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The Impact of Globalization on the World Economy in the Global Market and Production

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Abstract: *The study evaluated the extent to which globalization of market and production affects the world economy. The work adapted three theories;* Liberalism, Transnationality and Transnationalism. *The Data for the study were obtained through secondary data. Findings from the study showed that Globalization has numerous facets, including the globalization of markets and the globalization of production. A fundamental shift is occurring in the world economy. We are moving away from the world in which national economies were comparatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward the world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic system. The process by which this is occurring is commonly referred to as globalization.*

Keywords: *Globalization, World Economy, Global Market and production*

INTRODUCTION

Globalization has numerous facets, including the globalization of markets and the globalization of production. As globalization unfolds, it is transforming industries and creating anxiety among those who believed their jobs were protected from foreign competition. Historically, while many workers in manufacturing industries worried about the impact foreign competition might have on their jobs, workers in service industries felt more secure. Now, this too is changing. Advances in technology, lower transportation costs, and the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered. The outsourcing trend is even hitting health services.

Accounting work is being outsourced from America to India. In 2005, some 400,000 individual tax returns were compiled in India. Indian accountants, trained in U.S. tax rules, perform work for U.S. accounting firms. They access individual tax returns stored on computers in the United States, perform routine calculations, and save their work so that it can be inspected by a U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has recently argued, the world is becoming flat. People living in developed nations no longer have the playing field tilted in their favour. Increasingly, enterprising individuals based in India, China, or Brazil has the same opportunities to better themselves as those living in Western Europe, the United States, or Canada.

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. Nevertheless, the globalization of markets and production will continue. Modern firms are important factors in this trend, their very actions fostering increased globalization. These firms, however, are merely responding in an efficient manner to changing conditions in making profits at a low price. Since the collapse of communism at the end of the 1980s, the pendulum of public policy in the nation after nation has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while those nations has often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developing nations, to expand internationally.

At the same time, globalization has created new threats for businesses accustomed to dominating their domestic markets. Foreign companies have entered many formerly protected industries in developing nations, increasing competition and driving down prices. For three decades, U.S. automobile companies have been battling foreign enterprises, as Japanese, European, and now Korean companies have taken business from them. General Motors has seen its market share decline from more than 50 percent of about 28 percent, while Japan’s Toyota has passed Chrysler, now DaimlerChrysler, to become the second-largest automobile company in America behind GM and ahead of Ford.

REVIEW OF RELATED LITERATURE

Conceptual Framework

As markets globalize and an increasing proportion of business activity transcends national borders, institutions are needed to help manage, regulate, and police the global marketplace, and to promote the establishment of multinational treaties to govern the global business system. Over the past half century, a number of important global institutions have been created to help perform these functions, including the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO); the International Monetary Fund (IMF) and its sister institution, the World Bank; and the United Nations (UN). All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

The World Trade Organization like the GATT is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. As of 2006, 149 nations that collectively accounted for 97 percent of world trade were WTO members, thereby giving the organization enormous scope and influence. Two macro factors seem to underlie the trend toward greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent years in communication, information processing, and transportation technologies.

The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets under attack from foreign competitors. This is true in Japan, where U.S. companies such as Kodak, Procter and Gamble, and Merrill Lynch are expanding their presence. It is true in the United States, where Japanese automobile firms have taken market share away from General Motors and Ford. And it is true in Europe, where the once-dominant Dutch company Philips has seen its market share in the consumer electronics industry taken by Japan's JVC, Matsushita, and Sony, and Korea's Samsung and LG. The growing integration of the world economy into a single, huge marketplace is increasing the intensity of competition in a range of manufacturing and service industries than 50 million people abroad and generated value accounting for about one-tenth of global GDP. The foreign affiliates of multinationals had an estimated $19 trillion in global sales, much higher than the value of global exports, which stood at close to $11 trillion. 25

