

Globalisation: Case Study 2018

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How to use this resource

Who is it for?

Students sitting the 2018 Economics B advanced level examination, and their teachers. The resource is designed to assist students specifically with Paper 3. For this paper, pre-release material is issued each November and Paper 3 will require students to apply the pre-release information across the specification they have studied over the previous two years. This year, the title of the pre-release material is **Globalisation**.

What principles lie behind it?

This Case Study looks in depth at those parts of the specification directly connected with globalisation. Following the pre-release material, it examines the meaning of globalisation, its causes and its consequences.

So how do I actually use it?

Each of the main chapters contains enough material for at least two to three hours work, either in a class room context or for private study – or a combination of the two. Questions and suggested answers are contained in the appendix. They are not lesson plans, but contain all the background material teachers need to create their own lesson plans. The Case Study assumes some basic knowledge of the course contents on the part of students.

PART I looks at what globalisation means, its long-term history and the extent to which further globalisation may – or may not – be inevitable.

PART II considers the causes of globalisation under the PEST framework which looks at political, economic, social and technological change.

PART III considers the consequences of globalisation from the point of view of global, national and local economies. We consider its impact on economic growth and inequality in its many different forms.

Finally the **Appendix** contains short questions designed to encourage students to think about globalisation in a wider context.

The accompanying CD contains all the work up to the end of Chapter 8. The CD comes with a licence to use the work within the purchasing institution.

Do I need anything else?

You need the pre-release material.

Gerald Wood 22nd January 2018

PART 1 WHAT IS GLOBALISATION?

Globalisation describes a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation.

In the more recent past, globalisation was often primarily focused on the economic side of the world, such as trade, foreign direct investment and international capital flows. More recently the term has been expanded to include a broader range of areas and activities such as culture, media, technology, socio-cultural, political, and even [factors such as] climate change.

Financial Times (2017)

No dictionary of a living tongue ever can be perfect, since, while it is hastening to publication, some words are budding, and some falling away.

Samuel Johnson (1709-1784), *Preface to the English Dictionary* (1755)

Roughly 30 to 50 years after their birth, [new words] either enter the long-term lexicon or tumble off a cliff into disuse.

Dictionary Society of North America (2012)

Take a look at the following definitions of globalisation and see if you can work out the essential meaning of the concept:

1. The integration of economies, industries, markets, cultures and policy-making around the world. (Financial Times)
2. The process by which the world is becoming increasingly interconnected as a result of massively increased trade and cultural exchange. (GCSE Bitesize)
3. The emergence since the 1980s of a single world market dominated by multinational companies, leading to a diminishing capacity for national governments to control their economies. (dictionary.com)
4. The increasing interaction of people, states, or countries through the growth of the international flow of money, ideas, and culture. (Wikipedia)
4. All those processes by which the peoples of the world are incorporated into a single world society. (Martin Albrow)
5. The death of distance. (The Economist)

What can we deduce from these varied definitions? Firstly, globalisation is not a purely economic issue. Rather, it involves all aspects of humanity, and therefore all the social sciences. As the Financial Times puts it, 'In the recent past, globalisation was often primarily focused on the economic side of the world, such as trade, foreign direct investment and international capital flows. More recently the term has been expanded to include a broader range of areas such as culture, media, technology, socio-cultural, political, and even biological factors, e.g. climate change.' Nevertheless, since this Case Study is aimed at Economists we will naturally be focussing on the economic aspects of globalisation.

Secondly, globalisation is a process, not an event. While globalisation has accelerated since the 1970s there is nothing historically inevitable about it. Indeed, in 2016 Britain voted to leave the EU and the USA elected a President (Donald Trump) committed to an 'America First' policy. Both of these votes by countries previously committed to a global outlook suggest an increasing attachment to the nation state rather than to the wider world. Indeed, not only globalisation is on the retreat as a cultural ideal but even the purely economic aspects of globalisation have reached a plateau. Figure 1.8 near the end of Chapter 1 shows that global trade as a proportion of global GDP has declined slightly since the 2008-09 recession.

