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**«Priority directions of the international trade development in countries with emerging markets»**

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Keywords: international trade, countries with emerging markets, globalization, modernization of the national economy, international socio-economic development of the region.

The subject of the study is a complex of theoretical and practical approaches to determining the priority areas of international trade development in countries with emerging markets.

The object of the study is countries with emerging markets.

The purpose of the qualification work is to study the priority areas of international trade development in countries with emerging markets.

The tasks of the work are:

definition of the theoretical foundations of international trade research;

analysis of international trade in countries with developing markets;

study of strategic directions for the development of international trade in countries with emerging markets.

The information base of the research is scientific research in the field of international economic relations, official programs of international organizations, and Internet sources.

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## РЕФЕРАТ

Попола Опейемі Вікторія. Пріоритетні напрями розвитку міжнародної торгівлі у країнах із ринками, що формуються. Рукопис. Робота на здобуття кваліфікації магістра із міжнародних економічних відносин. Національний університет «Полтавська політехніка імені Юрія Кондратюка», Полтава, 2023.

Кваліфікаційна робота містить 92 сторінки, список використаних джерел із 57 найменувань, додатки.

Ключові слова: міжнародна торгівля, країни із ринками, що формуються, глобалізація, модернізація національної економіки, міжнародний соціально-економічний розвиток регіону.

Предметом дослідження є комплекс теоретичних та практичних підходів до визначення пріоритетних напрямів розвитку міжнародної торгівлі у країнах із ринками, що формуються.

Об'єктом дослідження є країни із ринками, що формуються.

Мета кваліфікаційної роботи полягає у дослідженні пріоритетних напрямів розвитку міжнародної торгівлі у країнах із ринками, що формуються.

Завданням роботи є:

визначення теоретичних основ дослідження міжнародної торгівлі;

аналіз міжнародної торгівлі в країнах з ринками, що розвиваються;

дослідження стратегічних напрямів розвитку міжнародної торгівлі в країнах з ринками, що формуються.

Інформаційною базою дослідження є наукові дослідження у сфері міжнародних економічних відносин, офіційні програми міжнародних організацій та Інтернет-джерела.

Рік виконання кваліфікаційної роботи магістра – 2023.

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## INTRODUCTION

International trade refers to economic activities that involve trading between countries. The items generally traded are goods and services. These goods can further be classified into consumer and capital goods.

The services traded include insurance, travel, foreign patent payments etc. It is worth noting that these transactions in international trade are facilitated by the international financial payments system and trading policies between countries. Various studies have been conducted by experts to isolate and understand factors that influence the transformation of countries at different rates and realized varying levels of wealth. In various countries of the world, a sizable proportion of total output is exports which forms part of earnings.

The last two decades have seen a significant reconfiguration of the global economy, as trade barriers have fallen and traditional supply chains have fragmented across borders. The rise of Emerging Markets (EMs) in world production. The most salient feature of this reshape has been accompanied by substantial growth of EMs' role in global trade. It is in this new context that policy makers in EMs see recent increases in tariffs, and the possibility of further hikes, as a significant policy challenge for their countries. Indeed, the threat of rising trade barriers has occupied a large amount of

policy discussion even though tariff increases have so far only materialized for a small number of country-pairs and for a small number of goods.

Nevertheless, there is a fear that the role of EMs in the global economy can make them particularly vulnerable to both direct trade shocks, and the spill overs of indirect trade shocks. Understanding whether these fears can be justified quantitatively demands a framework that differs from the standard model used to study EMs. Such a framework must encompass the new geography of international trade, recognizing EMs as prominent players. Building on several recent advances in the trade literature, we model a global economy featuring EMs, and use this model to quantify their role in international trade and the consequences of protectionism for these countries. The government sees exports as one of her powerhouses that is key to her expansion strategies expansion strategies constituting a significant amount of their gross domestic earnings which has its multiplier effects on jobs creation, markets expansion, increased GDP, and knowledge dissemination.

Emerging markets are increasingly becoming the grown drivers of the global economy. There is increased scrutiny and interest in emerging markets since the 1990s. The interest can be viewed from and supply perspective. With a huge population and increasing income, emerging economies provide a big market for goods and services. Also, with talented manpower and low costs, emerging economies are supplying more and more goods and services to the world.

The subject of research is to set of theoretical approaches to determining the development of international trade in countries with emerging markets.

The object of research is international trade.

The aim of the thesis is to study the development of international trade in countries with emerging markets.

The tasks of the work are to define the determination of the theoretical foundations of the analysis of international trade with emerging markets with Ukraine with the main direction of improvements of international trade of countries with emerging markets with Ukraine.

The structure of work, this thesis consists of an introduction, three chapters, conclusion, a list of references from 57 titles the full scope of work is presented on typewritten pages including 7 graphs.

## CHAPTER 1

### THEORITICAL BASIS OF INTERNATIONAL TRADE RESEARCH

#### 1. The essence of international trade and its specific features

International trade is the exchange of goods and services among different countries. It is the movement of goods from one geographical boundary to another. The import and export of goods and services worldwide are known as international trade, and they can also be called foreign trade or global trade. Over the past few decades, international trade has grown, becoming an important aspect of nations' economies [1].

With globalisation, technological advancement, industrialisation, and outsourcing of services, international trade is bagging an important spot in countries' economic and monetary decisions worldwide at an increasing rate. International trade has a huge scope of acquiring huge revenue, building allies with other countries, accumulating technology and capital and boosting the overall economy. When analysing the power and wealth of a country, the bulk of international trade performed is an important judgement factor [2]. This article covers international trade and its features. Features of International Trade:

1. Immobility of Factors of Production. Classical economists on the assumption that labor was the only factor of production. Ricardo emphasized a separate theory of

international trade on the ground that factors of production are immobile between nations and mobile within nations. Immigration laws and citizenship requirement often restrict the international mobility of labor. International capital flows are also prohibited by different governments. It is factor immobility which leads to comparative differences in the cost of production.

2. Heterogeneous Market. There is lack of homogeneity in the world market due to differences in language, preference, customs, weights and measures. The behavior of the buyers too differs accordingly. For example: cars in India have right hand driving while in foreign countries they have left hand driving.

3. Different National Policies. Laws and rules relating to taxation, labor standards, trade unions, education and factory legislation are more or less uniform in different regions of a country. On the contrary, there is vast difference in such laws in different countries.

4. State Intervention. Government interferes with the normal trade through its tariff policy, import quota, subsidies and similar controls. Such state intervention will cause different problems in international trade.

5. Differences in Socio-economic Environment. There is more or less uniformity in the socio-economic environment within countries but it differs between countries. Fredrick states that “domestic trade is among us, international trade is between us and them”

6. Different Political Units. While domestic trade takes place within the same political unit, international trade occurs between politically different units. Each government is interested in its own welfare and tries to see its own interest at the cost of the other country.

7. Different Currencies. Different monetary units prevail in different countries. This results in the problem of exchange rates and foreign exchange. Hence each country has to follow its own policy regarding exchange rates and foreign exchange.

8. Degree of Competition. Within the country, prices in both the products as well as in the factor markets are determined under competitive conditions. Every firm works at its optimum scale. But in international trade rather than optimum allocation of resources, the theory of dumping and protection are considered to be of great importance.

Problems arising are [3]:

1. Infant industry argument. The fear is that 'free trade' can cause countries to specialise in primary products – goods which have volatile prices and low-income elasticity of demand. To develop, economies may need to restrict imports and diversify the economy. This isn't an argument against trade per se, but an awareness trade may need to be 'managed' rather than just rely on free markets. See more at infant industry agreement.

2. Trade can lead to cultural homogenisation. Some fear trade gives an advantage to multinational brands and this can negatively impact local produce and traditions.

Supporters argue that if local products are good, they should be able to create a niche than global brands cannot.

3. Displacement effects. Free trade can cause uncompetitive domestic industries to close down, leading to structural unemployment. The problem with free trade is that there are many winners, but the losers do not gain any compensation. However, free-market economists may counter that some degree of creative destruction is inevitable in an economy and we can't turn back to a static closed economy. On the upside, if the uncompetitive firms close down, ultimately new jobs will be created in different industries.

4. Environmental costs. The transportation of goods and services imposes environmental costs of pollution and carbon emissions, contributing to global warming.

## **1.2. The role of international trade in the economic development of countries with emerging markets**

International trade is the purchase and sale of goods and services by companies in different countries. Consumer goods, raw materials, food, and machinery all are bought and sold in the international marketplace. International trade allows countries to expand their markets and access goods and services that otherwise may not have been available domestically. As a result of international trade, the market is more

competitive. This ultimately results in more competitive pricing and brings a cheaper product home to the consumer [4].

An emerging market economy is the economy of a developing nation that is becoming more engaged with global markets as it grows. Countries classified as emerging market economies are those with some, but not all, of the characteristics of a developed market.

Characteristics of developed markets may include strong economic growth, high per capita income, liquid equity and debt markets, accessibility by foreign investors, and a dependable regulatory system [5].

As an emerging market economy develops, it typically becomes more integrated with the global economy. That means it can have increased liquidity in local debt and equity markets, increased trade volume and foreign direct investment. It can develop modern financial and regulatory institutions. Currently, some notable emerging market economies include India, Mexico, Russia, Pakistan, Saudi Arabia, China, and Brazil.

- An emerging market economy is an economy that's transitioning into a developed economy.
- Emerging market economies typically feature a unified currency, stock market, and banking system; they're in the process of industrializing.
- Emerging market economies can offer greater returns to investors due to their rapid growth.
- They also offer greater exposure to some inherent risks due to their status.

– Over time, emerging markets typically adopt reforms seen in developed markets.

However, emerging markets typically have a physical financial infrastructure, including banks, a stock exchange, and a unified currency. A key aspect of emerging market economies is that over time, they adopt reforms and institutions like those of modern developed countries, this promotes economic growth.

Emerging market economies tend to move away from activities focused on agricultural and resource extraction toward industrial and manufacturing activities. Their governments usually pursue deliberate industrial and trade strategies to encourage economic growth and industrialization. The former strategy is more typical of economies that are considered emerging since it promotes more engagement and trade with the global economy.

Emerging market countries also often pursue domestic programs such as investing in educational systems, building physical infrastructure, and enacting legal reforms to secure investors' property rights [6].

International trade is a powerful enabler of economic development. Empirical literature supports this with strong evidence that increased participation in international trade can spur economic growth, which itself is a necessary condition for broader development outcomes to be realized. By connecting global markets to developing-country producers and consumers, trade both through exports and imports provides a critical channel for the flow of finance, technology and services needed to further

improve productive capacity in agriculture, industry and services [7]. These are needed in turn for structural transformation of economies.

A case in point is the recent development path demonstrated by developing countries in East Asia and South-East Asia. A fundamental factor behind their rapid economic growth has been their ability to strengthen competitive productive and export capacities, first in traditional agricultural and textiles/clothing sectors and then in labour-intensive manufactures which shifted at times swiftly into high technology manufactures such as electronics [8].

Their export-led growth was a result of strategic trade opening, but also of policies that were complementary to the enabling power of trade with its impacts on economic and social development. Economic growth is a necessary condition for poverty reduction, particularly in low-income countries.

When a country's gross domestic product (GDP) per capita is sufficiently large, poverty reduction may be largely a question of redistribution of income. In developing countries with low income levels, redistributive transfers alone are not sufficient for, or may even become adversarial to, poverty reduction [9].

