

## II TRADE IN A GLOBALIZING WORLD

### A INTRODUCTION

Economic integration is proceeding across the world at an unprecedented pace. Globalization has brought enormous benefits for many countries and citizens. But some have been on the losing end of the process, and opposition to further integration is mounting for a multitude of reasons. Trade is just one aspect of globalization, and links with broader economic, political and technological forces are manifold and complex. Certain arguments against open trade are fuelled by a variety of factors – including a general fear of change – that have little to do with further trade opening. Governments responding to anti-trade pressures stemming from anti-globalization arguments risk making poor policy choices. Trade scepticism is clearly a cause of concern, particularly at a time when WTO members are striving to complete the Doha Round. At this crucial juncture, it seems appropriate to revisit the case for trade and to ask ourselves whether the traditional arguments in favour of free trade are still valid.

It is time to remind ourselves what trade can contribute, which seems to have been forgotten in some quarters, but also to be candid about who has benefited and by how much. Among the questions explored in this Report are whether countries have exploited their comparative advantage, realized economies of scale from access to larger markets, organized their industries in a more efficient manner, and benefited from the spread of technologies. The Report will explain the rationale underlying pro-trade arguments against the background of both well-established and newer theories about sources of trade gains. It will also examine available evidence to test various theories about these gains.

The Report will argue that the benefits from trade have not been evenly distributed. Comparative advantage may be meaningless if the costs of shipping a product are higher than the costs of producing it. The overall gains for a country will matter little to those who lose their jobs as a result of specialization driven by trade. These people may have difficulties in taking up positions in expanding sectors because they are not adequately trained. The poor may be particularly vulnerable, since they do not have the means to ensure a smooth transition from one activity to the next.

Industries do not spread their operations evenly across countries, but tend to concentrate in particular locations. These dynamics can be self-reinforcing, leading to agglomeration in some places and de-industrialization in others. At the same time, with reductions in transport and other trade costs, production processes can be split up into more and more individual steps. This has allowed firms in remote locations to become leaders in specialized activities and to join international production networks. Others remain outside these networks, often due to institutional, administrative and other constraints.

Policy-makers must address these issues if they want to allay public fears about trade and to allow nations to benefit from the considerable gains that can result from trade. Action complementary to trade-opening is needed at the national level, but some policies require multilateral coordination. Moreover, policies designed to reduce trade barriers should not prevent governments from taking appropriate flanking measures. A final section of this Report will contemplate how well the WTO is equipped to defend the trade-related gains from the globalization that the WTO itself has partly helped to create, while at the same time addressing appropriately the anxieties created by trade expansion.

### Structure of the Report

Section B of the Report describes and analyzes the key elements of today's global integration process, its principal driving forces and some of the worries about the costs and benefits of globalization. While globalization is more than just trade, it is shown that trade has been a major part of the process and that a complementary relationship exists between trade and other elements of economic integration.

Section C re-examines the gains from trade. It explains the rationale underlying pro-trade arguments and examines their theoretical underpinnings. It also examines available evidence in regard to the realization of such gains.

Against the background of an understanding of the benefits that trade has to offer, Section D focuses specifically on countries' participation in

international trade. It examines the evidence of falling trade costs and two apparently contrasting patterns in international trade, the geographical concentration of production in some parts of the world and the fragmentation of production across numerous regions. This section attempts to clarify how widespread these phenomena are and what the specific concerns may be, especially for developing countries not taking part in this process.

Section E examines the distributional consequences of liberalization and the resistance to further trade opening that this may trigger. It analyzes how trade is likely to affect the distribution of wealth within economies in the long-run as well as the short-term adjustment process following trade reform. Another

part of this section deals with the link between trade and poverty and analyzes how the most vulnerable groups in society are affected by trade liberalization.

Finally, Section F deals with the challenges arising from more open trade and the flanking policies required to cope with them. Challenges include the supply constraints faced by developing countries and the need to further reduce trade costs, the need to manage the social consequences of trade liberalization and the relationship between trade and technological progress. While most measures need to be taken at the national level, the section will discuss the role that international cooperation, and the WTO in particular, can play.