LOW COMPETITIVE ECONOMY FUNCTIONING IN THE INTEGRATED ECONOMIC SPACE

Nikolajus Markevičius

Mykolas Romeris University, Faculty of Economics and Finance Management,
Department of Economics
Ateities 20, LT-08303 Vilnius, Lithuania
Telephones (+370 5) 2714 547, (+370 5) 2714 701
E-mail bochakolita@gmail.com

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Abstract. Lithuania (as well as other “new” countries) on becoming a EU member found itself economically integrated with the countries whose economic potential was incomparably higher. At the same time Lithuania has already lost traditional, protectionist and defensive instruments of economic sovereignty. Therefore, the accession to EU not only has created new economic possibilities but also has generated complex problems concerning the protection of the economic safety. In the new global world market many traditional branches in Lithuania proved to be uncompetitive. This challenged the very basis of Lithuanian economy. The country met a difficult task to obtain a new position, and to survive in the space dominated by other economies. The country had to find its new place to become competitive. The review of economic theories dealing with the post-Soviet countries entering the EU shows that currently there exists no single theoretical ground for providing a consistent approach to economic problems encountered by Lithuania. The present paper in a certain measure attempts to bridge this gap. On the basis of the analysis of modern theories of the international integration the economic policy of low competitive states, the possibilities of economic integration with incomparably stronger economies, and the opportunities to protect national economy from destructive influence of unequal competitive struggle are discussed.

Keywords: low competitive economy, economic integration and safety, integrated economic space.
Introduction

National security and prosperity should always be the ultimate priority for the governments and national elite. In the philosophical context these are the criteria of values of our world outlook. In the political context they mean the formation of policy and its tools for protection and maintenance of these values. In the economic aspect they are the well-being of the nation and the ways to increase it. In the scientifically-theoretical aspect they implies the extention of theories of „the well-being of nations“ and their implementation into real life.

Theories are created depending on the existing level of national development of the countries and, also, on the tactical and strategic vision of the elite to increase the well-being of the nations for a short-, medium- and long-term perspective. It is obvious that the theoretical grounds and the strategy of the furthering the well-being of the nations will be different for the countries with low, average and high level of growth. Therefore, it is hard to expect equal results in all the above cases by mechanical transfer of alien political and financial-economic conditions and theoretical studies. The purpose of this study is to study interdependence between the issues of the competitiveness of economy and the national well-being, the role of the state in the creation of conditions for the growth of standards of living of the population, and the theoretical possibilities of reduction or increase in competitiveness of the state with the average level of development, limited resources and modest home market depending on its involvement into integration processes with the countries of the higher level of development and with lower level of development.

In the following part Theories of economic integration and the problem of a low competitive economy we will look into the basic theories of the international economic integration and will attempt to answer the question to what measure these theories create preconditions for low competitive state to form the efficient economic policy in relation to powerful and high competitive economies.

The next part The formation of economic policy of integration in a low competitive state considers recommendations arising from the theoretical analysis of economic policy.

1. Theories of Economic Integration and the Problem of a Low Competitive Economy

Let us consider in historical and modern aspects the economic theories which describe such components determining the increase of well-being of a nation as foreign economic relations and trade derivatives of competitiveness of the national industry, agriculture, sector of traditional and information services.

To understand the logic of the functioning of modern international foreign economic relations, trade and their subsequent integration displays, it is necessary to refer to the theory. If today the cornerstone issue both for trading and integration processes is the
question of the role and the degree of intervention of the state in these processes, such question did not exist at the beginning of the creation of the theory of international trade (mercantile system), in the 15th-17th cc., for its key writers T. Mun\(^1\), A. de Montchrestien\(^2\) and W. Stafford\(^3\). It was more than obvious for them that the international trade could be based only on the active intervention of the state into economic activities of the national subjects of trade or, using modern terminology, by lobbying and protectionism. The main objectives and criteria of trade in those days did not differ much from modern ones – maintenance of positive trading balance, accumulation of gold-currency reserves or simply jewelry and precious metals which associated with the increase of commodity weight. Later, such parameters as distribution of economic (land, labour, capital) and natural resources at the expense of which, using modern language, static gains take place came forward. The theoretical grounds of all these preferences are formed in the law of the absolute advantages by A. Smith\(^4\) and in the law of comparative advantages by D. Ricardo\(^5\).