Poverty reduction in such cases requires economic growth in terms of enlarging the share of gains received by each member of the population, i.e. in terms of a higher output per worker, which is usually approximated by GDP per capital.

### **1.3. Institutions and instruments of regulation international trade**

The role of international trade institution is to facilitate the expansion and balanced growth of international trade. To promote exchange stability. To assist in the establishment of a multilateral system of payments. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards. There are lots of international economic institutions in the world, major ones are listed below namely, WTO, IMF, and UNCTAD [10].

World Trade Organization: WTO was formed in 1995 to replace the General Agreement on Tariffs and Trade (GATT), which was started in 1948. GATT was replaced by WTO because GATT was biased in favour of developed countries [11].

- World Health Organization (WHO) established in 7th April 1948.
- United Nations Organization (UN) established in 24<sup>th</sup> October 1945.
- International Monetary Fund (IMF) established in 27<sup>th</sup> December 1945.
- World Bank established in July 1944.
- Organization for Economic Cooperation & Development (OECD) established in 30<sup>th</sup> September 1961.
- United Nations Education Scientific & Cultural Organization (UNESCO) established in 16<sup>th</sup> November 1945.

– United Nations Conference on Trade and Development (UNCTD) established in 30<sup>th</sup> December 1964.

Trade policy uses seven main instruments: tariffs, subsidies, import quotas, voluntary export restraints, local content requirements, administrative policies and antidumping duties.

A tariff is a tax levied on imports or exports. They are divided in two categories

1. Specific tariffs: are levied as a fixed charge for each unit of a good imported.

2. Ad valorem tariffs: are levied as a proportion of the value of the imported good in most cases, tariffs are placed on imports to protect domestic producers' tariffs increases government revenues [12].

A subsidy is a government payment to a domestic producer. They take many forms like, cash grants, low-interest loans, tax breaks and government equity participation in domestic firms. Subsidies help domestic producers in two ways:

1. Competing against foreign imports and

2. Gaining export markets.

Import quota is a direct restriction on the quantity of some good that maybe imported into a country. The restriction is usually enforced by issuing import licenses to a group of individuals or firms.

Voluntary export restraint is a quota on trade imposed by the exporting country.

A voluntary export restraint is an agreement among two governments to set a limit on the quantity of goods that can be exported out of a country during a specified

period of time. VERs establish a type of informal quota on exports that is enforced by the country that is voluntarily restraining their exports. VERs may arise when the import-competing industries seek protection from a surge of imports from particular exporting countries. VERs are then offered by the exporter to appease the importing country and to avoid the effects of possible trade restraints imposed by the importer. VERs cause, as do tariffs and quotas, domestic prices to rise and cause a loss of domestic consumer surplus [13].

The WTO Agreement on Safeguards made new arrangements illegal and all those in existence on January 1, 1995 when the WTO was established, had to be phased out within five years.

Local content requirement is a requirement that some specific fraction of a good needs to be produced domestically.

Administrative trade policies are bureaucratic rules designed to make it difficult for imports to enter a country and by not allowing traders to exports goods out of the country.

Antidumping duties. Dumping is a variously defined as selling goods in a foreign market at below their costs of producing. Dumping is viewed as a method by which firms unload excess production in foreign markets. Antidumping policies are designed to punish foreign firms that engage in dumping. Their objective is to protect domestic producers from unfair foreign competition [14].

Traditionally, trade was regulated through bilateral treaties between two nations. After World War II, as free trade emerged as the dominant doctrine, multilateral treaties like the GATT and World Trade Organization (WTO) became the principal regime for regulating global trade.

The WTO, created in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT), is an international organization charged with overseeing and adjudicating international trade. The WTO deals with the rules of trade between nations at a near-global level; is responsible for negotiating and implementing new trade agreements; and is in charge of policing member countries' adherence to all the WTO agreements, signed by the majority of the world's trading nations and ratified in their parliaments. Additionally, it is the WTO's duty to review the national trade policies and to ensure the coherence and transparency of trade policies through surveillance in global economic policy making [15].

Headquartered in Geneva, Switzerland, the WTO has more than 150 members, which represent more than 95% of total world trade. It is governed by a ministerial conference, which meets every 2 years; a general council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the ministerial conference.

Five basic principles guide the WTO's role in overseeing the global trading system:

1. Nondiscrimination. This principle inspired two major policies the most favored nation (MFN) rule and the national treatment policy embedded in the main WTO rules on goods, services, and intellectual property. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, that is, a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members. The national treatment policy, adopted to address nontariff barriers to trade (e.g., technical standards, security standards) dictates that imported and locally produced goods should be treated equally (at least after the foreign goods have entered the market).

2. Reciprocity. This principle reflects both a desire to limit the scope of free riding that that may arise because of the MFN rule and a desire to obtain better access to foreign markets.

3. Binding and enforceable commitments. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a list of concessions. A country can change its commitments but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

4. Transparency. WTO members are required to publish their trade regulations, to maintain institutions charged with review of administrative decisions affecting trade,

to respond to requests for information by other members, and to notify changes in trade policies to the WTO.

5. Safety valves. Under specific circumstances, governments can (within limits) restrict trade to attain noneconomic objectives, to ensure “fair competition” and under special economic circumstances.

The WTO operates on a “one country, one vote” system, but actual votes have never been taken. Ostensibly, decisions are made by consensus, with relative market size as the primary source of bargaining power. In reality, most WTO decisions are made through a process of informal negotiations between small groups of countries, often referred to as the “green room” negotiations (after the color of the WTO director-general’s office in Geneva) when they occur in other countries. These processes have been regularly criticized by many of the WTO’s developing-country members who are often excluded from these negotiations.

The WTO oversees about 60 different agreements that have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. Some of the most important agreements concern agriculture, services, and intellectual-property rights.

Regional arrangements such as Mercosur in South America; the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico; ASEAN in Southeast Asia; and the European Union (EU) between 27 independent states constitute a second dimension of the international trade regulatory framework.

The EU is an economic and political union of 27-member states. Committed to regional integration, the EU was established by the Treaty of Maastricht on November 1, 1993, upon the foundations of the preexisting European Economic Community. With almost 500 million citizens, the EU combined generates an estimated 30% share of the nominal gross world-product [16].

The EU has developed a single market through a standardized system of laws that apply in all member states, ensuring the freedom of movement of people, goods, services, and capital. It maintains common policies on trade, agriculture, fisheries, and regional development. A common currency, the euro, has been adopted by 16-member states known as the Eurozone.

The EU has developed a limited role in foreign policy, having representation at the WTO, G8 summits, and at the UN. It enacts legislation in justice and home affairs, including the abolition of passport controls between many member states. Twenty-one EU countries are also members of NATO, those member states outside NATO being Austria, Cyprus, Finland, Ireland, Malta, and Sweden.

Mercosur is a regional trade agreement among Argentina, Brazil, Paraguay, and Uruguay, founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, people, and currency.

Bolivia, Chile, Colombia, Ecuador, and Peru currently have associate-member status. Venezuela signed a membership agreement on June 17, 2006, but before

becoming a full member, its entry has to be ratified by the Paraguayan and the Brazilian parliaments.

The NAFTA is an agreement signed by the governments of the United States, Canada, and Mexico, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. It superseded the Canada–United States Free Trade Agreement.

In terms of combined purchasing power, parity GDP of its members, as of 2007 the trade block, is the largest in the world and second largest by nominal GDP comparison. NAFTA has two supplements: The North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC).

The Association of Southeast Asian Nations, commonly abbreviated *ASEAN*, is a geopolitical and economic organization of 10 countries located in Southeast Asia, which was formed on August 8, 1967, by Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam [17]. Its aims include the acceleration of economic growth, social progress, cultural development among its members, and the protection of the peace and stability of the region.

## **Conclusion to chapter 1**

For years, theories concerning international trade have been the subject of intense research and debate. Growing international trade has its own pros and cons. The analysis of the system of international trade by way of various theories has enabled a systematic framework for better understanding. International trade contributes to the economic growth of a country, thereby increasing the standard of living of its people, creating employment opportunities, a greater variety of choices for consumers, etc. The development of trade theories has seen a major shift from the view of restricting free trade as stated in the theory of mercantilism to the various modern theories providing a better understanding to facilitate smooth international trade with increasing benefits.

International trade is an extension of the three essential aspects of life i.e production, exchange, and consumption. Producers and consumers in international trade come from many nations. It offers numerous essential benefits for both governments and businesses, and it is a key pillar in ensuring and improving our global wealth levels, as it can drive the necessary macroeconomic goals and long-term growth of emerging economies. Developing nations should use a flexible exchange rate that promotes international trade to achieve the necessary shift and macroeconomic transformation. Expansionary monetary and fiscal policies should be undertaken by emerging countries as well, as this would support small and medium-sized businesses in their region. These nations must accept and make accessible single-digit interest,

collateral-free loans to SMEs, particularly those in important industries such as agriculture, as one of the primary drivers of economic development. Furthermore, grants, aid, and technical training should be easily accessible to these economic agents, as this has a positive influence on international trading activities, which would significantly contribute to reducing the high unemployment rate, the vicious poverty cycle, increasing living standards, increasing per capita income, and so on in these nations. Furthermore, nations should work together on a global scale to create a framework that allows everyone to profit from global commerce.

## **CHAPTER 2**

### **ANALYSIS OF INTERNATIONAL TRADE IN COUNTRIES WITH EMERGING MARKETS**

#### **2.1. The current state of foreign trade in goods and services of countries with developing markets with the countries of the world**

Developing countries depend on national and global economic growth to achieve the Millennium Development Goals (MDGs) by 2015. In this regard, international trade is recognized as a powerful instrument to stimulate economic progress and alleviate poverty. Trade contributes to eradicating extreme hunger and poverty, by reducing by half the proportion of people suffering from hunger and those living on less than one dollar a day, and to developing a global partnership for development, which includes addressing the least developed countries' needs, by reducing trade barriers, improving debt relief and increasing official development assistance from developed countries.

The G20 or Group of 20 is an intergovernmental forum comprising 19 countries and the European Union. It works to address major issues related to the global economy, such as international financial stability, climate change migration, and sustainable development [18].

The international community recognizes the importance of trade for development through initiatives, such as Aid for Trade Financing for Development and, most importantly, the World Trade Organization (WTO) Doha Round of trade negotiations. It is estimated that the global annual welfare gains from trade liberalization would be in the order of \$90 billion to \$200 billion, of which two thirds would accrue to developing countries.

Trade and economic growth. In the last decade, trade has helped trigger strong growth in developing countries, whose share in the global trade has increased from 29 per cent in 1996 to 37 per cent in 2006 and whose exports have consistently been growing at a faster rate than those of developed countries. This has stimulated growth in export revenues of developing countries. At the same time, gross domestic product (GDP) per capita, one of the most relevant indicators of MDG progress, has increased by more than 16 per cent over the past five years in Africa, West Asia and Latin America. This has led to significant increases in employment and investment levels. The strong growth in exports from developing countries has, to a large extent, been due to the steady reduction of global tariffs as barriers to trade. On average, world tariffs have declined from 11 per cent in 2000 to 7 per cent in 2006. However, there is still evidence that developing countries face disproportionately high tariffs and trade barriers on products of export interest for them. For example, in 2005, developing countries' agricultural exports faced, on average, a tariff of 8.9 per cent [19]. Developed countries still impose tariffs on imports from developing countries that are twice as high as those from developed countries.

