THE ROLE AND IMPACT OF INTERNATIONAL ECONOMY DURING GLOBALIZATION ERA

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Abstract: In the contemporary conditions of economization, one cannot think of the economic development of a country as well as the world economy without reciprocal economic relationships between the countries.
Therefore, the foreign trade represents an important activity within the area of trading and economy in general.
The foreign trade deals with economic relations of a country with the other countries of the world in the field of sales (export) and purchasing (import) of commodities and in performing various services. So, in other words, the foreign trade includes all economic transactions of the relevant country with the other countries of the world. Thus, in contemporary international economic conditions, there cannot be an autarkic economy (closed within). Therefore, there is an objective need that any country, regardless of socio-economic system and the level of development, must have economic relations with the outside world.
International trade represents a main part of the world's economy and can be defined in the **narrow** and **broad** sense of the word. In the narrow sense of the word the foreign trade implies export and import of goods, while in the wider sense of the word are included various services as well.
The economic relations are indispensable and are conditioned by a number of factors, and the most important are: different manufacturing conditions, the level of manufacturing costs, changes in sales, etc. The world's countries are located in different parts of the globe and are characterized with different climate conditions as well as with various natural resources. The factor that conditions the foreign trade is also the element of preferences in commodities, as well as the **principle of comparative advantage**. This principle leads to specialization and international division of labor, which consequently has an economic efficiency. Thus, we distinguish countries with absolute advantage and countries with comparative advantage for particular commodities.
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1. DEFINITION AND BASIC FORMS OF INTERNATIONAL TRADE

In the analysis made so far in the field of macroeconomic, international trade did not have a special treatment. However, it is a matter that cannot be overlooked due to many reasons, such as:
→ All modern economies are open economies, which implies that they trade between themselves, i.e. trade various goods and services, they import and export capital, labor, they transfer technology etc., in other words, there are no autarkic – self-contained economies today, that would be self-sufficient and independent from export and import of various goods and services.
→ Net export represents a component of the aggregate demand and gross domestic product of each country.
→ The two most representative forms of international trade (export and import of goods and services) are the base for internationalization of production and capital and due to their much intensive dynamics, they are very powerful factors influencing the contemporary processes of globalization of the overall economic activities.

In other words, international trade is a fact for each country: Americans drink French wine, Frenchmen, English, Dutchmen spend their summer holidays in Greece, Macedonian citizens drive German, French and Japanese cars…

When a country exports goods and services to foreign countries, it actually sells a part of gross domestic product to markets in other countries, and vice versa, when the country imports goods and services from foreign countries, it actually buys a part of gross domestic product of the other countries.

The difference between export and import of goods and services is called net export. When the country exports more goods and services to foreign markets than it imports, the net export is positive. In this case the country has realized a surplus in trading. The opposite happens if the country imports more goods and services than it exports to foreign markets. We have then a negative export and the country realizes a trade deficit.[158]

1.1. International exchange of goods and services

The world's long-term trade with goods and services shows an incredibly fast growth. The dynamics of international trade growth post 1950 period is far from the world revenues growth. In the last two decades, for example, the value of the world export of goods raised by an average scale of 8% as opposed to the growth of world's output with 6%. In 2000, the world 's average revenues grew by 3,8%, in spite of the world's export value, which grew by 11,5%. In the period from 1928-1998 the world's export rose almost 20 times – from 277 billion British pounds to 5460 billion British pound.

[158] Fiti T., The basis of economy – Shkup 2008, p.449

The developed countries are also emerging as the largest exporters of goods and services. The world's largest exporters are the USA, Japan, Germany, France, Great Britain and Canada. These seven developed countries cover around 50% of the world's export. The US alone, along with Japan participate with 24% in total world's export – each with 12%. In world's total exports, the countries with high economic development fully participate by nearly 68%, the developing countries with nearly 20% and the eastern Europe countries by about 10%.

Table 1: The volume of export and import, by regions and economic groups in 2002 – changes in % in relation to 2001[159]

Region - economy	export	Import
World	11.5	11.3
Developed countries	10.3	9.1
Japan	9.4	10.9
USA	9.5	13.4
European Union	11.6	10.6
Countries in transition	16.1	15.0
Developing countries	13.7	16.8
Africa	7.3	7.5
Latin America	11.0	14.0
Western Asia	-19.9	20.2
East and South Asia	21.5	18.3
China	31.0	31.0

The industries (sectors) with highly technological intensity indicate a faster export growth. UNCTAD (United Nations Conference on Trade and Development) classifies the exporting products in five major groups:
→Primary products
→Industries based on labor intensity and resources
→Low-technology industries
→Medium-high-technology industries
→High-technology industries.

Since 1985, the high-technology industries show a more dynamic growth of the world's export, while the primary products show a slower growth. As a result, the share of the primary products in the overall world export is reduced, while the relative share of the high-technology products is increased.

