GLOBALIZATION, TRADE AND BUSINESS

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ABSTRACT:

Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this global integration.

Trade freedom is the best economic strategy for all of the world's peoples. No single nation has the natural resources, infrastructure, and human capital in sufficient quantity and quality to realize the standard of living to which developed nations have become accustomed and to which developing nations aspire. So we trade.

The major economic benefits of free trade derive from the differences among trading partners, which allow any country a chance to compete in the global market according to its fundamental economic strengths. Low wage costs, access to cheap capital, a highly skilled workforce, and other fundamental variables all play a role in determining what comparative advantage one country has over another in the global marketplace and so getting the assumption for business success.

The trading process, along with technological advancement that is itself largely spurred by the dynamics of trade, is at the root of all productivity gains—truly the basis for the wealth of nations. This growth in trade did not come about by accident; it was the result of visionary political leadership in economies that sustained a 50-year commitment to lowering barriers that separated the peoples of the world, and integrating communities and nations in a global marketplace.

World trade is and should be a constantly evolving phenomenon, each trade agreement a segue to the next, with ever greater trade freedom the result. Trade is highly competitive and complex, and never more so than in an economic downturn such as the world has experienced since 2008. Societies undertaking protectionist measures impose costs on themselves that include higher prices on goods and services for consumers and producers and lower productivity and wages for workers. The new jobs that would have been created in an open and rapidly evolving economy never materialize, and economic stagnation replaces growth in societies that doom themselves to underdevelopment.

For six decades, the world has reaped the benefits of rapidly expanding trade. That expansion has come to a stop during the recession of 2008–2009. If governments succumb to political pressure or panic, a protectionist response could turn a temporary setback into a long-term change. That would harm world economic growth for decades. If, instead, leaders remain true to the vision of world integration and interdependence that inspired their predecessors, renewed economic growth and the trade that flows from and underpins it will surely follow.

Key words: globalization, free trade, economic growth, cross-border investment flows, lowering barriers, business assumptions

1.Trend of globalization

Globalization refers to the growing interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are the main elements of this integration. Globalization is driven by two main factors. One involves technological advances that have lowered the costs of transportation, communication, and computation to the extent that it is often economically feasible for a firm to locate different phases of production in different countries. The other factor has to do with the increasing liberalization of trade and capital markets: more and more governments are refusing to protect their economies from foreign competition or influence through import tariffs and nontariff barriers such as import quotas, export restraints, and legal prohibitions. A number of international institutions including the World Bank, International Monetary Fund (IMF), and General Agreement on Tariffs and Trade (GATT), succeeded in 1995 by the World Trade Organization (WTO) have played an important role in promoting free trade in place of protectionism.
So, the main forces driving global integration have been technological innovation, political change and economic policy choices. In this way, globalization has benefited from economic policies favouring deregulation and the reduction or elimination of restrictions on international trade, foreign investment and financial transactions. Trade opening has been pursued multilaterally through successive multilateral negotiations, bilaterally and regionally through preferential trade agreements and unilaterally[1]. In the case of many developing countries, early commercial policies had an inwardlooking focus. But the success of a number of newly industrializing economies like East Asia with exportled growth strategies contributed to a more general adoption of industrialization policies that recognized the importance of exports in the process.

2. Gains from trade

Traditional trade theory emphasizes the gains from specialization made possible by differences among countries. The main contribution of this strand of thought is that opportunities for mutually beneficial trade exist by virtue of specialization on the basis of relative efficiency – a country does not have to be better at producing something than its trading partners to benefit from trade. It is sufficient that it is relatively more efficient than its trading partners. This insight explains why so many more opportunities to gain from trade exist than would be the case if only absolute advantage counted. More recent theories point to other sources of gains from trade not linked to differences among countries, such as economies of scale in production, enhanced competition, access to a broader variety of goods and improved productivity.

