

## **The Interaction between the Local Economy and the External Economy**

### **INTERNATIONAL TRADE**

**International trade** is the exchange of goods and services across international boundaries or territories. In most countries, it represents a significant share of GDP.

### **Risks in international trade**

The risks that exist in international trade can be divided into two major groups:

#### **Economic risks**

- Risk of insolvency of the buyer,
- Risk of protracted default - the failure of the buyer to pay the amount due within six months after the due date
- Risk of non-acceptance
- risk of Exchange rate

#### **Political risks**

- Risk of cancellation or non-renewal of export or import licenses
- War risks
- Risk of expropriation or confiscation of the importer's company
- Risk of the imposition of an import ban after the shipment of the goods
- Transfer risk - imposition of exchange controls by the importer's country or foreign currency shortages.

If countries specialize in the production of certain goods and then trade with other countries there will be an increase in economic welfare. Countries will specialize in those goods where they have a comparative advantage

**Absolute Advantage:**

This occurs when one country can produce a good with less resources than another. E.G. if USA can produce cars with lower cost than the UK the USA has an absolute advantage in producing cars.

**Comparative Advantage:**

A country has a comparative advantage over another in the production of a good if it can produce it at a lower opportunity cost: i.e. it has to forego less of other goods in order to produce it.

**The Law of Comparative advantage**

This states that trade can benefit all countries if they specialise in the goods in which they have a comparative advantage.

**Benefits of Free Trade.**

**1. The theory of comparative advantage.**

This explains that by specialising in goods where countries have a lower opportunity cost, there can be an increase in economic welfare for all countries.

**2. Reducing Tariff barriers leads to trade creation**

Trade creation occurs when consumption switches from high cost producers to low cost producers

## COMMUNITY ECONOMIC ANALYSIS

- The removal of tariffs leads to lower prices for consumers and an increase in consumer surplus
- Imports will increase
- The govt will lose tax revenue
- Domestic firms producing this good will sell less and lose producer surplus
- However overall there will be an increase in economic welfare
- The magnitude of this increase depends upon the elasticity of supply and demand. If demand elastic consumers will have a big increase in welfare

### **3. Increased Exports.**

As well as benefits for consumers importing goods, firms exporting goods where the UK has a comparative advantage will also see a big improvement in economic welfare. Lower tariffs on UK exports will enable a higher quantity of exports boosting UK jobs and economic growth.

### **4. Economies of Scale:**

If countries can specialise in certain goods they can benefit from economies of scale and lower average costs, this is especially true in industries with high fixed costs or that require high levels of investment. The benefits of economies of scale will ultimately lead to lower prices for consumers.

### **5. Increased Competition.**

With more trade domestic firms will face more competition from abroad therefore there will be more incentives to cut costs and increase efficiency. It may prevent domestic monopolies from charging too high prices.

### **6. Trade is an engine of growth.**

World trade has increased by an average of 7% since the 1945, causing this to be one of the big contributors to economic growth.

### **7. Make use of surplus raw materials**

Middle Eastern countries such as Qatar are very rich in reserves of oil but without trade there would be not much benefit in having so much oil. Japan on the other hand has very few raw material without trade it would be very poor.

### **8. Tariffs may encourage inefficiency**

If an economy protects its domestic industry by increasing tariffs industries may not have any incentives to cut costs.

## **THE FOREIGN 'TRADE MULTIPLIER**

Assume a closed economy – one that does not engage in international

$$\text{trade: } Y = C + I + G$$

Now, subtract C and G from both sides of the equation:

$$Y - C - G = I$$

- The left side of the equation is the total income in the economy after paying for consumption and government purchases and is called *national saving*, or just *saving (S)*.
- Substituting S for  $Y - C - G$ , the equation can be written as:  $S = I$
- Saving represents outflow or withdrawal some money from the income flow, while investment is the injection of some money into the income stream.

