CHAPTER 3

Globalisation

Key Theme

A single interdependent global economy has emerged with different areas having different roles.

Learning Outcomes

At the end of this chapter you will be able to:

- Explain the term globalisation.
- Describe and explain the causes and impacts of globalisation.
- Identify the regions excluded from manufacturing activities and explain the reasons for this exclusion.

SAMPLE

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3.1 Globalisation

> **Globalisation** is the increasing political, social and economic inter-connection of people and countries around the world.

In the past most countries were almost self-sufficient and did not rely on other countries for much of their wealth. Countries could supply their own needs and did not trade with many others. Businesses in any country could survive by using local raw materials and supplying just the local market. Over time this situation changed so that today countries depend very closely on each other for their raw materials, their labour force and their market.

People around the globe are now more connected to each other than they ever were in the past. Information and money flow around the world in an instant due to modern communication methods. Today, Ireland's economy is the most globalised economy in the world.

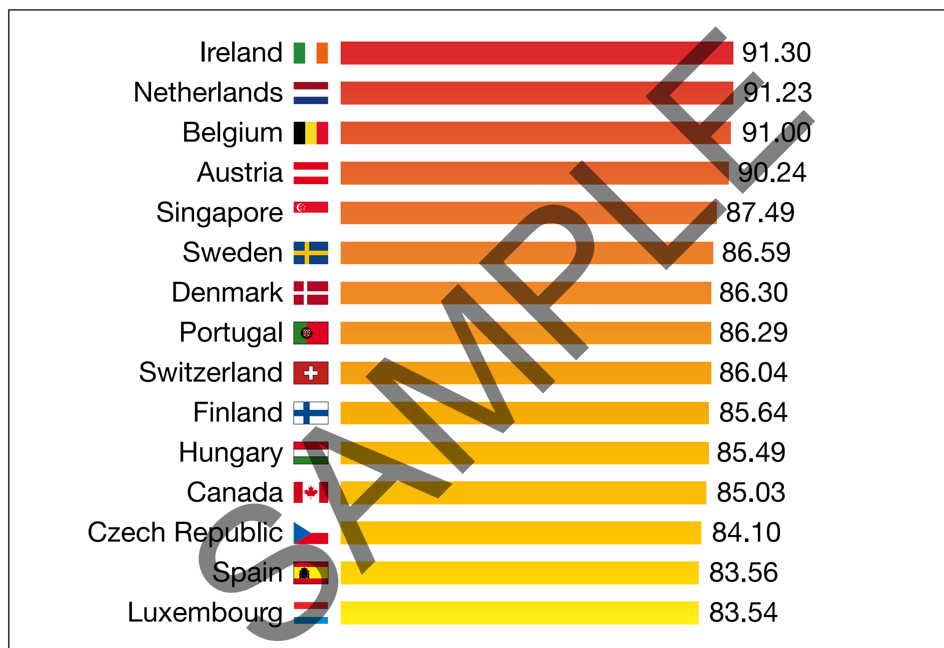

Fig. 1 The world's most globalised countries are mainly in the EU.

Types of globalisation

1. **Economic globalisation:** Countries that trade with many others and who have few trade barriers are economically globalised (open). Ireland is second out of 207 countries in the world for this type of globalisation. The Netherlands is first.

2. **Social globalisation:** This is a measure of how easily information and ideas pass between people within their own country and between different countries. It includes access to the Internet and social media networks such as mobile phone apps, Facebook and Twitter. Ireland is fourth in the world for this type of globalisation, while the Democratic Republic of Congo is last.

3. **Political globalisation:** This is the amount of political co-operation there is between countries. Ireland is 25th in the world for this type of globalisation. Italy is first.

3.2 The causes and impacts of globalisation

Causes of globalisation

Globalisation has occurred because of a number of developments in the modern world.

Fig. 2 Modern technology enables constant rapid communication.

1. The development of modern communications

Globalisation has occurred because of instant business and social communications between people. Technologies such as the Internet, email, mobile phones and satellite TV are the most important causes of globalisation. Without **rapid communications**, multinational companies (MNCs) could not operate as efficiently in different countries, thousands of kilometres apart and across different time zones.

Fig. 3 Massive volumes of goods can now be moved around the world using container shipping.

