UNIT 10 INDIA AND WORLD TRADE

Structure

10.0 OBJECTIVES

After studying this unit, you should be able to:

- describe recent developments in world trade;
- explain the issues in world trade;
- analyse the composition of world trade;
- describe the regional developments of world trade
- explain the role of international organisation in world trade; and
- dismiss India's strategies for integrating with the world trade.

10.1 INTRODUCTION

The world economic scenario has undergone rapid changes particularly during the last one decade. The formation of single European market, unification of Germany, economic reforms sweeping across the East European countries as well as some developing countries of the world, disintegration of the Soviet Union, Gulf crisis, rising economic power of Japan and Newly Industrialised Economies in world markets, formation of North American Free Trade Arrangement (NAFTA) & Asia Pacific Economic Cooperation (APEC), gradual opening up of China and last but not the least, the successful conclusion of Uruguay Round of Multilateral Trade Negotiations offer enormously challenging problems as well as opportunities to international business and industry. There are several forces which are moving the world towards a single economy. Advances in transport and Communications, rapid diffusion of technology, global investment and financial flows, emergence of global markets for products and services and the removal of trade barriers are bringing about revolutionary modification of the global economy.

Many aspects of globalisation have captured worldwide attention in the 1990s, including capital flows, migration and environmental issues. But for more than a century, the driving force behind globalization has been the expansion of trade in goods and services. And throughout the early decades of the 21st century, trade will continue to drive global integration, especially among developing countries.

Trade is important to developing countries for four reasons. First, it is frequently the primary means of realising the benefits of globalisation. Countries win when they gain market access for their exports and new technology through international transfers. Second, the continuing reallocation of manufacturing activities from industrial to developing countries offers ample opportunity to expand trade not only in goods, but also in services, which are becoming increasingly tradable. In a few decades, global trade in services may well exceed than the goods. Third, trade is interlinked with the spread of international production networks. Fourth, the growth of trade is firmly buttressed by international institutions of long standing. The World Trade Organisation (WTO) is the latest step in creating a commercial environment more conducive to the multilateral exchange of goo& and services. In this unit, you will learn various issues in world trade, the trends in world trade and role of international organisations in world trade. You will also be acquainted with India's strategies for integrating with the world trade.

10.2 ISSUES IN WORLD TRADE

The most significant issues in world trade include: (a) regionalism vs. multilateralism; (b) liberalisation & globalisation in foreign trade; (c) electronic commerce & electronic data interchange; (d) environmental challenges; etc. Let us learn them in detail.

10.2.1 Regionalism vs. Multilateralism

The growing popularity of regional trading arrangements (RTAs) has ignited concerns that these agreements may undermine the global trading system by discriminating against imports, and investments from non-members. Critics of regional arrangements argue that this practice would violate a core principle of the World Trade Organization; that all imports from member states should face the same barriers to trade. Furthermore, eliminating tariffs on imported goods from some countries but not others can be counterproductive. If imports from high-cost producers inside the agreement replace goods from low-cost producers outside the agreement, the importing country will not only lose tariff revenue but will wind up with imports that cost nearly as much as before.

Supporters of RTAs maintain that these agreements have enabled countries to liberalise trade and investment barriers to a far greater degree than multilateral trade negotiations allow. Proponents also argue that regional agreements have gone beyond trade liberalisation, taking important steps toward harmonising regulations, adopting minimum standards for regulations, and recognising other countries' standards and practices — trends that enhance market access. Some empirical evidence supports each view. Regional arrangements seem to have generated welfare gains for participants, with small, possibly negative spillovers onto the rest of the world.

Should future research suggest that RTAs are having adverse effects on the world trading system; the arrangements will have to be aligned with the non-discrimination principle of the global trading system. One response is to pursue further multilateral trade liberalisation to limit the margin of preference regional agreements create. Policymakers who believe that their country is suffering because of the rise of RTAs elsewhere thus have a further incentive to support multilateral trade liberalisation. A second response is to alter the WTO's agreement on regional trading arrangements to commit members to phase out any preferential market access within a certain time frame. Such a provision ensures that preferential market access is only a temporary feature of any regional initiative. To make this approach more attractive to members of a regional initiative, they could be offered credit for the reduction in trade barriers, which could be used in future multilateral trade negotiations.

A third response is to negotiate a "model accession clause" for the principal types of RTAs. Such clauses contain a set of conditions non-members must meet in order to become members. Meeting the conditions automatically triggers a negotiation for accession to the regional agreement. These clauses could also ensure that the trade barriers non-members face do not rise when an RTA is established or when new members are admitted.

10.2.2 Globalisation and Liberalisation

Globalisation and liberalisation broadly mean integration of different countries with the world. Policymakers in the 21st century will find themselves pursuing development goals in a landscape that has been transformed economically, politically and socially. Two main forces will be shaping the world in which development policy will be defined and implemented. These are globalisation and liberalisation.

