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Is International Trade Beneficial to All Nation States?

An analysis of trade in developing and developed countries

Napat Kitisook

This paper explores the social and economic implications of international trade. It focuses on the consequences and benefits faced by both the developing and developed nations, and it suggests of policies and ways to tackle trade so that it benefits all parties equally.

I. Introduction

International trade is the act of exchanging goods and services between nations. Over the years, countries have become increasingly interdependent on foreign products—real world exports have been growing by 40 percent from 1950 to 1996 (Grieco, 2000). Free trade is supported by many nations and international institutions, such as the World Trade Organization and the International Monetary Funds. These organizations are set up to facilitate and promote international interaction and coordination. Countries are reducing trade barriers and moving towards an open international market, shown by a 13 percent reduction of import duties in East Asian developing countries from 1989 to 2009 (*Human Development Report*, 2005). Undeniably, we are moving towards a world of free trade. From an economic point of view, the reduction of trade barriers increases the GDP within a country (Dollar, 2003). However, the controversies lie upon whether both trade partners receive a fair benefit from trade. This paper will discuss the benefits that trade brings to both the rich and poor nations, focusing on the United States and developing countries in Asia in particular. In addition, this paper will explore the negative aspects and propose solutions to the growing pains of the transition into free trade. Trade has largely fostered social development within the developed and developing countries in the long run, but has also caused damage to some groups of the population.

A. *What is happening?*

Before the 1980s, trade between U.S. and developing countries in Asia was of minerals, raw materials, basic components and agriculture—80 percent of the developing nations' exports were of primary products (Dollar, 2004). The U.S. had most of the shares in the manufactures industry at that time. However, the decline of American trade in manufactures is dated to be approximately in the 1970s (Baldwin, p. 22). In this period, China and other developing countries in Asia started to open its economy to the outside world by reducing their tariff and non-tariff regulations (Dollar, 2004). As a result, developing nations began exporting more of manufactures and less of primary products that they had exported before (*The Globalization Reader*, p.9), while the U.S.'s shares of manufacturing export have decreased, falling by approximately 10 percent from 1960 to 1970 (Baldwin, p.22). As countries open to the international market, technological development spreads to all parts of the world; developing countries are now equipped with comparable infrastructures and technologies. Because of this, in addition to lower labor costs in countries such as China, manufacturing jobs are shifted overseas; companies will try to keep their costs as low as possible, to maximize profit. Developing countries are now trading manufactures which were initially made in the United States; the U.S. has faced a decline in manufacturing jobs since 1975 (de Rugy, 2014). Companies also favor developing countries' use of human labor force, as human flexibility allows them to have faster response times to changes in manufacture (*Controversies in Globalization*, p.49-50). Today, we are starting to see the outsourcing of service jobs to India, where there the well-educated workforce's wage are lower, in comparison to the U.S. (Levine, 2012).

Napat Kitisook *(Author)*
Middlebury College
Vermont, USA

II. Implications of Trade

A. *Improved Standards of Living for the Developing Nations*

The movement towards free trade between nations has improved the overall health of the poor countries' population substantially. The average life expectancy in developing countries has risen by 4 months each year since 1970 (*The Globalization Reader*, p. 184). This rising trend can be explained by trading between the developed and the developing nations. Given their resources, capacity and skill, developing countries are less likely to develop successful medicine and healthcare products. Trade has enabled countries to obtain goods which otherwise would not be available to them. The developed countries have superior infrastructures, researchers and scientists who have substantial funding to do research and development, leading to better products. Trade enables these countries to have access to these healthcare products without having to invest in doing their own research and development. This has proven to lead to better health of the developing nation.

In addition, trade is the most effective solution to poverty. From 1990 to 1999, the number of people in extreme poverty in East Asia, excluding China, has fell from 114 million to 57 million. The average daily food supply per person has increased by 24 percent globally, from 1961 to 1999 (*The Globalization Reader*, p. 180). The large decline in poverty and world hunger occurred alongside Asian countries being more open to the international market; exports in countries such as Vietnam has grown more than 25 percent per year, from 1989 to 1994 (*The Globalization Reader*, p.17). This provides a link between trade and poverty; as countries open their trade barriers, the number of people in extreme poverty fell. There are two explanations for this observation. Firstly, trade reduces costs of production; the theory of comparative advantage suggests, as countries specialize to do what they are better suited and trade, production will be more efficient and economies of scale can be taken advantage of; this lowers the costs of production (Colander, p. 207). People in countries with open markets are able to take advantage of lower priced products abroad and are able to have more purchasing power, due to the reduced costs of goods which resulted from trade. Secondly, outsourcing, which is the trade of services, has provided jobs for people in the developing nations (Ghose, p.8). As mentioned above, the U.S. and many other developed nations are outsourcing their jobs to developing nations because of the cheaper work force. Although some argues that these employments are exploiting workers and are paying them very little, these low skilled outsourced jobs are giving the poor, unskilled and uneducated people an option to have an employment to sustain their living. This prevents them from starving and allows them to have better living conditions. The statistics have shown that openness to trade has reduced poverty in the developing nations (see *The Globalization Reader*, p.180-185).

