

IGCSE O' Level

Economics

International Trade and Globalisation - 01

Grade: 10





International trade and globalization

Learning areas:

- International specialization
 - specialization at a national level
 - advantages and disadvantages of specialization at a national level
- Globalization, free trade **and protection**
 - definition of globalization
 - role of multinational companies (MNCs)
 - the benefits of free trade



International trade and globalisation



International Trade: the exchange of capital, goods, and services across international borders or territories.



Internal Trade: Domestic trade or trade that takes place within the country.



International Specialization

Definition: Tendency of a country to concentrate to produce a particular good or a range of goods or services.

Why?

- Superior factor endowments - specialise for which they have greater resources. (sea and natural beauty)
- The climatic conditions
- Cheaper production methods
- For example Maldives: specialised in Fishing and Tourism.
- Some other examples: Sri Lanka specialising in Tea production, Brazil specialising in Coffee production, England specialised in Insurances etc.





Absolute and comparative advantage

A



Average cost
per unit \$100

B



Average cost
per unit \$150

A country has an **absolute advantage** in the production of a product when it can produce that product at a much lower cost per unit than any other country is able to

X



To produce 100 more cars, country X
must give up 5,000 televisions

Y



To produce 100 more cars, country
Y must give up 10,000 televisions

A country has a **comparative advantage** in the production of a product relative to other countries when its opportunity cost of producing that product is lower than in any other country



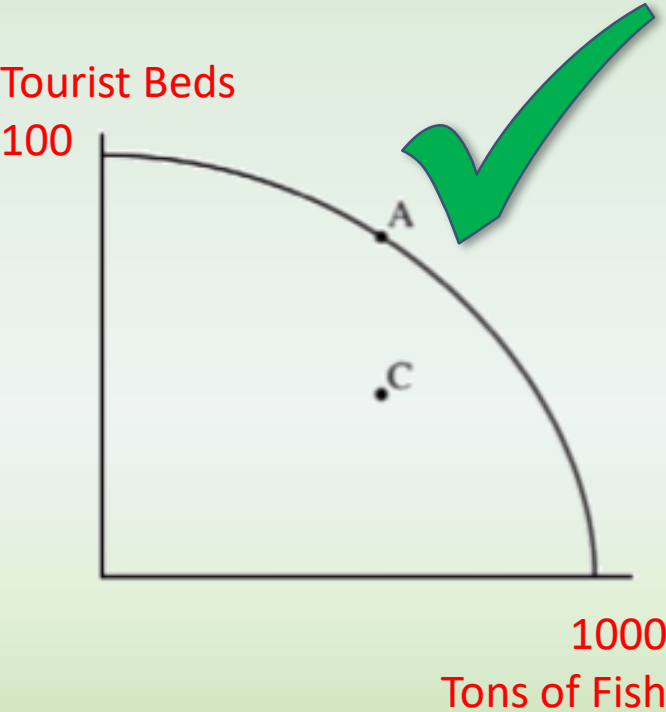
To demonstrate that an efficient country will produce what it is most capable of producing and it will trade with other nations for the rest of the goods and services it needs.

To show this notion, Economists use PPF (Production Possibility Frontier)/PPC (Production Possibility Curve)/OCC (Opportunity Cost Curve)

