

The Role of Foreign Economic Relations in Rising Economic Effectiveness

In modern world, joining of national and world economy, expansion of foreign economic relations and strengthening of economic connections became natural phenomena. Deepening and broadening of these processes were contributed by the recent political changes and the liberalization of the national economic relations in the world.

Efficiency of foreign economic relations may be defined as comparison between labor costs level of intended production for export and similar expenses of production which can be replaced by import. Obviously, if the expenses which are necessary for the purchasing a certain quantity of goods abroad are less than production costs for the same goods in the country, some economic effect will be achieved. For example, there is possibility of purchasing raw materials and food-stuffs, not only those species that cannot be produced in the given country, because of the natural circumstances, but also those products which are produced in the country, but are cheaper in the world market. Buying such goods in the countries where there are better conditions for manufacturing makes it possible to refuse making serious investments for processing such deposits where the minerals are less effectively arranged or we should deny manufacturing such rural-agricultural products, for which there is lack of suitable climatic conditions.

A. Smith tried to substantiate that world trading is valuable for all countries. He noted: "If any other country can supply us with some goods in cheaper prices than we could produce them ourselves, it is much better to buy them from it with some part of our production, which is implemented in the field where we have some advantage."

According to the famous scientist-economist D. Ricardo's theory, every country will get profit from international trade if they use differences in manufacturing costs. But, unlike Smith, who operates with absolute categories, Ricardo introduces advantages of the relative concept in expenses. He gives such an example: In Portugal certain amount of wine production requires 80 human's work during a year, as for cloth industry requires 90 human's work in the same time period. In England for manufacturing of the same amount of wine is needed 120 human's work, for cloth manufacturing - 100 human's work.

For Portugal it will be profitable to export wine in England and exchange it in cloth. But it was possible to produce cloth itself with less costs of labor than it is done by England. The point is that exchanging capital and labor from cloth manufacturing to wine business in the field where Portugal has greater relative advantages than England, Portugal, by exchanging wine and cloth, will be able to get cloth what will actually cost it only 80 human's work i.e. it will reach economy of 10 human's work. Exchange will be profitable for England, because it has can already

concentrate all recourses in cloth manufacturing; with the exchange it can get certain amount of wine for what it will spend not 120 but 100 human's work. Nowadays, Ricardo's theory is known as the theory of production of relative costs. It comes from the existing differences of expanses in various countries. But it passes over the reasons of these differences.

One reason for these differences is the natural conditions. But the main factor which influences the level of costs is the technical level of production. Structure of people's economy is also very important. That is why, in the world market from the viewpoint of sale of the manufacturing industry's products, the countries having the higher level of economic developed, undoubtedly, have more advantages. From the point of view of the growth of industrial forces, it is essential in which fields the given country's production is concentrated. If we are talking about agriculture, the possibility of this sector to attract additional labor force in terms of the growth of technical support of manufacture is extremely limited. Supporters of the relative costs' theory advised economically less developed countries to specialize primarily in agriculture, which in fact should have caused (and still is) the growth of hidden agrarian excess of population in these countries.

The absence of modern industrial fields still precludes the developing countries from using rationally able-bodied population. The graphic image shows the general terms established in foreign trade, according to 2006-2011 dynamic columns. (See the diagram 11).

