In what ways the globalization affects the domestic economic recovery?

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Abstract

This paper examines globalization and its positive and negative effects on the economy. Through the years the distance has been largely overcome and human-made barriers lowered or removed to facilitate the exchange of goods and ideas. Propelled by the desire to improve one's life and helped along by technology, both the interconnectedness and interdependence have grown. The question is it for the better or for the worse during a domestic economic recovery?

Keywords: Globalization, GDP, HDI, Comparative Advantage, Domestic Economic Recovery
Introduction

Globalization is a relatively new term used to describe a very old process. It is a historical process that began with our human ancestors moving out of Africa to spread all over the globe. In the millennia that have followed, distance has been largely overcome and human-made barriers lowered or removed to facilitate the exchange of goods and ideas. Propelled by the desire to improve one's life and helped along by technology, both the interconnectedness and interdependence have grown. This increasing integration of the world or 'globalization' has enriched life but also created new problems (yaleglobal).

Definition:

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world (Globalization101).

As mentioned in the opening paragraph, globalization is not new. For thousands of years, people—and, later, corporations—have been buying from and selling to each other in lands at great distances, such as through the famed Silk Road across Central Asia that connected China and Europe during the Middle Ages. Likewise, for centuries, people and corporations have invested in enterprises in other countries. In fact, many of the features of the current wave of globalization are similar to those prevailing before the outbreak of the First World War in 1914 (GANGULY, 245).
Different pieces behind globalization

GDP

As defined by the famous economist Robert Mankiw, Gross Domestic Product or GDP is the market value of all officially recognized final goods and services produced within a country in a given period of time (Mankiw, 110).

How does globalization affect the gross domestic product?

Generally speaking, globalization means, increasing trade, lowering tariffs, higher technology, and increasing economic integration. All of these factors have been linked to higher economic growth, so GDP will, in a normal sample, be higher because of globalization. However, just like many economic activities benefit society or many people, there are often 'losers' from economic changes. Globalization will negatively impact some groups of people and systems, but it will increase the GDP of all countries and their societies which we will discuss in the later pages.

Human Development Index (HDI)

The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income indices used to rank countries into four tiers of human development. It was created by the Pakistani economist Mahbub ul Haq and the Indian economist Amartya Sen in 1990 and was published by the United Nations Development Programme. (UNDP)

The HDI sets a minimum and a maximum for each dimension and then shows where each country stands in relation to these scales -- expressed as a value between 0 and 1. For example,
the minimum adult literacy rate is 0% and the maximum is 100%, the literacy component of knowledge for a country where the literacy rate is 75% would be 0.75. Similarly, the minimum for life expectancy is 25 years and the maximum 85 years, so the longevity components for a country where life expectancy is 55 years would be 0.55. For income the minimum is $100 and the maximum is $40,000. (Manijeh Sabi, 108).

**Figure 1:**

In her research paper and regression analysis of about 150 countries, Manijeh Sabi finds out that there is a strong relation between globalization and human development. Her findings indicate that the impact of economic freedom, which can be viewed as globalization, can be seen only for high income group. The other groups (upper-middle, low-middle, and low income) do not demonstrate significance at any level (Manijeh Sabi, 117).
Economic Impacts of Globalization

In the United States globalization has a huge effect on the way that we do business, and how the economy works. However, there are positive and negative impacts of globalization. A part of this is manufacturing goods. We are better able to manufacture and sell goods with globalization. However, with the benefits of globalization there are negatives. The United States outsources labor, but 5.6 million Americans are working in jobs that have been outsourced from other countries to the U.S. (Organization for International Investment).

Positive Effects

A lot of attention has been focused on trade and terms such as “globalization,” “outsourcing,” and “offshoring.” Globalization refers to the growing interdependence, or mutual dependency of countries. It is a result of the increasing integration of not only international trade and cross-border investments but also ideas and people within a unified market. One of the main concerns is that a free-trade environment is directing jobs outside of the United States to places such as China, India, and other countries where workers are willing to accept much lower salaries. Some people prefer to have limitations on trade in order to keep jobs within the economy and reduce the effects of globalization, but an increasing amount of governments are refusing to discourage their economies from foreign influence. Whether globalization is a threat or an opportunity for the U.S. economy is a question that can result in differing answers.

Comparative Advantage

Globalization is implemented in order to administer international trade by increasing efficiency in the production and distribution of products as well as to increase economic
productivity. One argument is that nations can be more productive when they are aware of their strengths and use comparative advantage. If a country can produce goods and services at a lower opportunity cost than other countries than this would lower costs for consumers (Comparative Advantage). According to the article Globalization and International Trade, “Domestic producers produce more efficiently due to their international specialization and the pressure that comes from foreign competition, and consumers enjoy a wider variety of domestic and imported goods at lower prices.”

Globalization in Foreign Countries

Evidence suggests that globalization has drastically increased economic growth in areas such as China, the Republic of Korea, and Singapore. In spite of these examples, not all developing countries can benefit from globalization. The world trade share of Sub-Saharan Africa has continued to decrease since the 1960s, and for countries who participate in globalization, the benefits come with different risks and challenges (Globalization and International Trade).

The costs and benefits of international trade depend on the size of a country’s domestic market and the amount of natural resources it has. Countries that have large domestic markets typically do not trade as much because they have enough resources to create products without having to depend on other countries. Countries that possess a smaller amount of natural resources trade more often in order to acquire the things that they need. Many countries have made the decision to globalize in spite of the risks that may occur. One way to measure the extent of globalization is by comparing the ratio of a country’s exports and imports to its GDP.
According to this measurement globalization has roughly doubled on average since 1950 (Globalization and International Trade).

