

THE NEW PROTECTIONISM – A RESULT OF THE INCAPACITY OF THE TRADITIONAL THEORY TO EXPLAIN THE INTERNATIONAL TRADE

Nicoleta Georgeta BUGNAR, Liana MESTER, Maria Madela ABRUDAN

Universitatea din Oradea, Facultatea de Stiinte Economice

nico_bugnar@yahoo.com

KEY WORDS: protectionism, trade, multinational, theory

Abstract. 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 protectionist 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).

One of the causes of coming out and development of the new theory is the discontent given by the weak capacity of traditional theory in explaining the main features of international trade. The importance of the actions unexplained by the traditional theory is reflected in [5]:

- the international trade knows a faster development between the developed countries, which have only a few differences in their endowment with production elements, while the traditional theory explains the international trade by the different characteristics of nations;
- within the international trade, the proportion of the inter-industry trade, which exist when a country exports and imports, simultaneous, the same products, is significant, being the most dynamic component of international trade; in spite of all the traditional theory ignores this aspect which is incompatible with its vision of international specialization;
- multinationals and the intra-industry trade are not included in the traditional theory, thinking that the only protagonists of international exchanges are the nations (countries).

The New Protectionism has its origins in USA. The constitution of this theory was made by many methods. The first method is represented by an article published in 1979 by Paul Krugman, that had established the function of differentiation of products in explaining the international exchanges. Another method is that of the specialized magazines (*American Economic Review*, *Revue d'economie politique*, or *Revue economique*) which reflected the new researches in the field, between which the most important was the one from 1983 that belongs to Barbara Spencer and James Brander. Paul Krugman is the one who had contributed in a decisive manner to the substantiation and development of The New Protectionism theory trough his specialized paper works, inclusive his paper works addressed to unspecialized people.

Paul Krugman had developed and analyzed the idea in accordance with the theoretical justification is indispensable for practical application of protectionist measures of public power: „the pressures groups have to invest not only in sustaining their representatives in public functions, but also in producing a theoretical corpus, that will confer a scientifically tint

to the demands expressed, in this way it will be possible for public authorities to make a doctrine" [8]. This idea requires the reviewing of theoretical base of free trade and the analyze of negative effects of free trade, this was realized by some researchers as J. Culbertson.

The causes of negative effects of free trade are the unequal conditions of competition between countries, "the breakage" between the market demand and offer or the wages international competition.

The measures imposed by a country to protect itself from the external competition (subsidies, technical norms, controlling the exchange rates, etc.) put into view the unequal conditions of competition between countries, because of the fact that the companies won't compete with the foreign companies but with the foreign country government.

The countries with a low level of salary costs have an advantage in front of the other countries due to the work places transfer to this countries. In these conditions, by losing some of industrial activities, USA, short-dated, will import products from countries with low salary costs, the competition having negative effects for both parts.

The correlation of american demand with american offer, because of the particular characteristics of USA (market dimensions, richness of resources, etc) was one of main factors that lead to the USA development. The penetration of foreign products, especially japaneze or from South-West Asia countries caused the "breakage" between the American demand and offer, being an impediment in the future development of USA.

In his analyze, Culbertson omits the fact that, at international level, the competition is not loyal and abandons the principal of comparative advantages, arguing that the international cost differences are the result of foreign interventions. By Krugman, the change of attitude in analyzing the commercial policy came from three causes: The USA position in world economy, the change of international trade nature and the appearance of new analyze instruments and the application of oligopoly market theory results in the international economy field.

During 1960 – 1980, in USA, the quantity modification, due to international trade with industrial products increase, drive to a perspective change: if in the '60's the American offer was oriented to internal market, favoring the competition between the American companies and making from export a secondary phenomena, in the '80's the inclination is for exterior and the market force of companies receive the dimension of a commercial policy.

The international commercial exchanges reflect the characteristics of the participant countries. After the Second World War, the majority of international exchanges are due to some arbitrary advantages (as for example: research – development), thing that hasn't been took into consideration by the traditional commerce policy theory.

Starting from '60's, the development of oligopoly theory is the effect of an active representation of firms, which, trough different strategic methods, can affect the current firms' actions. In certain cases, unlike the free trade, an active commercial policy makes possible the improvement of some countries' situation, sometime in others countries detriment. This is the case of aeronautic industry or informatics (the models are not referring to concrete situations), in which, starting from premise of oligopoly market, can be describe the balance situation of free trade, taking into consideration the state intervention which can be like subsidies for production and/or other protectionism measures.

This new theory limits can come from the instability of the results (any modification of model, as the order of firm's actions and stat's actions, drive to opposite results) and from the fact that the other countries' reaction to the protectionism measures are neglected (the

improvement of one country's position is threatened by the respond measures from the other countries, being a temporary phenomena).

