

# GLOBALIZATION AND TRADE WAR

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## Abstract

The effect of globalization has always been a subject matter of research especially on its impact on developing and least developed countries. Various studies and reports concentrate on the various benefits as well as challenges posed by globalisation with reference to developing as well as least developed nations. However, the antipathy and prejudice towards globalization is not limited to developing and least developed countries but is also present among developed nations for varied reasons.

Developed nations especially countries like United States of America tend to tighten their national policies with regard to trade on the ground that such developed and industrialised economies have upon the advent and growth of globalization lost a major and substantial portion of labour intensive manufacturing corporations from their countries. This is mainly because globalization and various organisations such as World Trade Organisation have focussed only on the free movement of goods and capital but not free movement of labour. This has resulted in the shift of labour intensive manufacturing companies from industrialised economies to developing economies where labour cost and all related factors are lower has developed economies. This has led to wide discontent in many developed countries as well as disparity between various developed countries. The paper shall discuss the various reasons and grounds for discontentment of globalization among the developed nation with specific reference to labour intensive manufacturing sector, thereby leading to trade wars among nations.

**Keywords:** Globalization, Developed Economies, Developing Economies, Labour Costs, Discontentment with Globalization, Manufacturing Companies.

## Introduction

Globalization can be defined as the process of international integration of goods, technology, labour and capital. Globalization leads to creation of a global economy wherein various actors to the concept such as corporations, firms and financial institutions operate in a transnational manner.<sup>1</sup> This transnational pattern of actors is presumed and expected on the basic premise that in a globalised world, factors of production of good or an asset is similar and every product or asset would be perfect substitutes all throughout the world. It is due this basic premise of globalization that international trade has developed itself upon the advent of globalization. Thus, one of the major functions of globalization has been to improve international trade and the same has been achieved by ensuring that the various obstacles to trade and free movement of goods and services are removed, improving the ability of domestic producers to build a strong position in the international division of labour and also to harmonize the rules and standards with regard to labour, products, technology, safety etc.<sup>2</sup>

The growth of international trade necessitated the need for international organisation and international rules to ensure that there is uniformity in standards and regulations, to avoid barriers to trade and also to ensure that there is equitable distribution of resources and wealth. It is in such circumstances that the General Agreement on Tariffs and Trade (GATT) as well as World Trade Organisation came into existence. But despite the various measures adopted, it was seen that there was inequitable distribution of wealth and it was the developed economies that benefited from the globalization of trade.<sup>3</sup>

However, despite the fact that developed and industrialised nations/countries were being benefited from globalisation there has been a tendency of rising anger that has sprouted from these developed nations against the movement of globalisation. This is because globalisation induced a binary evolution of national economies that created inequalities within even developed/industrialised economies, fuelling an upsurge in nationalist

<sup>1</sup> Benedict Oramah and Richman Dzene, 'Globalisation and the Recent Trade Wars: Linkages and Lessons', Global Policy Volume 10 . Issue 3 . September 2019, p-401.

<sup>2</sup> Peter Van Den Boscche, 'Law and Policy of the WTO, Text, cases and materials', 2nd edition, Cambridge University Press, p. 37.

<sup>3</sup> Ibid, p. 42.

feelings, prejudice and overall antipathy against globalisation. This has led to creation of trade wars between nations the most recent being the one between United States of America and China.<sup>4</sup> The paper shall look into the various factors that led to such upsurge between United States and China and the role of globalisation in creation of such upsurge between nations.

## Globalization and Trade

The history of globalization and trade can be traced back to the silk route, however, it was after the World War II that the concept of international and globalized trade gained momentum with the creation of the General Agreement on Tariffs and Trade (hereinafter referred to as 'GATT'). GATT played an important role in reducing the various barriers to trade which were created by way of tariffs, however it proved to be unsuccessful in the process of negotiating and reducing the non-tariff barriers to trade thereby leading to the creation of the World Trade Organisation (hereinafter referred to as 'WTO').<sup>5</sup>

The various advocates of international trade and investment liberalisation that was kicked off by GATT and widened with WTO argued that globalised trade and investment would lead to convergence and there would be equitable distribution of resources and wealth. This would imply that the disparity between the rich and poor countries would reduce and there would be equitable growth of all the nations of the world. Equitable growth and distribution of wealth among nations of the world was based on the premise that there would be transfer of capital, labour and technology among nations leading to higher efficiency gains, faster capital accumulation and higher productivity across the nations participating in international trade and investment.<sup>6</sup> The efficiency gains were expected to be derived from: (1) increased trade which would foster specialisation, enhanced competitiveness and more uniformity in prices; (2) greater capital mobility which would re-enforce the gains from trade. In addition, it was thought that globalisation would allow savings to be pooled and enable a more efficient international allocation of capital across boundaries and sectors. It was thought that developing countries would benefit as capital would move from low return, capital-rich developed economies to high return, capital-scarce developing economies; and (3) transfer of technology and management skills based on relative returns across sectors and geographies.<sup>7</sup>

