

# *Impacts on the Economic Development of Developing Countries by Economic Globalization*

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**Abstract:** Economic globalization has seen a positive trend, with an increasing number of developing countries participating in global trade. The main features of economic globalization include production and operation globalization, trade globalization, investment, and financial globalization, which respectively have a significant influence on those developing countries. This research paper endeavors to explore the intricate interplay between economic globalization and its profound impact on developing countries. It seeks to illuminate the opportunities and challenges that reside at the heart of this phenomenon, offering a comprehensive perspective on the global economic landscape. While there have been positive impacts for developing countries, there have also been negative consequences. China, as one of the fastest-growing developing countries, has played a significant role in global trade and provided collaborative opportunities to other developing countries. Additionally, to help more developing countries gain more benefits from the process of economic globalization, several recommendations are also made based on the findings.

**Keywords:** Economic globalization, global economic, developing countries economic.

## 1. Introduction

Economic globalization has been an avoidable trend in recent years. Economic globalization is regarded as the deepening interconnection of global economies because of the expanding volume of international trade in goods and services, the flow of international capital, and widespread technological advancements. Numerous research studies have been diving into economic globalization with other topics, such as democratization and policies worldwide [1]. However, apart from the developed country, economic influence should also be considered.

Economic globalization has a high significance in many aspects. It can improve the global economy, allocate resources efficiently, innovate the technology and welfare economy, and also play a role in increasing the connection between countries and improving the whole international society [2]. The reason why we choose a topic on developing countries is that currently, they are facing quite a lot of problems. For example, they are facing poverty and inequality; most of them are agricultural countries, and their economic structure is weak and superficial [3]. Additionally, employment in their countries would be another huge problem.

The general objective of this research is to explore more about the impacts caused by economic globalization, what are economic globalization's definition and features; also, we will look deeper

into the economic globalization features and pay much more attention to the impact of developing countries. These are the specific research questions that will be discussed in this study. Diverse levels of integration into the global economy are evident in the trend of economic globalization in developing nations. More in detail, in the globalization of Trans-Country National (TCN) manufacturing and operations, has a big effect on emerging nations' economies. Furthermore, Globalization of trade has a significant impact on developing nations' economies. Globalization of finance and investment has a significant impact on emerging nations' economies. China and other developing nations can implement plans to deal with the effects of economic globalization. However, globalization of the economy has had several detrimental effects on emerging nations.

## **2. Features of Economic Globalization**

To give a better understanding of economic globalization and its impacts, here some typical features will be elaborated. There are production globalization, operation globalization, trade globalization, investment, and financial globalization.

### **2.1. Production Globalization**

Production globalization refers to establishing an interdependent organic whole, consisting of direct production and reproduction processes. Some factors will lead to an increase of production globally. Some main characteristics would be the emergence of Transnational corporations, many firms in different countries increasingly prefer setting up new firms in many developing countries. More than will lead to more sub-companies in developing countries [4]. Other factors would be there is an increasing proportion of export trade in such developing countries. In addition, some new technologies are developed rapidly, making the production procedure a lot easier. Some major countries are trying to apply this new technology in practical. Additionally, operation globalization means Tran-Country National takes in charge of many subsidiary companies.

### **2.2. Trade Globalization**

Trade globalization is defined as the free flow of economic factors such as capital between countries, as well as more cooperation worldwide. With the trade barrier decreasing, the freedom of global trade increases. More countries are involved in this global trade process, and some organizations such as WTO and some Trans-Country National (TCN) also play a significant role [5]. In general, the form of global trade has been more varied and alternative, the scale and total amount of trade has been improved, as well as the connection between different countries has been a lot closer.

### **2.3. Regional Integration**

Regional integration is an economic subject term, that refers to a process of separate economies being integrated into a larger economy. In particular, some countries are geographically proximate or in the near area, they have some common economic interests and regional integration can somewhat strengthen their economic ties and cooperation, sharing the free circulation of commodities, capital, people, and labor across countries. European Union and BRICS are good examples of regional integration [6].

### **2.4. Financial Internationalization**

Financial internationalization, which is an essential element of economic globalization, is mainly demonstrated in the financial markets, financial transactions, financial institutions, and regulation. For the internationalization of financial markets, investors whether or not from which countries, enjoy

the same treatment on the access and other staffs [7]. For the trend of financial transactions, securities market has been more prosperous, and the volume in securitization financing and its growth show the rapid development of financial internationalization.

### **3. Results**

#### **3.1. Trend about Globalization**

An increasing number of developing nations express a growing eagerness to participate in the phenomenon of economic globalization. This eagerness is rooted in the belief that this global economic integration presents abundant opportunities and a commodious environment for conducting transactions. Concurrently, various international institutions and organizations offer direct financial support for developmental endeavors. Consequently, this influx of resources holds the promise of yielding substantial gains in terms of income generation and employment creation. These anticipated benefits are expected to accrue in the long run and contribute positively to the socio-economic development of these nations.

