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Changing trends of Foreign Trade in the Context of Developing Countries

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Abstract:

With lots of up and downs in last few years, especially during the pandemic period, the economy of developing countries growing rapidly. All countries are focusing on SDGs and constantly striving for the eradication of hunger, poverty, unemployment and skill development. The current study focuses on the trends and practices followed by the developing countries in foreign trades. Last twenty years data is collected and computed to compare the global trade, evolution of LDCs' and developing economies' share of global trade. One of the forces reshaping global value chains is a change in the geography of global demand. The major trends in developing countries trade performance are also compared. The study overview major trends in the participation of developing countries in world trade over the past two decades, followed by a brief examination of some of the key factors that were associated with trends for different groups of developing countries After analyzing the statistical data from world bank studies, shows that the developing countries already play a sustainable role in world trade and their significance is only expected to rise. As they diversify and grow as export markets, emerging economics will come to dominate international trade. As the share and importance of developing countries increases, the share of world trade occurring among developing countries will continue to rise.

Keywords: *Foreign trades, world trade, developing countries, inflows, WTO.*

Introduction:

Developing countries depend on national and global economic growth to achieve the “Millennium Development Goals”. In this regard, international trade is recognized as a powerful instrument to stimulate economic progress and alleviate poverty. Trade contributes to eradicating extreme hunger and poverty, by reducing by half the proportion of people suffering from hunger and those living on less than one dollar a day, and to developing a global partnership for development, which includes

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addressing the least developed countries' (LDC) needs, by reducing trade barriers, improving debt relief and increasing official development assistance from developed countries.

It is commonly agreed that in order to reduce the proportion of people living on less than $1 a day, developing countries need to substantially accelerate their economic growth by carefully opening their markets.

The strong growth in exports (29 per cent in 1996 to 37 per cent in 2006) from developing countries has, to a large extent, been due to the steady reduction of global tariffs as barriers to trade. (Declined from 11 per cent in 2000 to 7 per cent in 2006). Developed countries still impose tariffs on imports (agricultural items) from developing countries that are twice as high as those from developed countries.

The reality is that trade liberalization has different effects on poverty in different countries, depending on a wide range of factors, including macroeconomic stability, infrastructure and the financial sector. It is quite clear that trade alone will not help the developing world reach the MDGs and that the international community most significantly increase its efforts to cope with trade liberalization and establish certain conditions for growth to take place in all countries. Developing countries have to be better prepared before entering the global market.

The COVID-19 pandemic has disrupted global trade and poses additional challenges for developing economies and other vulnerable economies in fulfilling SDGs.

To conclude, in the words of Bono, co-founder of the "One" campaign against poverty, trade reform is not about charity, but about providing developing countries the necessary tools to achieve the MDGs. Trade is an important instrument to accelerate economic growth and reduce poverty. However, trade openness has to come with comprehensive reforms in line with each country's specificity poverty and degree of development.

02. Global trade has changed over the past 20 years:

The McKinsey Global Institute’s recent report takes an in-depth look at 23 different industry value chains spanning 43 countries — and it finds some trends that might surprise anyone.

China and other emerging markets consume more of what they make and develop their own domestic supply chains. Less than 20% of goods trade today is based on companies seeking the lowest wages around the world. Global value chains are becoming more knowledge-intensive, emphasizing R&D and innovation. Global value chains are being reshaped by rising demand and new industry capabilities in the developing world as well as a wave of new technologies. Globalization is in the midst of a

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transformation. Understanding how the landscape is shifting will help policy makers and business leaders prepare for Globalization's Next Chapter and the opportunities and challenges it will present. We observe five major shifts in global value chains over the past decade.

i. **Goods-producing value chains have grown less trade- intensive:**

Trade intensity (that is, the ratio of gross exports to gross output) in almost all goods-producing value chains has fallen. Between 1990 and 2007, global trade volumes grew 2.1 times faster than real GDP on average, but they have grown only 1.1 times faster than GDP since 2011.

It reflects the development of China and other emerging economies, which are now consuming more of what they produce.

ii. **Services play a growing and undervalued role in global value chains**

a. Services create roughly one-third of the value that goes into traded manufactured goods. In the future, the distinction between goods and services will continue to blur as manufacturers increasingly introduce new types of leasing, subscription, and other "as a service" business models.

b. The intangible assets represent tremendous value, but they often go unpriced and untracked unless captured as intellectual property charges.

c. Trade statistics do not track soaring cross-border flows of free digital services; -These services undoubtedly create value for users, even without a monetary price.