Later these basic theories and their derivatives, additions, transformations, modifications, updatings and detailed elaborations mainly through efforts of the 20th century scientists such as E. Heckscher and B. Ohlin\(^6\), W. Leontief\(^7\), M. Porter\(^8\), T. Rybczinski\(^9\), P. Samuelson\(^10\), W. Malenbaum and W. Stolper\(^11\) and others have been adopted to the modern perception but the criteria specified above remained the basis alongside with the added integration parameters such as desirable adjacency of territories, accumulation of all kinds of resources, primarily financial resources, creation of highly technological manufactures, i.e. achievement of dynamic gains oriented towards the influence on manufacturing capacities and subsequent growth of income.

For example, the model of Heckscher-Ohlin suggests that patterns of trade between the countries are based on the characteristics of the countries. It maintains that capital-rich countries will export capital-intensive goods while labour-rich countries will export labour-intensive products.

The theorem of Stolper-Samuelson as the key model of the theory of foreign trade tries to give the answer to the central question of economics – how will changes of

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commodity prices through the application of various constraints, i.e. duty and excise taxes, etc., affect the prices of production. It declares that if the price of capital-intensive products is growing, for whatever reason, then the price of capital is increasing as well and this factor is used extensively in industry, at the same time the price of other factors, such as wage rate paid for labour is falling.

The theorem of Rybczynski illustrates the relationship between the changes. To keep constant prices of goods the same prices for production factors should be kept. The latter will remain constant only when the ratio of the factors used in the two sectors remains constant. In the case of the growth of one factor the constant balance will remain only with the increase of production in the industry which makes extensive use of this factor and, vice versa, the reduction of production in other industries will lead to the release of a fixed factor which will be available for use alongside with the growing factor in the expanding industry.

In the second half of the 20th century, in connection with the integration processes taking place in Europe and with the creation of two economic formations – European Economic Community (EEC) in the Western Europe and The Council for Mutual Economic Assistance (CMEA) for socialist countries in the Eastern Europe – two new groups of theories which relatively could be divided into supporters of consecutive „step by step“ rapprochement of economies and supporters of formation „a priori“ of supranational institutions added to the already existing theories. Though in the socialist countries of that time due to political-ideological motives such theories in their modern approach were not given enough attention, nevertheless the real functioning of the CMEA perfectly fits in all theories of the fathers of functionalism, like A. Spinelli12, D. Mitrany13, E.B. Haas14 and others as well as into the liberal intergovernmental theory of A. Moravcsik15, which appeared already after disintegration of the CMEA.

The theoretical base of integration in the Western Europe is slightly wider. From the purely theoretical classical definition of B. Balassa16 who approached the economic integration by pointing out its five levels – from free trade through customs union, common market and economic union until full economic integration – to the theories of a functionalism, federalism, institutionalism. At the same time P. Streiten17 looked upon the European integration from the point of view of neofederalism defining its purposes as the presence of economic growth and the principle of economic equality, a more even distribution of income and a bigger freedom of choice.

Both directions, the theory of consecutive rapprochement and the theory of the creation „a priori“ of supranational formations had one purpose – to increase the

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degree of political trust and competitiveness of national economies through economic cooperation. Entering the new stage of integration oriented first of all to the nearby markets, these two theories underwent actual revision, were updated, converged and renamed into neofederalism and neofunctionalism. Thus, starting with the mid 70s of the 20th century the founding theory of the European integration became the theory of the neofunctionalism by E.B. Haas – Ph. Schmitter\(^{18}\). It stated three stages of preconditions for cooperation: the presence of common values, i.e. coincidence of the purposes and interests of the political and economical elites; the pilot project focused on success (the most relevant and advanced and least problematic precondition); the immediate injection of positive dynamics to cooperation by replicating the first successful project in other areas of cooperation.

The integration theory found further profound development in the works of A. Moravcsik\(^{19}\). The key statement of this theory is that despite the general global values of the partner – countries, the interests of national political-business elites of different countries could considerably differ due to both national interests and different degree of responsibility which they exercise in the integrated economic space. A.Moravcsik writes about the definition of the preferences of the integrated states which are determined by their power, asymmetric independence and possibility to negotiate strategic goals at the expense of acceptable tactical concessions.

