

Emerging Global Trade Trends: More clouds over the south's prospects

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While the annual trade figures released by the World Trade Organization for 2003 points to strengthening recovery in global trade and an optimistic outlook on prospects for further trade expansion, an analysis of medium-term developments in global trade patterns suggests that even an expanding world trade scenario may not be as promising or neutral in its implications for the prospects for developing countries' trade expansion.

The medium-term developments in global trade provided in a report that forms part of a broader WTO annual study titled "World Trade Report 2004", highlights two significant areas in which international trade patterns have experienced major structural changes at the disaggregated product level over the past two decades (1985-2003). Along with the fact that contrary to general perception, growth in services trade no longer outstrips that in goods, there is a shift in agricultural trade to processed products, away from commodities.

It is argued in this review that these structural shifts would have critical implications for the prospects of developing and less developed countries to expand their market shares in world trade. The first section will give a brief overview of the global trade trends in 2003, following which the structural shifts in services and agricultural trade patterns are examined for their implications.

Trade Trends in 2003

According to the annual trade figures released by the World Trade Organization, despite being one of the more disruptive years in recent times, 2003 proved a good year for the world economy. A 2.5% increase in global output, propelled mainly by higher than expected economic growth in Asia and the United States, spurred world trade to recover by an average real increase of 4.5% in 2003. This was stronger than expected a year ago after the outbreak of SARS and the US-led war in Iraq in early 2003. In addition to the fact that this strengthens the global trade recovery in 2002 from the sharp decline in the preceding year, the projection is that 2004 also looks promising for further trade expansion. These annual estimates from the WTO offer an optimistic outlook on world trade prospects.

Trade growth exceeded output growth by an atypically small margin in 2003 when compared to the 1990s, when average trade expansion was 6.5%, approximately twice as fast as merchandise output growth. It is partly because of the end of the information technology sector boom which was the most dynamic segment in world trade over the 1990s, that the typical excess of trade over output growth was unusually small in 2002 and 2003. However, as in 2002, trade acceleration in 2003 was much stronger in dollar values than in real terms. The nominal value of world merchandise exports rose by as much as 16% to \$7.3 trillion and commercial services exports expanded by 12% to \$1.8 trillion in 2003. Both these were the strongest annual increase in nominal terms since 1995.

This difference between the nominal and real trade growth rates reflected the major role played by exchange rate changes and commodity price rises in inflating dollar trade values. For the first time since 1995, dollar prices increased for both agricultural and manufactured products in 2003. It is estimated that on the global average, prices of manufactured goods rose by nearly 10 per cent, the first annual increase since 1995. Similarly, fuel prices were up

by 16 per cent, boosted by temporary supply shortfalls linked to the conflict in the Middle East and civil unrest in Venezuela, as well as due to increased oil demand from the US and a booming Chinese economy. On average, the prices of non-fuel commodities also rose by 7 per cent on spot markets, including a 12% increase in metal prices.

The combined effect of these price rises and exchange rate changes involving dollar depreciation against major currencies led to a 10.5% strengthening of world merchandise trade prices in 2003. Thus, the large increase registered by merchandise trade in nominal terms was a reflection of this.

Meanwhile, commercial services trade, which accounts for about one-fifth of world trade in goods and services, also expanded by 12% in 2003. Even though this was the strongest increase since 1995, services grew less rapidly than merchandise trade in 2003 in contrast to the preceding two years (2001 and 2002).

The influence of price and exchange rate effects on nominal merchandise trade differed sharply by region, depending upon the sectoral distribution of exports as well as the exchange rate regimes adopted by the various economies. In general, nominal export growth in excess of 20 per cent was recorded by many oil exporting countries (e.g. Russia and Saudi Arabia) and in countries with strongly appreciating currencies, in particular in Western Europe. Two thirds of the nominal rise in the Middle East's exports was accounted for by higher oil prices. In Africa too, merchandise exports of oil exporters (and South Africa) expanded at a greater rate than the majority of non-oil exporting countries. But, while the share of Africa in world merchandise exports increased in 2003, at 2.3% it remained below the level recorded ten years ago.

