

THE STRATEGIC IMPACT OF THE BUSINESS DYNAMICS IN EMERGING COUNTRIES ON CONTEMPORARY PERSPECTIVES

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Abstract

The current competitive environment requires countries to make strategic choices regarding international trade which are not without impact on their value regards to positioning. Therefore, it becomes important for business owners and for analysts to assess the impact of policy decisions on global competitiveness and wonder if becoming a future “Giant” does not pass through a choice of sector for export growth. Also how is the comparative advantage of the current Asian Dragon evaluated in the various sectors that underpin its economy? In this paper, we propose a both strategic and economic analysis case of the new global competitive order based on the concept of comparative advantage to find that China, by taking advantage of all its assets, has built a model which is typical while integrating the new realities of contemporary global trade, occupying a prominent place in the global economic landscape. The present article goes beyond this Asian dragon’s rather negative image to highlight its success in adapting to the reconceptualization of economic exchanges.

Key words: Strategy, competitiveness, added value, economic analysis, economic development.

Marking the 2000s by its ascension into world trade¹, and after surpassing, in 2008, the German level in manufactured exports, China saw, in 2009, its share in total world trade of goods exceeding the Germany². From 1998 to 2008, the total Chinese share in world exports grew at 23% per year, twice the growth rate of total world exports. If the trend continues, exports from China could represent a quarter of the global total in 2018, surpassing the U.S. in the 1950s that didn’t reach this figure since totalizing at the time, only 18% of world exports (as against 8% in 2009). However, the possibility of a decline of the Chinese exports growth rate remains. According to IMF forecasts, these exports are expected to represent 12% of world total in 2010. Worth 9.6% in 2009, this share corresponded to that of Japan at its peak, is 1986³. In addition, the IMF, in a study published in 2009, indicated that a Chinese GDP growth rate remaining at or above 8% and a growth still heavily dependent on exports would mechanically raise this dragon’s share in world exports to 17% in 2020. However,

the crisis of 2008-9 caused the share of exports in China’s GDP to drop from 36% in 2007 to 24% in 2009.

In this regard, it is worth asking whether the future growth of Chinese exports wouldn’t come from its exports of high added value products (computers and vehicles) rather than textile. How comparative advantage in this country is evaluated the various sectors that underpin its economy?

To address this issue of International Affairs, it will be conducted a comparative analysis of this dragon with the rest of the world by sector, and with the assumption that it will, as regards the export growth, take the same way as Japan that gradually exported products of increasingly high added value. It will, in this article, be traced the concept of “comparative advantage”, to then bring out a stark and pertinent analysis of the results recorded by the Chinese trade during the last decade.

Conceptual Framework

For this paper purposes, we are led to identify one key concept necessary in understanding our theme: the concept of comparative advantage. It is the ability of an economic agent (individual, company, country) to create a product or service for a lower opportunity cost than

¹Figures on China's place in global trade given below are from the article "China's export prospects, Fear of the Dragon", The Economist, January 7, 2010.

²In 1997, China was only the 10th largest exporter! See the table of the main exporters in 1997.

³Since then, Japan’s share fell to 5%, partly because of the rising yen.

that borne by other economic agents. For Paul Krugman, it's especially the ability to grasp the difference between comparative advantage and absolute advantage that defines an economist⁴. If comparative advantage should not be confused with absolute advantage, which is a special case of comparative advantage, it should not be with the concepts of free trade (international trade without tariffs and other artificial restrictions to trade), the gains from trade, or the international division of labor which are distinct, though related to that of comparative advantage. The latter is, with returns to scale, the main determinant of international trade⁵.

Although the idea of comparative advantage was exposed by Robert TORRENS in 1815⁶, its authorship is attributed to David Ricardo (1817), whose best known proof could be found in his *Principles of political economy and taxation*. Taking the example of England and Portugal, both of able to produce wine and cloth, he shows that the comparison of the production costs of wine to cloth (or cloth to wine) in each country simultaneously reveals the comparative advantage of each country. The ratio of production costs is also known as relative cost, opportunity cost, or even relative productivity. The two basic models of comparative advantage are Heckscher-Ohlin's and Ricardo's.

The Heckscher-Ohlin-Samuelson model

Named after its three principal architects, the Swedish economists Eli Heckscher Filip (1879-1952) and Bertil Ohlin (1899-1979) and American economist Paul Samuelson (1915-2009), the Heckscher-Ohlin-Samuelson model is frequently referred to as the "HOS model". But the name

of Wassily Leontief (1909-1999) should also be associated with this model because the empirical test that he has done. The study of this model requires, initially, understanding the functioning of a "Heckscher-Ohlinian" economy in a closed economy or "autarky", and then comparing it to another economy that is identical in all respects except for relative factor endowments. This comparison aims to highlight the direct dependence of the concept of comparative advantage to both countries' factor endowments: it is the heart of the Heckscher-Ohlin "theorem".

