

## **Globalization and Trade: A theoretical review**

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**ABSTRACT:** *Paper discussed the relationship between globalization and trade. The argument has been that the relationship between globalization and trade is 'double edged, when globalization increase as well trade also increase and vice versa. The objective of the paper has been to suggest a theoretical and methodological framework for the study of this relationship. First, globalization was concerned with different processes of modernization and this modernization generate new trade activity which tends to increase new employment opportunity, then there is a chain of activity start and new opportunities are create.*

*Modification of successful models takes place through a combination of various forms of institutional changes, which ensure the coherence of the existing institutional order. These all theoretical frame work tends towards globalization and there is huge chance of increasing trade which is term as internationalization.*

**Keywords:** Globalization, Trade, Modernization, Institutional Change.

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When we think of globalization, it brings to mind the image of quickly growing flows of goods, services, and capital across national borders. One day, it seems, our economies will become more global than they are local, just as in the past, regional economies seem to have lost out to local production networks. This means that we will become more dependent on decisions and development processes controlled from outside our nation-states. For most economists, the extension of trade permits greater specialization, which is the effect of adjustments to a more capable location pattern as markets become more incorporated.

The standard version of trade theory simply upgrades Ricardo, asserting that the factor substance of trade is driven by the original ecological allocation of resources; hence, by working toward the back from trade, it derives location as the mirror image of trade. More recent versions add in such forces as economies of scale and product segregation, but they also assume that trade liberalization calls forth determinate locational changes (Helpman and Krugman, 1985). This theoretical position fits well with the state of practical research, since trade statistics are voluntarily available and it is comparatively easy to track the progress of trade in goods, whereas it is particularly difficult to determine location at an international scale.

Trade theory does appropriately expect the rough match between labor-intensive low-wage actions, (or low-skill capital-intensive activities) and labor-rich developing areas. This is reflecting in the factor composition of a considerable amount of trade between poorer and richer areas. It can also provide a starting point for accepting consequent adjustments of output composition, product prices, and wages in more developed areas in the face of such trade. As an account of the geographical and economic development, however, it falls relatively short.

When it comes to complexly organized production systems and locational processes among extremely developed economies, trade theory cannot be used to elucidate locational patterns and processes. This is because location is itself driven by multipart forces, and it is an autonomous motor of trade. Among these forces are spatial interdependence and nearness relations, economies of scale, localized technological advancement, and international knowledge flows.

Standard notions such as factor contented, even when they can be calculated at a very fine pragmatic level, do not help us understand many of the processes underlying location and specialization. Trade certainly affects locational pressures, but there is not a flawless interrelationship between location and trade. Thus, by

build a framework based on location wise analysis, we can drop clearer light on the causes and consequences of globalization than via trade theory alone.

### Literature Review

As globalization involves enterprises and workers of nearly all over the world's countries in the field goods as well as in the service sector (Kose, Prasad et al. 2003). The tremendous growth of international trade over the past several decades has been both a primary cause and effect of globalization. (Chase-Dunn, Kawano et al. 2000). International trade has repeatedly been a target of those who have been harmfully affected by globalization. As noted earlier, there is little doubt that increased trade, especially with developing countries. (Held, McGrew et al. 2000).

Basically, one may identify preferences for these means of globalization with two disparate credos: first, the belief in centralized planning or dominant strategies and mechanisms, and second, reliance on decentralized, moderate market oriented strategies or mechanisms. (Delbrück 1993). How trade enhances growth through the formation and import of new varieties. In this framework, international trade increases economic output through two channels. First, trade raises productivity levels because producers gain access to new imported varieties. Second, increases in the number of varieties drives down the cost of improvement and results in ever more variety establishment. (Broda, Greenfield et al. 2006).

An increase in globalization turns the term of trade in favor of South, increases Southern equipment utilization, and increases Home out-sourcing. (López-Córdova and Meissner 2005). The most important instant effect of globalization is to increase social dislocations and economic timidity, as the distribution of incomes and jobs across firms and industries becomes increasingly unbalanced. The result is that increasing numbers of people have to expend evermore time and money trying to make their future more secure. (Ethier 2005). The best limited support for the conventional wisdom that globalization leads to an increase in the degree of management of business cycles. (Strauss-Kahn 2004).

### Theoretical Framework

Globalization is a mega tendency which significantly shapes modern economy. As such, globalization is subject to rigorous theoretical debate in contemporary socio-economic theory. Skeptics challenge effects, ubiquity and sustainability of globalization. The impacts of economic globalization are reflecting in the assimilation of world economy Registered flows of

globalization apparently give maintain to neoclassical picture of atomistic economy, based on the principles of individualism and maximizing performance. Ideal mobility of factors of production and a powerful information-communication impending of present technology, as well as the increasing weight of individualistic ideology construct the impression of eligibility of neoclassical approach to economy. However, such a conclusion is premature.

in spite of evident association impacts of globalization, modern economy continues to be a attractive secure and evolutionary system of hierarchy, in which variability prevails at every level, as an essential condition for the survival of the system as such. The variability of the world economy is represented through the existence of various models of economic system. Among them, the most influential are the Anglo-American, German and Japanese model of organizing economic activity. Their institutional flexibility ensures that evolutionary processes in the world economy oppose the inclination towards homogenization as a crucial feature of the process of globalization. Transformation of the obtainable successful models of capitalism in situation of globalization has gradualist character.

Modification of successful models takes place through a combination of various forms of institutional changes, which ensure the coherence of the existing institutional order. These all theoretical frame work tends towards globalization and there is huge chance of increasing trade which is term as internationalization.

### Conclusion

In this paper I have discussed the relationship between globalization and trade. The argument has been that the relationship between globalization and trade is 'double edged, when globalization increase as well trade also increase and vice versa. The objective of the paper has been to suggest a theoretical and methodological framework for the study of this relationship. First, globalization was concerned with different processes of modernization and this modernization generate new trade activity which tends to increase new employment opportunity, then there is a chain of activity start and new opportunities are create.

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