UNIT 3 INDIA AND WORLD TRADE

Structure

3.0 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
- discuss India's strategies for integrating with the world trade.

3.1 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 goods 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.

3.2 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.

3.2.1 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 counter productive. 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.

3.2.2 Globalisation and Liberalisation

Globalisation & 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.

3.2.3 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.

3.2.4 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 governments 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.

3.3 TRENDS IN WORLD TRADE

World gross domestic product (GDP) and trade growth slowed down in 1998 as the Asian crisis deepened and its repercussions were felt increasingly outside Asia. The volume of world merchandise exports grew by 3.5 per cent in 1998 after an outstanding growth rate of 10.5 per cent in 1997. This export volume growth rate compares with an average growth rate of 6.0 per cent in the period 1990-95. The deceleration in global output growth was less pronounced than for international trade in 1998, as world GDP rose by 2 per cent. Details of growth in the volume of world merchandise exports and GDP during 1990-98 are given in the Table 3.1 below:

Table 3.1: Growth in the Volume of World Merchandise Exports and GDP, 1990-98

(Annual percentage change)

Year	GDP	Merchandise Exports
1990	2.5	5.0
1991	0.8	3.8
1992	0.8	4.3
1993	0.6	3.9
1994	2.0	10.1
1995	2.0	8.6
1996	2.8	5.3
1997	3.1	10.7
1998	1.8	3.6

Recent cyclical fall in commodity prices, which started in early 1997, continued unabated throughout 1998. Oil prices fell by 30 per cent and non-oil commodity prices by 20 per cent in 1998, with very different implications for various countries and regions of the world. While the share of primary commodities (including processed food) in world merchandise trade was only slightly above one-fifth in 1997, it was more than two-thirds for the Middle East, Africa and Latin America (excluding Mexico). In a sample of 91 developing countries, 67 of them recorded a share of primary products in total merchandise exports above 50 per cent, reaching as high as 95 per cent in some cases.

Prices of internationally traded manufactured goods and services also have declined in 1998, though considerably less than those of primary products. Exchange rate variations, which were large in the course of 1998, can have a major impact on the dollar prices of international traded goods. However, as the dollar's average annual appreciation vis-à-vis the ECU (now the Euro) was considerably smaller in 1998 than in 1997, West European export prices measured in dollar terms decreased far less last year than in 1997. This smaller decrease in Europe's export prices more than offset the stronger price declines in all other regions. Therefore, despite the accelerated fall in commodity prices in 1998, the global price decline for all merchandise exports was 5.5 per cent, which was somewhat less pronounced than in 1997.

3.3.1 World Trade Developments by Region

Trade performance in 1998 differed widely among regions. While oil-exporting regions recorded the strongest annual value declines in merchandise exports, countries directly affected by the Asian financial crisis reported the strongest import decline. The contractionary forces of the Asian crisis and falling commodity prices, were, however, less damaging because of by the robustness of continued economic growth in the United States and strengthened demand in Western Europe. The booming U.S. economy stimulated intra-NAFTA trade, and sustained exports and output in other regions.

Table 3.2 gives details of the growth in the value of world merchandise trade by region while Table 3.3 gives growth in the value of world trade in commercial services by selected region. As will be seen from these tables in value terms, North America's merchandise exports decreased slightly in 1998, as volume growth decelerated and prices declined. North America's merchandise imports, however, increased by 4.6 per cent in value terms, leading to a widening of the region's merchandise trade deficit. The evolution in North America's commercial services trade mirrored that of merchandise trade, with exports increasing only very slightly and imports rising by 6 per cent, in 1998 reducing further the region's surplus in services trade.

