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TYPOLOGIES OF TRADE STRATEGIES AND THEIR LINKS WITH EXPORT PROMOTION STRATEGY

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Trade strategies accepted in a country can explain why countries facing the same external environment, achieve different results of export performance. The article draws attention to both theoretical evolution of development policies and trade strategies and their impact on an economy. Of course, the success of exporting depends on the conditions of external markets, i. e. on demand conditions (slow economic growth and unstable demand reduce possibilities for exporting), but supply conditions, which are affected by the trade strategy in a country, determine the place of exports in an economy and the significance of export promotion strategy and activities.

This is especially meaningful for evaluating the case of the Lithuanian economy which was affected by the change of development policies from inward-oriented to outward-oriented, liberalising its highly protectionist trade regime and which is only beginning its export promotion activities.

INTRODUCTION

Problem formulation. In an increasingly complex international business environment, characterised by economic interdependence, trade development through exports is gaining wide acceptance as important and one of the necessary components of a country's economic growth and development. Export promotion as trade stimulation through policy action [Cavusgil *et al* (1990)] that would most greatly increase exports, seeks to improve the export performance of a country in an increasingly competitive, global economy.

Realignments on both macro and micro levels are occurring on a daily basis, making past orientations obsolete and compelling companies to seek new business beyond national borders. Exports and export promotion activity that have received interest only recently due to the balance of trade deficit, unemployment and domestic growth slowdown, are becoming important components of the state economic development program.

Because of historical conditions, export promotion as an element of the economic system has been used in both developed and developing countries, but still is at the emerging stage in transitional economies. After decades of a command economy, Lithuania, one of the transitional countries, is moving only now into the sphere of export promotion.

Lithuania has not recently had another choice except internationalisation through exports. Striving to increase export volumes there is the need for official support of exports not only because of underdeveloped capital markets and banking systems, but also because of the necessity to compete with foreign exporters who are in a better competitive situation and benefit from export promotion support from their countries. Consequently, it is essential to develop an understanding of the essence of export promotion from the perspective both of export promotion programmes creators and of exporters.

The objectives of the article. The choice of development policies and trade strategies in a country requires the evaluation of alternative theoretical approaches. The objectives of the article are to analyse positive and negative sides of alternative development policies and strategies, their influences on industrialisation path of a country, industry's growth and development perspectives, and significance of exports in the process of industrialisation and a country's economy.

Methodological Issues. Information sources. Methodology can be defined as the structure of the article describing the way from the problem definition to its solution through the set of methods, principles and theoretical models that are used studying the subject.

In order to solve the problem of the article an extensive literature review was conducted in Aalborg university, Denmark with the support of European Commission ACE Programme. For the purpose of the research, I used secondary qualitative data, i. e. books, articles, etc., defining the theoretical background for export promotion. Specifically, the theoretical and empirical literature from the disciplines of exporting, international marketing and economic development was scrutinised. The review provided insight into theoretical perspective, i. e., what theories to study in order to solve the problem and which theories are useful for the research questions. Based on the data gathered from the literature review I identified the relevant information for the empirical survey to be collected. The available qualitative data have been obtained from different legal and statistical sources in Lithuania.

IMPORT SUBSTITUTION AND EXPORT PROMOTION STRATEGIES

The processes driving economic development are dependent on trade strategies accepted in a country. "*...development consists primary in exploiting existing resources in a different way, in doing new things with them irrespective of whether these resources increased or not*" [Shumpeter (1961), p. 68]. Every country has to decide where to put its resources in order to achieve economic growth and ensure the welfare of the nation. Trade strategies have a close relation with the development path of a country, affecting internal supply conditions and attitude for trade in a country and thus defining the role of exports itself and export promotion significance in a country.

Traditionally accepted and practically implemented in many countries are two broad alternative approaches to development: inward and outward oriented policies of economic development. The choice of development policy is related with different philosophical approaches stemming from different perspectives concerning trade: how export-import can affect a country's growth and development. These perspectives can be defined broadly as trade pessimism (protectionism) and trade optimism (free trade) and depend which trade theory is acceptable to the country as a basis for trade policy formation. Two groups of trade theories: growth denying or accepting exports impact on the country's growth and development determines the choice the policy.

Inward oriented development policy is related to export pessimism arguing that without restrictions on trade countries inevitably gain little or nothing from an export oriented, open economy posture. It stresses economic self-reliance, including the development of indigenous appropriate technology, and in extreme is associated with an autarchic/closed economy that attempts to be completely self-reliant and has no transactions with the rest of the world [Todaro (1994), Begg *et al*, (1991)]. Countries, pursuing inward-oriented development policy, neglect classical trade theory based on competitive advantage and follows precepts of international trade theories recommending protectionist trade policy and an import substitution (IS) strategy for restricting trade.

Outward oriented development policy is related to trade optimism: policies that encourage free trade, the free movement of capital and workers, and welcome multinational corporations [Streeten (1973), Todaro (1994)]. Trade optimists believe in the benefits of free trade and an open economy dependent on international trade. This policy, stressing significance of exports to industry and country economic growth, the necessity to create production facilities to serve export markets, to attract foreign private investment and technology to build new export industries, sometimes is called the "export cult" [Rubner (1978)]. Outward oriented development policy is implemented through active participation in world trade through an export promotion (EP) strategy. Pure free trade policy formed by a "laissez faire" strategy, i. e. allowing to trade according market mechanisms, is a more theoretical issue for the simple reason that perfectly free trade does not exist. There are no multilateral rules that guarantee complete freedom of trade.

