Annals of Spiru Haret University
Economic Series
Since 2000
ISSN: 2393-1795 ISSN-L:2068-6900

Issue 1/2017

INTERNATIONALIZATION OF ECONOMIC ACTIVITIES AND GOVERNMENT'S INVOLVEMENT IN THE MARKET ECONOMY

Nicolae ŢÂU[1]

[1] ***Academy of Economic Studies of Moldova, Chișinău, Moldova,***
Email: ntau1@cisr-md.org

Abstract

Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry. Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. As the effects of – fiscal and monetary – policies on the global demand and supply are unpredictable in time and space, it appears the requirement to substantiate, develop and put into practice a stabilizing strategy.

Besides the indexes showing the evolution of the demand and supply, the market can offer economic agents other analysis and decision parameters as well, such as: economic and financial instruments for influencing the behaviour of the business environment. Obviously, the results depend also on how the authorities (legislative and executive, central and local) work for a friendly business environment. There are two mechanisms that can be used for this purpose: fiscal policy (measures to enhance or reduce taxes, dues and public spending) initiated by the Government and approved by Parliament; monetary policy (setting the interest rate and the money supply, respectively of the money stock for a specified period of time) emitted and monitored (supervised) by the National Bank.

Keywords: *economic relations; commercial transactions; economic dirigisme; fiscal policy; social economy.*

JEL Classification: A_{12}, A_{20}, M_{16}

Introduction

Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. Regarding the mechanism of state involvement in the economy, there have been some differences from one stage to another, in most cases resulting clearly that individual freedom is not the guarantee of the social adhesion, and individuals need a social support and the free market as one stabilizer from the state. Among the arguments that advocate in favour of the state involvement in the economy, we may mention: the need to correct the allocation dysfunctions of the free market, caused by incomplete and imperfect information; monopolization of the demand or supply; the existence of natural or technical monopoly; the existence of collective goods and external effects; the need to correct serious economic inequalities generated by competition and regulation of market relations; the insufficiency of the private initiative in respect to the activities or goods of general or national interest (national defence, justice, roads, electricity, nuclear power or pollution); the complexity and difficulty of some general interest issues (wars, natural disasters, serious economic imbalances, social unrest, etc.) up against which the free market is incapable; changes in national and international conjuncture, which determine the need of defending the national economy from the inside and supporting the national economic actors from the outside, by the State; the attainment by the State of the direct economic player statute: consumer of goods and services (for national defence, administration), producer of goods and services-commodities (electricity, transport, postal services and telecommunications), investor, agent on the money market (owner of the issuing bank), on the capital market, the labour market and the currency market.

The objectives pursued by the State exercising the allocative, distributive and regulating roles in economy are: *efficiency* (insurance of collective property with compulsory use – national defence; augmentation of the private initiative for the rest of the collective goods in cases of technical or natural monopoly as well – industrial, energetic policy, etc.; correction of externalities – environmental policy, positive externality support policy; correction of the monopolistic trends of demand and supply – fiscal, budgetary, regulatory policy, etc.), *equity* (income distribution, social protection insurance, support of the underprivileged categories), *economic balance and growth* – unemployment control and decrease, stabilization of prices and increase of the purchasing power, inflation control and decrease, balance of payments balancing and stimulation of an active balance of payments, general eco-

Annals of Spiru Haret University
Economic Series
Since 2000
ISSN: 2393-1795 ISSN-L:2068-6900
Issue 1/2017
nomic stability, economic growth and development. Once the strategic objectives of economic policy have been established and approved by the Parliament, we proceed to identifying the appropriate means and techniques for achieving them.

1. **The importance of international economic relations**

Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad.

International economic relations have become a fundamental structure for the economic activity as the national market economy of a country can exist and be viable only within and in connection to market economies from the other countries.

Within international economic relations take place commercial, financial transactions, but also international trade in which the exchange of goods registered between strongly industrialized countries and developing countries occurs and puts a heavy emphasis on invisible trade with an increasingly important role. Capital movements not related to trade and commercial activity go beyond the trade-related financial activity.

Another importance of the international economic relations is the capital export directed especially towards developed countries.

So far, the main role in international capital flows were held by the flows of goods and services, but lately a great change in the world economy has happened by the appearance of the capital movements, exchanges of currency and credit flows.

Connecting each country to the international economic flows finds its expression, mainly, in the trade balance and external private payments balance as important means of knowing the level of development of a national economy, its structure, as well as its efficiency and the performances of its participation to the international economic exchanges.

