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# POSITION AND PERSPECTIVES OF DEVELOPING COUNTRIES IN THE INTERNATIONAL TRADE SYSTEM

## Abstract

This paper aims to provide an overview of the position of the developing countries in the international trade system and discussion about perspectives of their trade development. The main hypothesis of the paper is that developing countries as a group have made a breakthrough in the world trade in the past two decades, but genuine improvement has been made and enjoyed by several large developing countries, primarily China. The paper elaborates mostly by use of methods of analysis and synthesis, based on the extensive processing of trade data, as well as relevant literature. In this context, the paper provides evidence about trade liberalisation of the developing countries since 1980s to the present time, intense export growth of the developing countries over the period, as well as change of the trade structure of the developing countries with developed countries, evident through rising share of the medium and high skills and technology based products. In purpose of provision of more realistic assessment of the position of the developing countries in the international trade system, special attention has been put on China's trade performances, given the rapid increase of China's share in the world trade from less than 1 per cent in 1980 to over 10 per cent in 2011. The major findings of the paper confirm that improvement of the overall position of the developing countries in the international trade system has mainly resulted from the improvement of the trade position of several countries, primarily China. The paper also

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provides overview on WTO simulations about international trade prospects up to 2035, which confirm further dependence on the trade position of the developing countries as a group from China's trade accomplishments. In this perspective, the paper argues that there is a need for differentiated treatment and provision of extra flexibilities for the other developing countries in purpose of achieving as genuine improvement in their trade position.

**Key words:** developing countries, developed countries, export, import, international trade system.

**JEL classification:** F13, F18

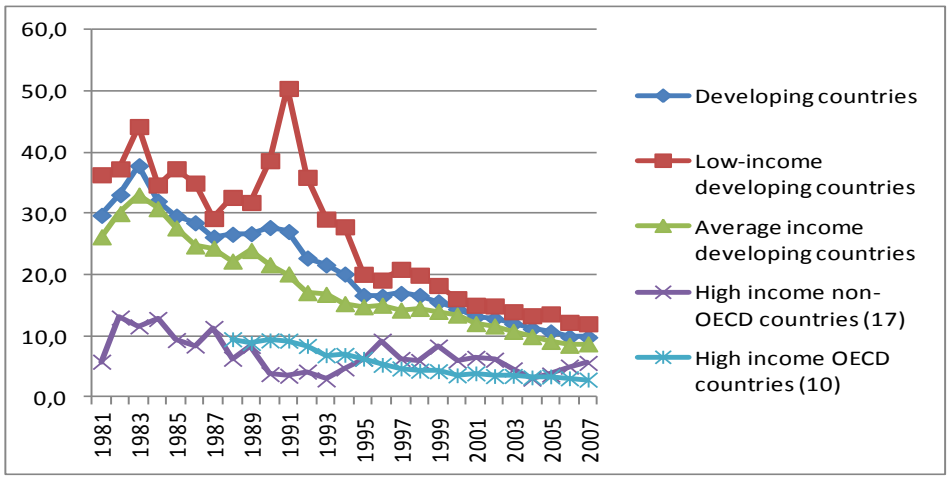
## Introduction

The international trade of national economies has been often perceived as an indicator for their current level of development, but also as a potential to boost further growth of the countries. In this perspective, the position of the developing countries in the international trade system is an interesting subject for research, because theoretically, the improvement of their position should have positive effects on their development. However, given the diversity and largeness of the group of developing countries, the overall improvement of their position does not necessarily mean genuine progress for the whole group. The main hypothesis of this paper is that developing countries as a group have made breakthrough in the world trade in the past two decades, but genuine improvement have been caused and enjoyed only by several large developing countries, primarily China. In this context, the paper would focus on trade liberalisation and export growth of developing countries since 1980s, export destinations, as well as trade structure of the developing countries against developed countries. In line with the main hypothesis, special attention would be put on China's trade performances. Also, the paper would provide an overview on WTO simulations on international trade prospects up to 2035, as well as discussion on possibilities of genuine improvement of the trade position of developing countries. The methodology in the paper primarily includes analysis and synthesis, based on extensive processing of trade data, as well as analysis of the relevant literature.