However, after nearly 25 years of such globalized trade various studies have proven the fact that there even though there has been substantial reduction of poverty levels, globalised trade has not been able to reduce the disparity between rich and poor countries and it is the developed and industrialised countries that have benefited from globalised trade and investment.<sup>8</sup>

Globalization cannot be said to have no effect on developing countries for there have been various reports that indicate that almost a billion people are estimated to have been pulled out of poverty, largely in Asia, due to globalisation. Similarly, the recent technological advancements, product innovations and the emergence of global value chains are attributable to the 'borderless nations' created by globalisation. For developed countries, benefits of globalisation include greater access to developing markets, increased economies of scale and scope, productivity growth, job creation and access to raw materials (natural resources). As for developing countries, globalization of trade has led to improved access to technology and capital/financial flows that have helped raise productivity, standard of living and also helped reduce poverty.<sup>9</sup>

## Globalization and Developed/Industrialised Economies

While it can be stated that globalization has had an effect on developing economies and has helped developing economies, the general presumption and reports still state that globalization has been more beneficial to the industrialized/developed economies leading to greater inequality and conflicts between the developed and developing or least developed nations.

<sup>4</sup> Stiglitz, J. E., 'Globalisation: Time to Look at Historic Mistakes to Plot the Future', 2017, available from: <https://www.theguardian.com/business/2017/dec/05/globalisation-time-look-at-past-plot-the-future-joseph-stiglitz>.

<sup>5</sup> Supra note 2, at p.76.

<sup>6</sup> Supra note 1, at p. 402.

<sup>7</sup> Supra note 1, at p. 402.

<sup>8</sup> Stiglitz, J. E., 'Globalisation: Time to Look at Historic Mistakes to Plot the Future', 2017, available from: <https://www.theguardian.com/business/2017/dec/05/globalisation-time-look-at-past-plot-the-future-joseph-stiglitz>.

<sup>9</sup> *Id.*

The Industrial Revolution marked the beginning for almost all the developed countries to look for new markets so as to expand the markets for their newly industrialised goods and also to ensure that there are more job opportunities that are created for the citizens of such developed nations. The first step for expansion of the markets by the developed nations was the creation of GATT that ensured that the barriers to trade caused due to imposition of various tariffs were reduced allowing the developed nations to expand their markets to developing countries. GATT included various provisions regarding the Most favoured National Clause as well as the National treatment clause that ensured that there would be free flow of goods between nations. However, since GATT proved to be unsuccessful with regard to non –tariff barriers the WTO was formed in 1994 to ensure that the markets could be expanded without barriers caused by non-tariff barriers.<sup>10</sup>

Economists argue that during the introduction of GATT and WTO the developing nations were struggling to keep a balance between protection of domestic industries and the need for global recognition and expansion, whereas the developed economies enjoyed the fruits of the expanded horizon of their markets.

If this was the situation, i.e. if the industrialized and developed economies were actually only benefitted from the facets of globalization, why is it that countries such as United States of America (hereinafter referred to as ‘US’) have constantly been in trade wars with various other developed and developing nations?<sup>11</sup>

The recent imposition of, and increases in, tariff levels on certain categories of imports reflects the US government’s discontent with the outcome of globalisation. This because due to globalization the developed nations especially US has lost its labour intensive companies to the developing countries. This is because the developing countries that were rich in human resources, especially the Asian countries were able to provide cheap labour in return for capital investment within the countries.<sup>12</sup>

The US government by instituting nationalist and protectionist measures, hoped to force the return of manufacturing jobs, especially of the labour-intensive type, back to the US. Over the last three to four decades, it is estimated that close to 800 US companies have either relocated or have shifted significant proportions of their operations abroad.<sup>13</sup>

Thus, the globalisation-induced dichotomous evolution of national economies has not only created a disparity between the developed and developing countries but has also created inequalities within industrialised economies, leading to prejudice, intolerance and overall antipathy against globalisation.

### **Globalization and Labour Intensive Manufacturing Sector**

The foregoing issue leads one to think as to why have the labour intensive manufacturing sector left countries such as US concentrated on Asian and other developing countries. The answer lies in the manner of implementation of globalization across the world.<sup>14</sup>

Globalization strived to achieve free movement of goods and all such factors of production including the labour required for production of such goods. Introduction of GATT and WTO ensured free movement of goods and capital however, the major factor of production being labour was not within the scope of GATT or WTO. This being the situation, the movement of labour, especially low skilled labour, was available only in developing countries and could not be moved or transported to developed countries. Similarly, labour was cheap in such developing countries thereby increasing returns of the industries that focussed on labour intensive jobs in developing countries.

Labour-intensive manufacturing left the higher-cost, industrialised economies to lower-labour-cost, developing economies. The return to investments was much higher in developing countries making it possible for them to attract capital from capital-rich industrialised economies. Similarly, because globalisation made

<sup>10</sup> Peter Van Den Boscche, ‘Law and Policy of the WTO, Text, cases and materials’, 2nd edition, Cambridge University Press, p. 45.

<sup>11</sup> Benedict Oramah and Richman Dzene, ‘Globalisation and the Recent Trade Wars: Linkages and Lessons’, Global Policy Volume 10 . Issue 3 . September 2019, p-403.

