Chapter 5

Impact of globalisation

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IMPACT OF GLOBALISATION

Over time, several nations have gone through significant and developmental changes. From simple lifestyles to those governed by technology, people have constantly adapted to these transformations that have been brought about primarily by Globalisation. A number of literatures and publications have already been written in relation to this topic. Nonetheless, the real meaning and effects of Globalisation still differ from another's point of view, hence, debate over this topic still continues. Globalisation has been defined as the concept which connects nations worldwide through information, technology and trade. In terms of effect, Globalisation has led to a number of considerable and beneficial effects for most economies. Still, there are some anti-Globalisation factions that claim otherwise. These groups claim that while Globalisation may give several advantages, these appear to be concentrated only to a few nations, particularly developed ones. Developing countries on the other hand remain affected by poverty and inequality as a result of Globalisation.

This variety of thoughts amongst people of the world brings us to check the implications of Globalisation on the different sectors and on International trade as a whole.

5.1. Trade and the Global Economy

In a global economy, no nation is self-sufficient. Each is involved at different levels in trade to sell what it produces, to acquire what it lacks and also to produce more efficiently in some economic sectors than its trade partners. As supported by conventional economic theory, trade promotes economic efficiency by providing a wider variety of goods, often at lower costs. The Globalisation of production is concomitant to the Globalisation of trade as one cannot function without the other.

"Courtesy of ongoing trade liberalization, in conjunction with sharply declining communication and transportation costs, there has been a sharp increase in the tradable goods portion of world output over the past 15 years. At the same time, a veritable explosion in e-based connectivity since 1995, together with the emergence of an entirely new global IT outsourcing industry, has led to the networking of service providers around the world. As a result, rapidly expanding trade in both goods and services has become an increasingly powerful engine in driving the global growth dynamic." [1]

Even if international trade has taken place centuries before the modern era, as ancient trade routes such as the Silk Road can testify, trade occurred at an ever increasing scale over the last 600 years to play an even more active part in the economic life of nations and regions. This process has been facilitated by significant technical changes in the transport sector. The scale, volume and efficiency of international trade all have continued to increase since the 1970s.[2] As such, a point has been reached where larger distances can be traded for a decreased amount of time, and this at similar or lower costs. It has become increasingly possible to trade between parts of the world that previously had

[1] Stephen Roach, Morgan Stanley, July 18, 2005.

[2] Dr. Jean-Paul Rodrigue:www.people.hofstra.edu

limited access to international transportation systems. Further, the division and the fragmentation of production that went along with these processes also expanded trade. Trade thus contributes to lower manufacturing costs.

Without international trade, few nations could maintain an adequate standard of living. With only domestic resources, each country could only produce a limited number of products and shortages would be prevalent. Global trade allows for an enormous variety of resources – from Persian Gulf oil, Brazilian coffee to Chinese labor – to be made more widely accessible. It also facilitates the distribution of many different manufactured goods that are produced in different parts of the world. Wealth becomes increasingly derived through regional specialization of economic activities. This way, production costs are lowered, productivity rises and surpluses are generated, which can be transferred or traded for commodities that would be too expensive to produce domestically or would simply not be available. As a result, international trade decreases the overall costs of production worldwide. Consumers can buy more goods from the wages they earn, and standards of living should, in theory, increase. International trade consequently demonstrates the extent of Globalisation with increased spatial interdependencies between elements of the global economy and their level of integration. These interdependencies imply numerous relationships where flows of capital, goods, raw materials and services are established between regions of the world. Another important attribute of international trade is that it increasingly concern exchanges within multinational corporations.

5.2. Trade Facilitation

The volume of exchanged goods and services between nations is taking a growing share of the generation of wealth, mainly by offering economic growth opportunities in new regions and by reducing the costs of a wide array of manufacturing goods. By 2007, international trade surpassed for the first time 50% of the global GDP, a twofold increase since 1950.[3] The facilitation of trade involves how the procedures regulating the international movements of goods can be improved, which concerns four main factors:

i. Integration processes, such as the emergence of economic blocks and the decrease of tariffs at a global scale through agreements, promoted trade as regulatory regimes were harmonized. One straightforward measure of integration relates to custom delays, which can be a significant trade impediment. The higher the level of economic integration, the more likely the concerned elements are to trade. International trade has consequently been facilitated by a set of factors linked with growing levels of economic integration, the outcome of processes such as the European Union or the North American Free Trade Agreement. The transactional capacity is consequently facilitated with the development of transportation networks and the adjustment of trade flows that follows increased integration. Integration processes have also taken place at the local scale with the creation of free trade zones where an area is given a different governance structure in order to promote trade,

