The influence of globalization

Business

Introduction Globalization encompasses the economic, cultural and political dimensions across the globe. Globalization can be looked at as the case where there exists dominance of the developed countries in key choices and decision-making process at the expense of the less developed and developed nations (Hopkins, 2004).

Globalization can also be looked in the context of being force that promotes environmental devastation where developing nations are exploited and there is an associated suppression of human rights. It is also argued that globalization usually benefits the rich and the whole process takes advantage of the poor. Globalization is an integration process where people, governments and people interact and the process is usually driven by international trade and the available investment opportunities that such initiatives avail for the citizens. Most of the globalization processes are aided by the information technology advancements. The globalization progression has devastating effects on the culture, the environment, socio-economic, political systems, and human development in all the societies across the globe.

The degree of effects differs from one incidence to another depending on the power of influence that the driving factors have on the system (Tomlinson, 1999). Globalization cannot be said to be a new concept in human life. Initially practiced by people and presently the corporations are taking the lead in advancing the globalization ideology. We witness' trade and buying and selling of properties and businesses done over, long distances across the continents. Historical evidence has shown instances of trade routes such as

the Silk Road across central Asia that generally linked Europe to china during the middle ages.

It is argued that most of the people who invested in other countries started far much earlier before the first world war in the year 1914. Discussion The recent global financial crisis commenced in the United States and reverberated to the entire global economy. The global financial crisis affected various countries adversely; a majority of the countries suffered from liquidity problems because of the crisis. However, despite the adverse effects of the crisis in the liquidity of the respective countries, the opportunities in the global economy have been growing at an unprecedented growth over the last few decades. Globalization is a reality in this century; it is more of a condition rather than a choice (Cerutti, 2007).

Protectionism emerged after the World War II. However, this protectionism paved way for gradual liberalization, which was marked by both unilateral and regulated multilateral liberalization. GATT spearheaded the two forms of liberalization. These measures were intended at increasing market access and creating new market opportunities. As trade liberalization took root, capital from the developed countries offered the developing countries an opportunity to finance their future growth (Scholte, 2006). The majority of the developing countries have been labor rich and capital poor.

The domestic savings in developing countries are inadequate to finance their resource demands. Globalization has opened the global markets to trade. Countries have the opportunity to specialize in the production of the goods where they have relative advantage and trade them for the goods, which

they have relative disadvantage. Thus, globalization has created an opportunities for the more innovative countries. However, the liberalization policies that have been adopted because of globalization have caused more harm than good to the less developed countries.

Globalization has created opportunities for the developed countries; however, it has hurt the economies of the developing countries. This reality has been aggravated by the global financial crisis. There are two main forms of Foreign Direct Investment (FDI): outsourcing and the creation of comparative advantages. Outsourcing aims at reducing the cost of production i terms of labor costs, infrastructure, and raw materials. Additionally, outsourcing is aimed at promoting exports. The production of such industries as automobile, electronics, and textiles are an example of industries that adopt outsourcing.

Companies in these industries tend to relocate to developing countries in order to tap on the lower labor costs. The second form of FDI entails the creation of new comparative advantages. Accessing distribution channels, information technology, advanced technologies, and new products and services achieve comparative advantage. Additionally, the multinationals introduced new technologies that boosted productivity of the developing nations. However, though the FDI was aimed at uplifting the developing nations economically, it has created some other problems. Initially, capital flows to developing countries grew at a regulated pace.

Thus, the global capital markets and direct foreign investments by multinational corporations filled this gap. In the boom years, which preceded

2007, developing nations were encouraged to liberalize their financial markets (Rao, 2009). During the late 1970s and early 1980s, capital flows to developing countries were mainly comprised of FDIs and the acquisition of marketable securities. As the volume of capital inflows and outflows in and out of the developing countries increased, the developed countries benefited at the expense of the developing nations (Held, 2005). Presently, the gross volume of FDI relative to the GDP of a majority of the developing countries has exceeded the prior to 1913 level. Thus, a significant number of developing countries have become highly dependent on FDI.

Consequently, these countries are more susceptible to a decline in FDI. Countries, which were more reliant on FDI inflows as a proportion of their Gross Domestic Product (GDP) from 2005 to 2007 experienced larger GDP falls in 2008 (Held, 1999). This allowed the inflow and outflow of foreign investors and their funds. There were foreign investors who acquired physical assets such as factories; however, a significant majority of foreign invested their capital in portfolio capital (Rao, 2009). Portfolio capital is incredibly capital; its mobility is enhanced by the governments abolition of restrictions, which prevented capital from entering and leaving a country at high rates.

