Edexcel (B) Economics A-level

Theme 2: The Wider Economic Environment

2.4 Life in a Global Economy

2.4.1 Globalisation

Notes

Characteristics of globalisation:

Globalisation is the ever increasing integration of the world's local, regional and national economies into a single, international market.

It involves the free trade of goods and services, the free movement of capital and labour and the free interchange of technology and intellectual capital.

With the spread of globalisation came more trade between nations and more transfers of capital including FDI (foreign direct investment). Moreover, brands developed globally and labour has been divided between several countries. There is more migration and more countries participate in global trade, such as China and India, as well as higher levels of investment. Additionally, countries have become more **interdependent,** so the performance of their own country depends on the performance of other countries. This could be seen in 2008 and 2009, when the effects of the global credit crunch spread across the globe.

Factors contributing to globalisation in the last 50 years

Trade in goods:

- Developing countries have acquired the capital and knowledge to manufacture goods. The efficient forms of transport make it easier and cheaper to transfer goods across international borders. Some developing countries have the cost advantage of cheaper labour, so MNCs move their production abroad. This causes developed countries to trade with these developing countries, so they can access the same manufactured goods.

Trade in services:

- For example, the trade of tourism, call centre services, and software production (particularly from India) has increased from developing countries to developed countries.

Trade liberalisation:

- The growing strength and influence of organisations such as the World Trade Organisation (WTO), which advocates free trade, has contributed to the decline in trade barriers.

Multinational Corporations (MNCs):

- MNCs are organisations which own or control the production of goods and services in multiple countries. They have used marketing to become global, and by growing, they have been able to take advantage of economies of scale, such as risk-bearing economies of scale. The spread of technological knowledge and economies of scale has resulted in lower costs of production.

International financial flows:

- For example, the flow of capital and FDI across international borders has increased. China and Malaysia have financed their growth with capital flows. Also, the foreign ownership of firms has increased. There has been more investment in factories abroad.
- The removal of capital controls has facilitated this increase.

Communications and IT:

- The spread of IT has resulted in it becoming easier and cheaper to communicate, which has led to the world being more interconnected. There are better transport links and the transfer of information has been made easier. This is sometimes referred to as the 'death of distance'.

Containerisation:

- This has resulted in it becoming cheaper to ship goods across the world. This causes prices to fall, which helps make the market more competitive. Containerisation means that goods are distributed in standard sized containers, so it is easier to load and cheaper to distribute using rail and sea transport. This helps to meet world demand. Cargo can be moved twenty times as fast as before, economies of scale can be exploited and less labour is required.
- However, it is mainly MNCs which have been able to exploit this, and it could result in some structural unemployment.
- This video provides a good background to containerisation https://www.youtube.com/watch?v=Gn7IoT_WSRA

Impact of emerging economies:

- The collapse of communism has meant that more countries, especially developing countries, are participating in world trade.
- International trade is arguably more important for developing countries than developed countries. It contributes towards 20% of LDC economies compared to 8% of the US economy.
- Between 1995 and 2005, India's share of textiles and clothing fell from 35% in 1995 to 16% in 2005. Instead, India's manufacturing sector seems to produce more engineered goods than clothing and textiles. This has resulted in UK manufacturers selling fewer manufactured goods abroad.
- China and India are important for African infrastructure. They have invested in their infrastructure in exchange for natural resources.
- Both China's and India's share in agriculture, mining and fuel has declined. Both countries are important in the Euro area, with trade and financial relations. China is a main import source, whilst both are important for capital.