[3] *ibid*

particularly export oriented activities. In this case, the integration process is not uniform as only a portion of a territory is involved, which can create dislocations.

ii. Production systems are more flexible and embedded, which favors exchanges of commodities, parts and services. Information technologies have played a role by facilitating transactions and the management of complex business operations. Foreign direct investments are commonly linked with the Globalisation of production as corporations invest abroad in search of lower production costs and new markets. China is a leading example of such a process. There is consequently a growing availability of goods and services that can be traded on the global market.

iii. Transport efficiency has increased significantly because of innovations and improvements in the modes and infrastructures. Ports are particularly important in such a context since they are gateways to international trade. As a result, the transferability of commodities has improved. Decreasing transport costs does more than increasing trade, it also help change the location of economic activities. Yet, transborder transportation issues remain to be better addressed in terms of capacity, safety and security.

iv. Transactional efficiency. The financial sector also played a significant role in integrating global trade, namely by providing credit for international commercial transactions. For instance, a letter of credit may be issued based upon an export contract. An exporter can thus receive a payment guarantee from a bank until its customer finalizes the transaction upon delivery. This is particularly important since the delivery of international trade transactions can take several weeks. During the transfer, it is also common that the cargo is insured in the event of damages, theft or delays, a function supported by insurance companies. Also, global financial systems permit to convert currencies according to exchange rates that are commonly set by market forces, while some currencies, such as the Chinese Yuan, are set by policy. Monetary policy can thus be a tool used to influence trade.

Trade facilitation depends on the reduction of the general costs of trade, which considers transaction, tariff, transport and time costs. Thus, the ability to compete in a global economy is dependent on the transport system as well as a vast array of supporting service activities. These activities include:

a) Distribution-based: A multimodal and intermodal freight transport system composed of modes, infrastructures and terminals that spans across the globe. It insures a physical capacity to support trade.

b) Regulation-based. Customs procedures, tariffs, regulations and handling of documentation. They insure that trade flows abide to the rules and regulations of the jurisdictions they cross.

c) Transaction-based. Banking, finance, legal and insurance activities where accounts can be settled. They insure that the sellers of goods and services are receiving an agreed upon compensation and that the purchasers are protected and have a legal recourse if the outcome of the transaction is judged unsatisfactory or is insured if a partial or full loss incurs.

The quality, cost, and efficiency of these services influence the trading environment as well as the overall costs linked with the international trade of goods.

5.3. Global Trade Patterns

International trade, both in terms of value and tonnage, has been a growing trend in the global economy. The emergence of global trade patterns can mainly be articulated within three major phases:

i. **First phase:** Concerns a conventional perspective on international trade that prevailed until the 1970s where factors of production were much less mobile. Particularly, there was a limited level of mobility of raw materials, parts and finished products in a setting which is fairly regulated with impediments such tariffs, quotas and limitations to foreign ownership. Trade mainly concerned a range of specific products, namely commodities, (and very few services) that were not readily available in regional economies. Due to regulations, protectionism and fairly high transportation costs, trade remained limited and delayed by inefficient freight distribution. In this context, trade was more an exercise to cope with scarcity than to promote economic efficiency.

ii. **Second phase:** From the 1980s, the mobility of factors of production, particularly capital, became possible. The legal and physical environment in which international trade was taking place lead to a better realization of the comparative advantages of specific locations. Concomitantly, regional trade agreements emerged and the global trade framework was strengthened from a legal and transactional standpoint (GATT/WTO). In addition, containerization provided the capabilities to support more complex and long distance trade flows, as did the growing air traffic. Due to high production (legacy) costs in old industrial regions, activities that were labor intensive were gradually relocated to lower costs locations. The process began as a national one, then went to nearby countries when possible and afterwards became a truly global phenomenon. Thus, foreign direct investments surged, particularly towards new manufacturing regions as multinational corporations became increasingly flexible in the global positioning of their assets.

iii. **Third phase:** There is a growth in international trade, now including a wide variety of services that were previously fixed to regional markets and a surge in the mobility of the factors of production. Since these trends are well established, the priority is now shifting to the geographical and functional integration of production, distribution and consumption with the emergence of global production networks. Complex networks involving flows of information, commodities, parts and finished goods have been set, which in turn demands a high level of command of logistics and freight distribution (see concept 3). In such an environment, powerful actors have emerged which are not directly involved in the function of production and retailing, but mainly taking the responsibility of managing the web of flows.

