GLOBALIZATION AND THE EVOLUTION OF TRADE

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Contents

Summary

The term "globalization" usually refers to the continuing growth of international trade in factors, goods, and services. The continuing global integration of capital markets is another manifestation of globalization. As world trade has increased and become freer, there has also been an increase in regionalism, which in most cases takes the form of preferential trade agreements among groups of nations. Regulatory reform and other measures have been undertaken to facilitate trade, and international organizations such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the World Bank have been active in encouraging trade and in attempting to curb corruption at the international level.

1. Introduction

Globalization is predominately an economic process, but through its impact on culture and government, including virtually all aspects of domestic policy-making, it has had powerful social effects. The term "globalization" generally refers to the increase in international transactions in markets for goods, services, and factors of production, and also to the growth and expanding scope of many institutions that straddle international borders. These institutions include firms, governments, international institutions, and non-governmental organizations (NGOs). Globalization also refers to increasing foreign direct investment (FDI), multinational corporation (MNC) activity, and integration of world capital flows. In Figure 1 below, we have an indication of the growth in international trade over the last fifty years. Using an index of the ratio of world exports to world gross domestic product (GDP) (1990 = 100), the graph illustrates that this ratio has increased fairly steadily, so that by 1998 it was more than three times what it was in 1950.

There have been increased capital flows, the most pronounced being in portfolio investment. Mobility of labor has not increased significantly over the same period. These global changes have been caused, inter alia, by changes in technology and changes in policy. For example, improvements in both transportation and communication have aided globalization. With the coming of the internet, these changes accelerated. Policies, on the other hand, have moved back and forth over the last 100 years. International trade was restricted after World War I (1914-18) and then opened up after World War II (1939-45). This movement can be seen in Figure 2 where average tariffs on manufacturing are set out for selected years for selected countries. The last entry, “Post-UR,” refers to the post-Uruguay Round period.

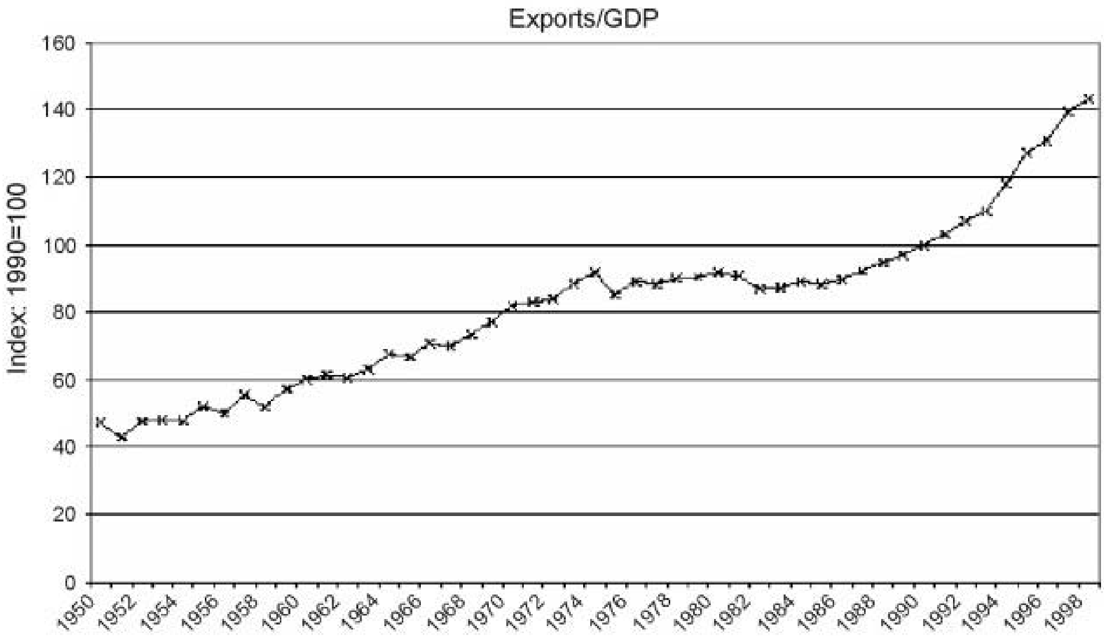

Figure 1. Index of Ratio of World Merchandise Exports to World GDP (1990=100) Exports/GDP

Who have been the main beneficiaries of the growth in international trade and increased integration of capital markets? Certainly as a consumer, the individual on an average income is better off, since he/she has a greater variety of goods to choose from at affordable prices. However, we also know that the effect of trade is to redistribute income, in such a way that the losers are likely to be the owners of a country’s scarce factors. It may also mean that, for less developed countries (LDCs) income inequality may be reduced.

