

## INTERPRETING GLOBAL EARTH

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### **—Abstract —**

In today's constantly changing world it is often times difficult to understand the changes happening around us every second. Some of these changes may be, in the aggregate, for good, while others may have unappreciated and heavy costs. What is Globalization? Globalization is "an elimination of barriers to trade, communication, and cultural exchange. The theory behind globalization is that worldwide openness will promote the inherent wealth of all nations." (Jones, 2012)

All this encompasses global cultures, international economics and other growing social networks such as Facebook, Twitter, and YouTube. Throughout this analysis the pros and cons of globalization will be discussed and also whether or not globalization is in fact as much of a benefit for today's global economy—as so many think—will be determined. First, identification of the various types of globalization is necessary.

**Key Words:** *culture, economics, ethics, globalization, politics, technology*

**JEL Classification:** M000, F000, Z000

## **1. INTRODUCTION**

**What is Globalization?:** "Far more than in the past, today's enterprises are global, with offices and production facilities in countries all over the globe.

Corporations operate worldwide, transcending national borders. Companies that want to grow often need to tap international markets, where incomes are rising and demand is increasing. The change from a local to a global marketplace is gaining momentum is irreversible.” (Green and Immelt, 2003) Throughout this analysis, the pros and cons of globalization will be discussed. Is globalization, in fact, a benefit for today’s global economy as so many think? First, identification of the various types of globalization is necessary.

**‘Economic Globalization’** refers to the integration of national economies into the international economy through trade and the movement of labor. (Najam et al. 2007) Subsequently, **‘Financial Globalization’** refers to the cross-border integration of foreign direct investment and short-term capital flows. (Prasad et al, 2003) Economic integration has created new opportunities for many; but not for all. It has led to detrimental effects upon the global environment by placing pressure upon our natural resources, thus straining the Earth’s capacity for human sustenance on this planet.

As economies open up, more people become involved in the processes of knowledge integration and the deepening of non-market connections, including flows of information and communication through technology which transfer over to cultural ideologies through social networking and media. Assistive technologies can move across boundaries more quickly, just as knowledge can connect workers and citizens across land and ocean borders, giving rise to global social movements on the one hand, outsourcing on the other, with the power to threaten social and economic networks at the local level if not monitored for regulation. (Najam et al. 2007)

**‘Cultural Globalization’** refers to the integration and cohesion of world-wide cultures to the extent that people are more educated than ever. There are more people speaking two to three languages fluently and living around the world in places other than their home country. Some discover a passion for languages and culture while others travel and live around the world for work, bringing their experiences and knowledge to those around them wherever they go, allowing for a variety of diverse cultures to interact and learn from one another. By contrast, however, when people become exposed to the modern instruments of technology within popular social cultures, sometimes valuable traditions can be lost. Traditions play an important role in what makes it so exciting to visit a new place. The loss of cultural variety carries an unknown but heavy cost.

## **2. HOW GLOBALIZATION AFFECTS THE WORLD: PROS, CONS, & WORLD APPLICAITON**

With regard to ‘**Economic Integration**’, over time, globalization has been crucial for economic growth. The benefits of globalization extend directly from a fundamental concept of free trade called ‘comparative advantage’. International trade is beneficial because it allows a country to specialize in the activities it does best, given its labor, natural resource and technology provisions. (Kliesen, 2007) Thus, a reduction of trade barriers allows for economic gains stemming from:

“Trade contributes to a more efficient use of resources.” (Cotis, 2007) The open market competitiveness of international trade boosts growth and income because it contributes to an efficient allocation of resources through various channels. The one-time benefits (static gains) of reducing trade barriers that arise as domestic (national) prices move closer to world (global) prices (market price convergence). These price changes rooted in trade liberalization cause productive resources to be reallocated and consumption patterns to change, which result in gains from “specialization and exchange according to comparative advantage.” (Couglin, 2002).

Free trade also leads to a return to ‘economies of scale’, whereby as the global market expands, declining-per-unit production costs are achieved according to the Law of Diminishing Returns. (Couglin, 2002) As a result, integrated markets enable buyers and sellers to reap the full benefits of the cost reduction. (Cotis, 2007) Moreover, the larger market size may also encourage research and development spending which can be spread over larger levels of output. If successful, such spending would also increase the productive capacity of the country. (Couglin, 2002).

