
FAILING STATES – THE IMPACT OF GOODS AND SERVICE TRADE LIBERALIZATION

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Abstract:

The paper aims to identify the impact of trade liberalization concerning goods and services, as well as the major issues which poor and developing countries are facing when they have to compete on a more and more connected global market. Several positive aspects of trade liberalization are discussed as well, but the main issues are the difficulties faced by poorer nations, already affected by the financial crisis, in coping with outside competition. Furthermore, it takes a closer look at several examples of countries, namely China, discussing some particular aspects of how they regard service and goods liberalization. Moreover, it also tries to describe the process through which a nation becomes overburdened, but also several ways out of the crisis. The paper concludes with several possible perspectives concerning the faith of developing states and how the new world order influences business and countries in difficulty. Did the financial crisis create several opportunities or did it close the door and branded several states as failing states.

Keywords: *liberalization, goods, services, crisis, debt*

1. Introduction

The current financial crisis has brought forth several major flaws with the current economic system. The worldwide meltdown which began within the housing sector, and then extended rapidly within the banking system has created rifts, shifts within the geopolitical and economic landscape of our world. And the changes which have begun will take years to unfold completely. Think of it in terms of "ripple effect" if you will.

Things are moving at such a fast pace, that, unlike any other time in the history of economics, theory is finding it hard to keep up with the practice of a fast forward world. Never before this crisis did we hear notions like "bankrupt states", "failing nations", yet these have become the realities of our times. Who would have thought, for example, in 2006, that states such as Latvia, Iceland, could suffer so much, as to declare bankruptcy. Even to economists, the concept seems sort of a paradox: since

the state controls the money supply, and therefore can always print money, how can it go bankrupt? How can it recover?

In spite of serious and concrete efforts made by several countries and, to that extent, even world organisms, the sheer impact of the global cataclysm caused by the current world crisis still keeps headlines all across the world. The magnitude of the transformations brought forth is staggering, and will take years to comprehend.

Still, one must wonder, in the wake of this economic reckoning, how was this possible? Did we know this would happen? Could we foresee it? What could we have done to prevent it? Can this be stopped from happening again?

We can observe that a very simple and brief analysis raises difficult questions. Yet, we strongly believe that the answer to these questions are not as difficult to find as we believe they are. Rather, the scientific explanation is blocked by certain groups of interested individuals.

There are some people which will and always benefited from the demise of others. Just as corporations benefit from the demise of a competitor. We must understand that, as Sir John Maynard Keynes mentioned (Keynes, 1976), "capitalism is not for the faint of heart". This means that the capitalist system is basically one in which the strong are favored, whereas the weak are meant to feast upon the crumbs which fall from the table. Does this metaphorical, yet sad picture hold any key to the solutions which economists the world over are looking for?

First of all, we must acknowledge the fact that, no matter what our take on the economy is, globalization played and plays a major role in all economic decisions that are undertaken. Whether it means relocating a factory, comprising foreign direct investments (F.D.I.) within a state or region, the economics behind this decision have increased in importance and complexity. It is our opinion that in spite of all modern economic theories concerning the creation of value for a company, there is only one word which can summarize the endeavor of all businesses: profit. This simple motivation is applicable when it comes to countries as well. This means that countries have become more aware of the fact that they represent a single entity when dealing with the world abroad. And while some may argue that this is not the case for, say, E.U. countries, others have become quite the individuals.

Take China for example. Almost all Chinese endeavors are state-sponsored, because they have realized that they are much stronger, and thus have more to gain in international trade if they act as a single unit. And China is not the single example. India, Brazil, have become increasingly aware of their economic potential. While this is not to criticize – every country would do the same in their position – one must acknowledge the new world order: we have switched from a bipolar perspective, where the U.S. and the E.U. were the two major actors to a multipolar world, in which economic trading is divided as intensity and impact. Does economic liberalism and the liberalization of trade for goods and services contribute to economic freedom or economic slavery?

For the majority of economies, the crisis represented a serious crunch, one of which many will recover in years, perhaps decades. One result of the current financial

crisis was and is an increased number of failed states. Unlike the crisis of 29-33, the notion of failed states is sort of new. How did this come to pass? Will it happen again?

2. Major issues

Of course, there are several major issues to be analyzed when tackling such a theme. One of them is the relationship between the debts levels – such as they are, meaning the debts which a state must pay for foreign trade and financial freedom.

States have become overburdened with debt. Although each government controls, through its financial institutions – including the national bank – the money supply within an economy, we must realize that each monetary emission is carried out in such a way that it also includes a certain amount of interest which must be paid (IMF Publication, 1992). So, states become more and more dependant on a money supply which they actually, control only to some extent.