The decisions in the field of foreign trade effectiveness are based on such correlations systematically designed and accomplished at the level of the company producing export goods and of the import companies. In this context, it must be underlined the particular importance that currently the management of the international economic businesses has, as a set of methods and tools necessary to determine the need for promoting, negotiating, contracting and developing the economic transactions between partners in different countries of the world.

Therefore, in order to be a good, efficient manager means, above all, to act systematically to monitor and manage the relationship between the efforts of the operating companies and the effects or results achieved, of course, in their favour.

Obviously, the results depend also on how the authorities (legislative and executive, central and local) work for a friendly business environment. There are two mechanisms that can be used for this purpose: fiscal policy (measures to enhance or reduce taxes, dues and public spending) initiated by the Government and approved by Parliament; monetary policy (setting the interest rate and the money supply, respectively of the money stock for a specified period of time) emitted and monitored (supervised) by the National Bank. It is about actions influencing the economic and social life for a certain period of time, as a result of some unfavourable circumstances or evolutions. The measures adopted by all governments of the world to limit the negative effects induced by the current financial-banking and economic crisis, unprecedented ever since the 1929-1930 period, have brought to the forefront the question of state's role in the economic and commercial evolution.

As the effects of – fiscal and monetary – policies on the global demand and supply are unpredictable in time and space, it appears the requirement to substantiate, develop and put into practice a *stabilizing strategy.*

Besides the indexes showing the evolution of the demand and supply, the market can offer economic agents other analysis and decision parameters as well, such as: *economic and financial* instruments for influencing the behaviour of the business environment (differentiated taxes and fees, preferential or, on the contrary, restrictive custom tariffs); *legislative framework* favourable to foreign capital investments, to joint ventures' establishment and operation, to the limitation of some imports and the granting of export licenses; *indicative planning* that guides the economic entities in terms of attractive and profitable products; *firm compulsory provisions regarding state fines*. More synthetically said, it's about the deliberate intervention in order to ensure the better functioning of the market, including through the use of forecasts in various fields as viable instruments for compensating the limits of the market. It is well-known that the market alone cannot solve a number of problems, especially on the long term, such as upgraded communications networks, transport infrastructure (road and rail), requiring the intervention of the authorities to be solved. Throughout history, people have been resorting to various forms of state involvement in the economy, significant being the following:

a. *The economic dirigisme*, with the main protagonists Adam Smith (described the virtues of the liberal economy), Karl Marx (identified the

Annals of Spiru Haret University
Economic Series
Since 2000
ISSN: 2393-1795 ISSN-L:2068-6900

Issue 1/2017
contradictions from the capitalist economy) and John Maynard Keynes, who presented the solutions to avoid the collapse of the capitalist society: economic policy measures to prevent economic and environmental imbalances induced by certain “imperfections” of the market’s automatic adjustment mechanism. As expected, there are also a number of criticisms of the directional economy: the “left” from Cambridge, represented by Pierro Sraffa, argues that the State must intervene to achieve an equal distribution of the surplus value, the most effective means being the budgetary policy, the fiscal policy, the indexing, the unemployment benefits, etc.; R.F. Harod designs a model of balanced economic growth, based on three stages of growth – real, natural and guaranteed – in which the state is involved in the following ways: public works, operations on the money market, budgets on ten years (through which the surpluses from the expansion periods to cover the deficits during recessions), “buffer-fund” of commodities with regulatory fund (set up in recession periods and brought to market in the expansion periods); the American economist P.A. Samuelson proposes a mixed two-way system, meaning through the coexistence of private initiative and State’s involvement, in which the control shall be provided by the joint action of public and private institutions through the market mechanism, namely that of the organizational provisions and of the fiscal systems. His recommended measures are: appropriate *budgetary policy* (increasing public spending, tax cuts to encourage investments and the assurance of a level of savings to enable the full use of the labour market) and *monetary policy* (the intervention on the discount rate, the handling of interest rate, “openmarket” operations).

b. *The neoliberal orientation*, whose promoters claim that freedom of action is the rule and state’s involvement may be accepted only as an exceptional approach in case of private initiative insufficiency or misuse. In the opinion of the American economist Milton Friedman, the economic role of the state is to do what the market is not able to accomplish alone, i.e. to establish, to arbitrate and to apply rules of the game. He claims that, in a free society, the State functions are: solving the conflicts between property rights and ensuring the monetary order. Meanwhile, Friedrich Hayek shows that individual’s freedom should be designed and achieved only within the civil society of the market economy, noting that the action areas of the state aim at providing a legal framework in order to make competition more efficient and filling the competition’s place by providing public services that have no interest for the private initiative. To prevent frauds and deception, claims F. Hayek, the state must act on a legal framework, always adapted to the realities.