Exchange rate changes had the most significant influence on trade values in the case of Western Europe. Despite a near stagnation in volume terms, there was a 17% increase in Western Europe's merchandise dollar export value. This was almost entirely due to the price effects of the strength of the euro and other European currencies vis-à-vis the US dollar, as its trade in fact reported a small decrease when measured in euro terms.

For the third year in a row, the transition economies recorded the greatest merchandise output and trade growth of all regions in 2003, facilitated by a combination of strong currencies, higher fuel prices, strong regional demand (including from Russia), and rising FDI inflows due to their deepening westward integration.

The lowest export growth in dollar values was reported for North America and Latin America. Interestingly, after the stagnant growth in 2002, Latin America's exports rose by 4.5%, sustained mainly by a recovery in demand for primary products from Asia.

Asia is the only region where price changes accounted for less than one-third of the increase in dollar value of the region's merchandise exports. Significantly, Asia's merchandise trade was driven strongly by the expansion not only of China's trade, but also intra-Asian trade. With its imports growing at 40% and exports at 35% in nominal dollar terms, China's trade expansion was unprecedented for a country with such substantial trade volume. Its export and import expansion was most outstanding particularly in office machinery and telecom equipment segment.

Although more detailed data, especially on intra-Asian trade, is required for making conclusive observations, the above trend points towards the increased integration of China into the electronics sector production networks, regionally and internationally. The large flow of capital goods to China highlighted by the report as financed by strong FDI inflows

related to the relocation of manufacturing assembly operations and the recovery in the electronics industry, does appear to support this observation.

In fact, this in itself may explain the large expansion in intra-Asian trade. For example, according to the WTO, the higher than regional average trade growth recorded by the Republic of Korea was owing to a sharp rise in its exports to China linked to the recovery of the IT sector. The accelerated growth in Asia's largest economies driven by a recovery in the electronics and IT sectors thus may have provided a major stimulus to regional trade expansion. In addition, the 2.7% GDP growth in Japan after years of recession also contributed to the momentum in Asian trade.

Meanwhile, for the first time, China's imports exceeded those of Japan, and China currently ranks number three among the world's leading merchandise importers. The increased and heavy dependence on Chinese economic expansion that this implies for sustaining global trade growth has serious implications for world economic growth prospects.

Additionally, for the third successive year, United States import growth exceeded the world average and continued to be a significant factor in mitigating sluggish world trade growth. Thus, the fact that US import growth continues to exceed export growth, widening its trade deficit further, also continues to be a factor causing uncertainty about the sustainability of world trade growth.

While all regions recorded stronger nominal export and import growth in 2003 compared to 2002 in the case of merchandise trade, in services trade, Asia's exports are estimated to have expanded at a lower rate than in 2002. While Asia and Latin America's export expansion was limited to 6 per cent, Western Europe and the transition economies recorded annual gains ranging from 16 per cent to 21 per cent boosted by the strength of their currencies vis-à-vis the dollar. Thus, gains in the ranking of the leading commercial services traders in 2003 were recorded principally by West European countries and transition economies at the expense of American and Asian countries.

Clearly, the annual data for 2003 was impacted by temporary and cyclical factors which tend to affect a single year's data. Thus, shifting the focus towards medium-term structural changes at the disaggregated product level, we can better decipher the underlying structural pattern influencing these trends.

Structural Shifts in Global Trade: Medium-term Trends in Manufacturing and Services Trade

A summary of world trade developments by six broad sectors for the period 1985-2002 as provided in the WTO report of June is reproduced in the Chart below. As this report points out, while at the aggregate level services and merchandise trade growth have evolved in a roughly similar way since 1990, developments are more varied at a disaggregated level.

