

# **Trade, Market, State and Democracy:**

## **An Essay on the History and Future of Globalization**

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### **Table of Contents**

[Executive Summary](#)

[Introductory Remarks](#)

[The Basics: State and Market](#)

[The Retreat from Globalization](#)

[The Retreat from Autarchy](#)

[The Hurdles: Barriers to Trade in Agriculture](#)

[The Hurdles: Barriers to Labour Mobility](#)

[The Hurdles: Barriers to Technology Transfers](#)

[Globalization and the New Economy](#)

[Globalization and Democracy](#)

[Globalization and the Decline of the Nation State](#)

[Hazards of Globalization: International Terror](#)

[Hazards of Globalization: External Economic Shock](#)

[Globalization and The Environment](#)

[A New Age of Empire?](#)

[The Barriers in Perspective](#)

[Concluding Remarks](#)

### **Executive Summary**

Globalization involves an interplay between trade, market and State, which are amongst the oldest of human institutions, although the relationships between them have varied greatly over time. The term 'globalization' has gained common currency only recently, but the forces that unleashed the trend towards greater global integration can be traced back to the end of the Middle Ages in Europe.

Five distinct phases can be discerned in this trend. The first phase began with the passing of pre-modern localism, the rise of absolute monarchy, centralizing tendencies and the development of the modern nation-State in Europe. This, combined with technological improvements, especially in the maritime fields and mass production of merchandise goods, led to cross-border integration through long-distance trade and empire during a phase of European imperial expansion that defined the second phase of globalization. The globalizing trend was halted by the two great wars, and an 'autarchic' anti-imperial phase, which actually saw a decline in international trade as a percentage of global GDP. During the fourth phase, merchandise trade resumed its triumphant march as the engine of growth in East Asia in the nineteen seventies, and international trade/GDP ratios recovered to their late nineteenth century level by the last decade of the twentieth century. Whereas the globalization thrust in the nineteenth century involved, in the main, the export of mass-produced merchandise to the colonies, this time round the export dynamism came from the erstwhile colonies. The process of globalization has now entered a fifth phase, where the invisible cross-border trade in services, led by rapid technological advances in information technology, has become the new engine of growth and is redefining old economic paradigms. The first phase of globalization saw the flag follow trade, while the latest phase is facilitating the spread of democratizing forces and the decline of the Nation-State. While non-tariff barriers currently constitute the main barriers to merchandise trade, globalization today is mainly constrained by barriers in agriculture, labour mobility and dissemination of technology. Globalizing tendencies have also brought in their wake the forces of external economic shock and state-less global terror. The forces driving globalization and environmental change are similar, and while former would undoubtedly make it easier to address the latter, the resolution of North-South is likely to be a significant determinant of the globalization time-line.