

THE IMPORTANCE OF FOREIGN TRADE FOR TRANSITIVE ECONOMY AND IMPACT ON THEIR DEVELOPMENT IN THE SHORT TERM, (CASE STUDY OF TAJIKISTAN)

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Abstract

During the work on article, as an example was considered the foreign trade activities of the Republic of Tajikistan, where the percentage of imports dominated on the export almost in four times. According to the structure of the article and based on the research purpose, it considered the following tasks: a history and origination of trade, the meaning of foreign trade, which benefit can get the countries participating in foreign trade and importance of foreign trade for the economy sector. And also reviewed the foreign trade statistics of the Republic of Tajikistan, identified the foreign trade problems of Tajikistan and proposed some advices and suggestions.

Key words

Foreign trade, international economy, integration, trade balance.

JEL Classification system

F-17

Introduction

The main purposes of this article is to show the problems that exist in the area of foreign trade in Tajikistan, the level of dependence on foreign trade and the importance of foreign trade for the economy of Tajikistan.

To achieve these objectives was used empirical method of research, compared and analyzed the statistical data, based on the panel data. Conclusion and proposal were made according to the rules and principles of arguments based on the results of observation.

One of the factors determining the level of economic development of country is the commercial development at local, regional and international level. Foreign trade or international trade is an exchange and the movement of goods and services through the borders of a country, i.e. export and import of goods and services. The term of foreign trade is also understood as all kinds of activities aimed at maintaining beneficial economic relations with foreign countries. The development and functioning of foreign trade has a significant impact on the standard of living in the country, thanks to him and the constant exchange of raw materials, metals, agricultural commodities, industrial goods as well as cooperative countries have appropriate in necessary resource products needed for their proper functioning.

The main indicator of the economy in developed countries is a trade, especially the foreign trade, because only trade can provide a smoother production system of economy. Important basis for achieving the success in foreign trade include activities as participation in export and production export oriented goods and services. Economic agents in each country in accordance with their interests and the interests of their country are involved in this process, but sometimes the practice and the analysis of the trade balance of countries shows that it's not always successful.

1. The development and history of foreign trade

Foreign trade is growing during the thousands of years its origins took place in there where it created some of the oldest civilizations in the world. Merchants from the Euphrates, Tigris and Nile sold goods and they used as transport the camels, horses and donkeys were moving at very long distances. Also, they used ships and boats in rivers and the seas. As time went on, they began to build the common trade routes for longer and longer distances. The most famous

of them was the Silk Road it ran from China through the Asia, Caucasus to ancient Rome (approximately 5000 miles, more than 8000 km.). The development of trade is related with the great geographical discoveries one of the main reasons to make a large expedition was to find the new connections between continents as well as finding a new market of goods and consumers. That was the main reason for the large historical expedition, which took part Christopher Columbus and he was looking for a route to India from Europe, which many Europeans wanted a new market for importing and exporting of goods.

The development of trade was also associated with the conquest and colonization of many territories which discovered by Europeans. A very important period for international trade was the XIX century because in this period there was the Industrial Revolution. Economic relations, especially the trade between the colonies and colonizers made them dependent on each other and these actions were a fundamental period for the development of international trade [9].

2. Definition of foreign trade

There are different types of international trade cooperation according to the result of partnership work we can divide them into the two sections: "visibly" and "invisibly". In case of "visibly", the result of trade partnership work stands out on trade in goods which includes import, export, re-export of goods, and the marketing of "invisible" is the income received mainly from tourism, transport services, postal services, telecommunications, banking etc. The result of the total value of exports and imports during the year is given as the trade balance of the country.

In recent time countries in the world cannot do without foreign trade. Foreign trade supports the national economy to interact with economy of other countries. Trade is the main channel with the help of the world market through the intermediary of world prices will affect to the domestic production, dictating competitive technical and economic parameters of production, the level of costs, quality standards and criteria for effective activity etc.