[1] Chaturverdi,S. 2006. Selected trade facilitation measures: Implications for the WTO negotiations on trade facilitation, Working paper

From an economic perspective, the case for freer trade rests on the existence of gains from trade and most economists typically agree that there are gains from trade[2]. The idea that there are gains from trade is the central proposition of normative trade theory. The gains from trade theorem states that if a country can trade at any price ratio other than its domestic prices, it will be better off than in autarky – or self-sufficiency. More generally, the basic gains from trade propositions are that: a) free trade is better than autarky; b) restricted trade (i.e. trade restricted by trade barriers) is better than autarky; and, c) for a small country (i.e. a country too small to influence world prices) free trade is better than restricted trade.
The basic propositions about the gains from trade, are not the end of the story[3]. First, the divergence between autarky and free trade prices is only an approximate explanation of the gains from trade. In particular, countries trade to achieve economies of scale in production or to have access to a broader variety of goods. Also, if the opening-up of trade reduces or eliminates monopoly power or enhances productivity, there will be gains from trade additional to the usual ones. Trade may have positive growth effects. So, it could be talk about the traditional gains from trade and their underlying causes, the gains from trade highlighted in the more recent trade theories, and the dynamic gains from trade. The robustness of the theories to changes in their main assumptions is examined. Finally, the empirical evidence concerning the proposed rationales for international trade is reviewed.

3. What free trade policies create?

Today we are witnesses that free trade policies have created a level of competition in today's open market that engenders continual innovation and leads to better products, better-paying jobs, new markets, and increased savings and investment. Free trade enables more goods and services at lower prices, thereby substantially increasing their standard of living. Free trade helps to spread the value of freedom, reinforce the rule of law, and foster economic development in poor countries. The national debate over trade-related issues too often ignores these important benefits.
In this way, one of the benefits is that free trade promotes innovation and competition. Access to a greater variety of goods and services is the purpose of trade.
Free trade is the only type of truly fair trade because it offers consumers the most choices and the best opportunities to improve their standard of living. It fosters competition, spurring companies to innovate and develop better products and to bring more of their goods and services to market, keeping prices low and quality high in order to retain or increase their market share.
Also, free trade spurs innovation. Free trade promotes innovation because, along with goods and services, the flow of trade circulates new ideas.
Another notice is that free trade disseminates democratic values.
Free trade fosters support for the rule of law. Companies that engage in international trade have reason to abide by the terms of their contracts and international agreed-upon norms and laws. The World Trade Organization, for example, compels its

[2] Djankov S., Freund, C. and Cong S. Pham, 2007. *Trading on time* , working paper.Available at http://www.doingbusiness.org/MethodologySurveys/ (accessed on 1 October 2007).
[3] Schott, Jeffrey J., ed. *The World Trading System: Challenges Ahead*.D.C. Institute for International Economics,1996.

member countries to honor trade agreements and, in any trade dispute, to abide by the decisions of the WTO's mediating body.

Free trade can reduce the opportunities for corruption. In countries where contracts are not enforced, business relationships fail, foreign investors flee, and capital stays away. It is a downward spiral that especially hinders economic development in countries where official corruption is widespread. True economic freedom is possible only under a system of limited government with a strong rule of law. Trade likewise can falter quickly in countries where customs officials expect kickbacks at every checkpoint. Free trade, reinforced by the rule of law, removes such incentives for corruption by spurring economic growth, increasing the number of better-paying jobs, and ultimately increasing the level of prosperity.

Consecutively free trade fosters economic freedom. The ability to trade freely increases opportunity, choices, and standards of living. Countries with the freest economies today generally have adopted a capitalist model of economic development, remaining open to international trade and investment. Free trade policies can foster development and raise the level of economic freedom[4]. Every day in the marketplaces of free countries, individuals make choices and exercise direct control over their own lives. Poor countries can create an environment that is friendly to trade and inviting to foreign investors, with this infrastructure based on economic freedom, assured property rights, a fair and independent judiciary, the free flow of capital, and a fair system of low taxation.

