GLOBALISATION

Globalisation is the growing interconnection of the world's economies leading to the creation of a single inter-connected and interdependent global market/ economy in the whole world. It's the rapid increase in international trade. The pace of globalisation has exploded in the past 35 years. *Key features of globalisation:*

- Goods & services are traded freely across international borders. There are no government laws that prevent firms from selling goods in overseas markets.
- People are free to live and work in any country they choose. This has resulted in more and increasingly multicultural societies in which people from many different nations live and work in the same city, for example.
- There is a high level of interdependence between nations. This means that events in one economy are likely to affect other economies.
- Capital can flow between different countries - a firm or consumer can put their money in a foreign bank, or an investor can buy shares in foreign companies.
- There is a free exchange of technology and intellectual property across borders - a patent is usually recognised in more countries than the one it is granted.

Interdependence: where the actions of one country or large firm will have a direct effect on others.

Reasons for Globalisation

- One of the reasons for globalisation is the growth of large multi-national companies that dominate some markets. These firms benefit greatly from having access to international markets and producing goods in countries where costs would be considerably lower. A possible reason why many businesses want to sell abroad is because domestic markets are saturated.

*Multi-national companies (MNCs): companies that operate in many different countries.

*Saturated: market in which there is more of a product for sale than people want to buy

*Offshoring: practice of getting work done in another country in order to save money.

- Improvements in communication and modern computing allows companies to transfer complex and large amounts of data instantly to all around the world and for people to have the option of working from home and to have meetings with people in the other side of the world. The internet allows people to be able to buy goods online from firms in different parts of the world. All of this has allowed companies to spread across the globe with products designed, produced and sold in a number of different countries.
- Reduced costs of transport has also had a big impact in the growth of globalisation. Nowadays goods are transported more cheaply, and people can travel to business meetings more easily mostly as a result of the fall in the cost and the increase in the number of flights.
- Reductions in trade barriers is yet another significant reason. An increasing number of economies are more open, many countries have stopped protecting domestic industries and they have simplified their monetary and legal systems to make international trading easier. Nevertheless, many countries still use tariffs

and quotas to protect domestic industries by restricting imports from entering the country, which limits the development of foreign businesses when they try to sell their goods overseas. One way to avoid this is to set up production facilities in countries that use trade restrictions, which explains why large companies are choosing to move their operations to other countries.

- Finally, an increase in tourism has also helped globalisation to advance as nowadays people are more willing to try goods and services produced in different countries. Many see globalisation as positive leading to increased economic growth in developed countries and improved living standards. However there are opponents to globalisation who believe developing countries are being take advantage of with workers receiving low pay and poor working conditions.

<u>Impact of Globalisation & Global Economies</u>

Individual Countries

- The impact of globalisation on individual countries depends on whether a country is the base for a global company or whether a global company selects a country as a site for a new factory, for example.
- The countries where multinationals are based will benefit from globalisation. Most multinationals are based in developed countries and the gains generated from business development overseas, such as growth, will contribute to an increase in the wealth of that country.
- The countries that provide sites for global companies generally benefit from globalisation. It should result in higher levels of GDP. The extra output and employment resulting from new business development will increase economic growth and should raise living standards for people in these countries. The output generated by a multinational in a foreign country is recorded as output for the host country. Therefore, if this output is sold out of the host country, it is counted as an export. This helps countries to increase their foreign currency reserves and improves their current balance. Globalisation often means that new technologies and modern working practises are introduced into developing countries. For example, multinationals often provide technical assistance, training and other information to their suppliers located in the host country. Many multinationals also assist local suppliers in purchasing resources and in modernising production facilities.
- Finally, increasing globalisation means that economic events in one country can have an impact on many other countries. For example, a financial crisis in one country can affect other countries because capital now flows easily between most nations.

Governments

The profits made by global companies are taxed by the host nation. This increases tax revenue for the government. This money can be spent to improve government services or lower taxes. Some argue that globalisation has resulted in more people setting up businesses. The arrival of global companies may have provided the encouragement and the skills required to develop new businesses. For example, a new multinational may encourage locals to supply commercial services such as transport, accommodation, restaurants, property maintenance, cleaning and leisure activities. This will help to support government economic policy in the provision of employment. Finally, globalisation can only advance if governments are committed to it. For example:

- countries cannot trade if the government keeps international borders closed
- international trade will be very limited if governments use protectionism
- people cannot be free to live and work overseas unless borders are kept open
- firms cannot develop overseas if planning permission is denied.

Governments can aid globalisation by relaxing the laws and regulations to prevent, restrict or complicate trade them business.

Producers

Many would argue that the main winners from globalisation are the global companies that develop business interests overseas. Some specific benefits include the following.

- **Access to huge markets:** Global markets are much bigger than domestic markets. If a business has access to billions rather than millions of customers this provides huge opportunities to increase sales. This should result in higher sales revenue and increase profits for businesses.
- **Lower costs:** If businesses are able to grow by selling more output to larger markets, they may be able to lower the costs. This is because as firms grow they can exploit economies of scale. These are the cost reductions that firms enjoy as they grow.
- **Access to labour:** One of the benefits of globalisation is the free movement of labour. This means that people are free to move around the world and find employment in other countries (subject to border controls that still exist in some countries). As a result, businesses will have access to a larger pool of labour. This is important because if a business is growing fast, there may be a shortage of domestic labour. Globalisation means that workers from overseas can help to boost the labour supply. Also, a rising labour supply might help to prevent wages from rising. It is often said that the arrival of large numbers of foreign workers holds wages down - particularly in markets where unskilled labour is needed. Lower wages will help businesses to lower their costs.
- **Reduced taxation:** Global businesses can reduce the amount of tax they pay. They can do this by locating their head office in a country where business taxes are low.

Consumers

If a multinational can produce goods more cheaply in foreign factories, prices are likely to be lower. Globalisation has also resulted in a much wider range of goods and services for consumers, particularly in developed countries. For example, improved and cheaper transport communications have opened up huge numbers of new destinations for tourists. Another example is the cuisine available in restaurants today. Generally, globalisation has improved the living standards of billions of people worldwide.

Workers

- Globalisation creates new jobs, particularly in developing countries when multinationals open new factories. However, local suppliers might also benefit if

they get contracts with a new business venture set up by a multinational in their region.
- Greater freedom of movement has allowed workers from less developed nations to look for jobs in developed countries. For example, the UK has benefited from large numbers of Eastern Europeans seeking work. They are often prepared to work for the minimum wage and have proved to be reliable and hard working. Also, when economic growth is fast, they helped to reduce labour shortages in some areas. Workers in less developed countries often learn new skills as a result of training and on-the-job learning given when employed by multinationals. Also, governments in less developed countries often spend more on education and training to help attract foreign investment.
- However, some workers lose out as a result of globalisation. This is because global companies will tend to locate operations were labour costs are low. This has resulted in a trend called offshoring. Offshoring means that some companies shift production from factories in the west to alternative locations in the Far East, such as China, Vietnam and Bangladesh. This is because key resources like labour and land are cheaper. When this happens, workers in the original factories are made redundant.

The Environment

Many environmentalists oppose globalisation because global economic growth usually means more environmental damage. For example, as economies grow, more cars are purchased and more flights are taken. Both car and air transport increase greenhouse gases that cause global warming. Also, global economic growth will use up resources. Some of these resources such as oil, gas, gold and iron ore are non-renewable so once used cannot be replaced. Some global companies have been criticised in the past for the environmental damage they cause.