
UNIT 9 WORLD TRADE

Structure

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9.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the structure and trends in world trade in recent years
- identify the developments that have brought about such structure and trends
- analyse the problems faced by developing countries in stepping up their share in world trade
- discuss the impact of such problems on the export promotion effort of developing countries
- analyse, in the light of the above, solutions to the problems faced by developing countries in promoting exports

9.1 INTRODUCTION

You have learnt in earlier units about the need for a firm, intending to engage in international business, to understand the environment in which it is expected to operate and accordingly formulate the strategy. You have also been educated about the attempts made by international organisations and national governments in promoting and regulating world trade growth and the attendant policies formulated by them in this regard. In this Unit, you will learn the commodity structure and country composition of global trade and the factors that have brought about such a structure and composition. Special emphasis will be laid, in this context, on the problems faced by developing countries in promoting exports.

9.2 OVERVIEW OF WORLD TRADE

Trade has been one of the most buoyant international economic activities in recent period. World merchandise trade has been consistently growing at rates higher than rates of growth in global output in the nineties. The world merchandise trade grew by an average rate of 6% during the period 1990-95.

The trade growth slowed in the year 1998 as the Asian crisis deepened and its repercussions were felt increasingly outside Asia. The volume of world merchandise exports grew by 3.5% in the year 1998 after an outstanding growth rate of 10.5% in 1997. All major regions experienced a marked slowdown of their trade growth in 1998.

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 attenuated by the robustness of continued economic growth in the United States and strengthened demand in Western Europe. All regions recorded a lower export expansion in 1998 than 1997. The transition economies and the Latin America recorded the strongest export volume growth. Asia's export volume increased marginally, as the strong contraction of intra-Asian trade was only just offset by a sharp rise in extra regional flows. Western Europe's export growth remained above the global average of 3.5% and North America's export growth fell below the average.

As far as import is concerned, Western Europe, the largest regional trader, was the only region not to record a deceleration in import growth in the year 1998. Western Europe's import growth rate of 7.5% was less than the 10% rate recorded by North America, Latin America and the transition economies. The imports into Asia fell by 8.5%. The stagnation or decrease in import volumes is estimated for Africa and the Middle East.

Services are becoming a significant component in global trade. The value of commercial services increased from US \$ 1275 billion to US \$ 1320 billion in 1996 to 1997. It fell down to US \$ 1290 billion in the year 1998.

9.2.1 Commodity Composition

Manufactured items again proved to be the most dynamic component of global trade, their share in world merchandise exports have been growing steadily. It will be noticed from Annexure 1 that since 1990, while the share of manufactured items has grown from 61.2 per cent to 74.4 per cent in 1995 to 76% in 1998, those of mining products and agricultural products declined during the period. The decline is particularly marked in the case of fuels, from 10.5 per cent to as low as 7.1 per cent in 1995 to 6.5% in 1998, followed by food items and raw materials. On the other hand, the share of each one of the product groups of manufactures excluding iron and steel has grown during the period. It is of interest to note that higher the value addition, the more is the rate of growth in exports, as is evidenced by the substantial increase in the share of machinery and transport equipment in world merchandise exports.

Manufactured items are, by far, the single largest product group of exports of all the regions excluding Africa and Middle East: mining products (including petroleum) constitute the major share in the exports of the latter two regions. Look at Annexure 2 which provides data on region wise exports by product group during the year 1998. It is worth noting that the share of manufactures in total exports is the highest (83%) in the case of Asia followed by Western Europe (80.2%) and North America (77.9%) and lowest (27.7%) in the case of Middle East and second lowest by Africa (31.6%). It is also interesting to note that Western Europe contributes as much as 47.0% to global exports of manufactures, followed by Asia (26.8%) and North America (17.4%), while Africa's contribution is the least (0.8%) followed by Middle East (0.9%). Annexure 3 provides data on the manufactured exports, regionwise, in terms of value, share in the region's exports and share in global exports.

The fact that manufactured items have turned out to be the most dynamic items in global trade is also substantiated by Annexure 4 which provides data on world merchandise imports by product group and region. Manufactures are not only the single largest product group of imports of all the regions including Africa and Middle East, notwithstanding the fact that the main exports of the latter two regions are mining products but the share in the imports of no region is less than 70%.

