

Week 1

Globalization



Definition

- Refers to the shift towards a more **integrated and interdependent world economy**. OR
- Refers to increasing global connectivity, integration and interdependence in the economic, social, technological, cultural, political, and ecological spheres.
- Globalization is an **umbrella term** and is perhaps best understood as a **unitary process inclusive of many sub-processes** (such as enhanced economic interdependence, increased cultural influence, rapid advances of information technology, and novel governance and geopolitical challenges) **that are increasingly binding people and the biosphere more tightly into one global system**.

- Is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.
- This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.



There are several definitions and all usually mention the increasing connectivity of economies and ways of life across the world.

- The Encyclopedia Britannica says that globalization is **the "process by which the experience of everyday life ... is becoming standardized around the world."**
- While some scholars and observers of globalization stress convergence of patterns of production and consumption and a resulting homogenization of culture, others stress that globalization has the potential to take many diverse forms.

- In economics, globalization is the **convergence of prices, products, wages, rates of interest and profits towards developed country norms.**
- Globalization of the economy depends on the **role of human migration, international trade, movement of capital, and integration of financial markets.**
- The International Monetary Fund notes the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions, free international capital flows, and more rapid and widespread diffusion of technology.

1. Critics of globalization have argued that the process has **exploited people in developing countries**, caused massive disruptions to their lives and produced few benefits in return.
2. Supporters point to the significant **reductions in poverty** achieved by countries which have embraced integration with the world economy such as China, Vietnam, India and Uganda.

- But **policy** and **technological developments** of the past few decades have spurred increases in cross-border trade, investment, and migration so large that many observers believe the world has entered a qualitatively new phase in its economic development.
- Since 1950, for example, the volume of world trade has increased by 20 times, and from just 1997 to 1999 flows of foreign investment nearly doubled, from \$468 billion to \$827 billion. Distinguishing this current wave of globalization from earlier ones, author Thomas Friedman has said that today globalization is “**further, faster, cheaper, and deeper.**”

- This current wave of globalization has been driven by policies that have opened economies domestically and internationally.
- In the years since the Second World War, and especially during the past two decades, many governments have adopted **free-market economic systems**, vastly increasing their own productive potential and creating myriad new opportunities for international trade and investment.
- Governments also have negotiated dramatic reductions in barriers to commerce and have established international agreements to promote trade in goods, services, and investment.
- Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners. A defining feature of globalization, therefore, is an international industrial and financial business structure.

- **Technology** has been the other principal driver of globalization. Advances in information technology, in particular, have dramatically transformed economic life.
- Information technologies have given all sorts of individual economic actors—consumers, investors, businesses—valuable new tools for identifying and pursuing economic opportunities, including faster and more informed analyses of economic trends around the world, easy transfers of assets, and collaboration with far-flung partners.

Globalization's Trends

Globalization has various aspects which affect the world in several different ways such as:

1. Industrial (alias trans nationalization)

- emergence of worldwide production markets and broader access to a range of goods for consumers and companies.



2. Financial

- emergence of worldwide financial markets and better access to external financing for corporate, national and sub-national borrowers.

3. Economic

- realization of a global common market, based on the freedom of exchange of goods and capital.

4. Political

- Political globalization is the creation of a world government which regulates the relationships among nations and guarantees the rights arising from social and economic globalization.

5. Informational

- increase in information flows between geographically remote locations.



6. Cultural

- growth of cross-cultural contacts; advent of new categories of consciousness and identities such as Globalism - which embodies cultural diffusion, the desire to consume and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture".

7. Ecological

- the advent of global environmental challenges that can not be solved without international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species.

8. Social

- the achievement of free circulation by people of all nations.

9. Technical/legal

- Development of a global telecommunications infrastructure and greater trans-border data flow, using such technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones.
- Increase in the number of standards applied globally; e.g. copyright laws, patents and world trade agreements.
- The push by many advocates for an international criminal court and international justice movements.



10. Greater international cultural exchange

- Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). However, the imported culture can easily supplant the local culture, causing reduction in diversity through hybridization or even assimilation.
- Greater international travel and tourism.
- Greater immigration, including illegal immigration.
- Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).
- World-wide fads and pop culture such as Pokémon, Sudoku, Numa Numa, Origami, Idol series, YouTube, Facebook, and MySpace.
- World-wide sporting events such as FIFA World Cup and the Olympic Games.
- Formation or development of a set of universal values.

Measuring Globalization

Looking specifically at economic globalization, it can be measured in different ways. These centre around the four main economic flows that characterize globalization:

- 1. Goods and services**, e.g. exports plus imports as a proportion of national income or per head of population.
- 2. Labour/people**, e.g. net migration rates; inward or outward migration flows, weighted by population.
- 3. Capital**, e.g. inward or outward direct investment as a proportion of national income or per head of population.
- 4. Technology**, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

What Drives Globalization?