Trade strategies have broad economic objectives, especially growth and industrialisation, and generally reflect the interests of producers rather than consumers. The choice of trade strategy in a country is related to various costs and benefits and requires corresponding decisions, which influence virtually all economic activities, including:

- choices in a country's industrialisation path;
- the country's and especially the industry growth and development perspectives;
- the significance of international trade (exports and imports) in the process of industrialisation and a country's economy. Every country must find an appropriate industrial and trade profile for the economy evaluating the rationale, signifi-

cance and impact of trade strategies on development performance.

Because of variety of influence spheres, there are in the literature regularly and sometimes interchangeable used terms of outward orientation: export orientation, export oriented/led industrialisation, export-led/biased growth or simply export promotion and terms of inward orientation: import substitution industrialisation, import oriented/led industrialisation, import-led/biased growth and import substitution. Because of variety of meanings, depending on what aspects of development the attention is concentrated, I will concentrate on the impact of export promotion strategy on industrialisation and growth.

The overall stance of trade strategies according previous bipolar classification can be measured by comparing trade and financial incentives and disincentives given to import and export sectors at a point of time. "... *if more incentives are provided to IS than EP activities, the strategy is considered IS or "inward oriented" strategy; otherwise, it is EP or "outward oriented strategy"* [Liang (1992), p. 447]. Although empirical data shows obvious superiority of export promotion strategy in this article arguments in favour of both approaches will be presented. In free trade strategy neither incentives nor disincentives are not used all regulation leaving to the market forces.

Import substitution and export promotion strategies covers all incentives that encourage or restricts imports or exports. Incentives to import substitution and export promotion include protectionist measures, subsidies to exporters or importers, stimulation through credits and tax preferences. Incentives also can arise through exchange rate manipulation, investments to infrastructure, macroeconomic stability, etc. The government also resort to bewildering variety of measures to restrict imports or subsidise exports. These measures are collectively designed as non-tariff barriers. Traditionally, more attention has been given to incentives that restrict import because they have been more widespread and is a politically convenient way of assisting domestic groups of producers.

Incentives have consequences affecting a country economy's future structure and resource allocation among alternative sectors and economic activities. Resources can be used for some purposes, so alternative cost evaluation can show more favourable possibilities for using resources. Incentives can remove or mitigate the lack of competitiveness but it is necessarily to evaluate their costs and real benefits. It is often extremely difficult to design proper incentives but with the proper incentives it is possible to encourage decision makers (individuals, enterprises, public authorities) to take decisions that are the most appropriate and profitable both for producers and for national economy. Precise and acceptable statistical data can form the background for incentive policy creation.

Trade strategies implementation through incentives have two main closely related influence spheres or orientations:

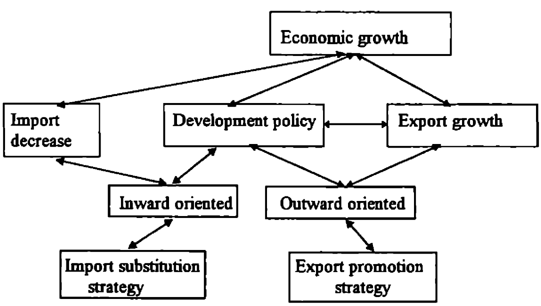
- sectoral orientation-the choice of a "leading sector" or the "engine of growth" which activity is being promoted;
- market orientation- the choice of target markets: whether the leading sector is to seek growth on the domestic or world market [Liang (1992), p. 455–466].

A key difference between IS and EP strategies is their market orientation. Relying on export markets is EP strategy feature while IS strategy is oriented to the domestic market. Through exporting the firms benefit from market diversification, taking advantage of different growth rates in different markets not being overly dependant on any particular market [Czinkota (1996)]. Orientation to world markets also allows firms to benefit from specialisation and from scale economies opportunities. Foreign rather than domestic markets are thus relied on to provide the additional demand. The proceeds of the exports can be used to purchase needed inputs abroad.

Sectoral orientation refers to the choice of industries for growth and development. Growth is not a spontaneous process but stems from accepted decisions, requiring respective production resources allocation, demand growth and their suitable integration. There have been fundamental changes in the practical and conceptual approaches to the IS and EP trade strategies impact on growth, import oriented or export oriented industrialisation and export activities results. Identifying relations between chosen trade strategy and separate industries economic growth perspectives, possible alternatives are to choose balanced or unbalanced growth.

The means for achieving economic growth using different trade strategies are quite opposite. Outward oriented development policy implemented through export promotion strategy is related to possibilities to achieve economic growth through increasing exports. Growth that stresses production and income growth through exports rather than the displacement of imports and disproportionaly expands a country's production possibilities in the direction of the goods it exports is export-led/biased growth. Inward oriented development policy seeks to achieve economic growth decreasing imports and developing native industries. This growth is biased toward the goods a country imports, i. e. giving priority in a country to produce goods supplementing imported ones, is import-led/biased growth [Krugman *et al* (1991), Begg *et al* (1991)]. I present this relation in Figure 1.

Figure 1. **The Impact of Development Policies and Trade Strategies to Economic Growth**



Source: own perception

Import substitution (IS) strategy is *"a deliberate effort to replace major consumer imports by promoting the emergence and expansion of domestic industries"* [Chen (1985), p. 56]. IS strategy impact on industrialisation is based on heavy state direction keeping out goods previously imported, thereby encouraging their domestic production and thus contributing to structural change. Tariffs and other barriers are used to establish new industries and shield domestic producers from international competition. Introducing the balanced growth concept, related with greater industrial diversification, the industries move into the production of goods that otherwise would have been imported. According to proponents of balanced growth (Ragnar Nurske (1959) and Paul Prebish (1984), the country's economic growth can not be based on unstable demand of foreign markets and the greatest chance for industry will not be in exports, but in terms of import substitution. Any steps toward a free trade system could damage national industries.