<sup>12</sup> BLS (2011) ,US International Comparisons of Hourly Compensation Costs in Manufacturing [Online]. Available from: [https://www.bls.gov/fls/ic\\_hcc.htm](https://www.bls.gov/fls/ic_hcc.htm).

<sup>13</sup> Supra note 11.

<sup>14</sup> Stiglitz, J. E., ‘Globalisation: Time to Look at Historic Mistakes to Plot the Future’, 2017, available from: <https://www.theguardian.com/business/2017/dec/05/globalisation-time-look-at-past-plot-the-future-joseph-stiglitz>.

the movement of goods across borders easier, labour-intensive manufacturing activities, as expected, moved from developed to developing countries to produce at lower cost and export to their home markets.

The shift of labour intensive manufacturing sector will keep shifting from developed/industrialised nations to developing countries until the free movement of low skilled labour is introduced and implemented in the same manner as free flow of goods and capital.

Similarly, a key presumption of globalization was that the goods and factors of production are the same all throughout the world and they could be perfectly substituted. If this assumption was true, the labour displaced in labour-intensive manufacturing in industrialised countries would have moved to satisfy the high labour demand in the hi-tech industries of their respective economies.<sup>15</sup> This did not happen due to labour market rigidities and absence of perfect substitution. This means that the kind of labour required for each product varies and cannot be perfectly substituted, leading to widening of inequalities within countries.

The various retaliation measures imposed by US would not guarantee the return of manufacturing sector jobs due to the reason that the legislated minimum wage and other factors of labour are much higher in developed countries rather than in developing countries, inducing the labour intensive manufacturing sector to stay and pursue in developing countries.

Similarly, even with the advent of advanced and new technology, manufacturing activities are more cost effective and competitive in developing markets rather than developed markets. Further even if manufacturing were to return to the US, the jobs would not. Advanced technology, including robots, means that the few jobs created will require higher skills and will be placed at different locations than the jobs that were lost.<sup>16</sup> Thus, the industrialised economies could retain their supremacy in the provision of key services and manufacturing activities requiring highly sophisticated technologies that are only available in their markets. As these technologies diffuse and become standardised, the jobs will move to other regions capable of producing these goods and providing these services. The industrialised economies will only be able to retain their leadership through continuous innovation and product development.

The conditions that drove manufacturing jobs from advanced countries into China are also beginning to drive the exodus of such activities from China to other developing countries. Labour costs are beginning to rise in China to levels that threaten their competitiveness. While labour costs in advanced economies have remained stable, they have risen substantially in countries like China and India. The near equalisation of wages between major economies in Asia and the OECD has led to the consequences that labour-intensive and low skilled manufacturing jobs are beginning to move to countries in Africa and other parts of Asia with abundant supply of unskilled labour.<sup>17</sup> As happened with advanced economies, many Chinese companies are relocating their labour-intensive manufacturing activities to parts of Africa. Ethiopia alone is a beneficiary of 400 Chinese-owned projects valued at about US\$4 billion.<sup>18</sup> The rise in China's investment in light manufacturing activities in Africa is expected to continue in the near future.<sup>19</sup>

## Conclusion

Globalization has played a very important role in growth and development of international trade. It has created a lot of benefits to both the developed and developing nations. However, unlike popular presumption, all's not well for the industrialised nations with the advent and growth of globalization and trade. The industrialised and developed economies have not only benefited from globalization but also have their fair share of struggles and prejudice towards globalization. The same has arisen due to the shift of the labour intensive manufacturing sector towards developing nations from the industrialised economies. The cheap labour costs and related

<sup>15</sup> Benedict Oramah and Richman Dzene, 'Globalisation and the Recent Trade Wars: Linkages and Lessons', Global Policy Volume 10 . Issue 3 . September 2019, p-403.

<sup>16</sup> Stiglitz, J. E., 'Globalisation: Time to Look at Historic Mistakes to Plot the Future', 2017, available from: <https://www.theguardian.com/business/2017/dec/05/globalisation-time-look-at-past-plot-the-future-joseph-stiglitz>.

<sup>17</sup> Benedict Oramah and Richman Dzene, 'Globalisation and the Recent Trade Wars: Linkages and Lessons', Global Policy Volume 10 . Issue 3 . September 2019, p-403.

<sup>18</sup> Benedict Oramah and Richman Dzene, 'Globalisation and the Recent Trade Wars: Linkages and Lessons', Global Policy Volume 10 . Issue 3 . September 2019, p-404.

<sup>19</sup>*Id.*

factors of labour in developing nations provided better return to investments with regard to manufacturing sector that led to the shift.

The shift arises from the fact that globalisation and their effects on trade has only ensured free movement of goods, services and capital and not labour. An effective scheme/legislation that ensures uniform standard of factors with regard to labour might bring back the labour intensive manufacturing sector back to the industrialised economies. But the creation and implementation of such international schemes of labour would compromise aspects of national sovereignty and would also include various aspects of human rights, labour rights and various other factors. Thus, the full benefits of globalisation would be realised only, if all factors of production including labour were allowed to move freely without restrictions.

