

International Trade — Theory, Practice & Policy

MCR HRD

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Evolution of Trade Theory

1600s–1700s

Mercantilism

1933–41

Heckscher–

Ohlin

Stolper–

Samuelson

1817

Ricardo:
Comparative
Advantage

1979–1986

Krugman: New Trade Theory

1962

Gravity Model
(Tinbergen)

2000s

GVCs, Services
& Tasks Trade

Key Insights from Theory

- Gains from trade via specialization (Ricardo) & endowments (HO)
- Scale & variety in imperfect competition (Krugman)
- Most trade follows gravity: size & distance; borders & frictions matter
- Only best firms export (Melitz): role for competitiveness policy

Implications for India

- Cut trade costs: logistics & standards
- Deepen GVCs: integrate into Asia/EU value chains
- Target firm productivity via reforms & skilling
- Leverage services comparative advantage

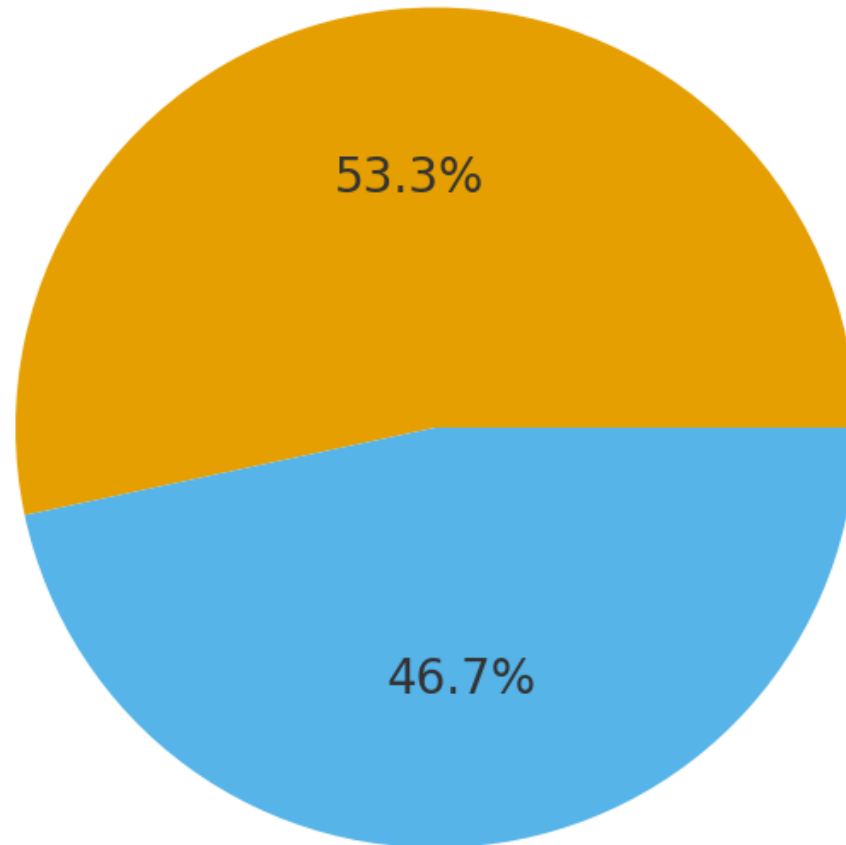
TRADE PATTERN

- Merchandise exports (2024): USD 443b; imports: USD 702
- Services exports (FY2024-25): USD 387.5b — record high (PIB).
- U.S. remains the top export destination (~18% share in 2023-24, PIB).
- Policy: selective FTAs + multilateralism; leverage services advantage; deepen GVC participation; safeguard sensitive sectors

Exports by Type — Latest

India: Exports by Type (Goods 2024; Services FY2024-25)

Goods (USD 443b)



Services (USD 387.5b)

