

# Globalization of the Economy: What does it mean?

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Globalization is a powerful force that will have significant influence on all of us throughout our lives. It has many aspects including economic, political, social, health and environmental. The focus here is on the concept of globalization as related to the world economy. The term applied to the economy was popularized in the 1980s; however, the concept is an old one that has contrasting interpretations. As a result of the different interpretations, there are polarized reactions to globalization, with some viewing it as a positive force for advancing the world economy while others view it as a threat and negative force.

There are three main purposes to this paper. First, it describes globalization as applied to the world economy. Second, it considers both the potential benefits and the potential costs stemming from globalization. And lastly, it considers the future implications for individuals and the world economy of globalization. The view taken is that there are both positive and negative economic aspects of globalization and that the future consequences of globalization depend on the actions of individuals and institutions around the world. While globalization can cause economic dislocation, inequities and conflicts, it can also contribute to benefits such as the expansion of economic opportunities for individuals and nations and lower prices for consumers.

**What is globalization?** Almost every economic decision, even of students in a college town in New Hampshire, has consequences globally. Approximately one-half of the clothing worn, cars driven, and computers and electronic products used by students in the United States (US) are products of foreign companies and produced by workers in foreign nations. Whether or not, or more relevantly how fast, this proportion increases to three-quarters and higher will affect the employment and economic prospects of all students and all workers in the US.

All of today's US college students will benefit throughout their lifetime as consumers from the variety of products and services available globally and from the competition among international businesses for con-

sumer expenditures. And all of today's US college students will also compete for jobs and economic opportunities with foreign workers in foreign countries.

The world-wide economy increasingly operates without national borders. Trade barriers are falling with trade agreements such as the North America Free Trade Agreement (NAFTA) and the formation of the European Union (EU). Social and political reforms have opened nations once closed to international trade, such as China, Vietnam and the formerly communist nations in Eastern Europe. Technology and telecommunication advances lower the cost of doing business globally and make economic connections worldwide faster and easier. The world's economy and businesses are increasingly inter-connected. Each day about 40,000 multinational corporations do business around the globe and \$1.5 trillion international financial transactions occur.

The world's economic system involves the continuous flow of money, products, services, capital investments, workers and people across the planet. The most commonly used overall measure of the globalization of the world's economy is trade. World-wide trade represents one-quarter of the world's economy and has been increasing at accelerated rates. Over the last quarter century worldwide trade increased over 500 percent (see Table 1).

Many *name brand* United States companies, such as Procter & Gamble (P&G), derive more than one-half of their revenues from international sales outside the US. Forty percent of imports into the US are from the subsidiaries of US companies in other countries. As examples, Timberland, a US company with its worldwide headquarters in New Hampshire, does not manufacture any of its products domestically and washing machines produced by Whirlpool in Europe are sold to consumers in the US.

Wal-Mart, the world's largest company, with \$245 billion in sales in 2002, accounts for more overall economic activity than the nations of Ireland and Israel combined. While considered a US company, 17 percent of the Wal-Mart's sales are outside the US and estimates are that 80

percent of the company's over 6,000 suppliers are located in China.

Wal-Mart and the company's relationship with China is a leading example of globalization at work, with all its attendant advantages and disadvantages. By purchasing merchandise from factories in China with low wages and rolling back prices on everything from a pair of jeans to television sets, Wal-Mart is helping keep consumer prices in the US low. But it's also helping to export tens of thousands of US manufacturing jobs to other countries. With Wal-Mart and other multinational companies increasing purchases from China, that nation has the fastest growing economy in the world. The Chinese economy's share of the world's economy has grown 60 percent over the last two decades and trade in Chinese goods has increased at twice the worldwide rate.

The United States still has the world's largest economy, accounting for about one-third of the global economy. Globalization is of critical importance to the US economy. Imports into and exports from the US combined account for over one-fifth of the overall economy and that percentage has been increasing at a significant rate. The US in 2004 accounted for about one-tenth of global exports and one-sixth of all global imports (see Table 2). The top exports from the US in total dollar value are airplanes, cars, computers and instrumentation. The other leading global exporting and importing nations in order of dollar value of total exports and imports are Germany, China, Japan, France, the United Kingdom (UK), the Netherlands and Canada.

