2.1 INTRODUCTION

2.1.1 International trade is an integral part of the globalization process. Over the years, governments in most countries have increasingly opened their economies to international trade, whether through the multilateral trading system or as part of their domestic reform programmes or increased regional cooperation and integration. According to WTO (2008), post World War II, international trade has experienced a long period of expansion, with global merchandise export increasing by more than 8 per cent per annum in real terms over the period of 1950-73. Thereafter trade growth slowed because of the two oil price shocks, inflation caused by monetary expansion and inadequate macroeconomic adjustment policies. In the 1990s, trade expanded again more rapidly, partly driven by innovations in the information technology (IT) sector. In 2001 despite a little contraction of trade due to dotcom crisis the average expansion of world merchandise export continued to be high (According to WTO, average of 6 per cent over the period of 2000-07).

2.1.2 According to WTO (2008), the most dynamic traders in the period 1950-73 were the west European countries and Japan. Post World War II reconstruction and the Korean War provided a major stimulus to Japanese

---

2The dot-com bubble refers to the speculative bubble that took place in Information Technology and communication type industries during the late 1990s, until it’s collapse in 2000/2001. Western nations saw an increase in their total value, and a very rapid growth of GDP resulting from technology companies growing at speculative rates. The dot-com bubble was a speculative bubble covering roughly 1995–2000 with the huge increase on the Nasdaq stock market in industrialized countries. NASDAQ gives high valuations for many enterprises which have low or no profits, and fell nearly 50 per cent from its peak in the second half of 2000. By 2001 the bubble was deflating at full speed. A majority of the dot-coms ceased trading after burning through their venture capital, many having never made a "net" profit. Investors often referred to these failed dot-coms as “dot-bombs” (Wikipedia; Maddison, 2001)
and European exports in the early 1950s. From the early 1960s onwards, the six Asian NIEs followed an outward oriented trade policy and succeeded in sharply increasing their merchandise exports. The dominant share of the United States in world trade in the early 1950s was eroded in subsequent decades and the share of regions (US and Canada) in world merchandise exports varied, largely due to the fluctuations of commodity prices and exchange rates. The oil-exporting developing countries (especially those in the Middle East) increased their share between 1973 and 1983 but lost almost all their gains when oil prices fell back thereafter. In 1993, after the disintegration of the Soviet Union and the fall of the Council of Mutual Economic Assistance (CMEA) industrial countries’ (i.e. western Europe, North America and Japan) share of world merchandise exports reached a peak, in excess of 70 per cent. Together with the six NIEs, they accounted for more than 80 per cent of world trade in 1993.

2.1.3 Over the 1990s, share of Japan in world’s export has started to drop due to competition posed by NIEs and China. In 1994, creation of North American Free Trade Agreement (NAFTA) was not sufficient enough to reverse the downward trend in the share of US and Canada in world trade. Similarly, integration process of Europe continued to strengthen and expanded to cover the central European economies and the Baltic states but could not check the relative decline of European export. The declining share of industrial economies can be because of the rise of China, resurgence of the Commonwealth of Independent States (CIS), and recently to the boom in commodity prices which multiplied the shares of Africa, Middle East, and Central and South America, particularly regions exporting principally minerals and other primary products.

2.2 **DATA BASE AND ANALYTICAL TECHNIQUES**

2.2.1 An attempt is made to look at the growth of merchandise trade of 87 countries. For the current analysis, initially data for 208 countries was
collated. Data pertains to value of merchandise export and merchandise import for 208 countries. For each country, per cent share to total merchandise trade is calculated, and those countries having share less than 0.01 per cent in 1990 are dropped from the purview of the current research. In addition to this, only those economies having consistent data for 1990, 1995, 2000 and 2005 are considered. A total of 87 countries are thus considered for the analysis of the changing pattern of international trade through the reference years (See Annexure 2.2). It is important to note at the outset, that economies like Belgium-Luxembourg, Czechoslovakia, USSR and Yugoslavia are considered as undivided economies, therefore, post break up countries, for which data are available, are clubbed together for consistency through the years. For country groupings, see Annexure 2.1. The increasingly important area of trade in services is also discussed later in the chapter. Data pertaining to merchandise and service trade (measured in US Dollars at current prices in millions) for the required analysis is extracted from UNCTAD Handbook of Statistics, 2006-07, and also from UNCTADSTAT (web database of UNCTAD). It is important to mention here that the analysis of international service trade is difficult because of lack of comprehensive and internationally comparable data (Ocampo and Vos, 2008).