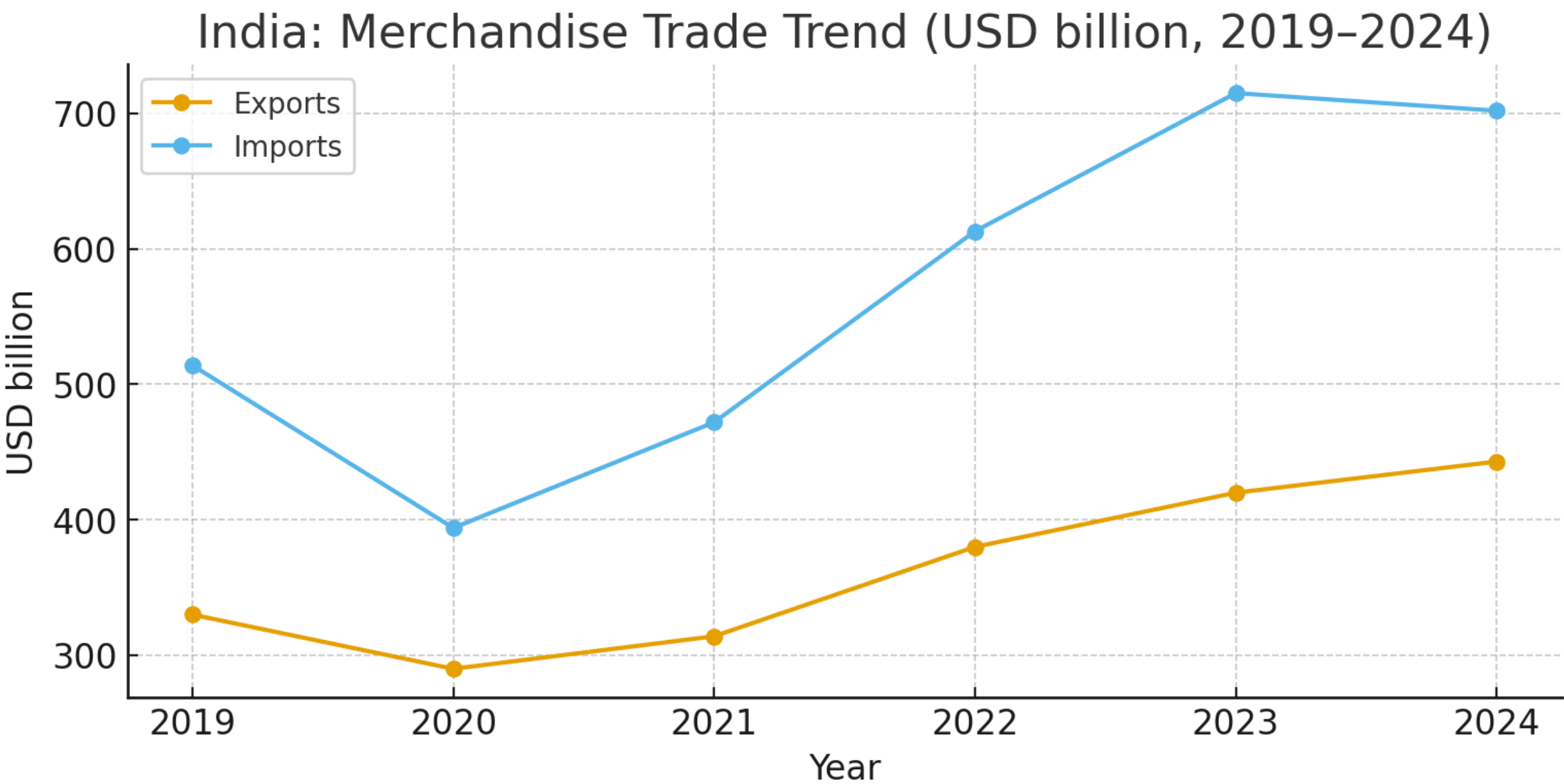
Regional Shares of Exports (Q2 FY2024-25)



Top Export Destinations (FY 2023-24)