This point of view is related to the concept of export pessimism stating that only through internal industrialisation developing economies can achieve the level of developed economies and accomplish structural change. Their route to development lies not through increased specialisation in production of primary products but in expansion of industries that produce manufactures and generally placing less reliance on international trade. In this way, countries, especially those less developed, could move beyond comparative advantages that are based solely on cheap labour and raw materials [Begg *et al*, (1991)].

IS strategy is the most frequently observed strategy in practice and easily initiated by isolating the domestic market from the world market and protecting domestic producers by giving them an advantage over foreign competitors. The market for products already exists, as evidenced by imports, so that risks are reduced in setting up an industry to replace imports. Import substitution strategy is associated with a package of incentives requiring the imposition of substantial protective high tariffs (customs duties), quantitative restrictions on imports (quotas), exchange controls (overvalued exchange rates, multiple exchange rate systems), general discouragement of foreign direct investment, and other non tariff trade barriers that aim at protecting native industry and getting the infant industry started [Todaro (1994), Root (1984)].

These measures acts as disincentives to export or discriminate against exports because they artificially reduce domestic producers prices in world markets and force exporters to face import prices that are above the word level for the inputs they want. Some incentives can be less restrictive, while others completely prohibit targeted imports. If IS strategy's objective is treated as prohibition of all imports, it leads to a completely autarchic economy. In reality, IS is aimed at reducing imports of specific commodities. [Todaro (1994), Bruton (1970)].

Import substitution strategy implementation according to Chen (1985, p. 56) can be divided into two stages: the first, "easy" stage (IS1), during which non durable consumer goods, that otherwise would have been imported, are produced imposing limitations on imports and the second, "difficult" stage, during which consumer durable, intermediate (that is goods used in production processes) and capital goods are produced.

During the first stage, production facilities to serve domestic market are created producing import substitutes. Resources are directed to import competing industries hoping that their production in future will fully satisfy domestic demand and free foreign currency for other import (especially capital goods, needed for further industry development). The IS1 stage is easy because production is roughly in line with the prevailing comparative advantage or, with state support, countries can move beyond comparative advantages that are based solely on cheap labour and raw materials.

Although domestic industry may expand quite rapidly behind protectionist measures, the negative side is that producing comes to be more specialised in industries in which the country has a comparative disadvantage. International trade theory suggests that suppressing the principle of comparative advantage is likely to be wasteful. Countries are using more domestic resources to make manufactured products than would have been required to make the exports that could have financed imports of the same quantity of manufactures. As a result, high cost industries, diversified industrial enterprises, which are fully oriented to the domestic market are created with levels of costs, quality, design, and product innovation that are not competitive in export markets.

The defence of the domestic market through protectionist measures, seeking decrease imports, rarely decreases a country's dependence on imports, but rather changes import composition from consumer goods to raw materials and capital goods. The new capital goods are imported and are paid for with the foreign exchange released by the reduction in the imports of the commodities whose domestic production is being encouraged [Bruton (1981)].

Relating import substitution incentives with the exchange rate a country establishes an overvaluated exchange rate, making import cheap and export expensive and thus leading to excessive demand for foreign currency. Such exchange rate regulation is disincentive to export. As a result, domestic producers get lower prices for their goods in world than in domestic markets leading to world market share loss of even for traditional import thus widening trade deficit [Krueger (1995)].

The IS1 stage ends when the expansion of consumer goods capacity hits the limit of the domestic market. Further growth can come only from expanding domestic demand. At the same time, protection must be provided over the wide range of consumer goods calling for retaliation measures from other countries.

If import oriented industrialisation is to continue, the economy moves into the second stage of producing intermediate and capital goods. The IS2 stage is difficult because of rapidly increasing costs precipitated by limited economies of scale, dependence on foreign resources and expertise, and development of monopolistic controls making these goods more expensive then imported ones. Satisfying demand for the importation of needed raw materials and spare parts increases demand for foreign exchange. However, the growth of exports becomes difficult because of costs higher those than are the costs of foreign competitors. Correcting distortions through devaluation may lead to inflation. Increase in the rate of protection is also required.

By the 1970s IS strategies and also the role of the state were being called into question. The countries that have built their development around import substitution have experienced great difficulties. Critics claimed that governments not only failed to correct market distortions but actually made them worse, intervention being inefficient. In this view, "government failures" were more often worse than "market failures" [Wade (1990)]. The experience shows that under import substitution industrialisation any success is short-lived and creates distortions and missalocations in the economy. Missalocations imposed on the economy also led to possible reduction of total output below the level that would have reached in the absence of the ISI strategy.

Simultaneous advance across a broad range of industries is not practical, especially in small countries because of the necessity to achieve economies of scale. IS industrialisation strategies slow industry growth, are a reason for balance of payments imbalances and hinder economic development. Social costs from ineffective resource allocation, incentives to import substitution, lessen the range of goods available to consumers thus worsening living standards. Industries are not only characterised with low productivity but also become susceptible to corruption and bribes. Orientation to the domestic market, export pessimism, ignoring possibility of trade among nations, does not allow search and evaluation of opportunities existing in foreign markets, fails exploit the possible benefits of international specialisation thus reducing world trade. Believing, that international competition exists over country boundaries and are not allowed to come into the country because of protectionist measures can harm when after changing orientation foreign competitors invade into domestic market. Thus, when IS strategy is promoted through protectionist measures, its national costs can outweigh national benefit.

However, protectionist measures may help to establish infant industries which by learning may eventually come to have a comparative advantage in some products. It may be difficult for developing countries to set up export industries because of the competition from the more established and efficient industries in developed nations. The strategic trade policy theory literature has recently revived interest in the traditional infant industry justification for import protection. Also, protectionist measures, or "new protectionism" tends to become more severe during recessions or during the periods of slow economic growth.

