**Notes 2012 Topic 3B: Globalization**

1. **List of Definitions**
   1. Globalization (Economic definition)
      * It involves the rapid increase of economic activities across national boundaries, which results in increasing international integration of 1) markets and flows of goods and services, 2) funds and 3)capital and 4)resources and labour
   2. International Factor Flows
      * Flow of capital and labour across nations
   3. Foreign Direct Investment (FDI)
      * Movement of capital that is under foreign ownership and foreign control of production facilities.
   4. Capital and Labour Flows
      * Capital Flow: Movement of FDI and foreign investment portfolio
      * Labour Flow: Movement of labour from countries of lower productivity (low wage) to those with higher productivity (high wage)
   5. Flow of funds

* Flow of short term capital fund, seen in terms of savings, bonds, transactions and equity transactions
* Extensive impact on exchange rate and inflationary condition

2**. Main Development of Globalization**

Economic Integration includes the following areas:

2.1 Standard trading procedure – With standardized procedures set by international bodies of trade (WTO), communication between country regarding trade issues will be more efficiency. Terms and rules of trading is specified to raise the efficiency of trade between members. ISO 14000.

2.2 Smoothen the mobility of flow of funds – Trade agreement includes the flow of financial capital into various member countries. Agreement smoothen the process by passing through the levels of bureaucracy and is being directed straight to a local investment. This increases the efficiency of production and investment on a global scale

2.3 Facilitate development of trading infrastructure (Statutory Boards / State entrepreneurs 🡪NOL, CAAS, PSA) – With the agreements, countries are guaranteed trade with many member countries. As more countries engage in agreement, the trade network across the world is formed. The greater the network, the more avenues of cheaper resources can be found.

2.4 Ensure optimization of resource utilization – With agreements, country will not have to spend resources to seek trade with other countries. Since member countries can assess a network of trading partners, the country is able to channel resources to production.

2.5 Expand and integrate the consumer market – More trade will result with FTAs, therefore consumption can be diversified and greater market size can be tapped.

2.6 Greater integration of monetary and financial system – With freer flow of funds, country would develop systems to facilitate the flow. This will integrate the financial system which is beneficial both parties.

1. **Benefits of Globalization**

-From the perspectives of developing/developed nations combined with impact of FTA

* 1. **Increased consumption and production possibilities**
     + With more trade and specialization based on comparative advantage, world output increases and countries consume more than their domestic PPC. **(based on theory of comp adv)**
     + Nations are able to expand their supply of resources through trade and FDI which will raise their production capacity
  2. **Promotes efficient allocation of resources**
     + Greater factor mobility promotes allocative efficiency
     + Greater scale of production for the world market enables firms to reap EOS
     + Coupled with outsourcing of production, cost of production is lower.
  3. **Promote a higher level and value of investment**
* Globalization will encourage the flow of fund and technological transfer which will raise the level and value of investment since nations can develop high-valued industries with more funding and technological-advanced form of FDIs
  1. **Accelerate economic growth and raise employment opportunities**
* With a higher degree of trade and inflow of foreign direct investment, it will be easier for nations to raise production and employment, stimulating economic growth.
* Can also widen the scope of economy as the trading activities and inflow of FDI will promote the growth of the new industries which will reduce the vulnerability of the economy for depending on a few industries. It also enables the provision of a greater variety of employment opportunities.
  1. **Increase in welfare**
     + Lower prices because of increased competition, higher income, increased investment, improvement in technology, higher productivity and greater variety
  2. **Keeps government power in check**
     + International organization that are create to facilitate globalization keeps government from abusing power
     + With more freedom of choice and opportunities, citizens become less dependent on the government.