- The level of national income is in equilibrium (that is, circular flow of income is constant when outflow from the income stream in the form of savings is equal to the injection of investment expenditure.
- In an open economy, the role of foreign trade, that is, exports and imports of a country are also to be considered.
- Imports by consumers of a country represent the expenditure on imported goods by the residents of the country and leads to the leakage of some income from domestic economy.

*Public saving* is the amount of tax revenue that the government has left after paying for its spending.

$$\text{Public saving} = (T - G)$$

### **Surplus and Deficit:**

- **If  $T > G$** , the government runs a *budget surplus* because it receives more money than it spends.
- The surplus of  $T - G$  represents public saving.
- **If  $G > T$** , the government runs a *budget deficit* because it spends more money than it receives in tax revenue.
- Therefore, in addition to saving, imports are other form of leakage that occurs in an open economy.
- On the other hand, exports represent expenditure by the people of foreign countries on the goods produced in the domestic economy and are, like domestic investment, injection into the income stream of an open economy.

- Therefore, equilibrium level of national income in an open economy is determined at the level at which total leakage,
- Savings plus imports (S + M) equal total injection, that is, domestic investment plus exports (I + A) into the income stream.
- Thus, in an open economy, national income is in equilibrium at the level at which

$$S + M = I + X$$

- When a change in any of the above four variables occurs, then the change on the left side of the above equation must equal the change on the right side if the new equilibrium.

Hence

$$\Delta S + \Delta M = \Delta I + \Delta X$$

Now, change in saving,  $\Delta S = s \cdot \Delta Y$

Where  $s$  = marginal propensity to save and

$\Delta Y$  = change in national income.

Likewise, change in imports,  $\Delta M = m \cdot \Delta Y$

Where  $m$  marginal propensity to import.

Thus, rewriting equation (1) we have

$$s \cdot \Delta Y + m \cdot \Delta Y = \Delta I + \Delta X$$

$$\Delta Y = \frac{1}{s + m} (\Delta I + \Delta X)$$

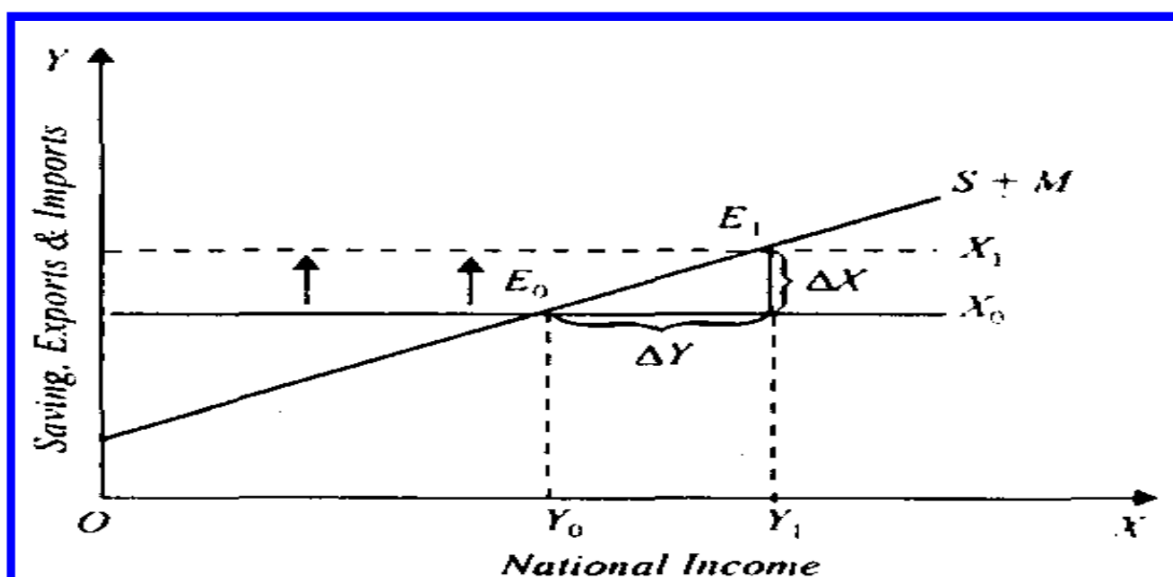
It will be known from equation (2) that changes in either investment or exports will cause income to increase by the multiple,  $1 / s+m$ . Thus  $1 / s+m$  is the foreign trade multiplier which is generally denoted by  $K_f$