Although by 1950 two positive aspects of IS were recognised: (1) if there exists the possibility to develop a balanced economy, there is no need to depend on unstable foreign market demand, resulting in widely fluctuating export earnings; (2) the infant industry argument; East Asian countries' significant export growth under unfavourable world international trade tendencies empirically did not confirm the first suggestion. IS, as pointed out export pessimism critics [Balassa (1989), Bhagwatti, (1978), Pack (1988), Hughes

(1971)] was not confirmed as the only way of development, except of an instrument to establish and protect infant industries.

Export promotion strategy is related with possibilities to increase exports. Exporting is of significant interest and crucial economic importance to many trading nations and their firms as an "engine of growth". Exports enhance profitability, improve capacity utilisation and reduce reliance on one market, as well as providing employment, improving the trade balance and the quality of life. The expansion of manufactured exports is not limited (as in the case of import substitution) by the growth of the domestic market. In order to maintain their current standards of living, developed countries must maintain their traditional rates of growth of exports, while other countries, as developing, newly industrialised, transitional countries, must seek to increase them. According to traditional trade theory, if each nation specialises in the production of goods of their comparative advantage, world output will be greater, and through trade each country will share in the gain.

A country's export growth is affected basically by two factors: demand and supply conditions both at home and abroad. From the demand side the success of exporting depends crucially on the conditions outside the country: the availability and ability of world markets for manufactured products, growth in demand for its products in various markets and the nature of political relations between importing and exporting countries. The main preconditions for gaining from trade is that countries improving access to their markets should adopt trade policies lowering or removing tariff and non tariff barriers for trade. The impact of supranational organisations on world trade, bilateral and multilateral trade agreements, GATT/WTO rounds, etc., alleviated some barriers to trade and have reduced the importance of border restrictions. Trade in both industrial and developing countries has tended to become more regionalised, in part because of regional trade arrangements. Integration processes present exporters with enhanced opportunities. It also enables small producers to seek out profitable niches where both domestic and overseas competition is likely to be less, due to the small size of the market, which would not make it attractive to large companies.

From the supply side successful export growth is related with internal conditions in a country that depend on the trade strategy accepted in the country. "Ability to supply" or "competitiveness" of an exporting country subsumes a large number of factors or determinants of export performance. This would include its ability to generate exportable surplus, which itself depends on the level of domestic demand and production, the costs of production, ability to supply products at competitive prices, quality and design of the products, rate of exchange, etc. All these demand, supply, and policy factors, interacting among themselves in a set of complex matrices, intensify or neutralise each other's effect on the country's export performance.

Export promotion strategy incentives are generous financial incentives that would boost exports in the form of public subsidies and tax rebates and other kinds of financial and non-financial measures designed to build export industries and to promote a greater level of economic activity in export industries [Todaro (1994)]. Export incentives are also preferential investment financing and low cost labour force, assistance to get new technologies, export credit insurance, information about foreign markets, training, etc. The government promotes exporters removing disincentives to export, encouraging the inflow of foreign capital and technology to build export industries, creating export processing zones with profitable production bases for many export-oriented foreign manufacturers. Currency convertibility and favourable to exporters an exchange rate provides incentives to producers to sell abroad.

The provision of various export incentives can offset or mitigate the competitive disadvantages inherent in home market protection and in the development stage of the manufacturing export sector of a country. When giving the incentives the government must evaluate technological, raw materials, information, know-how and other needs hindering industry development.

Export oriented industrialisation two stages, according to Chen (1989), are defined as the first (EO1) stage of exporting manufactures that are more labour-intensive, and the second stage (EO2) of exporting products that are more capital-and technology-intensive. There is also a stage in which import substitution of capital and intermediate products (secondary import substitution) occurs simultaneously with export orientation. Sectors providing financial, technical and other professional services may grow concomitantly. This EO2 "complex" stage may take place after EO1 or some time after EO2 has begun. [Chen (1985), p. 57].

Relating EP strategy implementation with unbalanced growth idea, suggested by Hirshman (1977), a country chooses a path of export oriented industrialisation. Country's trade and industry policies concentrate on some of selected the most perspective industries or industry segments which have export potential and increase their competitiveness prospective through appropriate incentive systems and directing resources and investments to strategically chosen export sectors. It is possible to extend the policy to the development of new, non-traditional, export sectors. New production facilities for export markets are created, promoting production of goods in which the country has comparative advantage, thus producing them by lesser costs. While having a comparative advantage is crucial, it is only a necessary but not a sufficient condition.

The choice of export sectors for promotion is difficult, because from the supply side they differ by their development level, possible financial, human and technological resources and their costs. Some sectors have better chances to acquire comparative or competitive advantages in the nearest time. Moreover, the policy makers appear to be increasingly inclined to identify strategic sectors economically vital to a country. They have to undertake a technological audit of industrial base, identify capital need and skills shortage, evaluate product exportability, possible export potential and readiness to export at the whole industry level and at the level of separate enterprise in the industry.

The growth of strategically chosen export sectors must be transferred for other industries through forward and backward integration. Backward integration includes closer relations with raw materials suppliers and forward integration brings relations to the customers thus adding to the growth of the whole economy. If there are no of these relations, separate industries growth impact on economic growth will be minimal, creating a dual economy, consisting of two industrial sectors: an advanced export sector and a primitive domestic sector. The destinies of those sectors are diametrically opposite: the first is a relatively expanding "growth sector" using advanced technologies and a skilled labour force while the the second sector is a relatively contracting "senile" sector. The concept of dual economy is more applicable to developing countries exporting agricultural products, raw materials and only beginning structural change.