Here we come back to the issue of the degree of the responsibility of the national elite to the nation’s prosperity, i.e. the questions of the development of those components which promote the increase of well-being of a separately taken state in a peaceful time.

2. The Formation of Integration Economic Policy in the Low Competitive State

The precondition for the well-being of nations is the presence of enterprises generating surplus value. If the capital of these enterprises is national then such enterprises take a more active role in the formation of well-being of the nation. With the reduction of the national capital and the increase of foreign capital the well-being of the nation decreases. The key factor here is the question to what extent the national capital is capable of guaranteeing competitiveness of the enterprises and of their production in internal and foreign markets and if so, then in which foreign markets, closed or open. Ideally, the presence of competitive production or services allows the enterprises to find the demand on the global market, to make economies from manufacturing scales and, thus, campaign both for the free market and for diversity of integrational processes whose


final objectives are the expansion of commodity market of production and services of the given enterprise. We shall name such enterprises the first group, they are always on the crest of the wave.

But what should the enterprises which have never been “on the crest” and which are trying to mount it do? How should they proceed, in what markets should they trade and at who’s expense should they maintain competition with the enterprises of „the first group“? These enterprises, we shall name them the second group, by all parameters and first of all from the point of view of capitalisation scale and volumes of output concede to the enterprises of the first group with all the following consequences. Free trade and various integration processes in economy do not necessarily improve their condition in economy and, as a rule, lead to closing of such enterprises or their overtake by the enterprises of the first group which in its own turn affect the national market of employment in the given branch and the outflow of profits to the enterprises which have absorbed them. Thus, the enterprises of the first group become richer with more and more increasing potential possibilities for growth and competitiveness, and the enterprises of the second group operating basically in the local markets fall into decline. However, there are ways for the second group enterprises to avoid this destiny.

First, they should become, partially or completely, the divisions of the enterprises of the first group which could offer a share of their local and foreign market. The shortcoming of this method is that profits will be owned by the enterprises of the first group. The advantage is that such enterprises economically could remain afloat and technologically meet all requirements of the enterprises of the first group, i.e. to become competitive internationally.

Second, enterprises of the second group could enter into cooperation with the enterprises of technologically similar level with the purpose of gaining advantage in manufacturing volumes. The partners could be both from the enterprises of the first and the second group. The advantage would be the retained control over manufacture, the expansion of the local market, at least up to the size of these two countries, the employment of local labour use of profit for modernisation and broadening of manufacture.

Third, second group enterprises should keep on the local market and try to emerge on export markets.

In other words the issues of well-being of the nation depend on the degree of the involvement of the population in labour activity. The availability of employment implies the growth of the well-being of the nation, its absence – the decline. As it has been already mentioned above we mean the employment generating an additional surplus value for the enterprises, i.e. employment in the budget sponsored enterprises is not taken into consideration.

Now from the enterprise generating a surplus value we can move to more complex aggregated condition - to national economy of the particular country and its generated surplus value or in other words, to competitiveness and employment of the population generating primary surplus value in the national economy, assuming that exporting economies improves their position while the importing ones worsen it.
In authoritative economies the full employment of the population is guaranteed and this factor despite efficiency losses, increases the well-being of the nations. Though we focus on the survival of companies or economies of a separately taken country and on their possibilities to compete outside its national borders, however, this factor is extremely important for the formation of a competitive economy.

Historically most highly industrially developed countries passed this phase. For example, the USA and Germany during the establishment and strengthening of their economies in the first quarter of the XX century were protected with high tariff barriers. The same policy allowed the Soviet Union to create powerful industry and regularly increase the well-being of the nation. Thus, if in 1913 the indicator of the average GNP per capita in Russia was only 15 % of the USA level, in 1955 this indicator rose to 40 %, in 1975 to 60 % and in mid 80s - about 65 %

It means that the policy of protectionism and free trade should be viewed in connection with the development level of national economy, and measured in terms of who benefits and at whose expense the well-being is achieved, i.e.: for the benefit of national or foreign employment and capital; for the benefit of population categories (consumers or manufacturers) and state institutions will receive the benefits. It is obvious that consumers and, partially, manufacturers win from the free market to the extent to which export can cover their losses from the appearance of counterfeit products on the local commodity market. Under free trade the underdeveloped economy country focusing on import finds itself in unambiguous loss and tries to win back on the consumers what it could have received in the case of presence of preferential trade from counterparts from a foreign market.