## 1. Position of developing countries in the international trade system

Under the auspices of GATT/World Trade Organisation, the international trade system went through intense trade liberalisation in the past three decades, resulting into significant decrease of trade tariffs. In the period 1981-2007, tariff reduction has been applied by both groups – developed and developing countries (Figure 1), delivering serious drop of the average tariff rate of developing countries from 30% in 1981 down to 10% in 2007.

**Figure 1: Trends in average applied tariff rates in developing countries and developed countries, 1981-2007 (unweight, in %)**




*Source: http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/tar2007.xls*

Less intense tariff cuts have been registered by developed countries due to higher level of trade openness of these countries prior to the analysed period. In addition, many developing countries have acquired GATT/WTO membership in the 1980s and 1990s, implying process of gradual alleviation/removal of tariff protection, which led to the intense trade liberalisation of the developing countries after 1990. The trade liberalisation induced significant changes in the trade behaviour of the developing countries. GATT/WTO membership enabled wider access to foreign markets in developing countries, while descending tariff rates served as impulse for export penetration.

Implicitly, the export of the developing countries surged dramatically (Table 1). As shown in the Table 1, the share of the developing countries into the total world export rose from 29.6% in 1980 to 44.8% in 2013, while the share of the developed countries' export fell down from 66.2% in 1980 to 50.9% in 2013. The major reasons for such changes could be located into the growing importance of BRIC (Brasil, Russia, India, China) countries as trading nations, in particular China. More specifically, China alone increased its share in world exports from 0.9% in 1989 to 10.4% in 2011. India recorded a more modest increase from 0.4% to 1.7% over the same interval, while Brazil export share rose from 1% to 1.4% over the period. In addition, Russian share in world exports was 2.9% in 2011.[3]

***Table 1: Share of exports of developing, developed and transition economies in total world exports***

| Region | 1980 | 1990 | 1995 | 2000 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Developing economies | 29,6 | 24,1 | 27,7 | 31,9 | 36,3 | 37,8 | 39,0 | 39,9 | 42,1 | 43,1 | 44,7 | 44,8 |
| Transition economies | 4,2 | 3,4 | 2,3 | 2,3 | 3,4 | 3,8 | 4,5 | 3,7 | 4,0 | 4,4 | 4,5 | 4,3 |
| Developed economies | 66,2 | 72,5 | 70,0 | 65,8 | 60,4 | 58,3 | 56,5 | 56,4 | 53,9 | 52,5 | 50,9 | 50,9 |

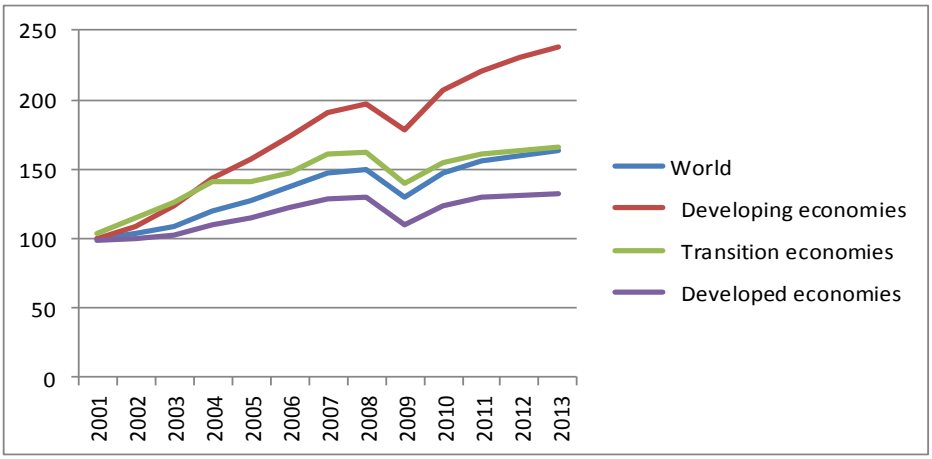
*Source: Calculations based on data from UNCTADStat*

