



FREE TRADE: A COMPREHENSIVE STRATEGY IN A GLOBALIZED WORLD

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ABSTRACT

In today's scenario of the global economy, no country can be hailed as self-sufficient vis-a-vis the flow of information and goods. Each and every country is engaged in trade by selling its products, obtaining what it lacks and manufacturing more precisely in certain sectors than its rivals. This has emerged the need for scholars and researchers to comprehend the concepts of globalization, free trade, trade liberalism, trade protectionism, trade barriers, and international trade. However, the literature regarding the benefits of free trade, trade liberalism, globalization and the demerits of inward-looking economies is still evolving. Thus, the current review paper aims to highlight the impact of free trade and trade liberalization on the development of the world economy. Moreover, it aims to assess the effect of globalization on international trade practices and analyze the impacts of trade barriers and trade protectionism on world economies. The current study eventually believes that it is difficult for the inward-looking economies to sustain in the long run, thus the economies must adopt free trade practices and globalization to be successful in the competitive world.

Keywords: Globalization, Free trade, trade barriers, economic growth, trade liberalization, trade protectionism

Cite this Article: Rammohan Sundaram, Dr. Moe Saouli and Dr. Jinan Ziade, Free trade: A comprehensive strategy in a globalized world, *International Journal of Management*, 11 (4), 2020, pp. 255-261.

<http://www.iaeme.com/IJM/issues.asp?JType=IJM&VType=11&IType=4>

1. INTRODUCTION

In the era of technological advancement, globalization has attracted immense attention. Globalization has become an integral part of each and every aspect of any economy whether

people, state, culture, environment, legal systems, geopolitics, welfare and economic development (Jan, 2018). In the past few years, the sentiments of anti-globalization have increased significantly in the most developed nations of the world. This has considerably affected the BREXIT referendum in the UK and the results of elections in the US. Further, it has contributed to trade wars and tariff escalations between China and the US. These events prove to be contradictory in reference to the traditional belief that developed economies have achieved considerable positive gains due to globalization (Oramah & Dzene, 2019).

The concept of Globalization has been a topic of extensive debate in the past years as it has led to crucial changes in the political, cultural and economic aspects of countries on a global level. It is expected that globalization invigorates economic growth by introducing economies to global markets, instigating economic growth, technology transfer and indirect and direct foreign investments (Ulucak, 2019).

The introduction of free trade agreements (FTAs) has attracted the attention of various observers and trade policy analysts. Economists have always highlighted the demerits of trade barriers and the advantages of free trade. Almost two centuries ago, a popular economist Adam Smith argued that firstly, all the trade that takes place among different countries must be beneficial for the different parties involved and secondly, all customs, excise or duties must be removed, thus providing an opportunity of free trade and permitting exchange liberty in every single country (Irwin, 2020).

Many nations, particularly the developing ones have introduced various trade barriers due to the instability issues in international markets and protectionism. Various economists have underlined the benefits of free trade which has encouraged nations in the past few years to adopt free trade zones as a strategy for boosting economic growth and industrial development. The Free Trade Zones or the FTZs are recognized as the duty-free areas that extend facilities of storage, warehousing, operations of re-export, transshipment, and provisions for trade distribution (Bao, Dai, and Liu, 2020).

Trade openness, in the long run, is expected to enhance the growth of an economy by allocating the resources efficiently, dissemination of knowledge, providing accessibility to products and services and implementing technology in order to improve productivity. The countries practicing more trade openness have the potential to outperform the less open countries. Thus, the developing nations have immense opportunities to gain profits by improving their trade relationships with the more advanced nations (Keho, 2017).

Due to a plethora of opportunities related to globalization and free trade policies, the current study explores the benefits of free trade strategies for the development of the world economy. This paper also focuses on the disadvantages of trade protectionism and trade barriers. The study will give insight into the inward economies regarding the advantages associated with the digital transformation of business models.

2. AIMS AND OBJECTIVES

2.1. Aims

With globalization, the way economies trade has changed significantly with numerous benefits being availed by the countries. However, still, a few countries impose trade barriers and trade protectionism. Therefore, present study aims at reviewing the impact of free trade in the globalized world. Free trade can be considered as a conceptual policy wherein the governments do not impose any quotas on exports and taxes, duties or tariffs on imports.

2.2. Objectives

- To assess the effect of globalization on international trading practices.

- To analyze the effects of globalization and trade liberalization on economic growth.
- To inspect the influence of free trade on the development of an economy.
- To discuss the demerits of trade barriers and trade protectionism on world economies.

3. LITERATURE REVIEW

3.1. International Trade and globalization

The exchange of goods, services, and capital across international territories and boundaries in order to accomplish the wants or needs of products and services are termed as international trade. International trade occupies an enormous portion of Gross Domestic Product (GDP) in most of the countries and its social, political and economic significance has risen tremendously in recent years (Jones and Kierzkowski, 2018). International trade is a crucial aspect of the globalization process. Khandare (2019) analyzed the World exports between 1995 and 2006 and observed the export of goods and services had almost doubled to reach over \$14 trillion in the year 2006. Moreover, during the years 1990-91 and 2000-01, the exports and imports on a global level were enhanced by 143.09 % and 108 % respectively. This indicated that due to globalization, there was an increase in exports more than that of the imports.