The issue of well-being is the compensation of the loss to certain free trade zone consumer categories and the existence of such compensation. If the compensation exists then the well-being of the nation grows if not, it falls. If the market is not free then the government receives the highest dividends.

The most important parameter here is the question of how strong the national economy is and to what degree it is connected with export. If the economy is strong the creation of free trade zones is always attractive as market expansion stimulates national economy which in its turn leads to the increase of well-being of the nation. If the economy is weak the issues of protectionism and development of regional inter-state trade leading to the increase of the well-being of the nation are also important.

For an investment weak economy with the limited accumulative financial possibilities of the state to support prospective branches of economy the presence of the free market means the permanent backwardness of local manufacturers against world leading producers, and consequently gradual decline of nation’s well-being. The only solution is the support of local manufacturers and regional cooperation which, on the one hand, fits well the theory of gravitation of Tinbergen for the countries with similar weight in economy:

\[ F_{ij} = G \frac{M_i M_j}{D_{ij}} \]

where:
- \( F \) – trade stream,
- \( G \) – constant,
- \( M_i \) – GNP,
- \( M_j \) – GDP of each country in econometric estimations,
- \( D \) – distance

and the theory of „the second best“ and neofunctionalism of E. Haas with its emphasis to striving to control integration on the regional level.

The next item for discussion is how much the involvement of the countries into one or another regional economic and other union leaves freedom to its participants in choosing partners or contacts outside these unions and to which level the cooperation within the framework of one union is obligatory and efficient for each of its constituent countries.

The involvement of the countries with different economic weight into economic unions, for example, the EU, opens multifaceted possibilities for them as the data about the advantage received is rather inconsistent.

Such approach is most obviously expressed in the East European economic policy, i.e., what is permissible for large member states „a priori“, the small countries can exercise only with caution.

Basically all economic gains are centered around two points, for economically developed countries this means the expansion of the preferential European market for their goods and services, for „economically backward countries“, i.e., practically almost all new countries who joined EU in 2004, it means donations from the EU budget which exceeds the contributions paid by these countries. Unfortunately, it was not possible to calculate how many workplaces were lost in the new EU countries in connection with trade liberalisation. The substantial sums poured into the public sector, unfortunately, had little or no influence on competitiveness of the local national industries and services and were followed by the reduction of workplaces and the increase of emigration. A certain paradox of the relativity theory could be observed – the overall competitiveness of the new EU countries has presumably increased in relation to neighbouring non-EU countries and has fallen in relation to the developed EU countries. The majority of the new countries connect their well-being not so much with the economic contacts with the developed EU countries but with the export possibilities of their production outside the EU to such countries as Belarus, Russia, Ukraine in the east and Norway in the north. As the new EU countries are not full value economic partners for the old member states, a reasonable question arises how to increase the well-being of the nation under free market when the governmental fiscal policy is limited and in the countries having high budgetary deficit and where the ruling elite, like in Lithuania, is more concerned about its own political survival than the survival of the national economy.
The liberal intergovernmental theory of Moravcsik regards the processes of political integration from two points of view – internal and external. This theory could be seen as three-element-structure – formation of preferences or goals of different countries, visions of governments for realisation of the above goals and the process of political-economical negotiations and bargain for implementation of the goals into real life. Despite the official compromise on many programmes the constant discussion is going on among national elite about the position of indicators across the dividing lines on the continuum between national country and the EU. Therefore, alongside with the growth of the politically mature national elite something extraordinary should be undertaken to let the new EU members lift the well-being not so much at the expense of received and, unfortunately, used up credits, but at the expense of the increase of GNP which currently has more chances for growth outside the national borders.

