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INTERNATIONAL TRADE: A MECHANISM FOR EMERGING MARKET ECONOMIES

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ABSTRACT: *International trade has contributed greatly to the global economic system. Emerging market economies (EME) was a result of international trade activities. The international trade programme has encouraged many countries in the world to adopt international economic policies that promote greater trade and investment. BRICs acronym implies Brazil, Russia, India and China represent the leaders of these emerging market economies. International trade activities underpin the growth and development of these countries. This study brings round the facts and figures on the activities of international trade and how its fostered growth and development of the emerging market economies. Many theories of international trade were used to underpin these activities of the trade. These include Heckscher-Ohlin model, Rechardian model and Gravity model of international trade. The researchers' presents some criticisms accompany by these beautiful roles play by international trade to emerging market economies and useful recommendations were provided for these economies.*

KEYWORDS: Emerging market economies, international trade, Dumping, investment, Global economic system and theories.

INTRODUCTION

The world policy of International trade has contributed immensely to the growth and development of many countries of the world. Research has shown that international trade has become more global activities today in the world than at any time in modern history, (Thomson 2002). This program has encouraged many countries in the world to adopt international economic policies that promote greater trade and investment. Countries that engage in international trade usually operate under one umbrella or the other, such as, multilateral, bilateral, as well as regional agreement. However, the General Agreement on Trade and Tariffs (GATT) which was replaced by the World Trade Organisation (WTO) in 1993 (Cooper 2012) is the organisation that controls all registered international trade members' nations. The emerging market economies who are registered members are also part of this organisation.

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Emerging market economies, which are classified as BRICs, implies Brazil, Russia, India and China are the leaders of these economies. These countries had the support of international trade activities which underpins its areas of growth and development. This research will critically evaluate the roles of international trade in emerging market economies. It will be inclined to explain how international trade has contributed to the growth and development of emerging market economies.

The organisation of this research work is as follows: the Introduction, which will briefly explain how international trade worked in members' countries; the theoretical framework of international trade which will give a brief explanation of some theories such as the Recardian theory, the Heckscher-Ohlin theory and the Gravity theory of international trade. The concepts of international trade and emerging market economies will also be discussed. The next section will give a critical evaluation of the roles of international trade in emerging market economies. These roles will include: provision of additional capital to the emerging market economies, fostering multilateral, bilateral and regional trade agreements among members countries, improvement of economic performance and raising of overall income of members countries, it help in marketing of natural endowments, provision of input and raw materials for agricultural and manufactory sectors and enable the developing countries to borrow funds at very low interest rates. These roles will be supported with much scholarly research work which will be vividly explained for clarity of the readers. In addition, the research will be accompanied by some criticisms of the role of international trade in the emerging countries. Finally, a conclusion and some useful recommendations will be provided for the emerging market economies.

THEORETICAL FRAMEWORK OF INTERNATIONAL TRADE

There are many theories of international trade given by different scholars. Among these theories include;Recardian model- krugman and obstfeld (2009, p22) states that, this model is developed on the theory of comparative advantage. According to this model, countries involved in trade, specialize in producing the products in which they have comparative advantage. For instance if country A and B, are involve in production of Y clothes and X cars, and A produce more quantity of clothes in a day at lower cost (£) and less number of cars at high cost (£) in a day, while B produce less quantity of clothes at high cost (£) in a day and more number of cars at lower cost (£) in a day. Comparatively "A" should produce quantities of clothes while "B" should produce number cars because of the advantage they both have over each other on the production cost.

Heckscher-Ohlin model- this model places emphasise on endowments factors of production as the basis for international trade. As per this theory, countries will specialize in and export those products which make use of the domestically abundant factors of production more intensively than those factors which are not quite available in the home country (Blaug 2006). This is mostly base on the availability of abundant factor of production. A country should export only that which it has in abundant and import that which it does not have in abundant.
Gravity model- this model provides empirical explanations of international trade. According to the model, economic sizes and distance between nations are the primary factors that determine the pattern of international trade. The model resembles the Newtonian law of gravity which also considers distance and physical size between two objects (Krugman and

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Obstfeld 2009, Nello 2009).The model stated that international trade is determined by the volume of trade between two countries to include the size of the two countries' GDPs and the distance between the countries, without specifically assuming that trade is proportional to the product of the two GDPs and inversely proportional to distance. That is, the value of trade between any two countries is proportional to the product of the two countries' GDPs which diminishes with the distance between the two countries.

