Analele Universităţii "Eftimie Murgu" Reşiţa. Fascicola II. Studii Economice
Annals of „Eftimie Murgu" University Reşiţa. Fascicle II. Economic Studies
vol. XXVI, ISSN 2344 – 6315 www.analefseauem.ro

THE ROLE OF INTERNATIONAL TRADE IN CREATING JOBS WITHIN THE EUROPEAN UNION

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Submitted: 11th October 2019 Approved: 15th November 2019

Abstract
The article presents the evolution of theories on international trade, highlighting the characteristics of the transfer in the contemporary global business environment. The case study presents synthetic data on the contribution of foreign trade to the labour market in the European Union member states, concluding on the need to implement concerted measures for the development of the export sectors in order to reach the objectives of the Europe 2020 Strategy.

Keywords: *theories, foreign trade, business environment, jobs.*

JEL: *F16, B27.*

1. INTRODUCTION

The international business environment means any commercial, industrial or professional initiative involving two or more nations or economic agents belonging to them. A "domestic business" (DB) operates in a single country and international business (IB) in several countries, so what separates them is that IB involves activities that cross the national borders (Cordelier, 2001).

IB also refers to a certain type of business and a certain way of organizing the business, from multinational to transnational and global companies.
Having an element of extraneity, IB is more complex than DB. Which means the influence of a greater number of laws and regulations, linguistic and cultural differences, different financial and monetary systems, to mention only a few.

Like DB, IB can be viewed both from a macroeconomic and from a microeconomic perspective, such as management issues of international companies.

The most plausible explanation for international trade is given by Adam Smith, who believes that international trade is based on absolute cost advantages. This analysis has an obvious limit, a nation that has no advantage cannot participate in international trade. Despite considerable differences in how international trade is explained, traditional theories are based on two common pillars: an identical definition of the nation and the use of the principle of comparative advantages.

The main comparative advantages of international trade: within a nation in which the greatest importance is held by the relative differences between the conditions of goods manufacture, differences defined by the opportunity cost. By sacrificing one unit of a product, the two nations increase the production of the other product in different proportions, resulting in a comparative advantage that

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channels each nation towards specializing in the production of goods obtained relatively more efficiently than the other nation. (Ricardo, 1970)

If the international specialization is realized according to this principle and the nations are in exchange relations, then they can gain simultaneously from the exchanges realized.

According to specific criteria, nations differ according to each approach: the Ricardian theory that concerns the production techniques and the HOS theory in which the differences between the nations refer to the relative endowments with manufacture factors.

Multinational firms are excluded from traditional analyses because of the approach from the nations' perspective, they can exist only on the basis of international capital movements. This exclusion leads to the emergence of specific theories of multinationalization of companies in a framework in which international exchanges and investments abroad are explained.

Williamson (1982) and Chandler (1992) consider that the division of a business represents the most important innovation of organizational network of the twentieth century, materialized in the expansion of modern and performing multinational companies.

Multinational companies have a very important impact on the trade between nations, they not only replace international trade, but they, on the contrary, contribute to the emergence of new trade flows.

These exchanges have a particular status, first of all they pertain to international trade, as they cross the border, and secondly, they belong to domestic exchanges, as they take place on the global market.

The analysis of the multinationalization of companies was developed with the help of the introduction of imperfect competition references, where it is necessary to explain the reasons why the companies choose to supply a foreign market, transferring production subsidiaries instead of resorting to exports or sales of licenses in the case of a new product.

Repeated attempts to elaborate the theories specific to the multinationalization of firms stem from the application of the analysis in terms of transaction costs. This analysis allows us to understand the reasons why companies resort to an external organization of transactions rather than to their deployment on the domestic market.

2. THE NEW THEORY OF INTERNATIONAL TRADE

Traditional theories look into the effects that international trade has on nations, retaining the central hypothesis of perfect competition. At the moment of the perfect competition disappearance, the nonoptimality of free trade appears.