In the more than 20 years since China began its process of internal economic reform, the volume of US - Chinese trade in goods and services has grown significantly (Wayne, 2005). This accelerated after China joined the World Trade Organization (WTO) in 2001. From 2001 to 2004, US exports to China doubled, increasing eight times faster than US exports to the rest of the world, and China rose from the US's 9th largest export market in 2001 to the 5<sup>th</sup> largest export market in 2004. During that same time, China's exports to the United States (and to the rest of the world) also increased substantially. In 2004, US imports from China totaled \$197 billion, nearly double the total for 2001. The US's largest bilateral trade deficit is with China, \$162 billion in 2004, and growing, up from \$83 billion in 2001.

The aggregate U.S. trade deficit, which includes trade in goods and services with all nations, was \$618 billion in 2004. This was a 24 percent increase over 2003. The trade deficit as a percent of the US Gross Domestic Product (GDP) increased to an unprecedented 5.8 percent in 2004. Growth in the deficit reflects surging imports and a continued, rapid decline in the international competitiveness of US manufacturing industries (EPI, 2005).

Another key aspect of globalization is foreign direct investment (FDI). In its classic definition, FDI is defined as a company from one country making a physical investment in a factory in another country. In recent years the definition has been broadened to include the acquisition of "a lasting management interest" in a company

Table 1: Global Exports and Imports—Percentages of 2002 Worldwide Totals and Percentage Growth, 1977–2002

AREA	2002		EXPORT GROWTH			IMPORT GROWTH		
	EXPORTS % WORLD	IMPORTS % WORLD	1977–02	1992–02	1998–02	1997–02	1992–02	1998–02
WORLD			534.5%	68.6%	17.3%	500.4%	68.9%	17.9%
UNITED STATES	12.8%	18.3%	538.5%	59.2%	5.2%	688.7%	116.4%	28.8%
CHINA	4.6%	4.2%	4336.5%	287.8%	76.0%	4463.5%	349.2%	94.2%
AFRICA	2.2%	2.2%	143.6%	33.6%	16.8%	133.4%	32.7%	0.4%
ASIA	27.9%	25.0%	674.4%	89.5%	30.5%	647.0%	80.8%	29.4%
EUROPE	45.7%	43.5%	510.9%	56.8%	12.9%	441.0%	49.4%	11.8%
N. AMERICA	16.6%	21.8%	536.1%	65.9%	8.0%	640.0%	107.5%	25.7%
S. AMERICA	2.4%	2.0%	415.9%	70.4%	13.4%	229.2%	44.1%	-25.2%

or enterprise outside the investing firm's home country. FDI can take a variety of forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm. Today over 20 percent of United States corporate production takes place outside of the US. FDI in the US over the last quarter century increased from 2.3 percent of GDP to just below 5 percent.

The US is the world's leading foreign investment destination, with Japanese automobile plants as a leading example. Japanese automobile manufacturers produce approximately 3 million vehicles annually in the US. Approximately 59,000 US residents design and produce these vehicles. Another 351,000 distribute and sell them. The total dollars invested by Japanese auto companies in the US is \$26 billion in 20 manufacturing facilities and new facilities are in the planning or construction stage. Some of these plants are joint ventures and produce vehicles for US automobile manufacturers as well. For example, Mazda's joint venture with Ford in Flat Rock, Michigan, is now producing Ford's new Mustang. Toyota's joint venture with GM in Fremont, California, produces the Pontiac Vibe, and Mitsubishi's plant in Normal, Illinois, produces the Chrysler Sebring.

The US is not alone. FDI in the UK is growing at a faster rate than in the US, and China is rapidly catching up with the US and soon to be the world's leading location for foreign investment. In 2004 the United Kingdom recorded its highest number of inward investment

projects at 1,066, creating more than 39,000 jobs. The figure represented an over 30 percent increase in just one year. The strong positioning in FDI in the UK (and also Ireland, see below) is attributed to the nation's emphasis on research and technology, a skilled workforce, access to the common EU market, leadership in deregulating markets, openness to foreign investment, and commitment to free trade. A combination of cheap labor, robust domestic growth and market deregulation has helped China attract record FDI in recent years.

