

HISTORICAL ARGUMENTS FAVOURING THE INCREASE OF ECONOMIC COMPETITIVENESS OF A STATE BY PROMOTING FREE TRADE

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Abstract: The current debate regarding the “*free trade*” versus “*fair trade*” and the effects of the markets’ opening to the domestic or regional economies is most of the times unfurled at a theoretical level or based on particular problems and circumstances. The examination of the evolution of commercial policy during the last millennium, and especially, the last 500 years, provides us with a concrete image of the fact that the countries which had been promoting policies of trade liberalization have prospered while those closing their markets by practicing a protectionist policy have reached the stage of economic decline. The experiences of Great Britain, the USA, Japan, China and Germany support this hypothesis. Therefore, next we will analyse these experiences, the economies selected as such being the most significant to illustrate the dynamics of the commercial policies from historical and regional perspectives, these particular states having also an important role in the history and contemporary of international trade, being in the “*Top 5*” of the world exporters and importers of goods and services, according to WTO 2007. The result of the research develop in this paper enforces the economic theory that stipulates that the free trade conducts to welfare and economic growth.

1. Introduction

Taking into consideration current debates regarding the option to adopt a more liberal or more protectionist (neo-protectionist) commercial policy, this assignment has in view a short inroad in the historical dynamics of these policies and also in the commercial instruments adopted by some states at the world level, selected according to the criterion of their dominance in the world trade in a period or another, in order to show how the direction adopted in the past in this field of the commercial policy has been subsequently reflected on the world trade, but also taking into account the current statistics of the international trade which places them in the top of the countries with the most developed trade.

For the beginning, it is necessary to mention that the economy of the Roman Empire was characterised by the terrestrial and maritime trade, in the Mediterranean Sea region. The Rome’s collapse meant the collapse of trade, too. In the Middle Ages, in Europe, the agricultural production resulted on the self-sufficient feudal lords’ fields were mainly destined to local consumerism, hampering thus the effective use of the natural resources and the labour division¹. The living standards for the majority of people were much below the subsistence limit, their life being very difficult and short. It took place, we can say, a mass starvation. When small cities developed, the existing professional guilds imposed limits to the markets they were dominating as well as to the quantity of goods which were being produced, their aim being to maintain high prices

¹ According to Latouche, Robert - *The Birth of Western Economy* (New York: Harper & Row, 1966).

and to close the markets for the exterior. Therefore, these are the first forms of instruments of commercial policy, of a non-tariff nature, used even in antiquity.

2. The United States of America's² and Great Britain's³ commercial policy

As in the 16th century the other European states hardly gave up to the medieval restrictions on trade, England started also to open its market. In the first part of the century, the laws of usury had gone out of use, the export restrictions on the semi-finished ready-made clothes relaxed and certain differential taxes were abolished. The application of commercial restrictions remained in force was generally limited. The result of this British commercial policy has led to the accomplishment "of one of the greatest periods of commercial liberalization in England's modern history"⁴. Unfortunately, the initial era of free trade had a short life. The end of the 17th century found England in a new confrontation with protectionism. During 1690-1704, the general level of import duties has risen four times. This high level was generated first of all by the need of incomes from the state budget; the practical effect was the transformation of the existing tariff system into a protectionist one⁵. The spread of mercantile ideas by the English writers had a contribution to the growth of protectionism, one of them being Thomas Mun. Those wrong economic doctrines had too modern characteristics for those times we are referring to.

In the subsequent decades of the year 1776, when Adam Smith published his book called *The Wealth of Nations*, the free trade fully gained the intellectual debates. Smith had demonstrated how the parties involved by the trade liberalization and by the resulted labour division could benefit. Despite all these, the reminiscences of mercantilism were extensive, as well as the restrictions on the local trade which dated from the Middle Ages. Therefore, many fights were fought to reinstall the free trade. Among the most important commercial barriers, still in force since the beginning of the 19th century, were the *Navigation Acts* and *Corn Laws*. The main Navigation Act dated from 1660 and required that the English ships, sailed by English sailors be used preponderantly in the trade with England and its colonies. The *Corn Laws* dated since 1670 and imposed protectionist taxes on corn imports, thus encouraging the domestic production. The campaign for trade liberalization started in 1820 and was finalised with the abrogation of *Corn Laws* and *Navigation Acts* in 1849⁶. The principle of trade liberalization was regulated by the *Anglo-French Commercial Treaty* of 1860. Since then until the First World War, Great Britain practised a large-scale free trade policy. The free trade was a logical result of the trade liberalization policies. The more

² The USA is in 2006 on the 2nd place at the world goods export and on the 1st place at imports; regarding the service trade, the USA is on the 1st place both in the world top of exporters and as well as importers.

