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Research Article

The Impact of Globalization on World Nations: A Study on Protection, Welfare, and Producer Gain

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Abstract

This paper examines the effects of globalization on nations, focusing on economic, social, and cultural dimensions. It analyzes the roles of protectionism and globalization in shaping consumer welfare and producer earnings through qualitative methods and the Customs Union theory framework. The study discusses the benefits and drawbacks of globalization in the context of World Trade Organization (WTO) regulations.

The findings indicate that globalization has intensified financial flows between countries, which can exacerbate economic crises. Countries with abundant human resources can capitalize on the international division of labor to specialize in high-value sectors, while those with limited resources risk falling behind in the digital landscape. This division of labor fosters specialization and improves production efficiency through targeted education.

However, multinational corporations often impede cost-effective production in developing nations, underscoring the necessity to restructure research and development to facilitate technology adoption in underdeveloped areas. This restructuring can help close the technological gap and encourage equitable participation in the global economy.

Jel code Classification: D6: Welfare economics, Fo1 Global outlook, F40: General F4: Macroeconomics aspects of international trade and finance

More Information

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Introduction

In the past decade, the effects of globalization on global welfare have not developed as expected [1]. Welfare economics highlights that individual income is a key factor in determining overall well-being [2]. It is widely accepted that income distribution plays a significant role in social welfare [3]. Inequalities between individuals or groups can lead to diminished social welfare or even complete erosion [4]. Since 1990, the widening income gap between the wealthy and the poor has contributed to growing welfare inequalities [5].

This increasing income disparity is not coincidental; it arises from a complex interplay of factors, including shifts in economic policies, technological advancements, and globalization itself [6]. These elements have collectively contributed to the widening income gaps observed in recent decades.

Globalization can be viewed from various perspectives: the Free Market perspective, the Populist (Nationalist) perspective, and the Communitarian perspective [7]. The Free Market perspective advocates for utilizing the world's limited resources to enhance global welfare through the comparative advantages of different countries. In contrast, the Populist perspective attributes many political, economic, and social issues—such as the erosion of national culture, loss of political autonomy, and unemployment in developed nations—to globalization. The Communitarian perspective, which includes dependency theory and Gandhian economics, emphasizes the importance of local, independent, and close-knit communities. Proponents of this view, such as the Zapatista guerrillas, criticize globalization as a form of imperialist exploitation and environmental degradation.

Both the Populist and Communitarian perspectives share a common concern: they attribute their economic struggles to free trade driven by international competitiveness and profit maximization.

The negative impacts of globalization can largely be traced to the growing influence of multinational corporations in the global economy. As these firms expand into international markets to increase their market share, they often overlook the welfare of other nations. The removal of trade barriers within the European Union and the roles of the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank have all significantly contributed to the liberalization process associated with globalization.

Methodology

To assess the impact of globalization, qualitative research is often employed due to the challenges associated with conducting quantitative research on such a vast and complex phenomenon [8]. Estimating welfare specifically within the context of globalization is a particularly challenging task, as its effects vary significantly across countries and regions, making it difficult to generalize [9].

Qualitative research tends to focus on examining the influence of globalization on consumer welfare [10]. Additionally, studies have analysed the impact of globalization on both consumer welfare and producer gain through the lens of Customs Union theory [11]. This theoretical framework helps to assess the advantages and disadvantages of globalization, taking into consideration decisions and regulations set forth by the World Trade Organization (WTO) [12].

A brief summary of globalization

The term "globalize" refers to the process of making something global or applicable on a worldwide scale. Over the past decade, the impact of liberal trade—which aimed to reduce tariffs and trade barriers between nations—has not fully materialized, primarily due to profit-driven multinational corporations (MNCs) undermining fair trade practices.

First, the interests of MNCs often lead countries to adopt protective measures against the dominance of large-scale production in global markets. Second, both tariff and non-tariff measures are not only implemented to protect emerging industries but also stem from nationalist sentiments that prioritize domestic production over economic considerations. Globalization is increasingly defined as the growing interconnection of national economies through trade, financial flows, and foreign direct investment by multinational firms [7]. Initially, it was anticipated that globalization would enhance welfare on a global scale. However, it soon became clear that the expected benefits were not reaching the poorest populations and less developed countries, leading to greater income inequality worldwide.

Following World War II, the reconstruction of devastated nations and economies became essential. Founding members of the United Nations, along with the IMF and the World Bank, established the Marshall Aid program to support these efforts. The United States took on significant financial responsibility for aiding war-torn countries, resulting in unprecedented growth. Remarkably, the U.S. invested only 1% of its national income annually in reconstruction efforts while simultaneously achieving an annual growth rate of 5% [13].

The liberalization program emphasizes that liberalization is a matter of degree and does not equate to a complete shift to "laissez-faire" economics, which advocates for minimal government intervention in markets.

There are two primary camps regarding globalization: supporters and opponents. Proponents believe that globalization will enhance welfare worldwide, particularly through the influence of developed countries in the Northern Hemisphere on the productivity and economic growth of least developed countries (LDCs) in the Southern Hemisphere.

Conversely, critics argue that globalization will harm welfare. They contend that lower wages in LDCs could undermine production in developed countries and alter competitive dynamics.

While globalization has potential benefits for both developing and developed nations, I align more closely with the populist perspective, which suggests that the transfer of benefits from developed countries to developing ones is more pronounced. This is evident in the influx of foreign capital investment, particularly financial resources moving from high-yield countries to developing regions [14]. Some scholars, such as Mouffe [15] and Kaltwasser [16], view populism as a possible avenue for reform, interpreting it as a democratic response to elite control.

On the other hand, some communitarians argue that globalization enriches developed countries while impoverishing less developed ones. Both viewpoints recognize that the digital divide exacerbates inequalities between the rich and the poor [17]. This divide highlights how developed nations, with their wealth of knowledge, benefit from increased specialization and high-value production processes, while countries with limited expertise and resources face significant disadvantages.

