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THE ECONOMIC BORDERS IN THE AGE OF GLOBALIZATION

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Abstract: *The importance of the economic borders of the nations is diminishing continuously, and this phenomenon is strongly linked to regionalization and globalization. We consider that the starting point of the idea that economic borders (represented by nations' commercial policies) are irrelevant for the global economic activity is in fact Adam Smith' theory about the liberty of choice and exchange in the international trade. In order to adapt to the new globalization context, the borders have acquired a dynamic meaning, exceeding its condition of a past world, little interconnected.*

Keywords: *borders, trade, economic integration, world economy*

Economic frontier represents (in the simplest way) the demarcation between two markets, between two spaces defined by their particular economic policies. The economic space delimited by thefrontier is characterized by relationships that are established between economic actors and between them and the state institutions that make and enforce economic regulations that govern society.

The concept of economic frontier has become far more complex, so that in this paper we shall analyze the border from various perspectives:

– as a set of measures of commercial policy of a state which regulates foreign trade;
– as a reflection of the degree of economic integration of countries/regions;
– as a context for redefining the role of the state in economy.

Depending on the perspective from which it is regarded, the economic frontier is different. In Europe, for example, if we consider the means of individual consumption, the national legislations, the bilateral or multilateral agreements, we discover new sector

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frontiers: legal, administrative, commercial, monetary, fiscal or budgetary – that are recomposing or diluting[1].

The border and the trade policy measures

The trade policy of a state is an important component of the economic policy and it influences the way in which the economic borders of that country are defined and developed. This is seen clearly through the roles it has: promotion of external economic relations, protection of the national economy from foreign competition, balancing the commercial balance and the balance of payment, as well as the increase of the state's currency reserves[2].

The commercial policy uses three main instruments[3]:

- Taxation (at the customs), through which a state's customs policy is established. The policy uses customs duties and other laws and regulations whose declared purpose is the attraction of income towards the state's budget. Moreover, the customs policy has protected throughout time the internal market from foreign competition, using the instruments it had as a means of negotiation in order to attain tariff reduction or to institute discriminating measures in relation to other states;
- Non-tariff instruments, which hinder or limit the international flow of goods, being politically or economically motivated. The declared purpose of these measures is to protect the internal market from foreign competition and to stabilize the balance of payment. The main forms of this instrument are: import quota, import license, agreements regarding the organized flow of negotiated license goods, import take-off tax, minimum and maximum prices for imports, indirect tax and fiscal tax, technical barriers (sanitary, security, wrapping, marking and labeling standards, etc.);
- Export promotion and stimulation instruments, which include the regulations used by the state and by companies in order to enhance the world-wide trade of that country – commerce and navigation treaties, commercial and payment agreements, international economic cooperation agreements, direct and indirect export subsidies, fiscal facilities for export, export credits, etc.

Therefore, the economic borders between states (defined by the totality of commercial policy of a country) have had strong fundaments throughout the time to exist and to develop. The nation-states have wanted to protect their interests, and their economies, and have used the instruments used by the commercial policy to do so. Thus came along the protectionism and the idea of a closed economy, which have increased the power and meaning of the economic borders.

According to Milton Friedman (head representative of the neo-liberalism), Adam Smith's *The Wealth of the Nations* was one of the first hits in the war lead against commercial restrictions in the relations between states – so a first signal regarding the diminishing role of the economic borders. The British economist David Ricardo subsequently brought, through the theory of the comparative advantage, additional arguments in favor of free trade and the ability of international trade to create economic development for all its participants. However, despite the fact that the majority of

[1] Rémi Colliat, Fabien Labondance, "Européanisation des frontières économiques: le cas franco-allemand" in *Trajectoires*, 2 /2008 (*Frontières en question)*, http://trajectoires.revues.org/196#ftn7

[2] Nicolae Sută, *Comerț internațional și politici comerciale contemporane*, ALL, București, 1995, p. 71

[3] *Ibidem*, p. 72-103

economists admit the free international economic trade is beneficial for both the participating states and the global economy as a whole, throughout the time, tariffs have been the rule. The only relevant exceptions, in Friedman's opinion, that have had a true free trade were Great Britain, during the century after the abolition of the "Corn Laws" in 1846, Japan 30 years after the Meiji restoration and Hong Kong's trade[4].

Starting with Ricardo's theory, liberal economists have been able to state that the elimination of barriers to commercial trade is beneficial for everybody, since it leads to an increase of wealth, both individually and globally. Such belief was the center of the liberal thinking throughout the 20th century, laying the bases of the modern commercial system[5] and of the progressive decrease of the economic borders' relevance as seen from the perspective of international trade.