It is widely accepted that EP strategy is necessary to carry out efficient industrial development and restructuring as a part of a strategy of structural economic reforms. Those countries that have succeeded in implementing these reforms have experienced a significant and durable improvement in economic and export performance. Empirical data show that rapid economic growth of the Asia-Pacific countries by the late 1960s was based on and achieved by export-oriented industrialisation, especially the export of light, labour-intensive products. Most recently, the countries in transition in central Europe have liberalised their previously distorted trading regimes as an essential element of the process of transformation to market-based economies.

In almost all countries government plans and import substitution strategies have given way to private enterprise, competitive markets and export orientation. This process limited the role of government. Dismantling the administrative systems associated with import licenses, selective credit policies, etc., redirects the energies of entrepreneurs away from unproductive activities toward the production of exportable goods. An export oriented economy inherently has more flexibility to respond to changes in the world economy than an inward oriented economy. Krueger (1990) points out that export promotion strategies are simpler, easier to handle, involve incentives but not control, as in IS strategy, there is less variability in incentives, and the policy makers get quicker and more self-evident feedback. It is generally considered that EP strategy implementation allows higher growth rates in the manufacturing sector. Exporting firms have a clear incentive to keep up with modern technology and to improve management. Exposure to world prices encourages the efficient allocation of domestic resources according to international opportunity costs and thus allows firms to achieve greater effectiveness.

NEW TYPOLOGY OF TRADE STRATEGIES

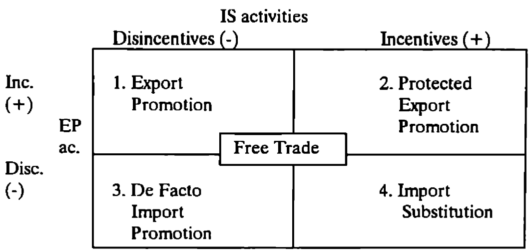
Both strategies, import substitution and export promotion, have their own rationale and are related to different problems and consequences, leading to new theoretical recommendations. Many scholars view EP strategy as incompatible with IS strategy. They point out that government cannot promote both EP and IS simultaneously, because such dual policies contradict and offset each other: *"(1) pro-*

tective devices of export subsidies are meaningful if they discriminate against same other activities; (2) protection of any sizeable number of activities is generally inconsistent with encouraging exports, because exporters require relatively easy access to international markets for their imports of raw materials and intermediate and capital goods" [Krueger (1990), p. 53].

However, sometimes the traditional bipolar classification is unable to identify the trade strategies that simultaneously employ the features of EP and IS strategies: strategies that are not mutually exclusive. First, it is debatable whether IS strategy is necessarily futile, whether it is possible to build domestic industry without IS strategy and whether the stage of import substitution is necessary as a precondition for export orientation. [Chen (1989)]. Second, by nurturing domestic producers the groundwork would be laid for future export capabilities. Thus IS may not be an end itself but may be a preliminary phase in which industry gets started, as a prelude to export-led growth. Third, at the same time IS strategy is inevitably related to importing of intermediate goods and raw materials needed for production, and related to export promotion for generating foreign exchange needed to buy them [Liang (1992)]. Thus, there may be no need to discuss export promotion versus import substitution but rather that export promotion can be a viable strategy in combination with other strategies for economic development.

Liang (1992) presented broader range of trade strategies in Figure 2 consisting of five mutually exclusive trade strategies based on incentive structures either for EP or IS.

Figure 2. **Relationship Between Incentives and Trade Strategies**



Source: Liang, Neng. Beyond Import Substitution and Export Promotion: A New Typology of Trade Strategies // The Journal of Development Studies. 1992. Vol. 28. April. p. 454

The first quadrant represents "pure" EP strategy, providing incentives for export activity and liberal import policy, stimulating better import instead of producing import substitutes for which the country has no comparative advantage. A realistic exchange rate is adopted, promoting sales of goods in foreign markets without priority to the domestic market.

The fourth quadrant represents a typical import substitution strategy with significant restrictions on import quantities or import tariffs and with negative incentives to export. It does not mean that IS strategy requires the government entirely reject exports, but, as suggested IS proponent Nurske (1959) to export production of primary industries, not to give additional resources to traditional export sectors, depending on unstable foreign market demand.

The third quadrant represents an incentive structure, which leads to increases in imports and export restrictions. It is possible as an unintended outcomes of government policies and is never specially introduced in reality. The results of the strategy are negative balance of payments and debts.

The centre area represent free trade strategy where neither incentives nor disincentives are used in export and import activities.

The second quadrant, protected export promotion, is Liang's true invention. This strategy provides simultaneous incentives to export promotion and to import substitution. Domestic industry is protected in its market from foreign competition, but at the same time it is promoted to export and compete in world markets. Also, whereas import controls are usually selective, export incentives usually are similar to production for domestic and export markets. Such a strategy characterises many rapidly growing economies, most notably those of East Asia.

Adopting outward oriented development policy it is possible, to my opinion, to use for industry development as export promotion, as protected export promotion strategies, the first using for primary and low-value added industries, for which a country has comparative advantage, and the second to infant industries and industries which have the potential to achieve competitive advantage thus adding to a country's development process. These two strategies are the most often used in recent time.

With modest natural endowments and small domestic economies small countries historically have had little choice but to look outward. Their domestic markets are too small to offer business much room to growth. Consequently, they must trade with each other and with the world more than big countries which with their huge domestic markets has never had to concentrate much on active exporting. Exporting for smaller countries is not simply good economic policy but a matter of economic survival, and they must organise entire economy for exporting.

