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THE DYNAMICS OF INTERNATIONAL TRADE IN EMERGING MARKETS

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Abstract: *The dynamics of the world economy has proven that no country could implement a viable economic development strategy without being a part of the world's exchange flows. Therefore, international trade has become a necessity and this fact is confirmed by the various free trade-areas and agreements.*
During the past few decades we have witnessed an unprecedented widening of economic exchanges between countries caused by a high degree of diversification and specialization of activities. But we have also seen that the most powerful and developed countries are the ones that tend to control and dominate not only the world economy but also the dynamics of international trade. So where does this reality place the emerging economies? Are they able to use international trade as a way towards economic development? Or do they become simple marketplaces for the more developed countries' goods?
The aim of this paper is to analyze what are the dynamics of international trade in ten emerging markets in order to establish if international trade is an instrument for strengthening their economy or, on the contrary, it has generated a deficit in the trade balance thus weakening the national economy.
Keywords: *international trade, strategy, country development*

1. INTRODUCTION

Different theoreticians have argued the importance of free trade and that each country could gain from trade. Their main argument was that certain goods could have a lower cost if a country would import instead of manufacture them. Other theoreticians have had an opposing view, arguing that international trade should be regulated in order to protect the national economy.

This argument was held for over a century and had an important role in establishing the world market as we know it today, including the emergence of some new economic actors on the world market, the big corporations. During this process, the world has been divided between the economically, politically and militarily powerful countries and the big corporations.

But despite the argument between protectionism and free trade all theoreticians seem to concur that for every country trade is not an option but a necessity. From the mercantilism to the newest alternative theories in international trade, we can find various explanations regarding the importance that trade, either free or under government protection, has an important role in creating wealth and generating economic growth for every country.

The classic insights into the nature of economic exchange between countries have been refined and updated over the years to retain their relevance to today's circumstances. Over the past decade, economists have gathered extensive empirical evidence that contributes appreciably to our understanding of the advantages of free trade. (2)

Various international organizations have tried to determine a certain set of rules that each country should apply when participating in the world's exchange flows. The main reason that determined such a necessity was the fear that less developed countries were being used as suppliers of raw materials and buyers of manufactured goods which on the long-term would only deplete them more and more.

However, reality shows that a set of rules that could be applied to each and every country does not exist. And the explanation is simple: the reality of each country is different, first of all because of the differences in economic development and more so because of the differences in available resources that influence inputs and outputs in production and further on, in trade.

Through foreign trade each country can increase its economic potential, has the opportunities to exploit its human and material resources towards development of its productive forces, promoting technical progress and higher capitalization of natural resources, the creation of new products, the increase of labor productivity and higher labor qualification. (8)

So, all things considered, what is the best choice? Is it better to produce goods or buy them from other countries? And more importantly, which goods should a country produce and which ones should it buy?

What we can deduce from literature and even more from the reality of the past few years, is that each country should do a thorough analysis of its assets before deciding which goods are less expensive if imported and which ones should be produced internally.

According to Paul A. Samuelson (10) the major advantage of international trade is that it expands the scope of trade. If people were forced to consume only what they produced at home, the world would be poorer on both the material and the spiritual planes. Canadians could drink no wine, Americans could eat no bananas, and most of the world would be without jazz and Hollywood movies. The author also argues that trade may take place because of the diversity in productive possibilities among countries. In part, these differences reflect endowments of natural resources. One country may be blessed with a supply of petroleum, while another may have a large amount of fertile land. Or a mountainous country may generate large amounts of hydroelectric power which it sells to its neighbors, while a country with deep-water harbors becomes a shipping center.(10)

The risk of disregarding the importance of such an analysis is to create a huge deficit in the trade balance which would determine a slow or non-existent economic growth. And for an emerging country that is a risk that it cannot and should not take.