It simply underscores the underappreciated role of services, which will be increasingly important for global value chains and trade in the future

iii. **Trade based on labor-cost arbitrage is declining in some value chains.**

In the future, automation and AI may amplify this trend, transforming labor-intensive manufacturing into capital intensive manufacturing.

iv. **Global value chains are growing more knowledge-intensive**

The growing emphasis on knowledge and intangibles favors countries with highly skilled labor forces, strong innovation and R&D capabilities, and robust intellectual property protections. In many value chains, value creation is shifting to "Upstream Activities", rather than downstream activities.

v. Value chains are becoming more regional and less global:

The share of trade in goods between countries within the same region declined from 51 percent in 2000 to 45 percent in 2012.

One of the forces reshaping global value chains is a change in the geography of global demand.

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Table 1. Evolution of LDCs' and developing economies' share of global trade

(Different baselines scenario, in percentage)

		Alternative baselines				2020 Change from baseline		
Group of economies	**Measure**	**2005**	**2010**	**2015**	**2020**	**2005-2020**	**2010-2020**	**2015-2020**
LDCs	Service exports	0.44	0.60	0.74	0.63	0.18	0.02	-0.11
	Goods exports	0.76	1.03	0.97	1.03	0.27	0.00	0.06
	Total exports	0.69	0.94	0.92	0.94	0.25	0.00	0.02
Developing economies	Service exports	22.79	27.71	29.79	27.95	5.17	0.24	-1.83
	Goods exports	35.97	42.84	45.68	46.16	10.19	3.32	0.47
	Total exports	33.22	39.66	41.94	42.09	8.87	2.44	0.15

Source: UNCTAD (2021a).

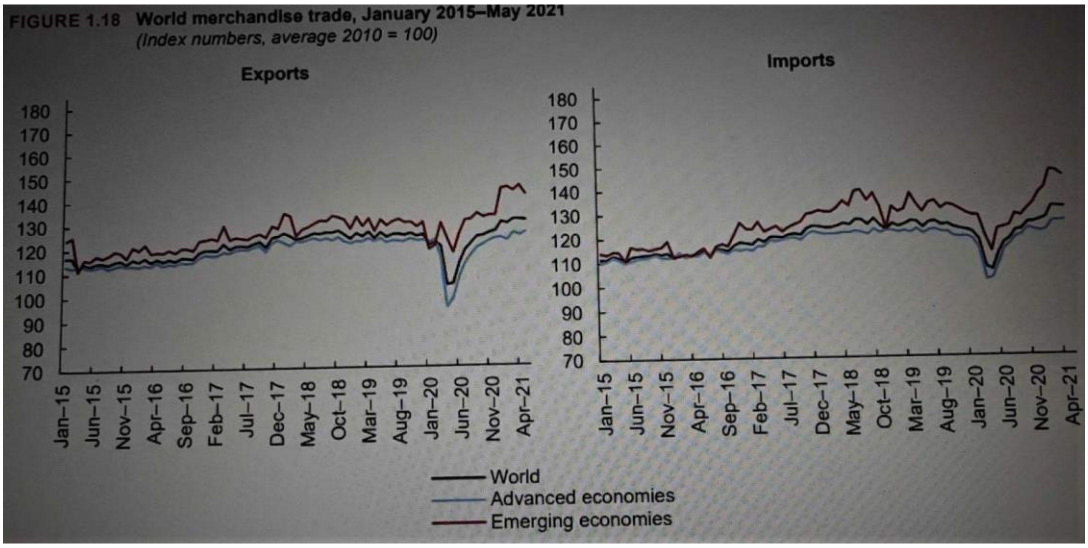

FIGURE 1.18 World merchandise trade, January 2015–May 2021
(Index numbers, average 2010 = 100)

3. **Major Trends in developing countries Trade Performance**

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a. **The changing structure of world trade**

Over the past two decades developments in the three broad product categories of world merchandise trade have differed sharply. While the value of exports of mining products (mainly fuels) and agricultural products rose between four and five times, those of manufactured goods increased nine times.

