

## **Globalization and its Impacts on the World Economic Development**

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### **Abstract**

*The question whether the Globalization is beneficial for the World or harmful, is still unsolved and very controversial. Besides all of its disadvantages, it is an accepted reality that globalization is expanding very rapidly throughout the world. This paper is an attempt to find out what is the true sense of Globalization? How it is affecting the International Trade, FDI, and Economic Developments of overall world? This paper is mainly focusing on measuring how the Globalization is affecting the fastest growing industries of World.*

**Key Words:** Globalization, Economic Development of World, Fastest Growing Industries of World.

### **Introduction**

Have you ever noticed that how close the different nations of the world are, in this era? If you visit a Super Store of Dubai, you will find all the commodities, imported from other countries. Only some commodities are there that are actually manufactured in United Arab Emirates. You will find the Electronic items made in Malaysia. Mobile phones made in India. Food items as fruits, rice etc are imported from Pakistan. This situation is not only limited to UAE, but the whole world is facing the same scenario.

Volume of goods, services and investments is transferring the national borders very rapidly. Now a day approximately \$1.5 billion foreign exchange transactions are taking place daily. Statistics show that approximately \$8.9 trillion of goods are transacted across borders and \$2.10 trillion of services are provided across the borders (Hill, 2009). As far as the definition of Globalization is concerned, it is still a controversial topic. So far there is no consensus on a single definition of Globalization between all disciplines of life. Economics focuses on transfer of goods, services and funds in overall world. Political Science focuses on the role of UNO, WTO, GATT and similar kind of International Institutions. Some other disciplines such as anthropology and sociology concentrate on the interconnectivity of different cultures.

In nut shell we can say globalization can be applied is a movement, a phenomenon and a force. And the scope of the globalization is increasing as the time is passing (EuroStat, 2007).

One most common definition of globalization states that Globalization is a process of integrating different world economies. Globalization is integration among the people, government and companies of different countries (Rothenberg, 2003).

The primary purpose of this paper to find out; how the Globalization is affecting the Economic Development of World? The concept of economic development refers to the process of improvement in the economic opportunities, and quality of human lives; and reduction in the poverty. Better health facilities, better education, clean environment and better utilization of resources are the important components of Economic Development. Moreover the justified distribution of goods and services is also the part of economic development. A good distribution network that includes the good transportation system results in not only better delivery of goods and services but the improvement of labors mobility (Henderson, 2007).

According to (Bell, 1987), "Economic Development is a field of economics which is related to the process of development. It not only focuses on ways of enhancing structural change and economic growth but also improving the potential of the mass of the population; for instance, through education, health and workplace conditions". Globalization has changed the picture of World Economy, by increasing the cross-border trade, exchanges of currency, free flow of Capital, movement of people and flow of information. Globalization has introduced the concept of border-less and integrated world economy. Globalization has given a new thought to the businesses worldwide. A lot of Strategic changes have been occurred in the businesses. Now target market for businesses is not only their home land, but the overall world (Intriligator, 2003).

World Economy is composed of many sectors. Globalization has affected each sector of world Economy, directly or indirectly. To discuss each and every sector in one research paper is quiet impossible. So we will focus only on the major sectors of the world economy.

### **Literature Review**

#### **What, Why and How Globalization is?**

A lot of work has been done in the past on globalization but its effects on the economic development have not been discussed in detail.

Globalization is not a new concept. In past people use to travel to other places for gaining control on others lands, for finding out the better living style, for finding out the new places and to earn profits by selling in different regions. These activities were carried out even thousands of years before. But it is said that the earliest form of Globalization was started from Greek, Roman, Egyptian, and Babylonian Empires. In the regime of Mongols, the famous Silk Road connected the Central Asia and Europe (Wikipedia, 2011).

Statistics indicates that Globalization is expanding very rapidly World Wide. Data gathered from WTO shows that economy of the world is expanding since 1950. Till 2004, the volume of merchandise traded has expanded about 7.5 times (Farrell, 2007).