9.2.2 Region-wise Trade

The Western European nations are the world's main exporting nations: their share in global exports grew from 39% to 44% between 1983 and 1993 and further to 44.8% to 44.5% between 1995 & 1998. Asia, mainly on account of Japan, China and the East Asian Tigers, i.e. Taiwan, Hong Kong, South Korea, Malaysia, Singapore and Thailand, constitutes the world's second most important exporting region, its share in global exports growing by almost half, from 19.1% in 1983 to 26.6% during 1995 and 24.5% in 1998. It is worth noting that Japan, China and the East Asian Tigers contributed more than 85% to Asia's exports during 1995. The share of Asia has come down from 26.6% in the year 1995 to 24.5% in 1998 due to the crisis in the South East Asian countries. North American countries occupy the third position in global exports. The share of the other regions i.e. Latin America, Central/Eastern Europe, Africa and Middle East in global exports has declined during the 1983-95 period, the major setback having been suffered by the Central/East European countries, understandably on account of the restructuring that is going on in their economies. The share of this region has improved during the year 1998. The share has increased from 3.1% to 4.1%. Look at Annexure 5 which provides data on percentage share, in global merchandise exports, by region during 1983-98.

Annexure 6 indicates the regionwise share in global merchandise imports during 1983-1998. It will be noticed that the trend in imports closely resembles that in exports; The highest share being claimed by Western Europe followed by Asia and North America, the fastest growth having been recorded by Asia and the maximum decline by Central/East Europe till the year 1995. Again Japan, China and the East Asian Tigers are mainly responsible for the remarkable growth in Asia's imports.

As a result of South East Asian crisis, the rank of Asia's imports has been dropped to third place. The share of Central and Eastern Europe has also improved. It has increased from 2.9% to 4.4% from the year 1995 to 1998. For the year 1998, the regionwise largest importer is Western Europe followed by North America, Asia and Latin America.

9.2.3 Major Trading Nations

The world's 12 leading exporting and importing nations in merchandise trade during 1998 are given in Annexure 7. Two facts to be noted are: (a) that all the 12 countries are common to both the lists except Spain, indicating that world's leading exporters are also the leading importers (b) nine of the 12 countries are from the developed world, two are East Asian Tigers and China is the remaining country indicating that though the developed world still accounts for major share of global trade, East Asian Tigers and China are slowly entering the club of the world's top exporters and importers. Of late, the trade of these regions has been adversely affected due to the crisis in the South East Asian Nations. The rank of Republic Korea has dropped to 16th on the import front.

9.2.4 Direction of Trade

As far as direction of global merchandise trade of different groups of countries is concerned, it will be noticed from Annexure 8, that there is very heavy intra-regional trade in Western Europe followed by Asia and North America. The high share of intra-trade in total trade in West Europe is attributed to the European Union: in Asia, apart from the existence of ASEAN, the large trade of Japan, Australia and New Zealand within the region explains the substantial share of intra-trade; notwithstanding the existence of regional groupings in Latin America, the share of intra-trade in this region is not substantial, while the impact of NAFTA, to some extent at least, is, perhaps, visible in the increase in the share of intra trade in North America's global trade; the share of intra-trade in total trade has, understandably, dropped significantly in the Eastern European region consequent to the breaking up of former USSR. Recently the share has increased from 19% in 1995 to 31% in 1998. Perhaps one finding could be that regional trade blocs have succeeded, as far as stepping up intra-trade is concerned, more among developed countries than among developing countries.

To sum up, though developed countries in Western Europe, and North America, besides Japan in Asia, continue to be the leading trading nations of the world, some countries in the developing world, particularly in East Asia, and People's Republic of China are slowly emerging as world's leading trading nations, though in terms of the current value of exports, they are still to go a long way to catch up with countries in the developed world. There is also clear evidence of substantial intra-trade in various regions of the world, particularly in Western Europe. Manufactures have turned out to be the most dynamic items traded internationally.

9.3 TRADE IN SERVICES

Services account for slightly more than one fifth share in global trade. Services exports grew, at current value, from US \$ 1000 billion during 1993 to US \$ 1170 billion during 1995 and US \$ 1290 in the year 1998. Look at Annexure 9 which lists world's top 10 nations in commercial services trade alongwith each country's share. Again, all leading commercial services exporting nations are in developed world except Hong Kong, China. All leading importers of commercial services are from the developed world. While Japan is a leading exporter and importer of services it is to be noted that its relative position as an importer is more dominating than as an exporter. Eight out of the top 10 countries are both leading exporters and importers. Spain and Hong Kong, China are among the leading exporters, Canada, and Austria are among the leading importers. USA is world's leading exporter and importer. USA's share in global exports is considerably more than that in imports. Germany's share in global imports of commercial services is more than its share in global exports.

