

## Chapter 13

# Determinants of Specialization and Main Trends in International Trade

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### ABSTRACT

*This chapter presents a review of the determinants of specialization and the main trends in international trade. Globalization, trade agreements, new economic poles, and regional integration represent the most influential trends in international trade. Research in this field shows that the main determinants of specialization are demographic change; advances in technology, investment, and energy; and natural resources. Each of the mentioned determinants of specialization and trends will be discussed and constitute a separate section with relevant research and key findings.*

### INTRODUCTION

Trade competition is one of the most important topics related to international economics in the last decades. Firstly, the major trends in international trade will be detailed: globalization, international agreements, regionalization, and emerging markets. Secondly, a more detailed view will be offered regarding four groups of specialization determinants: demographic change, technological advance, energy and natural resources, and investment.

There are four main trends that appear in the literature on the topic and are believed to be critical. These main trends in international trade are international agreements, globalization (openness of markets), regionalization, and the emergence of new markets that have become new economic poles.

The aim of this chapter is to present a summary of the major trends in international trade and the main determinants of specialization.

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## **TRENDS IN INTERNATIONAL TRADE**

### **Globalization**

In the last 50 years, we have been witnessing an openness of markets at a scale unmatched until this moment, which means that the external dimension is of critical importance. This fact can be noticed at macroeconomic level regarding the relations between countries and, at the microeconomic level, taking into consideration the companies. Globalization is undoubtedly one of the most researched topics by the academic community and economists worldwide as it is a main trend in international trade (Arribas et al., 2009). Globalization is a phenomenon that debuted after the World War II but it has been able to rapidly grow due to the rounds of negotiations of the GATT/WTO, namely since the mid-1980s.

The definition of globalization according to IMF (2002) is “the process through which an increasingly free flow of ideas, people, goods, services, and capital leads to the integration of economies and societies” and it represents “a political choice in favor of international economic integration, which for the most part has gone hand-in-hand with the consolidation of democracy”. The World Trade Organization (WTO) general director explained in a speech that globalization can be defined as “a historical stage of accelerated expansion of market capitalism, like the one experienced in the 19th century with the industrial revolution. It is a fundamental transformation in societies because of the recent technological revolution which has led to a recombining of the economic and social forces on a new territorial dimension” (Lamy, 2006). The former general director also identifies international trade as one of the most visible dimensions of globalization.

The first person that used the term globalization was Levitt (1983) aiming to explain the changes in the international economy between 1950 and 1985. He was also the first to stress the importance of technology: “a powerful force drives the world towards a converging commonality, and that force is technology. It has proletarianized communication, transport and travel. (...) Almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies” (Giddens, 1990, p. 64). Almost 30 years later, his revolutionary statements continue to be true as the average consumer has more and more diverse requests and little to none regard to the market boundaries consequently influencing international trade. In his book, Anthony Giddens shares a perspective on the matter of geographic distances and globalization and explains it as an “intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa” (Giddens, 1990, p. 60). The term globalization can be found in research papers as associated with the term integration, in the context of societies and economies becoming more integrated due to the reduced cost of transportation, lower trade barriers and faster communication (World Bank, 2002). The same report explains that the phase of globalization studied in this paper, that started around 1980 and continues today as being “spurred by technological advance in transport and communications technologies and by the choice of large developing countries to improve their investment climates and to open up to foreign trade and investment”. Therefore, we can deduce the important effect of globalization on international trade, mainly in the last 50 years.

A more recent definition by Kopp (2020) explains globalization as a spread of products, technology, jobs and information across borders and cultures and from the economic stand point as an interdependence of nations stimulated by free trade.

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