Moreover, international trade and outsourcing have offered more choices and options to the developing nations. The literacy rate in developing countries have rose from 53 percent in 1970 to 74 percent in 1998. In addition, the fertility rate has fallen from 4.1 to 2.6 births from 1980 to 2000. The reduction in fertility and increase in literacy have also occurred alongside an increase in international trade of developing nations. This suggests that as countries open to trade, more people are educated and there are smaller families. As trade creates jobs and lower priced goods, more are able to escape poverty and afford education. Trade encourages the interaction of a country to other foreign countries—both countries are exposed to a wider view of the world. In this process, new ideas, cultures and values spread (*The Globalization Reader*, p.345-351). Society's views of women have changed, in that women do not have to or are expected to be housewives and only have children any longer; they are able to make their own choices and living as new cultures and ideas assimilate into a country, moving views and values to become more modern.

One may undermine the argument that trade decreases poverty by saying that the measurement of poverty is flawed and have large uncertainties. This argument is explicitly stated by Robert Hunter Wade, who claims that the figures showing poverty contains large errors (*The Globalization Reader*, p.189). More specifically, Wade argues that the figures contain guesswork and the methodology of measuring poverty is inconsistent. While this argument may be valid, the other statistics presented earlier in this paper still maintains the suggestion that trade does lead to better outcomes for society, with improved health, literacy, choices and perhaps less poverty. It is also undeniable that outsourcing to developing countries provides the country with more jobs—employment rate in China grew by 1.6 percent each year from 1990-1996 (Ghose, p.8). This is a great achievement and a step forward from the past, when more people were unemployed and unable to feed themselves.

Another typical issue that is raised in discussions of trade is the exploitation and use of child labor in developing nations that resulted from outsourcing. There are many incidents that big corporations, such as Nike and Wal-Mart, have been caught using child labor and exploiting their workers' safety rights in factories in the LDCs to keep their costs as low as possible (Engel, 2013). These companies often claim that they have no responsibility in this issue as the manufacturing was subcontracted to other companies; nevertheless, they have lost the public reputation. Some groups claim that trade will encourage the exploitation of labor in developing countries, since these countries have less strict regulations to protect their people. Although the issue of labor exploitation may be true today, the statistics suggest that the situation is improving, as the literacy rate in developing countries is increasing—more children are attending schools and less are working (*The Globalization Reader*, p.186). These outsourced jobs give needy citizens more options for employment to sustain their living, and perhaps making the situation better. Stopping trade will only cut down the capital flow to these developing countries, making them worse off.

In addition, corporations are now more aware of the consequences of exploiting workers. Many movements have denounced 'sweatshops' and have made consumers more aware of what they are buying. In the case of Nike, in order to retain the image of the company, many actions had to be taken such as publishing a complete list of factories it contracts with, as well as regularly posting corporate social responsibility reports (Nisen, 2013). Getting caught with corporate deception and labor exploitation will impact the companies greatly; there are many existing groups which are actively investigating companies' actions, so it is unlikely today that companies will knowingly allow the exploitations of workers, even in their subcontracts. An increasing number of companies are now investigating and using corporate social responsibility reports to maintain their competitive standing and prevent any criticisms (Carroll and Shabana, p. 91).

B. Benefits of Trade for Both Trading Parties

Free trade between countries not only brings cheaper goods, but also encourages innovation. Economic theory suggests that as a country opens up to the international market, it is faced with more competition, meaning that they will more likely keep on their toes and develop their goods to gain the market share (Colander, p.220). This is proven to be rather true: results gained from OECD research data suggests that opening a country to the international market has led to more incentives for firms to innovate (Onodera, p.14). As an example, Apple, a U.S. based company, have faced competitions with Samsung, a South Korean based company (Liem, Lee and Han, p. 3); without opening to the international market, it is less likely that Apple will release its new iPhone as fast, since it is faced with less competition in the market. This means that countries involved in the global market are able to enjoy the new and fast development of technologies and products, which enhances our experiences of everyday life and make our day somewhat easier.

Workers in developed countries may argue that outsourcing jobs to developing countries may mean that there will be less employment for them. This is not the case, as research has shown that for almost all countries, trade barriers lead to more unemployment (Dutt, Mitra and Ranjan, p.18). Trade will only shift the type of jobs in the country; less competitive industries will die out, while new and more competitive industries will grow as a result (Colander, p. 206)—the United States have shifted from labor intensive manufacturing jobs to more skill related, higher paid service jobs such as advertising and distribution of goods. Evidently, this shift of production from one industry to another will be disadvantageous for the groups of people who lose their job and bear the costs of the change. However, new and more jobs will emerge; the total employment in U.S. is much greater today than in 1975 (U.S. Office of Personnel Management, 2012). The benefits that trade brings, from lower costs of goods to better standards of living, reach a larger group of people than the groups that bears the costs. With that said, there can be adjustments to policies to ensure that benefits from trade reach every group, which will be discussed further.

