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Analysis of Trends in Global Trade in Emerging Economies: With Specific Reference to Indian Economy

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Abstract
There has been a changing paradigm shift in the last three and a half decades in the emerging economies which have significantly reshaped the global trade scenario. Rapid growth of emerging economies like India have contributed to expanding the global output and trade as high as three to four times compared to what it was during 1970s and 80s. The expansion of trade is mostly in high technology products and is characterised by growing regional concentration and ongoing shift of technology towards emerging market economies. On the basis of study of past and current trend, it has been observed that India is one of the fastest growing and most attractive economies in the world and has emerged as a desirable destination for Foreign Investment since it introduced the new economic policy in 1991.

Key Words: FDI, Multilateral, Bilateral GDP, Supply chain, Global, Liberalization, Emerging

Objectives

1. To examine the factors underlying global changes in trade between developed and emerging economies.
2.To analyse the impact of expanding international trade of India on global trade scenario.

Research Methodology

The paper is descriptive and analytical in nature and the information collected by the author is mostly from secondary sources. Report of World Bank and UNCTAD also has been used as a reference for collecting the information.

Background

Multilateral and bilateral liberalization since 1950s has led to significantly lowering the trade barriers in developed economies, followed by developing countries. To align with these global trends Indian government-initiated reform measures in 1991 aimed at reviving and giving momentum to the then ailing economy ridden with massive public debt, shortage of forex and, high inflationary pressure, severe fiscal crisis and alarmingly adverse balance of payments. These reform measures aimed at reducing fiscal deficit, reducing the level of tariffs based on many imports, exchange rate, the use of the exchange rate as the instrument for export promotion and trade policies. The best part was that implementation was carried out swiftly unlike in other countries which though introduced similar measures but couldn't carry out smoothly due to their internal problems. India had the distinct advantage of positive approach, well-co-ordinated government policies and political stability combined with support of common masses.

At present India is led by the government which enjoys popular support not only from its own people but also has earned reputation of being the maker of such policies which are extremely investor friendly. During last seven to eight years India has emerged as a likely economic superpower that is holding the political landscape in place under control. India's growing influence within global economy, is reflected in India's position in the international political and economic blocks like (G-8, G-20) and the free trade arrears with ASEAN, EU. This is also proved by India's willingness to adopt international best practices in the production of the range of goods and services. India has attracted U$195bn in FDI over the past 5 years. India's GDP for 2013, valued at US$ 1.9 trillion at current prices is the 10th largest in the world". The Indian government has a target of 8 per cent during the current Five-Year Plan (2012-2017), for their economic growth, this is based on the demonstrated ability to sustain national economic growth. Countries that have large internal markets have also benefited by integrating themselves into the world economy, and thus opening up their economies like South Africa and India as one of the BRICS countries. India is projected to be the fastest-growing economy in the world over the next several decades. Trading with different countries respectively has made India what it is regarded as trading hub of today after China in the BRICS Countries.

Some of the major findings of emerging trends in global, regional trade and Indian trade have been discussed below:

Developed countries and emerging economies have been playing different role in global supply chains

While developed economies tend to be upstream in the supply chain and this position is reflected in relatively small foreign contents in their exports and relatively large contributions towards other downstream countries' exports, emerging economies tend to be downstream in supply chain with relatively larger shares of imported content in their exports.

Greater dispersion of supply chain in emerging economies compared with the developed economies

In the Asian supply chain, goods in process cross borders several times, including through hub (Japan), before reaching their destination. In contrast, in other regions, almost all foreign input is imported directly from the hub- United states in NAFTA and EU 15 in Europe.

Emergence of global supply chains has allowed emerging economies to make greater use of capital intensive technology in their export commodities as well as technology exports too have increased.

The share of high technology exports has exports has increased remarkably in India and China in the last few decades, boosted by processing trade and with significant imported contributions from Japan and other Asian countries. in export structures has increased over time and so has competitive pressure.

Fluctuating Trade between Developing Nations

Between 2017 and 2019, trade in developing economies has gained massive momentum. But this was offset by economic impact of pandemic in 2020 when trade in goods and services decreased by 7% and 25%, respectively. In 2021 trade bounced back and reached US$ 11.2 trillion .and in goods touched US$9.6 trillion mark, crossing even pre-pandemic level. Trade in services however still falls short of pre-pandemic levels, despite estimated 16.7 % growth in 2021.

Dominance of BRICS

Globalisation has brought about a shift in economic and political power away from developed countries, towards the BRICS nations, mostly of emerging economies. In the last two decades Brics countries have formed an important force accounting for 23% of global economy ,18% of trade in goods and 25% of foreign investment. Amid the Covid crisis, BRICS seems to fare as a better, effective and efficient institution in comparison to other global governance institutions. **Expansion of India's Global Market Share**

India's exposure to trade – as measured by exports and imports share in GDP – has increased significantly in last two decades. The sharp reduction in tariffs which took place immediately after new economic policy was introduced, coupled with removal of some non-tariff barriers, played an important role. Trade opening has offered new opportunities for consumers, who gained access to a much wider spectrum of goods, and for firms, as they could import world-class inputs and become more competitive. Competition from abroad also facilitates the diffusion of innovation and promotes the search for productivity, putting pressures on monopolistic rents. During last decade India's exports- and imports-to-GDP ratio increased fast and it is almost comparable with China. The rise in the export-to-GDP ratio since the late 2000s has been partly reversed as India and many other EMEs have suffered from sluggish global demand and some re-shoring by advanced economies (AEs). Indian exports also suffered from the appreciation of the rupee and from temporary disruptions in domestic value chains associated with the 2016 demonetisation and the roll out of the Goods and Services Tax (GST) in 2017. Overall, export performance, measured by how much India's exports have grown relative to its market growth, has remained solid India's share in world exports of goods and services rose from 0.5% in the early 1990s to 2.1% in 2018.

