ACTIVITY 1.1
ANSWERS TO TEN BASIC QUESTIONS ABOUT GLOBALIZATION

1. What is globalization?

Although there is no one precise definition, the term **globalization** usually refers to the increased flow of trade, people, investment, technology, culture and ideas among countries. Opening up international borders results in global markets instead of local or national markets. This includes markets for goods, services, labor and capital. For example, in our global economy a business in one country often interacts with people and businesses in other countries to produce and sell its goods and services. When your family buys fruit from your local U.S. grocery store, you may end up buying apples from New Zealand, apricots from China, bananas from Ecuador and tangerines from South Africa.

The term "globalization" sometimes takes on different meanings for different people and in different circumstances. For example, sometimes the term is used to refer to the increased role of large, multinational corporations in the world economy. People in developing countries outside the United States sometimes use the term to refer to the dominance and influence of the United States on the world economy.

2. How new is globalization?

The term "globalization" is a current buzzword frequently used in the news. The term probably was coined in the 1960s, and came into wide use in the 1990s. But globalization itself has been around for centuries. For example, Marco Polo made a trading expedition from Venice, Italy, to what is today Istanbul, Turkey, in the thirteenth century. Native Americans traded with others from different territories and with different languages long before they began trading with European settlers in the seventeenth century. French textile firms had branches in Rhode Island and Latin America in the early nineteenth century.

Although globalization has been going on for centuries, historians and economists agree that today we are in a period of rapid globalization and that it is on the increase worldwide. International migration is on the rise. Businesses are expanding their operations in other countries. Foreign direct investment is estimated to have increased 10 times since 1990. According to the Federal Reserve Bank of Dallas (2002), U.S. trade and capital flows both tripled as a percentage of GDP between 1972 and 2002, and "the United States isn't alone. The rest of the world has seen a similar surge in cross-border business."

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3. What has led to increased globalization?

The increase in globalization throughout the world in recent decades is due to many factors. Of major importance is the fact that trade barriers have gradually been reduced around the world, as have restrictions on the free flow of investment capital between countries. The growth and sharing of technology are also important. Methods of transportation have improved, making it easier for people to travel and to move goods and services across borders. Methods of communication such as the Internet have improved, making it easier for people to spread information and share ideas around the world. When business owners are free to earn profits, they may try to do so by hiring people or buying and selling in other countries. Another important factor is the fall of communism. Countries of the former Soviet Union, the Eastern Bloc and China that were once isolated due to communist regimes now have more market-oriented economies and are doing business with the rest of the world.

4. What are some positive effects of globalization?

Globalization has many benefits. In many ways, globalization represents increased freedom. When international borders are open, people are free to travel and immigrate to other countries, to trade with whomever they wish, to invest wherever they wish and to experience new cultures and new ideas. Opening up international trade provides consumers with a wider variety of goods and services. By buying raw materials and hiring workers from other countries, some businesses are able to lower their costs. These lower costs usually generate lower prices leading to greater consumer demand for products of all types. In addition to lower prices, international competition results in higher-quality goods. When markets operate across borders, people on both sides can benefit from economic growth and increased wealth and more jobs overall. Developing countries benefit when they rely on exports for economic growth. They also benefit when multinational corporations provide jobs in their countries, usually paying higher wages than those prevailing for other jobs requiring similar skills. Globalization provides people with better access to medicine, information, education and new technology. Because of globalization, many people in the world now live longer and with a higher standard of living. As a nation experiences economic growth and its standard of living rises sufficiently, citizens are able to afford and often begin demanding a cleaner and healthier environment.

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5. When people trade, how do both sides benefit?

Voluntary trade makes both parties better off. All countries have scarce resources and cannot produce everything that everyone wants. To benefit from trade, countries specialize in producing products where they have a comparative advantage. This means that instead of producing everything for themselves, they specialize in producing the goods that they can make at a lower opportunity cost than their trading partners. When they trade these goods, consumers in both countries benefit by being able to buy a greater variety of goods at lower prices. For example, the United States and China are trading partners. The United States can produce computers at a lower opportunity cost than China, and China can produce toys at a lower opportunity cost than the United States. When U.S. businesses import and sell Chinese toys and Chinese businesses import and sell U.S. computers, many people gain. The winners include U.S. businesses that import and sell Chinese toys, U.S. consumers of Chinese toys, Chinese toy producers, U.S. computer producers, Chinese businesses that import and sell U.S. computers and Chinese consumers of U.S. computers. Even if a country made everything more efficiently than another country, the two countries could trade based on differences in opportunity costs.

