

The Analysis of Trade Policy Formulation

From the Benefit of Producer and Consumer

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Abstract

The implementation of a trade policy will have different effects on the different interest groups. The benefits of producer and consumer are often opposite. In order to look out an appropriate trade policy, we should balance the benefits of producer and consumer when we formulate trade policy.

Keywords: Trade Policy, Producer, Consumer, Benefit

Whether the government takes up the freedom trade policy or the protective trade policy, it will affect two interest groups: one is the native produce corporation;

The other one is the native consumers. Generally speaking, the free trade policy is better to the consumers, but this will bring big challenge to the native producers.

However, if the government implements protective trade policy to prohibit the foreign goods from coming into the native country, this will short down the supply of foreign goods and the consumers' choices. This kind of policy makes the consumers have to spend more money on the import goods.

Every coin has two sides, so is the foreign trade policy. The enterprises' and the consumers' benefits are controversial, so the government should balance them, when the government sets up the foreign trade policy.

1. The introduction of the problem

The foreign trade policy can't protect the producers' and the consumers' benefits at the same time, so when we set up the foreign trade policy, we should obey this principle: Maximize one's benefit at the condition that the other one's least loss, in order to get overall benefit.

To an enterprise with low level of productive, it may hope to stand stable in the native market; however, to an enterprise with high level of productive, it may hope to get a large space in the international market. Therefore, the producer's produce capability determines the producer's benefit wanting.

The consumer's income determines their benefit wanting. To a poor man, it must make sure that he can live a normal life firstly, at this moment, his benefit wanting is that he can buy his necessities at the lowest price; to a rich man, his economy level determines he can have more wanting. He may care about the price of articles of luxury, rather than that of food. So the rich one's benefit wanting is quite different from the poor one's.

The producer's capability of productive and the consumer's income are relative to the a country's development of economy, so we can get a producer's and consumer's benefit wanting determinates chain.

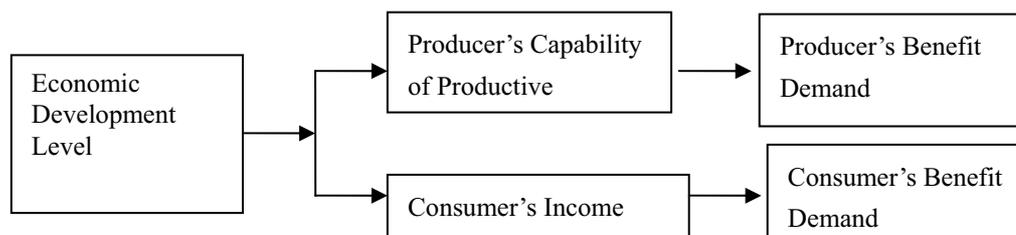


Figure 1. Producer's and Consumer's Benefit Demand Chain

When the government sets up the foreign trade policy, it firstly should make out the country's level of economy and the producer's level of economy and the consumer's consumption wanting in order to find out their own benefit wanting. The government then should compare the different interest group's benefit wanting and sets up the

appropriate foreign trade policy under the principle: Maximize one group's benefit on the condition that the other one has the fewest losses, in order to get the overall benefit.

2. The analysis of how to set up the foreign trade policy

2.1 Dividing the economic developmental stage

Walt Whitman Rostow was used to point out that the development of economy should be divided into six stages: Traditional society stage, Preconditions for take-off stage, Take-off stage, Drive to maturity stage, Age of High mass consumption and pursue quality stage.

However, Chenery, another American economist, advised to divide the economy into three phases: Initial stage of economy, Industrialization stage and Developed economy stage.

The Chinese economist, Li Yue divided the development of economy into five phases: Generation stage, the stage of development, growth stage, strong stage and mature stage. As Li Yue's viewpoint was based on the Rostow's and Chenery's viewpoint, so this article will take the Li Yue's theory to divide the development of economy.

2.2 Policy Suggestions at each stage

2.2.1 The first stage--Generation Stage

The agricultural sector is the main sector in the society. The producers are all small farmers in the unit of family. So at this stage, the producers are also consumers, and they need lots of food. However, due to the low productivity, there will be more need than supply. On the other hand, due to the constriction of nature condition, the native agricultural goods are very rare. So the government should take up the free trade policy in order to import some other agricultural goods.

