Globalisation

Globalisation is the process that enables product, financial and investment markets to operate across the globe. The interconnection of business throughout the world has grown massively in the last 20 years. This change has come about because of deregulation of markets, political changes, the removal of barriers to trade and improved communication systems.

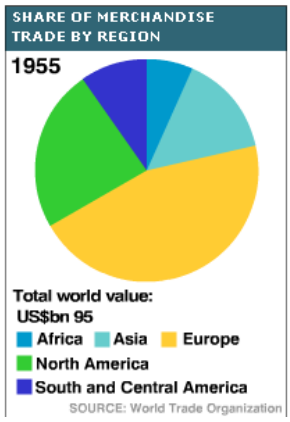
Globalization describes the interconnected nature of production, service and financial systems—interconnected between countries and across continents.

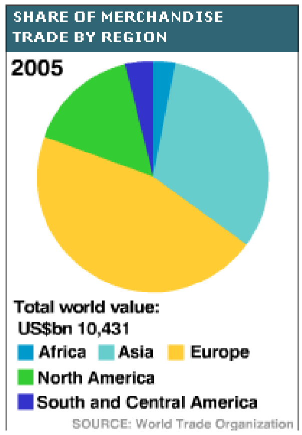
A huge proportion of the products in your home have been produced to a high quality and relatively low cost because of the process of globalisation.

If you are lucky enough to own an iPad, then the software was created in California, the screen produced in Taiwan, the chip designed in Britain, the case in Korea, and all put together in China. The product was then shipped using a European airline to the British market, all insured through Lloyds of London and the call centre to deal with any problems you may have is based in India - that is globalization.

The changing pattern of world trade

Looking at the pie charts below it is easy to see how the growing importance of Asia in world trade. Between 1955 and 2005 Asia nearly trebled it's share of trade, and the value has jumped from $10 billion, to $3,000 Billion, and since 2005 that figure has increase to $5,000 billion (around £3,000 billion).





Winners and losers from globalisation.

There have been a number of important winners from globalisation. These winners include;

- consumers in the west, with more choice and much cheaper goods. Increased competition also improves quality.
- businesses (multi-nationals) who can reduce their costs, and increase profits by producing in low cost countries
- developing countries who increase their wealth by producing goods for export—most recently China and India have been the big winners, but other countries that

have benefited include, Brazil, South Korea and Taiwan.

- western governments who have low inflation because of falling prices of imports

There have though been a number of losers from the ongoing process of globalisation. These losers include;

- unskilled workers in western economies, who have found their real wages falling, and their jobs being exported to low cost economies.
- businesses who have been out-competed by low cost competition from oversees.
- workers in developing countries who have been exploited by big firms—very low wages for long hours of work in difficult conditions.
- the environment—the impact of development on land leading to deforestation, floods etc. Increased transportation of goods is linked to increased global warming.

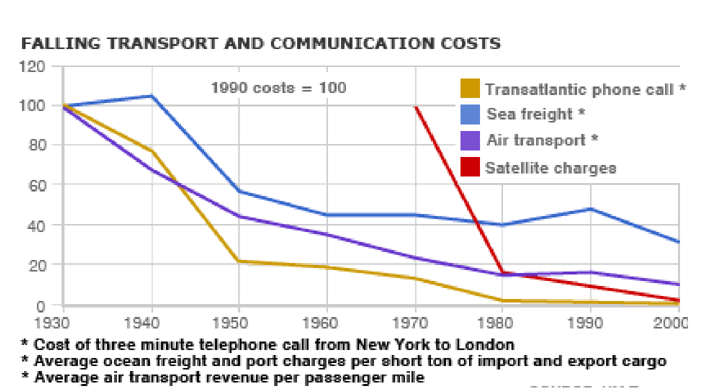
Overall it can be argued that over the last 10 years China has been the biggest winner, and blue-collar workers in the west the biggest losers.

World Trade

Trade has been the engine of globalisation, with world trade in manufactured goods increasing more than 100 times (from $95bn to $12 trillion) in the 50 years since 1955. This rate of growth of trade is much, much faster than the overall growth of the world economy.

Over the last 50 years increased trade has been made easier by international agreements to help create free trade by the lowering of tariff and non-tariff barriers on the export of manufactured goods, especially to rich countries. So there are lower taxes on imports, less quotas, and a massive reduction in technical barriers

The growth of trade has also been helped by falling transportation costs, and the relocation of customer service centres has become much more flexible through falling communication costs.



The above chart shows just how much these costs have fallen. Since 1970 the cost of satellite use (for phone calls, TV and data transmission etc) has fallen by 98%. Since 1990 sea freight (shipping goods from one country to another) down by 50%, and air transport down by 75%.

These figures help explain how flowers grown in Kenya can be sold in garages in the UK, why call centres are often based in India, and how Chinese manufacturers can send goods 10,000 miles by sea to USA, UK and European markets.

Other advantages of globalisation.

- The flow of goods services and ideas is also helping to democratise countries (the Arab Spring) and make the less democratic regimes consider their human rights records.
- Globalisation allows for the linking of human skills and assets, making the world more productive—no one country (we hope!) can supply all the main skills, and functions of a globalised process.
- Investors from Europe and the US can invest in the production capabilities of and sell to, the huge and growing, newly wealthy markets available in India and China. Western investors can help local governments exploit the mineral, gas and oil products of Africa and increase the productivity of the farms of Brazil and South America—making us all richer through these investments.
- The opportunities now available for employees of developing counties is far greater. Skilled and educated workers can now complete in a global market place for high paying positions.

Have the benefits of globalization be equally shared?

Many people would argue that the overall affect of globalisation has been to widen the wealth gap between the rich and the poor countries of the world. One of the main reasons for this widening gap is that most of the globalisation policies are driven by the needs of big business and not by the people living and working in poor countries. Evidence of this can be seen by looking at the widening of the income gap over the last 40 years between the 10 richest countries and the 10 poorest countries. In 1960 it stood at around 30-1, in 1990 60-1 and by the end of the 20th century it had reached 75-1. The rich are getting richer, and in many cases the poor are getting poorer. The World Bank supports this view. It states that income levels in large areas of Africa have fallen on average by 0.8% per annum over the last 25 years, while over the same time period in most industrialised nations incomes have grown by 2% per year.

Because of the growth that occurs through globalization, the biggest businesses, especially banks are being seen as too big to fail, meaning that tax payers have to pick up the bill when things go badly wrong. Also the power of big businesses is beginning to distort governments economic policy; this can happen even in the more developed countries. Policy decisions move away from the needs of the people towards ever greater business freedom and deregulation—it seems that we can often have government just for the elites in society.