It reveals that since 1985, transport services as well as agricultural and mining products among merchandise product groups expanded less rapidly than world trade. Thus, while the share of the travel category rose between 1985 and 1995, it decreased thereafter. In contrast, trade in manufactured goods and the "other" services category was more dynamic, showing steadily increasing shares over the period. Among all product and services categories, the share of mining products shows the biggest variations owing to the impact of fluctuating oil prices throughout the 1985-2002 period.

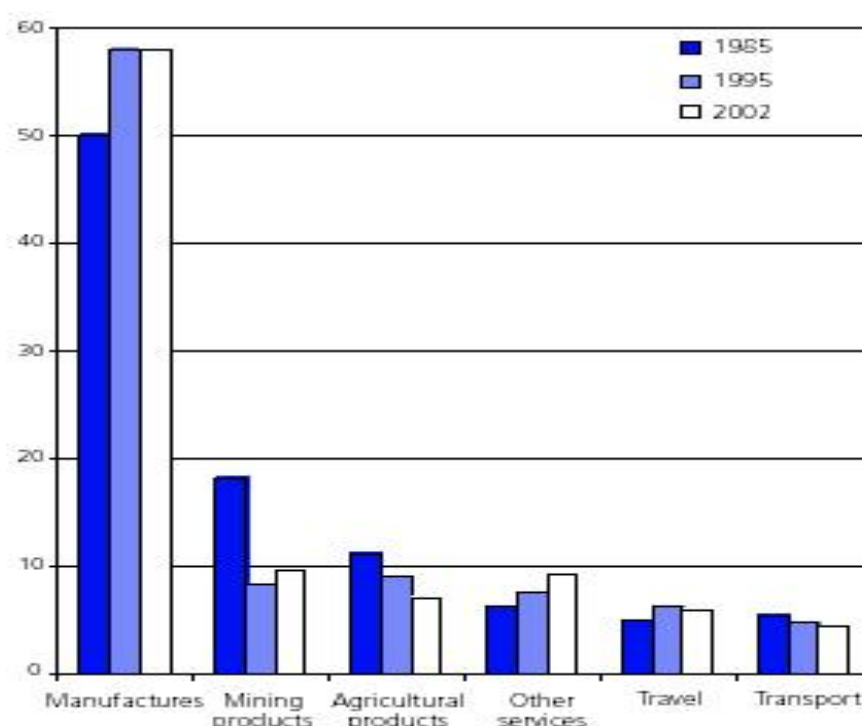
Thus, overall, there is no indication that services categories in general have increased their share in international trade and the latter continues to be dominated by manufactured

products to the extent of 75%. This implies that manufacturing sector capabilities will strongly dominate the prospects of developing and less developed countries' ability to increase their shares in global trade.

A further breakdown of the fast growing world exports of manufactured goods however reveals that the most dynamic product subcategory by far has been office and telecom equipment, which expanded at twice the rate observed for total manufactured goods in the 1990s. Consequently, its share gained five percentage points between 1990 and 2000 and accounted for 12.1 per cent of world merchandise and services exports. In fact, the gains of this group exceeded the gains made by all manufactured goods combined. Even though the crisis in the IT sector in 2000 arrested this trend and the share of the sector in total manufactures has stagnated since then, it continues to be one of the three largest manufactured export segments, along with other machinery and equipment as well as chemicals. Among the other subcategories of manufactured goods, iron and steel products and textiles products recorded below average trade growth in the 1990s, and showed a significant decline in their share in world trade over the 1990-2002 period.

These trends clearly point towards rising concentration of global trade not only in manufactured products, but within manufacturing into an increasingly narrow range of products such as machinery and equipment and chemicals.

Chart 1: Share of Major Goods and Services Categories in World Exports (a), 1985-2002. (Percentage)



^a Goods and commercial services exports combined.

Source: WTO, International Trade Statistics, 2003.

