

THE INTERNATIONAL TRADE SYSTEM IN THE CURRENT ECONOMIC AND FINANCIAL CRISIS

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Abstract: The study of the international trade system shows that this is not a natural state under human control. Nowadays, the most significant challenge refers to turning international trade into a welfare-creating factor, by changing rules of conduct, the behaviour of actors and institutions. In the context of the economic and financial crisis, but also due to the increase in the external debt of states, radical changes are highly required, both in terms of the involvement of companies in international trade and the assistance provided by supportive institutions to companies, in order to apply the best solutions for the creation and maintenance of sustainable competitive advantages. In principle, one needs a strengthened global trade system, based on regulations that should provide a strong framework and restore global confidence, avoiding protectionism in the meanwhile. The acceleration of trade, investment, technology and information flows at a global level has fostered structures which create economic and social progress and, hence, the emergence of the new international trade system. Therefore, one may speak of a multidirectional development of world economy.

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1. INTRODUCTION

The international trade system includes all multilaterally agreed, contract-like principles, rules and disciplines, whose interconnection establishes the development framework of international trade exchange. For this reason, setting up an international trade system involves the accomplishment of an agreement among several states, in terms of the guidelines and principles implied by such a system.

Based on Lester Turow's conception, who asserted that “trade rules are written by those who control the access to the world's greatest market – the international market”, history comes to support the fact that the proposal for accomplishing and enforcing the international trade system belongs to the country holding world leadership.

The international trade system includes: rules of conduct (regulating the performance of trade exchange); the institutions set up in order to ease the elaboration and compliance with such guidelines; the countries' own means, in the context of interest promotion in world trade. The ITS takes place at 4 levels: multilateral level (WTO); plurilateral level (optional agreements – Appendix 4 to the “WTO Charter”, e.g.

government purchases); regional level (the constantly increasing number of regional free exchange agreements) and national level (the adoption of unilateral steps, either by challenging multilateral rules, or in the fields where they do not exist). A range of criteria are used for describing the trade system, such as: *height* – the protection against importations; *width* – given by the percentage of international trade or number of countries subject to rules – and *depth* – given by the range of approached issues. While the first dimension (height) is constantly decreasing, the other two are expanding.

2. OBJECTIVES

The main objective of the international trade system consists of “increasing the standard of living, a full occupation of workforce and a sustained increase of real income”. At the same time, the decrease of custom taxes and other trade barriers is envisaged, as well as the elimination of discrimination in world trade.

Consequently, we may state that the implicit objectives refer to: reducing discordances between world states; expanding the group of democratic states with a (well-performing) market economy, so that they should represent most of the world population; reducing power imbalances at a world level (a rule-based system is envisaged, protecting weak countries from the abuses of powerful ones) and at a national level (pursuing the safety of business agents involved in international trade).

3. ANALYSIS OF THE INTERNATIONAL TRADE SYSTEM IN THE CONTEXT OF THE ECONOMIC AND FINANCIAL CRISIS

The international trade system takes the form of market networks, where customers involves in exchanges with other invisible actors, whose lives are affected by rules governing their economic behaviour.¹ All these guidelines influence the choices of customers, resulting in an environment where economic flow benefits are divided. The development of international trade is based on a complex range of national, regional and international rules of conduct, with an outstanding human dimension, regarding the interconnection of the created destinies and responsibilities.

As international flows of goods and services involve the creation and transfer of wealth, one may conclude that they play a highly important part in strengthening sustainable development, but also in deepening gaps. Thus, the development of world trade results in the increase of wealth, progress and civilization, but it may also lead to poverty, inequality, unfair practices etc.

The study of the international trade system shows us that it is not a natural state, under human control. The operation and allocation of the costs and benefits of the involved processes, as well as the method of stimulating or inhibiting opportunities are effects of political choices, reflected in guidelines, departmental policies and institutions establishing the orientation of global economic integration.

The international trade system currently imposes new trends of analysis, as the relationship between trade and competition, environment and workforce policies must be monitored. An important aspect in the analysis of world trade lies in the alert launched by non-governmental organisations and other involved actors, on the negative environmental impact of economic development and the effect of trade regulations on the rights of

1 ANGELESCU,C.; CIUCUR,D. –coord., *Economia României și Uniunea Europeană*, Volume II, chapter 27, Comerțul internațional între contestare și susținere necondiționată, Bucharest, ASE Publishing House, 2005-2007

workers, on national values and local communities. In this context, we must say that the new international climate is characterized by a range of determining factors, strengthened by the evolution of macroeconomic policies and the redefinition of the international institutional system.