Countries accepting outward oriented policies make a push towards trade liberalisation expecting rapid export and economic growth. The most common reforms of trade liberalisation include the simplification of import procedures, removal of trade restrictions (reduction or elimination of quotas, and the rationalisation of the tariff structure), currency devaluation, and export promotion. Trade optimists argue that trade liberalisation is beneficial generating rapid export and economic growth. According to Dornbush (1992, p. 73) growth from trade reforms may be as much as 30 to 50 per cent of growth.

As a crucial element in the transition to a market economy, trade liberalisation is part of the economic strategy in the transition of the former centrally planned economies to the market adopted by most Central and Eastern European Countries (CEECs). Liberalisation strengthens the ties, previously largely disconnected, between the domestic and international economies.

DEVELOPMENT POLICIES AND TRADE STRATEGIES IN LITHUANIA

Under the Soviet system central planning was adopted in Lithuamia to exercise detailed control over the domestic economy. Until the end of 1989, the means of production were owned almost solely by the state, and, for example, approximately 90 per cent of the industrial output of each of the Baltic Republics was produced in enterprises that were subject to administrative control from Moscow. Foreign trade in the centrally planned economy was carried out by state-managed foreign trade organisations. The volume, commodity composition, and geographic pattern of trade were specified in plans, approved by the central authorities, throught foreign trade agencies. In 1990 direct contacts via the foreign trade association "Litimpex" made up only 2.3 per cent of foreign trade turnover. In either case, local decision making and initiative were extremely limited in scope.

Isolation from world competitive forces and trade restrictions in the central planned economy predetermined an inward oriented development policy, resulted in an import substitution strategy. Through import barriers domestic enterprises were stimulated to produce consumer goods replacing imports. Politically dictated priorities were oriented not to possible production specialisation in the world markets but to interrepublic specialisation, not always based on comparative advantage.

During the decades of inward industrialisation the extent of Lithuania's industrial development was considerable. Industrial sectors were established, the dependence on primary, especially agricultural exports was reduced. Despite the relatively rapid growth of heavy industry, the Lithuanian economy was characterised by almost equal preponderance of light (especially food, clothing and textiles) and heavy industries in total industrial output.

Large public industries and industrial complexes were created and most enterprises were built at a scale much too large for Lithuania's domestic market. The industries used to be of narrow specialisation but without generating internationally competitive manufactured exports and adjusted to the demands of the Soviet Union military industrial complex. Lithuania produced many high-technology products, particularly for military needs. In comparison with Western industries, they used considerably outdated technology.

For these reasons Lithuania after restoring indepence needs to lessen the technological gap. However, Lithuania must now inevitably rely on export of goods, which were produced in big quantities from cheap raw materials for other republics and were produced in excess of domestic market. These goods do not correspond to Western market competitive standards and their production is characterised by uneconomic use of energy and raw materials.

The consequences of harm for exports from inward oriented development policy and import substitution can be summarised as:

- inefficient production decreased the domestic producer's competitiveness in world markets;
- incentives for import substitutes production decreased production of exportables;
- products are ill-adapted to Western requirements.

Impetus to transformation of Lithuania's economy came from two sources: the drive for independence from the Soviet Union itself and the crisis in the Soviet economy. The movement for liberalisation and national autonomy or independence was not satisfied by the law on economic autonomy accepted by the USSR Supreme Soviet which come into effect at the start of 1990 for all three Baltic republics. Lithuania redeclared its independence earlier than other Baltic republics on 11 March 1990, restoring Lithuanian national independence on the basis of legal continuity with the pre-war republic.

The period since 1991 is characterised as a period of general changes in the Lithuanian economy. The root cause of these changes after regaining independence is easily identified: transition from a planned economy to a free market economy. Centrally planned economy can not to solve the problems of economic activity and the only possibility to create an independent country with a strong economy is to make the transition. The previous artificial situation in Lithuania during the last 50 years, caused by economic dependence and integration into the previous Soviet block, resulted in connection solely with the Eastern market and the directive planning of the national economy does not correspond with the interests of an independent Lithuania. Evaluating Lithuania's transition to the market economy embraces analysis of conditions for a transition and the strategy Lithuania has chosen, and evaluation of the implementation of this strategy.

Following the declaration of independence, Lithuania adopted outward orientation and embarked a comprehensive economic reform programme. The first fundamental reforms included the formation of an independent system of government revenues and expenditures; the establishment of the financial infrastructure, including Lithuania's banking system, insurance sector and securities market; price liberalisation; and mass privatisation of state property. Between 1992–1993, Lithuania introduced its own national currency, new tax system, created a capital market infrastructure and a private banking sector. Reforms in the fields of local government and taxation are still continuing.

The major features in the Lithuanian economy since 1991 have been the decline of manufacturing and the growth of the service sector; the growth in numbers of long-term unemployed; and the shift from public to private ownership. Macroeconomic stability is necessary for sustainable growth creating a hospitable climate for private investments and thus promoting productivity. The Lithuanian government supports policies of macroeconomic stabilisation, trade liberalisation, foreign investment and the political and economic integration into European political, economical and security structures.

The major international institutions, such as International Monetary Fund (IMF) and

World Bank (WB), are providing financial and technical assistance according to sanctioned macroeconomic programme and recommendations in making the transition to market economy.

CURRENCY REFORM

To enforce controls over exports and imports, central planners relied in part on controls over the use of currency for transactions relating to foreign trade. During inward oriented industrialisation, the regulation of the currency rate was conducted to make capital goods import "cheap". It caused excessive demand and lack of foreign currency. The switch to outward orientation required a currency reform.

