Chapter 4

Economic Dimension of Globalization

Economic Dimension of Globalization

The economic dimension of globalization provides another perspective on how the contentious concept of globalization should be understood. Majority of the early discussions about globalization centered on its economic dimension.

The economic dimension of globalization refers to the process that intensifies and stretch the economic connections of countries across the globe. This is achieve through the globalization of trade and finance as well as the creation of powerful economic institutions.

Global Economic Order in the Early Years

The global economic order that existed prior to the establishment of the Bretton Woods Institutions provided the international community with a steady and functional economic platform. Its growth started with a nationalist perspective that featured the value of economic nationalism among the different states in the continent of Europe. Many of these states directed their effort to strengthen their own economies based on the principle of mercantilism.

Emergence of the New Global Economic Order

The new global economic order that existed after the Second World War is largely the result of the apprehension of several countries about the possibility of another "Great Depression". The United States of America and Great Britain directed their prominent economists to find ways on how a new global economic order should be pursued. This resulted to the holding of the Bretton Woods Conference in 1944 that saw the participation of other brilliant economists.

Emergence of the New Global Economic Order

The global economic order that emerged directly after the Bretton Woods Conference in 1944 resulted into the creation of important international economic organizations that were not available during the interwar period. These international economic organizations include the World Bank (WB) or International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).

International Trade and Globalization

The manner by which the practice of international trade was carried out in the past reflects the contrasting perspectives of protectionism and liberalism. The period before the First Industrial Revolution exhibited the practice of mercantilism throughout Europe while the succeeding period after the phenomenal rise of Great Britain in the middle of the 18th century manifested the opening up of the global market and the removal of trade restrictions.

International Trade and Globalization

The growth of international trade came into a grinding halt when the First World War erupted in 1914 but its luster came back with the establishment of the Bretton Woods Institutions. International trade was stimulated during this period with the signing of the General Agreement on Tariffs and Trade (GATT), three years after the establishment of the World Bank (WB) and the International Monetary Fund (IMF).

International Trade and Globalization

In the waning years of the 20th century, the General Agreement on Tariffs and Trade (GATT) was succeeded by a more permanent organization – the World Trade Organization (WTO) – that is more formal and authoritative in the implementation of the agreed policies of its member countries. The organization introduced a different kind of international trade that capitalized on the shortcomings of the previous agreement.

International Finance and Globalization

Starting from the 1970s, international finance became an important component in the development of the international economy. The concept according to Hendrik Van Den Berg (2016) refers to “a system within which people, businesses, governments and other groups interact in the global economy. The concept likewise describes and explains the flow of payments that occur among several countries”.

International Finance and Globalization

The concept of international finance according to Sergio Schmukler (2004) is not a modern phenomenon but is a practice that has existed for several decades prior to the establishment of the Bretton Woods institutions. In the past, capital flows only to a limited number of countries that were in constant communication with one another. This was expected as capital flows followed the movement of people as well as the restricted trade patterns prevailing during this period.

International Finance and Globalization

The fall of the Bretton Woods system – that transitioned from a fixed exchange rate to the floating exchange rate - allowed for greater capital mobility among the developing economies in the Global South. This movement of capitals to the developing countries facilitated the improvement of their respective economies and their eventual integration to the international financial market.

International Economic Institutions

International Monetary Fund (IMF)

It was one of the three prominent international economic institutions created after the Bretton Woods Conference in 1944. Its primary focus is to maintain the administration of the monetary system.

World Trade Organization (WTO)

It succeeded the General Agreement on Tariffs and Trade (GATT) and continued with the regulation of the international trade. The organization was more effective and authoritative than the agreement.

International Bank for Reconstruction and Development (IBRD)

It was mandated by its member-countries to provide the necessary funds to a number of countries that needed the costly post-war reconstruction and development.

International Economic Institutions

Asian Development Bank (ADB)

Another important economic institution, it operates in the regional level and concentrates its resources to several developing countries in the Asia Pacific region. It was created in 1966 through the effort of the Tokyo Study Group.

Asian Infrastructure Investment Bank (AIIB)

The latest international economic institution supported by China. The institution was created in 2015 to provide the developing countries with an alternative means of financing their respective national economies.

Organization for Economic Cooperation and Development (OECD)

Created by a group of developed countries in 1961, its objective is to improve the international economy through consultation and adoption of sound economic policies.

Global North and South Divide

The Global North and South Divide refers to the metaphorical arrangement of countries in the international community. This perspective – of symbolically classifying the world – hinges on the political and economic characteristics that have portrayed the development of individual countries in every part of the globe.

The Royal Geographical Society briefly described the concept as the difference between the countries of the global north and global south in terms of their accumulated wealth and levels of development. Thus, some countries in the contemporary world are labelled as "more economically developed" while others are "less economically developed".

Global North and South Divide

The Global North retained its position as being the more advanced and developed hemisphere in the world even after the collapsed of the Cold War in 1991. As discussed in several seminal papers, the Global North is composed of influential countries that have dominated the flow of goods, services, and capitals in the past two centuries.

Global North and South Divide

The Global South expanded after the end of the Cold War in 1991with the inclusion of several countries from the select group of Second World countries. The end of the Cold War resulted to the disintegration of the Second World countries and their eventual integration with the developing countries of the Third World. The countries of the Global South appear to be the straight opposite of the more developed countries from the Global North.

Thank You!