The multitude of measures and instruments that governments had at their disposal throughout the time to protect their internal markets – and thus securing their economic boundaries – have made the creation of an international organization that governs and promotes free trade between states imperious. In 1948, the General Agreement for Tariff and Trade (GATT) was created, which was a negotiation frame through which the participant states have established a common international commercial framework for the first time. The negotiation rounds within GATT favored the leveling of international trade through the reduction or elimination of customs tariffs or non-tariff obstacles. In 1995, after the Uruguay round, GATT became World Trade Organization (WTO), the only international organization that defines commercial barriers, global trade and economic activity, thus favoring free trade and commercial cooperation – elements that lead to the diminishing of economic boundaries' role and strength.

The WTO's mission statement contains its guiding principles, which are the pursuit of open borders, the guarantee of most-favoured-nation principle and non-discriminatory treatment by and among members, and a commitment to transparency in the conduct of its activities[6].

It can be stated that WTO, as a leader of globalization, has greatly contributed to the reduction of the importance of economic borders at a global level, as "it has never really abolished commercial barriers, but it leveled them in a global setting in order to create a uniform field for all member states"[7]. The consequences of the increase in economic freedom were and are visible: global trade has increased faster than production, the increase in the volume of international trade has outnumbered the increase of global production, cross - border transactions have increased greatly. However, the dissolution of the economic border through negotiations within the WTO is questionable, as there are many voices that state that the reduction of protectionist barriers was often done to serve the purposes of developed states. The USA and Europe are accused that in fact, they have negotiated agreements that protect them against imports from developing countries and that they want markets to be open only for those goods for which they have a comparative advantage. Therefore, some believe that even the era of multilateral liberalization of trade is coming to an end, due to the disappointment of developing countries[8]. Wealth for the

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[4] Milton Friedman, Rose Friedman, *Libertatea de a alege*, Publica, București, 2009, p. 65-72

[5] Gabriela Drăgan, *Fundamentele comerțului internațional,* Biblioteca digitală ASE, București, http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=cap1

[6] World Trade Organization, *About the WTO — a statement by the Director-General*, WTO website, http://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm

[7] Joshua Goldstein, Jon C. Pevehouse, *Relaţii Internaţionale,* Polirom, Iași, 2008, p. 427

[8] Joseph E.Stiglitz, *Mecanismele globalizării*, Polirom, Iași, 2008, p. 77-79

global market is seen as a „naïve illusion" and free trade is just rule of law of the stronger ones[9]. However, even if liberalization of trade implies by definition the elimination of barriers and the creation of an even field for economic development on the world market, protectionist barriers are still kept, the traditional ones, as well as other non-tariff forms, such as technical barriers, antidumping taxes and financial protection measures.

Besides the multilateral agreements referring to global trade, there are other trends that need to be mentioned, trends of transforming unbreakable economic barriers into reachable connection guidelines between states. These take the form of regional agreements (bilateral agreements, free trade areas, customs union and common market). Bilateral agreements are the simplest form of mutual arrangement for the reduction of commercial barriers with the purpose of economic cooperation. Free trade areas are arrangements between groups of states that foresee a total elimination of commercial barriers from their region, therefore increasing their region's power. Customs union, as a main form of extension of customs territory, implies the elimination of tariff and non-tariff barriers in the commercial relations between member states and the adoption of a common customs tariff in relation to other states. The common market is a customs union where all restrictions concerning free movement of people, goods, services and capital are abandoned.

According to WTO, over 200 regional commercial agreements were notified, customs unions, free trade areas of other types or preferential agreements, and over 150 are effective today. The structure of these agreements is very complex and many countries are nowadays part of several such agreements. Most such agreements are between developed states, especially the European ones (60%), while developing countries have a smaller share (15%). The rest are agreements that involve both types of states[10].

The effects of regional agreements on the liberalization of commercial trade and the economic increase (and the way in which they contribute to the elimination of economic borders) are not very clear, and the opinions of experts regarding their economic impact are often quite contradictory[11].

The economic border and the binom integration - division

The way in which economic borders are currently redefined largely depends of the perspective in which globalization is analyzed. If we were to represent the relation between borders and globalization on an ax, on one end we would find the world with a fully integrated global economy, without economic borders, and on the opposite end we would find the inter-national economy, where still there are economic relations between nations, and the degree of economic integration is small and the economic borders maintain their important roles, especially within the relations between the wealthy North and the poor South.

