

# ECONOMICS

## The Global Economy

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### 1. Define the term globalisation

Globalisation refers to the point, that over time, human societies from around the globe have gradually established more intertwined contacts. In more recent times, the pace of which global integration is moving has dramatically increased. Changes in transport, technology and communications have given the world sources to become more interdependent than ever before. Countries are producing and selling all over the world and money and goods are moving swiftly through borders that once caused issue. The final result of these flows has resulted in social, economic and law to form at international level.

Many companies have now become multinational, and offer products and services in a variety of different countries. Along with solid goods, ideas and cultures are also now circulating the economy a lot more freely than in previous times. Globalisation however, is not seen as positive in some aspects.

Countless people feel that globalisation has uprooted their livelihoods, cultures and ways of life. In argument to this point however, most people see this as business driven globalisation. Political disputes are many when it comes to the process of globalisation, and as such it changes all the time.

### 2. Outline the advantages and disadvantages of free trade.

Free trade occurs when there is an absence of protective barriers such as tariffs, quotas, subsidies and voluntary export restraints, which tend to divert trade, rather than create trade or new trade flows.

The advantages of free trade appear to outweigh the negatives, however there are a number of arguments for both sides of the issue. The pros and cons of free trade, demonstrate that whilst on the up side wealth and efficiency is created, along with the progression of globalisation, the down side shows that there are countless concerns about inequitable conditions in the more developing countries. Whilst a number of countries have employed a variety of social security policies, the world on a whole appears to be affected, leading to a number of problems.

The Free trade advantages and disadvantages are shown below.

#### Advantages of Free Trade

Potential free trade advantages for countries can include:

- i. **Increased Production:** Free trade enables the countries to specialise in the production of commodities in which it has a comparative advantage. This is where a nation is comparatively more efficient than another.
- ii. **Production Efficiencies:** This is the efficiency of resource allocation within a country. The more efficient a country is, the higher productivity rate the country can produce and thus the total domestic output is increase.
- iii. **Benefits to consumer:** Through free trade, there is a much larger variety of goods and services available to consumers around the global network.

- iv. **Foreign Exchange gains:** From exporting goods and services to other countries, a nation receive hard currency from its exports, thus increasing Gross Domestic Product.
- v. **Employment:** Through free trade, a number of jobs are created. This is especially relevant in the manufacturing and service industries.
- vi. **Economic Growth:** Through the growth of the global network from free trade, countries experience a rise in not only living standards, but incomes also.
- vii. **Increased specialisation:** This leads to economies of scale in production through lower unit costs of production (due to factors such as technical efficiency) and greater output and employment.
- viii. **Increased productivity of resources:** This allows a more ideal allocation of resources which leads to greater allocative efficiency (i.e. where the price equals the marginal cost of production).
- ix. **Increased competition:** Between firms, there is a great competition in the tradable goods sector of domestic economies. This leads to lower consumer prices and higher real incomes in a fight to be the most profitable business or firm.
- x. **Innovation:** Producers have a much greater incentive to be innovative through the use of the latest cost efficient technology which in turn increases their competitiveness.

### Disadvantages of free trade

There are a number of arguments about the disadvantages of free trade. Some of these are:

- i. **Removal of trade barriers:** Will cause short term structural unemployment. This is unemployment which results from a disparity of labour skills of employees with the job positions offered by employers.
- ii. **Increased domestic economic instability:** From international trade cycles as economists become dependent on global markets
- iii. **New/developing industries:** Industries that have just been established go straight into a very competitive market with no short term protection policies.
- iv. **Pollution:** The environment is faced with a number of pollution and environmental issues due to the large number of competitive global corporations.
- v. **Diversified economy:** Developing countries rely on primary market products to gain GDP as this is where their competitive advantage is, however, free trade causes a large fluctuation in prices, low income in elasticity of demand.
- vi. **Cultural Identity:** World farmers, especially those from developing countries, lose the battle against larger corporations in the developed world.
- vii. **Negative externalities:** These will result if firms do not pay for the unintended consequences of their production activities, such as higher levels of pollution, degradation of the environment and exploitation of labour.
- viii. **Unfair price cutting:** Free trade may lead to this, if countries which are efficient producers of agricultural or manufactured goods, sell their exports at below the domestic price in foreign markets.

