

# To what extent has globalisation created a 'borderless world'? essay sample



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Globalisation is the term used to describe the growing economic integration of the world's economy. It is suggested that as globalisation takes place, national economies are becoming integrated into a single 'global economy' with similar characteristics. There are interrelationships throughout the world between businesses, between consumers and between businesses and consumers. Decisions taken in one part of the world affect other parts. The process is driven by technological advances and reductions in the costs of international transactions, as well as reductions in the costs of transportation.

Certain factors have contributed to the growth of globalisation.

At a national economy level, we can refer to the way that national economies are becoming more closely integrated with each other. One obvious example of this is the way that countries within Europe have become more closely integrated in recent years, both with the single market measures of 1992, and most recently the establishment of the single European currency. Tariffs and other impediments have been gradually reduced under the auspices of the General Agreement on Tariffs and Trade (GATT) in the period after the second world war. This process has been continued under the guidance of the World Trade Organisation (WTO). All these moves have meant a more integrated and interdependent global economy.

Technological change has played an important role in globalising the world's economy. More powerful computers and communications technology have allowed easy transfer of data. The internet is beginning to revolutionise the way in which consumers purchase products.

The cost of transportation has fallen. Between 1930 and 1990 the average revenue per mile in air transport fell from 68 cents to 11 cents (at 1990 US dollar prices). The cost of a three minute telephone call between New York and London fell from \$244 to \$3.

Consumer tastes and their responses have changed. Consumers in many countries are more willing to buy foreign products. Examples include cars from Korea and Malaysia which are now purchased in Europe. It could also be argued that consumers around the world have increasingly similar tastes. Some food products, such as Cadbury's chocolate, are sold in many countries with little difference to their ingredients.

Between 1980 and 1990 the volume of international trade almost doubled. In part this can be accounted for by increases in production during the same period. However, since 1945, increases in production have been far outstripped by increases in the volume of international trade.

The overall number of poor people has at last stopped increasing, falling, in fact, by an estimated 200 million. Life expectancy and schooling are rising in the new globalisers to levels close to those in rich countries in the 1960s.

The operation of multinational companies can be seen in many countries around the world. Familiar products and brand names appear worldwide. For example, by 1995, the production of foreign branches of multinational companies generated \$7, 000 billion. This exceeded global exports of goods and services by 20%.

Many businesses base their strategic decisions on the global market rather than the national market. For example, a business may make parts for a product in several different countries, and assemble them in another because this is the most cost effective and efficient method to get the product to its consumer. This will tend to make use of the business' competitive advantage by locating production wherever it is most efficient.

Businesses are increasingly merging or joining with others, often in other countries, in order to better provide its goods or services to a global market. Both manufacturers and retailers are operating on a global basis. This can also help with distribution in foreign markets.

There is economic logic behind globalisation – it makes sense for countries to specialise in activities in which they have a comparative advantage. It is this that has kept world trade growing on a faster trend than world output though all the turbulence of wars and political upheavals in latter half of last century.

Since 1950, world trade volume has risen by nearly 2900% – evidence that new markets have developed, and that large multinationals are taking advantage of this. Globalisation's fiercest critics, however, argue that this process is a force for oppression, exploitation and injustice. Markets, they claim, have been developed on the exploitation of cheap labour in such countries as Malaysia, Taiwan and the Philippines.

Conflicting views have questioned the nature and future of globalisation.

Some see it as a natural development of markets throughout the world,

while others see it as an artificially developed system that does not  
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responsibly utilise the world's scarce resources. Some attribute the new economic paradigm to the success of globalisation, and the benefits it has brought us.

Subsequent to the attacks on September 11, economists argue that the forces of globalisation, which once seemed unstoppable, are facing new resistance. Fears over security might raise the costs of international trade and persuade more businesses to 'stay at home'. However, on reflection, it would seem that only a seismic shock would be able to cancel out the forces that made the world economy increasingly integrated during the second half of the 20th century.

### THE THREE WAVES OF GLOBALISATION

Globalisation reduces poverty, but not everywhere. Since 1980 there has been unprecedented global integration. This is the third wave which we have experienced.

