

TRENDS IN INTERNATIONAL TRADE INSTITUTIONS

Pasquale M. Sgro

School of Economics, Deakin University, Melbourne, Australia

Keywords: asymmetrical information, biodiversity, direct investment, environment, externalities, globalization, global economic organizations, industrial countries, intellectual property rights, labor mobility, labor services, migration, preferential trading arrangements, proportionality, regional trade, sustainable development, trade composition, trade dissemination, transparency.

Contents

1. Introduction
 2. Trade Composition
 3. Global Economic Organizations
 4. The Environment and International Trade Agreements
- Glossary
Bibliography
Biographical Sketch

Summary

International trade continues to provide opportunities for growth and development in most economies. The phenomenal growth in international trade has been accompanied both by significant changes in existing international organizations concerned with trade, and by the creation of new ones. All these organizations evolve in response to the changing structure and composition of international trade. One particularly important manifestation of the latter is that, while trade in commodities remains extremely important for developing economies, for some developed economies trade in services is playing an increasingly vital role.

As the volume of world trade expands, pressure builds up to lower the barriers to trade in both goods and services. The GATT and GATS negotiations were an attempt to reduce barriers to trade in goods (GATT) and services (GATS) respectively. There has been more progress in reducing barriers to goods trade than in reducing barriers to services trade, partly because countries have only relatively recently concentrated on services.

The most important of the international organizations that have provided the framework for the liberalization international trade and the provision of financial aid for development purposes are the World Trade Organization (WTO), the World Bank (WB) and the International Monetary Fund (IMF).

The impact of liberalizing trade on the environment has been recognized, and a number of multilateral environmental agreements (MEAs) aimed at protecting wildlife, water and air quality, and biodiversity, have been signed. International trade agreements

should take into account assessments of environmental impact in order to minimize conflict between sustainable development and protection of the environment.

1. Introduction

International trade grew rapidly as a share of gross domestic product (GDP) in the decade 1990-99, in fact three times as fast as it had in the decade 1980-89. As well, regional trade among developing economies has flourished before and after the Asian crisis of the late 1990s. An examination of trade statistics will show that between 1979 and 1988, world output grew at an average annual rate of 3.4 percent while trade grew at 4.3 percent. Between 1989 and 1998, the growth in world output was an annual rate of 3.2 percent while trade expanded at 6.2 percent.

The increasing importance of trade has come about due to at least three reasons. First, the rapid improvements in transportation and communication technology make it easier and cheaper to reach new markets. Second, successive rounds of tariff and other trade barrier reductions have freed up trade in both developed and developing countries. Third, processing trade--trade involving goods where components cross borders more than once before reaching final buyers--has expanded rapidly.

Structurally, the composition of world trade has also changed, with commodities displaced by manufacturing, which now accounts for about 70 percent of world exports, and growth in services which has become the leading sector for foreign investment and export growth.

This growth in world trade has been caused by many factors such as trade liberalization, harmonized institutions and increasing competitiveness in many developing societies. A major influence is also the growth in the transnational network structure of much of the world's production. For example, the largest 100 transnational firms (excluding those in banking and finance) now account for about one-sixth of the world's productive assets.

There has also been an expansion of multinationals in the services sectors of banking, advertising, legal, freight, and credit, which have created a world system of production and business services, so much so that their geographic spread is erasing their national identities.

Along with this growth in world trade, the development of international institutions has also expanded to improve the efficiency of world trade, and to provide a safety net for developing countries and other countries facing economic crisis at various times.

These international organizations arose at various times in response to certain needs and as a way of overcoming the transactions, implementation, and enforcement costs, which are substantial. This is a Coase theorem-like argument for the evolution of these organizations.

The next sections will discuss changes in the composition of trade as well as the international infrastructure and institutions that have evolved to facilitate and ameliorate the effects of this growth in world trade on the environment.

2. Trade Composition

In the developed industrial countries, there has been a large expansion in trade in services. This has occurred partially in response to the shift of comparative advantage in the production of manufactured goods to Newly Industrialized Countries (NICs). Trade in services predominately involves financial services, insurance, telecommunications, transportation, computer, and professional services (e.g. architecture, engineering, and law). Services now account for about 60% of GNP in developed industrial countries, while trade in services accounts for 25% of world trade. (See chapter *International Economics, Finance and Trade*)

As a result of these developments, the reduction or elimination of barriers to services trade became a major priority in the Uruguay Round of GATT negotiations (1986-94). The General Agreement on Trade in Services (GATS) was included as an integral part of the Final Act of the Uruguay Round Table negotiations. GATS provides, for the first time, a rules-based multilateral framework for liberalization of trade in services, including movement of persons both as service providers and as consumers. The GATS agreement has a number of important principles to both protect and ensure acceptance of agreed-to rules and regulations. These principles are:

Transparency. Full information about all rules and regulations governing economic transactions should be given to all potential competitors to enable them to fully assess their costs and benefits.