“Labour has become more internationally mobile,” making foreign-born workers a more important component of the workforce in the world’s most-developed countries since the mid-1990s. Included in this trend is the migration of highly-skilled workers (Cotis, 2007) and the offshoring of certain services in order to establish the maintenance of a 24-hour production cycle. Usually, most of the jobs that tend to be moved offshore are done by lower-skilled workers. Moving work offshore thereby increases the demand for higher-skilled workers, who are paid a premium for their labor, relative to the demand for lower skilled workers. (Kliesen, 2007)

Outsourcing has created a culture of job insecurity as a result of increased job competition leading to wage reduction and lower standards of living. In the service industries, high paying jobs (i.e. programmers, editors, scientists, accountants and medical technicians) have lost their positions due to outsourcing to inexpensive locations. This also includes any employment with internet-compatible job descriptions, such as customer support, marketing, or insurance. Additionally, manufacturing work is outsourced to developing nations where wages and costs are lowest. As domestic manufacturing continues to decline, so does the ability to innovate as a nation. Similarly, by outsourcing plants and thus transferring technologies and R&D, there can be a loss of innovation, the greatest competitive advantage. (Colins, 2010)

Since the reallocation of labor to more productive jobs has become a required response to globalization, immigration may in fact reduce the structural rate of unemployment. While it does tend to weaken the bargaining position of native workers, when immigrants secure employment they tend to target regions and sectors where labor demand is strong, thereby alleviating any off-setting wage pressures at the given employment level. This reinforces the reported statement that, "Labor reallocation has not implied greater insecurity and migrant labor can reduce structural unemployment," in conjunction with the assumption that, "Trade openness does not undermine aggregate employment and can reduce structural unemployment." (Cotis, 2007)

However, there are indeed rising uncertainties associated with job losses in industries that are exposed to international competition with the cost of worker dislocation being potentially short-term, but significant. (Kliesen, 2007) With further regard to 'The Displacement Experience', when contrasted with the permanent benefits of trade liberalization, the necessary adjustment costs would be temporary. In theory, once the economy fully adjusted to the "new plateau of trade and globalization," there would be no further adjustment costs, but the economy would continue to enjoy a higher level of national income. In reality, however, the private costs are usually significantly larger than the annual federal outlays designed to alleviate the consequences of worker pains specifically caused by trade expansion. (Bradford et al., 2006)

With regard to '**Financial Integration**' (i.e. investment and capital flows), as more money is poured in to developing countries, there is a greater chance for the people in those countries to economically succeed and increase their standard of

living. (Stief, 2008) The recent entrance of emerging countries to the world economic system also affects the movement of the means of production of goods and services across borders, of which one aspect is foreign direct investment. (Kliesen, 2007)

FDI provides risk capital that contributes to economic growth, employment and poverty alleviation. In terms of increased competition, improved management skills, and access to greener markets and cleaner technologies, it also creates positive externalities towards the wellbeing of the global environment. Regardless, fears have been expressed that foreign direct investment gravitates towards those countries with lower environmental standards of enforcement. Alternatively, as governments compete with each other to attract scarce investment by lowering environmental standards below efficient levels, capital mobility indeed results in lower environmental standards. On the one hand, while the employment growth and national wealth that FDI generates makes for larger investments (and environmental protection possible through cleaner technology), it can lead to increased industrial production and aggregate pollution levels as well as the consumption of 'dirty' goods such as electricity, fossil fuels for automobiles, etc. on the other hand. (Panayotou, 2000)

Going forward, financial globalization will continue to increasingly influence the emerging current and capital balances that will, in effect, involve two counteracting forces. On the one hand, rapid growth and financial integration will increase the global pool of funds that can be invested; while on the other hand, the share of the world economy—with a tendency to reduce the share of portfolios that investors would wish to hold—will also increase. Furthermore, globalization can significantly reduce exposure to financial risk by facilitating international diversification. The fact that returns vary more across countries than within them implies that, by diversifying their portfolios internationally, investors can achieve higher returns for the same level of risk. (Cotis, 2007) In times of financial crises, however, economic turmoil increases uncertainty among international investors as financial capital moves rapidly to cause significant changes in living standards among the affected countries. Sometimes, these disruptions can affect the viability of firms (i.e. Long-Term Capital Management) or spur central banks to take actions designed to calm financial markets. (Kliesen, 2007) Evidence of this point can be seen in the events surrounding the current economic and financial crises now taking place in Europe.