2.2.2 The second stage--The Stage of Development

In this period, although the agricultural sector is still the main productive sector, the proportion of the agricultural sector in the GDP begins to decrease; some of the rural labor force are transferring to the city. During this period, the industrial sector will take the place of the agricultural sector, becoming the first sector. As the industry in the native country is in the early stage, it's really very difficult for them to compete with the foreign companies, so the government has to take up protective trade policy to the industrial sector. In this period, as people's salary is still at a low level, consumers still spend lots of money on the daily necessities, only a few consumers are in need of some kinds of industrial products. Therefore, the protective trade policy will not hurt the consumer's benefit.

The level of mechanization in agricultural production is still very low, and the productivity and efficiency are also very low. The agricultural producer needs to be protected to resist the competition from the foreigners. Compared with industrial sector, the government should give some protection to the agricultural sector in the form of subsidiary etc.

2.2.3 The third stage--Growth Stage

In this period, the economy in the country has made rapid progress and the ratio of revenue to GDP declines sharply, even less than that of service industry. However, with the development of industry, the level of mechanization in agricultural production has been improved obviously. The agricultural production can not only make the native people's needs, but also have surplus. So the government can implement free trade policy to the agriculture and help it export abroad.

The enterprise in industry sector also gets an obvious progress and the ratio of industry sector to GDP has been further improved. Some enterprises become mature in the market, they are not in a totally passive situation when they compete with the foreign ones. However, they are eager to get lots of advanced technology for both production and management from the foreign countries. On the other hand, people's living standard and their quality of life are improved; consumers begin to have diversified demand on industrial products. However, in this period, the native enterprises may can't make consumers' high needs. So compared with the second stage, the trade policy can relieve some constraints on industrial products; and welcome the foreign enterprises to invest.

Service industry and tertiary industry have made great progress, but compared with the ones in developed countries, they still lack competitiveness. However, at this time, the need of industrial products is still much more than that of service, so the government can implement protective trade policy on tertiary industry. This policy will not bring lots of losses to the consumers and will protect the native enterprises.

2.2.4 The fourth Stage--Strong Stage

Actually, lots of medium-level developed countries are at this stage nowadays. Each industry in native country become mature, but still doesn't have absolute advantage in the world. The industrial enterprises are possible to

withstand the competition of the foreign enterprises and their biggest difficulty is how to get a larger market space in the international market. Tertiary industry also makes a progress, most of the businesses are getting mature and some of them have the ability to compete with the foreign competitors.

During this period, the consumers have a higher level of income; they have more need in the service industry. So the government can take up free trade policy in the industrial sector, and try to help the native companies to go aboard. The government can further increase liberalization of services, in order to meet the consumers' multifarious needs in the service industry.

2.2.5 The fifth stage-- Mature Stage

During this period, the service industry has become the economic backbone of the country. Enterprises begin to take the world as their objective market. The consumers don't care about the prices of goods, as they have a high level of income. Therefore, the government should advocate the free trade policy.

We have analyzed the consumers' and producers' main feature in the former content and given lots of suggestion on the trade policy in each stage. However, we still believe that there isn't a common trade policy theory to all the countries. The foreign trade policy should be changed according to the real situation of the country. Generally speaking, at the beginning of the development of economy and at the developed stage, the government can take up free trade policy. However, during the process of the economy, the government should try to use protective trade policy on each industry.

3. Suggestion on foreign trade policy in China

Nowadays, each industry is developing very fast. Specially speaking, compared with the developed countries, the production level in agricultural sector still lags behind, so china can not implement free trade policy on agriculture, on the contrary, we should make great efforts to it to improve the international competitiveness of agricultural products.

In industrial sector, a few enterprises have stepped toward foreign markets, but they still keep a pace with some of the foreign competitors. Consumers in China now begin to have diversified demands on industrial products, so we now can try to open some areas and help some weak businesses.

Service industry and tertiary industry are in the process of developing, the native enterprises can basically meet people's needs. However some rich consumers' needs are beyond the producer's capability. So, the government should take up protective trade policy and reduce limitations to some products.

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