Globalisation, trade liberalisation and foreign investment.

Material for sections 1 and 2 of 3A Economics

This material is designed for use by teachers and students studying sections of Unit 3A Economics.

Course Description – Unit 3A

The focus for this unit is Australia and the global economy. It explores Australia's economic relationships with other economies and contemporary global economic events and issues of significance to Australia. Australia is a relatively open economy and, as such, is influenced by changes in the world economy. Globalisation has become an important force in world economics and students have the opportunity to examine its causes and effects. [See Parts 1 and 2 of material provided]

This unit will focus on the importance of foreign trade and foreign investment to the Australian economy. Topics such as the balance of payments, exchange rates and the terms of trade are examined as well as issues such as trade liberalisation and protection [See Parts 3 and 4]. This unit allows students to explore the facts, values and opinions that surround some of the complex international economic events and issues as well as policymaking options that face our society. [See Parts 5 and 6]

Unit content - Economic knowledge

The material is intended to promote understanding and knowledge of the following syllabus dot points.

Global markets

- Outline the linkages between economies e.g. trade, investment, tourism, immigration
- Describe the extent, patterns and trends in world trade
- Outline the factors that influence economic transactions between countries e.g. changes in domestic and overseas economic conditions, drought, the global business cycle, exchange rates
- Explain the concept of international competitiveness
- Outline the determinants of international competitiveness
- Explain the concepts of multinational businesses and globalisation
- Discuss the extent of globalisation
- Outline the factors facilitating globalisation
- Outline the effects of globalisation e.g. its impacts on economic growth, income, world poverty, ethical behaviour, national sovereignty, and the environment
- Evaluate the arguments for and against globalisation.

Free trade and protection

- Outline the significance of trade for the Australian economy
- Discuss the sources of comparative advantage
- Demonstrate and explain the gains from specialisation and trade using models such as demand and supply analysis or opportunity cost
- Identify different forms of protection
- Demonstrate and explain how the main types of protectionist policies operate e.g. tariffs, subsidies, quotas
- Outline the purposes of preferential trade agreements i.e. trade creation and diversion
- Evaluate the arguments for protection and trade liberalisation
- Outline the influence of trade agreements, organisations and blocs on world trade.

Australia and the global economy

- Explain the concept of foreign liabilities i.e. foreign investment and foreign debt
- Explain the relationship between the current account outcome and foreign liabilities
- Account for the extent of and recent trends in Australia's foreign investment and foreign debt
- Assess the benefits and costs of foreign investment and foreign debt.

Globalisation, trade liberalisation and foreign investment

The material is organised into six parts. You may not want to use all of the material, or you may wish to use it in a different order.

Part 1 – Introduction to globalisation

Focus questions
1. What is globalisation?
2. What does globalisation involve?
3. How has globalisation affected you?

Part 2 - The drivers of globalisation

Focus questions
1. How does globalisation allow business, governments and consumers to achieve their economic goals?
2. What are the main drivers of the current wave of globalisation?
3. How does a country's stage of development influence their view of the globalisation process?

Part 3 - Free markets and economic efficiency

Focus questions
1. What is meant by the term 'economic efficiency'?
2. What is the relationship between globalisation and economic efficiency?

Part 4 - The theory and practice of free trade

Focus questions
1. How does trade promote welfare?
2. Why do markets that are protected from international competition work inefficiently?
3. What are the dynamic gains experienced by an economy that is open to international competition?
4. How can the gains from trade liberalisation be shown using economic models?

Part 5 - Business and globalisation

Focus questions
1. Describe some of the many ways a business can become involved in cross-border or international economic activity.
2. Describe, with examples, the main reasons behind a businesses international activity.
3. What are the plus points and minus points for the host economy of foreign direct investment?

Part 6 - The World Trade Organisation, Trading Blocs and Protectionism

Focus questions
1. What is the role of the World Trade Organisation in promoting global free trade?
2. Why do countries set up free trade areas rather than wait for the World Trade Organisation to do its work?
3. What kind or forms of barriers are put in place to protect some sectors of country's economies?
4. Why do some special interest groups oppose free trade?
5. What are the counter arguments to those who support protectionism?

Part 5 – BUSINESS AND GLOBALISATION

Focus questions
1. Describe some of the many ways a business can become involved in cross-border or international economic activity.
2. Describe, with examples, the main reasons behind a businesses international activity.
3. What are the plus points and minus points for the host economy of foreign direct investment?

Relevant syllabus dot points
- Explain the concept of international competitiveness
- Outline the determinants of international competitiveness
- Explain the concepts of multinational businesses and globalisation
- Explain the concept of foreign liabilities i.e. foreign investment and foreign debt
- Account for the extent of and recent trends in Australia's foreign investment
- Assess the benefits and costs of foreign investment.

Significant concepts

Foreign direct investment Business understakes foreign direct investment (FDI) when it obtains 10% or more share in the ownership of a company. The objective of FDI is ownership, control and influence. It therefore requires a longer term commitment that shorter term portfolio investment.	**Multinational corporation** A multinational corporation (MNC) produces its product or products in more than one country. If the only involvement a business has with businesses in other economies is as an exporter or importer it is not a multinational corporation. But there are several degrees of commitment, ownership and control that make the definition of who is, and who is not a multinational corporation less clear cut.	**Race to the bottom** If a business wishes to reduce production costs it may look to organising production overseas in a relatively low cost economy. Costs may be low because of low wage rates, low employment standards and low environmental controls. In a competitive world businesses may compete with each other to find to lowest cost economy for their production.
Trickle down effect Multinational corporations inject income and spending into the economies in which they operate. This injection sets off a multiplier process within the economy, causing a ripple or domino effect on the incomes of more and more people in the economy. As a result increased incomes and a higher standard of living trickles down to many people. Some people suggest the trickle down effect is not strong and that multinational corporations take more out of economies than they put in.	**Branch office economy** Major decisions are taken at head office level rather than at branch level. If there are many subsidiaries of multinational coporations operating in an economy, some key decisions may be taken overseas that are against the interest of the host economy. There will also be an outflow of interest, dividends and profits, and perhaps a loss of high value-adding jobs. But an economy may still prefer to host a branch office rather than have no office at all.	**Corporate social responsibiity** It may not be in the long term economic interest of a multinational corporation to ruthlessly exploit the economic conditions in the host economy. There are ethical or moral reasons for behaving in a responsible manner, as well as sound economic reasons for do so as well. Many companies publish a set of values and practices which govern the way they operate in host economies.

1. Types of international activity for a business

The business sector can become involved in cross-border economic activity in many ways and can take a variety of directions. The table below indicates how a business can have involvement overseas with differing levels of commitment and involvement.

Exporter and importer	**Franchising**	**Produce under licence**	**Joint ventures or strategic alliance**	**Own and directly produce**
Finished or intermediate goods and services cross borders.	Sell business idea and marketing expertise overseas.	Licence an overseas producer to make your product.	Work with business in another country to produce product overseas	Buy a business or set up production in another country

2. Reasons for international business activity

The table below suggests that a business might go global for three main reasons, firstly as a strategy for reducing costs of production, secondly as a way of increasing the size of the market for their product and thirdly as a way of promoting shareholder value.

Cost strategy	**Market strategy**	**Shareholder value**
• Benefit from economies of scale (e.g. spread costs of brand development and research and development) • Benefit from access to cheap and plentiful natural resources • Benefit from low-cost labour • Gain production efficiency from technology and knowledge • Benefit from advances in transportation technology • Benefit from information and communications technology • Benefit from access to cheap capital	• Gain access to bigger target market • Exploit the fact that the stage of the product life cycle may be different in the other country • Benefit from growth opportunities, e.g. from rising incomes • Develop global brand recognition • Take advantage of convergence of lifestyles • Be closer to customers • Produce differentiated products to meet special needs of overseas customers • By-pass tariff barriers and other protectionism • Benefit from information and communications technology (marketing) • Gain specialised local knowledge, established local presence and expertise.	1. Increase profit – use of shareholder funds to maximise profits 2. Take advantage of tax incentives and government grants 3. Counter competitors intent on becoming global players 4. Take advantage of privatisation in previously state dominated economies / collapse of communism

3. Foreign Direct Investment

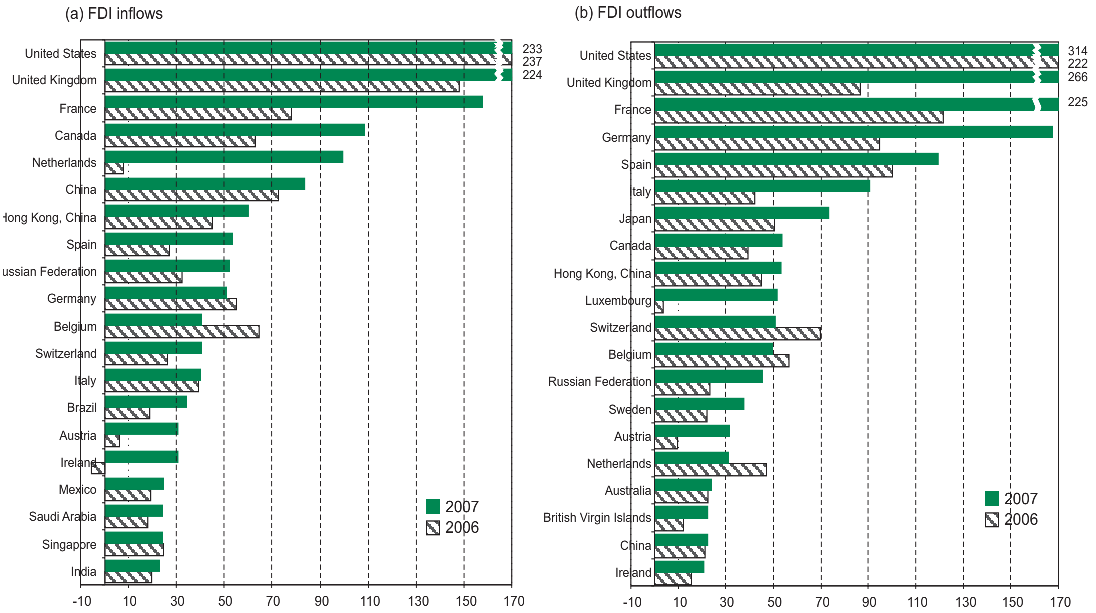
Foreign direct investment (FDI) involves long-term investment by private sector multinational corporations (MNC's) in countries overseas. FDI may involve MNC's undertaking 'greenfields investment', building new plants or expanding their existing facilities in foreign countries or merging or taking over ownership of existing firms in foreign countries. There may, currently, be over 70,000 MNC's operating internationally, with some 690,000 affiliates. The table below shows the largest 25 multinational companies ranked by foreign asset value.

The amount of Foreign Direct Investment taking place at any one time will depend on the business conditions that exist at that time. Global FDI flows increased during the 1990's when global growth was strong, fell back for a period between 2001 and 2004 when there was a slowdown in the global economic cycle, and rose again strongly until the shock of the 2008 financial crisis made global businesses reassess the situation.

Even though a rising share of FDI has gone to developing economies (21% in 1999, 36% in 2004) the majority of the investment takes place in developed countries. The US receives the most investment (about 15% of the total), China only about 10%, and the whole of Africa less than 5%.