Indeed, stating that comparative advantage is determined by differences in relative endowments between countries, the HOS theorem is a direct consequence of the Rybczynski theorem which allowed us to establish, under the HOS model with two goods and two factors, that the higher the capital-labor ratio of a country, the higher the supply curve is shifted to the right. The proof of this theorem involves the comparison of the autarkic equilibrium of two countries with identical technologies and different production relative factor endowments.

Let two countries, h , home country, and f , foreign country when the country h has a capital-labor ratio higher than the country f 's ($k > k^*$)⁷. The h 's relative supply curve is more right than f 's while their relative demand curves merge, the two countries having the same utility function. It follows that in absence of international trade, at equilibrium of supply and demand of each country, the relative price of good 1 is lower in country f than h while good 2 has lower relative price in h than in f . In other words, the country h has a comparative advantage in the production of good 2 while f harbors a comparative advantage in the production of good 1.

It should be noted that, in this model, comparative advantage is explained neither by differences in technology (since, by definition, production technologies are identical from one country to another) nor by differences in taste (preferences for goods are identical). The only reason why relative prices before exchange are different lays in the fact that h has a capital-labor ratio greater than f , which gives it a comparative advantage in producing good 2. Conversely, f has a higher labor-capital ratio than h , which gives it a comparative advantage in producing good 1.

In sum, in our example, where $k > k^*$ and where, by hypothesis⁸, production of good 2 requires relatively more

⁴ If there were an Economist's Creed, it would surely contain the affirmations « I understand the Principle of Comparative Advantage » and « I advocate Free Trade ». For one hundred seventy years, the appreciation that international trade benefits a country whether it is "fair" or not has been one of the touchstones of professionalism in economics. Comparative advantage is not just an idea both simple and profound: it is an idea that conflicts directly with both stubborn popular prejudices and powerful interests. This combination makes the defence of free trade as close to a sacred tenet as any idea in economics" - Paul KRUGMAN, "Is Free Trade Passé?" by Paul R. KRUGMAN, *Journal of Economic Perspectives*, vol.1, no.2, 1987, pp.131-44.

⁵ I like to begin classes on international trade by telling students that there are two basic explanations of international trade. The first is comparative advantage, which says that countries trade to take advantage of their differences – a concept that lay at the heart of Alan Deardorff's beautiful, classic paper "The general validity of the law of comparative advantage" (1980). The second is increasing returns, which says that countries trade to take advantage of the inherent advantages of specialization, which allows large-scale production – which is what the "new trade theory" was all about" - Paul KRUGMAN, "Increasing Returns in a Comparative Advantage World", novembre 2009, 15 pages.

⁶ But the issue is controversial [see, for example, the article by Roy RUFFIN, *Debunking a Myth: Torrens on Comparative advantage*]

⁷ To distinguish the country f from the country h , an asterisk is added to the symbols on the country f .

⁸ This hypothesis, like other HOS model assumptions is discussed in more details at <http://www.mazeroille.fr/Economie-internationale/Glossaire-economie-internationale/Modele-2X2-standard-Hypotheses-centrales.pdf>

capital than labor, the Heckscher-Ohlin theorem can be stated as follows: the country h , relatively abundant capital ($k > k^*$) has a comparative advantage in production of good 2 (since the production of good 2 uses capital relatively intensively). As for the country f , relatively abundant in labor, it has a comparative advantage in production of good 1 (because the production of good 1 uses the work of relatively intensively). It follows that at autarkic equilibrium, the country h produces relatively more of good 2 than f (conversely, the country f produces relatively more of good 1 than h). Openness to trade will cause h to specialize in production and export of good 2 and f 's specialization in production and export of good 1. As this is a model of just two countries, exports of h will go to f and f 's exports will go to h .

Optimality of Free Trade in the Ricardo Model

On another hand, the RICARDO model bases itself on usual concepts of microeconomic theory to show that the specialization of each country in the production and export of goods for which it has a comparative advantage, improves well-being in each country. For this, it shows that the international exchange based on the exploitation of comparative advantage improves the purchasing power of wages in both countries. Indeed, the comparison between autarky and free trade shows the overall superiority of the purchasing power of wages in conditions of free trade relative regards to the purchasing power of wages in the autarkic economy.

For example, RICARDO considers two countries, namely England and Portugal, and two goods, wine and cloth, from which he evaluates the purchasing power of the hourly wage for these two products in autarkic economy, then where free trade occurs. In England, the hourly wage yields 0.01 hl of wine for free trade instead of 0.008 hl in autarky. Regarding cloth, the purchasing power of wages is the same in autarky and free trade (0.01 m2). In Portugal, the hourly wage yields 0.0125 m2 of cloth in free trade instead of 0.011 m2 in autarky. As regards wine, the purchasing power of wages is the same in autarky and free trade (0.0125 hl). We can therefore conclude that free trade improves both the English and Portuguese overall purchasing power of wages.

