

# Factors of economic globalization



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### Economic Globalization: The Truth behind Profit

Globalization proves to be more of an everyday modern term, where now it is discussed in every topic, from education to politics. The modern era has amplified people's comprehension and understanding of globalization, in a sense. Globalization is a complex term, where many scholars define it differently depending on their field of study. Economic globalization deals with the global markets and the interaction between countries. The market does not exist outside of comprehension and its negative effects are evident in every country involved in the global market. The transition of jobs and investments from developed countries to developing countries has created a window of problems for the modern world, that governments still have not been able to remedy and went as they try to maintain the global capitalistic market.

In economic globalization, there are various means for companies to increase their profits and one such mean is transferring jobs from developed countries to developing countries. The rise of global markets pushes companies to look at the various other markets and enables them to analyze the benefits and negatives aspects of said economy. Now, typically developing countries factory market prices tend to be low, this means that "first world" jobs can be transferred there. Companies from developed countries tend to move jobs to a developing country because the "factories can be controlled, skills can be transferred and wages are sufficiently low" (Fligstein, 1999), these various reasons allow companies to make the money

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back that they would spend when moving their companies production offshore. These “ first world” companies gain much from economic globalization such as the obvious increase in profit, and for developing countries, it creates a new job market for an already booming population. The pros of economic globalization tends to be only seen by it participants, the companies and the developing countries, the cons of these new global markets tend to fall majority on the workers of “ first world” countries.

In the process of “ first world” companies moving their production off shore a series of negative effect begin to take place on the “ first world” job markets. The first of which is, deindustrialization, this describes the loss of high wage blue-collar jobs. The losses of these jobs create a new wave of unemployment of people who have one specialized skill that cannot be used in another job field.[1]Since, high wage blue-collar jobs are now being obsolete; a new type of workforce is needed, which consists of workers with a high level of skill, also known as “ knowledge workers”.[2]These “ knowledge workers”, are paid a substantial sum more than the average worker, because their various skills promote economic integration.[3]The decline of high wage blue-collar jobs and the rise of a new class of worker known as “ knowledge workers” create an economic imbalance, which directly causes wage inequality and societal issues such as high unemployment accompanied by the government’s immediate response through welfare programs.

Economic globalization is continually seen as the interaction between developed countries and developing countries, and nothing shows this more than investments. Companies in developed countries spend their

investments into developing countries for their markets are usually younger and have fewer restrictions. The companies that benefit the most from foreign investments are multi-national companies, as discussed above, companies want to place production in countries where they can cut costs and gain the most profit. The same can be said for investments, these multi-national companies want to invest where they can cut “ production costs, maximize interest, and to retain a competitive advantage” (Majidi, Akhgar and Afshar, 2013). These factors have created a situation where as globalization grows so does the risks of foreign investments, and the constant creation of economic inequality amongst workers.

In the new globalized market world, multiple things now affect the global market, which varies from exchange rates, the output of money and the “ return” of money. Companies who have large stakes in foreign investments seek to have some guarantee for these risks, if the market were to crash or fluctuate. In reference to the fluctuating market, we must briefly discuss “ price discrimination”, this method of sales through the global market prove to show how much the market and the cost of goods fluctuate. For instance, the sale of iPhones varies depending on country, in Brazil the iPhone costs \$1200 USD, while in Canada costs \$767USD; this discrimination is a cause of how the market fluctuates not only depending on time but also on country.

[4]These risks, such as market crash or fluctuation, create fears for companies and this begins a downward spiral where companies wish to liberate the capital market.[5]The authors of “ A Survey of the Relationship between Economic Globalization and Economic Growth in MENA Countries” go on to outline what exactly happens in such situations

“ These crises can be assumed as forms of instability with large costs. In fact, these crises mar the financial system and slow the economic growth. It should be noted that not only liberalizing the capital market, but also liberalizing trade through drastic changes in prices increase risk. Concerns about bankruptcy push firms to the wall and consecutively, brings about economic recess.” (Majidi, Akhgar and Afshar, 2013)

This economic recess leads companies to lose money, but as this happens, no currency is flowing back into developed countries, but instead is being lost to developing countries.

In economic globalization, there comes with various pros and cons but for the working class a global economy means a loss in jobs, when companies aim to cut cost and increase profits. The solution for this has been widely discussed, and various methods have been brought up but none of been put into effect. Governments have to deal with the wave of newly unemployed when companies move production offshore, this is done by creating government services which pass fiscal policies to help the newly unemployed.[6]This method seems to become more and more difficult to achieve, for instance, in the United States the divide between fiscal policies between the left and right have hindered any true results where one side wishes to cut taxes and the other side arguing to increase government spending.[7]These two solutions have not worked before in the past, for example, Japans economy in 1998 was shrinking and what the government decided to do was lower interest rates more, hoping that consumers would buy and companies would borrow.[8]Their plan did not succeed because the consumer and companies became hesitant on investing or putting

themselves at risk for more debt. The more evident resolution should be to give cash directly to the consumer so they can internally push it back into the company, this idea being proposed by Ben Bernanke in 1998. This idea was meant to create a circle where people can emerge from recession; Bernanke believed that giving cash to the consumer would force them “to spend their way out of recession, driving up demand and raising prices” (Blyth and Lonergan 2014). Governments tend to argue between increasing government spending, cutting taxes or lowering interest rates but none of these solutions has worked. The methods used by governments do not remedy the situation, companies and people are afraid to invest, to go out on a limb, even with low rates because they still need cash to do this, thus forcing them to get loans. Bernanke’s idea to give cash directly to consumer removes the fear of putting yourself in more debt but motivates people to go spend, which would pump the money given out back into the economy.

Economic globalization has two negative aspects to it, the transferring of jobs from developed countries to developing countries and the rise of foreign investments. The multi-national companies aim to make the most profit possible and their ability to do that by outsourcing jobs and by using foreign investments allow them to have a quick return. This, however, creates various issues for developed countries such as a new wave of unemployment, burdening the already exhausted government and creating more economic inequalities. The most able remedy for this would be the proposition by Ben Bernanke to give the consumer cash, instead of lowering interest rates or cutting taxes, this will create an endless circle where people can pull themselves out of recession. Globalization has many benefits

for the “ global citizen” but before it is labelled as a universal benefit, some crucial aspects of it must be remedied.

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[2] Is Globalization the Cause of the Crises of Welfare States?.

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[5] Majidi, Ali Fegheh, Mohammad Omid Akhgar, and Parvin Alimoradi Afshar. 2013. ' A Survey Of The Relationship Between Economic Globalization And Economic Growth In MENA Countries'.

[6] Blyth, Mark, and Eric Lonergan. 2014. ' Print Less But Transfer More'

[7] ' Print Less But Transfer More'

[8] ' Print Less But Transfer More'