Ranking by:						Assets		Sales	
Foreign assets	TNI [b]	II	Corporation	Home economy	Industry	Foreign	Total	Foreign	Total
1	71	54	General Electric	United States	Electrical & electronic equipment	442 278	697 239	74 285	163 391
2	14	68	British Petroleum Company Plc	United Kingdom	Petroleum expl./ref./distr.	170 326	217 601	215 879	270 602
3	87	93	Toyota Motor Corporation	Japan	Motor vehicles	164 627	273 853	78 529	205 918
4	34	79	Royal Dutch/Shell Group	United Kingdom, Netherlands	Petroleum expl./ref./distr.	161 122	235 276	182 538	318 845
5	40	35	Exxonmobil Corporation	United States	Petroleum expl./ref./distr.	154 993	219 015	252 680	365 467
6	78	64	Ford Motor Company	United States	Motor vehicles	131 062	278 554	78 968	160 123
7	7	99	Vodafone Group Plc	United Kingdom	Telecommunications	126 190	144 366	32 641	39 021
8	26	51	Total	France	Petroleum expl./ref./distr.	120 645	138 579	146 672	192 952
9	96	36	Electricite De France	France	Electricity, gas and water	111 916	235 857	33 879	73 933
10	92	18	Wal-Mart Stores	United States	Retail	110 199	151 193	77 116	344 992
11	37	34	Telefonica SA	Spain	Telecommunications	101 891	143 530	41 093	66 367
12	77	88	E.On	Germany	Electricity, gas and water	94 304	167 565	32 154	85 007
13	86	82	Deutsche Telekom AG	Germany	Telecommunications	93 488	171 421	36 240	76 963
14	58	65	Volkswagen Group	Germany	Motor vehicles	91 823	179 906	95 761	131 571
15	73	57	France Telecom	France	Telecommunications	90 871	135 876	30 448	64 863
16	90	63	ConocoPhillips	United States	Petroleum expl./ref./distr.	89 528	164 781	55 781	183 650
17	56	89	Chevron Corporation	United States	Petroleum expl./ref./distr.	85 735	132 628	111 608	204 892
18	11	75	Honda Motor Co Ltd	Japan	Motor vehicles	76 264	101 190	77 605	95 333
19	36	62	Suez	France	Electricity, gas and water	75 151	96 714	42 002	55 563
20	45	48	Siemens AG	Germany	Electrical & electronic equipment	74 585	119 812	74 858	109 553
21	10	11	Hutchison Whampoa Limited	Hong Kong, China	Diversified	70 679	87 146	28 619	34 428
22	84	85	RWE Group	Germany	Electricity, gas and water	68 202	123 080	22 142	55 521
23	9	7	Nestlé SA	Switzerland	Food & beverages	66 677	83 426	57 234	78 528
24	62	38	BMW AG	Germany	Motor vehicles	66 053	104 118	48 172	61 472
25	51	33	Procter & Gamble	United States	Diversified	64 487	138 014	44 530	76 476

Figure 1. Global FDI flows, top 20 economies, 2006, 2007[a]
(Billions of dollars)



Source: UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge*, annex table B.1 and based on FDI/TNC database (www.unctad.org/fdistatistics).
Ranked by the magnitude of 2007 FDI flows.

Generally countries welcome foreign direct investment and many governments work actively to encourage more foreign direct investment in their economies. The can be some downsides as well. The table below outlines some of the plus points and minus points for governments of foreign direct investment.

Plus points from FDI	Minus points from FDI
• Helps close a 'savings gap' in resource rich but capital starved economies. Provides a source of finance. • Creates employment, education and training opportunities • Brings research, development and business knowledge into an economy • Brings new technology into an economy • Provides companies with marketing expertise • Creates multiplier effects, and hence promotes employment in other areas of the economy • Generates tax revenue for the host government, which can be used for the development of infrastructure and public services such as health and education.	• MNC's bring in their own management teams, denying employment opportunities at this level to local people • Creates a 'branch office economy' where key decisions are taken by people without an understanding of the local situation • MNC's may have sufficient influence over governments to get tax concessions and subsidies from the host government • MNC's may undertake transfer pricing to take advantage of different tax rates in different countries in which they operate • They may participate in a 'race to bottom' by taking their production to countries where environmental controls are low • They may exploit weak labour laws • They may strip the host country of resources • They may not undertake value-adding or downstream processing so few economic benefits pass to local people (there is little 'trickle down' effect) • Interest, dividends and profits leave the host country causing problems on their balance of payments current account • Some of the technology introduced may be inappropriate – ignoring opportunities to employ low cost labour • MNC's may contribute to government corruption

Activities

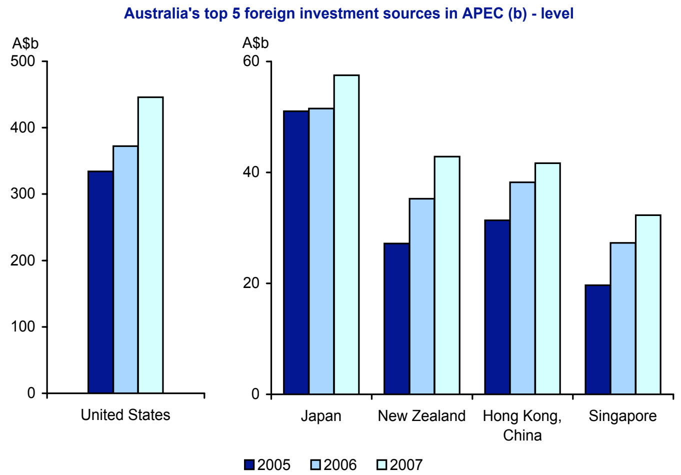
1. Many Multinational Corporations have developed a 'Corporate Social Responsibility (CSR) policy to counter some of the criticism against the way MNC's operate.

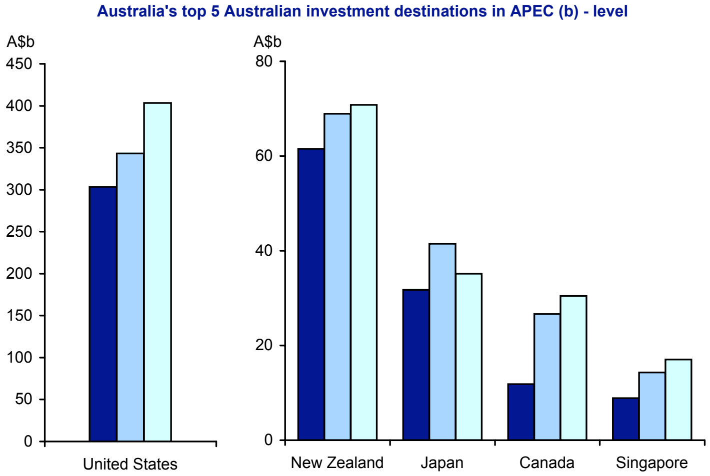
   a) What areas might be covered by a CSR policy?
   b) What might an international company want to say about
      i. human rights
      ii. Employee rights
      iii. Environmental protection
      iv. Sustainable development
      v. Community involvement

2. Why might multinational corporations be attracted to developing countries? You might want to consider
   a. Access to raw materials, such as oil and minerals
   b. Big populations (Brazil, India and China)
   c. Low labour costs and lax labour laws
   d. Less stringent environmental regulations
   e. Tax concessions

3. Suppose a Chinese steel maker make a bid to take over a major resource company in Western Australia. Make a list of points that the Foreign Investment Review Board (FIRB) might wish to consider before it gives the go-ahead to the deal.

4. Look at the charts below. Who are Australia's main sources of and destinations for foreign investment in the Asia-Pacific region? Suggest three reasons for this pattern.





5. Use the Foreign Investment Review Board website (www.firb.gov.au) to help you research answers to the following questions.

Part 1
a) What does the FIRB do?
b) Which aspect of globalisation does it deal with?
c) Does it have any power?

Part 2
Look at latest report and summary of investment proposals
a) How many applications did it consider?
b) How many of these were approved and how many rejected?
c) How does this compare with previous years?
d) Outline three reasons for any changes observed in c) above

Part 3
a) How many of these proposals were for FDI in Australia of over $100m.
b) What percentage were these $100m plus proposals of the total $90b proposal FDI in Australia?
c) What are the three biggest sources by country of these FDI proposals?
d) Make three interesting and valid observations based on the information you have found for this section.

Part 4
Find the OECD Guidelines for Multinational Enterprises
a) Why are these guidelines necessary?
b) Pick any three of items from these guidelines and explain their importance.

CASE STUDY OF A MULTINATIONAL CORPORATION - WORLEY PARSONS
[The full case study can be found at www.afrbiz.com.au.]

The company website is www.worleyparsons.com.
Read the Worley Parsons Case Study below and attempt to answer the questions that follow.

From its inception in Sydney in 1971 as a specialist structural engineering firm with five employees, the company has grown to over 30,000 employees in 105 offices and 34 countries. After starting in Sydney 1971 as Wholohan, Grill and Partners, the company purchased Worley Engineering (Australia) Pty Ltd, in 1987 changing its name to Worley. Worley grew further, expanding into Asia, North America and the Middle East. The company diversified as it grew globally, extending core services from oil and gas, into industrial and infrastructure, minerals, metals & chemicals, as well as power and water. One of the company's biggest acquisitions occurred in 2004 with the purchase of the US company Parsons E&C. The two firms enjoyed a rich history of joint venture alliances, had a complementary culture and proven expertise in global oil and gas, refining, petrochemical and chemical and power sectors. They would provide a natural extension to their global operations given they were largely working in the American and European markets.

Now seen as Australia's largest engineering firm and one of the leading providers of engineering, project management and technical expertise services, and consulting globally, Worley Parsons' capability is built on talented and extremely motivated professionals whose technical skills, innovative spirit and understanding of the latest technologies, enables clients to make the right decisions faster. Integrated with the customer, Worley Parsons strives to deliver unique solutions for each engagement.

The range of services are provided in four main customer areas:
1 Hydrocarbons – which includes the oil and gas, refining and petrochemical industries
2 Minerals & metals – which includes light metals such as alumina and aluminum base metals such as copper, nickel, lead and gold as well as coal, iron ore, steel and chemicals
3 Infrastructure – which includes structural, environmental, geotechnical and coastal marine fields engineering projects
4 Power – which includes coal, nuclear, gas-fired and sustainable power generation in over 75 countries worldwide.

Worley Parsons has identified seven core attributes that differentiates it from the competition and drives its long term success. One major differentiation is Worley Parsons' commitment to comprehensive geographic presence and local proximity, in other words, local and hub offices close to their customers. A close working relationship with customers' operations enables Worley Parsons to align business cases, systems and processes to maximise value enhancement opportunities. Through its global network of offices, Worley Parsons provides clients with immediate access to strong local expertise. International technical experts can also be mobilised to add to the operation, train local people and create the strongest possible expertise locally. Eventually the operation can be run entirely by qualified locals drawing upon the worldwide expertise of Worley Parsons.

1. Define the term *globalisation*.
2. Explain the meaning of *economies of scale*. Use two examples of global large-scale organisations to illustrate the relationship between size and market power.
3. Identify three key reasons for the continued growth of globalisation. Explain how a large-organisation might be better able to meet the challenges of globalisation than smaller organisations.
4. Describe three key benefits that the broader community enjoys as a result of large global organisations. Use examples of real organisations to support your answer.
5. Explain the difference between an *alliance* (or joint-venture) and an *acquisition*. Use examples from Worley Parsons to support your answer.
6. Suggest three factors that Worley Parsons would consider when forming alliances or considering acquisitions to add-value to their organisation.
7. Identify three examples that demonstrate Worley Parsons' commitment to the principles of Total Quality Management.
8. Outline Worley Parsons' 5-stage Project Phase process. Compare this model to a strategic planning process model you have studied. Comment on any similarities and/or differences.
9. Describe three examples that illustrate how Worley Parsons is operating in a socially responsible manner.
10. Evaluate how Worley Parsons has responded to the challenges of international competitiveness. Use clear examples to support your evaluation.