World trade is the engine of production of individual countries and regions, as well as whole world economy, because it provides a more rational using of material and human resources at all levels of management. If you are going to compare the world production, as well as the production of individual countries and regions over the past 30 years it has become more dependent on foreign trade. [1] Also, foreign trade is an important means of balance between

production possibilities and consumer preferences, in this way we can produce products in which we have a deficit, and to realize the surplus of products, which is not absorbed by the domestic market.

Thus, thanks to international trade there achieved a high level of satisfaction of the needs of the population for each of the trading countries. For business the value of world trade is determined by the fact that it is an act of realization of surplus value contained in the exported goods. All countries are dependent on international trade, but the measure of dependence is different, it is defined as the ratio of the value of international trade (exports and imports) to gross national product.

3. The importance of foreign trade for developing economy in the short term

According to the production possibility each country has a different percentage in the international economy and international division of labor and trying to “book place” and find the customers in the international market. To take part in the process of international trade, especially for developing countries more than important is own production. On the other hand, international economic relation between countries depends on many factors like import, export, investment etc.

As a result of developing foreign trade in countries with the transitive economy should expect a manifestation of three effects, increasing job vacancies, income of capital and replacement of production: [5]

1. The primary effect is caused by increasing exports of goods and services. It includes increasing the direct employment and growth of income in the export sector, increasing employment and income as the result of internal cooperation (increased demand for products of domestic enterprises due to increased export production and internal revenue);
2. The secondary effect caused by the increasing imports of financial resources. This effect is made possible by the growth of foreign currency revenue and an increase in the import of intermediate and investment resources. Revenue from exports

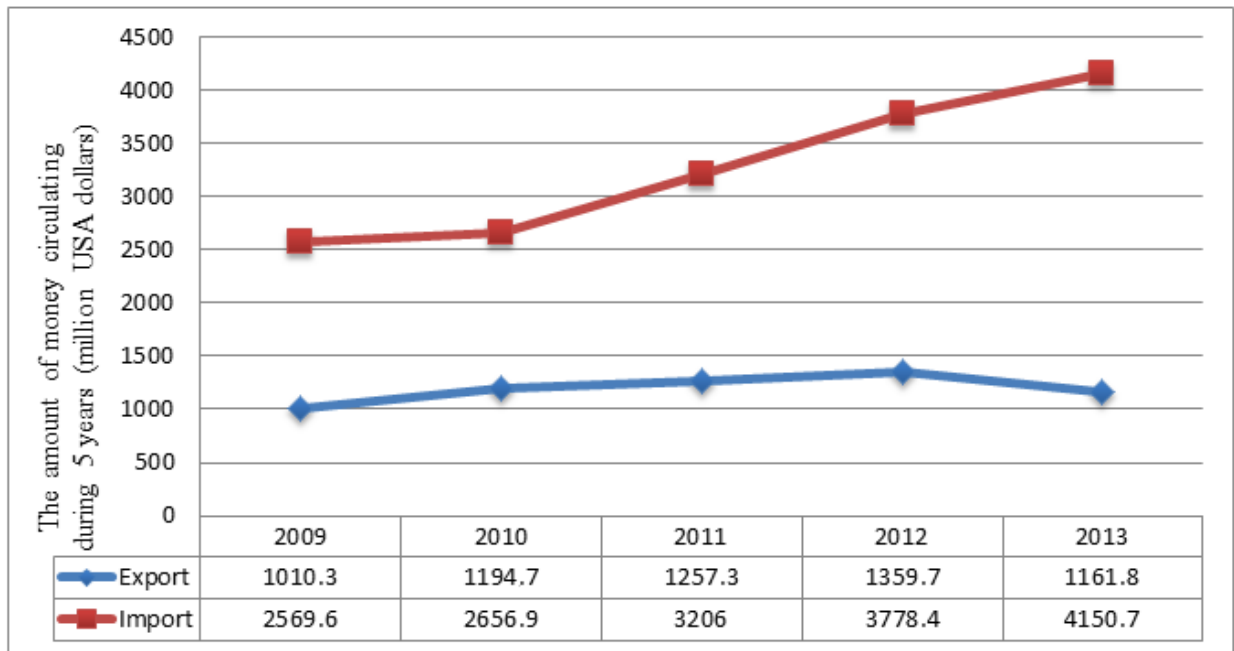
is a source of the accumulation of capital, which in the future will be aimed at industrial development.