The main cause that led to the emergence and development of the new theory is dissatisfaction, which is widespread and felt in the poor capacity of traditional theory to explain the main features of international trade.

The diagnosis made in one of the synthesis works (Helpman and Krugman, 1985) of the new theory notes the importance of the facts that remain unresolved by the traditional theory, and three points evoked are extremely important:

Contrary to the traditional theory, international trade is most often developed among the best-developed nations, where trade between nations with insignificant differences is made on the level of factorial endowments, whereas for the explanation of international trade the traditional theory emphasizes the differences between nations;

Within global trade, the size of international trade, when a country simultaneously imports and exports the same type of goods, is significant. The traditional theory has no explanation for this phenomenon, and there is no explanation for international specialization;

The traditional theory does not include in its description multinational companies and intra-firm trade, because in its vision the only protagonists of trade are the nations.

All in all, the new theory comes as an adversary of traditional theory, claiming that it can explain these phenomena by using new specific tools.

The new generations of researchers specialized in the use of imperfect market analysis tools will apply the instruments to markets that are approached from the perspective of the international economy, using a new approach to the economy, which is based on a partial equilibrium. Certain aspects of traditional theory, such as the impact of international trade on income, can only be dealt with within the general equilibrium (Krugman, 1986).

References to increasing scale yields and product differentiation represent two key elements of imperfect competition, as well as research and development costs that become an obvious factor for the new theory.

The international specialization can be explained according to the cases studied through scale economies, by the impact it generates on the well-being increase generated by the specialization. The nature of increasing returns has implications for the existence or lack of competition within an economy.

The internal scale returns of the company are given a general description using the formalization in terms of manufacture function. In order to improve the usual framework of international trade theory, in order to obtain products, it is assumed that a firm mobilizes certain amounts of capital K and certain quantities of labour L. The production function has increasing yields for these quantities of production factors if: $f(\lambda K,\lambda L)>\lambda f(K.L)$, where $\lambda>1$.

These increasing scale returns are internal to the company because only the growth of the production batches size can lead to scale economies. According to the traditional analysis, these can come from the savings realized within the internal organization of the company or from the reduction of the average fixed costs.

During the existence of scale economies, a company can go through three phases, the rising, consttant and decreasing phases of the internal scale returns, justified by the U-shape of the cost curve.

Scale economies external to the company but internal to the sector are determined by the general development of the branch in which the company operates. Firms in the respective sectors are experiencing decreases in production costs, proportional with the increase in overall quantities produced. The unit cost depends on the size of the sector, and not of the respective company.

In the international context, in the case of foreign scale economies, uncertainty arises as to where they need to be located, in the expansion of national or global production.

The detailed study of the essential points of the new theory shows in several areas that it only reaches already known results. However, the authors of the new current present their developments in a formalized manner.

The use of formalization in an imperfect competition framework generates new themes, such as industrial policy and strategic commercial policies.

Whereas the traditional model of business divisionalization demonstrates its limits, a number of new researches focus on how competition between firms on the markets generates conditions for achieving their overall balance.

The *Balassa-Samuelson theorem* (1964) refers to the purchasing power parity, which is influenced by the relative productivity of sectors that manufacture tradable and non-tradable goods. The *Stopler-Samuelson effect* (1941) focuses on the relationship between the relative prices of finished goods and those of the factors of production.

Krugman (1979) developed the *New Trade Theory*, shifting attention to the role of scale economies, showing that given consumers' preference for variety and the increased manufacture efficiency, countries specialize in producing a small number of brands of the same product rather than a group of different products.

On these trade models with monopolistic competition, Brander and Spencer (1985) developed soon after the *strategic trade policy* theory, claiming that countries could increase welfare by transferring the profit of foreign firms to national firms. The strategic use of export subsidies, research and development investments, as well as trade barriers – albeit bearing the risk of retaliation – can come to the rescue of national companies, helping them develop and conquer international markets.