9.4 EXPORT BASKET OF DEVELOPING COUNTRIES

Annexure 2 provided data on the structure of global merchandise exports classified by main geographical regions and broad groups of items. It will be noticed that about 71% of the export earnings of Middle East, 61.3% of the earnings of Africa and 42.1% of those of Latin America and 39.3% of the earnings of East European countries including former USSR were derived from agricultural and mining products comprising food items, agricultural raw materials, ores and metals and fuel while the share of these commodities in the export trade of North American, West European and Asian countries is 16.9%, 15.3% and 14.1% respectively. The presence of Japan in Asia tilts the balance heavily. The share of primary commodities in the export trade of the developing Asian countries is significant. While the Latin American, African and East European countries depend substantially on primary commodities for earning foreign exchange, manufactured items, as seen earlier, have proved to be the most dynamic sector in international trade in recent years.

It is not only that a number of developing countries depend on primary commodities for major part of their export earnings, but a great majority among them depend on a limited number of primary commodities for earning foreign exchange.

Check Your Progress A

- 1) Enumerate three major exporting region?

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- 2) Enumerate three major importing region?

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- 3) Enumerate four leading exporter country of the world?

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- 4) Enumerate four leading exporter of world commercial services?

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- 5) State whether the following statements are True or False?

- i) Agricultural goods are the single largest group of items traded internationally.
- ii) Manufactures do not account for significant share in the total imports of the Middle East, African and Latin American regions.
- iii) Western Europe is the major trading region in the world as evidenced by its share in world exports and imports.
- iv) The intra-regional trade of the Asian region is very low.
- v) Contrary to global trade in merchandise, world trade in services is declining.

9.5 PROBLEMS OF DEVELOPING COUNTRIES

You have learnt the regionwise composition and direction of world trade. The question arises, what have been the reasons for the sluggish growth in the export earnings of primary commodities such as agricultural raw materials and ores & metals? Let us analyse the main problems faced by the developing countries in promoting exports of these items. The major problems are discussed below.

Demand Elasticity: It has been noticed that foodstuffs such as tea, coffee and cocoa are characterised by low income elasticity of demand. This means that growth in incomes in developed countries has not been followed by a proportionate increase in demand for foodstuffs. In fact, in many cases, the consumption of foodstuffs has reached or is reaching saturation levels in most developed countries.

Competition from Substitutes: Another problem faced by items like coffee, tea and cocoa is related to *inter-se* competition and competition from substitutes due to changing tastes and dietary habits. For example, in UK, it has been calculated that, while about two decades back, six cups of tea were drunk for every one cup of coffee, today the ratio is 2:1. Besides, carbohydrate drinks are posing competition to coffee and tea.

As for industrial raw materials such as rubber, jute, cotton and steel, they face severe competition from synthetics. For instance, notwithstanding the trend in favour of environment friendly biodegradable natural material, polypropylene has almost entirely replaced jute, the world over, in the carpet backing and bulk packing sectors.

In the construction and engineering industries, use of steel has declined and plastics is replacing steel in many sectors. According to projections made by the multinational firm, Du Pont, by the turn of this century, as much as 50% of dye-cast metals, hot rolled steel and structural steel will be replaced by engineering plastics. Many parts of India's own Ambassador car such as bumpers, dash board and fuel tank are going to be made out of plastic rather than steel and for this purpose, a Memorandum of Understanding has been signed by Hindustan Motors with the French firm, Plastic Omnium Industry.

Cane sugar is being fast replaced in the beverages and bakery industries by corn based sweeteners and artificial sweeteners. Sugar consumption in the USA, for example, declined from 89 lb per capita in 1979 to 68 lb. per capita in 1984. It is feared that the export based sugar industry in the developing world will face serious problems by the turn of the century.

Cocoa, coffee and tea are also threatened by other chemical and biological processes. Enzymes and fermentation technology have been able to bring about cocoa substitutes that cost half as much as natural cocoa extracts. European Union, for instance, is promoting more and more use of non-cocoa fat in chocolates.