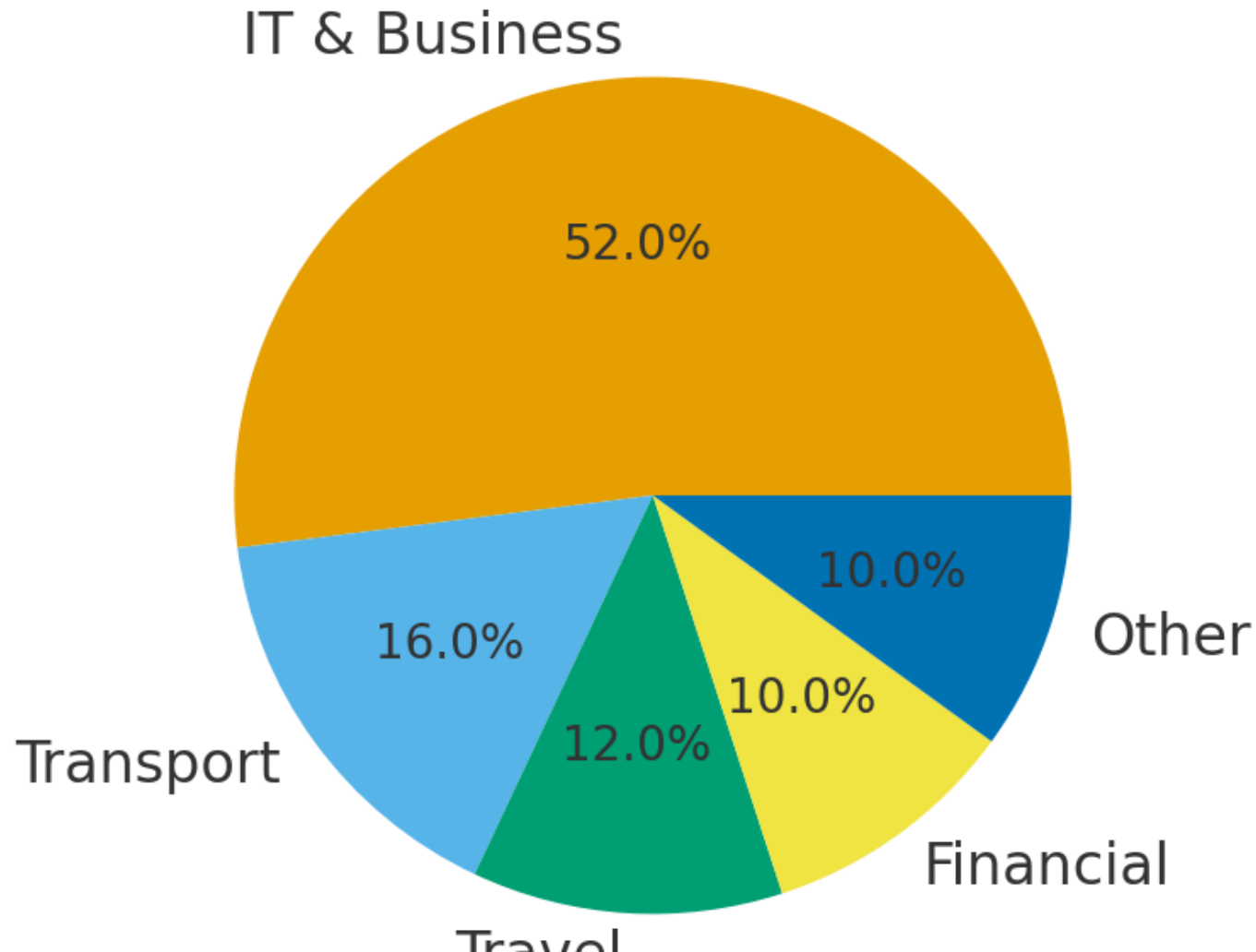


Merchandise Trade Trend (2019–2024)



Services Exports Composition

India: Services Exports Composition (illustrative mix)



Multilateralism vs FTAs and Mega-regionals

WTO (Multilateral)

- Universality;
DSM credibility; but slow negotiations
- Lower average bindings;
limited modern rule coverage