Thus, if exports increase by  $\Delta X$  the national income will rise by  $\Delta X \cdot 1 / s + m$

i.e  $\Delta x \cdot K_f$

**Graphic Representation of Foreign Trade Multiplier:**

Assume that there is no investment; equilibrium level of national income will therefore be determined by consumption (saving) and exports.



**How the Foreign Trade Multiplier Works?**

The foreign trade multiplier works in the same way as Keynes' investment multiplier.

When there is increase in exports, it will cause the increase in income of the exporters and those employed in the export industries.

They will save some of the increase in their incomes and will spend a good part of the increases in their incomes on consumer goods, both domestic and imported ones.

While savings do not generate further income and represent leakage from the income stream, expenditure on imports leads to the increase in the incomes of the foreign countries from which goods are imported.

Thus expenditure on imports also represents a leakage from the income stream as far as domestic economy is concerned. But the increased expenditure on domestic goods as a result of increase in exports will go on increasing incomes till the multiplier fully works out.

It may be noted that increase in exports of a country can occur due to several reasons. There may be change in tastes or demand of the people of foreign countries for goods of a country.

The exporters may meet the demand for exported goods by selling their inventories and enjoy higher incomes. But in the next periods, they will make efforts to increase the production of exported goods and employ more workers. This will generate new income and employment in the export industries. But the working of multiplier does not stop here.

Those employed in export industries will spend a good part of their increased incomes on goods produced by other industries and in this way increases in income, production and employment will spread in the whole of the domestic economy.

## LINKAGE MODEL

### **Ricardian model**

The Ricardian model focuses on comparative advantage and is perhaps the most important concept in international trade theory. In a Ricardian model, countries specialize in producing what they produce best. Unlike

other models, the Ricardian framework predicts that countries will fully specialize instead of producing a broad array of goods.

Country	Pencil	Pen
1	10	5
2	4	8

### Heckscher-Ohlin model

The Heckscher-Ohlin model was produced as an alternative to the Ricardian model of basic comparative advantage. The theory argues that the pattern of international trade is determined by differences in usage pattern. It predicts that countries will export those goods that make intensive use of locally plentiful and will import goods that make intensive use that are locally scarce.

Country	scarce	Excess
1	wheat	rice
2	rice	Sugar, Wheat
3	sugar	Wheat, rice

## EXCHANGE RATES

- The exchange rate is the rate at which one currency trades against another on the foreign exchange market
- If the present exchange rate is £1=\$1.42 this means that to go to America you would get \$142 for £100. Similarly if an American came to the UK he would have to pay \$142 to get £100. Although in real life, the dealer would make a profit.

## COMMUNITY ECONOMIC ANALYSIS

- Currencies are being continuously traded on the foreign exchange markets, with the prices constantly changing as dealers adjust to changes in supply and demand
- Currencies will also undergo long term changes depending on the state of the comparative countries. E.G. in the 1920s the £ was worth \$4.50 Since the launch of the EURO in 1999 it has depreciated by 25% against the dollar.
- **Exchange rate index:** This gives a measure of a currency against a basket of currencies. It is expressed as an index, where the value of the index will be 100 in the base year.
- The weight given to each currency depends upon the proportion of transactions done with the country. For example in the Sterling exchange rate index the highest weighting will be given to the Euro and then the dollar
- **Real Exchange Rate.** This is the exchange rate after being adjusted for the effects of inflation, it therefore more accurately reflects purchasing power

### **Factors which influence the exchange rate**

#### **1. Inflation**

If inflation in the UK is lower than elsewhere, then UK exports will become more competitive and there will be an increase in demand for £s. Also

foreign goods will be less competitive and so UK citizens will supply less £s.

