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THE COMMERCIAL POLICIES – INSTRUMENTS OF ECONOMIC POLICY –

Lect. univ. dr. Liana Mester
Conf. univ. dr. Nicoleta Bugnar
Lect. univ. dr. Simona Bodog
Universitatea din Oradea
lmester@uoradea.ro

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The commercial policies contain the totality of regulations at hand for the state (tariff and non tariff measures) by which it can take action for the extension or restriction of external commercial exchanges for the promotion of national interests and the limitation of negative effects on the national economy generated by the foreign competition.

The 20th century has confronted itself with an important change in the international economic order. If the liberalization of the trade has been sustained in the first half of the 20th century, by the System from Bretton Woods established in 1944, by the monetary stability, but also by an extension of the interdependence between the state of the world, the second half of the 20th century was characterized by a spread of the economic protectionism because of the turbulences that occurred in the monetary and financial markets, but also in the national economies through the divergent economic policies promoted by some states. Under these conditions, the liberal idea about the international economic relationships has become more and more less relevant towards the end of the 20th century. The continuous but inevitable tensions and interactions, between economy and politics have determined a series of events that led to the wearing out of the basis of the international system.

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The main means of action of the international trade is the customs duty, especially the *ad valorem* customs duty which is proportional with the value of the imported goods. The collection of the customs duty determines the difference between the price on the national market and the world price of that product, difference which is exactly the customs duty.

Besides the customs duty the state has other means of action concerning the international trade, that is *the non tariff barriers*: the adoption of some national rules of quality which have to be carried out by the products destined for sale (a measure that implies more a protection of the consumption rather than of the national economy), limitations of import and export, contingents, forbiddances, etc.

The application of a customs duty determines the reduction of the consumer's surplus and the growth in surplus of the producers. The collected customs duties represent an income for the state. The effect of the customs duties on the national economy is the net loss of wealth determined as a difference between the consumer's loss and the incomes of the producers and of the state.

No matter which is the form of the protectionism, the application of protectionist measures will make more difficult and will limit the movement of the goods by changing the normal conditions of exchange, determining a price which won't form itself freely.

It is better for a country to face all the increasing opportunity costs than some constant opportunity costs. *The increasing opportunity costs* are given by the situation in which a country has to give up to more and more to a certain product to issue enough resources to produce each additional unit for another product.

The marginal rate of change is another term for the opportunity cost of the product x, and it is given by the slope of production frontier.

The opportunity cost increase because the resources and the factors of production:

1. the are not homogenous (so, all the units of the same factor are not identical or of the same quality);
2. are not used in the same proportion or intensity in the production of all the goods.

The indifference curve reflects the different combinations between two goods which produce equal maximum of satisfaction for a community or a nation.

The marginal rate of substitution of the product X or of the product Y in consumption, refers to the quantity of the product Y, to which a country could give up for a supplementary amount of the product Y, so as the satisfaction to be the same. This is given by the indifference curve at the consumption point and decreases when satisfaction is reduced.

The reduction of the marginal rate of substitution or the inclination of the slope of the indifference curve is a reflection of the fact that, the more the nation consumes more of the product X and less of the product Y, the bigger the satisfaction is, in the consumption of a unit of the product Y, in comparison with a unit of the product X for that certain country. So, a country can give up a smaller consumption of the product Y for each additional unit of the product X which is needed.

In the absence of the commercial exchanges, a nation is in balance when it reaches the highest point of the possible indifference curve given by the production frontier. This fact appears when a community curve of indifference is tangent to the production frontier of the nation. The common slope of the two curves in the tangent point, gives the relative internal balance of the product's price and reflects the comparative advantage of the nation.

A difference in the relative prices of the product between the two nations is a reflection of the comparative advantage and forms the basis of a reciprocal advantageous trade.

The country with a smaller relative price for a certain product has a comparative advantage for that product and a comparative disadvantage from another product, reported to the second country. Each country should then specialize itself in the production of goods which brings the comparative advantage (that is to say, to produce a product more than it is willing to consume inside the country) and to change a part of the production with the other country for the product which is in comparative disadvantage.

However, because each nation is specialized in the production of the product with a comparative advantage, the opportunity costs increase. The specialization will continue until the relative prices of the goods in both countries will reach the level of balance for trade.

By specialization in production and trade, each nation can consume more than its production possibilities.

There is a more rigorous method of determining the balance of trade. This method uses either the curve of total supply and demand for each product and for each nation, or the so called curves of offer.

Once the balance of trade is established, we will exactly know how the income from trade will be divided between the two nations.

If the price in autarchy was identical for the two nations (a very improbable case), there wouldn't be a comparative advantage or disadvantage for none of the nations, and no specialization in production or trade advantageous for both nations.