This is where liberalization comes into place. For decades, the World Trade Organization and other free-trade organisms have advocated towards free-trade and that the states lower their trade barriers. International lobby was carried out, diplomacy played a major role in achieving the international connectivity of today. This strictly from a bussinesswise point of view. But not only so. The social component is extremely important. And the fact that today`s world is bound and connected by the so called "social media" – a term which includes components such as Facebook, Twitter, Linkedin and so forth, only accelerated the rate to which the world has become increasingly dependant on each other.

However, from the economic point of view, liberalization also carried out several major risks. One of them is given by the fact that everybody wants to improve their standard of living as fast as possible. The fact that we are bombarded with news from arround the world, thanks to the liberalization of communication channels – such as the internet – means that we are influenced in one way or the other by the things that we see or that are given to us, to see. Take only one example: in 2010, acording to the BBC, there were several major protests in China factories, owned by computer manufacturers, because the chinese workers requested better working conditions and higher wages. Can we grasp the concept that a nation of 1,3 billion people is on the rise? Think about the workforce of that country. Until now, the basic chinese worker has been acustomed to wearing a certain type of clothing, listen to the radio, if he had one and use the bicycle. Now, with the country`s ever increasing economic growth, the worker has evolved: he wants to wear jeans in stead of rags, watch television in stead of listening to the radio and own his own car. It does not matter if it is an extremely low-cost car, the point is that he owns it.

As comendable as this is, imagine what this evolution – China is but one example, basically, the rule applies to all BRIC countries, and not only them – is doing to the global consumption levels. Consumption has increased and is increasing, in spite of the crisis period. This means that one needs more and more resources. Consumers become more and more refined, pretentious about their needs. The

problem is that this has happened over a short period of time, meaning that the time span is too short for labor productivity to justify the increase in wages demanded by workers in more and more states. Add to this the fact that any wage increase not covered by the real increase of labor productivity creates inflation, ergo, to tackle inflation, states must contract outside loans. Loans which must be paid back with an interest. A considerable interest.

Also, unfortunately, as we already know, the basic principle of economics is that a need, once satisfied, creates other needs. This means that in order to satisfy those needs, individuals and countries have to spend more and more resources, be they financial, human, informational, or of any other kind. In this case, we have the known phenomenon of entropy (Rotariu, 2009), which basically means that resources once used, are destroyed in the process. Add the fact that the population increases at a geometric rate of growth, whilst the resources increase, at best, at an arithmetical rate, and you have the full picture of the grim future that awaits us.

So, in order to satisfy to ever-increasing needs of the population, either for political capital or influence, politicians look beyond the sphere of economics in order to try and provide. The bad part is that most of the political decisions which are undertaken, at a global scale, have no real coverage within solid economic principles. This means that, a government for example, may choose to adopt several so-called economic measures to make it seem better for the populace during their term, when in fact, in the medium and long term, those decisions will weigh heavier on a country. We believe that this is at least one of the causes for the recent uprisings within the Arab world, for example.

Unfortunately, politicians also choose to make decisions in order to provide resources, no matter what the cost, for their population. This leads to the need for borrowing resources from abroad, as loans, or any other source of borrowing, for that matter. The negative element is that this puts the borrower state in debt, and thus, a relationship of submission is created between the two states. First of all, the population becomes indebted, because, ultimately, it is the one who must pay the price for political decisions. Secondly, the politicians of that country have to submit to the will of the lender nation, in order to repay their debt.

This process is described, to some extent, by John Perkins (Perkins, 2004). This means that the will of the strong will always be imposed on the poorer or developing states. Control over a state is not given by the military, or conquest. You can simply control its monetary supply, its debt, and bring a country to its knees, making it dependant on your "goodwill". If we analyze the problem, we can notice that this is the most cost-effective way by which to ensure resources for a state: exploit another state's resources at almost no cost.

This is why we will always have rich and poor nations. This is why we will always have controllers and those who are controlled. Such is the way of the world. A wrong way, but a path none the less. These are the reasons for which, for example, poverty will never be fully eradicated. Because there is no real desire to do that, as long as poor countries are a market for raw materials, which are exported in developed

countries. Exporting raw materials, of high volume and low added value, while importing goods and services of high added value, is the scheme which is still used today and will be used by poorer states. It is the scheme that will guarantee that developed states maintain control over the less-fortunate ones.

We do not believe that the current balance of power will shift in years to come. The liberalization of goods and services trade all over the world favors the developed nations. It does nothing more than to increase the gap between developed states and third world countries. As long as a nation depends upon another, that nation will have a peaceful attitude and will not issue claims. This process has been going on since the time of the colonies. The idea has not change in centuries. The process has only become more complex.

