

## Chapter 2

# Global Market Trends

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### ABSTRACT

*This chapter provides a discussion of competitiveness, globalization, and trade, including their recent transformations. The global market has witnessed several changes including reductions in trade costs, increased global trade, growth of industrialization in developing countries, and a complete change in the nature of goods traded. The drivers of global market changes include shifts in production and consumption patterns, technological innovations, new ways of conducting business, and policy changes. Many governments have lately opened their economies to international trade, enabling them to reap several benefits. Openness to trade is believed to have supported the growth of many countries and has greatly contributed to the success of most Asian countries, especially China and India. Although the global market offers numerous benefits, many developing countries still face serious limitations to fully access it; they are constrained by factors such as quality inferiority, distance, quantitative restrictions, poor technical skills, bad governance, and border controls.*

### INTRODUCTION

As the global market is changing so rapidly, the key drivers underpinning global market changes include shifts in production and consumption patterns, new technological innovations, new ways of conducting business, and policy changes. Technology is a key driver of these changes; new technology has tremendously improved transport and communications anchoring the fast integration of the world into a single market. Trade and foreign direct investment (FDI), together with a greater geographical spread of income growth and opportunity, will further integrate a growing

number of countries into more extensive international exchange.

According to the World Trade Organization (WTO) (2008), trade and globalization have generally brought enormous benefits to many countries and citizens. Trade has allowed nations to benefit from specialization and economies to produce at a more efficient scale. It has raised productivity and incomes, stimulated economic growth, supported the spread of knowledge and new technologies, and it has enriched the range of choices available to consumers.

Global trade and the flows of goods and services are crucial for achieving sustained growth in developing countries. Alongside trade, growing

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flows of capital across national borders significantly contribute to economic growth and poverty reduction. The international mobility and division of labor also generates important distributional changes across countries (UNCTAD, 2012).

Many governments in developing countries have lately opened their economies to international trade through the multilateral trading system, increased regional cooperation or as part of domestic reform programs. However, the benefits of trade and globalization have not necessarily reached all sections of society. Furthermore, although international trade is an integral part of the process of globalization, trade skepticism continues to rise in certain sections of society (Jacks, Meissner, & Novy, 2011).

Despite the current global economic crisis, world trade has increased dramatically over the past decade, rising almost threefold since 2002 to reach about US\$18 trillion in 2011. Developed countries continue to constitute the main players in international trade, while developing countries account for an increasing share. As of 2011, nearly half of world trade has originated from developing countries (up from about one-third in 2002). Although well performing as a group, developing countries' integration into the global economy has been rather varied. East Asia continues to dominate developing countries trade flows, while other regions lag far behind. China has become an increasingly important trading partner for many other developing countries, not only in the East Asian region, but also in Sub-Saharan Africa and Latin America (UNCTAD, 2013). According to the WTO (2008), the dominant share of the United States in world trade in the early 1950s has eroded in subsequent decades. Although the automotive agreement between the United States and Canada in 1965 strengthened intra-North American trade, their combined share in world trade shrank by 10 percent between 1953 and 1973.

During the following two decades, the share of regions 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 significantly when oil prices decreased thereafter. In 1993, after the disintegration of the Soviet Union and the demise of the Council of Mutual Economic Assistance (CMEA) industrial countries (i.e., Western Europe, North America, and Japan), the share of world merchandise exports reached a peak. Together with the Asian Newly Industrialized Economies (NIEs), they accounted for more than 80 percent of world trade in 1993 (WTO, 2008).

In the 1990s, Japan's share in world exports began falling due to the competitive pressures exerted by the NIEs and China. The stimulus provided by the creation of the North American Free Trade Agreement (NAFTA) in 1994 was not even sufficient to reverse the downward trend in the share of Canada and the United States in global trade. Similarly, the European integration process which continued to deepen and expand to cover the central European countries and the Baltic States could not halt the relative decline of European exports (WTO, 2008).

World trade share drop of the industrial countries can be attributed to the rise of China, the recovery of the Commonwealth of Independent States (CIS), and in more recent years to the boom in commodity prices which boosted the trade shares of Middle East and Central/South America regions which export mostly minerals and other primary products. China initially concentrated on the manufacture and trade of textiles and other labour-intensive goods such as footwear and toys, but swiftly later its export basket diversified to include sophisticated electronics and data processing equipments. More recently, China's biggest gains in market share have been in iron and steel products. China more than tripled its share in world exports between 1990 and 2007, and apparently China is the world's most competitive exporter of merchandise (Nataraj & Tandon, 2011).

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