

COMPONENT 4.1: International Economics: Basic Notes

GLOBALISATION (1)

Characteristics of Globalisation

- Flows of goods and services. - “free trade”
- Flows of people- migration
- Flows of capital- investment
- Flows of technology- visible through the internet
- Peter Jay: [Laertes] “snatches eagerly at the conclusion shaped for him”
- Roland Robertson: Compression of the world and the intensification of consciousness of the world as a whole
- World Bank: “Freedom and ability of individuals and firms to initiate voluntary economic transactions with residents of other countries”
- Growing interdependence and integration of countries
- Increasing volume and variety of cross border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology
- Global branding and global sourcing, although it is not just about the activity of global (transnational) companies (TNCs).
- Globalisation is characterised by increasing foreign ownership of companies, increases in trade in both goods and services, de-industrialisation in developed countries and increasing global media presence.
- Proportion of world trade should grow larger than world economic growth
- FDI should grow larger than total global direct investment
- Not a one way process, not continually growing in size
- Weaker economic growth has a greater effect on globalisation than increased economic growth- countries become less globalised
- Stalling of globalisation without economic growth
- Protectionism reduces=
- First coined by Theodore Levitt
- SURGES in History: Empires, Colonialism, UN, Cold War, NATO
- RETREATS in History: Fall of the Roman Empire, Trump, Nationalism

Factor Contributing to Globalisation in the last 50 Years	Further Explanation
Developments in IT	Incredible improvement in IT over last 25 years Capacity to handle data and communicate quickly and cheaply over large distances Allows firms to manage global supply chains efficiently Voluntary cross national transactions are encouraged Marginal costs are close to zero- but still high fixed costs Sometimes known as “the death of distance” Internet, email, phones, satellites
Transport Developments	Real unit transport costs falling on a global scale Bulk delivery by container ships- improvement in aeronautical efficiency - falling costs Specialist large scale global logistics carriers, increased efficiency- TNT, Fedex Increased ability to make use of comparative advantage that creates greater trade flows Containerisation: cheaper to ship goods, market more competitive, standard sized containers, easier to load and cheaper to distribute using rail and sea transport Helps to meet world demand Cargo can be moved twenty times as fast as before, economies of scale can be exploited and less labour is required Panama Canal revamp is an example of this BUT, the external costs can be great- environment and structural unemployment
Reduction in Protectionism	WTO has sought to reduce protectionism Tariffs, quotas and subsidies are inconsistent with globalisation- growth of trading blocs has both helped and hindered this process Growth of globalised products and TNCs leads to a continuation of this sort of economic integration Reductions in tariffs, however, have tended to be on goods which MEDC's wish to export- who is this helping?

Aim of Protectionism	Quota or Tariff
Limiting the Quantity Imported	QUOTA- expensive, tariff can always import more, no matter the price
Generating Revenue	TARIFF- set amount of money you can get from quota, limited supply, tariff is designed to collect revenue
Limiting Corruption	TARIFF- quota could be fake or bribed for
Limiting Smuggling	TARIFF- quota may be significantly below demand, people could just pay the price

IF TARIFFS ARE TO BE SUCCESSFUL IN REDUCING THE QUANTITY OF IMPORTS:

PES needs to be ELASTIC to reduce imports

PED needs to be ELASTIC to reduce imports

Non Tariff Barriers	Explanation
Bureaucratic Red Tape	Collection or sequence of forms and procedures required to gain bureaucratic approval for something, especially when oppressively complex and time consuming
Product Standards	Established by research and consensus. They define what products are made of, as well as how they perform
Domestic Content Law	Rules that favour the purchase, often by government departments, or the sale of goods produced by domestic enterprises
Domestic Subsidy	Monetary assistance granted by a government to a person or group in support of an enterprise regarded as being in the public interest
Capital Controls	These are measures a government uses to regulate international movements of its currency
Voluntary Export Restraint	A restriction on country's imports (quota) is achieved by negotiating with the foreign exporting country for it to restrict its exports
Finance and Telecom Facilities	The speed and ease of international payment, credit and insurance systems as well as the coverage and efficiency of internet and phone infrastructures

Impact of protectionist policies on consumers, producers, governments, living standards and equality:

- Protectionism could distort market and lead to a loss of allocative efficiency. Prevents industries from competing in a competitive market and is a loss of consumer welfare. Consumers face higher prices and less variety. By not competing in a competitive market, firms have little or no incentive to lower their COP.
- It imposes an extra cost on exporters, could lower output and damage economy.
- Tariffs are regressive and are most damaging to those on low and fixed incomes, could increase income and wealth inequality. However, taxes could raise more revenue for gov, could be used to redistribute income to poor or improve public services.
- Is a risk of retaliation from other countries, so countries might become hostile. Protectionism could lead to gov failure.

BALANCE OF PAYMENTS (7)

Components of the balance of payments

- BOP is a record of all financial transactions made between consumers, firms and gov from one country with other countries.
- States how much is spent on imports, and what value of exports is. Exports are g/s sold to foreign countries, and are positive in BOP. Because are an inflow of money.
- Imports are g/s from foreign countries, and are negative on BOP. As an outflow of money. BOP is made up of:
- The current account:**
- Includes all economic transactions between countries. Main transactions are trade in g/s, income and current transfers. Income transfers are from net earnings on foreign investment as well as net cash transfers. Include salaries and dividends. Current transfers are transfers that have no return, such as aid and grants. It includes payments UK makes for being a member of EU. have trad been negative for UK, due to these contributions and because of overseas aid.
- The capital account and financial account:**
- Capital transfers = transfers of ownership of fixed assets. Financial account involves investment. E.g., direct investment, portfolio investment, reserve assets part of financial account.

Causes of deficits and surpluses on the current account

- A current account surplus means is a net inflow of money into circular flow of income. UK has a surplus with services, but a deficit with goods.