

GLOBALIZATION AND THE ECONOMY^{*}

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Abstract

- Define globalization and describe its manifestation in modern society
- Discuss the pros and cons of globalization from an economic standpoint



Figure 1: Instant communications have allowed many international corporations to move parts of their businesses to countries such as India, where their costs are lowest. (Photo courtesy of Wikimedia Commons)

1 What Is Globalization?

Globalization refers to the process of integrating governments, cultures, and financial markets through international trade into a single “world market.” Often, the process begins with a single motive, such as market expansion (on the part of a corporation) or increased access to health care (on the part of a nonprofit organization). But usually there is a snowball effect, and globalization becomes a mixed bag of economic, philanthropic, entrepreneurial, and cultural efforts. Sometimes the efforts have obvious benefits, even for those who worry about cultural colonialism, such as campaigns to bring clean-water technology to rural areas without access to safe drinking water.

Other globalization efforts, however, are more complex. Let us look, for example, at the free-trade agreement known as NAFTA (North American Free Trade Agreement). The agreement is among the countries of North America, including Canada, the United States, and Mexico, allowing much freer trade opportunities

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without the kind of tariffs (taxes) and import laws that restrict international trade. Often, trade opportunities are misrepresented by politicians and economists, who sometimes offer them up as a panacea to economic woes. For example, trade can lead to both increases and decreases in job opportunities. This is because while easier, more lax export laws mean there is the potential for job growth in the U.S., imports can mean the exact opposite. As Americans import more goods from outside the country, jobs typically decrease, as more and more products are made overseas.

Many prominent economists believed that when NAFTA was created in 1994 it would lead to major gains in jobs. But by 2010, the evidence showed an opposite impact; the data showed 682,900 U.S. jobs lost across all states (Parks 2011). While NAFTA did increase the flow of goods and capital across the northern and southern U.S. borders, it also increased unemployment in Mexico, spurring greater amounts of illegal immigration motivated by a search for work.

There are several forces driving globalization, including the global economy and multinational corporations that control assets, sales, production, and employment (United Nations 1973). Characteristics of multinational corporations include the following: A large share of their capital is collected from a variety of different nations, their business is conducted without regard to national borders, they concentrate wealth in the hands of core nations and already wealthy individuals, and they play a key role in the global economy.

There are several components to the global economy and many changes that occur as countries grow more interdependent. First, there is an increasing number of **global cities**, which

1. headquarter multinational corporations, such as Coca-Cola
2. exercise significant international political influence, such as what comes from Beijing or Berlin
3. host headquarters of international nongovernmental organizations (NGOs) such as the United Nations
4. host influential media such as the BBC and Al Jazeera
5. host advanced communication and transportation infrastructure, such as is seen in Shanghai (Sassen 2001)

Second, we see the emergence of **global assembly lines**, where products are assembled over the course of several international transactions. For instance, Apple designs its next-generation Mac prototype in the United States, components are made in various peripheral nations, they are then shipped to another peripheral nation such as Malaysia for assembly, and tech support is outsourced to India.

Globalization has also led to the development of **global commodity chains**, where internationally integrated economic links connect workers and corporations for the purpose of manufacture and marketing (Plahe 2005). For example, in *maquiladoras*, mostly found in northern Mexico, workers may sew imported precut pieces of fabric into garments.

Globalization also brings an international division of labor, in which comparatively wealthy workers from core nations compete with the low-wage labor pool of peripheral and semi-peripheral nations. This can lead to a sense of **xenophobia**, which is an illogical fear and even hatred of foreigners and foreign goods. Corporations trying to maximize their profits in the United States are conscious of this risk and attempt to “Americanize” their products, selling shirts printed with U.S. flags that were nevertheless made in Mexico.

2 Aspects of Globalization

Globalized trade is nothing new. Societies in ancient Greece and Rome traded with other societies in Africa, the Middle East, India, and China. Trade expanded further during the Islamic Golden Age and after the rise of the Mongol Empire. The establishment of colonial empires after the voyages of discovery by European countries meant that trade was going on all over the world. In the 19th century, the Industrial Revolution led to even more trade of ever-increasing amounts of goods. However, the advance of technology, especially communications, after World War II and the Cold War triggered the explosive acceleration in the process occurring today.

One way to look at the similarities and differences that exist among the economies of different nations is to compare their standards of living. The statistic most commonly used to do this is the domestic process per capita. This is the gross domestic product, or GDP, of a country divided by its population. The table

below compares the top 11 countries with the bottom 11 out of the 228 countries listed in the *CIA World Factbook*.

