Emerging Markets Queries in Finance and Business

The regionalization, commercial policies and the trade liberalization impact on national economy

Mihaela Neculiță\textsuperscript{a,*}, Liliana Mihaela Moga\textsuperscript{a}

\textsuperscript{a}Faculty of Economics and Business Administration, Dunarea de Jos University of Galati, 47 Domneasca, 800008, Galati, Romania,

Abstract

This study aims to provide insights in regionalization, commercial politics and the national trade. The evolution of national economy is influenced by a great variety of local, national and international decisions. The paper proposes an integrated analysis of Romanian situation by means of data and statistics provided by European and national statistics institutions. Regionalization and globalization have reduced transaction costs through economic integration in different ways and degrees, in the first case by attracting regional countries and in other cases by attracting almost all countries around the world. Growth and trade theories have shown that the processes of regional and global integration have had an enormous impact on trade intensity and labor division between the countries involved. Any transaction includes direct and indirect costs, in different degrees. These direct and indirect costs vary according the location of transaction, in an area of regional integration such as European Union or worldwide. The commercial results show that the main driving forces for a better integration in European trade are: technological progress, information, communications and transport, and the institutional progress through national and supranational commercial policy measures.

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Keywords: regionalization; globalization; trade; transaction; direct cost; indirect cost;

* Corresponding author.
\textit{E-mail address:} neculitam@yahoo.fr.
1. Introduction

Regional economic integration processes took the form of economic relations between certain countries, most notably the European Union EU, North American Free Trade Agreement NAFTA and Asia-Pacific Economic Cooperation APEC Frankel, J.A.1997. Both types of economic integration, regionalization and globalization, have reduced transaction costs, though perhaps in different ways and degrees, in the first case by attracting countries on regional level and in other cases by attracting almost all countries around the world. Growth and trade theories show that both processes of integration, regional and global, are likely to have had an enormous impact on trade intensity and division of labor between the countries involved and also on wages and income of these countries. The most concise concept of economic integration can be found in the trade theory models NEG models: New Economic Geography, Fujita 1999, Baldwin 2003. In these models, it is assumed that the integration goes from autarky no integration, to the free movement of goods and services complete integration. Transaction costs Bhagwati 2004 underlying economic integration process, but this are difficult to determine, given their high degree of heterogeneity. Transaction costs vary considerably depending on the different dimensions that they include. Any transaction contains both direct and indirect costs, in different proportions. Costs are directly dependent on the distance to be carried goods, and indirectly by tariffs and customs fees, permits, licenses, insurance freight. These direct and indirect costs can vary according to where the transaction takes place, within an area of regional integration such as EU, or worldwide. According to the model of cumulative causation Kaldor 1991, specialized areas of manufacturing activities, will register a faster growth than those specialized in primary sector activities due to higher productivity growth that the first regions recorded in relation to other. The process is cumulative because the close-up regions will gain a competitive advantage. This will strengthen regional specialization, because regions with a competitive advantage will expand the export sector importing more primary sector products from other regions.

