

Economic Globalization

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Globalization has been covered heavily in the news recently, with special focus on the rise of China in the global economy and the sense of more job insecurity in the United States. See [“Globalization’s Gains Come with a Price”](#) in the May 24, 2007, *Wall Street Journal*.

“Most non-economists are fearful when an emerging China or India, helped by their still low real wage rates, outsourcing and miracle export-led developments, cause layoffs from good American jobs. This is a hot issue now, and in the coming decade, it will not go away.” -Paul Samuelson Professor Emeritus MIT, recipient of the 1970 Nobel Prize in Economics

Globalization is the inexorable and dynamic process by which nations and economies around the world become more interdependent. Globalization is not strictly an economic phenomenon: Social, cultural, and political convergence, such as the formation of international institutions (i.e., the World Bank or United Nations), has played an important role in fostering global interdependence. Here I will focus on economic globalization, which can be thought of as an increase in the flow of goods and services, labor, and capital around the world.

Economic globalization is not an entirely new phenomenon; the last major wave of globalization occurred in the early 1900s up until World War I. On the other hand, much has changed. Developments in information and communication technology (ICT) (i.e., cellular phones, e-mail, and streaming video) have increased the speed of globalization in the latter part of the 20th century. In 1980 ICT accounted for 0.4% of all U.S. capital investment; by 2003 this number had risen to 4.4%. In 1966 exports accounted for 5% of gross domestic product (GDP), and the United States imported only \$37 billion worth of goods and services, the equivalent of 4.7% of GDP. In 2006 exports accounted for 11% of GDP, and imports measured \$2.2 trillion, the equivalent of 17% of GDP. This increased trade in goods and services has been accompanied by a significant increase in foreign direct investment (FDI). FDI can be thought of as long-term investments in a domestic business from an organization or individual operating in another country. In 1966 U.S. companies invested \$400 million abroad and foreigners invested \$5.4 billion into the United States, approximately 0.05% and 0.7% of GDP, respectively. By 2006, U.S. companies were investing \$181 billion across the globe and foreigners were investing \$235 billion in the United States, or 1.4 and 1.8% of GDP.

Advances in ICT have done more than just increase the speed of globalization; they have also changed the face of globalization. Developments in ICT reduce the cost of doing business across long distances and have made large parts of the world’s labor force available to domestic businesses, a process commonly referred to as offshoring. Recent estimates suggest that developments in ICT will allow 20 to 30% of all jobs to be *potentially* shipped overseas. Low-priced imports from countries such as China and India should reduce the price of goods and services within the United States, increasing consumers’ purchasing power and resulting in higher standards of living for millions of Americans. On the other hand, many proponents of globalization believe that worker displacement due to offshoring could threaten or possibly derail future expansion of free trade. For example, in a [recent speech](#), Federal Reserve Chairman Ben Bernanke noted that while free trade strengthens the economy as a whole, the wide-ranging benefits of trade come at a cost to specific groups of individuals, firms, and communities. He went on further to say that the United States must find ways to minimize the “pain of dislocation” without threatening economic growth.

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The views expressed are those of the author and do not necessarily reflect the official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.

Recent Articles and Further Reading on Globalization

[*The World Is Flat*](#) by Thomas Friedman, Farrar, Straus and Giroux, 2005.

This book provides a nice discussion of the social, political, and economic aspects of globalization.

["Do Workers Benefit from Globalization?"](#) by Owen F. Humpage and Michael Shenk, Federal Reserve Bank of Cleveland *Economic Trends*, May 3, 2007.

This article uses data from the IMF World Economic Outlook and is an excellent overview of the issues surrounding globalization and labor in the United States.

["Trading Barbs: A Primer on the Globalization Debate"](#) by Kevin Kliesen, Federal Reserve Bank of St. Louis *Regional Economist*, October 2007.

Kliesen reviews the pros and cons of globalization from differing points of view.

["Where You Live Affects What You Think about Trade"](#) (PDF) by Cletus C. Coughlin, Federal Reserve Bank of St. Louis *International Economic Trends*, May 2007.

Coughlin discusses how geographic location affects job opportunities, especially jobs that can either be exported or that make goods for export.

["Globalization: Threat or Opportunity for the U.S. Economy?' Lesson Plan"](#) from the Federal Reserve Bank of San Francisco on *Econ Ed and the Fed Online* website. This is a one-hour high school—level lesson plan that includes an activity.

Free Data Sources

Data: Imports/Exports National, United States data only

Description: Provides real imports and exports of goods and services for the United States from 1929 to date.

Published by: Bureau of Economic Analysis (BEA)

Location: <http://research.stlouisfed.org/fred2/categories/108> and <http://www.bea.gov/national/index.htm#gdp>

Data: Foreign Direct Investment (FDI)

Description: Balance of payments statistics provide a systematic summary of economic transactions between an economy and the rest of the world, for a specific time period.

Published by: Organisation for Economic Co-operation and Development (OECD)

Location: http://www.oecd.org/statisticsdata/0,3381,en_2649_34265_1_119656_1_1_1,00.html

Data: World Economic Outlook Database

Description: Includes data on balance of payments and trade from 1980 to date and projections of future economic development at the global level, in major country groups and in individual countries. See also, IMF's April 2007 World Economic Outlook [chapter 5](#) which covers globalization and includes a [video briefing](#) to supplement the text.

Published by: International Monetary Fund (IMF)

Location: <http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx>

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