



# THE ROLE OF ADVANCED INTERNATIONAL TRADE TECHNOLOGIES FOR SMALL OPEN ECONOMIES

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## Introduction

The development of the world economy is characterized by a rise in the integration. Depending on such processes the developing countries, especially small open economies (such as Georgia), require special support and development of international trade in order to save their economies.

The study of capabilities of new structure and directions of trade flows shall become the benchmark for further economic development of the small open developing country. The present work aims to discuss and to investigate the importance and impact of new theories of international trade on new forms, trends, technical instruments and facilities on the background of transnationalization and integration in the modern global environment. These issues are particularly relevant to us when Georgia has signed DCFTA and is trying to make the right choice to form the efficient foreign trade structure and effective target-oriented trade policy with the world trading system, that will be greatly promoted by the introduction of the advanced trading technologies.

## Intra-Industry Trade

The rise in the share of the global turnover mainly comes to the intra corporate trade - intra-industry trade - the growth of the counter supply of similar (homogenous) industrial goods between one and the same industries of different countries, the increase in trade between the countries with similar resources etc.

The share of intra-industry trade will be higher when:

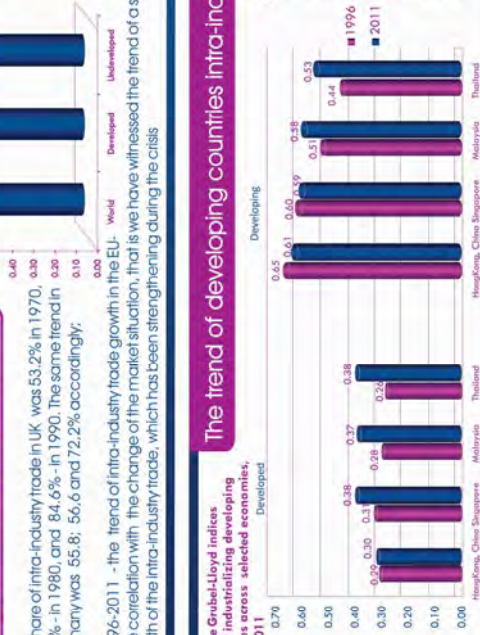
- the trade partners are highly developed countries;
- have about the same level of development;
- trade partners have large territories and do not substantially differ in size.

## The trend of EU intra-industry trade growth

Average Grubel-Lloyd indices (27) across selected economies 2011

The share of intra-industry trade in UK was 63.2% in 1970, 74.7% in 1980, and 84.6% in 1990. The same trend in Germany was 55.8; 56.6 and 72.2% accordingly;

In 1996-2011 - the trend of intra-industry trade growth in the EU: World Developed Unk-developed close correlation with the change of the market situation, that is we have witnessed the trend of a steady growth of the intra-industry trade, which has been strengthening during the crisis



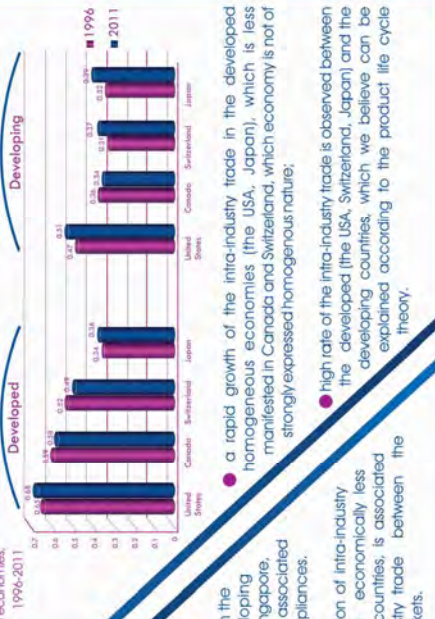
## The trend of developing countries intra-industry trade growth

- intra-industry trade growth in the countries with rapidly developing markets (Hong Kong, China, Singapore, Malaysia, Thailand) is mainly associated with the production of small appliances.

- in some cases, the reduction of intra-industry trade of these countries with economically less developed and developing countries, is associated with the growth of intra-industry trade between the countries with fast-growing markets.