2.2.2  It is pertinent to mention here that 10-15 years of cycle is not long enough to trace major changes in the sudden jump of the growth. Merchandise trade is calculated by adding merchandise export & import. Simple growth rate is calculated for 1990-95 & 2000-05. Compound annual growth rate (CAGR) for 1990-95, 1995-2000 & 2000-05 is calculated. Further, four classes were made to compare simple growth rate over the phase of 1990-2005. For the ease of comparability, the classes were kept constant for 1990-95 and 2000-05 considering the former, as a base period. Likewise, results of CAGR is summarised by carving out similar class groups with 1990-95 as the base for subsequent time periods. Growth rates were calculated by utilising both

3 CAGR is an average growth rate over a period of several years. It is a geometric average of annual growth rates.
methods of simple and compound annual growth rate with the mere purpose of checking out the difference in results. Due to absence of significant variation in results of the two methods, CAGR is considered for detailed analysis in this chapter. Furthermore, CAGR is also calculated for service trade (export of services and import of services) up to four time periods for each country are used: 1990-1995, 1995-2000 and 2000-2005.

2.3 TRENDS IN MERCHANDISE TRADE

2.3.1 Merchandise trade grew rapidly over the past 40 years. During 1962-2000, value of the world merchandise trade has grown at an annual average rate of about 10 per cent and its volume by 6 per cent (Ocampo and Vos, 2008). According to Ocampo and Vos (2008) ‘Although, developed countries dominate all non-oil global markets, developing countries have rapidly expanded their participation, especially since the second half of the 1980s. More importantly, there was a significant shift in the structure of exports by developing countries (as a group) away from primary products towards manufactures’.

2.3.2 Despite the ups and downs in the rate of growth of world trade, the overall volume of trade continues to grow. Various factors in the global economy cause fluctuations in the growth rate of world trade, which span from world oil prices to changes in foreign exchange rates. Figure 2.1 displays value of merchandise trade, merchandise export and merchandise import for four points of time, namely, 1990, 1995, 2000 and 2005. It is quite explicit from the figure that international trade in merchandise trade has certainly increased considerably since 1990. In 1990, the value of total merchandise trade was $7,068,733 million (in current US dollars) and $ 21,152,995 million in 2005. The expansion of world trade is characterized by three significant trends. First, rise of emerging market economies as important trading partners; second, multiplying significance of regional trade; and third the shift of higher technology exports toward dynamic emerging economies
(IMF, 2011). Similarly, trends in the value merchandise export and import reflects consistent increase over the years (Figure 2.1).

**FIGURE 2.1 Trend in value of world merchandise trade**

Source: Based on Annexure 2.3

2.3.3 In 1990 around 72 per cent of world merchandise export was from developed economies\(^4\) (as a group). However, despite experiencing consistent decline in their share over the years, they still account for a dominant share in world merchandise trade (Table 2.1). Over the four points of time, developing countries participation in total world export of merchandise has increased. Similar pattern could be seen in case of merchandise import.

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\(^4\) According to UNCTAD Handbook of Statistics 2006-07 countries are grouped into following major categories. Developed economies cover geographical regions like America, Asia, Europe and Oceania. Economies in transition comprises of countries forming Commonwealth of Independent States. Developing economies includes all countries and territories in America, Africa, Asia and Oceania not specified above.(See Annexure 2.1 for detail country classification)
TABLE 2.1 Share of Merchandise Export
(Shares in per cent by country group)

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<tbody>
<tr>
<td><strong>Merchandise Export</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World (in US million dollars)</td>
<td>3 478 571</td>
<td>5168919</td>
<td>6 444 106</td>
<td>10 440 780</td>
</tr>
<tr>
<td>Developed Economies</td>
<td>72.05</td>
<td>69.80</td>
<td>65.64</td>
<td>60.26</td>
</tr>
<tr>
<td>Developing Economies</td>
<td>24.23</td>
<td>27.58</td>
<td>31.73</td>
<td>35.92</td>
</tr>
<tr>
<td>Economies in Transition</td>
<td>3.72</td>
<td>2.62</td>
<td>2.63</td>
<td>3.82</td>
</tr>
</tbody>
</table>

| **Merchandise Import** |               |               |               |               |
| World (in US million dollars) | 3 590 163     | 5225561       | 6 642 126     | 10 712 215    |
| Developed Economies | 73.41         | 69.05         | 69.52         | 65.68         |
| Developing Economies | 22.29         | 28.60         | 28.67         | 31.36         |
| Economies In Transition | 4.30          | 2.35          | 1.81          | 2.96          |