2. WORLD TRADE AND EMERGING MARKETS DURING 2007-2011

In 2007, growth in world output and trade decelerated. At 7%, global economic growth in the developing regions was nearly three times the rate recorded in the developed regions and the contribution of the developing countries to global output growth in 2007 exceeded 40%. (13)

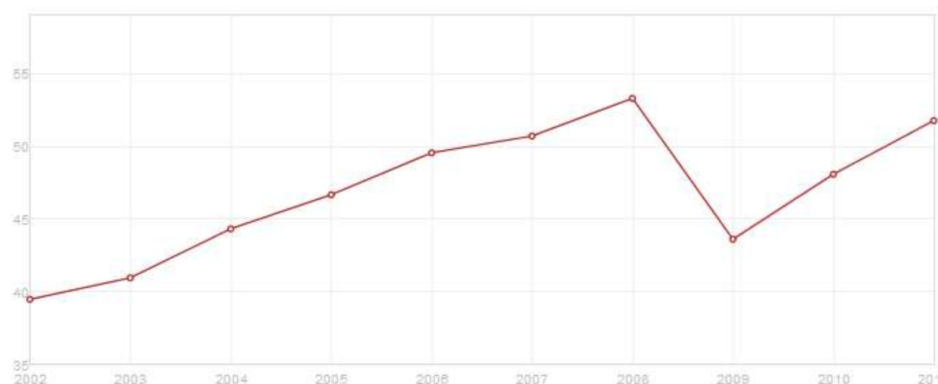
World trade in 2007 (merchandise trade, nominal export basis) rose 15.0% to reach US$13.76 trillion, posting a double-digit increase for the fifth consecutive year. However, the real export growth rate, excluding price changes and the impact of foreign exchanges, slowed to 5.6% from 10.5% in 2006, posting the lowest growth since 2003. World trade (nominal export basis) in 2007 expanded in almost all countries and regions partly due to the impact of the dollar depreciation. Exports by industrial countries increased by 13.7% to US$7.6 trillion, while those by developing countries rose 16.8% to US$6.159 trillion. The underpinning of world trade by developing countries has been a feature in the recent years and, also in 2007, developing countries' growth rates of both exports and imports were higher than those of developed countries. The developing countries' share in world exports reached 44.8%. (3)

Signs of a sharp deterioration in the global economy were evident in the second half of 2008 and the first few months of 2009 as world trade flows sagged and production slumped, first in developed economies and then in developing countries. Although world trade grew by 2% in volume terms over the course of 2008, it tapered off in the last six months of the year and was well down on the 6% volume increase posted in 2007. (17)

World trade in 2008 (merchandise trade, nominal basis) showed an increase of 14.9% in exports to US$15.9 trillion and an increase of 15.2% in imports to US$16.8 trillion. Both exports and imports showed double-digit growth for the sixth consecutive year. On a real basis, excluding price changes and the impact of foreign exchange, the rate of growth in exports slowed from 5.6% in 2007 to 3.8% in 2008, while the rate of growth in imports slowed from 7.0% in 2007 to 3.5% in 2008.

The rapid decrease in exports and imports was brought about by not just falling prices due chiefly to adjustments in commodities markets but also by decreases in trade volume resulting from falling demand in major developed economies.

In 2008, exports (nominal basis) grew by 10.7% to US$9,619.7 billion in developed economies and those jumped by 21.9% to US$6,271.1 billion in emerging and developing economies. The fact that emerging and developing economies provide an underpinning for world trade is a characteristic of recent years, and it was also witnessed in 2008 with higher rates of growth in both exports and imports recorded in emerging and developing economies than those in developed economies. Exports from emerging and developing economies to developed economies, however, had fallen substantially since November, due to falling commodities prices and sluggish demand in developed economies. Although exports from emerging and developing economies showed double-digit growth from January through October, negative growth was posted in November. (4)



Source: World Bank (12)

Figure 1. World merchandise trade (% of GDP)

The economic and financial crisis that shook the world economy in the closing months of 2008 produced a global recession in 2009 that resulted in the largest decline in world trade in more than 70 years. The rate of trade growth had already slowed from 6.4% in 2007 to 2.1% in 2008, but the 12.2% contraction in 2009 was without precedent in recent history. In addition, emerging markets were confronted with falling commodity prices on world markets which generated declining terms of trade (falling export prices relative to import prices), leading to stagnant incomes and arrested development.

