UDC 339.5(574)

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The analysis of international trade impact on economic development

The barter of goods or services among different peoples is an age-old practice, probably as old as human history. International trade, however, refers specifically to an exchange between members of different nations, and accounts and explanations of such trade begin only with the rise of the modern nation-state at the close of the European Middle Ages. As political thinkers and philosophers began to examine the nature and function of the nation, trade with other countries became a particular topic of their inquiry. Much of the modern history of international relations concerns efforts to promote freer trade between nations. This article provides a historical overview of the structure of international trade, the leading institutions and the production analysis of Kazakhstan for 20 years using the real GDP curve.

Keywords: international trade, international trade model, economic development, real GDP of Kazakhstan, export, import.

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Экономиканың дамуындағы халықаралық сауданың рөлін талдау

Түрлі елдер арасындағы тауарлар не қызметтердің айырбасы адамзат тарихындай көне болып табылады. Орта ғасырлардың соңында байқалған мемлекеттің заманауи өсуімен басталған халықаралық сауда ұлт өкілдері арасындағы айырбасты білдіреді. Ойшылдар мен философтар мемлекет қызметі мен табиғатын зерттегелі мемлекеттер арасындағы сауда олардың жеке зерттеу тақырыбына айналды. Халықаралық қатынастардың заманауи тарихының көп бөлігі мемлекеттер арасындағы еркін саудаға негізделген. Аталған мақалада халықаралық сауданың құрылымы мен жетекші институттарына тарихи шолу, сондай-ақ Қазақстанның өндіріс экономикасының соңғы 20 жылдағы дамуына нақты жалпы ішкі өнім бойынша талдау жасалған.

Түйін сөздер: халықаралық сауда, халықаралық сауда үлгілері, экономикалық даму, Қазақстанның нақты ЖІӨ, экспорт, импорт.

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Анализ роли международной торговли в развитии экономики

Бартер товаров или услуг среди различных народов является вековой практикой, вероятно, так же стара, как история человечества. Международная торговля, однако, относится конкретно к обмену между членами различных наций и счетов, и объяснения такой торговли начинались с ростом современного национального государства в конце Средневековья. Как политические мыслители и философы начали исследовать природу и функцию нации, торговля с другими странами стала частью исследований. Большая часть современной истории международных отношений касается усилий по содействию свободной торговли между странами. В данной статье приводится исторический обзор структуры международной торговли, ведущих институтов и анализ производства Казахстана в течение 20 лет, используя кривую реального ВВП.

Ключевые слова: международная торговля, модели международной торговли, экономическое развитие, реальный ВВП Казахстана, экспорт, импорт.

International trade is an instrument for country to develop its specialisation, that can increase the productivity of existing resources and the volume of their products and services, to improve the well-being of population.

Classical theories laid the foundations for the analysis of world economic relations. According to evolution of trade theories, there was a big impact of the A.Smith, D. Ricardo, a political economist J. S. Mill, K.Marx and other outstanding scientists.

Considering evolution of trade theories the first school which held that nations should accumulate financial wealth, usually in the form of gold (forget things like living standards or human development) by encouraging exports and discouraging imports was the mercantilism: Theory says you should have a trade surplus. Scientific contribution of this concept revealed that there is tiny connection between internal economy and external economy. So, the trade policy dictated by mercantilist philosophy was accordingly simple: encourage exports, discourage imports, and take the proceeds of the resulting export surplus in gold. Mercantilists' ideas often were intellectually shallow, and indeed their trade policy may have been little more than a rationalization of the interests of a rising merchant class that wanted wider markets – hence the emphasis on expanding exports – coupled with protection against competition in the form of imported goods.

An outstanding economist A. Smith demonstrated in his book The Wealth of Nations (1776) the advantages of removing trade restrictions. Trying substantiate international trade utility for all countries he consider: «If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage» [1]. Hence, he assumed that free trade is a system in which goods, capital, and labour flow freely between nations, without barriers which could hinder the trade process.

So, thoughts on free trade and competition, in his view, were the most effective ways to maximize the welfare of the nation. Simple system of «natural liberty» was identical to the concept of «competition», and the «invisible hand» provided an automatic mechanism of the competitive market equilibrium.

D. Ricardo presented another model of international trade, reffering on the principles of international specialization and mutually beneficial trade and so-called costs replacement.

The point of his theory states, if a country specializes in producing and exporting those products in which it has a comparative, or relative cost, advantage compared with other countries, then the trade will be mutually beneficial, irrespective of whether there is absolute efficiency of the production of goods in another country [2].

Ricardo assumed, international exchange is possible and desirable in case of considering interests of all participants. Ricardian theory made no attempt to explain the underlying productivity differences that give rise to intercountry variations in comparative costs, which in turn give rise to international trade. In turn, a political economist J. S. Mill tried to determine at what price the international exchange will be mutually beneficial. Mill concluded that the terms of trade would depend on the demands for the imported products by the two countries.

The relative strength of the demands for imports will depend on the «inclinations and circumstances of the consumers on both sides,» and the international price or terms of trade will be a value such that «the quantities required by each country, of the articles which it imports from its neighbor, shall be exactly sufficient to pay for one another.»