However, import liberalisation that has been occurring in the manufactured sector through tariff reduction under the non-agricultural market access (NAMA) negotiations, and restrictions on industrial policy options brought in through trade-related investment measures (TRIMs) have been rapidly eroding the South's capability to establish indigenously

founded export-oriented manufacturing sectors, which can withstand shifts in competitive advantages. Further, the pattern of global foreign direct investment (FDI) shows that machinery & equipment and chemicals industries have also been the largest FDI recipients throughout the 1990s. This means that most of the benefits of the dynamism in world trade in manufactures will be appropriated by the MNC firms involved in the world-wide manufacturing sector production networks.

The trends provided by the report regarding services trade also suggest gloomy prospects for the South, despite alluring promises being made in services trade negotiations under the GATS, regarding the opportunities for developing countries to expand their export revenues through services exports.

In 2003, commercial service exports as a whole was dominated by the US, UK, Germany, France, Japan and other West European countries. In fact, Western Europe alone constitutes about one half of world commercial services exports. Among the select few developing countries which had a presence among the top 30 leading commercial services exporters' list last year, only China and Hong Kong accounted for shares of 2.5% each in the total. The others such as South Korea, Singapore, India, Greece, Taiwan, Turkey, Russia, Thailand, Malaysia and Mexico all had shares ranging only between 2% to 0.7%.

At the same time, a larger number of developing countries were present among the top 30 leading importers of services in 2003. Even for China, which has emerged as the largest services exporter among developing countries, imports of commercial services continued to exceed its exports in 2003. Only Hong Kong recorded a significant net surplus in services trade, while Singapore and India also recorded some minor surplus in 2003. In general, net gains from trade in services appear to be in the deficit for the large majority of even leading developing country service exporters. The reason behind this may be found in the medium-term trends in commercial services trade.

Even though detailed statistics on commercial services trade are not yet systematically available, on the basis of a sample of large services traders, the report indicates a few sub-categories of international services trade which report outstandingly strong export growth between 1995 and 2002. These subcategories comprise (in descending order of their estimated growth rate) computer and information services, financial services, insurance, personal, cultural, and recreational services; and royalties and licence fees.

It can be seen that almost all of these, especially the fastest growing IT and financial services, are dominated by developed country firms. It is evident that the level of sophistication required to compete in the markets for these services will not be within the reach of the majority of middle and low-income countries.

Thus, if the developing countries succumb to the pressure in the ongoing GATS negotiations, to change the ownership and delivery of services in their countries through its massive deregulation and privatization agenda covering the entire scope of services, it will only help the developed country transnational corporations to secure an expansion in their already dominant global market share for services.

Medium-term Developments in Aggregate Agricultural Trade

Even more disturbing long-term trends emerge from the WTO report in the case of global agricultural trade. First of all, even as agricultural trade remains very important for many countries, the share of agricultural trade in world trade has decreased steadily in the longer term. Secondly, processed agricultural products have been a more dynamic component of international agricultural trade in the 1990s than unprocessed and semi-processed goods.

There are several inter-related aspects of agricultural trade which are brought out in the report. Most significantly, the significance of trade in the agricultural sector has increased tremendously across the globe. The volume growth of world agricultural trade during 1990-2002 was close to 4 per cent annually, which was roughly twice that of agricultural production. Real trade growth in agriculture during 1990-2002 in fact exceeded that over the 1973-1990 period (2.4 per cent). It is clear that this points to the increasing role of trade in agricultural sector at the global level.

However, despite this faster growth when compared to the earlier period, since growth in agricultural trade was less strong than total merchandise trade in nominal terms between 1990 and 2002, its share in total merchandise trade has decreased from 29 per cent in 1963 to as low as 9.3 per cent in 2002. The steadily declining share of agricultural products in merchandise exports in the 1990s could be observed in most regions. The share of agricultural products in intra-developing country trade also decreased from 15.5 per cent in 1990 to 10.7 per cent in 2002. Thus, even as the importance of trade in the agricultural sector has increased and agricultural trade remains very important for many countries, the share of agricultural trade in world trade has decreased steadily in the longer term.