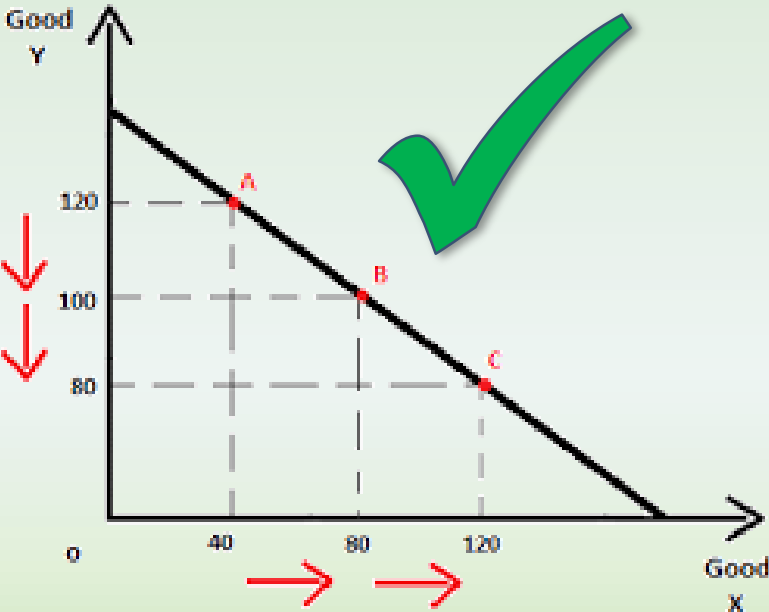


Production Possibility Frontier (PPF)

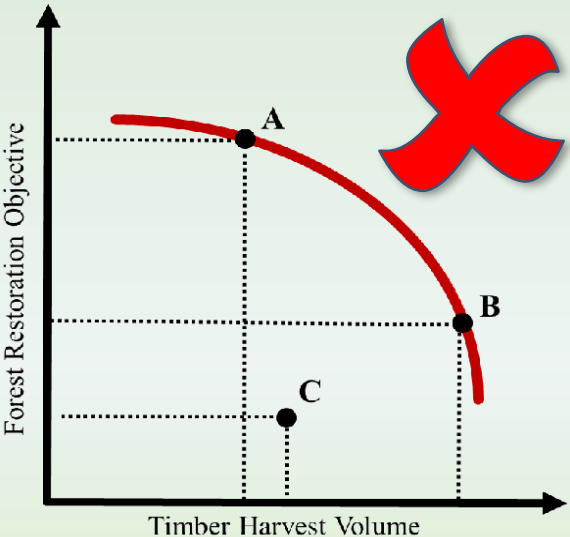
A curve that measures the maximum combination of outputs that can be obtained with a given number of inputs.



A



B

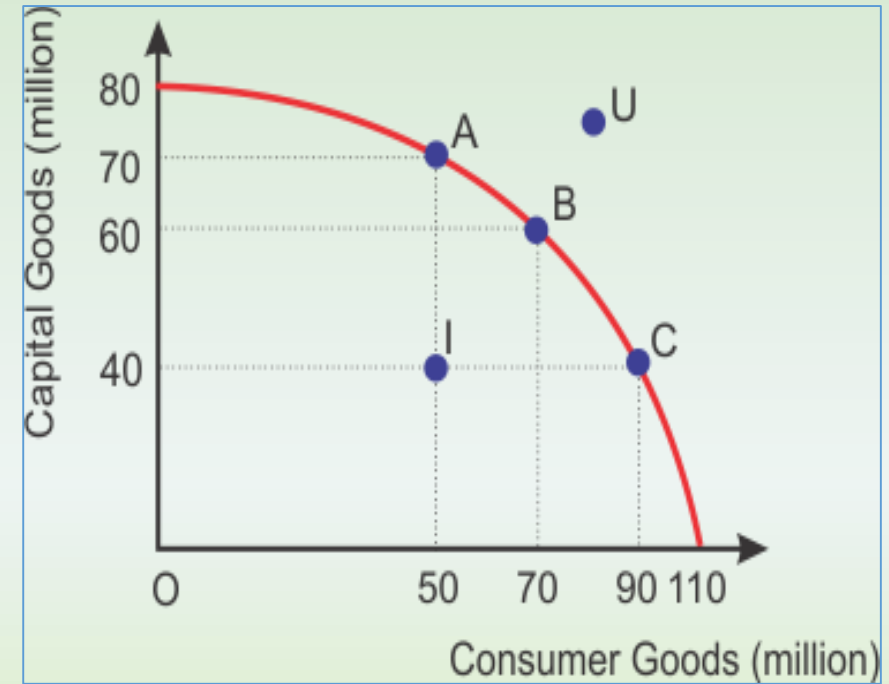
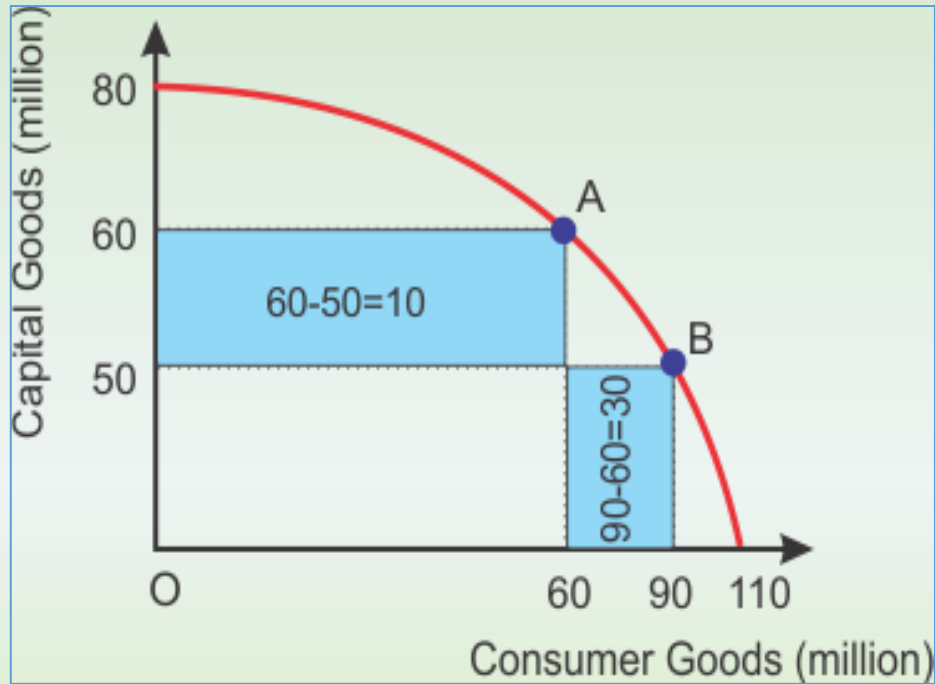


