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Impact of Globalization on Economic Growth of Developing and Developed Countries

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Abstract: This study investigates the relationship between globalization and economic growth. Globalization has its effect on economic growth either positively or negatively. Globalization affects positively the economy of countries with well-educated workers and better financial systems. However, low-income countries do not benefit from it. The positive impacts of globalization on economic growth are several. It makes markets more efficient by increasing competition. This creates variety and leads to economic growth. Moreover, it increases foreign direct investment rates by facilitating technology transfer, industrial restructuring and the growth of global companies. A countries' economy can benefit from this point through taxes on the foreign investment or the increase of employment rates. However, globalization has some negative impacts on economy. If a country's economy become at risk, it may affect large number of countries. During the global financial crisis In 2007and 2008, the United States faced a crisis in the subprime mortgage market and this crisis extended to other countries in Europe and Asia even in the Gulf countries. Some countries' economies collapsed because of this crisis. This study is significant because it helps experts and the readers to know more aspects of globalization and economic growth of developing and developed Countries.

Keywords: Globalization, economic growth, negative impact, positive impact, developed counties, developing countries.

INTRODUCTION

Globalization affects every aspect of life. It affects economy, politics, and society. In this paper, the researcher main focus is to highlight the impact of globalization on economic growth. The researcher investigates whether globalization has a relationship with economic growth and if it has, the question is "is it a positive or negative relationship? Many studies discuss this point, but this tries to add something new to the topic. This study will cover more aspect in the relationship between economic growth and globalization. The researcher hypothesizes that globalization has a double-edged weapon. An economy can benefit a lot from it. At the same time, globalization has disadvantages that can hinder economic growth. There is no agreement between scholars on the definition of globalization. Thus, many people and institution give a different definition of globalization. The World Trade organization [1] states that although there is not a complete agreement on the definition of globalization, but combining the different definitions of globalization can give us a general definition. This definition is that globalization is the integration of capital, investment and labor markets or its integration with world markets. This definition focuses on the economic aspects of globalization. It means that linking global markets with one another is one the practices of globalization. This also means that globalization is a factor in creating chances for countries' economies and affecting their economic growth in a positive way. We can deduct from the previous lines that globalization has different meanings and concepts. One can say that globalization is a process that involves trade openness, technological development, and open access to financial and good markets. In other words, globalization is defined as that process which connects the people of different culture and societies and strengthens their economy. The continuous global trend towards the free flow of financials around the world describes globalization as a process that revolutionizes the global financial structure. It supplies economic sovereignty and boosts completion. In addition, globalization increases the living standard of people working in the global trade environment. The financial sector is noticing high infusions by the increase of people in the world's trade. Another factor that can be attributed to globalization, which is the reduction in the inflation rate. The rise of completion forces the producer to stabilize the prices. In addition, technological promotion and efficiency growth are advantages of globalization.

REVIEW OF LITERATURE

Many studies discuss the relationship between globalization and economic growth. Dreher [2] investigates the relationship between globalization and economic growth using the data of 123 countries from 1970 to 2000. The findings show that globalization affects economic growth in positive way. This study indicates that the more country turns to globalization, the more growth occurs in its economy. Furthermore, Husain's study [3] indicates that globalization affects the economy growth of a country through different channels. These channels are international trade, financial integration, international labor flows and technical change. The study shows that the channels that globalization can promote contribute to economic growth. However, Chang and Lee [4] examine the connection between general globalization index including its components which are economic, social and political globalization indexes, and the economic growth of 23 OECD countries. The findings show that there is a weak connection between variants and causality in short terms but in long terms, there is a one-way relationship between general, economic, and social globalization and economic growth. This means that more openness in a country's economy leads to economic growth.

In addition, Kleinert [5] finds that increasing openness of economic activities boosts large-scale reallocation of labor between participating economies. This requires creating new jobs. The study also suggests that the increase in export activities of trading countries leads to a temporary increase of unemployment in the affected economy. Consequently, regular increase in export activities leads to permanently higher rates of unemployment. Therefore, globalization can have different effects on labor markets. Shaikh and Shah [6] investigate the globalization's impacts on Pakistan's economy depending on Computable General Equilibrium Model. The results clarify that globalization has its effect on the country's macro economy performance in a positive way and fasten economy growth. This means that governments can use globalization as a policy to fasten economic growth.

