Globalisation and Trade: The means to what end?

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Any discussion on the subject of globalisation and trade will inevitably involve consideration of a possible method of ensuring that the international trading system gets the most out of the globalisation. Such a scenario will entail discussing international trade activity against the backdrop of globalisation, and more importantly attaining the objective(s) of such activity. This paper will commence by discussing the phenomenon called globalisation, to understand what it is and what if any are the potential benefits from it. An analysis into whether globalisation is delivering what it is expected to, and if not why is it not able to, will be undertaken. There are strong arguments that globalisation, especially in the context of international trade need regulation for it to be a positive element. The result of this analysis will then lead to a consideration of international trade theories and philosophies to ascertain the objectives of engaging in international trade activity. The outcome of this examination will then be tested against historical experiences in the international trading order to verify what slant such regulation should undertake in order to achieve the objectives of international trade as informed by the philosophies and theories of international trade and its regulation.

A comprehensive definition for globalisation is difficult to find due to its cross cutting nature, leading some writers to define globalisation by way of its cross border impact. There is however general agreement that globalisation affects the way we live, work and conduct business providing both new opportunities and also new challenges.

The origins of globalisation is also controversial, with some writers stating that the phenomenon cannot be tied to a specific date. In recent times the process has been accelerated, influenced by technology and reorientation by developing countries towards more open trade policy. The impact of these drivers have become more influential after the back drop of globalisation, and more importantly achieving the objectives of such activity. This paper will commence by discussing the phenomenon called globalisation, to understand what it is and what if any are the potential benefits from it. An analysis into whether globalisation is delivering what it is expected to, and if not why is it not able to, will be undertaken. There are strong arguments that globalisation, especially in the context of international trade need regulation for it to be a positive element. The result of this analysis will then lead to a consideration of international trade theories and philosophies to ascertain the objectives of engaging in international trade activity. The outcome of this examination will then be tested against historical experiences in the international trading order to verify what slant such regulation should undertake in order to achieve the objectives of international trade as informed by the philosophies and theories of international trade and its regulation.

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1 D. Johnson and C. Turner, International Business themes and issues in the modern global economy', Routlege 2003, p 4
Second World War, which has led many to use this timeframe as a baseline for discussing the phenomenon of globalisation.

Globalisation is said to manifest in three main dimensions; economic, cultural and political. Writers supporting the economic dimension state that the various dimensions of globalisation have spread and developed unevenly, and economic globalisation manifesting especially in international trade and capital flows are the common thread running through the phenomenon, rationalising their approach by stating that but for traveling in search of a better life, transboundary movement is baseless. Traditional transboundary movement was always accompanied by the notion of fair exchange and need for reciprocal benefits in this approach to globalisation.

Some academics state that globalisation will provide greater choice, higher living standards, growth and development. Others state that globalisation causes the poorest to benefit least from the process as the system is tipped in favour of the more powerful. Therefore, globalisation if unaccompanied by regulation to ensure fairness to, and, protection of the weak, could make globalisation a negative element. Therefore, globalisation will benefit from international economic related regulation, as without it the unbalanced relationship between the powerful and the weak will lead to the latter getting weaker. The question to follow is what direction/objective should the regulation seek to pursue?

Inequity in the distribution of benefits from the international trading system in the past has led to a developmental gap. As a result, it is said that it would take 100 years for the more integrated of developing countries to catch up with developed countries, whilst countries in the African region would take approximately some 230 years to close the gap. "Global income distribution" models where the income of everyone in the world could be compared on a unified ranking, regardless where they live would indicate that 40% of the world's population live on income so low that they are precluded from fully participating in wealth creation. This has to be viewed in the light that global income inequality accounts for two thirds of overall inequality.
An analysis of trade theories produces marked similarities. All of them seem to stem from a root concept of production and specialisation based on capitalisation of particular endowments within a country in order to make it a more efficient producer of a particular good. The knock-on effect is the greater availability of the product in question at a lower cost, making the product more accessible to a wide category of consumers. This in turn would enhance consumer welfare and development through greater satisfaction and choice.

The writings from various trade theorists indicate international trade had welfare enhancement objectives centered on efficiency in production to support welfare enhancement. Accordingly, the basic/pure theory of trade is concerned with answering two sets of questions; why and how countries gain from trade and subsequently the structure, volume and direction of trade. The welfare considerations, that it would be beneficial for that country to participate in foreign trade is supplemented by what it chooses to export, which is premised on that which it has most efficiency in producing, which is then marketed on a large a market base as possible. A country then spends its export income on paying for its imports.

Hence international trade points to one underlying philosophical objective to the activity of trade. It is meant to promote economic growth and the development of societies in the world through the mutual beneficial exchange of goods and services across national borders, built on efficient allocation of factors of production.

The historical development of the post-World War 2 (WW2) international trading system indicates the need to manage trade from a broader, cross border perspective, premised on welfare enhancement and development. A crucial element arising from this perspective of regulation of trade relationships is a strong rule based system. Discussions during the interwar years focused on removing sweeping, unspecific statements on best principles, which often led to a meaningless outcome without hard and fast commitments as well as addressing the episodic character of trade commitment discussions. Therefore, the international trading system needed a long term regulatory framework that was premised on binding rules. These rules needed to be fair and equitable as inequity and dissatisfaction could once again lead to conflict.

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17 The absolute cost theory, comparative advantage theory, factor proportions hypothesis and product cycle theory
19 See R. Ekelund and R. Herbert, ibid
This new approach saw an ambitious attempt to establish the International Trade Organisation which was abandoned in favour of a much less ambitious GATT due to the reluctance of some of the major trading nations at that time to undertake meaningful commitments. Some 50 years later saw the establishment of the World Trade Organisation, again with a strong rule based approach as there was a need to include developing countries into the international trading system. The WTO however has also failed where the GATT had failed in not providing sufficiently for equity, this time for developing countries with many developed members reverting to power diplomacy and “beggar thy neighbour” attitudes which may well give rise to discontent and international conflict.

Therefore the WTO needs to manage economic globalisation through regulation of international trade. However this regulation should be slanted towards rules that provide sufficient positive discrimination for developing countries to obtain a share of international trade activity commensurate with their level of development with a view of removing the developmental gap that exist today between the east and the west.

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24 M. Martin, supra note 2
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