Lithuania was the last Baltic state to leave the rubble zone thus achieving monetary independence. From 2 October 1992 the country introduced a transitional currency, the talonas. New currency, Litas, was introduced on 25 June 1993 and became the country's sole legal tender. The law on Foreign Exchange limits the use of foreign currencies in the country. Transactions of foreign currencies can be made only by licensed credit institutions registered with the Bank of Lithuania. Lithuanian legal entities seeking to open current accounts with foreign banks must obtain permission from the bank of Lithuania. They also are allowed to hold accounts in foreign banks, although for this permission is needed from the Lithuanian Central Bank.

Two stages can be identified. In the first stage a depreciated and floating currency rate was favourable for domestic producers increasing export supply, but only for goods with high demand elasticity. It was unfavourable for producers of low demand elasticity goods, because under a depreciated currency rate the prices of imports increased. Because Lithuanian industry is dependent on imported raw materials, the production volumes began to decrease and unemployment rose.

Minimising the exchange risk for export earnings in foreign currencies the Government continued currency reform renouncing the managed float and tied Litas to the USA dollar in 1994. Introduction of a fixed currency rate was a complex problem under the unstable economic situation. As a part of the government's objective of strengthening the anti-inflationary stance of monetary policy, an independent Currency Board system was installed in 1994 defining the fixed Litas relation with US dollar (i. e. fixed at a rate of 4 Litas to 1 USD). The quantity of Litas in circulation were related with foreign currency and gold reserves quantities in the Central Bank.

Only three other countries in the world have been implemented the currency board system: Argentina, Estonia and Hongkong.[1] Accepting the Currency Board Model Lithuania restricted her monetary policy possibilities. Fixed exchange rate brought at the same time as strengths as weaknesses, because the Central Bank cannot finance sudden budgetary requirements. The bank crisis in January 1996 was solved only with the help of the IMF.

A competitive real exchange rate is necessary to support the expansion of the export

[1] The Baltic Observer. 19–25, May 1994. P. 11.

sector and to avoid the balance of payments difficulties that might lead to calls for import restrictions. Under hyperinfliation it was impossible to choose a fixed exchange rate, because the domestic currency devaluated every day. The fixed exchange rate helped to fight inflation but Lithuanian industry's competitiveness decreased considerably. Under increasing prices and exchange rate remaining stable but unreal, the impact on exports become negative. It is evaluated that under the fixed rate during two years the Litas appreciated about 40% in real terms, thus slowing the expansion of the export sector, hurting the Lithuanian trade balance and reducing domestic support for trade liberalisation. The current currency rate acts as a negative incentive to export, but according to an interview with representatives of the Ministry of Economics, Lithuanian Bank programme for 1997–1999, it will remain unchanged at least till 1999. Having achieved monetary stability, the current government is committed to a gradual withdrawal from the Currency board leading to a transitional peg with the Euro and an eventual floating exchange rate.

Foreign trade reform

Since independence, Lithuanian government has implemented a legislative program for economic liberalisation and social reform as well as the re-establishment of favourable ties with Western Europe. In 1991 price and trade regimes have been liberalised.

The legal framework for the progressive removal of price controls was already spelled out in July 1990 when a new law on prices was drafted which become effective in 1991. Prices continue to be liberalised in stages during 1991 and early 1992. The short term goal was to free all prices in Lithuania except those for certain basic food items (bread, milk and meat), oil, wood, telecommunications, postal services and apartment rents.[2] As of November 1991 prices of most industrial goods were liberalised. As of 20 January 1992, most consumer goods became "market determined". By mid- February 1992, most prices had been liberalised.[3] The government realises the importance of eliminating subsidies along with price liberalisation with a view to reducing the strains on the budget and creating the necessary and sufficient conditions for price stability thereafter. Lithuania's VAT is 18 per cent. VAT is not levied to exports, the production of goods and services for export, works and services relating to the carriage of exported goods, transit of foreign cargoes and certain other activities.

In the years since independence Lithuania has generally pursued the liberalisation of foreign trade as an important part of the transition process. Lithuania's economic independence will be only sustainable on the basis of an efficient integration into the international economy, implying a quite different set of strategies than the autarkic approach associated with Soviet central planning. After 6 years of restoring independence Lithuanian foreign trade has changed considerably. In recent years Lithuania has become increas-

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[2] The Republic of Lithuania – A Guide to the New East, in Euromoney. February 1992. P. 31.

[3] IMF, Lithuania Economic Review, Washington, April 1992, p. 10.

ingly involved in and dependent on the international economy.

The current Lithuanian foreign trade policy is based on three principles: (1) support for a liberal and open trade regime; (2) actively striving to integrate into the existing European economic structures; (3) trade policy formulation according to the WTO principles.

It is noticeable that the liberalisation of foreign trade brought the attention to the Free Trade Agreement between the Republic of Lithuania and the European Union that was ratified in December 1994, and come into force on 1 January 1995. This agreement was incorporated into the Association Agreement signed between the EU and Lithuania in June, 1995. The Agreement is important both politically and economically. From the economic point of view it is essential that this agreement stipulates the commitment to liberalise mutual trade on the basis of WTO principles. The primary provision of the agreement is consolidation of the free trade regime between Lithuania and the European Union. The free trade area will be gradually established, and the transitional period is expected to continue for six years within which customs tariffs will be gradually eliminated. Lithuania was to benefit from a transition period of four years for industrial products, while the EU was to open its market immediately to most Lithuanian products. Trade in sensitive products (including agricultural and textile) was to be ruled by specific provisions.

The process of integration of Lithuania in the EU is determined not only by economic factors but also by political and safety considerations. However, the integration process of Lithuania is natural because the rapid extention of Lithuania's economic relations with the countries of the EU. The major share of economic integration relies on increasing Lithuania's trade with the EU.

