Globalization

efinitions

- According to International Monetary Fund,which stresses the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology.
- According to Dr. Ismail Shariff, globalization is the worldwide process of homogenizing prices, products, wages, rates of interest and profits
- The term “globalization” is used to refer to these collective changes as a process, or else as the cause of turbulent change.
- Globalization relies on three forces for development:
    - the role of human migration
- international trade, and rapid movements of capital
- integration of financial markets.

e Pros and Cons of Globalization

Pros

- Productivity grows more quickly when countries produce goods and services in which they have a comparative advantage. Living standards can go up faster.
- Global competition and cheap imports keep a lid on prices, so inflation is less likely to derail economic growth.
- An open economy spurs innovation with fresh ideas from abroad.
- Export jobs often pay more than other jobs.
- Unfettered capital flows give the U.S. access to foreign investment and keep interest rates low.

Cons

- Millions of Americans have lost jobs due to imports or production shifts abroad. Most find new jobs–that pay less.
- Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.
- Workers face pay-cut demands from employers, which often threaten to export jobs.
- Service and white-collar jobs are increasingly vulnerable to operations moving offshore.

- U.S. employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

pects to Globalization

There are 4 aspects to globalization.

1. We are global in our **information exchange**–obviously the internet is the best example of this.

2. We are also global in our **travel**–with airplanes and also cars, people move all over the place, and we get to see other countries across the world.

3. Thirdly, we are global in our **resource depletion**. No society can isolate itself from global environmental degradation.Problems such as air pollution, acid rain, and climate change don't respect international boundaries.

4. Finally, we are global in our **economy**.

There are 3 aspects to this global spread of capitalism:

1. Production

2. Finance

3. Markets

With regards to production, the products we buy are better traveled than we are! There are many social and environmental impacts from this practice of producing goods in the third world for sale in the first. This practice is called the global integration of production.

The second aspect to the global spread of capitalism is that of finance–financial trading is now a global practice. For example, you can buy stocks from a company anywhere in the world.

The third aspect is that of markets. Nowadays, a seller sees its market as not just Canada, but as North America. The same products are being sold all around the world. Conversely, you can go anywhere in the world and buy the same things; McDonalds is everywhere. This has led to global way of living, but it really has lead to the standardization of life.

1) What is likely to happen to local employment and income distribution when a DC chooses to open (or becomes exposed) to globalization?

As is obvious from the discussion in the previous sections, both the theory and the empirical evidence did not give us black and white, clear-cut results, but rather nuanced research outcomes. If one is to be found, a general result is that the optimistic HO/SS predictions do not apply to the current wave of globalization; indeed, neither employment creation nor the decrease in within-country inequality are automatically assured by increasing trade and FDI. In contrast, the employment effect can be very diverse in different areas of the world, giving raise to concentration and marginalisation phenomena, with the scope for enhancing the "absorptive capacity" of a given socio-institutional system which is quite large.

In more detail, the employment impact depends on the initial labour-intensity, the output effect and the productivity effect characterizing traded goods and non traded goods sectors. According to the values of these three parameters and to the magnitude of possible constraints in the supply of capital, infrastructure and skilled labour, very different results in terms of job creation can emerge. Very similar arguments apply to the employment effects of FDI inflows.

As far as income distribution is concerned, while SS's theorem definitely does not apply, it is also true that increasing trade and FDI do not emerge as the main culprits of increasing within-country income inequality in DCs. However, some evidence emerges that, in the early stages of openness to trade, import of capital goods may imply an increase in within-country inequality via SBTC.

Finally, increasing trade seems to foster growth and absolute poverty alleviation, although some important counter-examples emerge, especially in Sub-Saharan Africa. While FDIs seem to be neutral in terms of their impact on income distribution and poverty, financial liberalization seems to have adverse effects on relative poverty.

2) Which are the channels through which trade and FDI affect employment, within country income distribution and poverty reduction?

The positive outcome of increasing trade on poverty reduction is mediated by increasing economic growth. Since overall trade (import+export) is neutral in terms of income distribution and fosters economic growth, the final outcome is an overall reduction in poverty.

As far as employment and income distribution are concerned, a clear message emerging from many studies is that technology matters. If trade (especially through importation of machinery) and FDI are characterized by labour-saving and skilled-biased technologies, globalization implies consequences which are opposite to the HO/SS predictions, i.e. decreasing employment and increasing within-country income inequality. The concerning the spreading of SBTC from developed to middle income DCs – open the way to a very promising avenue of further research.

Another important mediating channel of the social consequences of increasing trade and FDI is the institutional organization of the labour market (including the informal sector). The presence of labour market flexibility and extensive use of informal labour may increase the positive employment impact, in quantitative terms, of globalization.

However, possible counter-effects are quite serious and negative, and they entail increasing income-inequality and social dumping (a sort of "race to the bottom" and "beggar thy neighbour" race induced by globalization). In the end, this regressive race may imply a substantial reduction in the socio-economic capabilities of a given DC, finally affecting the "absorptive capacity" of that country in terms of political institutions, social cohesion and technological opportunities.

3) What is the role of the level of development and of the institutional framework of a given DC?

On the whole, the level of economic and human development does matter in shaping the direction and the impact of the current wave of globalization. For instance, the role of the physical and human infrastructures within a DC is crucial in maximizing the positive employment and distributional effects of increasing trade and FDI. Conversely, bottlenecks in the supply of educated and skilled labour and in public and private investments (including R&D) may condemn a country to marginalisation, exploitation and high levels of domestic unemployment and income inequality.

Examples and policy implications are quite straightforward and concern: the role of education and training; the institutions regulating the labour and the capital markets; the modes of "governance" at the local, regional and national levels (including tax reforms and eradicating of corruption); industrial and innovation policies targeting new and fast growing sectors and products; the construction of a welfare system able to create safety nets for possible victims of the globalization process.

4) Given the results from the previous points, what policy suggestions can be made to a globalizing DC?

Needless to say, here we cannot go into a deep analysis of possible national and international policy options; however, we can briefly highlight from the previous discussion four main avenues for policies devoted to amplifying the positive impacts of globalization in terms of a DC's domestic employment and within-country income distribution.

a) Market failures and disparities in the initial levels of economic and human development, technological "absorptive capacity" and "social capabilities" call for "controlled liberalization" as the best way to foster globalization. Indeed cautious globalizers seem to be characterised by the best employment performances, while faster globalization may imply a wider income inequality trough increasing import. Together with some form of policy controls on trade and FDI, financial liberalization should be even more restrained in particular historical circumstances. In fact, a sudden financial liberalization can be accompanied by increasing vulnerability and increasing poverty.

b) Given the crucial role of the specific institutional, structural and technological characteristics and the uneven distribution of the positive employment effects of globalization (both in terms of countries and in terms of economic sectors), a possible new role emerges for regional, industrial and innovation policies at the national level.

c) Given the possible adverse distributional effect of importing pervasive SBTC, a crucial role has to be attributed to national and local education and training policies, in order to increase the supply of skills. Conversely, skill shortage implies an output constraint and an increasing wage dispersion with negative effects both in terms of domestic employment and within-country income inequality.

d) Heterogeneous and country-specific impacts in terms of employment and income distribution call for preventive intervention (for instance through insurance schemes and/or social safety nets) at the international level by means of adequate social, labour and income multilateral policies.