Another important benefit is that free trade generates economic growth. In this way, the advantage for poor countries in being able to trade for capital is that the payoff is more immediate in their private sectors. Foreign investment allows domestic industries to develop and provide better employment opportunities for local workers. This dynamic makes an increase in foreign direct investment one of the most important benefits of free trade for developing nations.

If we make link between these benefits and economic theory, we could mention that traditional theory of economic growth does not take international linkages into account. It is generally built on the assumption that countries produce and consume in isolation, so with no trade among them there can be no transfer of knowledge or technology across national borders associated with commercial relations. The growth experiences of different world regions are intimately linked and cannot be analyzed in isolation. Three facts should be highlighted. First, the world economy has experienced positive growth for an extended period of time. Second, in the same period world trade has been growing at an even faster pace. Third, the data illustrate a strong positive correlation between the growth of GDP and the growth in trade. This correlation does not imply that one leads to the other, but it reveals an important relationship between these two variables.

In addition, the key question of trade and growth is whether trade liberalization is responsible for higher growth rates. To address this issue, trade models have to be employed that explicitly consider the factors determining technological progress as technology is the engine of modern economic growth.

An actively trading country benefits from the new technologies that “spill over” to it from its trading partners, such as through the knowledge embedded in imported

[4] Sengupta, N., 2007. *The Economics of Trade Facilitation,* Oxford University Press. study by the Asia-Pacific Research and Training Network on Trade , *Studies in* TN/TF/W/43/Rev. 12 (July 25, 2007).

production equipment. These technological spillovers are particularly important for developing countries because they give them a chance to catch up more quickly with the developed countries in terms of productivity. Former centrally planned economies, which missed out on many of the benefits of global trade because of their politically imposed isolation from market economies, today aspire to tap into these benefits by reintegrating with the global trading system.

But active participation in international trade also entails risks, particularly those associated with the strong competition in international markets. A country runs the risk that some of its industries, those that are less competitive and adaptable, will be forced out of business. Meanwhile, reliance on foreign suppliers may be considered unacceptable when it comes to industries with a significant role in national security. Many governments are determined to ensure the so-called food security of their countries, in case food imports are cut off during a war. In addition, governments of developing countries often argue that recently established industries require temporary protection until they become more competitive and less vulnerable to foreign competition[5]. Thus governments often prohibit or reduce selected imports by introducing quotas, or make imports more expensive and less competitive by imposing tariffs[6]. Such protectionist policies can be economically dangerous because they allow domestic producers to continue producing less efficiently and eventually lead to economic stagnation. Wherever possible, increasing the economic efficiency and international competitiveness of key industries should be considered as an alternative to protectionist policies[7].

The costs and benefits of international trade also depend on factors such as the size of a country's domestic market, its natural resource endowment, and its location. Countries with large domestic markets generally trade less. At the same time, countries that are well endowed with a few natural resources, such as oil, tend to trade more.

4. Challenges for participation of transition countries in global trade

Transition countries in Central and Eastern Europe and the Baltics have applied for membership in the European Union, and nearly all transition countries have applied to join the World Trade Organization (WTO). Membership in the WTO would provide these countries with protection from substantial barriers, particularly quotas, which still impede their exporting of so-called sensitive goods to developed countries.

Among these goods are agricultural products, iron and steel, textiles, footwear, and others in which transition economies may have comparative advantages. Joining the WTO would not only confer rights on transition economies, it would also require them to meet certain obligations, such as maintaining low or moderate tariffs and abolishing nontariff barriers[8].

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[5] UNCTAD, 1994. United Nations International Symposium on Trade Efficiency , Columbus, 17-21 October. Available at www.un.org/Conferences/trade94/columbus.html.

[6] Satapathy, C., 2001. Transfer pricing: Impact on trade and profit taxation , in *Economic and Political Weekly*, 19 May.

[7]USITC, 2005. Logistic services: *An overview of the global market and potential effects of removing trade impediments* , Investigation No. 332-462, USITC Publication 3770. Washington, D.C.