## The trend of developed countries intra-industry trade growth

Average Grubel-Lloyd indices for four developed countries across selected economies, 1996-2011



- a rapid growth of the intra-industry trade in the developed homogeneous economies (the USA, Japan), which is less manifested in Canada and Switzerland, which economy is not of strongly expressed homogenous nature;

- high rate of the intra-industry trade is observed between the developed (the USA, Switzerland, Japan) and the developing countries, which we believe can be explained according to the product life cycle theory.

## The place and role of new forms of the global trade, are largely caused by the transnationalization of the world economy and trade

- Sometimes the compensation arrangements of industrial products include the requirements of importing countries that the exports should use the defined (minimum) share of local parts and assemblies or other local products

The varieties of technical instruments of the international trade in the global market are based on the support provided by the countries to the transnational companies. The expansion of the global market will lead to the sustainable strengthening and development of the economic functions of the countries

- Over the last 15-20 years the amount of compensation transactions has been increasing rapidly. Initially, such transactions were typical only for the "East-West" trade, thereafter - the principle of compensation extended to the "North-South" and "South-North" trade. Dozens of countries transferred to the compensation regime after the first oil crisis (1972-1973);

- Barter and counter purchase are relatively common in emerging and transitional economies, which have accumulated large foreign debts, and therefore have limited financial capabilities;

- The production buy-back is common in China, because the actual capabilities and domestic market size of this country are enormous;

- At this time, the counter industrial purchases and offset trade are more typical for those countries, which have the industrial and technological boosts (know-how), which are necessary for this type of transactions.

## Conclusions:

### Compensation trade -

### The solution from permanently arising crisis

- The world economy has undergone a structural modification expressed in limitation of sovereignty and autonomy of countries and declining of effectiveness of national regulation policies;
- interdependence of the individual states in the global economy has increased;
- Economics of countries become transnational;
- Transnational companies - leading factor of international trade and center of trade and industrial coordination.

### What opportunities are facing countries in case of rapid expansion of buy-back transactions?

Buy-Back transactions minimize the transformation of the international economic environment caused by the global crises like:

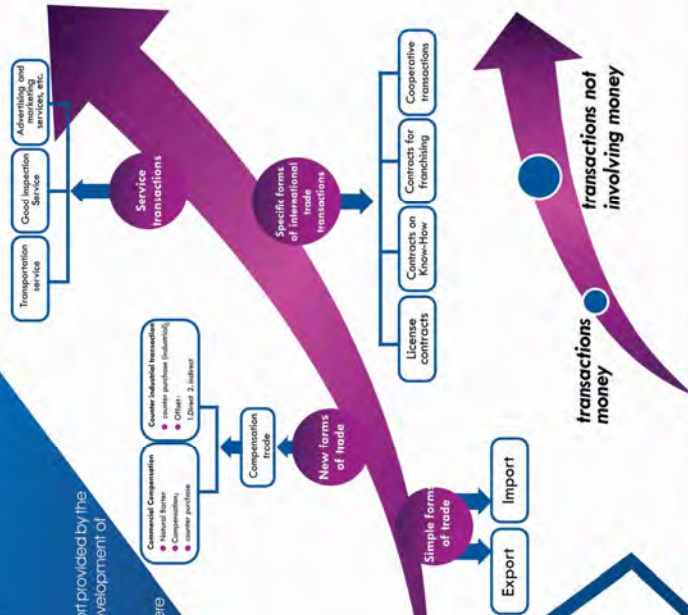
- Trade slowdown and instability; increasing instability of the raw materials and semi-finished products market;
- Instability of exchange rates;
- Growth of neoprotectionism in the global trade;
- High amount of debt in some developed countries and many developing countries, the Eastern Europe and the CIS countries;
- For developed countries the buy-back transactions serve as a facility to maintain trade relations with the countries which are in the difficult economic situation;
- The compensation transaction system provides the security and stability of supply of raw materials;
- For the companies that deliberately carry out an aggressive policy on the world market, the buy-back transaction conditions provide a serious advantage in the competitive struggle.

### International trade scheme is changed:

No currency - no contract

Agree to buy when you want to sell

## New forms and trends of trade



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