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The global trading system in the nineties

by Kanes

World trade in goods and services expanded in nominal US dollar terms, by 55 per cent between 1990 and 1998 to $ 6700 billion. Trade volume grew at an average annual rate of 6.7 per cent exceeding the growth of the real GDP of 3 per cent a year. The ratio of global trade in goods and services to GDP rose from 19 per cent to 23 per cent between 1990 and 1998 - the ratio for developing countries exceeding 30 per cent. Developing countries record the fastest expansion of trade in this period with the average annual increase of over 10 per cent and their share in world trade has risen from 23 per cent to 27 per cent. Trade in manufactures has grown faster than trade in agriculture and mining products in both value and volume, and world prices of traded agricultural and mining products have lagged behind those of manufactures causing terms of trade losses for the majority of developing countries. Trade liberalization and globalization have tended to expand exports of developing countries as a whole in the nineties but a close examination of facts and figures reveal that while a small number have benefited from them, the majority have failed to reap benefits or reaped them at great social costs.

Unequal Trade

The developed or advanced countries numbering 24 with 14 per cent of the world population create 52 per cent of the world output and 69 per cent of the world's exports of goods and services. The developing countries, including the four newly industrialized Asian economies, numbering 132 with 79 per cent of the world population account for 43 per cent of the world's output and 27 per cent of the world's exports of goods and services. The 28 countries in transition (countries of the former Soviet Union and of Eastern Europe) with 7 per cent of the world's population have only 5 per cent of the world production and 4 per cent of the world's exports of goods and services. Thus, the world's output and exports are unevenly distributed; the 24 developed countries with 14 per cent of the world's population having over half the world output and over two-thirds the world's exports of goods and services.

Not only the 132 developing countries with 79 per cent of the - world's population generate only a little over a quarter - 27 per cent - of world's exports, but their exports are also unevenly distributed with Asia having the most and Africa the least. Asia accounts for 17 per cent of the world's exports of goods and services while Africa generates only about 2 per cent; Latin America generates about 4 per cent and the Middle East 3 per cent. Within the developing countries as a group, including newly industrialized economies, Asia accounts for 64 per cent of the developing country exports - nearly two-thirds, Latin America 16 per cent, Middle East 13 per cent and Africa 7 per cent as shown in the table.

Table 1

Countries	% Share of World Population	% Share of World Output	% Share of World Exports of Goods & Services	% Share of all Developing Country Exports of Goods & Services
24 Developed Countries	14.3	52.2	68.6	-
28 Countries in Transition	6.9	4.8	4.4	-
132 Developing Countries of which	78.8	43.0	27.0	100.0
51 Countries of Africa	11.9	3.3	1.8	6.7
17 Countries of Middle East	5.0	4.7	3.4	12.6
33 Countries of Latin America	8.4	8.9	4.4	16.3
31 Countries of Asia (4 Asian NIEs)	53.5 (1.3)	26.0 (3.2)	17.4 (9.3)	64.4 (34.3)

(IMF-World Economic Outlook, October 1999).

Concentration of Exports in a Few Developing Countries

The concentration of exports in the hands of a few developing countries is illustrated first by the fact that the four Asian newly industrialized countries - South Korea, Singapore, Taiwan and Hong Kong - account for 9.3 per cent of world's exports and 34 per cent of developing country exports - or one- third. They generate more than half of Asia's exports. If China too is included, then the five countries account for 12.4 of world's exports and 45.8 per cent of developing country exports or nearly half. Second, developing country exports are further concentrated in those developing countries which are mainly exporters of manufactures. Thus, the 10 leading manufactures exporting developing countries - Hong Kong, South Korea, Singapore, Taiwan, Malaysia, Thailand, China, India, Pakistan and Brazil - account for 16.3 per cent of world exports and 60.1 per cent of developing country exports. On the other hand, the 40 developing countries who are mainly exporters of primary products generate only 1.2 per cent of world exports and 4.3 per cent of developing country exports and the 17 oil exporting developing countries account for only 2.9 per cent of world exports and 10.9 per cent of developing country exports.

Thus, developing country exports are heavily concentrated in the Asian countries with manufactures exports and they happen to be mainly those of East and South East Asia. In addition, they have high incomes: thus, the per capita GNP of the four newly industrialized economies exceed $10,000 (with Hong Kong and Singapore exceeding $20,000) and of Malaysia and Thailand exceed $2000; only that of China is below $1000 — $783. On the other hand, developing countries in Africa which depend mainly on primary commodity exports have a very low level of exports. Of the 40 developing countries depending mainly on primary commodity exports, 28 or 70 per cent are in Africa, and they have the lowest incomes in the world. Studying the picture from a different angle, the 46 least developed countries, mainly African, generate only 0.5 per cent of world's exports and 1.8 per cent of developing country exports and the 40 heavily indebted poor countries mainly African again, account for only 0.8 per cent of world exports and 3.0 per cent of developing country exports.

