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ASSIGNMENT

**What is globalization?**

After centuries of technological progress and advances in international cooperation, the world is more connected than ever. Globalization is a term used to describe the growing interdependence of the world’s economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy. Globalization has grown due to advances in transportation and communication technology. With the increased global interactions comes the growth of international trade and commerce, exchange of business ideas, supply chain, and culture. Globalization is primarily an economic process of interaction and integration that's is associated with social and cultural aspects. However, conflicts and diplomacy are also large parts of the history of globalization, and modern globalization.

**History of globalization**

***Silk roads (1st century BC-5th century AD, and 13th-14th centuries AD)***

People have been trading goods for almost as long as they’ve been around. But as of the 1st century BC, a remarkable phenomenon occurred. For the first time in history, luxury products from China started to appear on the other edge of the Eurasian continent in Rome. They got there after being hauled for thousands of miles along the Silk Road. Trade had stopped being a local or regional affair and started to become global.

That is not to say globalization had started in earnest. Silk was mostly a luxury good, and so were the spices that were added to the intercontinental trade between Asia and Europe. As a percentage of the total economy, the value of these exports was tiny, and many middlemen were involved to get the goods to their destination. But global trade links were established, and for those involved, it was a goldmine. From purchase price to final sales price, the multiple went in the dozens. The Silk Road could prosper in part because two great empires dominated much of the route. If trade was interrupted, it was most often because of blockades by local enemies of Rome or China. If the Silk Road eventually closed, as it did after several centuries, the fall of the empires had everything to do with it. And when it reopened in Marco Polo’s late medieval time, it was because the rise of a new hegemonic empire: the Mongols. It is a pattern we’ll see throughout the history of trade: it thrives when nations protect it and falls when they don’t.

***Spice routes (7th-15th centuries)***

The next chapter in trade happened thanks to the Islamic merchants. As the new religion spread in all directions from its Arabian heartland in the 7th century, so did trade. The founder of Islam, the prophet Mohammed, was famously a merchant, as was his wife Khadija. Trade was thus in the DNA of the new religion and its followers, and that showed. By the early 9th century, Muslim traders already dominated Mediterranean and Indian Ocean trade; afterwards, they could be found as far east as Indonesia, which over time became a Muslim-majority country, and as far west as Moorish Spain.

The main focus of Islamic trade in those Middle Ages were spices. Unlike silk, spices were traded mainly by sea since ancient times. But by the medieval era they had become the true focus of international trade. Chief among them were the cloves, nutmeg and mace from the fabled Spice Islands, the Maluku islands in Indonesia. They were extremely expensive and in high demand, also in Europe. But as with silk, they remained a luxury product, and trade remained relatively low volume. Globalization still didn’t take off, but the original Belt (sea route) and Road (Silk Road) of trade between East and west was established.

***Age of Discovery (15th-18th centuries)***

Truly global trade kicked off in the Age of Discovery. It was in this era, from the end of the 15th century onwards, that European explorers connected East and West and accidentally discovered the Americas. Aided by the discoveries of the so-called “Scientific Revolution” in the fields of astronomy, mechanics, physics and shipping, the Portuguese, Spanish and later the Dutch and the English first discovered, then subjugated, and finally integrated new lands in their economies.

The Age of Discovery rocked the world. The most infamous discovery was is that of America by Columbus, which all but ended pre-Colombian civilizations. But the most consequential exploration was the circumnavigation by Magellan: it opened the door to the Spice Islands, cutting out Arab and Italian middlemen. While trade once again remained small compared to total GDP, it certainly altered people’s lives. Potatoes, tomatoes, coffee and chocolate were introduced in Europe, and the price of spices fell steeply.

Yet economists today still don’t truly regard this era as one of true globalization. Trade certainly started to become global, and it had even been the main reason for starting the Age of Discovery. But the resulting global economy was still very much partitioned and lopsided. The European empires set up global supply chains, but mostly with those colonies they owned. Moreover, their colonial model was chiefly one of exploitation, including the shameful legacy of the slave trade. The empires thus created both a mercantilist and a colonial economy, but not a truly globalized one.

***First wave of globalization (19th century-1914)***

Things started to change with the first wave of globalization, which roughly occurred over the century ending in 1914. By the end of the 18th century, Great Britain had started to dominate the world both geographically, through the establishment of the British Empire, and technologically, with innovations like the steam engine, the industrial weaving machine and more. It was the era of the First Industrial Revolution.

The British Industrial Revolution made for a fantastic twin engine of global trade. On the one hand, steamships and trains could transport goods over thousands of miles, both within countries and across countries. On the other hand, its industrialization allowed Britain to make products that were in demand all over the world, like iron, textiles and manufactured goods. “With its advanced industrial technologies,” the BBC recently wrote, looking back to the era, “Britain was able to attack a huge and rapidly expanding international market.”