The global economic system is thus one characterized by a growing level of integrated services, finance, retail, manufacturing and nonetheless distribution, which in turn is mainly the outcome of improved transport and logistics, a more efficient exploitation of regional comparative advantages and a transactional environment supportive of the legal and financial complexities of global trade. The outcome has been a shift in global trade flows with many developing countries having a growing participation to international trade. The nature of what can be considered international trade has also changed, particularly with the emergence of global commodity chains. This trend obviously reflects the strategies of multinational corporations positioning their manufacturing assets in order to lower costs, maximize new market opportunities while maintaining the cohesion of their freight distribution systems. In addition, another important trade has been growing imports of resources from developing countries, namely energy, commodities and agricultural products.

The dominant factor behind the growth in international trade has been an increasing share of manufacturing activities taking place in developing countries with manufacturers seeking low cost locations for many stages of the supply chain. The evolution of international trade thus has a concordance with the evolution of production. There are however significant fluctuations in international trade that are linked with economic cycles of growth and recession, fluctuations in the price of raw materials, as well as disruptive geopolitical and financial events. The international division of production has been accompanied by growing flows of manufactured goods, which take a growing share of international trade. There is relatively less bulk liquids (such as oil) and more dry bulk and general cargo being traded.

The geography of international trade still reveals a dominance of a small number of countries, mainly in North America and Europe.

Alone, the United States, Germany and Japan account for about a third of all global trade, but this supremacy is being seriously challenged. Further, G7 countries account for half of the global trade, a dominance which has endured for over than 100 years. A growing share is being accounted by the developing countries of Asia, with China accounting for the most significant growth both in absolute and relative terms. Those geographical and economic changes are also reflected over trans-oceanic trade with Trans-Pacific trade growing faster than Trans-Atlantic trade.

Regionalization has been one of the dominant features of global trade. The bulk of international trade has a regional connotation, promoted by proximity and the establishment of economic blocs such as NAFTA and the European Union. The closer economic entities are, the more likely they are to trade, which explains that the most intense trade relations are within Western Europe and North America. A similar, but more recent trend, has also emerged in Asia, particularly between Japan, China, Korea and Taiwan.

5.4. International Transportation

The growth of the amount of freight being traded as well as a great variety of origins and destinations promotes the importance of international transportation as a fundamental element supporting the global economy. International transportation systems have been under increasing pressures to support additional demands in volume and distance carried. This could not have occurred without considerable technical improvements permitting to transport larger quantities of passengers and freight, and this more quickly and more efficiently. Few other technical improvements than containerization have contributed to this environment of growing mobility of freight. Since containers and their intermodal transport systems improve the efficiency of global distribution, a growing share of general cargo moving globally is containerized. Consequently, transportation is often referred as an enabling factor that is not necessarily the cause of international trade, but a mean over which Globalisation could not have occurred without. A common development problem is the inability of international transportation infrastructures to support flows, undermining access to the global market and the benefits that can be derived from international trade.

International trade requires distribution infrastructures that can support trade between several partners. Three components of international transportation facilitate trade:

i. **Transportation infrastructure**. Concerns physical infrastructures such as terminals, vehicles and networks.

Efficiencies or deficiencies in transport infrastructures will either promote or inhibit international trade.

ii. **Transportation services.** Concerns the complex set of services involved in the international circulation of passengers and freight. It includes activities such as distribution, logistics, finance, insurance and marketing.

iii. **Transactional environment.** Concerns the complex legal, political, financial and cultural setting in which international transport systems operate. It includes aspects such as exchange rates, regulations, quotas and tariffs, but also consumer preferences.

About half of the global trade takes place between locations of more than 3,000 km apart. Because of the involved geographical scale, most international freight movements involve several modes, especially when origins and destinations are far apart. Transport chains must thus be established to service these flows which reinforce the importance of intermodal transportation modes and terminals at strategic locations. Among the numerous transport modes, two are specifically concerned with international trade:

i. Ports and maritime shipping. The importance of maritime transportation in global freight trade in unmistakable, particularly in terms of tonnage as it handles about 90% of the global. Thus, Globalisation is the realm of maritime shipping, with containerized shipping at the forefront of the process. The global maritime transport system is composed of a series of major gateways granting access to major production and consumption regions. Between those gateways are major hubs acting as points of interconnection and transshipment between systems of maritime circulation.

ii. Airports and air transport. Although in terms tonnage air transportation carries an insignificant amount of freight (0.2% of total tonnage) compared with maritime transportation, its importance in terms of the total value is much more significant; about 15%. International air freight is about 70 times more valuable than its maritime counterpart and about 30 times more valuable than freight carried overland, which is linked with the types of goods it transports (e.g. electronics). The location of freight airports correspond to high technology manufacturing clusters as well as intermediary locations where freight planes are refueled and/or cargo is trans-shipped.