Polasek and Sellner [7] examine globalization's effects on the regional growth of 27 European Union countries. The study gathers data between the years 2001 and 2006. The results reveal that globalization affects many countries' growth economy in a positive way. The study suggests that globalization lessens trade gap and increases direct foreign investment thereby enhancing economic growth. Moreover, Ying [8] concludes that economic globalization affects economic growth in a positive way although social and political globalization affects economic growth in a negative way. This result enhances the researcher's claim that globalization has a positive and negative impact on economic growth. Umaro [9] investigates globalization's impact on Nigeria's economic performance depending on Annual Average Growth Rate technique. The study reaches a conclusion that globalization affects positively petrol, manufacturing industry and solid mineral sectors in negative ways. This negative effect is traced back to the proposition that any collapse in a country's economy has its impact on other countries and prices changes rapidly. However, the study finds a positive effect of globalization on agriculture, transportation, and communication sectors.

Ray [10] investigates the relationship between globalization and economic growth. The study depends on the Granger causality test. The study concludes that there is a mutual causality connection between globalization and economic growth. This means that any increase in procedures that achieve globalization leads to economic growth. Thus, the globalization is a factor of the economic growth. The relationship between globalization, in this case, is positive. We can assess economic growth by observing the GDP rates, foreign direct investment, capital market and employment rates.

Axel [11] investigates the effect of globalization on economic growth. The study relies on panel data for 123 countries between 1970-2000. The studyshows that globalization promotes growth but not to an extent necessary to reduce poverty on a large scale. Afzal [12] examinesimpact the globalization on economic growth. He uses an error-correction model by using the Pakistan's data from 1960 to 2006. He depends on trade receptivity and financial integration variants as representative of globalization. The study reaches a conclusion that there is a powerful connection between economic growth, trade gap and financial integration. He concludes that this connection leads to a development of economic growth in long terms.

Aimiumu [13] hypothesizes that most countries control the movement of goods crossing their borders either leaving or entering. They do so by imposing tariffs. These tariffs are obstacles to the free flow of goods between independent sovereignties and are legalizations that mustbe met by either the exporter or the importer. In order to emphasize a good relationship between countries and easy movement of goods, services and human capital and trade obstacles are lessened. In this way, the economic globalization acts. This means that economic globalization aims to reduce or remove trade barriers. The reduction or removal of trade obstacles leads to economic growth because it increases the foreign direct investment and decreases employment rates.

GLOBALIZATION

Globalization can be defined from different perspectives not only with respect to economic activities, but also to political, technological, cultural interactions and taking into account many key factors such as standardization, transportation, communication, trading, migration, etc. Through the process, economies become closer and more interrelated. As countries are speeding up their openness in recent years, there have been increasing concerns related to the globalization and its impacts on issues such as economic growth, poverty, inequality, regional differences, cultural dominance, environment, or economic integration. Countries with large heterogeneity in the degree of globalization have shown different development patterns and results. (Hishmati) [14] The different degrees of development have become a source of inequality or poverty. Thus, the link between economic growth, inequality, poverty and globalization has become very important for the economist and researchers to study.

Globalization refers to the growing interconnectivity of various aspects of the world, especially the world economy. Douglas Kellner, an American sociologist stated that “globalization is the buzzword of our times” [15]. According to Anthony Giddens, a British sociologist, “the term has entered everyday commentary and analysis with every business guru talking about it” [16]. Globalization concept has indeed spread at breathe taking pace since the late 1980’s. It is a term which has become very popular and has generated a lot of controversies amongst academicians, scholars and policymakers. Debates on globalization are currently raging with regards to its existence and its equation to westernization. Researchers broadly concur that globalization has developed out of a modern society.

Analysts however disagree about the particular aspects of modernity that have generated globalization. Marxist, for instance, treated modern capitalist production as the primary cause. Liberals on the other hand regard modern industrial technology as the chief stimulus [17]. However, a general consensus prevails that globalization is in one way a product of modern social order.

RELATIONSHIP BETWEEN GLOBALIZATION AND ECONOMIC DEVELOPMNET

Globalization is the process of increased interconnectedness among countries. The prosperous economic development that is typically gained because of the increased interconnectedness among countries usually results in a better standard of living, and an overall improved quality of life. The successful economic development of a nation hinges on its ability to globalize. Given that the international integration of national economies has such a profound effect, globalization plays a central role in determining the future of the world [18]. Trade between nations had taken place for hundreds, even thousands of years. However, the scale of that trade was relatively small. The main difference between international trade and globalization is the scale on which the trading takes place. It was the advances in technology and communications that made the nineteenth century when the first phase of globalization occurred. Although there is not an absolute consensus among academics, most historians believe that the first phase of globalization began in the early 1800’s and lasted until 1914. “For these reasons, most economic historians consider the long century before 1914 the first era of globalization”[19].