G20 merchandise trade contracted in value terms in Q4 2022, compared to the previous quarter and measured in current US dollars. Continuing the downward trend from its peak in Q2 2022, exports and imports declined by 3.5% and 3.1%, respectively, reflecting sluggish global demand and decreasing energy prices (Fig. 2.1).

Falling oil prices weighed especially heavily on merchandise trade in North America, with exports contracting by 6.7% in Canada, 5.4% in the United States, and 3.1% in Mexico in Q4 2022. Conversely, merchandise exports grew by 0.9% in the European Union, as strong sales of machinery and transport equipment in Italy, France and Germany partly offset lower shipments of chemical and metal products. In the United Kingdom, exports fell by 1.6% driven down by energy and chemicals.

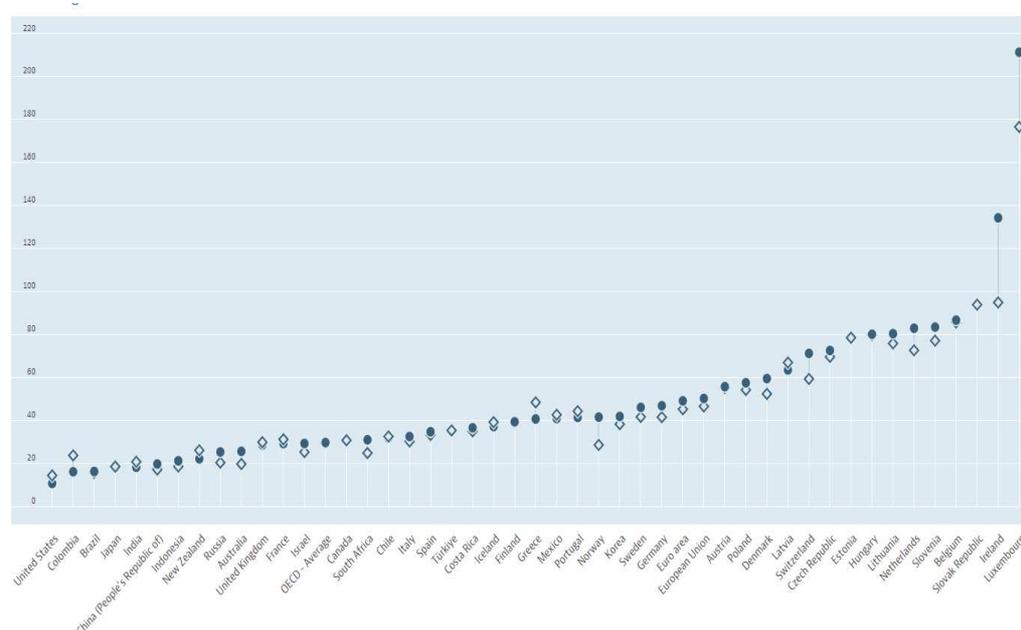


Fig. 2.1. Trade in goods and services exports/imports, % of GDP, 2022

Source: National account at a glance

Chinese exports and imports declined by 7.1% and 2.5%, respectively, as strict COVID-19 containment measures weighed on trade, especially in electronics. Weak demand from China placed further strain on trade in East Asia. Korean exports dropped by 8.3%, largely due to falling semiconductor prices, while Japanese exports declined by 1.4%. Lower sales of primary commodities impacted exports from South Africa (down 9.7%), Indonesia (down 7.4%) and Saudi Arabia (down 14.5%) [20].

G20 services trade also declined in value terms in Q4 2022, as measured in current US dollars. Exports and imports are estimated to have decreased by 0.8% and 1.5% respectively, following the 1.0% decrease and 0.3% increase recorded in Q3 2022.

With shipping costs falling back to pre-pandemic levels, the value of trade in transport services sharply contracted across the G20, while travel continued to recover from the COVID-19 lows. Services exports fell by 1.5% in France and by 1.7% in the United Kingdom, while imports declined at slower pace in both Countries. In Germany, exports and imports dropped by 1.9% and 3.9%, respectively, despite strong travel expenditure. Italy, on the other hand, saw an increase in exports (up 4.5%) and imports (up 2.9%), reflecting a pick-up in travel. Plummeting transport receipts and recurring lockdowns depressed Chinese exports (down 12.6%). Similarly, Korean exports and imports contracted sharply. In Canada, exports and imports fell by 0.7% and 4.0%. In contrast, the United States posted a 4.3% increase in exports, driven by travel, transport and business services [21].

Classical or country-based theories. The founders of the various theories of the classical country-based approach were mainly concerned with the fact that the priority should be increasing the wealth of one's own nation. They were mainly of the view that the focus should be on economic growth on a priority basis. The main classical theories in reference to international trade are discussed below.

Mercantilism. The Mercantilism theory is the first classical country-based theory, which was propounded around the 17-18<sup>th</sup> century. This theory has been one of the most talked about and debated theories. The country focused on the motto that, on a priority basis, it must look after its own welfare and therefore, expand exports and discourage imports. It stated that an attempt should be made to ensure that only the necessary raw materials are imported and nothing else. The theory also propounded the view that the first thing a nation must focus on is the accumulation of wealth in the form of gold and silver, thus, strengthening the treasure of the nation.

To put it simply, it can be stated that the classical economists behind the theory of Mercantilism firmly believed that a country's wealth and financial standing are largely demonstrated by the amount of gold and silver it holds. Hence, economists believe that it is best to increase the reserve of precious metals to maintain a wealthy status. For this theory to work, the aim to be fulfilled was that a country must produce goods in such a large quantity that it exports more and should be less dependent on buying goods and other materials from others, thereby strongly encouraging exports and strictly discouraging imports. A large number of countries in the past benefited

from strictly following the theory of Mercantilism. History is evident that by implementing this theory, many nations benefited by strictly following the theory of Mercantilism. Various studies done by economists prove why this theory flourished in the early period. In the early period, i.e., around 1500, new nations and states were emerging and the rulers wanted to strengthen their country in all possible ways, be it through the army, wealth, or other developments. The rulers witnessed that by increasing trade they were able to accumulate more wealth and, thus, certain countries became very strong because of the massive amount of wealth they stored. The rulers were focused on increasing the number of exports as much as possible and discouraging imports. The British colony is the perfect example of this theory. They utilized the raw materials of other countries by ruling over them and then exporting those goods and other resources at a higher price, accumulating a large amount of wealth for their own country [22].

This theory is often called the protectionist theory because it mainly works on the strategy of protecting oneself. Even in the 21<sup>st</sup> century, we find certain countries that still believe in this method and allow limited imports while expanding their exports. Japan, Taiwan, China, etc. are the best examples of such countries. Almost every country at some point in time follows this approach of protectionist policies, and this is definitely important. But supporting such protectionist policies comes at a cost, like high taxes and other such disadvantages.

Absolute advantage. In 1776, the economist Adam Smith criticized the theory of mercantilism in his publication, “The Wealth of Nations”, and propounded the theory of Absolute advantage. Smith firmly believed that economic growth in reference to international trade firmly depends on specialization and division of labor. Specialization ensures higher productivity, thereby increasing the standard of living of the people of the country. He proposed that the division of labor in small markets would not cater for specialization, which would otherwise become easy in the case of larger markets. This increase in size fostered a more refined specialization and thus increased productivity all around the globe.

Smith’s theory proposes that governments should not try to regulate trade between countries, nor should they restrict global trade. His theory also encapsulated the consequences of the involvement and restraint of the government in free trade. Also, he firmly believed that it is the standard of living of the residents of a country that should determine the country’s wealth and the amount of gold and silver that a country’s treasure has. He states that trading should depend on market factors and not the government’s will.

Smith was firmly against the mercantilist theory, and he argued that diminishing importation and just focusing on exports was not a great idea, and thus restricting global trade is not what needs to be done. He proposed that even though we might succeed in forcing our country’s people to buy our own goods, however, we may not be able to do so with foreigners, and hence it is better that we make it a two-way trade and just focus

on exports. In relation to the restrictions imposed on import, Smith stated that even though the restrictions on import may benefit some domestic industries and merchants when looked at from a broad spectrum, it will result in decreasing competition. Along with this, it will increase the monopoly of some merchants and companies in the market. Another disadvantage is that the increase in the monopoly will cause inefficiency and mismanagement in the market.

Smith completely denied the promotion of trade by the government and restrictions on free trade. He reiterated that it is wasteful and harmful to the country. He proposed that free trade is the best policy for trading unless, otherwise, some unfortunate or uncertain situations arise.

Comparative advantage. The theory of comparative advantage flourished in the 19th century and was propounded by David Ricardo. This theory strengthened the understanding of the nature of trade and acknowledges its benefits. The theory suggests that it is better if a country exports goods in which its relative cost advantage is greater than its absolute cost advantage when compared with other countries.

For instance, let's take the examples of Malaysia and Indonesia. Let's say Indonesia can produce both electrical appliances and rubber products more efficiently than Malaysia. The production of electrical appliances is twice as much as that of Malaysia, and for rubber products, it is five times more than that of Malaysia.

In such a condition, Indonesia has an absolute productive advantage in both goods but a relative advantage in the case of rubber products. In such a case, it would be more mutually beneficial if Indonesia exported rubber products to Malaysia and imported electrical appliances from them, even if Indonesia could efficiently produce electrical appliances too.

Modern or firm-based theory. The emergence of modern or firm-based theories is marked after period of World War II. The founders of these theories were mainly professors of business schools and not economists. These theories majorly came up after the rising popularity of multinational companies. The Country based classical theories were mainly focused on the country, however, the modern or firm-based theories address the needs of companies. The following are the modern or firm-based theories propounded by various business school professors.

Country similarity theory. Steffen Linder, a Swedish economist, was the founder of this theory. The theory marked its emergence in the year 1961 and explained the concept of in-train industry trade. Linder suggested that countries that are in a similar phase of development will probably have similar preferences.

The suggestion proposed by Linder was that companies first produce goods for their domestic consumption and later expand production, thereby exporting those products to other countries where customers have similar preferences. Linder suggested that most of the trade in manufactured goods, in most circumstances, will be between countries with similar per capita incomes and that the in-train industry trade will thus

be common among them. This theory is generally more applicable in understanding trade where buyers mainly decide on the basis of brand names and product reputations.

Product life cycle theory. This theory was propounded by Raymond Vernon, a business professor at Harvard Business School, in the 1960s. The theory that originated in the field of marketing proposed that a product life cycle has three stages, namely, new product, maturing product, and standardized product.

The theory has a presumption that the production of a new product will completely arise in the country where it was invented. This theory, up to a good extent, helps in explaining the sudden rise and dominance of the United States in manufacturing. This theory also explained the stages of computers, from being in the new product stage in the 1970s and thereby entering into their maturing stage in the 1980s and 1990s.

In today's scenario, computers are in a standardized stage and are mostly manufactured in low-cost countries in Asia. However, this theory has not been able to explain the current trading pattern where products are being invented and manufactured in almost all parts of the world.

Global strategic rivalry theory. Paul Krugman and Kelvin Lancaster were the founders of this theory. This theory emerged around the 1980s. The theory majorly focused on multinational companies and their strategies and efforts to gain a comparative advantage over other similar global firms in their industry.