CONCEPTS OF INTERNATIONAL TRADE AND EMERGING MARKET ECONOMIES

International trade

International trade refers to as the transfer of goods and services which include capital goods from one country to another. This definition was concurring by Economics Concepts (2012) who defined it as trade across international boundaries. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present all the way through a large amount of history, its economic, social and political importance has been on the rise in recent centuries. Therefore, without international trade, nations would be limited to the goods and services produced within their own borders.

However, Economics Concept (2012) adds that, the difference between international trade and domestic trade is that, this type of trade is more costly than domestic trade. This is because the trade across international border require other charges or costs such as tariffs, and other costs associated with country differences such as language, legal system or culture are also incurred. Factors of production such as capital and labour typically move more freely within a country than across countries. Therefore, these determinants really give clear polarization of the two concepts to business individual and organisations.

Emerging market economies

There are so many definitions of emerging market economies (EME) given by different scholars. Economy Watch (2010) defined emerging market economies as economies with low per capital income. The EME countries constitute approximately 80% of the global population as well as 20% of the world economies. The word was invented in 1981 by Antiole Agtmeal which served at the international finance corporation of the World Bank.

The author added that emerging market economies have indispensable description of trade liberalization and make available or exposed their economies at a global stage. This show the way to many overseas goods flowing into the domestic market which now compete with locally produced items. This makes better the model of domestically produced goods and services and raises their yield and also helps to produce export value items.

Williams (2011) portrayed an emerging market economy as an economy that is accompaniment with the description of fast economic growth, increased foreign investment and increased international political influence. Fast growth is evidenced by strong economic data, as in rising Gross Domestic Product (GDP), GDP per capital, trade volumes and foreign reserves. Fast growth generally means higher profits for foreign investors, which makes better more foreign investment in a country which in turn, holds up economic growth. Williams added that, in 2001, Jim O'Neill, invented the acronym BRICs, to refer to Brazil, Russia, India and China, the proponent of this concept of emerging market economies (EME) consideration was that this would lead world economic growth for the next fifty years. Right

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from this period many academics, economists and journalists have written much about the idea of the BRICs, and the acronym has become universal.

CRITICAL EVALUATION OF THE ROLE OF INTERNATIONAL TRADE IN EMERGING MARKET ECONOMIES

International trade has played so many important roles in the development of emerging market economies; these are seen in the products and services of these economies found in many developed and developing economies of the world. These roles include:

Provision of additional capital to the emerging market economies – the continues inflow of foreign funds through international trade as foreign direct investment (FDI) to countries helps to makes better investment without stringent measure of savings to invest, thus had enabling countries to grow more rapidly with no given in compensation to current consumption. Moosa (2002, P73) admits that, the course of action by one multinational enterprise (MNE) in a foreign firm can bring about other multinational enterprises to invest in the same host country as a seller of intermediate products. That is firms invest in foreign countries as a result of competition for marketing of it products. This action of the firms supports availability of goods and services in the global economy. OECD (2000) confirmation of this contribution was that, with the establishment of the economic reforms and the called for foreign capital participation in the economy by FDI in 1979, China has received a large part of international direct investment flows. China has become the second largest FDI recipient in the world, after the United States, and the largest host among developing countries. These activities further expatiate how the policy of international trade had help in facilitating continues growth and development of China which is among the emerging market economy countries of the world.

OECD Economic Outlook (2011, P202) also finds that, in 2011 India had a boost in the rate of exports and imports of goods and services, but trade is likely to slow roughly as household and worldwide demand diminish. This scenario was as a result of international trade. The influx of firms in India has given confidence to the economy and many Indian firms enjoy both internal and external economics of scale as the economic witness constant influx of foreign firms. Hence this strengthens the capital base of the Indian economy and practically upholds its economic growth and development.

These scenarios was underpinning by the Heckscher-Ohlin model of international trade which states that countries should partakes in international trade base on endowment factors of production the countries has (Blaugh 2006). That is countries should specialise in and export product which make use of the domestically abundant factors of production, what the country has more in abundant. As seen above the inflows of FDI and funds from mostly European countries into China and India which are emerging countries signified their abundant product exported to other countries as a result of international trade and this has help to support the growth and development of these emerging market economies.

