

# Globalisation

Download our Powerpoint on the Trans Pacific Partnership (TPP) at [www.hoddereducation.co.uk/geographyreviewextras](http://www.hoddereducation.co.uk/geographyreviewextras) for an update on trading blocs.

## What are the causes?

Globalisation is much talked about, but what does it mean, and what drives it? Here Emma West explains the basic causes of globalisation and provides some tips for answering exam questions on this topic

**W**hat is globalisation? There is no single accepted meaning, but the following definition from the International Monetary Fund (IMF) is a useful starting point:

The process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of economies and societies.

This definition is not too long to quote in an examination and it covers three significant elements of globalisation:

- It is a process: 'something that happens'.
- It is a dynamic situation that is evolving.
- It has outcomes. These are characterised by greater integration of places and people in both economic and social terms.

### The players in globalisation

#### Trade blocs

Trade blocs are groupings of countries. Examples of such blocs are the European Union (EU), the North American Free Trade Area (NAFTA) and the Association of South East Asian Nations (ASEAN). Countries within a bloc reach agreements which reduce taxes, tariffs and quotas in trading between

them. This allows much freer trade within the blocs and deepens integration between member states. Figure 1 shows the world's main trading blocs.

### The World Trade Organization (WTO)

The WTO has 157 member countries. Its aim is to reduce trade barriers within and between trade blocs and to enforce agreed rules about trading arrangements. Agreement about trade between the blocs has not always been smooth and negotiations are still going on following the Doha Round of talks which started in 2001.

All nations wish to expand their markets overseas, but they want to protect themselves from competition in their own markets. They tend to see the 'walls' of their trade bloc as a way to defend themselves from competition. This is particularly evident in the way NAFTA and the EU restrict certain agricultural imports, such as sugar, in order to protect their own farmers. Despite this protectionism, the WTO has enabled more trade between blocs to occur and it is a key player in determining the terms of trade and thus enhancing globalisation.