The most profound effect of FDI has been seen in developing countries such as China, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to over \$200 billion in the late 1990s. Driven by mergers and acquisitions and the globalization of production in a range of industries, FDI into all developed countries last year rose to \$636 billion, from \$481 billion in 1998 (UNCTAD, 2001).

Combining trade and FDI and related data, Singapore ranks as the most globalized nation (Kearny, 2005). Singapore tops the rankings in trade, with total exports and imports over 300 percent of the country's total economic activity. Exports are driven by a strong demand for electronic products, which account for around 60 percent of Singapore's total exports. Ireland ranks as the second most globalized country in the world. This is the main reason why Ireland today has one of the strongest performing overall economies in the world. In the early

Table 2: Top 10 Leading Exporters and Importers in World Merchandise Trade, 2004 Share (percentage of totals, out of 100) and 2003–2004 Percentage Change

RANK	EXPORTERS	SHARE	ANNUAL PERCENTAGE CHANGE	RANK	IMPORTERS	SHARE	ANNUAL PERCENTAGE CHANGE
1	GERMANY	10.0	22	1	UNITED STATES	16.1	17
2	UNITED STATES	9.0	13	2	GERMANY	7.6	19
3	CHINA	6.5	35	3	CHINA	5.9	36
4	JAPAN	6.2	20	4	FRANCE	4.9	16
5	FRANCE	4.9	15	5	UNITED KINGDOM	4.9	18
6	NETHERLANDS	3.9	21	6	JAPAN	4.8	19
7	ITALY	3.8	16	7	ITALY	3.7	17
8	UNITED KINGDOM	3.8	13	8	NETHERLANDS	3.4	21
9	CANADA	3.5	18	9	BELGIUM	3.0	22
10	BELGIUM	3.4	21	10	CANADA	2.9	13

2000s, the nation registered its highest-ever FDI inflows, including notable investments in the high-growth information technology (IT) and pharmaceutical sectors. Intel, a US headquartered high technology company, recently invested \$2 billion in Ireland to manufacture new-generation semiconductor wafers. Western Europe claimed 6 out of the 10 most globally integrated countries in 2005 (Ireland, Switzerland, the Netherlands, Denmark, Sweden and Finland) aided by the introduction of the single European currency, the euro, on January 1, 2002 while the US ranked 4<sup>th</sup> and Canada 6<sup>th</sup>.

New Hampshire (NH) is also part of the global economy. The well-being and future prospects of all NH citizens depend significantly on the state's positioning in the global economy. The state has done relatively well in the global economy. Over 2,500 firms in the Granite State export about \$2 billion annually to over 140 countries, with over one quarter of all NH exports going to Canada. The next largest export destinations are the UK and Japan. The state ranks 7<sup>th</sup> (of the 50 states) in the share of jobs in manufacturing dependent on exports, about one-quarter. In the mid-to-late 1990s the dollar value of exports increased 75 percent and New Hampshire led all New England states in export growth. Firms in industrial machinery, electronics and instrumentation account for about 60 percent of all exports from the state. In FDI the state ranks 8<sup>th</sup> of the 50 states with about 6 percent of total employment in the state at foreign-owned companies, such as BAE Systems (a UK headquartered company) and one of the largest employers in the state. About one-third of the state's largest employers are foreign-owned. Wal-Mart, selling merchandise to the state's residents manufactured globally, is the state's largest private sector employer, employing just below 9,000 in New Hampshire.

The globalization of New Hampshire's and the world's economy will continue to accelerate. It will be pushed forward by advances in transportation and telecommunications technologies that lower the cost of trade and make it easier and faster to conduct business globally. It will continue to be pulled forward by worldwide consumer demand for products and services at the lowest cost possible and the flow of investment capital to nations that offer the greatest economic returns. In addition, the public policy and institutional, ideological, and cultural factors that accelerated globalization in the late 20<sup>th</sup> and early 21<sup>st</sup> century are still active. The net results are continued moves toward a more open and a more interdependent world economy and greater worldwide flow of goods, services, money, capital, technology, people, information, and ideas.