[8] World Bank.2002.The Economic Import of Trade Facultation Measures :A Development Perspective in the Asia Pacific.Washington,D.C.

A major challenge for transition economies is finding their place in the worldwide division of labor. In many cases that implies diversifying the structure of exports, particularly to developed countries.
Higher trade costs form an obstacle to trade and impede the realization of gains from trade liberalization. Gains from trade depend not only on the tariff liberalization but also on the quality of infrastructure and related services. Improved infrastructural and logistics services play an important role in the flow of international trade. They generate enormous wealth by reducing the costs of trade because of their non-discriminatory and non-rivalrous characteristics; and they integrate production and trade across countries.
Trade costs are often cited as an important determinant of the volume of trade.
While the world has witnessed a drastic fall in tariffs over the past two decades, many barriers remain that penalize trade, among which are both soft and hard barriers. One set of such soft barriers is dealt with through trade and business facilitation measures. The hard set of barriers, which are often cited as physical or infrastructure barriers, are dealt with through transport facilitation measures. The costs created by these barriers can be clubbed together and can be termed as trade costs that are measured as a mark-up between export and import prices. This mark-up roughly indicates the relative costs of the transfer of goods from one country to another.
The reduction of trade costs helps traders to get their goods to market more quickly and cheaply. Considering the increase in trade interdependency in Asia, as an example, the need for a better enabling environment to trade has gained high momentum. On the demand side, the noticeable development is that tariff barrier in Asia has become low as a result of trade liberalization. On the supply side, rising trade costs are having an adverse impact on trade. This difference is mainly attributable to global trade structures, regional infrastructure facilities, logistics systems and the more influential distribution strategies of shippers of developed countries[9].

Trade costs include all costs incurred in getting a product to a final user other than the marginal cost of producing the good itself, such as transportation costs (both freight costs and time costs), policy barriers (tariffs and non-tariff barriers), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail). Trade costs are reported in terms of their ad valorem tax equivalent.
According to Anderson and van Wincoop[10], the 170 per cent of representative trade costs in industrialized countries breaks down into transportation costs (21 per cent), border-related trade barriers (44 per cent) and retail and wholesale distribution costs (55 per cent). In general, an exporter or importer incurs trade costs in all phases of the export or import process, starting from obtaining information about market conditions in any given foreign market and ending with receipt of final payment. One part of the trade costs is trader specific and depends upon his/her operational efficiency. The

[9] United Nations Conference on Trade and Development, 2005. *UNCTAD GSP Newsletter*, No. 7, (UNCTAD/DITC/TNCD/MISC/2005/6).
[10] Anderson, J.E. and E. van Wincoop, 2004. Trade costs , *Journal of Economic Literature*,vol.42, No.3

magnitude of this part of the trade costs diminishes with an increase in the efficiency level of the trader, under the prevailing framework of any economy.

The other part of the trade costs is specific to the trading environment and is incurred by the traders due to in-built inefficiencies in the trading environment. It includes institutional bottlenecks (transport, regulatory and other logistics infrastructure), information asymmetry and administrative power that give rise to rent-seeking activities by government officials at various stages of the transaction. This may cost traders (or a country) time and money, including demurrage charges, making transactions more expensive. Trade costs are large, even aside from trade policy barriers and even between apparently highly integrated economies. In explaining trade costs, Anderson and van Wincoop (2004) referred to the example of Mattel s Barbie doll, which indicated that the production costs for the doll were US$ 1, while it sold for about US$ 10 in the United States.

The cost of transportation, marketing, wholesaling and retailing represented an ad valorem tax equivalent of 900 per cent. Anderson and van Wincoop (2004) commented that the tax equivalent of representative trade costs for rich countries is 170 per cent. This includes all transport, border-related and local distribution costs from foreign producer to final user in the domestic country. Trade costs are richly linked to economic policy. Direct policy instruments (tariffs, the tariff equivalents of quotas and trade barriers associated with the exchange rate system) are less important than other policies (transport infrastructure investment, law enforcement and related property rights institutions, informational institutions, regulation and language).

