education
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MPUMALANGA PROVINCE

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ECONOMICS NOTES

TOPIC 13: GLOBALISATION

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TOPIC 13: GLOBALISATION

- **Description:** globalisation is the interaction among countries with trade as the focus.
- Globalisation involves technological, economic, political and cultural exchanges among countries.
- Globalisation allows movement of factors of production across countries, that is how firms can set up businesses in any countries in the world.
- Firms that operate business in many countries are called Multinational Enterprises, examples, Coca cola, Toyota etc.
- When foreign firms set up businesses in a country it is termed foreign direct investment. A Multinational firm directly invests in a country by producing goods in that country and therefore employing local people.

CAUSES OF GLOBALISATION

- Some of the factors that cause globalisation are:
- **Trade liberalisation/ removal of trade restrictions**
- Removal of trade barriers has increased the amount of trade among countries. This is unlike in the past when most countries were using protectionism strategy to benefit local firms.
- Because of trade agreements among countries, taxes on imports are greatly reduced, and this encouraged international trade.
- **Improvement in transportation**
- The building of large cargo ships (ships carrying loads of goods), has resulted in decrease of the cost of transport internationally.
- Firms are able to produce more and sell more across the world.
- Different and faster modes of transport such as airplanes, trains and road transport all contribute to the growth in international trade.
- **Improved communication system**
- Internet and mobile communication technology have made communication easier around the world.
- People are able to have virtual meetings even when they are in different countries.
- This make production and exchange of goods and services across the world.
- **Production and distribution systems**
- Technological improvements made it possible to create different machines that produce good quality products.
- Mass production is also possible because of these automated production processes.
- Mass production makes exportation of goods possible.
- Many manufacturers are using capital intensive production which produces standardised products and therefore more effective.

- **Capital liberalisation**

– Firms and individuals are free to move money from one country to another.
– This helps in cases where such capital is needed to start businesses, and eventually production and exchange of goods across the world.

- **Promotion of free trade**

– Organisations such as the World Trade Organisation (WTO) encourage globalisation by promoting free trade. This means it aims to have all trade barriers between countries removed.

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– **CONSEQUENCES OF GLOBALISATION (Possible essay)**
– Globalisation has both positive and negative consequences

POSITIVE CONSEQUENCES OF GLOBALISATION

Employment creation

– Because of globalisation, multinational enterprises make foreign direct investments in many countries around the world.
– This creates jobs as these firms employ local people to produce goods and services.
– Local workers acquire new skills as they are employed to produce new kind of products.

Increased competition

– Competition among producers increased as a result of globalisation.
– Domestic firms have to compete with foreign firms for market share, therefore the quality of products is often improved.
– Increased competition also results in lower prices paid by the consumers.

– **Increased economic growth**
– As producers sell their products internationally, they have to produce more goods and services. This means international trade lead to increase in production capacities of countries.
– Economic growth is measured by the increase in real Gross Domestic Product.

– **Sharing of ideas**
– Globalisation resulted in countries around the world sharing ideas, experiences and lifestyles.
– People can access products which include foods that were previously not available in their own countries.

- **NEGATIVE CONSEQUENCES OF GLOBALISATION**
- **Environmental damage**
- Due to mass production of goods that takes place due to globalisation, the environmental damage increases rapidly.
- More and more natural resources have to be used at a faster rate due to mass production.
- Pollution of air, water and land increases very fast.
- Air pollution leads to global warming and climate change.

Loss of cultural diversity

- People in different countries are exposed to different cultures through goods and services sold internationally, for example, the culture of dominant countries such as the USA is sold via products such as movies and music.
- Poor countries end up having their cultures replaced by the dominant cultures, as these countries often do not export products that promote their cultures.
- Globalisation may lead to the creation of global culture and loss of cultural diversity.

Countries over-dependence on one another

- Globalisation may lead to some countries specialising in production of few products and importing all other products that they need.
- This can cause problems in times of emergencies where international trade is not possible. Countries that do not produce majority of goods needed during emergency times often suffer during such times. Example, during the Covid -19 pandemic all countries were on lockdown so importing and exporting were not possible. Products such as medicine and basic products were important for every country.