Developing the model of Aghion and Tirole (1997), the researchers Marin and Verdier (2008) take into account in explaining the conditions of the general balance, on the one hand the role of the companies' organizational system, and on the other hand the competitive environment in the market.

Caliendo and Rossi-Hansberg (2012) study the implications of the internal organization of the company from the perspective of access to the market through trade, implicitly from the external one. In their studies Polasky (1992), Baye et al. (1996), Creane and Davidson (2004), and Erickson (2012) explain how multinational corporations earn a profit from supporting competition, creating companies that clone the business model of the parent company and then outsource them to other markets.

3. TRANSFER IN THE GLOBAL BUSINESS ENVIRONMENT

As it results from the analysis of the trade relations in the contemporary world, within the global business environment, essential exchanges took place. These include: reducing the influence of domestic policy measures, the weakening of the international institutions and the increasing conflict between developed and developing countries.

The effects of increasing the influence exerted by the economy of the developed states were significant. Internal economic measures have been and will remain influenced by the international business environment.

Agricultural policies have been introduced in the international context. At the same time, industrial policy measures cannot be implemented without an analysis of the internal and external effects they trigger.

On the international level, major changes have taken place in economy which contradicted the previous expectations, for example the international economic evolution used to be the basis for determining the exchange rates and the exchange value levels. Today, political factors and fluctuations in financial markets have played an important role.

Through international trade, companies have to gain, on the one hand they become more competitive, entering into competition with other companies of the same profile, and on the other hand the possibilities are open to get supplied cheaper and with products of better quality from import.

One of the institutions whose influence has diminished is the GATT (General Agreement on Tariffs and Trade).

Many countries have discovered new ways to avoid or distort trade without coming under the influence of GATT rules. In general, all countries are superficially complying with international regulations.

Most developed countries have in recent years sought to supplement the tasks of governments in the field of trade and investment. These measures were taken to restrict foreign imports and investments and not to ensure favourable conditions for exports of goods / services and capital. The main objective pursued by the executive power was to improve the business environment, to develop trade and to identify investment possibilities for the local companies.

The most common barriers encountered are: restrictive licenses, import authorizations, export restrictions, taxes, turnover taxes, license / sale / consumption taxes, discretionary / export / barter licenses, stamp / transport taxes, internal taxes / taxes on services / on turnover, VAT, etc.

In order to protect their own industries, many governments impose various restrictions on capital investments. Most of the restrictions are imposed by the national agencies that are created in order to select the viable foreign investments. Many of the conditions imposed by the national governments regarding investments refer to the percentage of assets allowed to be owned by non-residents, the number of jobs that may be created, the level of dividends that may be repatriated, the type of managerial measures that are permitted, etc.

For example, in the USA the investments that affect national security are restricted along with those which can have adverse effects on the economy. As a result, foreign investments are implemented only with the agreement of the US Committee for Foreign Investments.

Politicians face many difficulties when import restrictions are imposed. First of all, these measures have the effect of increasing the prices borne by the domestic consumers. Also import restrictions benefit domestic manufacturing companies, but affect consumers. An example is given by EU residents who are forced to use agricultural products from the domestic market that may be more expensive than imported ones.

Another negative effect of the restrictions is the reduction of the range of products existing on the market, the consumer's freedom of choice being restricted. So as to conclude, such measures can only be beneficial when they are applied on short term, in the long run they are not effective because they block the business environment.

The willingness of countries to participate in international trade has led them to implement certain measures to stimulate exports. The measures are aimed at helping domestic firms to enter or maintain their position in external markets. Many government agencies provide support to companies for planning and participating in international trade through information and marketing support for manufacture and investment stimulation.

Most countries implement various measures to attract foreign investors. Such measures are applied by the poor countries, which, in order to develop, need foreign investment. These measures are also applied by industrialized countries when the problem of increasing the number of jobs and of per capita income has worsened.