6. What are some negative effects of globalization?

In recent years there have been large demonstrations against globalization in Seattle, Prague, Washington and other cities. The concerns of these demonstrators vary. Some are upset because they have lost their jobs due to foreign competition. Other believe that globalizations is partly to blame for increased environmental damage throughout the world, since globalization results in increased industrialization.

Some critics claim that industrialized countries, including the United States, receive more benefits from globalization than low-income countries. Some economists believe that although increased globalization has had many benefits for people in the developing world in the past, it has not led to the elimination of world poverty. The number of people living in poverty throughout the world remains unacceptably high. In addition, critics claim that globalization has not led to more stability in developing countries, as evidenced by financial crisis in Asia and Latin America in the 1980s and 1990s.

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7. What roles do the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) play in globalization?

Countries have their own laws and regulations with respect to trade, labor standards, finance and the environment. There is not one worldwide organization that sets laws and handles disputes in the global economy. However, the IMF, the World Bank and the WTO play important roles.

The **International Monetary Fund** is a separate, specialized agency of the United Nations system established in 1944 to help the world economy by encouraging countries to adopt sound policies affecting exchange rates and currency values. In this way, it promotes world trade. It gives advice to member countries and makes loans to its members that have shortages of currency necessary for trade. As of 2005, the IMF had 184 member countries.

The **World Bank**, officially called the International Bank for Reconstruction and Development, is also a specialized agency of the United Nations established in 1944. It also had 184 member countries in 2005. The World Bank's purpose is to fight world poverty by promoting economic development. It does this by providing loans, policy advice and technical assistance for development projects in poorer countries.

The **World Trade Organization** is an international organization established to promote international free trade. The WTO had 148 member countries in 2005. It enforces rules to promote free international trade, and helps countries negotiate to reduce trade barriers.

8. What are some effects of multinational businesses?

A **multinational corporation** (MNC) is a corporation that operates in two or more countries. It has headquarters in one country and offices or plants in other countries, either developing or developed. Examples include General Motors, Coca-Cola, Nestle and Volkswagen. The major goal of businesses, including MNCs, is to maximize profits, and successful MNCs report higher profits due to their global operations. One result of MNCs is foreign direct investment such as when a company builds production facilities in other countries. In addition to providing capital, MNCs provide jobs in the countries where they operate.

Critics of MNCs argue that foreigners pay very low rents for the right to use land and other resources in poorer countries, and that they hire mostly unskilled labor and pay only subsistence wages. They argue that when the goods or services produced are exported, the foreign firms--not the people in poor countries--reap most of the benefits through increased revenues and profits.

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9. What are some of the issues involved with outsourcing jobs?

Outsourcing across international borders, sometimes called offshoring, occurs when, for example, a firm in the United States tries to reduce costs by locating production facilities in other countries and hiring cheaper foreign workers. Another example is when a U.S. firm hires workers in another country (e.g., India) to write computer software programs or provide other services.

The U.S. business benefits because it has lower costs and can earn higher profits. Consumers benefit because lower costs may result in lower prices and thus the ability to demand more products. Foreign workers benefit because they have more jobs available to them. U.S. workers benefit from the outsourcing from other countries when they work for foreign firms in the United States and abroad.

Some U.S. workers are hurt because they lose their jobs to foreign workers who are willing to work for less money. These U.S. workers may end up earning lower wages when they find new jobs. However, in the long run, the increased demand by consumers will likely generate many new jobs with higher wages.

Although it has recently become a political issue, international outsourcing has been going on for centuries. One challenge for American workers is to make sure that they are able to compete successfully in the global economy.

10. What is the future of globalization?

It is hard to imagine a world without globalization. There would be no imports, no exports, no international travel, no immigration, no working abroad and no investing in other countries. Globalization is here to stay. However, globalization did experience setbacks in the first half of the twentieth century--from two world wars, a worldwide depression and the spread of communism. Some people think that the growth of international terrorism could cause countries to become less open in the future. Despite this serious problem, most experts believe that the future will see more globalization, rather than less. The benefits of globalization are strong and widespread, and international organizations such as the IMF, the WTO and the World Bank encourage its spread. The critics of globalization bring up some valid points, and the world of the future must find ways to deal with these problems. Governments can ease the problems resulting from globalization by establishing job-training programs and providing a safety net for those who have lost jobs due to foreign competition.