Table 3.2: Growth in the Value of World Merchandise Trade by Region

(Billion dollars and percentage)

Exports					Imports			
Value	Annual percentage change				Value	Annual percentage change		
1998	1990-98	1997	1998		1998	1990-98	1997	1998
5270	5.7	3.4	-1.9	World	5465	5.9	3.1	-1.3
897	7.0	9.2	-0.7	North America	1152	7.6	10.3	4.6
276	8.3	10.1	-1.5	Latin America	340	13.7	18.9	5.1
2348	4.6	-0.6	2.9	Western Europe	2367	4.2	-1.1	4.9
214	7.1	3.7	-4.7	Transition Economies	242	6.2	6.4	-1.8
107	0.5	2.0	-15.2	Africa	134	4.7	5.8	2.6
1293	7.2	5.3	-6.2	Asia	1986	5.5	0.4	-17.8

Source: World Trade Organisation, 1999.

Latin America's GDP and trade growth slowed sharply in 1998 from the exceptionally high levels recorded in 1997. Falling commodity prices, a slowdown in private capital inflows in the second half of 1998 and weaker export markets within the region and in Asia contributed to this development. Marked differences in economic performance occurred for the two largest economies in the region, with trade and output growth slowing strongly in Brazil, while Mexico's trade and output performance remained well above the regional average. Better access to the rapidly expanding U.S. market and a higher share of manufactures in its merchandise exports are among the factors which explain why Mexico's trade and output developments were, for the fourth year in a row, superior to those of the other Latin American economies.

Table 3.3: Growth in Value of World Trade in Commercial Services by Selected Region

(Billion dollars and percentage)

Exports					Imports			
Value	Annual percentage change				Value	Annual percentage change		
1998	1990-98	1997	1998		1998	1990-98	1997	1998
1320	7	4	0	World	1305	6	3	1
270	8	8	2	North America(a)	201	6	10	6
53	8	8	5	Latin America	69	9	17	4
636	5	2	6	Western Europe	593	5	0	7
27	5	1	-3	Africa	38	4	4	0
255	9	5	-15	Asia	320	8	2	-11

(a) Excluding Mexico

Source: World Trade Organisation, 1999.

Latin America's merchandise export value, on the other hand, decreased by 1.5 per cent in 1998, as the expansion of Mexico's exports was more than offset by the decline in exports of all other Latin American countries combined. In particular, Ecuador and Venezuela, the two major oil exporting countries in Latin America, experienced the strongest setback, with decreases in excess of 20 per cent.

Latin America's outstandingly strong import growth performance throughout the 1990-98 period became less dynamic in 1998, although at about 5 per cent, this region, together with Western Europe, recorded the highest import growth rate of any region. Mexico's import growth rate of 14 per cent contrasted with the relative stagnation of imports in other Latin American countries. As Mexico has enjoyed an above average rate of growth in trade for a number of years, its share of total trade in the region has risen considerably, accounting for 40 per cent in 1998 — merchandise exports share was 43 per cent and that for merchandise imports was 38 per cent.

Stronger demand growth in Western Europe contrasted with a weaker global economy in 1998, leading to an import expansion which, for the first time since 1992, exceeded the region's export growth rate. Western Europe was the only major region which recorded an increase in the dollar value of its exports. Imports in value terms increased by about 5 per cent, very close to the expansion recorded by both North America and Latin America. The share of Western Europe in world merchandise trade recovered to 44 per cent following a marked decrease between 1990 and 1998. Commercial services exports expanded by 6 per cent in 1998, and commercial services imports by 7 per cent.

The interaction between trade and output in the Transition economies in recent years has been unique among the major regions. Sluggish overall economic activity, including a decline in regional output in recent years, has been accompanied by export and import growth rates above the global average. Merchandise imports have expanded significantly faster than world trade in both real and nominal dollar values. Due to the sharp decline in the dollar export prices, however, the dollar export value of the region decreased slightly.

The commercial services trade of the transition economies has been far less dynamic than merchandise trade in the last two years, with export decreasing slightly and imports rising moderately. The Russian Federation, the region's largest commercial services trader, reported a decline in exports and imports of about 7 per cent in 1998. For Central and Eastern Europe, an increase of 4 per cent was recorded last year.

