

70 RECENT TRENDS IN GLOBAL TRADE

Q: | Explain the recent Trends in Global Trade?
OR Explain the state of world Trade since 2010?

(A) Global Trade:- Global Trade means international trade which shows exchange of goods and services, capital and Technology across the international borders. This Global trade contribute significant share in GDP. Global trade helps Countries to expand their markets which make market more Competitive.

There is integration of rapidly growing Emerging Market economies (EMEs) where growth of non-commodity Exports increases.

Example - High-Technology Products like computers, electronics, machinery etc.

(B) Recent Trends in Global Trade:-

1. Expansion in Global Trade:- Nowadays, trade is characterised by following important trends —
 - i) The growing importance of Regional Trade (RTAs).
 - ii) The growing importance of Global supply chains.
 - iii) The growing Trade Liberalization since 1950s.
 - iv) Rapidly growing Emerging Market Economies (EMEs) among trading partners.
 - v) The shift of higher Technology exports towards dynamic EMEs.

vi) Advance Technology reduce cost of transportation and Communication.

Thus Global-Exports have increased from US\$-3395.4 billion in 1990 to US\$ 15763.3 billions in 2008.

It means 4.6 times Global exports have increased.

But due to financial crises this exports have reduced to US\$ 12177.6 billion in 2009.

2. Global Trade During Financial Crisis and

Post Crisis :- The financial crisis badly affect High-income economies in 2008 and it affect Low-income and middle-income economies in 2009.

Overall world export of goods and services was reduced by 20%.

The Recovery phase in Global trade was found between mid-2009 and mid-2010. During this period volume of trade increased at the rate of 20%.

During 2010, developing economies perform better than developed countries by producing more output. It increased export trade of developing countries.

On the import-side, developed countries imports was increased by 11%.

Thus after financial crisis, Export-import trade increased slowly at Global level. The Largest world trade was recorded during-2010 by increasing Exports at the rate of 14.5%.

3. Merchandise Trade :-

a) In Real Terms (Volume)

b) In Nominal Terms

a) World Merchandise Trade in Real Terms :-

In 2010, Volume of merchandise exports was increase by 14.5%.
 The merchandise Export of Developed economies was increased by 12.9% and Combined exports of developing countries and Common wealth of Independent states (CIS) was increased by 16.7%.
 Import of Developed economies rise by 10.7% and Import of Developing countries + CIS was increased by 17.9% in 2010.

Trade in 2010	In Developed Countries	Developing Countries + CIS
Export	12.9% rise	16.7% rise
Import	10.7% rise	17.9% rise

The Average annual growth of merchandise trade in the world was 9.6% during 1999-2009.

b) World Merchandise Trade in Nominal Terms :-

During 2010, World Merchandise Export was increased by 22%. It was US \$ 12.5 trillion in 2009 which is increased to US \$ 15.2 trillion in 2010.

Nominal merchandise exports of Developed economies was increased by 16% in 2010. It was US \$ 7.0 trillion in 2009 which is increased to 8.2 trillion US dollars in 2010.

4. Trade between High income economies and Low

and middle-income economies :- Developing Countries are playing important role in Global Trade System. During early 1990s, the trade between high-income economies and Low and middle income economies has grown at very faster rate. More than 50% of world's merchandise trade is carried between high-income economies. But the world-trade among Low and middle-income economies is accounted for about 9.2% only in 2009.

Low-income and middle-income economies are specialised in Labour-intensive sector which provide most of Textiles, clothing Footwares in world Trade. High-income economies are specialised in Capital-intensive sector which provide majority of Agricultural and Manufactured goods in world trade.

5. More importance of Developing Countries :-

Developing economies are playing important role in Global Trade System. They have contribute 15% in 1990 and 30% in 2009 towards world trade. Developing Countries are becoming an important destination for the exports of Developed Countries. The developing country's share in global trade has increased from $\frac{1}{3}$ rd to more than 40% between 2008-2010.

6. Global Trade in Service Sector :- World

trade in Service sector is adversely affected by financial and economic crisis. According to UNCTAD - United Nations Conference on Trade and Development, the Value of international trade in Service sector is reduce by 12% in 2009.

During the global crisis, Service sector became a weaker section especially in Communication.

During 2009, international trade in Services is reduced by 13% in Developed countries, 10% in developing countries and by 17% in the economies in Transition.

