

Lecture 01: Introduction to the World Trading System

Dear students Welcome to the NPTEL course on International Trade Law. In the first lecture, we will see mostly the historical aspect of the world trading system and how the world trading system has evolved in a period of time.

CONCEPTS COVERED

The history of world trade
Economic crisis and protectionism
Colonization and world trade
The Emergence of GATT 1947 & WTO



In the historical aspects elaborately, we will look into how the world trading system has evolved. Then, how the economic crisis from time to time has made the countries compelled to economic protectionism, and from time to time, the trade rules are modified. Colonization has had a great impact on world trade, and we will also look into it. And then, finally, in this class, we will deal with the emergence of GATT 1947 and the WTO.

History

- **The history of international trade is a rich and complex story that spans thousands of years.**
- **It has played a pivotal role in the development of civilizations, the exchange of cultures, and the evolution of the global economy.**
- **Ancient Civilizations (circa 3000 BCE - 500 CE):**
 - **Early forms of international trade can be traced back to ancient civilizations, such as the Sumerians, Egyptians, and Phoenicians.**
 - **They engaged in the exchange of goods like spices, metals, textiles, and luxury items across long distances.**



So, let us have a look into the historical aspect of the world trade. So, the world trade has emerged from time immemorial period. When I say the time immemorial period, the historians or the voyagers and those who travelled from continent to continent have marked about not only talked about their voyages, but their purpose of voyages was international trade. So, those who travelled from Portuguese or those are Dutch or lastly the British, those who have travelled from their continent to another continent, it is not only for colonization. And the main object of this colonisation was itself was trade with those countries. Those who are came to these continents as traders later on they become the masters of those countries. So, you can see the thousands of years of history has written about the world trade. So, this trade history itself has played a vital role in the development of civilisations throughout the world. So, it made exchange of cultures evolution of economies and the rich countries become poor countries and poor countries become rich countries because of international trade. So, we talk about the ancient civilizations may be from 3000 BC to 500 CE. So, this international trade, so many times we said that trace back to the ancient civilizations of may be the Sumerians, Egyptians and Phoenicians. So, the western historians only talked about these civilizations and at the same time. So, the Indus valley civilization in this part of the world also contributed to the international trade. So, mostly the westerners those who are engaged mostly engaged in the exchange of goods, spices, precious metals, textiles, luxurious items and also we can say that when it comes to the from period to period all the precious things have been traded or taken away from the colonized countries to their own countries. So, it is more than trade, but it is started with trade of spices, metals, textiles and precious metals.

History

- **Trade and foreign policy have been intertwined throughout history, with foreign policy often tailored to promote trade interests.**
- **In the 3rd century BC, during the Han Dynasty, China used its military power to maintain the Silk Road for its value for trade.**
- **In the year 30 BC, Rome conquered Egypt in large part to have a better supply of grain.**



At the same time, we can see that most of the foreign policies of rulers, even kings, were based on international trade. So, I would say that international trade have so strong connection between the rulers and their policies and also the many dynasties has flourished because of trade. For example, the Han dynasty of present China in the third century of BC and the famous Silk Road or Silk Route is not a Silk Road or Silk Route. So, it is a

highly valued chain, a route for international trade from the south to through the Middle East and then to Europe.

So, we can see that these silk routes these trade routes I would say that these trade routes not only through the land but, most importantly, the maritime trade, which flourished for centuries.

Carthaginians Trade

- **Herodotus, writing in the 5th century BCE, describes the method the Carthaginians used to barter with indigenous peoples in new territories along the North African coast.**
- **The Carthage in the Mediterranean became the richest city in the ancient world.**



So, it is very interesting to see that the international trade has started with bargains or we can see that the Herodotus one of the famous writer or historian or we can say international scholar has written in and he talks about a group which is known as cartagenians or carthage the emperor of carthage which was made in the Mediterranean and they have flourished one of the richest they have flourished as one of the richest countries at that point of time in the world mainly because of trade. And their trade it is very interesting to note how they traded with the North African, North Africans they are highly you know we can say that highly uneducated or very primitive in nature and those who does not know about trade.