The increase of the share of developing countries' exports into the world exports has been particularly intense after 2000. Figure 2 shows that the exports from the developing countries rose for over 140% in the period 2000-2013, registering considerably higher growth compared to exports from developed countries (35%), as well as total world export (around 60%). This trend corresponds to the data presented in the Table 1 and implies deduction about strengthened position of the developing countries into the international trade system over the analysed period. However, another aspects needs to be taken into consideration with regards to more realistic assessment of the trade position of the developing countries. It should be stressed out that the share of

[3] World Trade Report 2013: Factors shaping the future of world trade, WTO, Geneva, 2013, p.60.

developing economies in world output rose to 40% from 23% between 2000 and 2012.[4] This is a large increase, but it illustrates that developing economies are still responsible for less than half of world income.

**Figure 2: Percentage change in exports of developed countries, developing countries and economies in transition: 2000-2013 (index 2000 = 100)**

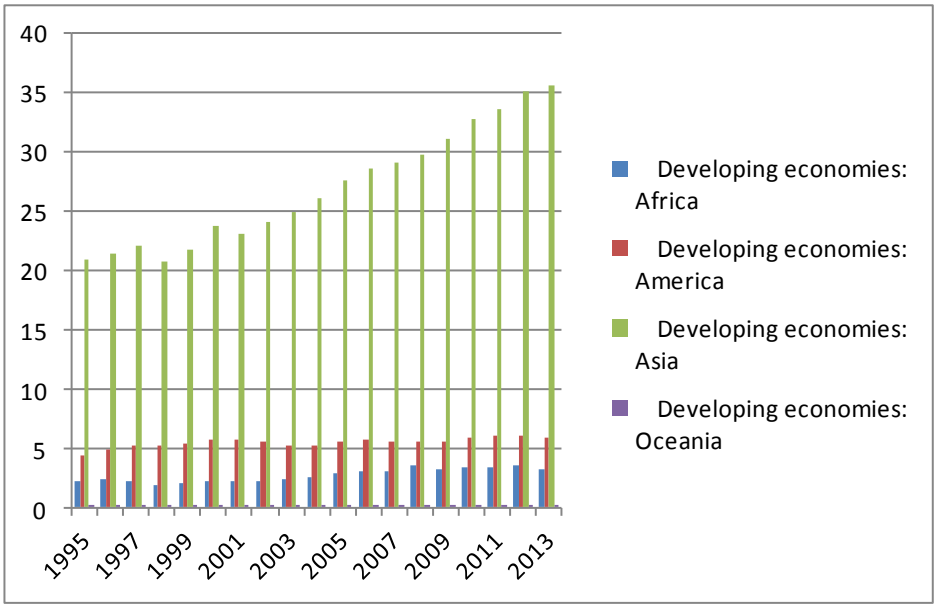



*Source: Calculations based on data from UNCTADStat*

Furthermore, it should be noted that not all developing countries equally participate in international trade. Figure 3 provides an overview of exports from developing countries, classified according to the geographical regions. Asia is by far the most important export region in the group of developing countries, which share in the world exports rose from 21% to 35% over the period 1995-2013. This is mainly due to China's exports expansion, as mentioned above. Opposite to Asia, Oceania had insignificant share in world exports close to zero, while Africa had small share of around 3% in the world exports over the period 1995-2013. Certain increase of the share of exports from developing countries from American continent have been registered over the analysed period, although its overall share remained modest 5-6% of the world exports.

[4] World Trade Report 2014: Trade and development-recent trends and the role of the WTO, 2014, p.60.