Road and railway modes tend to occupy a more marginal portion of international transportation since they are above all modes for national or regional transport services. Their importance is focused on their role in the "first and last miles" of global distribution. Freight is mainly brought to port and airport terminals by trucking or rail. There are however notable exceptions in the role of overland transportation in international trade. A substantial share of the NAFTA trade between Canada, United States and Mexico is supported by trucking, as well as large share of the Western European trade. In spite of this, these exchanges are at priori regional by definition, although intermodal transportation confers a more complex setting in the interpretation of these flows.

Economic development in Pacific Asia and in China in particular, has been the dominant factor behind the growth of international transportation in recent years. Since the trading distances involved are often considerable, this has resulted in increasing demands on the maritime shipping industry and on port activities. The outcome has been a surge in demands for long distance international transportation.

5.5. Growth and Global Trade

It is found that one of the most important benefits of Globalisation is the major progress and growth of global trade. Through this, goods, services, labor, capital and technology are able to move freely across national borders. International trade expansion leads to higher international capital flows, labor and technology. Universality in cultural, political, legal and institutional practices among neighboring countries is also made possible through this benefit. With international trade, countries are able to distribute their goods to a larger market. Aside from economic development, the ties shared by participating countries can also be a useful resource for less developed nations. Changes in technology and communication have also supported this Globalisation effect as labor and business opportunities become more accessible. The economic benefit of Globalisation then results to higher standards of living among participating nations.

The outcome of the spread of Globalisation is easy to gauge from the way our way and standard of living have changed. For this we just need to comprehend upon certain basic things we do on a day to day basis. The cokes and Pepsis that we drink or chocolates that we eat are just some examples, but the same applies to every step of our daily lives. Cell phones are now common, in urban areas now it is a rarity to see a person without one, just look back a few years and we find that there was a time when in order to book a normal landline one had to wait for months and months.

Along with globalisation people around the world have come to know about the products available in different parts of the world and popularity of some or the other such products results into imports from that country. Similarly the same nation may export something to that other country leading to international trade relations. In this manner trade grows along with the spread of globalisation. Many such instances can be shown which lead to a growth in international trade and for that the main reason is the growth and spread of globalisation.

5.6. Media, Governance and Global Trade

As Globalisation enables open trade among foreign countries, media had also been enhanced through this concept; this in turn, resulted to the people's increased accessibility to several forms of media including the radio, newspaper, telephones, televisions, computers via the internet. This access on the other hand was beneficial not only in making communication easier but also in increasing public awareness over several important issues like gender inequality, discrimination, democracy and human rights. As business monopoly is gradually taken out by Globalisation, media monopoly is no longer observed as well. The increased access of people to communication, markets and information is among the important benefits of Globalisation as nations are able to optimize various resources and share the outcomes with others. Ultimately, this important benefit resulted to efficient allocations for the purposes of progress, poverty reduction and human development. National governments then improved though Globalisation as awareness led to active development.

One of the better examples for this is the fall of the World Trade Centre buildings in US, which we all were able to see on TV, which otherwise one would have just heard about such an event. The London tube attacks were relayed immediately to India and there were people in London itself who were not aware of that whereas we in India had full knowledge of the same. This tells us that now media has also become fully globalised.

5.7. Developing Countries and Global Trade

Although Globalisation allowed the development of various nations through international trade, this effect also resulted to certain disadvantages. In particular, some developing nations appear to be the most affected by the downsides of international trade and Globalisation. The international trade is said to support the collaboration of foreign nations; however, actual outcomes showed that this has only led to the emphasis of the differences between developed and developing countries, increasing the gap between the rich and the poor.

Whereas on the other hand developing nations like India, Brazil and others have benefited by this to no ends. The growth of such countries has been exemplary in the last few years, riding on the wave of exports the economies of such countries have risen in a magnificent manner. To the extent that now such countries have become major exporters world over and are considered to be amongst the very few countries which have a good growth and good future.

This all can be attributed easily to the tremendous spread in globalisation.

5.8. Inequality and Global Trade

Another disadvantage of Globalisation is the uneven distribution of international trade gains. Díaz-Bonilla and Robinson (1999) explained this Globalisation cost by citing a general example. The authors have noted that international trade allows the integration of foreign capital markets, leading to the expansion of foreign short and long term financial capital. While this was supposed to promote investment and growth, developing nations cannot participate in this aspect due to high risk premiums as well as their undeveloped capital markets. These inadequacies then limit the gains of international trade to wealthier countries.