Globalization and economic development are connected in several ways. Globalization may be said to be a catalyst for the growth of the economies of several nations. Increased movement of people across territorial borders means that there is a cross transfer of knowledge, expertise and labor. Cross-border trade means that there are more opportunities for the sale of various goods and services. Globalization has also led to the accessibility of various technologies from various countries of origin by other countries to their benefit [20].

All people living in today's world have experienced some of the benefits of globalization: the expansion of foreign trade has meant that vaccines and antibiotics produced in a handful of countries have been widely used all over the world to eradicate diseases and treat deadly infections. Since 1900, life expectancy has increased in every country in the world, and global average life expectancy has more than doubled. Globalization has also been a key driver of unprecedented economic growth and as a result, we now live in a world with much less poverty. (Esteban Ortiz, 2017) [21]

POSITIVE IMPACTS OF GLOBALIZATION OF ECONOMIC GROWTH

There are countless positive aspects of globalization. For instance, as more money is poured into developing countries, there is a better chance for the people in those countries to economically succeed and increase their overall standard of living. Global competition encourages creativity and innovation and keeps prices for commodities/services in check [22].

Globalization makes large companies find economies of large scale that decreases cost and prices, which in turns enforces economic growth. Moreover, economic globalization leads to a growth of standard of living. Economic globalization provides governments of developing nations an access to foreign lending. When these funds are spent on infrastructure such as roads, healthcare, health, education, and social services, the national standard of living in the country raises. This leads to economic growth. Globalization offers access to new markets. It leads to more free trade between countries. Homegrown industries benefit from the collapse of trade barriers. Globalization allows them to access to wider international market. This enables companies to develop new technologies and produce new products.

The investment of foreign companies in developing countries promotes employment in many sectors. Globalization boosts efficient markets. Having efficient market is what every economy seeks to achieve. One of the signs of an efficient market is the existence of the equilibrium between what the buyers are willing to pay for good or service and what the sellers are aiming to sell for a good service. Companies can improve the way of producing products by outsourcing certain processes or buying from an overseas supplier that introduces discount. Thus, lowering selling price results in increased demand and affordability.

Globalization results in free movement of labor. This rise in labor migration gives merits to both workers and recipient countries. This process helps economic growth. Moreover, globalization leads to a promotion in investment. It enables increased levels of investment. Globalization facilitates attracting short-term and long-term investment. In addition, globalizations raise completion, which leads to lower prices. It implies that domestic monopolies face competition that is more international. This results in lower prices for customers. Thus, globalization has a positive impact on economic growth. It opens the country's market to more investment and competition. It makes the country's economy develops.

There is a greater access to foreign culture in the form of movies, music, food, clothing, and much more. In short, the world has more selection. Globalization has a positive net effect on the economic development of the world [22].

Many technologies developed by industrial nations have already made a significant impact on less developed nations. For example, vaccines have eradicated smallpox and are close to eradicating polio. The sharing of scientific research amongst nations has significantly reduced both child and adult mortality rates around the world." The challenges of improving the lives of those in developing countries are large and diverse, and will not be achievable without the contribution of scientific knowledge and innovative technologies"[23].

NEGATIVE IMPACTS OF GLOBALIZATION OF ECONOMIC GROWTH

In general the most common drawback of globalization is that it is widening the gap between the rich and poor; where rich people are becoming richer and poor are becoming poorer. As a result of outsourcing, globalization may deprive an entire country of its jobs and resources. This is because globalization takes jobs away from one country and provides it to another country; hence leaving lots of people without the opportunities that they deserve [24].

Globalization connects all the world's economies with each other. Therefore, any collapse of a large-scale economy leads to a collapse in other economies. Moreover, the collapse of a country's economy opens the opportunity for foreign companies to buy interests in the national companies. Investing in foreign companies forms a global interdependency that can stabilize the economy on a temporary basis. It makes it possible to create a global domino effect, which leads to a recession throughout the world. Moreover, globalization allows workers to move freely. Nevertheless, some countries may face problems in holding onto their best-skilled workers who are motivated by higher salaries elsewhere. This affects economic growth.

Multinational companies can establish offices in some countries with very low rates of corporation tax. This implies that they pay very little tax in the countries where they do most of their work. The low taxes affect economic growth. Globalization means breaking all the barriers between countries. This means that the world's economies affect each other. If any harm occurs to a country, other countries will be affected. This has its negative impact on economic growth. The economic growth of a country may decrease because a different country suffers from economic problems. A clear example is the global financial crisis between 2007 and 2008. The United States suffered from an economic crisis and it expanded too many countries around the globe. The world witnessed a great recession. The economic growth of many countries decreases because of globalization. Moreover, a competition which globalization offers may harm economic growth. Competition means that multi-national companies can open business in any country. These companies may offer prices lower than national companies. While national companies are not able to offer prices like multinational companies because they have to pay tariffs. When consumer buys the products of multinational companies, national companies will suffer from losses. They may even end their business and fire workers. This affects economic growth badly. The general complaint about globalization is that it has made the rich richer while making the non-rich poorer. "It is wonderful for managers, owners and investors, but hell on workers and nature."[25] Maskin, who was discussing his alternative theory (developed in collaboration with Michael Kremer) at the 2014 Annual Bank Conference on Development Economics, worries about this 'worse' version of Globalization [26].