**Figure 3: Participation of developing countries in the value of world exports, by region, 1995-2013**

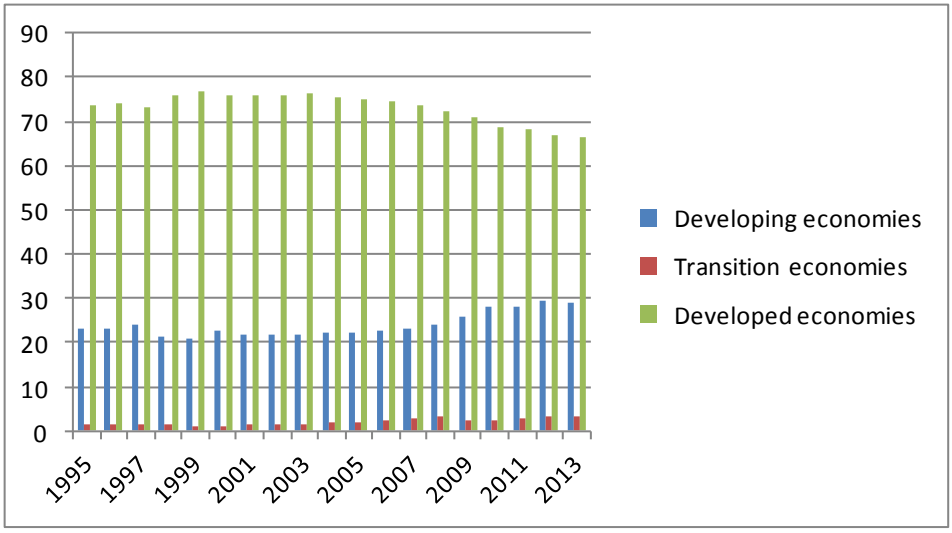



*Source: Calculations based on data from UNCTADStat*

Despite the predominance of Asia in the relative share of developing countries in the world exports, there has been an increase in absolute value of the exports of all developing countries. This implies that the position of the developing countries in the world trade system could be analysed from the perspective of their importance as export destination for developed countries. As indicated on the Figure 4, the share of the developed countries' exports into developing countries has moderately increased from 22% in 1995 to 28% in 2013, on the expense of the share of developed countries which dropped from 73% in 1995 to 67% in 2013. On the other hand, the exports from developing to developed countries declined from 57% in 1995 to 39% in 2013, indicating shift of the export focus of the developing countries towards other developing countries. These data imply that export surge of the developing countries registered in the period 1981-2013 was mainly based on increase of trade among developing countries (so called "South-South" trade) and did not lead to significant promotion of the trade among developed and developing countries. Nevertheless, developed countries remain main export target to the developing countries, due to

their higher purchasing power. In this context, it would be interested to provide brief analysis of trade structure of developing with developed countries.

**Figure 4: Share of exports of developed countries by groups of countries in total exports, 1995-2013**




*Source: Calculations based on data from UNCTADStat*

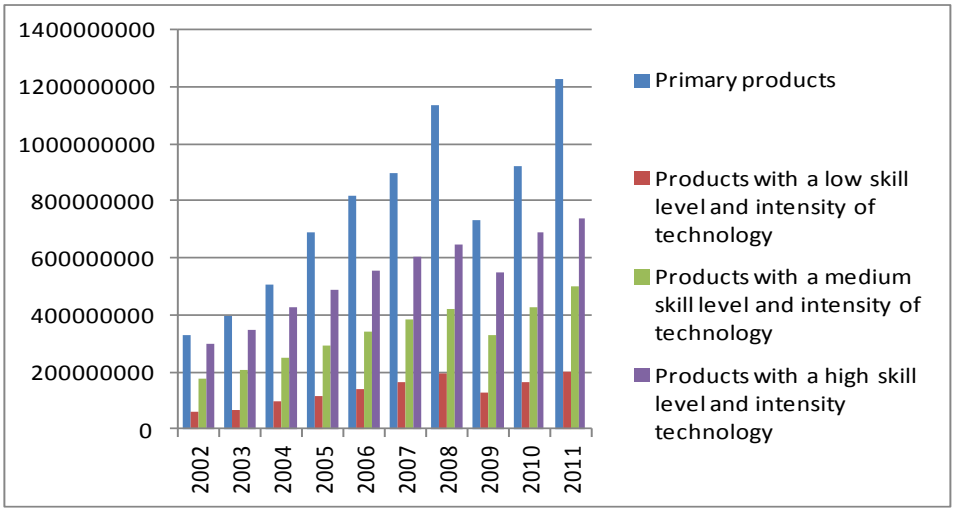
The export and import structure of the developing countries to/from developed countries in the period 2002-2011 is presented on Figure 5. It could be noted that primary products (oil, agricultural products, etc.) dominate in the export structure, followed by products based on high and medium skill level and technology intensity. Products based on low skill level and technology intensity have been on the bottom of export structure of developing countries towards developed countries over the analysed period. This structure could be explained with the tendency of the developing countries to primarily export higher value added products to the developed markets, due to their higher purchasing power. In addition, many FDI plants in the developing countries which produce medium and high skill level products originate from developed countries, which usually reflects into an export orientation of the FDI plants to the countries of origin. Developing economies absorbed more than half of global FDI inflows in 2012, versus