C



Production Possibility Frontier (PPF)

A curve that measures the maximum combination of outputs that can be obtained with a given number of inputs.





Advantages of International Specialisation

- 1. Consumers can enjoy goods that cannot be produced in own country :** For example, many countries import oil and natural gas, metals, timber, tropical fruits, etc.
- 2. Increased output:** They can produce what they are **best able** to and then trade their surplus. Total production of goods and services is raised and quality can be improved.
- 3. It increases consumer choice:** Consumers can enjoy a greater variety of goods and services from across the world. Consumers have access to a greater variety of higher quality products.
- 4. It creates additional business and employment opportunities:** Specialization and global trade increase the size of the market offering opportunities for economies of scale.



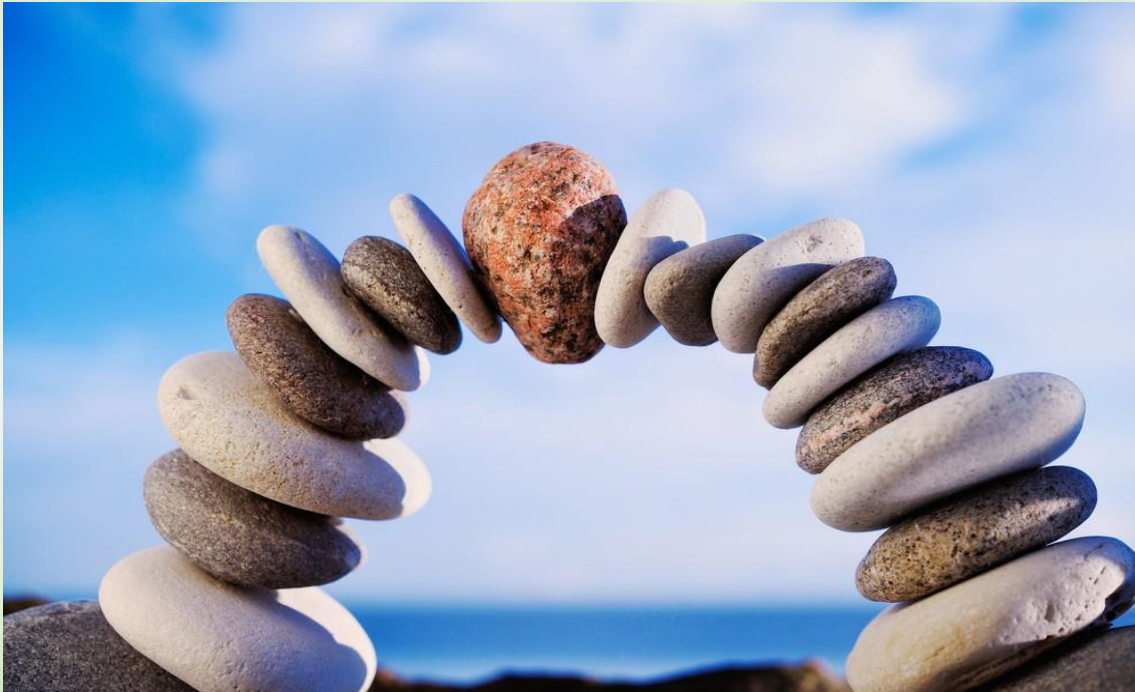
Disadvantages of International Specialisation

