Issue 6
October 2011

Economies of Emerging States and Foreign Trade in the Knowledge Economy[1]

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The current society has brought in the foreground of its preoccupations the foreign trade as a factor of recovery and development, especially in the case of the emergent states.

Starting with Adam Smith and David Ricardo, theories of the foreign trade have been built to demonstrate the advantages that trades might bring to the partners. There are "voices" that support the idea of the inferiority of emergent economies in the international trade plan, so in the present papers we aim, without condemning this opinion, at arguing that in nowadays society foreign trade remains the major and most direct way, for the emergent economies, of access to knowledge and to its results.

Keywords: *knowledge based society, knowledge, international trade, economic growth, economic development, developing economies*

Introduction

Trade was and will remain the activity that has accomplished, over time, the tightest relations between countries and the ground that maintained and developed these relations.

[1] Postdoctoral Grant Recipient POSDRU/89/1.5/S/56815

Knowledge, under the form of technical progress, deepened the international technological division of labor, leading to the differentiation of the levels of economic development between the countries. Thus, "international trade is extended and deepened where and whether there are conditions for the manifestation of technical progress" [1].

At both theoretical and practical levels, there is a tendency to liberalize the trade exchanges. International trade allows all the partners' wealth to increase, as well as their economic and social development and growth. In spite of the multiple advantages that trade exchanges provide, there is a fear that the emerging states would in fact be vulnerable in the foreign trade relations. They are exporters of raw materials, resources and partially processed products, which on the international market are traded at relatively low prices, while they import products that incorporate a high degree of knowledge, generally transposed in technology, investments, management methods, i.e. elements that increase the costs and implicitly the price on the market. The difference between export and import favors a trade deficit that strengthens that of the balance of trade. Other two disadvantages of the emerging states are the persistence in developing themselves extensively and not intensively, and the increasing degree of dependency upon the developed states.

A report of the World Bank entitled Global Economic Prospects of Developing Countries [2] stated that the extension of the trade exchanges will lead to the rise of the annual rate of GDP with 0.5% on the long run, and that by 2015 about 300 million people in the developing and weakly developed countries will exceed the poverty threshold. The developing countries are considered to benefit from an income rise, following the application of the policies of industrial liberalization.

In the last 250 years, except for a short span (1913-1950), the trade growth had consistently exceeded the general economic growth. Between 1720 and 1913, the trade growth was about 1.5 times bigger than that of GDP. Between 1913 and 1959, the trade dynamic was more reduced because of the two World Wars and of the protectionist policies. This period also covered the big economic world crisis of 1929-1933, when trade registered, in quantitative terms, an unprecedented reduction of 60%, the states exporting their own economic crises, including unemployment, by the agency of the protectionist commercial barriers.

After 1950, trade has developed faster than production, and the extent to which national economies base upon international exchanges in the general economic activity increased. In the span 1950-2003, the average annual increase of goods exportation was 6.5%, compared to a 4.3% increase of the production [3].

Around 2000, a given economic decline was noticed simultaneously in three major commercial regions: USA, Europe and Asia, so that the rhythm of trade growth decreased from 13% in the '80s, to 1% in 2001. Under these circumstances, the emergent states faced a 10% reduction of the export demand, which affected the rhythm of their economic growth. The report of the World |Bank reveals that the impact of the economic decline on the first 6 developed regions of the world significantly varies according to the evolution of the exports. The countries in Latin America and eastern Asia, with a high level of exports of industrial products, were the first to experience the impact of a much-reduced demand in the imports of USA and Japan. Yet, due to a slight simultaneous recession in USA, Europe and Japan, all the world regions registered slower rhythms of economic growth. In spite of the circumstances of the early 21th century, the long-run prospects for the emergent countries are optimistic, on the basis of the improving management at the macro-economic level, of the economies increase, of a faster market opening, of a production diversification and especially of a significant effort to face the world economic crisis, considering also that the home market responds with difficulty and in contrast with the expected macro-economic objectives.

Comparative and Competitive Advantages in Foreign Trade. Income Sources

The trade incomes generally have two sources: those who come from perfect exchanges and those coming from specialization. Any economy will profit from foreign exchanges, because they allow the mutually advantageous exploitation of the differences of taste, technologies, endowment with factors or levels of culture and civilization, etc., i.e. of the results of knowledge. The comparative advantages of economies in the international trade are grounded by these differences. The incomes coming from the perfect exchanges appear when the partner countries evaluate differently the resources they have, and so appears the possibility that the exchanges take place with mutual advantages. Each country exports with a view to obtaining other goods and services that it needs by importation.