The Theory of International Trade

In regard to the model that was previously shown, it is important to understand the concept of exchange, including

international exchange, distinct from that of comparative advantage, though linked to it. Based on the concept of exchange among economic agents, the positive theory of international trade of David Ricardo, developed mainly in the microeconomics field, is rooted in the ideas of neoclassical economists, particularly in the theory of general equilibrium including consideration of the phenomenon of exchange without production, called "pure trade" and the exchange with production. Insofar as the exchange becomes international, it fits into the broader framework of international economic relations. International Economy could be seen as an observable reality that should be described from a statistical point of view and facts: the economic exchanges between the nations are steadily growing and being an essential component of globalization, while as trade policy of countries. In this latter sense, it is often the terms "international trade" or "international trade", which are used.

Methodology: Content Analysis Linked to the Index of Competitiveness of the World Economic Forum

The study of countries' growth factors will be based on an analysis of the competitiveness index published annually by the World Economic Forum in Davos. This index is a score assigned to different countries varying, in 2009, between 2.58 (Burundi) and 5.6 (Switzerland), from which countries are ranked. This classification is meant to reflect the competitiveness of countries, which is evaluated by 12 criteria (the 12 pillars of competitiveness⁹) defined by the WEF and also by the interaction of these criteria allow in fact distinguishing three categories of economies.

The Three Stages of Development According to the Wef

It must indeed be noted that the 12 factors or pillars of competitiveness defined by the WEF interact and even mutually reinforce themselves. For example, innovation (12th pillar) is inconceivable in a world where powerful institutions (Pillar 1) are absent, because starting innovation requires that a protection by copyright IP. Similarly, if the workforce is not educated (5th pillar), or the different

⁹See the notice "Les 12 piliers de la compétitivité selon le World Economic Forum", <http://www.mazerolle.fr/Economie-internationale/Glossaire-economie-internationale/12-piliers-de-la-competitivite-selon-le-World-Economic-Forum.pdf>

markets not efficient (pillars 6, 7 and 8) or there is no infrastructure (pillar 2), innovation will not be possible or will be very limited. From these interactions emerges a classification of countries according to factors that influence their competitiveness. These economic classes define the countries' development level, and by extension the role of the 12 pillars. Thus, improving the competitiveness of Chad does not go through the same channels as in Japan or the United States, these countries not being at the same stage of development. As the latter evolves, the level of wage increases, and thus increases the income per head of population, hence the need to improve productivity to maintain the living standards. Three types of economies can be distinguished, including economies whose competitiveness is under the influence of their resources in production factors, those whose competitiveness is under the influence of efficiency and those whose competitiveness is influenced by innovation.

- *Economies whose competitiveness is determined by their **resource inputs**.* These are economies whose competitiveness is sustained by their resources in production factors, mainly unskilled labor and natural resources. Companies in these countries sell commodities, manufactured by unskilled labor and therefore not well paid. The maintenance and enhancement of competitiveness at this stage of development essentially requires the proper functioning of public and private institutions (pillar 1), the efficiency of infrastructure (pillar 2), the stability of the macroeconomic environment (pillar 3) and healthy workforces a basic education (pillar 4).
- *Economies whose competitiveness is determined by their **efficiency**.* As wages rise, as production methods become more complex and product quality improves, competitiveness is mainly governed by the workforce qualification and vocational training (pillar 5), efficient goods and services market (pillar 6), labor market (Pillar 7) and capital markets (pillar 8), and by the domestic and / or export market size (pillar 10) and technological agility (pillar 9).
- *Economies whose competitiveness is determined by **innovation**.* The economies that fall into this category are those where wages are high, even very high, as well as living standards, and where the main competitive factors become innovation (pillar 12), which takes the form of knowing how to make new and different products, as well as a dense and advanced organization intra and inter firms (pillar 11).

Result and Analysis

Still ranked by the WEF in 2008-9 in an intermediate stage between stages 1 and 2, according to the GDP per capita criterion (in current dollars not in PPP dollars), China is now ranked among countries of group 2 with its GDP per capita in current dollars over \$ 3,000.

GDP threshold for membership in a stage of development	
Development stage	GDP per capita (in current dollars)
Stage 1: Economies whose competitiveness is determined by their resource inputs	<2000
Transition between 1 and 2	From 2000 to 3000
Stage 2: Economies whose competitiveness is determined by their efficiency	From 3000 to 9000
Transition between 2 and 3	From 9000 to 17000
Stage 3: Economies whose competitiveness is determined by innovation	>17000 dollars

