

# What is Globalization?

The International Monetary Fund defines **Globalization** as, "the increasingly close international integration of markets for both goods and services and for capital".

In short, Globalization means former national economies are being transformed into one global economy where barriers and borders to **trade** are falling. This basically means a world where **tariffs** and **quotas** are no longer used to "protect" a country from trade. As more countries embrace free trade (**David Ricardo's** theory), the world will fundamentally change.

- Countries cannot simply have "selective" free trade. In other words, as countries accept free trade principles, they lose some control over regulating their own economy. If President Obama wants to protect a U.S. industry with tariffs or quotas he may find his power to implement that policy quite small. This is a drastic change from the past when national governments routinely "regulated" their own economies.
- Globalization is making national and state boundaries less important. Companies know they are competing globally and must now plan their business accordingly.
- Institutions which regulate free trade, such as the **World Trade Organization (WTO)**, are gaining power while **national governments** are losing power. We are moving towards a world where trade organizations can tell the president of a country "no, you are not allowed to do that!" Once again, this is a remarkable change in the power structure of our world.

Many people feel free trade (globalization) brings **efficiency** and free market competition to the world while others worry that the loss of national power is a disturbing trend. Still others question the "fairness" of capitalism on a global scale.

## Why & When did it Happen?

What made the process of Globalization possible is a fundamental shift away from traditional government control of economies towards a greater reliance on the **free market**. This shift became especially dramatic in the mid 1990's and has only accelerated over the past ten years. There have been two fundamental reasons for the rise of Globalization.

The first critical event that led to the large scale expansion of Globalization was the end of the **Cold War** after the collapse of the **Soviet Union**. The perceived failure of the economic system of **communism** around the globe left the world with only one viable economic system: **capitalism**. Countries around the globe have been moving towards free markets in record numbers since the collapse of the Soviet Union. Today there are only 4 communist countries left on the planet and the largest, China, actually uses a primarily capitalistic economic system!

The second major event which has promoted the expansion of Globalization has been the **rapid rise of technology**. The advent of computers and the internet has made global competition a reality. Workers can live anywhere there is a high speed internet line and compete with workers around the globe. Jobs can be moved more easily and trade through the internet (Ebay, websites, etc...) has made global commerce dramatically increase.

The emphasis on **regulation** and **Keynesian** economic management that emerged out of the **Great Depression** has given way to a new faith in the free market (**capitalism**). Around the globe, **socialist governments** have sold off companies that had been nationalized (*owned & operated by the government*) and have embraced **private multi-national companies**. The trend of **de-regulation** began the road towards a more worldwide faith in the private sector or capitalism.

The collapse of communism meant that boundaries that had divided the world have slowly disappeared. Just look at the drastic changes in Europe since the fall of the Berlin Wall and the collapse of the Soviet Union: the formation of the European Union, the creation of one European currency and the rise of Eastern European countries run by democratic governments with free market economies.

In short, the world has embraced the economic vision of Adam Smith and rejected the world of Government controlled economic systems. A globe which had been divided between 2 economic systems (capitalism & communism) has become a world with only one viable economic system. Today, countries either accept this universal economic system of capitalism or face economic isolation.

Globalization is, perhaps, the most important political/economic transformation of the 21<sup>st</sup> century. The fundamental question remaining is will Globalization end up paving the way for future prosperity and peace or lead us down the road to eventual world conflict?

### Opportunity-Cost Benefit Analysis of Globalization

The rise of China, the emergence of the European Union and the opening up of a world of free trade unencumbered by tariffs or quotas is the world of Globalization. Like anything else in Economics, there are both opportunity costs/benefits to Globalization. Many issues remain especially divisive when people discuss Globalization. While we cannot solve these issues, we can use solid economic logic to analyze the potential impact of Globalization.

#### Key questions to consider:

- Will Globalization be beneficial in the long run to ALL countries?
- Does Globalization affect industrialized countries differently than developing countries?
- Who will “regulate” the new Global Economy? (who makes the rules?)
- Is the playing field level? (Is Globalization fair?)

Globalization is relatively new and, therefore, to some degree, it is untested. The world has never experienced capitalism on a global scale and, even as you read this, the world is changing rapidly. You are leaving high school and entering a new global world that is competitive and dynamic. Will the future hold peace and prosperity?

*Please answer the following questions*

1) Define Globalization and explain the 2 critical events which led to its world wide expansion during the 1990’s

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2) Do you expect the trends towards Globalization to accelerate over the next 25 years? (explain why or why not)

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3) How will Globalization affect YOU in terms of the job market in the future?

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