At the end of the 20th century, globalisation has already demonstrated that economic decisions, wherever they are made in the world, must take international factors into account. While the movement of goods, services, ideas and capital across national borders is not new, its acceleration in the last decade marks a qualitative break with the past. The world is no longer a collection of relatively autonomous neighbourhoods that are only marginally connected by trade. The International economic order is evolving into a highly integrated and electronically networked system.

The successful completion of the Uruguay Round of multilateral trade negotiations and the growing popularity of RTAs have created considerable momentum for integrating countries further into the global trading system. Policymakers in developing and industrial countries now confront the task of maintaining this momentum. Concerns about the effects of trade have received much attention in recent years, including worries over inequality, poverty, the environment, and the financing of social safety nets. Even though the empirical evidence almost always fails to validate these concerns, policymakers have become increasingly sensitive to them. In the past 15 years, largely because of the environment created by the GATT and WTO, many developing economies have unilaterally adopted structural changes and economic reforms including reducing their trade barriers. The trend toward outward-oriented trade policies is not confined to any one continent or region, and it predates the completion of the Uruguay Round.

10.2.3 Electronic Commerce and Electronic Data Interchange

Electronic commerce is re-creating the world's economy as liberalisation and increased competition transform information-based industries. The open global economy places a premium on characteristics inherent to electronic commerce —the ability to respond to markets without concern for geography and time through a medium that is ubiquitous and instantaneous. The rate at which electronic commerce brings benefits to any particular country will depend on how fast it liberalises its market and adopts a predictable trade regime — the essential conditions for encouraging the enormous investments in technology required by electronic commerce.

Electronic data interchange normally means paperless communication. Some of the industrial countries have started insisting that the documents that are necessary for international trade may be sent to them through EDI. In fact some of them have gone to the extent of saying "No EDI No Trade": The least developed countries and developing countries may find it difficult to implement electronic data interchange mainly because of the fact that they do not possess the necessary infrastructure in the area of information technology which will enable them to deal electronically with their trade partner.

Since 1998, WTO members have begun to explore how the World Trade Organisation should deal with the question of electronic commerce. Given the unique nature of this emerging mode of delivering products (goods and services), many questions remain to be answered.

Products which are bought and paid for over the Internet but are delivered physically would be subject to existing WTO rules on trade in goods: But the situation is more complicated for products that are delivered as digitalised information over the Internet, as -a variety of issues arise relating to the appropriate policy regime.

Both the supply of Internet access services and many of the products delivered over the Internet fall within the ambit of the General Agreement on Trade in Services, but there is a need to clarify how far particular activities are covered by the WTO members market-access commitments.

Given the undefined nature of electronic commerce and its potential to affect most aspects of trade, WTO members agreed to undertake elements of the Work Programme on Electronic Commerce in a parallel fashion, among the various WTO bodies with different competencies. Various WTO bodies are now examining the trade-related aspects of electronic commerce within the framework identified for the Work Programme on Electronic Commerce.

10.2.4 Environment

The issue of trade and environment was not included for negotiation in the Uruguay Round, but certain environmental concerns were nevertheless addressed in the results of the negotiations. The Preamble to the WTO Agreement includes direct references to the objective of sustainable development and to the need to protect and preserve the environment. The new Agreements on Technical Barriers to Trade and on Sanitary and Phytosanitary Measures take explicitly into account the use by government's measures to protect human, animal and plant life and health and the environment. The Agreement on Agriculture exempts direct payments under environmental programmes from WTO members' commitments to reduce domestic support for agricultural production, subject to certain conditions. The Agreement on Subsidies and Countervailing Measures treats as a non-actionable subsidy government assistance to, industry covering up to 20 per cent of the cost of adapting existing facilities to new environmental legalisation. And both the TRIPs and the Services Agreements contain environment-related provisions.

The WTO Committee on Trade and Environment has brought environmental and sustainable development issues into the mainstream of WTO work. The Committee's first Report notes that the WTO is interested in building a constructive relationship between trade and environmental concerns. Trade and environment are both important areas of policymaking and they should be mutually supportive in order to promote sustainable development.

10.3 TRENDS IN WORLD TRADE

Table 10.1 gives a summary of world merchandise exports, world merchandise production and world gross domestic product (GDP) during 2000-04. After a recession in 1998 (GDP 1.8, merchandise exports 3.6) world economy recovered markedly during 2000-04 and it grew at 3.5 per cent in 2004 which was the strongest annual growth in more than a decade. World merchandise exports trade registered a rise of 9, in 2004, the best annual performance since 2000.