PART 3 – FREE MARKETS AND ECONOMIC EFFICIENCY

Focus questions

1. What is meant by the term 'economic efficiency'?
2. What is the relationship between globalisation and economic efficiency?

Relevant syllabus dot points

- Explain the concept of international competitiveness
- Outline the determinants of international competitiveness
- Outline the significance of trade for the Australian economy

Significant concepts

Economic efficiency Given that economic resources are relative scarce in relation to the needs and wants of consumers, it is important that resources are not wasted. Resources should be allocated to make goods that consumers want, used by firms in a way that output per unit of input is maximised and reallocated when the pattern of demand or economic conditions change.	**Economic system** A country's economic system is the way that the big economic questions of what and how much to produce, how to produce and for whom to produce are answered. In market economies the majority of these decisions are made by the price mechanism operating in free markets.
Structural change A change in the pattern of production leads to a new allocation of resources. If, as a result of trade liberalisation or foreign investment there is a change in the goods and services that are produced in an economy there will be structural change. While there may be benefits overall in the economy some people may not share in these benefits.	**Equity** Equity is about fairness. In striving for overall efficiency some people may lose out as a result of structural change or from the impact of market power. Governments have a responsibility to ensure that their economies in both an efficient and fair way.

Globalisation: a market success story

The economic problem is one of relative scarcity. Therefore, scarce resources should be used efficiently. Resources should be used to make the goods that people want. This is known as using resources in an allocatively efficient way. Resources should not be wasted in the production process, so unit costs are at a minimum. This is known as technical efficiency. Finally resources should be capable of reallocation when the economy faces shocks. This is known as adaptive or dynamic efficiency.

Type	Description
Allocative efficiency	Making goods that people want (honouring consumer sovereignty)
Technical efficiency	Making things at lowest unit cost (not wasting resources)
Dynamic efficiency	Being able to switch resources to meet a new pattern of demand

Markets bring buyers and sellers together. Producers that flourish in a market are those that satisfy customer wants and use resources efficiently. These are the producers with a competitive or comparative advantage.

The greater the level of competition the more chance prices will reflect consumers' marginal benefit and producers' marginal costs of production. In markets where demand reflects marginal benefit and supply reflects marginal cost welfare is maximised through an efficient allocation of resources. Trade liberalisation, therefore, can be judged by its ability to generate more efficient production.

Larger scale international markets extend the opportunities for specialization and exchange evident local in markets. The consumer and producer surplus generated through markets is amplified.

Larger markets provide the opportunity for greater levels of competition. Efficiency gains come not only from existing low cost producers, but also from the producers who react to the stimulus of competition and lift their production game.

A larger market may allow already successful producers to become even more efficient by making it possible for them to exploit economies of scale, which further reduces unit costs.

Market economies therefore ensure that:

1. Companies make the right things – the market ensures the price paid by the marginal consumer reflects both the costs of production and benefits received.
2. Companies make products in the right way – companies that are wasteful or use the wrong technology will go out of business
3. Products are made in the right proportions – in the long term there is no oversupply or undersupply. A change in price ensures that shortages or surpluses are of a short term nature.
4. Products go to the right people – products go to people who are willing to pay for them and whose opportunity cost reflects the cost of production

Activities

Question 1

Read the two extracts below, both adapted from *The Underground Economist* by Tim Harford. Then attempt to answer the questions at the end.

How did China get rich?

For most of the twentieth century China was poorer than Cameroon. In 1949 when the People's Republic of China came into being the world's largest country was torn by civil war and ruled by a communist dictator. In the late 1950's millions of people in China died of starvation as a result of failed government policies. In the 1960's the cultural revolution destroyed the university system and forced millions of people to work in the countryside.

In 1976, after many more crimes against his people Mao died. After a short period, in 1978 Mao and his followers were replaced by Deng Xiaoping. In 1976 China was desperately poor. Few people had cars, telephones, electricity, running water or enough food but after only a few years the change in China's economy was incredible.

Market incentives were introduced into agriculture. The government spent money on housing, education and transport infrastructure, but most significantly China became a player in the international economy. This meant that China could tap into the market for labour intensive goods such as clothes, toys and shoes. The foreign currency that these exports earned could be used to buy raw materials and new technology. By inviting foreign investors into the economy China could learn modern production and business techniques – hugely important in a country that had been communist for decades. The arrival of foreign controlled businesses provided a challenge to Chinese business to become more efficient.

Bruges and Antwerp

In the twelfth century Bruges in Belgium was a centre for the manufacture of cloth, and ships said up the Zwin estuary to buy the fabric, bringing with them English cheese, wool and minerals, Spanish wine, Russian furs, /Danish port and silks and spices from the East, traded mainly though the mighty Italian cities of Venice and Genoa.

Bruges's wealth continued to flow for 250 years – it was the centre of gravity for the Hanseatic League of trading cities, its arts scene was flourishing, it was developing new industries such as cutting diamonds from India and its population was twice that of London.

But in the fifteenth century the Zwin began to silt up. The great ships could no longer reach the docks of Bruges. It became a backwater. The Hanseatic League moved up the coast to Antwerp. Antwerp took over from Bruges as the greatest economic power in Europe. The wealth of that time continues to be clearly visible today.

1. What is the main lesson of these two stories?
2. Why does economic isolation lead to an inefficient use of resources?

Question 2
The Luddite Rebellion began in the Midlands of England in 1811. It was a desperate response by skilled textile workers to the introduction of new technology; stocking and shearing frames. The Luddites were well organised, destroying mills and machinery and protesting against the new economic system.

a) Do you think the introduction of the new machines hurt some people, at least in the short term?
b) Do you think the introduction of the new technology impoverished Britain as a whole?

The skilled workers were adversely affected in the short run but overall the British textile industry prospered. Think of trade as a new technology and consider the choices it offers. Australia can make cars in Melbourne or Adelaide or, with the help of 'trade technology' dig them up in the Pilbara. The trick is to turn iron ore or gas into cars. This is achieved by loading the iron ore and gas onto a ship and waiting for the ship to return loaded with Toyotas.

c) Do you think the expansion of trade hurts some people, at least in the short term?
d) Do you think the expansion of trade will impoverish the Australian economy as a whole?
e) What economic understanding is highlighted by this question?

Question 3
Suppose an Australian worker takes 30 minutes to make a machine drill and 60 minutes to make a flat-screen TV. Suppose a Chinese worker can make the drill in only 20 minutes and the TV in ten minutes.

a) How long does the Chinese worker have to work to produce one drill and one TV?
b) How long does it take the Australian worker to produce one drill and one TV?

Suppose the Chinese worker specializes in making TV's and the Australian worker specializes in making drills.

c) For how long does the Chinese worker have to work to produce two TV's?
d) For how long does the Australian worker have to work to produce two drills?

Suppose the Chinese and Australians now trade drills and TV's at a rate of one drill for one TV. Both workers can knock off earlier that they could under restricted trade and use the time saved to do other things.

e) How much time has the Chinese worker saved?
f) How much time has the Australian worker saved?
g) Are there any costs to arise through this specialization?

By working twice as hard as before the Chinese worker could make both drills and TV's, leaving the Australian out of work completely.

h) Why would the Chinese worker do this? Why would they find it difficult to sell the extra drill and TV to the Australian worker? What would happen to the exchange rate between the dollar and the Renminbi?

Question 4
Suppose a country bans all imports and patrols its coastline to stop smuggling. Resources are reallocated so that products that were imported can now be produced locally.

a) What will this do the standard of living in the economy?
b) Why will the country's export industries shrivel and die? Why is a 'no imports' policy also a 'no export' policy?
c) Why is a tax on imports also a tax on exports?

Question 5.
Suggest how the following can be linked to international trade and productive efficiency

a) access to cheaper resources
b) increased levels of competition
c) flexibility in wage fixing arrangements
d) tariff reductions
e) inflows of capital from overseas

Question 6
In 1990 soon after the fall of the Berlin Wall, the standard of living in Austria (an open, western capitalist economy) was about six times higher than that of Hungary (a closed, centrally planned economy). Today, South Koreans are wealthy and North Koreans are starving. What, if anything can be inferred for these two statements?

Question 7
a) What is the difference between i) allocative efficiency, ii) technical efficiency and iii) dynamic efficiency?
b) How can globalisation through growth in international trade and foreign direct investment lead to improvements in all three types of efficiency?

Summary of part 3

1. Globalisation extends the scope or extent of the market economy.
2. All markets bring buyers and sellers together for the purpose of trade and exchange and generate surplus or welfare for both buyers and sellers.
3. Free trade and openness to foreign direct investment allows producers to operate more efficiently.

PART 2 – THE DRIVERS OF GLOBALISATION

Focus questions
1. How does globalisation allow business, governments and consumers to achieve their economic goals?
2. What are the main drivers of the current wave of globalisation?
3. How does a country's stage of development influence their view of the globalisation process?

Relevant syllabus dot point
- Outline the factors facilitating globalisation

Significant concepts

Shareholder value Firms may be able to exploit the opportunities from globalisation to increase returns to their shareholders. They may, for example, be able to reduce costs, to secure supplies of raw materials, to increase the number of potential customers and market more effectively.	**Economies of scale** Economies of scale occur when unit costs of production fall as the scale of a firm's operations increase. Globalisation may present business with opportunities to realise economies of scale and thereby reduce their costs of production.
Product life cycles Products can be considered to have a life cycle. Sales of the product pass trough a series of stages or phases such as the launch stage, the growth stage, a mature stage and finally a decline stage. As a result of different levels of development and income, the current stage for a product may be different in different countries. Business can extend their business and product cycle by selling products overseas in markets where the cycle is lagging behind that in their home economy.	**Waves of globalisation** Globalisation is not a new process. Arguably the current wave is just a third major increase in the rate of economic integration. Conditions in the world economy change over time making the process of globalisation more or less possible and more or less desirable.

1. The goals of business, consumers and governments
Three important players in the world - business, consumers and governments - have the potential to gain from the process of globalisation. The chart below indicates some key goals for each of these sectors and indicates some of the ways they can achieve these goals by embracing globalisation. The concepts underlined in the table are explained further below the table.

Suspect	Goal	Strategy
Business	Shareholder value Growth Profit Market Power Stay competitive	**Cost savings** • Specialisation – division of labour on a global scale • Achieve economies of scale • Shift production to low wage economies • Shift production to countries with lax labour and environmental regulations – the so called 'race to the bottom' • Minimise tax liability • Gain from government incentives **Marketing** • Gain access to bigger and growing markets – business may have reached mature stage in their product life cycle in home economy • Develop niche markets for specialist products • Avoiding import protectionism – get around tariff walls by producing directly in overseas countries **Access to resources** • Natural resources are immobile. Companies with expertise to develop mines, for example, have to locate where the resources are • Access to skilled but relatively low-cost labour

Government (Macro-managers)	Strong macroeconomic performance Popularity (not independent central banks)	• Offer tax incentives and cash incentives to attract or multinational corporations • Set up special economic zones where special rules can be made to promote business • Attract foreign investment which creates demand for their currency and brings in new technology and work practices • Reduce protectionism (e.g. cut tariffs and subsidies) • Allow exchange rate to float freely
Households (Consumers)	Rising material living standards Choice and wider range of consumer goods Equity / Social justice	• Demand from government policies that support growth and higher material living standards • Undertake travel that broadens horizons and changes the pattern of demand for consumer products • Watch output of global media networks that demonstrate lifestyles in different countries • Support policies which provide better life chances for people in the developing world

2. Some concepts linked to the globalisation process

1. Division of labour on a global scale
The ease with which goods, capital and technical knowledge can be moved around the world has increasingly enabled the division of labour on a global scale, as firms allocate their operations in line with countries' comparative advantage. As a result, there has been a significant increase in the number of firms that locate, source and sell internationally, reflecting the new opportunities presented by the ICT revolution, alongside falling transport costs and easing trade and capital restrictions.