Source: Calculated on the basis of data from UNCTAD Handbook of Statistics, 2006-07

2.3.4 There have been sharp swings in the growth of international trade flows over the 1990s (Figure 2.2 and 2.3). During 1990s world economy has experienced a deep recession and rapid recovery in emerging markets, together with the diverse movements of commodity prices, including oil, led to such fluctuations. However, the resilience of the United States economy, a pick-up in economic activity in the EU and Japan, stronger than expected
recovery in Latin America and the transition economies, and sustained growth in Asia all helped to stimulate global trade. The prolonged period of boom in the United States has also left its mark on the global trading system (UNCTAD, 2002).

2.3.5 An important feature of international trade over the years has been the growing participation of developing economies. Between 1990-95 and 2000-05 their merchandise export and import grew much more rapidly than the world average. (Figures 2.2 and 2.3). As a result their share has also increased over the years as stated earlier.

FIGURE 2.2 Growth of merchandise export

![Graph showing growth of merchandise export](source: Based on Annexure 2.4)
2.3.6 Table 2.2 shows top five players in international merchandise trade. United States of America is the largest national economy of the world, with a GDP of $ 12.3 trillion in 2005. It is quite clear from the table that USA is also the largest trading nation of the world over the period of fifteen years; however, there is a decline in its share in 2005. As major developed economy, its import has relied on raw materials and export on processed manufactured goods. USA has also emerged as key export market for number of economies across globe. Germany, Japan, France and United Kingdom are other dominant players in international merchandise trade among eighty seven countries. Top five players reflect dominance of the developed North in international trade in merchandise; however, there has been decline in their relative share over the years.
TABLE 2.2 Top Five Players in International Merchandise Trade

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>12.88</td>
<td>13.05</td>
<td>15.60</td>
<td>12.48</td>
</tr>
<tr>
<td>Germany</td>
<td>10.70</td>
<td>9.50</td>
<td>8.02</td>
<td>8.26</td>
</tr>
<tr>
<td>Japan</td>
<td>7.40</td>
<td>7.50</td>
<td>6.56</td>
<td>5.25</td>
</tr>
<tr>
<td>France</td>
<td>6.48</td>
<td>5.76</td>
<td>5.10</td>
<td>4.58</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.80</td>
<td>4.86</td>
<td>4.84</td>
<td>4.25</td>
</tr>
</tbody>
</table>

Source: Based on data UNCTAD Handbook Statistics, 2006-07

2.3.7 Figure 2.4 to 2.6 indicates uneven distribution of merchandise trade growth across countries over the time span of fifteen years (1990-95, 1995-2000 and 2000-05). Figure 2.4 depicts that over the period 1990-95 there were group of eleven countries registering very high growth rate of merchandise trade, and are spread over central and South America, Asia, and Europe. On the contrary, between 1995-2000 (Figure 2.5) there were only three countries, namely Hungary, Mexico and Vietnam experiencing growth of about more than 16 per cent. It is important to mention that the annual growth in the quantum of world trade declined from 4.5 in 1998 to less that 4 per cent in 1999, which is significantly below the average rate of trade expansion from 1991 to 1997. Furthermore, the ratio of trade growth to growth in gross world product was much less in 1999 than the average of 3 registered for the period of the 1990s before the onset of Asian crisis (UNCTAD, 2000). This reflects the fact that the international financial crisis and the post-crisis adjustments do affect international trade, that to more than domestic economic activities. If Figure 2.4 and 2.5 are compared it can be further substantiated with the decline in the number of countries experiencing very high growth in merchandise trade from 1990-95 to 1995-2000. Between 2000-05 group of seventeen countries fall in this group of very high growth rate (Figure 2.6). These countries spread majorly over Europe and Asia, and also include three African and one South American economy. Vietnam is the
only economy during the three considered periods of time, which has experienced very high growth rate in its merchandise trade.