This theory acknowledges the fact that firms will face global competition and prove their superiority. They must surely develop a competitive advantage over each other [23]. The ways through which the firms can gain competitive advantage were termed as barriers to entry for that particular industry. These barriers are basically the obstacles that a firm will face globally when they enter the market.

## **2.2. Analysis of international trade of countries with emerging markets with Ukraine**

Ukraine is one of the most cost-competitive production platforms in Europe. By the cost of labor and utilities Ukraine boldly competes with the countries of Central and Eastern Europe, and an increasing number of investors are locating production facilities in Ukraine. The economy of Ukraine is an emerging, lower middle income, Mixed economy located in Eastern Europe It grew rapidly from 2000 until 2008 when the Great Recession began worldwide and reached Ukraine.

The economy recovered in 2010 and continued improving until 2013. From 2014 to 2015, the Ukrainian economy suffered a severe downturn, with GDP in 2015 being slightly above half of its value in 2013. In 2016, the economy again started to grow. By 2018, the Ukrainian economy was growing rapidly, and reached almost 80% of its size in 2008 [24].

The depression during the 1990s included hyperinflation and a fall in economic output to less than half of the GDP of the preceding Ukraine SSR. GDP growth was recorded for the first time in 2000, and continued for eight years. This growth was halted by the global financial crisis of 2008. The Ukrainian economy recovered and achieved positive GDP growth in the first quarter of 2010. In the early 2010s, Ukraine was noted as possessing many of the components of a major European economy, such as rich farmlands, a well-developed industrial base, highly trained labor and a good education system it also has important mineral resources.

In October 2013, the Ukrainian economy lapsed into a recession. Ukrainian exports to Russia substantially declined due to stricter border and customs control by Russia. The early 2014 annexation of Crimea by Russia, and the war in Donbas that started in the spring of 2014 severely damaged Ukraine's economy and severely damaged two of Ukraine's most industrial regions [25].

In 2013, Ukraine saw zero GDP growth Ukraine's economy shrank by 6.8% in 2014 and this continued with a 12% decline in GDP in 2015. In April 2017, the World Bank stated that Ukraine's economic growth rate was 2.3% in 2016, ending the recession. Despite these improvements, Ukraine remains the poorest country in Europe, which some have attributed to high corruption levels and the slow pace of economic liberalization and institutional reform.

In April 2020, the World Bank reported that economic growth was solid at 3.2 percent in 2019, led by a good agricultural harvest and sectors dependent on domestic

consumption. Household consumption grew by 11.9 percent in 2019, supported by sizable remittance inflows and a resumption of consumer lending, while domestic trade and agriculture grew by 3.4 and 1.3 percent, respectively. In 2020 GDP fell by 4.4 percent due to the COVID-19 pandemic. Due to the 2022 Russian invasion of Ukraine the country's economy could shrink up to 35%, according to the international monetary fund.

Ukraine is the last emerging market in Europe of significant size, providing a wide range of under-discovered opportunities. The five major emerging markets. Brazil, Russia, India, china, and South Africa are the biggest emerging markets in the world.

An emerging market economy refers to a country that is in the process of developing its economy to become more advanced. It generates low to middle per capita income and is rapidly expanding due to high production levels and significant industrialization. Emerging market economies make up 80% of the world's population and almost 70% of the world's GDP growth.

A rapid end to the war would be the best outcome for the many households who depend on affordable and healthy food, and will suffer the most from sharp price increases [26].

International Trade. Facilitate exports from Ukraine: In the short run, the focus should be on enabling (agricultural) exports from Ukraine. Domestic infrastructure also

needs to be maintained and repaired from the war damages, which is a long-term challenge that will persist after the end of the war.

Enable the use of Black Sea ports: Ukraine's ports at the Black Sea (e.g. Odessa, Mykolaiv, Mariupol, and Kherson) are the main exports channels for grains and oilseeds. However, these ports are currently affected by military activities or are mined. Industry estimates Ukrainian export capacity without sea ports at 1.5 million tons per month compared to 6 million tons per month in recent years. Negotiations are underway to open a safe shipping corridor in the black Sea to ship Ukrainian grains. On 22 July 2022, Ukraine and Russia each signed an UN-backed deal with Turkey to allow grain exports from Ukraine's Black Sea ports, including the estimated 22 million tons of last year's grain sitting in silos in Ukraine. However, it remains uncertain how large the monthly shipped quantities will be given challenges in implementation, including due continued Russian military activity, damaged port logistics, and high insurance costs.

Facilitate exports via alternative routes: by:

- a) stream-lining administrative procedures at the land borders of Ukraine,
- b) improving road and railway connections,
- c) increase capacity of river ports on the Danube and
- d) providing access to ports in other countries (e.g. Constanta in Romania, or Gdansk in Poland) for Ukrainian products brought by rail or road.

Keep trade in food and agricultural inputs open: policies implemented in response to the market implications of Russia's large scale aggression against Ukraine

focus on different areas, with trade policies dominating in the short term. Most of these aim to insulate domestic markets from the significant increases in the international prices of agricultural commodities and inputs. Although export bans and other trade restrictions can temper domestic price increases, they further accelerate price spikes on international markets and undermine the trust that countries have in the reliability of the international trading system as a source of supply.

For this reason, export restrictions should be avoided and, where already implemented, should be dismantled as soon as possible. By contrast, reductions of import barriers and simplification of trade procedures can facilitate trade and the functioning of international markets and should be made permanent to the extent possible.

**Strengthen market transparency:** Market transparency and policy dialogue should be strengthened, as they play key roles when agricultural markets are under uncertainty and need to adjust to shocks affecting supply and demand. G20 initiatives such as the Agricultural Market Information System (AMIS) play a critical role in improving market transparency

**Supply. Prepare recovery plan for Ukraine:** Direct damages to Ukraine's agricultural sector, including damages to land, infrastructure and machinery have been estimated at USD 4.3 billion as of June 2022 (Kyiv School of Economics, 2022). Without the restoration of lost assets, Ukraine will not be able to return to its place in global agricultural markets. Several discussions are already taking place to help

Ukraine recover from the war damages, including within the OECD. The OECD is supporting the Ukrainian Government in the development and implementation of a recovery plan for the agribusiness sector. In parallel, the OECD is preparing an action plan to support Ukraine.

Increase cereal and oilseed production from other countries: Crop production can be increased by:

- a) putting more arable land into production, and
- b) increasing production on existing arable land by increasing yields or cropping intensity.

Increasing arable area requires the reduction of other land uses, e.g. grazing, forests, natural vegetation, which is often limited by environmental constraints. In addition, new arable land has to be prepared for crop production, which takes at least one growing season. Increasing cropping intensity is only possible in a few areas of the world, as the overall growing period needs to be sufficient to grow two or more crops during a year. Generally, the overall output is larger than a single crop but each crop is less productive. Increasing yields can be achieved by the use of more inputs but current high input prices constrain this option. The more promising way is thus to increase productivity sustainably through improved management practices and genetics. Although the speed of adoption of these technologies and practices has increased, it still requires some time, especially at the global level.

Avoid relaxing environmental constraints: There are new calls to relax environmental constraints to deal with immediate concerns about the shortfall in global food supplies and potential consequences for food security. Countries envisaging such measures on an exceptional basis need to consider other available measures for addressing food security concerns. These include the release of stocks, direct assistance to help consumers cope with higher food prices, and specific support for countries facing burdensome food import bills. They also need to take into account that these measures may be difficult to rescind, and may provide limited or marginal assistance with the current pressures, while carrying important longer term environmental costs, in particular for biodiversity. The balance may be particularly unfavourable if the agricultural land concerned has low productivity but high environmental value.

Control animal diseases: the spread of African Swine Fever (ASF) and other animal diseases must be contained by improving biosecurity and husbandry practices, taking steps to facilitate early detection (e.g. surveillance schemes and targeted sampling of animals), timely reporting and rapid disease containment.

Demand. Reduce demand for non-food uses of agricultural commodities: cereals, oilseeds and other agricultural commodities are also used for non-food purposes, including as feed and fuel. Reducing demand for these non-food uses could help free up cereals and oilseed for human consumption.

Total feed use can be reduced through: a) improvement in feed conversion ratios (i.e. in the quantity of feed needed to produce a given output of animal product), b) a

shift between different feed products or, in case of ruminants, from compound feed to grazing, c) a reduction in the size of animal production. All three elements are reactive to price changes but no rapid adjustment in feed demand can be expected.

Demand for agricultural commodities as biofuel feedstock, on the other hand, can adjust quickly as biofuel demand is mainly determined by policies such as blending mandates. Nevertheless, there are several limitations to restricting biofuel use. First, biofuels are fossil fuels replacements so any short-term reduction to biofuel demand will be almost entirely replaced by fossil fuels.

However, Russia's aggression is raising concerns about fossil fuel shortages. Second, most agricultural products used as biofuel feedstock are not of the same quality as those used for human consumption. Therefore, agricultural commodities not used as biofuel feedstock will most likely be used as feed which could free other products, for example, lower quality wheat for food use. Finally, biofuel production and distribution require high investments, which rely on policy commitments towards biofuels. Any ad hoc policy adjustment could negatively affect long-term investments into biofuel infrastructure.

**Reduce food loss and waste:** It is estimated that the current amounts of food loss and waste could feed around 1.26 billion people per year, reducing food loss and waste is an attractive option to lower the overall demand for agricultural commodities and alleviate environmental pressure. Nevertheless, attempts to reduce food loss and waste

appear to only be effective in the long-term. The current high prices of agricultural commodities create a large incentive to reduce food loss and waste.

Foster dietary changes: Reducing the consumption of animal-based foods in countries with high level of per capita consumption could contribute to lower feed demand [27]. However, change in diets is a long-term development and statistics of food consumption do not show strong movements between major foods from one year to another. Although, policies can support dietary changes, given the pace of change this will not address the current market shortages.

### **2.3. Regulation of international trade within the framework of increasing the economic development of countries with emerging markets**

The main criteria used by the World economic outlook WEO to classify the world into advanced economies and emerging market and developing economies are (1) per capita income level, (2) export diversification so oil exporters that have high per capita GDP would not make the advanced classification because around 70% of its exports are oil, and (3) degree of integration into the global financial system. In the first criteria, we look at an average over a number of years given that volatility (due to say oil production) can have a marked year-to-year effect. For the first criterion, the data source is the WEO database; for the second criterion, it is the UN COMTRADE

database; and for the last criterion, it is the IMF's Balance of Payments Statistics Database. Note, however, that these are not the only factors considered in deciding the classification of countries [28]. As it says in the WEO Statistical Appendix, this classification is not based on strict criteria, economic or otherwise, and it has evolved over time. The objective is to facilitate analysis by providing a reasonably meaningful method of organizing data.

Reclassification only happens when something marked changes or the case for change in terms of the three criteria above becomes overwhelming. For example, Lithuania joining the euro area was a significant change in circumstances that warranted a reclassification from an emerging market and developing economy to an advanced economy. Most reclassifications in recent years were related to countries joining the euro area [29].

This development was driven by a number of factors. Researchers were motivated by the large and growing volume of international trade in similar products (intra-industry trade) between similar countries, a phenomenon not adequately explained by traditional theory based on perfect competition. They were also motivated by the fact that many of the important commercial policy questions seemed to be better answered by using tools from industrial economics than from trade theory. And on the supply side, developments in game theory and the theory of industrial organisation opened up a new set of tools to be used by researchers [30].