Direct transport costs include freight charges and insurance, which are customarily added to the freight charge. Indirect transport user costs include holding costs for the goods in transit, inventory costs due to buffering the variability of delivery dates, preparation costs associated with shipment size (full container load vs. partial loads) etc. Indirect costs must be inferred. Alongside tariffs and NTBs, transport costs appear to be comparable in average magnitude and variability across countries, commodities and time.

Trade costs have large welfare implications. Current policy-related costs are often worth more than 10 per cent of national income[11].

According to the World Bank, for 168 out of 216 trading partners of the United States, transport cost barriers outweighed tariff barriers[12]. It is estimated that doubling the distance increases overall freight rates by between 20 and 30 per cent[13]. Time delays affect international trade. It is estimated that, on average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1 per cent. Therefore, what follows is that gains from trade will be more if trade frictions are minimized[14].

Poor institutions and poor infrastructure act as impediments to trade, differentially across countries. While dealing with barriers to trade, some studies explicitly emphasized the quality of infrastructure associated with cross-country trade. A country’s infrastructure plays a vital role in carrying trade. For example, by

[11] Anderson, Kym, and Richard Blackhurst, eds. *Regional Integration and the Global Trading System*.1993

[12] World Bank.2002.The Economic Import of Trade Facultation Measures :A Development Perspective in the Asia Pacific.Washington,D.C.

[13] Hummels,D.,2001.Time as trade barrier, working paper.West Lafayette.Purdue University.

[14] Djankov,S., C.Freud and C.S. Pham, 2006 Trading on time, working paper. World Bank, Washington, D.C.

incorporating transport infrastructure in a two-country Ricardian framework, some economic authores showed the circumstances under which it affected trade volume; the transport and communications infrastructure and institutional quality are significant determinants not only for a country's export levels but also for the likelihood of exports[15].

5. Trade liberalization – key factor for spurring business

Definition for liberalization implies gradual reduction or elimination of cross-border barriers, including tariff and non-tariff measures, with the aim to promote the free flow of capital, goods, services as well as technology and human resources. The trend is moving away from a world in which national economies were relatively self-contained entities, isolated from each other by cross-border barriers to trade and investment; by distance, time zones, and language, even though there are national differences in government regulation, culture and business environments. Today, world is place where barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; national economies are woven into an interdependent global economic system[16].

From this point of view, the underlying assumptions of trade liberalization in light of competition are that global economy entails market competition, liberalization is reguired to attract capital, production, skilled labor and technology, also, importance of continue peddling so as to keep the liberalization momentum going. Here is the benefits from political economy of domestic trade reform which offer conditional reciprocity via negotiation, or gain the benefits of liberalization by unilateral concession, and existing strategy of "competitive liberalization" for keeping preferential-universal interaction on a supportive course[17].

Another important thing are relations between business, government and international organizations.

Business incubation implies the interactive process among the functual utilizes of acquisition, R&D, production and marketing. The acquisition of materials, products, or capital is to be followed by R&D. R&D includes the utilization of information, technology and human recource development. R&D will in turn bring about production of value-added goods, services, and new technology. Consequently, marketing will be hinged upon market profile and corporate image.

Governments usually acess the direction and pace of liberalization in accordance with some major criteria like development level, strategic blueprint, industrial competitiveness, priority ranking, international status, comprehension of game and rules, tolerance in diversity, mission in ideology[18].

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[15] Council for Trade in Services, 2005. Special Session, Joint Statement on Liberalization of Logistics Services, communication from Australia and others, TN/S/W/34. World Trade Organization, Geneva.

[16] ESCAP, 2006. An exploration of the need for and cost of selected trade facilitation measures in Asia and the Pacific in the context of the WTO negotiations , *Studies in Trade and Investment*, No. 57, United Nations, New York.