It may be too early to talk about the 'death of globalisation' but there is little evidence to suggest that there is an emerging consensus as to what a unified global world should look like. Back in 1989 the collapse of communism and the Berlin Wall suggested that the values of democracy and personal freedoms had triumphed. In his article, 'The End of History' (1989), Francis Fukuyama argued that all countries would soon become mature, liberal democracies. They would be committed to personal choice, free enterprise markets and governments chosen through democratic elections. Globalisation would triumph as everyone would agree what the world should look like. This idea has been challenged in two ways. First, the unprecedented growth of the Chinese economy since 1980 has been achieved under a one-party dictatorship, suggesting that democracy is not necessary for sustained and rapid economic growth. Secondly, the rise of a violent strain within Islam, as illustrated by the attack on the Twin Towers in 2001 and the ISIL caliphate in Syria and Iraq (2014-2017), demonstrates the rise of a competing vision of the world where personal freedoms are largely absent.

***** **BREAK** *****

Chapter 5 Technological change: costs of transport and communication

Reduced transport costs

Figure 5.1 Transport costs in 1960¹

Cost of Shipping One Truckload of Medicine from
Chicago to Nancy, France (estimate ca. 1960)

	<i>Cash Outlay</i>	<i>Percent of Cost</i>
Freight to U.S. port city	\$341	14.3%
Local freight in port vicinity	\$95	4.0%
Total port cost	\$1,163	48.7%
Ocean shipping	\$581	24.4%
European inland freight	\$206	8.6%
Total	\$2,386	

Figure 5.1 above shows that it cost \$2,386 to transport a truckload of medicine from Chicago in Midwestern USA to Nancy in Eastern France. The ocean shipping element of the cost was \$581. Today you can ship a twenty-foot container from New York to Rotterdam (on the coast to the north of Nancy) for just \$425.² But that's before we take the rate of inflation in the United States into account. \$581 in 1960 is the equivalent of \$4,804 at 2017 prices, so the real comparison is between a cost of \$4,804 in 1960 and just \$425 today.

Put another way, advances in technology have reduced the cost of moving goods between continents by over 90% over the past 50 to 60 years. Is it any wonder that globalisation has taken off? Transport costs act just like import taxes: they are an additional expense in conducting international business. Once transport costs have been reduced to this extent the benefits of manufacturing near your domestic market largely disappear. In such a world, manufacturing will migrate to its cheapest location from where goods will then be shipped around the globe without adding anything significant to the overall costs of production.

Curiously, the technological advance in this case which has contributed the most to reducing transport costs is the humble steel shipping container. Incredible as it may seem, up until the 1960s ships were loaded in the same way as you might load a car boot. Varying items of all shapes and sizes were individually man-handled into the ship's hold and neatly stacked on top of, and next to, each other by an army of dockworkers. It was only in the 1950s that an American trucker, Malcolm McClean, realised he could transport his trucks up and down the Eastern seaboard of the USA more cheaply if he loaded the trucks onto ships. Then he realised he could get more trucks inside a ship if he left the wheels and the cab on-shore. What he was left with was the steel cuboid that forms the body of a truck – and so the steel shipping container was born.

Nowadays the whole process is carried out by very large automated cranes which stack thousands of identical steel containers beside and on top of each other. The largest vessels can carry over 21,000 twenty-foot containers, or more commonly 10,500 forty-foot containers. These can be unloaded with the help of multiple cranes at a rate of one every 10 seconds, or 30 hours for the whole ship. The economies of scale are simply enormous. Even at the low price of \$450 for a twenty-foot container, this ship will earn \$9.45 million in revenue (\$450 x 21,000) for a single one-way trip across the Atlantic lasting in the region of ten days (plus two-and-a-half days for loading and unloading) – if it can leave with a full cargo. Keep the ship busy for 365 days in the year and the owners could achieve up to \$275 million in revenue per annum, while providing a bargain-basement service at an incredibly low price for their customers.

