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Research of Economic Development under Globalization Impacts

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Abstract: This article provides an overview of global economy by looking into various trade agreements between countries. By examining the effect brought by globalization, we mainly focusing on the economy development under representative economy integration. Based on the statistic under the collaboration, both the positive economic effects and negative drawbacks are demonstrated. We also look into the association between the level of openness and financial market, further analysis the role playing by the economic structure.

1. Introduction

Global trade has grown dramatically in the last century. Back to 1870, more than 90% of the production are traded domestically or within own countries. However, there are more than one fourth of goods production are exported to every corner of the world. Nowadays, the sustainable economic growth is accompanied by the development of global trade. Many economists argue that the past two years is a golden period of globalization. The globalization has contributed to dramatic technology evaluation and great development in people’s living standard. Some researchers reveal the positive effects of globalization on economic growth whereas other claim globalization result in political instability and weak domestic industries.

2. Integration of world economy

Globalization reduce the trade cost in a certain degree. It is well acknowledged that free trade has almost no restriction on imports or exports. Many multi-nation agreements are established by countries sharing territorial boundaries or close to each other. Australia and New Zealand decides to corporate since 2010 and formed AANZFTA. The latest one is African Continental Free Trade Area includes 28 countries is signed on March, 2018. The existed agreements were revised to include new elements. The modernized updated version is more adapt to current economy. The agreement between the United States of America, the United Mexican States and Canada is named as USMCA, being viewed as NAFTA 2.0.

3. North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement, the largest free trade area in the world is also known as NAFTA. It consists of the United States, Canada and Mexico and boost the economic development for all three countries. This collaboration reshaped the economic relations in North America and brought profound impact on the global economy. NAFTA reaches a consensus in seeking lower barriers and trade barriers. The used trade costs are usually broadly defined between countries in various ways, including costs of transportation, tariff etc.

3.1 Achievements of NAFTA

The new economic integration generates a lower grocery prices to U.S citizens while providing more job opportunities to Mexicans. On the other hand, the imported oil from Canada and Mexico also relieve the pressure on gas prices for people who are living in the United States. More than 450 million citizens are benefit from the tariff elimination. Thanks to the expansion of international trade, the global trade in goods and services has increased to an unprecedented level. The trade amount between three members in 1993 has quadruple to $1.23 trillion in 2019. As the leading economy in the world, the impact on the United States is more obvious. The exports of the United States soared from $142 billion to $549 billion, with $293 billion exports to Canada and $256 billion to Mexico. The exports to these two countries are the largest, accounting for one third of its total exports in total. There are six million jobs created under NAFTA policies. Moreover, the chapter 19 of NAFTA agreement is established to address trade disputes by preventing unfair business practices. The protection of patents, trademarks and copyrights provides safeguard to intellectual properties. The promising working conditions are ensured by providing easy access to business travelers.

Consequently, businesses in the United States are looking forward to a booming economy. The direct foreign investment in Canada and Mexico is triple amount since the NAFTA's enaction, which is around 500 billion dollars in 2019. This implies that NAFTA not only encourage consumption but also boost people's confidence.

It is noticeable that health care and financial services comprised almost 80% gross domestic product of the United States. Statistics shows that NAFTA devotes around 0.5% economic growth annually, which can be mostly seen from agriculture, technology, and services sectors. It is obvious that NAFTA members has increased competitiveness among the global market, putting pressure on other large economy such as China and the European Union.

3.2 Challenge and cost behind NAFTA

Besides the advantages brought by trade agreements, the upcoming challenges and potential risks are inevitable.

There are always winners and losers in a free trade agreement. Some countries may gain more benefits than other members since they have a leading voice in global market. The equality may intensify conflicts between them. Take the car export as an example, the NAFTA requires that cars eligible of no tariffs must has minimum 75% parts are manufactured in North America. Some people are arguing united States are forcing the other two to pay for their technology industries. Since consumers have access to a great variety of goods and services, they are more willing to purchase cost-effective ones. Some economists accuse that the open market put more pressure on local companies. The NAFTA reduce half a million job opportunities and lower the worker wages in the United States. Rational business moves their factories and equipment to developing country, Mexico. They are more likely to take advantage of the low labor cost in order to increase profits.

The trade deficit is also a problem need to be resolved. Similarly, Mexico workers are unable to compete on corn and grains with America due to the great subsidize provided by U.S government on farms. Government.

Some critical voices point out that a certain number of Mexican agricultural workers has been displaced by Nafta. NAFTA resulted both in the rise of illegal migration from Mexico to the United States and in the increase in Mexican migration from the southern rural areas to the northern industrial cities (as cited in Ciuriak, 2008, p.8). The illegal migration problem may result in some social issues worldwide besides huge labor loss.