The high-technology group of products include: transistors, optical instruments, perfumery and cosmetics, medical instruments, aircrafts, pharmaceutical products, telecom, etc. The average annual export rate of these products in the period between 1980-1999 was about 13%. With minor exceptions (silk, vegetables and other products), the growth rates of the primary products export are stagnant or negative.

2.TERMS OF TRADE

The term "exchange terms" or "terms of trade" indicates, measures the amount of imported goods that one country can receive (pay) it with the unit of exported goods.[160]

If the price of the imported goods rises, while the price of the exported goods remains unchanged or is reduced, then the terms of trade of the economy become more difficult. In such situation, the country will definitely need a higher export in order to buy the same quantity of goods that need to be imported.

The terms of trade of a country are often shown through indexes:

Terms of trade = (Export price Index/Import price Index) * 100[161]

If the calculated index thus increases, this means that the country's terms of trade are improving, simply because the index growth represents an increase of exporting prices toward unchanged or reduced import prices.

159 Source: Trade and Development Report, 2002, UNCTAD, New York and Geneva, 2002 p.18
160 Fiti T., Basics of economy – Shkup 2008, p.451
4 Mankiew 1998, p.793-794, …

Developing countries that are the main exporter of primary products (products with low finalization scale), in earlier period, but still today are faced with difficulties of the terms of trade. There is a long-term tendency of stagnation and fall in prices of primary products at global markets. This fact reduces the export revenues of developing countries and it contributes in a way that the imports with a high finalization scale to be paid by these countries with a larger export of primary products.

This instability of primary products prices worsens the terms of trade of the developing countries and it makes some developing countries, particularly those where the export revenues are under strong influence of a product (for example, coffee for Brazil, coper for Chile, oil for Columbia, Ecuador, Mexico, Venezuela and the middle East countries, etc.) to fall into a highly unfavorable situation.

Numerous **factors** affect the dynamics and volume of the export of goods and services. According to Mankiew, the most important ones are the following[162] :

→[i]The consumers' preferences for domestic, respectively for foreign commodities
→The prices of commodities` in the country and abroad
→Foreign exchange rates
→Transport costs in different countries
→Foreign trade policies practiced by the governments.

2.1.The international movement of the capital

Along with the export of goods and services in international economy, looking at it over the long-term, also increases the importance of the **international movement of the capital (export and import of the capital).**

"An open economy is active not only in the global market of goods and services, but also in the global financial market…

When an American resident buys shares from Telmex, a Mexican phone company, that acquisition increases the US net investments in foreign countries.

When a Japanese resident buys shares from the US, that acquisition reduces the US net investments in foreign countries ". (Mankiew 1998, p. 796).

The international movement of the capital is analyzed as international movement of the capital through money and the international transfer of technology.

The international movement of the capital through money involves taking foreign loans and outsourcing loans to foreigners, domestic property investment abroad and foreign property investments in the country, etc.

International technology transfer implies the transfer of knowledge and skills related to certain productive activities from one country to another.

The two most important forms of capital export are: foreign direct investments and portfolio investments.

2.2The main holders of foreign direct investments are transnational corporations (TNC).

Looking at it in more synthetic way, TCN realize foreign direct investments by opening, in the first place, manufacturing companies – subsidiaries in foreign countries in terms of purchasing the stock control package in existing companies or in entirely new companies.

In the latest UCNTAD report devoted to global foreign direct investments, it is emphasized that the core of globalization process is the international production through TNC's activities that produce goods and services in foreign countries where production is controlled and managed by TNC managers in the countries where they have their main offices. In general, TNC include large companies mostly from developed countries, but also companies from developing countries, and in recent times, even companies from economies in transition, as well as small and medium-sized companies.

Foreign direct investments are a faster form of growth of the international movement. The dynamics of their growth is even bigger than the dynamics of the global export and import growth.

Global foreign direct investments are more conducted in relation developed countries – developed countries. Today, the most important part of the foreign direct investments goods is located in the countries with high global economic growth – primarily EU and the USA.

The factors that determine the foreign direct investments are many. The most important of them are:

→ the market's broadening and absorbing power in the economy in which the foreign direct investments are destined
→ infrastructure and construction of the country
→ possession of free production factors (labor, land, energy inputs, etc.)
→ accompanying climate and favorable treatment of foreign investors
→ economic stability of the country, respectively lack of non-commercial risks, etc.

Portfolio investments include corporative shares with a percentage lower than 10% of the total number of voting shares (so-called equity placements), investments in bonds (bonds that the companies issue in order to reach the desired capital), investments in state bonds, special issuance of bonds, such as Eurobonds, etc.

