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# THE ENTREPRENEURSHIP'S CRUCIAL ROLE IN INTERNATIONAL TRADE

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***Abstract***

*In the approach adopted by the Austrian School of Economics, the individual is the driving force in both the human action process and the economic activity, starting with the primary role in developing entrepreneurial acts. The purpose of this paper is to extrapolate the Austrians' approach to international trade by analysing the human action or the entrepreneurial action. In order to understand the entrepreneurship's importance in the market, it is necessary to identify the merits and flaws (imperfections) of international trade theories in the context of a limited explanation of the entrepreneur's role in international trade acts. By analysing the literature, we noticed that the role of the entrepreneurship and the entrepreneurial activity are not sufficiently or properly explained or exemplified, therefore such an approach is necessary to better understand the differences among various countries.*

***Keywords: entrepreneur, entrepreneurship, international trade***

## 1. INTRODUCTION

In the context of a global economy, entrepreneurship should be one of the primary topics for understanding the progress throughout the world. Society nowadays is interconnected and each country is – to a greater or lesser extent – dependent on others. The process of specialization in the market economy offers a significant advantage; moreover, it helps achieve greater value for the same quantity of resources.

The theories and concepts that attempted to explain international trade (the labour theory of value, the opportunity-cost theory, the neoclassical theory of interregional trade, etc.) can be criticized for their static dimension and very restrictive character. These theories can be seen as radiographies for general equilibrium; therefore, we can see a significant deficiency in the reality analysis process, because through these theories we can only demonstrate some particular cases in the international trade area (the law of increasing returns, the positive or negative externalities, regional agglomeration economies, determination of winners or losers). In fact, these theories cannot explain the historical evolution of international trade, the influencing factors, and the base mechanism, or identify neuralgic points, and this can ultimately set the foundation for new research.

The foremost task of this paper is to make a synthesis of the international trade theories and, furthermore, to identify the entrepreneurship's role in the international trade process. It is represent a new perspective on international trade because the literature does not have any kind of approach.

## 2. LITERATURE REVIEW

Over time, the theories of international trade tried to answer the question of the various levels of development in different countries and, furthermore, to explain different degrees of development. Over the course of history, the inequalities and discrepancies between the levels of development became ever greater; evidently, though, there are also exceptional situation. As indicated by the literature, international trade provides a tremendous advantage for countries (Carbaugh, 2015).

One of the first approaches to trade was shaped in the mercantilist period (1450 – 1750). In the mercantilists' view, there is only one reason for trade: enriching the nation by following economic interests. In their opinion, trade is the only way to progress. Economic development transforms profit into the ultimate objective, which can be achieved using trade and credits (Pohoață, 1993). Mercantilists believed the primary means for enriching the population were as follows: enrichment through increase of gold stocks, enrichment through industry, and enrichment through trade. For the purpose of this paper, it is necessary to recognize the importance of international trade in the process of economic progress (Munn, 1664; Child, 1621). Pricing differences can offer advantages to the participants in international trade. For a country, it is preferable to produce goods for its own domestic needs and then to export the surplus irrespective of the price received for the latter.

In the late 17$^{th}$ century and the early 18$^{th}$ century, physiocrats continued to describe international trade by taking a different approach. For them, foreign trade was a necessary evil and they classified it in the sterile class. Exchanges were deemed similar to equivalence contracts, as a way in which individuals could satisfy their needs. Although physiocrats do not prefer international trade, they encourage it for at least three reasons: (1) it provides the natural order and maintains economic freedom; (2) it represents a different approach compared to mercantilists; (3) it provides good prices that can drive up production (Carbaugh, 2015; Pohoață, 1993) Even though their view on trade was favourable, we should draw attention to the fact that this orientation resulted from the desire to promote cereal trade. In a context of high quantity products, they can expect a good price.

In recent years, there was much debate about the leading role of international trade in the economic development of countries, starting with the classical theories of commerce defined by Adam Smith or David Ricardo. What we nowadays call "the classical theory of trade" is based on Adam Smith or David Ricardo's publications. In Smith's approach to sectors such as industry and scale economy, the international division of labour reduces labour costs and determines the competition between nations or countries. Each trade participant wins after this exchange process owing to the dependence of each individual on other individuals' products (Smith, 1776).