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THEORETICAL FRAMEWORK

Theories of Transnationality and Transnationalism

Although limited in the questions it can answer, the study of global cities gives us a glimpse of how transnationalized populations reorganize their spatial relations on a global scale, a topic taken up as well, and with quite a different perspective, by theories of transnationality and transnationalism. The former refers to the rise of new communities and the formation of new social identities and relations that cannot be defined through the traditional reference point of nation-states. The latter, closely associated, denotes a range of social, cultural and political practices and states brought about by the sheer increase in social connectivity across borders. Transnationalism is referred to more generally in the globalization literature as an umbrella concept encompassing a wide variety of transformative processes, practices and developments that take place simultaneously at a local and global level. Transnational processes and practices are defined broadly as the multiple ties and interactions – economic, political, social and cultural that link people, communities and institutions across the borders of nation-states within the field of immigration studies.

Transnationalism came to refer to the activities of immigrants to forge and sustain multi-stranded social relations that link their societies of origin and settlement as a single unified field of social action (Basch et al. 1994: 7). Innovations in transportation and communications have made possible a density and intensity of links not previously possible between the country of origin and of settlement. This, in turn, has allowed for these communities to live simultaneously in two or more worlds or to create and live in 'transnational spaces' to a degree not previously known. Recognizing this new reality, the scholarly literature undertook a paradigm shift from international migration to transnational migration, and began to refer to these communities as transnational communities. Such communities come in different varieties, including those formed by new immigrant groups migrating to First World countries, as well as those older diasporic populations whose status and attitude is continuously influenced by the accelerating pace of economic, cultural and institutional globalization.

Theory of Liberalism:

Liberalism sees the process of globalization as market-led extension of modernization. At the most elementary level, it is a result of 'natural' human desires for economic welfare and political liberty. As such, transplanetary connectivity is derived from human drives to maximize material well-being and to exercise basic freedoms. These forces eventually interlink humanity across the planet suitable, legal and institutional arrangement to enable markets and liberal democracy to spread on a trans-world scale. Such explanations come mostly from Business Studies, Economics, International Political Economy, Law and Politics. Liberalists stress the necessity of constructing institutional infrastructure to support globalization. All this has led to technical standardization, administrative harmonization, translation arrangement between languages, laws of contract, and guarantees of property rights. But its supporters neglect the social forces that lie behind the creation of technological and institutional underpinnings. It is not satisfying to attribute these developments to 'natural' human drives for economic growth and political liberty. They are culture blind and tend to overlook historically situated life-worlds and knowledge structures which have promoted their emergence.

Globalization has also been explained as a strategy in the contest for power between several major states in contemporary world politics. They concentrate on the activities of Great Britain, China, France, Japan, the USA and some other large states. Thus, the political realists highlight the issues of power and power struggles and the role of states in generating global relations.

At some levels, globalization is considered as antithetical to territorial states. States, they say, are not equal in globalization, some being dominant and others subordinate in the process. But they fail to understand that everything in globalization does not come down to the acquisition, distribution and exercise of power.

Globalization has also cultural, ecological, economic and psychological dimensions that are not reducible to power politics. It is also about the production and consumption of resources, about the discovery and affirmation of identity, about the construction and communication of meaning, and about humanity shaping and being shaped by nature. Most of these are apolitical.

Power theorists also neglect the importance and role of other actors in generating globalization. These are sub-state authorities, macro-regional institutions, global agencies, and private-sector bodies. Additional types of power-relations on lines of class, culture and gender also affect the course of globalization. Some other structural inequalities cannot be adequately explained as an outcome of interstate competition. After all, class inequality, cultural hierarchy, and patriarchy predate the modern states.

The lowering of trade barriers made globalization of markets and production a theoretical possibility. Technological change has made it a tangible reality. Since the end of World War II, the world has seen major advances in communication, information processing, and transportation technology, including the explosive emergence of the Internet and World Wide Web. Telecommunications is creating a global audience. Transportation is creating a global village from New York to Atlanta Georgia and from Boston, Birmingham to California and so on.