2. Improved transport

Container ships were developed in the 1950s. Since then the growth of faster and larger container transport and the increased use of aircraft and bulk shipping (**containerisation**) have allowed the movement of massive volumes of goods around the world. Ports such as Rotterdam and Hong Kong handle millions of tonnes of goods each year which have travelled thousands of kilometres. Speedy, efficient handling of goods has enabled the globalisation of agriculture. In our shops we can buy fresh apples flown to us in refrigerated containers from Brazil and green beans from Kenya as well as many other products such as grapes which in the past would have spoiled en route.

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3. Free trade agreements

Trade agreements between countries and groups of countries (**trade blocs**) have allowed more goods and services than ever before to travel across the world. The removal of **trade barriers** and the creation of free trade areas (EU, Mercosur, North American Free Trade Association) have encouraged the globalisation of trade.

The **World Trade Organisation** (WTO) is the international body which deals with the **rules of trade** between countries. Based in Geneva in Switzerland, it promotes global free trade (see Chapter 9).

> **Trade barriers** are tariffs (taxes) and controls on imported goods in order to protect native industries in a country.

4. The development of globally linked financial systems

Money is the major product on the global market today. Every day of the year roughly $5 trillion dollars are traded on the international currency markets.

Stock exchanges control the movement of money around the world. All their trade is now electronic. The speed at which this is done allows companies to operate in many different countries. Four major stock exchanges control the majority of the world currency movements. They are located in London (LSE), New York (which has two: the NASDAQ and NYSE) and Tokyo (TSE). All the stock exchanges are linked by modern communications technologies.

Some multinational companies have entire departments just for dealing with international trade.

Fig. 4 Stock exchanges rely on rapid communications.

5. The growth of multinational companies

Multinational companies operate in different locations around the world in order to lower their production costs and maximise their profits. Investment by MNCs in businesses such as mining, food processing, production plants and offices around the world is a major cause of globalisation. Rapid communications between the various **branch plants** of the MNCs located across the world have allowed the coordination of design, manufacture, transport and marketing of many products. Games consoles and phones are good examples of this. Design of a product may take place in America, manufacture of this product may occur in South-East Asia and then the product might be transported by ship or air to be sold in Europe. Sony, Apple and Microsoft are examples of MNCs who work this way.

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The Effect/Impact of Globalisation on Developed and Developing Economies

CHAPTER 3

Case Study 1

1. The impact of globalisation on a developing country: Brazil

Most developing countries such as Brazil want to benefit from globalisation. They can do this by increasing foreign trade, receiving more foreign direct investment (FDI) from MNCs as well as organising more foreign aid and loans.

In order for Brazil to benefit from globalisation, it had to undergo important political and economic changes. These changes were largely successful. Brazil is now one of the most powerful developing countries and could become part of the G7 group of rich economies.

Changes made to encourage globalisation of the Brazilian economy and their impacts

1. Political change

One major political change involved reducing **corruption** at government level. Up to the 1990s

business in Brazil was difficult due to high levels of corruption in banking and government. Foreign companies and investors were discouraged by this. Many did not want to be associated with corrupt politicians and therefore would not invest in Brazil.

In order to benefit from the global economy and attract foreign investment, Brazil had to have an honest and open legal and banking system. Laws to reduce corruption were introduced. The legal system was reformed.

- **Impact:** These changes encouraged more external investment in Brazil. In fact, over the last ten years **foreign direct investment (FDI)** into Brazil has averaged 5.5% of the country's GDP. However, due to claims of political corruption, the country's ranking in the Corruption Perceptions Index has dropped from 46 to 79 out of 168 countries. This may have an effect on FDI levels.

2. Removing trade barriers

Important economic changes were also made in order to increase trade. For a country to participate in a globalised economy it must open its industries, agriculture and services to competition from other countries. Brazil did this by becoming a member of **Mercosur**, the southern common market in 1991, and by negotiating with the World Trade Organisation to reduce or remove trade barriers.

- **Impact:** The removal of barriers to trade and investment had a major influence on the Brazilian economy. This allowed trade to increase. Before the 1980s, industries and agriculture in Brazil were heavily protected by trade barriers and tariffs. The **Import Substitution Industrialisation (ISI)** scheme also protected Brazilian industries from international competition. While this protection did allow economic growth, it limited the amount of growth that could occur.

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3. Increased foreign direct investment

The government introduced a major privatisation programme and sold many state-owned industries such as telecoms, power, steel and cars to foreign investors. This encouraged more foreign direct investment (FDI) into the country by multinational companies such as Ford Motors.

- **Impact:** The impact of globalisation has led Brazil to open its economy to global competition and avail of **International Monetary Fund (IMF)** loans to allow further growth in the economy.