The resulting globalization was obvious in the numbers. For about a century, trade grew on average 3% per year. That growth rate propelled exports from a share of 6% of global GDP in the early 19th century, to 14% on the eve of World War I. As John Maynard Keynes, the economist, observed: “The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole Earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep.”

And, Keynes also noted, a similar situation was also true in the world of investing. Those with the means in New York, Paris, London or Berlin could also invest in internationally active joint stock companies. One of those, the French Compagnie de Suez, constructed the Suez Canal, connecting the Mediterranean with the Indian Ocean and opened yet another artery of world trade. Others built railways in India, or managed mines in African colonies. Foreign direct investment, too, was globalizing.

While Britain was the country that benefited the most from this globalization, as it had the most capital and technology, others did too, by exporting other goods. The invention of the refrigerated cargo ship or “reefer ship” in the 1870s, for example, made it possible for countries like Argentina and Uruguay, to enter their golden age. They started to mass export meat, from cattle grown on their vast lands. Other countries too started to specialize their production in those fields in which they were most competitive.

But the first wave of globalization and industrialization also coincided with darker events too. By the end of the 19th century, the Khan Academy notes, “most [globalizing and industrialized] European nations grabbed for a piece of Africa, and by 1900 the only independent country left on the continent was Ethiopia”. In a similarly negative vein, large countries like India, China, Mexico or Japan, which were previously powers to reckon with, were either not able or not allowed to adapt to the industrial and global trends. Either the Western powers put restraints on their independent development, or they were otherwise outcompeted because of their lack of access to capital or technology. Finally, many workers in the industrialized nations also did not benefit from globalization, their work commoditized by industrial machinery, or their output undercut by foreign imports.

***The world wars***

It was a situation that was bound to end in a major crisis, and it did. In 1914, the outbreak of World War I brought an end to just about everything the burgeoning high society of the West had gotten so used to, including globalization. The ravage was complete. Millions of soldiers died in battle, millions of civilians died as collateral damage, war replaced trade, destruction replaced construction, and countries closed their borders yet again.In the years between the world wars, the financial markets, which were still connected in a global web, caused a further breakdown of the global economy and its links. The Great Depression in the US led to the end of the boom in South America, and a run on the banks in many other parts of the world. Another world war followed in 1939-1945. By the end of World War II, trade as a percentage of world GDP had fallen to 5% – a level not seen in more than a hundred years.

***Second and third wave of globalization***

The story of globalization, however, was not over. The end of the World War II marked a new beginning for the global economy. Under the new leadership, the United States of America, and aided by the technologies of the Second Industrial Revolution, like the car and the plane, global trade started to rise once again. At first, this happened in two separate tracks, as the Iron Curtain divided the world into two spheres of influence. But as of 1989, when the Iron Curtain fell, globalization became a truly global phenomenon.

In the early decades after World War II, institutions like the European Union, and other free trade vehicles championed by the US were responsible for much of the increase in international trade. In the Soviet Union, there was a similar increase in trade, albeit through centralized planning rather than the free market. The effect was profound. Worldwide, trade once again rose to 1914 levels: in 1989, export once again counted for 14% of global GDP. It was paired with a steep rise in middle-class incomes in the West.

Then, when the wall dividing East and West fell in Germany, and the Soviet Union collapsed, globalization became an all-conquering force. The newly created World Trade Organization (WTO) encouraged nations all over the world to enter into free-trade agreements, and most of them did, including many newly independent ones. In 2001, even China, which for the better part of the 20th century had been a secluded, agrarian economy, became a member of the WTO, and started to manufacture for the world. In this new world, the US set the tone and led the way, but many others benefited in their slipstream.

At the same time, a new technology from the Third Industrial Revolution, the internet, connected people all over the world in an even more direct way. The orders Keynes could place by phone in 1914 could now be placed over the internet. Instead of having them delivered in a few weeks, they would arrive at one’s doorstep in a few days. What was more, the internet also allowed for a further global integration of value chains. You could do research and development in one country, sourcing in others, production in yet another, and distribution all over the world.

The result has been a globalization on steroids. In the 2000s, global exports reached a milestone, as they rose to about a quarter of global GDP. Trade, the sum of imports and exports, consequentially grew to about half of world GDP. In some countries, like Singapore, Belgium, or others, trade is worth much more than 100% of GDP. A majority of global population has benefited from this: more people than ever before belong to the global middle class, and hundreds of millions achieved that status by participating in the global economy.

***Globalization 4.0***

That brings us to today, when a new wave of globalization is once again upon us. In a world increasingly dominated by two global powers, the US and China, the new frontier of globalization is the cyber world. The digital economy, in its infancy during the third wave of globalization, is now becoming a force to reckon with through e-commerce, digital services, 3D printing. It is further enabled by artificial intelligence, but threatened by cross-border hacking and cyber-attacks.