Table 10.1:Growth In the volume of world merchandise exports and production, 2000-04

(Annual percentage change)

	2000-04	2002	2003	2004
World merchandise exports	4.0	3.5	5.0	9.0
Agricultural products	3.0	3.5	3.5	3.5
Fuels and mining products	2.5	1.0	4.5	5.5
Manufactures	4.5	4.0	5.0	10.0
World Merchandise Production	2.0	2.5	3.5	4.0
Agriculture	2.0	1.5	2.5	3.0
Mining	2.0	0.0	3.5	4.0
Manufacturing	2.0	3.0	3.5	4.0
World GDP	2.0	1.5	2.5	3.5

Source: *World Trade Organisation, 2004*

There were many factors which helped in the recovery of economy during 2000-04. Monetary and fiscal policies, very low real interest rates, recovery of stock markets arc some of the factors to mention. The improved business confidence in the state of world economy is reflected by moderate increase in global foreign direct investment (FDI) inflows in 2004. The major beneficiaries of FDI inflows were United States, a number of Asian developing countries and some Latin American countries. During this period, China emerged as one of the investors in natural resources in a number of developing countries. The foreign exchange reserves in these economies were augmented by increased net FDI inflows and private lending, together with a decrease in net official outflows.

The strengthened economic activity and the increase in world fuel prices caused modest domestic inflation in 2004. The increase in the dollar prices of internationally trade goods was approximately 11% in 2004. Prices of fuels and metals rose by 31% and 36% respectively in the year 2004. The jump in the oil prices was caused by rising global demand, decline in readily available reserves and the absence of excess production capacity.

The rise in the prices of agricultural raw materials and beverages was only 3-6%, but the food prices rose by 14%. The rise in the prices of manufactured goods was estimated to be about 8.5% in 2004. The increase in the prices of different commodities depended on product categories, e.g. the prices of iron and steel products surged, while those of computer and telecom equipment fell. The chemicals, particularly the organic chemicals and plastics recorded price increases, much higher than those of all manufactured goods, The recovery of economy in the developing Asian countries can be attributed to the rise in the exports of electronic goods by these countries.

Some of the electronic items exported included digital cameras, mobile phones, semiconductors and personal computers. Office and telecom equipment accounted approximately one third to two thirds of the exports of five Asian economies in 2004 which played an important role in their economic recovery.

10.3.1 World Trade Developments by Region

Table 10.2 gives details of the growth in the value of world merchandise trade while Table 10.3 gives growth in the value of world trade in commercial services by selected region. In 2005, the value of world merchandise exports rose by 13% to US$ 10121 billion, and that of world commercial services exports by 11% to US $ 2415 billion (Table 10.2 and 10.3). All the regions registered a consistent growth in the merchandise trade during 2000-05. The Asian region recorded a real merchandise export growth of 15%, the highest being of Middle East at 36% in 2005. Although the total value of exports by Russian Federation was only US $245 billion, the growth in 2005 was the second highest at 34%. However, it is a slight decline by 1% over the previous year. The growth in the merchandise exports of North America and South and Central America as 12% and 25% respectively in 2005. North America's merchandise exports expanded by about 12 per cent, the similar rate as world trade in 2005.

All regions participated in the deceleration of world merchandise trade, as each major region expanded its real merchandise imports in 2005 less rapidly than in 2004. The expansion of imports of the oil-importing developed countries such as Japan, the European Union (25) and the United States in 2005 was less than half the rate recorded in 2004. Almost all the regions recorded a steep downfall in their merchandise imports during 2000-05. However, Russian Federation region only maintained the steady rate in imports by 28% over the previous year. The import growth of China in 2005 was lower than in 2003 and in 2004. The import growth of North America and South and Central America in 2005 were 14% and 22% respectively. Africa's import growth in 2005 (16%) was lower than its export growth (29%). The recovery in Europe's merchandise trade during 2000-04 actually played an important role in the overall recovery of world merchandise trade during this period, as the region accounts for about 46% of global trade. The trade growth of Europe was sharply reduced in 2005.

Table 10.2: Growth in the value of world merchandise trade by region, 2005

(billion dollars and percentage)

Export						Import				
Value	Annual percentage change					Value	Annual percentage change			
2005	2000-05	2003	2004	2005		2005	2000-05	2003	2004	2005
10121	10	17	21	13	World	10481	10	17	22	13
1478	4	5	14	12	North America	2285	6	8	16	14
351	13	15	29	25	South and Central America	294	7	6	28	12
4353	11	19	20	8	Europe	4521	10	20	20	9
3988	10	19	19	7	European Union(25)	4120	10	20	20	8
342	19	27	36	29	Commonwealth of Independent states (CIS)	216	21	27	31	25
245	18	27	35	34	Russian Federation	125	23	25	28	28
296	15	26	30	29	Africa	248	14	21	29	16
529	15	20	30	36	Middle East	318	15	15	26	19
2773	11	19	25	15	Asia	2599	12	20	27	16
762	25	35	35	28	China	660	24	40	36	18
596	4	13	20	5	Japan	516	6	14	19	14
731	9	19	25	12	Four East Asian Traders	676	8	15	27	14