The election of Donald Trump in the United States and the British vote to leave the European Union - known as the 'Brexit' - have also contributed to the anti-globalization movement. These trends have been driven by anti-immigration sentiments in Europe, although elections occurring in 2017 have proven to be largely pro-globalization rather than anti-globalization. Globalization has impacted nearly every aspect of modern life and continues to be a growing force in the global economy. While there are a few drawbacks to globalization, most economists agree that it is a force that is both unstoppable and net beneficial to the world economy. There have always been periods of protectionism and nationalism in the past, but globalization continues to be the most widely accepted solution to ensuring consistent economic growth around the world.

How Globalization is affecting the World Economic Development

Effects of globalization can be discussed in the following different ways:

Global Markets¬ According to (Hill, 2009) Global Market refers to the “Merging of Historically Distinct and separate National Markets into one huge global market place.” With the expansions of global markets liberalize the economic activities of exchange of goods and funds. Removal of Cross-Border Trades barriers has made the formation of Global Markets more feasible.

International Institutions¬ Some of the forces in the world is in the favour of a government that governs the entire world. Now the institutions like United Nations Organization, International Monetary Fund, World Trade Organization and World Bank are near to the concepts of those groups because they are regulating the relationship between different countries and governing issues of Justice, Human relations or political factors (IMF Center, 2005). As the primary purpose of WTO is to unionize the world trading system, till 2005 148 countries were the members of WTO. The primary purpose of IMF is to regulate the world monetary system. United Nation Organization’s primary purpose to bring the piece in all over the World, about 191 countries is the members of UNO (Hill, 2009). Changes in World Trade Picture¬ Before the phase of Globalization, United States of America was dominant in world export. After the advent of globalization, Germany, Japan, South Korea and China have seriously challenged the position of America (Hill, 2009).

Changes in Foreign Direct Investment¬ Foreign Direct Investment is considered as signification indicator of economic development. According to (Salvotore, 1998) investment in form of lands, capital good, inventories, and factories are the real investments. Direct investment is in shape of when one firm is controlling a firm or establishing a subsidiary. The Foreign direct investment must be strong enough to control parent company and foreign host company. The control means that parent firm must own at least 10% stock of the subsidiary. Lower than this limit of shares are considered as portfolio investment (International Monetary Fund (IMF), 2008). Global FDI Inflow, average 2005-2007 and 2007-2010, Eight Countries Account for 80 Percent of Foreign Direct Investment in the United States. A handful of countries provided the lion’s share of the $2.8 trillion in cumulative foreign direct investment in the United States by year-end 2013. The United Kingdom ranked as the single largest foreign investor in the U.S. economy, constituting nearly one-fifth of all cumulative foreign direct investment holdings. Japan’s investment stock in the United States made up nearly 12 percent, followed by the Netherlands at 10 percent. Eight countries accounted for 80 percent of the stock of foreign direct investment in the United States through 2013. More than 170 other countries represented the remainder. Organization for International Investment 2014 Foreign Direct Investment in the United States, in 2014 Report Japan Ranks as Largest Foreign Direct Investor in the United States in 2013 Japan was the United States’ largest foreign investor in 2013 at nearly $45 billion. Japanese investment constituted nearly one-fifth of all foreign investment in the United States last year. The United Kingdom, Luxembourg, Canada, and Switzerland rounded out the top five largest investors in the United States. Ireland, the sixth largest investor, provided $15 billion, followed by the Netherlands, which was the largest investor in 2012. Germany, Norway, and the

British Caribbean Islands took the remaining top spots in 2013. As a group, the top 10 investing countries represented 92 percent of all foreign direct investment in the United State.

RESEARCH METHOD

The study evaluated the extent to which globalization on the world economy affects the global market and production of foreign investment in United States, France, Germany, Japan, United Kingdom, Canada, Italy, China and other foreign investors. The Data for the study were obtained through secondary data. Findings from the study showed that Globalization has numerous facets, including the globalization of markets and the globalization of production. A fundamental shift is occurring in the world economy. We are moving away from the world in which national economies were comparatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward the world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic system. The process by which this is occurring is commonly referred to as *globalization.*