The main incentives used to attract foreign investments are financial and non-financial. Financial incentives provide investors with special funds to obtain loans, land and building permits, and guaranteeing investments. These incentives consist in reduced taxes specially created to attract new investments, tax exemptions, etc.

Non-financial incentives aim to protect new investors from competition through tariffs, quotations and provision of facilities for investments in infrastructure.

These incentives aim to stimulate industrial development and increase the number of jobs. There is a certain competition between countries which aims at the advantages offered for attracting new investors.

All countries involved in international trade benefit from investment policies. Because international trade and investment policies are a major factor in the well-being of nations, the importance of these two elements has increased significantly in the last century.

Every country needs an active trade policy, not a reactive one. The protectionist law is advantageous as long as it is not legislated, when it is legislated it can become an obstacle in the way of international trade.

The policy of many developed countries in the field of trade needs to be changed. It should be clear to everyone that not by measures with international effects can improve the business environment and the business climate, but by effective internal measures on their own economy.

In conclusion, commercial policies must have a more internal orientation as well as a broad international vision. States need to improve the quantity and quality of government information in order to increase their competitiveness when applied. This approach requires stimulating collaborations between companies both in production and in technical assistance. On the whole, a country's industry has to give up the opposition to export and short-term financial guidelines. Any state, especially the developing ones, must make investments in people, education being the one that distinguishes between nations.

In the future, cooperation between nations needs to be stronger, and the objectives of the common policies need to be formulated in the long term, for the construction of a sustainable business environment, on a global level.

3. THE ROLE OF EU TRADE RELATIONS IN CREATING WORKPLACES

Foreign trade policy can be defined as representing all the institutions, norms, methods and procedures for managing the economic border of a state. These institutions, methods and procedures are of different natures: legal, administrative, fiscal, budgetary, currency, etc. (Minică, 2005).

European workers from all Member States benefit from EU exports. These employment opportunities arise not only because exporting companies expand their sales outside the EU, but also because companies providing goods and services to exporters also support millions of jobs along the supply chains within the common market. The job requirements may be higher as difficulty in comparison with the level of knowledge held by an individual.

Along with the expansion of global supply chains, EU exports are supporting more and more jobs not only in the EU, but also in our trading partners. About 20 million jobs across the EU are supported by exports, grace to firms participating in global supply chains.

One out of seven jobs in the EU was supported, directly or indirectly, by EU exports to third countries.

Employment in the EU, supported by EU exports to the rest of the world, reached 36 million jobs in 2017, after increasing by two thirds in 2007. These jobs are not only associated with EU companies that sell products and services directly to countries outside the EU. Many of these jobs are related to export companies purchasing inputs from other EU Member States.

On the average, in 2017 each billion euros of exports from outside the EU supported around 13,000 jobs in the 28 Member States. Moreover, the contribution of global exports to employment opportunities in the EU has increased steadily from 2000-2017. The average growth rate of jobs supported by exports from outside the EU was 3%. In 2017, sales of goods and services to the rest of the world supported more than 15% of total jobs in the EU from 10.1% in 2000.

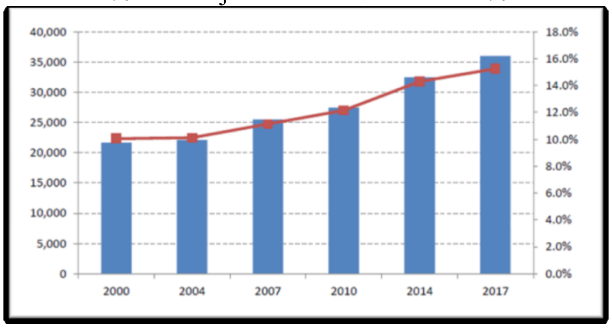


Figure 1 - EU employment supported by exports from outside the EU: number of jobs in thousands (left axis) and% of total work force (right axis).