***Is globalization good or bad?*** Whether one perceives globalization as negative or positive, it must be understood that it has changed the world's economy and it is a continuing force that presents both opportunities and challenges.

Globalization has resulted in increased economic competition. There are many beneficial effects of competition. It can increase economic efficiency and lower the costs of goods and services to consumers. Globalization can also provide gains from trade in which both parties gain in a mutually beneficial exchange, where the parties can be individuals, firms, nations, and/or trading blocs such as the EU. In classical economic theory, the benefits of competition stemming from globalization can improve the position of all parties involved, with the potential for increased output and higher real wage levels and living standards for all. The result can be greater human well-being throughout the world.

On the other hand, there are concerns about equity and fairness related to who gains the most and least from globalization. There can be substantial problems in the distribution of the benefits and costs of globalization among individuals, organizations, nations, and regions. Much of the benefits from globalization have been going to the rich nations and individuals, creating greater inequalities and leading to conflicts nationally and internationally. Some have suggested the possibility of convergence of incomes globally based on the observation that the poor nations are growing at a faster rate than the rich nations. The reality, however, is that mostly a small group of nations, the "tiger economies" of East Asia, and Ireland (the "Celtic tiger") have been growing at rapid rates, while the least developed nations of Africa, Asia, and South and Central America have been growing at a slower rate than the rich nations such as the US and Western European nations. These poor nations are thus becoming increasingly marginalized. The result has been not a convergence, but rather a divergence of incomes worldwide, with the rapid-growth economies joining the rich nations, but with the poor nations slipping further behind.

There is also the issue of inequities within developed nations such as the US resulting from globalization. This is the product of many less well-educated and lower skilled manufacturing and service industry workers losing jobs and experiencing decline in real wages with international competition and globalization. This at the same time that many highly educated and high-income workers are benefiting from globalization and increased demand for their scientific, professional and financial expertise.

Another problem stemming from globalization is that of potential global instabilities stemming from the interdependencies of economies on a worldwide basis. There is the possibility that economic fluctuations or crises in one nation could have global impacts. These linkages and potential instabilities imply potential mutual vulnerability of interconnected economies. A worldwide recession or depression could lead to calls to break the interdependencies. The result could be economic conflict, gravitating to economic warfare and possibly to military conflict.

Another type of problem stemming from globalization is that the control of national economies is shifting from sovereign governments to other entities, including multinational firms. Opponents of FDI note that multinational conglomerates are able to wield great power over smaller and weaker national economies. Globalization could lead to a belief among national leaders that they are helplessly in the grip of global forces and an attitude of disaffection among the electorate. The result could be extreme nationalism, along with calls for protectionism and the growth of extremist political movements, ultimately leading to potential conflicts.

In summary, there are twin myths regarding globalization of the economy, the optimistic one that globalization leads to only positive outcomes and the pessimistic one that globalization leads only to negative outcomes. Any objective treatment or net assessment would have to recognize both the benefits and costs of globalization.

What will be the outcomes of economic globalization in the future? What are the implications for individuals and the world of globalization? In many respects it is in the hands and minds of today's college students.

For individuals, those with unique skills and capabilities in high global demand will do best. It will help for individuals to have advanced education and be facile in the latest technology, but this will not be enough. The so-called "hard skills" will need to be supplemented with: an understanding of the dynamics of the global economy; knowledge and appreciation of different nations, cultures and languages; and empathy for the position and perspectives of others (unlike oneself) in the world.

The answer for the world depends on the future character of global economic, political and social systems and leaders. The challenge is to create a new political and social system in the context of the progression of globalization that can enhance its beneficial economic effects and minimize its problems and costs. A key to such a system will be global citizenship. This includes

consumers, even in a college town in New Hampshire, taking into consideration the global consequences of their purchasing decisions. It would also require the development of democratically governed, global thinking, and equity-minded global institutions.

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