It is also necessary to make the difference between comparative and competitive advantages. The theory of the comparative advantage explains the favorable natural conditions existing in a national economy or the reduced costs of some factors compared to the ones in other national economies for the development of some branches and it suggests an orientation for the specialization of the national economy. On the other hand, the competitive advantage has a dynamic character, at both the micro- and the macro-economic levels, underlining the fact that the evolution, development and specialization of the local economies particularly depend upon the degree of competitiveness of companies on the national and international markets, as well as of the economies in general, which is given more and more frequently by knowledge.

The principle of the comparative advantages states that all developed and emergent states have profits from trade, even if they are less efficient in some activities or less equipped with factors of production. It is necessary, in order to obtain mutual incomes from trade, for differences to exist in the relative efficiency in production or in the relative equipment with factors of the countries.

Between the international production and the international trade there is a reciprocity relation. Generally, one can distinguish three main types of international production:

- one based *upon resources* or intended for export;
- one represented by the *production oriented towards the*

local market that replaces imports. The international production oriented towards the local market or replaced imports can lead to effects of trade creation. Trade is directly created when the mother-company or other suppliers in the source country export towards the target country new components with a view to their final processing by the local subsidiary, the products thus obtained being complementary to the first and intended for re-exportation. Indirectly, the presence of the subsidiary in the target-country could lead to an increase of the demand of this country for other types of products that are going to be bought at least on the short-run by the agency of imports. This second type of international production, oriented towards the local market or which replaces imports, occurs with a comparable development.

- one represented by the *rationalized production* or the *internationally integrated* one, based upon resources and originated in the activities of the multinational companies, taking place in the emergent states, with a view to the exploitation of the local resources of raw and semi-processed materials in these economies and, more recently, oriented towards cheap labor force. The effects upon the international trade are visible, first of all, in its promotion and secondly, this type of production directly stimulates the exports from the source-countries, by the export of production equipment and the exploitation of resources and, as well as indirectly, by the re-exportation of manufactured goods with lower prices towards third-party countries. The most complex relationship with the international trade is developed by the *rationalized or internationally integrated production* [4]. This is the result of the development of the activities carried on by those multinational companies whose branches and subsidiaries are specialized in certain operations of production as part of the international structure. This type of international production generates trade effects for both the source-country of the investing company and the target-country.

Whereas the *resource-oriented production* generates exports from the target-country to the source-country, and the *production oriented towards the local market* can lead to the increase of exports from the source-country to the target-country, the last type of production, the *integrated* one, creates the possibility for both exports and imports emerge for the partners, including therefore the emergent states.

Foreign Trade and its Economic and Social Importance

Foreign trade is a necessity especially for the emergent economies, a fact that the classical economists stated too. John Stuart Mill said that “openness towards foreign trade… sometimes has the effect of an industrial revolution in a country whose resources are in a deficit” [5]. But the participation in the foreign trades is not enough, other conditions are also necessary to bring forth the beneficial effects of the foreign trade.

The foreign exchanges have been regarded as the *engine of economic growth*, especially in the developed countries in the 20th and 21st centuries. The fast expansion of the external markets contributed in the increase of the local demand, but it also represented a stimulus in the affirmation of production together with its diversification. The efforts made with a view to increasing the degree of knowledge and trade liberalization contributed to the free circulation of capitals. Unlike the developed countries, the emergent ones have a completely different situation. Except for the ones in Eastern Asia and Latin America, the developing economies still come across difficulties and occupy a sometimes unfavorable position in the hierarchy of the world big commercial powers. Both quantitatively and qualitatively, exports have followed an extensive development, but it cannot be compared to the one in the developed countries. The latter's, due to the utilization, in production, of the results of knowledge and especially of technical progress, have become increasingly competitive, bringing to the market more and more new products, while the emergent countries did not manage to always valorize even their traditional goods. The only fields that have showed some signs of revival were the ones based upon the extremely low costs of labor, like the textile, clothing, raw materials and intermediary product industries.

We notice that in the case of the emergent countries, the share of the primary goods was the biggest one in the total of exports, while in the case of the developed ones there was an opposite situation [6]. Furthermore, the share of exports in GDP is significantly smaller in the case of the developing countries, compared to the developed ones.