Globalization and economic growth in developing countries

Globalization helps developing countries to contact with the rest of the world. It helps them increase economic growth and solve the poverty problems in their countries. In the past, developing countries were unable to compete with the world economy because of trade barriers. Therefore, they could not reach the economic growth that developed countries achieved. Nevertheless, the globalization can enable developing countries to achieve high economic growth rates in the sense that World Bank and International Management urges developing countries to go through market reforms and to do radical changes. In addition, it provides developing countries with large loans that can help them do large projects to reach economic growth. Developing countries can depend on globalization to increase economic growth through free trade. Free trade makes people's transportation easier and faster. This point helps developing counties display their products in world markets. They can also benefit from openness policies and the low tariffs in increasing export rates and thereby achieve economic growth.

However, globalization can be an obstacle to achieving economic growth in developing countries. Globalization means that countries depend on each other. This point has a negative impact on developing countries. According to Thirlwall[27]Developing countries rely on developed countries in providing resource flow and technology, whereas developed countries rely on developing countries in providing raw material and oil. The raw material that is not exploited by developing countries may stand as an obstacle to economic growth. This happens because while developed countries take the developing countries' raw material and make use of it, developing countries do not expand their economic sources through exploiting law material. Therefore, their economic growth rates may remain stable or even deteriorate. This can be expressed through the famous sentence about globalization "with globalization, the richer are getting richer and the poorer are becoming poorer". Moreover, developed countries utilize the advantage that globalization offer which is free trade and establish companies and factories in developing countries. They offer high-quality products that consumers seek to buy. This leads national companies in developing countries to close thereby lowering economic growth.

GLOBALIZATION AND ECONOMIC GROWTH IN DEVELOPED COUNTRIES

Developed countries' economies benefit a lot from globalization and these results in economic growth in developed countries. One of the things that things that developed countries benefit more globalization is the development of financial sector. Financial markets integrate with other world markets. In addition, free trade flourishes the economies of developed countries. Companies of developed countries have modern machines that help them decrease the cost of production while developing countries do not. Developed countries exploit free trade in selling their products in developing countries offering prices that less than the national market. By this way, the developed countries increase their export rates, which result in economic growth. Moreover, with globalization developed countries establish companies and businesses in developing countries. They benefit from low wages of workers and cheap costs of tariffs. This makes their projects success and their economy flourish [28], Also, developed countries benefit from globalization through taking resources from different parts of the world. For example, the United States takes the raw material from African countries with low prices. Then, it uses it in industry; it turns it into products. These products are sold in developing countries with adequate prices. Companies get a large number of profits. Some of these profits are paid to the country in the form of taxes. This results in economic growth. Moreover, globalization guarantees the free movement of people. Therefore, high-skilled people in developed countries move to developed countries motivated by high salaries. Developed countries can benefit from them in increasing their economy growth.

CONCLUSION

Globalization has many positive impacts on economic growth. First, it paves the way to free trade. Free trade creates opportunities for all economies to compete with each other. Different countries that display their products in global markets. This privilege contributes to the economic growth of countries. Moreover, globalization raises employment rate. With globalization, multi-national companies are allowed to work in different countries. These companies create many jobs for the citizens of different countries, which lead to economic growth. Globalization has a positive impact on economic growth in the sense that it provides different economies with an access to the global market. Therefore, countries that do not have enough budgets to display their products use the global market to do so. However, globalization has its negative impacts on economic growth. The collapse of a country's economy leads to economic problems in other countries, which may affect economic growth.

Moreover, both developing and developed countries benefit from globalization in raising economic growth rates although developed countries may benefit more than developing ones. Developed countries make use of free trade in increasing their export rates through investing in developing countries. This increase in exports rates leads to an increase in economic growth. Moreover, developing countries benefit from globalization through encouraging their citizens to work in multi-national companies. Working in multi-national companies leads to increase in employment rates that affect positively economic growth. This study suggests that there is positive and a negative impact of globalization on economic growth. Globalization affects positively economic growth in developed and developing countries although a considerable percent of benefits go to developed countries.

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