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THE EFFECTS OF GLOBALIZATION ON THE FOREIGN TRADE

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Abstract

Dealing extensively with the effects of globalization, we intend to prove that this process greatly influences the development of foreign trade. It's obvious that all the efforts directed towards the development and promotion of the state's, society's or firm's trade must contribute to the development of foreign trade worldwide. The current context of globalization requires radical changes both in the way of its involvement in the world trade and in the export sector, at the company or firm group level as well as in the way the institutions support companies in implementing the best solutions to create and maintain certain competitive sustainable advantages.

Key words*: *export, foreign trade, globalization, market

INTRODUCTION

Addressing globalization, at least in terms of international economic development during the last decades, cannot be conceived without taking into account the crucial relationship between this phenomenon and international trade. But the meaning of determination isn't clear, since the two phenomenological categories are dynamically interrelated and influence each other, at different stages and degrees, according to a set of given global realities.
In this context, the study of foreign trade in terms of integration and globalization processes, with all the chances and opportunities they bring, but also with so many imposed challenges, represents a necessity that requires a vast space of investigation in this area.

MATERIALS AND METHODS

During the investigation there were used such research methods as: analysis, monographic, statistic as well as other methods and procedures that allowed revealing the essence of the investigated problem.

RESULTS AND DISCUSSIONS

Globalization is a complex phenomenon that describes at the same time, both the economic phenomena and their political, social, etc. consequences. The economic aspect of globalization can be specifically measured by the size of the flows of goods, services, capital and labour force.
It is considered that the term **globalization** has its origins in the literature devoted to multinational companies, first designating a limited phenomenon, further expanding its meaning up to identifying itself with the new phase of global economy.
1. In 1983, *Theodore Levitt* proposed this term to denote the convergence of markets worldwide. The two factors modeling the international economic relations modelers are globalization and technology. "Global Society" acts as if the whole world (or its main regions) constitutes a single entity: selling the same things, in the same way and everywhere. The company, also, adapts itself to the national specific features if it failed to handle and recompose specific demands. The term applies especially in the management of multinational companies and only concerns international trade.(2)
2.In 1990, *Kenichi Ohmae* extended the concept to *the totality of a chain of value creation* (design/engineering, production, marketing, service, finance). In this case, the company creates its international sale services, then it produces locally and subsequently it gives the full control of the value chain to the

subsidiary. This process leads to the emergence of a new stage - global integration - which occurs when firms from the same group manage their finance departments of investment and staff recruitment at international level. In this case, globalization means some form of management, globally integrated, and specific for multinational companies.(3)

3.The third definition focuses on *redefining the rules of the game*, rules previously imposed by the nation-states and which are reshaped at present by the multinational firms. By this definition we move from the internal management plan of companies to the international system architecture. The definition evokes ongoing developments but not the final state of the international system.

4.Finally, according to the fourth definition, globalization means *a new configuration of the international economy*. If once the economy was inter-national and respectively determined by the interaction of several processes that took place especially at the level of the nation-states, the current period is specific for globalizes economy in which national economies are decomposed and then rearticulated within a system of transactions and processes operating directly at international level. The definition emphasizes the qualitative leap compared to previous stages: the nation-states and governments lose their capacity to influence the development of national economies being replaced by certain regional entities representing supports in the multinational network. In addition, this interdependency between the territories subject to this model grows so powerful that lead to synchronous developments, if not identical, at least homogeneous.

According to OECD estimations, there have been *distinguished three stages of globalization*:

1.the first phase, **internationalization**, took place in the first three postwar decades and it is characterized by the intensification of trade, the world countries preserving their national character;

2.the second stage, **transnationalization**, specific for the period 1970-1990, is characterized by an extraordinary dynamism of the foreign investment flow and foreign implantation;

3.the third stage, **globalization itself**, which begun in 1990's and marked the emergence of borderless economy or global economy, is characterized by the emergence of global production, information and financial exchange networks (flows).

Often in the specialized literature, we can find the use of the concept "**mondialisation".** Although, apparently, the terms are similar, they are still used in different contexts: "*mondialisation"* – to emphasize the geographical dimension of the process and *globalization* - to emphasize the existence of the world as an organized geo-economic system.

From an economic point of view, **the goal of globalization** is to increase profits and keep alive various firms for which the national space is insufficient, because of increased research and development costs, shortened product life cycle, increased quality requirements etc. The globalization of economic life offer advantages arising from the differences existing between the economies of the world countries, differences which constitute the source of profits. In order to improve these advantages, the geographical mobility of firms increased greatly, while the *relocation* of production representing an aspect of contemporary realities.(1) It is considered that *economic globalization will be formally completed* when the goods, services, capital and labour force achieve completely free circulation and local governments and authorities from any country begin to treat equally the firms irrespective of nationality or origin. In other words, the process will end up when the differences between the economies of the world countries don't generate sufficient benefits in order to allow profit. Given that this situation is still far, it is expected an intensification of the globalization process.