According to one Author Globalization refers to the Political, Economical, Social and Technological links in different countries (Hamilton & Webster, 2009). Globalization is a contested concept that refers to shrinkage of time and space (Steger, 2009). According to another definition "globalization is the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result (Palmer, 2002)." Apart from those mentioned above, many more definitions can be found in the literature.

#### **Economic Development and its Different Aspects**

Economic development refers to the improvements in quality of human life. According to a widely acceptable definition, Economic Development means the changes in local economies' capacity of wealth creation (Kane & Sand, 1988). According to traditional view, Economic Development refers to the Economic System that might be a mean to increase the absolute size of, for instance, capital or annual production regardless to the size of population but in the modern sense, economic development is used in relation to the movement in real income per head and to potential in this respect (Robbins, 1968). Economic Development comes into different steps. According to an American Economist Rostow, Economic Development comes into five steps that are as follow:

- Traditional Stage

In this kind of stages are exchanged as in barter system. Agriculture is considered the major sector and resources are regulated through the different ways of production.

- Transitional Stage

In this stage surplus production is generated. So transport infrastructure get advance and trading activates boost up.

- Take Off Stage

In this stage industrialization sector start growing. And at the same time political and social institutions are get strengthen.

- Drive to Maturity Stage

At this stage investment opportunities are increased along with technological advancements.

- High Mass Consumption Stage

At this stage industries are more authoritative and customer focused. (Rostow, 1960).

We can utilize number of economic indicators to measure the economic development of a country or whole world. Some of the major economic indicators or performance indicators are following:

- GDP: Gross Domestic Product- total value of goods and services produced in a country
- GNP: Gross National Product- market value of all products and services produced in a year by the residents and labor.
- Per Capita Income: Aggregate of all sources of income divided by the size of population (Wikipedia, 2011).

### How Globalization is affecting the World Economic Development?

Effects of globalization can be discussed in the following different ways:

➤ **Global Markets**

According to (Hill, 2009) Global Market refers to the “Merging of Historically Distinct and separate National Markets into one huge global market place.” With the expansions of global markets liberalize the economic activities of exchange of goods and funds. Removal of Cross-Border Trades barriers has made formation of Global Markets more feasible.

➤ **International Institutions**

Some of the forces in the world are in the favor of a government that governs the entire world. Now the institutions like United Nations Organization, International Monetary Fund, World Trade Organization and World Bank are near to the concepts of those groups because they are regulating the relationship between different countries and governing issues of Justice, Human relations or political factors (IMF Center, 2005). As the primary purpose of WTO is to unionize the world trading system. Till 2005 148 countries were the members of WTO. The primary purpose of IMF is to regulate the world monetary system. United Nation Organization’s primary purpose to bring the piece in all over the World, about 191 countries is the members of UNO (Hill, 2009).

➤ **Changes in World Trade Picture**

Before the phase of Globalization, United States of America was dominant in world export. After the advent of globalization, Germany, Japan, South Korea and China have seriously challenged the position of America.

Countries	Share of World Output 1963	Share of World Output 2004	Share of World Trade 2004
United States	40.3%	20.9%	10.4%
Germany	9.7	4.3	9.5
France	6.3	3.1	4.8
United Kingdom	6.5	3.1	4.7
Japan	5.5	6.9	5.7
Italy	3.4	2.9	3.8
Canada	3.0	3.5	3.4
China	N.A	13.2	5.9

