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Globalization and Economic Factors

Meaning

- As per Dictionary meaning, Globalization is the process by which businesses or other organizations develop international influence or start operating on an international scale.
- According to 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."

Economic Factors

- Economics is the branch of knowledge concerned with the production, consumption, and transfer of wealth.
- Economy is the state of a country or region in terms of the production and consumption of goods and services and the supply of money.
- The factors related with the economy are known as economic factors e.g.-demand and supply, inflation,taxes,labour,wages, economic laws and policies,exchange rate, recession, government activities etc.

Globalization and Economic factors

- **Globalization** of product and financial markets refers to an increased **economic** integration in specialization and **economies** of scale, which will result in greater trade in financial services through both capital flows and cross-border entry activity.
- The Milken Institute's "Globalization of the World Economy" report of 2003 highlighted many of the benefits associated with globalization while outlining some of the associated risks that governments and investors should consider, and the principles of this report remain relevant.1

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- **Foreign Direct Investment**: Foreign direct investment (FDI) tends to increase at a much greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring, and the growth of global companies.
- **Technological Innovation**: Increased competition from globalization helps stimulate new technology development, particularly with the growth in FDI, which helps improve economic output by making processes more efficient.
- **Economies of Scale**: Globalization enables large companies to realize economies of scale that reduce costs and prices, which in turn supports further economic growth. However, this can hurt many small businesses attempting to compete domest

Threats

- **Interdependence**: Interdependence between nations can cause regional or global instabilities if local economic fluctuations end up impacting a large number of countries relying on them.
- **National Sovereignty**: Some see the rise of nation-states, multinational or global firms, and other international organizations as a threat to sovereignty. Ultimately, this could cause some leaders to become nationalistic or xenophobic.
- **Equity Distribution**: The benefits of globalization can be unfairly skewed towards rich nations or individuals, creating greater economic inequalities.

Future Outlook

- Economists suggest that nowadays, cross-border investments are not being made so much to build capital infrastructure as they are to seek countries with the lowest taxes. Some form of globalization may be inevitable over the long-run, but the historic bumps spurred by economic crises and other consequences suggest that change is the only reliable constant.

Economic Globalization

- As per United Nations-Economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world at the turn of the millennium.

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- The advancement of science and technologies has greatly reduced the cost of transportation and communication, making economic globalization possible. Today's ocean shipping cost is only a half of that in the year 1930, the current airfreight 1/6, and telecommunication cost 1%. The price level of computers in 1990 was only about 1/125 of that in 1960, and this price level in 1998 reduced again by about 80%. This kind of 'time and space compression effect' of technological advancement greatly reduced the cost of international trade and investment, thus making it possible to organize and coordinate global production.

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- The participation of developing countries in the globalization process can enable them to better utilize their comparative advantages, introduce advanced technologies, foreign capital and management experience. It is also favorable for eliminating monopolistic behaviors and strengthening market competition. Nevertheless, while providing more development opportunities for developing countries, the globalization process is also posing enormous risks.

--**Sources-**
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