



*8th Annual Conference of the Society for the Advancement of
Socio-Economics*

University of Geneva, 12 - 14 July 1996

**"GLOBALIZATION: A DRIVING FORCE OF
TRADE LIBERALIZATION"**

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Paper presented in the panel

Is Free Trade Universal?

*organised by the
Centre for Socio-Eco-Nomic Development, Geneva*

Globalization: A Driving Force of Trade Liberalization

by Silvio Arioli

Globalization: Fact or Fad?

1. Globalization of economic activities has become the dominating theme of the debate about international economic cooperation and it has a major impact on discussions of most national economic and social policy issues. As evidence for the importance of the phenomenon it is often referred to the tremendous growth of trade and foreign direct investment as well as the number and size of multinational firms. When, however, these figures are put in relation to the GDP or total investment, the argument appears to be less convincing.
2. Even if the proportion of international transactions still is relatively modest, their impact on governmental policies and business behaviour cannot be neglected. Mobility of products, production processes and services has become a pervasive feature of our time. This mobility has been made possible by the development of communication technologies, cost of transportation, production technologies allowing to split up and transfer production processes, as well as the widespread liberalization of transborder financial transactions and the internationalization of financial markets. The interaction of all these factors has created a potential to move products, services and investment across borders putting businesses under constant pressure to question their competitiveness on an international scale. When they are threatened to lose markets to foreign competitors and their means to innovate and rationalize with local means are exhausted, they have to outsource, to move out altogether or to close down. Governments are consequently forced to review their policies in the light of the attractiveness of their country for investment.

Globalization and Trade Policy

3. Progressive liberalization of international trade has certainly helped globalization of business activities. By their nature, tariff and non-tariff barriers to trade hamper and prevent mobility of products. Globalization, therefore, is not possible without trade liberalization. That does not mean, however, that trade liberalization is necessarily driving to globalization.

To what extent businesses make use of the possibilities offered by trade liberalization to internationalize their activities depends on a number of other factors, like cost differentials, availability of the above mentioned technologies and transferability of financial means.

4. These factors do not only force enterprises to act internationally. At the same time they drive governments to lower barriers to trade in goods and services. One might expect a different reaction from governments. Increased international competition would strengthen protectionist pressures. This might be the case in certain instances, especially where the domestic market is big enough to sustain domestic producers without the emergence of a monopoly. Given the high degree of specialization in today's industries this is rarely the case. Products have become so complex that they regularly contain many parts from different countries and the price of a product is relevant for the competitive situation of its user. Protectionist intervention, therefore, more than ever before weakens other parts of the domestic economy and in sum does more harm than good to the country engaging in it.

New Challenges for Trade Liberalization

5. Increased mobility of products and production processes nevertheless has led to a renewed questioning of how far trade liberalization should go. It is argued that social and environmental standards are endangered or at least not further developed, if international competition is let loose without precautionary measures equalizing competitive handicaps resulting from higher levels of such standards. Moreover, irrespective of the competitive situation, there are calls for import restrictions on products manufactured under conditions disregarding certain standards, e.g. using child labor. Since the final phase of the Uruguay-Round Negotiations in 1993 these issues have a prominent position on the agenda of international cooperation. Several international organisations, like WTO, ILO, Unctad, OECD, have engaged themselves in studies and proposals, but it seems still rather unclear, who will do what in that respect. The following paragraphs will introduce some of the major issues discussed.

Environment and Free Trade

6. Studies undertaken so far on the cost of implementing environmental standards in different countries suggest that in general cost differentials are minimal and do not substantially distort competition. Consequently, they do not influence decisively the flows of trade and investment. Fears e.g. expressed after 1989 that „dirty industries“ in Europe would move East, pollute Eastern countries and flood Western Europe with cheap products have not materialized. Instead, polluting factories in Eastern Europe have been made cleaner with Western technology and partly also with Western capital. Certainly, this process should have been much quicker and is far from having achieved the desired results. But, at any rate, the opening up of Eastern Europe has not triggered a race to lower environmental standards. Hence, the call for trade restrictions in order to equalize competitive handicaps resulting from higher environmental standards so far cannot be corroborated in general terms. This, of course, does not exclude special cases, where the cost of the environmental protection measures required from a certain industry might be substantial and therefore a government has either to compensate that industry for the competitive handicap or to abstain from such environmental protection as long as other countries with competing industries do not act likewise.

7. Where the environmental protection measure consists of product related standards there are normally no problems of competitive handicaps, since such standards apply equally to domestic and imported products. Depending on the product market, it is sometimes possible to define the product or the standard so as to create discriminatory effects. WTO/GATT tries to prevent such measures by requiring countries to follow certain rules when establishing product standards, such as national treatment, use of relevant international standards, use of standards, which are not more trade-restrictive than necessary.

8. A special category are product related standards aiming at the protection of endangered species. If they are controversial, it is less because of countries interested in exports blaming importing countries of unduly protectionist behaviour. More often, these countries question the necessity and effectiveness of outright prohibitions, whereas importing countries, whose economic interests are less affected, tend to call for

stringent measures.

9. Where the protection of the environment calls for standards on or prohibitions of certain production methods, countries willing to introduce such measures are tempted to apply the same rules to imported products, i.e. to ban the import of products manufactured in violation of such standards. This is all the more tempting as it protects domestic industry from import competition. Such differentiation of identical products on the basis of the manufacturing process could infringe, however, upon the non-discrimination principle of WTO/GATT. The discussion is still going on in WTO. If the Agreement on Technical Barriers to Trade does, indeed, allow to apply production standards on imported products, accepting the extraterritorial as well as the protectionist effects of such an application.

Labour Standards and Free Trade

10. There is no compelling evidence that differentials in labour standards have a significant influence on the competitiveness of enterprises located in different countries. It is true that especially between developing and developed countries there are huge differences in labour cost. These correspond to a large extent to differences in productivity. Even where they exceed productivity gaps and consequently create comparative advantages, they are normally not due to differences in labor standards.

11. Discussions on labour standards and trade held so far in international organisations have focussed on the so-called core labour standards, such as prohibition of forced labour and child labour and the right of association. It is pointed out that the enforcement of such standards is motivated more on moral grounds than fairness of competition. Indeed, discussions and actions undertaken so far were more driven by NGOs than business sectors suffering from such unfair competition. The main issue, therefore, is the effectiveness of trade restrictions aimed at eliminating e.g. child labour. It can be argued that trade sanctions do little or nothing to improve the conditions of children and probably have even adverse effects by depriving these children of their subsistence. However, the threat of trade measures combined with specially targeted assistance might be the only way to change things to the better.

12. The Uruguay Round has brought substantial progress in trade liberalization. Nevertheless, nobody would claim that free trade has become universal. In many countries and in certain sectors trade barriers are still significant. Calls for trade measures against unfair competition through lower environmental and labour standards have raised fears that not only further progress in trade liberalization may be hampered but that even the level achieved so far might be endangered.

13. However, discussions held and actions taken up to now do not justify such fears. In most instances it is recognised that „unfair“ competition is not the cause of the decline of certain industries and of high unemployment and that consequently trade restrictions would do more harm than good. New trade restrictions, therefore, seem rather unlikely, whereas further trade liberalization might be delayed in times of widespread restructuring.

14. In the immediate future, the debate seems to focus on the question of how to avoid unnecessary trade restrictions through environmental standards and how to provide wider acceptance of core labour standards, with the help perhaps of but not exclusively by trade sanctions.