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[162]Mankiew 1998, p. 793-794

If we speak about corporate portfolio investments, it is clear that contrary to foreign direct investments, they are not directed to purchasing the stock control package, namely the largest capital and in that way controlling the foreign company. Both, the foreign direct investments, and the portfolio placements are most represented in the countries with a developed capital market and long tradition of securities trading.

3. COMPARATIVE ADVANTAGES

David Ricardo, in his memories about comparative advantages, says that in the case where a country doesn't have an absolute advantage in all economic branches, then "each country will be specialized in production and export of goods that can be produced with lower relative costs (in a relative way that is more efficient than the other countries), and vice versa, each country will import those goods that it produces with relatively higher costs (in a relative way that is more efficient than the other countries)".

In a case when the country doesn't have absolute advantage, it doesn't mean that it cannot use the interests of foreign trade, because "there are powerful balancing forces that assure each country a capability of selling products in the global market, and in long term to strengthen the international trade at an average level, even when its productivity, technology and quality of the products are weaker than those offered by other countries".

To clarify the theory of comparative advantage, we will illustrate the example that was set by Ricardo.

He used the "two countries, two products" model, by analyzing Portugal and England in production of cloth and wine. In the given example, Portugal has absolute advantage over two products: it produces 1 unit of cloth in 90 hours of labor, compared to 100 hours of labor that England needs, while for 1 unit of wine spends 80 hours of labor, compared to 120 hours of labor in England.

Table no. 3. The example of the theory of comparative advantage

Production	England	Portugal
Cloth	100 hours of labor	90 hours of labor
Wine	120 hours of labor	80 hours of labor
Total	220 hours of labor	170 hours of labor

Ricardo has come to conclusion that Portugal may nevertheless have interest from trading with inefficient England, because its advantages are relatively bigger in wine production rather than in cloth production, while England has fewer remains in cloth production rather than in wine production. The countries would benefit to specialize in production of products that have comparative advantage and to trade those products with other products that would have higher costs of production in the country.

The final outcome of Ricardo's model on comparative advantages leads to the balance of the prices and services with which the economies trade between themselves based on comparative advantages, namely, if there's a free international trade between the countries, it is clear that the products will move from the areas with lower prices to the areas with higher prices.

Although the basic values of Ricardo's theory about comparative advantages are valid to this day, this theory has limitations and deficiencies that can be summarized as follows:

→ The model of total competition that practically does not exist today. Today are predominant trade structures that we classify them in the context of limited competition – oligopoly, many differentiated sellers and monopoly. In this context, there is no flexibility of prices, especially of salaries as a basis to the total competition model.

→ Although today, verbally and formally, all countries are focused on free foreign trade, in practice it is again burdened with numerous limitations. The member countries of economic integrations, such is the case of the European Union, set high customs and numerous quantitative restrictions during trade with third countries, namely with countries out of the Union. This also applies to the countries with high economic growth.

→ The Comparative advantages theory puts in an unfavorable position the developing countries that possess such advantages in production of products with lower level of industrial processing (finalization). The prices of these products are depressive, low, unlike the prices of the products with high-end finalization, products for which the comparative advantages are on the developed countries' side. Accordingly, there is an unfavorable ratio between the prices of the low-end finalization products (raw materials) and those with high-end finalization, or as we usually say in economy **terms of trade** are unfavorable for developing countries.

The comparative advantages are also analyzed according to their dynamic aspect, i.e. the advantages are not given once and for all, but they can change if we apply a stable policy with a tendency of economic development and with ability to fight, in order to absorb comparative advantages in a selected economic sector.

4.PROTECTIONISM AND FREE TRADE

4.1. Defining and meaning of protectionism

In the last fifty years, the international trade has been liberalized, many countries in the world, including the developed countries, often start to use protectionist measures (setting high customs, export and import quotas, export and import licenses, export subventions, etc.) with the aim to protect the domestic production from foreign competition.

Protectionism, in its economic sense, is based on protection of the domestic production from the foreign competition, namely from the cheaper products and services with foreign origin.

The protectionist policy instruments can be divided into two major groups:

→ customs

→ non-customs barriers

The customs are the most represented and most used instrument of protectionist policy. They in fact represent an import tax. It is paid by the importer of the material commodity, to the product with foreign origin, in order to increase its price on the domestic market, i.e. to close up and to equate it with the price of the same commodities produced in the country. In that way, the domestic manufacturers are afforded protection from foreign competition.

The non-customs barrier consists of import and export, the quotas that quantitatively limit the import, respectively the export of a commodity from one country to another, **an export and import permit,** respectively the administrative procedure with which the governmental bodies in advance give export and import permits for certain commodities, **export subventions** with which the government compensates the difference in prices to domestic enterprises in the domestic and global market for the commodity that is exported (in these cases, the local manufacturer is less productive and has a higher price of manufacturing than the price of the global market), **health standards** which prohibit the export of a certain commodity because it doesn't meet the foreseen criteria for the protection of the consumers' health in the importing country, **ecologic standards** with the same standard and logic as the health standards, **long customs procedures** that defer the import of a certain commodity.