4. European Union

Although the Europe only around 2% of the whole surface of the Earth, its establishment has remarkable impact on world economy system. In the 1950, the European Union was established to ensure the peace among Europe. It was viewed as a shuttle down for wars between countries in Europe. The free trade policy between the different countries in European start to contribute to the economy development in 1960s. EU members are free of the custom duties within the assigned trade area. The agreement includes joint control on food production to eliminate the worries about food scarce back at that time. The first enlargement of European Union happened on January 1973, Denmark, Ireland, and the United Kingdom joined the European Union. Their entry provides more free capital flow and generate more possibility of labour force movement among European countries. As a whole organization, EU started to use fiscal policy and transfer payment to stimulate the economy, creating job opportunities, improving the infrastructure construction for poorer areas. The Single European Act enacted in 1986 provides members more access to the free trade, which is also called as “Single Market” by economists.

4.1 The single currency

The number of countries adopt the euro as a currency has risen from 2000 to 2009, increased the pace of globalization. The currency adaptation improves the market efficiency to a large extent, which can be found from increased GDP and employment rate. The potential volatility caused by currency exchanging is reduced. The diverse benefits can be classified by different scales, from individuals and cooperation to the whole society. As the foundation of the borderless finance in EU region, the single currency system is a production under globalization. People are motivated to consume without currency troubles, the aggregate consumption is increased. Since it ties more countries into one boat, sharing common interests, the economy is more stable than before. Furthermore, the single currency system is also bringing benefits to the global economy.

4.2 Economic Effects of European Union

The “common market” enables EU to operate like one country, turns the free trade into reality. People who are from countries that engaging in European Union have much more communication with each other. They are encouraged to study in close countries and are able to travel without passport. The migration also brought positive effects by erasing labor market rigidities. Citizens who living in EU areas have more confidence to earn a better-quality living to exhibits their talents. The easier adjustment means employees have more choices to match their job. A well-formed skill structure labor market increases the productivity. Moreover, the Central and European Eastern Countries (CEECs) can not be ignored as a contributor to the trade amount. Simplified official procedures and lower cost of frontier passing all make international trade become unprecedently accessible, even the consistency requirements for mutual recognition Mutual recognition in technology field are lower than before. Finally, investment is raised under globalization. People tend to believe agreement and unions are implications of strong bonding between countries. In other words, investors view it less uncertainty may happen in the future. Therefore, they are more willing to invest money in less risk-taking projects.

5. Openness and financial market

Countries tend to be more open to international trade since the Second World War.Sachs et al. found the openness of a country is highly related to its rapid economic growth by examining the level of openness through using index. A comprehensive index was introduced by Dreher in 2006 to analysis the impact of globalization among 123 different countries. It further indicates that positive economic growth is associated with the pace of globalization.

The trendy globalization has prominent effect on the economic growth. Some researchers assert that types of economic structure of countries has different growth effects under globalization. In the 2000s, developing countries was the main engine of global trading, accounting for 54 percent as a whole. The South-South Trade was especially successfully in East Asia.

Poor countries may have few flows of capital in large amount compared to developed countries. Financial integration can not be considered as an important factor to promote economic development. The increased openness may not be a effective way to the developing countries as to the developed ones. The financial market completion and improvement may create more economic boost than expected. Chang et al. concluded that the increase of openness may result from a stronger financial market, growth in capital investment and lower inflation rate. Over the past two decades, financial globalization has proceeded at faster progress. Foreign direct investment, portfolio investment and other investments are the three main sectors that compose the private capital flow. Developing countries who has increased international capital flows give expansion to the cross-border financial holdings. The development of financial globalization can be found though rising gross foreign assets. The net private capital flow has increased from around 100,000 million dollars in 2000 to 380,000 million dollars in 2019.Although it is highly cyclical but global capital flows even has much faster grow than the gross domestic product. Greater interconnectedness improved a healthy global finance market. On the dark side, there are also uncertain global crisis behind the highly moved migration flows. Countries that suffered from heavier hit usually have higher rate of emigration. Meanwhile, developed countries have their relative attractiveness to foreign workers as their lower unemployment rate is a promising to life. Developing economies has shared more than 10 percent inward remittance flows of GDP since 2010, showing their support to development. It is evitable that migrant remittances is impacted by global crisis. There was around 6 per cent decline on 2009 this single year. Fortunately, the economy recovers in the following years quickly.

In additional, the large current account balances has always been a heated and controversial topic on the negotiate table between countries. The global imbalances can be a long-standing problem for international market. The United States started to persist its deficits since 1990s. However, there are still quite a few countries are facing with surplus in global trade.

6. Conclusion

Empirical research provides sufficient evidence to support both arguments regarding the growth effect imposed by globalization. As the outcome of globalization, the surge in economic integration faster the economic growth. The significance of economic globalization are various under different economic structure. Countries with higher income level and capital accumulation tend to have increased growth rate. While financial openness brings the robust in technology development, the poor countries might be hurt by the potential risks of globalization. This research has limitation on data collecting and deeper analysis, future theoretical and empirical method might be applied.

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