In order to break free, developing countries were urged to diversify their economies and develop their manufacturing industry – including through the use of selective protection and import substitution. (15)

World trade in 2009 (merchandise trade, nominal exports), fell by 23.0% over the previous year to US$12.3 trillion, while imports decreased by 23.3% to US$12.7 trillion. This was a sudden decrease after six years of consecutive double-digit expansion, declining for the first time in eight years. This was the largest drop since 1949, the earliest year for which statistics are available, although in the past world trade declined due to the oil crisis and the bursting of IT bubble. World trade decreased for 12 consecutive months beginning in November 2008.

Export prices declined 10.6% and import prices also declined 12.6% (both dollar based, IMF) showing that the price and volume factors are almost comparable. Real growth rate decreased for the first time since 1982, a year which showed a 4.5% decline. A double-digit decline was the first time ever since records began in 1949.

In 2009, developed countries' exports contracted to US$7.6 trillion, a 21.6% year-on-year decrease, while exports by developing countries fell to US$4.7 trillion, down 25.2%. Sluggish demand in developed countries impacted developing countries—the drivers of world trade until 2008—causing a large contraction of double-digit decline in their trade value.

Among developing countries, Russia's exports decreased by 36.4% to US$234 billion, which is one of the largest drops among major countries. Crude oil accounts for 38.4% of Russia's total export, and due to falling oil prices, its exports posted negative growth for 11 consecutive months from November 2008. Not only Russia, but other countries highly dependent on natural-resource exports also saw their exports tumble in the wake of plunging commodity prices.

Exports between the developed and developing countries also turned positive in November. On the other hand, exports among the developing countries were sluggish. (5)

World trade recorded its largest ever annual increase in 2010 as merchandise exports surged 14.5%, buoyed by a 3.6% recovery in global output as measured by gross domestic product (GDP). The rise in the volume of goods exports in 2010 was the largest on record, enabling world trade to return to its pre-crisis level but not its long-term trend. Economic conditions continued to improve in both developed and developing economies, but the recovery of both trade and output proceeded more slowly in developed countries. Both trade and output grew faster in developing economies than in developed ones. Exports were up 13% in developed economies while the increase for developing economies was nearly 17%. The difference between trade of developed and developing economies was even greater on the import side, where developed economies' imports rose by 11% compared with 18% in the rest of the world. (16). In world trade (nominal exports) in 2010, exports by developed countries increased 17.6% over the previous year to US$9,087.4 billion, and exports by developing countries soared by a larger 30.0% to US$5,962.2 billion

While developed countries maintained a considerable lead over developing countries 60.4% to 39.6% in the share of global exports, developing countries slightly outstripped developed countries 11.2 points to 11.0 points in the contribution to the 22.2% year-on-year increase in global exports, showing that the growth of exports by developing countries largely helped boost overall world exports. (6)

Even though the volume of world merchandise trade rose 5.0% in 2011and the global output grew with 2.4%, world trade growth decelerated sharply in 2011 as the global economy struggled under the influence of natural disasters, financial uncertainty and civil conflict, marking a significant slowdown from 2010, when trade advanced 13.8% and output expanded by 3.8%.
As for emerging countries, they were disproportionately affected by several adverse developments including the interruption of oil supplies from Libya that caused African exports to tumble 8% in 2011, and the severe flooding that hit Thailand in the fourth quarter. The Japanese earthquake and tsunami also disrupted global supply chains, which penalized exports from developing countries such as China, as reduced shipments of components hindered production of goods for export. (18)
JETRO estimates that world trade in 2011 based on merchandise trade and nominal exports rose 19.1% over the previous year to US$17.969 trillion, surpassing the 2008 level that marked the peak. The increase in the amount of world trade stemmed largely from the increase of 11.4% in prices, with the growth in real terms standing at a modest 7.7%. (7)

3. INTERNATIONAL TRADE FLOWS IN TEN EMERGING MARKETS

Due to the fact that the term emerging markets has a somewhat permissive definition, the lists of emerging markets are quite different, depending on the organization that conceive them and on the indexes considered.