1. **Danger of over specialization:** A country would be vulnerable if it over specializes in one or few areas and if the demand for specialized industry declined, the income will be lost.
2. **Vulnerability in job opportunities:** Too much specialization makes the jobs in certain industries vulnerable as there would be cheaper labor in other countries.
3. **Depletion of natural resources:** Specialization has increased the world trade at a rate that is depleting the natural resources.
4. **Vulnerability of substitution effect:** A country would be vulnerable if the country's specialized products have substitutes. For example, if Malaysian rubber is replaced with synthetic rubber, Malaysian economy will be harmed.
5. **Vulnerability in exchange rate fluctuations:** A country's economy would be very much vulnerable to fluctuations in exchange rates and also world economic conditions.



What is globalization?

The increase in social, technological, political and economic interdependence and interaction between people, firms and entire economies around the world.



The increase in interdependence and interaction between economies.



Reasons for Globalization

1. Increasing ease of travel
2. Growth in technology and communications
3. Growing international trade in an increasing variety of goods and services
4. Increasing opportunities for firms to buy and sell products in any country in the world
5. Increasing opportunities for labour and capital to move anywhere in the world
6. The growth of global financial markets





Role of multinational companies (MNCs) (+)





Role of multinational companies (MNCs) (-)





The gains from free trade

- It allows countries to benefit from specialization
- It increases consumer choice
- It increases competition and efficiency
- It creates additional business and employment opportunities
- It allows firms to access the best workforces, materials and technologies from anywhere in the world



From Past Papers

(d) Discuss whether or not a country will benefit from specialising in an agricultural product such as sugar. [8]

(d) Discuss whether or not developing countries benefit from producing mainly primary products. [8]



From Past Papers

Up to 5 marks for why it might:

- It may increase efficiency/productivity (1) workers may be well trained in **sugar** production (1) advantage may be taken of economies of scale (1) lower cost (1) lower price (1) exports may increase / imports may fall (1) improving the current account position (1).
- The country may have the right climate (1) to give a good crop of **sugar** (1).
- Economic growth may increase (1).
- Agriculture may be labour intensive (1) creating employment for high number of workers (1).
- The country may gain a reputation for high quality agricultural products (1) increasing demand (1). May benefit if demand for the product is high (1).



From Past Papers

- **Up to 5 marks for why it might not:**
- Demand may fall (1) due to a change in tastes (1) rise in competitors (1).
- Supply may be reduced (1) by bad weather or a disease (1).
- Demand for manufactured good and for services tend to increase more as income rises (1) larger profits tend to be earned on these products (1).
- Diseconomies of scale may set in (1) Economies of scale tend to be more significant in manufacturing (1).
- Market prices of agricultural products are more variable (1) farmers face uncertainty in predicting income (1).
- The country may become dependent on other countries for other products (Over Production) (1).



Thank You