The Barter trade

- The Carthaginians unload their wares and arrange them on the beach; then they re-board their boats and light a smoky fire.
- When the native inhabitants see the smoke, they come to the shore and, after setting out gold in exchange for the goods, they withdraw.
- The Carthaginians disembark and examine what the natives have left there, and if the gold appears to them a worthy price for their wares, they take it with them and depart; if not, they get back on their boats and sit down to wait while the natives approach again and set out more gold, until they satisfy the Carthaginians that the amount is sufficient.
- Neither side tries to wrong the other, for the Carthaginians do not touch the gold until it equals the value of their goods, nor do the natives touch the goods until the Carthaginians have taken away the gold. (Book IV, 196)

So, they traded with these cartagenians traded with the indigenous people of North Africa how they did it the story is very interesting. So, they made a barter trade with this primitive indigenous people.

So, the Herodotus wrote it that how they did it. So, the cartagenians will go there in ships and they keep they reach the beach and then they will you know they will put a smoke a smoke you can see that like which is you know used by the ships. So, a smoke signal will be given to the indigenous people and these smoke fire they know that yes these cartagenians came with their loaded ships with materials including food materials and the day to day materials for these indigenous people. Then these cartagenians will retreat back to their ship by keeping all the goods in the shore displayed in the shore and they will go back to their ship. Then once they are retrieved back to the ship these tribals or we can say that these indigenous people will come and inspect the goods and they calculate the worth of or the prices of these particular goods and then they keep it is worth of gold.

So, they calculate the worthiness of trade worthiness of these particular goods and they keep gold equal to as that of the goods which are kept in the shores and then they again these indigenous people retreat back. So, again these cartagenians will go and check these the quantity of gold which is kept it there whether it is equal whether it is equal or matching with the prices of the goods kept it there. And if it is not done again they will retreat and the indigenous people will come and keep more gold there and this process will complete once both the sides will be satisfied.

So, we are talking about the centuries in the 5th century how the trade is made with a primitive indigenous people and these cartagenians and one of the emperors are at that point of time in the Mediterranean side. So, how they made the trade? So, what we want to say for trade you do not require education you do not require anything, but trade can be done the trade will be done between indigenous people.

Even we know that the only place where the people are not reached is the islands which belongs to India that is the **Sentinel** islands. So, even I saw that 6000 years of history the people are settled there and still not there is no connection between the mainland or the main land people or the so called modern people and these indigenous people those who

are in **Sentinel** islands near the Andaman and Nicobar Islands. But in between in some point of time they also keep in touch with people. So, there are you know the histories in between. So, even though they are highly you can say that they do not like the people from outside, but in between sometimes.

So, we saw that the people going in the boats the Indians going in the boats and giving them you know in exchange of coconut. So, they were giving a shake hand to the people, but this is also this is actually you know basically you give something to them which what they required then even the indigenous people recognizes. So, the cartagenians' story is one of the important lesson for international trade even in the 5th centuries.

The Silk Route

- **International trade started in ancient times.**
- **The Silk Road was the first major trade route that connected the East and the West.**
- **It was an important trade route for over 2,000 years, connecting Asia with Europe via the Middle East.**
- **The Silk Road began after the Han Dynasty expanded its rule over Central Asia.**
- **This allowed Chinese people to travel to central Asia and start businesses there.**
- **The Silk Road was also known as "the road of silk" because it transported silk from China to Rome.**

When we come to the international state so, we repeatedly say that international state started in ancient times and also we can see that the important trade routes. The important trade routes are used by many countries for thousands of years and connecting for example, we talked about the silk route which is connecting Asia to Middle East and Asia to Europe through Middle East.

And China now is revamping the same silk route for nothing, but for international trade. So, the thousands of years and of trade flourish these particular countries they rich they make they made rich because of international trade. So, and also we can see that always some of the dynasties survived because of international trade. And that international trade as I told you has even lead to the colonization we will deal with you know the later.