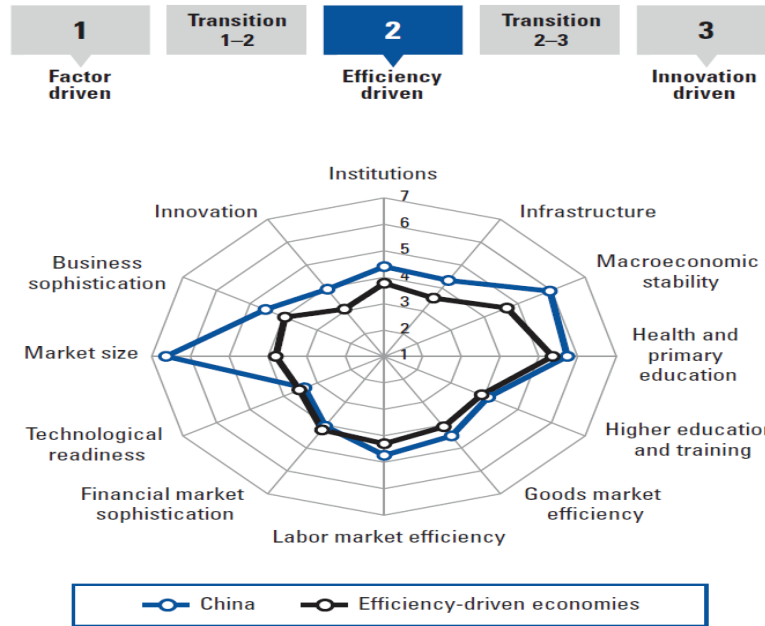
An Emerging Giant in Global Competitiveness

According to the WEF latest report of (Global Competitiveness Report 2009-10), this Asian giant's Global Competitiveness Index 2009-10 is 4.74 out of 7, giving it the 29th position out of 133 countries, an honorable and progressive position. Below is China's ranking with more details on each of the 12 pillars:

	Rank (out of 133)	Score (1-7)
GCI 2009-2010	29	4.7
GCI 2008-2009 (out of 134)	30	4.7
GCI 2007-2008 (out of 131)	34	4.6
Basic requirements	36	5.1
1st pillar: Institutions	48	4.4
2nd pillar: Infrastructure	46	4.3
3rd pillar: Macroeconomic stability	8	5.9
4th pillar: Health and primary education	45	5.7
Efficiency enhancers	32	4.6
5th pillar: Higher education and training	61	4.1
6th pillar: Goods market efficiency	42	4.5
7th pillar: Labor market efficiency	32	4.7
8th pillar: Financial market sophistication	81	4.1
9th pillar: Technological readiness	79	3.4
10th pillar: Market size	2	6.6
Innovation and sophistication factors	29	4.2
11th pillar: Business sophistication	38	4.5
12th pillar: Innovation	26	3.9

Represented by a so-called "spider" graph and compared with the average performance of category 2 countries (economies whose competitiveness is determined by efficiency), this ranking shows that the dragons' country does as well or better, especially as regards the market size and macroeconomic stability.

Stage of development



However, economic development does not take place smoothly. In this regard, the chart below highlights the most problematic aspects of business:

Competitive Advantage and Competitive Disadvantage

The small square appearing next to the China's rank for each indicator shows a situation of either competitive advantage (dark blue) or competitive disadvantage (light gray). For determining the nature of competitiveness (the color of the square), the WEF proceed in accordance to the position of countries in the global CGI index. Indeed, those classified in the top 10 have a competitive advantage for an indicator when it also has a rank lower than 10. Otherwise, it is considered a competitive disadvantage. Furthermore, countries at ranks higher than or equal to 11 (it's the case of the Asian dragon that is 29th) have a competitive advantage for an indicator when its rank is lower than the country's global ranking, otherwise there is a competitive disadvantage for the indicator. Indicators ranked below 29 have therefore a dark blue square to indicate the competitive advantage of the dragons' country.

Some Examples of Expanding Industries

If the Asian giant is an emerging economy, relatively new to the world trading scene, it does however have many assets to shine on it and make the longer-established countries worry. Indeed, expanding in many sectors, the first

country in the world in terms of market size is participating in reshaping world trade, particularly by cutting itself a special place.

The Aviation Industry

Until the late 2000s, with the U.S. McDONNELL DOUGLAS that disappeared in 1997, and the Brazilian EMBRAER, BOMBARDIER the Canadian, Russian and Japanese Mitsubishi SUKHOI limited to regional aircraft and having no real influence on neither of the Toulouse and Seattle giants' strategies, airliners manufacturers competing with Boeing and Airbus were rare. However, AVIC, the newcomer from the land of dragons, supported by this land's 11th Five-Year Plan (2006-2010), could change the deal, and make the two global giants worry, especially by the planned launch of a medium-haul with 150 seats, thus competing with the two giants much earlier than expected.

Next to AVIC, Bombardier, with its CSeries, also becomes a potential competitor:

"Annoncé pour une capacité standard de 130 sièges, il pourrait ainsi faire de l'ombre à l'A318, le plus petit des Airbus, dès 2013. Sukhoï, avec son nouveau Superjet et Embraer avec son E-190 affichent également leur ambition sur ce segment de marché. Mais la principale menace est le futur appareil chinois C919, dont le premier vol est annoncé pour 2014. D'une capacité de 170 à 190 sièges, ce futur rival de l'A320 et du B737 pourra lui aussi compter sur le dernier cri en matière de réacteurs et d'équipements."