Although non-discrimination is the basic principle of the international trade system, it is affected by the various preferential (mutual/non-mutual) schemes given within regional trade agreements. Technical obstacles still arise in the international trade system, as barriers given by the implementation of standards and technical guidelines to indigenous products, as compared to the imported ones. For this reason, the agreements of the World Trade Organisation on the technical barriers on trade and sanitation and plant sanitation measures support national and international actions for the reduction of barriers deriving from the specificities of applying such guidelines.

A range of arguments support the idea that it is better to be included in the system. First and foremost, trade differences are constructively regulated. Thus, with the increase of trade exchanges, the likelihood of trade differences increases and such a risk is reduced if there are international institutional structures and rules of conduct that should allow their solution by agreement. More than 100 trade conflicts were notified to WTO structures, since its creation, avoiding a range of trade policy issues. The international trade system actually eases the existence of stakeholders.

As for the adoption of decisions in the system, mutual agreement is used. Codes of conduct are negotiated and signed by all the participants in the system, and then ratified by the parliaments of participant states.

In the absence of an international trade system, based on compulsory rules of conduct, states with economic power would unilaterally impose their economic policies. However, negotiations must be performed with the other trade powers, resulting in a complex network of bilateral trade agreements. The very principle of non-discrimination, which represents the strength of the international trade system, avoids this perspective and creates applicable rules for all members, contributing to an increased efficiency of international trade.

The existence of the international trade system resulted in a constant decrease of customs protectionism, as trade policy actions became more predictable, manufacture costs were reduced, the quality of traded products increased and the customers' possibilities of choosing products soared. All this resulted in an increase purchase power in participant states and economies of scale. This increase of revenues was directly proportional to the development of world trade.

One of the main features of the current economic context is the tendency of formalisation of economic relations, as a result of an active trade policy of states. This is reflected in the development of international agreements aiming at regulating exchange and economic cooperation between states.²

The operation of the international trade system imposes the existence of operation guidelines and rules for sanctioning diverging states, as well as methods for solving conflicts. Radical changes are nowadays required, both in terms of involvement in international trade, and in terms of how support institutions support companies for applying the best solutions for obtaining sustainable competitive advantages. Global markets become highly diversified in customized products and services, with new tradable

² MAN, MIHAI-LIVIU – *Tranzacții internaționale. Prelegeri universitare*, „Eftimie Murgu” University, Reșița, 2002

products and services and a new type of network, in a global electronic space, which changes the behaviour of companies, organisations, institutions and customers.³

In the context of today's world economic and financial crisis, organisations have become focused on the creation of solutions for fighting the crisis and reducing its business impact. The requirement of sustainability and the economic and financial crisis involve economic adjustments in environment protection and nature preservation, the influence of the global business environment and the modification or creation of new markets, which will result in new strategic approaches. The increase of international investment, technology or information trade flows resulted in a more dynamic development of structures generating economic and social progress and, hence, in the apparition of the new world economic system.

An interesting fact in economic and financial crises is that the temptation of protectionism increases.⁴ This is understandable, as free trade involves competition, and competition becomes ruthless when market demand decreases. For this reason, in the case of an economic and financial crisis, aspects such as protecting workplaces or supporting local companies take priority. State governments may be pressed by trade unions, in order to resort to importation restrictions, so that indigenous products and services are favoured on the domestic market.

The economic and financial crisis highlights a disadvantage of free trade: the beneficial effect of actions in a country is also divided with partner countries, even though they do not bear any of the costs of such policies. This is why anticipated benefits for local economy are reduced. For instance, the programme for the renewal of car fleet in Germany, in the context of the current crisis, resulted in an increase in the sales of the Dacia manufacturer. Thus, the German programme had positive effects in Romania, without any financial participation of Romanian taxpayers. Such situations may be largely prevented through a coordination of crisis-oriented programmes among the governments of large economies, and such a cooperation was unprecedented in the current crisis.

The current economic and financial crisis has determined the International Chamber of Commerce to plead for a reinforced global international trade system, based on regulations able to ensure a strong global framework and reestablish global confidence. ICC representatives consider that a reinforced global trade system is required in order to avoid protectionism, as international trade, as an essential element of global economy, is a main source of income and workplaces.