2. Economies of scale
Many economists believe that there has been an increase in the estimated minimum efficient scale associated with particular industries. This is linked to technological changes, innovation and invention in many different markets. If the minimum efficient scale of production is rising this means that the domestic market may be regarded as too small to satisfy the selling needs of these industries. Overseas sales become essential.

3. Race to the bottom
International business has been accused of participating in a 'race to the bottom', meaning that they try to move production to countries where wages are lowest and the cost of conforming to labour and environmental laws is lowest. If this happens then the result would be that pollution and exploitation of labour moves from the rich to the poor. The likelihood of this happening in practice will be discussed further in the section about foreign direct investment and multinational corporations.

4. Product life cycle
A firm's product may have reached the mature stage in its home economy. Sales might continue to be strong and good profits earned but growth in sales drops away. However in economies where per capita income is lower but growing, the life cycle for the product may still be in its growth stage. For example, as incomes rise in many south east Asian economies consumers are in a position to own a car for the first time.

5. Avoidance of import protection
Many businesses are influenced by a desire to circumvent tariff and non-tariff barriers erected by regional trading blocs – to give themselves more competitive access to fast-growing economies such as those in the emerging markets and in Eastern Europe

3. Different stages of development

The attitude of consumers and government in a particular country towards globalisation is likely to be influenced by state of development of the country concerned. The opportunity to participate in the global economy may be limited by their state of development, the competence of the government and the attitude of other nations.

Countries can be classified in four ways based on their level of economic development.

- **Advanced Industrialised Economies (AIE's)** – countries with income per head over US$30,000 including the members of the Organisation for Economic Cooperation and Development (OCED). AIE's are typically open, modified market economies. Examples of AIE's include Australia, US, UK and Japan.
- **Newly Industrial Economies (NIE's)** – countries which have achieved high rates growth and hence rising levels of income per head. They have made the developed sufficiently to lift themselves out of 'less developed' or 'emerging' status. Examples of NIE's include Singapore, Taiwan, Hong Kong and the Republic of Korea (South Korea).
- **Developing or emerging economies** – countries which are in the process of lifting their rates of growth and development, but who still have per capita income levels below those in the NIE and AIE economies. Examples of developing or emerging economies include the so-called BRIC economies (Brazil, Russia, India, and China), South Africa and Indonesia.
- **Less developed economies (LDC's)** – countries which have achieved limited levels of growth and development. Income per head stays at a low level. These countries may have limited opportunity to fully participate in the process of globalisation.

A number of countries have also changed the basis of their economic system.

- **Transition economies** – a class of economies not directly related to development and living standards but more to do with their changing economic system. These economies are in transition from being command economies to market based economies and include Russia, Poland, Hungary and Rumania.

Activity 2.1

1. Which of the three sectors (business, government or households) do you think is the main driver of globalisation? Explain your answer.

2. Which kind of government is likely to be more supportive of globalisation;
   a) liberal, democratic governments or closed undemocratic governments?
   b) governments in advanced industrialised economies or newly industrialised economies?
   c) Governments in less developed economies or governments in economies in transition?

3. Briefly outline the concept of a product life cycle. With the aid of a diagram explain why expansion into overseas markets can help a firm extend the life cycle of a product that may have reached maturity in the domestic market.

4. Briefly explain the concept of economies of scale. Explain how increasing fixed costs (such as development costs and use of expensive technology) will increase the minimum efficient level of production. How can expansion into overseas markets help a business operate efficiently?

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4. What factors have helped promote globalisation?

Four key factors can be indentified that have helped promote or enable the current wave of globalisation. These are briefly outlined below.

Information and Communications Technologies
Clearly there have been significant advances in information and computing technology. These advances have impacted on almost every aspect of every business, including marketing, communications and production.

Transportation
Advances in transport technology have lowered the costs, increased the speed and reliability of transporting goods and people. This has extended the geographical reach of firms by making new and growing markets accessible on a cost-effective basis. One significant development has been in containerisation. Use of containers has reduced the cost of shipping goods and services around the global economy and has helped bring prices in the country of manufacture closer to prices in the export market.

Changes in government policy
Governments in many countries have liberalised or deregulated capital, financial and trade flows. The opening up of capital markets in developed and developing countries helps foreign direct investment and encourages the freer flow of money across national boundaries. It allows savings to flow to fund profitable economic activity across international borders.

Increase communication
In addition to the information and communications technologies noted above, cheaper, faster and more reliable travel and the spread of global media networks have contributed to an information or knowledge explosion. The exposure to and experience of different customs and cultures, for example, has translated to consumers demanding a wider range of products and services.

Activity 2.2

1. Identify three significant technology-rich products that have promoted globalisation. Explain carefully how the process of globalisation has been promoted or enabled by these products.

2. Suggest three business opportunities that have been created by improvements in transportation. Why would these businesses have been unable to operate without the developments in transportation?

3. List and briefly describe three policy measures or changes that the Australian government have introduced that promotes the process of globalisation or internationalisation of the Australian economy. What is the impact of these on the globalisation process?

Activity 2.3

Use the three information sources; (i) A Brief History of World Trade (this page); (ii) The Globalisation Timeline (next page); (iii) Significant Globalisation Milestones (following page) to answer the following questions.

1. Is globalisation a new process? In what ways is the current wave of globalisation different from the previous waves?

2. What helps and what hinders the globalisation process?

3. Sketch a diagram showing the 'extent of globalisation' on the vertical axis and 'years from 1850 to 2020' on the horizontal axis. When does the 'worm' or line rise and fall? What causes the rise and fall? When are they key turning points? What causes these?

1. A brief history of world trade

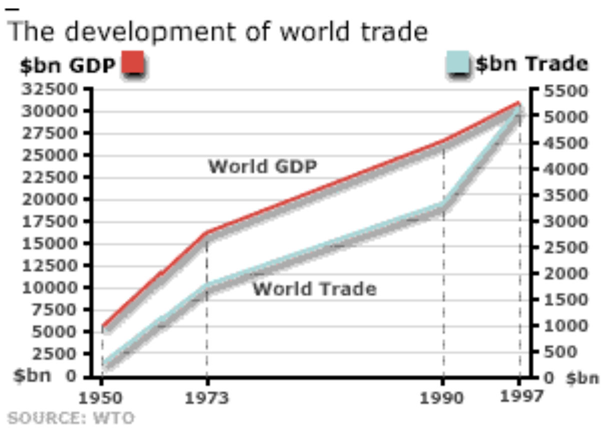
History appears to be on the side of globalisation. Trade is generally good. Trade enables countries to produce more of what they are good at and buy other products in return. That's what economics tells us (Ricardo's Theory of Comparative Advantage) and that's how it's been in practice.

Trade has been the driving force of world economic growth in the last 50 years. As countries dropped their restrictions on free trade, and while the Gold Standard was used worldwide to measure the value of goods and currencies, providing a universal currency, there were periods of rapid economic growth and rising living standard.

Periods of rising barriers to trade such as the 1930s have been associated with low economic growth and rising tensions between nations.

After the Wall Street crash, which led to a worldwide slump in economic growth, the world reverted to protectionism. Trade fell even faster, causing more unemployment and prolonging the downturn.

Some countries turned to dictators like Hitler for economic and political salvation.



After two world wars, most of Europe and Japan were struggling to feed their people, let alone prosper. Nations became dependent on the revival of world trade for vital income. America, which suffered less from the crippling effects of the wars, was economically dominant and was under pressure to open up its markets to other countries.

Since the end of the Second World War, trade flows have increased much faster than world population, and even faster than overall world economic growth.

Initially trade expansion fuelled the post-war economic miracles in Germany and Japan. More recently, it has become the engine of development across many Asian developing countries, transforming the economy of countries like South Korea and Singapore into near Western standards of living.

The benefits of free trade, in contributing to the economic growth of both Europe and Asia seem obvious. Free trade appears to enable people to lead better lives. Equally almost all arguments against free trade blame it for problems it has little to do with. Free trade is wrongly blamed for many problems

2. Globalisation timeline

Globalisation is not a new process. The movement of people and ideas around the world and trade in products between countries has been occurring for centuries.

Wave 1 **1870 to 1914**	**Wave 2** **1950 to mid 1970's**	**Wave 3** **Mid-1980's onwards**
Wave One: Began around 1870 and ended with the descent into global protectionism during the interwar period of the 1920s and 1930s. Rapid growth in world trade was triggered by sharply falling transportation costs, reduced tariffs, and major inventions, such as the internal combustion engine, steamship, telephone, and telegraph. This expansion in exports resulted in a massive flow of capital from Western Europe to the rapidly developing countries of the Americas, Australia, and elsewhere. This first wave started the pattern that persisted for over a century of developing countries specializing in primary commodities that they export to the developed countries in return for manufactures. Migration was also very large during this period. About 10% of worlds' population moved to new countries. 60m migrated from Europe to US and other pars of the new world. Chinese and Indians moved to less populated countries such as Sri Lanka, Burma, Thailand, Philippines and Vietnam. During this wave of globalisation, the level of world trade (defined by the ratio of world exports to GDP) increased from 10% in 1870 to 17% in 1900 and 21% in 1913. The outbreak of the two world wars, the unsuccessful attempt to revive the gold standard, and the Great Depression gave rise to protectionist sentiment and halted global integration. World economic growth stagnated and trade as a percentage of world GDP fell back to 1870 level.	After 1945, there was a second wave of globalisation built on a surge in world trade and reconstruction of the world economy. Globalisation resumed as the barriers to trade and capital flows erected in the 1930s were rolled back. There was increased economic integration especially between the developed countries in Europe, N America and Japan. The rapid expansion of trade was supported by the establishment of new international economic institutions. The International Monetary Fund (IMF) was created in 1944 to promote a stable monetary system and so provide a sound basis for multilateral trade, and the World Bank (founded as the International Bank for Reconstruction and Development) to help restore economic activity in the devastated countries of Europe and Asia. Their aim was to promote lasting multilateral economic co-operation between nations. The General Agreement on Tariffs and Trade (GATT) signed in 1947 provided a framework for progressive mutual reduction in import tariffs. Technology continued to advance, especially in the area of communications and computers. This period of globalisation saw a remarkable rise in living standards and dramatic improvements in health and education. Rising oil prices, the onset inflation and rising unemployment (stagflation) contributed to more insular policies.	Latest phase of globalisation began in 1980's is demonstrated for example by a sharp rise in the ratio of trade to GDP for many countries and secondly, a sustained increase in capital flows between counties and trade in goods and services. It has been enabled by a number of factors such as: 1. Significant advances in information and communications technology 2. Marked reduction of costs of international transport such as containerisation 3. Greater travel opportunities which has led to exposure to and appreciation of different cultures. This has translated to consumer demand for a wider range of products and services. 4. Policy initiatives by national governments that liberalised capital trade flows It has been driven by: 1. Business 2. Governments 3. Consumers