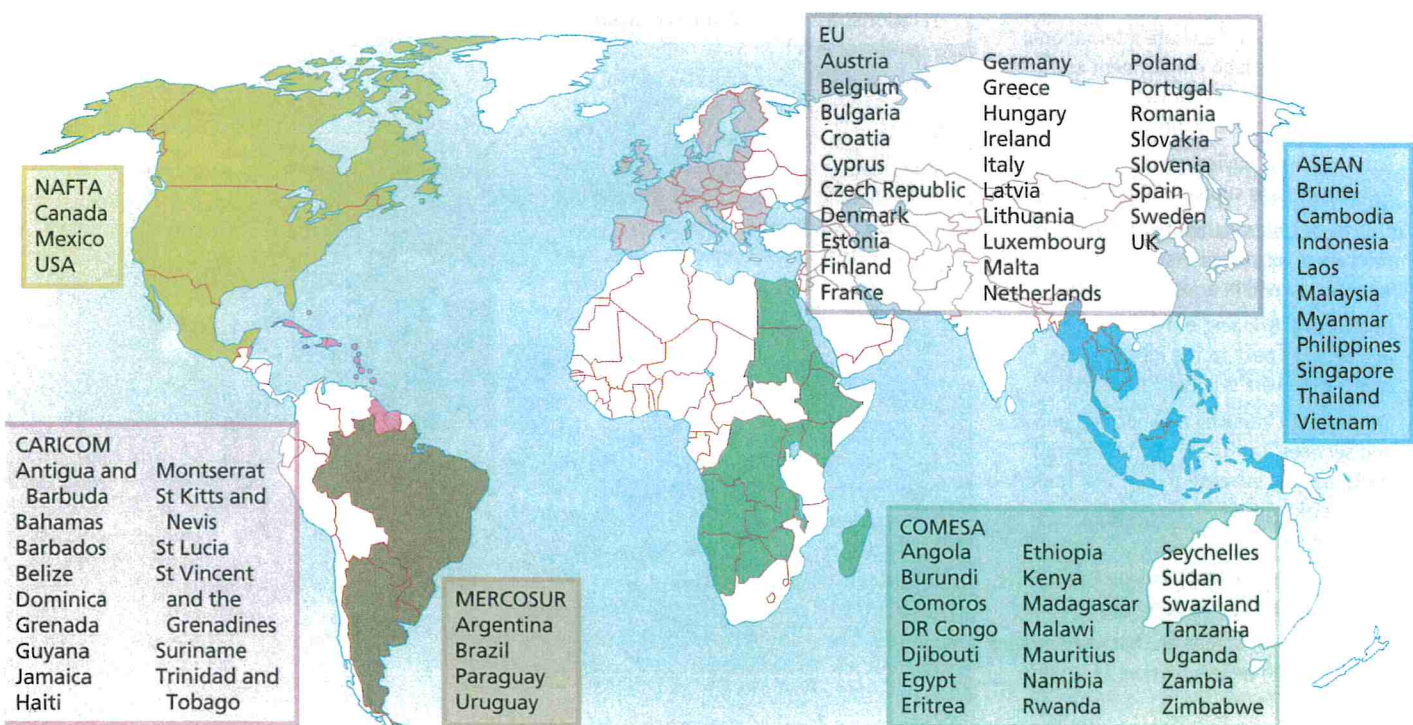


Figure 1 Map showing the main trading blocs



## Transnational corporations (TNCs)

Companies such as Nike and Apple have operations in many countries and are one of the main drivers of globalisation. They try to keep costs down by locating manufacturing in countries where labour is less expensive, either by building their own factories in these countries, or by **outsourcing** manufacturing to local firms. This process has resulted in a **global shift** of manufacturing activity away from high-income countries (HICs) towards lower-income countries (notably in southeast Asia).

However, there are other factors involved in the location of labour, such as level of

skill in the workforce, efficiency, willingness to work long hours and levels of unionisation. You should consider these as well when answering questions about globalisation, to give your examination answers greater balance. For example, English is widely spoken in India and there is a large pool of university graduates in the country. These factors have been crucial in TNCs outsourcing 'back office' functions to locations such as Bangalore. Other considerations include the cost of land, level of planning regulation and range of incentives offered by governments to encourage companies to establish themselves.

Investment also flows from lower-income countries into higher-income nations as companies site themselves inside trading blocs in order to avoid tariffs and quotas, and to increase their global reach. For example, in the UK, the Indian TNC Tata owns Jaguar Land Rover, the Tetley Tea brand, and numerous steel and chemical outlets and has also established an engineering technology centre in the West Midlands. At the same time a **reshoring** trend has emerged: companies that had moved production overseas, often to China, are starting to relocate back to the UK. An example is Hornby toys.

## Governments

As already mentioned, governments work with other governments to form trading relationships. They also have influence over factors such as wage rates, taxation, and regional planning. They vary in their attitude to the nature and type of **foreign direct investment (FDI)** and so are to some extent 'gatekeepers' to TNCs. However, the negotiating position of poorer countries is not always strong and they can sometimes be overridden by more powerful forces, both from TNCs and from stronger political units.

## Technology

In order for businesses to operate in fragmented locations, effective communication of information is essential. The development of satellite and fibre-optic communications enabled the growth of the internet and mobile phone systems with all the associated benefits of faster, more extensive and cheaper communications. It has allowed the 'friction' of physical distance to be reduced as information and money can move instantly around the world.

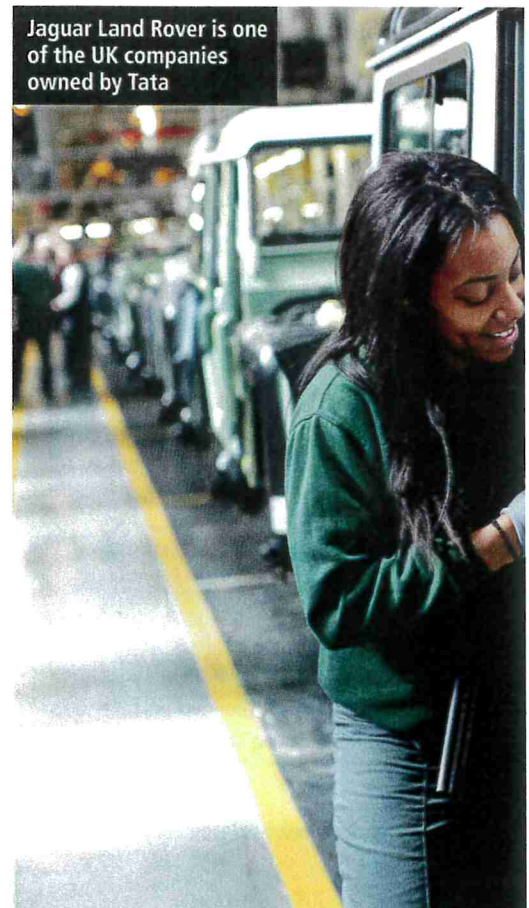
MSC Oscar is the largest container ship built so far