The KOF index of globalization is an effective indicator covering economic, social, and political globalization. From 1970 to 2010, the KOF has increased from less than 40 up to over 50, there is a clear and positive trend in the ongoing process of globalization, with economic globalization emerging as the most prominent and impactful compared with other aspects. Moreover, social and political globalization has also experienced rapid growth. These observations suggest that in the future, a shift towards greater emphasis on incorporation and collaboration, as opposed to relentless competition, will be increasingly crucial for addressing the complex problems arising by globalization [8].

The share of remittances in total Gross Domestic Product (GDP) for several South Asian countries was reported by the World Bank, including Bangladesh, India, and Pakistan. From 1971 to 2010, the numbers represent remittances as % GDP amounts is continuously increasing, (in millions of US dollars) For instance, India from 1277.6 to 54034.7, Pakistan from 1228.5 to 9690. This data provides valuable insights into the significant role that remittances play in the economies of these nations. The analysis of the table reveals a pattern of consistent growth in both the total amount of remittances received and their proportion concerning the overall GDP over the years [9].

#### **3.2. Growth in the Power of Multinational Businesses**

This illustrates how big businesses are becoming more and more influential in the global economy. These companies frequently operate outside national borders and have a big influence on international investment, trade, and economic policies [10]. It will also lead to the decline in National Power, the emergence of international markets and multinational firms is the main cause of the reduction in the ability of individual nation-states to regulate economic activities within their borders [10].

Those developing countries are the emergence of New Economic Regions: This pattern indicates that some areas are becoming important hubs for economic activity. These regions—which may transcend national boundaries—become important actors in the global economy because of things like resource abundance, technological breakthroughs, and advantageous geopolitical locations.

#### **3.3. Evolution of the Average Trade Barrier**

There has been a downward sloping trend in trade barriers since 2000 until 2014. This reduction can be attributed to several critical factors [11]. Firstly, the increase in international trade agreements and increased global transactions have driven down trade barriers. These agreements facilitate the flow of goods and services across borders. Furthermore, globalization has incentivized nations to lower

trade barriers as they seek greater participation in the global economy. The imperative to remain competitive and benefit from global trade has catalyzed this trend. In addition, improved political and diplomatic relations have contributed significantly to trade barrier reduction, leading to an environment for economic liberalization. Regarding the benefits, reduced trade barriers provide consumers with more choices for imported goods and services. In addition, domestic industries are incentivized to become more competitive, resulting in improved economic performance.

### **3.4. Foreign Direct Investment (FDI) lead Prosperous Financial Globalization**

From 1990 to 2019, there was a noticeable increase in inflows of Foreign Direct Investment (FDI) globally, indicating the growing integration of the world economy and the importance of international financial capital in economic development. Foreign investors, particularly those from wealthy nations, have shown a particular interest in emerging economies. Following the 2009 recession, foreign direct investment (FDI) increased steadily, and by 2012, the BRICS economies accounted for 20% of all FDI globally. However, there was a decrease in foreign direct investment (FDI) between 2016 and 2018, which can be linked to the fragile state of some governments' economies and their slow growth. There was a nearly 23% decrease in foreign investment flows in 2017 [12].

Several variables, such as infrastructure, interest rates, trade openness, market size, and human capital, affect FDI inflows. These variables alter between nations and areas, highlighting the complexity of FDI dynamics. For example, local market characteristics have a major role in drawing foreign direct investment (FDI) into economies such as Brazil, whereas higher productivity can either stimulate or deter FDI depending on the nation. The steady inflow of foreign direct investment (FDI) into developing nations has been essential to their economic growth, as it has given them access to global markets, managerial expertise, technology transfer, and finance. The potential of investment and financial markets in these nations has increased as a result of this capital inflow, which has also accelerated GDP development.

### **3.5. Negative Impacts brought by Economic Globalization**

With the expansion of economic globalization, while there have been numerous benefits, it's imperative to consider the accompanying negative impacts. Many developing countries possess vulnerable economic structures due to their reliance on limited industries and resources. As a result of the increased frequency of international business transactions, the total volume of imports has surged significantly, rendering these economies more susceptible to fluctuations in international markets.

Furthermore, as depicted in Figure 4, there has been a notable increase in the global flow of goods, services, and finance, alongside an upsurge in trade restrictions imposed by various countries. These factors can pose a significant threat to financial stability, as external influences may trigger financial crises and negatively affect economic stability. The proliferation of trade protectionism in some developed nations, driven by efforts to safeguard domestic companies and employment, indirectly exerts adverse repercussions on other developing countries. Additionally, income disparities between developed and developing countries have widened, with the economic performance of some developing nations failing to improve and, in some cases, deteriorating further.

