Research Task: Globalisation

Globalisation occurs through the breaking down of barriers to promote the internationalisation of goods, services, finance and resource markets throughout the world, the result of which is a network of integrated economies where international influences have an increased impact on all aspects of life and economic activity. By investigating the economies of China and Brazil, the impacts of globalisation on economic growth, development, the quality of life and the environment in these economies are observable to be both beneficial and destructive.

Economies of individual countries are increasingly integrated within the global economy, and the process of globalisation has led to major changes in areas such as trade, finance, investment, technology and labour.

The value of global trade has consistently grown in past decades (world merchandise exports alone increased by 15% in 2008 to $15.8), with increases in trade flows serving to further increase integration between economies. This can be attributed to the influence of Trans-national Corporations in the global economy, promoting the transfer of intermediate products and using production facilities in various economies. Trade has also accelerated between economies due to major bilateral and multilateral trade agreements that seek to remove barriers to trade between countries – China is a member of the Asia-Pacific Economic Cooperation (APEC) and Brazil of World Trade Organisation (WTO).

The most globalised feature of the world economy is the financial flows between economies. These flows have increased rapidly (the growth of exchange-traded derivatives reaching US$56.2 trillion in 2007, a level greater than the size of gross world product) following the financial deregulation of many economies in the 1970s-1980s, where controls on foreign currency markets, flows of foreign capital, financial sectors and overseas investments were lifted. In addition to this, technological change and global communications have resulted in financial markets becoming increasingly linked throughout the world, with events in major international markets producing immediate results throughout the world, clearly evident in the current *global* financial crisis after borrowers defaulted on housing loans in the *United States.*

Investment between countries is another important indicator of globalisation, with a dramatic surge in Foreign Direct Investment (FDI) flows since the 1980s, peaking at US$1.8 trillion in 2007. The growth of international investment is largely due to an increased level of international mergers and takeovers as well as innovation in technology linking individuals, businesses and nations through the Internet. China's recent AU$1.5 billion bid for Australia's main sugar refiner CSR is just one example of Chinese investment in Australian assets. Brazil has been seen to benefit largely from FDI inflows, receiving a record of US$45.1 billion in 2008 alone, while being a large source of FDI in other Latin American countries.

The internationalisation of labour markets has generally seen a trend of labour moving between developed countries (The World Bank estimates that around 200 million people have migrated to work in different countries, with 59% of the worlds migrants living in high-income countries). Highly skilled workers are generally attracted towards the richest economies such as the United States and large European countries due to higher pay and better opportunities available. Low-skilled labour is also in demand in these advanced economies, often satisfied by migrants due to low domestic supply of basic labour.

International labour markets have also seen a move towards 'offshore outsourcing'. China has been a large recipient in recent years to this trend, having a comparative advantage in labour as an export orientated economy. This was particularly seen in Pacific Brands controversial move to shift clothing operations to China, resulting in excess of 1800 job losses throughout Victoria and New South Wales.

In addition to trade, financial, investment and labour flows, individual economies reflect the impact of globalisation by economic conditions becoming increasingly influenced by world economic growth, as measured by Gross World Product (the sum of total output of goods and services by all economies in the world over a period of time). The changes in the level of economic activity in the global economy over time is referred to as the International Business Cycle, and for most countries, strong world growth leads to strong individual economic growth.

Globalisation has also led to significant changes in size, pattern and direction of trade and investment within the global economy- increasing in overall size and proportion of world economic activity. Since the mid-1980s, Brazil sought increased foreign investment by adopting a far-reaching program of market reforms (including deregulation of most industries and the abolition of state monopolies), dramatically increasing the participations of foreign enterprise in the Brazilian economy. In addition, Brazil has experienced increased trade flows since becoming increasingly linked to Russia, India and China, and remains the worlds largest exporter of several agricultural products, including coffee, orange juice and sugar.

Similarly, the value of China's exports has grown by 30% per annum over the past five years, with exports now accounting for over 35% of GDP. In 2009, China replaced Germany to become the world's largest exporter as its share of world exports jumped to almost 10% (up from 3% in 1999). China has also overtaken Japan as Australia's largest trading partner, with high quantities of raw materials such as minerals and fuels demanded to facilitate massive economic growth. As a result of this substantial growth in trade, public investment expenditure exceeded US$62 billion due to a rapid increase in urbanisation in China.

Historically, barriers to trade were significant, however in recent years the global economy has sought significant progress towards free trade between economies. Free trade is generally defined as a situation where "governments pose no artificial barriers to trade that restrict the free exchange of goods and services between countries with the aim of shielding domestic producers from foreign competitors" (*Dixon & O'Mahony, 2010).* Free trade is based on the economic principle of comparative advantage, which assumes nations should specialise in areas of production with lowest opportunity costs. Free trade can open up global markets, leading to higher rates of economic growth and increased real incomes, while enabling economies to develop international competitiveness freely, and encouraging the innovation and spread of technology worldwide. However, it can possibly increase short-term unemployment as domestic businesses struggle unprotected to compete with international competition. It may also lead to the dumping of surpluses and encourage environmentally or socially irresponsible production methods.

In total contrast to free trade, protectionism is a situation where government policies seek to give domestic producers an artificial advantage over foreign competitors. Governments may employ protection for a number of reasons; to protect developing industries and/or domestic employment from developed foreign competition, to avoid the dumping of foreign surpluses in domestic markets, or non-economic reasons such as defence development and self-sufficiency.