2.3.8 It is quite evident from Figure 2.6 that during 2000-05 international trade has recovered in comparison to 1995-2000. During 2000-05, process of recovery strengthened and this positive growth spread over all major group of countries (Figure 2.6). U.S.S.R (former) posted highest growth in trade over the years. Over the period of 2000-2005 it can also be seen that oil producing economies have experienced vigorous trade growth due to rising petroleum prices. Major oil exporter countries like Saudi Arabia, UAE, Kuwait, Nigeria, Angola, Algeria and Trinidad and Tobago (It is a large exporter of liquefied natural gas) have experienced high growth (Figure 2.6). For example, between 1995-2000 China and UAE saw merchandise trade grew moderately but over 2000-05 they registered a very high growth; also international trade of Asian economies like India, Iran, Jordan, Kuwait, Mongolia and Saudi Arabia has accounted for the low growth between 1995-2000, however during 2000-05 trade growth is more than world average. These increases were attributed to strong world demand, particularly on the part of United States and other developed countries, and also by the emergence of large developing economies like China and India as key drivers of growth in the global economy. The growth of developing economies trade over 1990 to 2005 period was intermittently halted by events like the Asian financial crisis of 1997, the bursting of the IT bubble in late 2000 and 9/11 in 2001, but the overall consistent increasing trend has been observed (WTO, 2007).

2.3.9 Unlike 1990-95 and 1995-2000, during 2000-05 Western European economies like Austria, Belgium-Luxembourg, Spain registered a high growth rate in international merchandise trade from low growth (Refer Figure 2.4., 2.5 and 2.6). In 2000 the upturn in trade was expected to be particularly strong in Western Europe (UNCTAD, 2000). Similarly International trade of other western European economies like Denmark,
Germany, Iceland, Italy, Netherlands, Norway, Portugal, Sweden and Switzerland grew moderately over 2000-2005. Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia and former USSR are other economies exhibiting robust growth over 2000-05. An underlying reason might be that among the transition economies, strengthening import of Western Europe gave a major fillip to export of Eastern and Central European economies. USA, on the other hand, experienced a low growth in merchandise trade over the years. UNCTAD (2006) has pointed out ‘growth in the volume of import decelerated in the USA as the economy slowed with the maturing of the economic cycle in 2005. Nonetheless, the merchandise trade balance of the United States recorded another record deficit despite faster export volume growth. The rising deficit is explained both by higher oil prices and an increase in the deficit in the non-petroleum trade balance.’

2.3.10 Japan’s merchandise trade grew moderately during 1990-95, but over 1995-2000 and 2000-05 trade grew at a very sluggish rate. In this regard it is pertinent to throw some light on the economic history of Japan, as it could partially explain such slackening in trade growth. UNCTAD (2006) has highlighted that Japan is the only large economy to experience three ‘fully-fledged recessions’ since 1990s. The first big blow Japanese economy faced was due to restrictive monetary policy somewhere in 1991, a huge real appreciation of the yen and the Asian financial crisis in 1997/98 triggered second long recession. In 1999 and first half of 2000 there were signs of recovery which was short-lived. Since the second quarter of 2001, Japanese economy was back in deep recession. During this period, problems cropped up at major firms which were facing recession and deflation, resulting into multiplying bankruptcies, record losses of companies, and also banking system experienced further deterioration in the quality of its assets. Japan was further adversely hit by the sluggish growth in the US economy. As a consequence, not only overall growth fell, but also exports and private investment have decline at a faster rate.
2.3.11 Number of countries experiencing moderate compound annual growth rate from 1990-95 to 2000-05 has increased from twenty one to thirty one, though over 1995-2000 there were only ten countries falling in this group. During 1990-95 developed countries like United Kingdom, Germany, Italy, Greece, France, Canada, Denmark, Austria, Norway, New Zealand etc. fall in the low growth rate category. Among others, Mauritius, Syrian Arab Republic, Cote D’Ivoire, and Zimbabwe also fall in this group. Between1995and 2000 number of Asian economies experiencing moderate growth in their merchandise trade has increased to eleven, from three during 1990-1995. In addition to European, American and African economies, Asian countries such as India, Korea, Bangladesh and Mongolia, as well as oil-based economies like Kuwait, Bahrain, Saudi Arabia and Iran are also part of this group of moderate growth. Over the period 1995 and 2000 about thirty five countries out of eighty seven had experienced a very low compound annual growth rate of merchandise trade. This slackening in the growth rate of world trade may be attributed to slowdown of 1998 which continued into 1999 (UNCTAD, 2000). This can be mainly attributed to deceleration in the import growth of developed economies, particularly Western Europe (Austria, Belgium-Luxembourg, Finland, Germany, Italy, Netherlands, Portugal, Sweden, Switzerland etc.).