The neighbouring countries, for example, in which, as is considered, the general level of competitiveness is lower than that in the new EU member states\(^{22}\). In this case the economically weak countries of the EU turn into strong partners and investors outside the EU. This does not prove to be a rule, however. The presence of the high percentage of state ownership in the joint-stock enterprises has a positive effect on the concentration of financial assets allows development of the state enterprises within the limits of cooperation or trade with the EU countries and guarantee the increase of well-being of the nation. The above is the positive side of the issue and could lay a road of high technological production while the negative aspect is that continuing the policy of full employment such enterprises continue the production according to the plan regardless of its sales and competitiveness. This could become the meeting point with mutual benefit for the new EU countries and the bordering countries.

These relations are becoming even more vital in relation to the EU policy of “Eastern partnership” introduced by Poland which is natural to all countries being in territorial affinity with each other. For new EU countries during the first approach, using the limited and only surface deep criteria listed in the equation above, criteria of gravitation and their historical past, three pairs of countries could be chosen. Such pairs could be Romania-Moldova, Poland-Ukraine and Lithuania-Belarus.

Historically, such rapprochement has always been connected first of all with national safety and security. The first example of practical embodiment of such policy took place after the Second World War \(^{23}\) when political rapprochement of Germany and France paved the way for the beginning of the European economic integration and became a principal cause for the creation of economic interaction with the zones of preferential trade, free trade and other more complicated associations, like the customs union or common market, and were directed on the boost of well-being of the nations and their citizens and on the increase of competitiveness of these regional associations and unions in relation to the external world.


The basic economic problem facing the countries with similar economic development and of similar to Lithuania size is that their economies cannot compete qualitatively and quantitatively neither within the EU market nor with the other highly developed economies.

The governments and political elite of such countries, on the one hand, typically are faced with the problem either of choosing one of the directions which would allow to make investments and look for partners and companies from the developed economies, or, on the other hand, in the long run of being the only consumers of their own goods, products and services and, thus, the issues of convergence and standards of living will be put aside. The understanding that without manufacturing, and without the generating the added value of the enterprises there cannot be any growth of well-being of the nation, should push the governments towards the creation of such economic benefits. In the absence of such conditions the participation in the EU can be considered simply as formality which under free trade conditions apart from direct payments does not give any advantages to the national economy as the substitutes of goods on regional market, especially in the field of the food produce, imply the outflow of finances to the regions of their origin. Thus, the importing country gets into constantly increasing financial dependence, regarding the accumulation of financial resources, for support of local manufacturers.

Concerning the “Eastern initiative“ the same tendency to increase the zone of free trade in the post-Soviet space countries could be observed. The common problem of the countries to the East from the “Iron Curtain” is that the production of their economies, except for the cases when their products have stable demand in Western Europe due to the investments of the western countries and transfer of production processes to the East, has low demand in the markets of the Western Europe and basically is directed to their home markets. However, if for the country of the size of Poland the home market, especially for agricultural and other food articles, is vitally important and is supplied by local manufacturers, for countries of the size of Lithuania the share of local manufacturing for home consumption is much less.

It is partially related to the environmental conditions, but basically with poor diversification of manufacture which in its turn is limited by losses of manufacturing scales. Thus, the initiative of „Eastern partnership“ gives possibility of expansion of the market to the East which allows to secure financial assets from sales and the return of investments expected by the partners. In other words the „Eastern partnership“ is the same expansion of the EU to the East only in its shortened and more formal variant and because the risks in private sector here are still high, these territories are assigned to the sphere of non-strategic investments. The basic point of such economic cooperation for the enterprises with limited resources of the former socialist space is an attempt to get access to cheaper labour and energy resources, to amalgamate producing units with the purpose of the subsequent access to richer markets, i.e. to maximise profit in relation to the investments.

Such policy could help to create new workplaces in the new EU countries and improve their position in global economic competition, and eventually define which
branches could be potentially fit for the competition in the world markets. Only having reached certain threshold limit in concentration, in production technologies and in finances allowing to overcome temporarily low money turnover the enterprises are able to sustain competition both in national and global markets.

Conclusions

The current economical situation in Lithuania seems to be new for the economic theory. There exists no single theoretical position able to provide any consistent recommendations on the further economic policy in the country. Therefore, the use of the present-day theories is based upon a rather eclectic selection. This selection consists of personal and political preferences of policy makers and does not include any scientifically proven grounds for the low competitive economies. Summarizing the above, it is possible to draw conclusions for two levels of interaction – the global and the regional one.