But the recovery-phase was started since 2010 where Service sector again contribute to 22% of world-trade. Tourism provides an important source of income for many developing countries.

The Leading Exporters in world trade Commercial Services in 2010 are US, UK, Germany and China. The Leading importers in world trade in Commercial Services in 2010 are - US, UK, Germany and China.

India ranks 10th in exports of Services and 7th in imports of Services.

7. Terms Of Trade of Developing and Transition Economies :-

During 2009 and 2010, Prices of Primary goods had more fluctuations as compare to

manufacturing goods. So as a result countries specializing in Exports of Primary Commodities and countries importing Energy, Food and Industrial raw-materials have faced Large Fluctuations in terms of Trade.

During 2010, Terms of Trade for Fuel Exporters and exporters of minerals and mining Products were favourable.

In 2010, exporters of the Agriculture Products have increase the price for both their exports or imports.

But the terms of trade were Unfavourable for the countries who imports Food Products but do not export Oil or mining Products.

The economies in transition, Africa, Western Asia, Latin America and Caribbean have better improvement in terms of trade in - 2010. They have suffered losses due to changes in prices of Primary goods in 2009.

Thus Fluctuations in terms of trade bring a great effects on National Income and Balance of Payment - BOP Position. When the Country have adequate Foreign Exchange Reserves can easily cope up (adjust) with Terms of trade.

8. Balance of Payment Position :- When Export is greater than import ($X > M$), BOP Position is Surplus.

But when imports is greater than Exports ($M > X$), it is BOP-Deficit Position.

Example

Terms of Trade Balance

Country	2008	2009	2010
US	US \$ 882 billion Deficit	—	US \$ 690 billion Deficit
China	US \$ 300 billion Surplus	US \$ 196 billion Surplus	US \$ 183 billion Surplus
EU	US \$ 375 billion deficit	—	US \$ 190 billion Deficit
Japan	US \$ 19 billion Surplus	—	US \$ 77 billion Surplus

Thus most of Countries Deficit / Unfavourable Balance of Payment due to financial crisis.

Q:2 Explain the Changing Patterns of Global Trade?

(A) Introduction:- After II world war, Global trade has increased slowly. But since-1990, Global trade has contribute a significant share in GDP. It helps the Countries to expand the markets which makes market more competitive.

There is integration of rapidly growing Emerging market Economies (EMEs) where growth of non-Commodity Exports increases.

Example:- High Technology products like - Computers, Electronics, machinery etc.

B) Changing Patterns of Global Trade :-

According to IMF Report, following are some patterns in Global Trade :-

▷ Diffusion of Key Players :-

During 1970, world trade was largely in the hands of advanced countries like - United States, Germany and Japan. They together contribute more than $\frac{1}{3}$ rd of global trade during 1970.

By 1990, Global Trade has become more diversified due to growing Emerging market Economies (EMEs) especially in East Asia.

By 2010, China became the second largest trading partner after United States due to rapid industrialization.

a) Structure of Global Trade :-

In the global trade, the contribution of better and high-technology exports has increased. Example - Advanced machinery, transport equipment, Electronics etc.

But the exports of Lower-technology goods has reduced. Example - Textiles.

Trade in high-technology goods have increased at faster rate.

b) Factors affecting changes in Global Trade :-

1. Trade Liberalization :- Bilateral and Multilateral Trade agreement plays an important role to bring Trade Liberalization. This helped to reduce Trade barriers among western European and North American.

Countries. Example → Tariff rates have reduced from 15% to 4% during 1952-2005.

2. Rise in Vertical Specialization in Production :-

There is rise in Divisional Production process along with Vertical trading network in many countries due to

- Lower trade barriers.
- Technological Advancement in Transport and Communication.

This Advanced technology reduce the cost of co-ordination which make easier to separate different stages of Production. Thus each country specializes in a Particular stage of Production which gave rise to Vertical trading network.

3. Rise in Income-Level :- As each country specializes in Particular stage of Production on the basis of Factors availability. It will increase Production Capacity and Volume of trade which lead to rise in National income and GDP of Country.

② Growing Trade Connectivity :- Due to Global trade, connectivity among various countries increased through movement of goods and services, Capital investment, Technology and ideas transfer etc. Few countries become a fastest growing economy like

China. China was at 9th position in 1999 but to fast growing global trade it enjoys first position in 2009.

China has emerged as a important trading Centre along with United states.