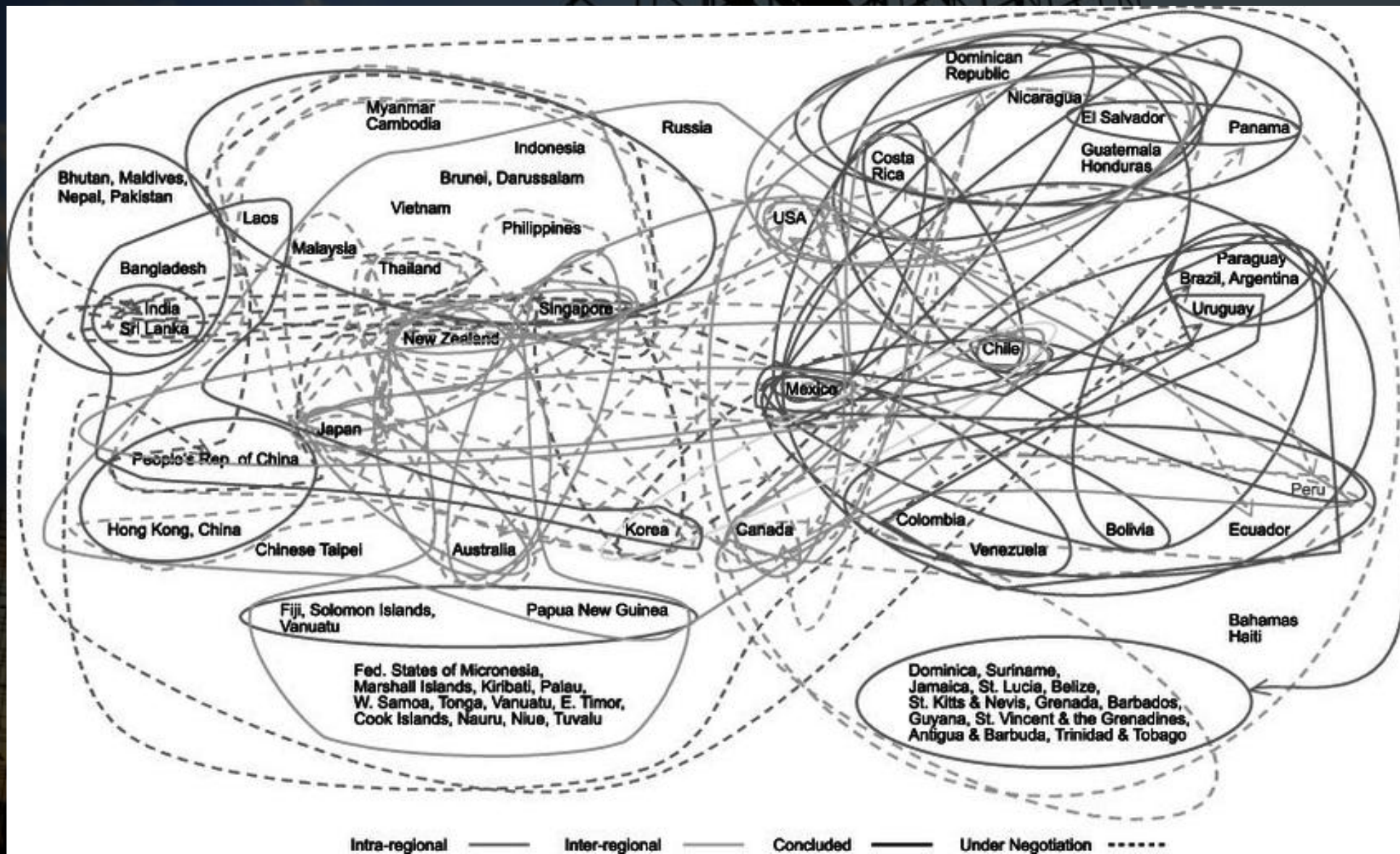
FTAs/Plurilaterals

- Faster & deeper;
Complex RoO & risk of diversion
- Use FTAs as building blocks to wider liberalisation