1. **Cost of Globalization**
   1. Higher degree of competitiveness for resources and export market as Globalization will promote the growth of new economies which will accelerate their production, demanding for resources and thus, there will **be a high degree competition for resources**. There is also a higher degree of competition in the export market as more countries are producing similar types of goods. These developing countries will also be vying **for investment from the MNCs, demanding these nations to provide more resources and competitive terms to attract FDIs**
   2. Occurrence of structural unemployment

* As a result of globalization, economies experiencing international competition and changes in global demand and supply condition will make sectoral adjustment and these economies will also have to raise their technological development. Consequently, there will be structural unemployment due to technological advancement and sectoral adjustment as these economies experience displacement of workers and skill incompatibility.
  1. Inflationary condition contributing to rising cost of living
* As there is a higher degree of demand for resources and uneven distribution of resources, it is likely for price of resource in the global market to rise, affecting economies with high degree of dependency on imports which will induce imported inflation. free flow of capital will also encourage speculation n the property, equity and resource market, which will raise prices, leading to inflationary condition
  1. Growing income inequality among the nations and within the nations
* Countries which are able to reap the benefits of globalisation will accelerate their growth of the economy at rapid speed while those who fail to do so will experience slow growth, leading to disparity in their wealth and income creation. Within these nations, so individuals who are able to gain from globalization will attain higher revenue and create more wealth than those who cannot price. Price of the resources will rise extensively **and this will undermine the lower income group as their cost of living rises while the appreciation of the assets will raise the wealth of the rich**
  1. Labour market inequality
* Loss of jobs of unskilled workers is developed countries and other forms of low skill workers to developing countries due to outsourcing
  1. Exploitation of cheap resources in developing countries
  2. Environmental issues
* Acceleration of depletion of resources and environmentally-damaging method of production will worsen the environmental problems

**Factors determining why some countries gain more from globalization than other countries**

* depend on degree of natural endowment
* small economy – the trade and investment gain will be more extensive
* efficient and effective infrastructures and network to better connect Spore with other countries
* Free trade agreement
* manpower ADVANATGE

1. **Factors Affecting Capital Flows (Determinants of FDI)**
   1. Business Facilitation
      * Investment promotion (done by institutions, such as EDB)
      * Investment incentives (subsidies, tax incentive and tax holidays)
   2. Political and Economic framework
      * Economic, political and social stability (assurance of capital and return on capital due to stable market demand)
      * Standards of treatment of foreign affiliates
      * Tax policies
      * International agreements of FDI (assurance and protection of FDI)
   3. Other factors (Economic Consideration)
      * Availability of lost cost / skilled labour
      * Abundance of raw materials
      * Market size and growth
      * Access to regional or global market – trade network (capacity for export)
      * Costs of physical and human resource and assets

How to attract FDI?

* + - **Intellectual property rights**

**Main focus of MNC**

* **taxation**
* **intellectual property rights**
* **Political stability**
* **efficient infrastructural development**

1. **Political stability -stir market optimism – increase market demand – raise revenue – raise profit -> stimulate FDI**
2. **Political stability – assurance of capital investment and return on investment – higher degree of confidence in the investment – huge risk in departing large sum of money**
3. **Benefits and Costs of Capital Flows**

**How FDI affects the receiving and source Country?**

* 1. Benefits of capital flows for receiving country
     + Higher rates of private investment leads to economic growth and employment (↑FDI🡪↑I🡪↑AD via k🡪↑NY🡪↑production🡪↑N+)
     + Transfer of technology and skills
     + Increased tax revenue for host government (↑NY🡪↑taxes)
  2. Cost of capital flows for receiving country
     + Cause appreciation of host countries currencies, lowering export competitiveness
     + Income disparity where only a small portion of economy benefits from FDI (only for workers who work for MNCs)
     + A competitive local industry may foreclose when competing with large foreign firm
     + Destruction of environment
  3. Benefits of capital flows for source country
     + Increase returns of investment – developed through the extended economy
     + Benefit from lower cost of production
     + Stimulates export of machinery and other capital goods
  4. Cost of capital flows of source country
     + Reduction of GDP and decrease in total domestic wage due to outflow of I will decrease domestic production – decrease demand for local workers (US firms increases production of US goods in China – selling to China – US goods in China to Chinese 🡪 decrease production in US)
     + Loss in tax revenue
     + Export decrease as firms set production units aboard

