Chapter 21

Characteristics and causes of globalisation

Key terms

1. Globalisation: from an eonomic perspective, the ever-increasing integration of the world’s local, regional and national economies into a single international market.
2. Trade liberalisation: the move toward grater free trade through the removal of protectionist barriers between countries.
3. Trading bloc: a group of countries that have signed an agreement to reduce or eliminate tariffs, quotas and other protectionist barriers.
4. Transnational/ multinational company: a company with significant product operations in at least two countries.
5. Foreign direct investment(FDI): they flow of money between countries where one firm buys or sets up another firm in another country.

1. What is globalisation ?

- The increasing integration of the world's local, regional and national economies into single international market.
- The increasing economic interdependence between countries through international trades, FDI and migration.

2. Characteristics of globalisation

1) increasing in trade as a proportion of GDP.

- Developing countries have cost advantage from cheap labour cost.
- The rapid economic growth in emerging economies such as China, India has created manufacture goods and also services like tourism.
- There is a rise in the value of export as a proportion of GDP.

2) increasing in importance of transnational companies (TNCs) and foreign direct investment (FDI)

- Transnational (or multinational) companies; companies which operate in more than one countries
- TNCs have grown in number and size. e.g. Coca cola, McDonald's, snickers.
- Foreign Direct Investment (FDI); the flow of money between countries where one firm buys or sets up a firm in another country. e.g. investment, share, loan

3.) Increase in migration

- Reasons for migration; war, natural disaster, better standards of living, work
- Increasing migration is caused by lower transport cost.

3. The factors contributing to increased globalisation over the last 50 years

1) Trade liberalisation

- WTO (world trade organisation) bring about trade liberalisation.

2) Increased number and size of trading blocs.

- Trading bloc is a group of countries that have signed an agreement to reduce tariff quotas and other protectionism between themselves, called regional trade agreement.
- E.g. the European Union (EU), the North American Free Trade Agreement (NAFTA) the association of Asian Nations (ASEAN), and the Union of South American Nation (UNASUN)

3) Political change

- China opened the economy and moved from planned system to a more market-based economy. The economy opened up to foreign trade and investment.
- Manufacturing jobs shifted towards China because of its cheap labour.

4) Reduced cost of transportation and communication.

- Using planes and ships means firms have been able to gain from economies of scale.
- Developments in communications and information technologies, such as internets which reduced time needed for communication.

5) Increased significant of TNC

- MNCs can reduce cost of production by outsourcing to suppliers in developing countries.
- MNC can take advantages of economies of scale.

4. Foreign Direct Investment by transnational companies

4.1 Reasons for FDI

1. TNCs can get higher profits, higher market share
2. TNCs can set up its operation in countries with cheap labour costs, low corporate tax, low regulation costs, many skilled labour available.
3. TNCs can avoid trade barriers e.g. tariff.

Positive impact of FDI on recipient countries.

1. TNCs create jobs and generate economic growth in the recipient country.
2. TNCs give workers skills.
3. TNCs contribute Real GDP per capita and potential growth.
4. FDI leads to the transfer of technology.
5. TNCs create export revenue.
6. TNCs create products for consumers in host countries.
7. FDI brings money inflows into the financial account of the balance of payment.

Negative impact of FDI on recipient countries.

1. MNCs may create low-skilled jobs for local employees
2. Domestic firms may unable to compete with MNCs which may cause unemployment and business failure.
3. MNCs may avoid paying tax.
4. MNCs may cause resources depletion.
5. MNCs transferred their profit back to their home countries.