Table 1. Exported value during 2007-2011 (million USD)

Countries	2007	2008	2009	2010	2011
Brazil	160648,87	197942,44	152994,74	197356,44	256038,70
China	1220059,67	1430693,07	1201646,76	1577763,75	1898388,44
Mexico	271821,22	291264,81	229712,34	298305,08	349569,05
India	145898,05	181860,90	176765,04	220408,50	225306,71
Indonesia	114100,87	137020,42	116509,99	157779,10	203496,62
Poland	138784,98	171859,90	136641,31	157064,95	183291,97
Russian Federation	352266,40	467993,96	301796,06	400100,00	478009,20
South Africa	64026,61	73965,55	53863,89	71484,31	92975,61
Thailand	153571,13	175907,92	152497,20	195311,52	228823,97
Turkey	107271,75	132002,39	102138,53	113979,45	134954,36

Sources: ITC calculations based on UN COMTRADE statistics (11)

When choosing the ten emerging countries we wanted to analyze in this paper, we had to take into account different lists of emerging markets available at the moment, but also countries from different regions and areas of the world, so that we would have countries with different available resources. By taking into account the above mentioned considerations, we decided to analyze the international trade dynamics in Brazil, China, India, Indonesia, Mexico, Poland, Russian Federation, South Africa, Thailand and Turkey during a five-year period, from 2007 to 2011.
During the five-year period we've analyzed, world trade has tried to recover from a severe economic and financial crisis that has shifted the balance of powers between countries and has determined every country to reconsider its priorities.
We will now try to focus on the ten emerging markets we have decided on years in order to see what changes have occurred in their exports, imports and trade balance during the past five years.
At a first glance we notice that the country with the biggest export value is China, with an export value of nearly 2 trillion US dollars in 2011, while the country that has the lowest export value is South Africa, with an export value of only 0.09 trillion dollars in 2011. The second largest exporter is Russia, followed by Mexico, Brazil, Thailand, India, Poland, Indonesia and Turkey.
According to the data above, for eight of the ten countries analyzed, the financial crisis has generated the lowest export value, while for India and Indonesia, the lowest export value was registered in 2007. On the other hand, the highest export value was reported in 2011, leading us to think that they have successfully recovered from the crisis.
As for the imported value for the five-year period we've analyzed, the data is presented in the table below:

Table 2. Imported value during 2007-2011 (million USD)

Countries	2007	2008	2009	2010	2011
Brazil	120620,87	173196,63	127647,33	180458,79	226243,41
China	956115,45	1132562,16	1005555,23	1396001,57	1743394,87
Mexico	218645,29	315712,11	266401,55	350029,39	263949,42
India	74473,43	129244,05	96829,16	135663,28	177435,55
Indonesia	281926,51	308583,12	234384,53	301481,73	350842,39
Poland	164172,48	210478,51	149569,84	174127,59	203027,99
Russian Federation	199725,96	267051,24	170826,59	248700,00	284736,89
South Africa	79872,59	87593,07	63766,06	80139,28	99726,02
Thailand	143761,45	178613,11	133769,64	182393,38	228483,30
Turkey	170062,72	201960,78	140869,01	185541,04	240833,24

Sources: ITC calculations based on UN COMTRADE statistics (11)

China is also the biggest importer, with an import value of almost 2 trillion US dollar in 2011, followed by Indonesia, Russia, Mexico, Turkey, Thailand, Brazil, Poland, India and South Africa that recorded only 0.1 trillion dollars.
If we try to interpret the evolution of import's value from 2007 until 2011, we notice that for six countries, the financial crisis has caused a slump down in imports, while for the other four countries (Brazil, China, Mexico and India) the lowest import's value was registered in 2007. But almost every country has reported the highest import's value in 2011, the exception being Poland, which has had a bigger value in 2008.

Table 3. Trade balance during 2007-2011(million USD)

Countries	2007	2008	2009	2010	2011
Brazil	40028,00	24745,81	25347,41	16897,65	29795,29
China	263944,22	298130,91	196091,53	181762,19	154993,57
Mexico	-10105,30	-17318,31	-4672,20	-3176,66	-1273,34
India	-72747,24	-133851,21	-89636,52	-129620,89	-38642,71
Indonesia	39627,44	7776,37	19680,83	22115,82	26061,07
Poland	-25387,50	-38618,62	-12928,53	-17062,64	-19736,02
Russian Federation	152540,44	200942,71	130969,47	151400,00	193272,31
South Africa	-15845,98	-13627,52	-9902,17	-8654,97	-6750,40
Thailand	9809,68	-2705,19	18727,56	12918,14	340,67
Turkey	-62790,97	-69958,39	-38730,49	-71561,59	-105878,87

Sources: ITC calculations based on UN COMTRADE statistics (11)

A very important fact that we should take into consideration is the trade balance of these ten countries in order to assess if they are gaining from international trade or not.