The controversy between free trade and the economic protectionism is inconclusively, even if the protectionism is not view as an extreme policy of the state.

As Max Corden had shown, the new protectionism proved to be hard to attack whit traditional techniques of free trade. [2] One of the manifesting forms of the new protectionism was the countries' governments' idea to use export volunteering restrictions and some systematic arrangements of market or, using what french people are calling "free organized trade". Concordant to one evaluation, during 1980-1990, the majority American markets and some of European industrial products markets were protected trough unplayable barrier. [1] Even if the proportion of export volunteering restrictions in international trade has a low level, their impact is amplified because they are concentrated in a few sectors as textile, electronics, steel or automobiles, sectors characterized, in general, by a overproduction and a big number of work places.[6] The comparative advantage in these sectors intensive in work, initially an increasing source for developed economies, are now oriented to recent industrialized countries because of their major opportunities offered by export. [9]

The new protectionism had extended itself also over services and high technology industries, sectors thinking to be strategic and the ones sustaining the increase of economy in developed countries. Due to the economical and political importance of traditional sectors or of advanced ones, the big industrial powers tried to protect or to enlarge their participation at international trade by signing different commercial agreements. An agreement like this is The Long Time Agreement for Cotton Textile (1962), which had been extended and became The Multilateral Agreement on Natural and Artificial Fiber (1973). Similar agreements had been sign also in automobiles field or steel field. USA and Europe had forced Japan and the recent industrialized countries to limit their exports of some products "in volunteer way", Japan acting the same regarding South-West Asian countries. The developed countries start to pass or to threaten that will pass a bill "intern limiting", which means that will be necessary to impose some conditions through which the components product in the same place will be included in the foreign products. [3]

Another major aspect of the new protectionism is its effect on international trade structure and on world industry position. The first targets of unplayable barriers and export volunteer restrictions were Japan and recent industrialized Asian countries, whose exports, during ,80's, were effected by discrimination restrictions, in proportion of 30%.[10]

Other effect of the new protectionism was the alteration of commercial negotiations mechanisms and the discrimination increase, violating the most favored nation clause principal. Taking into consideration that the export volunteer restrictions cause favorable economic incomes, that are dividing between privileged foreign and well protected industry and also losses for consumers from importing countries, they had intensified the international trade policies.

Even if the new protectionism slowed down its step, it continues to enlarge, favoring the global change of industrial production position and the consecutive modification of commercial models. [4] One of the features of '80's is the increasing of recent industrialized countries' importance (from Pacific area) as producers and exporters of manufactured produces. This work international division change follows one parallel line to the beginnings of USA and Europe industrialization changes.

By the end of XX century, USA and Europe were opposing to the market power function. Transnational companies and international production brought modification to

international economic policy, placing their production in other countries (being encouraged by those countries' governments) as comparative advantage moves to Japan and recent industrialized countries. It's right that, as the economist Samuel Pissar appreciated, in present there is a competition fight between states' public power and the transnational companies' economic power.

The '60's mark the research program finalization enrolled in general equilibrium. [4] This fact gave an impulse to the apparition of an orientation that sustained the idea of imperfect competition. Some of the traditional theory aspects, as international trade impact over incomes, aspects that can not be discussed in other way than in general equilibrium context, will be marginalized by the new theory or will even disappear; on the other hand, the increasing scale efficiencies refers and the products differences refers, essential elements of the imperfect competition analyze, will be evident for the new theory.

The analyze of imperfect competition and international trade relationship, first of all at an intuitive way and than at a formal level, as the intra industrial trade measurement method examination is very important.

Bibliography:

1. William Cline – *Trade Policy in the 1980 s*, Institute for International Economics, Washington, 1983.
2. Max Corden – *The Revival of Protectionism*, Occasional Papers, nr. 14, New York, 1984.
3. Robert Gilpin – *Economia politica a relatiilor internationale*, Editura Du Syle, Bucuresti, 1999.
4. B. Guerrin – *La theorie economique neoclassique*, 2 vol, La Decouverte, col. Reperes, Paris, 1999.
5. E. Helpman, P. Krugman – *Market Structure and Foreign Trade*, The MIT Press, Cambridge, Mass, 1985.
6. Brian Hindley – *Voluntary Export Restraints and the GATT's Main Escape Clause*, The World Economy 3, 1980.
7. J. Mucchielli – *Relations economiques internationales*, Hachette, col. "Les Fondamentaux", Paris, 1991.
8. Michel Rainelli – *Comertul international*, Editura Arc, Chisinau, 2004.
9. Gautam Sen – *The Military Origins of Industrialization and International Trade Rivalry*, St. Martin's Press, 1984.
10. Susan Strange – *Protectionism and World Politics*, International Organization 39, 1985.