2.3.12 International trade in merchandise of Asian economies, such as, Indonesia Malaysia, Philippines, Singapore, South Korea and Thailand grew rapidly over 1990-95. However, between 1995 and 2000 their trade grew at a very sluggish rate. It could be mainly due to 1997 financial crisis. The crisis was triggered by the depreciation of Thai currency, viz., baht, in July, 1997. It led to severe currency depreciations and an economic recession. It affected much of Asia. In this regard Hunter, et.al. (1999) noted, ‘When crisis broke out with the collapse of the Thai baht in July 1997, many believed the damage would be confined to a handful of small Asian economies. Some fourteen months later, it’s clear how myopic that thinking was. The crisis has spread to other East Asian countries and to Russia. Just a few weeks ago,
Latin America began to encounter serious troubles’. However, over the period 2000-05 Indonesia, Singapore, South Korea, Thailand experienced moderate growth in their merchandise trade. Malaysia and Philippines registered low compound annual growth rate during the same time period.

2.3.13 As it could be seen from Figure 2.4, 2.5 and 2.6, as compared to developed economies, merchandise trade of developing economies grew rapidly over the years. Over 1995-2000, developing economies experienced growth ranging from low (Bahrain, Bangladesh, Cameroon, India, Iran, Korea, Ecuador, Chile, Bolivia, Algeria, Ghana among others) to negative (Cote d’Ivoire, Kenya, Paraguay, Zambia etc). Between 2000 and 2005 the global macroeconomic environment has been characterized by a slowdown followed by a strong recovery, and this is reflected in the trade performance of developing economy (WTO, 2007). Figure 2.6 shows rate of change in merchandise trade experienced by various developing economies covering Asia, Latin America and Africa. Such rapid growth could be attributed to several factors like higher prices for primary commodities such as fuels and mining products, the continuing export led growth in China, and global economy rebounding from the IT crisis that began in 2000 (WTO 2007). Another WTO report (2006), puts to the fore, the sharp rise in prices and traded volumes of many primary commodities has often been considered a major factor explaining the relative strength of economies and commodity groups in international trade. A mark example of this is, of course, export growth of net oil exporters. The sharp rise in net oil imports of China, United States of America and India since 2000 had been a major factor causing expansion of oil trade and also the increase in oil prices. In addition, UNCTAD (2007) noted, ‘Since 2002, there has been a ‘commodity boom’. International commodity prices showed a strong rising trend after their sharp fall in 1995-1997 to 2002. UNCTAD’s commodity price index (including fuels) in current US dollar terms has risen 96 per cent since 2002. The rise in prices has been driven by the boom in the prices of metals and minerals, and also of crude oil. The relative importance of factors behind the price
increases differs from commodity to commodity. However there are some common factors. These include the strong growth in import demand of developing countries, owing to the rapid pace of industrialization, especially in China, India and other emerging developing countries; the increased production of bio-fuels which mainly affects the markets for food products by pushing up the price of land and adding to effective demand for some products that are used both for food and for bio-fuel (for instance, sugar cane and maize); as well as emerging supply constraints in some commodity markets’. Having discussed this, it is important to mention here that it is difficult to make distinct conclusions about the trade patterns of developing economies. Hence, in subsequent chapters an attempt is made for better understanding of the dynamics of merchandise trade for individual economy considering the breakup data of merchandise trade into major product groups.

2.3.14 During 2000-05, Dominican Republic is the only country experiencing negative compound annual growth rate. It is worth mentioning that Dominican Republic has over the years experienced the declining trend in its merchandise trade. The major contributory factor for such a declining trend might be the economic turmoil which the country has experienced in the late 1980’s and 1990. After a decade of little to no economic growth in the 1980s, Dominican Republic implemented economic reform in the early 1990s which has given a boost to the economy. But in the early 2000s the growth tailed off because several of its key trading partners suffered recession and demand for its manufactured goods got adversely hit (US Dept. of State website, http://www.state.gov). In 2003, Dominican economy contracted due to domestic banking crisis. On the contrary, economies experiencing negative growth rate as stated earlier has registered positive level of growth in their merchandise trade.
The larger developing countries, such as China and India, have seen sustained and strong export dynamics. A fair number of other developing countries have gained from substantial improvement in their terms of trade over the past few years, thanks largely to increases in the prices of oil and other commodities. A persistent rise in the demand for commodities by emerging economies will continue to provide additional opportunities for increased commodity exports by developing countries. However, Asian economies import rely more on industrial raw materials (minerals and mining products and raw materials from agricultural sources), the multiplying consumer purchasing power in the developing Asia has also triggered demand for some agro-food commodities, for example, such as coffee, tea and cocoa, which had been facing stagnant or falling demand in the traditional OECD high income markets. This additional source of demand has contributed to a general recovery of commodity prices and improved prospects for commodity producing countries. Sustained growth in the United States and economic recovery in Japan and Europe have also been contributing factors. In addition, rapidly expanding Chinese demand has been a particularly important factor for many commodities (UNCTAD, 2007)
Figure 2.4

