Economic Practice Essay – Globalization

“Analyze the impact of globalization on economic growth, quality of life, and external stability of global economies”

Globalization is an important characteristic within the contemporary economic environment. The term globalization refers to the integration of local and international economies into a globally unified political economic and cultural order, and is not a singular phenomenon, but a term to describe the forces that transform an economy into one characterized by the embracement of the freer movement of trade, investment, labor and capital. The drive for globalization has resulted in greater economic growth globally, through the opening up of barriers to international trade, yet this increase in world output is often associated with detrimental effects in relation to the stability of a national economy, being susceptible to the ups and downs of the international business cycle and also both positive and negative effects on the standards of living or quality of life with in a nation.

The main evidence to suggest the globalization within a nation has been the growth in global markets, changes in global consumption patterns, the establishment of intergovernmental agreements as well as the rise of transnational corporations. Globalization has been essentially driven by the breaking down of economic barriers between nations over recent decades that have resulted in greater worldwide economic growth. This economic liberalization has been spurred on by the global trend towards the deregulation of national economies as well as reforms to encourage greater competitiveness with in the global markets. As a result of the microeconomic reforms, globally there has been a general reduction of restrictions on trade, capital flows and foreign investments. In addition to this, technological advancements over the last half century have contributed to this “economic liberalization” where as a result of this technology growth, transport costs have reduced dramatically, making trade more cost efficient. Communication costs have also reduced through advancements in telecommunications and e-commerce resulting in escalated movements in international finance. Through these increases in trade and financial flows, countries have experienced increased level of economic growth over time that has contributed to the world standards of living. The global population now has greater access to the wider varieties of consumer goods and services, aided by the development of international markets and the ease of transactions permitted by technological advancements.

It is estimated that global economy grew, on average, by 2.5% per annum during the late 1990s. This was fuelled by a growth in trade of over 7% per annum, and growth in foreign investment levels of over 23%. It is clear that globalization has brought about greater rates of economic growth in most nations, as proven by the highly successful NIC’s in Asia, known as the “Asian Tiger” economies, however, while the global economy has grown in total the benefits have varied significantly between economies. Where high income and newly industrialized countries have achieved growth rates of around 3% and 7% respectively, low income countries achieved growth of only 2%. Economic activity in transitional economies fell during the 1990s by an average of 2.7% per annum, showing that globalization has not resulted in more equal standards of living.

However, the standard of living, or quality of life Is not simply a measure of the level of economic growth or change in real GDP, but it is a measure that takes into account the literary levels, education, health care, technological change and mortality rates. An example of a quality of life indicator is the Human Development Index (HDI) which measures changes in those factors as a result of globalization. Over the last few decades, the HDI of the world's richest countries have increased as a result of globalization, where growth and development has been attributed to these economies through willingness to embrace market liberalization. However, the HDI of the poorer nations have grown at a slower rate to the richer nation's which, as some economists put it, shows that globalization is another word for the continual plundering of the poorer and weaker nations by the rich and powerful economies. It has been strongly argued that the benefits of competition go only to those who can compete, and poor countries have to negotiate on unequal terms. In addition, the forces of globalization take no account for social injustices, with Asian sweat shops being a prime example.

Trade growth has contributed significantly to changes in living standards and economic growth of global economies, but its impacts have differed between different economies. While the increases in global imports and exports have come as a result of falling protectionist policies, it has advantaged mainly producers of manufactured goods, while producers of primary goods still face international barriers to trade. The consequence of this is the increase in trade between nations that produce different types of manufactured goods, and as a result much of the benefits of this increase trade go towards high income and NIC nations. Developing nations, while experiencing growth, have not reached the same levels as high income nations, there for widening the income divide globally. Similarly, 70% of the financial glow increases are to industrialized nations, increasing their access to capital and living standards, leaving lower income nations on slower growth rates.

The quest for economic growth and improved quality of life has resulted in greater focus on nation's external stability. The ability of a country to manage its exchange rate, balance of payments and foreign liabilities impacts on the perceptions of traders on world markets. Volatility of foreign exchange markets can contribute to external instability, and globalization has resulted in increased trade, requiring increased currency movements, there for market currencies are more prone to sudden appreciations and depreciations, altering a nation's competitiveness, and debts levels. The improved access to international finance has detrimentally affected the external balance of many nations, in particular developing nations, as rising interest on massive loans can heavily outweigh the revenue eared, resulting in debt trap scenarios.

Additionally, the global movement toward free trade has resulted in many high income manufacturing nations increasing in there terms of trade through comparative advantage, and increasing there rates of economic growth. However, developing nations' terms of trade tend to fall over time as prices for primary exports fall. This result in long term trade deficits and a worsening CAD that results in a deteriorating external balance, which generally maintains the income divide between the rich and poor nations with in the global economy.

While globalization has resulted in aggregate increases in trade, output and investment growth over the past few decades, it is clear that the benefits from this growth have been distributed unequally between different economies. While developing nations are now focusing on manufacturing productions, high income economies are establishing new production patterns and many poor nations are not adapting significantly. Consequently, this has resulted in lagging economic growth rates with in less developed countries, while nations such as the fast growing "Tiger" economies have experienced phenomenal growth rates of close to 9%. The income divide globally, as a result would tend to widen, as richer nations become richer at a faster rate than poor nations. However, a limiting factor towards continuing accelerated growth with in high income nations continues to be the maintenance of an economy's external stability, in particular preventing the blow outs of net foreign debt and equity over the business cycle, which might affect the international confidence in the management of the particular economy. There for globalization on the whole has come as a benefit throughout the world, yet these benefits are still heavily weighed towards the already rich nations, while the developing economies struggle to maintain growth on par with the higher income nations, resulting in the evident contrast in quality of life between there "classes" of nations in the global economy.