WTO General Council: India

Victoria Lohmann

* E-mail: content@ethmun.org

1 Introduction and Executive Summary

From an economic perspective, the year has been mixed so far. On the one hand, India is the fastest growing economy in the world, overtaking the People's Republic of China in 2018. It is regularly ranked the most attractive emerging market, with a very young population that is securing the workforce and thereby, this trend in the future. The current government has loosened international trade regulations and deregulated the influx of foreign money, which bolstered the economy. On the other hand, the rupee has lost 10% in value since the start of 2018, as foreign investors sold the currency over concerns about the Indian economy's trade deficit, as well as inflation on high oil and commodity prices [1]. The priorities for Indian delegates should therefore be as follows:

- working on reducing the trade deficit,
- fostering existing trade relations and creating new ones to position India as a strong and reliable economy,
- secure foreign direct investments to lessen the currency crisis,
- benefit from the ongoing trade dispute between the United States of America and the People's Republic of China.

This dossier is intended to provide delegates with a brief insight into India's economy as well as trade relations. It is a good place to start the research and preparation for the upcoming sessions of the World Trade Organization.

2 Economic Structure

The GDP in 2017 was US$ 2,611,012 Mio., making India the sixth largest economy in the world and the third largest by purchasing power parity [2]. Over the past thirty years, the service sector has become the strongest factor accounting for 57% of its GDP (Figure 1). Especially, IT providers are growing rapidly. However, the main export commodity by value is still manufactured goods. India is one of the largest producers of motored cars and pharmaceuticals in the world [3][4]. Even though, India, in global comparison, is less competitive in manufacturing due to relatively high business and production costs [5]. The sector employing the most people is, nevertheless, still the agricultural sector, which is continuing to lose importance in the country's global trade focus. The country has embarked on a process of economic reform and progressive integration with the global economy that aims to put it on a path of rapid and sustained growth. However, India's trade regime and regulatory environment remains comparatively restrictive [8]

3 Trade Balance

India's trade balance is negative, the total deficit being US$ 137.63 billion [6]. The United States' goods trade deficit with India was US$ 22.9 billion in 2017, a 6.1% decrease (US$ 1.5 billion) over 2016. The United States has a services trade deficit of an estimated US$ 4.4 billion with India in 2017, up 15.2% from 2016 [7]. India has an unsustainable US$ 63 billion trade deficit with the People's Republic China [11].

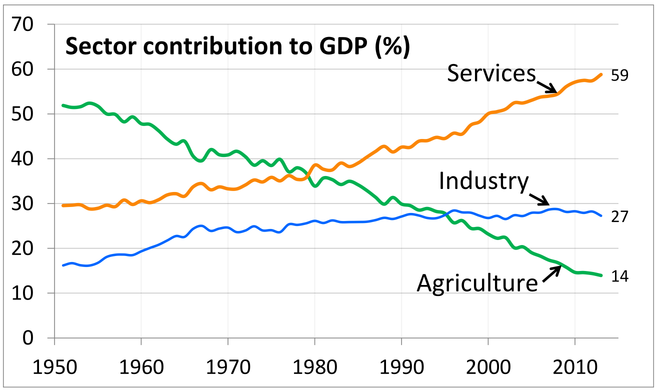

Fig. 1: Development of different economic sectors' contribution to the GDP in percent. As can be seen, the service sector has been continually growing while the agricultural sector has been decreasing significantly [9].

4 Trade Partners

India's biggest export partner is the European Union, well ahead of the People's Republic of China and the United States. The EU has also stated that with its combination of rapid growth, complementary trade baskets and relatively high degree of market protection, India is an obvious partner for a free trade agreement for the Union [8].
Despite foreign policy disagreements, an Indian parliamentary panel recently suggested that China is dumping products, the trade relationship between India and China remains important. China is by far the largest source of India's imports, and its fourth-largest export market after the EU, US and UAE, providing a strong incentive for cooperation between the rising powers [10].