### 3. The influence of globalisation on the economy other than Australia.

#### Greece

With a population of 11.2 million, Greece is a fast growing country. 4.72 million of these people make up the workforce. GDP amounts to \$371.2 billion, \$33,440 of this per capita. From these figures, it is said that Greece is the 27<sup>th</sup> largest economy in the global network. The Greek economy is a developed network as well as being linked with many major organisations such as OECD, EU and WTO. Greece is the twenty-fourth most globalized country in the world and is classified as a high income economy, it is a parliamentary republic.



Greece is a mixed economy country in which the public sector accounts for 40% of the country's GDP. Between 2003 and 2007, the country grew nearly 4%. This was due to the 2004 Athens, Olympic Games and the amount of infrastructure in place because of it. This is a good example of one of the effects globalisation had on the country. In 2008, the country's GDP dropped 2.9% due to the world financial crisis and the tightening of credit conditions. This resulted in unemployment for many, along with many of the country's people battling with home loans etc.

The government in Greece is continually fighting a battle, to try and cut down government spending, reduce the size of the public sector as well as restructure the pension and labour systems. This is being done, despite the constant vocalisation of the opposition of labour as well as the general public.

The Greek economy continues to linger as an important domestic political issue, and whilst the new democracy government has proved to be successful in some improvements, such as economic growth and reducing budget deficit, the capital, Athens, will still face longer term challenges in trying to continue economic reforms.

One of the major changes in Greek economics was the implementation of the Euro, in January 2002, through the European Union countries. This provided Greece with highly competitive loan rates in addition to a boost in consumer spending which thus increase the economy's status. Primarily, Greece hindered a lot stronger during the Global Economic Crisis than the majority of other OECD countries. Recession for the country however, is the inevitable. This is due to consumer confidence, shipping returns and tourism declining considerably. Authorities within Greece took this matter into their hands and implemented fiscal measures with a plan to assist the financial sector. Due to public debt and large externalities however, this policy is highly restricted in its room for movement.

Globalisation has heavily affected Greece in a number of ways. Previously, Greece was an isolated nation, however in nowadays; transport has become a way of life, communicating is at the click of a button and goods and services are rapidly flowing around the globe. This unity of the world is referred to as globalisation.

The largest turning point of globalisation in Greece was the 2004 Athens Olympic Games. In November 2004, the Greek nation saw costs reach \$US11.2 billion, this figure not including construction, thus demonstrating the increase of production within the economy which also amplified competition. This not only brought in hundreds if not thousands of jobs for construction workers, marketers along with many other jobs which increased employment opportunities, but also a large tourism influx, which helped boost the country's GDP by over 4%, a significant figure. Tourism also had the effect of increasing foreign exchange gains due to the large amount of people coming from across the global network.

By Greece building so much new infrastructure, such as the Athens Tram and Light Rail, which finally connected Athens with its waterfront communities along the Saronic Gulf. Upgrades to roads were also made, giving public transport new ease. Along with these features, many sports centres were specifically designed and built for the 2004 Olympics. All of these resulted in the offering of new products and services to consumers, there was a lot of benefits available along with an all new level of efficiency. Along with the growth of people within the nation, the country made multiple imports of goods from various countries around the globe, to facilitate the Olympic Games. This extended Greece's global networking, further than previous times beforehand.

On the conflicting side of the argument however, a number of negative externalities were implemented upon the nation. Pollution levels were increased significantly due to the large amount of people and industry suddenly in the country as well as land degradation.

Currently, the country ranks in as 26<sup>th</sup> in the globe according to figures on the WTO site. This places Greece in the wealthier and developed countries from around the world.

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