Table 1: The Changing Demographics of World Output and Trade

Country Output,	**1963 Output,**	**2005 Exports,**	**2005 table 1.2**
United States	40.3%	20.1%	10.1%
Germany	9.7	4.1	9.0
France	6.3	3.0	4.4
Italy	3.4	2.7	3.6
United Kingdom	6.5	3.0	4.5
Canada	3.0	1.8	3.4
Japan	5.5	6.4	5.3
China	NA	15.4	6.7

Sources: IMF, *World Economic,* N. Hood and J. Young: *The Economics of the Multinational Enterprise* (New York: Longman, 1973). The GDP data are based on purchasing power parity figures, which adjust the value of GDP

In the early 1960s, the United States was still by far the world's dominant industrial power. In 1963 the United States accounted for 40.3 percent of world output. By 2005, the United States accounted for 20.1 percent of world output, still by far the world's largest industrial power but down significantly in relative size since the 1960s (see Table 1.2). Nor was the United States the only developed nation to see its relative standing slip. The same occurred to Germany, France, and the United Kingdom, all nations that were among the first to industrialize. This change in the U.S. position was not an absolute decline; since the U.S. economy grew at a robust average annual rate of more than 3 percent from 1963 to 2005 (the economies of Germany, France, and the United Kingdom also grew during this time). Rather, it was a relative decline, reflecting the faster economic growth of several other economies, particularly in Asia. For example, as can be seen from Table 1, from 1963 to 2005, China's share of world output increased from a trivial amount to 15.4 percent. Other countries that markedly increased their share of world output included Japan, Thailand, Malaysia, Taiwan, and South Korea. By the end of the 1980s, the U.S. position as the world's leading exporter was threatened. Over the past 30 years, U.S. dominance in export markets has waned as Japan, Germany, and a number of newly industrialized countries such as South Korea and China have taken a larger share of world exports. During the 1960s, the United States routinely accounted for 20 percent of world exports of manufactured goods. But as Table 1, shows above, the U.S. share of world exports of goods and services had slipped to 10.1 percent by 2005. Despite the fall, the United States still remained the world's United States largest exporter, ahead of Germany, Japan, France, and the fast-rising economic power, China.

As emerging economies such as China, India, and Brazil continue to grow, a further relative decline in the share of world output and world exports accounted for by the United States and other long-established developed nations seems likely. By itself, this is not bad. The relative decline of the United States reflects the growing economic development and industrialization of the world economy, as opposed to any absolute decline in the health of the U.S. economy, which by many measures is stronger than ever.

Most forecasts now predict a rapid rise in the share of world output accounted for by developing nations such as China, India, Indonesia, Thailand, South Korea, Mexico, and Brazil, and a commensurate decline in the share enjoyed by rich industrialized countries such as Great Britain, Germany, Japan, and the United States. If current trends continue, by 2020 the Chinese economy could be larger than that of the United States, while the economy of India will approach that of Germany

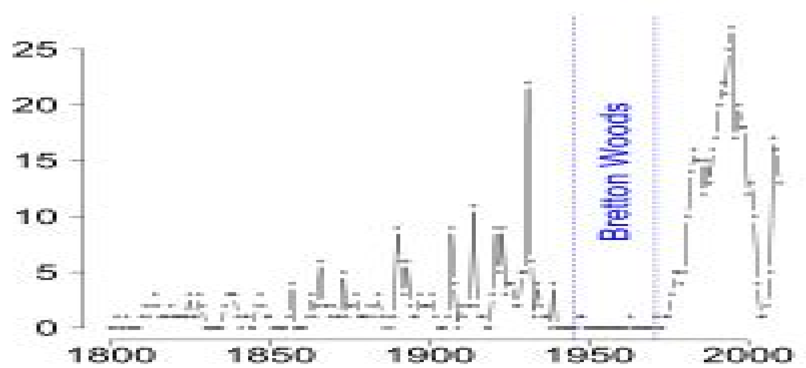

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Figure 1: Gross Domestic Product: An Economy

Table 2: GDP Components – United States ($ Billions)