¹ *The Box*, 2006, Marc Levinson, page 9

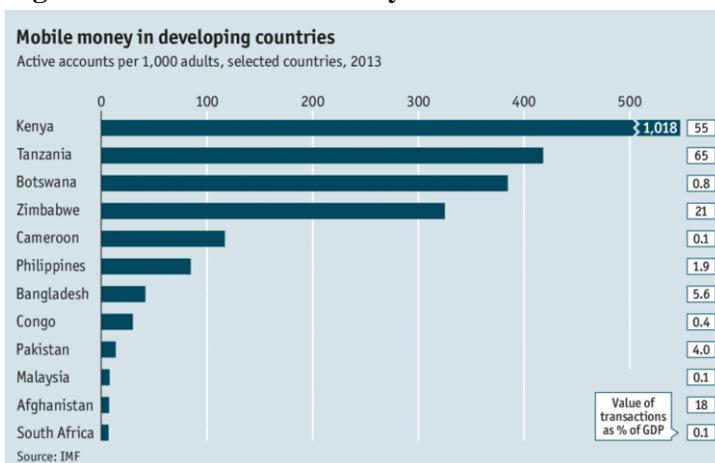
² <https://www.icontainers.com/ship-container/rotterdam>

Reduced costs of communication

If a 90% reduction in transport costs is not impressive enough the costs of communication have fallen to zero. In the 1980s the author was phoning relatives in Sri Lanka for 80 pence per minute, the equivalent of £2-50 in today's money. This amounts to £75-00 for a 30-minute call at 2017 prices. The same call today can, of course, be conducted over Skype or an equivalent service completely free of charge, and with the added benefit of video. Email has enabled the instant sending of documents free of charge, while online banking has enabled virtually instantaneous settling of accounts at the cost of a few pence.

These developments have enabled everyone to conduct business with everyone provided both parties can afford an entry-level mobile phone, and has access to a source of electricity with which to keep it charged. With the advent of mobile technology Less Developed Countries do not need to install a countrywide network of telephone lines, while mobile banking means that the banking sector does not need to establish a branch network of physical banks across a country either.

Figure 5.2 Use of mobile money accounts in 2013



The initial world leader in the use of mobile technology to send money between people was the East African country of Kenya. In 2007, mobile phone provider Caricom set up an app called M-PESA, where 'M' stands for mobile and 'Pesa' is the word for money. By 2013 there were already more active mobile bank accounts in Kenya than there were adults (see Figure 5.2 above), and the money transferred through these accounts amounted to an extraordinary 55% of GDP. This service has contributed immeasurably to economic development in a country where 75% of the population lives in rural areas beyond the reach of a bank and where the only way to conduct business was to hand over wads of cash. It has also furthered globalisation by encouraging Kenyans to migrate to other countries secure in the knowledge that they can send cash quickly and cheaply to relatives back home.

Conclusion to Part 2

In conclusion, over the past 50 years the process of globalisation has been driven by extraordinarily powerful forces. First, we saw in Chapter 2 how the opening up of China and the former Soviet Union to capitalism and free trade has promoted globalisation. Then the political push to reduce barriers to trade and to capital movement were discussed in Chapter 3, along with an increased willingness on the part of peoples both to migrate and to accept migrants (Chapter 4). Finally, radical advances in technology have reduced the costs of sending internationally goods, information and money to a tiny fraction of what those costs were.