3. Significant globalisation milestones

1944	Bretton Woods Agreements create World Bank and Monetary Fund Genera Agreement on Tariffs and Trade (GATT) established to negotiate rules for trade in goods.
1945	United Nations Charter signed
1945+	Dismantling of colonial empires creates independent states in Asia and Africa
1947	Cold War begins pitting capitalism against communism
1948	Universal Declaration of Human Rights drafted
1971	Computer chip invented
1970s	Global Assembly lines (enabled by dramatically expanded communications due to computers), largely using women's labor, increasingly dominate patterns of production of clothing and manufactured goods
1973+	Surplus petrodollars fuel wise and unwise spending/borrowing spree in developing countries
1975	Advances in computers, fiber optics, satellites, and miniaturized electronics radically alter production and distribution of goods and services and patterns of global investment
1980	Reagan and Thatcher usher in fundamentalist free market government and free market global economic strategies
1980	President Reagan breaks the air controllers strike, opening an era of diminishing power of unions
1982	Mexico tells creditors it is unable to pay its debts and the Third World Debt. Crisis begins all around the globe as nations are unable to pay escalating debts incurred during the 1970s
1986	World Bank and International Monetary Fund initiate structural adjustment policies in developing countries that promote trade liberalization
1988	Free Trade Agreement (FTA) signed between the U.S. and Canada
1989	Fall of the Berlin Wall ends Cold War leaving capitalism as single dominant economic system; Transnational Corporations (TNCs) enter former Soviet bloc countries in a push toward privatization
1990s	Series of United Nations World Conferences dramatically expand the voice of non-governmental organizations in global political, economic, and environmental debates and equality for women
1990s	Regional and Bilateral Trade Agreements multiply around the world
1991	Worldwide Web created, enabling instant communications around the globe
1992	North America Free Trade Agreement (NAFTA) between U.S., Canada, and Mexico
1992	Maastricht Treaty creates the European Union solidifying economic and political ties between, and expanding number of, European nations west and east
1995	World Trade Organization GATT adds services, investment and intellectual property rights, and government procurement to trade concerns
1997	Asian financial crisis triggers a global financial crisis when nervous investors rush to withdraw funds from Asian markets; financial speculation becomes a major concern
1997	$1.5 trillion per day of foreign exchange is traded worldwide
1999	50,000 activists in Seattle protest WTO policies in the first of an ongoing series of activist protests of WTO policies at WTO meetings
1999	U.S. multinationals use illegal accounting techniques to prop up failing profits; Enron, WorldCom, and others collapse in scandal
2000	Churches, NGOs, activists mobilize around the world on the 50th anniversary of the World Bank and IMF to call for a "Jubilee" cancellation of Third World debts
2000	World leaders gather for UN Millennium Summit, committing to the eradication of extreme poverty and other global social goals by 2015
2001	China joins the WTO
2002	Argentina's economic collapse and default on debts; people rebel against economic austerity policies
2003	World governments and Globalisation activists force shut down of WTO deliberation in Mexico
2000s	Growth of BRIC economies (Brazil, Russia, India and China) triggers a commodity boom.
2000s	Doha Round of WTO makes little progress
2008	Global financial crisis following a downturn in the American housing market 'sub-prime' mortgage holders find it difficult to maintain repayments

Summary of part 2

1. The current wave of globalisation has been driven by business, governments and consumers. Perhaps the main driver has been the business sector, with governments and households playing a more supporting role.
2. This wave has been enabled by:
   a) significant development in information and computer technologies
   b) developments in transportation of products and people
   c) Changes in government policy and attitudes to globalisation
   d) Increase opportunities for communication on n international scale
3. Free trade and foreign direct investment is directly linked with economic growth and development, employment growth and rising material living standards for many people.
4. Economic downturns and financial crises cause the process of globalisation to slow as governments introduce more regulations and business becomes more cautious.
5. Reducing barriers to trade and investment so that the benefits of globalisation can be felt by more people has not been easy, as special interest groups mainly in the advanced industrialised economies defend their areas of interest.

Terminology and concepts

1	Globalisation	A process of integration of national economies, involving the removal of barriers to trade, deregulation of finance, currency and capital markets, more mobility for people and the spread of new ideas and technology
2	Contagion	The more links that exist between national economies the more the performance in one economy will spread to other economies. Good and bad performance can become contagious.
3	Technology diffusion	As a result of people becoming more internationally mobile, technology allowing the quick and reliable transfer of information and increased overseas business ownership, ideas and technology is transferred or spreads around the world.
4	Protectionism / Regulation	Protectionism impedes the operation of international markets and involves tariff and non-tariff barriers to trade.
5	Foreign Direct Investment	Foreign Direct Investment (FDI) occurs when a business buys assets in another country for the purpose of influence and control. It tends to be of a medium to long-term nature.
6	Global production networks	A final product bought by a consumer in, say, Australia may be the result of staged 'value adding' or 'processing' in many different countries. With the ability to move information, designs, components and final products reliably and economically, business can develop efficient production and distribution networks.
7	International business cycle	Movements away from the long-term trend path are a feature of the global economy as well as national economies. There is sufficient linkage between economies for national economic performance to be sufficiently harmonised to create an international cycle with stages of boom, downturn, slump or trough and recovery.
8	Microeconomic Reform	Microeconomic Reform refers to policies designed to improve the efficiency of individual markets or sectors of an economy. In order to be internationally competitive many countries have adopted microeconomic reform measures in areas such as wage settlements, competition policy, privatisation and tax reform.
9	Coupling and Decoupling	One economy can be said to be 'coupled' to another if its performance relied to a significant degree on the performance of another economy. Many economies, for example, are 'coupled' with the US economy. It was thought that the development of powerful new economies such as China and India might 'decouple' many economies from the US but the 2008 financial and economic crisis in 2008 caused a reassessment of this.
10	Structural change	Free trade and investment flows cause production to be concentrated in areas of comparative or competitive advantage. More resources are allocated to produce the products a country can make efficiently and fewer resources are allocated to areas of inefficiency. This causes a change in the structure or pattern of economic activity in an economy.

Globalisation *sixty five* point checklist

Use the knowledge and understanding you have gained from part 1 and part 2 to complete as much of the checklist as you can. A completed version of the checklist is provided in the answer section in the following pages.

1	Four classifications of national economies	1	
		2	
		3	
		4	
2	Three classifications of national economies by stage of development	1	
		2	
		3	
3	Five regional groupings of economies	1	
		2	
		3	
		4	
		5	
4	Four key words or phrases included in a definition of globalisation	1	
		2	
		3	
		4	
5	Five forces that are underpinning, driving or causing, the current wave of globalisation	1	
		2	
		3	
		4	
		5	
6	Five ways new technologies have helped the process of globalisation	1	
		2	
		3	
		4	
		5	
7	Five areas or aspects of globalisation that describe the scope of the process	1	
		2	
		3	
		4	
		5	
8.	Two factors helping create an international business cycle	1	
		2	
9.	Four examples of shocks that have affected the world economy	1	
		2	
		3	
		4	
10.	Two consequences of creation of International business cycle (World Economic Cycle)	1	
		2	

11.	Nine points of impact of globalisation on the Australian economy	1	
		2	
		3	
		4	
		5	
		6	
		7	
		8	
		9	
12.	Five changes globalisation has brought to business practice	1	
		2	
		3	
		4	
		5	
13.	Will the process continue? Six factors that might slow down or inhibit future progress in globalisation	1	
		2	
		3	
		4	
		5	
		6	
14.	Six problems or issues that may be associated with globalisation	1	
		2	
		3	
		4	
		5	
		6	
15.	Indicators of globalisation	1	
		2	
		3	
		4	
		5	
		6	
		7	
		8	

		9	
		10	

Multiple Choice Questions

1. Brazil, Russia, India and China, collectively known as the BRIC economies, achieved high rates of economic growth in the period 2003 to 2008. The most appropriate economic classification from the list below of these countries is that they are:

a) Advanced Industrial Economies
b) Newly industrialised economies
c) Economies in transition
d) Less Developed Countries

2. There are a number of regionally based zones of world output, trade and investment flows. Which of the following zones is made least progress in achieving economic growth and development for people within the region?

a) USA and North America (NAFTA)
b) Europe (EU)
c) South America (Mercosur)
d) Japan, China and East and South East Asia (APEC, ASEAN)

3. Globalisation is a term used to describe the process that involves _______________ levels of integration of national economies and the _______________ of barriers to international trade, investment and financial flows. The missing words in the correct order are:

a) increased, reduction
b) increased, raising
c) decreased, raising
d) decreased, reduction

4. Which of the following is NOT a feature of the process of globalisation?

a) There is increasing integration of the world's economies.
b) Barriers to trade have been reduced.
c) Most currencies are freely convertible
d) The pattern of production in many economies has become wider so that countries can be more self-sufficient and secure

5. Which of the following is a correct statement?

a) High income advanced industrialised economies now account a minority of total global trade and investment flows.
b) Due to the coupling or integration of national economies, there is less likelihood of 'contagion' or the spread of economic problems from one country to another.
c) Multinational corporations have established global production and distribution networks that can have significant impacts on individual national economies
d) The standardisation and customisation of goods, and the establishment of global brands, has become a less important feature of the world economy.

6. Which of the following is the LEAST likely consequence of the reduction in trade barriers and the increasingly dominant role in world commerce of multinational corporations?

a) A rise in 'trade intensity' with the value of exports and imports rising as a percentage of world production
b) A rise in the level of foreign direct investment
c) Falling living standards and a rise in the level of poverty in less developed economies
d) A change in the pattern of world output and trade

7. Improvements in technology and its 'diffusion' or spread to most parts of the world have been an important force behind the current wave of globalisation. Which of the following is likely to have made the LEAST contribution to this process?

a) The development of the internet and increased bandwidth
b) Containerisation and improved speed and reliability in transportation of products
c) The rise in levels of foreign direct investment and the growth of multinational corporations
d) Enforcement by governments in advanced industrialised economies of patents and other restrictions protecting intellectual property

8. Which of the following is NOT an example of the forces that have underpinned the process of globalisation?

a) A reduction of trade barriers such as tariffs and quotas
b) Advances in information and communications technologies
c) A reduction in transportation costs
d) The power of interest groups representing those affected by structural change to lobby governments for protection and support

9. Which of the following has helped small and medium enterprises (SME's) share in the process of globalisation?

a) The development of the internet
b) An increase in the number and severity of rules and regulations imposed by national governments in exporters
c) Increased opportunities to achieve unit cost reductions as a result of exploiting economies of scale
d) The development of consumer preferences for customised products and global brands

10. Which of the following can be linked least satisfactorily to the concept of an international business or global economic cycle?

a) National economies increasingly following similar fiscal and monetary policies
b) Differences between living standards are being reduced
c) Strong trade, investment and financial links between national economies have been established
d) Cultural and ethnic differences prevent the standardisation and customisation of many consumer products

11. The last decade has shown that few economies in the world have been immune or unaffected by a number of significant real and financial shocks. Which of the following is an example of a significant financial shock that has had a negative impact on most economies in the world?