2. Trade liberalization impact on national economy

In keeping with the economic theory, the views are divided. There are views according to which free trade brings benefits only for those industries which have reached the maturity stage and so can fight against competition on their own Shafaeddin 2005. Due mention should be made to Mihaconcerning the conflict between protectionism and free trade. According to him, a practical protectionism, achievable through the customs fees collection, offers the possibility to maintain high salaries, thus increasing labor productivity, which also means high rate salaries, increased profitability as well as substantial particular capital, which eventually causes the appearance of a vicious circle in productivity as well as in benefits. On the other hand, Krueger and Dornbusch agree that there is obvious improvement in the economic growth in the countries that practice an ‘outside oriented’ commercial policy Thomas 2007. According to Stiglitz 2005, certain signs of the opening towards the world commerce are closely connected to an increase in income per inhabitant, whether this is the balance trade, the marker of prices or the level of customs fees. According to Fischer 2004, the integration into world economy represents the sine qua non condition for a state to stimulate its economic growth Rodriguez 2000. Moreover, the notion of commerce – a catalyser of development exists as early as Adam Smith 1776 and David Ricardo 1817. Despite these statements, even if there is an inverse proportional connection between the customs borders and the economic growth, then this is definitely not one to be revealed by macroeconomic markers on a short term due to the fact that Romania’s economic growth during the post-adheration stage is similar in intensity with the one before January 1 2007. Even if commercial policies inescapably affect the volume of commerce, there are no solid grounds to assert that they will exert any qualitative or quantitative influence on the economic growth, influence which is similar to the change in volume occurred in external trade because of factors such as the decrease in the transportation cots or the increase in the global request.
The impact of the trade liberalization on the increase in productivity can be positive or negative. If the effects of the changes made in the commercial politics on the allotment of resources is focused on the areas or activities that bring about a long term increase, then the impact is a positive one. Otherwise, the economy is faced up against a negative situation. For example, if the trade liberalization reorients the resources towards industry and deprives agriculture, this will have a positive effect on a long term, provided that the industry creates powerful know-how circumstances, i.e. if it comprises the positive qualities needed for an endogenous growth. The impact of the commercial policies on the economic growth is very much determined by empirical factors. Concerning the evolution of the current account balance and Romania’s trade balance, it is a known fact that in the countries where the customs protection is extensive and the strategies for the substitution of imports do not succeed in achieving their goals, the abolishment of the customs fee will inevitably result in a significant increase in imports. With reference to Romania in its first year from the European Union adhesion and the liberalization of the international trade, although the absolute increase in imports is net superior to that in exports, the commercial deficit for 2007 is the biggest as compared to the one recorded from 1991 up to the present. Moreover, a decline in the increase force in exports can also be observed during the stability period 2004 – 2007, while the increase force in imports has been constant, which shows a weakness in the export capacity, all to the benefit of the import capacity. On a short term, the effects of the exterior trade liberalization can be easily identified in a reduction of the good production, both agricultural and industrial, as a consequence of the competition on the European Union market. This decline is to be observed in the competitive intensity of the traditional key areas in exterior trade, while the presupposed allotment of productive resources in new categories of products to which Romania would have got comparative advantages is not very obvious. As compared to the cases recorded in specialized literature, Romania seems to manifest itself atypically, most often than not even by straying off from the preset course of action.

3. Romania and EU trade policy

The adoption of the European Union common customs tariff caused on the short term the emergence of adverse effects, manifested by increasing trade deficit due to the average tariff protection applied by Romania during the pre-accession period which was higher compared with that used in the Community. By participating in the Customs Union, Romania had to reduce tariffs, thus accomplishing the alignment to the EU. As a direct consequence of this situation, the domestic market is currently facing an additional influx of goods from third countries, resulting in a significant increase in imports. In addition to certain issues related to the conversion between different types of duty, the adoption of Common Customs Tariff has also brought about the aligning of the existing import duties to the ones in the European Union on the accession of Romania.

| Product Group        | Preadhesion | Postadhesion |
|----------------------|-------------|--------------|
| Overall average      | 18.4        | 6.3          |
| Food products        | 29.5        | 16.2         |
| Fishery products     | 21.3        | 12.4         |
| Industrial products  | 15.2        | 3.6          |

Source: C.E., Regular Report on Romania’s progress towards accession

Fig. 1 Duty rates applied by Romania to the main product groups before and after EU accession
Duties charged by Romania during the pre-accession period based on the MFN clause reach an overall average of 18.4%, which if spread out it means a the level of 29.5% for food products, 21.3% for fishery products and 15.2% for industrial products. By comparison, the customs duties charged by the EU in relations with third countries reached an overall average of 6.3%, out of which 16.2% applies to food products, 12.4% to fisheries products, 3.6% to industrial products CE report 2004. Regarding the food products, the adoption of common customs tariff has reduced and even eliminated the customs protection. Moreover the most significant reductions of the levels of customs duties had to be made in beverages, spirits and vinegars - from an average of 121.1% to 8.1%, in tobacco and manufactured tobacco substitutes - from an average of 51.8 % to an average of 21%.

However on the other hand, for a less significant number of products, the common customs tariff induced a significant increase in customs duties.

Table no. 1 Changes induced by alignment to the common customs tariff on certain food products

| Product          | Alcoholic drinks | Tobacco and substitutes | Live Animals | Cereals | Apples | Tomatoes | Meat | Rice |
|------------------|------------------|-------------------------|--------------|---------|--------|----------|------|------|
| **Period**       | **Preadhesion**  | **Postadhesion**        | **Preadhesion** | **Postadhesion** | **Preadhesion** | **Postadhesion** | **Preadhesion** | **Postadhesion** |
| **121%**         | **14,2%**        | **121%**                | **51,8%**    | **26,2%** | **14,4%** | **15,4%** | **47,3%** | **21%**          |
| **97,6%**        | **104,2%**       | **97,6%**               | **99%**      | **70,4%** | **99%**  | **99%**  | **105,5%** | **141,4%**       |

Source: Țarcă Viorel, Foreign trade development strategy of Romanian economy, pag. 217