³ Great Britain is in 2006 on the 7th place at the world goods export and on the 4th place at imports; regarding the service trade, Great Britain is on the 2nd place in the world top of exporters and on the 3rd place at imports.

⁴ Fisher, F.J. - "Commercial Trends and Policy in Sixteenth-Century England," *Economic History Review* 10, no. 2 November 1940, p. 101.

⁵ Davis, Ralph - "The Rise of Protection in England, 1689-1786," *Economic History Review* 19, no. 2, August 1966, p. 306-307.

⁶ Cf. Thomas, J. A. - "The Repeal of the Corn Laws, 1846," *Economica* 9, April 1929, p. 53-60; Clapham, J. H. - "The Last Years of the Navigation Acts," *English Historical Review* 25, July and October 1910, p. 480-501, 687-707.

developed the Great Britain's economy became, more and more imports needed, especially materials for manufacture and aliments for the food of an ever growing population. But the country too needed markets to sell its products. During this period, Great Britain has become the richest state in the world and the most powerful nation.

The reverse of the British liberal commercial policy started as a reaction against Germany which had imposed a protectionist tariff in 1879, pressured by its most important businessmen⁷. The situation has soon led to adopting protectionist measures in the entire Europe⁸. Although Great Britain had initially resisted the protectionist tendency, by the end of the century it started to adopt such measures. Joseph Chamberlain was the greatest promoter of the policy regarding the limitation of the free trade towards the third countries on the territory of the British Empire and required the enforcement of protectionist measures against the import goods⁹. In 1897, Great Britain gave up to its treaties with Germany and Belgium which forbade the country to provide preferences to its colonies. Yet, the greatest denial from free trade intervened in 1915, when the British government enforced customs duties of 33,33% on vehicle engines and component parts, musical instruments, clocks and watches and on cinematographic products (films). Automatically, the legislative has extended the list of articles which made the subject of the protectionist tariff¹⁰. Abandoning the free trade during the Second World War coincided with the great decline of the British economy. The free trade was the most powerful pillar of the British general politics regarding the market liberalization. When this pillar crashed down, the road to all kind of socialist measures was opened. The British history of the 20th century was essentially characterised by an almost continuous government control on economy, and to the same extent, by a decline in the power and influence of Great Britain at the world economic level¹¹.

As it regards the USA, some protectionists have noticed that the United States have greatly developed and prospered due to commercial barriers. But America had experienced some stages in the history of its trade. It is better to say that the USA economy was growing in spite of the restrictions against imports. The British commercial policy towards its American colonies was a mercantilist one, constituting a major burden on them¹². Thus, the British protectionism was the main cause of the American Revolution. Despite the fact that thereafter they had gained their independence, many Americans kept supporting the application of protectionist policies similar to those which they had reprovved before. Alexander Hamilton, the main supporter of the enforcement of restrictions on imports, based his suggestions on the alleged needs of the infant industries.

⁷ See Böhme, Helmut - "Big Business Pressure Groups and Bismarck's Turn to Protectionism, 1873-1879," *The Historical Journal* 10, no. 2, 1967), p. 218-236.

⁸ See Bairoch, Paul - "European Trade Policy, 1815-1914," *Cambridge Economic History of Europe*, vol. 8, New York: Cambridge University Press, 1989, p. 69-83.

⁹ Idem, p. 83-88.

¹⁰ Cf. Kindleberger, Charles - "Commercial Policy between the Wars," *Cambridge Economic History of Europe*, vol. 8, New York: Cambridge University Press, 1989, p. 162-163.

¹¹ See Hutchison, Keith - *The Decline and Fall of British Capitalism*, New York: Scribner's, 1950; Kindleberger, Charles - *World Economic Primacy, 1500-1990*, New York: Oxford University Press, 1996, p. 137-148.