Fig. 5 Brazil has removed trade barriers and accepted imports from other countries.

The group of **G7 countries** contains seven large world economic powers. At present the G7 is made up of: Canada, France, Germany, United Kingdom, Italy, Japan and the US. The G7 represents 64% of net global wealth.

Other impacts

More choice for consumers

Fig. 6 São Paulo, Brazil: car sales in this city rise and fall depending on economic circumstances.

Globalisation of the Brazilian economy had important impacts including giving the population better access to consumer goods such as food, modern cars, personal computers and household appliances. For example, car sales in Brazil made it the fifth largest market in 2010, but economic downturn and world recession caused sales to decrease so that today it is the tenth largest car market in the world. MNCs such as Ford, General Motors, Volkswagen and Honda have located there.

Dependence on other countries for economic growth and stability

Having a globalised economy also means that Brazil, like Ireland, is at the mercy of international stock markets. In the 1990s foreign investors rushed to leave Brazil when its close South American trading partner, Argentina, suffered a financial crisis. At the time, Brazil's economy was strong but was soon threatened by decisions made by investors in other countries. This is typical of the impact of globalisation, where the fate of countries does not seem to depend on the health of their economies, but more on the passing waves of good and bad expectations that wash over the stock markets in New York, Tokyo, Frankfurt, Shanghai and London.

Fig. 7 Countries with globalised economies are at the mercy of international stock markets.

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CHAPTER 3 Case Study 2

2. The impact of globalisation on a developed country: Ireland

The globalisation of the Irish economy

Ireland is the most globalised (open) economy in the world. This is not a recent occurrence. Ireland's globalisation began in the 16th century. As a colony of the British Empire, Ireland gained new trade links as part of the Empire's worldwide trade network.

- With independence in 1922 some trading partners were lost. In addition, the newly independent Irish government of the 1930s introduced very high tariff (tax) barriers on imports (**protectionism**). The effect of this policy was that up until the 1950s, businesses in Ireland were protected from having to compete with foreign firms.

- These trade barriers protected Irish industries but prevented Ireland's trade with other countries and discouraged foreign direct investment (FDI). The trade barriers also limited the number of countries with which we could trade. Protectionism restricted Irish industry to traditional manufacturing of food, textiles and timber products. At this time the main markets were the Irish home market and the UK.
- After this period, Ireland became part of the global economy. Trade barriers were reduced from the 1950s onwards, allowing trade with more countries. The globalisation of the Irish economy has led to increasing trade in services and a wider variety of consumer goods and manufacturing, e.g. software and pharmaceuticals.

The impact of globalisation on the Irish economy

1. Change in products

- A key part of Irish government industrial policy over the past four decades has been to promote the change from traditional activities, e.g. clothing, to **high-tech sectors**, e.g. pharmaceuticals and software. This is because traditional industries are labour intensive and therefore at risk of competition from low-wage countries.
- The Irish government has also promoted service industries such as financial and software services, professional services (e.g. engineering and architectural services), **research and development (R&D)** services and communications.

R&D is work directed towards the invention, introduction and improvement of products and processes.

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2. New markets developed

- Before Ireland's economy became so globalised (open), it traded mainly with the UK. Since the Irish economy became more open we now trade with many more countries around the world. However, the globalisation of Ireland's economy has been very uneven. Ireland now has much stronger trade links with some countries than with others, e.g. 16% of Ireland's trade is with the UK.
- Our main trading partners today are Europe, Asia and the US. The US is an important supplier of capital and intellectual services to Ireland. Asia is growing as a source of manufactured imports. Ireland's trade in finished products is mostly within Europe.
- Because of its small population, Irish industry has had to look abroad for its markets if its industries and businesses are to grow. Ireland now trades with many more countries than it did 30 years ago. However, the US is still the largest non-EU market for Irish manufacturing firms. Changes to US economic policy, e.g. closure of MNC branch plants in Ireland or a reduction of the US corporation tax rate, could have a significant effect on the Irish economy.
- Today globalisation is seen as both an opportunity and a threat for Ireland. Globalisation provides the chance to sell goods and services abroad. However, if Ireland becomes uncompetitive in labour and energy costs, its domestic industries will decline due to competition from the imports of cheaper goods and services.

- Exports from Ireland have been a very important part of Ireland's economic recovery since 2014. Today they are worth €111 billion to our economy each year.
  The table below shows the destination of Irish exports in 2017.