Due process. Opportunity to comment and the right to pursue issues should be given to everyone affected by the proposed standards.

Proportionality. The cost of standards should be proportional to the regulatory benefit expected from their implementation.

Minimizing distortions of trade. The least trade-distorting method of achieving legitimate social objectives should be adopted.

National treatment. Regulations should be applied to both domestic and foreign products equally.

Mutual recognition of testing results. There should be mutual recognition of testing results with respect to the certification of technical standards and mutual recognition of applicable educational and professional experience with respect to the certification of professional experience by governments.

Despite the growth in world services trade, many developing countries remain highly dependent on commodities trade for employment and income. In general, there is dependence on a few commodities rather than diversification and commodity price instability has led to unstable commodity export earnings. However, since agriculture still remains their main comparative advantage, commodity based diversification offers the best chance for development. The competitiveness of developing countries in the international commodity market could be enhanced by the general reduction in

protection and greater cooperation and help from the developed countries would improve the supply reliability and quality. Agriculture will still be the main source of foreign exchange earnings for developing countries.

The growth in services trade has implications for migration management in both developed and developing countries. It is a source of job creation in labor abundant developing economies, where, by taking advantage of their low cost labor (which includes certain skill levels), these countries can provide organized export of labor services. Since temporary movement of persons can be a partial substitute for longer-term migration, it can serve both the interests of developing and developed countries. This does imply a need for the harmonization of special visa and migration regimes to facilitate, monitor, and manage trade-selected movements of service producers and consumers as distinct from longer-term migration for employment and permanent settlement.

The provision of most services demands close proximity in terms of both time and space, between the provider and the consumer. This implies for most services, delivery across countries cannot be completed without the movement of persons. There are, it should be pointed out, services that can be embodied in material objects and treated as goods. Illustrative examples include music concerts recorded on video, computer software on disk, or banking services provided via telecommunications systems.

In general, we can distinguish between two categories of exports of labor services. In the first category, there are workers who reside, work, and are paid abroad on specific assignments. In the second category, exporting firms combine management, technological know-how, and personnel, and provide their services as a package to the importing country. The globalization of the world economy along with outsourcing of services, transport, and communications, have widened the potential for export growth in this second category.

Trade-related labor mobility or access to markets by service providers is intimately related to the issue of licensing and certification requirements. Even if there are no immigration restrictions, the pressure of severe and non-transparent restrictions on the licensing of foreign professional and technical personnel can severely restrict exports. These restrictions can take many forms including requirements of nationality and residence, lack of recognition of degrees and denial of access to examinations for qualifications.

-
-
-

TO ACCESS ALL THE 14 PAGES OF THIS CHAPTER,
Visit: <http://www.eolss.net/Eolss-sampleAllChapter.aspx>

Bibliography

Anderson K. (1996). Environmental Standards and International Trade. *Annual World Bank Conference on Development Economics* (ed. M. Bruno and B. Pleskovic), pp. 317-338. Washington

DC: The World Bank. [This paper provides a useful discussion of the uses of trade measures to pursue environmental objectives.]

Conway T. (1998). A Framework for assessing the relationship between trade liberalization and Biodiversity Conservation. *Working Paper*, pp.72 International Institute for Sustainable Development Canada: UNEP. [This paper provides a detailed framework for assessing the impact on biodiversity of trade policies.]

Ghosh B. (1997). *Gains from Global Linkages*. New York: St. Martin's Press. [This book provides a detailed account of the development of the Services sector in international trade.]

OECD (1996). *Regulatory Reforms and International Market Openness*. Paris: OECD Proceedings. [This book provides a useful summary of the work on Regulatory Reforms within the OECD.]

Vines D. (1998). The WTO in Relation to the Fund and the Bank: Competencies, Agendas and Linkages. *The WTO as an International Organization* (ed. by A. O. Krueger) pp 59-96, Chicago: University of Chicago Press. [This paper and others in this edited volume provide a comprehensive summary of the various roles of the WTO.]

Biographical Sketch

Pasquale M. Sgro is Professor of Economics at Deakin University, Melbourne, Australia. He has held numerous teaching and research positions at universities and research institutions in Australia and overseas. His research interests are in the areas of international trade and economic development, on which he has published a number of books and numerous journal articles. He is founding co-editor of the *Journal of International Trade and Economic Development*, published by Routledge (UK).