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THE CONCEPT OF INTERNATIONAL TRADE AND MAIN CLASSIC THEORIES

Theorethical article

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Abstract

Taking into account the major impact that international trade has on the economy and on the people's lives, and considering its effects on the economic growth, the foreign commerce has to be well understood so that the commercial policies have to be well elaborated, implemented and followed. The theories of international trade are extremely important in order to determine the flows, but especially in the anticipation of the evolution of the forces that influences its dymanic. The theories regarding the foreign trade are used also by the big companies, by their managers, in their attempt to identify the most advantageous strategies of internationalizations, on the most promising markets.

Introduction

International trade has been and will remain the bridge between peoples. Trade has existed since ancient times, and historical development of a nation is the result of ensuring its needs, both physical and moral, as well as intellectual. Due to the fact that no country has available all the material and human resources so as to assure an easy life standard, the exchange of surplus goods with the scarce goods has become a particularly important practice. Furthermore, over time, foreign trade has become a strategy for developing the national economy. It is seen as being very important from the perspective of the contribution that it brings in promoting social and international relations. At world level, foreign trade ensures the main pillars of support, determining regulations that amplify the globalization process.

It becomes more and more obvious that a country can not exist, it is not possible to develop, in a closed, autarchic economy, regardless of how rich in demographic or natural resources it is.

1. The concept of international trade

Seen in the historical context, the existence of trade was noticed ever since the moment when people started to communicate among themselves. If initially people were trying to produce everything that they needed, subsequently, with the development of civilization, needs have increased and their satisfaction has been achieved through exchange. The name was barter, representing those exchanges of product for product. Subsequently, the exchanges were much more simpler,and for helping them it has been introduced the use of an intermediate product called currency. Starting from this moment, real trade began.

Before the capitalist period, trade between states was focused on the national specialization, depending on the natural conditions that lead to the production of goods based on their own resources. Along with the development of capitalism a new important factor appears, namely that of international division of labor, a factor that amplified the relationships and interdependencies between world states. The technical and scientific revolution has developed and deepened continuously this division of labor, boosting in a direct manner the development of production forces. In Ferguson's opinion [Ferguson, A., History of Civil Society, Edinb., 1767, pg 281] such separation of professions in a society deprives the people of his own safety. Galler's position was, however, different, stating that Fuerguson divined a danger that did not materialize, or at least not in the form in which he had foreseen it [Gellner, E., Condiţiile libertaţii. Societatea civilă şi rivalii ei, Editura Polirom, Bucureşti, 1998]. Duerkheim, in his book *Social division of labor* , does not sustain in his turn Fuerguson's idea, considering that "labor division is not just an economic phenomenon which brings prosperity, but has a strong moral character[https://ro.wikipedia.org/wiki/Diviziunea_muncii_%C3%AEn_viziunea_lui_Gellner].

However, international specialization has determined the support axle of international relations between different national economies. According to the international division of labor, countries were divided into underdeveloped or agricultural countries and in developed or industrial countries. The technical and scientific revolution has amplified the expansion of international trade of goods and services, labor force and the exchange of information, being created such a world market which can be defined as „the place where there are to be found the demand and offer of material goods, values, services, labor force, know-how from different states, in the form of international business transactions subject to the objective laws of international trade" [Mihai, Ilie; Mihai, Tiberiu Ionut, Trade Finance, Editura Economica, Bucuresti, 2002, pg 15].

In a broad sense, the activity of international trade includes three major categories of activities:

(a)*International trade operations* that are represented by the activities specific to the internationalization of business constituting activities of foreign trade in a narrow sense, with a direct reference to the operations of export and import, combined operations of export-import and transit.

