

“Analyse the impact of globalisation on economic growth, quality of life, and external stability of global economies.”

Globalisation, an important characteristic within the contemporary economic environment, has resulted in significant changes to individual nations in terms of economic development strategies undertaken by national governments. The term globalisation refers to the integration of local and international economies into a globally unified political, economic and cultural order, and is not a singular phenomenon, however, but a term to describe the forces that transform an economy into one characterised by the embracement of the freer movement of trade, investment, labour and capital. The drive for globalisation has resulted in greater economic growth globally, through the opening of barriers to international trade, yet this increase in world output is often associated with detrimental effects in relation to the stability of a national economy, being susceptible to the ups and downs of the international business cycle, and also both positive and negative effects on the standards of living, or quality of life within a nation.

It is often difficult to categorize an economy as globalised, yet there are several key indicators that suggest economic management decisions undertaken by governments have, as a result of globalisation. The main evidence to suggest the globalisation of nations has been the growth in global markets, changes in global consumption and resource use patterns, and the establishment of international agreements as well as the rise of transnational corporations. Globalisation has been essentially driven by the breaking down of economic barriers between nations over recent decades that have resulted in greater worldwide economic growth. This economic liberalization has been spurred on by the trend towards the deregulation of national economies, as well as reforms to encourage greater competitiveness within the global markets. As a result of these microeconomic reforms, globally, there has been the general reduction of restrictions on trade, capital flows and foreign investments. In addition to this, technological advancements of the last half-century have contributed to this “economic liberalisation”, where as a result of this technology growth, transport costs have also reduced dramatically, making trade more cost-efficient. Communications costs have also reduced through advancements in telecommunications and e-commerce, resulting in escalated movement in international finance. Through these increases in trade and financial flows, countries have experienced increased levels of economic growth of the time that has contributed to the world’s standards of living. The global population now has greater access to a wider variety of consumer goods and services, aided by the development of international markets and the ease of transactions permitted by technological advancements.

It is estimated that the global economy grew, on average, by 2.5% per annum during the late 1990s. This was fuelled by a growth in trade of over 7% per annum, and growth in foreign investment levels of over 23%. It is clear that globalisation has brought about greater rates of economic growth in most nations, as proven by the highly successful NIC’s in Asia, known as the “Asian Tigers” economies, however, while the global economy has grown in total, the benefits have varied significantly between economies. Where high income and newly industrialized countries have achieved growth rates of around 3% and 7% respectively, low income countries achieved growth of only 2%. Economic activity in transition economies fell during the 1990s by an average of 2 to 7% per annum, showing that globalisation has resulted in more equal standards of living. However,

the standard of living, or quality of life is not simply a measure of the level of economic growth or change in real GDP, but is a measure that takes into account the literacy levels, education, health-care, and technological change and mortality rates. An example of the quality of life indicator is the human development index (HDI) which measures changes in these factors as a result of globalisation. Over the last few decades, the HDI's of the world's richest countries have increased, as a result of globalisation, where growth and development has been attributed to these economies through willingness to embrace market liberalisation. However, the HDI's of the poorer nations have grown at slower rates to the rich nations which, as some economists put it, shows that globalisation is another word for the continual plundering of the poorer and weaker nations by the rich and powerful economies. It has been strongly argued that the benefits of competition go only to those who can compete, and poor countries have to negotiate on unequal terms. In addition, the forces of globalisation take no account for social injustices, with Asian sweatshops being a prime example.

Trade growth has contributed significantly to changes in living standards and economic growth of global economies, but its impacts have differed between different economies. While the increases in global imports and exports have come as a result of falling protectionist policies, it has advantaged mainly producers of manufactured goods, while producers of primary goods still face international barriers to trade. The consequence of this is that the increasing trade between nations that produce different types of manufactures, and as a result much of the benefits of this increased trade goes toward high income and NIC nations. Developing nations, while experiencing growth, have not reached the same levels as high income economies, therefore widening the income divide globally. Similarly, 70% of the financial flow increases are due to industrialized nations, increasing their access to capital and living standards, leaving lower income nations on lower growth ratios.

The quest for economic growth and improved quality of life, as a result of globalisation, has resulted in great focus on nations' external stability. The ability of the country to manage its exchange rates, balance of payments, and foreign liabilities impacts on the perceptions of traders on world markets. Volatility of foreign exchange markets can contribute to external instability, and globalisation has resulted in increased trade, requiring increased currency movements, the full markets currencies are more prone to sudden appreciations and depreciations, altering a nation's competitiveness, and debt levels. The improved access to international finance detrimentally affected the external balance of many nations, in particular developing nations rising interest on massive loans can heavily outweigh the revenue earned, resulting in debt trap scenarios.

Additionally, the global movement towards freer trade has resulted in many high income manufacturing nations increasing their terms of trade through comparative advantages, and increasing their rates of economic growth. However, developing nations term of trade tend to fall over time as prices for primary exports fall. This results in long-term trade deficits and a worsening CAD that results in a deteriorating external balance, which generally maintains the income divide between the rich and poor nations within the global economy.

While globalisation has resulted in aggregate increases in trade, output and investment growth in the past couple of decades, it is clear that the benefits from this growth has been distributed unequally between different economies. While developing countries announce stressing manufacturing production, high-income economies are establishing new production patterns and many poor nations are not adopting significantly. Consequently, this has resulted in lacking economic growth rates within less developed nations, while nations such as the fast-growing “Asian Tiger” economies have experienced phenomenal growth rates of close to 9%. The income divide globally as a result would tend to widen, as rich and nations become rich and faster rates than poor nations. However, limiting factor towards continuing accelerated growth within high-income nations continues to be the maintaining of an economy’s external stability, in particular preventing the blowouts of net foreign debt and equity of the course of the business cycle, which might affect the international confidence in the management of the particular economy. Therefore Globalisation on the whole has, as benefits throughout the world, yet these benefits of still heavily weighted towards the already rich nations, where the developing economies struggle to maintain growth on par with the high-income nations, resulting in the evidence contrast in the quality of life between these “classes” of nations in the global economy.