GLOBAL TRADE INTEGRATION
FINDING NEW HORIZONS

By,

Dr. R. SHASHI KUMAR
M.A., M.Phil., Ph.D.
READER
DEPARTMENT OF ECONOMICS
BANGALORE UNIVERSITY
BANGALORE—560 056
KARNATAKA STATE
INDIA

Organization : POST-GRADUATE DEPARTMENT OF ECONOMICS
BANGALORE UNIVERSITY
BANGALORE—560 056

Mailing Address : Dr. R. SHASHI KUMAR
M.A., M.Phil., Ph.D.
“DEVANAMPRIYA”
NEAR DEVARAJ URS CIRCLE
SARASWATHI PURAM (MARALUR)
TUMKUR—572 105.
KARNATAKA STATE, INDIA.

Email address : drrshashi@yahoo.com
GLOBAL TRADE INTEGRATION  
FINDING NEW HORIZONS

- Dr. R. SHASHI KUMAR

Key words: Globalization, Economic Integration, Regional Trading Blocs, Global Welfare

Ideas, objects and people from ‘outside’ are now more and more obviously present than they have ever been

- Paul Streeten

Here is one simple definition of globalization. But then the process of ideas, objects and people flowing in from outside is age-old. What is new, is perhaps the scale and the speed and the consequences impacting a much larger populace—facilitated and accelerated no doubt by technology.

1. INTRODUCTION

The world has become a much smaller place over the past two decades. International trade has grown twice as fast as worldwide income during this period. Spurred by advances in information technology, a growing share of this trade is in services rather than merchandise, especially among rich countries. International direct and portfolio equity investment has also surged tremendously during the same period. As this process has grown in intensity, it has brought great benefits in terms of worldwide economic and social development, as evidenced by unprecedented growth in global output and real per capita income and, more generally, by major improvements in human welfare.

These benefits have not been evenly distributed, however, and income disparities between rich and poor counties, as well as within many countries, have increased. Today, out of the world’s 6.5 billion people, some 2.8 billion—or almost one-half—still live on less than $2 a day, and 1.2 billion—or one-fifth—live on less than $1 a day. The persistence of abject poverty and other problems including those posed by the volatility of international capital flows have been a matter of serious concern. But this does not imply that the growing openness of the world economy is the cause of income inequality and financial instability. Although it is not an entirely benign phenomenon, globalization is a powerful engine of world prosperity and it is certainly here to stay. The basic issue is what policies and reforms are most likely to bring about sustainable economic growth for the benefit of all the peoples of the world.
2. WORLD TRADE IN TRANSITION

The past two decades saw a boom in world trade. Non-oil exports from developing countries grew faster than those from developed countries (figure 2), and their global market share rose from 21 percent in 1980 to 37 percent in 2005 (figure 3). This increase reflects the growing openness of developing countries to trade and the competitiveness of their exports in global markets. Openness ratios (the sum of exports and imports as a share of GDP) have increased for most developing regions and range from a low of 25 percent in South Asia to 64 percent in Europe and Central Asia.

The foreign exchange earnings of the poorest countries depend on agricultural commodities and labor-intensive manufactures. Although its average annual export growth has increased since the mid-1990s, Sub-Saharan Africa’s share of world trade remains far below what prevailed in the 1970s (see figure 3). Reasons include the region’s high dependence on agriculture, limited trade opportunities caused by highly distorting policies in OECD countries, and downward global price trends for some commodities (such as coffee) due to expanding supplies. Problems on the supply side of the market also help explain the below-average trade and foreign direct investment performance of many low-income countries. Civil conflicts have undermined economic performance in a score of African countries, and in others poor macroeconomic policies have often led to price disadvantages as a result of overvalued currencies. Moreover, governance problems, corruption, and institutional weaknesses have worsened the local investment climate and inhibited local entrepreneurs from taking advantage of market opportunities. Those same factors have also induced instability in commodity prices and had adverse effects on the demand for commodity exports.