Source: *World Trade Organisation, 2004*

Table 10.3: Growth in the value of world trade in Commercial Services by region, 2005

(billion dollars and percentage)

Export						Import				
Value	Annual percentage change					Value	Annual percentage change			
2005	2000-05	2003	2004	2005		2005	2000-05	2003	2004	2005
2415	10	15	19	11	World	2361	10	14	18	11
420	5	5	11	10	North America	373	7	9	15	10
68	8	10	16	20	South and Central America	70	5	4	14	22
1233	11	19	19	7	Europe	1119	11	19	16	8
1104	11	19	19	7	European Union(25)	1034	10	19	16	7
40	18	16	23	20	Commonwealth of Independent states (CIS)	58	20	17	24	18
57	13	26	20	12	Africa	66	12	16	19	15
54	11	27	14	12	Middle East	80	11	19	20	11
543	12	10	26	19	Asia	595	10	10	25	15
107	8	8	25	12	China	136	3	3	22	1
81	22	18	34	--	Japan	85	19	19	31	--
175	8	9	18	9	Four East Asian Traders	165	8	8	21	10

Source: *World Trade Organisation, 2004*

The commercial services play an important role in the foreign trade balance in 2005, the value of world merchandise exports rose by 13%, to USS10121 billion, and that of world commercial services exports by 11%, to USA 2415 billion. It can be seen from the Tables 3.2

and 3.3. For both merchandises and commercial services, this represented a marked deceleration in growth if compared with the preceding year. Cross-border commercial services exports expanded during 2003-05 in a step less rapidly than world merchandise exports.

A remarkable feature of world trade in 2005 was the merchandise trade of fuels and that of transportation in the commercial services category. Price rise and commodities demand explain the differences in the merchandise trade and commercial services of different regions.

Primary products and fuels constitute the main merchandise export structure of Africa, the commonwealth of independent states, the Middle East and South Central America, which explains a phenomenal growth of merchandise export and commercial services of these regions with annual growth ranging from 36% (Middle East) to 25% (South Central America) and from 22% (South and Central America and CIS) to 11% (Middle East) respectively. These four regions are the net exporters of fuels which contributed to the fact that their merchandise exports were much higher than their merchandise imports during 2000-05.

The export earnings gave a flip to the import growth in these regions also. Asia, Europe and North America being the net importers of fuels registered an excess of import growth over export growth during 2000-05. However it is to be noted that, for the first time in eights years, North America's merchandise exports rose faster than world exports. This can be attributed to the recovery of agricultural product shipments and the continued strength of capital goods exports (WTR, 2006). The export commercial services of the Asian region were slightly higher than the import commercial services which contributed to adjusting the higher merchandise import in 2000-05.

Check Your Progress A

1) What is globalisation?

…………………………………………………………………………………………………..
……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………………………………………………………………..

2) What do you mean by electronic data interchange?

…………………………………………………………………………………………………..
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

3) What do you mean by the environmental issues in world trade?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

4) State whether following statements are **True** or **False**.

i) Regional trading arrangements would not violate the core principle of WTO.
ii) WTO Committee on Trade and Environment has not brought environmental issue into the mainstream of WTO work.
iii) World GDP and trade slowed down in 2004.
iv) Oil-exporting regions recorded the strongest annual value declines in merchandise exports in 2004.
v) Latin America's GDP and trade growth increased sharply in 2004.

10.3.2 Composition of World Trade

The exported commodities can be classified mainly into three groups, namely, agricultural products, fuels and mining products, and manufactures. Look at the Table 10.4, which shows the world merchandise exports by products in 2004.

Manufactured items are the leading commodity of the world trade followed by fuels and mining products, and agricultural products. It can be seen that the share of exports of agricultural products has been static at 8.8% from the year 2000.

On the other hand, the share of exports of manufactures registered a slight decline from 74.8% in 2000 to 73.8% in 2004. But there has been a corresponding rise in the exports of fuels and mining products during this period which increased from 13.9% in 2000 to 14.4% in 2004. The increase in the exports of fuels resulted due to increasing energy needs.