Therefore the rate of £ will increase from say £1=\$1.4 to \$1.5

## **2. Interest Rates**

If UK interest rates rise relative to elsewhere it will become more attractive to deposit money in the UK, Therefore demand for Sterling will rise. This is known as “hot money flows”. Therefore the value of sterling £ will appreciate

## **3. Speculation**

If speculators believe the sterling will rise in the future They will demand more now to be able to make a profit. This increase in demand will cause the value to rise.

Therefore movements in the exchange rate do not always reflect economic fundamentals, but are often driven by the sentiments of the financial markets

## **4. Change in competitiveness**

If British goods become more attractive and competitive this will also cause the value of the ER to rise

## **5. Relative strength of other currencies**

Between 1999 and 2001 the £ appreciated because the Euro was seen as a weak currency

## **6. Balance of Payments**

A large deficit on the current account means that the value of imports is greater than the value of exports. If this is financed by a surplus on the

financial/ capital account then this is OK. But a country who struggles to attract enough capital inflows will see depreciation in the currency. (For example current account deficit in US of 7% of GDP is one reason for depreciation of dollar in 2006)

### **The determination of the rate of exchanges in a free market**

The rate of exchange is determined by supply and demand

When a UK citizen wishes to purchase goods from US, he supplies pounds. The higher the exchange rate the more dollars he will get for a pound

When a US citizen wishes to purchase UK goods they supply dollars and demand pounds.

If you are going on holiday to the US it is best if there is an appreciation in Sterling so that you get more dollars for your £.

### **Economic Effects of an Appreciation**

Exports more expensive, therefore less UK exports will be demanded

Imports are cheaper; therefore more imports will be bought.

A fall in AD, causing lower growth

Lower inflation because:

import prices are cheaper

Lower AD

More incentives to cut costs

### **Fixed Exchange Rates:**

Floating Exchange Rate: this is when the govt does not intervene in the foreign exchange market but always market forces to determine the level of a currency

Fixed Exchange Rate: This occurs when the govt seeks to keep the value of a currency fixed against another currency

**Exchange Rate Mechanism ERM.** This was a semi fixed exchange rate where EU countries sought to keep their currencies fixed within certain bands against the D-Mark. The ERM was the forerunner of the Euro

## Problems Facing any Economy

1. Inflation
2. Poor educational standards
3. Poor infrastructure
4. Balance of payments deterioration
5. High levels of debt
6. Inequality has risen rather than decreased
7. Large budget deficit
8. Rigid labour laws

## LIBERALIZATION

In general, liberalization refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. Liberalization of autocratic regimes may precede democratization.

### **Liberalization and privatization**

Although economic liberalization is often associated with privatization, the two can be quite separate processes. For example, the European Union has liberalized gas and electricity markets, instituting a system of competition;

but some of the leading European energy companies (such as EDF and Vattenfall) remain partially or completely in government ownership.

Liberalized and privatized public services may be dominated by just a few big companies, particularly in sectors with high capital costs, or high sunk cost, such as water, gas and electricity. In some cases they may remain legal monopolies, at least for some part of the market (e.g. small consumers).

### **Liberalization vs Democratization**

There is a distinct difference between liberalization and democratization, which are often thought to be the same concept. Liberalization can take place without democratization, and deals with a combination of policy and social change specialized to a certain issue such as the liberalization of government-held property for private purchase, whereas democratization is more politically specialized that can arise from a liberalization, but works in a broader level of government. Liberalisation is the process whereby the contribution into the promotion of trade.

## **PRIVATIZATION**

Privatization is the incidence or process of transferring ownership of business from the public sector (government) to the private sector (business). In a broader sense, privatization refers to transfer of any government function to the private sector including governmental functions like revenue collection and law enforcement.