In Smith's opinion, the international division of labour into industries and economies of scale (in the case of England) reduced labour costs and determines competition between nation-states. Each participant to trade exchanges wins as a result thereof because each individual is dependent on the goods produced by another individual (Smith, 1776). Having an awareness of the utility of the exchange, individuals become specialized and produce the goods for which they have an edge and knowledge, and subsequently participate in the exchange process. The most important aspect is for individuals to have the freedom to carry out their activity in the context of a free market and thus be able to achieve optimal use of resources. The absolute advantage identified by Smith is, however, a particular case in economy (Casson, 2000).

In the context of an ever-evolving industrial capitalism in England, David Ricardo had the mission to establish the theory of free commerce, whose bases were set up by Smith. The theory of comparative advantage proposed by Ricardo provides explanations for the international division of labour for all countries, not just for particular case. Free trade is conducive to efficient factors of production distribution (Ricardo, 1817).

Smith and Ricardo's opinions were complete by the vision of John Stuart Mill, the proponent of the theory of international values. By cementing the trade terms, Mill states that the products of a country are traded for another country's products so that the totality of its exports cover exactly the totality of imports. The terms of exchange are thus shaped by checking the demand against the offer, and a country can find itself either in a favourable situation (strong external demand for its own products and weak demand for imports), or in a less favourable situation (Mill, 1848).

The emergence of modern theories of international trade exchanges brought a complementary vision to the forefront. Building on the theories of Ricardo, Hecksher, Ohlin, and Samuelson, respectively, these modern theories created a model based on the relative differences on owning the necessary production factors (the factor proportion model of production and the factor price equalization model in partner countries). The HOS model can be deemed a reinterpretation/reformulation of David Ricardo's principle of relative advantage and an explanation of international trade exchanges via a marginalist neo-classical vision. The model takes a part of Ricardo's ideas (comparative cost, relative cost, mutual advantage, the free trade theory in international trade transactions) and concurrently also dismisses a part thereof (the objective theory of value determined by labour, international immobility of factors of production). From the neo-classical theory, the model extracts the general equilibrium theory and the marginal price theory. Thus, the HOS model regards the relative advantage of each country as depending on the combination of factors of production that ensures a comparatively or relatively larger proportion of the most abundant, ergo most affordable factor(s). This direction will ensure obtaining the unit of goods at the lowest national cost. In order for international trade exchanges to work, it is necessary to line up the prices for factors of production, as well as the prices of goods and revenue levels. One key aspect refers to dismissing the classical vision regarding the natural endowment with factors of production and the international immobility thereof. In international trade, exchanges can be made for finished goods, as well as for capital goods (Ohlin, 1933; Heckscher, 1919; Samuelson, 1970).

There is no doubt that in order to provide a complete definition for a theory of commerce one must highlight the factors influencing commercial exchanges. Such a theory could include actors such as commercial agreements (Korth, 1988) and export control (Nollen, 1987). Markusen (1986) and Hunter (1991) all spoke on the relevance of less homogeneous factors such as a great part of the current share of trade in similar products between similar countries, with analogous levels of development.

Given that neither the classical theories of international trade, nor the HOS theory, explained the evolution of and trends in international trade in a suitable manner, a new theory emerged in regards to international trade exchanges, namely the new international trade theory. Deardoff (1984) concluded that an increase of intra-industry trade was an empirical phenomenon that cannot be explained by the old traditional theories. The new international trade theory was pointed out in the writings of Ethier (1982), Krugman (1986), Grossman & Horn (1988), and Grossmann & Helpman (1981). In brief, the theory states that exchanges are modified when markets are imperfect or when the manufacture of a certain good/product is the subject of economies of scale. (Deraniyagala & Ben, 2001). Chandler (1990) argues that a nation can be capable to achieve economies of scale before the latest marketplace entries and to benefit from reduced costs. An advantage of this kind could explain the status as dominant power of particular countries in certain industries. Other researchers concerned with the same topic reached the alternative conclusion that geographical distance and geography play a major part in contemporary commercial exchanges (Anderson, 1979; McCallum, 1995).