The concept of international trade holds a significant position in the GDPs of various countries. Several firms belonging to different nations are searching for new opportunities for growth beyond the borders of their nations. International trade assists in stimulating crucial sectors of the economy like the ICT and the transport sector. Thus international trades play a significant role in organizations due to the prospects of profit growth, expansion of business and reducing the dependence on the conventional markets. International trade is an outcome of the process of globalization. This has enabled both the companies and consumers to select from a large range of services and products. The economic growth of the interconnected nations can now be stimulated by international trade (Surugiu & Surugiu, 2015).

Merette and Georges (2010) measured the economic effect of the demographic alterations in the globalized economy and its channeling consequences on distinct nations. However, it has been observed that critical demographic pressures lead to lower GDPs in various countries but globalization by International Trade has contributed to an improvement in trade and intertemporal trade gains for older OECD countries. Here, the real consumption per capita is sustained and on the other hand globalization by the flow of capital leads to the growth of countries and capital accumulation.

3.2. Effects of Globalization and Trade Liberalization on Economic Growth

Murat and Isaac (2019) analyzed the impact of globalization on the outputs of SMEs in Nigeria. The study was conducted using various statistical tools which revealed that globalization to a greater extent affects the performance of SMEs. Moreover, the study showed that the Nigerian government must support the export and import of SMEs services and products across borders and should encourage free trade or trade liberalization so as to improve the output of Small and Medium Enterprises in Nigeria.

Santiago, Fuinhas, and Marques (2018) investigated the effect of economic freedom and globalization on the growth of an economy by conducting a study on 24 developing countries belonging to the Caribbean and Latin America. The findings of the study revealed that globalization would affect the growth of the economy and the social and economic aspects of the economy in the long run. Whereas the political aspects of globalization did not adhere to any significant influences. Further economic freedom has a negative impact on the growth of the economy of these Caribbean and Latin American countries in the long term.

Alamro (2017) examined the influence of trade liberalization on the economic growth of Jordan by investigating the improvement in productivity and employment in Jordan. Two tests were applied- the Augmented Dickey-Fuller test and the vector error correction model. The results of the study revealed a significant and positive relationship between trade liberalization and Jordan's economic growth in the long run and a minute impact in the short term. Additionally, a positive influence was observed on the productivity of labor, unemployment rate, and economic growth.

Briggs and Sheehan (2019) elucidated the association between economic growth and services trade liberalization. In the present scenario, service trade constitutes about 20% of the entire world trade. The findings of the study suggested that the country's per capita GDP is positively influenced by services trade liberalization on both the high income and the low-income countries. Further, removing barriers to service trades can generate a significant positive impact particularly in low-income countries.

3.3. Free Trade Practices and Economic Development

Trade openness assists in reducing the resources which are eventually wasted in a conflict between countries and also helps in earning gains from international trades (Garfinkel, Syropoulos & Yotov, 2020). Yu (2020) discussed China's Free Trade Area strategy and its benefits. This strategy has helped China in enhancing trade and economic cooperation with its partners. Moreover, it has improved political as well as economic relationships by addressing the concept of peaceful rise thus providing an opportunity for growth.

Samundengu (2016) conducted a study to examine the association between economic growth and trade openness in Namibia. Different variables like the labor force, GDP per capita, real exchange rate, trade openness, and capital formation were used. The findings indicated that there existed a significant long-run association between economic growth and trade openness. Also, the economic growth in Namibia depends on trade which can be boosted by promoting effective policies in the labor-intensive industrial areas.

Lim and Breuer (2019) examined the influences of free trade agreements on market integration between South Korea and its partners. The threshold autoregressive model revealed that due to free trade policies, the trade costs for nine countries have reduced considerably thus conveying a substantial market integration. Fang, Kuo, and Lee (2019) assessed the influence of talent distribution diversity on the equilibrium of the rate of growth. The study concluded that the growth rate after free trade is influenced by the effect of trade and diversity. Moreover, if the diversity of talent is significant, the practices of opening trade will enhance economic growth.

According to Boudreaux and Ghei (2017), foreign trade restrictions harm both the producers as well as consumers. Restrictions on trade practices lead to an increase in the price of groceries, manufacturing materials and clothing and also limit the choices of people's purchases. This inappropriate share of costs is generally shared by lower-income individuals. Trade treaties that enhance the freedom of trade apart from diminishing sovereignty assists in establishing better international relations.

3.4. Demerits of Trade Barriers and Trade Protectionism on Economies

Globally, market regulations and trade barriers are regarded as the factors that affect the prosperity of a nation and also diminishes its ability of economic growth. Lawson, Dietrich, and Murray (2019) examined this hypothesis using multiple regression and observed that as the freedom of trade and business grows within a nation, the GDP improved enormously. Moreover, higher levels of economic prosperity were observed in the deregulated nations rather than the regulated ones.