Technological Developments: Introduction of new technologies has led to economies in the use of raw materials. It is no longer required to use as much raw material as in the past to manufacture one unit of the finished product. This means that increased production of a number of manufactured items has not resulted in a proportionate growth in demand for raw materials which are used as inputs in the manufacturing process. For example, the use of electric arc furnaces in making steel has meant depressed demand for iron ore and its price since electric arc furnaces use metal scrap and not iron ore in the production process. Japan's demand for iron ore due to growth of recycling is expected to decline further in future.

It is not only that new technologies have led to economies in the use of raw materials but they have also resulted, in some cases, in the complete elimination of raw materials. For example, developments towards bulk handling of foodgrains and marketing of foodgrains in consumer packs have led to the complete elimination of jute bags for packing and storing at intermediate stages.

Growth of Services Sector: Added to all the above is the increasing role of the services sector as compared to the manufacturing sector, since the beginning of the 1970s, in the economies of many countries leading to sluggish growth in the demand for industrial raw materials.

Inelasticity of Supply: While, on the one hand, the developing countries are facing uncertain demand conditions for their major export products, on the other, they are finding it difficult to adjust their supply base in respect of many primary commodities, due to uncontrollable factors like weather and also on account of insufficient storage facilities in their countries, particularly for perishable items.

Price Fluctuations: On account of the above problems, developing countries find that prices of their primary commodities, which are their main export items, are subject to wide fluctuations leading to uncertainties in export earnings thereby affecting their development plans. In the last 10 years, developing countries are estimated to have lost US \$ 225 billion on account of fall in primary commodity prices. According to UNCTAD, the fall in commodity prices resulted in a gain of over \$ 100 billion to developed countries in recent years. During 1981-86, commodity export earnings of developing countries declined by \$ 8 billion per year, on an average. According to an estimate, the losses suffered by developing countries in export revenues averaged \$ 25 billion a year over 1980-91 or a cumulative total of \$ 290 billion. The average annual revenue loss was \$ 5 billion during first half of

the 80s, rose to \$ 35 billion during 1986-88 and further to \$ 55 billion during 1989-91. The commodity prices fell sharply in the year 1998, pushing the share of primary products in world exports below 20% in the current price terms for the first time in the post-war period. It has adversely affected in developing world. Annexure 11 provides data on export price indices of primary commodities for selected years.

Various international commodity agreements (ICAs) and compensatory financing facilities have tried to find solution to the problem of fluctuation in the prices of primary commodities. But the experience of the working of these has not been very encouraging. Only on July 11, 1988, the UNCTAD Agreement on Common Fund for Commodities, which was designed to help developing countries diversify their exports, was ratified though the Agreement was adopted as early as June 27, 1980.

Protectionism

While the commodity structure of the export basket of the developing countries has not been of much help to them in raising the level of their export earnings, the commercial policies of the developed countries have also contributed, to some extent at least, to limit the capacity of the developing countries to earn foreign exchange. Many developed countries, for one reason or the other, insulate their domestic sectors from competition from the main exports of developing countries. Protectionism takes two forms: (a) subsidies to domestic production mainly in the agricultural sector and (b) tariff and non tariff barriers to imports.

Subsidies: It refers to direct or indirect financial assistance from governments to companies for making them competitive. Countries make direct payments to producers to compensate them for losses incurred from selling abroad. Several types of assistance are provided to make their products cheaper or more profitable for companies to sell abroad. These subsidies not only reduce the demand for imported products but also lead to export surplus in developed countries affecting the imports from developing countries in other markets.

Tariff and Non-tariff Barriers : The tariff and non-tariff barriers raised by the developed countries on imports from developing countries also restrict market access to the products of developing countries. Decades of Multilateral Trade Negotiations commencing with the Geneva Round, under which Multilateral Agreements have been concluded, have seen substantial reduction in import tariffs on industrial products, although tariffs on agricultural products still remain high. Though the average rate of import duty levied by the developed countries on finished industrial products has come down substantially over years, problems of tariff peaks and escalation still remain. These tariff peaks tend to be concentrated on the main export items, such as textiles, clothing and footwear, of most developing countries.