In today's globalized context, economic integration is not the sole factor of importance; financial and political integration are equally crucial for global welfare. Economic crises have sparked debates around financial issues, particularly debt, with negative implications for growth and development. These discussions have focused on the balance between national sovereignty and global interests, including energy needs and market expansion. As a result, smaller countries have become increasingly dependent on the economic and political sovereignty of larger nations, deepening their integration and reliance.

Over the past three decades, wealth inequality among the affluent has intensified. A United Nations report from 2008 indicates that disparities in welfare among households have widened since 1990, largely due to the profit-driven structures of multinational corporations (MNCs) and heightened competition in the international market. Powerful countries have shown growing interest in developing economies worldwide, particularly in response to energy challenges. This has led developed nations, especially in Africa and the Middle East, to pursue more assertive policies regarding energy resources and the infrastructure necessary to transfer this energy back to their own countries.

As a result, the demand for energy resources in the Middle East has surged, prompting developed Western countries to embark on new projects to extract these resources and transport them back to their own nations. Additionally, the significant market potential and economic growth of the BRIC countries (Brazil, Russia, India, and China) have captured the attention of developed nations. Similarly, the economic expansion and robust market structures of the MIST countries (Mexico, Indonesia, South Africa, and Turkey) are recognized by developed countries as potential leaders in the future. However, many sectors in these countries face weaknesses.

During times of crisis, particularly within the so-called "Fragile Five" (Brazil, India, Indonesia, Turkey, and South Africa), the financial sectors encounter substantial challenges due to insufficient liquidity. Economists note that "there is no theoretical limit to the liquidity a central bank can create, as long as it is in domestic currency." Furthermore, in many small open economies, long-term foreign currency deposits have increased due to foreign investments [18]. However, the effectiveness of central banks as lenders of last resort has diminished, making it difficult to provide adequate financial support during liquidity crises.

Table 1 illustrates the financial challenges faced by several small open economies, including the banking sectors in the MIST countries, due to limited liquidity capacity among central banks. It clearly shows that total reserves in the BRIC countries in 2000 were significantly lower than those in developed nations such as Germany, France, and Italy. In 2000, 2010, and 2018, China, Japan, and the Euro area consistently ranked among the top five countries in terms of reserves. Although the total reserves of the BRIC nations—Brazil, Russia, India, and China—are now higher compared to those of developed economies like France, Italy, and Germany, the substantial foreign reserves in these countries have led to a notable decrease in the amount of domestic currency held within their banking sectors.

During financial crises, a reduction in domestic currency supply hampers the banking sector's ability to meet liquidity demands. When the availability of domestic currency declines, it creates significant challenges for banks. Preventing speculative activities in financial markets becomes crucial under such circumstances, as the banking sector's tendency to hold foreign currencies is driven by a weak domestic currency

Table 1: Total reserves in selected countries in US dollars calculated and gold amount is also included.

Country	2000	2010	2018
China	**168.9**	**2,780**	**3,180**
Japan	383.1	1,082	1,269
Euro Area	**357.9**	**734.3**	**819.1**
Russia	23.5	**462.5**	**462.4**
S. Arabia	20.2	443.2	**509.5**
USA	**130.6**	**453.3**	450.1
India	39.7	293.8	401.5
Korea	90.2	283.0	400.6
Brazil	34.0	267.5	374.6
Hong Kong	**104.5**	231.6	425.8
Singapore	80.0	214.8	291.4
Germany	89.1	200.4	198.4
Switzerland	55.5	213.3	791.2
Algeria	--	164.0	90.4
Thailand	33.2	157.9	205.0
Turkey	**23.8**	**84.6**	**95.5**
France	64.6	151.5	166.6
Italy	46.8	147.1	152.4

Source: Global Finance Magazine [43], IMF data countries profile [44], (Total reserves), and Ranking Labs [45]

and ongoing inflationary pressures.

The ability of developing economies to maintain substantial foreign reserves is tied to the issue of the universal convertibility of their domestic currencies. While certain currencies, such as the Turkish Lira, have been fully convertible since 1990, they are not widely accepted for international transactions. Consequently, companies and traders in Turkey often prefer to use other currencies in their trade, leading to an increase in foreign reserves held by banks. This reliance makes it challenging to convert these foreign reserves back into domestic currency during financial difficulties to meet market needs.

The issue of inefficient liquidity in domestic currency is a significant factor contributing to debt crises. This challenge occurs in countries where a large portion of bank reserves is held in foreign stocks and currencies. It's not confined to weaker economies; several developed EU nations also face this problem. Despite the introduction of the Euro in many EU member states, considerable bank reserves remained in currencies like the pound sterling and the US dollar. The 2010 Euro crisis in countries such as Cyprus, Portugal, Greece, and Malta underscored this issue, as substantial reserves were still maintained in gold and strong foreign currencies. As a result, these difficulties have had a global impact, influenced by the effects of globalization on many countries around the world.

International trade and globalisation

Over the past thirty years, non-profit organizations, multinational corporations, think tanks and similar institutions have taken center stage in national economies and global governance [19]. This shift signals the emergence of a new world order, reshaped by contemporary international political theories.

Liberal trade policies advocate for encouraging production in less protected and more productive sectors, aiming to enhance trade between countries and reduce trade barriers [19]. These ideas laid the groundwork for the establishment of the European Economic Community (EEC) in 1957, which emerged from the need for cooperation and assistance in rebuilding European nations devastated by World War II. Initially formed by six European countries to facilitate trade and meet their domestic needs, the EEC eventually evolved into the European Union (EU), incorporating common agricultural policies, customs unions, monetary unions, and cultural and structural initiatives.

The world is composed of diverse countries with varying cultural, structural, and educational backgrounds, encompassing both developed and less developed nations. These differences pose challenges for seamless globalization, often leading to complications. Nonetheless, the future vision for the global population is one of increased collaboration and cooperation among nations.