Most of the underdeveloped countries are reluctant towards adopting trade openness and removing trade barriers. However, the study by Meraj (2018) regarding the influence of removing barriers and encouraging openness in trade in the Bangladeshi economy revealed that economic growth and globalization were influenced positively.

According to Pawar (2017) in the long run, trade protectionism leads to the weakening of an industry. Free trade cultivates a sense of competition. A lack of competition within the domestic industries results in diminishing innovation. This ultimately results in the production of inferior quality products which are more expensive than the products which the foreign companies offer. The Peterson Institute for International Economics predicted that the income in the US will increase by almost \$500 billion if all the barriers are removed whereas increasing the protectionism practices in the US will additionally slow down its economic growth significantly.

Protectionism has become a buzz word following the years of globalization in trade practices.

Evenett and Fritz (2017) believe that the liberalization of trade policies proved to have a positive impact on the world economies and closing of the markets would drastically affect the economy on the whole. Furthermore, the increase in trade barriers and tariffs will not only damage the economic growth of the targeted nations but will also impact the global economy. Such practices decrease the real income, increase the prices of domestic goods, the appreciation of currency cancels out the impact on the balance of trade and leads to diminishing productivity. In the worst case, protectionism can also result in trade wars which will lead to the imposition of tariffs, reprisals, and restrictions in some major nations.

4. FINDING AND DISCUSSIONS

Globalization can be referred to as the process of integration and interaction among governments, companies, and people on a global scale. It has led to an enormous change in the political, cultural and economic aspects of countries. Globalization is found to invigorate economic growth by introducing economies to global markets, instigating economic growth, technology transfer, and indirect and direct foreign investments. It has altered the ways in which economies trade and various countries have availed the benefits of these alterations. However, a few economies still impose trade barriers and trade protectionism to avoid competition for domestic firms.

Globalization is responsible for introducing the practices of international trades that have assisted in restoring sectors like ICT and transportation. The practice of international trade has further helped the organizations by providing imminent profit increase, business growth and decreasing the traditional market interdependence. It has also allowed companies and consumers to choose from a large range of services and products. From the studies of Murat et al. (2019) and Santiago et al. (2018), it was clearly depicted that the performance of SMEs was affected drastically by globalization which ultimately contributed to economic growth. Additionally, it was also observed that trade liberalization led to an improvement in the productivity and employment rate of Jordan that imparted a kick to economic development in the long run. The GDPs of both the high income and low-income countries were found to be positively impacted due to services trade liberalization.

Another aspect of globalization is the concept of free trade which not only helps in gaining profits by international trades but also assists in reducing the wastage of resources in unnecessary conflicts between countries. The free trade area strategy of China and trade openness in Namibia has proved to improve political and economic relations with the partner countries. This has encouraged a peaceful growth in the context of developed countries and provided an opportunity for economic growth in developing countries. Also the restrictions on

foreign trade harm both the producers as well as consumers. It is often found that trade restrictions also result in increasing the prices of goods and services and also limits the purchasing choices for people.

The last section of the literature review discussed the demerits of trade barriers and trade protectionism. The research conducted by Lawson et al. (2019) and Meraj (2018) revealed that trade barriers affect the prosperity of a nation and also diminishes its ability of economic growth. The deregulated nations are more economically strong than the regulated ones. Further, most of the underdeveloped countries are reluctant towards adopting the practices of free trade however, trade openness has positively impacted economic development.

Another argument presented in this context is that trade protectionism ushers the weakening of an industry. A lack of competition among the domestic industries minimizes innovation. This eventually results in the production of inferior quality products which are more expensive than the products which the foreign companies offer. Various scholars believe closing markets will drastically affect the entire global economy. The trade barriers, tariffs not only hamper the economic growth but also decrease real income, increase the prices of domestic goods, diminishes productivity and in the worst case can ignite a trade war.

5. CONCLUSION

The present study aimed at reviewing the significance of free trade in a globalized economy and the impact of globalization on economic growth. Additionally, it highlights the importance of trade liberalization and free trade on the global economy. With the advent of globalization, various other aspects like trade protectionism, trade barriers, and sentiments of anti-globalization have emerged in recent years. The current study tries to alter the beliefs of the inward-looking economies towards globalization and the policy of free trade. Further, the review paper highlights the demerits of trade barriers and trade blocks which results in weakening of an economy, lack of competition among the domestic companies and ultimately an increase in the price of inferior quality goods. The review paper will prove to be an important piece of information for the economies who have still not exploited the potential of globalization and its related aspects. Further, it will assist economists with anti-globalization sentiments to look through a different perception. This review paper will assist the inward-looking countries in relaxing their trade policy norms in order to improve international relationships and explore the growth potentials. Although various other subjects like trade policy of different countries, the challenges related to trade liberalization and after-effects of globalization in regard to different countries have not been incorporated in the present review paper. This limitation can be addressed by scholars in their future research studies. Moreover, this study will add to the existing literature and will also provide a scope for future studies to be conducted in the related domain.

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