The Evolving Nature of Trade Agreements

Mains: *GS II – International Relations*

Why in News?

In recent years, the nature of international trade agreements has undergone significant transformations, particularly with the advent of new categories such as U.S. "Agreements on Reciprocal Trade" (ARTs).

What are the recent issues?

- **Trade deals of U.S** – Under the leadership of former President Donald Trump, the United States signed a series of trade deals with countries such as Malaysia, Cambodia, Argentina, and Bangladesh.
- **Aggressive policies** – These deals, signed under the shadow of aggressive tariff policies, have raised questions regarding their legality, effectiveness, and implications for the global trade order.
- **Concerns raised** – The signing of these agreements has led to a broader debate about the evolving nature of trade deals in the context of multilateralism, preferential trade arrangements, and the unilateral practices of powerful economies like the U.S.

What was the role of Multilateralism?

- **Multilateralism** – The foundation of international trade agreements is built on multilateralism, most notably through the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

> ***Multilateralism*** *is the practice of three or more nations working together to solve common problems, set global standards, and achieve shared goals, rather than acting alone (unilateralism) or in pairs (bilateralism).*

- **Significance** – These institutions have promoted a system of non-discriminatory trade, with the WTO's most-favoured-nation (MFN) principle acting as a cornerstone of the global trading system.
- The MFN principle mandates that if a country offers preferential trade terms to one nation, it must extend the same treatment to all WTO members.
- **Role of U.S** – The U.S. played a pivotal role in establishing multilateral trade norms, especially after the protectionist policies of the interwar years.
- **Role of WTO** – The formation of the WTO in 1995 further institutionalized this

multilateral approach, expanding the scope of international trade beyond goods to services and intellectual property.
- Moreover, the WTO introduced a robust dispute settlement mechanism, giving developing countries a platform to challenge unfair trade practices.
- Despite critiques of the WTO as an instrument of global imperialism, its one-country-one-vote system offers developing nations a chance to negotiate and advocate for their interests.

What are the Preferential Trade Agreements (PTAs)?

- **PTAs** – While the WTO provides a multilateral framework for trade, it also permits members to establish preferential trade agreements (PTAs), which are exceptions to the MFN rule.
- **Components** – These agreements, include Free Trade Areas (FTAs) and Customs Unions (CUs), which allow countries to enter into trade arrangements that may grant certain advantages, such as lower tariffs, without extending these benefits to all WTO members.
- FTAs and CUs must adhere to stringent conditions, such as covering "substantially all trade" between member countries and, in the case of CUs, having a common external trade policy for non-members.
- **Growth of PTAs** – Although PTAs were relatively rare before the 1980s, their number has proliferated in recent decades, with large regional agreements like the Regional Comprehensive Economic Partnership (RCEP) emerging as major global trade pacts.
- Many FTAs go beyond the WTO's agenda, addressing issues such as labor rights, environmental standards, and foreign investment protections.
- **Criticism** – However, these deals are often criticized for imposing additional burdens on developing countries, particularly in areas like regulatory compliance and intellectual property.

What are Agreements on Reciprocal Trade (ARTs)?

- **ARTs** – The U.S. administration under Donald Trump introduced a new category of trade deals known as Agreements on Reciprocal Trade (ARTs), which depart from traditional FTAs and the WTO framework.
- These ARTs are not based on Article XXIV of the GATT, which governs FTAs and CUs, and are therefore legally questionable.
- **Putting America First** – ARTs are framed within the "America First" trade policy, reflecting a more unilateral approach to global trade that prioritizes U.S. economic interests.
- A key characteristic of ARTs is that they allow the U.S. to impose tariffs that are inconsistent with its WTO obligations.
- In return, the U.S. requires its trade partners to eliminate or reduce tariffs on U.S. goods.
- **Favoring US** – Furthermore, these agreements contain provisions that often favor U.S. interests at the expense of the partner nation.
    - **For example,** the U.S.-Bangladesh ART mandates that Bangladesh adopt restrictive actions in support of the U.S. in the event of a trade measure for

national security purposes.

- **Data challenges** – Another significant aspect of ARTs is the erosion of data sovereignty for U.S. treaty partners.
    - **For instance**, the U.S.-El Salvador ART prohibits El Salvador from imposing customs duties on electronic transactions, which directly impacts the country's domestic regulatory autonomy.

What are the legal and geopolitical implications of arts?

- **Legal implications** – The legality of ARTs is a major point of concern for international trade experts.
- Unlike FTAs, which are notified to the WTO for scrutiny, ARTs bypass this mechanism entirely.
- This lack of transparency makes it difficult for other countries and trade bodies to assess and challenge the provisions within these agreements.
- Furthermore, ARTs reflect a broader trend of trade protectionism and economic nationalism, with the U.S. leveraging its position as a global economic power to impose one-sided terms.
- **Geopolitical Challenges** – ARTs can be seen as a tool of economic coercion, where the U.S. attempts to reshape the global trade order to its advantage.
- These agreements could set a dangerous precedent for other powerful nations to adopt similar unilateral measures, undermining the multilateral framework that has been the bedrock of international trade since World War II.

What is analysis of India-U.S. Trade Agreement?

- **Raising questions** – As India prepares to finalize its own trade agreement with the United States, questions arise regarding how this deal will compare to India’s existing agreements with other countries, including the European Union (EU) and the United Kingdom (U.K.).
- **Complications** – While the India-U.S. deal is likely to include elements of mutual interest, such as market access and intellectual property protections, the presence of ART-like provisions could complicate negotiations.
- **The contrasting agreements** – In Contrast to The India-U.S. agreement, India's trade agreements with the EU and the U.K. are more likely to adhere to traditional frameworks of multilateralism and non-discrimination, in line with the WTO’s principles.
- These agreements typically aim for mutual benefits without heavily skewed terms that favor one party.
- Moreover, these agreements may not incorporate controversial provisions like those found in ARTs, such as restrictions on data sovereignty and extraterritorial trade measures.

What lies ahead?

- The evolving landscape of international trade agreements, particularly with the rise of ARTs, signals a shift away from the multilateral norms that have governed global trade for decades.

- The unilateral and imperialistic nature of these agreements threatens to undermine the principles of fairness, transparency, and mutual benefit that are central to multilateral trade frameworks like the WTO.
- Countries, especially developing economies, must remain vigilant and assertive in their negotiations to ensure that trade agreements do not disproportionately favor powerful nations.
- The future of global trade hinges on a return to multilateralism, where cooperation and dialogue supersede unilateral impositions.
- The India-U.S. trade agreement, once finalized, will be a crucial test of how trade relations between major powers can evolve while maintaining the integrity of global trade norms.

Reference

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