The most important factors acting in favour of globalization are the following:

1.*technical progress*, which allowed the increase of a range of products, reduction of the transportation costs, increase of the speed, safety and quick transmission of information etc. Internet development represents, from this point of view, a decisive factor in the globalization process;

2.*liberalization of international trade and international investment,* which has enabled the development of international trade with fewer barriers, to this positive development contributing decisively the GATT/WTO system.

3.*liberalization of capital markets,* allowing the increase of FDI and transnational companies. Multinational and transnational firms have an important role in the process of globalization.

Analyzing the works of various experts in this field, we concluded that they were basically divided into two groups. Half of them are for globalization and another half - against globalization. Further, we'll try to highlight briefly the conclusions regarding *the pros and cons of globalization.*

Globalization is a favorite topic of right liberal circles, which consider the market as the sole regulating factor of economy, both nationally and internationally. Expressing, as a rule, the position of large international companies and international corporations, we can say that they support unlimited growth of international trade, rapid movement of the scientific and technical achievements and access of all countries to financial resources for development.

On the other hand, economists and left political scientists envisage the social dimension of globalization, considering globalization as a process of distributing the economic power, widening economic disparities and social differences worldwide. Globalization leads to greater economic and social inequalities, both nationally and internationally, enhances competition, but also unemployment, intensifies unprecedented growth of the role of capital markets in relation to the power of national administrative bodies, fact which affects national sovereignty.

Without seeking to provide a categorical answer, choosing between the two points of view, we can only mention the need that this process takes place based on *rules valid for all participants in the international economic flows, in order to ensure a more equitable share of the globalization results.* The globalization process has been accelerated lately by the *deregulations of capital movements* and by the opening of the vast majority of world countries to the market economy, manifested above all, through the *diversification of economic internationalization forms.* The oldest form of internationalization is the ***global trade,*** and in this respect we distinguish two types of trade. (1)

1.The first type of trade is based on the *complementarity of national economies,* the specialization of each of them being found in external trade balance, sometimes showing a surplus, sometimes showing a deficit, depending on the comparative advantage highlighted by the relative differences of the achieved productivity.

2.The second type of trade is based on *the similarity of economies* that have the same level of development, the intersection of the export and import flows being materialized in the intra-sectoral or intra-productive exchange (it regards especially the manufactured goods produced in a regime of monopolistic competition).

A newer form of internationalization is represented by the **foreign direct investment** (FDI) coming to meet new requirements, such as:

• inability to produce sufficient quantities of goods in the origin countries, especially in the primary sector, because of the scarcity of natural resources;

• inability to sell sufficient quantities of goods in the destination countries because of the existence of protectionist barriers (in the secondary sector);

• the ability to better meet the demand in the countries of implantation, especially in the developed countries, where production subsidiaries allow maximum closeness to sale markets;

• the opportunity to benefit from macroeconomic comparative advantages in the

countries of implantation, particularly in the developing countries due to low labors costs.
In developing countries, FDI pursued not only the access to natural resources or to protected markets but also the benefit derived from macroeconomic comparative advantages.
The most recent form of internationalization consists in the emergence of so-called "enterprise networks" as it became more convenient to conclude and develop contractual relationships with partners who operate in the countries of implantation (usually the countries with a continuous industrial development) rather than create production subsidiaries controlled by a powerful structured and hierarchical system. This system, called *the partnership system*, has many advantages, allowing simultaneously the reduction of capital contribution and number of expatriate staff, and also easier management of the problems encountered locally.
In conclusion, the process of *firm internationalization and international movement of capital* is among the most obvious manifestations of the world economy globalization, being marked both by the state decisions (deregulation measures) and by the technological changes that allow the instantaneous dissemination of information and reduction of costs.
According to a holistic view on the evolution of market and conditions of costs, certain enterprises take into consideration only their own interests, locating production (directly or indirectly) inside different countries. Thus, the concept of *"internationalization" of firms* represents an evolutionary process in which *national productive systems* tend to merge into *a single world production system.*
The growth of international trade has always been faster than global economic growth, at least in the last 250 years, except for the period 1913 -1950. Between 1720 and 1913, world trade growth was about one and half times higher than that of GDP. Weak GDP growth between 1913 and 1950 - the period with the lowest average economic growth after 1820 - was accompanied by an even smaller growth of the international trade, hampered by war and protectionism. During this period there was the Great Depression (1929-1933), when the volume of international trade decreased by about 60%, representing an unprecedented contraction of trade in modern times, the countries trying to overcome their own economic crisis and unemployment through protectionist barriers.

