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Economics Unit 6- The UK Economy

Evaluate the impact of globalisation on consumers, workers, producers and the Government in the UK.

Globalisation refers to the world economy becoming increasingly integrated, becoming a single international market rather than many national markets. It has brought in diminishing national borders and the fusing of individual national markets. The fall of barriers as stimulated free movement of capital and paved the way for companies to set up different regional bases around the world.[1] When discussing globalisation, many people simply immediately discriminate against the developed countries, claiming they exploit the developing countries and keeping all the gains for themselves. Critics say the West's gain has been at the expense of developing countries. The already meagre share of the global income of the poorest people in the world has dropped from 2.3% to 1.4% in the last decade.
As always, it is much easier criticising than praising. What truly are the effects of globalisation in the context of the UK?

For consumers, globalisation is largely a good thing. Vigorous trade has enabled consumers to have more choice, being able to buy many overseas products. It has encouraged greater spending, rising living standards and growth in international travel. As multinational companies try to exploit economies of scale by producing in countries where labour costs are lower (usually in developing countries), these lower costs can be pushed onto prices, making goods cheaper. Yet, although globalisation calls for a single international market, it is inevitable that the big multi-corporations are the winners of the game. One would assume that the international market would encourage more competition since all the firms from all around the world would compete with others, but big multinationals, having the power, money and status, may take over smaller businesses all around the globe, increasing their market share. This in turn is a disadvantage for consumers- Macdonald's and other foreign brands dominate other regional markets, and as they eat out other competition they will reduce the choice available in the market. Gaining monopoly power, the companies may even start charging higher prices from consumers in order to gain more supernormal profit. UK seems to be alright as it is already dominated by certain firms, but due to this it makes overseas companies hard to enter the market since there are such high barriers to entry.

Globalisation's impact is probably the biggest on workers. Critics deem that those in the developing world are exploited. As multinationals move into LDCs to benefit from lower production costs, jobs are created but workers are paid little and given bad treatment. But even in the developed world, not everyone has been a winner. The freedoms granted by globalisation are leading to increased insecurity in the workplace. Ever since UK de-industrialised from the 60s onwards, manual workers are particularly under threat as companies shift their production lines overseas to low-wage economies. In the post-war period, manufacturing output reached almost 40% of output, stimulated by production of armaments in the Second World War. However in 1998, manufacturing only accounted for 19.7% of GDP, while services accounted for 69.8%. Changes in the structure of the economy mean changes in wage structure by occupation. Over the last thirty years UK has seen considerable changes in relative pay between different occupations. Waiters and waitresses saw now increase in real pay per week between 1981 and 1998. Nurses pay almost doubled, and solicitors increased by approximately two thirds. Non manual workers enjoyed higher wage increases than manual workers, and there is increasing wage inequality. The reason is due to the decline of primary and secondary industries and growth of service sector. Globalisation has encouraged this trend as the world economy is becoming increasingly finance-based and forces the service sector to expand. Also, the government weakened minimum wage legislation present in certain industries during the 1980s and abolished it in 1993. This means workers are not protected. Globalisation has also added pressures on poorly skilled low paid workers. There has been ever increasing trend for work requiring high labour low skill inputs to go into the developing world where wages are a fraction of what even low paid workers earn in the UK. In contrast, the long-term trend for UK manufacturing and services in areas, which are internationally traded, are for UK to specialise in producing ever more sophisticated technological products. This

[1] http://news.bbc.co.uk/2/hi/special_report/1999/02/99/e-cyclopedia/711906.stm

requires high skilled labour, therefore an increase in demand for workers who are better educated, trained and therefore better paid, putting low paid workers out of work. The changing trends towards a more technology-based century with the Internet thriving means there is higher demand for IT workers. Due to this the UK government may have to increase their government spending in order to provide training programmes for the increasing unemployed.

For UK producers, globalisation is good. They can now exploit cheaper resources for production and establish in places where labour is cheaper, such as in South East Asia. The expansion of the global market ultimately means a larger marketplace for producers, being able to sell to more consumers. China is the best example; with the huge population, it's opening up since the membership in the WTO means that UK producers can enter the market and sell to Chinese people. Here, UK producers can enjoy cheaper costs while China benefits from foreign investment.

Globalisation also means much more free trade, which is beneficial to the UK. UK exports as a percentage of GDP have more than doubled in the post war period. In 1950, exports were 14% of GDP but by 1998 this was 31.2%. Average annual growth of exports over the period of 1950-1998 was 4.4%, almost double the annual growth in GDP. The removal of barriers to trade such as tariffs and quotas and also opens up borders meaning it's much easier to trade goods and services. The EU (European Union) for example has almost become one country as it has one parliament and now a single currency. This is beneficial to not only the members of the EU but also around the world as this means a more stable currency and now a lot of the exchanging costs are eliminated. It will be easier for the UK businesses to set up in the EU and in other countries.

UK's competitiveness has been affected by overseas competition, not only from South East Asia but also everywhere else. Most evident is the motor industry in the UK. In the 60s and 70s, the UK motorcycle industry was destroyed due to Japanese competition. The British motor manufacturing industry became increasingly uncompetitve in the 70s but then revived in the late 80s and 90s, due to Japanese investment in UK motor manufacturing. The British coal industry has almost disappeared due to competition from imported coal and North Sea gas. Textiles have moved to developing countries. Therefore, UK now tries to maintain their international competitiveness through their financial services. Although there has been an increase in labour productivity, it has not improved UK's international competitiveness because other countries too have seen a rising productivity. UK lags behind Germany, France and USA in output per worker. There is low investment in UK and that also affects their competitiveness, as it is an expensive country. In low-tech manufacturing, UK faces competition from LDCs. The UK government has tried hard to encourage more investment into the economy so they can gain not only from the multiplier effect but also from taxed charged on these companies.

The UK government is affected in by globalisation in terms of in adjusting their policies. For the increasing unemployment, it means that more people will have to live on welfare benefits. The government has to charge higher income tax in order to raise more revenue for welfare benefits. This in turn affects consumers as they have less disposable income. Yet, since there is increasing free trade in the exchange of goods and services, visible and invisible exports have increased UK's capital in-flow. The government benefits from this. Yet what seems to happen now is that short-term capital flows move with alarming speed from one high return location to another. These sudden ruses either in or out of one market causes serious problems for the domestic banking system and the exchange rate, property prices and other asset values. The UK government must take care in trying to put pressure and control on this, by encouraging investors to stay and prevent such fast capital inflows and outflows from affecting the economy.

Globalisation is inevitable and affects everyone. Supporters have said that it has promoted information exchange and led to a greater understanding of other cultures. But protests against WTO's conference in Seattle last year prove that there is still opposition. Yet, one must realise that even the developed countries, the so-called 'super-powers' also suffer from the effects of globalisation, as seen in this illustration of the UK. Yet if the right policies are implemented and the country has a stable and civilised government, then they will reap more benefits that losses.