less than 20% in 2000.[5] FDI outflows from developing countries also increased significantly during the 2000s. The share of FDI outflows from developing countries grew from 7% at the end of the 1980s to 34% in 2012.[6]

The FDI trends have also marked the import structure of the developing countries. As shown on the Figure 5, products based on medium and high skill level and technology intensity dominate into the import structure, followed by primary products and low skills level products. The changes into import structure of the developing countries are mostly derived from the increased imports of the components for FDI plant's production. For illustration, the developed economies contributed to almost two-thirds of the world imports of intermediate inputs in 1996 but less than a half in 2012. The decrease in advanced economies' share of trade in parts and components is mainly due to the increase of imports of developing economies. China is the main driver of the increase in the share of trade in parts and components of developing countries. Its share increased almost fivefold, from around 3 per cent in 1996 to more than 15 per cent in 2012.[7]

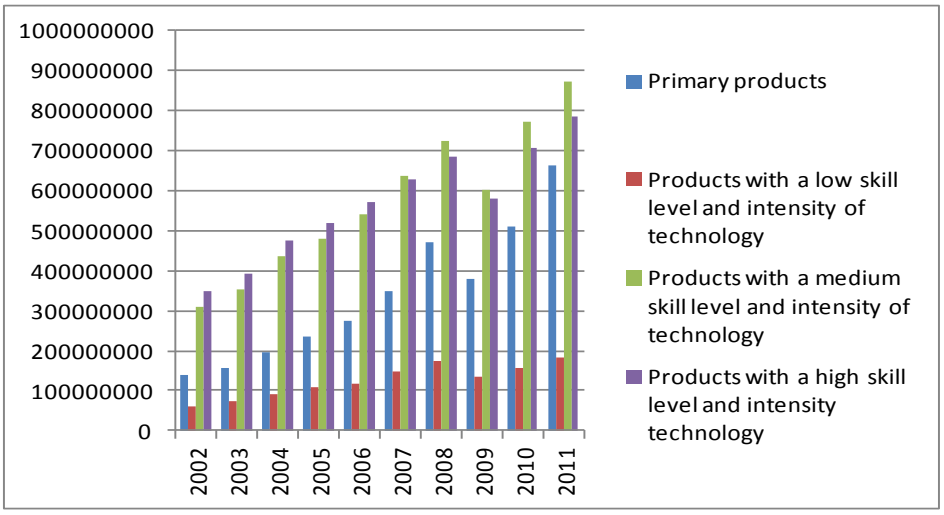
**Figure 5: Exports and imports of developing countries to/from developed countries, 2002-2011 (in thousands of dollars)**

***Exports***




[5] Ibid, p.81.
[6] Ibidem.
[7] Ibidem.

***Imports***




*Source: Calculations based on data from UNCTADStat*

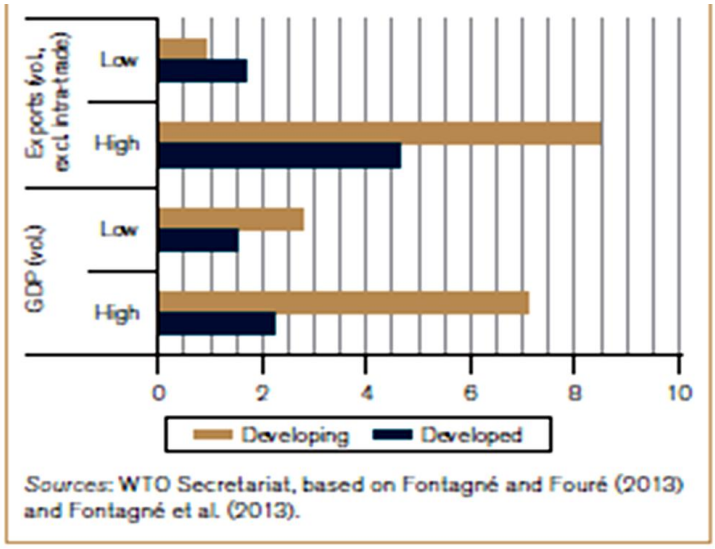
Based on the presented data, the analysis related to the position of the developing countries in the international trade system could be summarized into two major findings. The first one indicates that developing countries as a group have increased their importance in the international trade, evident through higher share in the world exports, as well as increased share in FDI and world imports of intermediate goods. The second finding shows that positive changes in the position of the developing countries in the international trade have been driven only by minor group of countries. These findings affects the discussion about the perspectives of the developing countries in the international trade system, as genuine improvement of the trade position of majority of the developing countries is still to be achieved.