The first wave of modern globalisation took place from 1870 to 1914. Advances in transportation and reductions in barriers to trade opened up the possibility for some countries to use their abundant land more productively. Flows of goods, capital and labour increased dramatically. Exports relative to world income nearly doubled to about 8%. Sixty million people migrated from Europe to North America and other parts of the new world. The total labour flows during the first wave of globalisation were nearly 10% of the world's population.

Global income per capita rose at an unprecedented rate but not fast enough to prevent the number of poor people from rising. The result was a widening gap between the globalisers and those left behind, leading to increased world inequality.

However, incompetent economic policies, unemployment and nationalism resulted in the period spanning the First World War, the Great Depression and the Second World War being a giant step backwards in global economic integration. By 1948, trade as a share of income was approximately back to its level of 1870.

The years from 1950 to 1980 saw the second wave of globalisation which focused on integration among rich countries. Countries such as Europe, North America and Japan concentrated on restoring trade relations through a series of trade liberalisations under the General Agreement on Tariffs and Trade (GATT). During this second wave most developing countries remained stuck in primary commodity exporting and were largely isolated from capital flows, partly due to their own inward-orientated policies. As a group the Organisation of Economic Co-operation and Development (OECD) economies surged ahead with unprecedented growth rates.

However, globalisation is not and will never be an inevitable process. The first wave of globalisation, between 1870 and 1914, was reversed by a retreat into nationalism – transport costs continued to fall but trade barriers rose. By the First World War trade had collapsed back to its 1870 level. After 1945, as trade barriers came down, and trade revived – the second wave of globalisation. This lasted until 1980.

Since then, there has been unprecedented global economic integration. Globalisation has happened before, but not like this. What had been many separate national economies started to integrate; the world's economies globalised. Many developing countries – the “ new globalisers” – broke into world markets for manufactured goods and services. There has since been a dramatic rise in the share of manufactured goods in the exports of developing countries, from about 25% in 1980 to over 80% today. There has also been a substantial increase in FDI. This marks an important change, as low-income countries are now competing head-on with high-income countries while previously they specialised in primary commodities. During this new wave of global market integration, world trade has grown massively. The world is more integrated than ever before.

## OPPORTUNITIES AND RISKS OF GLOBALISATION

The word globalisation is used in many different ways. One definition states that it is the growing interdependence and interconnectedness of the modern world. The increased ease of movement of goods, services, capital, people and information across borders is rapidly creating a single global economy. The process is driven by technological advances and reductions in the costs of international transactions and transportation.

If managed wisely, the wealth created by globalisation created the opportunity to lift millions of the world's poor out of poverty. Managed badly, it could lead to increasing marginalisation of world economies. Which outcome results depends on the policies adopted by national governments, international institutions as well as society itself.

To its fiercest critics, globalisation, the march of international capitalism, is a force for oppression, exploitation and injustice. The rage that drove the terrorists to committing their obscene crime was in part, it is argued, a response to that. At the very least, it is suggested, terrorism thrives on poverty – and international capitalism, the protesters say, thrives on poverty too.

Globalisation marks an era of rapid change, bringing with it great uncertainty across the world. It has raised legitimate concerns about the impact of globalisation on people's culture, environment, inequality and the Third World.

Countries can be divided into those that are “ more globalised” and those that are “ less globalised”. As seen from the chart opposite<sup>2</sup>, poor countries that are ‘ more globalised’ have experienced growth rates of around 5%. Rich countries are currently experiencing, on average, growth rates of around 2%. However, at the bottom of the table, ‘ less globalised poor countries’ economies are actually experiencing contraction rates of around 1%. Countries can benefit, if they embrace globalisation.

Throughout human history exposure to external influences has tended to enrich, rather than drain, individuals and societies. Globalisation has accelerated this process and signs of an emerging global culture can be seen.