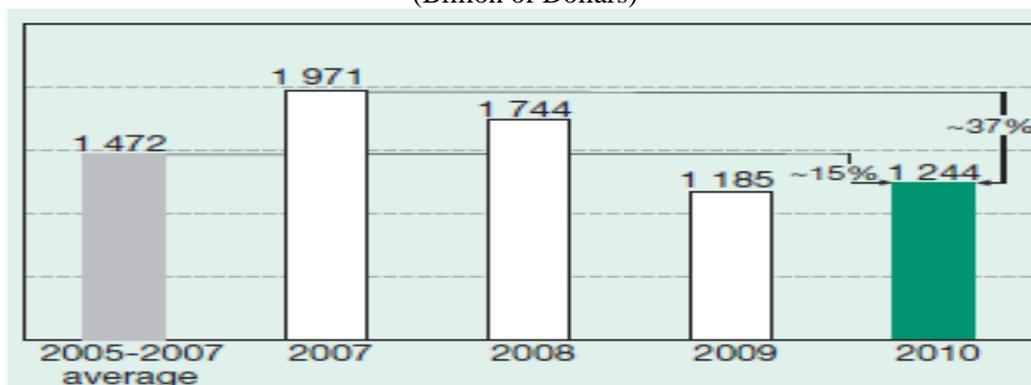
(Hill, 2009)

➤ **Changes in Foreign Direct Investment**

**Foreign Direct Investment is considered as signification indicator of economic development.**

According to (Salvatore, 1998) investment in form of lands, capital good, inventories and factories are the real investments. Direct investment is in shape of when one firm is controlling a firm or establishing a subsidiary. Foreign direct investment must be strong enough to control parent company and foreign host company. Control means that parent firm must own at least 10% stock of subsidiary. Lower than this limit of shares are considered as portfolio investment (International Monetary Fund (IMF), 2008).

**Global FDI Inflow, average 2005-2007 and 2007-2010**  
(Billion of Dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

(Nations, 2011)

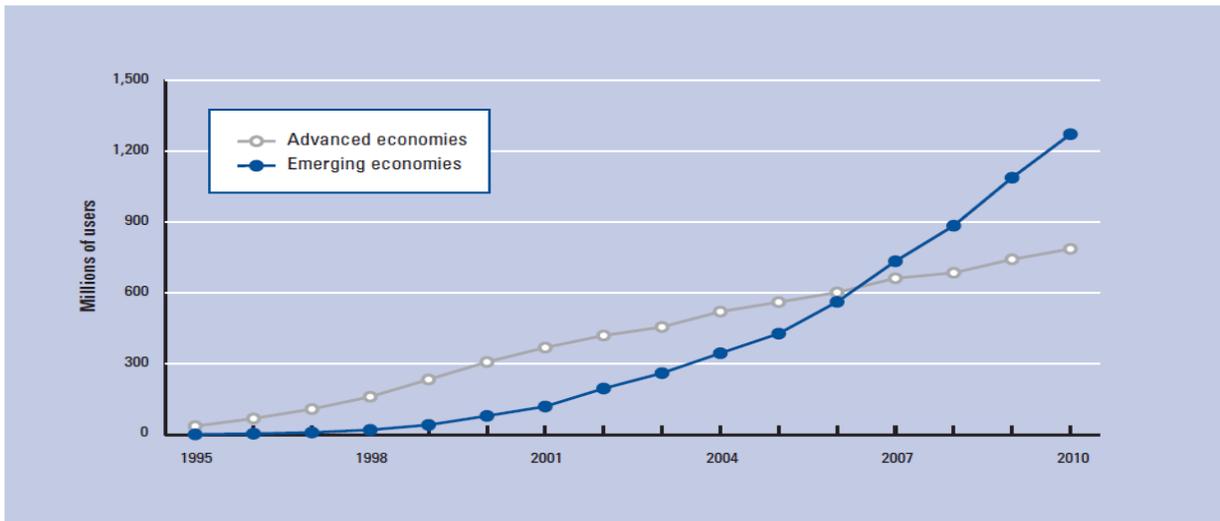
➤ **Corporation Changes**

In the present global competitive environment it is a necessary to use the information technology innovatively and skillfully. Globalization has increased the trend of Multi National Companies in all over the world. Before the Globalization phase USA was dominant in MNCs. But after the expansion of globalization trend, many different nations entered in the race of MNCs. In 1973 share of US in MNCs was about 48.5% and in 2002 it was 28%.