European Union	52%
USA	24%
Switzerland	5.5%
Japan	3.5%
China	2.1%

Fig. 8 Top 5 Irish export destinations 2017

3. Dependence on foreign-owned companies for our exports and employment

- The large number of US firms present in Ireland is due to the successful promotion of Ireland by the IDA as a manufacturing location and export base within the European Union for American companies. In 2016 foreign-owned companies based in Ireland employed 1 in every 5 people.
- Ireland's ability to export goods is very dependent on the 700-plus US firms located here, e.g. Intel.
- A disadvantage of the existence of so many foreign-owned companies in Ireland is that it increases the exposure of Ireland to changes in the global economy, e.g. **Brexit** and potential changes to US corporation tax rates.

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4. Increased dependence on other economies for our economic growth

- Ireland trades with the rapidly industrialising Asian economies (China, Hong Kong, South Korea, Malaysia, Singapore and Taiwan) as well as with the US and South America. As 90% of Ireland's total trade is with just 21 countries, anything that happens to these economies also affects Ireland. Because of this dependence, the Irish economy is at risk of being affected by international recession.
- Any reduction in US investment into Ireland, say because of changes in global tax arrangements or a downturn in the US economy, would have a serious impact on the Irish economy. Also, the decision by the UK to leave the EU (Brexit) will impact on Ireland's economy. Similarly, a global slowdown in the high-tech or financial services sectors would also greatly affect Ireland, since such a large amount of Irish trade is concentrated in these sectors. As well as the direct impact on employment, corporation tax revenues would also be reduced.

5. Dependence on knowledge industries rather than labour-intensive manufacturing

- Ireland has benefitted hugely from being a welcoming English-speaking and low-tax destination for foreign direct investment into Europe. However, while Ireland will be the only English-speaking country in the EU post Brexit, the English language is now much more widely spoken in Central and Eastern Europe than it was in the past. Furthermore, these countries are also adopting lower-tax regimes. Ireland now has to compete with them

for investment. One way to do this is to focus on attracting businesses that supply knowledge and ideas for companies, e.g. film animation, pharmaceutical development and financial services. This is why investment in Irish education is so important to Ireland's future economic growth.

Fig. 9 High-tech industries are attracted to Ireland because of our educated workforce.

Physical and human impacts of globalisation

Globalisation is having an impact on many areas of our lives. We see its impact in the following ways:

1. Damage to the environment
2. Changed food supply
3. International division of labour
4. Less job security
5. Cultural impact
6. Increase in anti-globalisation protests

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1. Damage to the environment

Globalisation damages the environment. It means more trade which demands the use of even larger quantities of fossil fuels for power and transport. This causes more pollution. Climate change is a genuine and serious threat to our future, requiring a drastic reduction in greenhouse gases.

2. Changed food supply

Nowhere is the impact of globalisation more evident than in the supply of food. We now have access to a greater variety of foods from across the world than ever before. Our choice has been improved and our diet has become more varied. Food supply is no longer tied to the seasons. We can buy food anywhere in the world at any time of the year.

The ingredients of the average meal today now travel thousands of kilometres before they reach the family plate. French supermarkets sell garlic from Chile, while Irish supermarkets sell apples from New Zealand, often at cheaper prices than those grown locally.

Fig. 10 Globalisation has hugely changed the supply of food.

3. The International Division of Labour between the North and the South

The **international division of labour** is the location of different types of jobs in different countries. It occurs when the production of an item is no longer confined to just one country. Production processes may be moved from developed countries (e.g. the USA, Europe and Japan) to low-wage developing countries in Latin America (e.g. Brazil) and Asia (e.g. China, India). This is because multinational companies search for the cheapest locations to manufacture and assemble components. Therefore the low-cost **labour-intensive** parts of the manufacturing process are moved to the developing world where costs are lower. MNCs can do this because of the availability of rapid global transportation and communications technology.

Labour intensive products need many workers to make them. Their manufacture is carried out by people rather than machines, e.g. shoes and clothing.

A **capital intensive** business requires large amounts of money and other financial resources to produce a good or service. Manufacturing is capital intensive because it is highly mechanised and requires very few staff, e.g. the automobile industry, pharmaceuticals, the chemical industry and oil refining. Labour costs do not make up a large portion of the production costs.

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4. Less job security

In the global economy jobs are becoming more temporary and insecure. Across the industrialised world, wages are falling while working hours are increasing. Zero-hour and temporary work contracts are becoming more common. The concept of a job for life has become a thing of the past. A survey of American workers showed that people now change jobs 8 times in their working life. Workers in the South (see page 13) are becoming increasingly dependent upon large foreign corporations for employment. They can then be forced to accept lower wages and poorer working conditions.