Source: Based on Annexure 2.6

Figure 2.5

Source: Based on Annexure 2.6
2.4 GROWTH OF SERVICE TRADE

2.4.1 What is trade in services? The typical examples may include communication technologies, transportation such as aviation, shipping, financial and banking services. However service trade encompasses a wider range of service sector for example engineering, construction, legal, healthcare, media, consulting and distribution, among others. The tremendous expansion of service trade is largely triggered by advancement of trade in services. According to Cattaneo, *et.al.* (2010) ‘Technological progress has essentially transformed business practices, reducing cost, increasing the speed, improving the quality, and expanding the range of available services that now be traded across borders. Consequently, trade in services has now expanded both in breadth-to encompass more professions and in
geographical reach, made possible through business process outsourcing and off-shoring practices.’

2.4.2 Largely potential of trade in services has remained untapped by developing economies, which might be due to the common belief that relative to commodities, services are non-tradable (Cattaneo et.al., 2010). Though, in recent decades technological obstacles to service trade have been removed over the years. Further Cattaneo et.al.(2010) highlight that because of the existing technological gap between developed and developing economies, the notion persisted that as compared to relatively poor countries, service trade is more pronounced in advanced economies. However, recent research in this field negates such beliefs. In line with this Mattoo and Payton (2007) argued that any economy, including least developed, could engage in service trade and gain from expanding open market. Moreover potential vary across space and time. Also benefit might get overshadowed by associated costs. Often success relies on complementary reforms that could become too costly in countries with limited capital and human resources.

2.4.3 While merchandise trade still constitutes the bulk of total global trade, the share of services increased over the last quarter-century from around 17 per cent in 1980 to about 20 per cent in 2004 (Ocampo and Vos, 2008). Services present a growing opportunity for diversifying export. Service export can be linked with growth, however it is more pronounced in case of developed economies, mainly due to their preponderance in the most dynamic sectors of the global export market for services. According to UNCTAD, international trade in services\(^5\) expanded across globe at a very

\(^5\) Services are defined as the economic output of intangible commodities that may be produced, transferred and consumed at the same time. However, services cover a heterogeneous range of intangible products and activities that are difficult to capture within a single definition and are sometimes hard to separate from goods. Services are outputs produced to order, and they typically include changes in the condition of the consumers realized through the activities of the producers at the demand of customers. Ownership rights over services cannot be established. By the time production of a service is completed, it must have been provided to a consumer. Given the general
rapid pace in the late twentieth century, growing on average much faster than both the world GDP and world merchandise trade. However, this general picture covers a large heterogeneity at the country level.

2.4.4 Figure 2.7 shows positive trend in world’s export, import and trade in services. Geographical distribution of service trade is shown in Table 2.3. International trade in services as could be seen in Table 2.3 is dominated by developed economies which account for bulk share of service export and import in world total trade in service. For example, in 1990 and 2005 developed economies accounted for about 81 percent and 73 per cent of the world export of services, whereas developing economies have mere 18 per cent and 24 per cent respectively. The corresponding figures for services import of developed economies and developing countries in 1990 are 76 per cent and 23 per cent, whereas in 2005 their share stood at 69 per cent and 29 per cent respectively. Hence, it could be seen that the participation of developing economies in world services export and import has accelerated. Unlike developing countries, developed economies constantly run a surplus in their balance of trade in services (Refer Annexure 2.5).

difficulties in statistically capturing certain aspects of trade in services, the figures presented here may be downward biased with regard to the actual flows of exports and imports of services (UNCTADSTAT).
2.4.5 European Union and the United States, together, account for more than 60 per cent of service exports in the world, however economies like Brazil, China and India have grown by about 10 per cent every year for the last decade. Within principal categories of service trade (Refer Figure 2.8), commercial services like financial, communication, business and professional services have emerged as dynamic (Cattaneo et.al. 2010).
FIGURE 2.8 Major categories of services