History

- **Silk Road (circa 2nd century BCE - 14th century CE):**
- **The Silk Road, a network of trade routes that connected Asia, the Middle East, and Europe, played a pivotal role in the exchange of goods, culture, and ideas. It facilitated trade in silk, spices, precious metals, and technologies.**

So, the silk route is one of the you know the best example of Asia or south I would say that the south Asia which connecting the Asian continent to even to the Europe. So, this made not only the movement of goods from one place to the other place it made exchange of goods culture and even I would say that the ideas has or more importantly the movement of people which we talk about in the service agreement. The movement of people also happened or facilitated through this particular silk route at that point of time. So, the even as I told you that even not only goods even technologies are transferred between countries even at that point of time.

Age of Exploration (15th - 17th centuries):

- **European exploration, driven by figures like Christopher Columbus and Vasco da Gama, opened up new trade routes to the Americas, Asia, and Africa. The Columbian Exchange, which included the transfer of crops, animals, and diseases, had a profound impact on global trade and societies.**

So, when we look into more advanced stage of the trade between countries is starting with voyages or which is known as the age of exploration. The age of exploration has made 15th century to 17th centuries which has made mostly initiated by the Europeans and who the

famous names include the Christopher Columbus, Vasco da Gama and other people those who are from mostly from the European countries they have you know trade routes they made or they invented the trade routes to the Asia.

And they trade with Asian countries mainly the spices and other precious metals they traded and

Voyages

- **Christopher Columbus**, the fervent Italian voyager, sailed all the way across the Atlantic Ocean, hoping to find India On August 3, 1492.
- While he had little luck in his endeavor, **Vasco da Gama** became the first European to set foot on Indian soil.
- On 20th May 1498, two years after he set sail from Lisbon, Portugal, Vasco da Gama arrived on the Western sea coast of India at Kozhikode (Calicut), Kerala.

These age of exploration important names which we can find is the Christopher Columbus and Italian voyager. So, who crossed the whole Atlantic Ocean and you know started his journey in 1492, but unfortunately he was not reached, but so Vasco da Gama who reached to the south for the first time in 1498 and see he sailed the whole way from Portugal to the Indian state of the present state of Kerala at that point of time the Calicut. And he came to the you know our own country and the state for trade of spices especially at that point of time and he made contracts with the king of Calicut he signed agreements with the king of Calicut for trade at that point of time and even signed agreements for the stock holdings to be kept in the port. So, we are talking about 15th century where Vasco da Gama came to this our own country for international trade. So, our own it is beginning of not only the exchange of goods or simple trade it is you know it is the era of you can say that the foreigners those who are coming to our own country the India at that point of time.



World Trade

- Everything from silk and spices to techniques for making glass & gunpowder traversed from the East to the West.
- So significant was the origin of gunpowder, that it aided nation-states to gain advantages in war and metamorphosed the geo-political landscape of the regions along this course.



So, you can see that the world trade it is not only the goods and the all kind of the goods were like whether it is silk or spices and also even technologies are taken from the south to west. For example, mainly the technology of making glass and then gun powder and then mainly and once upon a time the intellectual property of dyeing of textiles was only with India the technology was only with India until the British has reached. So, they have taken away the technology. So, you can see that it is not only the goods are traded even intellectual properties were traded or taken away from the south to the west by the west traders. So, you can see that as I told you that how important at that point of time the gun powder the origin of gun powder which was made changed the entire geopolitical landscape because of the fire power and also the use of weapons by using gun powder at that point of time.

History

- The history of human civilisation owes its richness to trade and interactions with other cultures.
- The **Indus Valley Civilization** (one of the first human civilisations of the world -2500–1700 BCE) for instance, indulged in fostering long-distance trade in order to procure resources like gold, silver, pearls and tinted gems with Egypt and Mesopotamia.
- Caravans of merchants travelled far and wide in order to indulge in trade with Persia, Arabian Gulf, China & Mesopotamia.