	Line		2009 I	2009 II	2009 III	2009 IV	2010 I
	1	**Gross domestic product**	**14,178.0**	**14,151.2**	**14,242.1**	**14,453.8**	**14,601.4**
C	2	**Personal consumption expenditures**	**9,987.7**	**9,999.3**	**10,132.9**	**10,236.4**	**10,362.3**
	3	Goods	3,197.7	3,193.8	3,292.3	3,337.1	3,406.6
	4	Durable goods	1,025.2	1,011.5	1,051.3	1,052.0	1,072.8
	5	Nondurable goods	2,172.4	2,182.2	2,241.0	2,285.1	2,333.8
	6	Services	6,790.0	6,805.6	6,840.6	6,899.3	6,955.8
I	7	**Gross private domestic investment**	**1,689.9**	**1,561.5**	**1,556.1**	**1,707.8**	**1,763.8**
	8	Fixed investment	1,817.2	1,737.7	1,712.6	1,731.4	1,726.9
	9	Nonresidential	1,442.6	1,391.8	1,353.9	1,366.9	1,371.3
	10	Structures	533.1	494.8	457.9	434.1	417.5
	11	Equipment and software	909.5	897.0	895.9	932.8	953.9
	12	Residential	374.6	345.9	358.8	364.5	355.5
	13	Change in private inventories	-127.4	-176.2	-156.5	-23.6	36.9
X-M	14	**Net exports of goods and services**	**-378.5**	**-339.1**	**-402.2**	**-449.5**	**-499.4**
	15	Exports	1,509.3	1,493.7	1,573.8	1,680.1	1,729.3
	16	Goods	989.5	978.1	1,045.2	1,140.6	1,180.0
	17	Services	519.8	515.6	528.5	539.6	549.3
	18	Imports	1,887.9	1,832.8	1,976.0	2,129.7	2,228.7
	19	Goods	1,508.2	1,461.1	1,592.8	1,739.4	1,827.8
	20	Services	379.6	371.7	383.1	390.3	400.9
G	21	**Government consumption expenditures and gross investment**	**2,879.0**	**2,929.4**	**2,955.4**	**2,959.2**	**2,974.7**
	22	Federal	1,106.7	1,138.3	1,164.3	1,170.1	1,186.4
	23	National defense	750.7	776.2	795.8	793.5	805.6
	24	Nondefense	356.0	362.1	368.5	376.7	380.7
	25	State and local	1,772.3	1,791.2	1,791.1	1,789.0	1,788.3

Source: U.S. Bureau of Economic Analysis

Components of GDP by expenditure

U.S. GDP computed on the expenditure basis.**GDP (Y)** is the sum of **consumption (C)**, **investment (I)**, **government spending (G)** and **net exports (X – M)**.

$$\mathbf{Y = C + I + G + (X - M)}$$

Here is a description of each GDP component:

C (consumption) is normally the largest GDP component in the economy, consisting of private expenditures in the economy (household final consumption expenditure). These personal expenditures fall under one of the following categories: durable goods, nondurable goods, and services. Examples include food, rent, jewelry, gasoline, and medical expenses, but not the purchase of new housing.

I (investment) include, for instance, business investment in equipment, but do not include exchanges of existing assets. Examples include construction of a new mine, purchase of software, or purchase of machinery and equipment for a factory. Spending by households (not government) on new houses is also included in investment. In contrast to its colloquial meaning, "investment" in GDP does not mean purchases of financial products. Buying financial products is classed as 'saving', as opposed to investment. This avoids double-counting: if one buys shares in a company, and the company uses the money received to buy plant, equipment, etc., the amount will be counted toward GDP when the company spends the money on those things; to also count it when one gives it to the company would be to count two times an amount that only corresponds to one group of products. Buying bonds or stocks is a swapping of deeds, a transfer of claims on future production, not directly an expenditure on products.

G (government spending) is the sum of government expenditures on final goods and services. It includes salaries of public servants, purchases of weapons for the military and any investment expenditure by a government. It does not include any transfer payments, such as social security or unemployment benefits.

X (exports) represents gross exports. GDP captures the amount a country produces, including goods and services produced for other nations' consumption, therefore exports are added.

M (imports) represents gross imports. Imports are subtracted since imported goods will be included in the terms **G**, **I**, or **C**, and must be deducted to avoid counting foreign supply as domestic.