The impact of neo-liberal aspect on trade

Recent events in Asia and Argentina have shown that the liberalization of economies and globalization can achieve greater success when governments take an active role in economic management, rather than relying on external directives. The implementation of IMF measures in Thailand and Argentina led to significant crises. Economist J. Stiglitz pointed out that the steel industry in South Korea, which was developed by the government, outperformed its private-sector counterparts in the United States, emphasizing that "my research indicates that these regulations fostered growth. However, these countries encountered challenges after removing regulations under pressure from the US Treasury and the IMF," as noted by Stiglitz in 2002. Thus, it is crucial to assess the most effective policies for global economic liberalization.

From an economic perspective, many economists advocate for a trade policy that strengthens the existing structure of the EU, informed by the principles of comparative advantage theory, a foundational concept from Ricardo's trade theories. Prioritizing this approach is essential for the current EU countries. If successful, it is evident that the world economy will improve, leading to increased welfare for all parties involved. The development and implementation of regional policies based on comparative advantage should align with the forecasts of organizations such as the World Trade Organization (WTO). This alignment would promote more liberal and free trade while also facilitating fairer trading practices globally. The protests in places like Seattle and Geneva further highlight the complexities and challenges surrounding regional trade agreements.

The social and economic impact of globalisation

Globalization significantly influences both the social and economic dimensions of global welfare, particularly evident in countries facing economic crises. For example, the Asian crisis in Thailand in December 1997 and the financial crisis in Russia in August 1998 not only impacted their own economies but also had repercussions for the United States. Similarly, the fiscal crisis in Turkey in February 2001 underscores the interconnectedness of global economies and the inevitable effects of globalization on other nations.

Furthermore, globalization's influence extends beyond economic factors; it also affects social structures. Critics of liberalization have voiced their concerns during protests at World Trade Organization (WTO) meetings in Seattle, Prague, and Geneva. While the intent of globalization is to enhance global welfare, it often benefits capital owners disproportionately. Global labor migration may reduce production costs, leading to higher profits but also diminishing the welfare of workers and consumers. As a result, workers' rights and overall welfare are declining, with cheap labor and wages falling, causing distress among communities worldwide.

Although some EU nations have resisted these trends, their influence in the global economy remains limited. Closing the income gap and fostering the development of less developed regions and countries are essential steps toward enhancing global welfare for all nations.

The economic perspective

Unfair globalization is shaped by several economic factors. First, fiscal and financial globalization has affected Switzerland's financial centers, diminishing their attractiveness as geopolitical tensions between East and West have eased and financial globalization has expanded. Critics argue that there is insufficient capital flow from developed nations to Less Developed Countries (LDCs).

Second, the growth of marketing opportunities has encouraged domestic producers to enter the global market in search of higher income and profit margins. Multinational corporations have played a significant role in this process, but there are concerns about the uneven intensification of trade, investment, and financial flows between the USA, Europe, and Japan, suggesting that true globalization is not yet achieved.

The third factor is technological advancement, which benefits developed countries that invest in and adopt new technologies, allowing them to lead in the international market. In contrast, less developed countries often struggle to access these technologies, limiting their participation in the global economy.

Fourth, the free movement of goods and labor raises important issues. Producers often prefer to hire low-wage workers, prompting concerns in developed countries about the emigration of less skilled labor. Strong labor unions in Western nations further protect against labor market restrictions. While the EU practices the free movement of goods, this remains limited on a global scale, though not entirely prohibited.

Finally, the adoption of a single currency has played a crucial role. The transition from the Bretton Woods system to the Euro was motivated by international trade needs. While a single currency is not mandatory, it helps minimize monetary losses in global trade, facilitating transactions between Euro and Dollar holders and enhancing overall efficiency.

The income gap: According to the UNCTAD 2023 report, wealth inequality has overtaken income inequality in our increasingly globalized world. The richest 1 percent holds 19.1 percent of global income and 39.2 percent of global wealth. Similarly, the top 10 percent of wealth accounts for 52.2 percent of global income, highlighting significant disparities in both income and wealth. In contrast, the bottom 50 percent of the population comprises only 8.5 percent of global wealth [20].

The UNCTAD 1998 report highlighted a dramatic rise in global income inequality. The Gini coefficient, a measure of inequality, increased from 0.66 in 1965 to 0.74 in 1990, indicating a widening gap between the rich and the poor. In 1965, the per capita income of the poorest 20 percent was just 1.31% of that of the richest 20%; by 1990, this had decreased further to 1.60% [21].

The 1996 Finance and Development Report suggested that the income gap between developed and developing countries would persist in both the short and long term, even amid rapid growth. Many developing nations experienced sluggish growth following the 1980s recession. For instance, if Brazil maintained an annual growth rate of only 0.3 percent from 1980 to 1993, it would take 33 years to return to its previous income peak and 487 years to match the income levels of high-income countries [22].

The income disparity between developed and less developed countries is not coincidental. While advancements in production and product quality are expected to enhance national well-being, the financial and technological advantages held by developed nations create significant obstacles for less developed ones. Many developing countries rely heavily on agriculture, which faces protectionist measures and struggles to compete effectively in the global market.

The difficulties and problems of the LDCs to the globalization are summarized below:

Globalization is a complex phenomenon that brings both positive and negative effects. While it poses challenges, such as cultural and economic issues in both developed and developing countries, it also offers opportunities for economic growth, cultural exchange, and social development. It's essential to approach globalization with a nuanced understanding, rather than viewing it solely as a form of Western imperialism.

Less developed countries face various difficulties due to globalization, including a lack of technology and expertise, higher inflation rates, fiscal challenges related to resource distribution, currency convertibility issues, transportation constraints, lower standards for hygienic and healthy production methods, and inadequate quality control and labeling. Additionally, high levels of protectionism in developed countries hinder competition, while insufficient wages limit purchasing power for goods from these countries. Addressing these challenges requires not only a focus on production techniques but also an equitable distribution of financial resources to stimulate demand and improve living standards.