The term "Privatization" also has been used to describe two unrelated transactions. The first is a buyout, by the majority owner, of all shares of a

public corporation or holding company's stock, privatizing a publicly traded stock. The second is a demutualization of a mutual organization or cooperative to form a joint stock company.

**Types of privatization:**

There are three main methods of privatization:

- Share issue privatization (SIP) - selling shares on the stock market
- Asset sale privatization - selling the entire firms or part of it to a strategic investor, usually by auction or using Treuhand model
- Voucher privatization - shares of ownership are distributed to all citizens, usually for free or at a very low price.

*Share issue privatization* is the most common type of privatization. Share issue can broaden and deepen domestic capital markets, boosting liquidity and potentially economic growth, but if the capital markets are insufficiently developed it may be difficult to find enough buyers, and transaction costs (e.g. underpricing required) may be higher. For this reason, many governments elect for listings in the more developed and liquid markets. Euronext, and the London, New York and Hong Kong Stock Exchanges are popular because they are highly developed and sophisticated.

As a result of higher political and currency risk deterring foreign investors, asset sales are more common in developing countries.

*Voucher privatization* has mainly been used in the transition economies of Central and Eastern Europe, such as Russia, Poland, the Czech Republic, and Slovakia.

*Asset sale privatizations* is that bidders compete to offer the state the highest price, creating revenues for the state to redistribute in addition to new tax revenue. Voucher privatizations, on the other hand, would be a genuine return of the assets into the hands of the general population, and create a real sense of participation and inclusion. Vouchers, like all other private property, could then be sold on if preferred by what companies are offering.

### **Pro-privatization**

Proponents of privatization believe that private market actors can more efficiently deliver many goods or service than government due to free market competition. In general, it is argued that over time this will lead to lower prices, improved quality, more choices, less corruption, less red tape, and quicker delivery. Many proponents do not argue that everything should be privatized; the existence of problems such as market failures and natural monopolies may limit this. However, a small minority thinks that everything can be privatized, including the state itself.

The basic economic argument given for privatization is that governments have few incentives to ensure that the enterprises they own are well run. One problem is the lack of comparison in state monopolies. It is difficult to know if an enterprise is efficient or not without competitors to compare against. Another is that the central government administration, and the voters who elect them, have difficulty evaluating the efficiency of numerous and very different enterprises.

A private owner, often specializing and gaining great knowledge about a certain industrial sector, can evaluate and then reward or punish the management in much fewer enterprises much more efficiently. Also, governments can raise money by taxation or simply printing money should revenues be insufficient, unlike a private owner.

If there are both private and state owned enterprises competing against each other, then the state owned may borrow money more cheaply from the debt markets than private enterprises, since the state owned enterprises are ultimately backed by the taxation and printing press power of the state, gaining an unfair advantage.

Privatizing a non-profitable company which was state-owned may force the company to raise prices in order to become profitable. However, this would remove the need for the state to provide tax money in order to cover the losses.

**Performance.** State-run industries tend to be bureaucratic. A political government may only be motivated to improve a function when its poor performance becomes politically sensitive, and such an improvement can be reversed easily by another regime.

**Improvements.** Conversely, the government may put off improvements due to political sensitivity and special interests — even in cases of companies that are run well and better serve their customers' needs.

**Corruption.** A monopolized function is prone to corruption; decisions are made primarily for political reasons, personal gain of the decision-maker (i.e. "graft"), rather than economic ones. Corruption (or principal-agent

issues) during the privatization process - however - can result in significant underpricing of the asset. This allows for more immediate and efficient corrupt transfer of value - not just from ongoing cash flow, but from the entire lifetime of the asset stream. Often such transfers are difficult to reverse.

