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# Globalization and its impacts on World's Economies

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***Abstract:*** *This paper investigates how globalization influences economic growth and international trade of world economies. There are mainly two major drivers of Globalization which play an important role in the world economy. First is decreased cost of transportation in the private sector and second are the reduced policy barriers to trade and investment on the part of public sector. In the study the KOF index of globalization has also been analyzed which shown the world ranking of different countries. It is observed that there is a close relationship between the globalization and international trade, accelerating international trade boost the economic growth of a country but sometimes it also negatively affects the globalized countries. In this paper the favourable and unfavourable effects of globalization has also been discussed in the context of both developing and developed economies.*

***Keywords****: Globalization, international trade, economic growth, KOF index.*

## 1. INTRODUCTION :

Globalization can be described as the increased movement of people, knowledge, ideas, goods and money across national borders to make the world more incorporated in a sense. It is the spread of products, information, technology and jobs across different cultures and borders. The Committee for Development Policy (A Subsidiary body of the United Nations) defined globalization as the increasing interdependence of the world economies as a result of the international trade. ++Globalization is the word used to describe the increasing integration of the world's economies. Countries have created economic associations to assist these movements for many centuries, but the term got recognition after the Cold War in the early 1990s, as these cooperative arrangements shaped modern day-to- day life. The far-reaching effects of globalization are complex and have arisen politically. Like significant technological advances, globalization reimbursement society as a whole while harming certain groups. Understanding the relative costs and benefits can prepare you for the opportunity to alleviate the problems while retaining the broader benefits.

**Economic Globalization :** Economic globalization is the vast international movements of goods, services, capital, information and technology; it is the growing economic integration and interdependence of national, regional and local economies around the world that increases the cross border movement of goods, services, capital and technologies. Economic globalization mainly concerns the globalization of production, finance, markets, technology, institutions, organizational systems, companies and the workforce.

**An Official definition of Globalization by the World Health Organization (WHO):**

Globalization can be defined as "the increased interconnectedness and interdependence of peoples and countries. It is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows."

Globalization is closely linked to economic systems and markets, which in turn are influenced by social issues, cultural factors difficult to overcome, regional specificities, timing of actions and cooperation networks. It is defined by many people and institutes in different ways. According to WTO (2008), although there isn't a complete agreement on the definition of globalization, when all alternative definitions are taken into account, globalization is the integration of capital, investment and labour markets or its integration with world markets.

**History of Globalization:**

Since ancient times, people have sought faraway places to settle, produce and trade goods made possible by advances in technology and transportation. But it wasn't until the 19th century that global integration began. European colonization and trade have been the first wave of globalization for centuries, led by steamships, railways, telegraphs and other discoveries and greater economic cooperation between centuries. The trend of globalization eventually vanished and collapsed in the catastrophe of First World War, followed by the post war protectionism, the great depression and the Second World War. In the mid- 1940s ,the United States continued efforts to revive international trade and investment based on negotiated statues, launching a second wave of globalization that is still ongoing, albeit eased by periodic recessions and gradual political control.

**Globalization and Economic Growth**

Globalization aims to reap the benefits of individual economies around the world by making markets more proficient, rising competition, limiting military conflicts and distributing wealth more evenly. International trade of goods and services has been increased due to globalization over the last 50 years.

There are mainly two major drivers of Globalization which play an important role in the world economy. First is decreased cost of transportation in the private sector and second are the reduced policy barriers to trade and investment on the part of public sector. Innovation and technological progress have long been driving the cost of communication and transportation steadily lower. Globalization has drastically raised income and economic growth in developing countries and reduced the consumer prices in developed countries; the balance of power between developing and developed countries is also changed and affected the culture of each concerned country. To measure the effects of globalization on the economies of world a lot of studies have done. For example, Heinemann (2000) examined that, more globalized countries have lesser increases in government taxes and outlays. As Chanda (2001) used an index of capital account openness to show that more developing countries have suffered from globalization. Polasek and Sellner (2011) analyzed effects of globalization on the regional growth of 27 European Union countries. The data has been collected by using the Spatial Chow-Lin procedure, between the years 2001 to 2006. They noticed that globalization, augmented the direct foreign investment and economic growth in a positive way.