This in turn leads to consolidation of wealth into certain pockets, though this may not be absolutely true in today's context and apply to all the developing countries, as the circumstances prevailing at present are far different as compared to the past. At present developing countries can be in fact divided into two different sets; one representing those which lagged behind in the race of prosperity which is a big number and the other set comprising of countries like India, Brazil etc., the number of which is not very high. The countries representing the second set, have today a good capital base as can be seen by the numerous acquisitions taking place by Indian companies throughout the world, also in so called developed countries.

But overall in some ways Globalisation does create unequal distribution of wealth.

5.9. Trade Barriers, Tariff and Global Trade

International trade is also disadvantageous for less developed countries due to tariff escalation. It is known that the main market for international exports is concentrated on industrial companies. This then raises the concern that the issue on tariff barriers may be due to the scheme among industrial countries against the exports of less developed nations. Although the truth behind this presumption is yet to be proven, developing nations encounter problems on international trade due to escalated tariff. The commodities produced and exported by developing countries may be given more value through international trade; thus, resulting to greater profit. However, with tariff escalation, the increased value of the commodity will also encounter a higher tariff.

5.10. Policies and Global Trade

Aside from trade barriers and tariff, the developing countries also find Globalisation disadvantageous due to its universal policies and laws. These are advantageous in a sense that they develop standards for the participating nations to follow. However, it has been reported that most developing countries are finding it hard to follow these universal policies due to its high-level requirements. Specifically, in order to comply with these Globalisation rules, participants must allocate significant investments on capital goods, buildings and skills. Thus, it is quite clear that Globalisation is not as effective; moreover, it appears to negatively affect the nations that need its benefits the most.

5.11. Environment and Globalisation

All facets of Globalisation affect the natural environment and due to it human development also gets affected. To understand the main links between Globalisation and environment special focus has been given on the Economic effects of Globalisation, Environmental Costs of Globalisation and the effects of trade on Environment.

Economic Globalisation impacts the environment and sustainable development in a variety of ways and through a multitude of channels. Globalisation contributes to economic growth and thereby affects the environment in many of the same ways that economic growth does: adversely in some stages of development, favorably at others. Globalisation accelerates structural change, thereby altering the industrial structure of countries and hence resource use and pollution levels. It diffuses capital and technology; depending on their environmental characteristics relative to existing capital and technology, the environment may improve or deteriorate. It transmits and magnifies market failures and policy distortions that may spread and exacerbate environmental damage; it may also generate pressures for reform, as policies heretofore thought of as purely domestic attract international interest. While it improves the prospects for economic growth worldwide and increases overall global output, Globalisation could conceivably reduce economic prospects in individual countries, sectors and industries; such marginalization of economies and people may result in poverty-induced resource depletion and environmental degradation.[4]

Globalization diffuses world product standards and, to the extent that environmental standards are higher in the dominant consumer markets, it may create a trend toward rising standards globally; on the other hand, concerns over the possible loss of competitiveness due to "unfair practices" or lax standards may lead to a "race to the bottom." Economic globalization changes the government-market interface; it constraints governments and enhances the role of the market in economic, social and environmental outcomes; on the other hand, it creates new imperatives for states to co-operate both in managing the global commons and in coordinating domestic environmental policies.

5.11.1 Effects of Globalisation on our Environment

Globalisation directly effects Environment in its purest sense i.e. nature, to understand this, an effort is made to view the effect of Globalisation on agriculture.

Reduced Genetic Diversity in Agriculture- One can generally observe a cutback in genetic diversity in the field of agriculture. Loss of non-hybrid germplasm has taken place for vegetables, grains and tree crops because of the arrival of new commercial varieties of seeds. This has affected the local farmers to plummet the affluence of existing varieties to promote new and commercial "high yielding" seeds. In the similar manner Globalisation has

[4] Theodore Panayotou: CID Working Paper No. 53 July 2000

affected wild varieties also. The wild varieties are known for its gene pool for disease resistance and various environmental adaptations and also for its food value. Due to Globalisation, development, logging and conversion of marginal lands for enhancing production the local agriculture environment is badly affected.

There are many projects which are formulated in each and every field of human endeavor for the promotion of Globalisation but only a few attains success, incurring tremendous loss of natural resources, vegetation and harm to the natural environment.

Loss of wild species: It's a common observation that most of the wild varieties are facing danger of extinction due to global trade, global extension and with approaching new technologies and to meet the arising demands. The natural areas are rapidly turning to concrete plantation, to enhance production, building road, dams, mining, power plants, causing loss of species which were known to be the natives of that geographical domain. These are the direct implication on the livestock but other indirect impacts encompass, vehicles coming to the area, additional requirement of electricity, waste from nuclear plants causing changes in the local climate due to liberation of various chemicals from industrial set up also liberation of toxic wastes, gases like carbon-di-oxide, methane, fluorocarbons drastically affect the local natural environment. It is evident that with the onset of Globalisation, the wildlife - human contact is becoming the source of various new diseases; one of the biggest e.g. is of HIV.

