THE ECONOMIC ENVIRONMENT OF GLOBALIZATION

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ABSTRACT: The Economic Globalization is an Irreversible Trend. Economic Globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world at the turn of the millennium. This article will try to focus on the phenomenon of the influence on the country systems.

KEY WORDS: Globalization, Economic Growth, GDP.

I. INTRODUCTION

The Economic Globalization is an Irreversible Trend. Economic Globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies [6]. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world at the turn of the millennium. The rapid growing significance of information in all types of productive activities and marketization are the two major driving forces for Economic Globalization. In other words, the fast globalization of the world’s economies in recent years is largely based on the rapid development of science and technologies, has resulted from the environment in which market economic system has been fast spreading throughout the world, and has developed on the basis of increasing cross-border division of labor that has been penetrating down to the level of production chains within enterprises of different countries [8]. The advancement of science and technologies has greatly reduced the cost of transportation and communication, making economic globalization possible. Today’s ocean shipping cost is only a half of that in the year 1930, the current air freight 1/6, and telecommunication cost 1%. The price level of computers in 1990 was only about 1/125 of that in 1960, and this price level in 1998 reduced again by about 80%. This kind of ‘time and space compression effect’ of technological advancement greatly reduced the cost of international trade and investment, thus making it possible to organize and coordinate global production. For example, Ford’s Lyman car is designed in Germany, its gearing system produced in Korea, pump in USA, and engine in Australia. It is exactly the technological advancement that has made this type of global production possible. Moreover, the development of the networking-based economy has given birth to a large group of shadow enterprises, making the concept of national boundaries and distance for certain economic activities meaningless.

II. MATERIALS

The process of Economy Globalization is also the process of global industrial restructuring and readjustment. With the development of science and technology and increase of income level, industrial structures of all the countries have been also undergoing readjustment and upgrading. In recent years, developed countries in the west are gradually entering the era of knowledge economy and have started to shift to developing countries many labor-intensive industries of weak international competitiveness. This process of cross-country shift is pushing forward an in-depth development of economic globalization. On the other hand, there has existed a surplus of productivity since the end of the cold war. Due to this fact, economic globalization has intensified the competition at the international market among enterprises from different countries. In order to raise their positions and improve their competitiveness at the international market, both domestic enterprises and those from other countries have been resorting to mergers and acquisitions one after another, which has resulted in tides of industrial restructuring. According to Asiedu [1], Globalization, as a complicated process, is not a new phenomenon and our world has experienced its effects on different aspects of lives such as economic, social, environmental and political from many years ago. Economic globalization includes flows of goods and services across borders, international capital flows, reduction in tariffs and trade barriers, immigration, and the spread of technology, and knowledge beyond borders. It is source of much debate and conflict like any source of great power.
The broad effects of globalization on different aspects of life grab a great deal of attention over the past three decades. As countries, especially developing countries are speeding up their openness in recent years the concern about globalization and its different effects on economic growth, poverty, inequality, environment and cultural dominance are increased.

The net effect of Globalization on Economic Growth remains puzzling since previous empirical analysis did not support the existent of a systematic positive or negative impact of globalization on growth. Most of these studies suffer from econometrics shortcoming, narrow definition of globalization and small number of countries. recently, researchers have claimed that the growth effects of globalization depend on the economic structure of the countries during the process of globalization. The impact of globalization on economic growth of countries also could be changed by the set of complementary policies such as improvement in human capital and financial system. In fact, globalization by itself does not increase or decrease economic growth. The effect of complementary policies is very important as it helps countries to be successful in globalization process. Hasson [7] claim that, the relationship between globalization and growth is a heated and highly debated topic on the growth and development literature. Yet, this issue is far from being resolved. Theoretical growth studies report at best a contradictory and inconclusive discussion on the relationship between globalization and growth. Some of the studies found positive the effect of globalization on growth through effective allocation of domestic resources, diffusion of technology, improvement in factor productivity and augmentation of capital. In contrast, others argued that globalization has harmful effect on growth in countries with weak institutions and political instability and in countries, which specialized in ineffective activities in the process of globalization.

