

# GLOBAL TRADE & INVESTMENT ENVIRONMENT

# Global Trade

- Many economists believe that unrestricted (free) trade between nations will raise the economic welfare of all countries that participate in a free trade system.
- **Free trade:** refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country or what they can produce and sell to another country.
- **Trade theory:** theory that explain (1) why it is beneficial for a country to engage in international trade, and (2) the pattern of international trade that is observed in the world economy.



# INTRODUCTION

International trade and foreign investment support the following objectives:

- ◉ Protecting local employment and labour conditions
- ◉ Reducing economic and political vulnerability
- ◉ Encouraging diversification of industry
- ◉ Permitting the development of local technologies
- ◉ Protecting the environment



# BENEFITS OF TRADE

- b) Transferring skills and technology that is not normally available in an economy.
- c) Allowing the importation of strategic goods and services.
- d) Encouraging innovation and adoption of new practices and higher standards.
- e) Encouraging efficiency through the adoption of 'international best practices' and importation of technology.
- f) Giving developing countries fair opportunity to trade with developed countries.



# PROBLEMS WITH TRADE

- i. Loss of national economic sovereignty with regard to employment , taxation, inflation, tariff and wages policy.
- ii. A reluctance by nations to take unilateral environmental initiatives for fear that they might unduly erode a nation's economic competitiveness.
- iii. Erosion of local culture in the face of imports that have a strong cultural element such as films, electronic media, music and food.
- iv. Forcing countries to adopt environmentally unsustainable or socially unjust practices which damage the global commons in order to be able to earn foreign exchange.
- v. Forcing many countries, including India, into ever-increasing foreign debt leading to spiraling overseas interest payments.



## CONTD..

- vi. Inducing a global increase in transport use which is both inefficient and destructive to the environment.
- vii. Allowing transnational corporations to increasingly dominate global trade and investment which in many cases is anti-competitive.
- viii. Leaving many developing countries at the mercy of IMF and World Bank required restructuring, often resulting in social polarisation.
- ix. Making an economy less diverse and more vulnerable through encouraging it to specialize in those industries in which it has competitive export advantage.



# GENERAL OBJECTIVES OF TRADE

- ◉ To limit trade in goods and services that are produced by methods that are environmentally unsustainable or socially unjust.
- ◉ To promote trade associations and participate in international trading systems in order to enhance the achievement of this goal.
- ◉ To increase India's self-reliance by limiting net foreign debt and current account deficits.
- ◉ To promote the regulation of transnational corporations.