The world economy is globalized, and the whole world is behaving as if it is a part of a single market, with interconnected consumption, production of similar goods and response to the same impulses. Economies of the all countries is being affected by Globalization, it affects the production of goods and provision of services, utilization of labour, investments and the use and dissemination of technology from one country to another. All this is reflected in production efficiency, labour productivity and competitiveness. In particular, globalization has exacerbated international competition and accelerates economic growth. In the context of India, globalization directly influenced the development of the basic framework of country. Economic policies developed and managed by the government of country have played a significant role in the planning the level of employment, savings, income and social investment.

**KOF Globalization Index-** The KOF index of Globalization is an index of the degree of Globalization of 122 countries. It was conceived by Axel Dreher in Switzerland. The index was first published in 2002. There are mainly three basic principles of this index are; social, political and economic. It was observed that the largest growth has been measured in the dimension of economic globalization. Political globalization has also progressed, while social globalization has not developed much.

After globalization index came out, effects of globalization on the economic growth of a country was started to be displayed more concretely. Studies show that globalization affects the economic growth of a country through many different channels. It is possible to examine this relation between globalization and economic growth on Figure 1.

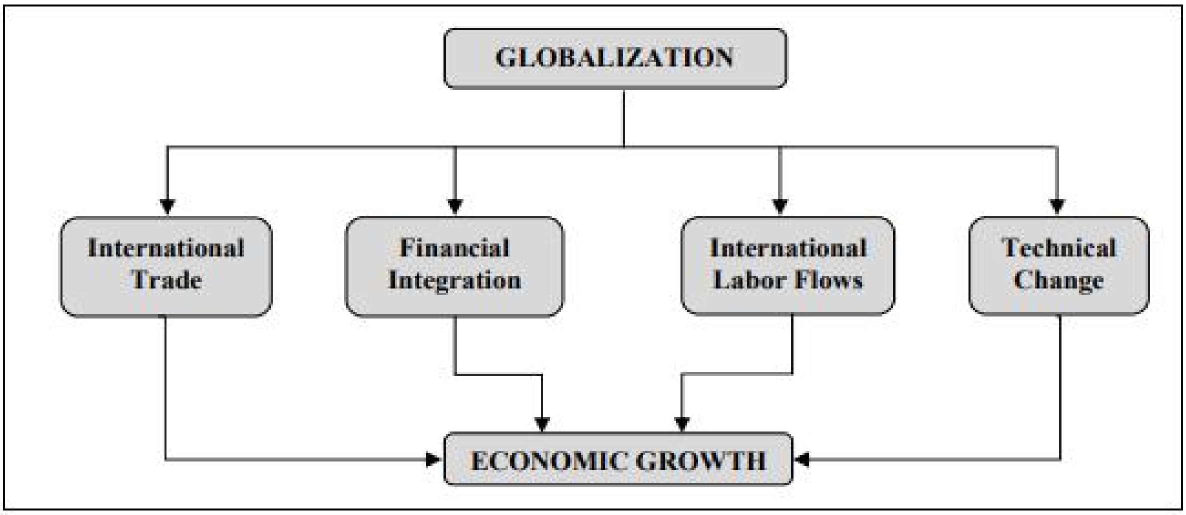



**Fig. 1.** Relation between globalization and economic growth.

**Pros and Cons of globalization**

Some economists believe that globalization is beneficial while others blame it for job loss and other ills. The positive effects of the globalization included reduction in poverty, technological innovations and increase in FDI etc. but besides having all these merits globalization has adversely affected some developing countries. The pros and cons of globalization are discussed below in detail:

- **Technological Innovation-** globalization stimulates new innovations, technology development, which helps to raise economic output.
- **Interdependence** – interdependence among economies helps to improve the international trade among countries, which also lowers the cost of production.
- **Access to new Talent**– when people migrate from one country to another country then they exchange their thoughts and ideas with other persons and get access to the new talent.
- **Access to worldwide markets-** due to globalization there is now a worldwide market available for companies and consumers, who have access to products of different countries.
- **Higher standard of living-** easy availability of resources and products has raised the standard of living of trading countries.
- **Economies of Scale-** Globalization has enhanced the economies of scale of large companies that reduce cost and prices and helps to accelerate economic growth.
- **Foreign Direct Investment-** Foreign direct Investment tends to rise at a much greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring, and the growth of Multinational companies
- **Employment opportunities-** Globalization helps to raise the higher demand in global market, which further increase the employment opportunities in domestic market.
- **Reduction in poverty-** Globalization has created a lot of new job opportunities for unemployed youth, which benefits to trickle down the problem of poverty.
- **Increases cultural diversity-** a globalized society increases the extent to which people are exposed to the culture, attitudes and values of people in other countries.

