

Spinning the Web of Economies

by

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The world is an intricate web. Each strand is intertwined with another, forming a magnificent structure. Yet if one strand becomes disrupted and disintegrates, the entire structure can collapse. Each strand, then, must depend upon the others for the well-being of the whole structure. All of these strands possess one common spinner; this spinner, binding all together in such a way that they must rely on the others for strength, is globalization. Globalization is the emergence of a global society in which economic, political, environmental, and cultural events in one part of the world create significant meaning for people in other parts.¹ The result of advances in communication, transportation, and information technologies,² it is the increasing integration of economies around the world, particularly through trade and financial flows.³

Globalization is not a new concept. For thousands of years, nations have traded with one another, depending on each other for resources. For instance, the famed Silk Road across Central Asia that connected China and Europe during the Middle Ages brought about many exchanges in trade between different countries.⁴ Nevertheless, globalization of today has enhanced far beyond the original trade routes of centuries ago. This new phase in global economic development has seen the world's exports increase from 16 percent to 27 percent of the global economy since 1987,⁵ the volume of world trade increase by 20 times, and the flows of foreign investment nearly double, from \$468 billion to \$827 billion between 1997 and 1999.⁶ Recent improvements in communication, transportation, and technologies are generally attributed to the cause of globalization.⁷ For instance, a telephone call in 1930 from New York to London cost more than \$300 (in year 2000 prices), while now the cost is almost insignificant, allowing businesses to make more transactions overseas.⁸ These advances unite the world as the Internet and satellite televisions bring current news of foreign events and causes the world to become smaller with next-day delivery by jet airplane and other improvements in transportation.⁹ However, doubts rise as to if this increased interdependence of national economies is helpful or threatening to the world. In order to determine the effects of globalization, one must first analyze all the aspects of globalization.

Institutions that helped shape the current era of globalization are the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO). All three trace their origins to the end of World War II when the United States and United Kingdom decided to establish new institutions to promote the global economy.¹⁰ Each one has a specific function in serving the global economy, yet some believe the institutions may be harming countries, particularly the poorer ones, not aiding the world, as others argue.

Numerous experts believe globalization is actually detrimental to our society and include complaints regarding the three institutions' policies. In order to help countries maintain the value of their currencies, the IMF and World Bank make loans to countries that need to repay foreign debt.¹¹ However, both of these institutions require the borrowing nations to follow certain programs based on a strategy known as neoliberalism, focusing on reducing the role of government, lowering taxes, and promoting trade liberalization.¹² These programs have been criticized as being too strict, and some countries object to the privatization of resources such as electricity and water supplies as the private companies charge more than the government monopolies.¹³ In addition, instead of increasing economic stability, financial liberalization caused financial crises. Of the IMF's 181 member countries, 133 suffered at least one major banking crisis from 1980 to 1995, while the World Bank identified more than 100 significant bank collapses in 90 developing nations from the late 1970's to 1994.¹⁴

Around the world, the gap between the wealthy and poor nations is widening. A quarter of the world's population, 1.2 billion people, survive on less than one dollar a day.¹⁵ In these nations, the citizens have no choice but to rely on trading illegal drugs, smuggling, and other criminal behavior for their income because they cannot compete with the dominating wealthy nations through global trade.¹⁶ As a result, these impoverished, failed nations become havens for terrorists seeking a place to hide and operate.¹⁷

Domestic businesses inside the countries also are injured from globalization. As trade barriers fall and agreements are formed, such as the North American Free Trade Agreement and the European Union, foreign competition forces domestic firms to specialize in what they do best in order that they might stand some chance in profiting.¹⁸ In order to protect these industries, a nation could impose tariffs on imported goods, which harm exporting countries as the demand for their products decrease.¹⁹ On the other hand, the nation could provide export subsidies, government payments to domestic producers of export goods,²⁰ allowing producers to produce more and charge less. As a result, they sell more due to their relatively cheaper prices, helping the particular nation but harming others in the world. For example, the President of the United States authorized \$4 billion in subsidies in 2002 to the U.S.'s 25,000 cotton farmers, allowing them to lower the world cotton prices by one-fourth.²¹ As a result, West African countries lost hundreds of millions of dollars, and their 11 million cotton-producing households suffered increased poverty because it cost more to produce their own cotton rather than buy the U.S.'s.²²