Concerning capital mobility, it is clear that access to global capital helps countries develop, but it is also true that capital can be withdrawn suddenly (as in the Asian Financial Crisis of 1997), resulting in widespread recession in those countries. This affects the whole population. Some of the lessons that have been learnt in the aftermath of the Asian Crisis are instructive. First, the focus of the authorities should be on institution building in order to provide appropriate prudential regulations and a strengthening of the supervisory arrangements. This includes reinforcing the corporate governance mechanism to ensure fairness and transparency. Second, bolster the regional financial markets that are linked to global markets. Third, use capital controls to influence capital inflow. This latter lesson applies particularly to those economies that have weak financial systems. Capital controls should be used until their financial systems become stronger.

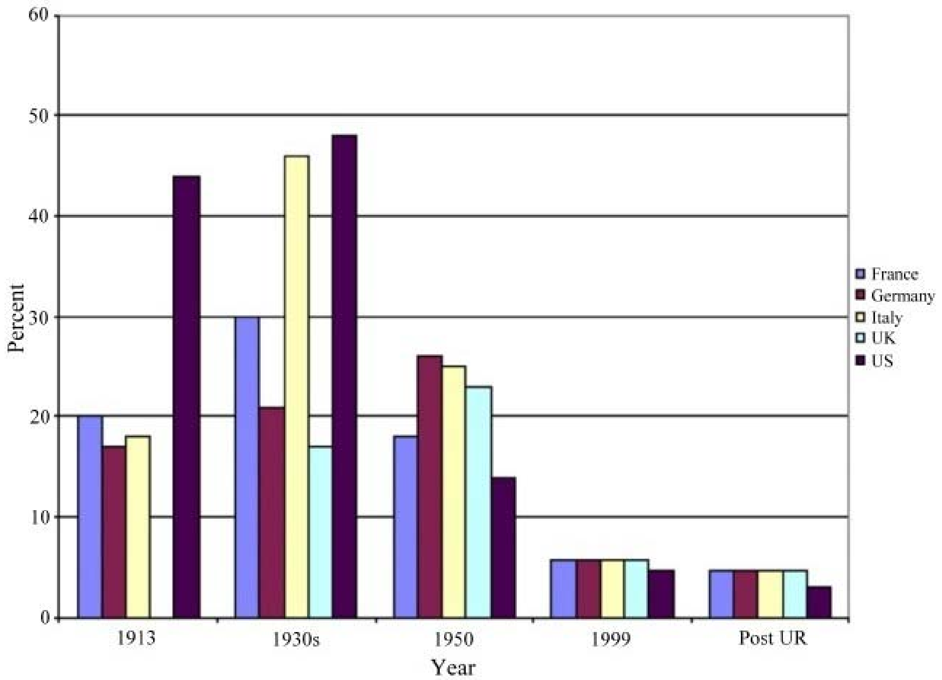

Figure 2. Average Tariffs on Manufacturers, Selected Years 1913-Post Uruguay Round

The impact of globalization has transformed the world into a number of different regions with different characteristics:

- North America, Western Europe and Japan are highly developed.
- The Asian “tiger economies” of Hong Kong, Thailand, Malaysia, Korea,
- Singapore and Taiwan are reaching the status of highly industrialized countries, despite the crisis of 1997.
- The rest of Asia, including China and India, still has backward economies and low income levels, and provides labor services for the faster-growing economies.
- Latin America, with its spending growth, economic dependence, and political conflict.
- Africa, largely excluded from the global economy, with declining income, appalling social conditions, conflicts, and refugee flows.
- The “transition” economies of the former Soviet bloc, whose economic and institutional restructuring is pushing them towards the capitalist world.