The LIDCs are countries that have per capita income levels below a certain threshold (currently set at \$2,700 in 2016 as measured by the World Bank's Atlas method), structural features consistent with limited development and structural transformation, and insufficiently close external financial linkages to be widely seen as emerging market economies. The EMMIEs group comprises emerging market and developing economies that are not classified as LIDCs [31].

The role of foreign trade can be judged by the following faces:

**Foreign trade and economic development:** Foreign trade plays a very important role in the economic development of any country. Pakistan also exports a lot of agricultural products to other countries and imports capital goods from other countries. Therefore, it is not wrong to say that the economic development of a country depends on foreign trade.

**Foreign exchange earnings:** Foreign trade provides foreign exchange which can be used to remove poverty and other productive purposes.

**Market expansion:** The demand factor plays a very important role in increasing the production of any country. The foreign trade expands the market and encourages producers. In Pakistan, the home market is very limited due to poverty. So it is necessary to chat we should sell our product in other countries.

**Increase in investment:** Foreign trade encourages the investor to increase the investment to produce more goods. So, the rate of investment increases.

**Foreign investment:** Besides the local investment, foreign trade provides incentives for foreign investors to invest in those countries where there is a shortage of investment.

**Increase in national income:** Foreign trade increases the scale of production and national income of the country. To meet the foreign demand, we increase the production on a large scale so GNP also increases.

**Decrease in unemployment:** With the rise in the demand for goods domestic resources are fully utilized and it increases the rate of development in the country and reduces unemployment in the world.

**Price stability:** Foreign trade helps to bring stability to the price level. All those goods which are short and prices increasing can be imported and those goods which are surplus can be exported. Thereby stopping fluctuation in prices.

**Specialization:** There is a difference in the quality and quantity of various factors of production in different countries. Each country adopts the specialization in the production of those commodities, in which it has a comparative advantage. So, all trading countries enjoy profit through international trade.

**Remove monopolies:** Foreign trade also discourages the monopolies. Where every monopolist increases the prices, the government allows the import of goods to reduce the prices in the country.

Removal of food shortage: India is also facing the food shortage problem. To remove the food shortage India has imported wheat many times. So due to foreign trade, we are solving this problem for many years.

Agricultural development: Agricultural development is the backbone of our economy. Foreign trade has played a very important role in the development of our agriculture sector. Every year we export rice, cotton, fruits and vegetables to other countries. The export of goods makes our farmers more prosperous. It inspires the spirit of development in them.

Import of consumer goods: India and Pakistan import various consumer goods from other countries, which are not produced inside the country. Today the shortage of any commodity can be removed through international trade.

To improve quality of local products: Foreign trade helps to improve the quality of local products and extends the market through changes in demand and supply as foreign trade can create competition with the rest of the world.

External economics: External economics can also be achieved through foreign trade. The industries producing goods on large scale in Pakistan and India are enjoying the external economics due to international trade [32].

Competition with foreign producers: We can compete with the foreign producers in foreign trade so it improves the quality and reduces the cost of production. It is also an advantage of foreign trade.

Useful for the world peace: Today all the countries are tied in trade relations with each other. So foreign trade also contributes to peace and prosperity in the world.

Import of capital goods and technology: The inflow of capital goods and technology in the less developed countries has increased the rate of economic development, and this is due to foreign trade.

Import substitution: These countries not only produce import substitute, but also reduce the deficit in the balance of payment of their countries.

Dissemination of knowledge: Foreign trade is also responsible for the dissemination of knowledge and learning from developed countries to underdeveloped countries.

Interdependence: Foreign trade is responsible for creating economic depending and establishing economic interest in the economy of the countries having trade relations.

Factors productivity: Through foreign trade the productivity of labor and capital and organization increases.

Demand makes them mobile on a national as well as an international level which helps underdeveloped countries to develop and maintain a high level of growth of developed countries.

An emerging market economy is an economy that's transitioning into a developed economy. Emerging market economies typically feature a unified currency, stock market, and banking system; they're in the process of industrializing. Emerging

market economies can offer greater returns to investors due to their rapid growth. They also offer greater exposure to some inherent risks due to their status. Over time, emerging markets typically adopt reforms seen in developed markets [33].

**Risks of Emerging Markets.** This risk can include political instability, domestic infrastructure problems, currency volatility and illiquid equity, as many large companies may still be state-run or private. Also, local stock exchanges may not offer liquid markets to outside investors [34].

Emerging markets generally do not have as highly developed market and regulatory institutions as those found in developed nations. Markets efficiency and strict standards in accounting and securities regulation are generally not on par with advanced economies (such as those of the United States, Europe, and Japan).

**Signs of Progress.** However, emerging markets typically have a physical financial infrastructure including banks, a stock exchange, and a unified currency. A key aspect of emerging market economies is that over time, they adopt reforms and institutions like those of modern developed countries this promotes economic growth [35].

Emerging market economies tend to move away from activities focused on agricultural and resource extraction toward industrial and manufacturing activities. Their governments usually pursue deliberate industrial and trade strategies to encourage economic growth and industrialization.

These strategies include export led growth and import substituting industrialization. The former strategy is more typical of economies that are considered emerging since it promotes more engagement and trade with the global economy [36]. Emerging market countries also often pursue domestic programs such as investing in educational systems, building physical infrastructure, and enacting legal reforms to secure investors' property rights.

## **Conclusion to chapter 2**

One of the key challenges faced by Emerging Markets EMs given the current state of the world economy is the potential increase in trade barriers. This challenge is particularly relevant for these economies given the major role that they currently play in global trade. A new geography of trade has emerged in which EMs are key heterogeneous players not all EMs are alike. These facts are key in understanding how higher trade barriers can affect not only these economies, but the world in general. We propose a dynamic general equilibrium quantitative model of international trade to understand how harmful increasing trade barriers could be for EMs in the long-run. Our results show that EMs would be particularly exposed to the negative effects of increasing trade barriers around the world. However, if trade barriers were to increase

only among Advance Economy AEs, EMs could potentially benefit from spillover effects.

Russia's invasion of Ukraine has had an enormous impact on the economic and financial landscape of Ukraine. Aside from the calamitous humanitarian crisis and geopolitical instability that the war has unleashed, economic activity has been significantly curbed. While the situation is rapidly evolving, and short- and long-term impact predictions are subject to revision, the crisis has undoubtedly changed the market environment in Ukraine.

The World Bank predicts that the Ukrainian economy will shrink by 35 percent in 2022 amid market disruptions caused by the war. Ukraine's First Deputy Prime Minister and Minister of Economy, Yulia Svyrydenko, further estimates that the real GDP of Ukraine could fall by 35 to 45 percent through the rest of 2022. Annual inflation in Ukraine accelerated to 22.2% in July 2022, according to the State Statistics Service of Ukraine. Earlier in July, the National Bank of Ukraine said that inflation in Ukraine will reach over 30% in 2022.

While the economic situation is likely to stabilize and recover as the crisis abates, the erosion of production capacity remains a barrier to future growth. In the short term, there has been a sharp reduction in the labor supply as more than a third of the population has been displaced by the war. The destruction of agricultural land and equipment could also inhibit the recovery of Ukraine's historically productive and rich farmlands. As such, the World Bank estimates that the recovery and reconstruction

costs from the war in Ukraine will total a minimum of \$349 billion – 1.5 times the size of the pre-war economy.

The deficit of Ukraine's foreign trade in goods in January-June 2022 doubled compared to the same period in 2021 - to \$2.468 billion from \$1.227 billion, the State Statistics Service reported. According to its data, exports of goods from Ukraine during the reporting period decreased by 24% compared to the first half of 2021 - to \$22.732 billion, imports - by 19.1%, to \$25.2 billion. The International Monetary Fund (IMF) and World Bank have a robust historical presence in the country and have signaled their support of the coming reconstruction as have many donor countries. Still, Ukraine will need continued financial support in both the short-term as the war continues and in the long-term for recovery.

## **CHAPTER 3**

### **STRATEGIC DIRECTIONS FOR THE DEVELOPMENT OF INTERNATIONAL TRADE IN COUNTRIES WITH EMERGING MARKETS**

#### **3.1. Peculiarities of foreign trade of countries with markets that are formed in modern geo-economic conditions**

The emergence of global value chains (GVCs) means that multiple countries add value in the production chain before the final consumption of a good. Thus, most goods exported today are not solely the product of the exporting country, but are a combination of domestic value added (DVA) and foreign value added (FVA) through the import of intermediate goods [36]. The rise of FVA in gross exports since 1990 means that at least partial production abroad has become increasingly important. However, GVCs might have reached maturity as most of the efficiency gains seem now to have been realized. The share of FVA in gross exports peaked in 2010 at 31 %, and has since then flattened out and even slightly decreased to 30 % in 2017.

While it may be possible that production continues to shift between countries due to differences in prices and wages, this overall trend might only change a little. In looking at the countries where most value added occurs, it becomes quite clear that GVCs are actually highly concentrated among the US, China, Germany (see Fig. 3.1

below in blue) and to a lesser extent Japan, Canada, the UK, France and Italy (in light brown). And while ASEAN states and India were to a certain extent integrated in the global production process in 2018, only very low levels of added value could be observed in the Middle East, South America and on the African continent (in dark red). Changes in prices and wages and other comparative advantages might in future contribute to shifting some production and value chains to these regions, but structural shortcomings in these economies might also prevent this [37].

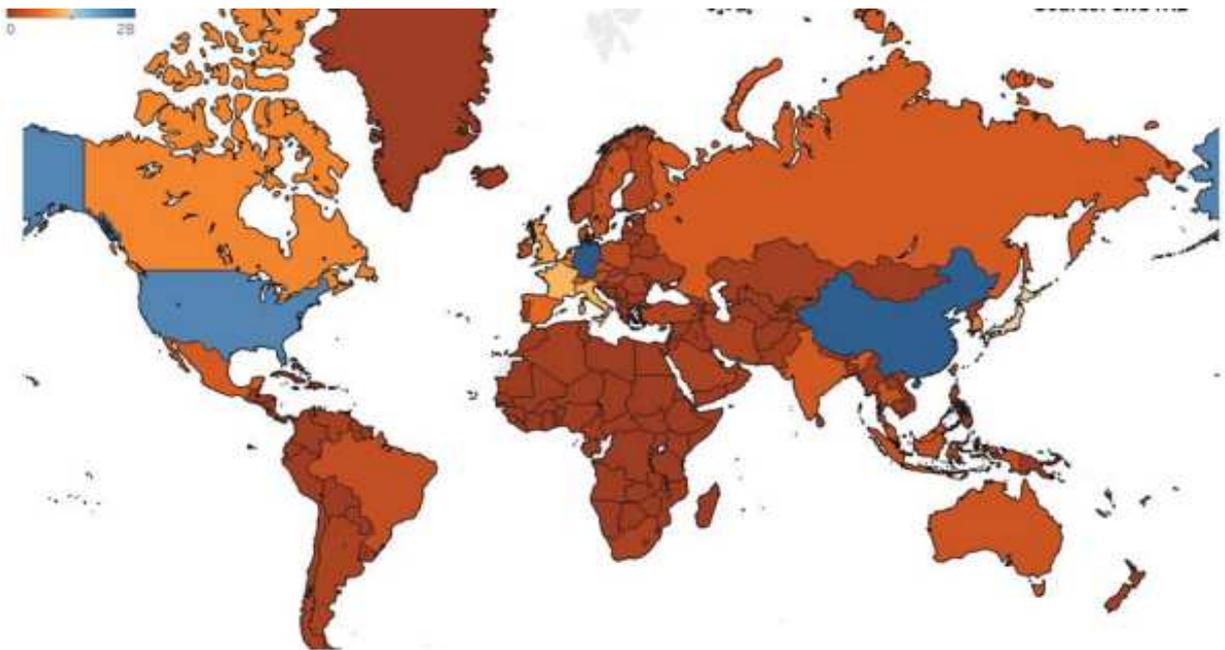


Fig. 3.1. The global value chain on exports of the continent each country has its own painted colors

Source: World trade map

While several EU countries seem to profit from GVCs, their consequences may also harbor dangers for the EU. In its resolution of 12 September 2017 on the impact of international trade and EU's trade policies on global value chains (GVCs), the EP calls for stronger and more binding international social and environmental standards while at the same time prompting the European Commission to adopt unilateral policies to protect EU businesses from unfair practices. While acknowledging the importance of GVCs for the international economy, the resolution emphasizes that integration into GVCs must not be to the detriment of the EU's social and regulatory model and the promotion of sustainable growth [38].