Thus, with the collapse of Bear Stearns in early 2008, several financial giants started withdrawing their capital from the developing-nations financial markets (Rao, 2009). The peaking of the financial crisis in September 2008 accelerated the withdrawal of capital by developed nations. This led to a collapse of the stock market indices, resulting to a depressed economic growth. Additionally, as countries converted their currencies into the dollar

as they left, the value of the local currencies in the developing countries were devalued. This aggravated the economic crisis in the developing nations.

Globalization has activated a process with far reaching effects. Advanced technologies and policies that are more open have created a world that is more interconnected than before. This has led to an increased interconnectivity between various countries in terms of trade, finance, investment, and production organization. The globalized market economy has produced a significant productive potential more so for the developed countries. If the global economy is well managed, it can produce unprecedented economic progress, create additional employment opportunities, and contribute significantly to poverty reduction. However, the present globalization strategy has generated unbalanced results, both within countries and between different countries.

Though globalization has created significant wealth, there is a significant number of people and countries, which are cut from enjoying the benefits. Contrary to Thomas Friedman's assertions of a flat world, globalization has not eliminated inequality between various countries. In fact, with the exception of India and China, globalization has advanced the inequality between different countries (Rao, 2009). This is evidenced by the case of the United States as a representative of the developeed countries and the case of developing countries. Globalization has produced unprecedented economic opportunities for the United States. Through the financial markets, the United States has siphoned global savings to finance for its middle-class consumption.

This is ironic since capital flows from the developing countries that are unable to finance their domestic needs (Rao, 2009). Thus, globalization has adversely affected the developing nations. In the last 30 years of globalization, the developed countries have concentrated on the extraction of capital, natural resources, and cheap labor from the developing countries. Globalization is a reality in the 21st century; despite its generation of inequality between nations, it is not possible to undo it in the modern era. Globalization has created more opportunities for the developed countries compared to their under-developed or developing countries. The fall of the Berlin Wall and the trade liberalization by India and China added over 3 billion people to the liberalized global economy (Kearney, 2008).

This increase in the global demand has created and continues to create trade opportunities for such countries as the United States. A study, which was conducted by Goldman Sachs, predicted that the global middle class population would increase by a billion people by the end of 2020 and by 2 billion people by the end of 2030. Additionally, it is projected that the China's middle-class population will grow to comprise 16% of the country's population. This fact will force the Chinese economy to shift from an investment to a consumption model. The massive savings by both China and India will lead to an increase in consumer demand.

Globally, over 124 countries have grown at an annual rate of over 4%; this includes over 30 countries from Africa (Kearney, 2008). This massive growth in living standards has created opportunities for the United States companies. Globalization carries some risks for the developing countries. These risks are more likely to occur in the short-run when developing

countries open their markets to international trade. Among the most common risks is that globalization has been linked with financial crisis. There are various popular cases that have been used to prove this case, they include the crisis of Brazil in 1999, Turkey in 2001, and Uruguay in 2002 (Schmukler, 2004).

Various links have been established between financial crisis and globalization. If during the integration of the global financial markets an appropriate financial infrastructure is not put in place, liberalization that is trailed by capital inflows incapacitates the local financial system. Globalization intensifies a country’s sensitivity to shocks in the global market (Bhagwati, 2004). If the financial markets fundamentals worsen, speculative attacks hit the market and both local and foreign investors withdraw their capital from the market. Conclusion The latest global financial crisis of 2008 originated in the developed countries, and primarily in the United States.

The causes of the crisis have been blamed on institutional failures, which occurred at both the government and corporation level. The crisis has been blamed for the high rates of unemployment and underemployment in the United States. However, after decades of globalization and trade liberalization, the actions of the United States will affect the global players in the international trade. The crisis can be traced to the neoliberal global policies and has acted to aggravate the adverse effects of globalization on developing countries. In the case of developing countries, neoliberal policies have been characterized by trade liberalization and export promotion, an increasing reliance on the market in the determination of prices, and

privatizations and decreasing government control in trade matters (Rao, 2009).

These measures are aimed at boosting cross-border capital inflows and outflows, and people to a lesser degree. However, these measures have continued to benefit the developed countries and hurt the developing countries.