**The negative effects of Globalization are:**

- **Increase in terrorism-** worldwide integration increased the movement of people from one place to another, due to this movement sometimes; terrorists can also come from one country to another country.
- **Fear of job insecurity among the workers of developed countries-** when developed countries compete with developing or less developed countries, they get the cheap labour of developing countries, which badly affect the workers of developed countries.
- **Widening the gap between rich and poor-** due to international trade under globalization, rich people are becoming richer and poor are becoming poorer.
- **Fluctuations in prices-** when countries trade with each other then competition may increase, this increase in competition forced developed countries to lower down their prices.
- **Jobs Insecurity-** developed nations outsourced their manufacturing work to developing counties, where the cost of those goods and wages are lower than developed countries. As a result there are the less job opportunities available for the people of developed countries.
- **Globalization increases world carbon dioxide emissions-** If the world burns coal faster and does not reduce other uses of fossil fuels, Carbon emissions will increase. Figure 2 shows how CO2 emissions have increased compared to expectations, compared to the trend line in the years preceding the adoption of Kyoto protocol in 1997.

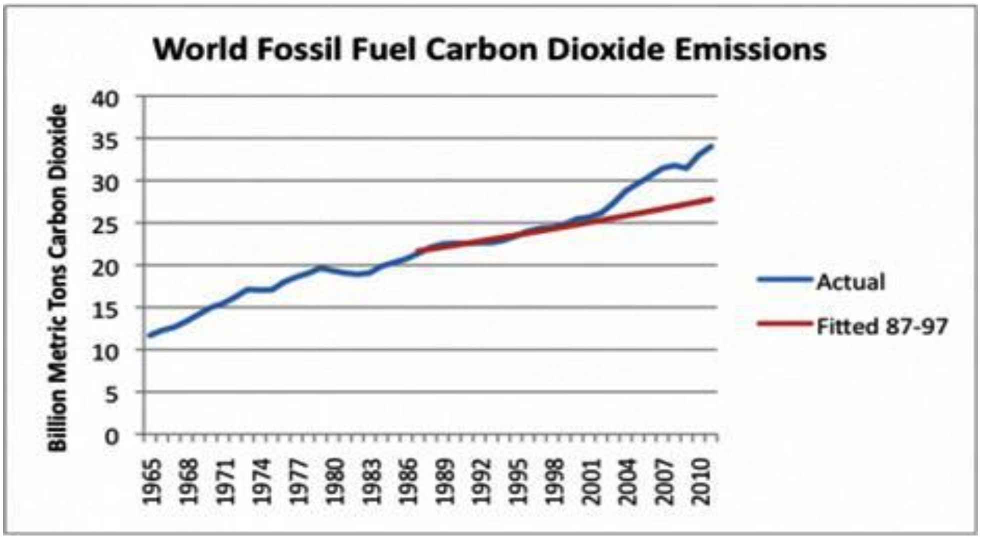



**Figure 2**. Actual world carbon dioxide emissions from fossil fuels, as shown in BP's 2012 Statistical Review of World Energy. Fitted line is expected trend in emissions, based on actual trend in emissions from 1987-1997, equal to about 1.0% per year.