c. *The social-democratic orientation,* having as main protagonists three prominent scholars: Joseph Schumpeter, in whose work is emphasized that, under purely economic report, the capitalism is performant, but its performance is not due to competition, but to the great company – promoter of innovative progress, that disintegrates the social structures, attacking the basis of the system from the inside. Recommending the support of the innovative spirit and solving the social inequalities by means of the tax on wealth, the American economist shows that as laudable as the ideals such as freedom and equality are, democracy, by definition, has no ideal attached, just interests resulting from individuals and parties' free competition for *power*; the German L. Erhardt considers that the state of the *social economy* should separate itself clearly of the liberal state, but also of the active directional state, the social policy objection being analyzing the influence, from the political, social and economic point of view, on the people in its entirety, on consumption, raise living standards, and state's involvement in the economy consists of: property distribution through social actions accessible to the employees, attracting employees in business units, increasing the income of employees for the solvent increase relative to the global supply; John Kenneth Galbraith puts forward the idea of the institutional organization of capitalism, showing that, in fact, the *contemporary economy is a dual one*, divided into two systems: *the system of market* or small enterprise and *the planned systems*, of the large company, its power to control prices, influence the consumer's behaviour, even the public authority, destroys the competitive mechanism, inducing the risk of economy's over-monopolisation. In his opinion, such a risk can be counterbalanced by the compensating power of pressure groups belonging to the other part of the market – buyers, suppliers and others, and the support of the compensating power becomes, in modern times, in peacetime, a major internal function of the government. In the real world, says the American economist, the interests of the planned system are served by the State Administration, which, through facilities and through covering the different needs of the planned system, plays a vital role in promoting its objectives, hence the need for state's emancipation and development of political awareness. To this end, political power must take measures to enable: the equalization of power as economic field and of competitiveness within the economic system; suppression of income disparities; alignment of the planned system objectives, as well as those affecting the environment, to company's objectives; control of public spending to ensure they serve the social interests, different from those of the planned system; stopping the systemic inflationist and deflationist tendencies of the planned system; ensuring the coordination of the industrial interests, the planned system is unable to achieve.

d. *State's institutional approach*, starting from the assumption that any public action depends on a political decision process. Such an approach of the state's role

Annals of Spiru Haret University
Economic Series
Since 2000
ISSN: 2393-1795 ISSN-L:2068-6900

Issue 1/2017
consists of: the economic analysis of voting as a mechanism of political decisions, the economic analysis of the irrationality risk of the decisions adopted by majority rule; the economic analysis of the public choice and the political institutions; the analysis of the public production by analogy with the private production; the economic analysis of the political confrontation by resemblance with the confrontation of the economic actors on the market; the analysis of the public sector behaviour, starting from the canons of the economic rationality; rationalization of the private sector's activity.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. Regarding the mechanism of state involvement in the economy, there have been some differences from one stage to another, in most cases resulting clearly that individual freedom is not the guarantee of the social adhesion, and individuals need a social support and the free market as one stabilizer from the state. Among the arguments that advocate in favour of the state involvement in the economy, we may mention: the need to correct the allocation dysfunctions of the free market, caused by incomplete and imperfect information; monopolization of the demand or supply; the existence of natural or technical monopoly; the existence of collective goods and external effects; the need to correct serious economic inequalities generated by competition and regulation of market relations; the insufficiency of the private initiative in respect to the activities or goods of general or national interest (national defence, justice, roads, electricity, nuclear power or pollution); the complexity and difficulty of some general interest issues (wars, natural disasters, serious economic imbalances, social unrest, etc.) up against which the free market is incapable; changes in national and international conjuncture, which determine the need of defending the national economy from the inside and supporting the national economic actors from the outside, by the State; the attainment by the State of the direct economic player statute: consumer of goods and services (for national defence, administration), producer of goods and services-commodities (electricity, transport, postal services and telecommunications), investor, agent on the money market (owner of the issuing bank), on the capital market, the labour market and the currency market.