Due to Global Connectivity, China and Japan became a strategic Export Destination.

Even European countries have played an important role due to network of Global trade.

According to IMF studies, →

There is Perfect Overlap between Top 25 Jurisdiction (Legal Authority) with Systematic Financial Sectors.

But the Countries like - Ireland, and Luxembourg have limited connectivity with financial sectors.

③ Growing Role of Global Supply Chains :-

According to IMF study Global supply chain plays an important role in following areas —

i) Rise in Vertical Specialization :- Most of

the growth in Vertical specialization found during 1995 and 2000. The increase has been particularly found in China, Germany and Japan.

For China share of imports have increased by 12% whereas for Germany and Japan it was 7%.

↳ The emergence of Global supply chains have increase the Exports of High-income economies.

Both China and Germany's Exports have increased due to —

- Regional Trade Agreements (RTAs) and
- Regional supply chain.

ii) Role of Advanced countries and EMEs in Global

Supply Chains :- Advanced countries and EMEs plays different roles in Global supply chains.

Advanced economies plays like Upstream (HUB) in the supply chain. This position is reflected in small contribution in their exports and large contribution towards other downstream countries exports.

On the other side EMEs plays like Downstream in the supply chain. They contribute large share of imported content in their exports.

iii) Differences among Regional Supply chains :-

A regional supply chain operates within a certain region. However, there are many differences between a regional supply chain management role and a Local role.

Example - The Asian supply chain is more dispersed as compared to North America or Europe.

In Asian supply chain, good-in-process cross border many times before they reaches to final destination. Almost all the inputs are imported directly from the hub - United states in NAFTA and EU in Europe.

iv) Role of Global Supply Chain for the trade of

EMEs :- The global supply chains has helped EMEs to increase the technology content of their Exports. Since 1995, the share of High-Technology Exports has grown well in China. It has been boosted by a large imported contribution from Japan and other Asian countries.

V) Role of Services Imports in the Advanced

Countries Export :- Import of Services have contributed to growth of Advanced Countries Exports. The Service Sector makes an important contribution to GDP in most Countries, Providing Jobs etc. It also improve New Export Opportunities.

④ The Diffusion of High-Technology Exporters:-

- i) The contribution of High-Technology exports have increased more between 1995 and 2008.
Example → 30% for China, 26% for United states, 17% for Germany and 11% for Japan.
- ii) FDI played an important role in the diffusion of technology especially across global supply chains.
- iii) FDI by Japanese multinationals is motivated by factor price differentials across the borders. Japan can get cheap labour available from Asia.
- iv) Many factors have affect EMEs to Upgrade the technology content of their exports.
Example - A favourable business environment, educated and skilled labour force, wider markets etc.
- v) Many countries gained more profit in the exports of High-technology products. Example :- China, Malaysia and Thailand in Asia. Poland and Turkey in Europe.
- vi) Exports of medium and High Technology products have increased to Low-income countries.

⑤ Rising Export Similarity :- Due to increasing global trade, Exports of Advanced countries and EMEs have nearly become similar. Export structure of EMEs (China) are becoming similar to Export structure of advanced countries. Advanced countries are exporting their product at different price due to their quality. On the other hand EMEs are exporting their products at Lower-price. Thus Competition among EMEs and advanced countries have increased.

⑥ Impact of Relative Price Changes on Trade Flows:

Due to global supply chains brings changes in the price of Export products. When a country uses higher imported content in Export of goods then change in Foreign Currency have Lower impact on trade.

Example → an Appreciation of Domestic Currency against Foreign Currency makes Exports costly but import cheaper.

In case of Advanced countries, whose exports is generally related to medium and High Technology goods are greatly affected by changes in price levels because of higher domestic value added (DVA).

⑦ Impact of Global Trade :- Due to Regional integration, EMEs are growing rapidly which shift the global demand from advanced countries towards EMEs. China became the Second Largest economy after United states in the world.

in 2010. East Asian Countries have grown as Largest trading bloc by 2015. Global Supply Chains has become important factor for the growth of EMEs.

Conclusion :- The Global trade has done remarkable improvement over the past few decades. The expansion of Global trade is supported by numbers of key players. There is also shift in the relative importance of key players. It means relative importance has shifted from big advanced countries to EMEs.
Examples - China and India as EMEs played important role in Global trade as compare to Japan, UK and USA.
 The Sources of Demand has also shifted from advanced countries to EMEs.