Nevertheless, Figures 1.8 and 1.10 show that enthusiasm for globalisation has levelled off since 2008-09. Both the global financial crisis of 2008-09, and the migrant crisis in Europe since 2015, has vividly demonstrated that unrestricted globalisation carries with it heavy costs alongside undoubted benefits. Its further advance is far from guarantee

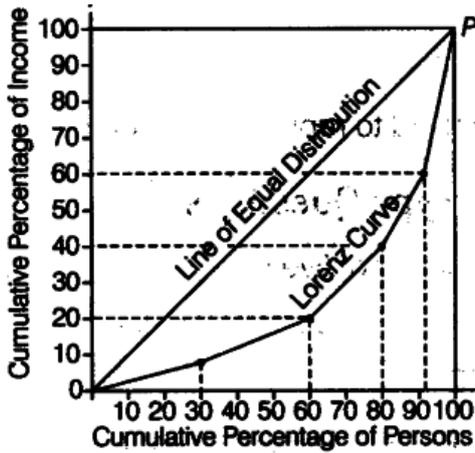
Chapter 8 The impact of globalisation on inequality

Measuring inequality

The best way to measure the degree of inequality within a society is the Gini coefficient. This measurement can give any society a score on a scale of zero to one. The number zero represents perfect equality where everyone earns the same. The number one represents perfect inequality where one person earns everything. Looking at inequality within each country, Ukraine is the most equal country at 0.25, South Africa the least equal on 0.65, while the USA and UK are on 0.41 and 0.34 respectively.

The Gini coefficient can be illustrated by the following graph, known as a Lorenz curve.

Figure 8.1 The Lorenz curve



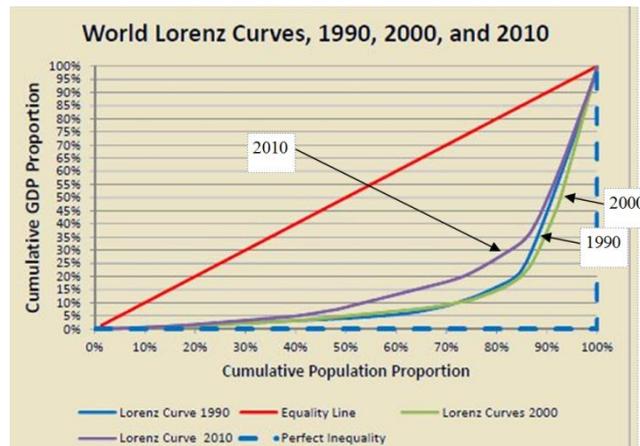
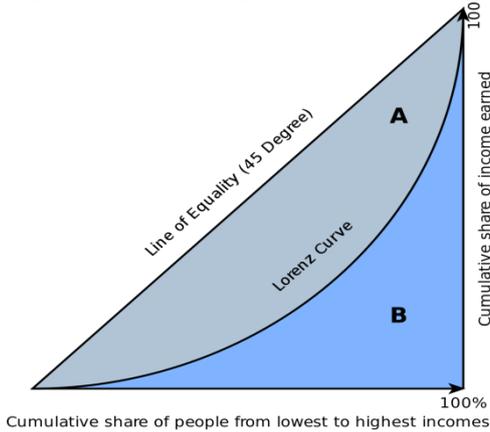
On the x-axis the population is distributed from the poorest at the origin to the richest at 100%. On the y-axis you can read off the percentage of total income that the people on the y-axis earn. So, for example, the diagram shows that the poorest 60% of the population have 20% of the income, while the poorest 90% have 60% of the income.

If income was distributed totally equally then the Lorenz curve would be a straight line from the origin to Point P. This would show that the poorest 30% of people had 30% of the income; the poorest 60% had 60% of the income and so on. In other words, everyone would earn the same.

The more unequal the society, the further the Lorenz curve will move away from the straight line representing total equality.

The Lorenz curve is used to calculate the Gini coefficient by comparing the space between the curve and the line of perfect equality with the total area underneath the line of perfect equality. This is illustrated in Figure 8.2 below.