Since the mid-1990s exports from low income countries and the LDCs have grown faster than the average for the world and for developing countries (see figure 2). This largely reflects an increase in commodity prices and more recently the decline in the U.S. dollar, as well as an increase in exports of manufactures (textiles). These developments contributed to a minor recovery in these countries’ world market shares, though these remain below those of the 1970s (see figure 3). Global export shares for low-income African countries and for the LDCs as a group exceed their shares in world GDP. Average import growth rates have also picked up recently for low-income countries and the LDCs, outpacing growth in imports for the world and for developing countries during 2004–5.
Figure 2.

Trade has grown rapidly in recent years, especially in Developing countries
(Average annual growth rate, percent)

**Exports**

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Developing Countries</th>
<th>LDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-95</td>
<td>12.2</td>
<td>8.7</td>
<td>3.8</td>
</tr>
<tr>
<td>1996-2000</td>
<td>10.1</td>
<td>7.7</td>
<td>4.8</td>
</tr>
<tr>
<td>2001-2005</td>
<td>11.2</td>
<td>9.1</td>
<td>6.2</td>
</tr>
</tbody>
</table>

**Imports**

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Developing Countries</th>
<th>LDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-95</td>
<td>13.3</td>
<td>8.1</td>
<td>5.8</td>
</tr>
<tr>
<td>1996-2000</td>
<td>5.2</td>
<td>5.3</td>
<td>3.3</td>
</tr>
<tr>
<td>2001-2005</td>
<td>12</td>
<td>9.8</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: IMF, Direction of Trade Statistics.
Exports from the poorest countries remain concentrated in primary commodities. In 2001 the concentration index of Sub-Saharan Africa’s exports was 0.47—similar to that of the Middle East and North Africa, a region heavily dependent on oil exports. This is almost twice the figure for East and South Asia, and 50 percent higher than in Latin America. Agricultural products account for at least a quarter of exports from Sub-Saharan Africa and Latin America. As a result countries in both regions are subject to greater commodity price (terms of trade) volatility. The decline in non-fuel commodity prices and the increase in energy prices since 1995 have contributed to a decline in the shares of food and raw materials and an increase in the share of fuels in exports from the LDCs (figure 3). Expanding apparel exports from Africa are a noteworthy development of recent years. While reliable data on the composition of exports for 2005 are not yet available, the sharp increase in fuel prices during 2004–5 will likely further increase the share of fuels in LDC exports.

Source: IMF, Direction of Trade Statistics.
3. GLOBAL WELFARE FROM TRADE

The table 3 shows the effects on subgroups of developing countries. In dollar terms the gains from global liberalization would be almost as great for Southeast Asia as for South Asia, while less than half as large for the much smaller economic region of SSA. Being more agrarian, SSA would gain proportionately more than Asia from agricultural trade reform by either rich or poor countries. Virtually all regions are net gainers from complete abolition of trade barriers: even though some of them suffer a terms of trade deterioration, that cost is more than offset by improved efficiency of domestic resource use following reform.

The final two columns of Table 1 reveal that, even though developing countries would gain slightly less than rich countries in aggregate dollar terms from a move to global free trade in merchandise, they gain much more as a percentage of GDP: 1.9 per cent, which is more than three times the percentage for rich countries. For SSA (other than South African Customs Union–SACU) the gain would be 1.4 per cent of its GDP. Furthermore, those developing countries would gain less if they abstained from reforming their own policies. To illustrate the point, the effects on low-income countries in SSA and South Asia are examined first without and then with those economies participating in reform. If all regions other than South Asia and SSA were to remove their trade distortions remaining after the end of 2004 (when all Uruguay Round commitments are to have been implemented), the world economy would structurally adjust to allow each region to exploit even more its comparative advantages. Sub-Saharan Africa and South Asia would have to undertake some structural changes within and between key sectors even if they chose not to join in such a trade reform (Table 1).
## Table 1