Source: Based on UNCTAD Handbook of statistics, 2006-07

TABLE 2.3 Share of Service Trade
(World export and import of service in millions of dollars and share in per cent)

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<tr>
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<tbody>
<tr>
<td>EXPORT</td>
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<td>Transition economies</td>
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<td>73.26</td>
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</tr>
<tr>
<td>Transition economies</td>
<td>1.72</td>
<td>2.10</td>
<td>1.78</td>
<td>2.86</td>
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<tr>
<td>Developed economies</td>
<td>75.61</td>
<td>70.34</td>
<td>70.85</td>
<td>68.59</td>
</tr>
</tbody>
</table>
NOTE: "Percentage of the world total" represents a country's (group's) trade in services as a percentage of the world total trade in services (Source: UNCTADSTAT)

2.4.6 Table 2.4 records compound annual growth rates of service trade over the years. It could be seen that world trade, export and import of service has increased over 1990-1995 and 2000-2005, with an exception of sharp decline between 1995-2000 which could be due to deceleration of global economy.

TABLE 2.4 Compound Annual Growth Rate of Service Trade
(Values in per cent)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>World</strong></td>
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</tr>
<tr>
<td><strong>Developing economies</strong></td>
<td>12</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td><strong>Transition economies</strong></td>
<td>16</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td><strong>Developed economies</strong></td>
<td>6</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Calculation based on Annexure 2.8.

2.4.7 Figures 2.9, 2.10 and 2.11 illustrate spatio-temporal variation in the compound annual growth rate in service trade of eighty seven economies. Figure 2.9 shows over 1990-95, about 27 countries experienced moderate compound annual growth rate and 34 economies registered low growth rate. Figure 2.10, in contrast, shows concentration of large number of countries, about 46, in low compound annual growth rate group. Also about 20 economies experienced negative compound annual growth rate in their service trade during 1995-2000, as compared to 9 economies over 1990-95 and only 1 between 2000-05, Figure 2.11 on the other hand, reveals swelling number of countries (about 41) experiencing moderate compound annual growth rate, additionally, number of economies in high growth rate
also increased to 9 between 2000-05, and number of countries experiencing low compound annual growth rate nearly halved over the same time period.

2.4.8 There has been a rise in the participation of developing economies in world service export over the years. As regard trade in services, between 1990-1995 only nine countries out of eighty seven has registered very high compound annual growth rate in their service trade. Largely Asian economies, such as, China, Malaysia, Philippines, Thailand, South Korea, also developing American economy Uruguay forms this group. Czechoslovakia, Poland and Romania are also seen in this group of very high growth rate. However, Czechoslovakia is the sole economy falling in this group during 1995-2000, and other countries of this group moved to high growth rate category. It is to be noted, between 2000 and 2005, all these economies restored their very high growth rate in service trade.

2.4.9 During 1990-95, countries experiencing moderate growth are largely Latin American economies, such as, Argentina, Brazil, Chile, Honduras, Peru, Venezuela; Asian countries, for example, Bangladesh, Bahrain, India, Indonesia, Singapore, Sri Lanka, and also African economies, such as, Mauritius, Nigeria, and Tunisia. Moderate compound annual growth in service trade was also experienced by European countries such as, Austria, Bulgaria, Hungary, Ireland, Netherlands, and Portugal. Over 1995-2000, countries such as, Bahrain, India, Sri Lanka, Brazil, Chile, Costa Rica, Dominican Republic, Honduras, Peru, Nigeria, Mauritius, Tunisia, and also European economies, for example, Austria, Bulgaria, Hungary, Ireland, Netherlands, and Portugal, registered low compound annual growth rate in service trade. However, all these economies bounced back to their moderate level of growth rate during 2000-05. It is important to point out here, in contrast to South-east Asia, South Asian countries showed relatively less dynamism in service trade. In the case of India, as noted by Ocampo and Vos (2008), recent growth is driven by fast growing service sector. Given the relatively low income level, the pattern of structural change reflects a
premature shift in services. Based on advanced communications technology, services have become increasingly tradable. In this context, according to Bhat (2011), “The rapid growth of service sector observed in the domestic economy has thus been associated with an increased competitiveness in world markets. Since 1999, India is the second largest exporter of business services among the emerging Asian economies”. On the other hand, growth of service sector in Latin American economies has been attributed not so much with the dynamic transition as with the deindustrialization process which to a certain extent pushed surplus labour into the low productivity tertiary sector (Ocampo and Vos 2008).