Africa and the Middle East have suffered the brunt of the decline in primary commodity prices in 1998. Despite a moderate recovery in Africa's GDP — linked to the recovery of agricultural output — Africa's trade remained sluggish. Export values in the region decreased by about 15 per cent in 1998. Oil-exporting African countries recorded a decrease in exports exceeding one-quarter. Import values declined only slightly in 1998. Data on commercial services indicate decreases in the value of both exports and imports. As was observed for merchandise trade, exports of services decreased faster than imports.

Being the region with the highest share of fuels in its merchandise exports, the Middle East recorded the strongest contraction in export value of all regions. Exports for the region as a whole shrank by one-fifth. The decline in the dollar export value was, however, associated with an increase in the export volume. The increase in the supply of oil from the region in a period of weak demand has contributed to a steep erosion of oil prices. The region's merchandise imports adjusted to some degree to lower export revenues, fell by about 5 per cent in 1998.

Asia recorded the strongest import contraction of all regions — the dollar value of Asia's imports registered an unprecedented decline of about 18 per cent. As intra-Asian trade accounts for about one half of Asia's merchandise exports, the contraction of the area's imports also held down export growth, which fell by 6.0 per cent in 1998.

Check Your Progress A

1) What is globalisation?

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2) What do you mean by electronic data interchange?

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

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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 1998.

   iv) Oil-exporting regions recorded the strongest annual value declines in merchandise exports in 1998.

   v) Latin America's GDP and trade growth increased sharply in 1998.

3.3.2 Composition of World Trade

Manufactured items are the leading commodity of the world trade. The share of manufactured items in world merchandise exports has been growing steadily. Look at Table 3.4 which shows the world merchandise exports by product. The share of manufactured items in the total merchandise exports has increased from 70.6% in 1990 to 76.1% in the year 1998. The share of agricultural products has declined from 12.2% in 1990 to 10.5% in 1998. The share of mining products has also gone down substantially from 14.3% in 1990 to 9.5% in 1998. The decrease in mining products has been witnessed due to substantial decrease in fuels from 10.5% in 1990 to 6.5% in 1998. The share of majority of products of manufactured items has increased. It shows that higher the value addition in the products more is the rate of growth in the exports.

Look at Table 3.5 which shows world merchandise exports by region. In the year 1998, Western Europe was the leading contributor of manufactured items (47%) followed by Asia (26.8%), North America (17.4%), Latin America (3.9%) and Central & Eastern Europe/Baltic States/CIS (3.1%). Western Europe is the largest contributor of agricultural products constituting (42.7%) followed by North America (18.1%), Asia (18.0%), Latin America (11.9%) and Central & Eastern Europe/Baltic States/CIS (4.5%). In mining products also Western Europe is the leading contributor constituting (24.2%) followed by Middle East (18.2%), Asia (16.5%), Central & Eastern Europe/Baltic States/CIS (11.8%), North America (10,3%) and Latin America (10.1%).

Table 3.4: World Merchandise Exports by product 1998

(Billion & Percentage)

Items	Value 1998	Share 1990	Share 1998
All Products	5270	100	100
Agricultural Products	553	12.2	10.5
Food	443	9.3	8.4
Raw Materials	110	2.9	2.1
Mining Products	502	14.3	9.5
Ores & Minerals	58	1.6	1.1
Fuels	344	10.5	6.5
Non Ferrous Metals	100	2.1	1.9
Manufactures	4010	70.6	76.1
Iron & Steel	141	3.1	2.7
Chemicals	503	8.7	9.5
Other Semi Manufactures	399	7.8	7.6
Machinery & Transport equipment	2166	35.8	41.1
Automotive Product	525	9.4	10.0
Office & Telecom equipment	681	8.8	12.9
Other Machinery & Transport equipment	959	17.6	18.2
Textiles	151	3.1	2.9
Clothing	180	3.2	3.4
Other Consumer goods	471	8.9	8.9

Source: WTO Annual Report, 1999.

(All products also include unspecified products which accounted for about 4% of world merchandise exports in 1998).