As it is easy to guess, *the ways in which the state gets involved in the economy are quite varied*, among them we can mention: through Public Administration (central, local and social security) having the role to provide (supply) nonmaterial collective services, without direct counter-performance from consumers; through the allocation of some budgetary resources, but also serving to redistribute the national income; as direct economic actor, playing the role of producer and consumer of goods and services; by organizing and institutionalizing nation-wide the power through establishing the legal regime of property and of the economic activity and by creating a favourable framework for the socio-economic activity (role of the state is legal arbiter of the interaction between individual and social interests, present and future, national and international); elaboration and implementation of sectoral economic, regional and general policies and programs, the State acting as the regulator and conductor of the economy.

Conclusions

However, we are interested in knowing the state's involvement in resources' allocation, which must to be determined depending on the extent of the market's dysfunctions of allocation (lack of perfect market transparency, monopolization of production or demand, technical or natural monopoly, existence of collective goods and externalities), such as that the loss of wealth generated by the public action to be inferior to the welfare loss caused by market's dysfunctions of allocation.

The objectives pursued by the State exercising the allocative, distributive and regulating roles in economy are: *efficiency* (insurance of collective property with compulsory use – national defence; augmentation of the private initiative for the rest of the collective goods in cases of technical or natural monopoly as well – industrial, energetic policy, etc.; correction of externalities – environmental policy, positive externality support policy; correction of the monopolistic trends of demand and supply – fiscal, budgetary, regulatory policy, etc.), *equity* (income distribution, social protection insurance, support of the underprivileged categories), *economic balance and growth* – unemployment control and decrease, stabilization of prices and increase of the purchasing power, inflation control and decrease, balance of payments balancing and stimulation of an active balance of payments, general economic stability, economic growth and development. Once the strategic objectives of economic policy have been established and approved by the Parliament, we proceed to identifying the appropriate means and techniques for achieving them.

References

1. Archer, M.S., "Sociology for One World: Unity and Diversity", *International Sociology* (vol. 6, 2, 1991), p. 334.
2. Scholte, Jan Aart, *What is Globalization? The Definitional Issue – Again,* CSGR Working Paper No. 109/02, December 2002, Centre for the Study of Globalization and Regionalization, The University of Warwick, United Kingdom.

3. Taylor, F.W., *Principles of Scientific Management* (London: The Free Press, 1971), 111 p.
4. Sauvant, K.P., *FDI Protectionism Is on the Rise, Policy Research Working Paper* (No. 5052, September 2009, The World Bank, Washington D.C., 2009).
5. Senge, P., *The fifth Discipline: The art & practice of the learning organization* (New-York: Publisher: Doubleday Business, 1990), 424 p.
6. Prusak, L., "Where did knowledge management come from?", *IBM systems journal* (vol. 40, no. 4, 2001), pp. 1002-1007.
7. Adams, R.; Bessant, J.; Phelps, R., "Innovation management measurement: A review", in *International Journal of Management Reviews* (vol. 8, nr. 1, 2006), pp. 235-253.
8. Alfaro, L.; Areendam, Chanda; Kalemli-Ozcan, Senem; Sayek, Selin, "FDI and Economic Growth: The role of Local Financial Markets", *Journal of International Economics* (61, no. 1 (october): 2003), pp. 33-122.
9. Balasubramanyam, V.N.; Salisu; Mohammed; Sapsford, David, "Foreign direct investment and Growth in EP and IS Countries", *Economic Journal* (106, no. 434, 1996), pp. 92-105.
10. Murle, Holger; Klaus, Muller; Dirk, Messner; Nuscheler, Franz, ATT Convention AC 2003.
11. Takeuchi, H., "Beyond Knowledge Management: Lesson from Japan", *Monash Mt. Eliza Business Journal* (1, no. 1, 1998).
12. Peters, Th.; Waterman, R., *In Search of Excellence* (New York: Harper & Row, 1982), 360 p.
13. Quinn, J.B.; Anderson, P.; Finklestein, S., "Managing Professional Intellect: Making the Most of the Best", *Harvard Business Review* (74, 1996), pp. 181-193.
14. IMF, World Economic Outlook Update: *Contractionary Forces Receding But Weak Recovery Ahead*, Washington D.C., 2009.
15. OECD, *Protection de l'emploi et performance du marche du travail, Perspectives de l'emploi,* 1999.
16. *The Compact Edition of the Oxford English Dictionary* (London: Oxford University Press, 1981), 2424 p.
17. Antragstellung im 7. *EU-Forschungsrahmenprogramm*, BmBF (Berlin, 2007), p. 7, http://cordis.europa.eu/fp7/understand_en.html

Annals of Spiru Haret University
Economic Series
Since 2000
ISSN: 2393-1795 ISSN-L:2068-6900

Issue 1/2017