While these points underscore the challenges faced by less developed countries in a globalized world, it's crucial to recognize that globalization encompasses a wide range of factors and impacts, varying across different countries and regions. A comprehensive understanding of globalization and its complexities is necessary to foster sustainable and inclusive development.

As previously mentioned, globalization cannot effectively benefit less developed countries unless these challenges are addressed. While globalization has the potential to drive development, less developed countries can also enhance their prospects through neo-liberal trade. However, short-term capital flows can create artificial growth. If this capital departs, it may lead to a fiscal crisis, potentially resulting in real economic destruction and social issues, as countries in crisis often cut expenditures for health, culture, and education.

The negative effects of financial globalization on income inequality and growth have been closely examined in the context of the policies implemented by the International Monetary Fund (IMF) and the World Bank. Notably, economist Joseph Stiglitz has criticized the IMF's neo-liberal policies, particularly in light of the 1997 Asian crisis. He argues that simply strengthening the financial sector is inadequate. Stiglitz points out that factors such as high debt-equity ratios, lack of transparency, inadequate accounting standards, and insufficient protection for minority shareholders significantly contributed to the East Asian crisis [23]. He observed that countries adhering to IMF policies took longer to recover from the crisis than those that opted for alternative approaches. For instance, during the Asian crisis, Thailand implemented IMF policies and struggled to recover compared to South Korea, which pursued different options.

Economist Manuel Pastor noted that IMF studies indicate a consistent reduction in labor's share of income as a result of its stabilization programs, particularly in Latin America [24].

However, globalization is not solely detrimental to nations. It also brings positive outcomes for both developed and developing countries. One major benefit is the increased connectivity among nations, which has heightened awareness of global issues, especially in developing countries. This process has facilitated access to new technologies and information through online services.

The transfer of technology from developed to less developed regions, along with foreign investment in domestic producers, can help overcome the barriers to development in these countries. Achieving this requires well-organized and effectively implemented policies to realize economic goals.

Free trade: Trade creation or trade distortion

Trade creation refers to the increase in trade among member countries of a Customs Union. This concept helps explain the impact of the Customs Union, as outlined by economist Viner, who distinguished between trade creation and trade distortion in the context of Common Custom Tariffs (CCT).

The effects of free trade vary across nations. As depicted in Figure 1, the rising trade volume between EU member states and the US is not coincidental.

According to Viner's Customs Union theory, there are two key aspects: a nation that becomes a trade partner can foster trade creation by eliminating barriers between itself and the partner country, while non-member nations face trade distortions due to tariffs imposed on their exports to member countries. Figure 1 illustrates that prices increase from P to Pt, with production rising from Q1 to Q2, while consumption decreases from Q4 to Q3. The figure highlights production losses as represented by triangle 'abc' and consumer losses as shown by 'def.' In Figure 2, the reduction in domestic production results from an influx of imported goods into the EU market, raising the cost of additional output. The rectangular area 'bcde' indicates tariff revenues, while the segment Q2bdQ3 represents foreign exchange revenues.

When a Customs Union is formed between a home country and a partner country, tariffs on imports from non-member (third) countries are reduced. This results in a smaller-than-expected increase in product prices, as shown in Figure 2, where prices rise from P to Pp. Import preferences shift toward WTO member countries, leading to an increase in the quantity of imports from Q2Q3 to Q5Q6. This shift is referred to as trade diversion, as imports transition from non-member countries to the partner country. However, the decrease in imports represented by Q2Q5 is compensated by an increase in products from the partner country, leading to trade creation among member states. In this case, products from the partner country effectively replace domestic supply, filling the gap denoted by Q2Q5.

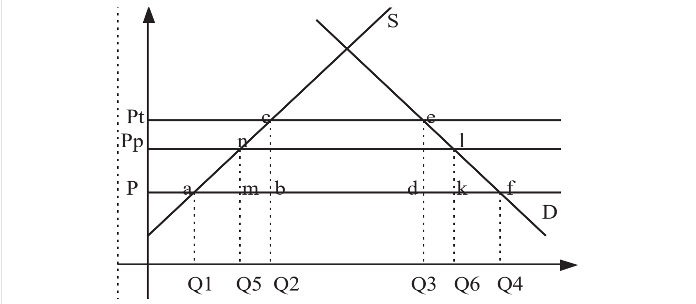

Figure 1: Optimal tariff rates and tariff revenues are shown on the supply and demand curves. Tariff application increases the price level resulting in consumer welfare loss and producer gain. Source: John Williamson and Chris Milner: The World Economy, Harvester Wheat sheaf, America, 1991, p.159 [42].

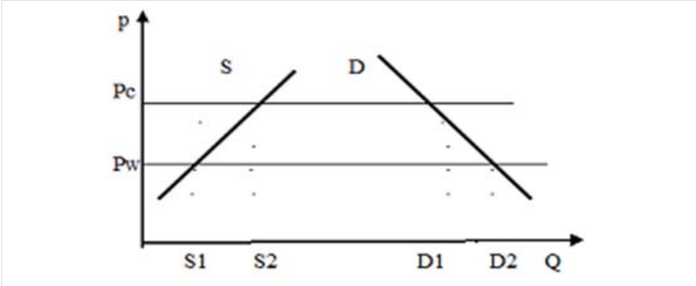

Figure 2: Weak production causes less supply than consumer demand. This causes a scarcity in the economy.

Figure 1 Optimal tariff rates and tariff revenues are shown on the supply and demand curves. Tariff application increases the price level resulting in consumer welfare loss and producer gain.

The consequence of this production loss is reduced from 'abc' to 'amn' and the consumer loss 'def' is reduced to 'fkl' against this total tariff revenue replaced from 'bcde' to 'klnm'. But the results of the trade create a total welfare increase within the Union which will cause a production replacement from higher-cost home country's goods to partner country's lower-cost products.