Significant Progress in Market Share for Capital -intensive goods.

India's market share for some skill- and capital-intensive goods has surged. For pharmaceutical exports, India accounted for 2.5% of total world exports in 2018, up from 1.1% in 1995, making it the 11th largest exporter in the world and, by far, the first among EMEs. In the smartphone segment of electronic goods, India has transformed itself from being a net importer to a net exporter. Crude refining capacity has expanded (most crude oil is imported), and the share of petroleum products in total exports has increased steadily from 1.5% of merchandise exports in 1995 to close to 15.1% in 2018. India is also the largest manufacturer of cut and polished diamonds, exporting 93% of its production.

India's Expanding Export Market

India has succeeded in increasing the number of goods exported and in serving new markets/countries. Its export basket is highly diversified and exports to emerging economies are growing fast. Such a diversification reveals the high potential of the Indian economy to adjust to new demands. It also reduces exposure to risks such as lower demand in one country or for one specific product.

Expansion of Exports in Services with increasing FDIs

Swelling inflows of foreign direct investment (FDI) in India have promoted services exports. In the last few years Indi has emerged as export hub for markets such as Africa and West Asia for automobiles as several multinational companies have invested in India in building the production capacity. Some Indian auto-part manufacturers became world leaders by having first acquired technical and managerial skills from leading original equipment manufacturers FDI can also boost activity in small and medium-sized enterprises (SMEs) to global value chains, contrary to the frequent belief that benefits accrue mainly to large firms. Empirical evidence for ASEAN economies suggests that SMEs tend to export intermediate goods to global value chains indirectly through sales to multinational firms which then export.

Several dynamic initiatives have been taken by the current Indian Government towards liberalising FDI policy in several sectors. Since 2014 several new sectors have been brought under the automatic route, avoiding the administrative burden associated with the government approval route. The opening was most ambitious in the air, real estate and retail distribution sectors. In 2017, the Foreign Investment Promotion Board was abolished, and the government approval system was simplified and decentralised -- concerned ministries are now invited to accept or reject FDI projects within a shorter timeframe (8-10 weeks). As a result of these policy measures, FDI inflows to India as a share of GDP remained unaffected while global FDI flows declined continuously three years since 2018.

The government aims at making India a more attractive FDI destination. FDI restrictions in single-brand retail, digital media, contract manufacturing and coal sector were loosened in August 2019. Local sourcing norms for single-brand retail FDI have been relaxed. Similar measures shall be taken in insurance, sector, media etc in coming years.

Use of preferential trade agreements as a key component of its trade and foreign policy.

Preferential trade agreements have been used by India has as a key instrument to facilitate and promote its global trade in the recent years. Several bilateral agreements with countries like South Korea in 2009 and Japan in 2011 were made in goods and services. Some prominent trade agreements it has concluded are various regional trade agreements, SAFTA, the Asia Pacific Trade Agreement, and ASEAN. Overall, countries covered by a trade agreement with India account for a relatively large share of the world GDP.

However, impact of preferential trade agreements on India's export performance is mixed. Extent of most of the preferential agreements signed by India is relatively low except those with Japan and South Korea. *Secondly since* the initial level of tariffs are bit India than elsewhere, trade agreements may, in the short run, boost imports more than exports. Thirdly, it has been noted that Indian apparel exporters have not been able to increase their export shares in Japan despite moving towards zero tariffs under the trade agreement. The reason is that poor business environment deprives India from fully exploiting the opportunities offered by foreign market. Overall, for preferential agreements to deliver their full impact on exports, India should undertake complementary improvements in the business environment.

Optimistic Trend

OECD simulations suggest that, even in the absence of new bilateral, regional or multilateral trade agreements, India would benefit from reducing trade tariffs: exports, domestic production and income would increase. The METRO model has been used to compare the impact for India of a multilateral reduction in tariffs -- all G20 countries are assumed to lower their tariffs to the lowest level implemented across G20 countries – to a situation where India alone cuts tariffs. The positive impact of India reducing trade tariffs is only marginally smaller than the impact from a multilateral reduction, reflecting the fact that effectively applied tariffs in G20 partner countries are already relatively low.

Conclusion

World Bank Report in its latest update as given glowing reviews on India's economy resilience despite a challenging external environment. In its report titled "*Navigating the Storm*", finds it states that while worsening global environment shall put a spike on India's growth prospects, the economy is sound enough to absorb the shocks and turmoil compared to other emerging economies.

It has been predicted that factors like slump in global growth, tight global monetary policy and increasing prices of goods would cause lower growth of Indian economy in current year 2022-23 (6.9%) compared to previous year. Despite these challenges, India is expected to have an impressive GDP growth compared to other emerging economies and would be the fastest growing economies in the world, mainly due to its increasing domestic demand.

India's current-account deficit has tremendously improved in the last few years due to expanding foreign direct investment inflows and a large foreign exchange reserves.

Wise and prudent policy reform measures have contributed in making Indian economy resilient and robust. Increased reliance on market borrowings has improved the transparency and credibility of fiscal policy and the government has diversified the investor base for government securities. The introduction of a formal inflation targeting framework during the past decade was an important step in lending credibility to monetary policy decisions. In the last few years RBI is also trying to handle some challenges in the financial sector by adopting some regulatory measures like new Insolvency and Bankruptcy Code and the creation of the new National Reconstruction Company Limited. Issues of non-performing assets are expected to be handled with these in times to come.

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