**Accountability.** Managers of privately owned companies are accountable to their owners/shareholders and to the consumer and can only exist and thrive where needs are met. Managers of publicly owned companies are required to be more accountable to the broader community and to political "stakeholders". This can reduce their ability to directly and specifically serve the needs of their customers, and can bias investment decisions away from otherwise profitable areas.

**Civil-liberty concerns.** A company controlled by the state may have access to information or assets which may be used against dissidents or any individuals who disagree with their policies.

**Goals.** A political government tends to run an industry or company for political goals rather than economic ones.

**Capital.** Privately held companies can sometimes more easily raise investment capital in the financial markets when such local markets exist and are suitably liquid. While interest rates for private companies are often higher than for government debt, this can serve as a useful constraint to promote efficient investments by private companies, instead of cross-subsidizing them with the overall credit-risk of the country. Investment decisions are then governed by market interest rates. State-owned

industries have to compete with demands from other government departments and special interests. In either case, for smaller markets, political risk may add substantially to the cost of capital.

**Security.** Governments have had the tendency to "bail out" poorly run businesses, often due to the sensitivity of job losses, when economically, it may be better to let the business fold.

**Lack of market discipline.** Poorly managed state companies are insulated from the same discipline as private companies, which could go bankrupt, have their management removed, or be taken over by competitors. Private companies are also able to take greater risks and then seek bankruptcy protection against creditors if those risks turn sour.

**Natural monopolies.** The existence of natural monopolies does not mean that these sectors must be state owned. Governments can enact or are armed with anti-trust legislation and bodies to deal with anti-competitive behavior of all companies public or private.

**Concentration of wealth.** Ownership of and profits from successful enterprises tend to be dispersed and diversified -particularly in voucher privatization. The availability of more investment vehicles stimulates capital markets and promotes liquidity and job creation.

**Political influence.** Nationalized industries are prone to interference from politicians for political or populist reasons. Examples include making an industry buy supplies from local producers (when that may be more expensive than buying from abroad), forcing an industry to freeze its prices/fares to satisfy the electorate or control inflation, increasing its

staffing to reduce unemployment, or moving its operations to marginal constituencies.

**Profits.** Corporations exist to generate profits for their shareholders. Private companies make a profit by enticing consumers to buy their products in preference to their competitors' (or by increasing primary demand for their products, or by reducing costs). Private corporations typically profit more if they serve the needs of their clients well. Corporations of different sizes may target different market niches in order to focus on marginal groups and satisfy their demand. A company with good corporate governance will therefore be incentivized to meet the needs of its customers efficiently.

### **Anti-privatization**

Opponents of privatization dispute the claims concerning the alleged lack of incentive for governments to ensure that the enterprises they own are well run, on the basis of the idea that governments are proxy owners answerable to the people. It is argued that a government which runs nationalized enterprises poorly will lose public support and votes, while a government which runs those enterprises well will gain public support and votes. Thus, democratic governments do have an incentive to maximize efficiency in nationalized companies, due to the pressure of future elections.

Opponents of certain privatizations believe certain parts of the social terrain should remain closed to market forces in order to protect them from the unpredictability and ruthlessness of the market (such as private

prisons, basic health care, and basic education). Another view is that some of the utilities which government provides benefit society at large and are indirect and difficult to measure or unable to produce a profit, such as defense. Still another is that natural monopolies are by definition not subject to competition and better administrated by the state.

The controlling ethical issue in the anti-privatization perspective is the need for responsible stewardship of social support missions. Market interactions are all guided by self-interest, and successful actors in a healthy market must be committed to charging the maximum price that the market will bear. Privatization opponents believe that this model is not compatible with government missions for social support, whose primary aim is delivering affordability and quality of service to society.

Many privatization opponents also warn against the practice's inherent tendency toward corruption. As many areas which the government could provide are essentially profitless, the only way private companies could, to any degree, operate them would be through contracts or block payments. In these cases, the private firm's performance in a particular project would be removed from their performance, and appropriation and dangerous cost cutting measures might be taken to maximize profits.