5.11.2 Environmental Costs of Globalisation

This encompasses the deterioration of the quality of natural resources including- water, air and soil. It is also causing depletion of natural resources both renewable and non-renewable resources. Pollution of the environment is attributed to the increase in industries, burning of fossil fuels to run the industries, machines and for transport of both raw and finished products to different places. The protective and custom laws also regulate the environment, contributing to the impact of Globalisation. In a way we can summarize that a country importing dirty products essentially leaks its pollution to exporting countries that have less strict standards.

One of the other consequences of Globalisation is the transport of heavy, minimally processed food products are made available in excess to the area where they were already available. This not only puts pressure on the local manufacturers but also pressurize their psychology to produce more products to cope with the competition.

5.11.3 Trade and Environment

Trade liberalization and its outcome, freer trade, are both drivers and manifestations of Globalisation. They are also major channels through which Globalisation impacts the natural environment and affects environmental quality.

Trade theory has demonstrated that free trade maximizes the efficiency of resource allocation by channeling economic activities to least-cost producers; it thus produces a given level of output at the least cost. If natural and environmental resources are efficiently priced (i.e. all relevant social costs are accounted for), the global output resulting from free trade is also produced at the least environmental cost. Free trade maximizes social welfare. If, however, there are market failures (such as unpriced or underpriced resources or unaccounted for externalities), or policy failures (such as environmentally-harmful subsidies) that are not removed, resources are misallocated to start with and removal of barriers to trade may exacerbate this misallocation.

Under such conditions, freer trade would not maximize social welfare. There would still be efficiency gains (positive effects) but there would also be welfare losses as wasteful resource depletion and environmental degradation are exacerbated (negative effects). The net effect on social welfare would depend on the relative magnitude of the positive and negative effects.

5.11.4 Trade-related Environmental Effects

1. **Scale effects:** Negative effects, when increased trade leads to more pollution without compensating product, technology or policy developments; positive effects, when increased trade induces better environmental protection through economic growth and policy development that stimulates product composition and technology shifts that cause less pollution per unit of output.[5]
2. **Structural effects:** Changes in the patterns of economic activity or micro-economic production, consumption, investment, or geographic effects from increased trade that either exert positive environmental effects, (e.g. reducing production of crops that rely on chemical intensive methods,

[5] OECD, 1994

in favor of more extensive agriculture), or cause negative consequences (e.g. encouraging the drainage of wetlands to satisfy new trade demands).[6]

3. **Income effects** — positive effects increased willingness to pay with increased personal incomes brought about by growth-induced trade; also increased budgetary resources allocated to environmental protection both in absolute and relative terms.[7]
4. **Product effects** — either positive effects, from increased trade in goods that are environmentally beneficial, e.g. biodegradable containers, or negative effects, from more trade in environmentally damaging products, e.g. hazardous wastes.[8]
5. **Technology effects** — either positive effects from reducing pollution per unit of product, e.g., precision farming that reduces excess fertilizer use, or negative effects from the spread of "dirty" technologies, e.g., highly toxic and persistent pesticides, through trade channels.[9]

6. **Regulatory effects** — either through improved environmental policies, in response to economic growth from enhanced trade or through measures included in the trade agreement, or the relaxation of existing environmental policies, because of specific trade pressures or restrictions on environmental policy by trade agreements.[10]

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[6] OECD, 1994
[7] Theodore Panayotou
CID Working Paper No. 53 July 2000
[8] OECD, 1994
[9] *ibid*
[10] *ibid*

5.11.5 Environmental Policy and its Influence on the Pattern of Trade

Since differences in environmental policies and standards and their enforcement are translated into production cost differences, it is a legitimate concern that such differences may alter the pattern of trade. There is substantial evidence, however, that differences in environmental standards and environmental control costs have had very limited effect on trade patterns.[11] The main reason is that environmental control costs are a very small fraction of production costs. Any comparative advantage created by lax environmental standards is overwhelmed by other sources of comparative advantage such as differences in resource endowments, technologies, human and physical capital, infrastructure and the macroeconomic policy environment.

Another test of the relationship between environmental regulations and competitiveness is whether an increasing share of trade in pollution-intensive products comes from developing countries, which on the whole have more relaxed environmental laws (or more lax enforcement).