5 Trade Interests

The main interest in the current situation is to stabilize the currency as well as the financial sector. In order to do this, investors have to see that the economy is growing sustainably. Therefore, one goal should be reducing the massive trade deficit, especially with China. Services exports are something that should be focused on, as they could add to some extent [11]. Furthermore, the republic needs to secure foreign direct investments, which helps to strengthen the weak currency. India has opposed China's *One Belt One Road initiative*, which aims to construct new infrastructure for trade by land and sea in surrounding countries - including development of a disputed region of Kashmir [10]. At the World Trade Organization, India continues to present itself as advocate for free trade and especially opposes non-tariff barriers. It has continually been crucial in voicing the economic interests and lobbying on behalf of the developing world.

6 Recent Developments

The rising oil price this year has caused the Indian rupee to weaken significantly, even earning it the title of "Asia's worst performing

© ETHMUN 2018

currency". This is problematic as it increases the already high trade deficit. Furthermore, imposed tariffs on gold, electronic equipment and luxury goods like cars have angered the EU and US government and are likely to provoke retaliation. At the same time, the government has also initiated a dispute complaint against the US for the high aluminum and steel duties [12]. Nevertheless, it is highly possible that the Indian economy will benefit from the ongoing trade dispute between the United States and China [13]. Foreign direct investments (FDI) are at an all-time high, proving that India remains one of the most attractive emerging markets and that the government strategy to create a more flexible and rewarding system is indeed working [14]. Additionally, India is currently participating in the final round of negotiations for the *Regional Comprehensive Economic Partnership*, an agreement should be reached by November 2018. This would then be the world's largest economic bloc, accounting for 39% of the global GDP [15].

7 References

1 BBC News "India economy accelerates as rupee declines" *https://www.bbc.com/news/business-45369884*

2 The World Bank "GDP per capita, PPP" *https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD*

3 European Automobile Manufactures Association "Top 10: car producing countries, worldwide and EU" *https://www.acea.be/statistics/article/top-10-car-producing-countries-worldwide-and-eu*

4 World Health Organization "The World Medicines Situation" *http://apps.who.int/medicinedocs/en/d/Js6160e/3.html*

5 The Straits Times "Not in India's national interest to be left out of RCEP trade deal: Tommy Koh" *https://www.straitstimes.com/singapore/withdrawing-from-rcep-trade-deal-not-in-indias-interests-tommy-koh*

6 Indian Department of Commerce "Total Trade" *commerce.nic.in*

7 Office of the United States Trade Representative "India" *https://ustr.gov/countries-regions/south-central-asia/india*

8 European Commission "India" *http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/*

9 Wikipedia "Sector contribution to GDP" *https://en.wikipedia.org/wiki/Economy_of_India#/media/File:1951_to_2013_Trend_Chart_of_Sector_Share_of_Total_GDP_for_each_year,_India.png*

10 World Economic Forum "8 things you need to know about India's economy" *https://www.weforum.org/agenda/2017/10/eight-key-facts-about-indias-economy-in-2017/*

11 Forbes Magazine "How To Reduce India's Trade Deficit With China" *https://www.forbes.com/sites/russellflannery/2018/08/19/how-to-reduce-indias-trade-deficit-with-china/#40f65f1178fa*

12 World Trade Organization "India initiates WTO dispute complaint against US steel, aluminium duties" *https://www.wto.org/english/news_e/news18_e/ds547rfc_23may18_e.htm*

13 Deutsche Welle "India's currency tumbles amid rising oil prices" *https://www.dw.com/en/indias-currency-tumbles-amid-rising-oil-prices/a-45729686*

14 The Hindu "FDI: India remains top destination" *https://www.thehindu.com/business/Economy/fdi-india-remains-top-destination/article24813050.ece#*

15 MalayMail "Najib: RCEP likely to be signed in Nov 2018" *https://www.malaymail.com/s/1510539/najib-rcep-likely-to-be-signed-in-nov-2018#kLhIUr0450ITuVJx.97*

© ETHMUN 2018