Financial flow

Financial globalization has led to heightened financial instability worldwide, primarily due to the increasing influence of speculation. This implies that an economic crisis in one country can trigger ripple effects in others. The role of speculation on floating exchange rates has intensified, prompting many central banks to intervene in foreign exchange markets over the past decade to mitigate the negative impacts of these rates on economic development. A notable instance of this intervention occurred during the 1998 East Asian economic crisis, where fluctuations in foreign exchange markets significantly affected the entire economy.

The International Monetary Fund (IMF) advises countries experiencing economic challenges to raise interest rates to restore monetary balance and facilitate capital inflows from foreign banks. Increasing interest rates can help accumulate the necessary resources in the financial sector to combat recession threats and implement expansionary monetary policies. Economist Barry Eichengreen argues that neglecting to raise interest rates during a crisis to attract foreign capital may weaken the exchange rate, exacerbating difficulties for banks and firms with debts in U.S. dollars [25]. Although raising interest rates may temporarily attract capital, it can also lead to higher inflation and increased product prices, which ultimately diminish the exchange rate. Rising product prices can reduce consumption and production in the future, further driving up demand for foreign currencies.

Exchange rates fluctuate over time due to various factors, including shifts in productivity growth, technological advancements, supply changes, market structure alterations, and excessive commodity booms or shortages. Different approaches exist for determining exchange rates, such as the monetary approach, balance of payments approach, internal and external balance approach, portfolio balance approach, and Purchasing Power Parity (PPP) approach. The PPP theory, which posits that exchange rates will eventually adjust to equalize the relative purchasing power of currencies in the long run, remains significant [26]. However, this theory is based on certain unrealistic assumptions, such as perfect information regarding transportation costs, tariffs, trade restrictions, and the notion that exchange rates are influenced solely by inflation rates. In reality, while inflation does impact exchange rates, PPP is more valuable for analyzing long-term trends. In the short term, PPP is particularly relevant for countries facing hyperinflation, where continuous price increases affect other economic factors.

According to the Purchasing Power Parity (PPP) theory proposed by Cassel [27] and Balassa [28], when countries A and B trade a product known as "x," market competition tends to equalize its price between the two nations. The price of the exported product from country A influences country B to adjust the price of a similar product, referred to as "y," which is produced domestically in country B. This adjustment also establishes a fixed exchange rate between the two currencies.

If the price of product "x" (along with the fixed exchange rate) rises too high, demand will fall, leading to a subsequent price decrease. These fluctuations impact market equilibrium, either moving it closer to or further away from the desired state. To restore equilibrium, governments may implement subsidies or other interventions aimed at stimulating market demand or reducing supply by encouraging exports.

Foreign direct investments of multi-national firms

During the globalization era, foreign direct investments (FDIs) from multinational corporations have been crucial. The United Nations' 2001 World Economics Report underscored the role of FDIs in driving globalization, noting that total FDI surged from around $200 billion in 1990 to $1.1 trillion by 2000, encompassing mergers, acquisitions, and privatizations.

The International Monetary Fund (IMF) actively monitored foreign investments during this time. Stanley Fischer, the IMF's first deputy managing director, stressed the importance of having updated and reliable information regarding the financial health of potentially risky economies. The IMF sought to establish an effective surveillance system and served as the lender of last resort. However, the effectiveness of its policies was often limited by the lack of accurate information available to IMF officials. Despite this challenge, the IMF frequently applied similar political measures, such as privatization and fiscal inspections, across different nations [7].

In recent years, the IMF's negative impact has been apparent in crises like the Asian financial crisis, as well as in Argentina and Turkey. Moreover, FDIs in less developed countries have declined over the past decade. The UN's 2001 World Economics Report indicated that around $600 billion in FDIs were directed to the USA, compared to just $160 billion invested in other regions. This decrease in FDIs can be attributed to the perceived instability in third-country economies and the crises faced by nations such as Argentina, Brazil, and various Asian countries.

Technological development

Technological disparities create challenges for countries competing globally, particularly those with comparative advantages. A country holds a comparative advantage when it can produce a good at lower costs, while a disadvantage occurs when production costs are high. Technological factors play a key role in determining these comparative costs, which can differ significantly between nations, complicating the uniform assumptions of Heckscher-Ohlin theory.

Understanding free trade necessitates examining both intra-industry trade (within the same category of goods) and inter-industry trade (across different categories). Technological advancements are vital for boosting competitiveness in the global market. In today's landscape, technology often takes precedence over labor, meaning that bridging wage gaps requires capital-intensive production methods. Furthermore, the specialization of the labor force is closely linked to the adoption of new techniques, which in turn influences wage disparities.

The social aspects

Globalization is an inescapable reality, yet its negative impacts, especially in less developed countries, can be mitigated. The effects of globalization in these regions often fall short of expectations, highlighting the need for targeted development efforts. Given that many of these countries depend heavily on agriculture, fostering sustainable growth in this sector could provide a significant opportunity. This strategy involves more than just integrating their economies into the global market.

Developed countries typically impose strong protections on their agricultural products, creating barriers for exports from less developed nations, as seen with the European Union (EU). By addressing these protectionist policies, developing countries can boost their agricultural exports and achieve fairer participation in the global economy. This approach emphasizes the potential of agricultural development as a pathway to uplift less developed nations, offering a more effective alternative to relying solely on unrestricted integration into the world market.

Environmental protection or pollution

States often struggle to effectively address global issues compared to international social movements. Organizations like Greenpeace have established a strong presence in many countries, actively combating industrial and environmental pollution on a global scale [29]. Similarly, Amnesty International advocates for the protection and defense of minority rights across various nations [30]. In tackling challenges such as environmental degradation and health crises like AIDS, these international social movements frequently exert more influence than individual states, thanks to their global reach and collective efforts.

Moreover, preserving traditions and customs in different nations is a crucial aspect of globalization. Previously, international markets were largely shaped by singular advertisements or films promoting standardized products. However, there has been a recent shift toward blending these products with local customs to resonate more effectively with consumers [31]. Global franchises have also recognized the demand for ethnic cuisines, offering menus that cater to both local and international customers with items like Chinese dishes, Mexican food, kebabs, and sushi [32].

