

In this topic, we've discussed how trade can help economies grow, and looked at a number of issues that affect trade between countries such as exchange rates and trade agreements.

These topics all relate to the growing economic interdependence among nations which compete for and utilize the same resources, goods, services, labor, and knowledge. Because countries are interdependent, economic problems in one can affect others. For example, a drought in Brazil that hurts their coffee crops and reduces exports would benefit coffee growers in Costa Rica and Colombia because they would be able to sell more of their coffee on the world market.

Similarly, economic growth in one country can be good for other countries. For example, suppose Mexico's economy grows and there are more and better paying jobs for Mexican workers. People would have more money to spend on products, both domestic and foreign, thereby benefiting foreign companies that sell products to Mexico, such as American auto manufacturers.

All of this economic interdependence falls under the banner of globalization, which is the increasing interconnection of producers, consumers, and financial systems around the world.

Reasons for Globalization

Spread of Free
Markets

Transportation
and
Communication

Interconnected
Financial
Markets

Multinational
Corporations

Foreign
Exchange
Markets

Let's look at some of the reasons that globalization has increased. We've listed five. Can you think of some others?



The spread of free markets has made the economies of the world more interdependent. As we've seen, international trade with little or no trade barriers is an essential element of free markets. As these economies grow, new global ties are created, and these countries become more tightly integrated into the world economy as producers and consumers.

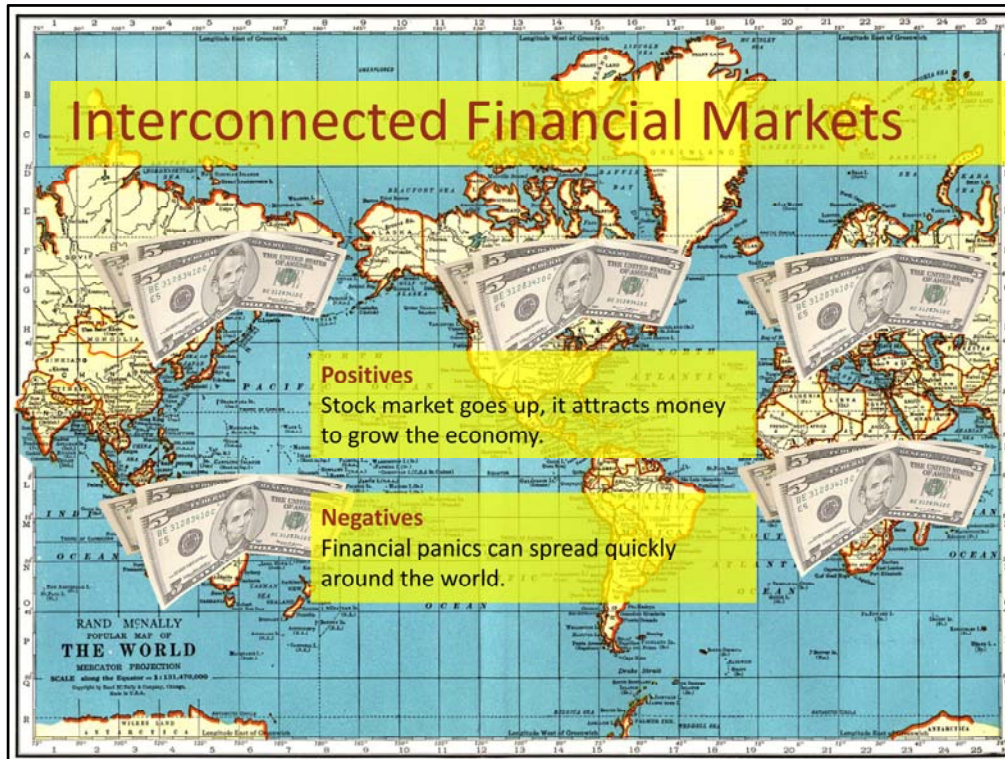
For example, since the fall of the Soviet Union, Russia has expanded its trading partners and, as a result, has greater connections to foreign markets.



Advances in transportation and communication have reduced physical distances between countries. Innovations in these technologies benefit everyone worldwide.

The communications revolution has also sped up the pace of globalization. Satellites and computers give people more access to information about the availability and prices of products in foreign countries. Investors can get current information quickly and use it to buy stocks on financial markets anywhere.

This can even work at the level of the local farmer. For example, some small farmers in India get text messages every morning telling them the price of tomatoes in local and global markets. Where the farmer may once have had no idea what these prices were, or only much later, he or she now can have instant access to this information to make better decisions, and more profit.



Globalization has made international financial markets much more interconnected, meaning that banks and investors can move their money from one country to another more easily in pursuit of profit. This can have positive and negative consequences.

On the positive side, when the stock market in a foreign country goes up, it can attract money from outside investors, which can help the economy grow.

On the negative side, bad news in one country can spread quickly to other countries. In 2007, stocks in American banks and other companies lost money. A lot of investors sold their stock in these companies, which drove prices down. This raised concerns for investors around the world who sold stocks on European and Asian stock exchanges, bringing those prices down as well. Financial markets are especially vulnerable to bad news, which can quickly affect global markets.

Multinational Corporations

Benefits

Introduce technology, create jobs, train the labor force, and provide opportunities for related services and industries to develop.

Disadvantage

Corporate profits usually go to the corporate headquarters

Some argue that foreign factories take jobs away from American workers.



The growth of multinational corporations has increased global interdependence. Multinational corporations are businesses that operate in more than one country. An example would be Apple, which designs its products in California, but manufactures most of them in China. These types of businesses can be set up anywhere and operate throughout the world.

One benefit of these businesses for the countries where they operate is that they introduce technology, create jobs, train the labor force, and provide opportunities for related services and industries to develop.

A major disadvantage for less-developed countries is that corporate profits usually go to the corporate headquarters, which are commonly located in the major industrialized nations, such as the U.S. or Germany.

Another issue is wages, which are often much lower in less developed countries than in America. Some argue that by putting factories in foreign countries, the multinational companies are taking jobs away from American workers.



The final elements that help globalization spread are foreign exchange markets, and trade agreements.

We learned earlier in this topic the foreign exchange market provides a place for buyers and sellers of world currencies to conduct business. This market is essential to the flow of money between countries and businesses operating around the world. As more countries enter this market, it becomes easier for them to do international business.

Finally, we looked at how trade agreements can increase trade among member nations thereby linking economies more tightly to foreign markets. We covered the examples of NAFTA and the EU, but there are many other trade agreements among countries in different regions of the world.

Summary



Think of the many ways that globalization has changed your life. Look at the tags on your clothes. Can you find anything that you're wearing that's made in America? What do you think happened to the people that used to make clothes in this country? Did they get jobs in some other industry?

What about your cell phone? Can you use it to play video games? Where were these games made? In the U.S.? In Japan? Somewhere else?

What's your favorite food? Do you like Italian, Chinese, Mexican or American food? Food and cultural exchange are some of the earliest examples of globalization, but things are still changing so quickly. You can get so many more different types of food at the grocery store than you could only twenty years ago.

When people travel and move different places, they encounter new ideas, which is at the heart of globalization. As economies become more interconnected, this process will only continue.