Bien que très jeune, l'industrie aéronautique chinoise a en effet tous les atouts. Outre ses centaines de milliers d'ingénieurs, elle peut compter sur les moyens financiers colossaux de l'Etat et sur un marché national en plein boom, susceptible d'absorber quelque 2.800 avions neufs d'ici à 2026. Aucun de ses concurrents n'a autant de cartes en main. Bombardier l'a d'ailleurs bien compris, qui a conclu un partenariat stratégique avec l'industrie chinoise, lui offrant son expertise et son implantation internationale pour le C919 en échange d'un coup de pouce financier pour son Cseries"¹⁰. It should also be noted that with the recent installation in Tianjin of the A320 first assembly line outside Europe, Airbus aims to take a part in the largest market of world¹¹.

Satellite Positioning System

In addition to the aviation industry, the Asian giant cuts itself a place in the satellite space by launching the building of its own system, called "Beidou", whose release is scheduled for 2015. Direct competitor of the European Galileo project, it has more than 30 satellites, five of which have already been installed. Concerned, Europe, which has fallen behind in the Galileo project, denounced the fact that China is currently pre-empting the frequency allocated to the European Union by the International Telecommunication Union. Indeed, China has published frequencies and signals that overwrap those of Galileo. However, the strongest signal "crushing" the others, some of Galileo signals could be jammed by the Chinese satellites and made non-functional, especially the encrypted signals reserved among others to Defense¹².

High Speed Trains

In terms of land transport, land of dragons is setting up travel at high speed. Indeed, although the French Alstom denied it the transfer of its technology, the Chinese TGV was nevertheless established, namely the Wuhan-Guangzhou line (departure from the new Guangzhou Railway Station), where circulate Nippon and German

designed TGV (derived from the Japanese Shinkansen and the German Velaro) reaching peaks of 350 km / h (cons 320 maximum in France). He still benefited from the SNCF expertise in station construction. Now, China intends to sell its know-how on TGV to Saudi Arabia and also plans to build, by 2020, 45,000 km of high-speed lines, widely outdoing the French 1000km of high speed lines¹³.

Mobile Phone Industry

Regarding the mobile sector, it is in February 2010 that the Asian giant passed the milestone of one billion users with a mobile operator market controlled entirely by local businesses, which do well on the OEM market too.

An article in "Les Echos" focuses on the two giants China Telecom, ZTE and Huawei¹⁴ that, like many others, are typical of the rise of the Asian Dragon's economy and, more significantly, follows the curve of its evolution. In the early 1980s, Ren Zhengfei, a researcher in the laboratories of the army in Beijing and founder of Huawei, and Hou Weigui, ZTE's founder, working in Xian in a research center in electronics, adopted a similar strategy to win :

"Face à un marché balbutiant en Chine et des acteurs européens comme Alcatel, Siemens, Nokia ou Ericsson, qui trustent les relations avec les grandes sociétés d'État, les deux nouveaux venus se sont lancés à l'assaut des campagnes chinoises totalement sous-équipées, avec une arme, l'engouement pour le téléphone mobile. Et un argument massue, le prix. Quand le fournisseur européen vendait son matériel de 200 à 300 dollars la ligne, Huawei et ZTE séduisaient les PTT de troisième zone avec leurs matériels trois fois moins chers".

They then repeated this low cost strategy in Pakistan, Burma and Africa, with this incredible feature, inspired by the postwar Marshall Plan, i.e. finance the purchase of their own products with the help of the Chinese Government to these countries, and now they are entering India, the old Europe and the strong America. Indeed, something to give cold sweat to Alcatel that, a decade ago, reigned supreme but must now be content with the bare minimum:

"Ainsi, lors de son dernier appel d'offres en décembre dernier pour son nouveau réseau au protocole Internet, le premier opérateur du pays, China Mobile, a en quelque sorte livré une photo du nouvel équilibre des forces. Selon

¹⁰Bruno TREVIDIC, Le troisième avionneur mondial sera-t-il chinois ? Les Echos, December 7, 2009.

¹¹See <http://www.mazeroille.fr/Economie-internationale/Glossaire-economie-internationale/IDE-francais-en-Chine-et-chinois-en-france.pdf>

¹²But Beijing was involved in the Galileo project to the tune of 65 million euros and a portion of the work was entrusted to Chinese companies. Despite this cooperation, the Chinese government has developed a competing system.

¹³See « La Chine s'affirme comme un acteur majeur de la grande vitesse ferroviaire », Les Echos, June 21, 2010.

¹⁴See "Deux oiseaux dans les télécoms chinoises", by Philippe ESCANDE, Les Echos, April 7, 2010.

les analystes d'iSuppli, il aurait accordé 35% du marché à ZTE, autant à Huawei, 10% à Alcatel- Lucent et 5 % à Ericsson. On comprend mieux les problèmes d'Alcatel, qui dix ans avant était le leader incontesté de ce marché”.

Banking

The financial sector does not fall behind, given the vast expansion of banks in the country of dragons since the 2000s. As a proof, in 2010, four of the top five banks in the world are Chinese according to their book to market ratio¹⁵.