Gross Domestic Product Per Capita

Rank	Country	GDP - per capita(PPP)
1	Qatar	\$179,000
2	Liechtenstein	\$141,100
3	Luxembourg	\$82,600
4	Bermuda	\$69,900
5	Singapore	\$62,100
6	Jersey	\$57,000
7	Norway	\$54,600
8	Brunei	\$51,600
9	United Arab Emirates	\$49,600
10	Kuwait	\$48,900
11	United States	\$47,200
218	Sierra Leone	\$900
219	Madagascar	\$900
220	Malawi	\$800
221	Niger	\$700
222	Central African Republic	\$700
223	Somalia	\$600
224	Eritrea	\$600
225	Zimbabwe	\$500
226	Liberia	\$500
227	Democratic Republic of Congo	\$300
228	Burundi	\$300

Table 1: Not every country is benefitting from globalization. The GDP per capita of the poorest countries is 600 times less than that of the wealthiest countries. (Table courtesy of the CIA, World Factbook 2004)

There are benefits and drawbacks to globalization. Some of the benefits include the exponentially accelerated progress of development, the creation of international awareness and empowerment, and the potential for increased wealth (Abedian 2002). However, experience has shown that countries can also be weakened by globalization. Some critics of globalization worry about the growing influence of enormous international financial and industrial corporations that benefit the most from free trade and unrestricted markets. They fear these corporations can use their vast wealth and resources to control governments to act in their interest rather than that of the local population (Bakan 2004). Indeed, when looking at the countries at the bottom of the list above, we are looking at places where the primary benefactors of mineral exploitation are major corporations and a few key political figures. Nigeria, for example, is a country that produces tens of billions of dollars in oil revenue, but the money does not go to the country's people.

Other critics oppose globalization for what they see as negative impacts on the environment and local economies. Rapid industrialization, often a key component of globalization, can lead to widespread economic damage due to the lack of regulatory environment (Speth 2003). Further, as there are often no social institutions in place to protect workers in countries where jobs are scarce, some critics state that globalization leads to weak labor movements (Boswell and Stevis 1997). Finally, critics are concerned that wealthy countries can force economically weaker nations to open their markets while protecting their own local products from competition (Wallerstein 1974). This can be particularly true of agricultural products, which are often one of the main exports of poor and developing countries (Koroma 2007). In a 2007 article for the United Nations, Koroma discusses the difficulties faced by “least developed countries” (LDCs) that seek to participate in globalization efforts. These countries typically lack the infrastructure to be flexible and nimble in their production and trade, and therefore are vulnerable to everything from unfavorable weather conditions to international price volatility. In short, rather than offering them more opportunities, the increased competition and fast pace of a globalized market can make it more challenging than ever for LDCs to move forward (Koroma 2007).

The increasing use of outsourcing of manufacturing and service-industry jobs to developing countries has caused increased unemployment in some developed countries. Countries that do not develop new jobs to replace those that move, and train their labor force to do them, will find support for globalization weakening.

3 Summary

Globalization refers to the process of integrating governments, cultures, and financial markets through international trade into a single “world market.” There are benefits and drawbacks to globalization. Often the countries that fare the worst are those that depend on natural resource extraction for their wealth. Many critics fear globalization gives too much power to multinational corporations and that political decisions are influenced by these major financial players.

4 Section Quiz

Exercise 1

(Solution on p. 7.)

Ben lost his job when GM closed U.S. factories and opened factories in Mexico. Now, Ben is very anti-immigration and campaigns for large-scale deportation of Mexican nationals, even though, logically, their presence does not harm him and their absence will not restore his job. Ben might be experiencing _____.

- xenophobia
- global commodity chains
- xenophilia
- global assembly line

Exercise 2

(Solution on p. 7.)

Which of the following is *not* an aspect of globalization?

- Integrating governments through international trade
- Integrating cultures through international trade
- Integrating finance through international trade
- Integrating child care through international trade

Exercise 3

(Solution on p. 7.)

One reason critics oppose globalization is:

- positive impacts on world trade
- negative impacts on the environment

- c. the concentration of wealth in the poorest countries
- d. negative impacts on political stability

Exercise 4*(Solution on p. 7.)*

All of the following are characteristics of global cities, *except*:

- a. headquarter multinational corporations
- b. exercise significant international political influence
- c. host headquarters of international NGOs
- d. host influential philosophers

Exercise 5*(Solution on p. 7.)*

Which of the following is *not* a characteristic of multinational corporations?

- a. A large share of their capital is collected from a variety of nationalities.
- b. Their business is conducted without regard to national borders.
- c. They concentrate wealth in the hands of core nations.
- d. They are headquartered primarily in the United States.

5 Short Answer**Exercise 6**

What impact has globalization had on the music you listen to, the books you read, or the movies or television you watch?

Exercise 7

What effect can immigration have on the economy of a developing country?

Exercise 8

Is globalization a danger to local cultures? Why or why not?

6 Further Research

The World Social Forum (WSF) was created in response to the creation of the World Economic Forum (WEF). The WSF is a coalition of organizations dedicated to the idea of a worldwide civil society and presents itself as an alternative to WEF, which it says is too focused on capitalism. To learn more about the WSF check out <http://fsm2011.org>¹

7 References

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⁴<http://blog.aflcio.org/2011/05/03/report-nafta-has-cost-683000-jobs-and-counting>

Solutions to Exercises in this Module

to Exercise (p. 4): Answer

A

to Exercise (p. 4): Answer

D

to Exercise (p. 4): Answer

B

to Exercise (p. 5): Answer

D

to Exercise (p. 5): Answer

D

Glossary

Definition 1: global assembly lines

where products are assembled over the course of several international transactions

Definition 2: global cities

cities that headquarter multinational corporations, exercise significant international political influence, host headquarters of international nongovernmental organizations, host influential media, and host advanced communication and transportation infrastructure

Definition 3: global commodity chains

where internationally integrated economic links connect workers and corporations for the purpose of manufacture and marketing

Definition 4: xenophobia

an illogical fear and even hatred of foreigners and foreign goods