So, and history which talks about the human civilization and also we can see that rich trade and it is not only rich trade between the countries it is rich civilization the exchange of civilization between countries. So, we talked about everybody westerners only talk about these were empires the big empires whether it is a Roman empire or Egyptian empire or it is Mesopotamian empire and nobody talks about Indus valley civilization and Indus valley civilization is considered to be one of the most important and the most important culture or civilization which is in this part of the world I mean the south part of the world where also there also there is a lot of precious metals it is gold, silver, pearls, tinted gems and all these were traded between other emperors like Egypt and Mesopotamia at that point of time. So, the merchant travelled merchant travelled from all parts of the world to this Indus valley civilization.



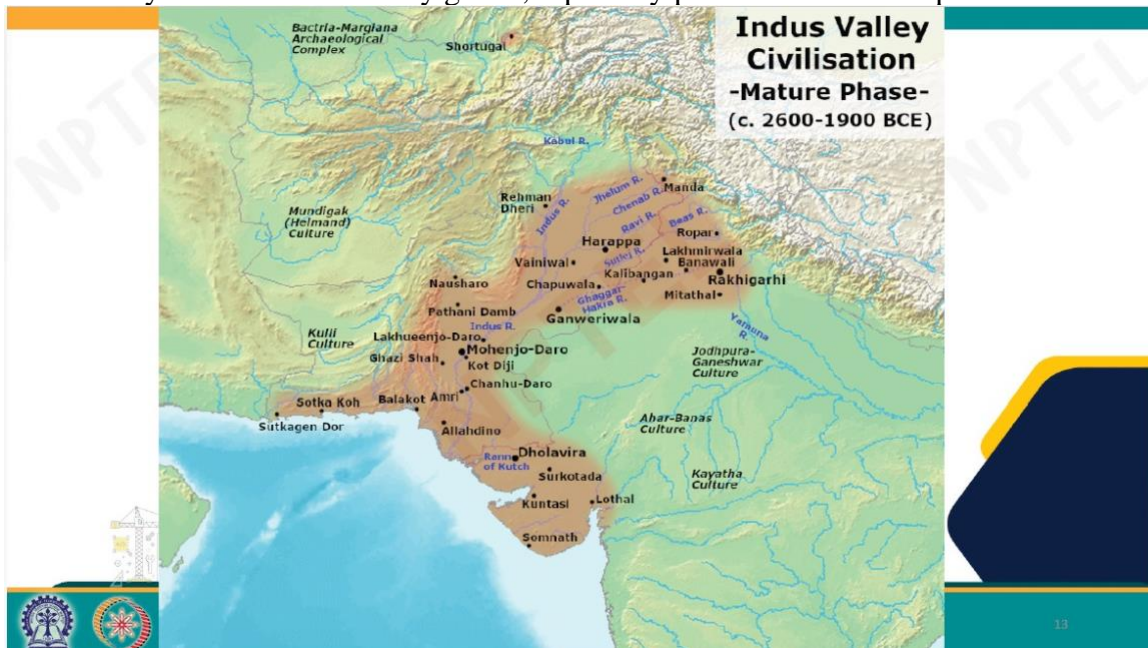
And we can see the Indus valley civilization where it is you know situated at that point of time. So, we can see the present Gujarat and the port and also the most important cities the *Harappa* and also even *Mohan Jadaro* the two cities which was made at that point of time in this particular Indus valley civilization which was existed for a long period of time.

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So, what I want to say is it is not only the so you can say that it is not only the western history, but the south also contributed to this international trade and the people came from not only from Persia, Arabian gulf, China, Mesopotamia and other countries came to this Indus valley civilization for many goods, especially precious metals and pearls.



And so we can see that, but these civilizations have been you know we can say that either it is destroyed or it is vanished in a period of time. So, but it is contributed to international trade.