Table 3.5: World Merchandise Exports by Region 1998

	Agricultural Products	Mining Products	Manufactures
Western Europe	236.17 (42.7)	121.27 (24.2)	1882.99 (47.0)
Asia	99.27 (18.0)	83.06 (16.5)	1072.95 (26.8)
North America	99.87 (18.1)	51.85 (10.3)	699.08 (17.4)
Latin America	65.59 (11.9)	50.52 (10.1)	157.72 (3.9)
Central & Eastern Europe/ Baltic States/CIS	24.99 (4.5)	59.10 (11.8)	125.82 (3.1)
Africa	20.87 (3.8)	44.68 (8.9)	33.74 (0.8)
Middle East	5.96 (1.1)	91.42 (18.2)	37.96 (0.9)
World	552.71	501.90	4010.26

Source: WTO Annual Report, 1999.

3.3.3 World Trade Developments by Country

One of the striking features of world trade in 1998 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 1998 are given in Table 3.6. The leading exporters in world merchandise exports in 1998 are USA followed by Germany, Japan, France, UK & Italy. The leading importers in World merchandise imports in 1998 are USA followed by Germany, Japan, UK, France, Hong Kong and China.

Table 3.6: Leading Exporters and Importers in World Merchandise Trade, 1998

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Rank	Importers	Value	Share
1	United States	688.7	12.6	1	United States	899.0	16.0
2	Germany	511.7	9.4	2	Germany	441.5	7.8
3	Japan	421.0	7.7	3	Japan	338.8	6.0
4	France	289.5	5.3	4	United Kingdom	308.2	5.5
5	United Kingdom	281.6	5.2	5	France	268.4	4.8
6	Italy	238.2	4.4	6	Hong Kong, China	213.3	3.8
7	Canada	214.4	3.9		retained imports	52.4	0.9
8	Netherlands	193.8	3.5	7	Italy	208.1	3.7
9	Hong Kong, China	188.2	3.4	8	Canada	200.9	3.6
	domestic exports	27.3	0.5	9	Netherlands	177.2	3.1
	re-exports	160.9	2.9	10	Belgium-Luxembourg	155.8	2.8
10	China	182.7	3.3	11	Korea, Rep. of	144.6	2.6
11	Belgium-Luxembourg	168.2	3.1	12	China	142.4	2.5
12	Korea, Rep. of	136.2	2.5	13	Singapore	132.4	2.4
13	Singapore	125.0	2.3		retained imports	79.9	1.4
	domestic exports	72.4	1.3	14	Spain	122.7	2.2
	re-exports	52.6	1.0	15	Mexico	113.3	2.0
14	Taipei, Chinese	121.9	2.2				
15	Mexico	110.4	2.0				

Source: World Trade Organisation, 1999.

The reversal of capital flows in 1997-1998 forced many East Asian economies to cut back sharply on their imports in 1998. Of the 30 leading importers of the world eleven registered negative growth rate in their imports. The republic of Korea registered unprecedented negative growth rate of 33 percent, followed by Indonesia 34 per cent, Thailand 33 per cent and Malaysia 26 per cent. Retained imports of Hong Kong, China and Singapore also contracted in the above range, despite their current account surplus position and stronger internal demand.

Contractionary conditions in Japan and the fall in oil prices led to a fall of 17 per cent in the dollar value of imports, to a level below that of Germany, the United Kingdom and France. In general, Canada, Mexico and many West European countries improved their position among the leading importers and exporters, while those of Asian countries and Russia deteriorated.

Fuel exporters generally recorded the strongest decline in merchandise export value among all the countries. For a number of them, the dollar value of export earnings decreased by one-quarter to more than one-third in 1998. These countries include Saudi Arabia, Libya, Nigeria and Venezuela. Oil exporters and the East Asian traders lost, while Mexico and most West European countries gain in market share.

In the year 1998 China's merchandise exports exceeded those of Hong Kong (China) for the first time. The contraction of Russia's trade under the impact of the fall in fuel prices and the outbreak of the financial crisis have lowered Russia's exports to below those of Ireland and its imports to less than those of Poland.