## 2. Perspectives of developing countries in the international trade system

In the World Trade Report 2013, WTO has made simulations about the future of the international trade up to 2035. The Report provides two scenarios – optimist and pessimistic, with distinction of developed and developing countries. The simulations took into consideration many factors and trends affecting the international trade

and therefore, they could serve as a solid ground for discussion about the perspectives of the developing countries in the international trade system. Figure 6 presents combined macroeconomic and trade simulations in terms of projected average annual growth rates of GDP and exports up to 2035. It shows that exports are likely to be much more volatile than GDP, growing more than GDP in the "optimistic" scenario and shrinking further than GDP in the "pessimistic" scenario. The variation is much greater for developing than for developed countries, which have a lot more to gain from a strong economic and open trade environment in the future and more to lose in a pessimistic protectionist scenario.[8]

**Figure 6: Predicted annual growth rates of exports and GDP, average 2012-2035 by country group (per cent)**




Analyzed by countries that play significant role in the international trade, both WTO scenarios confirm further importance of China for the developing countries. In the optimistic scenario, China could increase its export share to almost one-quarter of global trade, while India could more than double its share, to 5 per cent. Although the shares of major developed countries are foreseen to decline, the absolute values of both their exports and GDP would continue to increase. In case

[8] World Trade Report 2013: Factors shaping the future of world trade, WTO, Geneva, 2013, p.98-99.

of pessimistic scenario, China is expected to be particularly affected, losing not only the export market share, but also the absolute export value compared with the present day.[9] This indicates that the position of the developing countries as a group would be still determined in the same manner, i.e. from the trade performances of few developing countries. In this context, the genuine effects on the other developing countries from the changes in the international trade system would depend on the possibility for increase of the "South-South" trade (trade among developing countries). Under the "low scenario", WTO predicts that the North-North trade would remain the dominant direction of trade at over 40% and South-South trade would retreat slightly to just 18% in 2035. On the other hand, the "optimistic" scenario provides hope for developing countries, as these positions are inversed – the trade among developing countries is expected to rise up to 43% out of the total trade, while trade among developed countries would constitute about 17% in total trade in 2013. It should be noted that this scenario has been largely built on the increased relevance of intra-industry trade and increased participation of developing countries into global supply chains, as well as expectations of increase of the multilateral trade, despite the current trends of trade regionalization.[10]

The simulations about the prospects of the international trade confirm that the position of the developing countries would further primarily depend from trade performances of China and other large developing countries. Implicitly, genuine improvement of the position of other developing countries require more institutional attention by WTO. In this context, WTO conditions for developing countries would be briefly discussed. As noted above, tariff protection under WTO has rapidly decreased over the last three decades, opening up additional trade opportunities for developing countries, but also increasing their exposure to the international competition. However, the WTO allows for various types of flexibilities for developing countries.[11] Several WTO provisions are of special interest to developing countries, such as provisions that aim at addressing their resource constraints through longer transition periods and technical assistance. Furthermore, special flexibilities are granted to developing countries to restrict imports and promote exports, and to

[9] Ibidem.
[10] Ibidem.
[11] World Trade Report 2014: Trade and development-recent trends and the role of the WTO, 2014, p.194.

leverage the development potential of the agricultural sector. Finally, special and differential (S&D) treatment with regard to market access in developed partner countries can also provide development benefits. The rationalities for flexibilities for developing countries provided by WTO are related to small economic size of many developing countries, challenges in their political economy due to weak governments and uncertainty of the their policies, resource constrains, as well as various market failures. Use of these flexibilities could be certainly beneficial for developing countries, but it's often related to the capacity of the country for their implementation.

