Drivers and features of globalization

Finance, Investment

The term ‘ globalization’ in the most basic level can mean the globalization of international trade, however it is also expansion of foreign direct investment (FDI), multinational corporations, integration of the world capital markets and much more. Thus, globalization can be defined as the interdependence of national economies through trade, finance, production and a growing web of treaties and institutions. The evidence of globalization is clear. Nowadays, over $4 trillion in foreign exchange transactions are made every day, where more than $15 trillion of goods and $3. 7 trillion of services are sold across national borders. A more intuitive example can be a British person driving the German car with a Dutch engine that was assembled in Mexico from made in US components, which in turn, were fabricated from Korean steel. But what influenced the trend for globalization? This essay will outline two main macro factors that helped globalization to evolve. It will then pass on to describing four major features of globalization. To begin with, the globalization was driven by the decline in barriers of the free flow of goods, services and capital that has occurred since the end of the Second World War due to the GATT arrangements. This resulted in significant fall in average tariff rates since 1950 that are now at a 4% level leading to steady growth of international trade over the last half of the century, when by 1998 it was three times more than it was in 1950. In addition, many countries removed restrictions to FDI. Therefore, these trends resulted in the globalization of markets and production. Firms saw the opportunity of expanding their single-country market to the many countries in the world due to decreased barriers of international trade, while the diminished investment barriers allowed companies to base their production at the most cost advantageous locations, so that they started dispersing parts if the production process to different locations. Thus, the real stock of FDI relative to the world GDP increased by 59% from 1960 to 1995. Globalization, of course, led to the grown interdependence between countries' economies as nations became more dependent on each others' goods and services. It, furthermore, resulted in increased global competition as firms now have to compete not only with their domestic rivals, but international as well. The other driver of globalization is the technological change, as it made globalization not only theoretically possible, but technological advancement in communication, information processing and transportation technology, including fast-pace emergence of Internet, made globalization possible in practice. The development of microprocessor enabled the advancement of telecommunications, satellite, wireless technologies and Internet. For example, the cost of 3 minute call between New York and London fell dramatically from $244. 65 to $3. 32 between 1930 and 1990. Moreover, the web connected buyers and sellers all over the world allowing businesses to expand their global presence. Furthermore, the innovations in transportation technology, such as development of commercial jet and containerization, significantly reduced transportation costs over long distances and time needed to ship the goods to their destination, while before the shipment of goods was very expensive, lengthy and labour intensive. For instance, in 1953 it took 41 hours and 4 stops to get from UK to New Zealand, which in 2011 decreased to 26 hours with 1 stop en route. These two are the main aspects that influenced the shift towards globalization, which nowadays can be seen in several main factors.

To begin with, globalization led to the increased links between high- and low-income countries. While the high income economies of Europe and USA have been linked since 1960s, right now, as the result of globalization, the pooper nations of the world, including Latin America and Africa, also play a role in international trade and production. For the ones who favour globalization, it promises the growth in income levels for less developed countries. However, critics say that it will only lead to enlarging the inequality gap between rich and poor nations. The second feature is that world's economies are becoming more integrated through trade. As discussed earlier, the international trade has grown even faster than a global production, resulting in the rising share of exports and imports in the GDP of different countries, while the financial flows grew steadily over last 15 years. Another feature is increased FDI. The ease of the investment regulations with the combination of falling transportation and communication costs enabled companies to disperse their production. For instance, a Mac computer can be designed in USA, use Taiwanese chips and Korean monitor and assembled in Singapore plant. The final major feature of globalization is increased harmonization of economic institutions. The nations are tight together through multinational treaties regarding trade, tax and investment policies as well as intellectual property and banking regulations. It, therefore, can be concluded that over last 3 decades there has been an undoubtfull shift in the world economy towards globalization. The reasons behind this were the ease in the barriers of trade and investment, which enabled firms to expand their production to the world scale level and also technological advancement in transportation and telecommunication, which allowed to shrink the perceived distance between countries, reduce the cost of transportation and enabled e-commerce. Thus, globalization can today be seen in many features, where the main are the linkage between developed and developing countries, increased FDI, harmonization of economic institutions and integration of world trade.