Despite the decrease in the nominal value of world trade, a few countries continued to expand their exports by more than 15 per cent. This group comprises Ireland, the Philippines, Hungary and Costa Rica. Throughout the 1990-98 period these countries expanded their export two times faster than the global average.

Table 3.7: Leading Exporters/ Importers in World Trade in Commercial Services, 1998

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Rank	Importers	Value	Share
1	United States	229.9	17.5	1	United States	150.1	11.6
2	United Kingdom	85.5	6.5	2	Japan	122.1	9.4
3	France	80.3	6.1	3	Germany	120.1	9.3
4	Germany	75.4	5.7	4	Italy	70.1	5.4
5	Italy	71.7	5.5	5	United Kingdom	68.6	5.3
6	Japan	68.1	5.2	6	France	62.1	4.8
7	Netherlands	48.5	3.7	7	Netherlands	43.8	3.4
8	Spain	43.6	3.3	8	Canada	35.9	2.8
9	Hong Kong, China	37.3	2.8	9	Belgium-Luxembourg	32.1	2.5
10	Belgium-Luxembourg	34.0	2.6	10	China	30.1	2.3
11	Singapore	30.4	2.3	11	Korea, Rep. of	29.0	2.2
12	Canada	29.3	2.2	12	Austria	27.4	2.1
13	Austria	28.5	2.2	13	Spain	24.3	1.9
14	Switzerland	25.6	2.0	14	Taipei, Chinese	24.1	1.9
15	Korea, Rep. of	25.4	1.9	15	Hong Kong, China	22.7	1.8

Source: World Trade Organisation, 1999.

The United States consolidated its position as the world leading trader in 1998, accounting for nearly one-sixth of merchandise imports and services exports and one-eighth of merchandise exports and services imports.

Although price variations in commercial services are estimated to be far smaller than those for merchandise trade in 1998, the variations in the performance of individual services trader were at least as large as those for merchandise traders. Among the leading commercial services exporters, the strongest declines were recorded by Singapore and Malaysia, while

India, Turkey and Spain recorded the highest increase — the growth being 22, 17 and 10 per cent respectively. So far as imports of services is concerned Malaysia, Thailand, Indonesia and Republic of Korea had the highest negative growth ranging from 21 per cent to 32 per cent. Spain, India and Ireland were the only three countries which recorded more than 10 per cent of growth in their imports of services in 1998 — the individual figure being 12 per cent, 12 per cent and 20 per cent respectively. Details of leading exporters and importers in world trade in commercial services in 1998 are given in Table 3.7. The leading exporters of commercial services in 1998 are USA followed by UK, France, Germany, Italy and Japan. The leading importers of commercial services in 1998 are USA followed by Japan, Germany, Italy, UK and France.

3.4 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 in the 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) reviewing 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 in terms of a large domestic market, a broad-based industrial infrastructure, a large pool of training manpower, impressive entrepreneurial and managerial skills, abundant supply of cheap labour, and adequate natural resources, etc., it could not play the role of a global marketer because of its inward-looking economic management policies pursued for decades. 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 India'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 per cent and imports by 6.69 per cent 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 slow down 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 $38807.40 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.

3.6 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 reorientation 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.

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2) Enumerate four main functions of WTO.

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

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

   i) USA is the second leading exporter and importer in world merchandise trade in 1998.

   ii) UK is the second leading exporter in World trade in commercial services in 1998.

   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 1998.

   v) In India transaction costs impinge adversely on export performance.

3.7 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 maintained 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.

3.8 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

3.9 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.

SOME USEFUL BOOKS/REPORTS

Centre for Monitoring Indian Economy, Foreign Trade and Balance of Payments, July 2000, Delhi.

DGCI & S, Annual Report, 2000.

UN International Trade Statistics Year Book, 1997.

Ministry of Finance, Government of India, Economic Survey, 1999-2000, New Delhi.

WTO Annual Report, 1998-99.