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,[1] leading some writers to define globalisation by way of its cross border impact.[2] There is however general agreement that globalisation affects the way we live, work and conduct business providing both new opportunities and also new challenges.[3]

The origins of globalisation is also controversial, with some writers stating that the phenomenon cannot be tied to a specific date.[4] In recent times the process has been accelerated, influenced by technology and reorientation by developing countries towards more open trade policy.[5] The impact of these drivers have become more influential after the

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1 D.Johnson and C.Turner, *International Business themes and issues in the modern global economy*', Routlege 2003, p 4

2 A.K. Bagchi "Globalisation a Sketch" available at [http://www.cpdsindia.org/globalhumansecurity/globalisation.htm] on 14/10/2005 at 7.00 pm. S. Chan and J. Scarritt, "Globalisation, Soft Hegemony and Democratization:Their Sources and Effects" in S. Chan and J Scarritt, *Coping With Globalisation: Cross-National Patterns in Domestic Governance and Policy Performance,* Frank Cass, 2002, p 2. See also M. Martin, *WTO Dispute Settlement Understanding and Development,* Nijhoff International Trade Law Series, Martinus Nijhoff Publishers, 2013 and Ulrich Beck "*What is Globalisation"* Polity, 2000, p. 20

3 J. Morrison. *The International Business Environment,* Palgrave 2002, 31. M.Martin, Key Note Address *"Competitive Edge in the Global Economy"* Seminar organised by KPMG and Prestige Edge at the Pan Pacific Glenmarie, Shah Alam, Malaysia, 7 May 2002. See also discussion in D. Held and A. McGrew. D. Goldblatt and J. Perraton, *Global Transformations : Politics, Economics and Culture,* Polity Press, 1999, p. 149

4 Mmegi, 6/9/2005, vol. 22, No. 136, available at [http://www.mmegi.bw/2005/September/tuesdat6/733893194586.htm] on 14/10/2005 at 6.30 pm. See also A Very Long-Term View. Globalisation Since the Fourteenth Century" available at [http://www.sas.upenn.edu/~dludden/global1.htm] 8.oo pm, 14/9/2005 and J.N. Pieterse, "Globalisation as Hybridization" in M. Featherstone, S. Lash and R. Robertson, eds "*Global Modernities"* TCS Book Series, 1995, p. 47

5 "What is Globalisation?" available at [http://www.globalisation101.org/globalisation/] 3.50 pm 13/10/2005. See also E. Petersmann, "International Competition Rules for Government and for Private Business" *Journal of World Trade*, 30 (3) 1996, p. 13, Kluwer Law International for definition of transboundary effect. See also M. Martin,supra note 3 [http://www.accis.edu/syllabi/MGT36005ASyllabus.pdf] and also Business Guide to the Uruguay Round, *International Trade Centre UNCTAD/WTO and Commonwealth Secretariat,* 1995 p. 3

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Second World War, [6] which has led many to use this timeframe as a baseline for discussing the phenomenon of globalisation.[7]

Globalisation is said to manifest in three main dimensions; economic, cultural and political.[8] Writers supporting the economic dimension state that the various dimensions of globalisation have spread and developed unevenly,[9] 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.[10] 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.[11] 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.[12] 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.[13] 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.[14] "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.[15] This has to be viewed in the light that global income inequality accounts for two thirds of overall inequality.[16]

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[6] http://www.news.bbc.co.uk/i/hi/special-report/1999/02/99/e-cyclopedia/711906.stm

[7] Martin. M *"Globalisation, Corporate Governance and Competitiveness"*, *Journal of the Malaysian Insitute of Accountants,* Nov/Dec 2001, Vol 14, No. 11, pp. 32-33 and B. Parekh, in an address entitled "The Challenge of Globalisation" at the launch of The Centre for the Study of Contemporary Change and Development, The University of Hull, 10 February 2005.

[8] B. Parekh, ibid

[9] J. Weaver, "History, Globalisation, and Globality : Preliminary Thoughts: *Institute on Globalisation and the HUMAN CONDITION,* available at [http://www.humanities.mcmaster.ca/~global/wps/weaver03.pdf] on 14/10/2005 at 9.00 pm

[10] M. Martin, supra note 2.

[11] M. Martin, supra note 21, see also http://www.news.bbc.co.uk/i/hi/special-report/1999/02/99/e-cyclopedia/711906.stm

[12] M. Martin, supra note 2.

[13] K.O. Kufuor, *World Trade Governance and Developing Countries : The GATT/WTO Code Committee System,* Blackwell Publishing, 2004, p. 55 See also M. Rippon "History of Globalisation", available at [http://www.aworldconnected.org/article.php/611.html] accessed on 12.03.06 13.06 am

[14] *The United Nations Development Programme* Human Development Report 2005 : International Cooperation at Crossroads Aid, Trade and Security in an Unequal World, available at [http://www.undp.org.cn/downloads/ghdr/ghdr2005.pdf] accessed on 23/4/2006 at 1.45 pm, p. 37

[15] Ibid, p. 37-38

[16] Ibid, p. 38

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An analysis of trade theories[17] 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[18] indicate international trade had welfare enhancement objectives[19] 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 [20] 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.[21]

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.[22] 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. [23]

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[17] The absolute cost theory, comparative advantage theory, factor proportions hypothesis and product cycle theory

[18] See discussion in D. Irwin, *Against the Tide : an intellectual history of free trade*, Princeton University Press, 1996, p 5, 11 and 46, A. Smith, *The Wealth of Nations,* New York: Modern Library, 1994 [1776] and D. Ricardo, *On the Principles of Political Economy, and Taxation,* Harmondsworth: Penguin, 1971 (Originally published 1817), M. Martin, supra note 2, R. Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern Worlds,* New York: Basic Books, 1986, p. 13 and R. Ekelund and R. Herbert, *A History of Economic Theory and Method,* 3rd edition, McGraw-Hill Publishing Company, 1990, p. 45

[19] See R. Ekelund and R. Herbert, ibid

[20] N. Grimwade, *International Trade; New Patterns of Trade, Production and Investment*, 2nd Edition, Routledge, 2000, p. 29-30

[21] N. Grimwade, ibid , J. Vanek, *International Trade: Theory and Economic Policy,* The Irwin Series In Economics, 1962, p.179-181, A. Bloomfield, *Essays in the History of International Trade Theory,* Edward Edgar, 1994, p. 205-209, R. Cantillon, *Essai sur la nature de las commerce en general,* in H. Higgs (ed) London Macmillon, 1931, J. Barkakoti, *International Trade: Causes and Consequences,* Macmillan Press , 1998, p. 31, D. Ricardo, *On the Principles of Political Economy, and Taxation,* Harmondsworth: Penguin, 1971 (Originally published 1817), p. 7, S. Kemp, "Psychology and Opposition to Free Trade", *World Trade Review,* Volume 6:1, 2007, 25-44, p. 28

[22] Robert E Hudec, *The GATT Legal System and World Trade Diplomacy*, Butterworth Legal Publishers, Second Edition, 1990, p. 7

[23] J.Jackson, *The World Trading System: Law and Policy of International Economic Relations,* MIT Press, 1994, p. 31

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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.[24] 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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