The major problem, however, has been the spread of non-tariff measures in recent years affecting not only sectors that are labour-intensive but also other sectors of export interest to developing countries such as steel & steel products, machine tools and electronics. GATT had listed 33 types of quantitative restrictions in existence in a document prepared in 1986. The form the non-tariff barriers take include outright bans on imports, monitoring of prices and volume of imports, voluntary export restraints etc. Many such non-tariff barriers such as MFA are still in operation in many areas. A study had established that 39% of India's exports were subjected to different types of non tariff barriers during 1992 as against 17% during 1986. According to the Confederation of Indian Industry, New Delhi, Indian textiles, food items, clothing and agricultural commodities attract a number of non-tariff barriers in the European Union in the form of export subsidies, labelling standards, testing, labelling and certification procedures, health & sanitary regulations, technical standards, child labour guidelines and anti-dumping measures.

During 1987, GATT was notified of as many as 135 major export restraint arrangements (ERAs) of various types. The number of such ERAs has been increasing. Majority of the export restraint arrangements are operating against the developing countries.

Besides the policy of protectionism, there are several other measures which restrict or influence the flow of world trade. Some of them are discussed below:

Managed Trade: Another trend that has been noticed in recent years relates to the movement away from multilateral trade towards managed trade by many countries. The formation of regional and sub-regional groupings and bilateral and counter-trade arrangements are examples of this trend. It has been calculated that nearly 30% to 40% of global trade in recent years has been accounted for by counter-trade.

Non-Trade Issues: A disturbing development of recent origin also deserves mention. Of late, non trade issues are sought to be used to regulate market access. These include child labour, environmental protection, arms spending, human rights record, labour standards, commitment to democracy, good governance etc.

Multinational Corporation's Influence: The overwhelming influence of multinational corporations on global production and marketing of a number of products of export interest to developing countries is also a factor to be reckoned with in the export performance of the developing countries. MNCs succeed not only in fixing prices but also in influencing the policies of developing country governments. According to UNCTAD, the export prices received by the producer countries for their tea, coffee, cocoa, citrus fruit and jute account for only 20% to 40% of the final price of the products: for bananas, it is a meager 11%. A very small number of MNCs control:

- a) 85-90% of international trade in tobacco, coffee, cotton, jute, cocoa and forest products (5-6 firms).
- b) 70-75% of international trade in bananas and rubber (three firms).
- c) 85-90% of international trade in raw cotton (15 firms).
- d) 60% of international trade in sugar.

Terms of Trade

The total export realisation/import payment of a country is the combined effect of the quantum of export/import and the unit value realization/payment. It now remains to be seen as to how much of the trends in export trade was governed by the volume of trade, and, how much, by the unit value realisation and what has been the trend in import trade. Annexure 11 indicates the world trade indices, in terms of both volume and unit value, for exports and imports. It will be noticed from the Annexure that (a) while the volume index of exports of non-oil exporting developing countries increased by 381 points between 1980-96, that of the unit value actually declined by 9 points during the same period indicating that the rise in total export earnings of this group of countries is due more to the growth in the volume of their exports than to the rise in unit value realisation, (b) in the case of the petroleum exporting countries volume index has increased and unit value of exports have declined, (c) in the case of developed countries, both have grown but volume growth in exports is more than unit value growth.

It will also be noticed from Annexure 11 that as far as imports are concerned, the rise in volume index is more, as compared to the rise in unit value index, in the case of developed market economies and non-oil exporting developing countries, whereas in the case of the petroleum exporting countries, both volume index and the unit value index have improved.

The opposite trends exhibited by the unit value index of exports and the unit value index of imports during 1980-96, i.e the former declining and the latter increasing, has led to deterioration in the terms of trade of the developing countries, both of the petroleum exporters and the non oil exporting countries, the former suffering the maximum.

Check Your Progress B

1) Enumerate three problems of developing countries?

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2) What is protectionism?

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3) What is managed trade?

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4) What do you mean by terms of trade?

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5) List two types of non-tariff barriers to imports limiting the capacity of developing countries to step up exports.

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6) State whether the following statements are True or False.

- i) There has been substantial reduction, over years, in developed countries, in import tariffs.
- ii) The role of multinational corporations in the global production and export of a number of products of export interest to developing countries is rather insignificant.
- iii) The Terms of Trade of developing countries has improved in recent years.