Source: http://publications.jrc.ec.europa.eu/repository/handle/JRC113073

In conclusion, exports of the EU production sector remain the main driver of employment.

Non-EU exports from the production sectors accounted for about 54% of jobs in 2017, with export facilities down from 59% in 2000. In 2017, over 19 million jobs were linked to exports from the industrial sectors in the 36 million jobs supported by exports from outside the EU.

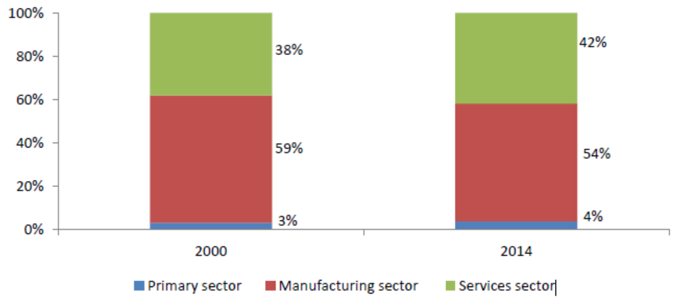
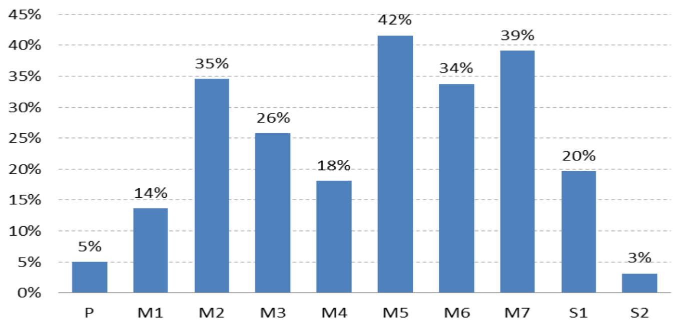


Figure 2 - EU employment supported by exports from outside the EU by exporting sectors (%)*Source:* *http://publications.jrc.ec.europa.eu/repository/handle/JRC113073*

The impact of the exports of the services sectors in 2014 increased significantly by 42% of the total employment supported by exports by 4 percentage points compared to 2000.

When we consider the employment supported by the export as a share in the total employment of each sector, a different pattern of sectoral importance for employment appears. For example, as shown in Figure 4, on the average, the contribution of exports to employment was highest in the chemical sector (42%), followed by machinery and transport equipment (39%), textile industry (35%), manufacture of other metals, non-metallic and basic materials (34%).



Note: P: primary; M1: food products, beverages, tobacco; M2: textiles; M3: wood, paper, printing; M4: energy; M5: chemical; M6: metal, non-metals; M7: transport machines and equipment; S1: transport and trade services; S2: other services.

Figure 3 - Employment rate supported by exports from outside the EU in industry in 2014 (%)

Source: http://publications.jrc.ec.europa.eu/repository/handle/JRC113073

Despite the increasing number of jobs in the EU that depend on exports, the involvement of European firms in global value chains also means that exports from outside the EU are increasingly based on extra-EU inputs, including the labour force. Between 2000 and 2017, employment outside the EU, supported by EU exports worldwide, nearly doubled to 19.7 million jobs.

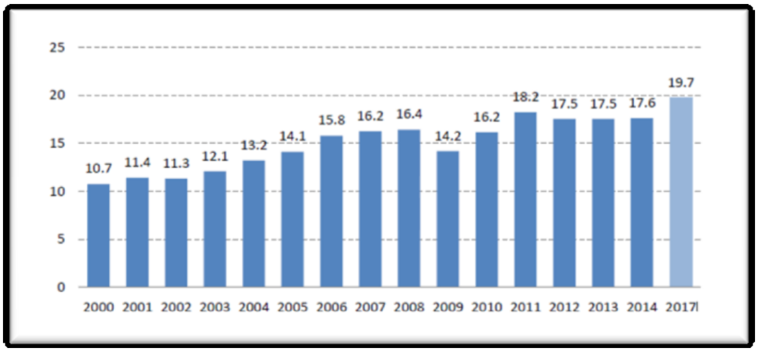


Figure 4 - Number of jobs outside the EU supported by exports from outside the EU *Source:* *http://publications.jrc.ec.europa.eu/repository/handle/JRC113073*