1600

- Subsequently, the marvel and mysticism about the wonders of India began spreading to the West just like the aroma of its spices, enticing ambitious trading companies such as the British East India Company to come to the country.
- Cotton and silk goods, indigo, and saltpetre, were some of the items that earned admirers in the West, who developed a penchant for these exotic goods. The avarice of the British for lucrative profits saw the rise of colonialism.



So, with the advent of colonization that is why I earlier mentioned about the colonization have a great impact or colonization have a close connectivity with international trade. So, the Britishers were the last one those who came to the south for trade and they came to not only to Indian the other countries like India one of the you know the biggest countries like India and other colonies. So, they went to Africa as well and exploited they came for the trade, but they become the rulers later and they ruled these countries for centuries. So, it is not one century or two centuries many centuries they ruled these countries and exploited. Exploited the resources in these countries and they are exploited these countries and used the basic materials as resources for their own country industries. So, again there also the trade. So, the trade what we talked about you know the Egyptian emperors or Mesopotamian emperors has converted into the colonial powers. They came for the trade and they become the colonial masters and they have taken away the cotton sales.

So, indigo and you can see that all I would say that all precious goods have been transported from their colonies to England. So, you can see and this the colonialism as a tool the international trades flourished the international trade has flourished during the British period even though it is through exploitation. So, international trade have a very important role during the British period as well.

Mercantilism (16th - 18th centuries):

- **Mercantilism was an economic philosophy that emphasized accumulating wealth through exports and maintaining a favorable trade balance. European colonial powers established trade monopolies and empires to exploit resources in their colonies.**
- **Industrial Revolution (late 18th - 19th centuries):**
- **The Industrial Revolution transformed production processes, leading to increased output and the emergence of mass production. This, in turn, boosted international trade by creating a demand for raw materials and expanding markets.**



Then comes the 16th to 18th centuries which is known as the era of mercantilism and also industrial revolution industrial revolution is post 18th century, but it is starting with the 16th century.

So, here you can see that. So, the exports so the trade balances between continents especially the European powers is not only British, Spaniards, Portuguese, Dutch all these powers have even fought in between for resources. Resources and also for monopolies of monopolizing even maritime routes. So, this monopolization and use of power is for nothing, but international trade. Then comes the industrial revolution in the late 18th century. So, the industrial especially the industrialization in the western countries has again put the south.

So, I would say that the south this part of the world has again exploited for the raw materials which is required for the factories and industries to run in European countries. So, the output has increased these western countries increase their output by using or transporting or I would say that trading the basic materials from the south the resource from the south from their colonies. So, but ultimately we can say that 18th and 19th centuries the international trade has boosted, boosted like anything. So, the demand for the raw materials from the west was at the top during the industrial revolution period of 18th and 19th centuries. So, this industrial revolution added to international trade. So, the volume has increased the value has increased.

History

- **The 18th Century saw the shift towards liberalism.**
- **It was in this period that Adam Smith, the father of Economics wrote the famous book ‘The Wealth of Nations’ in 1776 where in he defined the importance of specialization in production and brought International trade under the said scope.**



So, we can see mostly after the 18th centuries to the 19th up to 20th centuries you can see there is a lot of writings on international trade. And the most important writing on trade is the *wealth of nations*. The *wealth of nations* written by Adam Smith who talks about the basic rules of international trade in 1776. So, he talked about the importance of liberalization, liberalization of markets and also the liberalization of markets and international trade.

So, he basically argued that the opening of markets will increase international trade and which all the countries will benefit. So, Adam Smith who talked about the opening of markets is happened not in 18th century, but end of 19th and 20th centuries the markets all over the world has opened up. So, 21st century and the 99% of the markets all over the world has opened up and So, you can see the writings, the famous economic writings of Adam Smith cannot be forgotten the basic rules of liberalization cannot be forgotten which added to the countries compelled to open up their markets and to end their protectionism to some extent.