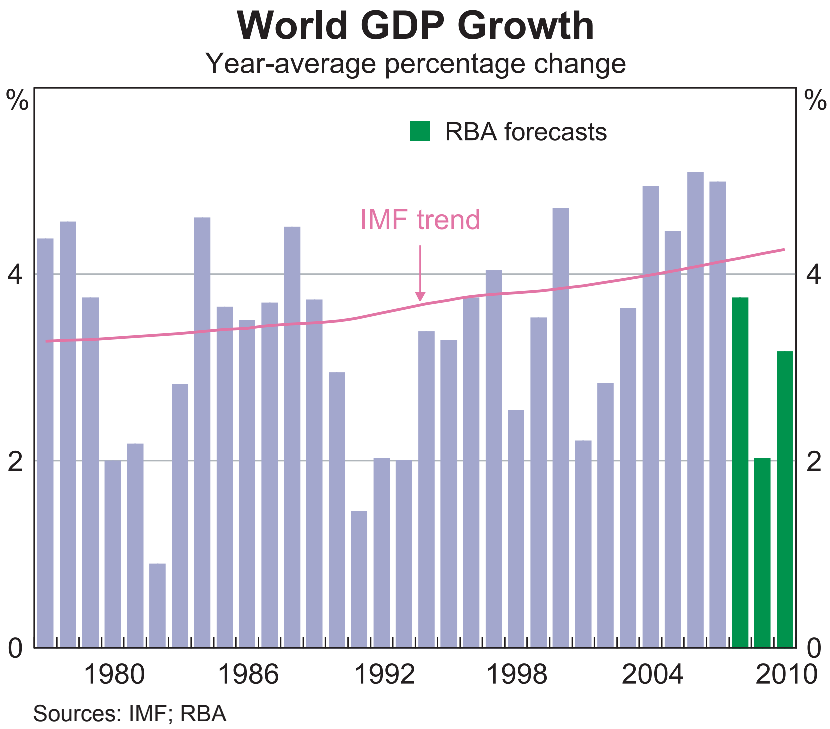
a) Instability of oil prices
b) Rising food prices (such as wheat and rice)
c) A 'credit crunch' following the collapse of derivatives associated with sub-prime mortgage loans
d) Significant improvements in the speed and cost of transporting goods between economies

12. The phrase 'US sneezes and the rest of the world catches a cold' describes the process of contagion whereby an economic shock can affect the economic performance in many countries. Which of the following has had least impact on the development on contagion or the spread of economic problems from one country to another?

a) The economic growth and development in low income economies
b) Removal of trade barriers and increasing levels of international trade in goods and services
c) Increased levels of financial flows in currency and derivatives
d) Increased level of mobility in the international labour force

Data interpretation 1

The chart shows World GDP growth rates for the period 1977 to 2007, and Reserve Bank of Australia estimates for 2008 to 2010.



a) Identify specific causes for two of the global recessions that occurred during the period covered by the chart.

b) How might changes in the international business cycle impact directly on the domestic business cycle of a country?

c) Identify and describe three ways the rising trend in World GDP growth (shown in the chart) can be related to globalisation?

Data Interpretation 2

The table shows key development indicators for five countries. The data is for 2008 and refers to (not necessarily in this order) Australia, China, South Africa, Sri Lanka and Tanzania.

	Life expectancy	Adult literacy	Real GDP/head (US$PPP)	Human Development Index
1	80	99	31,750	0.905
2	72	85	6,750	0.775
3	71	90	4,595	0.755
4	50	84	11,100	0.674
5	51	69	744	0.465

a) Explain how a country's 'human development index' is derived.

b) Which of the countries is least likely to have benefitted from globalisation? Explain two reasons for your selection. (3 marks)

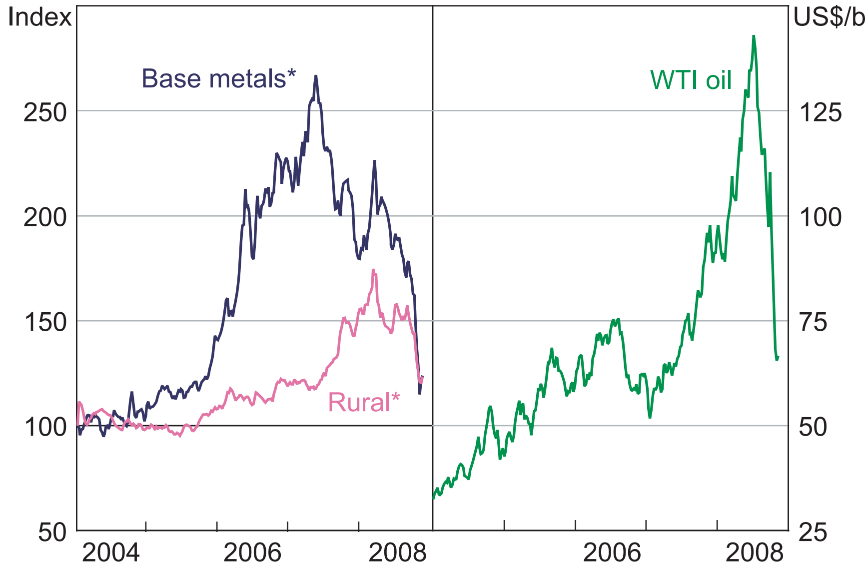
c) Describe using data from the table, and other general knowledge you may have how an economist might classify economies 2, 3 and 4. Explain any difficulties that present themselves in classifying these economies. (5 marks)

Data interpretation 3

The chart shows changes in selected commodities during the period 2004 to 2008. WTI oil = West Texas Intermediate Oil, which is typical of other oil markets.

Commodity Prices

Weekly



* 2 January 2004 = 100, SDR terms
Sources: Bloomberg; RBA

a) What are commodities?
b) What determines the price of commodities?
c) Explain how the changes in commodity prices can have a global impact.

Extended answer questions

Question 1
a) Describe the forces underpinning the current wave of globalisation.
b) Identify three current factors that could slow down the process of globalisation. Explain the relevance of each factor you have identified.

Question 2
a) Suggest three ways the economies of the world can be classified.
b) Describe the impact of the current wave of globalisation on the various types of economy identified above.

Question 3
Describe some of the important changes in world output and trade that are linked with the current wave of globalisation.

Question 4
a) Explain how the performance of one economy can be linked to the performance of another?
b) Describe how a downturn in the international business or world economic cycle may impact on the Australian economy.

ANSWER SECTION

Globalisation Basics *sixty five* point checklist

1	Four classifications of national economies	1	Advanced Industrialised Economies (AIE's)
		2	Newly Industrialised Economies (NIE's)
		3	Less Developed Economies (LDC's)
		4	Economies in Transition (AIT's)
2	Three classifications of national economies by stage of development	1	High (HDI above 0.8)
		2	Middle (HDI between 0.5 and 0.8)
		3	Low (HDI between 0.3 and 0.5)
3	Five regional groupings of economies	1	US, Canada, Mexico (NAFTA)
		2	Europe (European Union)
		3	Japan, China, S and SE Asia (APEC, ASEAN)
		4	Oil Producers (OPEC)
		5	Others – South America, Africa
4	Four key words or phrases included in a definition of globalisation	1	Process
		2	Integration of national economies
		3	Reduction of barriers between economies
		4	Creation of global or at least regional markets
5	Five forces that are underpinning, driving or causing, the current wave of globalisation	1	New information and communications technologies
		2	Improved transportation
		3	Greater travel, tourism and 'world' awareness changes pattern of demand
		4	Reduction in protectionism
		5	Deregulation of markets
6	Five ways new technologies have helped the process of globalisation	1	E-commerce opportunities for SME's
		2	Global production and distribution networks
		3	Diffusion of ideas, knowledge and understanding
		4	24/7 trade in financial markets
		5	Transportation of products and people
7	Five areas or aspects of globalisation that describe the scope of the process	1	Products (customised, standardised, global products and brands)
		2	Foreign Direct Investment (spread of multinational corporations (MNC's))
		3	Finance (Currency / Derivatives)
		4	People (development of international labour market)
		5	Ideas, best practice
8.	Two factors helping create an international business cycle	1	Supply shocks (oil price rises, financial crises, stock market downturns (dot.com boom))
		2	Linked economies – performance can be transmitted from economy to economy
9.	Four examples of shocks that have affected the world economy	1	Oil prices (1973, 1979)
		2	Asian Financial crisis (1997)
		3	End of dot.com boom (2001)
		4	Sub-prime derivatives and credit crunch (2008)
10.	Two consequences of creation of International business cycle (World Economic Cycle)	1	Linked economies may 'converge' in policies and performance
		2	Linked economies may suffer from 'contagion' exporting and importing inflation or deflation

11.	Nine points of impact of globalisation on the Australian economy	1	Higher living standards / better use of resources
		2	Structural change
		3	Increase 'trade intensity' – more X and M has a percentage of GDP
		4	Changes to direction and composition of trade
		5	Need for microeconomic reform – need to be internationally competitive
		6	Exposure to fluctuating commodity prices and currency values
		7	Greater levels of foreign ownership (in Australia and by Australian firms overseas)
		8	Changes in terms of trade and exchange rate
		9	Ability to run bigger and longer current account deficits – easier to finance deficits
12.	Five changes globalisation has brought to business practice	1	Establishment of global production and distribution networks
		2	Development of global brands
		3	Customisation and standardisation of products
		4	Increased levels of foreign ownership
		5	Recruitment of staff in international labour market
13.	Will the process continue? Six factors that might slow down or inhibit future progress in globalisation	1	Performance of national economies
		2	Extent of re-regulation of trade, investment and financial markets
		3	Future levels of oil prices and transportation costs
		4	Environmental policies that raise cost of transport
		5	Power of special interest groups (like car workers, farmers)
		6	Lack of leadership in developed world promoting growth and development in the rest of the world.
14.	Six problems or issues that may be associated with globalisation	1	Uneven incidence – hence uneven gains. Most trade and investment amongst developed economies
		2	Structural change and adjustment inevitable consequence of removal of trade barriers
		3	Bad behaviour by multinational corporations (e.g. transfer pricing, sweatshop labour)
		4	Unfair prices paid to coffee producers, workers in third work
		5	Is it bad for the environment?
		6	Loss of national and economic sovereignty
15.	Indicators of globalisation	1	Familiar products in unfamiliar places – unfamiliar products in familiar places
		2	Global brands
		3	Increased trade intensity – higher import penetration ratios
		4	Foreign ownership of businesses
		5	Migration – people born overseas
		6	Guest workers sending remittances home
		7	Economic convergence – same problems affecting many countries
		8	Currency fluctuations
		9	Changes in commodity prices
		10	Global media networks

Answers to Multiple Choice Questions

1 – B (possibly still D); 2 – C; 3 – A; 4 – D; 5 – C; 6 – C; 7 – D; 8 – D; 9 – B; 10 – D; 11 – D; 12 – A

Answer guide to Data Response Questions

Data Interpretation 1

a) Rise in key commodity price, such as oil, financial crisis associated with currency flows or bad debts
b) Loss of exports, loss of investment, reduced business confidence, governments resorting to protectionist measures
c) Better use of resources, countries concentrating on areas of advantage, greater competition, lower inflation, investment funds support projects where outcomes are best, multiplier effects from injections into the circular flow of economies participating in trade.

Data Interpretation 2

a) 3 key elements are included, life expectancy, adult literacy and GDP/head. Each factor is rated on a scale of 0 to 1 according to prescribed benchmark levels and then averaged.
b) Tanzania and Ski Lanka have been least affected by globalisation. Some typical issues for countries with low levels of development include civil unrest, corrupt governments, lack of savings to support investment, tied aid and protectionist policies imposed in developed economies.
c) The issue is when does a country move up from one category to another. The United Nations Development Programme uses a arbitrary value on the HDI scale to determine the status of countries, but there are big difference amongst the countries in the middle group (with HDI from 0.5 to 0.8).

Data Interpretation 3

a) Commodities are unprocessed resources, ones with little added value or downstream processing such as wheat, gas and iron ore.
b) Prices are increasingly determined in global markets according to the relationship between the levels of supply and demand for these commodities. Many factors affect supply and demand, such as exploration levels, development costs, climate, level of economic activity and speculation.
c) Commodity exporting countries can be hit by a fall in commodity prices through a loss of export earnings and a fall in their currency. Importing countries may face higher costs of production.

Answer guide to Extended Writing Questions

Question 1
a) Describe the forces underpinning the current wave of globalisation.

Introduction / Topical reference
Define globalisation as process of integration of national economies including increased ability to trade products, to invest overseas, to convert currencies and move finance, to migrate and to spread new ideas and technology.
Current wave of globalisation began in late 1980's and is continuing to occur.