4.2.Economic impact of customs imposition

The imposition of customs causes effects, consequences on supply and demand ratios, prices, production, consumption, etc. of the products that go through the customs and enter into local market. In order to illustrate the different effects from customs imposition we will present three different hypotheses:

1. The country is closed and does not trade at all with foreign countries. In such situation, the price of an X product will be formed at the point where the curve of demand SS (this is manufactured only by the local manufacturers) and the curve of supply DD are cut for the manufacturing.
2. The country opens up and starts trading with the foreign countries. During this, the trade is free, without the existence of customs and non-customs barriers.
3. The government sets the customs for the X commodities in a value of 2 value units per product.

Based on what we previously said, the economic effects from the imposition of customs can be summarized as follows:

→ the main purpose and duty as an importing tax is to protect the local manufacturers from the foreign competition, respectively from cheaper products that through international trade are imported in the country. For example, the product becomes more expensive for 2 value units and now is sold at the price of 6 value units, and this indicates that the customs imposition has caused economic inefficiency. Indeed, it's clear that the higher price of the product enables some of the local enterprises that previously were not included in manufacturing during conditions of free trade, that they don't have the required productivity and cannot confront the foreign competition, to engage in manufacturing the X product. This is not efficient from the economic aspect and causes economic costs. Thanks to the customs, enterprises that irrationally exploit the rare resources continue to survive and exist in economy. During free trade, those enterprises would simply go bankrupt and the resources would be used for other purposes. The customs and increase of prices, however, create beliefs that those enterprises are productive. In that way a turbulence is created on the market, namely the market is misguided. In this situation, the entire economy suffers damages.

→ the imposition of customs and the increase of the price on X product in the domestic market forces the consumer to buy the products at higher price for the amount of customs. The high product's price reduces its consumption in the domestic market. A loser, in this case are the consumers.

→ the customs, as the other public taxes, have a fiscal effect – it enables the collection of funds in the country's budget. The customs are an indirect tax and it ultimately falls into consumers' "back' (the importer pays it only for the import, but for that paid amount he raises the price of the product).

Funds from the budget can be used by the state for various purposes. If the government uses the funds collected by the customs to raise the salaries of public servants (public administration), the paid customs would be a real expense for the consumers. But, the government can use the funds for other purposes, for example, for building schools, lighting the streets, adjusting the parks, improvement of health insurance of the population, etc. In this manner, the government will indirectly return the funds to the consumers and their expenditure is either lowered or gone.

4.3.Economic effects from quota imposition

Quotas have the same features as the customs. The restrictions can be made for importing goods from all countries (global quota) or just for some countries (selective, discriminatory quota).

In fact, there is a difference between the quotas and customs. The customs revenues by definition are state budget revenues, while the profit made by the quotas melts in the pockets of those who have succeeded to get the quotas for importing certain products. In this sense, quotas are absolutely a worse instrument of protectionism.

4.4. Protectionism' arguments

In economic literature, the arguments for protectionism are classified into two groups:

→ economically valid arguments (reasonable)

→economically non-valid arguments (unreasonable)

As economically valid arguments are counted: the customs for the protection of new industries and customs for the reduction of unemployment.

As economically non-valid arguments are counted: the customs that are lobbied by powerful lobby groups, protective measures to stop the competition of the foreign free labor, imposition of customs due to get even, etc.

The General Agreement on Customs and Trade (GATT) was formed in 1947, that later in 1995 was transformed into the World Trade Organization (WTO), and it took care of the liberalization of international trade on a multilateral basis, which as a fundamental principle had the principle of non-discrimination.

CONCLUSION

The international economy is a fact for every country. No country possesses all the resources required to produce certain products and tries to replace the shortage of them with the import of the quantity of products that are presented as a deficit for the national economy, and in the other hand export those products that it possesses in quantity excess to the countries where there is a shortage for the same products. There are no closed economies in the world today. The markets are liberalized and there are no barriers to international exchange.

Free trade cannot bring benefits to the poorer countries, when rich economies provide numerous subsidies to agriculture and they use trade barriers whenever they feel "harmed", and the absurdities and hypocrisy mock with the virtues of free trade and provide moral ammunition to the fair trade supporters. Likewise, is difficult to justify the reduction of aid to poorest countries, given the large asymmetries in global scale. A strong sense of urgency and a realistic vision will require a different policy in order to treat the threats of epidemic spread, massive illegal emigration, horrible poverty and environmental catastrophes. All these challenges constitute a program that can be understood through an open-minded interpretation of globalization.

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