Globalisation results in the exploitation of millions of workers in countries that do not give workers' rights to organise. For example, a woman who sews a \$200 Liz Claiborne jacket sewn in El Salvador is paid just 74 cents – <https://assignbuster.com/to-what-extent-has-globalisation-created-a-borderless-world-essay-sample/>



less than half of 1% of the jacket's retail value. In the US, the labour cost to sew a garment is typically 10% of the retail price.

Free trade and foreign direct investment displaces workers in the industrialised countries by giving their jobs to workers in poorer countries. Pay and conditions in developing countries are likely to be worse than in the rich country counterparts, but the newly employed poor country workers are clearly better off than working for a local firm or not working at all.

Workers in poor countries may have to work 12 hours a day, 7 days a week with few protections for health and safety. Such incidents were highlighted in the tragedy in Bhopal, India, where an explosion at a Western Electric plant seriously maimed many workers. However, due to lax safety laws, Western Electric simply closed the plant, without having to pay any costs of the damage the explosion caused. In some countries, globalisation leads the exploitation of child, and prison labour. Goods produced in such countries under these conditions undermine those produced in richer nations. The result has been a call for 'fair trade', as opposed to 'free trade'.

The law of comparative advantage and the arguments in favour of allowing trade to occur between nations is heavily important. If there are gains to be reaped from specialisation in line with comparative advantage, then the reductions of tariffs may be one way of making nations better off. Another way is the improved mobility of physical and financial capital which may enable comparative advantage to be taken even further. A multi-national corporation may be able to fragment its production to take advantage of market conditions on a worldwide basis. For example, it may be able to

locate the labour-intensive part of its production process in countries with a relative abundance of labour in order to minimise costs on a global scale.

At the heart of the case for globalisation is the argument that there are economies of scale to be reaped by expanding production that would not necessarily be available to it if it were confined to a domestic market.

Businesses with a global presence are likely to enjoy a larger scale of operations, thereby allowing them to spread costs over a larger volume of output. This allows businesses to exercise power over suppliers and unit output costs can be reduced. Global hotel chains such as Holiday Inn and Marriott are in a position to benefit from volume discounts from catering supply companies.

The growth in trade between nations has contributed to lifting 3 billion people out of poverty over the past 50 years. Reducing tariff barriers, which makes it easier for nations to trade with each other, lifts the wealth of all nations by allowing them to concentrate on those where they have greatest expertise.

It is true that there has been some contraction in employment in labour intensive industries such as textiles and footwear in rich countries over the past 20 years, as production has moved to countries in which labour is cheaper. For instance, with the North American Free-Trade Agreement (NAFTA), there is nothing to stop an American manufacturer closing an old factory in the United States and opening a new one in Mexico, where wage costs are more than halved. However this is part of the process of development. It would be even more harmful to less developed countries to

ban or restrict their ability to compete in industries like textiles in rich markets.

The impact of globalisation on many larger businesses has been to dramatically increase the level of competition which they face. There are a number of reasons for this. Foreign competition has increasingly entered markets previously served mainly or exclusively by domestic businesses. Deregulation has meant that many businesses, which previously had little or no competition, are now opened up to the forces of global competition. Globalisation has provided opportunities for new, innovative businesses to enter markets and compete with all businesses, including well-established industry leaders.

Businesses with a global presence can choose the most advantageous location for each of its operations. When locating its operations, a business may consider reduction of costs and the enhancement of the business's performance. Production and service facilities are located in parts of the world which are likely to improve factors such as product or service quality.

One of the greatest risk of globalisation is that whilst those that are part of it benefit greatly, there are a great many other who are simply left behind as they do not have the knowledge nor the resources to achieve it. This has resulted in inequality through out the world and increasing marginalisation of the poor.

LOOKING TO THE FUTURE – THE WAY AHEAD

Firstly, the Institutions of Globalisation must be reformed. Unintentionally, globalisation has come to be governed by several key institutions. Best known are the World Trade Organisation, the World Bank, and the International Monetary Fund. If globalisation is to work for everyone, these institutions must be reformed. They must be made to look after all of the world's countries, not just those they represent.

