

# Divisions in the Global Economy

# 3

## Multiple Choice Answers

1	C	6	B	11	A	16	A
2	B	7	A	12	C	17	B
3	C	8	B	13	D	18	A
4	C	9	A	14	A	19	D
5	D	10	C	15	C	20	A

## Short Answer Questions

### Question 1

- a) Economic development is a broad measure of overall welfare in an economy that includes indicators of health, education and environmental quality as well as material living standards.
- b) Measures of economic development must take into account income levels, as a measure of material wellbeing, and other quality of life indicators. The Human Development Index (HDI) is the most common measure of economic development, taking into account GDP per capita, life expectancy at birth and levels of educational attainment.
- c) The levels of economic growth and development in an economy tend to be closely related. An increase in economic growth levels will result in higher domestic incomes in an economy, allowing for greater levels of private and public investment in education, health care and other national infrastructure. For example, rapid economic growth rates in newly industrialising economies have led to rising levels of economic development. Also, high levels of economic development will in turn lead to higher levels of economic growth. High levels of development provide for a highly skilled and educated labour force, and higher levels of infrastructure allow for greater investment across the economy; both leading to higher levels of economic growth. For example, low levels of economic development make it difficult for developing economies to increase economic growth due to a low skilled labour force and persistent health problems, as well as a lack of essential infrastructure.

- d)** The impact of globalisation on economic growth and development levels has varied across the global economy depending on the degree of global integration in the global economy. High income economies have generally experienced high levels of development and moderate levels of growth. Free trade has given individuals access to a greater variety of goods and services at lower prices, improving living standards. Increases in service and technology exports have led to higher growth rates. Newly industrialising economies have experienced rapid levels of growth due to their strategy of export led development mainly in manufactured goods, as well as increased foreign direct investment (FDI) inflows. Increased domestic incomes within newly industrialising economies have improved material well-being, as well as greater spending on education and health care. For example, the economies of South East Asia have invested heavily in education in recent years to help improve the quality of the labour force, leading to rising levels of development. Developing economies, however, have generally missed out on the benefits of globalisation. High levels of global agricultural protection and external tariffs from trading blocs such as the EU have prevented developing economies from increasing their export levels, preventing improvements in economic growth. In addition, the developing economy share of FDI flows is very small, and most of the profits flow back to high income economies. Assistance from the World Bank has generally been too low to make a significant impact on development levels. Also, TNCs seeking to lower costs by exploiting poor environmental standards can lead to environmental degradation in the developing world, worsening economic development.

### Question 2

- a)** A transition economy is a former socialist economy which is becoming a market based economy.
- b)** Hong Kong and South Korea.
- c)** Developing economies have low income levels and low levels of economic development. Their main industries tend to be primary industries – particularly agriculture and commodities. Developing economies generally have poor infrastructure, a low skilled workforce and high levels of poverty. Governments of developing economies suffer from high levels of foreign debt and are often reliant on foreign aid.
- d)** Newly industrialised countries (NICs) have generally experienced the positives of globalisation, whereas developing economies have largely experienced the negatives. NICs have experienced rapid levels of growth due to a strategy of export led development and high foreign direct investment (FDI) inflows. Reductions in global manufacturing protection and high demand for manufactured products has led to booming export levels and high growth rates. In addition, TNCs establishing production locations in NICs have increased FDI levels and created new jobs as part of their manufacturing operations. Developing economies, by contrast, have been largely locked out of the global trade system, facing high levels of agricultural protection. In addition, large global subsidies, such as the European Union's Common Agricultural Policy, have the effect of driving down global agricultural prices so that developing economies face lower prices for their exports and are locked out of global agricultural markets by high protection. FDI flows into developing economies are also very low, and any manufacturing operations established by TNCs often lead to environmental degradation as TNCs seek to lower costs by exploiting the lack of environmental standards in developing economies. In recent years, however, growth in developing economies has improved somewhat due to a global boom in commodities prices, leading to higher prices received for commodities exports, and mildly raising the growth rates.

### Question 3

- a)** The World Bank.
- b)** The quality of the labour force affects the level of economic development. A higher skilled labour force reflects higher education levels in an economy, and a higher skilled and larger labour force can be used to achieve greater economic growth levels and economic development. Also, the role of the government can affect the level of economic development. Newly industrialising economies have generally experienced rising levels of development due to heavy government investment in education.

- c)** The global trade system can distort the composition and direction of global trade flows, increasing global inequality. Reductions in global protection as a result of global free trade agreements have generally focused on manufactured goods, which are exported by high income and newly industrialising economies. As a result, these economies are able to boost their domestic growth rates and achieve higher income levels. Agricultural goods, however, face the highest levels of protection, and progress towards reducing agricultural protection has been minimal. As a result, developing economies are unable to increase their export levels, preventing them from achieving an increase in income. Also, the increasing importance of regional free trade agreements generally encourages free trade within high income regions, excluding developing economies. Whilst there are some exceptions, such as the economies of Eastern Europe (in the EU) and Mexico (in NAFTA); regions of the global economy which have few high income economies (such as sub-Saharan Africa) are excluded from regional trade agreements. Developing economies may also be subject to external protection from trade blocs, such as the EU, restricting access to export markets and leading to low income levels in developing economies.
- d)** Globalisation has had a mixed impact upon living standards in the global economy. Newly industrialising economies have benefited from higher levels of foreign direct investment (FDI) inflow, and have been able to increase exports in industries which have seen global reductions in protection. This has generally resulted in an increase in income levels, raising living standards. However, developing economies have been largely locked out of the global trade system due to high levels of protection in the agricultural sector, and the external protection of trade blocs, such as the European Union's Common External Tariff. However, in recent years, increases in global commodity prices due to increase commodities demand from newly industrialising economies has resulted in a boost to the exports of developing economies, raising the level of economic growth. FDI and financial inflows into developing economies is relatively low, with little impact upon economic growth levels. Global aid and assistance to developing economies has also been very low, so that the positive impact on living standards has been minimal. As a result, living standards in developing economies has remained low, although they are improving slowly, as shown by recent reductions in the level of global absolute poverty. Globalisation has resulted in environmental degradation particularly in developing economies where TNCs can reduce production costs by setting up cheaper manufacturing operations in developing economies with poor environmental standards. This results in the degradation of global environmental resources such as the atmosphere and waterways. However, globalisation has also led to increased global awareness of environmental issues and allows for global policy coordination to improve environmental management, such as the Kyoto Protocol which aims to reduce global carbon emissions.