2.4.10 Developed countries experiencing low compound annual growth rate in service trade, during 1990-95, are Canada, US, Denmark, Belgium-Luxembourg, Germany, Greece, Finland, Italy, Iceland, France, Norway, Spain, Sweden, Switzerland, UK. Of these, during 1995-2000, Iceland, Italy, France, Norway and Sweden registered a negative growth in their service trade. However, over 2000-05, these economies moved back to the group of low compound annual growth rate. Belgium-Luxembourg, Finland, Germany, Greece and Spain experienced moderate compound annual growth rate in their service trade, unlike previous time periods. Countries from developing America, Africa and Asia also constitute this group of low compound annual growth rate. Bolivia, Colombia, Ecuador, El Salvador, Mexico, Panama and Paraguay experienced low growth rate in their service trade. However, over the years there have been some changes in the rate for growth. For example, Bolivia and Mexico, during 1995-2000 experienced negative growth rate; and during 2000-05, Ecuador, El Salvador, Panama and Paraguay moved to medium growth rate. African economies, such as, Angola, Egypt, Ghana, Kenya, Morocco and South Africa experienced low compound annual growth rate during 1990-95; however, countries like Angola, Kenya and Morocco slipped to negative growth rate in either 1995-2000 and 2000-2005. Ghana and South Africa, during 2000-05 experienced medium compound annual growth rate in their service trade. Pakistan and
Jordan are the only Asian economies that continue to experience low growth rate all through the period under reference. Countries experiencing negative compound annual growth rate are very few and from developing part of the globe, particularly Africa. Over the years, there number has further declined. Over 2000-05, Cote d’Ivoire is the only country falling in this group.

2.4.11 However, share of developed economies, as a group, is relatively higher than developing countries in terms of export and import of service as stated earlier, but the rate of increase in the service trade of developed world is much slower than that of developing world as a whole. Among developing economies, world trade in services has grown rapidly in Asia. This generalisation cover heterogeneous group of countries which has experienced different levels of growth over the years.

**FIGURE 2.9**

Growth of Service Trade, 1990-1995

Source: Based on Annexure 2.9
FIGURE 2.10

Source: Based on Annexure 2.9

FIGURE 2.11

Source: Based on Annexure 2.9
2.4.12 It could be further added that similar to merchandise trade, economies growing relatively faster have specialized in service exports with stronger growth dynamics and with greater spill-over effects. However, for some countries, particularly developing region, it may slowly shift into more dynamic service export by utilising their endowments, and appropriate policies, but it could be relatively difficult to embark on the similar path. Though, these economies are still in the initial stages of building the necessary capabilities, ‘they can still effectively participate in other service sectors and thus promote the diversification of their economies’ (Ocampo and Vos, 2008).

2.5 SUMMARY

2.5.1 It could be said that the aggregate merchandise trade performance of developing economies has been promising. However, it has been neither continuous process nor uniformly spread across the globe, specially developing regions. Broadly, it can also be inferred that countries (the Middle East, Africa, the Commonwealth of Independent States and South & Central America) with the highest share of manufactured goods, fuels and ores & metals in their merchandise export have recorded the strongest compound annual export growth over the years. Major findings of the chapter are as follows:

- There is uneven distribution of international trade growth across countries over the years. During 1990-95 growth of international trade in merchandise is high for developing economies particularly Asian and Latin American region. However, 2000-05 saw some revival in merchandise trade in some developed economies. International economic environment has affected the international commerce over the years.

- In case of service trade, share of developed economies as a group is relatively higher than developing countries in terms of export and import of
Major developing countries experiencing high growth over the years are China and few other large and medium sized Asian and Latin American economies. However, expansion of services is more dynamic in Asia, also for the period 1990-2005 services trade increased in European countries particularly Central European economies, as these countries showed on an average some de-industrialization.

It is also pertinent to mention in this context that the impacts of the region and country specific factors are no less important as compared to influence of fluctuations in global commodity and financial markets. Whether a country would experience higher growth or not during the periods of economic expansion in the developing region, or whether it would check growth failure during the downturn, this largely depends on the interaction between domestic situations and also the way in which any economy is influenced by the global or regional market dynamics (Ocampo and Vos, 2008). However, diverse experience of countries requires explanation but this is beyond the gamut of the current research. Also no single explanation could suffice for the variety of historical experience.