In specialty literature there are several different perspectives of globalization. The first of these sees globalization as the fulfillment of the principles of liberal economy as they succeed in bringing growth and development by the integration of national economies in a world without borders. According to *New York Times* columnist Thomas

[9] Hans-Peter Martin, Harald Schuman, *Capcana globalizării. Atac la democrație și bunăstare,* Editura Economică, Bucharest, 1999, p. 229

[10] Ana Bal et al., *Economie mondială*, Biblioteca digitală ASE,București, http://www.biblioteca-digitala.ase.ro/biblioteca/pagina2.asp?id=cap12

[11] Gabriela Drăgan, *op. cit.*

Friedman, the term globalization implies “the integration of the markets, the nation-states, and the technologies at an unseen level”[12], and “the world is flat”, without borders. He also believes that the strength which determines the uniqueness of this phenomenon is „the newly discovered power of the individuals to cooperate and to compete globally”[13], as a result of the technology process induced by the technological convergence. The International Monetary Fund support this concept, defining globalization as “the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services, of international capital flows, and through the more rapid and widespread diffusion of technology”[14]

The business strategist Kenichi Ohmae believes that the emergence of global economy is the foundation for the retraction of borders, using the term „borderless world” to describe a world where all obstacles in the way of the movement of production factors were removed. To him, the economic border is not only irrelevant, but it represents a factor that damages the economic relations between businesses or states: “the global economy ignores barriers, but if they are not removed, they cause distortion”[15]. The global economy follows its own logic, which is different from the logic of state borders. When analyzing the more specific area of business, characterized by four main elements – communication, capital, corporations, consumers – Ohmae believes that there are absolutely no borders left[16].

George Ritzer gradates the idea, stating that integration does not represent an inevitable component of globalization, because the process can involve sometimes better integration, but it can also reduce the level of integration. According to Ritzer, globalization is a transplanetary process which involves „increasing liquidity and the growing multidirectional flows of people, objects, places and information as well as the structures they encounter and create that are barriers to, or expedite, those flows”.[17] Even if the market is global, there are still many economic barriers that hinder or block the movements of persons, goods or information, like trade agreements, regulatory agencies, borders, customs barriers, standards or „the digital divide” between the developed states and the developing world[18].

[12] Thomas L. Friedman, *Lexus şi măslinul. Cum să înţelegem globalizarea*, Editura Fundaţiei PRO, București, 2001, p. 3

[13] Idem, *Pământul este plat. Scurtă istorie a secolului XXI*, Polirom, Iași, 2007, p. 26

[14] International Monetary Fund, *World Economic Outlook*, May 1997, p. 45

[15] Kenichi Ohmae, *The Next Global Stage. Challenges and Opportunities in Our Borderless World,* Wharton School Publishing,New Jersey, 2005, p. xxv

[16] *Ibidem*, p. 20-21

[17] George Ritzer, *Globalization: A Basic Text*, Wiley-Blackwell, 2009, p. 2

[18] *Ibidem,* p. 20-24

Ritzer moves to a second perspective on globalization, according to which states aren't any more integrateed nowadays than they were prior to the First World War and that the world economy was even more global back then (idea supported by Hirst and Thompson). Economic integration is not global, but regional, as capital flows, trade and investments are focused within the triad Europe, North America and Japan/Eastern Asia, and the developing countries are marginalized[19]. What's more, this perspective emphasized the fact that globalization deepens the differences between North and South, as well as the inequalities inside developed countries[20].

Considering all this, the world remains an ensemble of individual states, separated by the barriers set to trade between rich and poor countries. According to Anderson and Bort, the borders maintain important differences between states, especially concerning the economic activity and management[21]. Robert Gilpin supports this idea, stating that "whereas powerful market forces (trade, finance, and investment) jump political boundaries and integrate societies, governments frequently restrict and channel their economic activities to serve the interests of their own societies and of powerful groups within those societies"[22].

It can be concluded that the economic border remains the world economy and its role is to protect the states, especially the developed ones, which own the necessary means to impose their own will and requirements on the global market and before the poor or developing states.

The third perspective on globalization particularly considers the consequences of the erosion of the states' sovereignty by the supranational organisms and transnational corporations, and the creation of a diffusion of authority[23]. Many of the states' economic prerogatives are taken by these organisms (EU, IMF, World Bank, WTO), therefore making changes regarding the relevance of economic borders, seen as an ensemble of economic policy measures adopted by each state according to their economic culture and specific national interests. The states' inability to control the generated economic flows dominated by transnational companies, as well as the economic and financial crisis over the past few years are serious threats to the nation-state[24].