**Negative Effects**

The notions about the negative effects of globalization are generally thought of by the non-economists and general public. In a broad sense they feel that the costs will outweigh the benefits especially in the short-run (Pologeorgis). The other concerns that come with globalization are the impact on small business around the country. These businesses not being able to compete is a great concern for their owners and supporters. With globalization come increased production and labor cost, thus making lower skilled workers less effective, and understandably so making this another major concern for the general public. The last negative effect that is seen from globalization that will be discussed is the overuse of natural resources. It is felt that these things will be more detrimental to the economy than the benefits of globalization.

**Small Businesses**

The concern of small businesses being affected is potentially the biggest negative effect that can come from globalization. The country was founded on such family owned stores and many people in our country still manage their own small businesses. The major benefit of globalization for big companies is to lower labor and product cost by outsourcing. In doing this they are able to lower prices below the level of local small businesses. This is something that the small businesses cannot compete with. With the inability to outsource, these small businesses are stuck with expensive labor and product costs, reducing profitability to a minimal level (Sun). With this major handicap for small businesses it is understandable that they cannot compete with companies that can outsource and this leaves them vulnerable to being wiped out completely.
The majority of this outsourcing is for lower skilled jobs, which in turn affects the labor market in our country.

**Workforce Dilemma**

As was just mentioned, most outsourcing is for lower skilled positions, leaving higher skilled positions here in our country. This outsourcing affects the labor costs in our country and for lower skilled workers in a very negative manner. With the higher skilled positions staying in the country their wages will stay steady or increase depending on the demand for their skills. On the other hand the lower skilled positions are being outsourced so the portion of workforce that would fill these positions has trouble finding jobs. This marginalizes the lower skilled workers here in the United States by paying them a very minimal amount of money or in the worst case scenario they end up as another portion of the already high unemployment rate (Hanson). Another aspect of globalization that negatively effects the demand for the lower skilled workforce in our country is the advancement in technology that globalization brings (Globalization). With new technology many jobs that are relatively simple in nature, such as assembly line jobs, will be taken over by technology which is cheaper in the long run than paying wages to a workforce to do the job.

**Loss of Natural Resources**

The last negative effect to be discussed is the abuse or overuse of natural resources. These resources are in high demand around the world and are in a set supply. Once they are gone there is no more supply for people to use. With this said, it is understandable that when discussing the effects of globalization on natural resources it must be discussed as a whole instead of just in the United States. As seen in figure 2 since China started its world trade in 2002
its use of natural resources has increased dramatically. This trend has followed with the rest of the world in coal consumption, as seen in figure 3. Although this is only a small sample of the effects in natural resources it is foreseeable that the rest of the world’s consumption of many natural resources has risen as well. In the sense that all of the countries that interact in globalized trade they are indeed tied together. With these ties that bind it is a concern that if one of these many countries collapses it will bring others with it (Tverberg).

Figure 2:
Understanding these negative effects of globalization is important to making an educated decision on whether or not it is good or bad for our economic recovery. How it affects small businesses, labor, and natural resources is extremely important. As well as considering the economic impact of the application of globalization on a recovering economy.

**Effects in Application**

Economic recovery is the period after a trough within the business cycle in which there is an increase in business activity and when the gross domestic product expands, eventually this can lead to expansion with a steeper incline which indicates an even greater increase in business activity and the GDP expanding. Several factors go into an economic recovery, and one of those factors which can have a huge impact on the recovery is Globalization. The negative and positive
effects of globalization have already been discussed, but the more important question is how do these effects play out during a domestic economic recovery?

In the United States, globalization is a major component of the way that we do business. However, as discussed not all of those effects are good especially during a fragile slow moving domestic economic recovery like the United States is currently experiencing. The trend with globalization in coordination with the domestic economy is interconnected to the other countries. That is, if one country is struggling they’ll bring down the economy of another country slightly, but if many countries are struggling then there can be a drastic downward spiral. The benefit to this interconnectedness is just as countries’ economies go down together at a magnified rate; they also tend to come back up together during a recovery (Gjelten). A good example of this is in looking at figure 4 which shows a comparison of six different countries and their economic growth since 1999.

Figure 4 (Barber)
One of the reasons why globalization and the business cycle have such a tight relationship is due to the trade between countries which has a direct connection to GDP. The top five countries with which the United States trades is Canada, Mexico, China, Japan and Germany ("Top Ten Countries with which the U.S. Trades"). As seen in Figure 5, the U.S. is currently in Recovery, while Canada is in an expansion, China and Japan are currently in recovery and then Germany and Mexico are currently at risk. Canada being in an expansion is good for the United States because it not only is tied to our trade, but it is also tied to investing.

Figure 5 (Dismal Scientist):

To say definitively that globalization is good or bad is nearly impossible to say without pointing out the benefits and the downfalls of globalization. Ultimately globalization appears to help countries that dip down temporarily, but in turn through the interconnectedness hurts countries that may be doing well both economically and on a social and environmental level. In the U.S.’s current situation of being in recovery, globalization is helpful in that it can help to move along recovery into a potential expansion. It may not always be beneficial to the little guys.
in smaller businesses or to using an excess of natural resources, but in terms of increased production it has proven valuable. There are definitely problems with globalization, but there are also benefits for the domestic economy and the global economy. Globalization can be viewed as something negative or something positive, but all factors are working at the same time with the ultimate goal of improving the economy.
References