As we can see from the table above, five of the ten countries analyzed, have a surplus in the trade balance, the biggest one being registered by Russia, with a surplus of 0.19 trillion dollars, followed by China, Brazil, Indonesia and Thailand. The other five countries have a deficit in the trade balance, the biggest one being recorded by Turkey (0.10 trillion dollars), followed by India, Poland, South Africa and Mexico.

While South Africa is the most constant of the group of countries, with a deficit in the trade balance constantly going down from 2007 to 2011, the financial crisis has affected the trade balance of the other nine countries, which have registered the biggest deficit or the lowest surplus in the trade balance in 2008 (Mexico, India, Indonesia, Poland, Thailand), 2009 (Russia), 2010 (Brazil) and 2011 (China, Turkey).

The gap between the West and emerging markets has narrowed. A slight recovery and pervasive gloom cloud the West while roaring growth and sunny optimism light up emerging-market skies, especially in Asia, where China and India shine brightest. Skies are also lightening in parts of Africa and Latin America, notably Brazil, and Russia has rebounded after a deep recession.(9)

The WTO’s projected 3.7% growth rate for world merchandise trade in 2012 is below the long-term average of 6.0% for 1990–2008, and it is even below the average over the last 20 years including the period of the trade collapse (5.5%). Should it come to pass, the baseline forecast for 2012 and 2013 would not bring the volume of world trade any closer to its pre-crisis trend. In fact, the gap should grow larger as long as the rate of trade expansion continues to fall short of earlier levels. (18)

According to a new report by Citigroup, in less than 40 years India will overtake the US as the world’s second-largest trading nation, pushing today's superpower into third place and Europe in to the little leagues.

Citigroup’s William Buiter and Ebrahim Rahbari wrote that according to their projections, world trade in goods and services will grow from $37 trillion in 2010 to $149 trillion in 2030 and $371 trillion in 2050. They predict that trade between emerging markets will overtake that between advanced economies in just four years in a clear sign that the world’s major economies of Europe and North America are set to lose relative importance to the global economy.

According to Citi’s analysis China, is expected to become the world’s biggest trader by 2015 but it is India’s rise that could come as a surprise to many. In terms of the largest countries by trade, they expect China to overtake the US to become the world’s largest trader by 2015 and to remain in the top spot for the rest of their forecast horizon.

India, which has not even featured in the top 10 of the world’s largest traders in 2010, is expected to be the world’s second-largest trader by 2050, with the US in third place. In 2010, only two countries from Developing Asia featured in the top 10 (China and Korea), while five European countries were among the ten largest traders in the world. In 2050, Citigroup analysts expect seven out of the ten largest traders in the world to hail from Developing Asia, with Germany the only remaining European constituent. (1)

4. CONCLUSION

The last half of the 20th and the first decade of the 21st century demonstrated the importance of international trade as a stimulating factor for a sustained economic growth and countries in different regions of the globe, such as Malaysia, Thailand, Taiwan, Singapore, South Korea, Brazil and Chile, give us good examples of successful experiences in international trade. Gaining access to developed country markets could provide an important stimulus for better using human and capital resources that were previously underutilized. An increase in foreign exchange earnings, determined by an improved export performance, could also be a way for developing countries to supplement scarce natural and financial resources.

In conclusion, the importance that international trade has for the economic development process is established by a more efficient employment of the main factors of production, by an increased capacity utilization due to market expansion, by making economies of scale and, last but not least through higher productivity.

The level of economic development in the various countries and the degree of diversification and specialization of their production are the main factors determining the extent of their participation in the world economy and reflect the place they occupy in the international division of labor.

The dynamics of specialization is based on changes in the productive structure, on structural transformations of intermediate and final consumption and on the investment process’ evolution, each country having both weaknesses and strengths of the different industries and for every category of products which result in trade deficits or surpluses.

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