In the world economy as a whole, globalisation has led to significant economic growth and development, improvements in the quality of life as well as impacting the natural environment. This can particularly be seen in the developing economies of China and Brazil.

The process of globalisation has affected countries differently in terms of economic growth. Developing economies have greater opportunities to grow due to access to global consumer markets, and can also benefit greatly from foreign investment and new technologies. High-income economies – particularly through Transnational organisations – should generally find growth opportunities by shifting to global production processes. In general, globalisation has produced an acceleration in world economic growth in recent decades- gross world product growing at an average annual rate of 3.5% during the first decade of the 2000s alone. This can largely be attributed to the strength of China's economic growth. China has benefited greatly from integrating with the global economy over the past 30 years- real GDP growing by 9.6% in 2009 alone to become the world's third largest economy today. Brazil has experienced more fluctuated growth, with remarkable growth rates of 9% annually in the 1970s, slowing down to 2.2% in the 1990s, eventually rising again to average 3.6% between 2000 and 2008. This can be in part attributed to export industries in Brazil lacking international competitiveness, following years of being shielded in order to promote domestic industrialisation.

It is predicted that China will continue to expand at an annual rate of 6 to 8% in the next 20 years, in turn making China the largest economy in the world. This will result in per-capita incomes of perhaps four or five times higher than current levels- China's population of nearly 1.5 billion people are set to join the richer demographics of the global economy, generally enjoying a substantial increase in the standard of living. China has already experienced a substantial reduction in poverty, the World Bank estimating a reduction of 400 million people in poverty over the last 25 years. In the thirty years since 1975, life expectancy in China rose substantially to 72.5 years from 63.2 years and the adult literacy rate rose 12.6% to 90.9%. Incomes have also increased nationwide, with GDP per capita growing by an average of 8.2% per annum to reach US$6000 in 2008. This demonstrates a clear positive impact of global forces on the standard of living in China, with China's Human Development Index (HDI) rising from 1975 to 0.745 in 2002.

Despite concerns over economic performance and a high level of debt (the cost of servicing foreign debt reaching 85% of exports in 2002), Brazil has still achieved a good level of economic development compared with other developing nations over the past 25 years. Significant health care improvements have increased the life expectancy from 63 years in 1980 to 69 years in 2003, and improvement in education have seen an increase in literacy rates from 82% in 1990 to 86% in 2002. However, there is still a large degree of income equality in Brazil, with the top 10% of income earners receiving almost 50% of Brazil's economic output, while 25% of the population lives on less than US$2 a day, and 8.2% of the population living in absolute poverty on less than US$1 a day. Brazil's exposure to the Argentinean economic crisis during the late 1990s and early 2000s was worsened by its continued reliance on financial inflows, resulting in high unemployment (12.3% in 2004) and excessive inflation. Therefore, despite a HDI increase from 0.680 in 1980 to 0.775 in 2003, the effects of globalisation have not been exclusively positive on Brazil's development and the standard of living, with income disparity remaining an issue in the Brazilian economy.

China's rapid rate of economic growth has led to rapid resource use and environmental degradation, with China therefore experiencing severe environmental problems associated with resource depletion. As a result of the United Nations Climate Change Conference held in Copenhagen in December 2009, China has committed to lower the emissions intensity of its economy by between 40 to 45% (carbon per real Yuan) by 2020. Severe levels of air pollution has led to a government commissioned report predicting that should pollution go on uncontrolled, 600 000 premature deaths in urban areas will be caused by 2020. The report also found that pollution costs up to 7% of China's annual GDP, with this figure predicted to rise to 13% if stronger environmental laws are not implemented and enforced. In addition to this, shortages of water due to drought, poor irrigation systems and excess demand in major cities have led to the Chinese authorities to begin massive dam building projects (such as the Three Gorges Project) in order to overcome this problem, as well as to initiate a move away from coal generated power to the use of hydroelectric power.

Economic development in Brazil has had drastic consequences on the environment, particularly with the exploitation of natural resources. While Brazil develops sustainable biofuels and pioneers much of the technology now used in the global ethanol industry, deforestation of the Amazon and Atlantic coast rainforests has been a highly controversial issue. More than 18% of Brazil's forest area has been lost since the 1960s, currently being cleared at a rate of 11000 square kilometres per year.

The Amazon is also the largest source of fresh water for Brazil, which suffers from high levels of water and environmental pollution (less than 10% of wastewater is treated, and only 58% of houses are connected to sewerage). Brazil is currently unable to finance the investment in infrastructure necessary to protect the natural environment, yet continued pressure from environmentally-focussed non government organisations (NGOs) for better government policy will be necessary in order to preserve Brazils natural resources.

The integration of economies through globalisation, with the internationalisation of goods, services, finance and resource markets, has had significant impacts on the global economy as a whole, seeing significant progress in recent years towards free trade; as well as within individual economies. In relation to the developing economies of China and Brazil, rising levels of international trade have had considerably negative impacts on the natural environment, with shortages in water supply and the degradation of other natural resources. However, China has experienced substantial economic growth and positive changes in development and the quality of life, with predictions of strong economic growth in coming decades. Brazil has experienced fluctuated economic growth in recent decades, whilst generally seeing positive changes in development and the quality of life. Globalisation has therefore had varied impacts within the world economy, seeing a definite trend in developing economies towards environmental degradation partnered with a significant rise in development and the standard of living, and economic growth.

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