5. Cultural impact

The cultural impact of globalisation is massive. We are more connected to each other by Internet communications. Twitter, YouTube, Facebook and WhatsApp, as well as blogs and podcasts, connect people across the planet. As the world economy becomes ever more unified, rural areas are being ignored and diverse cultures are lost. MNCs can create a global **consumer monoculture** where everyone buys the same things because these companies are able to enter a country easily and remove local competition by spending millions on advertising, product distribution and product placement, often forcing local firms to close.

6. Increase in anti-globalisation protests

There is a growing awareness of the negative impacts of globalisation. A protest movement is developing that involves members of the public, sympathetic politicians, religious bodies, labour unions and environmental pressure groups. People have begun to realise that the negative effects of globalisation can be challenged by communities supporting each other and through public protest and political lobbying.

3.3 Core and peripheral regions in the global economy

Countries excluded from the global manufacturing economy

Many Least Developed Countries (LDCs) have not developed manufacturing industries. These undeveloped countries are located in Africa, South-West Asia and parts of South America (Bolivia, Ecuador).

There are many reasons for the lack of manufacturing in these regions.

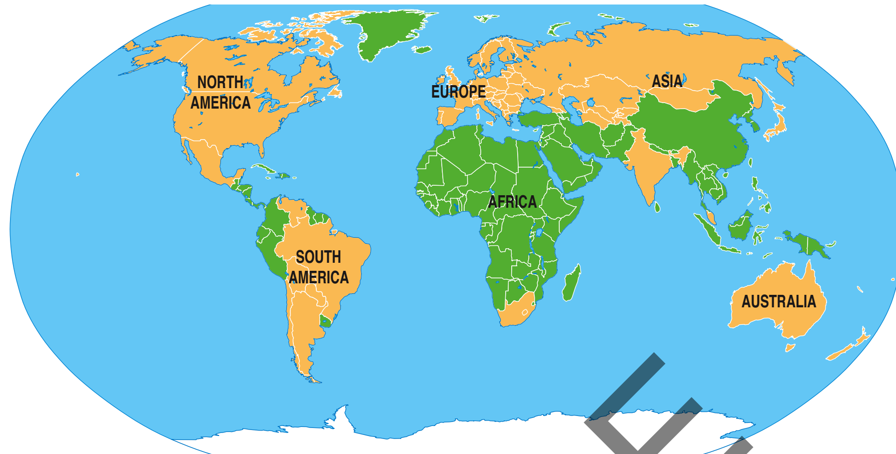

Fig. 11 Regions (in green) which do not have a well-developed manufacturing industry

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1. Colonisation

In the 19th and early 20th centuries, colonial powers such as Britain and France protected their own manufacturing industries. They did this by preventing the colonies they controlled in Africa, South America and Southern Asia from developing their own manufacturing industries. Colonies were allowed to provide raw materials for export only.

Despite gaining independence, some of these former colonies have still not yet managed to develop their own manufacturing industry.

2. Conflict

War and conflict discourage companies that wish to locate in a region, e.g. Syria. Many countries in Africa are experiencing violent drug related, civil or religious conflict (e.g. Nigeria, Northern and Southern Sudan). The resulting refugee crises and destruction of infrastructure prevent any economic development. They have central governments that are so weak that they have little or no control and do not provide public services. There is also widespread corruption and criminality. These countries have refugees and forced migrations of people due to conflict. These problems mean that many African countries are considered to be **failing states** (see Fig. 12). Such failed states are not secure locations for modern industrial development, e.g. Yemen, Oman.

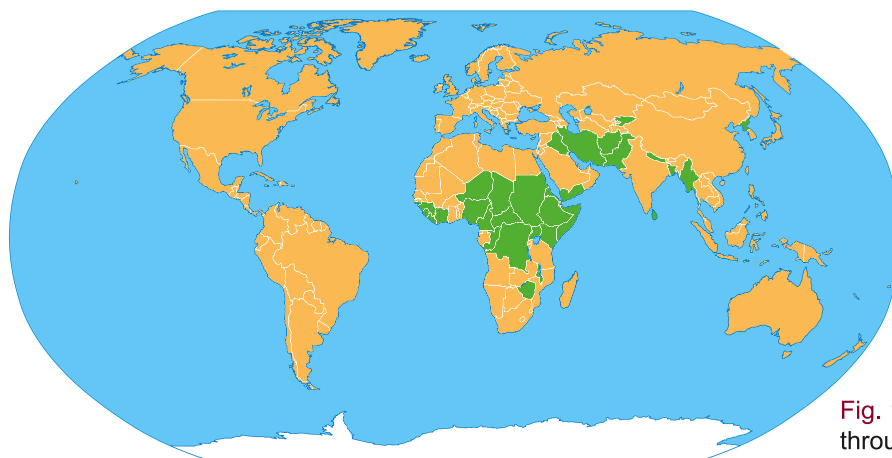

Fig. 12 Failing states throughout the world (in green)