Scientific Research

Regarding the scientific research, the Asian giant is experiencing a continuous boom since the 1980s, 1990s and 2000s, ranking second in the world behind the United States, according to the Financial Times¹⁶. Although the indicators of this development are not necessarily very illuminating and reliable, the newspaper bases itself on the research articles published in scientific journals criterion to make this classification. Since 1981, the number of publications has been multiplied by 64 reaching, in 2008, no fewer than 112,318 articles published by Chinese researchers (against 332,916 in the U.S.).

The Financial Times quoting James Wilsdon, director of the Science Policy Centre of the Royal Society, shows three factors thought to be behind this growth, namely the huge public investment in education and research at all research levels, in both schools and universities, the fast and well organized circulation and dissemination of scientific information and the set up by the Chinese government of very attractive opportunities for researchers in the Diaspora, allowing them to teach in their country, while continuing to spend part of their time abroad.

Steelmaking

Concerning heavy industry, steel production, considered as an indicator of the power of a national industry, because of the use of this material in the composition of a large number of industrial products, brand the supremacy of the Asian giant, by far the largest producer of steel. Moreover,

the Chinese Hebei Steel and Bao Steel are two of the five largest producers of steel in the world (see graphic).



Multiple Assets: Acquisitions, Counterfeiting, Espionage and Authoritarian Planning ... But Also Tourism Counterfeiting, the Cybersitter Case Example

To reach the level of the greatest in areas where technology is usually a hurdle, China does not hesitate to use the counterfeit, fast and inexpensive, to build its competitiveness in high technology industries. The example of the Green Youth Escort Dam, complex software tracking keywords to prevent any connections to websites deemed politically sensitive¹⁷ is typical of the use of counterfeiting at the State's highest level. In 2009, imposed on all manufacturers of computers working on the world's largest market (since June 2009, the installation is no longer mandatory but only recommended), this software is actually derived from the piracy of a parental control software belonging to American CYBERSITTER, based in Santa Barbara, California. The company attacked, in

¹⁵The price-to-book ratio, or P/B ratio, is a financial ratio used to compare a company's book value to its current market price. Book value is an accounting term denoting the portion of the company held by the shareholders; in other words, the company's total tangible assets less its total liabilities.

¹⁶Clive COOKSON, China scientists lead world in research growth, Financial Times, January 25, 2010.

¹⁷The Green Dam completes the censoring system already imposed on the Internet in this country. It prevents access to websites reporting on the repression of the Tiananmen place riots, the Tibet crisis or the Falungong organization activities.

U.S. court, (the communist government of the country of dragons totally controlling the local judiciary) seven PC manufacturers and two local designers for hacking 3000 code lines. This has not been to slow the Asian giant, which plans to export its product.

An extraordinary and unexpected development in the environmental sector

Five keys to understand the Solar Sector	
•	Germany represented more than half of the world's photovoltaic systems in 2009.
	Down last year, the global market should have its growth back in 2010, with an increase of the sales volume worth at least 40% according to experts.
	The actual production capacities (around 17 Gig watts) are already able to cover market's needs till 2012-2013, according to PwC.
	U.S. and China are considered as the next growth relay of this sector.
	This sector employs 5500 people in France. According to the renewable energies Union, it could have around 15000 employees the year 2012.

Taken not long ago as nasty polluters, as gravediggers for the Copenhagen Summit of December 2009, the Asian giant is now poised to overtake the objectives of the Summit.

In fact, while in France the carbon tax, is sacrificed for economic growth, the land of dragons carved a very large place on the wind turbine market. Furthermore, world's fourth solar panel manufacturer, the company Yingli Solar produces good quality panels for a price 30% cheaper, bought by the biggest companies in the world, including GDF Suez, which has ordered 145,000 of them to build a large solar power plant in southern France. We must note that four of the top 10 solar panels makers are Chinese: Suntech (2nd), Yingli (4th), Trina Solar (6th) and Solarium (8th).

It should be noted, however, that the largest population of the world remains one of the biggest polluters in the world, although progressing in the right direction while many others, such as France, although prone to criticism, go down. And, indeed it was in June 2010 that Beijing launched its subsidy plan for electric cars in five test cities¹⁸. However, it is likely that these subsidies are not

¹⁸Dans un programme d'aides comparable à ceux expérimentés en Occident et au Japon, le ministère des Finances a annoncé qu'il allait offrir aux habitants des villes de Shanghai, Shenzhen, Hangzhou, Hefei et Changchun un rabais allant jusqu'à 50000 yuans, soit 5800 euros lors de l'achat d'une automobile hybride rechargeable et de 60000 yuans (7200 euros) pour chaque investissement dans un véhicule tout électrique. This targeted strategy aims to help local manufacturers, which are located differently in these five cities: SAIC in Shanghai, BYD is in Shenzhen, Geely is in Hangzhou, Chery is in Hefei and FAW in Changchun.

sufficient for the demand of electric cars to take off if they are not accompanied by massive public investment in infrastructure adequate for their use (battery management terminals or loading points, or battery exchange stands).