Some would also point out that privatizing certain functions of government might hamper coordination, and charge firms with specialized and limited capabilities to perform functions which they are not suited for. In rebuilding a war torn nation's infrastructure, for example, a private firm would, in order to provide security, either have to hire

security, which would be both necessarily limited and complicate their functions, or coordinate with government, which, due to a lack of command structure shared between firm and government, might be difficult. A government agency, on the other hand, would have the entire military of a nation to draw upon for security, whose chain of command is clearly defined. Opponents would say that this is a false assertion: numerous books refer to poor organization between government departments (for example the Hurricane Katrina incident).

Furthermore, opponents of privatization argue that it is undesirable to transfer state-owned assets into private hands for the following reasons:

**Performance.** A democratically elected government is accountable to the people through a legislature, Congress or Parliament, and is motivated to safeguarding the assets of the nation. The profit motive may be subordinated to social objectives.

**Improvements.** The government is motivated to performance improvements as well run businesses contribute to the State's revenues.

**Corruption.** Government ministers and civil servants are bound to uphold the highest ethical standards, and standards of probity are guaranteed through codes of conduct and declarations of interest. However, the selling process could lack transparency, allowing the purchaser and civil servants controlling the sale to gain personally.

**Accountability.** The public does not have any control or oversight of private companies.

**Civil-liberty concerns.** A democratically elected government is accountable to the people through a parliament, and can intervene when civil liberties are threatened.

**Goals.** The government may seek to use state companies as instruments to further social goals for the benefit of the nation as a whole.

**Capital.** Governments can raise money in the financial markets most cheaply to re-lend to state-owned enterprises.

**Lack of market discipline.** Governments have chosen to keep certain companies/industries under public ownership because of their strategic importance or sensitive nature.

**Cuts in essential services.** If a government-owned company providing an essential service (such as the water supply) to all citizens is privatized, its new owner(s) could lead to the abandoning of the social obligation to those who are less able to pay, or to regions where this service is unprofitable.

**Natural monopolies.** Privatization will not result in true competition if a natural monopoly exists.

**Concentration of wealth.** Profits from successful enterprises end up in private, often foreign, hands instead of being available for the common good.

**Political influence.** Governments may more easily exert pressure on state-owned firms to help implementing government policy.

**Downsizing.** Private companies often face a conflict between profitability and service levels, and could over-react to short-term events. A state-

owned company might have a longer-term view, and thus be less likely to cut back on maintenance or staff costs, training etc, to stem short term losses. Many private companies have downsized while making record profits.

**Profit.** Private companies do not have any goal other than to maximize profits. A private company will serve the needs of those who are most willing (and able) to pay, as opposed to the needs of the majority, and are thus anti-democratic.

**Privatisation and Poverty.** It is acknowledged by many studies that there are winners and losers with privatization. The number of losers — which may add up to the size and severity of poverty — can be unexpectedly large if the method and process of privatization and how it is implemented are seriously flawed (e.g. lack of transparency leading to state-owned assets being appropriated at minuscule amounts by those with political connections, absence of regulatory institutions leading to transfer of monopoly rents from public to private sector, improper design and inadequate control of the privatization process leading to asset stripping).

## GLOBALIZATION

Globalization can be described as a process of blending or homogenization by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, sociocultural and political forces. Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

## COMMUNITY ECONOMIC ANALYSIS

*Tom G. Palmer* of the Cato Institute defines "globalization" as "the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result."

The term "internationalization" refers to the importance of international trade, relations, treaties etc. International means between or among nations.

Looking specifically at economic globalization, demonstrates that it can be measured in different ways. These centers around the four main economic flows that characterize globalization:

**Goods and services**, e.g. exports plus imports as a proportion of national income or per capita of population

**Labor/people**, e.g. net migration rates; inward or outward migration flows, weighted by population

**Capital**, e.g. inward or outward direct investment as a proportion of national income or per head of population

**Technology**, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband)

### EFFECTS OF GLOBALIZATION

Globalization has various aspects which affect the world in several different ways such as:

**Industrial** - emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies.

## COMMUNITY ECONOMIC ANALYSIS

Particularly movement of material and goods between and within national boundaries.