Fostered multilateral, bilateral and regional trade agreements - Husted and Melvin (2007, p10) contends that, during the past 40 years governments around the world have entered into a series of multilateral agreement to lower government-imposed barriers to trade. Some of these agreements have been between small groups of countries e.g. European

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Union (EU) of 1957 which has brought free trade across most of Europe, Uruguay round talks of 1980 and early 1990. Krugman etal (2012, P44) agrees that trade have a tendency to be well-built when countries have close personal contact. For example Canada and Mexico are part of a trade agreement with the United States and Economic Community of West Africa State (ECOWAS) which ensure that most goods shipped among the countries are not subject to any barriers to international trade which provide varieties shows and choice for the consumers in the economy. In the same vein, Cooper (2012) confirm that, in 1993, Russia was been able to be put to practical use for its membership to the General Agreement on Tariffs and Trade (GATT). In 1995, Russia prospect for been put into practical use was given consideration by the World Trade Organisation (WTO) the new body that represent GATT. Russia passed through proper process to become a member of the organisation as a result of the ministerial conference in Geneva.

However, one of the aims of WTO is that it encourages trade among members nation. Therefore, the inclusion of Russia in World Trade Organisation made it clear that their presence in the organisation membership can inspire Russia to become a good environment suitable for international trade which could increase Russians economic growth and development. This implies that the establishment of WTO which encourage international trade has contributed greatly to the emerging market economies who's are members of this institution.

Following the gravity model of international trade which state that trade is not proportionate to the GDP of two nations and inversely proportionate to their distance (Krugman and Obstfeld 2009, Nello 2009). That people go into trade irrespective of the distance as long as they derived satisfaction from the products or services purchased. Distance is not a barrier to international trade as far as this model is concern more especially when countries come into agreement and regulate custom duty such as tariffs as seen in the agreement of the WTO membership countries.

Improve economic performance through technological transfer and raise overall incomes of emerging market economies (EME) – countries classified as emerging market have attained improve economic performance as a result of international trade through movement of technology by firms from developed nations to emerging nations. Irwin (2008) admits that international trade usually involves the shift of technology to less develop countries which let go wage rates to rise; this was verified in Korean economy among many others since the 1960s. Naughton (2007, p354) regarded the Soviet Union as China's technology supporter all the way through the 1950s. The Soviet Union moved not only the technologies themselves, but also the provision for the key institutions that build motivation to agree to technology. From the forgoing expression, China enormous growth in technology was as a result of international trade, technologies were transferred from the then Soviet Union state through international trade to China which make China what it is today, a member of the Emerging Market Economy. This was viewed as one of the most structured shift of technology across national borders ever known.

(Kumbhar 2009) also confirmed India as the largest producer of milk in the world as its produces 13.1% of the total milk produces in the world. Hence, this makes India to attain the first status in milk production in the world. However, at then the first five countries in the world producing maximum milk are India, USA, Russia, Germany and France. This

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discovery was as a result of international trade and has contributed to growth and development of these nations including India and Russia who are among the emerging market economies.

The proponent added that, this scenario does not brings the countries on top in the world alone, but also portrayed practical growth in the availability of milk and milk products for the growing inhabitants of these countries. These increase the income of firms in India therefore supported growth and development of India as an emerging economy. This whole activity was sustained by international trade.

Following the model of comparative advantage which state that countries involved in trade should specialise in the production of goods which they have comparative advantage over others (Krugman and Obstfeld 2009). From the above explanation we can see that India account for higher percentage of Milk production compare to other countries mention along side with it above therefore have a comparative advantage over them, and should specialise in the production of milk. This is underpinning by the model of comparative advantage which states that countries should specialised in the production of commodity which give them cost advantage over other product. This can be a practical example to the milk production in India.

It helps in marketing of natural endowments- different countries of the world are blessed with different weather, mineral resources and technological knowhow. All these endowments are interchange from one country to another through international trade. A country can export what it has in its country to another country that does not have and import others to its country because of it absent or unavailability of the product. This is done through the help of international trade. For example Nigeria is highly endow with Crude Oil (fuels), India major minerals include Iron, manganese and Chromium excluding Fuels Granpat and Wilson (1998) which are sold out to other nations. This action resulted to change in structure and welfare of these emerging economies as well as help in their growth and development respectively.
Following the Heckscher-Ohlin model which emphasise on factor endowment as the bases for international trade, that countries should partake in export of what they have and import what they do not have (Blaugh 2006). This underpins the above mention role play by international trade to emerging market economies. As a result of this, it contributed immensely to growth and development of these countries.

Provide inputs and raw materials for agricultural and manufactory sectors. With the aid of international trade, agricultural inputs are supplied to both the subsistence and commercial farmers in the emerging countries, which higher numbers of its employees are found. These inputs include fertilizers, insecticides, pesticides, implements, and machinery such as tractors etc. However, many industries from developed economies depend on raw materials supplied by agricultural sectors from emerging countries. These industries include, sugar industry, paper industry, cotton industry, tobacco industry and coffee. These trends continue to improve economic status as well as development in those nations' economic.