3. Positive aspects of trade liberalization?

Yet, in spite of all this, are there some positive sides to goods and services liberalization? Are there some benefits? No matter how small?

The fair answer would be yes. Several benefits arise from the trade liberalization of goods and services. Some of these are presented by Massimiliano Cali, Karen Ellis and Dirk Wilem te Velde (Cali, Ellis, Te Velde, 2008). The first benefit would be that the service sector of a country has become a key contributor to the GDP of many developing countries, and ensures employment, "providing essential inputs and public services for the economy".

While this may be true to some extent, one must criticize the approach undertaken by world organizations such as the IMF and World Bank concerning the development of the tertiary sector of developing states economies. The service sectors in these states, particularly poor states, is hampered, only to maintain dependancy of services which come from abroad.

Another aspect which the forementioned authors mention as a positive one is the fact that international trade in services can boost economic performances.

Again, while this is true to some extent, this is aplicable to countries which have reached a certain level of development already. They are in the situation where exporting services is the only way, taking into account the fact that their own internal markets are saturated with services. Thus, quick export means high profits and a positive balance sheet.

Finally, the authors mention the fact that "appropriate regulation and complementary policies are essential to ensure that liberalization delivers the expected benefits in the long run".

First of all, taking into account the current crisis, several states will become bankrupt and thus dependant on stronger states in the long run. They must be given short and medium term solutions, if the powerful nations really wish to help. However, in the wake of the "resource rush" – let us consider the time when oil will become scarce (Levi, 2009), and how will the world react then. What do countries with power

want? More power. Dominion which was installed ever since the colonies were established, like we mentioned before.

As we can see, the positive aspects of trade liberalization are questionable and they vary alot, considering the point of view from which one regards the economic landscape.

And the examples may continue.

4. Conclusions

As we take a quick look at the facts, what can be said of our current status quo? What conclusions can we draw from the events, as they unfolded right underneath our eyes?

We can clearly see that there are several sinister interests at the core of our capitalist system of economics. The system may not be corrupted itself, but the people who run it are driven by less than noble facts. Uncertainty rules the world. Even Thomas Friedman (Friedman, 2008) stated in his famous "Lexus and the Olive Tree" book that the best way to describe the so cald international investors is "herd", because they begin to stampede at the closest sign of trouble, be it real or imaginary.

The concept of liberalization concerning goods and services has several major flaws, because it empowers the strong and weakens developing states. Emerging economies are strongly affected by decisions undertaken by global organisms to ensure a free-trade bussiness environment which resembles more a jungle filled with all kinds of dangers and perils for those who venture within. Adepts of the conspiracy theory have gone so far as even to state the fact that the current financial crisis was engineered to stop several states – for example, the BRIC states, Brazil, Russia, India and China, to reach the superpower status. While this is generally believed to be untrue, one can easily see the connections between the crisis and the demise of three states from this group. Actually, only one of them, namely China, has managed to maintain a solid economic growth so far.

The new world order does nothing more than to establish an increasing gap between rich and poor or developing nations.

According to many pessimistic economists, the current world order is shifting towards a plausible resolution: as resource consumption does not slow down, a country must race to ensure that it has the resources to endure the current crisis and guarantee a better position on the world market. We mention China again, as an argument. After its failure to aquire american giant Chevron, the CNOOC (China National Offshore Oil Corporation), aquired numerous resource fields within Kazakhstan. This is one example, but most countries – which can afford such purchases – are doing this.

It will become increasingly difficult for poor and developing countries to keep up with the fast pace of an everchanging economic environment. As competition intensifies, these nations, including Romania, will find it more and more difficult to withstand the pace of development.

The gap will also increase due to amounts of money allocated to research and development projects. Poorer nations are unable to grant research and development projects the required amounts of resources, in order to obtain plausible results.

The increasing gap between rich and poor states may even have social consequences, as political and economic regimes of oppression are shaken. The current events within the Arab world stand as testimony.

It is general belief, of a pessimistic nature, that other economic crunches, like the ones from 1929 – 1933, the 70s, and the current crisis will continue to happen, as we increasingly apply a mechanism of economic cycles to business in general and, to add a more sinister motive, it will suit the stronger nations to weed out the weak.

We conclude that, in spite of several benefits brought forth by the liberalization of trading goods and services, the system and the manner in which this was achieved is largely favorizing stronger nations, while taking away even the slightest competitive advantages which developing countries may have. Thus, the latter states are sentenced to a life of dependancy and, more than once, are usually granting usage rights for several of their resources, which, again, sentences several of these states to fail. Ergo, their assets can be then purchased at next to nothing prices by wealthier states, which then extend their dominion in more and more areas of the global market.

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