Secondly, there must be an ending to 'northern double standards'. Developed countries preach free trade, but often fail to practice it. Recently, France, one of the key members in the Doha talks, stubbornly refused to open up its markets and allow in Agricultural imports – particularly the cheaply produced goods from the Third World. Generally, the EU taxes Third World exports and dumps its subsidised products in developing country markets, destroying local livelihood. When new WTO rules are drawn up, they usually reflect the balance of power within the organisation, therefore benefiting the richer countries. Certain kinds of subsidies are often permitted in the North but banned in the South.

Rich countries must help poor countries by promoting economic growth that is equitable and environmentally sustainable; they must help developing countries build effective government systems and promote health and education for their people; and must use new technology to share skills and knowledge with developing countries. Rich countries can work with developing countries to put in place policies that will attract private financial flows and minimise the risk of capital flight. They can fight to strengthen the global financial system, encourage international co-operation on investment, competition and tax that promotes the interests of developing countries,

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support an open and rules-based international trading system, and work to promote equitable trade rules and an effective voice for developing countries.

A vital step is to support continuing reductions in barriers to trade, both in developed and developing countries, and work to improve the capacity of developing countries to take advantage of new trade opportunities. By strengthening developing countries' capacity to participate in international negotiations, lesser-developed and emerging economies will have the chance to reap the full benefits of globalisation. Unfair trade sanctions were one of the drivers for the establishment of the General Agreement on Tariffs and Trade (GATT), now known as the World Trade Organisation (WTO).

Debt relief would be a major factor which could reduce marginalisation. Poor countries are currently paying million of dollars back to rich countries – millions which they cannot afford. Debt relief can take the form of cancellation, rescheduling, refinancing or re-organisation of debt.

The Debt Initiative for Heavily Indebted Poor Countries is a well-known current example. Through Jubilee 2000, many non-government organisations (NGOs) from around the world campaigned for one-off cancellation of the unpayable debts of the world's poorest countries by the end of 2000.

There are particular responsibilities placed on developed countries. It would be pointless to pour millions of pounds worth of trade and aid into poor countries only to then impose trade sanctions and unfair subsidies. All policies, of developing countries, developed countries, international

institutions and society, must be consistent with a commitment to sustainable development and reducing poverty.

Poor countries need to be given the chance to be heard. Open and effective global institutions are needed where they can fight for their interests on a more equal level.

The UK government is committed to help eliminate world poverty, and to co-operate with other governments and international institutions as part of a broader international effort.

Three years ago the government published its first White Paper on International Development Targets<sup>3</sup>, which focused on the reduction of abject poverty<sup>4</sup> in the world. The targets, which include a reduction by 50% in the number of people living in extreme poverty by 2015, and progress towards gender equality and empowerment of women by 2005<sup>5</sup>, are supported by the International Monetary Fund (IMF), the World Bank, the EU, and the OECD, as well as many heads of states. Although the targets are challenging, leaders believe that if the correct national and international policies are implemented, the targets will be achieved. It is pointed out, however, that progress is dependent on national governments in all countries strengthening commitment to reduce poverty to ensure that all countries benefit and that some are not missed out.

The UK government believes that the benefits of globalisation for poor countries substantially outweigh the costs, especially in the longer term. The rapid integration of the global economy, combined with advances in technology, is creating unprecedented global prosperity, which has helped to

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life millions out of poverty. With the correct policies put into place, many millions more stand to benefit in the years ahead.

## CONCLUSION

We have seen that poor countries that are able to increase their participation in the global economy have higher growth rates, faster poverty reduction, and more rapid increases in education. It is vital that poor countries are able to integrate into the world economy in ways that reduce, not increase, inequality and poverty. Reform of global institutions have a key part to play in this. However, the first and perhaps most important step for globalisation to benefit all in the future is for rich countries to open their protected markets to the poor, which should help to reduce world poverty and inequality.