**Financial** - emergence of worldwide financial markets and better access to external financing for borrowers. Simultaneous though not necessarily purely globalist is the emergence of under or un-regulated foreign exchange and speculative markets.

**Economic** - realization of a global common market, based on the freedom of exchange of goods and capital.

**Political** - some use "globalization" to mean the creation of a world government, or cartels of governments (e.g. WTO, World Bank, and IMF) which regulate the relationships among governments and guarantees the rights arising from social and economic globalization. Politically, the United States has enjoyed a position of power among the world powers; in part because of its strong and wealthy economy. With the influence of globalization and with the help of The United States' own economy, the People's Republic of China has experienced some tremendous growth within the past decade. If China continues to grow at the rate projected by the trends, then it is very likely that in the next twenty years, there will be a major reallocation of power among the world leaders. China will have enough wealth, industry, and technology to rival the United States for the position of leading world power.

**Informational** - increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fibre optic communications, satellites, and increased availability of telephony and Internet.

## COMMUNITY ECONOMIC ANALYSIS

**Language** - the most popular language is English.

About 75% of the world's mail, telexes, and cables are in English.

Approximately 60% of the world's radio programs are in English.

About 90% of all Internet traffic is using English.

**Competition** - Survival in the new global business market calls for improved productivity and increased competition. Due to the market became worldwide not specific area, there are many industries around the

world. Industries have to upgrade their products and use technology skillfully for facing the competition and increasing their competitive.

**Cultural** - growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages.

**Ecological**- the advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.

**Social** (International cultural exchange) - increased circulation by people of all nations with fewer restrictions.

Spreading of multiculturalism, and better individual access to cultural

diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.

### **Business**

Globalization has had extensive impact on the world of business. In a business environment marked by globalization, the world seems to shrink, and other businesses halfway around the world can exert as great an impact on a business as one right down the street. Internet access and e-commerce have brought small-scale coops in Third World nations into the same arena as thriving businesses in the industrialized world, and visions of low-income workers handweaving rugs on primitive looms that compete with rug dealers in major cities are not totally far-fetched.

Globalization has affected workforce demographics, as well. Today's workforces are characterized by greater diversity in terms of age, gender, ethnic and racial background, and a variety of other demographic factors. In fact, management of diversity has become one of the primary issues of **21st-century business.**

Trends such as outsourcing and offshoring are a direct offshoot of globalization and have created a work environment in which cultural diversity can be problematic. A U.S. company where punctuality is important and meetings always start on time faces adjustments if it opens an office in South America or France, where being 10 to 15 minutes late to a meeting is considered acceptable: being on time is called 'British Time'

## **Sweatshops**

It can be said that globalization is the door that opens up an otherwise resource poor country to the international market. Where a country or nation has little material or physical product harvested or mined from its own soil there is seen the opportunity by large corporations to take advantage of the “export poverty” of such a nation. Where the majority of the earliest occurrences of economic globalization are recorded as being the expansion of businesses and corporate growth, in many poorer nations globalization is actually the result of the foreign businesses investing in the country to take advantage of the lower wage rate: even though investing, by increasing the Capital Stock of the country, increases their wage rate.

One example used by anti-globalization protestors is the use of “Sweatshops” by manufacturers. According to Global Exchange these “Sweat Shops” are widely used by sports shoe manufacturers and mentions one company in particular – Nike. There are factories set up in the poor countries where employees agree to work for low wages. Then if labour laws alter in those countries and stricter rules govern the manufacturing process the factories are closed down and relocated to other nations with more liberal economic policies.

There are several agencies that have been set up worldwide specifically designed to focus on anti-sweatshop campaigns and education of such.

## **REFERENCE**

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