Such operations are characterized by several aspects:

- "The parties have distinct interests, even opposite, but agree on harmonizing them in order to conclude a deal believed to be mutually advantageous;
- The legal basis of the operation is the synallagmatic contract; the standard legal instrument is the international sale contract;
- The time span of a transaction is mainly the short term, even if the relationship between partners may be on the long-term, or there may be concluded transactions in the long term " [Popa, Ioan, Tranzacţii de comerţ exterior, Editura Economică , Bucureşti, 2002, pagina 13]

(b) The *strategic alliances* also called competitive alliances or global strategic alliances, mean the operations of cooperation that take place between partners from different countries with regard to the techniques of international transfer of technologies. These operations shall include in particular the production of know-how, subcontracting, joint-venture, franchising, etc.

(c) The *direct foreign investments* are a strategic alternative of entering on the international market, which can be defined as the property of a foreign resident over certain assets in order to control the use of such assets. The main categories of the FDIs [http://conspecte.com/Geoeconomia/investitiile-straine-directe-si-corporatiile-transnationale.html] are purchases, mergers and greenfield investments. This strategy corresponds most closely to the criteria of involvement, risk and profit, all of them being at maximum potential.

Maynard Keynes[https://en.wikipedia.org/wiki/John_Maynard_Keynes] mentions the fact that the intervention of the state in economy can be achieved by direct action of the state, the budgetary policy, monetary policy, redirection of resources, industrialization of economy, attracting FDIs, substitution of imports, world-economic policy, ensuring a competitive advantage, and last but not least the trade policy.

2. Classic theories of international trade

Over time, schools, the great scientific personalities and operators in the field of trade have displayed their ideas with respect to the issues under discussion, thus appearing the main classical theories with regard to international trade:

1) Mercantilism

Virgil Madgearu says that "as the trader in the trading of goods is trying everything to earn from his rival as much of the profit, so the state, according to the concept of mercantilism, must have the profit to its side" [Madgearu, Virgil, Curs de economie nationala, Evolutia stiintei economice, Academia de Inalte Studii Comerciale si Economice din Bucuresti, 1938, pg 9-10].

Mercantilism was the first current of modern economic thinking, appeared in the sixteenth century, together with the new relations of capitalist production. It focuses on the quantities of precious metals available to countries, obtaining them being achieved on the basis of promoting exports and restricting imports.

Considering the fact that at the time this theory appeared, monarchies were in power in most countries, mercantilism seemed to represent a sound economic thinking. It was based on two main pillars:

- Wealth was made up of precious metals, money made of these metals;
- The profit was obtained from foreign trade, export constituting a means of increasing the national wealth.

From these perspectives, mercantilists constantly demanded the intervention of the state in trade relations with the foreign partners, the objective being that the trade balance to be in surplus.

In the 16th and 17th centuries, sometimes up to half of the 18th century, the economic literature in the world was dominated by the mercantilist thinking, this being sustained also by N. Suta and Sultana Suta- Selejan.

Many authors believe that then, as now, less-developed states as compared with those developed, need protectionism in order to grow, the latter being favored by a less protectionist state policy.

The mercantilist current is fashionable in our days also, in countries such as Japan, France, USA, current met mainly in sectors which have lost their comparative advantage, for example in the agricultural sector.

2) The theory of absolute advantage in international trade

In 1977 the book of Adam Smith "Wealth of Nations" [Smith, Adam, Wealth of Nations, The University of Chicago Press, 1977] appears where there are made numerous theoretical generalizations on incomes, prices and value. On the basis of Adam Smith's theories the foundations of the classical liberal school are laid down. Although the concern of authorities to increase the national welfare seemed hard to confute, the Scottish economist, named also the father of market economy, has demonstrated that mercantilist philosophy contributes to weakening the bases of economy development, reduces the wealth of a country even if some groups of interests have gains. In order to increase the wealth of nations, Adam Smith proposes the idea of free trade between states, free trade allowing countries to specialise in the production of goods and services which have the property of offering competitive advantages. When manufacturers bring on the market goods which have been produced at lower costs, they obtain an absolute advantage compared to the other manufacturers. According to Smith " If a foreign country can deliver us goods cheaper than we would produce, it is better to buy them from that country, with a part of the product of our activity, using them in a way which can bring us some benefit" [Smith, Adam, Avutia natiunilor. Cercetari asupra naturii si cauzelor ei. Vol I, Editura Academiei, Bucuresti, 1962, pg 306]. International trade is based on these ideas even today, issue that is recognized also by R. Dehem in his work *Precis d'economie internationale* , work in which it is stated that these ideas are all the contemporary science of international trade[Dehem, Roger, Precis d'economie internationale, les presses de L'Universite Level, Quebec, 1982, pg 3].