Table 1. The rhythm of export growth
(annual average in %)

	1960-1970	**1970-1980**	**1980-1990**	**1990-2000**	**2000-2006**
World	9.2	20.5	6.0	6.7	11.8
Developing economies	6.7	26.0	3.1	9.1	12.9
Africa	8.6	21.6	-1.7	4.7	14.3
America	5.6	20.9	1.7	7.0	8.4
Asia	6.3	30.2	4.7	10.5	13.7
Oceania	11.2	13.5	4.3	2.9	9.3
South-East Europe	8.5	18.1	2.2	8.2	7.4
Developed economies	10.1	19.0	7.6	5.7	11.2

Source: *UNCTAD*, **(**United Nations Conference on Trade and Development) *Development and Globalization: Facts and Figures*, 2008

The average growth rate recorded in the period 1960-2006 of 10.72% produced no significant changes in the share of developed countries in total world exports, but led to significant changes in the case of developing countries, whose share in world exports increased from about 3.1% in 1980-1990, to about 13% in 2000-2006.
Over the last 50 years, international trade has increased obviously faster than production, fact which increased the dependence of global economic activity of countries on the international trade. The average annual exports of goods increased by about 6% between 1948 and 1997 while the average increase in production was only 3.7%. In other words, trade has multiplied 17 times (physically, not in value) while production increased by only 6 times, in the same period of time. As for manufactured products, trade increased 30 times, while production only 8 times. During the period 1995-2000, the growth rate of world exports was over two times faster than world production, but this trend didn't maintain in the next years.

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Referring to the volume of goods exports by regions (Table 2) we can remark that the largest share of this volume during the period 2003 - 2011 belongs to such regions as: Western Europe, Asia, North America, the other regions recording insignificant shares.

Table 2. The volume of world goods exports by region in the period 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
World (billion dollars)	7274	8880	10121	11762	13570	15775	12147	14855	17779
World (%)	100	100	100	100	100	100	100	100	100
North America	13.7	14.9	14.6	14.2	13.7	13.0	13.2	13.2	12.8
Latin America	5.2	3.1	3.5	3.6	3.6	3.8	3.8	3.9	4.2
Western Europe	43.2	45.3	43.0	42.1	42.5	40.9	41.1	37.9	37.1
Africa	2.4	2.6	2.9	3.1	3.1	3.6	3.1	3.4	3.4
Middle East	3.9	4.3	5.2	5.5	5.3	6.6	5.7	6.2	6.9
Asia	26.1	26.9	27.4	27.8	28.0	27.6	29.4	31.5	31.1

Source: *WTO (World Trade Organization) report for the period 2004-2012*

All these global values hide ***significant differences among regions***.

The share of Asia in 2011 compared with the year 2003 increased by 5 percentage points (from 26.1% to 31.1%), the share of Middle East by 3 percentage points, while the share of Western Europe fell by more than 6 percentage points (from 43.2% to 37.1%) and North America basically maintains the share of about 13%. Latin America also recorded reductions of 1%, while Africa recorded an increase of 1%.

Western Europe increased slightly in 2003 and 2004 (from 42.4% in 2002 to 43.2% in 2003, then to 45.3% in 2004), and since 2005, the share of this region fell relatively reaching 37% in 2011.

However, it should be noted that, despite the relative decline in certain geographical areas, the absolute value of their external trade increased.

Similarly, the structure of international trade changed profoundly over the considered period, especially in regard to agriculture. The export of agricultural products represented almost 47% of total exports of goods in 1950 and only 6% in 2005. The manufactured products, which represented 38% of exports in 1950 fell to 34% in 2005. The share of extractive industries in total exports of goods remained much more stable, the variations being conditioned by price fluctuations, mainly for oil and other energy products. Industrial products, however, are those that dominate international trade structure, thus reaching a share of over 70% in 2005.

Another notable trend can be also recorded at the level of exports of merchandise and services.

Table 3. World exports of merchandise and commercial services in the period 1990-2011

	Value (billion dollars)	Annual percentage change		
	2011	1990 -2000	2000-2005	2005-2011
Merchandise	17.779	6.5	10.0	10.0
Commercial services	4.149	6.5	10.0	9.0

Source: *WTO Report for the period 2001-2012*

Thus, if in 2002, world exports of merchandise constituted 6270 billion dollars, in 2011 it reached 17,779 billion dollars, or about 80% of the world trade. As for the trade in commercial services, in 2002 it exceeded 1500 billion dollars reaching in 2011 the sum of 4149 billion dollars, or about 20% of the world trade. It should be noted that these figures relating to international trade in services applies only to cross-border trade, without including the sales made by foreign companies existing in the importing countries.