Fig. 3.2. Sum of imports and exports of goods and services in trillion USD: 1995-2017

Source: WTO facts and figures 2008, and international source

Increase of trade in services and digital trade. Since the foundation of the WTO, trade in goods has increased by 240 % but only by 25 % between 2007 and 2017. In comparison, trade in services has increased by 327 % since 1994 and grew by 55 % between 2007 and 2017. Although trade in services has been the strongest driver of growth in this period, its growth has slowed down and it is unlikely to assume the role that trade in goods has played in driving globalization [39].

Global foreign direct investment (FDI) stocks grew rapidly in the last three decades, surpassing cross border trade in goods and in services. The strongest growth took place between 1990 and 2000, when foreign direct investment stocks worldwide increased by 270 % from USD 2.80 trillion to USD 7.4 trillion and more modestly between 2010 and 2017, with an increase of 66 % leading to a total amount of FDI stocks of USD 31.5 trillion.

Several developments indicate that foreign investment has recently been slowing down. In 2017, FDI flows fell by 23 % to USD 1.43 trillion from USD 1.87 trillion in 2016. Even discounting volatile financial flows, large one-off transactions and corporate restructuring operations that inflated FDI numbers in 2015 and 2016, the 2017 decline was sizeable. One of the causes was a significant decline in rates of return on FDI over the past five years<sup>6</sup>. The EU is the main provider of foreign investment in the world. FDI stocks held in the rest of the world by investors resident in the EU amounted to EUR 7 412 billion at the end of 2017. Meanwhile, foreign direct investment stocks held by third country investors in the EU amounted to EUR 6 295

billion at the end of 2017. The 2018 preliminary results indicate a general disengagement of FDI flows inwards and outwards. The relationship with the US market suffers most from the overall decline in FDI capital exported: preliminary estimates show that US firms withdrew nearly EUR 177 billion of net FDI capital from the EU market. Similarly, EU direct investors withdrew from the US market, with a net disinvestment of EUR 165 billion [40].

Thus, similar to the adding of value in global value chains we see a flattening of this growth in the past decade and even a decline in investment flows in recent years. North American, European and Asian countries have benefited most from these past growth paths. For other parts of the world, such as South America or Africa the impression remains that fulfilment of the growth and development potentials of GVC, services and FDI has been disappointing.

Growing importance of developing countries. In general, today, more than half of all international trade in goods involves at least one developing country and trade in goods between developing countries referred to as South-South trade grew from 7% of world trade in 2000 to 18% in 2016. But not all developing countries are the same. Asia has doubled its share in world trade from 15% to 35 % between 1990 and 2016. More than half of this trade stays within this continent, a percentage which is only a little smaller than for intra EU Trade. On the other hand, intra- African trade is hardly taking off. Efforts by the EU to boost regional trade through Economic Partnership Agreements have generally not been successful. It remains to be seen how far the

African initiative to create a continent-wide integrated regional market for goods and services (African continental free trade agreement) will reverse this trend or whether this is too great of a leap forward [41].

The WTO agreements and also the European Partnership Agreements (EPAs) concluded with the EU give developing countries transition periods to adjust to world market conditions and WTO provisions. The engagement of many developing countries has been based on ‘special and differential treatment’ (SDT). This entails less than full symmetry or reciprocal market access in trade negotiations and acceptance that developing nations should be less constrained in the use of trade policies than high-income countries.

This asymmetry in trade agreements is strongly oriented towards the economic development of developing countries, reflecting these partners' needs, including protecting their agricultural markets, industrializing, countervailing the reduction of tax revenue and adjusting to EU standards. Developing countries that do not wish to become part of an FTA with, for instance, the EU, can continue trading under the ‘everything but arms’ (EBA) regime if they are least developed countries (LDCs). Those countries that have graduated from LDC status can take still advantage of the EU general system of preferences GSP or GSP systems, which provide wide preferences, although not fully free access. The EU continuously monitors GSP beneficiary countries’ effective implementation of the 27 international conventions on human rights, labor rights, environmental protection, and good governance. This

monitoring includes exchanges of information, dialogue and visits and involves various stakeholders, including civil society [42].

Apart from public discontent about globalization, for over a decade there has also been growing criticism by WTO members of the functioning of the global system itself. The WTO was established and its rules designed for trade between transparent and open market economies. Yet, this openness is sometimes lacking, thereby challenging the effectiveness of the WTO and faith in what the organization can deliver. We focus on four developments: the rise of protectionism in general, the specific problems of state-owned enterprises (SOEs) and intellectual property theft, and the decline of trust in the WTO dispute settlement system.

Trade barriers and protectionism. Various statistics show that protectionist measures are increasing worldwide. Since 2008, according to Global Trade Alert, countries worldwide have implemented more than 14000 measures that almost certainly discriminate against foreign commercial interests. Such measures can for instance be subsidies, tariffs or investment measures. It should be noted however, that they also include trade defense measures, which may be well justified against dumping practices. The number of hampering measures has been substantially higher than the number of liberalizing measures and has been growing strongly since 2017. Since 2008, more than 6600 protectionist measures have originated in G-20 countries, mainly through tariff increases, import bans and new customs procedures for exports. For trade in services, certain new policies introduced by G-20 countries appeared to be trade-restricting,

including localization requirements, measures affecting communication and network-enabled services and policies pertaining to the review of foreign investment in certain areas considered strategic.

The European Commission in its most recent trade and investment barriers report notes that, looking at recorded barriers to EU business in 2018, China has taken over as the country with the highest number of obstacles hindering EU export and investment opportunities (37). Russia came a close second with 34 barriers currently in place, followed by India (25), Indonesia (25) and notably now also the United States with 23 barriers. As the table shows, this is an increase compared to only two years before. The fact that many trade restricting measures come from WTO members that generally plea for an open trade system gives food for thought.

The lack of progress with further liberalization in the WTO, whether through the Doha Round or otherwise, clearly translates into a more defensive attitude towards national industrial or commercial interests. The fact that WTO members have selective requests for liberalization, while keeping a protectionist stance in other areas, may have contributed to this. For instance, the conflict between free trade in industrial goods and services but retention of protectionism with farm subsidies for domestic agricultural sectors, which is a position of many developed countries, has been seen as problematic by developing countries. Such impasses have hampered the launching of new multilateral WTO negotiations [43].

In general, most of the criticism points to the absence of a real level playing field. This results in unequal conditions for trading partners, leading to a discussion about reciprocal treatment. Reciprocal treatment is understood here as applying similar rules, thereby guaranteeing a level playing field [44]. This is different from reciprocity in the sense that market shares or trade flows from both partners should be in balance. Such reciprocity is not an aim of trade policy as outlined in the basic international legislation.

### **3.2. The main directions for improvement international trade of countries with emerging markets with Ukraine**

Ukraine and Russia are among the most important producers and exporters of arable crops in the world, particularly of cereals and oilseeds. Production of animal products, however, mainly supplies their domestic markets.

Russia and Ukraine accounted for 10% and 3% of global wheat production on average over the past five years, respectively. Russia and Ukraine are the first and fifth largest wheat exporters, accounting for 20% and 10% of global exports, respectively. Both countries play a critical role in supplying wheat to global markets, including to the Middle East and North Africa region, where wheat is the main staple food.

Ukraine and Russia together account for less than 5% of global maize production, with Ukraine having the largest share. As domestic consumption is limited, most of

their production is exported; Ukraine is the third leading exporter of maize to global markets.

Russia and Ukraine are also large producers and exporters of other cereals, particularly of barley. Together, Russia and Ukraine account for 20% of global barley production, and are the third and fourth largest exporters, respectively (Fig.3.3). A large share of the barley produced in both countries is used as feed in domestic animal husbandry.

Russia and Ukraine are also key producers and exporters of oilseeds, particularly of sunflower seeds. Ukraine is the world's largest producer of sunflower seed, followed by Russia. Together, they account for more than 50% of the global production on average in the marketing years 2016/17 to 2020/21. Most of the production is crushed domestically into sunflower oil and meal. Sunflower oil is also exported to the global market, Ukraine and Russia accounting for 50% and 25% of global sunflower oil exports, respectively (OIL WORLD, 2022). Russian and Ukrainian production of rapeseed and soybean represent less than 5% of global production. Yet, given limited domestic demand, Ukraine is the third largest exporter of rapeseed globally. Ukraine is also the largest exporter of soybean outside the Americas and plays a specific role in global markets, as it is the largest non-GMO exporter.

Russia also plays an important role in global energy and fertilizer markets. It is the world's top natural gas exporter, second-largest oil exporter, and the third largest coal exporter; accounting for 20%, 11% and 15% of global exports, respectively, in

2019 (IEA, 2022). Russia is also the world's top exporter of nitrogen fertilizers, and the second and third leading supplier of potassic and phosphorous fertilizers (FAO, 2022), respectively, accounting for over 15% of global fertilizers exports in 2020 (UNCTAD, 2022).

Given the importance of Russia and Ukraine for global agricultural and input markets, Russia's aggression against Ukraine and political responses have significant and potentially longer-lasting implications for producers and consumers. Reduced cereals and oilseeds export availability from Ukraine is pushing up international food and feed prices.

Moreover, global energy and fertilizer prices have increased from their already high levels due to Russia's aggression and the resulting uncertainty related to the availability of Russian energy and fertilizer globally. As the agro-food sector is highly-energy intensive, rising energy and fertilizer prices are translating into higher production costs and contributing to food price increases (see section on Food security impacts).

More than 12 months following the commencement of Russia's war of aggression against Ukraine, Brent crude oil was trading between USD 80 and USD 84 a barrel at the beginning of March 2023, having spiked to USD 133 a year earlier. Wholesale prices for natural gas and coal have seen similar volatility in the same period. Russia and Ukraine, both often referred to as the world's breadbasket, are major players in the export of wheat and sunflower to most countries

However, even as energy price rises have eased off their highs, the outlook for the world economy remains fragile. Trade tensions, financial vulnerabilities and high core inflation – driven by strong service price increases and cost pressures from tight labor markets point to persistent downside risks [45].

Structural reforms aimed at boosting productivity growth will be vital, alongside fiscal support targeted at the most vulnerable and monetary policy to combat persistent inflation.