The Lithuanian government is pursuing an open door policy with all states. Presently free trade agreements are signed with Liechtenstein, Norway, Switzerland, Ukraine. Lithuania also concluded a free trade agreement with EFTA which came into effect from January 1997. Bilateral trade agreements are also in effect with Poland and Ukraine. The Baltic Free Trade Agreement has established a free trade area of the three Baltic states. The US, Canada and Australia have granted Lithuania trade preferences under their Generalised System of Preferences (GSP). Free trade agreements with Belarus, Slovakia, the Czech Republic and Kazachstan are concluded but not yet in force. Bilateral free trade agreements have been signed with a majority of CEFTA's members. Lithuania does not have any special trade barriers with any country. A free trade agreement with Russia is not signed yet.

In 1991–1992 the Lithuanian government, because of the unstable economic situation and worsening balance of payments, established quantitative restrictions (export and import quotas and licences) seeking to affect trade and defend the domestic economy. The reasons for this were that trade with previous Soviet Union countries was conducted by barter, the was an economic blockade and the dominant role of state ownership. The policies called for a major role for the state in protecting key industries to encourage their growth, thus implementing protected export promotion strategy. In this period the lack of customs control and trade policy considerations with neighbouring countries led to chaotic exports.

In 1992 when the existing system of licenses was replaced by differential tariffs and import. Import and export operations, except for several classification of goods (such as oil, alcohol, narcotic, etc.) do not require licenses in Lithuania. In general import-export control now is carried out exceptionally through customs tariffs varying from 5 per cent to 35 per cent. Tariffs are established in accordance with international principles and standards. Alcohol, tobacco and jewellery, luxury cars and products containing cacao, coffee, lubricants, or oil are levied with excise duties. Export tariffs apply to a very limited group of commodities such as firearms, narcotics, and wild life. There has been no import quotas since October 1993 except for health and safety reasons.

CONCLUSIONS

The theoretical perspective presented in the article allows to analyse a series of events in Lithuanian economy along with an assessment of these theories. The merits and negative sides of alternative development policies and trade strategies are reflected in the case of Lithuania, which economic experience shows theories in action. The article reinforce the fact that the choice of different strategies makes contact with a full range of problems and their solutions.

For decades in Lithuanian economy were implemented inward oriented development policy and import substitution strategy. This led to integration into the previous Soviet block and industry interrespublic specialisation in which Lithuanian industry had a comparative disadvantage in the world markets. The heritage of central planning system could be summarised as technological gap, inefficient production, high costs, non competitive products ill-adapted to Western requirements in quality, etc. thus reducing ability to supply-to generate exportable surplus.

Because after independence international issues have become increasingly important for Lithuania's economy macropicture, outward orientation, which stresses that economies are open to the trade with the rest of the world, was a solution for these problems. Over the last years, Lithuanian economy have become increasingly internationalised. International developments are also central to the welfare of Lithuanian industries. Increasing openness was achieved by reforms supported by international institutions.

In the article is presented a short overview only two of reforms: currency and trade liberalisation. The strength of monetary and fiscal policy depends in an important way on the type of exchange rate policy that the government conducts. Both fixed and flexible exchange rates have been implemented in Lithuania. Under flexible exchange rate industries were exposed to fluctuations in the exchange value of the Litas and other currencies. With fixed rate, central bank now intervenes wishing to peg the rate. The movements of Litas has also had important effects on the economy. Under the current overvalued exchange rate, industries that export goods abroad or that produce goods that compete with imports found it increasingly difficult to compete in world markets. Such exchange rate regulation is the feature of IS strategy and acts as disincentive to exports thus widening trade deficit. However, it could be explained by high Lithuanian dependence on imports of raw materials and oil products.

Lithuania's industry could be defined being in the first (EO1) stage of export oriented industrialisation. The Lithuanian advantage is cheap labour force and exporting manufactures that are labour intensive. Concerning new typology of trade strategies, I would like define that Lithuania currently apply protected export promotion strategy. It calls for a role for the state in protecting key industries for both import substitution and export promotion to encourage the economic growth. Industries are protected, especially in relation with crisis in Russia, and export promotion activities and institutions are being established recently. In the future participation in EU will allow to implement a free trade strategy trading with countries of EU.

Market reforms conducted in Lithuania can explain current overall present economic conditions in Lithuania and its prospects. The political and economic changes that have occurred lead to significant changes in production and trade patterns. Recognising the broad politico-economic implications of international trade, export promotion strategy is now emerging as an integral part of Lithuania's economic growth strategy. It is expected that substantial inflows of foreign capital and buoyant exports in the current stage of development will provide the principal sources of economic growth, economic security and job creation. To seize world market opportunities in the years ahead, the Lithuanian export base must be expanded. Meeting this long term objective, long term export growth depends on increasing export volumes and getting more companies involved in exporting.

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PREKYBOS STRATEGIJŲ TIPOLOGIJOS, JŲ IR EKSPORTO PLĖTOJIMO STRATEGIJOS RYŠYS

Santrauka

Straipsnyje pateikiama ekonominės plėtros politikos ir prekybos strategijų klasifikacija ir nagrinėjama jų įtaka šalių ekonominei raidai ir eksportui. Didžioji straipsnio dalis skiriama dviejų pagrindinių prekybos strategijų: importo pakeitimo ir eksporto plėtojimo charakteristikoms ir jų poveikiui ekonominiam augimui ir industrializacijos procesui. Naujų prekybos strategijų apžvalga, šių strategijų adaptavimo ir įgyvendinimo galimybės ypač svarbios Lietuvai, pakeitusiai savo orientaciją iš vidinės į išorinę ir pradedančiai įgyvendinti su ja susijusią eksporto plėtojimo strategiją.

Įteikta 1998 metų lapkričio mėn.