Beyond these concerns, other adverse effects, such as cultural and social impacts, the consequences of foreign investment, and over-reliance on the global market, must also be addressed within the context of economic globalization.

In summary, while economic globalization has brought about numerous advantages, it is essential to acknowledge and mitigate the negative consequences, particularly about the vulnerability of

developing countries' economic structures, the potential for financial instability, trade restrictions, income inequality, and other associated challenges.

### **3.6. China's Distribution to other Developing Countries**

Some specific data from the World Bank WDI database pointed out China's significant contribution of nearly forty percent to trade globalization. In contrast, certain developed countries make relatively modest contributions, and some developed countries such as Canada, France, and Japan, only contributed less 2 percent to the growth economic. This observation suggests an alternative perspective that developing countries may be more inclined to engage in collaborative efforts and seize opportunities for mutual assistance.

China has made numerous contributions to the development of other developing countries, particularly after proposing the Belt and Road Initiative (BRI). This initiative has resulted in improvements in infrastructure and access to basic services in various countries. For example, people in Ethiopia have seen improvements in their access to water, while countries like Pakistan and Laos have experienced further improvements in electricity supply. The Belt and Road Initiative has also been recognized for its role in enhancing global trade, with the World Bank reporting that full implementation of the BRI could increase global trade by 6.2%.

China has played a crucial part in the world's economic growth by contributing more than 30% to the global economic growth for 15 consecutive years. The country's development aid covers various areas, such as poverty alleviation, healthcare, education, infrastructure development, and environmental protection. Moreover, China has provided relief during crises and emergencies, including public health emergencies. These efforts demonstrate China's wonderful performance in global development, aiming to share its benefits with the world and support the economic growth of developing countries.

## **4. Discussion**

This study has concentrated mainly on the features of economic globalization, as well as the impact on developing countries. However, some limitations were discovered. Firstly, one significant limitation of this study is the reliance on restricted data sources. The data after COVID-19 is seldom used, thus the impact of COVID-19 on the global economy was not captured. Secondly, the findings of this study may not be universally applicable to some regions or countries. Last but not least, the methodology of this research is not strong enough, some qualitative and quantitative methods are not provable.

## **5. Conclusion**

### **5.1. Review of this Study**

This study was motivated by personal experiences from the researcher. After searching for resources, some gaps were observed, which are the economic features and how they influence those developing countries. There is a positive trend in economic globalization, more and more developing countries are diving into global trade. Furthermore, the main features of economic globalization consist of production and operation globalization, trade globalization, investment, and financial globalization, definitely brought about some positive impacts to developing countries, however, some negative results appeared in this process of globalization. Moreover, China as a developing country, also plays a significant role in this global trade, cooperating with other countries.



## 5.2. Suggestions

Developing countries seeking to harness the opportunities of economic globalization should adopt a multifaceted strategy. Firstly, they should actively work to create an environment conducive to attracting foreign investments. Additionally, these nations should vigorously pursue the expansion of their trade networks, forging partnerships and trade agreements with diverse countries to explore various export opportunities.

However, it is equally essential for these countries to exercise prudence and avoid undue dependence on foreign markets. Measures aimed at reducing income inequality, providing essential social services, and ensuring the fair distribution of the benefits of globalization among all segments of society should be at the forefront of their policy agenda.

Investing in technology and education represents a cornerstone in the sustainable development of these nations. By prioritizing technological innovation and bolstering their educational systems, developing countries can enhance their human capital and technical proficiency. This, in turn, enhances their ability to compete effectively in the global arena, diversify their economies, and generate employment opportunities, thereby driving long-term growth and development.

Furthermore, developing countries should consider implementing policies that underscore their commitment to environmental sustainability. As they deepen their engagement in economic globalization, they must remain mindful of their environmental impact.

In conclusion, the strategic roadmap for developing countries seeking to harness the opportunities afforded by economic globalization entails a balanced and strategic approach. This approach includes fostering an attractive investment climate, promoting social equity, and prioritizing investments in technology and education. These strategies lay the foundation for sustainable and inclusive development in the ever-evolving landscape of economic globalization.

## 5.3. Further Studies

Further studies should be based on its evolving nature and aim to predict reliable models by incorporating post-pandemic data, while also taking into account political and cultural factors. Additionally, researchers should consider adopting a wider range of research designs. Moreover, there is room for improvement by conducting more specific and in-depth research, which can offer valuable insights and recommendations for policymakers and employees in international organizations.

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