5.11.6 Possible impacts of Foreign Direct Investment on employment and environment in OECD (home) countries

In recognition of the growing importance of foreign direct investment, OECD has attempted to negotiate a multilateral

[11] Theodore Panayotou
CID Working Paper No. 53 July 2000

agreement on investment (MAI) among its members and non-members willing and able to meet is obligations. (Argentina, Brazil, Chile, Hong Kong, and Slovak Republic joined the negotiations as observers.) MAI attempts to establish rules of investment and to create an inclusive investment climate, analogous to what has been negotiated and agreed upon for trade and services through GATT and GATS. The main objectives of a multilateral agreement on investment are to meet the foreign investors' need for (a) long-term stability of rules and procedures, (b) open markets and equal competitive opportunities with domestic investors, (c) protection of existing investments and (d) an international mechanism for settling disputes with national governments. OECD took the initiative of drafting MAI in recognition of (1) its major stake in investment rules, as it accounts for 85 percent of FDI outflows and 60 percent of inflows; (2) the common view of the benefits from free investment flows; and (3) its need for more comprehensive and effective rules. MAI was intended to include direct investments, portfolio investment, real estate investments and rights under contract. The main provisions of MAI were:

a) Non-discrimination: foreign investors must be treated no less favorably than domestic investors (National Treatment) and all investors should be accorded the Most-Favored-Nation Treatment.
b) Transparency of laws, regulations and procedures
c) Free transfer of funds to and from the host country
d) Expropriation only for public purpose and with full compensation

e) Dispute resolution through binding arbitration.

General exceptions were allowed for national security, and integrity and stability of the financial system; temporary safeguards in response to balance of payments crisis; and country specific exceptions and regulations as negotiated among the parties. Exceptions for culture were also considered. With regard to the environment, MAI allowed freedom to governments to implement policies to protect the environment as long as these policies are not more stringent for foreign investors than for domestic ones, and MAI parties do not lower their environmental standards to attract foreign investment. The NAFTA provisions against environmental measures that constitute disguised restrictions on trade and investment were in effect expanded to include all OECD countries under MAI. MAI has been heavily criticized on a variety of fronts, from national sovereignty and cultural protection to public health and the environment. The environmental criticism included among others:

(1) concerns that corporate challenges to environmental regulations will accelerate;
(2) the intellectual property rights provisions giving patents full protection may conflict with provisions of the biodiversity convention;
(3) while logging concessions are protected by MAI, acquiring land for preservation is not protected; and
(4) governments are unduly constrained by provisions on rights from concessions, licenses, and permits in

regulating corporations developing natural resources in their jurisdictions (Clarke 1998).

At the end, MAI did not receive the necessary support from key parties to come into effect. However, new efforts to negotiate a multinational agreement on investment are anticipated in coming years.

5.12. Labour and Globalisation

Increase in Global Trade affects Labour and wages in all the countries which can be assessed as under:

i. Outsourcing, or offshoring, continues to receive a good deal of attention in the developed countries, there is the potential impact of such trade on wages. This is an issue of ongoing concern specially in Europe and United States.

ii. Free trade affects the productivity of firms. As productivity improves, it is expected that those gains shall be reflected in lower prices, and therefore higher real wages, so this second question also relates to the impact of Globalisation on workers.

iii. Then there is the issue of labour mobility between countries. Migration is also an issue in a number of countries specially that from the under developed or developing countries to the developed countries.

The result from outsourcing is that a shift of activities from one country to the other can increase the relative demand for skilled labour in both countries, as has actually occurred in a number of industrial and developing countries.[12] However, the same result can occur from skill-biased technological change, such as the increased use of computers, which can increase the relative demand for skilled labour across countries. So it then becomes an empirical question as to which explanation is more important: outsourcing, or the increased use of computers leading to skill-biased technological change.

[12] Robert C. Feenstra's 'Global Economy Lecture' at Vienna Institute for International Economic Studies, Feb 2007

5.13. Key Challenges for National Governments

While Globalisation may have led to the efficient allocation of resources for national governments, the impact of international trade has also caused significant reduction of governance. Globalisation led to the removal of the nations' ability to develop and implement their own policies. Countries that aim to reorganize the economy due to international trade have significantly reduced governmental means of carrying out individual programs of law enforcement and development. In the effort of some less developed countries to achieve the economic developments of international trade, inappropriate trade policies had only caused severe macroeconomic damages. This effect implies that standard trade regulation may not be applicable to some participants – a case similar to high tariffs and trade barriers.