- iv) The main reason for the sluggish growth in export earnings of developing countries is the lack of appreciable growth in the volume of their exports.
- v) One positive factor in favour of exporters of food items is that, as incomes grow, demand for food items also grows proportionately.

9.6 LET US SUM UP

Global trade has, in recent years, been growing at rates higher than the rates of growth in global output. It is however noticed that, by and large, the developed countries in Western Europe and North America and Japan account for the major share in world trade and the share of manufactured items in total trade is growing and that of primary goods comprising food items, raw materials, minerals and fuels is declining. It is also evident that there is substantial intra-trade among developed countries.

Many developing countries are known to depend rather heavily on primary goods for their export earnings; in a number of cases, on a limited number of items. Primary goods face a number of problems both on the demand and supply sides such as low elasticity, competition from substitutes, technological developments resulting in demand decline, subsidies, tariff & non-tariff restrictions, dominance of multinational corporations, etc. resulting in wide fluctuations in unit value realisation. Consequently the terms of trade of developing countries has deteriorated over years.

It can be easily understood as to why the export trade of many developing countries generally lags behind that of the developed countries and why the former trade more with countries outside their group than they do among themselves. Their exports find a market in the developed countries because of the low level of activity in the other developing countries. On the other hand, they depend on developed countries for their capital goods and even raw materials and foodstuffs. The developed countries, on account of the increases in agricultural productivity, as also through deliberately designed support measures and commercial policies, have become net exporters of foodstuffs, while the developing countries, on the other hand, on account of the rapid rise in their population and the rising tempo of industrialisation, have turned into net importers of many agricultural products. The relatively greater success achieved by the developed countries in the formation and functioning of regional groupings and of managed trade and the strong role played by multinationals, where not only substantial inter-industry but even inter-firm trade takes place, explains the proportionately higher share of intra-trade in their global trade.

9.7 KEY WORDS

Primary Goods: Items comprising agricultural goods, minerals and fuels, which have not been subjected to processing after they are grown/mined.

Manufactures: Items which have been subjected to processing and are not sold in the form in which they have been harvested/mined.

Intra-regional Trade: Trade among countries belonging to the same region.

Income elasticity of Demand: The rate of change in demand for a certain rate of change in income.

Inter-se Competition: Competition among constituents of the same group.

Non-tariff Barriers: Barriers other than tariffs, raised against imports.

Quantitative Restrictions: Restrictions on imports in terms of quantity.

Export Restraint Arrangement (ERA): An arrangement entered into between an exporting country and an importing country under which the former agrees to limit its exports to the latter of identified item(s) to an agreed quantity during a specified period.

Terms of Trade: Unit Value of Index of Exports divided by Unit Value Index of Imports multiplied by 100; gives an indication of the relative purchasing power of exports vis-a-vis imports.

9.8 ANSWERS TO CHECK YOUR PROGRESS

- A5 i) False ii) False iii) True iv) False v) False
 B6 i) True ii) False iii) False iv) False v) False

9.9 TERMINAL QUESTIONS

1. Analyse the main features of world trade, in terms of commodity and country/region composition, in recent years.
2. There is a view that the future of world trade is going to be one of trade among trade blocs rather than trade among nations. Do you agree with this view? Give reasons for your answer.
3. What are the major problems faced by developing countries in promoting their exports? What are your solutions to these problems?
4. Write short notes on :
 - i) Terms of trade
 - ii) Multinational Corporations influence
 - iii) Protectionism.

Annexure 1

World Merchandise Exports by Product Groups
(Percentage Share in Total)

	1990	1995	1998
All Products	100.0	100.0	100.0
Agri. Products	12.2	11.8	10.5
Food	9.3	9.1	8.4
Raw Materials	2.9	2.8	2.1
Mining Products	14.3	10.5	9.5
Ores & Minerals and Non ferrous Metals	3.7	3.3	3.0
Fuels	10.5	7.1	6.5
Manufactures	70.6	74.4	76.1
Iron & Steel	3.1	3.0	2.7
Chemicals	8.7	9.6	9.5
Other Semi. mfrs	7.8	7.9	7.6
Machinery and Transport Equip	35.8	38.9	41.1
Textiles	3.1	3.1	2.9
Clothing	3.2	3.2	3.4
Other Consumer Goods	8.9	8.7	8.9

Source: WTO, Annual Report 1996 and 1999.