While the report does not offer any explanation for these seemingly conflicting trends, clearly, the erosion of agriculture products' share in total merchandise trade when agricultural trade was expanding in real terms reflects the steady terms-of-trade decline experienced by agricultural commodities over the last several decades. The impact of this has been the most severe for those countries which are dominant suppliers of these products globally.

But, even so, agricultural products remain, for many countries, the mainstay of their merchandise exports. In recent years (1999-2001), agricultural exports accounted for more than one quarter of total merchandise exports in more than 55 countries (developed and developing) and still exceeded one half of total merchandise exports for 32 countries.

There were no significant changes in the regional shares of global agricultural trade during 1990-2002. While Western Europe's and North America's share in world exports of agricultural products each recorded a decline of two to three percentage points, the combined share of Australia and New Zealand at 4.5 per cent in 2002, remained unchanged compared to 1990. For the developing countries as a group, the share amounted to 30 per cent in 2002 compared to 27 per cent in 1990. However, this increase in the share of developing countries was mainly restricted to the Latin American and transition economies, which increased their share by about two percentage points between 1990 and 2002. Developing Asia recorded only marginal gains over the entire period, whereas the share of Africa declined slightly. Also, the increase seen in the share of developing countries could be just due to the impact of the recovery in agricultural commodity prices in 2003 from the decline since 1995, which may have led to slight improvements in the shares of some of the agricultural exporting developing and low income countries. But, this could not be ascertained from the information available in the current report. Accounting for about 70%, developed countries dominated global agricultural trade in 2002.

However, the report does point out that the share of intra-developing country trade in developing country agricultural exports has increased significantly from 31 per cent in 1990 to as much as 43 per cent in 2002. At the same time, interestingly, the share of intra-developing country trade in developing country imports of agricultural products was even larger than that in the case of exports. In 2002, nearly one half (47.6%) of developing country agricultural imports originated from other developing countries.

These trends inevitably lead us to conclude that for developing country agricultural exports, the developed country markets have clearly become less accessible than those in developing countries, despite the fact that WTO negotiations have been bringing about tariff liberalisation in agricultural trade. But, simultaneously, the fact that there has been a steady rise in the commercialisation of agricultural production globally, dominated by transnational agribusiness firms, could also be behind this rapid rise in intra-developing country agricultural trade.

It has been observed that the concentration in the international food processing and food manufacturing industries has increased tremendously over time and that these industries have moved from being more or less competitive, to being oligopolistic or monopolistic in nature. Companies which were engaged in one stage of the food system have either diversified into other stages of the food system or have forged strategic allegiances through mergers, partnerships and acquisitions. For instance, companies such as Cargill, Monsanto in foodgrains and Tyson Foods in livestock not only grow crops and rear livestock, but also process and manufacture food products which they finally sell to the retailers. By integrating all the stages of the food system, such companies have come to own the products from the farm to the shelf. These changes in the way agricultural production and trade are organised around the world could also be the underlying factor behind the other major structural change in agricultural trade highlighted by the WTO report.

Structural Shifts in Global Agricultural Trade

When agricultural trade between 1990 and 2002 was analysed by their stage of processing (or value-added content), it was found that exports of processed agricultural products expanded significantly faster than those of semi-processed and unprocessed agricultural products. The share of processed products showed a clear upward trend throughout the 1990s, rising from 42 per cent in 1990-91 to 48 per cent of global agricultural trade in 2001-02.