In the global aspect the theory of gravitation will promote rapprochement concerning national safety on all European continent, restoration of trust and contacts between societies and the people, the promotion of diverse integrational processes including the economic ones and, what is most important, allow to avoid creation of new political, military and economic dividing lines and borders.

In the regional economic aspect working on the crossroad of two systems or blocks could give tangible results for well-being of the nearby nations. The new EU countries are capable of providing the volumes of financing, investments and consultations to the neighbour countries over EU borders. The neighbouring countries over EU borders are capable to supply the resources for the purpose of increasing their global competitiveness.

The increase of well-being of the nation could emerge from contacts with partners having identical and even lower level of development and not only on higher level. Only the production and services of the enterprises even on the basis of „the second best“ but generating primary surplus value promote the growth of well-being of the nation.

For rather economically backward nations, such as Lithuania, the creation of long-term realistic economic strategy and policy the support of local manufacturers instead of a chaotic swings between the simplified reductionism and the Silicon Valley is extremely important.

References


Silpno konkurencingumo ekonomikos funkcionalavimas integruojoje ekonominėje erdvėje

Nikolajus Markevičius
Mykolo Romerio universitetas, Lietuva

Santrauka. Įstojo į ES, Lietuva (kaip ir kitos naujos nėrės) tapo ekonominiai integruota su valstybėmis, kurii ekonominis pajėgumas yra daug didesnis.

Kartu ji neteko tradicinių, protekcionistinių galimybių apginti savo ekonominį suverenitetą, kuris dominavo beveik XX a. šimtmetį, kol 2004 m. įstojo į Europos Sąjungą. Pagrindinių vaidmenį stojant į ES suvaidino politiniai kriterijai. Ekonominės naudos tikėtasi iš galimybės be kliūčių naudotis ES šalių rinkomis bei siekti žaumų pašalinimo. Pagrindinių objektų ir gamybos šakų privatizacijos, pelno įvairių klausimų, buvo skiriama mažai dėmesio.

Todėl įstojo į ES ne tik atsivėrė naujos ekonominės galimybės, bet ir kilo nemažų problemų, siekiant apsaugoti savo ekonomiką. Galimybės naujos integracijos sąlygomis gana plačiai aptariamos ekonomikos literatūroje, o nacionalinio ekonominio saugumo problemos trumpojojo laikotarpiu, atsižvelgiant į pasiektą šalies vystymosi lygį, liko tyrėjų nenagrinėjamos.

Šiuo straipsniu siekiama šiek tiek užpildyti šią spragą. Pabrėžiamas valstybės vaidmuo valstybės vystymosi sąlygų užtikrinant ir tai daryti įtaką darbo rinkai, sukurti pridėtinę vertę ir pakelti bendrą šalies pragmenimo lygį. Išorės ekonominė valstybės pagalba pirmiausia galėtų pasireikšti sukuriant kokybiškas informacines paslaugas eksportuotojams, suteikiant ir koordinuojant nacionalinių institucijų, atsakingų už ekporto augimą, bei vietinių savivaldos organų pastangas.

Remiantis šiuolaikinės tarptautinės integracijos teorija nagrinėjama silpno konkurencingumo valstybės ekonominė politika, kuri ne tik padėtų išnaudoti ekonominės integracijos su daug konkurencingoms esančios ekonomikos galimybės, bet ir apsaugotų nacionalinę ekonomiką nuo destruktyvių nelygios konkurencinės kovos įtakos. Nagrinėjami būdai, kaip sudominti galingos ekonomikos šalis investuoti į silpno konkurencingumo valstybinių ekonomikos saugumą.

Analizuojami tradiciskai susiklostę silpno konkurencingumo ekonomikų savitumai (tokie, kaip valstybiniai įmonių gausa) ir aptariamą saugumo išnaudojimo galimybę, siekiant užtikrinti jų stabilitumą ir ekonominių saugumą.

Reikšminiai žodžiai: silpno konkurencingumo ekonomika, ekonominė integracija ir apsauga, integruoja ekonominė erdvė.
Nikolajus Markevičius, Mykolas Romeris University, Faculty of Economics and Finance Management, Department of Economics, Lecturer. Research interests: international economic relations, business economics.