

THE THEORETICAL BASES OF THE INTERNATIONAL TRADE

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The nature and consequences of the interaction between state and market were analyzed by authors such as David Hume, Adam Smith, David Ricardo, John Stuart Mill, Karl Marx or even nowadays researchers. From Adam Smith to the nowadays partisans of liberalism, the liberals sustain a series of ideas and theoretical beliefs about human nature, society, and economical activities.

The foreign trade, an element of the world economic circuit, contributes really to the development of each economy in part, as well as to the reorganization of the economy on the whole. Thus, the a state's participation to the world economic circuit appears not only as a goal, but as a necessity generated by the complexity of the modern economy. The limits of the national market, the variety and complexity of the research activities, the insufficiency of the financial funds, the intense quality and efficiency exigencies are only some of the factors that determine the participation in the world circuit, which itself generates the superior revaluation of the production factors had by the national economies through the increase of the utilization of the production capacities and labor and through the increase of production.

The importance given to the international trade can be explained on the basis of the specialization concept, which gets new valences in the modern society. But specialization cannot be a goal by itself, being carried out through the exchange of goods and services. The trade gives sense and finality to specialization [Sorin Burnete – *International Trade – Theories, Models and Policies*, Ed. Economica, Bucharest, 1999, p. 10] .

Besides different aspects of the trade relationships between the states of the world, the fundamental idea of the international trade theory is that there is an income generated by the international trade transactions. If trade is made one way or the other, even in primitive and difficult circumstances, is just because it brings incomes that sometimes can be significant [Cristopher Claguer, Gordon C. Rausser – *The Emergence of Market Economies in Eastern Europe*, Blackwell Publisher, 1992, p. 60]. The trade policy of a country is that one which generates a bigger or a smaller profit for those who use it. But it should be mentioned that, if the configuration of the trade policy of a country is an important thing, the causes and the factors that influence trade relations of a country are important, too.

In order to give a unitary character to the paper, the analyzed problems of each chapter have been distributed in more parts.

The establishing of economic and political relationships between different countries is put into evidence by the commercial exchanges that take place between them, thus foreign trade appearing. The foreign trade started to develop in the free cities which conquered their independence towards feudalism, and which even constituted themselves into cities like countries. The foreign trade has been initiated by the merchants of these free cities, being gathered together in large unions. Also in order to intensify the foreign trade, unions of free cities appeared.

The state-market relationship, but differences between social life organization also, are to be found in the theories of international trade, too.

The nature and consequences of the interaction between state and market were analyzed by authors such as David Hume, Adam Smith, David Ricardo, John Stuart Mill, Karl Marx or even nowadays researchers. Their interpretations, fundamentally divergent, gave birth to some theories about international political economy. They each analyze the impact of the birth of the market economy on the dynamics of international relationships. The long theoretical tradition remains decisive for the understanding of the problems in the world economy, especially of the international trade.

The preoccupations of economical thinking are being intensified in the conditions of market economy enlargement and are being developed, especially trade, as the attenuation process of political division goes on by creating national states. A growth in exchanges facilitated by the formation of larger national and international markets, is going on, but especially because of the greedy hunger for money, stimulated by primitive accumulation of capital.

Opposed to the mercantilists, the physiocrats sustain the theory of equivalent exchanges, so, the exchange of goods and trade could not be the source of wealth and profit.

The physiocrats struggle against protectionism in international trade and pronounce themselves against customs fees, being in favor of foreign trade liberalization.

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The contents of Adam Smith's theory concerning international trade can be concentrated in the following ideas:

- According to the labor division, it is neither possible nor necessary for each country to produce within its borders, all the goods needed. Therefore, each country is to get specialized in the production of those goods for which production costs are minimum. These kind of products will be the object of export for that country. Thus, specializing itself, any country and economy tend to maximize its efficiency.
- Each country imports those goods for which the paid prices are inferior to national costs, resulted after producing them itself (within its borders).
- -The difference between the national production cost (bigger) and the import price of a certain good (smaller) is *the absolute advantage* obtained by means of international trade.
- The state does not have to interfere in the domestic economy because any of its interference changes distracts the attention of the economic agents from seeking the most efficient allocation of production factors.
- In international trade, free competition (without any monopoly) and a free exchanging policy (non discriminating) has to be promoted.

As compared to Adam Smith, the Ricardian model analyzes the nonequivalent exchanges of the international trade, and the idea of comparison between unitary costs of production, for different goods, within the borders of each and every state; D. Ricardo appreciates that each state obtains a *relative advantage* (as a difference between the national cost which is bigger for the goods in which that country is not specialized) and the minimum cost of production for the goods in which that country has been specialized) if, and only if it gets a bigger quantity of imported goods in exchange of the exported goods as if it could produce the goods alone, with the same resources.