Fan and Breska (2011) confirm that, China, India as well as Brazil, play a leading role in the global production of food products, such as wheat, maize and rice. China and India are the world's largest growers of wheat and rice and along with Brazil were among the top five producers of maize in 2008. Their production and productivity growth have a critical force on global food security. Some of the emerging countries, more especially Brazil and China

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which have boost practical productivity growth in the agricultural sector with technological change and agricultural research have played an important role. The forgoing explanations further state position of international trade in provision of grains in global production of food products and supported food security worldwide.
All these have been an important role that encourages development in the emerging market economies which is as a result of international trade.

It enables the developing countries to borrow funds in the international capital market at very low interest rates. This is one of the vital roles played by international trade to the growth and development of emerging market economies of the world. Todaro and Smith (2006, P76) agrees that the expansion of exporting economies of the nineteenth and twentieth century's stimulate the growth in demand of the local product. This scenario leads to the increase in export earning and enable the developing economies to borrow funds at a low interest rate from international market. The borrowed capitals therefore will result to increase in local production and more diversified industrial sectors in the emerging economies. For example the scholars used the nineteenth century where Europe and North American passed through to attain their present position in the world economy.
The above scenario further elaborated how international trade world market economy policy has contributes immensely and serves as a role played by international trade to the growth and development of the emerging market economies.

CRITICISM OF THE ROLES OF INTERNATIONAL TRADE IN EMERGING MARKET ECONOMIES

International trade at the cause of it operation had played much important roles in the development of emerging countries. However, some of these roles had caused many problems to the emerging market economies.The inflows of investors through free direct investment FDI into developing or emerging market economies is also detrimental to the domestic industries. The presence of FDI in the emerging countries really forces many domestic firms to fold up. This is because the FDI employ and pay higher wages to its workers compared to the host nation's firms. This action would draw competent and skilful workers away from the domestic firms which will affect its productivities. This is confirmed by OECD (2000) research on China's economy that, because FDI firms pay higher wages, and employs a higher level of labour than domestic firms. There is a real risk however, that more and more quality labour will be drawn into foreign firms away from domestic firms. If this is the case, then the spill over effects with regard to the transfer of technology and managerial skills from foreign firms to domestics firms resulting from labour turn over may be quite limited.

In addition, the expansion of FDI would gradually give the FDI industries power to detect for the host government. This can occur in economies where the FDI give out loan to the host nations. This is common in developing economies. He who pays the pipers detects the tone. This action is disadvantageous to the sovereignty of any economy. Multilateral, bilateral and regional trade agreement results in dumping in overseas markets. Dumping in an economy occurs when goods exported to overseas market are sold at a price below their cost of production. There is a constant rift between United States (US) and China, accusing each other of dumping and high charge of tariffs on their products. For instance, the Guardian Business News (2011) states that China's commerce ministry accused America's car industry

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of dumping and subsidising, thereby causing substantial damage to China's domestic car industry. However, this action will cause a serious challenge to the economic growth and development of the emerging market economies; if proper measures are not taken.

CONCLUSION

In conclusion, this research has evaluated how international trade has contributed to the growth and development of the emerging market economies critically. It has studied scholarly research and provides a better understanding of the critical evaluation of the roles of international trade in the emerging market economies.The world today is perhaps more widely integrated than at any time in history. This was because international economic policies which promote greater international trade and investment were encouraged. If international trade does not play a role in the development of countries, the programme would have been a forgotten history. Even this question of critical evaluation of the roles of international trade to emerging market economies would not have arisen.

The roles of international trade in the development of emerging market economies as found by this research work include: provision of additional capital to the emerging market economies, fostering multilateral, bilateral and regional trade agreements among member countries, improvement of economic performance and raising of overall income of member countries, it help in marketing of natural endowment, provision of input and raw materials for agricultural and manufacturing sectors and enable the developing countries to borrow funds at very low interest rates.

However, the research was also criticised by the researcher that the availability of Foreign Direct Investment FDI, has a negative effect on the emerging countries. International trade also creates a rift between some agreed members countries on the issue of dumping, e g, China and North America.

RECOMMENDATIONS

This research has shown that international trade is advantageous to the development of emerging market economies. On the contrary it also found some criticisms. However, I will recommend that:

- There should be heavy regulation of the Foreign Direct Investment FDI, in the host countries in order to protect and safeguard the growth of domestic firms, more especially in emerging countries.
- Although, the trade agreement between countries is good, all member countries should give the real market values of their products so that issue of dumping can be a thing of the past between member's nations. This would stop the rift between member's nations on constant accusation of each others about dumping. E g, United States and China.

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