Beckfoot

Subject: Economics	Topic: Globalisation	Year Group: 13

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Growing power of economies

China and India have been the fastest growing countries amongst the BRIC countries
Emerging economies such as Nigeria and Mexico have also seen record growth rates
Fast growing economies have seen rising incomes, economic growth, increased exports, improvements in living standards, etc…

Converting nominal to real values

1	Nominal value e.g. nominal wages – when the effects of inflation are not taken into account
2	Real value e.g. real wages, real GDP – when the effects of inflation are taken into account

Increasing trade liberalisation has been brought about due to…

1	Political and social change e.g. Former communist states conversion to capitalist system, emergence of China
2	Expansion of trade blocs – expansion of EU, ASEAN, and growth of other trade blocs around the world has meant countries in trade blocs have liberalised trade with each other
3	WTO – WTO has acted as an international arbiter on trade and has conducted several rounds of negotiations between countries to encourage them to reduce tariffs and quotas with each other

Implications of economic growth for individuals and firms

Individuals	Firms
Rising incomes	Increased profitability
Increased employment opportunities	Increased sales
Better living standards	
Counter arguments	
Rising inequality	Some businesses have suffered at the hands of increased competition
Lower paid jobs	Structural change – some parts of the economies expand whilst others expand, with severe implications for businesses

Trade and growth

By specialising, countries can gain a competitive advantage in terms of lower average costs and reputation. Examples include: Brazil and commodities such as soya, iron ore and sugar; India and IT services; Russia and energy supply; and the UK and financial services.

The impacts of FDI may include increases in employment, income and tax revenue, and subsequent economic growth.

Trade creation and trade diversion

Trade creation will mean that consumption shifts from a high-cost producer to a low-cost producer and trade therefore expands. Trade diversion on the other hand means that trade shifts from a lower cost producer outside the union to a higher cost producer inside the union.

Impact of trade blocs

Increased trade enables increased specialisation – which gives benefits of economies of scale (lower average costs from increased output)
Tariff removal leads to trade creation – lower prices for consumers and greater opportunity for exporters.
Catch-up effects. Countries joining a rich trading block can benefit from inward investment and increased trade opportunities. Countries in Eastern Europe have made considerable progress in catching up with average income levels in Western Europe.
Increased competition. The removal of tariffs creates greater choice for consumers. Therefore domestic firms have a greater incentive to cut costs to remain competitive
Some businesses may struggle against competition from bigger more efficient businesses from other countries who are now part of the trade bloc
Businesses have access to a larger market in a trade bloc
Increased interdependence on economic performance in other countries in trading block. If Eurozone goes into recession, it will affect all countries in the Eurozone. However, this is almost inevitable even if countries are not formally in a trading block due to a close relationship between trade cycles in different countries.
Increased influence of multinationals.
Joining a customs union may lead to increased import tariffs – which leads to trade diversion. For example, when the UK joined the EEC customs union, it required higher import tariffs on imports from former Commonwealth countries. This led to switch in demand towards higher-cost European countries and caused loss of business for Commonwealth countries

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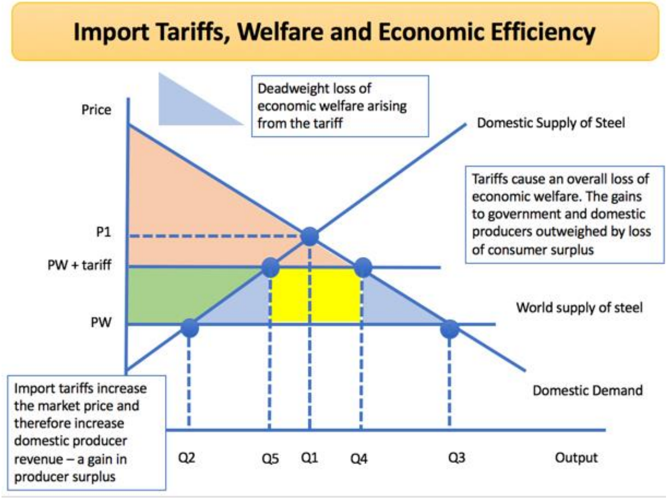
Protectionism

the theory or practice of shielding a country's domestic industries from foreign competition by taxing imports or imposing other barriers to trade such as quotas

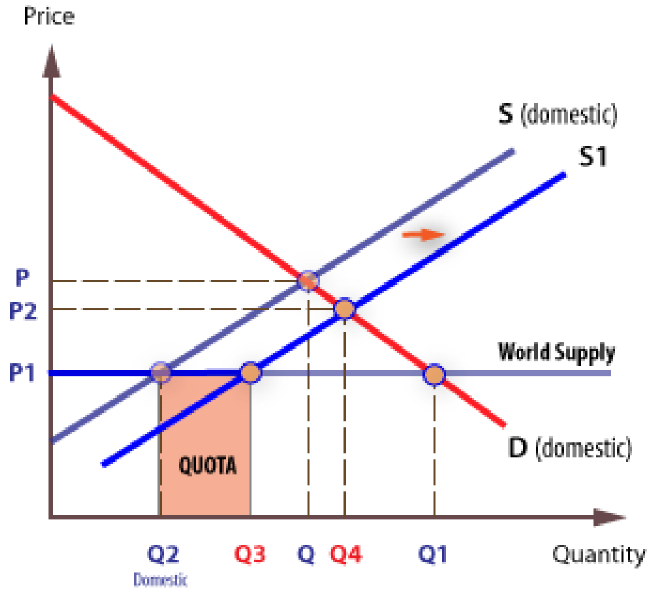
Protectionism

Quotas – A restriction on the number of imports into a country (see diagram below)
Tariffs – A tax on imports
Subsidies – a payment given to exporters to reduce the price of exports
Government legislation and regulations – could be designed to restrict imports on health and safety or legal grounds



International institutions

WTO - he World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations
IMF - The IMF promotes international monetary cooperation and provides policy advice and capacity development support to help countries build and maintain strong economies. The IMF also provides medium-term loans and helps countries design policy programs to solve balance of payments problems when sufficient financing cannot be obtained to meet net international payments.
World Bank - The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support to help countries reform certain sectors or implement specific projects—such as building schools and health centres, providing water and electricity, fighting disease, and protecting the environment.
G20 - The G20 (or Group of Twenty) is an international forum for the governments and central bank governors from 19 countries and the European Union (EU). The G20 meets annually to discuss the economic, political, social and environmental problems of the day
Bilateral trade agreements - A bilateral trade agreement confers favoured trading status between two nations. By giving them access to each other's markets, it increases trade and economic growth.



Impact of exchange rate changes

Current account and balance of payments
Economic growth
Firms
Employment/unemployment
The rate of inflation
FDI inflows

Impacts of ER changes will depend on:

Size and duration of the change
Price elasticity of demand of imports and exports
Whether the economy is in a boom or recession
Whether other countries are in a boom or recession
The possible impact on inflation and the knock-on effects of that
Whether the impact may be different in the short run vs the long run