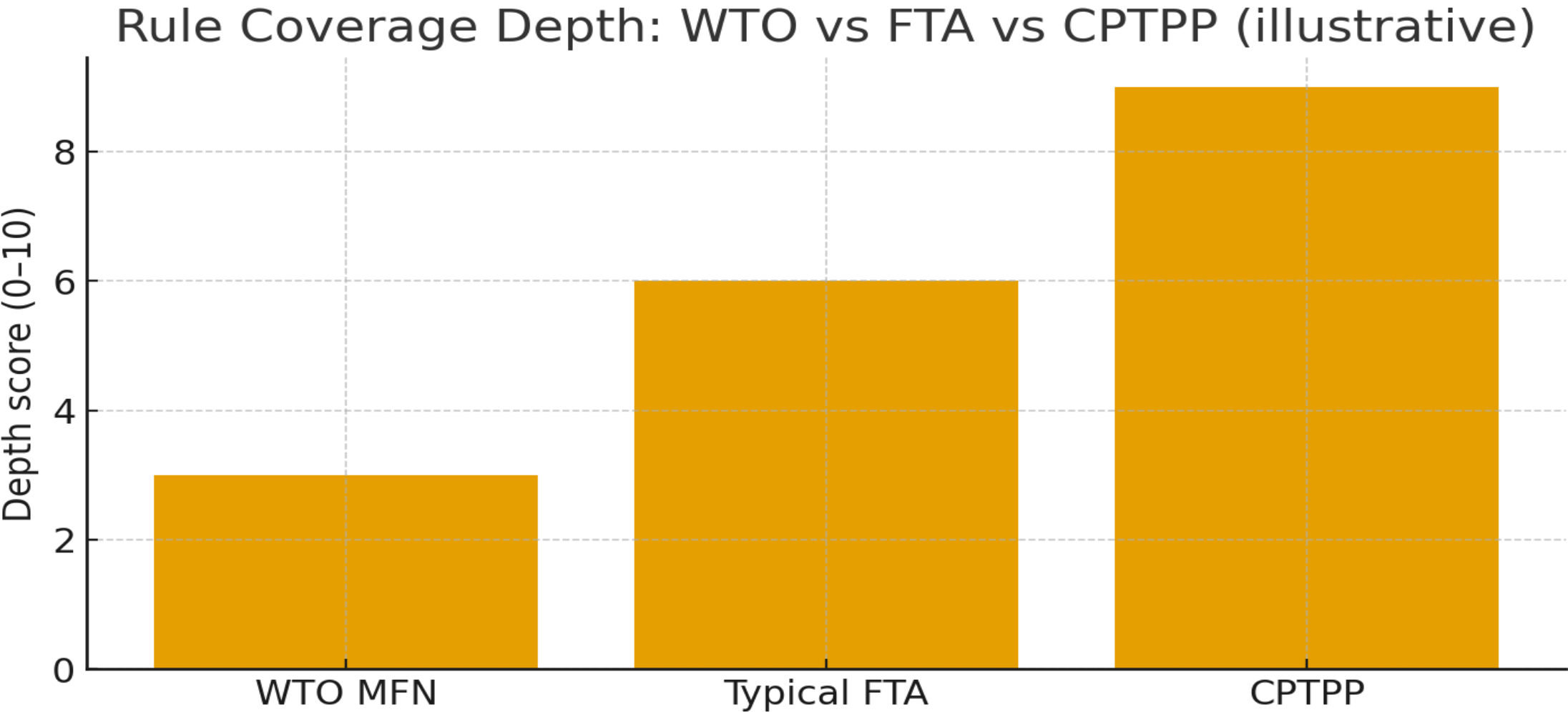
India's FTAs — Snapshot & Timeline

- ASEAN (2009), Singapore (2005), Japan (2011), Korea (2010)
- Mauritius (2021), UAE (2022), Australia ECTA (2022), EFTA TEPA (2024)
- Ongoing/Recent tracks: UK; reviews/upgrades in pipeline

Spaghetti Bowl (Example)



Rule Coverage Depth — WTO vs FTA vs CPTPP



Illustrative depth: more chapters & stricter rules in CPTPP vs typical FTAs or WTO.

CPTPP — History, Members, Impact

- Evolved from TPP (2018); high-standard rules on services, digital, IP, investment
- Membership: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, NZ, Peru, Singapore, Vietnam (+ UK accession)
- Effects: tariff cuts; regulatory alignment; supply-chain diversification; template-setting

Policy Roadmap — Next 3–5 Years

- Prioritise services/digital in FTAs; MRAs; mobility tracks
- Calibrated mega-regional engagement with carve-outs & TRQs
- RoO simplification & cumulation to spur GVCs
- Trade facilitation 2.0 (paperless; trusted traders)
- Standards/quality infra & certification capacity
- Targeted MSME support (credit, skilling, tech)

Carbon Border Adjustment Mechanism (CBAM)

- CBAM is a price adjustment applied to imports into the EU for designated goods based on their CO₂ emissions in the production process outside the EU.
- The aim of CBAM is to prevent the risk of carbon leakage.
- Also, by encouraging the reduction of emissions by operators in third countries (countries outside the EU), global carbon emissions should be reduced.
- CBAM is part of the 'Fit for 55' package. The goal of this package is to reduce greenhouse gas emissions in the EU by at least 55% by 2030.
- Entry into force consists of 2 phases:
 - the transition phase from 1 October 2023 to 31 December 2025
 - the overall entry into force (from 1 January 2026)