[17] Haas, Ernst B.The Initing of Europe : *Political, Social and Economics Forces*, 1950-57. Stanford: Stanford University Press, 1957

[18] Gilpin, Robert Gilpin, M. Jean, *"Global Political Economy: Understanding the International EconomicOrder"*, Princeton University Press, 2001

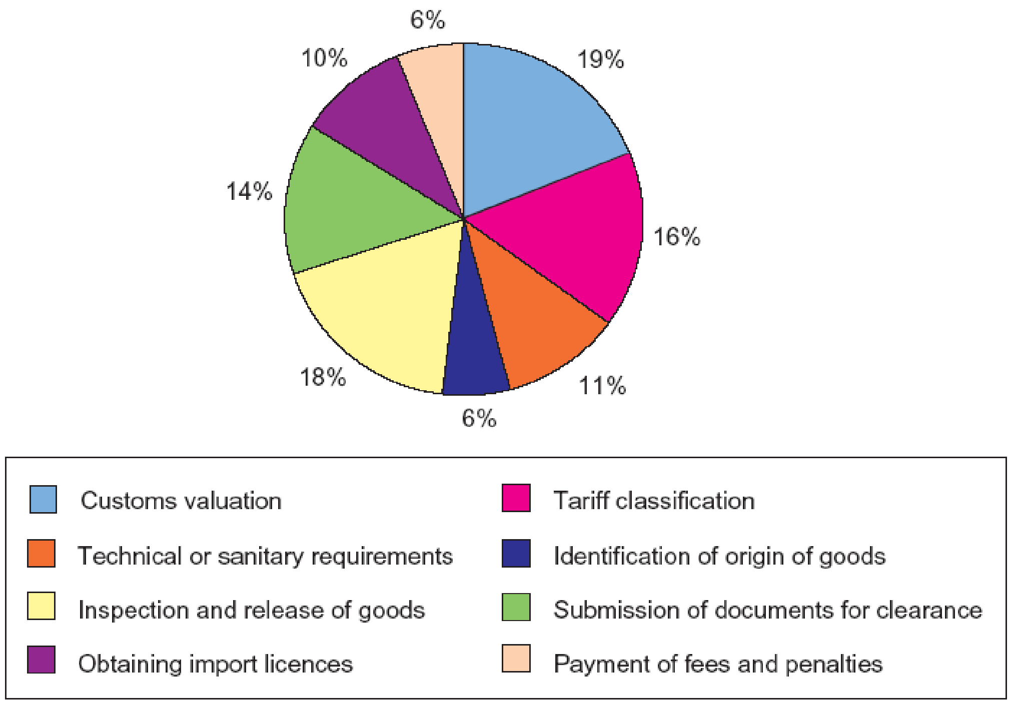
Business agenda for an international economic organization will include transparency in investment markets, harmonization of standards, market links in goods, services, technology, information and human recources, settlement of cross border disputes, standard operation in contingency management and instilling a sense of community. This will in turns create stable business environment, which is conducive for business operations.

Here is a Box which presents private sector perception and key concerns in India. The challenge is to maximize the overlapping interests during the course of lobby or negotiation in trade liberalization.

Box 1: Private sector perception and key concerns in India
ARTNeT study of trade facilitation in India found that customs valuation was one area that most traders found highly challenging. The private sector survey received a reasonable response to both aspects of the questionnaire, i.e., perception regarding the level of implementation of trade facilitation measures, and ranking of needs and priorities. The private sector firms helped in identifying the key problem areas in trade facilitation (figure II). The key problem areas identified by the respondents were in the following order: (a) customs valuation (19 per cent); (b) inspection and release of goods (18 per cent); (c) tariff classification (16 per cent); and (d) submission of documents for clearance (14 per cent). In the survey, the method was based on a questionnaire developed with the help of the ARTNeT Secretariat and selected interviews with key industrialists and representatives from leading private sector firms including the major CHAs. The questionnaire was sent to various firms according to the weight assigned to their respective sectors. Of 1,020 firms approached, responses were received from 51 firms. The greatest emphasis was given to the manufacturing sector, of which 620 firms were approached; 41 firms responded excluding three additional firms from the category of others[19].