One of the Mill's other contributions to trade theory was the cost of transportation into the analysis of foreign trade and showed how transportation costs may produce situations in which trade will not occur even with differences in comparative costs. He also analyzed the influence of tariffs on the terms of trade, indicated how both price and income changes bring about trade equilibrium between countries, and showed the adjustments in trade brought about by unilateral transfer payments between countries.

As we know, international trade is understood as an international system of commodity-money relations, consisting of world country foreign trade.

Analysing the influence of external trade for national economy, K.Marx emphasized: «as foreign trade cheapens the constant capital elements, partly necessities of life, in variable capital is converted, it helps to raise the profit rate, as increases the rate of value added tax and lowers the constant capital cost. thus, on the one hand it will accelerate accumulation, and on the other hand a variable capital decrease compared to permanent capital. And therefore speeds up the fall of profit rate» [3].

The theory for analyzing the pattern of international trade developed by Swedish economists E.Heckscher and B.Ohlin attempted to deal with this question.

On their point of view, evolution of international trade was claimed, that a nation will export the commodity whose production requires the intensive use of the nation's relatively abundant and cheap factor and import commodity whose production requires the intensive use of the nation's relatively scarce and expensive factor.

The Heckscher–Ohlin (H–O) model, in its most basic version, relates bilateral trade flows between two countries to differentials in their factor endowments. It predicts that countries will specialize in the production of such goods that require factors with which they are abundantly endowed. Consequently, they will tend to export these goods, and import those which contain factors with which they are poorly endowed. Because of its intuitive appeal, the H–O model continues to be one of the workhorse models of international trade [4].

The first serious attempt to test this above theory was made by Professor W. Leontief in 1954. Leontief reached a paradoxical conclusion that the US-the most capital abundant country in the world by any criterion-exported labor-intensive commodities and imported capital- intensive commodities. This result has come to be known as the Leontief Paradox [5].

Later P.Samuelson supplemented the theory of comparative advantage The Stolper–Samuelson theorem is a basic theorem in Heckscher–Ohlin type trade theory. It describes a relation between the relative prices of output goods and relative factor rewards, specifically, real wages and real returns to capital. It postulates that free international trade reduces the real income of the nation's relatively scarce factor and increases the real income of the nation's relatively abundant factor.

Followers of Maynard Keynes, Hansen A. H, Harrod R.F. emphasized the importance of international trade in the way of maintaining stable national economy.

Francis Edgeworth incorporated the two countries' comparative cost ratios in the offer curves to illustrate the impact of a tariff on the terms of trade and to investigate the stability of a trade equilibrium.

Considerably more progress was made by the Austrian-born economist Gottfied Haberler in a 1933 book that appeared in English translation three years later as The Theory of International trade with its Application to Commercial Policy (Haberler 1936), and by the Swedish economists Eli Heckscher(1949) and Bertil Ohlin (1933). Haberler generalized Ricardian comparative advantage to an economy in which price is defined by the opportunity cost of a commodity in terms of another, rather by its constant "real cost" of production. He depicted by means of a transformation curve, or production possibilities frontier, the menu of outputs that can be produced with the economy's factors of production and the available technology [6].

On modern stage, it is accepted that international trade standart model the main theoretical instrument for analyzing international exchange. Whose founders are Francis Edgeworth and Austrian-born economist Gottfied Haberler.

Theory of general equilibrium created by A. Marshall and F.Edgeworth is believed to be the theory to explain international trade . This theory explains the main parameters of international trade and related parameters of the international economy. It shows the supply, demand for goods, the scale of production and consumption, the relative advantage of countries, also allows to study the impact that it has on economic growth and income distribution between countries [7].

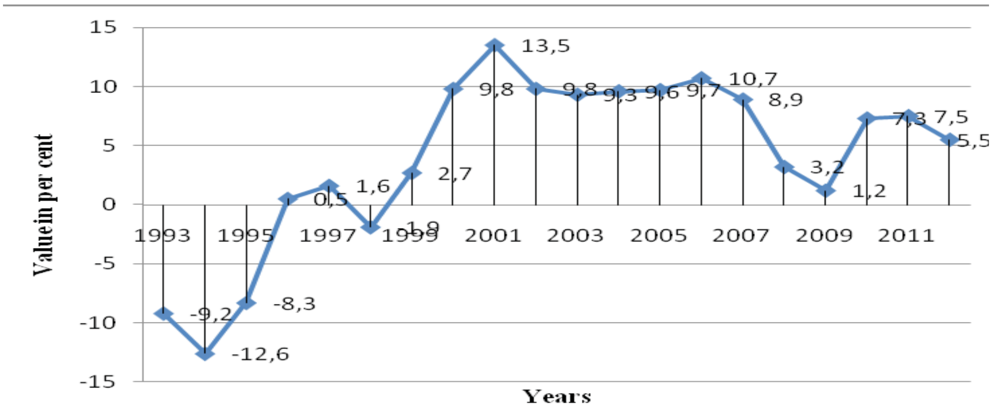
International trade plays an increasingly important role in economic development. Competitiveness in the global markets and the high export share in GDP increases the growth rate of the economy.