Disaggregation of sectoral and regional contributions to economic welfare gains from completely removing trade barriers globally, post-Uruguay Round, 2005 (1995 US$ billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>Rich country liberalization</th>
<th>Developing country liberalization</th>
<th>Global liberalization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Agric.</td>
<td>Manuf.</td>
</tr>
<tr>
<td>North America</td>
<td>2.57</td>
<td>11.37</td>
<td>-8.80</td>
</tr>
<tr>
<td>Western Europe</td>
<td>50.29</td>
<td>60.81</td>
<td>-10.52</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
<td>7.69</td>
<td>8.25</td>
<td>-0.55</td>
</tr>
<tr>
<td>Japan</td>
<td>36.02</td>
<td>29.98</td>
<td>6.04</td>
</tr>
<tr>
<td>China</td>
<td>5.01</td>
<td>-4.63</td>
<td>9.64</td>
</tr>
<tr>
<td>Hong Kong, Korea, Taiwan</td>
<td>3.97</td>
<td>0.77</td>
<td>6.09</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.63</td>
<td>0.16</td>
<td>0.47</td>
</tr>
<tr>
<td>Other Southeast Asia</td>
<td>0.43</td>
<td>-0.90</td>
<td>1.33</td>
</tr>
<tr>
<td>India</td>
<td>3.69</td>
<td>0.68</td>
<td>3.01</td>
</tr>
<tr>
<td>Other South Asia</td>
<td>1.37</td>
<td>0.12</td>
<td>1.25</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.11</td>
<td>1.44</td>
<td>1.67</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>14.83</td>
<td>14.25</td>
<td>0.57</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.12</td>
<td>-0.59</td>
<td>0.71</td>
</tr>
<tr>
<td>Middle East &amp; N. Africa</td>
<td>-1.07</td>
<td>-2.81</td>
<td>1.74</td>
</tr>
<tr>
<td>Economies in Transition</td>
<td>4.49</td>
<td>1.21</td>
<td>3.28</td>
</tr>
<tr>
<td>South African CU</td>
<td>0.86</td>
<td>0.76</td>
<td>0.10</td>
</tr>
<tr>
<td>Other SSA</td>
<td>1.72</td>
<td>1.58</td>
<td>0.14</td>
</tr>
<tr>
<td>Rest of world</td>
<td>3.92</td>
<td>2.62</td>
<td>1.30</td>
</tr>
<tr>
<td>Low income</td>
<td>43.08</td>
<td>11.77</td>
<td>31.31</td>
</tr>
<tr>
<td>High income</td>
<td>96.56</td>
<td>110.41</td>
<td>-13.83</td>
</tr>
<tr>
<td>Total</td>
<td>139.65</td>
<td>122.18</td>
<td>17.48</td>
</tr>
</tbody>
</table>

Source: Anderson (2003).
4. CONCLUSION

Globalization has become order of the day. Today, no country inhibits an economic island and preserving economic stability has come to occupy the centre stage in the 21st century. It is also being recognized that public and private sectors have a complementary role of play in achieving stability. Accordingly, official oversight is to be supplemented with internal governance and market discipline.

A pattern of economic growth and global trade that will extend well into the 21st century appears to be merging. It consists of three multinational market regions that comprise major trading blocks: Europe, Asia, and the Americas. Its firms, and industries, its commercial activities in goods and services, its technology and available capital, its standard of living, and all other features of each block is related to the economies of other blocks. These relationships form a complex flow of goods services, capital, labor, and technology between countries. As the world economy becomes increasingly integrated, every country must come to terms with this increased interdependence. And importantly, all the three groups are creating enormous global markets.

There is no magic wand for solving the numerous challenges associated with interdependence. Although interregional cooperation is an important—even indispensable—tool in the development of individual countries, it cannot sole all problems by itself. Internal incentives, the political will to preserve on the path of reform, and the understanding needed to make the right choices will also play a critical role in determining how many the countries are able to benefit from the opportunities of restructuring the world as a whole. The restructuring agenda also pledged future support, with a focus on training, employment, professional refresher courses, educational and social reform, promotion of the role of women in economic development, and cooperation in the field of health. In this context, we should accept that the question of how to operate an economic system worldwide is not the most urgent one; our more practical concern should be to manage the transition from here to there.
References:


UNDP, Annual Reports.

UNCTAD, Annual Reports.