¹² See Sawers, Larry - "The Navigation Acts Revisited," *Economic History Review* 45, no. 2, May 1992, p. 262-284.

The American Congress sanctioned the first USA's custom tariff in 1789, and its main aim was the growth of revenues from the federal budget. The taxes started from 5% to 15%, with an approximate average of 8,5%. In spite of all these, in 1816, the Congress adopted an explicit protectionist tariff, with a tax of 25% for almost all the textile products, and with higher taxes of 30% enforced on a wide range of manufactured goods. In 1824, the protection was expanded to the woollen, steel, cotton, lead and glass manufactured goods. The tariff rates on other products were also raised. The first wave of protectionism reached the superior level in 1828 through the so-called *Tariff of Abominations*, where the average tariff rate was raised to almost 49%. It is also worth mentioning the fact that the reverse effects of the tariffs enforced in the 19th century in America were more than compensated by the economic activity which constituted the Western expansion along the continent. Almost 20 million emigrants came to the United States in that century. Also, an even higher economic growth was registered in the field of transports, farming, mining and infrastructure constructions. The effect was that the United States has become an economic giant, a continental scale free trade area spreading from the Pacific to the Atlantic – the equivalent of the distance between Madrid and Moscow on the European continent. After the Civil War, there have been registered some tariff liberalizations, but rather under the form of tax exemptions for certain tariff positions, than under the form of tariff rate reduction.

The tariff protectionism has still remained the keystone of the economic politics of the Republican Party for the following 20 years. The "*Underwood*" *Tariff*, adopted in 1913 under the Woodrow Administration managed to liberalize the American trade to a certain extent. But as soon as the Republicans came to power, after the First World War, they raised the tariffs again. The "*Fordney-McCumber*" *Tariff*, 1922, generally raised the tariff rates for the majority of products. Yet, this tariff gave the American president the power to be able to raise or lower the existing tariff rates up to $\pm 50\%$. The disgraceful "*Smoot-Hawley*" *Tariff*, 1930, was the last insult brought by the Republican protectionists. The rates on the taxable imports reached the highest level in the last 100 years. Tariff raises of 50% were considered normal while some tariffs reached up to 100%. A recent study shows that the "*Smoot-Hawley*" *Tariff* almost doubled the rates existing in the "*Underwood*" *Tariff*¹³.

Both economists and historians continue the debates regarding the importance of the role played by the "*Smoot-Hawley*" *Tariff* in causing the *Great Depression*. No matter the extent to which this tariff determined the economic crisis, it is obvious for us that this commercial policy too was certainly wrong, which deteriorated ever more the situation at the time. As it can be noticed in the data presented in *Table 1*, the world trade actually collapsed after the introduction of the "*Smoot-Hawley*" *Tariff*, so that we can conclude that, even if that particular tariff was not the only cause of the great economic crisis of the time, then it certainly favoured the worsening of the situation.

¹³ See Crucini, Mario J. - "Sources of Variation in Real Tariff Rates: The United States, 1900-1940," *American Economic Review* 84, no. 3, June 1994, p. 737.

Table 1

GDP and the USA Exports during 1929-1933

Year	Nominal GDP	Real GDP	Nominal net exports	Real net exports	Nominal exports	Real exports
1929	\$103,1	\$103,1	\$0,4	\$0,3	\$5,9	\$5,9
1930	\$90,4	\$93,3	\$0,3	\$0,0	\$4,4	\$4,9
1931	\$75,8	\$86,1	\$0,0	-\$0,4	\$2,9	\$4,1
1932	\$58,0	\$74,7	\$0,0	-\$0,3	\$2,0	\$3,3
1933	\$55,6	\$73,2	\$0,1	-\$0,4	\$2,0	\$3,3

Source: U.S. Department of Commerce, *National Income and Product Accounts of the United States, Vol. I, 1929-1958*, Washington, D.C.: USGPO, 1993.