Globalization creates challenges for monetary policy and affects the conduct of economic policies with regard to borrowing capacity, which has made government bond markets more global. Accordingly, fiscal discipline has necessarily increased due to heightened financial market scrutiny. (Cotis, 2007) Additional to the global atmosphere of late, is the demand for stricter accountability by the public, as a result of financial crises, inside traders, and fraudulent rate-fixing bankers. Past research shows that corruption has a strongly negative effect on FDI inflows while transparency of government operations—as one dimension of good governance—has a strong positive effect on investment inflows from international mutual funds. (Prasad et al, 2003)

Generally, a long shadow is cast upon international capital flows by mass politics, regardless of the pursuit of deep economic integration on any political leader's single-minded agenda. When the demands of foreign creditors collide with the needs of domestic constituencies, the former eventually yield to the latter, especially in democracies. (Rodrik, 2002) Global economic stability appears to be an important prerequisite for ensuring that financial integration is beneficial for developing countries. Empirically, establishing good institutions with quality governance helps emerging countries derive the benefits that globalization has to offer. In this regard, the work of such institutes as the International Monetary Fund (IMF) is crucial in establishing sound economic frameworks by decree through promoting standards and codes for best practices on financial supervision and transparency. (Prasad et al, 2003)

One of the most important drivers of globalization is the revolution '**Information & Communication Technology**'. Inflows and outflows of information from one part of the globe to another travel quickly over the internet—even to the remotest of locations—via satellites and wireless devices (i.e. laptops, tablets, smartphone, etc.). (Nigam, 2009) This rapid diffusion of information technology helps to increase commercial and social communications between employees in firms and general populations from different countries. (Couglin, 2002).

Because of the ease of global communication, developing countries are able to reap the benefits of current technology without undergoing many of the growing pains associated with development of these technologies. (Stief, 2008) While it may be true that most people see this quick dissemination of information through the Internet (along with speedy travel, and mass communication) as a benefit of globalization (Colins, 2010), there is also the matter of the world's increasing co-

dependency on communication technology and the information highway. Other consequences, not to be overlooked include information overload, 'big data' management (i.e. the organization and security of), and cyber-warfare (i.e. identity theft, online piracy and copyright infringement, computer viruses, corporate and national espionage).

With regard to '**Cultural Appreciation & Diversity**', cross-cultural contact is the result of globalization. Cultural expansion has generated better understanding towards cultural diversity, promoting international tourism and travel as a conscious and proactive effort to understand each other in a greater context. Product consumerism has been greatly enhanced at the same time that it has generated unique pseudo-subcultures. (Nigam, 2009) This is due to cultural intermingling as each country is learning more about other cultures around the globe. (Collins, 2010) The world's access to foreign culture in the form of movies, music, food, clothing, and more has greatly expanded, giving the global population more choices. Although different cultures from around the world are able to interact, they also consequently begin to meld, and the contours and individuality begin to fade. (Steif, 2008) Opponents of globalization even claim that countries' individual cultures are becoming overpowered by 'Americanization' with a gradual fading, to eventual loss, of traditional language and customs. (Colins, 2010)

With social networking we see the global emergence of "a corollary of caring," which asserts that as we increase the amount of social information online we will also increase our response to that information in both words and actions offline. The growing strength of social media empowers individuals to broadcast their voices in an amplified way. The truer the voice, the louder it sounds out to the farthest reaches of the world. Emotional connections that start in cyberspace will become ever more tangible in the material world as what begins online will continue to have an impact offline. Greater sharing around the world is inevitable. Deeper and richer caring will have a profound effect across borders. As our sharing increases, so too will the caring that leads to incredible acts of bravery and generosity – small and large. (Sandberg, 2011)

With regard to '**Ethical & Political Implications**', there are many who strongly believe that there is a threat of corporations ruling the world because of the exorbitant amount power they have gained due to globalization. Whereas multinational corporations were once previously restricted to only commercial

activities, they are now influencing political decisions around the world at an alarming rate – either through official lobbying channels and election campaigns or autocratic authority; bribery disguised as ‘gifts’; and the spin of media conglomerates. (Colins, 2010)

### 3. CONCLUSION

In interpreting global earth, there are many pros and cons that affect the global environment. It may continue to take many years to completely understand how this continuous connectivity among people will affect the cultures in diversified environments around the world. From economic and financial integration, the international world benefits from free trade, reallocation of labor and resources, and the strategic alliances of foreign direct investment and capital flows. Advancements and transfer of information and communication technologies enables different world cultures to connect and grow through professional and social networking. Of course, to be expected, are the ethical, legal, and political implications involved with the governance of corruption, which unexpectedly helps to define the interpreting of global earth.

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