Unfortunately, globalization has also enabled drug cartels and terrorist organizations to operate on a global scale [33]. The increased interconnectedness and mobility brought about by globalization present new challenges in addressing these threats worldwide.

The new actors

Over the past decade, globalization has transformed not only the economic landscape but also the dynamics of international relations. Traditionally, states wielded considerable power and influence in global affairs, a fact recognized by the United Nations in 1945 [34]. However, today's world has seen the emergence of new actors who play vital roles in both international relations and economics.

These actors are integral to the globalization process and include multinational corporations, think tanks, non-governmental organizations, media conglomerates, and wealthy private entrepreneurs. Many of these entities possess financial resources that exceed the combined national incomes of some developing countries.

The involvement and influence of these actors highlight the shifting dynamics in our increasingly globalized world. Their substantial financial power enables them to shape policies, promote agendas, and exert influence that extends beyond the traditional authority of nation-states.

Multinational firms

In the past, multinational corporations had a relatively modest influence, but the recent rise of neoliberal trade has dramatically amplified their role in global politics. According to the latest data from the United Nations, the combined financial resources of the top 200 multinational firms total an astounding $7.1 trillion. This figure accounts for about one-fourth of the world's economic activities, surpassing the economic output of 182 of the 189 United Nations member states.

Clearly, international economic relations must take into account the needs and interests of these multinational firms. Their immense economic power and significant impact on global politics make it essential to recognize and address their concerns. Navigating the complexities of the global economic landscape increasingly requires an understanding of the role these corporations play.

International civilian foundations

International civil organizations, such as Greenpeace and Amnesty International, wield considerable influence in global politics. Some of these organizations have financial resources that exceed the budgets of certain less developed countries (LDCs). Beyond their financial clout, they significantly impact national decision-making processes.

These organizations have positioned themselves as key players in global affairs, using their resources and networks to advocate for human rights, environmental protection, and other critical issues. Their ability to mobilize public support, raise awareness, and exert pressure on governments and international bodies enables them to shape policies and agendas at both national and international levels.

Their influence goes beyond financial power; they actively shape public opinion, influence discourse, and promote progressive changes in areas such as human rights, social justice, and environmental conservation.

Media cartels

Over the past decade, media cartels have become increasingly influential in international relations. A notable figure in this realm is Ted Turner, a major shareholder of CNN Time Warner, who has gained recognition as a global philanthropist due to his substantial donations. His philanthropic efforts have established him among key players making significant contributions to global causes.

The United States government is required to contribute

25% of the United Nations' budget. However, in 2000, the US Senate decided to reduce this contribution to 22%, warning that non-compliance would result in withheld funds for the UN. This decision created financial difficulties for the organization. Maintaining a positive relationship with the UN has been a political priority for the US government, leading them to engage with Turner. His generous $34 billion donation to the UN's member countries in 2000 was pivotal in facilitating an agreement among the 189 member states.

Similarly, Microsoft, as one of the world's leading companies, holds significant influence. Bill Gates, the company's co-founder and a prominent shareholder of the "Bill and Melinda Gates Foundation," has assets valued at approximately $21 billion. The Gates Foundation has donated over $1 billion to the UN in efforts to combat global poverty. These philanthropic contributions often surpass those of some developed countries, highlighting the profound impact of globalization on global welfare.

Think tank foundations

The growing influence of think tank foundations in global politics over the past decade is no coincidence. The rise of neoliberal economics and globalization has pushed states to take into account the economic and political dynamics of other nations. In an interconnected world, social and economic issues have transnational effects, affecting multiple countries. With globalization—marked by free trade, financial flows, and foreign direct investments (FDIs) from multinational firms—nations are more intertwined than ever before. These interdependencies significantly shape international relations, as evidenced by the global repercussions of events like the 1997 Asian crisis, which impacted even the United States.

The role of think tank foundations in international relations has become increasingly prominent, especially through their participation in platforms such as the World Economic Forum [35]. These gatherings unite representatives from academia, media, non-governmental organizations (NGOs), labor unions, and religious groups, allowing diverse stakeholders to influence international relations through their insights, perspectives, and policy recommendations.

The new leaders cosmocrats

Globalization has become a prominent topic of discussion and analysis over the past decade. While it brings certain negative consequences related to neoliberalism, there are also positive dimensions worth exploring. This global integration has emerged as a powerful force, comparable to the transformative impact of the Industrial Revolution, and it continues to shape the world in profound ways.

In their book A Future Perfect, John Micklethwait and Adrian Woolridge examine global order and the phenomenon of globalization. They introduced the idea of a new ruling class called the "Cosmocrats," which included politicians, business leaders, diplomats, and academics. These individuals are marked by their extensive international travel and their adept use of information and communication technologies, including the Internet. The estimated number of cosmocrats worldwide is around 20 million. The rapid advancement of information technologies has significantly facilitated globalization, promoting free trade, productivity, and transparency. The authors suggest that cosmocrats will play a crucial role in the success of globalization, though only time will reveal the full extent and nature of their influence.

The economic and social assessment of new world order

The anticipated benefits of globalization, initially expected during the Seattle meetings, have unfortunately not come to fruition. The impact of globalization has strayed from its intended course. A major challenge for less developed countries (LDCs) is the heightened protection for agricultural products in developed nations, driven by higher labor costs and expensive production in these countries.

In the realm of agriculture, competition from third countries is hindered by steep import tariffs and customs duties, while export subsidies further restrict their market access. In contrast, lower customs duties on industrial products have enhanced competition and market entry for developed countries in LDCs. This analysis focuses on the implications of agricultural protection, given the agricultural sector's significance to many LDCs.

The developed countries within the European Union (EU) serve as a key case study for examining the effects of subsidies and tariffs. The consequences of these policies are evaluated to understand their impact on the global economic and social landscape.