Exports Growth

The growth rates of exports and imports volume of developing countries were lower than those of developed countries in the decade 1981-1990 but higher in the subsequent decade 1991-2000, but the value of their exports grew at a lower rate because of falling export prices and the value of their imports grew at a higher rate on account of rising import prices - in other words because of unfavourable terms of trade. In 1991-2000 for example, export prices declined at an average annual rate of 0.6 per cent while import prices rose at 0.5 per cent and terms of trade declined at 1.0 per cent per annum. In the previous decade 1981-1990 terms of trade declined by 2.3 a year as export prices fell by 0.7 per cent and import prices rose by 1.7 per cent a year. Thus, the entire 20 years was characterized by deteriorating terms of trade - falling export prices and rising import prices for developing countries. On the other hand, terms of trade of developed countries improved in this period by 1.0 per cent a year in the eighties and 0.4 per cent a year in the nineties as their export prices rose and import prices fell. Thus, international trade under globalization clearly benefited the developed countries more in the last twenty years.

The major reason for these unequal benefits from trade is that the prices of the main exports of developed countries - manufactures rose more than those of the main exports of developing countries - primary commodities and oil. In the eighties, the world trade prices of manufactures in US dollars rose by 3.2 per cent a year while those of oil fell by 4.6 per cent and of non-fuel commodities by 0.7 per cent a year. In the nineties, world trade prices of all three groups declined, but those of manufactures declined less - 0.3 per cent a year - than those of oil - 2.4 per cent a year - and of non-fuel primary commodities - 0.8 per cent a year. Thus, most of the developing countries being exporters of primary commodities and oil suffered from adverse terms of trade in the twenty years. Oil exporting countries of the Middle East experienced declining prices in the entire period and overcame the declining value of exports by sharply raising their volume of exports in the nineties. Primary commodity exporting countries of Africa too experienced declining export prices and had to raise the volume of exports in the nineties to offset it. Latin American countries exporting both primary commodities and manufactures experienced rising prices of exports in the eighties and declining prices in the nineties; the price decline was offset by increasing export volume. Finally, Asia benefited from rising prices (though slightly) in the entire twenty years, mainly because of its substantial exports of manufactures by East and South East Asian countries. As a result of this, Asia's exports value rose by 11.5 per cent a year and Latin America's exports rose by 7.8 per cent in the nineties while Africa's and Middle East's exports value increased by 2.4 per cent a year each. Thus, the developing countries that have benefited most from expansion of trade as a result of globalization are those who are exporting manufactures and those who have benefited least are the exporters of primary commodities and oil.

World Trade – Export Growth and Prices

		Annual Percentage Change	
		1981-1990	1991-2000
A.	Export Volume		
	Advanced Countries	5.4	6.1
	Developing Countries	2.5	8.3
B.	World Trade Prices in US$		
	Manufactures	3.2	-0.3
	Oil	-4.6	-2.4
	Non-fuel Primary Commodities	-0.7	-0.8
	Non-fuel Primary Commodities exported by Developing Countries	-2.0	-0.7
C.	Terms of Trade		
	Advanced Countries	1.0	0.4
	Developing Countries	-2.3	-1.0
D.	Export Prices		
	Africa	-0.7	-1.1
	Middle East	-3.2	-1.7
	Latin America	0.2	-0.4
	Asia	1.3	0.6

(IMF-World Economic Outlook, October 1999)

Table II

Exports Needed to Import

The volume of imports of developing countries is determined by the volume of exports when their export prices are falling. Thus, in the eighties, when export volume increased by 2.5 per cent a year, import volume rose by only 1.9 per cent; in the nineties in order to overcome declining prices, developing countries increased their export volume by 8.3 per cent and then that resulted in their import volume rising by 8.1 per cent. The developing countries are thus compelled by declining export prices to maximize production and export of their commodities to obtain the required volume of imports. Africa for instance had falling exports prices and declining value of exports in the eighties which led to falling imports but in the nineties it had rising exports and rising imports despite declining export prices, because it raised the volume of exports. Increasing the volume of exports needs much effort and even diversion of resources from domestic consumption, which may cause some social hardship. The growth rates of export volume and import volume changed only slightly in the developed countries: export volume growth rate was 5.3 per cent a year in the eighties and 6.0 per cent a year in the nineties while import volume growth rate was 5.7 per cent and 6.0 per cent respectively. In the developing countries export volume growth rate jumped from 2.5 per cent to 8.3 per cent a year in this period and similarly import volume rose sharply from 1.9 per cent to 8.1 per cent a year while terms of trade were deteriorating. The jump in the export volume growth rate may explain the rise in the GDP growth rate from 4.2 per cent a year in the eighties to 5.5 per cent in the nineties in the developing countries.