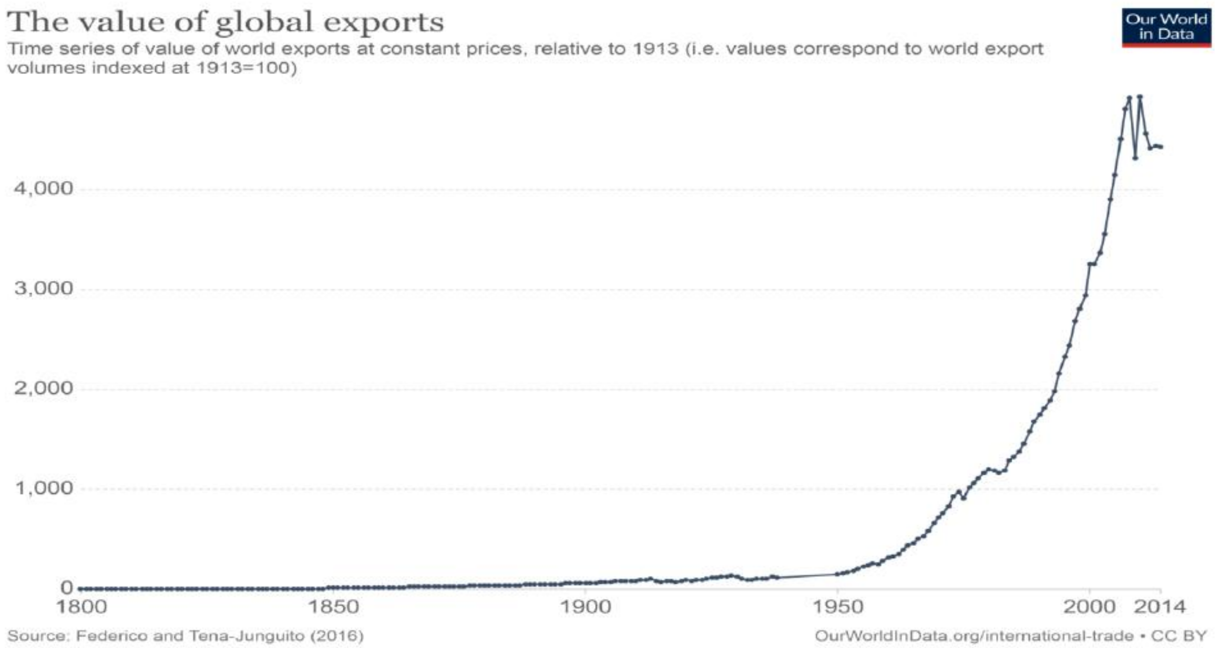
**Globalization and International Trade**

Over the last two centuries international trade has been grown amazingly. At present one fourth of total global production is exported. This transformative process has significant role in economic development because international trade has generated gains to world economies.

The involvement of developing countries into international trade is the important development of the last century. These developing economies integrate with global economic system and has exteriorized in a noticeable growth in trade between countries. International trade covers the transactions of goods and services. According to studies near about 30 per cent of the value of international exports comes from foreign inputs.

Globalization has also brought in global investments something unheard 50 years ago. Global investing is an extremely good investment strategy. It helps you to diversify your portfolio while reducing the risk as you are investing in stocks throughout the world. The world financial markets are not perfectly correlated and investing in your country as well as foreign stocks will reduce the volatility of your investments. If one part of your investment in country A is doing badly due to economic downturn, another stock in country B may be doing well. Thus, you can ensure balance your risk appetite and ensure a steady return on investment.

Figure 4 has shown the value of exports over the period 1800-2014. These estimates are in constant prices and are indexed at 1913 values. An astonishing growth in international trade over the last couple of centuries has been seen in the figure 3.




At present international trade is an important part of global economy, countries exchange intermediate and final products. There is a close relationship between trade and growth, Over the last couple of centuries the world economy has experienced sustained economic growth, and over the same period, this process of economic growth has been accompanied by even faster growth in global trade. By looking at the country level data, It is find out that countries with higher rates of GDP growth also tend to have higher rates of growth in trade as a share of output.

**Conclusion:** To conclude it can be said that, globalization is good for the poor is a statement that is true on average. In some countries and in some periods the poor did better than average. It is observed that the long run average effects for developing countries had played a significant role in the economies of those countries. The process of globalization has led to huge achievement in poverty reduction along with the technological innovations. Along with benefits to developing economies globalization generates the largest GDP per capita gains for developed economies. So, we can say that, besides having some demerits of globalization, it also has brought benefits for both the developing and developed countries. In short globalization is the golden age for trade, commerce and business.

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