History

- **In the 18th century, the British East India Company drove British foreign policy toward South Asia based on British trading interests.**
- **In the mid-19th century, trade dominated the thinking of the U.S. government in its relations with East Asia.**
- **Commodore Perry sailed to Japan 1853-54 in order to open that market to U.S. trade,**
- **Eleven years later, the United States concluded the Treaty of Wangxia with China, again to support trade.**



So, here as I told you that the Britishers they reached many places in 1600 and there 1600 to you know. So, they ruled India as well up to 1947. So, this British rule whether it is in Asia in India or in South Africa it has made the entire scenario of international trade. So, in many places for example, even some part of India, the Dutch people were settled and some part of India even Portuguese people were settled and they also were doing trade between the East Asia especially and also from when the 19th century comes definitely the Britishers were taken over by the Americans. So, there is a high level of competition between British and Americans during the 19th century. When come to the 20th century this competition has at its peak.

So, the emergence of United States is a competition to the British Empire. So, these two economic powers. So, the competition between these two economic powers also increased the international trade. So, the Americans they concluded treaty between many treaties between many countries for international trade because it was once upon a time it was the monopoly of the British, Spaniards, French, and even Dutch.

So, the US entered into agreement. So, in order to you know break this particular monopoly the United States has entered into trade agreements with many countries to get their raw materials and other goods from other countries.

19th Century

- The 19th century beginning saw the move towards professionalism, which petered down by the end of the century.
- Around 1913, the countries in the West saw extensive move towards economic liberty where quantitative restrictions were done away with and customs duties were reduced across countries.
- All currencies were freely convertible into Gold, which was the international monetary currency of exchange.
- Establishing business anywhere and finding employment was easy and one can say that trade was really free between countries around this period.



So, and the 19th century is known to be or known as the century of professionalism. I do not know why it is called it as a professionalism, but I would say that these centuries the professionalism and this particular century has very vital role very vital role in the international trade. So, here when we divide before first world war and then to the second world war and then to 1947 the GATT Agreement. Here we can see that the 1913 some of the countries have put extensive restrictions.

I would say that protectionism or extensive or overarching customs duties on imported goods. This over emphasis on customs duties or over imposition of customs duties end up in the first world war or severe. Whenever there is a severe economic crisis and there is a war and there is problems with the currencies and even conversion of free conversion of currency into gold is also is one of the reasons. So, international monetary currency exchanges. So, all these liberalized the international trade in the 20th century and then establishing a trade between countries free between countries entering into trade agreements become very common in the 20th century. So, this also added to the international trade.

19th Century and Colonialism:

- **European colonial powers established empires across Asia, Africa, and the Americas, often controlling trade routes and exploiting resources. This period saw the rise of imperial trade systems.**
- **Post-World War II:**
- **The devastation of World War II led to efforts to rebuild the global economy.**
- **The Bretton Woods Conference in 1944 created institutions like the International Monetary Fund (IMF) and the World Bank to stabilize international currencies and support economic development.**



So, we can see that in the 19th centuries. So, we know that from 1600 to 1900 and you know you can say that 19th century end of 19th century and these Britishers and European powers has established their colonial rules all over the country for exploitation. When it comes to the first world war and there are you know lot of sides which you know form the first world war which again contributed to the international trade. So, even though there is a devastation after the first world war. So, the treaty of west failure again made international institutions and also the trade has become more popular after immediately after the first world war.

So, we will come to the second world war in between. So, we can see the great depression of 1930s.

Post 1World War

- **The First World War changed the entire course of world trade, and countries built walls around themselves with wartime controls.**
- **Post World War, as many as five years went into dismantling of the wartime measures and getting back trade to normalcy.**
- **But then the economic recession in 1920 changed the balance of world trade again, and many countries saw a change of fortunes due to fluctuation of their currencies and depreciation, creating economic pressures on various Governments to adopt protective mechanisms by adopting to raise customs duties and tariffs.**



So, when we look into more into the first world war period we can change that the entire first world war has completely changed the entire course of international trade and also some of the countries put war restrictions and additional duties and also it took some time to become the normalcy of world trade. And immediately after the first world war again the economic recession has engulfed most of the countries in the 1920s and again the countries comes together for overcoming this economic crisis. So, every country have lot of pressure on the governments to put restrictions or protections I would say that the protectionism of the domestic industries and imposing more customs duties and tariffs increasing the tariffs. So, this become the rule even at 1920s immediately after the first world war.