The data revealed that trade in beverages (which are considered 100 per cent processed) recorded an above average expansion in the 1990-2002 period (4.8 per cent annually), while natural fibres and hides and skins (which are considered 100 per cent unprocessed) recorded an absolute decrease or near stagnation in the observed period. In eight other categories (with the potential to move from unprocessed and semi-processed to processed goods), there was a marked shift to more processed goods within the group (cereals and products, coffee, tea, cocoa and spices, fish, other foodstuff, meat and live animals, other agricultural goods (including cut flowers), tobacco and sugar and sugar products. A moderate decrease or stable share of processed goods was observed for the remaining categories (dairy products, eggs, fruits, vegetables and nuts and oilseeds, cakes and vegetable oil).

The report reveals that about three quarters of the countries for which data was available in the UN Comtrade database recorded an increase in the share of processed goods in their agricultural trade between 1990-91 and 2001-02. In fact, there was a marked increase in the share of processed products in total agricultural exports for the 14 major global exporters, with the exception of two Latin American countries (Brazil and Chile). The largest shifts to more processed agricultural products could be observed in Asian developing countries (China, Indonesia, Malaysia and Thailand, with gains in shares of processed over unprocessed agricultural exports of 14, 17, 28 and 11 percentage points respectively). Marked increases could also be observed for Canada and Mexico. Agricultural exports of developing countries to high-income markets also experienced this structural change.

Based on this, the report summarises that there has been a broad-based shift across countries towards processed agricultural products, which have been a more dynamic component of international agricultural trade in the 1990s than unprocessed and semi-processed goods. The conclusion appears to be that most countries have and would benefit from this structural shift. However, the real picture may be more complicated than what the report appears to suggest.

Based on trends in two lower income countries, Bolivia and Peru, which have a higher share of processed goods in their agricultural exports than New Zealand, the report suggests that there is no strong overall link in the sample between income levels and the share of processed agricultural products. But, it then contradicts this by adding that in general all countries with a very low share of processed goods in their agricultural exports (15 per cent or less) are indeed low or low middle-income countries (e.g. Cameroon, Ethiopia, Honduras, Pakistan, Sri Lanka, Uganda and Zimbabwe).

On the contrary, one of the major implications of the fact that processed goods have become the more dynamic category of agricultural trade would be its impact on the trade expansion capacity of developing and low income agricultural commodity exporting countries. Based on the singular example of Chile which managed to expand agricultural trade between 1990-2001 across all product categories and stages of processing, the WTO report claims that the above structural shift does not imply that individual countries cannot achieve high export growth in unprocessed and semi-processed goods. Chile's outstanding export expansion in agricultural products would clearly need a deeper investigation to understand in particular whether it was related to any free trade agreements in operation.

But, as the report itself points out in the concluding paragraph, with respect to agricultural exports of low-income countries, no shift towards an increased share of processed goods could be observed in any of the three major higher income markets. Thus, there seems to be an attempt to underplay the possible unfavourable outcomes that this structural shift in agricultural trade may bring about.

According to the WTO report, the two factors that favour the expansion of processed goods over unprocessed goods are the following. First, processed goods have a larger potential for intra-industry trade and offer more possibilities for product differentiation than unprocessed goods. The example offered is that cocoa-producing countries will not see much bilateral trade in cocoa beans, for example, while chocolate-bar/snack producing countries can exchange their products, satisfying a broad variety of different tastes. As per capita income levels increase, consumers appreciate a larger variety of similar products and increasingly buy goods with a brand label.

Secondly, the potential to increase value added for a given consumer food product is, in general, far larger than for unprocessed foods and this underlies the shift to increased trade in processed foods. Also, the trend to smaller household size and an increase in participation by women in the labour force strengthens consumption trends towards more processed food at the expense of unprocessed food. In fact, this is confirmed by the trend on the import side, which showed an even more striking increase towards a higher share of processed goods. Among the 38 major agricultural importers, only eight recorded a decrease in the share of processed goods.