Information and money can flow 'virtually' around the globe but raw materials, components and finished products must still be physically transported from place to place. Here too, globalisation has gained momentum due to developments in technology. In January 2015 the world's largest container ship sailed from China to the UK. The *MSC Oscar* is 396 m long and has a capacity of 19,224 standard containers.

This is an extreme example, but ships routinely carry loads of over 9,000 containers. Containerisation, which started to develop in the 1960s, has reduced the cost of shipping

Jaguar Land Rover is one of the UK companies owned by Tata



## Glossary



### Foreign direct investment (FDI)

Investment from one country into another by companies rather than governments. It involves establishing operations or acquiring tangible assets, including stakes in other businesses.

**Global shift** The changing geographical location of the world's manufacturing industry.

**Glocalisation** The process of global brands being adapted for a local market, but still retaining something of their original identity. McDonald's is a popular example.

### International Monetary fund (IMF)

An organization of 188 countries with its HQ in Washington, DC. Its mission is to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**Outsourcing** Buying goods or services from an outside supplier, often overseas.

**Quota** A limited quantity of a particular product or substance that can be imported or exported within a set time period.

**Reshoring** Bringing outsourced personnel and services back to the location from which they were originally offshored.

**Tariff** A tax imposed on imported goods and services. Tariffs are used to restrict trade, as they increase the price of imported items, making them more expensive to consumers.

**Tax** A compulsory contribution to state revenue, levied by the government.

**Trade bloc** An agreement between regions or countries to reduce barriers to trade between them.

**Transnational corporation (TNC)** A company with operations in many countries.





rise of global brands is a highly visible aspect of globalisation. Companies invest significant sums of money in developing their brand identity so that they are instantly recognisable around the world. Some brands are kept the same wherever the product is sold, e.g. Coca Cola, but companies also adapt their brands to fit local markets, a process known as **glocalisation**.

HICS remain the core markets for consumer goods, but as other countries experience economic growth, new consumer markets emerge, for example those in Brazil and China where disposable incomes have been rising.

### The media

Development of communications technology has made the world seem smaller. Digital communication means that large media corporations such as the BBC and Newscorp we can receive information about events more immediately, frequently and from a much wider range of places. We are also exposed to an ever increasing range of cultural influences through film, music and literature, all of which support greater integration.