It is generally accepted, that the economic growth of country is calculated as the percent change in the GDP from one year to the next. It measures whether production has increased or decreased, and by how much. The growth rate is often illustrated through the real GDP curve.

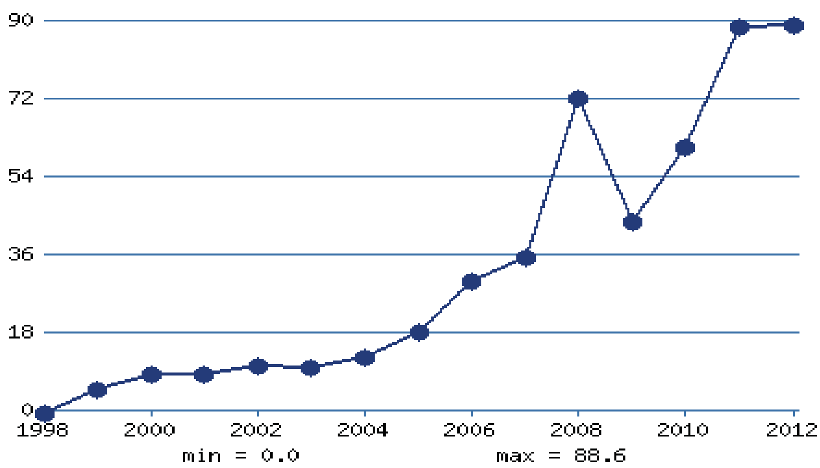
As we know, in the early 90s Kazakhstan experienced the greatest economic downturn, accompanied by an unprecedented increase of inflation, the destruction of the accumulated economic potential, mass unemployment and growing poverty (Picture 1). During this period, the dynamics of all the indicators differed reduction trajectory. According to this graph between 1993 and 1995 the real GDP rate fell to the lowest point it remained at just under minus index and varied around -9.2%, -12.6% and -8.3% .

During the 1996-1998 years, Kazakhstan has begun recovery growth there was slow rise from 0.5% to 1.6% in 1997.

Then the economic development of the country was affected by the global financial crisis in 1997-1998 and its consequence. In 1998 the real GDP rate hit to the -1.9%. After the real GDP rate it began to rise.



Picture 1 – Kazakhstan GDP real growth rate, %



Picture 2 – Exports, billions US dollars

We see that there was a sharp fall in exports cause of direct link between export and real GDP rate. It is known, that if production increases, hence export increases, which is consequently reflected in the amount of real GDP (Picture 2).

Then the export volume gradually rose up to 2008. In the course of 1995-2008 the Kazakhstan's GDP volume increased by 2.4 times, including only 2005-2008 years - by 1.2 times. Our economic growth was the highest with 10 % rate among the CIS countries. Concerning the real GDP rate graph, production reached a peak in 2001 at a rate of 13.5%. Respectively, the volume of export totaled 88.6 billions US dollars.

The graph provides information that Kazakhstan quickly recovered after the economic crisis which hit the country in the first half of 2009. During the crisis, GDP growth was only 1.2%, and there was an economic downturn trend caused by a sharp fall in prices for oil and other commodities [8].

Hence, the real GDP growth rate has been moderately increasing up to the present day. For the last 8 years, there are relatively high and sustainable rates of economic growth that related with the high dynamics of development of all economy sectors, especially increasings in the industrial production and in manufacturing and mining sectors. Comparative analysis of the dynamics of growth in transition economies shows that the rate of change in real GDP in Kazakhstan are higher than in the countries of Central and Eastern Europe. The GDP, compared with 1999 increased by more than 16 times. However, in our case the GDP growth increasing related with external factors. Thus, remains a strong dependence on world oil prices and covering the needs of the domestic market by importing equipment, metal products, foodstuffs and other commodities.

Economic theory points out, that international trade is a means by which, at the same time developing specialization countries can increase the productivity of existing resources and thus increase the amount of goods and services and increase the level of welfare. Throughout the postwar period, the volume of world trade has grown rapidly, and their average annual growth rate is 1.5 times higher than the growth rate of world output. As a result, on the one hand, foreign trade has become a powerful driver of economic growth, and on the other hand, the country's dependence on international trade has significantly increased.

For Kazakhstan's foreign trade there is a threat of becoming a raw materials appendage of developed countries. It can generally be observed that Kazahstan exports commodities like oil and oil products about 59%, ferrous metals 19%, chemicals 5%, machinery 3%, grain, wool, meat, coal and imports machinery and equipment, metal products, foodstuffs.

Overcoming of the difficult path of Kazakhstan's integration into the international division of labor will help to maintain the export of high-tech industries contributing to the economy modernization, as well as the strengthening of regional integration through interaction EEA and WTO. The problems of expanding trade relations have recently acquired special urgency when integration processes and globalization are becoming paramount. That it covers almost all types of international division of labor and connects all the nations of the world together. The integration into the international trading system plays an important role in the global economic strategy of any country in the process of fundamental transformation of its society and economy.

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