Body paragraph 1
Globalisation has been promoted by xxx key factors. First the development of information and communications technologies, such as the internet and satellite communication.
Body paragraph 2
Second, developments in transportation, such as containerisation.
Body paragraph 3
Third, by changes to government policy in opening up or internationalising their economies, such as tariff reductions and floating exchange rates.
Body paragraph 4
Fourth, by change in strategy and processes of the business sector, such as s export orientation, developing global production and distribution networks and undertaking foreign direct investment.
Body paragraph 5
Fifth, increased international travel and global communication networks have made people more aware of the diversity and opportunities.

b) Identify three current factors that could slow down the process of globalisation. Explain the relevance of each factor you have identified.

The process of globalisation may slow down due to a number of factors linked to the global economic and financial crisis of 2008.

Body paragraph 1
Firstly, in an economic downturn and rising unemployment, national governments may introduce protectionist measures, such as tariffs, quotas and subsidies to protect sensitive or strategic industries. For example, the car industry is a big direct and indirect employer that has received support from many governments.
Body paragraph 2
Second, the 'credit crunch' may make it harder for countries to raise finance for direct foreign investment and less willing to carry debt. Governments may increase the level of regulation on banks and the international movement of finance that will reduce the ability of firms to finance new projects.
Body paragraph 3
Third, the fall in the consumer demand will restrict the profits for exporting firms. Firms may be tempted to concentrate on more stable and predictable domestic markets.

Question 2
a) Suggest three ways the national economies of the world can be classified.

Introduction and topical comment
There are some 200 separate national economies in the world operating at different performance levels and with different economic systems. There are three main, if interrelated, ways of classifying these economies. As with all classifications there are countries at the margin that do not fit neatly into a particular category.

Body paragraph 1
First, by stage of development. In development terms, countries can be in one of three main sub-groups. There are advanced industrial economies (AIE's) or developed economies such as Australia, US and Japan. There are newly industrialised economies (NIE's) such as South Korea and Brazil. Finally there are less developed countries (LDC's) such as Tanzania and Laos.
Body paragraph 2
Second, countries can be grouped by the level of income per head and by living standards. Countries can be high income and development, middle income and development or low income and development. High income and development countries such as US and most western European countries have annual incomes per head about US$25,000 to US$30,000 and a human development index (HDI) above 0.80. Middle income and development economies typically have an annual income per head between US$5,000 and US$15,000 per year and an HDI between 0.50 and 0.80. Low income and development countries struggle to generate annual incomes per head above US$2,000 a year and have an HDI between 0.30 and 0.50.
Third, by economic system. First world economies have highly developed free enterprise, capitalist economies. Second world economies have command or centrally planned economies, such as Cuba and North Korea. Economies in transition (TIE's) is a term used for economies which are shifting the focus of their economic system away from socialism and central planning, such as countries formally part of the USSR.

b) Describe the impact of the current wave of globalisation on the various types of economy identified above.

Everybody that takes part in the process of globalisation wins, but not everybody wins by the same margin.

Body paragraph 1
Majority of world trade and investment flows takes place between AIE's, and hence most of the gain flows to the businesses and households in these economies. Trade intensity rises, and the direction and composition of trade changes as countries exploit areas of competitive advantage.
Body paragraph 2
Global production and distribution networks – helps trickle down, diffusion of technology, taxes paid, work practices and standards.
Body paragraph 3
Command economies, fearful of new ideas and social change, do not embrace globalisation.
Body paragraph 4

LDC's may find it difficult to establish infant industries, trade at good terms of trade, get access for their agricultural and manufactured products in AIE markets.

Question 3

Describe some of the important changes in world output and trade that are linked with the current wave of globalisation.

Introduction and topical comment

Explain 'current wave of globalisation', far reaching impact, some people worried about impact.

Body paragraph 1
Firstly there has been a rise in 'trade intensity'. Economies have become more open, relying more on export earnings and imports. There will have been a rise in import penetration ratios in countries that embrace globalisation. There will be a shift in the pattern of trade, too – trade will take place with new trade partners and in new products.

Body paragraph 2
Changes in the technology and costs of transportation have increased the possibility of trade. A key innovation has been the development of containerisation. Speed and costs have changed as a result of the development of more efficient aircraft.

Body paragraph 3
Globalisation has strengthened the concept of an international or global business cycle in which the economic performance of most countries becomes interdependent. Freedom of movement of products, finance, investment funds and currencies means that a supply shock in one economy can quickly be transmitted to other economies. 'Contagion' describes the fact that one economy can be 'infected' by the economic performance of another country.

Body paragraph 4
Freedom of movement of investment funds means greater levels of foreign direct investment. Describe some examples of advantages and disadvantages of foreign investment.

Body paragraph 5
Many products are now produced and sold in a global production and distribution network. Tracing the country of manufacture of a product is a complex issue with difference parts of the process taking place in different countries.

Body paragraph 6
As commodity prices change so do country's terms of trade and exchange rates. These changes have a major impact on economic performance.

Body paragraph 7
Travellers now find familiar products in unfamiliar places. Domestic consumers can now buy unfamiliar products in familiar places.

Body paragraph 8
Many commodity, finance, resource and product markets are now global markets. Trade in some of these is 24/7 as trading 'follow the sun' around the world.

Conclusion

Question 4

a) Explain how the performance of one economy can be linked to the performance of another?

Introduction and topical comment
Economic performance can be assessed using the framework of the macroeconomic objectives. The world is currently experiencing contagion from the financial crisis caused by reckless lending by banks in US. Economies are linked in a number of ways.

Body paragraph 1
A key link between economies is international trade. There can be a change in export earnings and import payments that leads to change in the value of net exports.
Body paragraph 2
A second link concerns investment flows. A country relying on investment capital from another country can be affected if the flow of these funds changes.
Body paragraph 3
A third affect can come from changes to currency levels and the terms of trade.

Body paragraph 4
A final link concerns the international movement of resources, such as labour. Strong demand for labour in one country, where wages and working conditions are high, can drain the labour from a country where performance is not so good.

b) Describe how a downturn in the international business or world economic cycle may impact on the Australian economy.

Australia has been adversely affected by the downturn in the international business cycle.

Body paragraph 1

There has been a corresponding downturn in growth. Growth has fallen because of a loss in export earnings from commodities, a fall in consumption as a result of a fall in the value of world share markets and in housing markets, and a fall investment as potential returns fall.

Body paragraph 2

Real income has fallen even more than GDP growth because of the fall in the terms of trade. We can now buy fewer imports with our exports.

Body paragraph 3

Slower growth and reduced living standards means high unemployment, but at the same time lower inflation.

Body paragraph 4

Externally the performance of the economy is mixed – both exports and import values have fallen, the currency has fallen against the TWI but not as much as some others.

PART 1 – INTRODUCTION TO GLOBALISATION

Focus questions

1. What is globalisation?
2. What does globalisation involve?
3. How has globalisation affected you?

Relevant syllabus dot points

- Outline the linkages between economies e.g. trade, investment, tourism, immigration
- Describe the extent, patterns and trends in world trade
- Discuss the extent of globalisation

Significant concepts

Globalisation A term used to describe the process of economic integration of national economies.	**Contagion** Changes or shocks in one economy are more likely to be transmitted to other economies when there is economic integration. Problems can spread around the world economy like a contagious disease.	**Interdependence** National economies are no longer independent. The performance of one economy is dependent on the performance in other economies.
Global business cycle The movement between stages in country's economic cycles becomes more synchronised as a result of the links between economies promoted through globalisation.	**Trade intensity** When there is a rise in international trade imports and exports become a more important feature of national economies. There is a rise in the degree of import penetration into home markets and also a rise in exports to other markets.	**Coupling** Economies can be said to be coupled if they are linked or joined. Globalisation will strengthen the coupling of economies. It was thought that the growth of China and India as an alternative economic power to the United States might allow some economies to become **decoupled** from the US economy, but the financial and economic crisis in 2009 has shown links between all world economies is still strong.

1. What is globalisation?
Globalisation is a term used to describe some recent and radical changes to the way economic activity takes place. These changes have resulted in a reduction in the economic significance of national borders and a corresponding increase in economic integration and interdependence between countries.

The process of globalisation involves greater levels of trade in goods and services, movements of capital and finance, the spread of ideas and trade in intellectual property, and the movement of people between countries.

While not everything that is happening in the world today can be associated with globalisation, much of it can. The world has become increasingly international or global in the way that it does business.

2. What does globalisation involve?
The diagram below tries to capture some of the key aspects of globalisation.
Level 1 highlights some of the broad features of globalisation.
Level 2 lists the key drivers or changes that have enabled the process to develop
Level 3 lists some of the key areas affected by globalisation

Globalisation

Level 1 – Broad features of globalisation

Breakdown in national economic barriers	Economic integration between countries	Economic interdependence between countries

Level 2 – Drivers and enablers of the process

Government policy	Communications technologies
Business practices	Transportation technologies
Consumer awareness	International travel

Level 3 – Scope of the process

Trade Manufacturing Services Commodities Resources	**Marketing** Global brands	**Foreign investment** Multinational corporations	**Financial flows** Bonds Shares Currency
Culture Awareness Multiculturalism	**Migration**	**Ideas** Information Knowledge Intellectual property	**Macroeconomic policy** Monetary Policy Fiscal policy

Globalisation is associated with faster information flows and falling transportation costs, changing business strategies, and supportive government policies. Globalisation changes the way business is conducted, markets operate and the way governments regulate economic activity.

As a result of globalisation, there is more international trade, more foreign investment, more information, more migration, more transportation, more jobs and incomes and less poverty.

3. The scope of globalisation

Trade	A rapid expansion of international trade in goods and services between countries.
Marketing	The creation of global (or regional) rather than national (or local) markets. The internationalization of products and services by large firms. The creation of global brands.
Foreign investment	The expansion of foreign direct investment (FDI) by trans-national companies. Shifts in production and consumption from country to country – for example the rapid expansion of out-sourcing of production.
Financial flows	A huge increase in the value of transfers of financial capital across national boundaries
Culture	The spread of cultures across regions and continents through international tourism and global broadcasting networks. Greater levels of cultural awareness and understanding in business. Business increasingly values language skills. More awareness of the need to protect local cultures.
Macroeconomic Policy	Countries increasingly coordinate and link their economic policies. Harmonisation of monetary and fiscal policies. Loss of economic sovereignty.
Migration	Movement of people and resources. People moving to other countries for work. Increasing importance of remittances of income to family members left at home.
Ideas and knowledge	Ideas and knowledge is increasingly available around the world as a result of computer networks, global media networks, travel and tourism. It is harder to protect intellectual property.

4. Economic links between national economies

The table above suggests a number of the ways national economies are now linked. There are links created through international trade in goods and services, through foreign investment and movement of finance between countries, through currency movements, through travel and tourism, through migration, through the impact of common shocks from changes in global commodity markets and through the spread of ideas, knowledge and understanding across the world.

The performance of one economy is linked to the performance in other economies. A problem in one economy or one market can spread to many places. Both good and bad economic performance is contagious and economies can be thought of as being coupled together.

For the first time, national economic cycles appear to have become synchronised, so it is reasonable to talk about a global economic cycle.

5. How has globalisation affected you?

As a result of globalisation the chances are:

- ✓ You are able to consume a wider range of products, made in global production networks and available at relatively low prices
- ✓ When you travel you find familiar products in unfamiliar places
- ✓ You may well work for a business that is foreign owned, in which key decisions are taken by people living outside Australia.
- ✓ You may well be speaking to a person in a call centre overseas when you contact a business in Australia
- ✓ The value of the currency will fluctuate in value – the value of $A will go up and down over time.
- ✓ You will be able to travel internationally and may work overseas during your career. You will need to speak more than one language and be sensitive to cultural differences.
- ✓ You will find your economic circumstances affected by economic events in other parts of the world
- ✓ You will belong to communities where people have diverse national backgrounds
- ✓ You will share ideas and information with people across the globe.

