4.1.1 Globalisation

a) Characteristics of globalisation
b) Factors contributing to globalisation in the last 50 years
c) Impacts of globalization and global companies on individual countries, governments, producers and consumers, workers and the environment

- Globalisation: the increased integration between countries economically, socially and culturally
- The pace of globalisation has significantly increased in the last 50 years except for the period following the financial crisis of 2008
- Key characteristics of globalisation:
    - Increased trade as a proportion of GDP
    - Increased foreign direct investment (FDI)
    - Increased capital flows between countries which has increased as cross-border acquisitions and mergers of companies have grown in different countries
    - Increased movement of people between countries
    - The availability of technology on a global scale
    - International bodies tend to lead a coverage of political decisions
    - Rise of global brands
    - Deeper specialisation of labour
    - New trade and investment routes
- Foreign direct investment: a country in one country establishes operations in another country or when it acquires physical assets or a stake in an overseas company
- Capital flows: money moving between countries as a consequence of investment flows into and out of countries around the world
- Causes of globalisation:
    - A decrease in transport costs- containerization resulted in economies of scale and falling long-run average costs
    - A decrease in the cost of communications
    - Trade liberalization- a reduction in world trade barriers
    - The opening up of China and the collapse of communism in Eastern Europe
    - The growth of trading blocs
    - The increased importance of global companies or transnational companies (TNCs)- offshoring
    - The WTO has brought in global product an increase in global product standards which increases consumer confidence
- Factors which attract TNCs to invest in a country:
    - The availability of cheap labour and raw materials
    - Good transport links
    - Access to different markets
    - Pro-foreign investment government policies
- TNCs may decide to divide their operations and locate each part in the country with the lowest costs
- Offshoring: companies transferring manufacturing to a different country
- Impacts of globalisation:

- On individual countries:
  - Countries can specialise in goods in which they have a comparative advantage. This results in higher output and increased living standards.
  - Countries without a comparative advantage may come to rely on imports, which may deteriorate its current account of the balance of payments
  - Increased inequality as demand for unskilled labour has decreased in developed countries
  - The risk of contagion is increased
- On governments:
  - Tax revenues will increase due to increased economic growth
  - Some TNCs may engage in tax avoidance referred to as transfer pricing
  - Reduction of sovereignty from international treaties
- On producers:
  - Firms will be producing on a larger scale so will benefit from economies of scale and higher profits
  - Technology transfer is likely to occur
  - TNCs are likely to introduce modern managerial techniques designed to increase productivity increasing productivity
  - Local producers who are uncompetitive may be forced out of business
- On consumers:
  - Lower prices (increased consumer surplus) due to increased competition
  - Greater choice
  - Some goods and services may become homogenised
- On the environment:
  - Increased external costs as increased trade leads to increased pollution
  - FDI by countries in search of raw materials may result in exploitation and depletion of resources
- On workers:
  - Increased employment opportunities- migration
  - TNCs may exploit workers in developing countries by paying low wages for working longer hours

- Transfer pricing: the price that has been charged by one part of a company for products and services it provides in another part of the same company. It allows TNCs to declare profits in countries were corporation tax is lowest
- Positive effects of TNCs:
  - The create new jobs and brings new skills to an economy
  - They can benefit from economies of scale, making firms more efficient
- Negatives effects of TNCs:
  - They may exploit workers
  - They can force local firms out of business
  - They can relocate rapidly causing mass unemployment
  - They can avoid tax
  - They can use their economic power to reduce choice and increase prices

  - They can influence government policy which may be detrimental to local people
  - Governments may be forced to reduce corporate tax levels
- Consequences of globalisation for developing countries:
  - Health and safety laws are less strict in developing countries
  - TNCs may exploit workers by offering them low wages
  - Skilled workers often leave developing countries which reduces the potential for economic growth
  - Globalisation creates jobs reducing unemployment
  - TNCs often bring more efficient production techniques
  - There's an increase in investment in their economies
- Consequences of globalisation for developed countries:
  - Cheaper overseas production can cause structural unemployment
  - Increased imports has a negative effect on a country's balance of payments
  - Gives developing countries greater access to cheaper raw materials
  - TNCs gain access to cheap labour, which lowers production costs and lower prices for consumers

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