After fluctuating in the range of 55 to 60 per cent between 1973 and 1985, the share of manufactures in merchandise trade had increased sharply to around 78 per cent by 1995 and the remaining 22 per cent is divided about equally between agriculture and mining.

The share of manufactures in world merchandise trade fluctuated in the range of 55-60 per cent between 1973 and 1985, then increased sharply, reaching 75 per cent by 1995.

* After peaking at 28 per cent in 1980 (mainly due to exports of fuels), the share of developing countries in world merchandise trade declined until the second half of the 1980s, after which it resumed growing as petroleum prices bottomed out and the developing countries continued to expand their share of world trade in manufactures.

* Since 1980, the share of developing countries in world exports of mining products (mainly fuels) has fallen by a quarter, while their share of world trade in manufactures has doubled from 10 to 20 per cent.

* As a group, the Asian developing countries have out- performed the other developing countries by a wide margin in terms of their share of world trade, their share of FDI flows to developing countries, and their ratio of trade-to-GDP.

* A comparison of 25 developing countries whose export growth between 1985 and 1994 exceeded the world average, and a group of 35 developing countries whose exports in 1994 were below the 1985 level, shows a high correlation between export performance and the share of manufactured goods in merchandise exports.

* A comparison of the export performance of the least developed countries (LLDCs) since 1980 with that of all developing countries confirms not only a strong correlation between export performance and the share of manufactures in exports, but a similar positive correlation between exports and both the share of investment in GDP and the share of manufactures in GDP.

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b. **Trade performance of developing countries by region**

Trends in their respective shares in world merchandise trade over the past decade varied among the regions. It can be seen from the developing countries in Asia increased their market share dramatically, while Latin America's share stagnated and those of Africa and the Middle East declined.

As regards the ratio of trade in goods and services to GDP, the contrast between developing Asia including China & other developing countries.

Developing Asia and China attracted most of the FDI flows to developing countries. Inflows to Africa and the Middle East attracted only very small shares.

Much of the concern about "marginalization" centers on the group of least developed countries (LLDCs). Low trade-to- GDP ratios, low investment and small shares of manufacturing in GDP and exports, are common traits of the "typical" LLDC.

c. **Commercial Services**

As regards the three major categories of commercial services - transport, travel and other business services - the available data suggest that the developing countries as a group have increased their market shares in all three categories since 1987.

4. Factors underlying the varied Trade performances of

Developing Countries

It begins with a brief review of selected key external factors that are generally believed to play a role in explaining the variation in trade performance across groups in the past two decades:

a. **External Factors:**

Access to Foreign Markets:

While the average level of protection in the industrial countries is relatively low, there are serious barriers to entry in certain sectors of particular interest to developing countries - including agriculture, textiles, clothing and fish and fish products. Developing countries have also expressed concern about preference erosion, tariff escalation and the risks in being left out of the proliferating free trade areas and customs unions.

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Capital Inflows:

The data document the well-known trend for official development aid to represent a much smaller share, and private capital flows a much larger share, of capital flows to developing countries. While the share of developing countries in total world FDI flows more than doubled from 15 per cent in 1986-90 to more than 35 per cent in 1994, the share going to the LLDCs remained stagnant at an insignificant 0.4 per cent. Indeed, ten developing countries received nearly 80 per cent of the FDI going to developing countries

Other external factors:

Over 1984-93, the IMF estimates that fluctuations in world interest rates on their outstanding debts, cyclical changes in industrial country demand for their exports, and declines in primary commodity prices, combined to reduce the average growth rate of those developing countries with the lowest growth performance by three-quarters of one percentage point. Mention should be made of one factor that straddles the external/domestic distinction, namely the debt burden of the LLDCs. The IMF and the World Bank are considering a plan that would bring the level of debt down to a manageable level for LLDCs pursuing sound economic policies.

b. **Domestic factor:** The economies of the LLDCs have been hampered by a number of structural factors, including macroeconomic imbalance, lack of human and physical capital, poorly developed infrastructure, and poorly functioning institutions

Trade policies and participation in the WTO: Many developing countries - and especially the LLDCs - have found themselves poorly equipped in terms of institutional infrastructure and human and financial resources available to meet these challenges in the multi- lateral trading system

Export concentration: it is no surprising, that most of the countries, that have participated little or not at all in global integration are primary commodity-dependent countries with relatively small and highly inefficient manufacturing sector and as a result, they are viewed as having limited growth prospects.

