

Globalisation

Definition

Globalisation is the increasing interdependence of different economies.

Key characteristics of globalisation

Rising trade between countries (Increased trade-to-GDP ratios)

Globalisation is linked to higher exports and imports as trade barriers fall and transport becomes cheaper. One way to show this is world trade rising as a share of global GDP over time.

For example since the 1970s, world trade as a percentage of global GDP has **nearly doubled**, peaking at approximately **61% in 2008**

Increased international movement of financial capital (FDI)

More money moves internationally, especially through foreign direct investment (FDI), where firms invest in physical capital abroad such as factories and machinery.

For example the total value of foreign owned physical assets **is over \$44 trillion** representing roughly **44% of global GDP** .

Improved transport

Improvements in transport and the internet make it quicker and cheaper to trade, coordinate production, and reach customers abroad. This also supports higher migration and faster spread of ideas and culture.

For example containerisation slashed the average cost of loading a ship from **£5 per ton to just 10 pence** .

Increased specialisation

Countries can focus on producing the goods/services they have a comparative advantage in. By concentrating resources into the most efficient industries, productivity rises and unit costs fall, which increases output and living standards over time.

For example, Bangladesh specialises in garment manufacturing . Saudi specialises in oil exporting e.g oil still accounts for roughly **74% of Saudi export earnings**.

Causes of globalisation

Improvements in transport

Cheaper and quicker to move goods and people across borders.

For example since the mid 20th century, the real cost of air passenger travel has fallen by over 60%,

Improvements in technology

Technology reduces the costs of operating across borders and allows easier movement of financial capital . For example the daily turnover in the global foreign exchange market has surged from \$500 billion in the 1980s to over \$7.5 trillion today.

Containerisation

Makes shipping **much faster, cheaper and more reliable.**

As transport costs fell, it became profitable to trade more goods over long distances and to **split production across countries** (global supply chains), accelerating world trade .

For example estimated to have caused a **790% increase in trade** over the 20 years following its adoption.

Trade liberalisation

Trade agreements, tariff reductions and trading blocs reduce the cost of importing and exporting. This increases trade volumes and encourages specialisation, and the WTO is often linked to this process through its role in promoting trade negotiations.

Impacts of globalisation on stakeholders

How has globalisation affected individual countries?

Positives for countries

Globalisation can increase economic growth by giving countries access to larger export markets. Higher exports increase aggregate demand (AD), real GDP and employment. Rising incomes increase consumption, while greater tax revenue allows governments to spend more on healthcare, education and infrastructure, improving living standards.

For example, South Korean exports led growth . Export revenues went from **under \$1 billion in the 1960s to over \$600 billion annually**, elevating national living standards.

Globalisation can attract foreign direct investment (FDI) from multinational companies. This creates jobs and introduces new technology, skills and management techniques. It raises productivity and productive capacity, shifting LRAS to the right. For example, Ireland's low corporation tax rates has attracted companies such as Apple and Google ,bringing **over €1.3**

trillion in foreign direct investment stock and generating employment for **over 180,000 workers**.

Negatives for countries

Globalisation can cause structural unemployment when domestic firms cannot compete with cheaper foreign producers or relocate abroad. For example Yorkshire coal mines closing, eliminating over 200k UK mining jobs .

Countries may become dependent on exports. If a company relocates or global demand falls, employment, exports and tax revenue can decline leaving countries susceptible . For example over 70% of Saudi Arabia's total export revenue is from crude oil . Also Raw copper accounts for over 70% of Zambia's total export revenue .

How has globalisation affected governments

Positives for governments

Globalisation can raise government revenue as higher trade and economic activity will increase tax revenue.

It can also attract inward investment from MNCs (FDI), boosting jobs and growth.

Negatives for governments

Governments may feel forced into tax and regulation competition to attract MNCs, such as lowering corporation tax or deregulating. This can reduce tax revenues and weaken worker protections. For example the UK slashed its **Main Rate of Corporation Tax from 28% in 2010 to 19% by 2017** to attract MNCs .

Globalisation also makes tax avoidance easier for large firms. Transfer pricing and profit shifting allow profits to be recorded in low tax jurisdictions, reducing the corporation tax governments actually collect. For example the European Court of Justice ordered **Apple to pay £13 billion in back taxes** to Ireland .

How has globalisation benefited Firms

Positives for firms

Globalisation can reduce costs because firms can **relocate** production or outsource parts of the supply chain to lower cost countries. This cuts **labour** and input costs, lowers unit costs, and can shift SRAS to the right. For example **Apple** outsources iPhone assembly to **Foxconn in China** to leverage lower labor costs .

It also expands market size. Access to international consumers lets firms scale up, gain economies of scale (e.g. bulk purchasing and larger production runs), and reduce LRAC, which can improve profitability and allow lower prices.

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Global competition can push firms to innovate, improve efficiency, and raise productivity over time. This can support long run growth in productive capacity.

For example **Dyson** relocated its entire vacuum manufacturing from the UK to **Malaysia** to slash production costs and move closer to its primary component suppliers in Asia.

Negatives for firms

Globalisation can intensify competition, making it harder for smaller domestic firms to survive (as large firms can use strategies like outsourcing but small firms do not have the same luxury) . Large TNCs can use their lower costs and economies of scale to charge lower prices, undercut rivals, and increase market share.

How has globalisation benefited Consumers

Positives for consumers

Globalisation often lowers prices as competition forces firms to cut costs and become more efficient.

Consumers also benefit from greater choice, including access to global brands and products that may not be produced domestically. Competition can improve quality as firms innovate to attract customers, especially in fast moving sectors like IT.

For example **UK consumers gain year round choice**, with imports supplying **80%+ of fresh fruit and 50% of vegetables**, regardless of season.

Negatives for consumers

It may also reduce consumer happiness. Greater exposure to global products and advertising can raise expectations and increase the desire for more goods and services, which can create dissatisfaction rather than wellbeing.

How has globalisation benefited workers

Globalisation changes workers' opportunities and wages, but the effects are uneven.

FDI from MNCs can create jobs and raise incomes through multiplier effects, and training can improve skills (human capital).

Globalisation also increases international work opportunities, shown by rising remittances sent back home each year.

How has globalisation harmed workers

Structural unemployment can rise with globalisation because trade liberalisation and comparative advantage encourage countries to specialise. As a result, many labour

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intensive manufacturing industries relocate to developing countries where production is cheaper.

For example Hartlepool's unemployment rate reached a UK high of **30% in 1970s** as its comparative advantage in shipbuilding and steel collapsed due to lower cost global competition, leaving thousands of workers **unemployed and occupationally immobile**

The environment

Globalisation can raise emissions through increased transport and shipping and faster industrialisation. Specialisation can also intensify resource extraction, contributing to issues like deforestation and biodiversity loss.

On the other hand, specialisation can improve efficiency, and global information sharing can increase environmental awareness. Consumer and investor pressure can also encourage firms to adopt greener practices.