Economic and social impact of neo-liberalism

The impact of the price support system, which creates unfair competition between member and non-member countries, is illustrated in Figures 2 and 3. Figure 2 presents a partial equilibrium analysis using a static approach to showcase the effects of subsidies on the market. This analysis highlights production levels, consumer prices, and total production quantities. It is essential to distinguish between scenarios of adequate or excessive production and those of insufficient production within the union. For instance, in a situation of insufficient production, we can assume there is a shortage of commodity X within the union.

In Figure 2, Pc represents the internal price of commodity X within the Union, while Pw denotes the world price. Assuming that the prices of other products, consumer income, production costs, and external factors (like pollution) remain constant, we see that the internal supply of commodity X is lower than the demand.

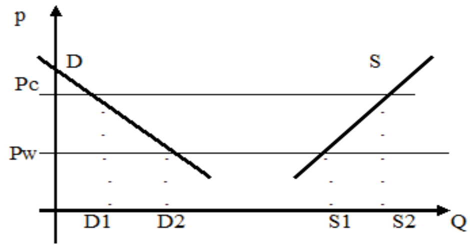

Figure 3: Excessive production of commodity X. Results of such overproduction, price intervention is expected. This will protect producer gain and consumer loss is maintained.

Under free trade conditions without taxes, the price is set at Pw. The gap between supply and demand is illustrated by the area S1D2, which is expected to be filled through imports. However, within the Union, the internal price (Pc) is higher than the world price. At this price level, consumer demand drops from D2 to D1, while supply from domestic producers rises from S1 to S2. This indicates that production of commodity X within the Union increases, leading to a decrease in imports from S1D2 to S2D1, thus enhancing efficiency.

It's important to note that consumer welfare declines from D2 to D1 in this context.

The rise of new protectionist measures, such as non-tariff barriers and sanitary regulations, has increasingly obstructed international trade compared to traditional tariffs. Domestic producers are shielded from imports through various means, including levies, dumping regulations, Voluntary Export Restraints (VERs), quotas, and others. This analysis focuses on the impact of subsidies.

In the European Union (EU), numerous products—including wheat, olive oil, tobacco, sheep meat, wine, and certain fruits and vegetables—receive subsidies, resulting in heightened protectionism and increased competition for domestic producers in the international market.

When commodity X is subsidized, the difference between Pw and Pc is provided to producers as direct aid (i.e., Pc - Pw * D2 = S2), ensuring that they receive the Pc price while continuing to produce quantity S2 of commodity X. Consequently, imported products can enter the Union without restrictions and be sold at the Pw price, allowing consumer demand to remain at the D2 level, though this cost is ultimately covered by the community budget.

In the second case depicted in Figure 3, let's assume that there is an overproduction of commodity X within the Union.

Under the same assumptions as before, producers now face overproduction. The demand curve for commodity X is represented by D, while the supply curve is denoted as S. The internal price within the community, Pc, is higher than the world price for commodity X, leading to a situation where internal supply exceeds internal demand. This imbalance suggests a potential price decline if no intervention occurs. With the implementation of Common Customs Tariffs (CCTs), the price of imported goods also rises to align with the community price.

To prevent prices from dropping below the intervention price, Pi, community agencies step in to purchase an amount equivalent to S1S2 of commodity X. This surplus is either stored or exported to third countries. It is important to note that storing and subsidizing products like cereals, cattle, pigs, and poultry present more challenges compared to fruits, vegetables, and meats, which can easily be processed into products like juice, jam, or wine. Export subsidies are then provided to mitigate the higher internal product price, allowing the community to remain competitive in the international market.

While these subsidies offer protection to domestic producers, they result in a decline in consumer welfare, shifting demand from D2 to D1. The European Agricultural Guidance and Guarantee Fund (EAGGF) provides subsidies for commodity X to maintain prices above Pc, benefiting producers at the expense of consumers. Consequently, consumers purchase the product at the higher Pc price, leading to a loss for them but a gain for producers.

Export subsidies are aimed at enhancing the competitiveness of domestic producers in global markets. However, this practice of unfair trade competition contradicts Ricardo's Comparative Advantage theory, which promotes competition based on relative cost advantages in international trade.

Welfare effect on consumers

The impact on consumer welfare varies depending on whether output falls short of or exceeds demand. In scenarios where supply (S) is less than demand (D), as illustrated in Figure 4, consumer surplus is protected through subsidies granted to producers. The subsidy amount corresponds to the difference between the community price (Pc) and the world price (Pw). This financial support from community agencies offsets the losses incurred by producers, leading to an increase in production from S1 to S2. Consequently, producer surplus expands, represented by the area ABDE.

However, as depicted in the figure, consumer surplus within the Union diminishes, as indicated by the area ACDH. The existence of subsidized domestic production facilitates the entry of imported goods into the Union, which subsequently raises consumer demand from D1 to D2. Thus, the losses experienced by consumers are indirectly alleviated through the subsidies allocated to producers.

In the second scenario where output exceeds demand, domestic consumers experience losses while domestic producers benefit.

As illustrated in Figure 5, there is overproduction within the Union. To address this, the Union offers export subsidies. Consequently, the product price rises from P1 to P2. This price increase shifts wealth from consumers to producers, as indicated by the area ACGD. The reduction in consumer surplus is represented by the area ABFD, while the distributed subsidy is shown in the area EBCH. Additionally, the Union bears the cost of protection or deadweight loss, represented by the triangles EBF and GCH.

The impact of subsidies depends on the balance between demand and supply, influencing not only the country implementing the subsidies but also its trading partners.

In situations where supply is less than demand, subsidizing domestic producers allows for increased production, benefiting consumers through a rise in consumer surplus. Additionally, producers in partner countries benefit, as they can export their goods to the Union without facing restrictions like tariffs or quotas.

Conversely, when subsidies lead to price increases, consumer welfare suffers. The Price Support System (PSS) often ignores consumer demand and instead prioritizes boosting producer surplus through price support.