The goal of globalization is to provide organizations a superior competitive position with lower operating costs, to gain greater numbers of products, services and consumers. This approach to competition is gained via diversification of resources, the creation and development of new investment opportunities by opening up additional markets, and accessing new raw materials and resources. Diversification of resources is a business strategy that increases the variety of business products and services within various organizations. Diversification strengthens institutions by lowering organizational risk factors, spreading interests in different areas, taking advantage of market opportunities, and acquiring companies both horizontal and vertical in nature.

Industrialized or developed nations are specific countries with a high level of economic development and meet certain socioeconomic criteria based on economic theory, such as Gross Domestic Product (GDP), industrialization and human development index (HDI) as defined by the International Monetary Fund (IMF), the United Nations (UN) and the World Trade Organization (WTO). Using these definitions, some industrialized countries are: United Kingdom, Belgium, Denmark, Finland, France, Germany, Japan, Luxembourg, Norway, Sweden, Switzerland and the United States. Some economists have a positive outlook regarding the net effects of globalization on economic growth. These effects have been analyzed over the years by several studies attempting to measure the impact of globalization on various nations' economies using variables such as trade, capital flows and their openness, GDP per capita. Foreign Direct Investment (FDI) and more. These studies examined the effects of several components of globalization on growth using time series cross sectional data on trade, FDI and portfolio investment. Although they provide an analysis of individual components of globalization on economic growth, some of the results are inconclusive or even contradictory. However, overall, the findings of those studies seem to be supportive of the economists' positive position, instead of the one held by the public and non-economist view [5].

Trade among nations via the use of comparative advantage promotes growth, which is attributed to a strong correlation between the openness to trade flows and the effect on economic growth and economic performance. Additionally, there is a strong positive relation between capital flows and their impact on economic growth [4]. Foreign Direct Investment's impact on economic growth has had a positive growth effect in wealthy countries and an increase in trade and FDI, resulting in higher growth rates. Empirical research examining the effects of several components of globalization on growth, using time series and cross-sectional data on trade, FDI and portfolio investment, found that a country tends to have a lower degree of globalization if it generates higher revenues from trade taxes. Further evidence indicates that there is a positive growth-effect in countries that are sufficiently rich, as are most of the developed nations. The World Bank [14] reports that integration with global capital markets can lead to disastrous effects, without sound domestic financial systems in place. Furthermore, globalized countries have lower increases in government outlays and taxes, and lower levels of corruption in their governments.
The Impact of Globalization on the Economic System of the countries

The International Economic System has undergone a deep structural transformation over recent decades, with globalization allowing for a greater exchange of products, services, people and technology. Globalization has been credited with enhancing prosperity and quality of life all over the world thanks to the liberalization of trade, production and investment. Globalization has also allowed for more foreign direct investment (FDI), which has led to increased availability of services in developing regions. It has boosted domestic production, innovation and productivity as local markets seek to adapt to the inflow of goods and services. There are those who have argued that organizations and governments have yet to fully adapt to globalization and the volatility it entails. Many governments and industries have felt the strain of competition, leading to increased protectionist policies and, more recently, the rise of populist political groups seeking to channel the frustration of people excluded from globalization. To better understand this argument, it is crucial to examine the international economic system and its main components to see how globalization impacts and affects them.

The International trade is the economic exchange of goods and services between countries and is governed by the law of comparative advantage, which states that some markets hold specific advantages that allow them to generate products and services at a lower opportunity cost than others. In recent decades, innovations in transportation, technology and communications have allowed for expanded trade at lower costs and faster speeds. Worldwide, the preponderance of trade has grown, as measured by the percentage of international trade that makes up GDP from 20% in 1995 to 30% in 2014. Depending on the country, foreign exports can have an important impact on the business cycle by increasing employment and aggregate demand. Some countries benefit tremendously from trade as an important part of their GDP. For example, Singapore is considered one of the world’s most open economies and has the highest trade-to-GDP ratio in the world at 400%. In the first step, the Globalization compels businesses to adapt to different strategies based on new ideological trends that try to balance rights and interests of both the individual and the community as a whole. This change enables businesses to compete worldwide and also signifies a dramatic change for business leaders, labor and management by legitimately accepting the participation of workers and government in developing and implementing company policies and strategies. Risk reduction via diversification can be accomplished through company involvement with international financial institutions and partnering with both local and multinational businesses [11].