Lately, globalization has been associated with the increase of private capital flows towards the developing countries (during the 90's) after a period characterized by low capital movements in this direction, in the 80's. In recent years, the structure of private capital movement changed significantly. The most important category is represented by foreign direct investment, while portfolio investment and bank credits have fallen dramatically as a result of the financial crisis in the second half of the tenth decade.

The figures regarding *the flow of foreign direct investment* (FDI) confirms this intensification of the international economic interdependence.

Table 4 . The flow of foreign direct investment (billion dollars)

	1970	1980	1990	2000	2001	2002	2005	2006
World	12.9	54.9	208.7	1411.4	823.8	651.2	945.8	1305.8
Developing economies	3.4	8.4	36.9	246.1	209.4	162.2	314.3	379.0
Africa	0.9	0.4	2.4	8.5	18.8	10.9	29.6	35.5
Latin America	1.6	7.5	9.7	95.3	83.7	56.0	75.5	83.7
Asia	0.8	0.4	24.3	142.1	106.8	94.9	208.7	259.4
Oceania	0.14	0.12	0.56	0.12	0.16	0.14	383	339
South-East Europe	...	0.03	0.64	26.37	25.01	28.71	15.1	26.3
Developed economies	9.5	46.5	171.1	1120.5	589.4	460.3	590.3	857.5
North America	3.1	22.7	56.0	380.76	172.78	50.62	129.9	244.4
Europe	5.2	21.4	103.3	709.9	400.8	384.4	494.9	566.4

Source: *UNCTAD, Development and Globalization: Facts and Figures,* 2008

As we can see, during a period of 35 years, the flow of FDI has multiplied about 100 times, from about 13 billion dollars to about 1.306 billion dollars.

In 2006, global FDI inflows rose for the third consecutive year to reach 1.306 trillion dollars, close to the record level of 1.411 trillion dollars reached in 2000.

The growth of FDI occurred in all regions and was partly driven by increasing corporate profits worldwide and resulting higher stock prices that raised the value of cross-border mergers and acquisitions.

While FDI inflows in developed countries rose by 45 percent in 2006 from 2005, well over the rate of the previous two years, to reach 857 billion dollars, flows to developing countries attained record levels of 379 billion dollars.

The Europe as a whole remained the largest host region with 566 billion dollars accounting for 43 per cent of total FDI inflows in 2006, followed by North America with 244 billion dollars or an 88 per cent increase from 2005.

Regionalization of foreign trade, on the background of its increasing institutionalization, represents another consequence of the globalization process and a feature of the international trade flows. More and more regional agreements are negotiated within WTO, and the existing ones tend to strengthen their position.

Regional trade agreements (RTA) are intergovernmental agreements between two or more countries, in which the parties agree on certain favorable conditions for mutual trade, other than those applied to other member states of WTO.

According to WTO, there have been notified over 300 regional trade agreements, such as customs unions, free trade areas or other types of preferential arrangements and more than half are in operation today. The structure of these agreements is complex and many countries are now part of several agreements. Generally, small developing countries are involved in several commercial blocks (on average in 3 agreements). For these countries, the chances are higher for regionalization rather than for globalization. Switching from the apology of import substitution strategy to the large regional markets that can provide increased protection, along with the access to an increasing number of consumers is one of the main motivations of these countries choice. International trade represents a more important factor in the economic development for small countries rather than for large countries. Therefore, for them, regionalization is a more effective integration method into the global economy. Most agreements of this kind are between developed countries, especially the European ones (60%), while the developing countries account for a smaller share (15%). The rest are agreements involving both categories of countries. EU expands increasingly, the Asia - Pacific area emerges increasingly as a future economic power while African continent countries strive to form functional groups, all sustained by WTO effort to ensure a more developed free trade.

RTA are considered complementary to the multilateral trading system. At the same time, their effects on trade liberalization and economic growth are not clear, and experts' opinions about their economic impact are often contradictory. But whatever the conclusion, the advantages expected by the signatory countries can be questioned if the distortions are not minimized in resource allocation, as well as trade and/or investment diversion effects. Certainly, the economic impact of an RTA depends on how it was designed, its architecture, the way its internal parameters were chosen, especially those concerning the liberalization degree of trade.

CONCLUSIONS

Continuous development of the globalization process influenced and determined considerably global foreign trade performance, the absolute value of which increased significantly.

It was also noted that the increase of world trade exceeds the increase of world production growth. Due to these trends there is an increase of the dependency ratio of national economies on the global economy and an important growth of the foreign market, which obliges states to take measures of foreign trade liberalization. The liberalization of the international movement of goods, capital, services, persons, labors force and technology leads to the disappearance of commercial borders, but not of national borders.

We note that as an objective process, for trade liberalization and economic growth, is the adoption of common regulations by all states - agreements, treaties and conventions on the elimination of double taxation, favorable foreign investment regime, granting clause to the most favored nation, etc.

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