At the same time, a negative globalization is expanding too, through the global effect of climate change. Pollution in one part of the world leads to extreme weather events in another. And the cutting of forests in the few “green lungs” the world has left, like the Amazon rainforest, has a further devastating effect on not just the world’s biodiversity, but its capacity to cope with hazardous greenhouse gas emissions.

Chinese president Xi Jinping addressed the topic globalization in a speech in Davos in January 2017. “Some blame economic globalization for the chaos in the world,” he said. “It has now become the Pandora’s box in the eyes of many.” But, he continued, “We came to the conclusion that integration into the global economy is a historical trend. It is the big ocean that you cannot escape from.” He went on to propose a more inclusive globalization, and to rally nations to join in China’s new project for international trade, “Belt and Road”.

Technological progress, like globalization, is something you can’t run away from, it seems. But it is ever changing. So how will Globalization 4.0 evolve? We will have to answer that question in the coming years.

**ADVANTAGES OF GLOBALIZATION**

1. Providing an incentive for countries to specialise and benefit from the application of the principle of comparative advantage.
2. Access to larger markets means that firms may experience higher demand for their products, as well as benefit from economies of scale, which leads to a reduction in average production costs.
3. In the long term, increased trade is likely to lead to the creation of more employment in all countries that are involved.
4. Nations can access products and services that are of benefit under emergency as witnessed during the Corona Virus pandemic of January 2020.
5. Mobility of labour is further enhanced.
6. International Trade barriers witnessed in the primitive days are broken
7. Enhances industrial competition

**DISADVANTAGES OF GLOBALIZATION**

1. Large multinational companies can also suffer from diseconomies of scale, such as difficulties associated with coordinating the activities of subsidiaries based in several countries.
2. Globalisation can also increase the pace of deindustrialisation, which is the slow erosion of an economy’s manufacturing base.
3. Jobs may be lost because of the structural changes arising from globalisation. Structural changes may lead to structural unemployment and may also widen the gap between rich and poor within a country.
4. It can encourage the dumping of sub standerd goods and services on one nation from another if not checked.
5. Diseases of the pandemic nature like corona Vires can easily spread across continents with devastating effect as witness today.
6. It could pose balance of trade issues with poorly developed economies
7. Antitrust issues

**CORE DRIVERS OF GLOBALIZATION**

**1) Technological drivers**: Technology shaped and set the foundation for modern globalization. Innovations in the transportation technology revolutionized the industry. The most important developments among these are the commercial jet aircraft and the concept of containerisation in the late 1970s and 1980s. Inventions in the area of microprocessors and telecommunications enabled highly effective computing and communication at a low-cost level. Finally the rapid growth of the Internet is the latest technological driver that created global e-business and e-commerce.

**2) Political drivers**: Liberalized trading rules and deregulated markets lead to lowered tariffs and allowed foreign direct investments in almost all over the world. The institution of GATT (General Agreement on Tariffs and Trade) 1947 and the WTO (World Trade Organization) 1995 as well as the ongoing opening and privatization in Eastern Europe are only some examples of latest developments.

**3) Market drivers**: As domestic markets become more and more saturated, the opportunities for growth are limited and global expanding is a way most organizations choose to overcome this situation. Common customer needs and the opportunity to use global marketing channels and transfer marketing to some extent are also incentives to choose internationalization. (Ferrier, 2004)

**4) Cost drivers**: Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact. Other cost drivers to globalization are the opportunity to build global scale economies and the high product development costs nowadays. (Ferrier, 2004)

**5) Competitive drivers**: With the global market, global inter-firm competition increases and organizations are forced to “play” international. Strong interdependences among countries and high two-way trades and FDI actions also support this driver.

**THE IMPACT OF GLOBALIZATION ON THE NIGERIAN ECONOMY**

The main issues arising from globalisation for Nigeria are;

***Growth***

Assuming Nigeria maintains its competitiveness, globalisation is likely to increase our growth in the long term because aggregate demand (AD) is likely to increase through increased exports (X), and aggregate supply (AS) is likely to increase because of higher levels of investment, both domestic and foreign direct investment (FDI). However, growth in the short term may become more unstable as the global economy becomes increasingly interconnected. The recent economic pandemic is evidence that unstable growth is a possible consequence of globalisation. Some economists have also argued that globalisation has increased the process of deindustrialisation in some developed countries.

***Employment***

Long term, jobs may be destroyed in the manufacturing sector and created in the service sector, hence creating structural unemployment, which could widen the income gap within countries. The net effect of the impact on employment depends upon the speed of labour market adjustment, which itself depends upon mobility and flexibility. Improvements in labour productivity may be needed to close the productivity gap.

***Prices***

Increased competition is likely to reduce the price level, for traded manufactures. Because Nigerian firms can source from around the world costs may be held down, and this may be passed on in terms of reduced domestic and export prices.

***Trade***

The volume of both imports and exports is likely to increase, with trade representing an increasing proportion of GDP. The effect on the balance of payments is uncertain and depends upon relative growth rates, inflation, competitiveness, and the exchange rate.