Poor countries with around 3 billion people have broken into the global market for manufactured goods and services. Whereas 20 years ago most exports from developing countries were primary commodities, now manufactured goods and services dominate. This successful integration has generally supported poverty reduction. Examples can be found in China, India, Bangladesh and Vietnam. The new globalisers have experienced large-scale poverty reduction; during the 1990s the number of their people who were poor declined by 120 million. Integration would not have been feasible without a wide range of domestic reforms covering governance, the investment climate, and social service provision. But it also required international action, which provided access to foreign markets, technology and aid.

One of the most disturbing global trends of the past 2 decades is that countries with around 2 billion people are in danger of becoming marginal to the world economy. Incomes in these countries have been falling, poverty has been rising, and they participate less in trade today than they did 20 years ago.

It is easy to see that globalisation is not a force that can be ignored. It is all around us, in every aspect of our lives.

Within countries, globalisation has not, on average, affected inequality. The rapid growth in the new globalisers can be a political opportunity for redistribution policies that favour the poor. Promoting education, particularly for poor people, is equalising, improves health standards and enhances the productivity growth that is the main engine of poverty reduction. There will, however, without a doubt, be winners and losers in each society. Good social protection policies can be a key factor in helping people prosper in this more dynamic environment.

It appears that the solution to the problems, that especially countries such as China and Africa seem to be facing, is not the halting of the globalisation process, but the opposite. The expansion of free trade to include the developing countries in Africa and China and elsewhere “ It appears that these countries are not poor because of globalisation, but in large part because this globalisation has passed them by”. The road ahead seems not to lie in the reduction, or remodelling of globalisation but the expansion thereof, and expansion to include the areas in the world which globalisation has so far been passing by. The 49 least developed countries account for



nearly 11% of the world's population, but only 0.4% of the world's exports – and that small percentage has been falling.

Wage levels differ between countries according to the levels of education and productivity. The experience in countries like Korea is that as countries develop, their wage levels rise and the focus of their industry shifts from labour intensive to more capital and knowledge intensive industries.

Globalisation creates unprecedented new opportunities and risks. If the poorest countries can be drawn into the global economy and get increasing access to modern knowledge and technology, it could lead to a rapid reduction in global poverty – as well as bringing new trade and investment opportunities for all. But if this is not done, the poorest countries will become more marginalised, and suffering and division will grow.

In order to make globalisation work for the poor we need not just strong and vibrant private sectors, but also effective governments and strong and reformed international institutions. Governments and institutions need to work collectively to tackle the problems of conflict and corruption, boost investment in education and health, spread the benefits of technology and research, strengthen the international financial system, reduce barriers to trade, tackle environmental problems and make development assistance more effective.

It is clear that openness is a necessary but not sufficient condition for prosperity. No developed country is closed. The poor countries that have been most successful in closing the gap are those which have opened up

their economies to world markets in order to build strong export sectors and attract inward investment.

However, the majority believes that the future of Globalisation is bright. Even September was a remarkable positive month, especially in the US. The country has recently signed new agreements with Jordan and Vietnam; and negotiations to bring China into the World Trade Organisation look close to a deal. The new trade rounds at Doha promise to deliver liberalisation of agricultural markets, allowing less developed countries the chance to gain a share of these markets and profit accordingly. A breakthrough at Doha – just as the world economy appears to be entering its worst slowdown in a generation – could be a hugely symbolic victory for those proposing further trade liberalisation.

Globalisation in the future is inevitable. However, it is agreed on all accounts that in order for it to benefit as many people as possible, changes must be made. Those institutions such as the IMF and the World Bank, as well as individual governments, must all make vital changes in order to better prospects for everyone in the future.

To conclude, global economic integration has supported poverty reduction and should not be reversed. But the world economy could be and should be much more inclusive. The growth of global markets must not continue to bypass 2 billion people. The rich countries can do a lot, both through aid and trade policies, to help the currently marginalised countries onto the path of integration that has already proved to effective for the new globalisers.

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2 “ Globalisation, Growth and Poverty” – World Bank Policy Research Report -  
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3 “ Eliminating World Poverty: a Challenge for the 21st Century”

4 refers to those living on \$1 or less per day

5 big govt report thing