Global installed wind energy hit the 100GW mark already in 2008 – four years before solar did. It created hundreds of thousands of jobs along the way as the sheer scale of wind turbines, whose transport requires costly logistics solutions, has traditionally strengthened the argument for wind supply chains localization.

In its 2021 annual review on renewable energy, Irena remarks that “the integration of local content and local employment in wind energy requires further efforts in contracting arrangements, technical development and cooperation, and local capacity development” [46].

Switch Report 2022 highlights the following FDI trends at global wind market [47]:

- Leadership of European power utilities and wind turbine suppliers;
- The rise of China, the US and Europe as the biggest wind energy geographies, with emerging markets (India, Brazil and Mexico) also achieving major progress;

– The attractiveness of the UK as the destination of choice of FDI into large-scale offshore wind projects.

European power utilities became the dominant foreign investors in the market, accounting for 77% of global FDI into wind energy between 2005 and 2020. According to FDI Markets data, Spain (\$58 B), Germany (\$51B), France (\$30B) and Denmark (\$29B) take the lead at the global wind market in terms of announced FDI both as recipient countries and foreign investors.

Such major European energy companies, like Iberdrola (\$31.6 investments, Spain), Enel (\$22.9 investments, Italy) and RWE (Germany), have been the biggest wind investors over the period 2005 to 2022.

Over the past two years, two more companies Equator (Norway) and Total (France) have entered the fray, both thanks to multi-billion dollar investments in offshore wind in the UK.

Apart from Western Europe, international wind energy investments have been mainly distributed among North America (USA, Canada), Asia-Pacific (China, Japan), Emerging Europe (Czech Republic) and Middle East (Israel). During the pandemic years there has also been FDI increase in Latin America region.

Global FDI in the production of wind turbines is equally concentrated in the hands of a few producers. Only four European companies Danish Vestals and LM Wind Power (acquired by GE in 2017), German Siemens and Spanish Games (which merged

with Siemens Wind in 2016) covered about half the \$17.4bn in FDI projects in the production of wind turbines announced worldwide between 2005 and 2020 [48].

Wind energy potential. That room is definitely bigger for emerging markets of the likes of Uzbekistan, Morocco, Kazakhstan, which all have remarkable wind resources, all need to clean up their energy matrix and all have seen some wind energy projects being announced in the past couple of years mainly with support from the European Bank for Reconstruction and Development.

Emerging Europe economies – Greece and Poland have both attracted more than \$2bn of wind FDI each thanks for favorable policy frameworks, particularly in the latter, where the government has reduced barriers to both onshore and offshore wind developments.

Agricultural trade has already been affected by the 2014 Russian aggression against Ukraine, including the annexation of Crimea. The economic consequences of policy responses have shaped global agricultural markets since then.

Previously significant levels of Russian imports of meat, dairy products, as well as fruits and vegetables from the European Union, North America and several other countries opposing the 2014 aggression virtually [49] ceased as a result of an import ban.



The current state of foreign trade in goods and services of countries with developing markets with the countries of the world.

Market economy range in size such as India versus Morocco. Although both countries differ drastically in terms of GDP and population, they are both in the middle of developing their economies and progressing towards economic globalization [50].

### Characteristics of an Emerging Market Economy

1. Rapid growth. The economic growth of countries with an emerging market economy typically grow by 6% to 7% annually, whereas countries with an already well-established economy report a growth rates below 3%. As a result, the GDP growth rates for emerging market economies outperform those of developed countries.

2. High productivity levels. Labour is characterized by low costs, which can stimulate production and increase employment levels. Therefore, developed countries establish a preference to build manufacturing factories and engage in outsourcing to make use of the low-cost labour. As a result, emerging markets can increase their international presence and improve their exports to foreign countries.

3. Increase in the middle class. Economic improvement in a country can lift its people out of poverty, which shifts them into the middle class. As countries increase their productivity levels and make use of additional streams of income, it provides individuals with a higher standard of living, as they can get more access to educational opportunities while enjoying better infrastructure and improved technology.

4. Transition from a closed economy to an open economy. Developing countries run a closed economy, as they mainly focus on the local agricultural market. As such countries work towards economic advancement, they will want to engage in international trade to stimulate economic activity.

5. Instability and volatility. Emerging markets are vulnerable to changes, as their economies are still developing. They are especially susceptible to financial changes in currency, interest rates, and inflation. In particular, they are impacted by changes in the pricing of commodities.

6. Attraction of foreign and local investments. Investing in businesses in emerging markets is riskier than businesses in developed countries. However, higher risk means higher returns, which attracts investors [51].

#### Countries with an Emerging Market Economy

1. BRICS. BRICS countries is an acronym that refers to Brazil, Russia, India, China, and South Africa. They make up 40% of the world's population and contribute to more than 25% of the world's GDP. The BRICS countries are predicted to generate the economic potential to match the G7 countries.

2. Next Eleven. The "Next Eleven" (or N-11) is a term that refers to countries that can potentially become like the BRICS countries and with positive growth prospects. The countries are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam.

The criteria used to select the N-11 countries were based on the country's macroeconomic stability, political maturity, openness of trade, investment regulation, and educational quality.

Divergent recoveries in emerging markets reflect differences in economic positions and policy responses. Those that were able to contain the virus or inoculate their populations (such as China and the United Arab Emirates) are recovering earlier. Those with ample fiscal buffers, market access, or both were able to deploy greater fiscal support (such as the Philippines and Poland). Central bank credibility allowed some to cut policy rates to record lows and engage in unconventional monetary policy without severe exchange rate pressure. Emerging markets with macroeconomic imbalances or elevated debt burdens continue to face sharp trade-offs between supporting recovery and reducing imbalances (among them Argentina, Egypt, and Turkey) [52].

The road ahead could be somewhat bumpier. Because of threats from new COVID-19 strains, countries will have to weigh the many trade-offs between continued efforts to mitigate spread of the virus which will likely require maintaining economic support to households and firms and normalizing policies and rebuilding economic resilience. Securing adequate vaccines is only a first step. Financial market volatility against a backdrop of rising US long-term rates must be deftly managed, particularly for countries with large external financing needs. And political and social support will

be central to implementing structural reforms. There are a number of areas requiring policy action, although the priorities will vary from country to country.

Targeting corporate sector support: As the health crisis comes under control, countries must begin to transition from wholesale crisis emergency support measures to those that target support to viable firms and eventually allow a handover to private-led growth. How fast this can be done will depend on the link between growth and employment in the corporate sector and whether a country can afford to support viable firms long enough to allow them to shake off pandemic-induced distress.

How efficiently that happens will depend on the strength of labor market institutions, safety nets, banking system oversight, and insolvency procedures for a smooth reallocation of resources. Some companies in emerging markets entered the crisis with already elevated debt, and the economy-wide implications of corporate distress need to be better assessed.

While advanced economies face similar challenges, the ensuing trade-offs are likely to be more acute for emerging markets because they typically face more imposing budget constraints. Emerging markets also tend to have weaker frameworks to deal with corporate bankruptcies. Policy interventions must therefore be designed to reduce both risks from excessive liquidations that lead to a wave of bankruptcies and risks of creating zombie firms that can operate on excessive credit support but cannot invest in new activity. Past experience (such as Poland in 1992, Mexico in 1994, many Southeast Asian countries in 1997–98, and Turkey in 2001) suggests that successful strategies

include timely asset quality reviews as well as a combination of out-of-court workouts, debt relief, and disposal of nonperforming assets.

Because bank-based financing is more prevalent than market financing in emerging markets, corporate distress could affect financial stability if banks have to recognize increased loan losses after the pandemic. To provide greater transparency, bank asset quality reviews may be necessary in some cases especially because regulatory measures were eased during the crisis. The rise of shadow, or nonbank, financing of the corporate and household sectors in some emerging markets also raises risks because the nonbank sector is largely unregulated. Hence, a longer-term priority is designing stronger debt resolution and insolvency regimes and developing so-called macro-financial tools to monitor risks to the overall economy from the nonbank financial sector.

Generating job-rich, balanced, and sustainable growth: Beyond the immediate recovery, a vital step toward long-term economic health is raising productivity and lessening the scarring effects of the crisis on investment, employment, human capital (because of setbacks to learning), and financial system strength. The long-term growth payoffs from structural reforms can be significant if they are well designed and properly sequenced. Some priorities include:

- introducing market-oriented reforms, including for state-owned enterprises (such as in China, India, and Mexico);
- strengthening social safety nets (for example, in Chile and China);

- closing infrastructure gaps (for example, in Indonesia and the Philippines);
- implementing pension, product market, labour market, and governance reforms in many countries.

Clear communication on policy intentions, with measures to protect the vulnerable, is essential as well to building social support for difficult reforms [53].

It is also the time to build stronger economies than emerging markets had before the pandemic by taking steps to create better and more equal access to health care and education, strengthening public infrastructure, and retraining workers displaced by the pandemic. Building resilience to climate change and steering digitalization for inclusive growth are also necessary. COVID-19 has caused more loss of human life in countries with weak health systems and social safety nets. It has triggered greater economic losses in service-oriented sectors and among unskilled, young, and female workers. To ensure a sustained recovery that does not leave anyone behind, the rise in inequality and poverty must be contained. Reducing informality, which accounts for one-fourth to one-third of the economy for most emerging markets will allow more people to benefit from better wages and redistributive measures.

Some countries are seizing opportunities: in Asia, digitalization is transforming the efficiency of production, communication, and the inclusiveness of government operations. Indonesia is addressing the threat from deforestation through a program on sustainable land use. Some emerging markets, such as Malaysia, are strengthening the

financial regulatory framework to better monitor and manage transition risks as they move to reduce the economy's carbon footprint.

Restoring macroeconomic resilience. The crisis was a sore reminder of the importance of building economic health during peaceful times. Emerging markets will soon need to start rebuilding fiscal, external, and macro-financial buffers to prepare for the next crisis.

That means reestablishing fiscal rules and restoring financial regulatory standards, which were set aside during the pandemic, and rebuilding external reserves if they are running low.