Recognizing that trade may lead to more inequality within countries, and that there are faults in the system, free trade is still the best way forward. Some statistics suggest that international trade increases the inequality within countries. An argument made by Martin Wolf claims that world income inequality is on the rise for the past two to three decades as a result of globalization; the rich are in better position to take advantage of gains from trade and globalization than the poor (*The Globalization Reader*, p. 191). However, a World Bank study has suggested otherwise; it argues that world inequality as a whole has been declining for roughly 20 years now. This meaning that, in general, the whole planet's population is better off (Cowen, 2014). Tyler Cowen from George Mason University suggests that trade and immigration have substantially reduced global income inequality; the Chinese economy has grown due to exports, and immigration allowed workers to move to wealthier nations, earning better wages and sending it back to their home country. These activities may cause a more wide inequality within countries, but as a whole, the world is better off.

In addition, the widening gap in inequality does not undermine the arguments for trade. We have seen that the poor have also gained benefits from trade, shown by their improved standards of living. Trade is better than no trade—it may benefit the rich more, but we cannot overlook the benefits that trade brings to the poor which would not be achieved otherwise. Inequality within a country may create social disruption (Ortiz and Cummins, p.33), but we must first address the main issue that the developing worlds are facing; people are living in poverty, and international trade can give them employments and opportunities to improve their quality of life. These improvements may also address the issue of social disruptions. Cowen also claims that crime rate in the U.S. are in a decline, and such predictions of social disruptions are likely to be untrue. Once a developing nation gains economic and social development as a result of trade, they can then focus on addressing problems of inequality. Openness to trade can provide countries with more income and economic power, meaning more investments, expenditures and increase in public service. One of these expenditures may be to make education affordable for all, so that there are opportunities for everyone to get a good paying career, which will address inequality within countries. Governments can make some strategies to reduce the inequality.

C. *Adjusting Policies to Ensure that Trade Benefits Every Group*

The discussions above have raised some issues that trade may not benefit some group of people in the short run. In order to ensure that the movement towards free trade will benefit all of society, I have made three suggestions to adjusting governmental and trade policies. Firstly, subsidies and assistance should be offered to those affected by the shift to free trade. Opening a country to the international market means that shifts in industry and the goods that a country produces have to be made; one must specialize to their comparative advantage. This means that industries which are shutting down will bear the costs, as business close and workers lose their jobs. Existing programs such as the 'Trade Adjustment Assistance for Workers' have been set up by the U.S. government to assist citizens affect by trade to find new employments and to cover health and necessity expenditures (Collins, 2012). Similar programs need to be put in place in developing countries, as workers face similar struggles of the shift to free trade. Realizing that there may be economic difficulties for these countries, the World Trade Organization and the United Nations should get involved in providing funds and assistance, since the shift to free trade will benefit all parties in the international market.

Secondly, tax systems should be adjusted to equally distribute income. Martin Wolf has argued that free trade may cause an increased inequality between and within countries

(*The Globalization Reader*, p.190); this can be addressed by tax systems. Governments can implement a progressive tax—increasing the average tax rate with income. The revenue gained from this tax system can be redistributed to those who have benefitted least from trade, with public assistance programs and free trade adjustment assistance.

Thirdly, restrictions to bilateral trade agreements should be made. The United States and other developing countries have bilateral trade agreements which state that it will treat some countries better than others (Stiglitz, p. 96). This often hinders free multilateral trade, limiting trade opportunities for many other countries and restricting development and maximum benefits from trade to all nations. As Stiglitz suggests, bilateral agreements should be discouraged and their validity should be questioned.

III. Conclusion

Trade has proven to be one to the most successful solutions to many of the world issues today, improving the standards of living and the development of a nation. Unlike other forms of international assistance such as food aid, which improves the situation in the short run, trade will allow countries to sustain themselves in the long run. International trade brings substantial economic development and new employments. It also encourages foreign investments within a country for business purposes, leading to improved infrastructures for a nation. The economic gains from trade allow more government expenditures on improving healthcare, education and employments within a country. In the long run, developing nations will not have to depend on foreign capital flow, since the economic gains from trade and improved infrastructures will allow a country to be stable and function on its own.

For a developing nation, trade has brought large benefits for its population. Openness to trade have improved the life expectancy of people, improved literacy rate and decreased poverty and fertility rate. All these improvements have led to a better standard of living for the people. For both the developing and the developed nation, trade allows us to enjoy improved development of goods at lower costs, so we have more purchasing power. There are flaws to the trade system, as the benefits of trade are distributed unequally, and perhaps giving rise to inequality; in addition, some groups bear larger costs for shift to the international market. These issues can be addressed by changes to tax policies and trade agreements to provide assistance to those who are negatively affected.

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