### Writing exam answers on this topic

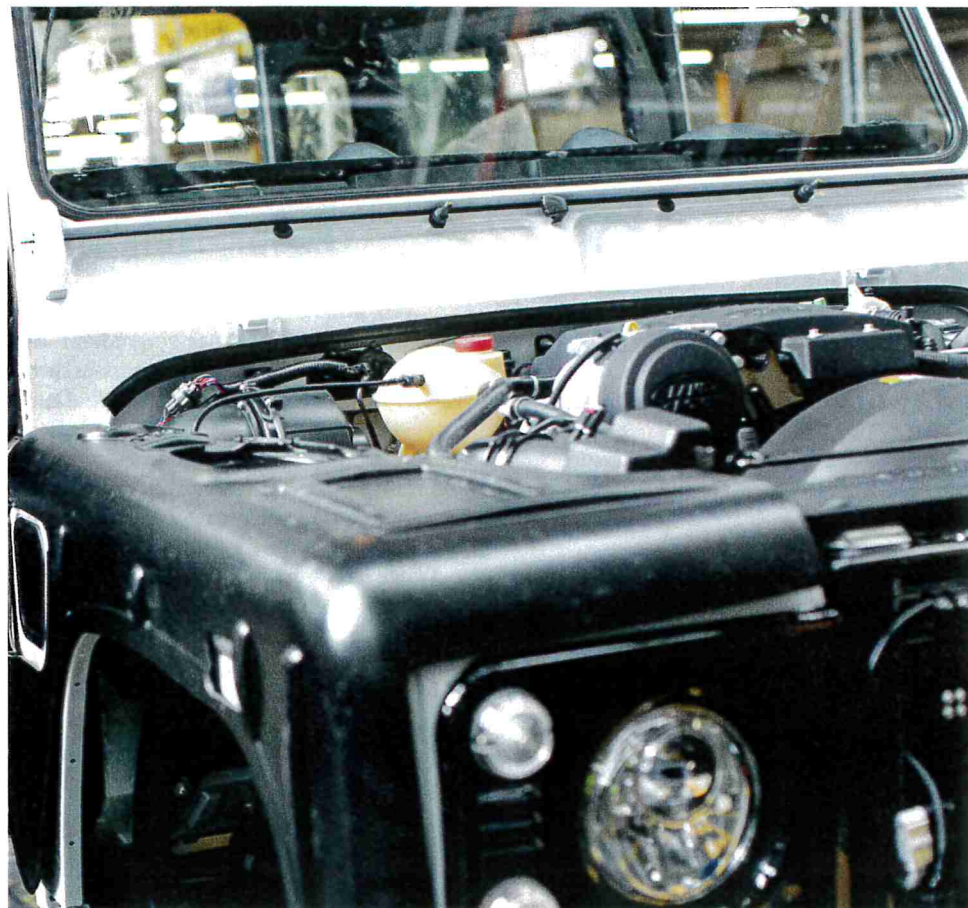
It is important to understand that the drivers of globalisation are varied. Good answers will be able to identify a balanced range of

considerably. Larger cargoes can be carried and the mechanisation of the process has made it more efficient and cost effective.

Developments in air travel have also enhanced globalisation. Larger and faster aircraft have increased capacity and reduced travelling times, in effect 'shrinking distance'.

### Consumers

All products need a market and the growth of consumer demand around the world has contributed to globalisation. Products are not only manufactured in many countries, but they are marketed and sold in them too. The



### Further reading



The World Trade Organization: [www.wto.org](http://www.wto.org)

A summary of information about trading blocs from Economics Online: [www.economicsonline.co.uk/Global\\_economics/Trading\\_blocs.html](http://www.economicsonline.co.uk/Global_economics/Trading_blocs.html)

BBC article 'Why companies are 'reshoring' back to Britain': [www.bbc.co.uk/news/business-26235707](http://www.bbc.co.uk/news/business-26235707)

factors and use examples to illustrate how they influence the process. This column has outlined several distinct causes of globalisation which could be used as a structure. However, it is also important to recognise that no single factor is a cause by itself. Rather, a mixture of powerful economic and technological circumstances combine to allow 'deepening and lengthening' of global connections. It is a good idea to comment on the varying importance of the different factors in different places, showing that you understand that the process is complex.

It is essential to read the command words in the questions carefully — it is easy to write about impacts instead of causes. However in the case of globalisation there is wonderful scope to show that the initial impacts of globalisation can in fact become the factors that continue to develop it. For example, one of the impacts of TNCs investing in new locations is the creation of jobs. This can result in raised disposable incomes. This then creates a demand for consumer goods which (as already mentioned above) helps to stimulate global demand and trade. Similarly developments in air transport have led to an increase in foreign travel which then leads to greater social awareness and therefore 'interconnectedness'. Don't shy away from making these points where appropriate. The examiner will appreciate them.

### Questions for discussion

- 1 Can you define globalisation?
- 2 What are the most important drivers of globalisation?
- 3 Can you identify economic, social and technological factors influencing globalisation?
- 4 Why are some places more integrated in the global economy than others?

Emma West is a geography teacher living in Kingston upon Thames.

Complete the following:

a. Define 'Globalisation' -----  
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b. What are the most important drivers of globalisation?  
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c. Identify economic, social and technological factors influencing globalisation.

Economic	Social	Technological

d. Why are some places more integrated in the global economy than others? Name examples of places that are more integrated and of places that are less integrated.  
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