The importance of the new trade theory resides in the influence it had in the new perspectives on commercial exchanges and, moreover, in the attempt to provide justification for economic protectionism.

Entrepreneurship is recognized as one of the key factors contributing to economic growth (Leibenstein, 1968). Studies regarding commerce and industrialization suggest that the economic growth level is much higher when entrepreneurs in a certain field cooperate (Grassby, 1995).

The impact of entrepreneurship on international trade was not approached in empirical studies in a particular manner. If we associate international commercial exchanges with a high level of economic growth, we could note a few consequential aspects. Michael Fritsch and Michael Wyrwich (2017) state that a regional-level entrepreneurial culture influences the activity of start-ups over more than 50 years if there are major changes in the social and economic environment, as well as in regards to the government institution. Furthermore, they associated a higher level of the citizen employment rate to regions with a marked entrepreneurial culture.

Both the theory and the empirical studies argue that the regions with a high level of start-ups should have high growth rates. However, there are no opinions claiming that the increasing number of start-ups is in fact a result, not a source of economic growth. For instance, economic growth can be the result of extensive marketplaces and structural changes, able to create new entrepreneurial opportunities.

## 3. METHODOLOGY

From a methodological point of view, this article aimed to identify opinions in the specialty literature regarding the entrepreneur's role in international trade. With this in mind, the objective was to build on the opinions and values of the Austrian School of Economics and to develop a justification supported by the logical and argumentative process. The objective of this paper was to understand the entrepreneur's role within trade – particularly in international trade. In order to support the presented statements, a review of the specialty literature had to be undertaken, followed by the organization of opinions of key importance to the addressed topic.

Mediated data collection techniques (presentation and promotional documents, official statistics, current management documents, reports, occasional or periodical studies and syntheses, archives, biographies and autobiographies) were employed in carrying out the documentation process on the proposed theme. Employing quality analysis methods is compatible with the approached type of research.

The limitations of this article result from the lack of empirical analysis; concurrently, though, this type of approach is consistent with the opinions of the Austrian School of Economics. In order to consolidate and increase rigorousness, one of the future research directions is to conduct an empirical study endorsing the entrepreneur's importance in international trade

## 4. RESULTS AND DISCUSSIONS

The greater importance of entrepreneurship and international trade approaches results from the latter's impact on the world economy. Favourable commerce reduces costs and offers advantages for consumers and producers alike. An analysis of the influence of entrepreneurship on international trade can provide different and complete insight into the actual economic situation.

Although the economic literature has not explicitly approached the entrepreneur's role in international trade, this is not to say that such role does not exist or is of minor importance. The entrepreneur is the key actor in international trade due to their being first and foremost the creator of the exchanged object, i.e. the product. Starting from identifying an untapped market opportunity, the entrepreneur offers a palpable character and a finality to an idea (an idea of their own). The process of creating a product or service to be put out on the market is carried out under risk and uncertainty conditions (Mises, 1949; Shane, 2003; Shane & Venkataraman, 2000). As a matter of fact, this is the difference between entrepreneurs and the other market actors and participants: the former take risks and are willing to employ their own capital for a potential profit, irrespective of its type (Knight, 1921). The newly created product is aimed at being trade on the market at a specified price.

Further examining this reasoning, the entrepreneur must possess knowledge and be able to harness such knowledge to their own advantage. Knowledge and the limited availability of resources offered answers for the specialization and international division of labour. Individuals are different and have different skills, which in turn provide different results in the activities they conduct. Thus, each one produces a larger quantity of the product they have an edge on comparison to the others, and trade said product at a specific price point.

According to the product life-cycle theory advanced by R. Vernon (Vernon, 1966), it is the entrepreneur's mission to constantly innovate in order to maintain or improve their market position. Vernon argues that no country can permanently maintain its superiority in the manufacture and export of a certain product, because the structure of the world economy is impacted by an irreversible trend of displacing certain industrial sectors from more-developed countries into less-developed countries. Products go through four stages: market entry, growth, maturity and decline. To participate in commercial exchanges, the entrepreneur must offer a product that is needed on the market and that can satisfy consumers' wishes, even if this entails letting go of an existing product that reached its decline stage and creating a new one by means of innovation.