Table 10.4: World Merchandise Exports by Product, 2004

(US $ billion and percentage)

Items	Value	Percentage Share	
	2004	2002	2004
Total Merchandise*	8907	100.0	100.0
Agricultural Products	783	8.8	8.8
Food	627	6.9	7.0
Raw Materials	156	1.9	1.8
Fuels and Mining Products	1281	13.9	14.4
Ores and Minerals	116	1.1	1.3
Fuels	993	10.8	11.1
Non-ferrous metals	172	2.0	1.9
Manufactures	6570	74.8	73.8
Iron and Steel	266	2.3	3.0
Chemicals	976	9.3	11.0
Other Semi-manufactures	633	7.1	7.1
Machinery and Transport Equipments	3474	41.8	39.0
Textiles	195	2.5	2.2
Clothing	258	3.1	2.9
Other manufactures	769	8.6	8.6

Source: *World Trade Organisation, 2004*

*Includes unspecified products. They accounted for 3% of world merchandise exports in 2004.

Look at Table 10.5, which shows world merchandise exports by region in 2004. The regions which include mainly fuel exporting countries, namely South and Central America, Commonwealth of Independent. States, Africa and Middle East topped in the merchandise exports growth during 2000-04. The CIS registered the highest growth of 37% in 2004 which was followed by Africa, South and Central America and Middle East recording a growth of 32%, 30% and 29% respectively. The growth of the merchandise exports by Asia in 2004 was 25%, China registering the highest growth of 35% in this region. The exports by North America fell in 2002 but revived in the following year by showing a growth of 5% over preceding year which further increased to 14% in 2004. The share of merchandise exports by Europe has been rising during 2000-04 and it was 19% in 2004.

Table 10.5: World merchandise exports by region, 2004.

(US $ billion and percentage)

	Value	Share			
	2004	**1990**	**1995**	**2000**	**2004**
World	8907	100.0	100.0	100.0	100.0
North America	1324	16.6	17.1	19.5	14.7
United States	819	11.6	11.7	12.5	9.2
South and Central America	276	3.1	3.0	3.1	3.1
Brazil	96	0.9	0.9	0.9	1.1
Europe	4031	-	46.5	42.0	45.3
European Union (25)	3714	-	-	38.9	41.7
Commonwealth of independent states (CIS)	266	-	2.2	2.3	3.0
Russian Federation	183	-	1.6	1.7	2.1
Africa	232	3.1	2.2	2.3	2.6
South Africa	46	0.7	0.6	0.5	0.5
Middle East	390	4.1	3.0	4.3	4.4
Asia	2388	21.8	26.0	26.4	26.8
China	593	1.8	3.0	4.0	6.7
Japan	566	8.5	8.8	7.6	6.4
Six East Asian Traders	860	7.8	10.3	10.4	9.7
Memorandum Items:					
Asian (10)	552	4.2	6.4	6.9	6.2
MERCOSUR (4)	136	1.4	1.4	1.3	1.5

Source: *WTO, Annual Report, 2004*

10.3.3 World Trade Developments by Country

One of the striking features of world trade in 2004 was the exceptionally large variation in the growth rates among countries measured in value terms. Consequently, the ranking of the leading traders changed dramatically for both merchandise and commercial services trade. Details of leading exporters and importers in world merchandise trade in 2004 are given in Table 10.6. The leading exporters in world merchandise exports in 20048 are Germany followed by United States, China, Japan, France and Netherlands. The leading importers in World merchandise imports in 2004 are USA followed by Germany, China, France, UK and Japan.

Table 10.6: Leading Exporters and Importers in World Merchandise Trade, 2004

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Rank	Importers	Value	Share
1	Germany	912.3	10.0	1	United States	1525.5	16.1
2	United States	818.8	8.9	2	Germany	716.9	7.6
3	China	593.3	6.5	3	China	561.2	5.9
4	Japan	565.8	6.2	4	France	465.5	4.9
5	France	448.7	4.9	5	United Kingdom	463.5	4.9
6	Netherlands	358.2	3.9	6	Japan	454.5	4.8
7	Italy	349.2	3.8	7	Italy	351.0	3.7
8	United Kingdom	346.9	3.8	8	Netherlands	319.3	3.4
9	Canada	316.5	3.5	9	Belgium	285.5	3.0
10	Belgium	306.5	3.3	10	Canada	279.8	2.9
11	Hong Kong, China	265.5	2.9	11	Hong Kong, China	272.9	2.9
	Domestic Exports	20.2	0.2		Retained Import	27.3	0.3
	Re-exports	245.6	2.7				
12	Korea, Republic of	253.8	2.8	12	Spain	249.3	2.6
13	Mexico	189.1	2.1	13	Korea, Republic of	224.5	2.4
14	Russian Federation	183.5	2.0	14	Mexico	206.4	2.2
15	Taipei, Chinese	182.4	2.0	15	Taipei, Chinese	168.4	1.8
16	Singapore	179.6	2.0	16	Singapore	163.9	0.91.7
	Domestic Exports	98.6	1.1		Retained imports	82.8	
	Re-exports	81.0	0.9				

Source: *WTO, Annual Report, 2004*

During 2000-04 China recorded an explosive merchandise exports growth and replaced Japan as the third largest exporter. Russian Federation surpassed Chinese Taipei and Singapore to become the world's fourteenth largest exporter. The expansion of the exports of China and Russian Federation was more than one-third in 2004. Republic of Korea registered an increase of 31 % in its exports becoming the twelfth largest exporter in the world in 2004. During this period the ranking of France, Belgium and Chinese Taipei improved among the top 20 importers.