Globalization has also led to a more liberal economic environment in which issues such as labor standards, human rights, the environment, intellectual property rights, investment codes, and competition policy are now considered legitimate topics in the trade debate.

The labor standards debate concerns the extent to which low wages and poor working conditions in developing countries constitutes an unfair advantage to them (relative to the developed countries) or merely reflects the inherent advantage of “surplus labor” economies. The environment debate concerns the different values placed on the environment by different countries and the extent of the benefits/costs that accrue to countries or regions most affected by such activities. Pricing these environmental costs to reflect the true economic costs to society is a technical issue. Just as important, however, is the institutional structure required to design, collect, and implement the appropriate policies, such as a global carbon tax, while dispute resolution is seen as an important issue in this area. Arguments have also been put that the trade sanction is a potentially powerful mechanism to enforce desirable changes in environmental policies. However, one has to be ever vigilant that this environmental concern is not used as a convenient disguise for protectionism. Intellectual property rights involve the practicalities of knowledge creation, control and ownership. For example, the appropriate valuation and treatment of indigenous knowledge is particularly relevant for developing economies.

The issues of competition policy and investment codes have been of more recent interest in the international community. The liberalization of capital markets along with competition policies that provide protection at the trade level, are ongoing debates in the WTO. For example, trade related investment policies and the need for new multilateral rules on investment (MRIs), particularly foreign direct investment, are seen as an issue for the new trade agendas. Presently there is no comprehensive international treaty or organization with a mandate over investment regulations, although there is a plethora of regional and bilateral agreements. The realization of the interrelationship between trade and investment had also led to the notion of market contestability (or market access). This concept emphasizes two essential ideas. First, a market is deemed internationally contestable when the conditions of competition allow unimpaired market access for foreign goods, services, ideas, investment, and business people. Second, the investment mode of doing business is as important as trade because trade and investment are complimentary ways of contesting markets. This debate is further complicated by the emergence of the new regionalism or what has come to be known as the “second regionalism.”

The rules of the WTO are intended to strengthen cooperative behavior among countries. Given the interdependence in international trade between countries, such a set of rules should possess some desirable elements. These are set out in Table 1 below:

Type of Interdependence		**Distortions, Disturbances**	**Rules**
(1)	Exchange of goods and services - Goods	Protectionistic foreign trade policy (tariffs, import quotas, "voluntary" export restraints, strategic trade policy and industrial policy, anti-dumping, subsidies, product standards)	Trade rules, above all against new forms of protectionistic trade policy; country-of-origin principle for norms. No world-wide standardization

		Calls for uniform social norms Market power of firms	possible. Competition rules. Free access to markets Competition authorities?
	- Services	Discrimination against foreign suppliers	National treatment
(2)	Factor migration - Technology	Not respecting property rights internationally reduces the incentive for technological progress	Property rights which protect new knowledge but permit gradual dissemination.
	- Capital	Risk of expropriation of foreign investments; tax competition for mobile capital	Governments compete using their infrastructure, tax system and regulations for mobile capita. Consequently, national self-interest impels countries to make themselves more attractive to outside capita. Aside from this, no international rules are necessary.
	- Labor	Abrupt mass migrations	Free trade and free movements of capital as a substitute for labor migration. A right to emigrate (right to exit). Openness in immigration policy. Not achievable: a universal right of immigration.
(3)	Financial transactions	Volatility of exchange rates	Each country must keep the value of its money stable. Discretionary macroeconomic coordination is not possible unless each country submits itself to rules giving up sovereignty similar to the gold standard.
(4)	Diffusion of Pollutants	Misuse of national environmental policy for strategic trade purposes; free rider behavior of individual countries in regard to global environmental problems.	International rules only for transfrontier and global environmental problems. National environmental problems are subject to national environmental policy. Separation between environmental policy and trade policy.

Source: Siebert (1998) p333

Table 1. Elements of an Institutional Order for the World Economy

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Biographical Sketch

Pasquale M. Sgro is Professor of Economics at Deakin University, Melbourne, Australia. He has held numerous teaching and research positions at universities and research institutions in Australia and Overseas. His research interests are in the areas of international trade and economic development, on which he has published a number of books and numerous journal articles. He is founding co-editor of the Journal of International Trade and Economic Development, published by Routledge (UK).