3. According to the theory of product possibility the countries which can't produce specific products, goods and services, they can change this deficit by importing from abroad.

In agreement with the many economic ideas - world economic relations and within them primarily international economic relations constitute the principal means of ensuring most effectively the harmony between production and consumption structures in individual countries. The foreign trade's sector is a sphere which implements part of the gross domestic product (goods, services) in foreign markets and foreign part of the gross output on the national market.

Since 2002 to the 2012 years, Tajikistan is characterized by growth of commodity exports, mainly due to aluminum and electricity; a consequence of the decline in world cotton prices has been reducing its exports. Thus, in 2013, exports amounted to 1.1618 billion dollars in compare with 4.1507 billion dollars imports. Undoubtedly, such a negative foreign trade balance does not meet the requirements of the time, and Tajikistan is becoming increasingly dependent on imports [12]. The situation which is seen in the picture below means that government and economic actors should pay for those goods which are imported into the country. It is logical that if you do not have an own domestic production, then you will enrich the foreign entrepreneur. Such an economic interpretation is highly undesirable and dangerous for any weak developing countries. (See the figure 1. below).

Figure 1. The differences between import and export of the Republic of Tajikistan



Source: Statistical yearbook of the Republic of Tajikistan, [12; 317].

As we see in the figure above, the level of imports is higher than the level of exports, almost four more time. This model behavior of the economy is extremely inefficient. Background of this kind of economic activity is a gradual increase of debts, increasing levels of poverty and poorness, reduction of jobs and vacancies, the outflow of capital, high inflation rate and many other factors stopping economy.

It's better to analyze the result of economic activity of the Republic of Tajikistan during the 5 years, to find the economic dependence on foreign trade and the importance of foreign trade for economy of Tajikistan. See the table below which showing the dependence of the economy of the Republic of Tajikistan from import and export (foreign trade) and also the percentage of openness economy. The panel dates were analyzed by the formula of $(\text{Import, Export, Trade Balance}/\text{GDP} \times 100)$. See the tables 1, 2, 3 below.

Table: 1. Export Quota (Export/GDP*100)

№	Indicators	Years				
		2009	2010	2011	2012	2013
1	GDP-Gross Domestic Products (million dollars USA)	20628.5	24707.1	30071.1	36163.1	40524.5
2	The amount of exports in monetary equivalent in current annual prices (Million dollars USA)	1010.3	1194.7	1257.3	1359.7	1161.8
3	The percentage of export dependence of the economy	4.9%	4.8%	4.2%	3.8%	2.9%

Source: Own creation table with joining of statistical information [12]; [13]

Table: 2. Import Quota (Import/GDP*100)

№	Indicators	Years				
		2009	2010	2011	2012	2013
1	GDP-Gross Domestic Products (million dollars USA)	20628.5	24707.1	30071.1	36163.1	40524.5
2	The amount of trade balance in monetary equivalent in current annual prices (Million dollars USA)	3579.9	3851.6	4463.3	5138.1	5312.5
3	The percentage of the openness of the economy ^{1y}	17.4%	15.6%	14.9%	14.3%	13.2%

Source: Own creation table with joining of statistical information [12]; [13].

The trade balance of the country - is the difference between the value of exports and the value of imports for a certain period of time. If the value of imported goods into the country exceeds the value of exports i.e. negative balance, it's called the country with a "trade deficit." In opposite situation the balance is positive and there are surplus. Regarding to the facts which are mentioned in the tables above, unfortunately we can see only the negative trade balance of the Republic of Tajikistan. It means that the trade balance of Tajikistan has a deficit.

As we know the deficit of the trade balance is not only a negative factor. For example, during the development of the country's economy, growing the imports can provide the demand for goods and services, which country is unable to produce or cause an increase of price

competition. However, during the recession period in trade balance of Tajikistan as we can see on the tables above, it's better to work on increasing among of exports, otherwise the deficit of the trade balance (export), will adversely affect to the whole economy.

