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Globalization of the world economy: potential benefits and costs and a net assessment

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1. Introduction

Globalization is a powerful real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions: economic, political, security, environmental, health, social, cultural, and others. The focus here will be on the concept of “globalization” as applied to the world economy. The term was coined in the 1980s, but the concept is an old one that has different interpretations to different people. Partly as a result of these different interpretations, there are very different reactions to “globalization,” with some policymakers, scholars, and activists seeing it as a force for advancing the world economy while others, again all three, seeing it as a serious danger to the world economic system. (For the former, supporting globalization, see Friedman, 2000; International Monetary Fund, 1997; International Monetary Fund Staff, 2000; Micklethwait & Wooldridge, 2000; Ohmae, 1990; World Bank, 2002. For the latter, opposing globalization, see Bauman, 2000; Bhagwati, 2001; Giddens, 2000; Gray, 2000; Greider, 1997; Hertz, 2001; Hutton & Giddens, 2000; Rodrik, 1997; Stiglitz, 2002; Sullivan, 2002.)

There are three purposes of this paper. First, it will clarify the notion of “globalization” as applied to the world economy. Second, it will evaluate both the potential benefits and the potential costs stemming from globalization. Third,

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it will consider how the costs or dangers stemming from globalization could be offset through wider international cooperation and the development of new global institutions. (For a related perspective, see Bourguignon et al., 2002; Fischer, 2003; Soros, 2002.)

The view taken here, representing the thesis of this paper, is that there are both positive and negative aspects to globalization, that some of its positive features stem from the effects of competition that it entails, and that some of the negative aspects that could potentially lead to conflicts could be offset by international or global cooperation through agreements on policy or through the development of new international institutions. Thus, while globalization can cause international conflicts, it can also contribute to their containment through the beneficial effects of competition and the potential of global cooperation to treat economic and other threats facing the planet.

2. Globalization of the world economy: an interpretation

“Globalization” will be understood here to mean major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. There has been remarkable growth in such trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies; in capital movements; in technology transfer; in people moving through international travel and migration; and in international flows of information and ideas. One measure of the extent of globalization is the volume of international financial transactions, with over \$1.2 trillion flowing through New York currency markets each day, and with the volume of daily international stock market transactions exceeding this enormous amount.

Globalization has involved greater openness in the international economy, an integration of markets on a worldwide basis, and a movement toward a borderless world, all of which have led to increases in global flows. There are several sources of globalization over the last several decades. One such source has been technological advances that have significantly lowered the costs of transportation and communication and dramatically lowered the costs of data processing and information storage and retrieval. The latter stems from developments over the last few decades in electronics, especially the microchip and computer revolutions. Electronic mail, the Internet, and the World Wide Web are some of the manifestations of this new technology, where today’s \$2,000 laptop computer is many times more powerful than a \$10 million mainframe computer of a generation ago.

A second source of globalization has been trade liberalization and other forms of economic liberalization that have led to reductions in trade protection and to a more liberal world trading system. This process of wider liberalization started in the last century, but the two World Wars and the Great Depression interrupted it. It resumed after World War II through the most-favored-nation approach to trade liberalization, as embodied in the 1946 General Agreement on Tariffs and Trade

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