1. **Benefits and Costs of Labour Flows (affected by FDI)**
   1. Benefits
      * Equalization of wage – low wage workers in developing economy can get higher wages by working abroad
      * Increase in total world output as labour flows from a country of lower labour productivity to one that has a higher labour productivity
      * Changes in income distribution: Migrants workers get more income by working in foreign country
      * Increases in remittances from workers working overseas: important source of foreign exchange (for example – The Philippines - ↑in remittance 🡪↑dd for *peso*🡪Appreciation of *peso*🡪↓Pm – help to curb imported inflation)
   2. Costs
      * Brain drain from source country

🡪The Philippines – 20% of GDP is from their foreign labour)

🞹lose productivity and competitiveness

🞹loss of cultural pride

🞹Source of foreign exchange – may undermine the value of currency if the source of foreign labour’s income is reduced

* + - Drain on government resources arising from immigration of unskilled labour: Countries that provide generous welfare payments may attract unproductive people who will enjoy welfare benefits at the expense of locals (Brexit, US PRESIDNTIAL ELECTION 2016)
  1. Impact of flow of fund

1. Benefits

* Provide countries with more funding for infrastructural development (Asia Infrastructure Investment Bank)
* Promote development of financial market
* Enable wealth creation and management

1. Detriments

* Problems of capital control – create exchange rate instability
* asset bubble, asset-based inflation (inflow of hot money)
* widen uneven distribution of wealth
* failure of public administration system/financial system due to excessive borrowing

**8. Impact of globalization on Singapore**

In the discussion of the impact of globalization, it is important to take note of small capacity of the economy and the developed status of our economy

Impact of globalization (mobility of resources/fund)

**Qn: Emergence of China and its impact on Singapore (see aims of govt)**

1. Px,Pm, cost of FDI
2. Xd, Md, FDI (BOT n BOP)
3. AD, production, employment
4. National Income (↑real GDP) and potential growth (shift of LRAS)
5. Price stability, cost of living and standard of living
6. Equally of distribution of income
7. Social optimization of resource allocation (maximisation of net social benefit gain)

**Analysis of the impact – Depending factor**

i. Degree of reliance on the international market for import (MPM)

ii. Degree of dependency on Xd and FDI

iii. Degree of openness of the banking system affected by the flow of hot money / FDI

**8.1 Assess the possible challenges that Singapore will face under globalization**

a. Problem of structural unemployment due to the need to adjust our economic sectors and need to engage in technological advancement to raise comparative advantage to offset foreign competition

🡪highly impactful on Singapore as she faces constant pressure to improve her CA due to her reliance on external market.

b. Problem of inflation-fluctuations in the international resource market due to rising demand for resources as a result of globalised economic activities and fluctuating exchange rate that distort the price of resources in international market will make Singapore prone to imported inflation (degree of dependency on imports – reflected by MPM)

🡪Singapore is prone to this price stability as she is a price-taker in international resource market due to her lack of resources but this effect is dampened and controlled by the exchange rate management policy.

c. Detrimental influence of international monetary and financial instability and global economic downturn

i. Openness of the economy in term of financial and monetary system will mean that the economy is subjected to excessive inflow of hot money that will lead to speculative activities and thus, creates the problem of asset bubble and excessive inflationary impacts

ii. Worldwide recession will also mean extensive fall in international market demand which will undermine our economic growth as the economy is highly dependent on external demand on production and employment.

iii. This is an inevitable detrimental influence but the government can introduce

-economic policies like job credit scheme and. qualitative MP to dampen the SR effect but is less effective in containing the external influence in the LR.

d. May create the problem of unequal distribution of income and wealth

Structural unemployment due to globalisation will lead to unemployment for lower income group and lower wages for the unskilled workers while those who are rich will gain from the appreciation of assets and those who are skilful will gain due to higher wages. Consequently, there will be a higher degree of income disparity as a result of inflation and structural unemployment.