Annexure 2

Percentage Share of Product Groups in
Total Exports Region Wise, 1998

Region	Agri.	Mining	Manufacturing
North America	11.1	5.8	77.9
Latin America	23.8	18.3	57.3
Western Europe	10.1	5.2	80.2
Central and Eastern Europe and Former USSR	11.7	27.6	58.8
Africa	19.5	41.8	31.6
Middle East	4.3	66.6	27.7
Asia	7.7	6.4	83.0

Source: WTO, Annual Report 1999

Annexure 3

Manufactured Exports, Region Wise, 1998
(Value and Share in Region's Exports and Global Exports)Value : \$ Billion
Share : percentage

Region	Value	Share in	
		Region's Exports	Global Exports
North America	897	77.9	17.4
Latin America	158	57.3	3.9
Western Europe	1883	80.2	47.0
Central and Eastern Europe and Former USSR	125.8	58.8	3.1
Africa	33.7	31.6	0.8
Middle East	38.0	27.7	0.9
Asia	1073	83.0	26.8

Source: WTO, Annual Report, 1999

Annexure 4

Percentage Share of Product Groups in Total Imports,
Region Wise, 1998

Region	Agri.	Mining	Manufacturing
North America	6.7	8.4	80.9
Latin America	10.8	7.4	78.9
Western Europe	11.2	8.1	76.4
Central and Eastern Europe and Former USSR	13.2	13.3	71.9
Africa	17.0	8.2	72.1
Middle East	13.1	5.5	77.0
Asia	11.3	14.0	72.0

Source: WTO, Annual Report, 1999

Annexure 5

Composition of World Merchandise Exports by Region

(Percentage Share in Total)

Region	1983	1993	1995	1998
North America	15.4	16.8	15.9	17.0
Latin America	5.8	4.4	4.6	5.2
Western Europe	39.0	44.0	44.8	44.5
Central/Eastern Europe and Former USSR Baltic States/CIS	9.6	2.8	3.1	4.1
Africa	4.4	2.4	2.1	2.0
Middle East	6.7	3.4	2.9	2.6
Asia	19.1	26.3	26.6	24.5

Source: WTO, Annual Report 1996 and 1999.

Composition of World Merchandise Imports by Region

(Percentage Share in Total)

Region	1983	1993	1995	1998
North America	17.8	19.0	18.7	21.1
Latin America	4.4	5.0	4.9	6.2
Western Europe	39.8	43.0	43.5	43.3
Central/Eastern Europe and Former USSR, Baltic States/CIS	8.3	2.9	2.9	4.4
Africa	4.6	2.6	2.5	2.4
Middle East	6.2	3.2	2.6	2.6
Asia	18.8	23.5	25.1	19.9

Source: WTO, Annual Report 1996 and 1999.

Annexure 7

Leading Exporting and Importing Nations in World
Merchandise Trade, 1998

(Percentage Share in Global Merchandise Trade)

Exports	Share
USA	12.7
Germany	10.0
Japan	7.2
France	5.7
UK	5.1
Italy	4.5
Canada	4.0
Netherlands	3.7
China	3.4
Hongkong, China	3.2
Belgium-Luxemburg	3.2
Korea, Republic of	2.5
Imports	Share
USA	17.0
Germany	8.4
Japan	5.7
France	5.2
UK	5.0
Italy	3.8
Canada	3.7
HongKong, China	3.4
Netherlands	3.3
Belgium-Luxemburg	2.9
China	2.5
Spain	2.4

Source: WTO Press Release, April 16, 1999.

Intra-Regional Trade Flows, 1990-98

(Percentage Share in Total Trade of the Region)

Region	1990	1993	1995	1998
Western Europe	72	70	69	69
Asia	45	50	51	45
North America	32	33	36	38
Central/Eastern Europe and Former USSR	36	20	19	31
Latin America	15	19	27	21

Source: WTO, Annual Report, 1999

Annexure 9

Leading Exporting and Importing Nations in World
Commercial Services, 1998

(Percentage Share in Global Trade)

Exporters	Share	Importers	Share
USA	18.1	USA	12.5
UK	7.7	Germany	9.4
France	6.1	Japan	8.5
Germany	5.9	U.K.	5.9
Italy	5.4	Italy	5.4
Japan	4.7	France	4.9
Netherlands	3.7	Netherlands	3.5
Spain	3.7	Canada	2.7
Belgium-Lux.	2.7	Belgium-Lux.	2.6
Hong Kong, China	2.6	Austria	2.2

Source: WTO Press Release 16 April, 1999.