3) The theory of relative advantage or comparative costs of production

Because the theory of absolute advantage left uncleared many aspects, David Ricardo has developed the theory of comparative advantages. As a continuation of the path opened by Adam Smith, the new economic stage, at the beginning of the 19th century, imposed the development of a new theory on international trade.

In an attempt to determine what goods and services should a country produce, the theory of comparative advantage takes into account the concept of opportunity cost.

In 1817, in his book *On the Principles of Political Economy and Taxation*, David Ricardo brings into discussion the idea of comparative cost, mentioning that between countries there do not always occur equivalent exchanges and consequently, in international trade there is always an absolute advantage for each participating country [Ricardo, David, On the Principles of Political Economy andTaxation, 1817].

The author tries to show that in international relations, countries have the opportunity to win if they specialise in the goods with the lowest amount of work at national level.

The theory was appreciated by the countries advantaged by the liberal policy in international trade, however, it also had opponents in countries such as Central and Eastern European countries, USA. And this was the reason for which, later, J. M. Keynes shows that free trade may lead in addition to the export of goods to the export of unemployment. On the pattern developed by Ricardo there have existed also other critics, among which J. St Mill; V. Pareto, A. Marshall; F. D. Graham; J. H. Williams; Mihail Manoilescu, but it should be borne in mind that in spite of the criticisms which occurred over time, the theory of relative advantage dominated the economic thinking in the highly industrialized countries.

4) The theory of production factors proportions on international trade

Two Swedish economists, Eli Hecksher and Bertin Ohlin, have developed the H-O-S (Haeckscher-Ohlin-Samuelson) model, which is based on the theory of production factors proportion, equating their prices between partner countries but also the hypothesis of equating the incomes from these countries, the latter being known under the name of "Samuelson's paradox". Basically, the authors have taken over from Smith and Ricardo the theories but they rephrased their content having regard to the production factors with which each country is endowed.

According to the authors, countries should export those goods in the production of which is used the highest proportion of production factors available to them. Testing of this theory has been carried out empirically also by Wassily Leontief, by assessing the correlations between the sectors of an economy, using the input-output analysis. Another specialist who tried to test the H-O-S model was B. S. Minhas, which has shown that in countries participating in international trade is not verified in practice the hypothesis of constant character of the production function. As it is well understood, B.S. Minhas denies the validity of the H-O-S model.

Conclusions

Trade, in particular foreign trade, is a revolutionary factor both for promoting and stimulating the technical-economic progress as well as for developing economic thinking. The exchange, as a basis of economic activity, allows a good allocation of scarce resources, in this way facilitating also an increase of the effectiveness of the economic system. A proper understanding of the theories on which trade is based, can offer us the possibility of determining the flow and evolution of the forces that influence its dynamics, in order to establish appropriate trade policies.

Given how significant commercial theories are in the process of elaborating economic policies, the knowledge of these theories is extremely important. At the same time a flawless theoretical substantiation, made in advance, taking into account the theories presented within this paper, provides arguments also in the sphere of business, managers thus managing to identify the best strategies of internationalisation on the most promising markets.

In conclusion, only the force of the arguments sustained by accurate assessments may decide the path to be followed. It is important to derive patterns or causal relationships from the past and to extrapolate their trends in the future.

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