Table 10.7: Leading Exporters / Importers in World Trade in Commercial Services, 2004

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Rank	Importers	Value	Share
1	United States	318.3	15.0	1	United States	260.0	12.4
2	United Kingdom	171.8	8.1	2	Germany	193.0	9.2
3	Germany	133.9	6.3	3	United Kingdom	136.1	6.5
4	France	109.5	5.1	4	Japan	134.0	6.4
5	Japan	94.9	4.5	5	France	96.4	4.6
6	Spain	84.5	4.0	6	Italy	80.6	3.8
7	Italy	82.0	3.9	7	Netherlands	72.4	3.5
8	Netherlands	73.0	3.4	8	China	71.6	3.4
9	China	62.1	2.9	9	Ireland	58.4	2.8
10	Hong Kong, China	53.6	2.5	10	Canada	55.9	2.7
11	Belgium	49.3	2.3	11	Spain	53.7	2.6
12	Austria	48.3	2.3	12	Korea, Republic of53.7	49.6	2.4
13	Ireland	46.9	2.2	13	Belgium	48.3	2.3
14	Canada	46.8	2.2	14	Austria	47.1	2.2
15	Korea, Republic of	40.0	1.9	15	India	40.9	2.0
16	India	39.6	1.9	16	Singapore	36.2	1.7

Source: *WTO, Annual Report, 2004*

Table 10.7 shows the shares of the leading exporters and importers in commercial services in world trade in 2004. In the commercial services trade growth, United States emerged as the leader both as exporter and importer in 2004. The commercial services trade surplus of the US in 2004 compensated to some extent its merchandise trade deficit. In spite of that, the United States had a merchandise trade deficit with all seven major regions. US's leading trading partner (exports and imports combined) is Asia. Its trade has surged markedly since the middle of the last decade. Although the share of Asia as a whole in US imports decreased from 42% in 1995 to 37% in 2004, the share of China more than doubled from 6.2% to nearly 14% during this period. The main reason of the decline of Asia's share in US imports was the rise in US fuel imports to $206 billion in 2004, mainly from South and Central America, Africa and Middle East.

The economic growth in South and Central America of about 6% was remarkably strong in 2004. It contributed to the expansion of its exports and imports. Commercial services trade also witnessed growth, but it was only half that of the merchandise trade and less than the growth rate of world trade in commercial services.
Europe's merchandise exports and imports in dollar value increased by about 20% in 2004. In the preceding year also it was almost the same. There was an increase of about 15% in the commercial services trade in 2004 which was less than Europe's merchandise trade and less than in the year 2003. The merchandise and commercial services trade of the Commonwealth of Independent States expanded much faster than global trade in 2004. The merchandise exports and imports recorded an increase of 35 per cent and 30 per cent respectively, whereas the rise in the commercial services trade was about 20%.

The higher volumes of oil exported and sharply higher oil prices pushed up the merchandise trade of Africa and Middle East in the year 2004. The African oil production increased by about 10% during this period whereas Middle East recovered it production by about 7%.

Merchandise and commercial services trade in Asia witnessed a sharp expansion, faster than world trade average. Asia's merchandise exports increased by about one quart $2385 billion, and its commercial services exports by 21% to $430 billion. It may be mentioned that the expansion in Asia's dollar import value was much faster than the export value for both merchandise and commercial services trade.

10.4 ROLE OF INTERNATIONAL ORGANISATIONS IN WORLD TRADE

There are a few international organisations such as World Trade Organisation, International Monetary Fund, World Bank, United Nations Conference on Trade and Development, Asian Development Bank, Economic and Social Commission for Asia and the Pacific, United Nations Industrial Development Organisation, Food and Agriculture Organisation, Organisation of the Petroleum Exporting Countries, Organisation for Economic Cooperation and Development, International Chamber of Commerce, The Commonwealth, etc. which are directly or indirectly concerned with a promotion of world trade. Apart from international organisations, there are a large number of regional economic groups which are making efforts in the promotion of regional as well as world trade. Some of the important ones include European Union, North America Free Trade Area, Association of South East Asian Nations, South Asian Association of Regional Cooperation, etc.

Among them World Trade Organisation is the only international organisation dealing with the global rules of trade between nations. It came into existence in 1995. One of the youngest of the international organisations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War. GATT and the WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth. Its main function is to ensure that trade flows smoothly, freely, fairly and predictably. This is achieved by:

i) administering trade agreements
ii) acting as a forum for trade negotiations
iii) settling trade disputes
iv) national trade policies
v) assisting developing countries in trade policy issues, through technical assistance and training programmes
vi) cooperating with other international organisations.

