

Economic globalization

[Countries](#), [United States](#)



It is a difficult task to provide a clear-cut judgment on whether economic globalization is beneficial to overall the world economy. We see more states joining the World Trade Organization (WTO). We also see protests where people roaring “ down down WTO”. The reason why we see this phenomenon is that economic globalization is a two-edged sword. While providing new opportunities, economic globalization also means risking its own domestic economy. It is important to carefully examine both the benefits and harms of this two-edged sword. Jeffrey Frankel argues that economic globalization “ is overall a good thing, not just for economic growth but also when non-economic goals are taken into account” (2000). He backs up his argument by pointing out that both theory and evidence have clearly revealed the positive effects of globalization on real incomes. For instance, the classical theory tells that the division of labor, known as “ specialization”, on the transnational level allows each country to specialize in what it is strong for, which allows maximizing the value of its output, so that resources are not wasted in the goods production that could be imported more inexpensively than they can be produced domestically. Yet, it is important to bear in mind that this argument is true only when perfect competition, constant returns to scale, and fixed technology exist, and they are indeed not too realistic (Frankel, 2000), as it is obvious that, for example, competitions between developed and developing countries are certainly not fair. Treaties signed in the WTO are not beneficial to all parties. For instance, many of the agreements have required much huger reductions in import barriers by the trading partners of the United States than by the United States, which is a clear implication that agreements raise foreign demand for U. S. products by

more than they raise U. S. demand for imports. It is thus skeptical that joining an international institution such as WTO has absolute advantage for a state. Friedman is also skeptical towards the benefits that can be brought by joining WTO. He describes the negative, side-effects of economic globalization as a “backlash”, an adverse reaction that comes when the globalized economy challenges traditional business practices, social structures, cultural mores and environments (2000). Markets generate capital but also, at the same time, chaos, and the more powerful markets become as a result of globalization, the more widespread and diverse their disruptions. This is why we heard Korean farmers roaring “down down WTO” outside the WTO ministerial conference held in Hong Kong, 2005. By joining WTO South Korea agreed to open its market to the United States with largely reduced barriers. This hurt the domestic market as the local products such as rice were difficult to compete to the low price imported products.

Negative effect of globalization also includes the widening income gaps and the way it squeezes jobs from higher-wage countries to lower-wage ones (Friedman, 2000). Back in the days before the handover in 1997 when Hong Kong and China were not the same country, Hong Kong faced a dramatic job loss in manufacturing as factories were closed down and moved its neighbor Guangzhou in China where the manufacturers enjoy remarkably cheaper labor. The lowly skilled factory workers in Hong Kong did not seem to benefit from this division of labor, described earlier, in this case. Frankel, however, counter-argues that “there seems to be a pattern whereby things get worse in the early stage of industrialization but then start to get better at higher levels of income” (2000). He believes that, in fact, promoting convergence

can actually help reduce the worldwide inequality in income. These indications have proved that there is really no clear-cut answer to whether or not economy globalization is overall a good thing. There are certainly pros and cons. When Frankel promotes the benefits of the economic convergence, Friedman points out the backlash. This resembles a gamble — where there are always winners and losers.