Figure 8.2 Working out the Gini coefficient from a Lorenz curve



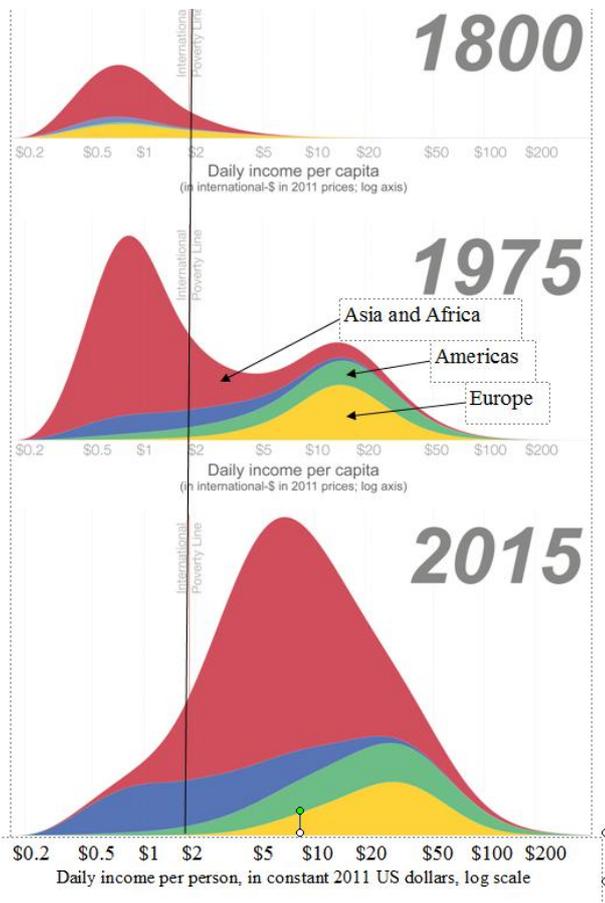
The formula for working out the Gini coefficient is:
$$\text{Gini coefficient} = \frac{\text{Area A}}{\text{Area (A+B)}}$$

So with the Lorenz curve in the left-hand panel, areas A and B look roughly the same size whereupon the Gini coefficient would be 0.5. Now have a look at the right-hand panel. This shows Lorenz curves for the entire population of the world in 1990, 2000 and 2010. You should be able to see that in 2010 the value of the Gini coefficient has fallen relative to 1990 and 2000. This indicates that the world has become more equal over the decade since 2000.

What has happened to inequality as the world has globalised?

One of the features of globalisation is the transfer of technology around the world, and technology is one of the key determinants of living standards. So we might expect that globalisation would reduce inequality. This certainly seems to be borne out by the fascinating graphic shown below.

Figure 8.3 Global distribution of income in 1800, 1975 and 2015³



In Figure 8.3 the pale sections represent income distributions in Europe, the intermediate sections income distributions in the Americas and the dark sections income distributions in Asia and Africa.

The height of each section represents the size of the population on the specified date, so the general increases in size since 1800 represent world population growth.

On the x-axis, income levels are shown using a log scale. The numbers are given in constant prices (2011 dollars) and are \$0.2, \$0.5, \$1, \$2, \$5, \$10, \$20, \$50, \$100 and \$200. The vertical line at \$2 shows the income level representing absolute poverty. Back in 1800, over 80% of the world's population fell into this category. By 1975 this number had fallen to around 50%, while by 2015 it was less than 15%.

What does the diagram show about world inequality? In 1800 the world was astonishingly poor by current standards but also relatively equal. Most people had incomes of between \$0.2 and \$5.0 per day (2011 prices), separated by a multiple of 25. The equivalent figures in 2015 are \$0.5 and \$100 – separated by a much larger multiple of 200.