The WTO has more than 130 members, accounting for over 90 per cent of the world trade. Over 30 others are negotiating membership.

3.5 INDIA AND WORLD TRADE

Despite the fact that India is far better placed than a number of countries in the world terms of a large domestic market, a broad-based industrial infrastructure, a large pool trained manpower, impressive entrepreneurial and managerial skills, abundant supply cheap labour, and adequate natural resources, etc., it could not play the role of a glob marketer because of its inward-looking economic management policies pursued for decrease.

At a time when world trade expanded fast, India missed its export opportunities because of its excessive emphasis on import substitution, sheltered markets and a controlled economy. The situation did not change until 1991 when the Government took a bold decision to integrate the Indian economy with the world economy by following a policy of liberalisation. Faced with a precarious foreign exchange situation, adverse balance of payments and huge external debt, the Government of India adopted a comprehensive programme of macro-economic stabilisation and structural adjustments beginning from June 1991. The programme included far-reaching trade, fiscal, monetary and industrial policy measures with a major thrust on improvement of competitive efficiency of Indian industries by utilising foreign investment ' and technology to a much greater degree than in the past.

Basically, the objective of reform measures was to dismantle controls on industry, external trade and foreign investments and to establish a climate of trust between the government and business & industry. The focus of the new policy is more on free play of market forces instead of State control in determining the country's future economic growth and development. Further, for the first time, the government has come out in favour of outward-oriented trade and industrial policies where exports assume prime importance.

The trade policy reforms also aimed to create an environment to enable increase in exports at a rapid pace, raise India's share in world exports and find a lasting solution to the balance of payments crisis.

During 1950, India accounted for about 1.8 per cent of world trade with its exports accounting for 1.85 per cent and imports for 1.71 per cent. After gradually declining to 0.57 per cent by 1980, India's share improved marginally to 0.63 per cent by 1985. The reason for improvement in the share was that while world trade declined in the period 1980-85, India's trade continued to grow. However, it came down to 0.53 per cent by 1991. The first half of the nineties witnessed a sharp increase in India's trade relatively to the growth of world trade, and India's share improved to 0.61 per cent in 1994 and continues to be at this level even now.

After a setback in 1991-92 when exports declined by 1.45 per cent and imports declined by 19.30 per cent in dollar terms, revival of lndia's exports and imports started during 1992-93 and Indian exports registered a growth of 3.75 per cent over 1991-92 performance. This was further strengthened during 1993-94 when exports achieved a substantial growth rate of 19.97 per cent in dollar terms and 30 per cent in rupee terms. During 1994-95, exports increased to Rs. 82,674 crore ($ 26330 million) from Rs. 69,751 crore ($ 22238 million) in 1993-94, registering growth of over 18 per cent both in rupee terms and dollar terms. During this year India's imports increased to Rs. 89,970 crore ($ 28654 million) from Rs.73,101 crore ($ 23306 million), registering a growth rate of about 23 per cent both in rupee and dollar terms. Again in 1995¬96, India registered impressive growth rate both in its exports and imports - the growth being 20.77 per cent in respect of its exports and 28.01 per cent in respect of imports in dollar terms. In 1996-97 there was a decline in the growth rates of exports and imports as compared to the previous year. Exports, during this year, increased only by 5.26 percent and imports by 6.69 percent in dollar terms. However, the growth measured in terms of rupee was higher at about 12 per cent during this year. After having registered a marginal growth rate in 1996-97, India's exports and imports declined in 1997-98 in dollar terms. The negative growth rate registered in respect of exports was 3.08 per cent and imports declined marginally by 0.83 per cent. Still in terms of rupees, both exports and imports registered a marginal increase - exports (1.51%) and imports (4.07%). Many reasons have been attributed to the poor export performance.

Primarily it has been devaluation of East Asian Currencies which have reduced the competitiveness of Indian export, particularly in exports like plantations, textiles and chemicals. The general slowdown in industrial production has also been a contributing factor. The position improved in 1998-99, with exports rising from $32440.81 million (Rs. 130101 crore) to (Rs 141604 crore) $33641.46, registering a growth rate of 3.70 per cent and imports rising from $3 8807.40 million (Rs. 154176 crore) to $41886.62 million (Rs 176099 crore), registering a growth rate of 7.93 per cent. In terms of rupee the growth rates were quite impressive 17.40 per cent in respect of exports and 21.81 per cent in respect of imports during 1998-99 over the previous year. The recovery of India's foreign trade, both in exports and imports continued consistently during 2000-06and in the year of 2004-05the export reached R. 361879 crores and imports Rs.490532 crores.