- Globalization defined as the integration of economies through markets across frontiers. It is driven, in turn, by two forces: **the reduction in the costs of transportation and communications** and **economic liberalization**.
- The reduction in the costs of transportation and communications is a consistent tendency in human history, though one that has accelerated over the past two centuries.
- Economic liberalization, however, is far from consistent. On the contrary, the last two centuries have seen two upswings and one huge downswing.

1. Falling Costs of Transportation and Communications

- Changes in transportation and communications technology create opportunities for increased commerce and are, in turn, created by them. This is not a new phenomenon.
- The railway, the steamship, the refrigerator, and the telegraph created the opportunities for the integration of the 19th and early 20th centuries. The railway made the shipping of commodities in bulk over land feasible for the first time in history. With the steamship, tens of millions of people could cross the oceans with ease and did so.

- The first transatlantic cable was laid in 1866. This, argues Professor Kevin O'Rourke, was “the most important breakthrough of the last 200 years” for the capital markets. “No other innovation,” he writes, “including the late nineteenth-century invention, the telephone, or its late twentieth-century equivalent, the Internet, has had comparable impact on the speed of information flows and capital market integration.”
- The 20th century added the container ship, the giant tanker, and the airliner. It also added radio, television, transcontinental telephony, the satellite, the computer, and the Internet.
- New opportunities have been created and, again, they have been exploited. They are to be seen in 24-hour financial markets, mass tourism, and the global interconnection of production that has spawned the multinational corporations of today.

2. Economic Liberalization

- In the long run, then, the world seems bound to become more globalized because opportunities have grown enormously. But history tells us that this does not mean a never-ending rise in integration.
- In the 19th century, a rising tide of liberalism reached its highest point in the last one or two decades of the century.
- After World War II, liberalization began anew, though haltingly, in Western Europe and across the Atlantic under the wise leadership of the United States.
- By the late 1960s, the success of a small number of relatively outward-looking east Asian economies was becoming more visible.

- By the late 1970s, the failures of state planning and nationalization were also becoming evident. This set the stage for what must be the most dramatic period of economic liberalization there has ever been.
- In all these cases, moreover, what happened was not just liberalization at the border. As has usually been the case, the move towards the market has been simultaneously internal and external.
- There have been exceptions: The United States was one in the 19th century, when it combined high protection against imports with laissez-faire at home. But when countries decide to adopt the logic of the market, they normally do so both domestically and internationally.
- Once one has accepted that market relations make sense among domestic residents, it is hard to argue that foreigners must be excluded.

- A country's international transactions are, after all, just the aggregate of the individual transactions by its residents.
- Moreover, because the motivation for such transactions is the same as for transactions with fellow residents, they are just as likely to contribute to the welfare of those who undertake them. This is the logic of international integration

Impact of Globalization

The most common or core sense of economic globalization – the aspect this paper concentrates on - refers to the **observation that in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries** (rather than in the same country). This growth in cross-border economic activities takes various forms:

1. International Trade

- A growing share of spending on goods and services is devoted to imports from other countries. And a growing share of what countries produce is sold to foreigners as exports.
- Among rich or developed countries the share of international trade in total output (exports plus imports of goods relative to GDP) rose from 32.3 to 37.9 percent between 1990 and 2001.
- For developing countries (low and middle income countries) it rose from 33.8 to 48.9 percent in the same period.

2. Foreign Direct Investment (FDI)

- Over the past decade, firms based in one country have increasingly made investments to establish and run business operations in other countries.
- Over the past two decades, as financial openness has increased across the world, global flows of foreign direct investment have more than doubled relative to gross domestic product.
- The flows increased in the 1990s, rising from US\$324 billion in 1995 to US\$1.5 trillion in 2000.
- However investment levels recently fluctuated considerably depending on the prevailing economic and political climate.

2. Foreign Direct Investment (FDI)

- The global economic slowdown has reduced financial flows in the past couple of years, against the long-term trend of increases, and political and economic instability have exacerbated problems in some regions.
- Capital flows in Latin America dropped from a peak of US\$126 billion in 1998 to US\$72 billion in 2001, reflecting regional problems and global uncertainty. FDI flows to Argentina fell from US\$24 billion in 1999 to US\$3 billion in 2001.
- But FDI has remained strong in East Asia and the Pacific and in Europe and Central Asia. Developing countries received around a quarter of world FDI inflows in 2001 on average, though the share fluctuated quite a bit from year to year.
- This is now the largest form of private capital inflow to developing countries.

3. Capital Market Flows

- Over the course of the past decade, in many countries (especially in the developed world), savers have increasingly diversified their portfolios to include foreign financial assets (foreign bonds, equities, loans), while borrowers increasingly turn to foreign sources of funds, along with domestic ones.
- While flows of this kind to developing countries also rose sharply in the 1990s, they have been much more volatile than either trade or FDI flows, and have also been restricted to a narrower range of 'emerging market' countries.