Edexcel (A) Economics A-level

Theme 4: A Global Perspective

4.1 International Economics

4.1.1 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

Impacts of globalisation and global companies on:

Individual countries

There could be trade imbalances between countries. For example, the US runs a large current account deficit with China, who has a large current account surplus.

There could be imbalances and inequalities in consumers' and countries' accesses to health, education and markets.

Within individual countries, there could be income and wealth inequalities if the benefits and costs of globalisation are not evenly spread. This is evident in China, where the population in the rural and urban areas have vastly different levels of income and living standards.

Culture could spread across the globe. Some might say this has weakened culture and that there has been a loss of cultural diversity due to global brands. However, others will argue that the spread of culture has been positive and helped to improve their quality of life.

Governments

Some governments might lose their sovereignty due to the increase in international treaties. Individual states would find it hard to resist the force of them, and if countries become members of organisations, they will have to abide by their rules.

Producers and consumers

Consumers and producers can earn the benefits of specialisation and economies of scale as firms become larger.

Firms operate in a more competitive environment, which encourages them to lower their average costs and become more efficient.

Producers can also make their average costs lower by switching production to places with cheaper labour. The spread of technology has resulted in firms being able to employ the most advanced machines and production methods.

Globalisation leads to a general increase in world GDP, which increases consumer living standards and helps lift people out of absolute poverty. However, it is hard to calculate the proportion of growth which was due to globalisation.

This rise in average consumer incomes could offset some of the lower costs of production for firms. This is especially due to increased demand from China, which has contributed to the increase in price of commodities, and therefore pushed up the price of raw materials.

Some consumers gain more from globalisation than others. Globally, there are fewer people in extreme poverty, but this has not been the case in Sub-Saharan Africa. There could be increased inequality. Oxfam research in 2015 suggested that 1% of the world own more than the rest of the world (more information here http://www.bbc.co.uk/news/business-30875633).

Consumers could take advantage of a wider range of goods and services because of the increased availability of goods and services. However, some services might become homogenised, such as hotels.

Workers

Workers can take advantage of job opportunities across the globe, rather than just in their home country.

However, there could be structural unemployment. For example, in the UK after the collapse of the ship building and mining industries, there was a lot of structural unemployment. This is because it was more efficient for manufacturing to occur abroad, so production shifted to lower labour cost nations.

However, it could be argued that countries would have had the change from agriculture to manufacturing to services anyway, and globalisation simply sped it up.

When production shifts to lower labour cost countries, the creation of jobs could be seen as either beneficial or harmful. On one hand, MNCs could be exploiting their labour and providing poor working conditions in, for example, sweatshops. On the other hand, working in a sweatshop might provide a higher, more stable income than any alternatives, such as agriculture.

The environment

Although industrialisation and increased consumer living standards might lead to more pollution through increased production and increased car use, consumers might show more concern towards the environment as their average incomes increase.

Some of the negative impacts on the environment could include deforestation, water scarcity and land degradation.