From the national to the industrial level, Globalisation does result to both positive and negative effects; in addition, it appears that the primary victims of this concept's disadvantages are the less developed nations and the common people. This outcome then suggests the failure of Globalisation to benefit its primary targets. The absence of solution to these issues can then lead to a far worse situation for other participants, especially among developing nations and their people. In particular, governments of participating members can bring about policy changes to reduce the costs of Globalisation. Some possible policies:

i. Tariff adjustment policies – The governments could increase the volume of goods imported from less developed countries; tariffs and quotas can also be made more transparent and equitable. Policies that would reduce or eliminate tariff escalation can also be developed and implemented.

ii. Stronger economic and political policies for developing nations - Developing countries can also do something so as to solve their problems on international trade. For instance, they should assess their economic and political factors in order to identify which of these need focus or improvement. If their local department on trade is under staffed or not equipped for international trade, the country should then work on improving this important factor.

iii. Policies for Support - The developed countries can provide support to less developed nations in meeting the requirements for international trade. For example, they could provide assistance in making developing nations a part of significant international trade organizations.

5.14. Information Technology Industry

Globalisation also resulted to several effects to various business industries. Similar to the country level, Globalisation caused both positive and negative effects to the IT industry.

i. Resource and Market Growth

In the IT industry various technologies are installed in order to facilitate global operations in order to obtain more efficient business outcomes. By means of these technologies, the companies are able to access foreign markets very easily which used to be unavailable due to regulations, costs and indirect barriers. With Globalisation and technology, such IT organizations are able to acquire resources like information, capital and labor at a global level. The introduction of Globalisation allows such companies to be more efficient and streamlined while extending its geographic operations. In general, the presence of Globalisation helps the firm in developing new opportunities and challenges.

ii. Innovation and Communication Development

As Globalisation opens new opportunities, the IT organizations must cope by implementing various strategies and organizational changes. Snow and associates (1996) noted that as Globalisation increases the competitive pressure among businesses, companies must overcome this through the employment of new technologies and effective business techniques; in some instance even major organizational restructuring. By means of internet technology, the companies are able to seek possible prospective clients as well as communicate with suppliers, contractors and clients abroad. Communicating with colleagues working overseas is no longer a problem for such companies either due to this technology. Not only does the internet help in making communication faster and easier but inexpensive as well.

iii. Operational Cost Reduction

As noted by Globerman and associates (2001), the utilization of information and communication technologies like the internet enables firms to expand their operation, extend their market and establish value chains economically. The reduction of transaction costs helps the firm to focus its other valuable resources to future development projects and new business plans, promoting continuous growth and progress. By means of Globalisation, the industry is able to save its resources and achieve better business outcomes. This effect to the industry then results to the employment of cost-effective global strategies.

iv. Human Resource Effect

Though the introduction of Globalisation resulted to more efficient processes within the industry, some of the changes are not as favorable, particularly for the employees. In particular, policies that govern the employment of workers in IT companies have to be modified in order to adapt with the present Globalisation trend. With the present globalized business setting and the use of various IT development tools, the economic employment base has shifts from production output into the provision of services. This in turn leads to the rise of casual, part-time and women employees in the company; this is commonly referred to as pink-collar workforce (Kouzmin, Korac-Kakabadse & Korac-Kakabadse 1999).

Despite the fact that this workforce increases the presence of women in the working sector, the problem on gender discrimination has been more evident, considering that pink-collar jobs are those that do not require highly skilled employees. Women employees are usually assigned to mere clerical jobs. The rise of this type of workforce also increases the level of temporary jobs in the sector; this is disadvantageous for the workers as they are not given the opportunity to grow in their respective companies. Moreover, this employment practice deprives them of the benefits obtained by regular workers.

Aside from the rise of temporary employment, the industry also focuses on hiring employees through outsourcing. This increases the diversity of the employees hired by any company in the sector. While temporary employment levels rise in the sector, the increased diversity in the organization due to outsourcing gives a number of benefits. For instance, this makes the companies adaptable to different cultural settings. This also supports the industry's market growth at the global level.

5.15. Conclusion

Globalisation is an indestructible trend that provides significant benefit to many nations. Among these advantages include the improvement of various economic aspects, enhancement of organizational processes and development of communication channels. However, Globalisation also causes a number of negative outcomes, particularly among some developing nations. Whereas on the other hand some developing nations have utilized this concept to gain financially and have become forces to contend with at the international level. The gains of such countries being so immense, that at present countries like China, India and Brazil are considered to be some of the strongest economies in the world.

Inequality, discrimination and heightened poverty are some of the downsides of Globalisation. At the organizational level, Globalisation also provides dual effects; in general, it benefits the company operators and negatively affects the employees. While Globalisation may not be a perfect strategy for worldwide economic success, it is essential that efforts to uniformly distribute its benefits are employed. In conclusion, both developed and developing nations should work together to overcome the impacts of Globalisation.