With constant costs, both nations are specializing themselves in the production of the advantageous product (that is, it produces only that product). The specialization is incomplete when the production has increasing opportunity costs for both nations. Thus, each nation specializing itself in the production of the products which has a comparative advantage, the relative prices of the goods move towards one another (so they become less equal), until they are identical for both nations. In this point, it is not advantageous for either nation to extend the production of the product with a comparative advantage. This fact appears when each nation has specialized itself completely in production.

In the case of constant costs, the only exception for specialization in production, has appeared in the case of small countries. Thus, only the small countries have specialized themselves completely in the production of the product with a compared advantage. Big countries continued to produce both products even for trade, because the small nation could not satisfy the entire demand for imports from the big nation. However, in the case of increasing costs, we can observe a specialization even for a small country too.

For a country, the income from trade can be divided into two: the income from trade and the income from specialization.

In the case of increasing costs, even if the two nations had the production limits identical, there would be a basis for an advantageous trade for both parts, if the tastes and preferences would be different for both nations.

Thus, the advantageous trade for both parts can be based exclusively on the difference in taste between the two nations. Only if the production frontier and the indifference curves are identical for both nations (or the difference between the production frontier is neutralized or balanced by the difference between the indifference curves), the relative prices in autarchy will be equal for both nations, putting aside the advantageous trade for both parts.

Paul Krugman has developed and has analyzed the idea according to which the theoretical justification is indispensable for putting into practice of the protections methods of the public power.

The international trade exchanges reflect the characteristics of the participant countries in the exchange. After the Second World War, the majority of the international exchanges were due more to the arbitrary advantages (for instance, research-development), a fact which hadn't been taken into consideration by the traditional theory of the commercial policy.

The limits of the new theory could come from the instability of the obtained results (any change in the model, as the order of the actions in the company and the action of the state, lead to opposed results) and because of the fact that the reactions of the other countries in front of the protections methods are in great majority neglected (the improvement of a country's position is threatened by the answer methods from the other countries, being a temporary phenomenon).

The controversy between the free change and the economic protectionism is proved to be not conclusive, even if the protectionism is not seen as an extreme policy of the state.

The analyses of the relationship between the imperfect competition and the international trade, first intuitively and after that at a formal level, as well as the examination of the measuring method of the inside-branch trade is extremely important.

As a result of trade increase of trade and world market integration, companies in every country can specialize themselves in the production of a smaller range of products and to produce at smaller prices. Then we can talk about a mutual advantageous trade, even if the companies are identical as far as technology and other factors are concerned. The consumers from each country will benefit from smaller prices of the products having a larger variety. This evolution is determined by the extension of the market or of the fact that, at an industrial level, total sales of each company will increase (no matter which is the level of them), and the decrease of the average cost of production for each company.

According to *the model of technological difference* formulated by *Posner* [M.V. Posner – *International Trade and Technical Change*, Oxford Economic Parers, 1961, p. 323-341] in 1961, a great deal of the trade between industrialized countries is determined by the introduction of some new products and of some innovative procedures of production on the market. This fact provides the country or the innovative industrial branch with a temporary monopoly on the world market. Such a monopoly is often based on licenses and author rights, which are granted so as to stimulate inventions.

According to *the model of production cycle*, when a new product is launched on the market, this fact supposes the existence of some advanced and specific production methods. As that certain product is being developed, it becomes ordinary, standard, for the majority of consumers. At that moment, the product can be obtained in a huge amount, and it does not require new technological methods. As a consequence, the product becomes more attractive in less innovative countries in comparison with the one which launched it, because of smaller production costs. The innovator country often chooses to invest in a country where the labor force is cheap.

The products differentiation is called horizontal if the products present the same quality, but they are distinguished by their real features or the perceived ones. The differentiation of the products is called vertical when the consumers face products of different quality [Michel Rainelli –*International trade. General perspectives. The new theory of International trade*, Ed. Arc, Chişinău, 2004, p. 145].

The external scale economies of the company depend on the general development of the company it is included in, and determines for the firms of that sector, the decrease of production costs together with the increase of the global quantities of products. The unitary cost of production will depend on the sector size, not on the company size. This situation exists when some industries are concentrated in a certain place, a fact that allows the development of a services offer used by all the producers and of a specialized job offer. If the scale economies exist in an important proportion in the production of a certain product, their effect is the promotion of the countries producing that certain product in important quantities and the limitation of the launching on the international market of some new exporters able to produce smaller unitary costs.

The *strategy policy* represents the attempt of a country to change the international strategy circumstances in the advantage of the oligopolies on the internal market. Appealing to protectionism, the state wants to provide a bigger part on the market for national companies. Because other countries can influence the competition on the international market, the trade policy and the exchange relationships are defined by the strategic interaction [T. Buckey – *Strategic Trade Policy: Economic Theory and the Mercantilist Challenge*, 1986, p. 3].

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