Apart from these flexibilities that provide favorable framework for developing countries, the WTO system has still not provided better terms of trade for major export category of many developing countries – agricultural products (as part of primary products). The negotiations related to agricultural products have been on-going since 2001 (Doha round), indicating the complexity of reaching the consensus over trade in agricultural products. Meanwhile, the average tariffs on agricultural products applied from developed countries to the imports from developing countries have declined from 9.2% in 2000 to 7.2% in 2011.[12] For comparison, the tariffs on industrial goods (with exception of textile and clothing) have been 0.8% in 2011 (down from 1.2% in 2000). In this context, tariffs on agricultural products still represent significant trade obstacle for developing countries. Furthermore, developing countries cope with non-tariff barriers, which has been recognized as major obstacle of temporary international trade system. Non-tariff barriers have been applied with regards to agricultural products, as well as to manufactured products. The issue of non-tariff barriers is expected to be predominant in the upcoming years, implying further efforts for setting a more effective system of international trade. In addition, particular challenge with regards to the prospects of the developing countries in the international trade would be pressure imposed within the group of developing countries, primarily from China, India and other larger developing countries. As shown above, the position of the developing countries has been primarily determined by few large economies, implying the need for differentiated treatment and provision of extra flexibilities for the other developing countries, in purpose of alleviating the differences among them and creating preconditions to boost their development.

[12] Ibid, p.200.

## Conclusion

In the past three decades, the developing countries undertook intense trade liberalisation which led to significant decrease of their average tariff rates from 30% in 1981 to 10% in 2007. The trade liberalisation enabled the developing countries more active participation into the world trade, evident through increase of their exports for over 140% in the period 2000-2013. Implicitly, the share of the developing countries' export into the world export increased from 29.6% in 1980 to 44.8% in 2013. However, these data should be not be taken as a sole indicator for improvement of the position of the developing countries into the international trade, as the positive change has been primarily driven by trade performances of few large developing countries, in particular China. More specifically, China's share in world exports rose from 0.9% in 1989 to 10.4% in 2011. In this context, Asia has been the most important export region in the group of developing countries, which share in the world exports rose from 21% to 35% over the period 1995-2013. Important changes were also registered with regards to export destinations of the developing countries, as the exports from developing to developed countries declined from 57% in 1995 to 39% in 2013. This indicator implies that export surge of the developing countries registered in the period 1981-2013 was mainly based on increase of trade among developing countries.

However, having in mind the overall increase of the trade in the analysed period, the trade of developing with developed countries rose in absolute terms. With regards to the export and import structure of the developing countries to/from developed countries in the period 2002-2011 primary products (oil, agricultural products, etc.) dominated in the export structure, followed by products based on high and medium skill level and technology intensity. This structure could be linked with the exports from FDI plants in the developing countries that produce medium and high skill level products. Developing economies absorbed more than half of global FDI inflows in 2012, versus less than 20% in 2000. Furthermore, the FDI trends have also affected the import structure of the developing countries, as products based on medium and high skill level and technology intensity dominate into the structure, mostly due to the imports of the components for FDI plant's production.

The presented analysis in this paper led to two major findings. The first one indicates improved overall position of the developing

countries in the international trade, evident through higher share in the world exports and world imports of intermediate goods. The second finding shows that positive changes has been caused mostly by trade performances of several developing countries, primarily China, leaving many challenges for other developing countries to improve their position into the international trade system. However, such trend of reliance of the trade position of the developing countries from the China's trade accomplishments is likely to continue in the future. WTO simulations about the prospects of the world's trade up to 2035 confirm that, implying that there is a need for more intense use of the existing instruments for trade support, as well as differentiated treatment and provision of extra flexibilities for the other developing countries and encouraging more intense integration of the developing countries into the global supply chains.

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