[19] De P., 2007. Impact of trade costs on trade: *Empirical evidence from Asian countries* , ARTNeT Working Paper Series, No. 27. Available at http://www.unescap.org/tid/ artnet/pub/wp2707.pdf (accessed in January 2007).

Figure II. Problems faced by the private sector in India



Source: Chaturvedi, 2006.

Private sector has also own role which enhance business interests in the process of trade liberalization. Private sector make this enhance by undertaking few actions like identifying barriers to trade. Business could identify barriers to trade, and report back to goverments. By so doing, goverments will be able to ensure business interests with concrete measures and propositions[20].

Private sector advocate initiatives and means that it could take up the challenges to advocate initiative that would be constructive in creating attractive business environment; monitoring implementation - private sector could also see to it that member countries comply with their commitments in international organizations.

Another role is elevating corporate images. By actively participating in global business agenda, private sector could promote corporate image, including charting out the roads to corporate responsibility.

Private sector could shaping ideology by concrete evidence of trade creation and benefits for all in the business incubation process.

Contributing towards a global community, private sector, generate a sence of mutual confidence in the process of trade liberalization, positively contributing towards community building in the global village.

[20] Krasner, Stephen D.Strategic *Trade Policy and the New International Economics*. Cambridge:MIT Press,1996.

Conclusion

Successful participation in the global economy will be increasingly determined by whether a country maintains highquality, reliable trade infrastructure, whether competition is permitted to flourish in the logistics services industries, and whether the regulatory environment is conducive to the relatively frictionless movement of goods and services through the supply chain. Trade facilitation is not only for developing countries. All countries can benefit from the reform and continuous improvements of their trade processes. The kinds of reforms that move countries in the necessary direction do not require formal commitments and obligations to other countries. Trade facilitation is primarily in the interest of the country implementing reform. Although security is paramount, it is crucial to understand that there are costs to security-driven policies, which can hamper trade and curtail economic growth without necessarily improving security.

Improving the international trading system does not require new multilateral agreement. Countries can derive gains from the trading system by engaging in reforms often referred to as trade facilitation.

Also, trade facilitation includes reforms aimed at improving the chain of administrative and physical procedures involved in the transport of goods and services across international borders. Countries with inadequate trade infrastructure, burdensome administrative processes, or limited competition in trade logistics services are less capable of benefiting from the opportunities of expanding global trade. Companies interested in investing, buying, or selling in local markets are less

likely to bother if there are too many frictions related to document processing or cargo inspection at customs, antiquated port facilities, logistics bottlenecks, or limited reliability of freight or trade financing services.
According to recent studies from the World Bank and other international economic institutions, trade facilitation reforms could do more to increase global trade flows than further reductions in tariff rates. For many developing countries reducing transportation and logistics-related costs through trade facilitation reforms would be much more beneficial than further tariff cuts.
The link between globalization, trade and business can contribute to resolve distributional issues, because one of the key principles of trade facilitation is transparency. Making trade regulations and related processes more transparent involves simplifying and clarifying them, and making them accessible to the greatest possible number of firms and individuals, thereby increasing their opportunity to trade and take advantage of global market opportunities.
So this relation can be seen as a way to change the circumstances of trade within a country that give rise to inequalities in opportunities to trade.
Societies which lead to free trade politic create their own economic dynamic, fostering the source of freedom, opportunities and prosperity that are used by any citizen. It is important to show the power of principle and its respectation. Tendation is to break up the cycle of poverty and every country even the poor country to start creating their own dinamyc via prosperity. This era of market globalization could be follow with new problems which answers are in human ingenuity and innovation, as presenting the outrageous level of flow for people to gain and realize economic freedom and bigger prosperity.

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