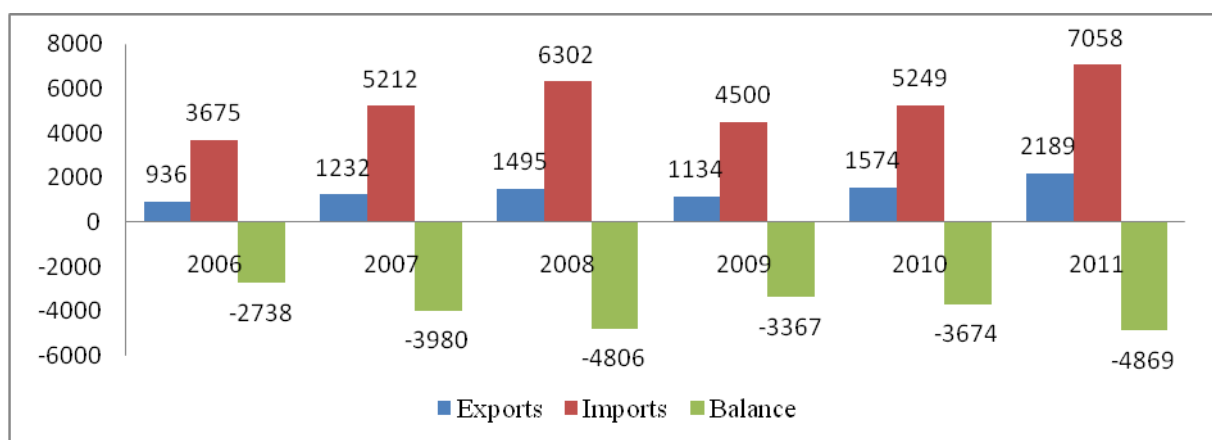


Diagram 11. General data of Georgia's foreign trade

As seen from the above given diagram 11, despite an increase of the absolute indicator of trade deficit, its share in total foreign trade turnover after 2007 is tendentiously descending and currently it is 52.7%. In 2011, the ten largest trading partners' share amounted 67 per cent. Georgia's major trading partners are still Turkey, Azerbaijan and Ukraine. (See the diagram 12).

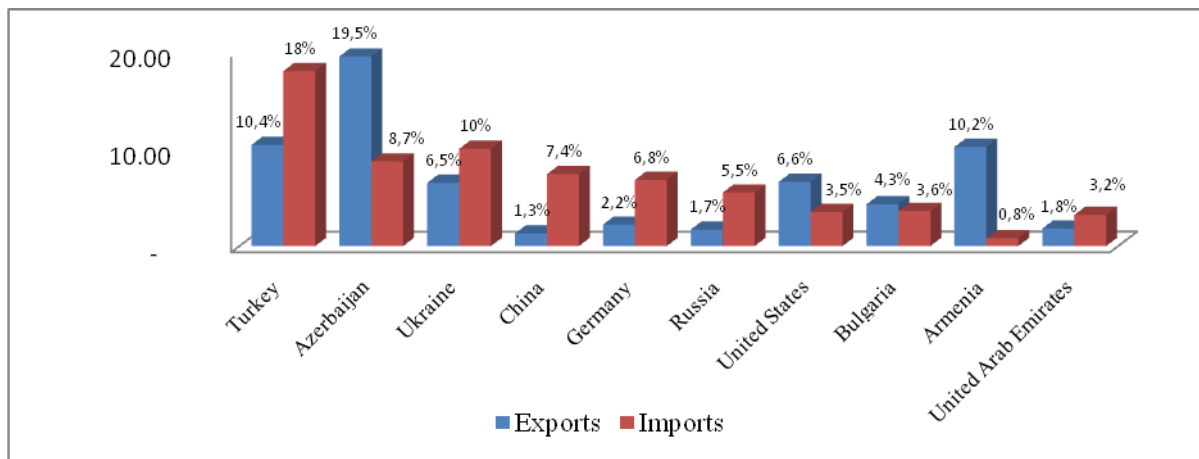


Diagram 12. Ten major trading partner countries in Georgia in 2010

In 2011, in Georgia, from the ten largest export products, the largest growth was observed in export of nuts (103%), nitrogenous fertilizers (100%) and cars (98%). But the largest import product group in Georgia is still remaining oil and petroleum, followed by cars.

Thus, despite the positive trend of growth of export rate, its meaning is obviously lower than import. The process of transition to a market economy is irreversible and the realization process of economic reforms is more or less successful. On this background, the problem of expanding participation of countries and economic systems in international division of labor is rather urgent. This case is new for us, because during the three-quarter of the century, our economy in fact became withdrawn from the independent foreign relations. Starting new business from the beginning is always connected with difficulties. That is why we need the experience in this business, suitable material-technical base, modern level of production organization and technology. The country is still constrained to maintain the orientation of the various international countries' financial aid – preferential credits. I think that it is strictly necessary to take into account theories of A. Smith and D. Ricardo and it only those goods and services should be imported in Georgia whose manufacturing within the countries would be more expansive.

References

1. Baratashvili E. Zarandia J. 2007. *Regional Economic development of Georgia*. Tbilisi.
2. Khaduri N. 2009. *Micro economical policy*. Tbilisi.
3. Foreign trade and direct foreign investments. National Statistics Office of Georgia. www.geostat.ge (23.02.2012).