At least at the political level, on long term the memory of the “Soot-Hawley” Tariff kept the Americans faithful to the free trade. For more than 60 years, the principle governing the external trade policy of the USA was that the tariffs and any other barriers of the trade must be reduced and even eliminated, that the commercial wars must be avoided at all costs and the best way to reach all these objectives is the multilateral negotiations. Therefore, the USA took over the initiative to sing the *General Agreement on Tariffs and Trade* – GATT which managed to reduce the global tariffs after the Second World War and organised nine rounds (including the present one) of multilateral negotiations meant to liberalize the international trade, among them the most important were the Kennedy, Tokyo and Uruguay Rounds, and in the present the Doha Round.

In the last years, the consensus regarding the free trade started losing ground. Not far ago the adepts of protectionism were ashamed to recognise themselves under this denomination, as a result of the world economic crash determined in 1929, currently even prominent politicians like Pat Buchanan (former Republican candidate to the USA Presidency) or senator Ernest Hollings declare themselves proudly as being the adepts of this trend. So far though, the protectionist commercial policies have never constituted the source to strengthen the American economy and fortunately the American politics has remained largely oriented towards the free trade.

3. Japan’s commercial policy¹⁴

One of the reasons of the weakening of the consensus of the United States regarding the free trade is the perception that Japan has prospered by using protectionism and the Government support for the industrial branch. From our point of view, we consider that more credit should be given to a good economic policy practised by Japan, than to protectionism, especially if we take into consideration that it was this commercial doctrine which hampered the economic development of Japan for many centuries, while the free trade transformed this country into one of the greatest powers of the world economy.

During Tokugawa’s time, from the 17th century to the 19th century, also called the “era of the shogun’s rules”, Japan was almost completely isolated form the rest of the

¹⁴ Japan is in 2006 on the 4th place at the world goods export and on the 5th place at imports; regarding the service trade, Japan is on the 4th place both in the in the world top of exporters and importers.

world. Although they had limited contacts with the Dutch and the Portuguese, the Japanese were forbidden to travel outside the country and even to build ships. In this way, the Japanese feudalism resisted hundreds of years more after it had collapsed in Europe, and the industrialization appeared much later after the Western Industrial Revolution¹⁵.

In 1853, the USA government designated Commander Matthew Perry to force the opening of a new commercial harbour in Japan to refuel the American ships sailing to and from China. The show offered by the officers of an American warship in the Tokyo Gulf, dictating the politics of a weak Japan, made clear to many of the country's rulers that the isolation was not a good option anymore. In order to become an economic and political force capable of protecting its interests, Japan had to become much more economically integrated in the rest of the world. The result was a gradual openness of this country, culminating with the Meiji Restoration in 1868 which abolished the shogun era and reinstated the power of the Japanese emperor. Trade has played an important role in Japan's economic development after the Restoration. Even though the foreigners initially dominated the trade on this relation, the Japanese have quickly learned how to become competitive; they imported technology and methods (know-how) and incorporated shortly in the Japanese industry¹⁶. We consider worth mentioning that fact that at the end of the 19th century the Japanese used to practise the free trade almost entirely, due to the fact that the treaties signed with the foreign powers generally prohibited any restraint regarding the trade, but also due to the fact that the Japanese government was not strongly involved in economy¹⁷. Even after the Second World War, when Japan became protectionist again and was transforming itself more and more into a militarised state, the economic power was still based on the private initiative. With the Great Crisis in the 30's, Japan confronted with the closure of the international markets, while giants like Great Britain and France were trying to wall in the trade from the empires they were governing. As a response to these, Japan admitted the need to build its own empire to ensure its access on the markets and sources of necessary raw materials. Therefore, it invaded Manchuria in 1931 and China in 1937. To respond to the embargo enforced by America on the oil sales and as protest against such imperial politics, Japan considered necessary to invade Indonesia, too and other territories of Asia. All these have determined the attack from Pearl Harbour and as a consequence the involvement of America in the Second World War.

After the War, Japan had been left with many control levers on trade and investments. The Ministry of International Trade and Industry (MITI) was therefore invested with consistent prerogatives in order to dispose of these levers to the benefit of the domestic industry. The great economic success registered by Japan after the Second World War determined many observers to conclude that the industrial strategy and policy adopted by the MITI for the industries had in view represented the key to the Japanese

¹⁵ Cf. Macpherson, W. J. - *The Economic Development of Japan, 1868-1941*, New York: Cambridge University Press, 1987, p. 17-23; Ito, Takatoshi - *The Japanese Economy*, Cambridge: MIT Press, 1992, p. 7-11.