It is of great relevance for decision makers to obtain information about the composition of the qualification level and the remuneration of the work on which exports are based. The evolution of the skills model in the EU shows that export-related jobs have a higher quality, as the share of highly skilled workers has increased by 5 percentage points, from 23% in 2008 to 28% in 2014.

In 2017, almost 10 million highly skilled workers in the EU would be linked to exports from outside the EU. During the same period, the share of low-skilled workers decreased by 4 percentage points, from 25% in 2008 to 21% in 2014. Finally, there was a moderate change in the share of skilled jobs, which decreased by 2 percentage points.

By countries, the highest share of highly qualified workers supported by exports from outside the EU is found in Ireland (47%), where almost half of the workers have a high qualification, followed by Luxembourg (43%), Spain (40%) and Cyprus (39%).

As for the levels of remuneration of the jobs favoured by the export to the EU, it is important to mention that these workers are on the average better paid than the rest of the employees in the EU.

CONCLUSIONS

The context of realizing exports by the companies implemented through foreign direct investments raises the following question: does the weight of private, often foreign, interests in this specific work of the state become constitutive of a particular form of state authority that does not replace but works alongside older well-established forms of state authority? My argument is that the mix of processes we describe as globalization is indeed producing, deep inside the national state, a very partial but significant form of authority, a hybrid that is neither fully private nor fully public, fully national or fully global (Franţ&Minica, 2008).

In business, efficiency requires the mastery of a complex system of theoretical knowledge, which the entrepreneurs apply depending on their innovative capabilities.

Innovation and continuous training of the workforce are the most valuable values that ensure the success of a business. A business must be created both to produce benefits to the entrepreneur and to the customers. When it comes to international affairs, economies of scale, competitiveness of products exported to external markets and adaptation to a global market in permanent evolution are added to these goals.

Efficiency and flexibility on the labour market are critical for any economy, and consequently the intention is that the population fit for work fills positions and finds jobs so that the most efficient use in economy can be reached. (Tănase et all, 2013).

As global value chains increase, the competitiveness of EU firms and, consequently, their ability to support employment and generate export earnings, is increasingly dependent on the competitiveness of their trading partners.

The relevance of bilateral trade should be assessed both from the point of view of the value of sales of goods and services in these markets and from the point of view of supply to EU exporters.

About 20 million jobs across the EU are supported by exports, thanks to companies participating in global supply chains.

The jobs supported by exports are of superior quality and are better paid.

Non-EU exports in 2017 accounted for around 4 million jobs in China (20% of the total number of non-EU jobs supported by EU exports), 1.9 million jobs in India (10% of total), 1.1 million jobs in the US (6% of the total), 1 million jobs in Russia (5% of the total).

The evolution between 2000 and 2017 clearly suggests that China and India (and to a lesser extent the US, Indonesia and Turkey) have strongly strengthened their position as intermediary input providers for the EU economy.

The reduction of tariffs and non-tariff measures provided for in the EU-China agreement is expected to increase the EU's GDP by 33 billion euros by 2035, which corresponds to approximately 0.14% of additional GDP and is accompanied by an increase of about 13 billion euros of EU exports to Japan.

For the EU, this agreement provides a positive overall result and leads to considerable gains in sectors that are not always the ones that benefit most from trade policy. No EU sector is expected to incur significant losses.

The creation of new jobs is the main objective of the Europe 2020 Strategy, and the way in which national and European authorities are involved in the foundation of a long-term European trade policy, oriented towards foreign trade, depends largely on the accomplishment of this task.

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