Activities

Task 1
Draw your own mind or concept map to highlight the key features of the globalisation process.

Suggestion: Start with a 'Globalisation' or 'Economic integration' in the centre. Think of some sub-headings and include these in your map working outwards from the centre. Then think of some 'sub-sub-headings' and so on.

Task 2


www.gol.net.gy/rweavers/intro.html

Explain how the villagers in the 'south and deep south' of Guyana have been able to engage with the process of globalisation. What enables them to sell their hammocks around the world? How are consumers in other countries aware of their traditional craft products and why do they want to buy them?

Task 3
The following list provides some possible examples of globalisation in action. For each example in the list decide (i) whether it is or is not an related to the process of globalisation, (ii) if it is , whether it is a cause, a characteristic or a consequence of the process and (iii) with which of the eight aspects of globalisation listed on the previous pages it can be best linked.

1	The customer service sector of an Australian telecommunications company uses a call centre in Bangalore, India, to deal with customer enquiries.
2	A Swiss insurance company out-sources back office tasks to a firm located 1000s of kilometres away in the Philippines
3	A sport footwear business designs its products in Boston, US, has them made in by a company in Vietnam and sells them through retailers in Paris
4	A car maker designs its cars in Japan, buys in leather upholstery produced in Argentina and an engine made in Mexico, for final assembly in their plant in Brazil, before it is sold to customers in San Francisco.
5	Tourists in Red Square in Moscow, Tiananmen Square in Beijing and Trafalgar Square in London enjoy familiar fast food burgers for lunch
6	Branded products such as Sony TVs and Toyota trucks are found in every continent of the world.
7	Indigenous people in Guyana earn income from selling handmade hammocks on the internet and people on Pitcairn Island sell their handicraft to customers around the world in the same way.

8	The price of Tapis Crude Oil in Singapore reaches US$150 a barrel in September 2008, before plunging to US$45 in December the same year.
9	A London based soccer team playing in the English Premier League has players of 10 different nationalities in their squad, none of whom are British.
10	British Airways, already planning a merger with a Spanish airline, hold merger talks with Qantas.
11	US car makers ask the US Senate for financial support and subsidies as sales plunge as a result of the 2008 global financial crisis
12	The Australian Dollar (A$) is one of the top 5 traded currencies in the world, but less than 3% of trade in the A$ is connected with the finance of exports and imports
13	Rio Tinto announces plans to cut 14,000 jobs worldwide and to cut expansion plans to reduce its US$39b debt in the face of weak global growth and fall in commodity prices
14	Researchers estimate that, when taken together, the products in an average Australian supermarket shopping trolley involve 70,000 kilometres of travel to get them there, nearly two circuits of the globe.
15	African countries fear a loss of remittances of income earned by their citizens working overseas.
16	An estimated 130m people in the world live outside the nation of their birth. Highly skilled workers take short-term contracts overseas, exporting their knowledge and skills
17	People in developed economies have a choice of hundreds of satellite TV channels, including dedicated 24 hour news and business channels
18	Over 150 countries being to the World Trade Organisation, a body which makes and enforces the rules that govern international trade
19	Governments around the world have taken coordinated action to cut interest rates and provide fiscal stimulus packages to revive their economies.
20	Of the world's 6b people, 1.2b live in extreme poverty, trying to survive on an income equivalent to less than US$1 a day. Over 3b people have an income of less than US$3 a day. Over half of the world's population have not made or received a telephone call.
21	Developed economies have 19% of the world's population, 71% of world trade, 58% of foreign direct investment and 91% of internet use.
22	600m people living in the world's least developed economies have a combined GDP that is less than the wealth of the world's richest 3 billionaires.

Task 4
Use the information in the table below to help you answer the questions on the following page.

Characteristic of globalisation	Indicator of globalisation
Trade flows	Changing patterns of trade Increasing volume of trade Increased import penetration ratios Trading blocs / Free trade agreements Trade / GDP ratio Level of effective rates of assistance or tariffs
Production and marketing	Global Supply Chains / Production networks Sweatshops - Corporate Social Responsibility Global and niche markets; global brands and highly specialised products Structural change - deindustrialisation e-Commerce Cheaper, faster transportation (containerisation)
Investment flows	Increasing levels of foreign direct investment Increasing number of multi-national or trans-national corporations Decline of state run businesses in economies in transition
Capital and financial flows	Commodity markets Currency markets Financial markets - deregulation Capital markets (international stock markets)
Culture	Multiculturalism Cultural imperialism Global media networks Movies, TV (Discovery Channel), music and

	sport (EPL) experienced all over world International tourism
Macroeconomic policy	Harmonisation of monetary and fiscal policy Coordinated response to sub-prime financial crisis Common currencies International organisations (WTO, IMF, World Bank, UN, NGOs) Loss of national economic sovereignty
Migration	People living overseas Guest workers / Contract workers
Ideas and knowledge	Global media networks Internet / Satellite New tools of communication – web2 Speed / Reliability / Falling costs Falling costs

Question 1
Find three stories from recent news reports (e.g. from www.abc.net.au/news, google new search or newspapers) and for each state:

a) what the story is about
b) what characteristic of globalisation it can be linked with
c) whether the story is presented as a good or bad news story

Question 2
Select 5 of the indicators listed in the table above. For each one

a) suggest how change in this area can be measured
b) the relevance of this to the process of economic and social integration

Question 3
Try to think of 5 more indicators of globalisation. For each new indicator suggest:

a) with characteristic of globalisation it can be linked
b) the relevance of this to the process of economic and social integration

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Task 5
Brainstorm OR Listen and watch* OR Read** OR Conduct a survey*** to produce a brief report covering the following questions:

a) Globalisation: what is it?
b) Globalisation: what does it involve
c) Globalisation: how does it affect you

* Some possible sources to listen to or watch
http://youthink.worldbank.org/multimedia/gallery/globalization/slideshow_globalization2007.php
Search on YouTube for 'Globalization: What does it really mean?'
OR
** An article to read through
Read: http://www.guardian.co.uk/world/2002/oct/31/globalisation.simonjeffery
*** The survey could involve people at school or people you come into contact with outside school. You could video or record your interviews.

Task 6
Produce a photo essay to illustrate how globalisation impacts on you and your world. Where possible the photos should be original. Each photo should be supported with a caption of up to 100 words to explain how it illustrates the globalisation of your world.

Task 7
Prepare a 60 second speech on what would life be like in 'a local world' – where there were very few links with other countries.

Task 8
Conduct 'country or origin' research of 20 products (e.g. in your bedroom, kitchen or living room, or in a supermarket or shop).

a) Present and analyse your results in an appropriate way
b) Compare your finding with those of others in your group
c) Does the country of origin information on the product or packaging tell the full story? What are the pitfalls of this research project?

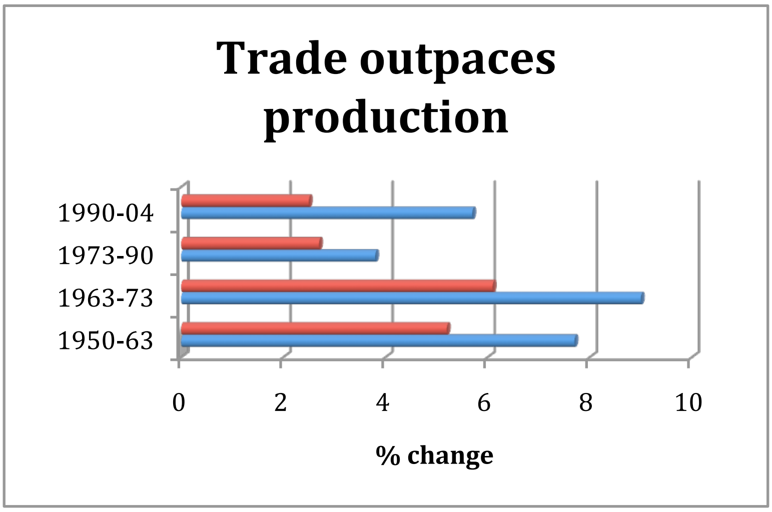
Task 9

Use the chart below to estimate the extent of globalisation in Australia. Rate each area listed in the left hand column according to the level of freedom to trade or transfer these products or resources in and out of Australia using a zero to ten scale. Zero = interaction not possible, 100% government restriction while ten = compete freedom to interact, no government restrictions or controls at all.

	0 1 2 3 4 5 6 7 8 9 10
Trade in agricultural products	
Trade in services	
Overseas travel / tourism	
Trade in manufactured goods	
Investment	
Finance	
Migration	

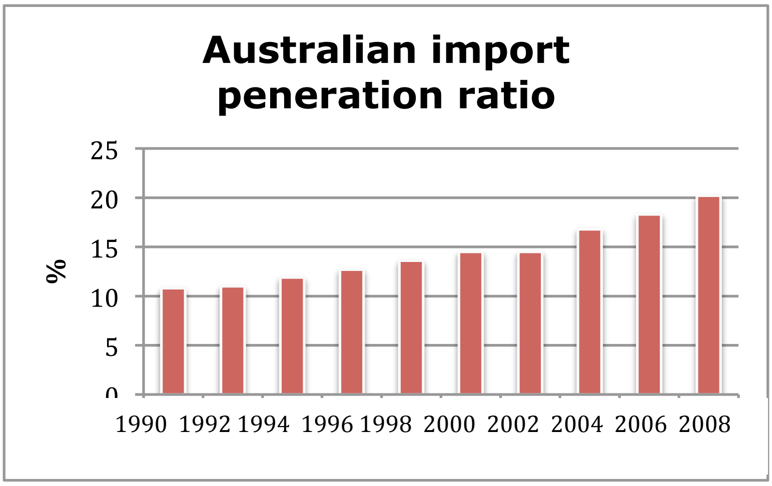
Task 10 - Data interpretation

Trends on global output and trade (% change per year)			
	1980-89	1990-99	2000-04
Global GDP growth	3.3	3.2	3.8
World trade growth	4.5	6.5	6.2
World trade (% of GDP)	19	21	25



Top bar shows growth of world production, lower bar shows growth in world trade

Source WTO



Bars show imports of goods and services for Australia as a percentage of total final expenditure.

Source OECD Economic Outlook

1. To what aspect of globalisation do the three pieces of data refer?
2. Describe, using data from the tables and charts, the trend in this area of globalisation.
3. Suggest three reasons why international trade is becoming a more significant feature of many economies.
4. How is an import penetration ratio calculated? Identify two benefits and two costs for Australia of a rise our import penetration ratio.

Summary

1. Globalisation is a term used to describe the process towards closer international economic and social integration.

2. There are a number of dimensions to this process including:
   a) increasing levels of international trade
   b) shifts in production from one country to another
   c) the creation of global products and global markets
   d) freedom to move finance and capital around the world
   e) increasing levels of foreign direct investment
   f) a greater presence of multinational corporations
   g) developments in transportation, which has become cheaper, faster and more reliable
   h) developments in information and communications technologies
   i) greater opportunities to travel and experience different cultures
   j) development of closer links between the macroeconomic policy settings of individual governments

3. The process of globalisation has been promoted or driven by changes business strategy, changes in government regulation and changes in consumer demand.

4. The latest wave in the process of globalisation has been made possible by:
   a) changes in information and communications technologies
   b) changes in transportation
   c) changes to government policy
   d) rising incomes and changed expectations through travel

5. The outcomes from the current wave of globalisation include;
   a) higher incomes and wealth
   b) more jobs
   c) a significant reduction in poverty

6. The benefits of globalisation have not been available to all people in all countries of the world. The gains have not been achieved without cost.