Innovation is an essential factor that contributes to economic development, and the entrepreneur acts towards innovation. The innovative process has a more or less exogenous character. Entrepreneurs are those who transform invention into innovation. They enjoy high short-term profitability, but returns diminish over the medium and long term due to the emulative actions of the competition. The disruptive effect of innovation is attenuated over time, with the market structures regaining balance and awaiting a new wave of innovation. The result is a model of cyclic economic development (Schumpeter, 1939). The emergence of new goods, new production and distribution methods, new markets and new types of industrial organization is the guiding impulse and driving force behind the capitalist system. This unique evolution is specific of the capitalist economy and is dubbed "creative destruction". In the context of a capitalist world, every company and entrepreneur must adapt and innovate if they want to survive (Schmpeter, 1939).

One of the entrepreneur's missions is to permanently nurture the connection between technology and economy. Introducing new technologies helps the entrepreneur achieve the main goal, i.e. to generate new opportunities by taking risks. For instance, Schumpeter's vision was that profit has an intrinsic value, being the result of successful new combinations of factors and methods of production. Entrepreneurs are the ones that identify opportunities, assess available resources and implement an action plan in hopes of achieving regular revenues in a dynamic manner (Klein & Foss, 2012).

Some entrepreneurs prefer to sell their product on an extensive market, an international market, being driven by various motivations (the price they obtain, lack of demand on the national market, etc.). International commercial exchanges are the ones contribute towards economic development by means of their value and intensity, this aspect being very frequently mentioned in the specialty literature.

International commercial exchanges evidently contribute to economic development. One argument for this statement refers to the use of national resources towards the manufacture of export goods, when there is a lower nationwide demand for such products. Furthermore, increasing the market segment where the entrepreneur can sell the product is conducive to a more intensive labour division and the emergence of economies of scale. International trade is a means to propagate new ideas, new technologies, new forms of management, etc. (Krugman & Obsstfeld, 2003). International commercial exchanges favour capital flows, particularly from developed countries to less-developed countries. In the case of direct foreign investments, where foreign companies control the management, the foreign capital comes along with foreign staff with certain management skills. Moreover, international commerce is a genuine enemy of monopoly, given that it stimulates competition and the efficient use of resources. National entrepreneurs compete with international entrepreneurs; thus, streamlining reduces costs and cuts down less productive market actors (Casson, 2000).

In conclusion, the entrepreneur is assigned one of the most challenging missions in the market process, namely to galvanize the activity in its entirety. The entrepreneur is the one offering products on the market in order to achieve commercial exchanges (national and international), taking risks and accepting uncertainty to achieve a potential profit. The entire activity of the entrepreneur provides the framework for economic development.

## CONCLUSIONS

After studying the specialty literature, we can conclude that the entrepreneur has a fundamental role, even though this aspect is not explicitly stated. Economic development gravitates around the economic actor, i.e. the entrepreneur. By assuming risks and uncertainty, entrepreneurs manage to make a profit in the context of a free market economy. The difference between entrepreneurs and the other market actors lies in the former's predisposition and capacity to take risks and to act in uncertain conditions. The willingness to use capital (irrespective of whether this is equity capital or debt capital) places the entrepreneur in another dimension, different from that of other actors in the market process.

The entrepreneur's image is tightly connected to concepts such as: risk, uncertainty, innovation, and profit. There is, however, one element missing from the views presented in the specialty literature, one that is closely correlated with the activity conducted by the economic actor (the entrepreneur), namely commerce.

While the topics of entrepreneurship and entrepreneurs were discussed quite late in the economy, the same cannot be said about international trade. Interest in international commercial exchanges took shape upon the emergence of the mercantilist current and gained momentum during the classical economic period. As discussed hereinabove, the specialty literature has not addressed the matter of the impact of entrepreneurship on international trade, and this aspect was one of the challenges to this research. Entrepreneurship, international commerce and economic development are interconnected variables that, when looked at together, explain the current state of international trade. The primary aim of this theme was to explain international trade via entrepreneurship, owing to the inconsistent information to date regarding this approach.

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