

Drivers of economic globalization

[Technology](#), [Cars](#)



There are two major drivers of economic globalization. One is reduced cost in transportation and improvements in the communication technology; other is the increase in the trade barriers which has led to increased investments across borders. Technological progress is one of the main causes of improvements made in the communications and transportations sector. Cost reduction in the transportation sector has also contributed significantly to the global economy. For example; from 1920 to 1990 the average freight and port charges of import and export has fell from \$95 to \$29.

This huge difference in the transportation cost has contributed to the reduction in trade barriers and hence an increase in the globalization effect . Due to the dip in the air freight and the technological advancement such as refrigeration; previously goods which were not tradable are now sold across borders. Fresh flowers, strawberries, live lobsters can now be sold from Asia, to Europe, America and Africa. The table below shows the decline in transportation costs during 1920-1990. This was the first era of globalization. Moreover, the table also shows how communication has improved with the advent of internet.

The figure on the next page shows this decline in the freight charges. Advancements in the communications sector have also contributed to the economic growth. For example; formerly a call from New York to London cost around \$244. 65. However today it just takes almost \$3. 32 . Internet and faxes have further reduced the communication costs. Many people say that the growth of globalization is now complete and that there can be no further changes made in the global economy. It is true, that the national borders are

now diminishing due to globalization. Cultures are coming together and it is difficult to differentiate between many cultures.

For example; In Dubai women are seen in such fashionable westernized dresses that it is difficult to accept that it is a typical Islamic city. This change is also due to globalization. Economists say that, in economic terms there exist no international and geographical borders. It is virtually possible to conduct business all over the world. For example; the internet has eliminated the international borders and has made e-sales possible regardless of the target customers. It should however be considered that the government should not make any monetary or economic policies depending on only their past experience or only the present.

The monetary authorities are virtually powerless in the globalized world of today. The global economy can be studied at different levels. At the macro level the international organizations such as the World Bank and the policies of the International monetary fund can be studied. Many other organizations such as World Trade Organization, the International Labour Organization, The European Union and North American Free Trade Agreement also fall in this category. These organizations establish parameters and rules within which the global economy operates. Another level of global economic study can be the ' meso' level.

This constitutes the key building blocks of the global economy. These blocks are the countries and the organizations or firms. In most of the capitalism literature, countries are taken as the main element of the global economy. The global economy is the ground on which the countries and firms can compete. Many economists focus on the industrialized countries in order to

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measure the impact of globalization on economy, and others focus on the developing nations. The impact on both the set of countries is different. The developing nations are benefiting from globalization, as capital is coming in to their countries.

In contrast, the developed nations are the ones who are on a decline. For example; United States' economy was one of the strongest a decade back. Today it contributes only 20% to the World's economy. The reason for this is that America's firms outsource majority of its unskilled and now even skilled labour to low waged countries. Another level for studying the global economy is at the micro level. At this level a lot of literature is available by the anti globalization activists. Many organizations are coming up with labour etc issues which have been developed due to globalization.