¹⁶ Cf. Miyamoto, Mataji; Sakudo, Yotaro și Yasuba, Yasukichi - "Economic Development in Preindustrial Japan, 1859-1894," *Journal of Economic History* 25, no. 4, December 1965, p. 551-557.

¹⁷ după Lockwood, William W. - *The Economic Development of Japan*, London: Oxford University Press, 1955, p. 539-543.

success¹⁸. Japan has registered a considerable economic surplus in its exchanges with the USA during the period we are referring to, but currently, the economists are crediting this aspect mainly to the determining macroeconomic forces rather than to Japanese commercial barriers or their industrial policy. Shortly, Japan used to “save too much” and the USA “too little”. In this way, Japan’s excess was exported to the USA, determining a surplus in the current account of the Japanese commercial balance. Even though Japan has never practised a totally free trade, yet, not even in the worst situations, this country has never practised such an exacerbated protectionism as many Americans consider¹⁹.

In reality, the success of the Japanese economy is due to the greatest extent to the efficiency of the economic policy implemented in this state. The taxes charged were generally low along the history, especially those on capital. The saving rate was high, and the budget deficits, reduced in dimensions. Moreover, even though it can be said that the Japanese private businesses were, in a certain period of time, protected by the foreign competition, the local competition was extremely wild. Moreover, the inflation rate was maintained at a low level, and the property rights were protected by law²⁰. Therefore, we consider that all these are suffice reasons to argue the economic success of Japan.

4. China’s commercial policy²¹

Although in 1937, China was invaded by the Japanese and the period before but especially in the present, China was in the top of the world trade. If we take a look back six or seven centuries ago, we will see a world in which China was almost the most advanced economy on Earth and one of the most dynamic forces in the Asian trade. China had organised a professional fleet even in 1232, fitted with the latest technology of that time. Marco Polo himself certified the vigour of the international Chinese trade during his trip to this territory at the end of the 13th century. In that time, the commercial city of Hangzhou had one million inhabitants, including a class of merchants, but also one of refugees. This city enjoyed a relative freedom and was very open to trade, having in this view a motto: “Vegetables from East, water from West, wood from South and rice from North”.²² In those times, China used to practise intensively the maritime trade, the commercial exchanges taking place preponderantly with Indonesia and India.

During the time of Emperor Zhu Di, between 1405-1431, the Chinese made seven official maritime expeditions in Indonesia, India, Arabia and Eastern Africa with the help of 250 ships able to carry merchandise up to 7800 tones each and whose dimension

¹⁸ Cf. Johnson, Chalmers - *MITI and the Japanese Miracle*, Stanford: Stanford University Press, 1982.

¹⁹ See Saxonhouse, Gary - "What Is All This about 'Industrial Targeting' in Japan?", *The World Economy* 6, no. 3, September 1983, p. 254-255.

²⁰ Cf. Gwartney, James; Lawson, Robert; Block, Walter – “*Economic Freedom of the World, 1975-1995*”, Vancouver: Fraser Institute, 1996, p. 166-67; Johnson, Bryan T.; Sheehy, Thomas P. – “*1996 Index of Economic Freedom*”, Washington, D.C.: The Heritage Foundation, 1996, p. 187-189.

²¹ China is in 2006 on the 3rd place both at the world goods exports and imports; regarding the service trade, China is on the 4th place both in the world top of exporters and on the 7th place of importers.

²² Tseng Loe, James – “Trade and the Transformation of China”, Chinese Studies Center Conference, St. Vincent College, PA, 6 November 2002, p. 1.

was reached only in the 18th century by the British fleet. Their number increased up to almost 3500 until 1430. Thus, in that time, China was definitely superior from all points of view, to Europe and the Western World, in general: in technology, in the living standard and the global influence. But China soon transformed into a self-sufficient country, taken in by an anti-commercial trend and fallen into the hands of some rulers who promoted a centralised political system, based on autarchy. Therefore, by the end of the 15th century, which China had began with the most powerful fleet in the world, it did not have any of its most famous ships, and the maritime trade was completely forbidden. Thus, China turned its back to the rest of the world and to the international trade. The elite of the high Chinese class was no longer interested in the Western technology and in the military potential. It is said that in 1793, a British mission visited China, bringing over 600 cases of gifts, among them chronometers, telescopes, planetariums, chemical and metallic products, but the Chinese authorities flatly refused all these, being revolted and offended by the guests' courage²³.