This can be explained by the much bigger size of GDP in the developed countries, by the big size of the local markets of those countries and by the necessity of the developing countries to export a lot in order to buy high technology elements, necessary in the modernization of their economies; and that is due to the fact that the prices of high-tech products and of products incorporating knowledge are much higher than those of primary products. If the export product prices decrease, follows the necessity to raise the amount of exports, in order to keep consistent the export incomes. If these prices decrease compared to the prices of the imported products, an increase of export will be necessary to keep a consistent import, which is a significant economic effort that the emergent economies make with a view to reducing their trade deficit.

The participation in the international trade represents an important stimulus for economic growth. The experience of countries like Brazil, South Korea, Mexico, Taiwan, etc. demonstrates it. The access on the markets of developed countries can stimulate the more intense utilization of labor and capital resources of some developing countries. Where favorable opportunities of international exchanges appear, trade proves to be a stimulating factor of economic growth, in the sense provided by the traditional economic theory. Yet, the rapid growth of GDP does not necessarily represent the improvement of the situation of economic development. Progresses in the direction of economic development also depend upon the nature of the exported goods, on the way in which are distributed the benefits resulted from export, on the rest of the economy, and above all on the share of knowledge incorporated in the product. Presently, knowledge makes the difference on the market and represents the main factor of effectiveness of the foreign trade activity.

Naturally, the problem of the size of exports and of the types of exports that should be promoted appears too: "the question is which should be the right balance between the sectors of the economy that work for the domestic market and those that work for the international markets" [7].

Exports play a fundamental role both in the organization of effective international exchanges, and in achievement of high rates of economic development and growth that the emergent economies want to have in order to change their status, of developing or weakly developed states. Achieving export products incorporating a high level of knowledge, stimulating exports and orienting them towards competitive, high quality products, varied in terms of range, being aware of the external demand and promoting products for exportation represent factors of impact on the economic development and growth.

The economic development and growth are obtained if the conditions of a modern technology are achieved, valorizing raw materials available and power as well as possible, and providing high quality products at low costs.

In the long run, the priority is to develop research and production in fields of high technology that determine technical progress and knowledge, by the agency of which a superior valorization of raw materials is ensured in the emergent economies.

Making high technology products in a varied range and with low production expenses, though it influences the increase of the volume and efficiency of exports, should be completed with the capitalization of products on the external market in an advantageous way, in order to obtain an effective rise of export effectiveness. The most suggestive example in this direction is that of the states in Eastern Asia or the new industrialized countries (NICs), which registered a considerable success from the point of view of the knowledge-based modernization and industrialization, following the application of the demand pull-approach policies and the rejection of the technology push approach.

An analysis of the experience of economic development of the countries in Eastern and South-Eastern Asia allows us to introduce two necessary conditions for the export-oriented strategy to contribute in an effective way in the economic growth and development:

- the dynamics of the external demand should exceed that of domestic demand;
- the incomes obtained from export should exceed the level of incomes obtained from the production intended for the domestic market, which is possible in the case of the exports of products from the processing industry and in the case of dynamic investment activities.

Conclusions

In full development of the knowledge-based society, quality has become, in many fields, the main factor of competitiveness, often conditioning, to a higher extent than prices, the level of effectiveness and the conclusion of transactions.

The improvement of quality by knowledge has become the main possibility to ensure the success of each economy apart, regardless of the category it is part of: a developed or emergent one. This assumes a general preoccupation for the improvement of the quality of products intended for export, without affecting the ones for the domestic market. The countries that do not respond this requirement will lose the positions they held on the market for the benefit of those whose main objective is the development of the sphere of knowledge, with a stress upon concepts, theories, investments, research, production, education and instruction etc.

In order to achieve a varied range of goods for exportation, it is vital to valorize the creative capacity in economy, as this is able to determine the growth of product share. The high degree of procession of raw materials, the reduced energetic consumption, the high technical, ergonomic-esthetical and commercial characteristics ensure the efficiency of production for exportation, which leads to goods and services that are appreciated and demanded on the international markets, and therefore competitive ones.

The world market is characterized by the accentuation of competitiveness, as the big companies coming from developed countries, which we know as multinational companies, are the dominant ones [8]. Under these circumstances, the attempts of some emergent countries to imitate elements from the exportation pattern of the developed ones can only lead to failure. For this type of economies, the chance to get significant incomes from exportation is to make a high specificity offer, which should incorporate a high degree of knowledge.

Acknowledgment

This paper was made within The Knowledge Based Society Project supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number POSDRU ID 56815.

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