Table: 3. Specific gravity of foreign trade in economy of Tajikistan (TB/GDP*100)

№	Indicators	Years				
		2009	2010	2011	2012	2013
1	GDP-Gross Domestic Products (million dollars USA)	20628.5	24707.1	30071.1	36163.1	40524.5
2	The amount of trade balance in monetary equivalent in current annual prices (Million dollars USA)	3579.9	3851.6	4463.3	5138.1	5312.5
3	The percentage of the openness economy	17.4%	15.6%	14.9%	14.3%	13.2%

Source: Own creation table, with joining of statistical information [12]; [13].

For transitive economic countries whose totally restructured economy, the major parameter is to set partnership relations with foreign countries, international organizations and institutions to conduct economic activity, and be in touch with world economy i.e. integrating into the world economy.

Transitive economy is an intermediate stage of the economy, due to changes in the principles of management as a result of socioeconomic changes. The decisive role in these changes plays the transformation of property relations. Due to the specifics of the transition economy the functions of old mechanisms of centralized economy control will cease, forming a new type i.e. market economy. When in economy structure will occur the differences, between types of properties and then it becomes possible to exchange or trade the goods and services or to develop the trade relationship.

4. The main reasons of the weak development of foreign trade in Tajikistan

The geographical position of the country and the underdeveloped transport ways in conjunction with the irrational and distorted regional trade links also had a negative impact on the structure of foreign trade. There is a fact that the main factors in developing economy are the roads. Tajikistan located in Central Asia, between mountains in latitude of 39° 00' North and longitude is 71° 00' East. [15]

Well, these geographic conditions are stopping the growth of the economy of Tajikistan. In order if you want to develop your trade relations, you need to organize the good developed conditions like roads, routes, good and develop friendship relation with neighbors and to find the new customer markets also you need to have an access to the sea as well. In case of increasing the amount of the goods export, Tajikistan does not have any opportunity, considering the geographical position.

Tajikistan with an area of 143.100 km² is surrounded by mountains almost 93% of the territory. From east – to – west, Tajikistan has a maximum extent 700 km and its maximum north-to-south extent is 350 km. Considering the Wikipedia's information, Tajikistan is the country's with highly irregular borders 3651 km long. To the east with China 414 km along countries which doesn't need to import goods because they have own productions. From the south part 1206 km along frontier with Afghanistan where always going permanent civil war, it's doesn't allow to make trade or build the trade routes through the Afghanistan, because there a lot of active irregular crime groups around of Afghanistan. The other neighboring country is Kyrgyzstan (to the north) with 870 km along of the borders which is a highland country. This situation is forming the complexity and expensiveness of commodities transported through the Kyrgyzstan.

The last neighboring country is Uzbekistan which has 1161 km along of the borders with the good geographical position, but the problem is that we don't have a good enough development of friendly relations. It is even impossible to settle the visa regime. As we know during the USSR periods, was built a lot of communications lines like energy, transports, railways through the Uzbekistan to the other Soviet Union countries, and it was the main economic connections of Tajikistan with other world countries, nowadays they are closed. The above mentioned geographical factors are more important in field of foreign trade [16].

Conclusion and suggestions

The first priority for the transitive economy like Tajikistan is – creating the market economic system, to implement these major goals we have to solve the following tasks:

1. Liberalizations of economic activities - expand the freedom action of economic agents, lift restrictions on economic activity, the liberation of entrepreneurship from centralized management;
2. Creating a competitive market - organizing economic conditions for every market players and providing equal opportunities for every economic entity;
3. Elimination of soft budget constraint - a concept formulated and persuasively demonstrated by Kornai in 1980 [7];
4. Restructuration - structural changes of the economy oriented to liberalization of markets;
5. Organizing the foreign trade conditions - signing the international treaties and intergovernmental agreements, which is contributing to the development of bilateral and multilateral trade relations.

Literature review

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