By 1975 the world's economy had split in two, primarily as a result of the industrial revolution, which first got underway in Britain before spreading to the rest of Western Europe and North America over the course of the 19th century. These technological advances enabled Europe and the Americas to enjoy hitherto unprecedented standards of living while most of Africa and Asia had progressed very little relative to 1800. So in 1975 it really made sense to see the world as 'developed' or 'developing'. Or, to put it more bluntly, the world economy could properly be understood as binary, as white and rich or non-white and poor. This made inequality much worse. If the rich get richer and the poor stay where they are, then the gap between them must have widened.

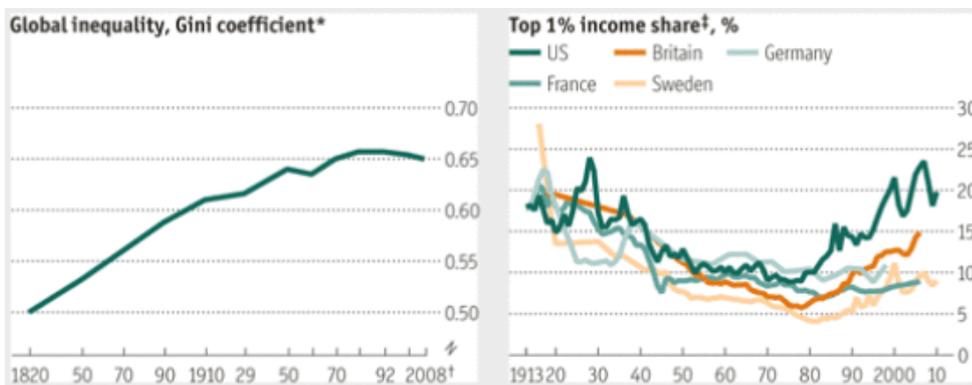
However the diagram shows that, since 1975, the world has become a more equal place. Key to this process has been the faster economic growth rates in many developing countries and in China in particular. This has led to the relative decline of the richer West or – to put it another way – to greater global equality, which comes to the same thing. This is illustrated in Figure 8.4 below.

³ <https://ourworldindata.org/global-economic-inequality>

Figure 8.4 Globalisation and the relative decline of the West⁴

% of world GDP	1820	1950	2030
China & India	50	10	27
Western Europe	22	22	14
USA	2	30	18
W. Europe & USA ('the West')	24	52	32
Rest of World	26	38	41

In 1820 – and indeed for centuries before that going back to the birth of Christ – it is thought that India and China dominated the global economy, primarily on account of their large share of the global population. The Industrial Revolution in the early 19th century changed all that, leading to Western dominance in the 20th century. China's and India's GDP grew in absolute terms – but also faded into relative insignificance. The pattern from 1950 up to 2030 (estimate) shows the relative decline of The West. In addition to the resurgence of China and India, the rest-of-the-world continues to perform strongly, indicating the continuing process of globalisation.

Figure 8.5 The world's Gini coefficient, and the relative share of the top 1% of income earners⁵

In the left-hand panel inequality peaks at 0.66 around 1982 just as the Chinese economic miracle began. The fall shown subsequently up to 2008 has continued up to the present day.

On the other hand, the right-hand panel tells us that this is not the whole story. In many developed countries the incomes of the top 1% of the population have grown at an extraordinary speed. In the USA, for example, the top 1% has increased its share of GDP from 10% in 1975 to 20% in 2010. This has been one of the reasons why inequality within many individual countries has worsened, even while global inequality has fallen. The best way to understand this is that the IT revolution has provided extraordinary economic opportunities for those best able and willing to grasp them. There is a parallel with the emergence of very large oil, steel and banking companies in the USA around 1900 which led to similarly high shares of income for the top 1% as shown in the diagram. On both occasions these technological revolutions led to increased inequality within individual countries. However, globalisation has enabled many less developed countries – led by China – to catch up with the West. So the impact of globalisation on global inequality has been largely positive.

***** END OF SAMPLE *****

⁴ <https://ourworldindata.org/global-economic-inequality>

⁵ <https://xray-delta.com/2012/10/23/global-inequality/>