J.S. Mills brings into discussion some new aspects of the international economic exchanges so as to explain the value and price of the goods. These problems referred to international values, to the role of the goods demand for the explanation of the international value, to the allocation of relative advantages among partners and to the influence of the technical progress and of increase of labor productivity on the prices in international transactions.

In spite of his liberalism, J.S. Mills considers that a country could improve its exchange relationships with other countries by using a policy of some import prohibition.

In Germany, Friedrich List (1789-1846) gives an important role to the state in economy, by its educational function of protectionism, for the development of productive forces of the nation, mainly of industry. Instead of foreign policy of free change, List foresees “the educative protectionism”, that is the adoption of some customs fees to foreign goods in order to protect the national industry production in front of the competition goods which could be sold at lower prices, because they have been produced with higher labor productivity.

List’s system recommends a temporary protection (“educative customs fee”) given only to industry and which has to be introduced only in those countries possessing a certain level of economic and social development.

Mihai Manoilescu builds an original model in which he demonstrates that the only real basis of the relative and absolute advantage in international trade is superiority of *national labor productivity* (in front of the partner). Manoilescu recommends the differential encouraging of economic activities of the national economy, in an decreasing order in the level of some efficiency indicators: labor productivity and value of industrialization - the weight of net production in the total value of goods.

If, for the national economy, Manoilescu proposes a *permanent protectionism*, in the foreign relationships, he is the partisan of a *temporary protectionism* imposed by the level of customs duties.

The HOS model considers the relative advantage in international trade in close dependence on the abundance of production factors (capital, labor, land), which launches a production whose comparative cost (or comparative expense) is more reduced.

As far as the equalization in prices of production factors and their income in partner countries is concerned, the HOS model sustains the approach tendency, until their equalization.

In what the mechanism of development and price formation on the world market are concerned, Heckscher as well as Ohlin and Samuelson don’t make any distinction between the domestic and foreign trade, considering that the mechanism is the same.

The conclusion which is drawn after the presentation of HOS model is that the greater the difference between partners is, in what their dowering with production factors is concerned— especially natural factors - the greater the development chances or perspectives for the international trade are.

W. Leontief (winner of Nobel Price in 1973) tested the theory of factor proportion in the North-American trade.

W. Leontief tried to demonstrate that *the American exports are capital intensive, and the imports are labor intensive*.

Using the input and output method (or *the relationship between branches balance*), Leontief demonstrates that USA exports are labor intensive and the imports are capital intensive.

H.G. Johnson underlines the data that have been taken into consideration at the elaboration of international trade theory, makes a comparison between liberalism and

protectionism and shows the progress obtained in the stimulation of the neoclassical theory of compared production costs.

Peter Kenan demonstrated the appearance of the “Leontief paradox” as a result of taking into account the new factors, such as human capital, physical capital and capital of nature’s elements in which expenses for reestablishing of the deteriorated environment are included, as well as the preserving of its quality.

Vernon [Raymond Vernon – *Quarterly Journal of Economics*, vol. LXXX, nr. 2, 1966] and Davidson [William Davidson – *Kyklos*, vol. 32, 1979, p. 764-774] formulate some conclusions about the close relationship between the factors dowering and the innovational model because of the fact that the innovational structures are a little bit influenced by the factors costs, as well as by the tendency to substitute the imports with the stimulation of internal production.

Raymond Vernon, H. Johnson, M. Posner, G. Hufbauer show that the cycle of the new product is made up of three phases – localization, maturation, and standardization – that they appear first, as a rule, in the developed economies which benefit from the innovation monopoly, that the new product goes into production only in the phase of standardization in the state in the process of development, and they don’t benefit from the innovation monopoly.

The authors of the open economy theory, Arthur B. Laffer and Marc M. Milles [A. B. Laffer, M. M. Milles – *International Economics in an Integrated Worlds*, Illinois, 1982, p. 54-126], partisans of the neoclassicism, detach themselves from keynesism as well as from neoclassicism, in the problem of international economic relationships.

The competitive advantage represents the monetary surplus of the export encashment over the payments for import of a country, a fact that can be expressed in physical units too.

The theory was conceived on the basis of two big structural changes in the development of world trade that appeared in the last decades. The first one refers to the fact that the biggest part of world trade and of direct external investments takes place between very developed countries, countries having an equal number of production factors. The second change reflects reality as a significant part of commercial exchanges and takes place between the branches of multinational companies, exchanges mostly with intermediary products.

M. Porter develops the theory of national competitive advantage [Sorin Burnete – *International Trade – Theories, Models and Policies*, Ed. Economica, Bucharest, 1999, p. 135], as being the capacity of the mother-nation to stimulate the innovation and quality increase as far as its companies are concerned.

The transnational corporations are the initiators of international production, by transferring a complex of resources and they are the organizers of international production by the administration of created productive assets, in interaction with specific local conditions of the host economy.

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