➤ **Technological Effects**

By the development of technologies specifically related to Telecom as internet, telephones, wireless technologies, undersea fibers, a global technological infrastructure has been developed so information can be moved more smoothly across the borders. Laws regarding Copyrights, patents and international agreements can be easily applied. Through information technology, awareness and application of criminal laws have become easier. Frauds in International Trade and in society can be easily detected (Ogunsola, 2005).

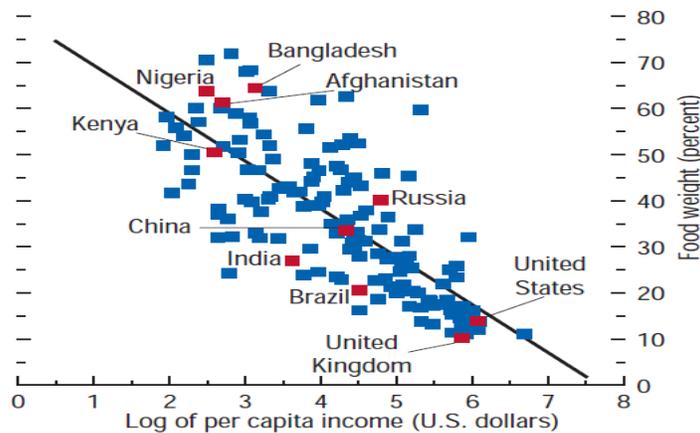
The below given graph shows that how the telecommunication sector has progressed in developed and developing nations:



Sources: ITU, 2010; authors' calculations.

➤ **Effect on the Standard of Living:**

**Per Capita Income and Food Weight in Total CPI<sup>1</sup>**



Source: IMF staff calculations.  
<sup>1</sup>Equation: Food weight = 79.8 – 10.4 x per capita income; with R<sup>2</sup> = 0.5835 and t-ratio = -14.59.

As mentioned above that the major effect of globalization is in the shape of expansion of trade and investment. It is evident that poverty rate has decreased in the regions, where investment and trade is expanding. If we consider the different examples of countries then we can prove our point of view. India is a country where the FDI is increasing rapidly and as a result poverty rate is declining. Mexico has overcome the Macroeconomics crisis better than its neighbors. Similarly Zambia, Columbia and Poland have gained a lot by falling of prices (Harrison, 2006).

(International Monetary Fund, 2007)

➤ **Effect on Employment**

After the advent of globalization, it was an apprehension that the job will shift to developing countries from developed and advanced countries. But Supporters argue that this shift will result in the long term benefit to the country. Critics argue that Globalization will result in inequalities and insecurity about the Jobs. And will ultimately causes the changes in employment structure and labor demand will fall. The below given graph shows how the unemployment has increased in the world:

**Unemployment in the World**

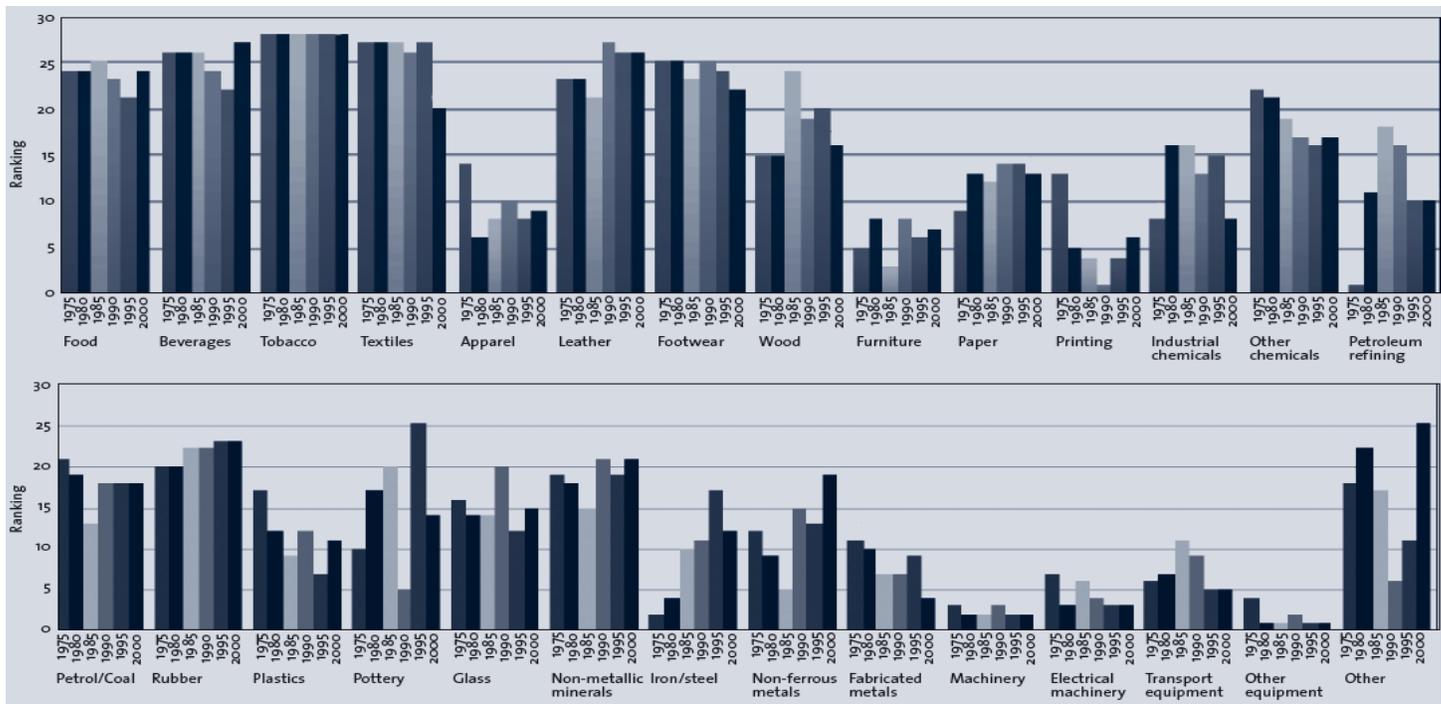
	Total million	Male Million	Female Million
<b>1995</b>	157.3	92.7	64.7
<b>2000</b>	177.2	104.7	72.5
<b>2002</b>	191.4	113	78.5
<b>2005</b>	191.8	112.9	78.9

(Geoff Riley, 2006)

➤ **Industrial Effects**

Globalization has also affected the Industrial sector of the world. Now in this era of globalization, the focus of industries is to produce foreign commodities and to facilitate the consumers in all over the World. For Example, Coca Cola produces the beverages according to the taste that is acceptable in all over the world. The below given graph shows how the different industries are affected during different time horizons:

**Ranking of Manufacturing Activities from 1975-2000**



(Teal, 2007)

➤ **Cultural Changes**

Through the development of Globalization world is getting into an identical culture that is understood by every nation, we may call it intermixing of the cultures. People of world especially people of rich countries are getting less conscious about their nations cultures and they have started emerging in world culture. Globalization has resulted in increasing the diversity and boosting telecom and tourism sector of the world (Nigam, 2009).

➤ **Environmental Effects**

On the one hand globalization has resulted in making the man more interested toward its planet in which he is living and its ecology i.e. its environment through the technological advancements. But on the other hand it is considered that with the growth of Transport has resulted in destruction of Ozone layer and many species on the earth. For the economic development every country has to pass from the dirty stage of industrialization which results in the extraction of poisonous material and harmful wastes that are dangerous for the human's health. But it is considered that these things are necessary to come along with the developments in living standards of humans (Nigam, 2009). But in spite all these adverse facts, Globalization has become an unavoidable necessity for Economic Development.

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