The financing for this system comes from the EAGGF (European Agricultural Guidance and Guarantee Fund), aimed at mitigating high product prices and managing overproduction. Yet, EU prices typically remain above those of the global market, and overproduction continues to be a significant issue within the Common Agricultural Policy (CAP). Producers receive support at prices higher than global market levels to ensure they maintain sufficient output during global shortages. In theory, production prices should be key in determining market prices and achieving equilibrium, but the Council of the EU annually sets these prices higher than world prices. A more appropriate approach might involve setting market prices closer to production costs, benefiting both consumers and producers.

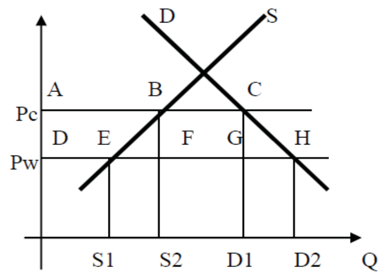

Figure 4: Less supply than demand in the Union is shown. Producer subsidized and consumer demand is covered with imported products.

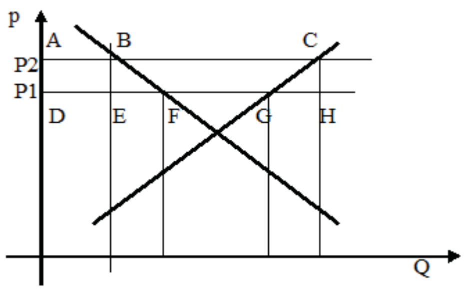

Figure 5: Excessive supply than demand in the Union. There is an overproduction -above equilibrium production- in the Union, Union provides a subsidy for reducing the surplus in the Union.

"It is a mistake to think that European consumers could have enjoyed sustained abundance at low and stable world prices" [36]. Consumers seek to optimize their economic utility as purchasers of food and services, rather than serving as guardians of price stability. As the primary victims of elevated prices, EU consumers must be convinced that enhancing food self-sufficiency and reducing reliance on external supplies is in their best interest. This shift would enable consumers to purchase products that better align with their utility preferences.

Conclusion

- Globalization encompasses not only economic growth but also cultural and social integration, driven by rapid advancements in information and communication technology, which have accelerated trade liberalization.
- The focus on profit maximization and capacity expansion often overshadows national and international welfare. Current efforts to counter neoliberalism are fragmented, while the business interests that perpetuate it are more cohesive and united.
- Achieving global peace requires fostering meaningful dialogue between cultures, enabling the exchange of information and expertise from developed nations to less developed countries (LDCs).
- World politics must prioritize social and economic justice for all nations. Development programs in LDCs should be accelerated to facilitate the transfer of information technology and expertise, promoting rapid growth.
- The pluralist structure of the International Court of Justice should be reformed to better address inequalities and injustices in the global landscape.
- Globalization has resulted in increased financial flows between countries. During economic crises, there is often a swift outflow of resources from the affected country, which can lead to the crisis spreading to other nations.
- Countries that effectively utilize human resources in the international division of labor can specialize in high-value-added sectors. In contrast, countries with inadequate human resources risk falling behind in the digital divide. The division of labor allows individuals to focus on areas where they have a comparative

advantage, enhancing their effectiveness through specialized training.

The influence of multinational corporations in the global market is particularly evident in the food, healthcare, and pharmaceutical sectors. Their efforts to restrict access to affordable food and medical treatments in less developed countries underscore their significant impact. Therefore, restructuring research and development activities, especially concerning copyrights, is essential to accelerate the adoption of new technologies and knowledge in LDCs.

Globalization has brought various positive outcomes for developed nations, particularly through lower labor costs, which have facilitated substantial resource transfers from consumers to producers, enabling multinational companies to capture greater profits and market share. This phenomenon has enhanced international trade, allowing countries to leverage their comparative advantages and access a broader array of goods and services [37]. Additionally, globalization has spurred technological advancements, innovation, and increased productivity [38].

Furthermore, migration, often linked to globalization, has demonstrated positive effects on host countries. Studies indicate that immigrants contribute to economic growth, fill labor market gaps, and bring diverse skills and perspectives [37]. They have played vital roles in sectors like healthcare, education, and entrepreneurship, thereby enhancing overall societal well-being.

It is crucial to address concerns related to globalization and immigration through well-designed policies that prioritize the integration of newcomers, promote social cohesion, and ensure fair labor practices. By fostering inclusivity, education, and skill development, societies can harness the benefits of globalization while mitigating potential challenges.

Regarding the impact of the European Union's price support system on global trade, the system and subsidies aimed at protecting rural welfare have resulted in notable inefficiencies within the agricultural sector, primarily benefiting small-scale domestic producers. The intervention price, which serves as a target price, is designed to manage market fluctuations. According to the standard price theory under the Common Agricultural Policy (CAP), market prices are determined by the costs of marginal producers, which tend to be higher compared to other producers. The intervention price is set about 9% below the market price, and intervention measures are triggered if the market price falls below this threshold to stabilize the market and protect producers' interests.

However, these policies conflict with the principles of comparative advantage theory, which posits that free trade is driven by lower comparative costs in countries that have production advantages. In the EU, agricultural production is shaped by CAP decisions, which prioritize both economic productivity and political objectives, diverging from the tenets of comparative advantage.

The Price Support System (PSS) implemented by the EU adversely affects non-member countries. Some researchers argue that the higher prices for temperate-zone products resulting from the CAP could incentivize production in less developed countries. According to Burniax and Waelbroek [39], abolishing the CAP could enhance the real income of LDCs. Empirical studies also suggest that the CAP destabilizes global commodity prices due to its variable tariffs and reduced necessity for food stockpiling within EC countries.

The operation of the CAP has become increasingly bureaucratic and complex in recent years, as noted by Lintner and Mazey [40,41]. For example, pricing and inter-community trade depend on green exchange rates, which are fixed annually and may not align with actual exchange rates. The introduction of the Euro in January 2002 and its expansion to 27 countries by 2017 has eliminated exchange rate losses among the original 12 member countries but introduced new dynamics and potential gains or losses for other nations [46-48].

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