Goods and Services

Comprehensive and systematic data on world trade are known about 18 months apart from the current date. In 2009, for example, figures for 2008 are published around the middle of the year in the World Trade Report 2009 of the WTO. The first data to be published are those of the classification of countries according to their total exports and imports. An early circulation of data is possible, but it carries the risk of a wrong recycling of data from the previous year exploiting the difference between the date of publication and the time of data.

Goods International Trade In 2009

After studying the Chinese economy through its business activities, it is important to consider it on a bigger field: International trade. It requires noting that the landscape of global trade depends on how the EU-27 is processed in the distribution of trade flows, because of the centrality of the EU. Thus, should be considered the case in which the main goods exporters and importers include the EU countries as individual entities, then the case of the main goods exporters and importers excluding intra-EU trade. In the table below, each country of the EU-27 is treated separately. Several interesting points emerge¹⁹:

- In 2009, China became the world's largest exporter, overtaking Germany.
- Three major powers are clearly distinguishable from others, as regards both exports and imports: China, Germany and the United States.
- Regarding China, it should be noted that a significant portion of Chinese exports are actually produced by Western and Japanese multinational firms operating in the largest market in the world.
- The role of France in international trade, though modest, is significant mainly as a consumer-importer (6th exporter, importer 4th)
- The bulk of world exports and imports is the result of a small number of countries.

¹⁹Source: WTO, World Trade Report 2010

- The total of world exports and imports do not coincide due to significant statistical error margins.

Dealing instead with the EU as a whole and treats the intra-European as intra-regional trade, such as trade between California and Texas in the United States, or between Guangdong and Sichuan in China, draws a quite different picture²⁰:

- The EU-25 then appears as the leading exporter (unless you add China, Hong Kong and Taiwan).
- The U.S. remains the largest importer before the EU and the Asian giant.
- The disappearance of trade between EU countries “reduces” the total world trade and therefore increases the share of major countries. For example, the dragons’ country’s share is 11.8% (excluding Hong Kong and Taiwan).
- In both cases, we note that:
- Countries like India and Russia are also major emerging economies; however, they remain far behind the world three major goods exporters and importers.
- Japan remains a major exporting power, and it is more apparent if we look at the chart excluding intra-EU trade, but it was surpassed by China in a decade, reflecting the speed of the transformations characterizing global economy.

The Dominance of Intra-Regional Over Inter-Regional Trade

Like the EU, “the regional blocs” are very important in the assessment of international trade, since, in general, the largest share of world trade takes place within the blocks, especially within the EU.

In addition to goods, there are, on the international market, a sizeable flow of other types of properties, less tangible than the first, namely services. It is therefore important to understand well the services international trade, given their increasingly important role in an economy more and more globalized. In the Balance of Payments Statistics, the various parts of the current account are titled respectively: Goods, Services (including services provided or received by the government), Income (investment income and wages) and Current transfers (operations without consideration).

Not existing as such, the commercial services category, defined by the WTO “*as equal to services minus those provided or received by public administrations*”²¹, is divided into three categories: transportation, travel and other commercial services.

Transportation category. Covering all transport services (sea, air and others, including land and inland water transport, through space and pipeline) offered by residents of an economy to those of another, it concerns transporting passengers, goods carriage (freight), rental (charters) of carriers with crew and other linked services.

Travel category. Covering goods and services purchased for personal use by travelers - for health, educational or other purposes - as well as those who travel for professional reasons, it does not involve a particular kind of service, but an assortment of goods and services “consumed” by travelers. The most common entries in this category are housing, food and beverages, entertainment, transportation (within the economy visited), gifts and souvenirs.

Other Commercial Services

- *Communication services:* they include the telecommunications, postal services and courier services. Telecommunication services include the transmission of sound, images or other information by telephone, telex, telegram, radio and cable television broadcasting, satellite, electronic mail, fax etc., including communications networks, teleconferencing and support services, but not the value of the transmitted information. Are also included mobile telephone services, Internet services and basic online access services, including the provision of Internet access;
- *Building and public works services:* they include work performed on construction and installations projects by employees of a company outside the economic territory (the one-year rule used to determine the resident status is to be applied with flexibility). Furthermore, the goods used for these projects are included, involving a tendency to overestimate these services.
- *Insurance services* related to various forms of insurance to non-residents by resident insurance companies and vice versa, as freight insurance, direct insurance (eg life insurance) and Reinsurance;
- *Computer and information services* including data services (services related to hardware and software and

²⁰Idem

²¹Detailed classification source: WTO metadata, http://www.wto.org/french/res_f/statis_f/its2007_f/its07_metadata_f.pdf pages 161-2.

data processing services), the news agency services (provision of information, pictures and articles to the media) and other information services (services database and web search);

- *Royalties and license fees*, including payment and receipts pertaining to the export of non-financial intangible assets and property rights such as patents, copyrights, trademarks, industrial processes, and franchises;
- *Other services to enterprises*, namely trade-related services, operational leasing (leasing without operators), and miscellaneous business, professional and technical services such as legal, accounting and management consulting, public relations services, advertising, market research and opinion polling, research and development services, architectural services, engineering and other technical services, agricultural services, mining and processing on site.
- *Personal, cultural and recreational services* subdivided into two sub-categories:
- *Audiovisual services* covering services and commissions relating to the production of films, radio and television broadcasts and musical recordings.
- *Other cultural and recreational services* which cover, among other services associated with museums, libraries, archives and other cultural activities, sports and recreation.

