Glossary: Globalization

bailout: funds provided to an entity, such as a country or corporation, to help it avoid serious financial trouble, often bankruptcy. Critics view bailouts as letting governments and corporations off the hook for financial mismanagement; defenders argue they are regrettable but necessary to avoid the disruption that would stem from the collapse of a government or major financial institution.

contagion: a phenomenon in which an economic crisis in one country results in economic problems in another through disruptions in trade and financial flows, or through panic as a result of a loss of confidence. Often contagion is transmitted through the intricate links among banks and other institutions in the global economy.

economic liberalization: a term describing the reduction or elimination of government restrictions and regulations on the economy, including via privatization.

foreign direct investment (FDI): an investment in an enterprise in one country made by a party from another.

Great Recession: the U.S. economic downturn that began in 2008 as a banking crisis, triggered by the bankruptcy declaration of Wall Street investment house Lehman Brothers. It was so named because its origin and severity seemed to echo the Great Depression that followed the 1929 stock market crash.

gross domestic product (GDP): a measure of a country's economic output determined by the value of goods and services it produces in a given year.

International Monetary Fund (IMF): a multilateral financial institution established in 1944 that exists to foster stability and growth in the international monetary system, in part by observing countries' monetary and currency exchange policies and providing them with technical assistance. As the global economic crisis firefighter, the IMF offers loans to struggling countries, usually conditional on the adoption of certain policies to manage their economies and return them to sustainable growth.

North American Free Trade Agreement (NAFTA): an agreement, entered into force in 1994, that eliminated or reduced most tariffs between Canada, Mexico, and the United States. As a result, trade in goods and services increased substantially: Americans consume twice as much fruit and three times as many vegetables from Mexico and Canada as they did pre-NAFTA. While most economic analyses indicate that NAFTA was beneficial for the United States, it has not affected everyone equally and its consequences remain controversial.

referendum: a vote, typically organized by a government, in which participants approve or reject a certain policy proposal. This is a form of direct democracy, in which citizens themselves (as opposed to elected representatives) make a policy decision.

sovereignty: supreme or absolute authority over a territory.

supply chain: a network—consisting of individual producers, companies, transportation, information, and more—that extracts a raw material, transforms it into a finished product, and delivers it to a consumer.

swap lines: a mechanism designed to increase liquidity—that is, ensure the availability of adequate cash—by temporarily enabling the exchange of currency between central banks in different countries. The U.S. Federal Reserve has established swap lines with various countries, and during the global financial crisis it provided the European Central Bank (ECB) with hundreds of billions of U.S. dollars, enabling the ECB to lend to commercial banks in Europe. In 2013, these two and other central banks arranged for the creation of permanent dollar swap lines.

tariff: a tax on goods arriving from a foreign country, generally used as a tool of trade and foreign policy to penalize adversaries or favor allies or domestic producers.

World Bank: a multilateral financial institution created in 1944 that funds long-term economic development of low- and middle-income countries through loans and grants for policy reforms and for projects in infrastructure, health, education, governance, and other areas.

World Trade Organization (WTO): an international institution created in 1995 that focuses entirely on trade. A replacement for the 1947 General Agreement on Tariffs and Trade (GATT), the WTO manages the rules of international trade and attempts to ensure fair and equitable treatment for its 164 members. It does this by conducting negotiations, lowering trade barriers, and settling disputes.