Globalization also significantly affects migration. As people immigrate to improve their economic situation or escape civil strife, persecution, or environmental disasters, this widespread migration is becoming uncontrollable.²³ Migration can spark resentment and fear as immigrants are often accused of lowering wages and causing crime.²⁴ Another issue with globalization is the increasing environmental concerns. Burning fossil fuels in the industrialized nations and destroying rain forests in the developing world have contributed to global warming, which has an effect on the entire world.²⁵ If this continues, global warming is expected to cause the sea level to rise, which would flood one-third of the world's most populous countries by even a small rise in sea level.²⁶ Improvements in transportation have allowed infectious diseases to cross borders more rapidly, such as in 2003, Severe Acute Respiratory Syndrome originated in China but created worldwide concern.²⁷ Finally, globalization affects the culture and labor rights of a nation. As products flow between countries in trade, "globalization promotes integration and the removal...of cultural barriers."²⁸ For this reason, many are concerned they will lose their culture as they are exposed to other nations. Their labor rights could also be affected. As competition enhances between nations, some may stoop to employing children and exercising abuses and low wages on their workers in order to increase production.²⁹

Conversely, though globalization has numerous negative effects, many believe the benefits outweigh the costs. In the last 20 years, living standards for many countries have risen dramatically due to globalization.³⁰ One study revealed the developing nations with open economies grew by 4.5% a year in the 1970's and 1980's, as opposed to the closed economies' 0.7%.³¹ At that rate, according to the Rule of 72, open economies double every 16 years, while closed ones double only every 100 years. A country's economy that focuses only on domestic policies will eventually stagnate or decline, increasing poverty and creating high inflation, as shown in a study on Latin America and Africa in the 1970's and 1980's.³² Developing nations that are open to trade narrow the gap between their economy and wealthier nations'.³³

Removing trade barriers allows capital to be allocated more efficiently, gives consumers freedom of choice in purchasing and producers greater choice in where to sell,³⁴ providing more markets around the globe.³⁵ Amongst worldwide traders, competition sharpens the wits as producers must find more efficient ways to make their products.³⁶ This causes new ideas and innovations to be created, which spread and benefit others.³⁷ As competition heightens, producers will lower prices of

their goods to make their products appear more favorable. Thus, consumers gain from lower prices and greater variety due to globalization.³⁸

Although the World Bank, IMF, and WTO policies have been criticized for being too stringent, these qualifications have helped many countries. The IMF and World Bank strategic programs have helped promote free markets, privatization, and trade liberalization in developing countries, which has aided in boosting many of these economies, while the WTO has negotiated many trade agreements.³⁹

Migration is not necessarily an evil, either, but is necessary for the survival of some nations. Immigration can provide a source of low cost labor in host countries, while the remittances of emigrant workers can be a significant source of income for the sending countries.⁴⁰ For instance, the money sent by El Salvador workers to their home country equals 13% of that nation's national income—more significant than foreign aid, investment, or tourism.⁴¹ Migration also creates the potential for skills to be transferred back to the developing countries as migrants return home.⁴²

Another aspect of globalization is the spread of knowledge and technology. As advances in communication are made, knowledge about production methods, management techniques, export markets, and economic policies is available at an increasingly lower cost, which can represent a highly valuable resource for developing countries as they struggle to survive in the competitive nature of globalization.⁴³

Globalization describes the growing economic, political, technological, and cultural linkages that connect individuals, businesses, and governments around the world.⁴⁴ It is an intricate web, each strand an individual nation and economy, all linked together. Yet one must question if this web is helping the world by expanding and creating greater opportunities, or if it is only serving to ensnare the world and destroy it. It has threatened the environment, some developing nations, domestic firms, labor rights, and individuals' safety as crime increases and diseases spread rapidly. However, it has provided greater living standards, better economies, competition, spread of knowledge, cheaper products, and freedom of choice. Thus, comparing the effects, one comes to believe that the gains far outweigh the costs. Just as Adam Smith's invisible hand directs the private sector in aiding the consumer's desires at lower prices, competition in globalization will lead the public sector to reflect people's needs and wants.⁴⁵ Globalization, though, should not be allowed to move forward unfettered, but it should advance with certain reforms. The saying that a chain is only as strong as its weakest link must be applied to globalization. The intricate web is only as strong as its weakest strand. Thus, these strands must be strengthened to create a stronger, more durable structure. Governments should seek ways to manage the process of globalization by providing education and training to promote productivity, encouraging flow of private capital to the lower-income countries, and supplementing more debt relief.⁴⁶ The weakest strands, the developing countries, must establish good institutions and effective governments to foster good governance in order for these nations to derive the benefits of globalization.⁴⁷ Only through the continuance of open markets will the poor be helped and the web be strengthened.⁴⁸ Globalization is not completely a menace but must be regulated to aid all, for all are connected and dependent in this world.

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