The economic and financial crisis and the recession have a negative impact on trade and diminish growth, because of liquidity and deterioration of customers' confidence. For this reason, in order to avoid disaster, the leaders of the industrialized world reacted quickly for a reestablishment of confidence in the banking system. Such a move is highly required, so that the global trade system should not go into collapse, under the burden of an instable world.

Specifically, the economic and financial crisis implied the adoption of unprecedented decisions, coordinated at a global level. To this purpose, China's commitment to intensify multilateral economic and trade cooperation is important. In the same context, a systemic answer to the challenges of the crisis refers to the transformation of G-20 (including the world's large economies, both the developed and the emerging

³ Romania's National Export Strategy, 2011-2015, The Export Development Department, April 2011

⁴ "Comerț în timp de criză", Semnele timpului magazine, November 2009

ones) in the priority institutional forum for international economic cooperation (a decision made in 2009 in Pittsburgh), by replacing G-7 or G-8 groups. The enforcement of the role of G-20 represents an important aspect as for the shape and style of global governance, implying a change in attitude. For this reason, G-20 may be seen as a world governance council, able to provide emerging economies with a permanent voice, so that they should be more involved in the management of multilateral issues.

We reach a highly important conclusion, that a new international economic order will be built, according to a new multilateralism, based on a global society, characterized by interdependence and common interest. The main attributes of this order are the following: global networks, multiple coalitions, negotiations for obtaining a compromise, soft power and the coexistence of various market economy models and political systems.

At the same time, it has to be said that the peak of the economic crisis is past and a tendency of decrease in the availability of taking tough action (including in the field of the regulation of the global financial sector) can be seen, given the numerous criticisms from those who accuse this format of lack of democratic legitimacy.

The international trade system represented by the World Trade Organisation (WTO) is fully equipped and adapted, especially given the improvements introduced as a consequence of the multilateral trade negotiation Uruguay Round, of 1995. Even though the causes of the current crisis did not refer to the trade field, international trade exchanges have seen a decrease of more than 12% in 2009, especially due to a fall in demand and the deregulation of manufacture and supply cycles. In this context, we maintain that the multilateral trade system has had a major role in avoiding protectionism at an international level and maintaining the distance from the temptations and mistakes during the big crisis of the 30s, of using protectionism and economic isolation as crisis reactions.

The World Trade Organisation is the first economic organization to establish an institutional mechanism as a response to the current economic crisis (monitoring the economic and trade measures taken as a response to crisis), with a view to discouraging the temptation of resorting to protectionism. Likewise, WTO has contributed to ensuring the transparency of financial and banking incentive programmes, in order to support sectors in difficulty and consumption.

Even though WTO members consider that a way to overcome the crisis lies in the continued liberalisation of international trade of goods and services, the economic and financial crisis has resulted in the adoption of decisions related to increasing the protection level of national economies and the support of exports, so that the availability for a continued trade liberalisation process has decreased.

The ever more shared perception that trade regionalism (the negotiation of an important number of free trade agreements, at a bilateral and regional level) does not undermine the multilateral trade system and multilateral trade negotiations, but it is a facilitator thereof, represents a novelty. In the future decade, the activity of WTO will be oriented towards: maintaining the current trade system and the management of an efficient operation thereof; strengthening the transparency of economic and trade policies; using the conflict solution mechanism, in order to correct the infringement of fundamental system rules and ensuring the compliance with the rights and obligations undertaken by the members; an ever more outstanding universality of the organisation, by means of the accession negotiations arranged for 30 states and their approximation to the capacity of complying with the rules of the multilateral trade system. An urgent objective for the current state is added, i.e. the successful completion of the Doha Round of multilateral trade negotiations.

4. CONCLUSIONS

This analysis implies that a significant decrease in customs protectionism has occurred due to the international trade system, reducing the effects of non-tariff barriers. At the same time, trade policies have become more predictable, resulting in the reduction of manufacture costs, an increase in the quality of traded products and an enlargement of the customers' possibilities to choose products.

Likewise, it has been concluded that, given the current economic and financial crisis, international bodies have concentrated their efforts for creating solutions for fighting the crisis and reducing the impact on countries and businesses. Considering the huge benefits trade has generally provided to the population of these countries, it means that one of the most solid foundations these shared values can be built upon may be found in a solid and proper multilateral trade system, based on regulations, reflecting the new realities of this attractive and dynamic new global era.

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