It is evident that with processed goods becoming the more dynamic segment within agricultural trade globally, for the middle and low income agricultural exporters to expand their export revenues from agricultural trade, they would have to first of all participate in this dynamism. However, the value addition and product differentiation required for being

successful exporters in the processed segment calls for production process capabilities, which the report appears to take for granted, but which are largely beyond the reach of the indigenous farming communities in such countries. This implies that manufacturing sector capabilities will strongly dominate the prospects of developing and less developed countries' ability to increase their shares in global agricultural trade.

Ironically, the logic offered for advocating tariff escalation to developing countries is that progressively higher tariffs on higher stages of processing than for agricultural commodities will promote their shift to higher value added agricultural products. However, by being forced to undertake rapid tariff liberalisation of their lower-end primary products, these countries' very base for generating the surplus revenues required for investment in higher value-added processing segments is getting eroded. Many low income countries are being pushed into cutting their agricultural input subsidies, promote commercial export-oriented agricultural production, and reduce their agricultural tariffs all at the same time, as conditions for multilateral loans. These policy prescriptions, for instance, find their place in the so-called country papers, or the Poverty Reduction Strategy Papers (PRSPs).

That is, while developed country agricultural exporters enjoy high subsidies, their developing country partners are being forced to reduce subsidies. Further, even as the tariff reduction imposed upon the developing and less developed countries exposes their farmers to competition from the highly subsidized farm production in the developed world, actual market access provided by developed countries for developing country agricultural exports remain immensely low, because of the high tariffs and quotas and the prevalence of domestic support and export subsidies given by the EU and the US. Thus, the ability of low and middle-income agricultural producers to upgrade themselves to break into the global markets dominated by the increasingly integrated production and trading networks of transnational agribusiness firms on their own is highly limited.

Therefore, proliferation of agricultural trade which pushes commercialised agricultural production on the one hand and refuse meaningful market access on the other hand is happening at one level. Thus, most of the benefits of the dynamism in trade in processed agricultural products will be appropriated by the MNC firms involved in the global agri-food value chain. At another level, there is increasing food import dependence because of agricultural trade liberalisation by developing countries. These simultaneous processes will lead to the break-down of the self-sustaining agricultural production systems that have been the traditional backbone of middle and low income countries' farming communities.

This will have severe human development implications, food security being central to them. The fact that the rise in commercialisation of agricultural activities is corresponding with a period of increasing global poverty levels and decreasing per capita food consumption in several countries, as has been highlighted by many agricultural economists, in fact portends the impending development crisis facing the South.

¹ See "World Trade 2003, Prospects For 2004", April 2004, available at http://www.wto.org/english/news_e/pres04_e/pr373_e.htm

² See, "Recent Trends in International Trade and Policy Developments" released on 11 June available at <http://www.wto.org/english/news_e/pres04_e/pr378_e.htm>. See also World Trade Report, 2004.

³ See the press release "World Trade 2003, Prospects For 2004", April 2004, available at <http://www.wto.org/english/news_e/pres04_e/pr373_e.htm>

- ⁴ The real or volume increase is the value of nominal trade adjusted for price and exchange rate changes. It is not a measure for the physical quantity of goods traded internationally. Source: WTO, 2004, opcit.
- ⁵ According to the report, a major uncertainty associated with these estimates derives from the fact that detailed services statistics by sub-category are not available for US intra-affiliate trade.
- ⁶ However, a small recovery of the share of agricultural exports could be observed between 2000 and 2002 as the value of agricultural trade expanded by 5.5 per cent while that of world merchandise trade stagnated over that period.
- ⁷ Dollar prices for agricultural products fell until 1995 and rose in 2003 for the first time since 1995.
- ⁸ See for instance, the discussion in Jayati Ghosh, 2003, "Corporate Agriculture: The Implications for Indian Farmers" available at http://www.macrosan.com/fet/dec03/pdf/Corp_Agri.pdf.
- ⁹ One notable exception to this general trend is China with its huge increase in imports of primary agricultural products.