**🞹 8.2 Possible benefits of globalisation that Singapore can reap (refer to essay qns)**

a. Through the development of an international trade network and Free Trade

Agreement (FTA), Singapore import extensive amount of resources from diverse sources at lower-price to help to induce production capacity

b. Provides Singapore the opportunity to gather "more sources of funding to fund its investment and nurture the growth, of the financial centre status through the inflow of capital to raise the value of the equity and financial market

c. Enable Singapore to attract more foreign direct investment as globalisation promotes free flow of investment. This will enable Singapore to raise real GDP via the multiplying effect and production capacity to raise employment. The inflow of foreign direct investment will allow Singapore into new technology and foreign market which will raise export demand.

d. Singapore is able to attain more resources and labour supply by virtue of globalisation which promotes mobility of resources and labour. Increase in supply of labour from other nations will help Singapore to solve the shortage of labour supply at certain industries and rising wage cost. With a stable and gradual appreciation of exchange rate, Singapore is able to keep the imported inflation low and prevent wage increment from foreign workers.

e. With lower cost of imports and higher real GDP per capita income achieved through the tapping of globalisation which will provide more resources and opportunities for Singapore to-higher level of economic growth, Singapore is able to higher-standard of living while more tax revenue is available to help to finance social programmes to help lower income group.

**🞹 8.3 Assess the possible challenges that Singapore will face under globalization**

* Extensive exchange rate instability 🡪 create vulnerability for Singapore due to reliance on trade and FDI 🡪 can ascertain trading prices and cost of FDI

🡪interconnectedness of the financial and monetary system. Eg. Stock market – affect exchange rate (change in ST capital flows)

* Intensive competition from neighbouring countries which are developing and offer abundant low cost production – structural unemployment, wage differentiation as Singapore consistently experiences dynamic CA to adjust to international market demand and supply
* Instability of the international and financial market – inter-link of international monetary system – flow of funds – instability in other financial market will affect Singapore
* Misallocation of resource will affect Singapore as it affects our cost of imports 🡪price of resources
* Negative impact of systemic development – terrorism, war and natural disasters

**8.4 Solutions that Singapore can adopt to overcome the problems of globalization**

-Identify the problem of globalization

-Assign the appropriate policies

(measures focus on stabilization of the economy and correction of impact\_

* Exchange rate management – stabilize the impact of currency fluctuation
* Supply-side management – restructure the economy to accommodate change in the international economic and political environment
* Manpower development/taxation and subsidies to dampen impact on unemployment and unequal distribution of income
* Creation of international trade network system to encourage trading activities – TA, trade facilities, manpower for the industries
* Taxation – attract investment
* Infrastructural development to attract FDI to increase cost competitiveness

**8.5 Positive Impact International Outsourcing to Singapore**

1. Expand the resource capacity for Singapore – cheaper labour cost
2. Expand the production through investment abroad – broaden the economic scope of development
3. Help Singapore to increase competitiveness in the export of its good as the price of export is reduced through outsourcing
4. Allow Singapore to focus on its comparative advantage to enhance competitiveness – advance high–valued production – raise our production status
5. Spare the country’s resources which can be used in other areas of development – diversify the economy

**8.6 Negative Impact of International Outsourcing to Singapore**

1. Structural UN+ - certain sectors will be eliminated or shrink in the size of the industry
2. less tax revenue for the government
3. Complexity of the integration for the industries – may create inefficiency
4. Increase competition from these countries which outsourcing is distributed to develop CA – replace industries in Singapore
5. Subjected to exchange rate fluctuation – affect the cost of trade

🞹Advantage and Disadvantage of outsourcing in the receiving nation

🞹Advantage and Disadvantage outsourcing of from the outsourced nation