Globalization should bring reorganization at the international, national and sub-national levels. Specifically, it brings the reorganization of production, international trade and the integration of financial markets. This affects capitalist economic and social relations, via multilateralism and microeconomic phenomena, such as business competitiveness, at the global level. The transformation of production systems affects the class structure, the labor process, the application of technology and the structure and organization of capital. Globalization is now seen as marginalizing the less educated and low-skilled workers. Business expansion will no longer automatically imply increased employment. Additionally, it can cause high remuneration of capital, due to its higher mobility compared to labor. It looks like the phenomenon seems to be driven by three major forces: globalization of all production and financial markets, technology and deregulation. Globalization of product and financial markets refers to an increased economic integration in specialization and economies of scale, which will result in greater trade in financial services through both capital flows and cross-border entry activity. The technology factor, specifically telecommunication and information availability, has facilitated remote delivery and provided new access and distribution channels, while revamping industrial structures for financial services by allowing entry of non-bank entities, such as telecoms and utilities [14].

In a global economy, power is the ability of a company to command both tangible and intangible assets that create customer loyalty, regardless of location. Independent of size or geographic location, a company can meet global standards and tap into global networks, thrive and act as a world class thinker, maker and trader, by using its greatest assets: its concepts, competence and connections. Dent & Dosch [3] explains that globalization is changing the world economy, opening up new opportunities for countries worldwide. Some experts see it as a driving force for economic development. Others blame it for the environmental damages we’re facing today. One thing is for sure: this process allows national economies from all around the world to expand across borders and build mutually beneficial relationships.

The economics of globalization have a direct impact on the availability and free movement of goods and services. This process allows countries to interact, cooperate and exchange information. It also makes possible the emergence of new technologies that shape the business world and improve people's lives [9]. Today, Businesses worldwide are no longer confined to national borders. They can expand across the globe, diversify their operations and reduce their costs. The main effects are:
Globalization and Income: The booming trade and rising global connectivity helped money to travel further than ever before. Companies are now able to operate across borders and reach more customers, which leads to higher profits and ultimately, economic growth. They also created new jobs in developing countries and made it easier for locals to sustain themselves. For example, a company in one country can now sell its products in another country halfway around the world. Furthermore, it can build stores and factories there, invest in commodities and contribute to the local economy. For example, Ford Motor Company moved its call centers to India. Cisco opened a research and development center in Bangalore [4]. In 2010, Microsoft signed a three-year contract with Infosys Technologies in India to manage its internal IT operations.

Outsourcing employment trend: By outsourcing their services to developing countries, companies can save money and change people's lives. Because of it, poverty rates declined worldwide over the past decades.

Employment Opportunities: Globalization allows people to relocate to wealthier countries and start their own business or find work. This translates into a higher income and more opportunities in life. Additionally, migrants can send money home without paying exorbitant fees. The free movement of information and technology also enables trade unions to fight for workers' rights worldwide. As new policies and regulations were enforced, labor rights increased. Additionally, sensitive issues, such as equal pay and gender equity, are becoming less and less prevalent. Multinational corporations like Google, IBM and Accenture are constantly expanding and hiring people in the countries where they operate. Others implemented exchange programs to offer their employees the chance to work abroad. This further accelerates globalization and promotes economic growth.

Greater Free Trade: One of the primary advantages of globalization is the free trade of goods and resources. For instance, a country that specializes in motor vehicles will produce cars and accessories at lower costs and sell them on both local and foreign markets. This means that people living in other countries will be able to purchase these vehicles for less. At the same time, they will have access to a wider range of brands and models. The world trade has increased by approximately 70% since 1945 following the acceleration of globalization. Countries that export goods pay lower transportation fees and have a competitive edge. The end result is greater wealth equality throughout the world, especially for countries whose economies depend on another country’s economy. China, for example, became a leading manufacturer of goods. Companies from all around the world outsource their production activities to Chinese factories. Their customers have access to affordable goods that they might not be able to purchase otherwise [1].

REFERENCES

