

GLOBALISATION ESSAY

a)

Globalisation involves the increased interdependence/reliance of countries. It is the increasing integration of the world economy into a single international market due to the dynamics of trade in goods and services and flows of capital and technology.

Globalisation implies that goods are being manufactured abroad and that there is more prominent international trade. This is shown through the rise in exports and imports. For example, UK exports as a percentage of gross domestic product have more than doubled in the post-war period.

Globalisation welcomes new technology and means that countries are less 'inward' looking.

In general, globalisation increases as time goes on and develops along with changing objectives and advances in technology. It is not a new phenomenon.

Especially during the last 25 years, more and more areas of the world economy have been brought into the competitive market.

Globalisation, on the whole offers huge scope to improve the efficient allocation of resources and derive the benefits of international trade. It is fuelled by trade, movement of factors of production, the increasing number of Multi-National Corporations and the new technology.

b)

There are four main factors that have contributed to globalisation in recent years.

Firstly, there is the freer movement of goods and services between countries. This is known as free trade and theoretically each country should concentrate in the production of those products in which it has absolute advantages, the greatest comparative advantages or the least comparative disadvantages.

Free trade is promoted internationally and regionally by a number of trading blocs and organisations like so called "world wide clubs" and "regional clubs". The most important and relevant one is probably the World Trade Organisation (WTO). The WTO has pushed along globalisation because it discusses trade issues, establishes agreed rules and takes appropriate measures when these rules have been broken. It has 130+ members and membership is conditional on the grounds that countries must follow trade policies of a broadly free trading nature.

The other main trading bloc is the EU. It has helped globalisation because it enjoys a single currency that further unites and integrates the current 15 members. The EU allows the liberty of inter-member movement with goods, services and labour alike.

Free trade has led to globalisation in recent years because countries can enjoy exports and imports of great quality and lower prices. Globalisation is also about improving current economic situations, and if consumers are satisfied then they tend to spend more, hence generating a larger amount of money in the economy which in turn inspires even more globalisation.

Another factor which has led to the process of increased globalisation is the freer movement of the factors of production, i.e.: land, labour, capital, enterprise. If we first consider the physical capital like tools, infrastructure and raw materials; in the past it was more convenient for a country to just make use of its own resources. It was either extremely expensive or not allowed for these to move about. But since deregulation, freer movement of factors of production exists.

Deregulation is basically when the government removes rules and in effect removes barriers to entry, for example perhaps abolishing a tariff on certain imports.

In terms of money capital, in the past there was the issue of exchange control, whereby there was a maximum on the amount of a currency you could carry about. This too has been deregulated, and this along with the decrease in bureaucracy and removal of 'red tape' has enabled foreign investment to occur, spurring on globalisation.

This freer movement of factors of production, which includes capital and labour mobility has led to globalisation as different countries' resources have become open to the world market. The United Arab Emirates, for example, exports a large amount of aluminium and generates a massive sum of money from this. However, to do this it has to obtain bauxite (the raw material) and this is possible because of the freer movement of factors of production.

The 3rd factor is the freer movement of firms; more specifically globalisation has been led by the growth of Multi-national Corporations (MNCs). They are such an integral part of globalisation that the sales of MNCs such as General Motors and Ford exceed the entire gross domestic product of many countries.

A Multi-national corporation is a company that has significant production operations in at least two countries, e.g. Starbucks or Sony. These large firms exist because of economies of scale, marketing, and lots of political power.

MNCs help globalisation because without them there would be far less trade and innovation. MNCs have increased the amount of world output significantly and this has improved living standards throughout. MNCs create new jobs in other countries, giving rise to opportunity for the country they are operating in, and generating money for their own country.

Multi-national corporations and globalisation is inevitably leading to a shifting in production from the First World to the Third World, where labour is cheaper. This is an example of globalisation as countries become more interdependent on each other.

Finally, the last main factor that has contributed to globalisation is the prominence of advancing technology. This includes communication, the Internet, computers, etc.

Technology is tied in with the other factors that have led to globalisation. The dramatic improvement in communications during the second half of the twentieth century has especially helped globalisation and MNCs. Falling airfares, the Internet, the fax machine, digitalisation and computers especially have meant that the movement of people and the transmission of information and ideas is easier and more cost-effective than ever before. Technology has reaped massive economies of scale and efficiency benefits for firms today, particularly as we live in an era where many things are computerised.

Technology has made it more convenient to manage large firms and permit the movement of factors of production and free trade. The significant reductions in constraints on the international movement of goods and capital emphasise the attitudes of people today evolving towards a more liberal outlook, and this in itself mirrors globalisation.

C)

Globalisation has indeed introduced free trade, and along with that arises the benefits of international trade for the UK economy. British consumers gain from a large variety of foreign goods and will be able to exert consumer sovereignty because countries specialise in what they have absolute or comparative advantages in and export these goods for the world to consume. For example, without globalisation and free trade, the UK would not have the surfeit of foods and delicacies that it enjoys.

Another consequence of globalisation is that there has been increased competition domestically and internationally. Increased competition forces domestic UK firms to be efficient if they want to retain profitability and as part of competitive practices prices are lowered to consumers and quality is improved. Because of this consumption may well rise, leading to a boost in aggregate demand and economic growth, as shown below. Another factor contributing to higher AD would be exports as well.

Globalisation and technology has also given UK firms the power to exploit economies of scale and to gain x-efficiency through computers, the Internet, etc. With reference to the airline industry, the low budget airlines enjoy massive efficiency and economies of scale as they have minimal administration costs due to flights being arranged via the Internet, and communication costs have fallen dramatically in real terms.

Again, due to successful firms within the UK, more money is generated and through the multiplier factor (which states that an increase in autonomous expenditure will lead to an even greater increase in national income), this will feed in to increase consumption and hence aggregate demand and economic growth.

Another advantageous implication of globalisation for the UK economy is that foreign investment into the UK will increase due to freer movement of money capital. Aggregate Supply and aggregate demand will increase, leading to an uncertain outcome with inflation and an unambiguous increase in economic growth as shown on the next page.

UK trans-national companies will seek to establish a global trading platform in markets where they have a significant position, which is what MNCs do, and through this they generate not only profit for their home country, but create many jobs and opportunities for the foreign country they are operating in, reducing poverty and arguably narrowing the income distribution gap between rich and poor.

Finally, the last major advantage of globalisation is that it, and the advancing factors that propel it, will act as a long run supply side policy. This means that aggregate supply will shift to the right over the forthcoming years as the economy expands and increases in productive and allocative efficiency. In the long run, inflation will fall and economic growth will increase to the benefit of both parties of consumers and firms.

However, a disadvantage of globalisation is that the UK is dependant on imports, especially as it is a net importer. For example, it is more than a nuisance if OPEC restricts supply or push up prices.

Also, globalisation could mean the loss of domestic jobs and higher unemployment, which is why President Bush earlier this year imposed a tariff on steel. He did this to protect the interests of the US steel industry, although it was met with retaliation. Hence it can be said that globalisation is beneficial only when everyone is willing to participate in it and cope with it. Protectionism can often get in the way, but then again protectionism is to 'protect' the country.

Seeing as the UK is more dependent on imports than exports, globalisation can add to its balance of payments deficit, which hit 33 billion pounds in 2001. Of course, it depends however on the elasticity of demand for both exports and imports.

Finally, globalisation is generally seen as a positive thing as advantages exceed disadvantages, but it is occurring at such a rapid rate these days that it is hard to have perfect information and deal with the consequences. Along with globalisation comes responsibility.