Fig. 2. The impact of adopting the unique customs fee on the alcoholic drinks trade

where

\[ A_{ABCD} = (83588,4 + 65285) \times 112,9/2 = 8.403.903, 43 \text{ EURO (benefit of the consumers)} \]

\[ A_{DEFA} = (178365 + 83588,4) \times 112,9/2 = 14.787.269, 43 \text{ EURO (producers’ loss)} \]
\[ A_{BFGH} = (361374 - 83588, 4) \times 112, 9 = 31.361.994, 24 \text{ EURO (benefit of the state)} \]
\[ A_{CHB} = (83588, 4 - 65285) \times 112, 9 / 2 = 1.033.226, 93 \text{ EURO (net loss)} \]
\[ A_{EGF} = (361374 - 178365) \times 112, 9 / 2 = 10.330.858, 05 \text{ EURO (net loss)} \]
\[ A_{CHB} + A_{EGF} = 11.364.084, 98 \text{ EURO (entailed net loss)} \]

For some agricultural products, the tariff increase brought about by common customs tariff was so high: rice from 117 to 141.4%, meat 99 to 105.5%, tomato 97.6 to 104.2%, apples 66.4 - 70.4% that this has helped the domestic production increase and imports reorientation to the Community, thus a certain increase in domestic prices could be induces.

Concerning the mutations induced by the implementation of the unique customs fee in the internal market, one needs to take into consideration the graphic pattern of the impact of a customs import fee on a small country, like Romania, on its trade with alcoholic drinks.

The alteration of the customs fee on alcoholic drinks from 121 unities to 8.1 unities reduces the price by increasing the tax, so that the internal price decreases with the difference between the two values of the customs fee. The reduction of the internal price brings about changes in the consumer’s and in the producer’s surplus.

Therefore, this causes the reduction of the quantity offered by national producers, which is rendered by the decrease in the producers’ surplus equal only to the area of the trapeze \( DEFA \).

The revenue of the customs fee will be allotted to the State Budget, the area of the rectangle \( BFGH \) respectively. The reduction of the price will work to the benefit of the internal consumers, the surplus of which is equal with the dimension of the trapeze \( ABCD \).

Thus, it can be said that the loss of the internal producers sets forward both the gain of the state and the consumers’ one by the amounts of the triangles \( CHB, EGF \) that will correspond to the net losses suffered by the country because of the customs fee. Consequently, as compared to the situation of the price increase influenced by the change in the customs fee, there appears certain symmetry between the effects recorded by the producers and by the consumers, while the state benefits from the revenue of the customs fee in both cases.

4. Conclusions

Regional economic policy could approach different the regions in the same country. Besides purely economic arguments can be distinguished social, political and environmental factors. Economic reasons are usually considered the most important and are quite numerous, but their relative importance varies, from country to country depending on local circumstances. The multitude of economic policies needs to consider the rehabilitation of the commercial policies’ concept, as interface between local policies and the demand of the market. However, this rehabilitation process comes up against many obstacles such as the reluctance to cooperate and the political will at the level of the Parliament, of the Government and of the other influential public institutions. Until Romania’s alignment to the common policy, Romania has manifested a complete lack in coherent commercial policies, wandering on the transition sea, and the statement that “exports are the country’s top priority” has only a hypothetical value. As a matter of fact, exports have been the weakest link of the economic policies promoted ever since 1990 up to the present, its amount value being constantly surpassed by that in imports, and its quality diminishing from one year to another. Gradually, Romania has ceased to require facilities and incentives such as those applied in the European Union, thus raising budgets only for its economy survival, consumption and compression.

A problem is the deterioration of Romania’s trade balance because the issue of the trade balance situation is the concern of the entire national economy. The problem of the balance trade is so complex that it requires both structured and extensive human, financial, informational and institutional resources, with a view to achieving an outcome for its improvement. In these days, economic efficiency can be increased by the help of the external
trade as catalyses. Romania still has a lot to learn when it comes to the advantages it can get from international trade, but it is expected that the past experience combined with the present situation enables it to better adapt itself to the demands imposed by the future economic environment. The commercial policy needs to be reconsidered from top to bottom in keeping with the alignment to the European norms and regulations. It should not be omitted that, from the point of view of the geographic position or of the production factors, a nation without trade is, undoubtedly, a nation without future perspectives. In consequence, commercial policies are all the more important as they guide the external trade to benefits or losses. As compared to the several orientations of the local commercial policy, it can be said that the economic environment still needs cohesion, harmonization and concern with the setting up of a neutral, transparent and stimulus-based business environment, which, despite the numerous attempts and efforts made, couldn’t be yet accomplished.

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