Therefore, more than 500 years, to the 20th century, China was retired from the world, sunk in a relative autarchy. This type of commercial policy was faithfully reflected in the economic situation of the country which registered a dramatic regress. Even though in 1820, China's GDP was still 30% higher than that of the Western European countries and their colonies, the year of 1950 found China with a GDP of only 1/12 of that of the countries compared previously. In spite of all the attempts of the European countries during the 19th century to attract China in the international trade, China remained preponderantly closed, promoting only the domestic trade, the weight of its exports in the GDP being in 1913 of only 1,2%²⁴. Thus, we can appreciate that the autarchic commercial policy, the Taiping Rebellion in the middle of the 19th century, the Japanese invasion in 1937, the Second World War, the Civil War which followed and the communist convulsions in the 20th century have devastated the Chinese economy. The economic reforms began only at the end of the 70's, but as we can notice in the present, at least from the point of view of the international trade, they have recuperated those 500 years of history which had been lost. China's foreign trade increased from only 20 million American dollars at the beginning of the reform to over 500 billions in 2001, when it became a member of WTO and to 1948 billion dollars in 2006.²⁵ This success is due mainly to the liberalization of China's domestic market which started with the agricultural sector and was then expanded to the industrial sector, by privatising the state enterprises, conjugated with the elimination of the control on prices and the unilateral economic openness towards the foreign competition, by establishing what we call today *special economic areas*.

5. Germany's commercial policy²⁶

The American adepts of the protectionism have also considered Germany a model for their theory. Pat Buchanan, for example, quoted the work of the father protectionism, the German Friedrich List, supporting his vision on the American

²³ Cf. Tseng Loe, James – "Trade and the Transformation of China", Chinese Studies Center Conference, St. Vincent College, PA, 6 November 2002, p. 2-3.

²⁴ Idem, p. 4.

²⁵ Cf. WTO – The World Report regarding the International Trade, 2006.

²⁶ Germany is in 2006 on the 1st place at the world goods export and on the 2nd place at imports; regarding the service trade, Germany is on the 3rd place in the in the world top of exporters and on the 2nd place at importers.

economy. Despite all these, the analysis of Germany's history and of List's profound work still does not confirm the efficiency of protectionism in reaching the long desired wellbeing. For starters, it is important to mention that at the beginning of the 19th century, Germany was, in the best case, something more than a small confederation of independent principalities, among them Prussia and Austria being the greatest.

From the economic point of view, the major problem was the existence of a large number of commercial barriers enforced by the German states, barriers which represented actually factors hampering the large scale development of the industry and inhibiting the increase of Germany's political influence. Also, the extraordinarily high taxes charged for the transport on Germany's internal river network represented important barriers for trade, being mentioned also in a work of the economist Eli Heckscher²⁷, who stated that the taxes charged by the Germans automatically added up to 90% from the value of that particular shipment.

In this situation, one of profound internal divergence and obstacles raised for trade, it was necessary that someone interpret List's points of view. Even though he was in favour of protecting the internal market from the imports from the outside of Germany's territory, List was favouring in the same time the abolishment of all the barriers, including the customs duties and control checks in the country²⁸. List's opinion mattered when, in 1833, the German customs union was established, the so-called Zollverein, and to which every German state adhered until 1854. In other words, the achievement of the German states in almost half of the 19th century was the creation of a huge area of free trade right in the heart of Europe. This effort was crowned by the unification of Germany under the rule of the Prussian leader Otto von Bismarck, in 1871. For that result, List is considered in the present Germany as one of the fathers of the unification, although when he was alive he had to leave his country because of the theories promoted and lived in exile until his death. List was in favour of protectionism, first of all due to political reasons – the achievement of Germany's unification. But the protection in List's vision was not a permanent one, but temporary. In all the other aspects, List was generally in favour of the free trade²⁹. Until 1879, Germany's tariff was generally quite low. But in that year, Germany adopted for the first time a protectionist tariff policy. Although the protectionism was promoted in the special interest fields, such as steel and iron industry, it affected the large sector of agriculture which had free-exchange pretensions and which wanted the opening of the markets at the world level in order to sell its products. What actually inclined the political balance towards protectionism was the need for revenues of the central government or at least this is what Bismarck mentioned regarding the reason on which the tariff rise was based on. Ironically, the spread of the protectionism has determined in the end that Germany modernise its own tariff. Therefore, beginning with 1891, Germany negotiated bilateral preferential commercial agreements which substantially reduced the tariffs charged on several imported goods in the exchange of tariff reduction for German exports. In spite of all these, the new tariff, starting with 1902, limited the ability of the Government to negotiate the tariffs within the bilateral agreements by introducing some *non-negotiable tariff thresholds* for many categories of products.