Multilateral Trade Agreement

- **The need to reduce the pressures of economic conditions and ease international trade between countries gave rise to the World Economic Conference in May 1927,**
- **organized by the League of Nations, where the most important industrial countries participated and led to the drawing up of Multilateral Trade Agreement.**



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So, this is all these made you know barriers to international trade. So, when we look into the multinational trade agreement under the you know the auspicious of world powers. So, in order to facilitate the international trade the first world economic conference was held in 1927. So, this was organized under the ages of *league of nations* which was formed after the first world war. So, the all important industrialized countries participated in this multinational trade agreement in 1927 to ease international trade.

The Great Depression

- **After World War I came the Great Depression, caused by many factors, including overproduction, increased competition between companies, high tariffs on imported goods, and low export prices.**
- **All these factors led to lower demand for goods and services, resulting in unemployment rates hitting 25% in some places such as the USA and Canada.**



So, the great depression of 1930s after the first world war has made every country to impose high tariffs on goods, restrictions and more and more tariffs. So, the mainly the main competitors again between the British and America and even we can say the retaliation from the countries like Canada on US imports even some of the countries put additional duties because the unemployment rates increases in every countries. So, more and countries were compelled to put more and more restrictions.

The Great Depression of 1930s

- **However, once again depression struck in the 1930s disrupting the economies in all countries leading to a rise in import duties to be able to maintain favorable balance of payments and import quotas or quantity restrictions, including import prohibitions and licensing.**



So, the famous great depression of 1930s which is added to the overall scenario of international trade and restrictions on payments restrictions and import quotas were imposed then quantitative restrictions were imposed and then additional duties and even prohibitions of imports and exports were imposed by countries which made it very difficult for every country to undergo the international trade.

GATT & WTO

- **Establishment of GATT and WTO:**
 - **The General Agreement on Tariffs and Trade (GATT) was established in 1947 to reduce trade barriers and promote international cooperation. It eventually evolved into the World Trade Organization (WTO) in 1995, which continues to oversee global trade today.**
- **Globalization and the 21st Century:**
 - **The latter half of the 20th century and the early 21st century have witnessed a dramatic increase in global trade, driven by advances in technology, transportation, and communication. The growth of multinational corporations and the rise of e-commerce have transformed international trade.**



So, the great depression has led to the second world war, the second world war has devastated most of the European countries. So, after the war the countries again the *league of nations* were failed in their objectives and they come out with the new organization that is the presently existing the *United Nations* under the ages of the *United nations* and other countries. So, again the countries the industrialized countries come together to discuss about forming international organizations which they can revitalize the countries after the second world war. So, the basically the discussion was to form.

So, the discussion was in Bretton Woods. So, the Bretton Woods Conference is known as the Bretton Woods conference is to form the trade organizations, the financial organizations and also the monetary organizations. And this Bretton Woods conference which talks about Bretton Woods conference which talks about the three organizations the famous three organizations which are supposed to form are one is international monetary fund that is the IMF and the other one is the IBRD the international bank for reconstruction and the present a World Bank group and then international trade organization, ITO which was never formed. So, we will discuss it in the next lecture more about the GATT and WTO. So, what I want to say is that if you look into the international trade the history of international trade the countries have a great role especially the western empires and also the sourcing countries like south this part of the world also played a crucial role in international trade. So, once upon a time the history was very clear and it was robust and the trade routes whether it is the maritime trade routes or the silk routes like silk route contributed to the international trade from the Asia to the Europe. So, many empires become rich by international trade. So, we will talk about the Indian scenario in the next class about what was the Indian contribution and also the GATT and other things in the next class.

Thank you.