Transnational companies are wealthier than the majority of developing countries. However, what's most important, aside from money, they also have political power which allows them to influence governments when they disagree with their regulations concerning the economic policy (remission or reduction of tax, regulation of foreign direct investments, subsidies) to act according to their best interest. What's more, corporations are those who made the spread of technology possible from the industrialized countries to the developing ones, allowing the usage of modern production techniques, which have reduced the differences between the economic environments of the world's states[25]. The new information and communication technologies have facilitated the access to information about products offered by global companies for consumers from all over the

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[19] Debra Johnson and Colin Turner, *International Business: Themes and Issues in the Modern Global Economy*, Routledge, New York, 2010, p. 27-28; Joshua Goldstein, Jon C. Pevehouse, *op.cit.,* p. 400-401

[20] Joseph E.Stiglitz, *op.cit.*, p. 35, 61-64

[21] Malcolm Anderson, Eberhard Bort, *The Frontiers of the European Union*, Palgrave Macmillan, London, 2001,p. 37

[22] Robert Gilpin, *Global Political Economy. Understanding the International Economic Order*, Princeton University Press,New Jersey, 2001, p. 81

[23] Joshua Goldstein, Jon C. Pevehouse, *op.cit.*, p. 401

[24] George Ritzer, *op.cit.*, 140

[25] Joseph E.Stiglitz, *op.cit.*, p. 163-164

world, thus creating demand on the markets of developing countries, offering companies the opportunity to reach new markets, and strongly shaking the states' protectionist barriers. Therefore, corporations play an essential role in the leveling of the conditions from the markets of different states, in the harmonization of national legislation regarding foreign investments, thus leading to the reduction of the role and power of economic borders.

Regardless of the perspective through which globalization is seen, all converge to the idea that what is currently gaining power and relevance is the region.

Kenichi Ohmae believes that the region is the economic unit of the global economy, the new growth center of the world. He defines regions not just as an ensemble of states, but as areas that represent development poles within different countries. Global economic development will inevitably lead to the withdrawal of the nation-state before the "region-state", which has a main characteristic "the openness to the outside world", the rest of the world being just a source of prosperity to it[26]. We are therefore standing before an open economy where important economic decisions are made at a regional level.

Thomas Freidman also speaks of the „regional globalization", considered as the local and regional factor that globalizes itself due to the new information and communication technologies[27]. This regional globalization is the one that keeps in mind the cultural specificity of each nation, thus cultivating global diversity. The economic is of no relevance, being considered the driver of globalization and unification of the planet.

Conclusions

Throughout time, the importance, role and functions of economic borders have changed continuously, depending on more variables: the economic ideas that governed the international economic relations, the needs of the actors from the scene of the global economy, especially that of the strong ones, the states' incapacity to form and maintain their economic and commercial policies in times of pressure exerted by supranational organizations or multinational companies, the states and regions' need to integrate in the global economy in order to gain access to resources needed for development and growth.

It is difficult to answer the question: has the economic border diminished due to globalization? The answer depends on the perspective through which the phenomenon of globalization is seen:

- economic borders between states have completely disappeared in a completely integrated global economy, according to the supporters of this theory;
- economic borders have an important role and significant functions on the global market as the differences between the North and the South have deepened and the states maintain their protectionist tendencies;
- economic borders have diminished as a result of a loss suffered by the nation-states, loss of economic prerogatives in favor to the supranational organizations and transnational companies.

In order to adapt to the new context created by globalization, borders have gained a more dynamic connotation, overtaking their own condition of a symbol of a past world, which was too little interconnected. Technology and bilateral and international agreements are the drivers that have generated and have allowed the integration of economies and

[26] Kenichi Ohmae,*op.cit.*, p. 82-100

[27] Thomas L. Friedman, *Pământul...*, p. 410-411

markets, and the redefining of economic borders. The emergence of regional blocks as poles of global economic growth is just a new step in the defining and structuring of economic borders, especially in the era of instant communication and capital market liberalization, which have created serious problems regarding the governing methods of both states and organizations that assume global governance.

The regionalization of the economy is in fact a natural consequence of the regionalization of investments, services and production which, unlike the economic competition and financial markets, have not become completely global[28]. The cultural differences between nations, including those from the economic area (production methods, consumption etc.), acknowledged even by the supporters of the world without borders, also contribute to the regionalization of the global economy and greatly influence the way in which the economic relations between regions are structured.

Regardless of the perspective from which we see the evolution of the world economy, it can be said that both phenomena, globalization and regionalization, determine the multiplication and diversification of the relations between economic players (especially states and corporations), thus leading to the diminishing of the role of economic borders – and therefore, the diminishing of themselves.

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