²⁷ Cf. Heckscher, Eli - *Mercantilism*, vol. 1, p. 68.

²⁸ See Pollard, Sidney; Holmes, Colin – “*Documents of European Economic History*, vol. 1, *The Process of Industrialization, 1750-1870*”, New York: St. Martin's Press, 1968, p. 365-369.

²⁹ Cf. Schumpeter, Joseph - *History of Economic Analysis*, New York: Oxford University Press, 1954, p. 504-505.

The First World War created a breach in the trade between Germany and its European enemies. Another breach, this time at the world level was created by the Great Economic Crisis/Depression in the 30's. Moreover, Hitler's taking over the power in 1933 brought in the first level the fascist economic principle of self-sufficiency and the belief that the international trade was controlled by capitalists and Jews who took advantage on Germany's expense. As a result of the conjugation of all these factors, at the end of the Second World War, Germany was a state with a very high tariff. Even after that, the allied forces occupying Germany maintained all the means of economic control introduced by the Nazis, the trade being thus prohibited, the only difference being the fact that this time the control was held by the occupation forces. Thus, we can consider that the German trade was rather inhibited by the direct control than by the tariffs charged. In 1948, Ludwig Erhard, the-then Minister of Economy in the Western Germany, introduced almost by night a major reform of the entire German economy. Even though among its characteristics were some well-known also, for example the monetary stabilization, the reform contained other key elements like the reformation of the fiscal system and of the legislation and the trade liberalization. The results, as we know, were amazing. Even though the Marshall Plan kept granting a vast amount of the capital necessary to rebuild Germany, the wave of economic growth outran in fact the arrival of any aid granted through the Marshall Plan. Moreover, when the Plan became operational, one of the less known aspects was that the aid was granted under the form of a contingent on the commercial openness. Also, we consider necessary to remind that 16 different European states got benefits from the aid granted through this Marshall Plan. This aid was mainly used to finance the imports and exports among these countries which formed the European Organisation for Economic Cooperation (EOEC), which was subsequently transformed into the Organization for Economic Cooperation and Development (OECD). As a result, we can conclude that the main impact of the Marshall Plan on the stimulation of the post-war Europe's prosperity was actually the eradication of commercial barriers³⁰. In parallel, Erhard continued to liberalise the German trade. He was convinced that the trade was an important engine of the economic growth and the openness of the German economy towards the external competition is positively determining in the growth of competitiveness of his country's industry.

In spite of all these, Germany has never adopted a pure policy meant to liberalise the trade, but in exchange it maintained a commercial policy characterised by openness much more accentuated than that of any other European state, in the post-war period. For example, at the beginning of the 80's, Germany restricted the import for a significantly smaller number of products than any other country: while Germany had restricted the import for 47 products, both France as well as Italy had each restricted the import for more than 500 products³¹. Germany continued to spread its policy to eliminate the commercial barriers and to establish the free trade even within the European Union, in 1992.

The **conclusion** results naturally from the above analyse: the more the states promoted free trade, the more welfare increase and growth of the competitiveness of their economies they registered.

³⁰ Cf. McKinnon, Ronald I. - "The Marshall Plan's True Purpose," *Wall Street Journal*, 16 July 1991; Postan, M. M. - "*An Economic History of Western Europe, 1945-1964*", London: Methuen, 1967) p. 98.

³¹ *The Federal Republic of Germany*, Occasional Paper no. 64, Washington, D.C.: International Monetary Fund, 1989, p. 86.

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