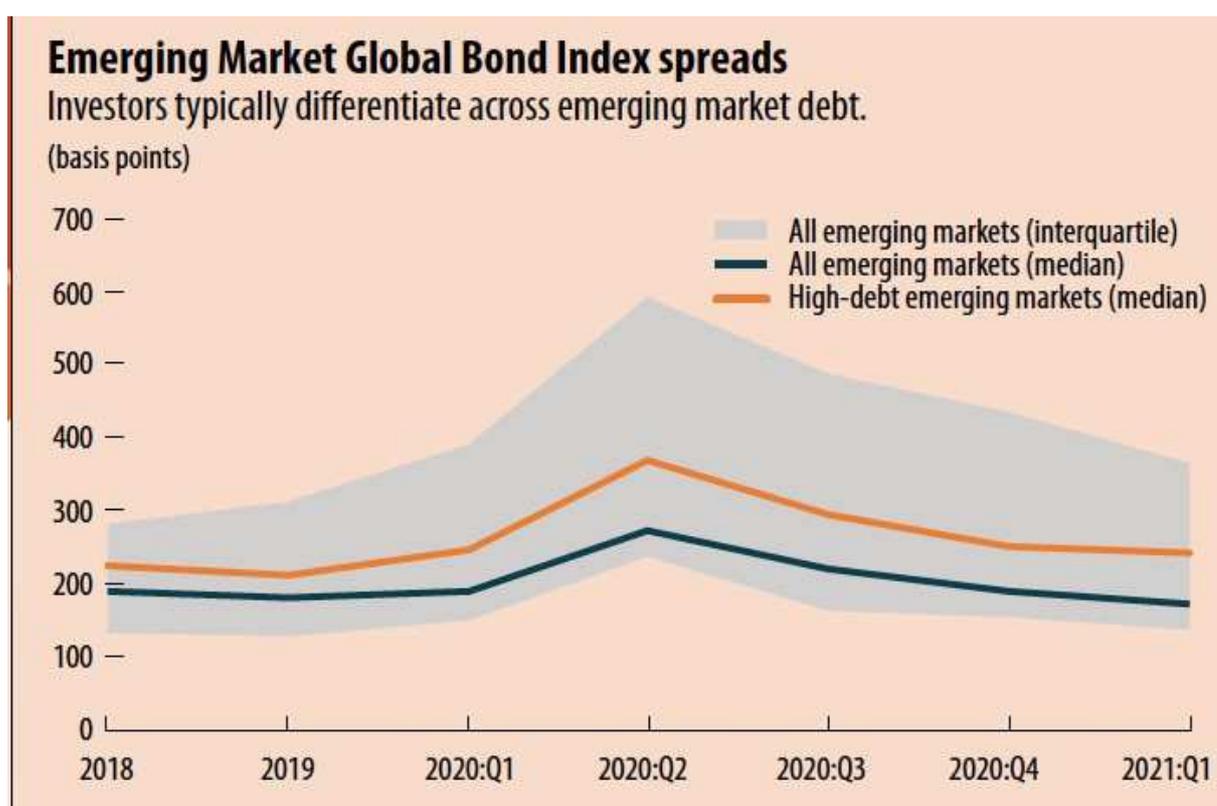


Fig. 3.5. Emerging markets Global Bond index

Source: Bloomberg finance

Priorities will vary and will need to be addressed without hurting growth prospects raising tax capacity for spending on public services where safety nets are weak, taking steps to reduce debt and debt accumulation (fiscal consolidation) where the sovereign debt burden is high, and tightening macro prudential policies on financial institutions where financial stability risks are elevated.

The sample excludes Iran and Thailand due to data availability. Emerging markets Global Bond index data are missing for the United Arab Emirates and Saudi Arabia in 2018. High debt emerging markets are defined as economies where government gross debt is higher than the median.

Governments in many emerging markets will need to balance different goals, such as raising spending on public investment and social safety while resuming fiscal consolidation to keep public debt on a firm downward path. Public and external debt have risen significantly for the median emerging market economy, reaching 59 and 44 percent of GDP, respectively, in 2020, and gross financing needs are projected to stay above 10 percent of GDP in 2020–21 [54]. While low global interest rates have kept debt servicing costs manageable, external borrowing costs should not be expected to stay low indefinitely. Investors typically differentiate across emerging market debt (fig. 3.5). Even when debt is incurred in domestic currency, the sizable share of domestic debt held by foreigners makes the domestic financial market an important transmitter of external financial shocks (fig. 3.6). Sustained high debt and gross financing needs

will likely aggravate policy trade-offs and expose emerging markets to abrupt changes in the risk appetite of investors.



Fig. 3.6. Tracking Global Demand for Emerging market sovereign Debt

Source: IMF working paper

As the IMF's April 2021 fiscal monitor argues, stronger tax revenue generation would allow policymakers to provide better public services without adding to debt burdens. Tax revenues in emerging markets indeed stand below 20 percent of GDP on average compared with over 25 percent of GDP in advanced economies. Emerging

market governments also tend to spend a higher share of their revenues to meet interest payments.

In the post-pandemic environment, policy space has shrunk. With higher fiscal deficits and debt, larger financing needs, and less room to cut domestic interest rates, policies must therefore be better integrated to achieve the best outcomes for growth and stability, while maintaining the autonomy of fiscal, monetary, and regulatory authorities. For example, where inflation pressure is subdued, monetary policy can continue to support domestic demand, even as fiscal support is withdrawn.

Other policy trade-offs must also be managed as multispeed recoveries give rise to market pressure. While a flexible exchange rate generally acts as an external shock absorber, under some conditions, the effects can be the opposite.

For instance, depreciation in the domestic currency can increase the stock of foreign-exchange-denominated liabilities, further intensifying market pressure. Pass-through from depreciation can generate inflation pressure when monetary policy credibility is not fully established. Concerns about navigating financial volatility are foremost in the minds of many policymakers in emerging markets and are a major plank of the IMF's work on the Integrated Policy Framework [55 – 56].

**Significance of an Emerging Market Economy.** Emerging market economies in developing countries are essential in driving global economic growth. Currently, emerging market countries generate more than 50% of the world's economic growth.

By 2050, it is predicted that the top three largest economies will be China, India, and the United States. Two of the three countries are emerging market economies [57].

There are also increasingly more investments that are made in emerging market economies, which shows the investors' confidence in such countries. For example, specific hedge funds help such economies raise more capital. The increase in foreign investments also helps to add more trading volume in the local stock exchange and generates more funding for businesses to succeed in the long-term.

### **Conclusion to chapter 3**

Unlike their counterparts in developed markets, emerging-market firms are characterized by limited resources, including international experience and access to relevant information, which are essential for developing suitable international marketing strategy (IMS). Under such circumstances, strategies are expected to produce suboptimal results, especially when targeting competitive markets in advanced economies.

Prior IMS research has largely focused on developed markets. In contrast, the authors examine IMS of exporters in Thailand, an emerging market. Despite major differences in environments and processes in emerging markets, they establish that Thai

exporters that match their IMS to local market conditions realize superior performance, as predicated by strategy alignment.

The author validates these results and discuss emerging-market firms' capacity to adapt their strategies and succeed in highly competitive advanced economies, despite relative inexperience, volatility, and information asymmetry at home. Exporting remains of critical importance to the economies of emerging markets, and the findings provide greater optimism for their firms' ability to address host-market conditions in their marketing strategies, as well as pointing to the competitive threat posed by these emerging-market neophytes.

Countries are increasingly turning to the World Bank Group for advice on trade and, more widely, on investment climate reform to ensure competitiveness. The WBG has an opportunity to contribute by sharing the technical evidence that helps developing countries make sound policy decisions on trade and investment climate-related issues that will be critical for future growth and poverty reduction.

In February 2017, the World Trade Organization's Trade Facilitation Agreement entered into force, spearheading a global effort to reduce trade costs and help countries better connect to the global economy. This milestone presents an opportunity for the World Bank Group to further assist countries to design practical reform strategies and their implementation to pursue poverty reduction and shared prosperity.

## CONCLUSION

In this thesis we apply the methodology to a counterfactual analysis of the simulated welfare effects of the development of international trade in countries with emerging markets which was the subject of our application shows, that even in a case of very precisely estimated parameters, accounting for parameter uncertainty in the simulation stage is important to tell apart predictions that are not statistically significant from those that are.

Moreover, we find that the interaction of uncertainty with the non-linearity of the model leads to a systematic bias of model predictions, equaling 7% on average in our application. In line with the theoretical results, I find that the degree of uncertainty matters.

Using estimates based on a dataset including only 50% of the observations from the original sample increases the average bias to 11%. Quantitatively, bias estimates are small. For example, we find an overestimation of the welfare gains for the EU countries of 13 percentage points and 17 percentage points for the United States.

However, the simulation outcomes were small to begin with. Moreover, my particular application is characterized by high precision in the estimation stage, even after dropping 50% of the observations. We leave a more systematic analysis of the relationship between the degree of uncertainty and the degree of non-linearity of model structures for future research. Moreover, estimated structural parameters are certainly

only one source of uncertainty surrounding the simulated welfare effects of a policy change.

In the contemporary global economy, political risks declined with the spread of liberalization and the abandonment of anti-foreign restrictions. There was no sudden reversion to the pre-1929 situation, however, and in major emerging markets, corporate strategies needed to carefully manage relations with the government. China was in a special category in this regard by virtue of the country's size, its accelerating development and technological level, and the special position of the ruling Communist Party.

Emerging markets, or at least the larger and more fast-growing ones in Asia and Latin America, were increasingly seen as indispensable by MNEs in every industry. They were both a place to assemble manufactured goods and locate activities in the lower end of global value chains, and a growing market.

However, there was a growing need in some at least emerging markets to incorporate local relevance into global products. In this study, I have taken as given the data used to calibrate the model's observable moments, which might be subject to measurement error.

More importantly, we have assumed a particular structural model, implicitly shutting down uncertainty with regard to exact production and consumption relationships in the economy. Therefore, we view analysis of parameter uncertainty as a first step of a greater endeavor into the issue of uncertainty in counterfactual analysis.

Good trade strategies and improved market access are meaningful only if business enterprises, including women-led and small and medium-sized ones, can make use of them. Many Commonwealth developing countries have undertaken important reforms, yet creating an enabling environment for the private sector remains a major priority. Poor infrastructure including insufficient and unreliable power supplies and weak road and port infrastructure, all part of weak productive capacity continues to inhibit private sector development.

Finally, securing a coherent global trade support architecture cannot be overemphasized with regard to the aim to unleash trade potential. According to an estimate provided in the World Investment Report 2014, at current levels of investment in SDG relevant sectors, developing countries face an annual investment gap of \$2.5 trillion per year. This has direct and indirect impacts on their trading capacity. While alternative sources of funding will be increasingly sought for implementing the SDGs, the role of official development assistance (ODA) in promoting trade-related infrastructure and capacity-building will continue to be important.

Using a neoclassical growth model in which individuals allocate their income to consumption, investment, and corruption reduction activities, the dissertation showed that corruption and income or economic development have an inverted u-shaped relationship. This suggests that at lower levels of income corruption tends to be increasing in income but the reverse holds at higher income levels. This is due to the

fact that, at lower levels putting bread on the table takes priority over fighting corruption.

An empirical analysis on the proposed inverted u-shaped relationship between corruption and income was conducted. It employed a panel dataset on 75 countries for the periods 2001 to 2008 and a two-way fixed effects model. The estimation results lent support to the existence of an inverted u-shape relationship between corruption and income. Also confirmed by the results, is the view that corruption and war are directly related. The results indicate that incidences of war would increase the corruption index by 8.3 points. Trade openness is also found to be significant in determining corruption levels in a country.

The results also point to the fact that trade openness leads to a reduction in a country's corruption. Literature suggests that government expenditure may induce corrupt acts in a country. Contrarily, the results indicate that this may not necessarily be the case. The results reveal that corruption levels reduce with increased government spending. The results also indicate that socio-economic conditions and natural resource rents are significant factors in determining a country's level of corruption.

Additionally, this dissertation explores linkages between merchandise and service trade. It makes the argument that merchandise and service trade are simultaneously determined. The theoretical framework employs a general equilibrium model in developing this proposition. In this model, countries are endowed with fixed amount of a specific service input and produce a traded commodity using these services.

The empirical investigation of this proposed simultaneity uses panel data on 24 OECD countries and their trading partners covering the periods 2000 to 2006. It uses a fixed effects estimation method and a Heckman selection model to account for zero-trade flows.

The empirical investigation validates the proposed relationship between merchandise and service trade. The results also indicate that both merchandise and service trade are significant in determining each other. Distance, the population and income of the trading parties are confirmed to be significant in determining trade flows between countries. The results also show that having a common colonizer post 1945, is more likely to promote trade in merchandise than for services trade.

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