3. Lack of government

For many undeveloped countries where government structures are absent or poorly developed, the challenge of following all of the trade rules is huge (e.g. Afghanistan). Many of these countries have very slow, complex systems for dealing with international trade which makes it difficult and costly for companies to trade with them. Outdated rules and regulations prevent industrial development. These countries therefore lack modern large-scale industrial development.

4. Non-membership of global trade groups.

Countries that are not part of any global trade agreements are excluded from the global economy. Countries that have not become members of the WTO or any trade bloc or who have not signed any preferential trade agreements with the EU or NAFTA are isolated from world trade. This is not necessarily because they were actively excluded by other trading nations. It is often due to the choice the governments concerned have made.

Countries that are excluded from world trade are therefore in a weak position in the global economy. The poorer a country is, the less likely it is that others will have any interest in trading with it, e.g. North and South Sudan.

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5. Lack of infrastructure to encourage manufacturing

Manufacturing will not develop without access to basic infrastructure such as water, electricity, phones, road, rail, air and internet.

Sub-Saharan Africa, especially, has many disadvantages for industrial development because of its lack of infrastructure.

- About 35% of the Sub-Saharan African population has access to electricity.
- 68% of the African population has access to safe water and sanitation.
- Roads account for over 90% of passenger and freight transport within Africa compared to around 50% of freight in Europe. Road infrastructure is poorly developed in many African countries, e.g. South Sudan.
- Rail network coverage is sparse; few towns are connected to a rail route. This prevents development of industry.
- Transport costs are among the highest in the world. In landlocked countries transport costs make up 70% of the total export cost.

A better connected Africa would create larger markets, encourage industrial development and help aid programmes achieve their goals. Mobile communications is a growth industry in Africa with 46% of the population subscribed to a mobile network. The most connected countries are Nigeria, Egypt and South Africa.

Chapter Revision Questions

1. Explain the term: globalisation.
2. Describe the three types of globalisation.
3. Name the three most globalised countries in the world.
4. What technologies have helped globalisation to occur?
5. Explain how the following factors have caused globalisation:
   (a) Communications
   (b) Transport
   (c) Multinational companies
   (d) Financial systems
6. Explain four ways in which Brazil has been affected by globalisation.
7. Explain four ways in which Ireland has been affected by globalisation.
8. Describe the impact of globalisation on our lives using the headings:
   (a) Foods
   (b) Employment
   (c) The environment
9. Explain the terms: labour intensive, capital intensive.
10. Explain the term: international division of labour.
11. Explain the term: R&D.
12. Name the three global economic peripheral areas of the world.
13. Name and explain three reasons for the lack of manufacturing industry in undeveloped regions of the world. Refer to specific places in your answer.
14. What is meant by the term 'failed state'. Name an example.

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LC Exam Questions

Higher Level students must be able to answer Ordinary Level and Higher Level questions.

OL Questions

15. (a) Name **one** developing economy that you have studied.
    (b) Name and explain **one** cause of globalisation of the economy you named.
    (c) Explain **two** effects of globalisation of the economy you named.

16. (a) Name a developing economy you have studied.
    (b) Describe **three** causes of the globalisation of that economy.

HL Questions

17. Explain the effects of globalisation on the economy of a developing country that you have studied.

18. Examine the causes and effects of globalisation with reference to a developing country that you have studied.

Key Words
Chapter 3

Key Words

You should be able to explain both verbally and in writing each of the key words listed below.

Brexit
consumer monoculture
containerisation
corruption
economic globalisation
failing states
Foreign Direct Investment (FDI)
G7 countries
globalisation
high-tech sectors
Import Substitution Industrialisation (ISI) Scheme
international division of labour
International Monetary Fund (IMF)
labour intensive
Mercosur
Multinational Companies (MNCs)
open economy
political globalisation
protectionism
Research and Development (R&D)
social globalisation
stock exchanges
trade agreements
trade barriers
trade blocs
World Trade Organisation (WTO)

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