Globalisation favours rich countries

- Developed countries have enough capital to produce variety of goods and services. Therefore, international trade is dominated by them.
- The Multinational Enterprises often originates from rich countries, and they send their profits back to their countries.
- At times, the local firms struggle to compete with these big firms and they end up closing down.
- Multinational Enterprises often move their production factories to countries where workers are paid very low wages e.g. South Asia region. The wages paid are too low to give such workers decent lives. Therefore, globalisation can lead to worker exploitation in developing countries.

Increased inequality

- The gap between the developed and the developing countries has increased due to globalisation.
- Firms from rich countries are willing to pay very low wages while they make high profits.
- These profits improves standard of living in these developed countries.

ABSOLUTE AND COMPARATIVE ADVANTAGE IN GLOBALISATION

- **Absolute advantage:** refers to the ability of a country to produce more of a particular product than other countries, while using the same amount of resources (as those countries).
- **Example of absolute advantage**
- Country A: 500 workers produce 2100 units of a product per day.
- Country B: 500 workers produce 1500 units of the same product per day.
- Country A has absolute advantage as it produces 600 more units than country B while both countries use the same number of workers. The assumption is that the costs of production are the same in both countries.
- Developed countries often have absolute advantage in production of goods that need specialised skills.

- **Comparative advantage**: refers to a country's ability to produce the same output as other countries at lower cost. This can happen if workers in such a country are paid lower wages, raw materials are in abundance and cheap. Developing countries often have comparative advantage because workers are often paid low wages.
- **Example of comparative advantage**
- Country A produces 3000 units of a particular product at a **total cost** of 50 000.
- Country B produce 3000 units of the same product at a total cost of 80 000
- Country B has a comparative advantage over Country A, because it can produce the same output at lower labour costs.
- Countries can sell more by producing and exporting goods that they can produce at comparatively lower costs.
- Comparative advantage lead to specialisation in production.

- **NORTH – SOUTH DIVIDE**
- Description: The North – South divide is the developmental gap between rich countries and poor countries.
- Developed countries/ rich countries are **most of them** situated in the Northern Hemisphere, therefore they are collectively nicknamed 'the North'.
- Developing countries/poor countries are **most of them** situated in the Southern Hemisphere, therefore they are collectively nicknamed 'the South'
- The differences in the level of development between the developed and developing countries is therefore, called the *North – South divide*.
- **Factors that serve as development indicators are:**
    - A country's economic growth
    - Employment level
    - Access to health care
    - level of poverty
    - education levels
    - Political stability

Factors contributing to the North –South divide

- **Capitalism**: capitalism is based on profit motive and individual accumulation of wealth.
- Capitalism favours developed countries who have capital to produce and sell more goods than developing countries.
- Developing countries end up playing a role of buyers of goods produced by these rich countries, and this makes the developmental gap to increase.
- **Subsidies in trade:** globalisation is the main cause of inequality between the rich and poor countries.
- Rich countries subsidises their producers, and this allow these producers to sell at lower price in international markets.
- Producers from developing countries fail to compete successfully because they have to charge higher prices.
- **International debt:** many developing countries often obtain loans from developed countries
- The rate of interest on these loans are often very high.
- Developing countries often experience depreciation of their currencies and this end up making their principal debts increasing.
- Instead of investing in their economies, developing countries spend most of their money on trying to reduce their ever- increasing debts.
- **Brain drain**
- Brain drain is when educated and skilled workers permanently move from a country.
- Because of globalisation, migration across the world keeps on increasing.
- Educated and skilled people from developing countries often move to developed countries for good employment opportunities.
- Brain drain results in developing countries losing best human resources who are needed to improve these economies.
- Developed countries benefit from brain drain as these skilled workers from developing countries contribute positively to their economies.
- This result in increased economic and social inequality between the rich and poor countries.