SUMMARY OF FINDINGS

The findings at the end of the study shows how the world economy is becoming more global and reviews the main drivers of globalization, arguing that they seem to be thrusting nation-states toward a more tightly integrated global economy. How the nature of international business is changing in response to the changing global economy, rapid globalization; and also reviewed the implications of rapid globalization for individual managers.

Over the past two decades, the globalization of markets and production implies that national markets are merging into one huge marketplace. However, it is important not to push this view too far. The globalization of production implies that firms are basing individual productive activities at the optimal world locations for the particular activities. As a consequence, it is increasingly irrelevant to talk about American products, Japanese products, or German products, since these are being replaced by “global” products. Two factors seem to underlie the trend toward globalization: declining trade barriers and changes in communication, information, and transportation technologies. Since the end of World War II, barriers to the free flow of goods, services, and capital have been lowered significantly. More than anything else, this has facilitated the trend toward the globalization of production and has enabled firms to view the world as a single market. As a consequence of the globalization of production and markets, in the last decade world trade has grown faster than world output, foreign direct investment has surged, imports have penetrated more deeply into the world’s industrial nations, and competitive pressures have increased in industry after industry. The development of the microprocessor and related developments in communication and information processing technology have helped firms link their worldwide operations into sophisticated information networks. Jet air travel, by shrinking travel time, has also helped to link the worldwide operations of international businesses. These changes have enabled firms to achieve tight coordination of their worldwide operations and to view the world as a single market. In the 1960s, the U.S. economy was dominant in the world, U.S. firms accounted for most of the foreign direct investment in the world economy, U.S. firms dominated the list of large multinationals, and roughly half the world—the centrally planned economies of the Communist world—was closed to Western businesses. By the mid-1990s, the U.S. share of world output had been cut in half, with major shares now being accounted for by Western European and Southeast Asian economies. The U.S. share of worldwide foreign direct investment had also fallen, by about two-thirds. U.S. multinationals were now facing competition from a large number of Japanese and European multinationals. In addition, the emergence of mini-multinationals was noted. One of the most dramatic developments of the past 20 years has been the collapse of communism in Eastern Europe, which has created enormous long-run opportunities for international businesses. In addition, the move toward free market economies in China and Latin America is creating opportunities (and threats) for Western international businesses.

RECOMMENDATIONS

Managing an international business is different from managing a domestic business for at least four reasons: (*i*) countries are different, (*ii*) the range of problems confronted by a manager in an international business is wider and the problems themselves more complex than those confronted by a manager in a domestic business, (*iii*) managers in an international business must find ways to work within the limits imposed by governments' intervention in the international trade and investment system, and (*iv*) international transactions involve converting money into different currencies.

It is therefore, recommended that developing countries should understand what is meant by the term *globalization*. Be familiar with the main drivers of globalization. Appreciate the changing nature of the global economy. Understand the main arguments in the debate over the impact of globalization. Appreciate how the process of globalization is creating opportunities and challenges for business managers and adopt the system in enhance grow and development. The trend toward globalization has been a fairly dramatic change in the demographics of the global economy over the past 30 years.

CONCLUSIONS

The benefits and costs of the emerging global economy are being hotly debated among businesspeople, economists, and politicians. The debate focuses on the impact of globalization on jobs, wages, the environment, working conditions, and national sovereignty. A multinational enterprise (MNE) is any business that has productive activities in two or more countries. Since the 1960s, two notable trends in the demographics of the multinational enterprise have been (1) the rise of non-U.S. multinationals and (2) the growth of mini-multinationals. In short, current trends indicate that the world is moving rapidly toward an economic system that is more favorable for international business. But it is always hazardous to use established trends to predict the future. The world may be moving toward a more global economic system, but globalization is not inevitable. Also, greater globalization brings with it risks of its own another way to understand globalization is to think of it as the result of our increasing ability to deal with complexity. While modern communication and transportation technologies are ushering in the "global village," significant national differences remain in culture, consumer preferences, and business practices. A firm that ignores differences between countries does so at its peril.

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