Annexure 10

Export Prices of Primary Commodities, 1985-98

(Indices 1990 = 100)

Commodities	1985	1991	1995	1998
Wheat	100	95	131	93
Rice	76	109	119	113
Oil seeds, oils and fats, oilseed cake and meals	99	101	124	122
Meat	82	102	77	71
Sugar	62	89	108	81
Coffee	184	94	184	150
Cocoa beans	178	94	113	132
Tea	98	91	81	117
Cotton	79	93	119	79
Wool	69	71	93	61
Rubber	88	96	183	84
Iron ore	76	108	88	96
Tin	186	91	102	91
Lead	52	74	78	65
Crude petroleum	122	83	75	57
All primary commodities	91	93	106	86

Source: WTO; Annual Report, 1999

World Trade Indices and Terms of Trade, 1994
(1980 = 100)

	1994	1996
A EXPORTS		
<i>i) Volume Index</i>		
Developed Market Economies	179	200
Developing Countries	202	241
Major Petroleum Exporters	93	105
Other Developing Countries	343	481
<i>ii) Unit Value Index</i>		
Developed Market Economies	125	134
Developing Countries	80	85
Major Petroleum Exporters	64	76
Other Developing Countries	92	91
B IMPORTS		
<i>i) Volume Index</i>		
Developed Market Economies	183	204
Developing Countries	208	249
Major Petroleum Exporters	99	117
Other Developing Countries	251	301
<i>ii) Unit Value Index</i>		
Developed Market Economies	110	126
Developing Countries	113	118
Major Petroleum Exporters	121	150
Other Developing Countries	112	117
<i>Terms of Trade</i>		
Developed Market Economies	114	106
Developing Countries	71	72
Major Petroleum Exporters	53	51
Other Developing Countries	83	78

Source: United Nations, *Handbook of International Trade and Development Statistics*, 1994 & 1997.

UNIT 10 MULTILATERAL TRADING SYSTEM

Structure

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Establishment of the WTO
 - 10.2.1 Basic Differences Between GATT and WTO
 - 10.2.2 Scope and Functions of the WTO
 - 10.2.3 Structure of the WTO
- 10.3 Uruguay Round Agreements
- 10.4 Multilateral Trade Agreements
 - 10.4.1 Agriculture
 - 10.4.2 Sanitary and Phytosanitary Measures
 - 10.4.3 Textiles and Clothing
 - 10.4.4 Technical Barriers to Trade
 - 10.4.5 Trade-Related Investment Measures (TRIMs)
 - 10.4.6 Anti-Dumping
 - 10.4.7 Customs Valuation
 - 10.4.8 Pre-Shipment Inspection
 - 10.4.9 Rules of Origin
 - 10.4.10 Import Licensing Procedures
 - 10.4.11 Subsidies and Countervailing Measures
 - 10.4.12 Safeguards
 - 10.4.13 General Agreement on Trade in Services (GATS)
 - 10.4.14 Trade Related Intellectual Property (TRIPs)
 - 10.4.15 Dispute Settlement
 - 10.4.16 Trade Policy Review Mechanism (TPRM)
- 10.5 Plurilateral Trade Agreements
 - 10.5.1 Public Procurement
 - 10.5.2 Trade in Civil Aircraft
 - 10.5.3 International Dairy Products
 - 10.5.4 International Bovine and Meat Products
- 10.6 India and the WTO
- 10.7 Let Us Sum Up
- 10.8 Key Words
- 10.9 Answers to Check Your Progress
- 10.10 Terminal Questions

10.0 OBJECTIVES

After going through this unit, you should be able to :

- explain the functions and structure of WTO
- enumerate the achievements of the Uruguay Round
- analyse various multilateral trade agreements
- describe various plurilateral trade agreements
- explain India's position in relation to the WTO.

10.1 INTRODUCTION

General Agreement on Tariffs and Trade was founded in 1947 with 23 members. It is a multilateral arrangement aimed at reducing barriers to trade, both tariff and non tariff. The GATT mandate was to oversee international trade in goods and to gradually liberalise the