Agriculture remains the foundation of Africa's economic development, and its weakness underlies the poor overall performance. it is also true that a recent World Bank study calls into question the conventional wisdom that "commodity dependence" is always bad for economic growth.

Macroeconomic Policies: Macroeconomic instability is not the only way large fiscal deficits adversely affect the pace of a country's integration into the global economy.

The experience of different countries' reform efforts suggest that stable macroeconomic policies,

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structural reforms, and outward-oriented trade and investment regimes go a long way to provide economic stability and attracting foreign investors and thereby lower the risk premium attached to investment in LLDCs - a precondition to attracting foreign investors. In those countries which have persisted in economic reforms, the positive results are becoming apparent.

Other domestic factors: Inadequate and inefficient connectivity are a serious impediment to African exports. At the institutional level, many developing countries, particularly LLDCs, lack a transparent legal and regulatory framework, including company and bankruptcy laws and investment codes.

Despite export opportunities, many small and medium-sized export enterprises - especially in the LLDCs -are critically constrained by the lack of pre- and post-shipment credit facilities and, by the lack of business information and market intelligence. Enterprise-oriented technical cooperation programmes can underpin efforts to improve international

marketing and business development, by focusing on product and market development, trade finance, export quality management, export packaging, purchasing and supply management.

a. **Interaction among the external and domestic factors:**

There is a complex interaction, both positive and negative; a factor in one category can interact with others in the category, and developments in external factors can improve or worsen the effects of domestic factors and vice versa.

05. Research Implication:

After analyzing the statistical data as available from the recent world bank studies, the research implication is that the developing countries already play a sustainable role in world trade and their significance is only expected to rise. As they diversify and grow as export markets, emerging economics will come to dominate international trade.

Their relative weight has grown enormously, mainly due to China’s meteoric rise as an exporter.

GDP projections suggest that the share of world trade held by developing countries will expand further, more than doubling over the next 40 years and reaching nearly 70 presents by 2050.

Barring geopolitical or climate-induced catastrophes and assuming that the world does not retreat into protectionism, the role of developing countries as exporters and importers will increase significantly over the next 40 years, reflecting their high growth rate and the rise of their middle classes. In addition, their dependence on developed country markets is projected to weaken.

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The patterns of comparative advantage will shift, opening the door for currently lower-wage countries to benefit.

Developing Countries role as an Export Market will significantly increase. Based on a conservative GDP elasticity of trade of "Current account surpluses and deficit are assumed to stay constant forty years from now. (a more realistic projection would be between 1.3 and 1.5),

06. Conclusion:

As the share and importance of developing countries increases, the share of world trade occurring among developing countries will continue to rise.

China's imports from India and Russia will account for 2.4 percent of world trade by 2050, representing a huge increase from 0.21 percent in 2006. A booming China and India indicate strong demand not only for primary products, but also for niche manufactures and services, as well as for industrial inputs and equipment from other developing countries.

As wages, capital/labor ratios, and education levels in the most successful developing countries rise faster than in the less successful ones, patterns of comparative advantage will shift. The fastest growing developing economies' current comparative advantage in labor intensity will weaken as wages there rise, opening the door for lower-wage countries to benefit. However, the extent of this shift will depend on the ability of the lower- wage developing countries to expand manufactures exports and improve capacity to produce and distribute agricultural products and raw materials. This will require eliminating the high import protection still present in some sectors and countries. Policies could include modifying logistics and customs procedures that currently make it very expensive to trade, as well as improving the business climate to encourage investment and the expansion of capacity. The success of developing countries in manufactured exports will force rich countries to innovate and differentiate even further if they are to sustain their market position in high-value- added products. A large expansion in world trade, as well as marked increases in efficiency, innovation, and, ultimately, human welfare are likely in the coming 40 years.

This discussion provides an overview of major trends in the participation of developing countries in world trade over the past two decades, followed by a brief examination of some of the key factors that were associated with trends for different groups of developing countries - in particular, the sharply different trade performance of most developing countries in Asia (very positive) and that of a number of the poorest developing countries (very disappointing).

However, as the moribund Doha process shows, the establishment of an open, rules-based system appropriate for the world economy and reforms of the World Trading System, including the World

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Trade Organization of 21st century, are needed of the hours with a view to ensure that the progress of world trade is not hampered / disturbed in the midst of the next economic and financial crisis.

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