10.6 STRATEGY FOR INTEGRATING INDIA WITH THE WORLD

India adopted a comprehensive programme of macro-economic stabilisation and structural adjustments from June 1991 with the objective to dismantle controls on industry, external trade and foreign investments. However, because of certain problems faced within the country, these reforms could not be taken to their logical end in different spheres of economic activity. As a result of this half-hearted effort, India has not been able to achieve the desired results in its external trade and foreign direct investment.

A sustained rapid growth in exports remains the most crucial ingredient for ensuring long-term external viability. Vigorous efforts will, therefore, be required to reverse the current deceleration and achieve a rapid growth of exports, especially in the context of the difficult international trading environment brought about by the economic and financial crisis in East Asia. It is expected that in the East Asian countries there is a likelihood of some re-orientation of economic activity away from capital-intensive industries towards labour-intensive ones, which will further intensify competition in markets of importance to us.

To achieve our export targets in light of the difficult external environment, we should also endeavour to reduce various transaction costs faced by our exporters. Our exporters indicate that transaction costs emanating from implementation of various rules and regulations pertaining to obtaining licences, customs clearances, refund of duties, infrastructural constraints, etc. impinge adversely on export performance. Although progress has already been made to simplify, rules and regulations, further efforts need to be made to smoothen export transactions.

Petroleum and its products account for a relatively large share of the total import bill. International prices of these products have softened significantly, reflecting general world recessionary conditions; but there is considerable uncertainty surrounding the future movements of international prices of petroleum. If the trend were to be reversed, there are significant downside risks to the balance of payment. Therefore, efficiency of use must be encouraged and remaining distortionary policies in the energy sector need to be phased out.

Tourism in the past had been a major source of buoyance for invisible earnings. However, more recently, growth of tourist arrivals and earnings have not been so healthy. This has occurred despite efforts at the Centre and State levels to accelerate the growth of tourism in India. These efforts need to be intensified. Airport system and procedures need to be greatly improved.

There is considerable potential for much higher direct foreign investment, provided we maintain a positive stance towards FDI. In this regard, the Government has to accord the highest priority to eliminating red tapism, which continues to be cited as the main complaint of potential foreign investors. Equally importantly, policy impediments in the infrastructure sectors, which can absorb large FDI, need to be ironed out on a priority basis. If India wants to succeed in international arena and to be an important player in the international market, there is need to improve various elements of basic infrastructure at the international level.

The financial crisis in East Asia has re-emphasised the significant challenges and risks involved in moving to free international capital movements. The lessons of the crisis demonstrate that capital account liberalisation should be carefully calibrated to minimise the risks of disruption against the backdrop of new challenges and increased uncertainty.

Check Your Progress B

1) Enumerate 5 major exporters and importers of world merchandise trade in 1998.

……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………

2) Enumerate four main functions of WTO.

……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………

3) Enumerate India's three strategies for integrating with the world trade.

……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………
……………………………………………………………………………………

4) State whether following statements are **True** or **False**.

   i) USA is the second leading exporter and importer in world merchandise trade in 2004.
   ii) UK is the second leading exporter in World trade in commercial services in 2004.
   iii) The share of manufactured items in the total merchandise exports has been increasing.
   iv) Middle East is the largest contributor of mining products in the year 2004.
   v) In India transaction costs impinge adversely on export performance.

10.7 LET US SUM UP

The world economic scenario has undergone rapid changes particularly during the last one decade. Economic Reforms sweeping across the East European countries as well as some developing countries of the world are compelling the countries the world over to adopt to the policies of globalisation. Though India took bold initiative to introduce economic reforms since June 1991, it has not been able to achieve the desired results in the area of external trade and foreign direct investments. India's share in world trade which was around 2 per cent in 50s has come down to 0.6 per cent currently. We have not been able to maintain the desired growth in our exports and imports during the past couple of years.

There is need to switch our exports from low-value addition items or what is called traditional items of export to high-value addition items. The difficulties that are being faced by our exporters with regard to poor quality image, high costs, infrastructural bottlenecks and uncertainties, procedural complexities & institutional rigidities need to be addressed on priority basis. There is need to introduce second generation economic reforms immediately if India wants to be a global player.

10.8 ANSWERS TO CHECK YOUR PROGRESS

A4	i) False	ii) False	iii) True	iv) True	v) False
B4	i) False	ii) True	iii) True	iv) False	v) True

10.9 TERMINAL QUESTIONS

1. Describe the current world trade scenario and the issues involved in it.
2. Describe briefly various important features of the world trade by region.
3. Explain briefly leading exporters and importers of the world in merchandise trade.
4. Write briefly about the role of World Trade Organisation in world trade.
5. What were the objectives of India's economic reforms? Suggest India's strategies for integrating with world trade.