When providing services to foreign countries is done through the establishment of a subsidiary or a branch, it is excluded from international trade flows measured by the balance of payments, hence an under-estimation of the importance of the commercial services provided by foreign firms to a country. This is highlighted by data on foreign direct investment in companies operating in the services sector showing an absorption in this sector of at least 50-55% of total foreign direct investment with, as a dominant means of service providing, the establishment of foreign subsidiaries.

In this regard, marking a major turning point in international trade, the strategy initiated by Deng in 1978, generally considered to have borne fruit, despite the significant imbalances and the major challenges (environment, population, income disparities, and geographic inequalities) to meet in the coming decades, hard to explain. However, in an article in the Financial Times, Gideon Rachman writes:

“The background to Deng Xiaoping’s liberalisation of the Chinese economy in 1978 was a fiscal and foreign

*exchange crisis. Finding itself desperately short of cash, the Chinese government was much more willing to embrace heterodox economic ideas that promised to deliver faster growth and higher revenues. The rest is history”*²²

It would thus be the realization that, during a severe crisis, the former communist regime was at its loss, which made the land of dragons to change course in addition to having a capable man in command.

In 2009, despite criticism of its recovery plan, this country surprised the world by the effectiveness of its response to the moderate decline in exports to the United States and Europe, ensuring a record growth rate of 8.5%, triggering a good recovery of its exports after a relatively short period of very strong decrease.

Done in favor of domestic demand, but more towards the infrastructure demand than in direction of consumer demand, the recovery plan has given birth to a fear of overcapacity. In particular, the generosity of banks in granting loans to enterprises supported by the CPC (on its request) has generated significant growth in the money supply.

Moreover, the latter continues to grow with the purchase of dollars from the products exported by the Bank of China to maintain the fixed parity. However, there is doubt about the “sterilization” of this currency (i.e. the withdrawal of an equivalent amount of traffic to avoid excess liquidity) that is not very likely, given the highly expansionary monetary policy. The reserve requirement imposed on banks may well have been raised (and is already among the highest in the world, approximately 16%), this important liquidity, not necessarily quite appropriately invested causes imbalances.

Since the entry of the Asian giant in the WTO in 2001 and especially since his claim as world’s top exporter in 2009, thanks to the global crisis, some no longer hesitate to speak of the “Beijing Consensus” to describe the emergence of a new world economic order *“fondé sur la dissociation de la liberté politique et de la liberté économique, la restriction de l’État de droit, le contrôle de l’information et de la société, le pilotage du développement et des investissements par la puissance publique, la gestion discrétionnaire du crédit et du change”*²³. This term, coined in 2004 by Joshua Cooper Ramo, is quoted in a recent book by American scholar Stefan Halper, in its title: *The Beijing Consensus, How China’s Authoritarian Model Will Dominate the Twenty-First Century*. However, in the land

²²Bankruptcy could be good for America, Financial Times, January 11, 2010.

²³See Nicolas BAVEREZ, “La bataille des Normes”, Le Monde de l’économie, April 20, 2010.

of dragons, where it appears that “The Beijing Consensus is to keep quiet”²⁴, one remains quite discreet about this concept even hesitant to talk about “a Chinese development model”, despite various publications such as “China Model: A New Development Model from the Sixty Years of the People’s Republic” (November 2009), or “China Model: Experiences and Difficulties”(January 2010).

Conclusion

At the end of this article about the strategic impact of the business dynamics in emerging countries on contemporary perspectives and its questions about International Affairs, it should be drawn some useful lessons. Indeed, China, the largest market in the world, occupies a prominent place in the global economic landscape. Booming, thanks to the expansion of its various sectors, this Asian giant has come to upset the world trade with a growing interest in high technology. Taking advantage of all its assets (a large population, a strong regulatory culture, etc...) and no inhibitions (counterfeit) to have a place beside or in front of the previously dominant economies, this has something to be feared by those economies, as well in the aviation industry as in Steelmaking and banking. Beyond its rather negative image (communist, repressive and polluter), the Asian dragon has built a model which is typical while integrating the new realities of contemporary global trade. While meeting the challenge of modernity, it succeeded in adapting to the reconceptualization of economic exchanges which are often defined today, so much broader than simple barter of property against another, as envisaged in the theory of exchange. Exchanges of this country with the world in fact include not only goods and services but also international capital flows, technology transfers, the movement of ideas, economic migration, research and development as a determinant of international competitiveness of enterprises, etc...: from this point of view it is important not to isolate this giant, firmly committed to shape its destiny, with too unilateral visions, partial views but proved by the linear reality of its winning evolution recursion, because this country has specific properties that exceed the global business environment.

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²⁴Title of an article published in « The Economist », May 6, 2010.

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