintain tariffs with C, but there is no tariff between A and B. In this case, trade creation occurs when country A imports more products from B. Trade creation refers to an expansion in world trade that results from the formation of an NFDA, indicating a welfare-increasing effect. On the other hand, there can also be welfare-reducing situations that emerge, resulting in trade diversion. That means part of the increase in trade between A and B is a result of a decrease in trade between A and C.

This means that, due to the regional trade agreement, there is an increase in trade between A and B. However, the resulting increase in trade is due to a decrease in trade between A and C or between B and C. This means a decline in trade with the outside country, referred to as trade diversion. This means a shift in the pattern of trade from low-cost world producers to higher-cost FTA members, which can often lead to a welfare-reducing effect. There are several debates on regionalism; some economies advocate for it, while others are opposed to regional trade agreements.

Some countries support regional trade agreements, such as those advocated by Jagdish Bhagwati, while others argue that he opposes them, claiming that they undermine the WTO's multilateral framework and encourage trade diversion. However, Paul Croman argues that regional trade agreements are necessary because they primarily involve countries that are geographically close, and in such cases, natural trading patterns can enhance overall trade. Overall, there is some consensus in the debate, and a middle ground exists. RTS can complement the WTO if designed to expand trade rather than exclude outsiders.

The WTO has specific provisions for regional trade agreements, primarily advising member countries to adhere to the core principle of non-discrimination. Exceptions for RTAs are permitted if they cover substantially all trade among members. These are the conditions I mentioned earlier. In short, an RTA must not raise barriers to trade with non-members. Additionally, the WTO includes provisions for environmental protection. That means it allows member countries to pursue environmental protection measures if certain trade practices are increasing and threatening climate change.

One example is the carbon border adjustment mechanism, a new tool introduced by the EU to prevent carbon leakage and ensure fair competition. This figure shows the number of environmental provisions over time across various RTAs. I am just showing you some screenshots; you can have a quick look at them. Before concluding, I would also like to present a case study on environmental protection and WTO provisions. This is the carbon border adjustment mechanism, under which you recently proposed tariffs of 20% to 35% on imports of steel, iron, and cement.

In India, for example, it is considered a trade barrier that contravenes the WTO. India plans to challenge CBAM at the WTO, stressing the need for a fair transition period for developing countries. I am presenting you with content, including text about CBAM, the products it covers, and details about the CBAM framework, as well as additional information about CBAM. Additionally, I am covering what the EU requests from exporters and the complaints it is seeking from exporters in other countries, specifically non-EU members. In this session, we discussed the WTO and regional trade agreements.

What we found is that both aim to promote trade and development, but RTS can create trade diversion that challenges the WTO's universal framework. Together, the WTO and the RTS form a complementary yet sometimes competing architecture for global trade governance. Thank you for watching this session. I look forward to seeing you in the next one. Thank you.