TOPIC ONE: THE GLOBAL ECONOMY

International economic integration

- the global economy
- Gross World Product
- globalisation
  - trade in goods and services
  - financial flows
  - investment and transnational corporations
  - technology, transport and communication
  - international division of labour, migration
- the international and regional business cycles

Trade, financial flows and foreign investment

- the basis of free trade – its advantages and disadvantages
- role of international organisations:
  - WTO, IMF, World Bank, United Nations, OECD
- influence of government economic forums:
  - G20, G7/8
- Australia's multilateral and bilateral free trade agreements – (overview of two examples of each type of agreement)
- trading blocs, monetary unions and free trade agreements
  - advantages and disadvantages of multilateral and bilateral agreements
  - EU, APEC, NAFTA, ASEAN

Protection

- reasons for protection
  - infant industry argument, domestic employment, dumping, defence
- methods of protection and the effects of protectionist policies on the domestic and global economy
  - tariffs, subsidies, quotas, local content rules, export incentives

Globalisation and economic development

- differences between economic growth and economic development
- distribution of income and wealth
- income and quality of life indicators
- developing economies, emerging economies, advanced economies
- reasons for differences between nations
- effects of globalisation
- trade, investment and transnational corporations
- environmental sustainability
- the international business cycle.

INTERNATIONAL ECOCNOMIC INTERGRATION

The Global Economy and Gross World Product (GWP)

- GWP is the total production output of goods and services by all economies in the world for a given period of time
  - Essentially the sum of GDP of all economies

Economic Globalisation

- Globalisation refers to the integration between different nations' economies, resulting in increased international influences on economic activity.

<table>
<tr><th>INDICATOR</th><th>IMPACT OF GLOBALISATION</th></tr>
<tr><td>TRADE FLOWS</td><td>
GENERAL INCREASED GLOBAL TRADE
Trade as % of global output: 37% (1987) to 53% (2017)
Industrialisation: 1995 to 2018
Fuel and minerals have increased from 7% to 14%
East Asia and the Pacific have shifted from 7% to 18%
Improved Technology
Freight, containerised shipping, logistics/ financial development
Countries with comparative advantage can produce what they are best at
Better able to trade with comparative advantage (Riccardo)
Protection Policy
Food/ Agriculture has fallen from 10% to 8%
China tariff on US Soybean 25% (2018)
Multilateral agreements disadvantage non-member countries (trade diversion)
EU Common Agricultural Policy: 38% of EU Budget
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<tr><td>FINANCIAL FLOWS</td><td>
Financial Deregulation
Financial deregulation in the 1970s/80s has brought about greater productivity
Allowed economies with low savings to improve living standards (i.e. Australia SIG)
Forex market turned over $5.1T daily in 2016
Increased Volatility in Financial Flows
Speculators see to large shifts in capital between economies – causing volatility
95% of forex transactions are speculative
1990s Asian Financial Crisis – Indonesia economy contracted 15% GDP
A result of capital flight due to reduction in confidence
Developed/ Emerging Nations
FDI flows tend to favour emerging/ developed whilst low income nations are left
Causes great inequality:
Low income nations got 1% of global FDI, developed got 70% (2015)
North America holds 34% wealth; Africa holds 1% (population difference)
Deregulation has caused significant debt problems
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	◦ External Debt of $5.2T for low/middle income nations in 2016

TNC'S	**Trans-National Corporations**
	◦ Expand and establish bringing investment, technology, skills, knowledge, capital and jobs – all of which significantly boost GWP
	    ◦ Since 1990: TNC's growth by 67,000 – employing NET 74m employees
	◦ Tax Evasion schemes of TNC's harm developing nations who cannot challenge them
	    ◦ Profit shifting by Amazing and Apple leaves nations out of pocket
	◦ Provides employees with minimum standards to maximise profits (minimise costs)

MIGRATION	**International Division of Labour**
	◦ Int. Div. of Lab. Has seen workers move to where their skills are needed in the G. eco.
	    ◦ WB estimate that 245m have migrated in search of greater labour rewards (18)
	    ◦ 7% increase in migrants moving to high-income nations (Low-Skilled labour)
	    ◦ High skilled workers move to high-income nations (i.e. 'Brain Drain' Aus/NZ)

GENERAL ASSESSMENT	◦ **GWP** growth averaged 3.7% during the 1980s – slowed to 2.7% in the last decade
	    ◦ Shows adverse impacts of volatility in financial markets
	◦ Individual economies who embraced globalisation saw the benefits
	    ◦ Australia 4.6% growth – China who grew 12% - mineral trade
	    ◦ Advanced economies slowed growth to an average of 2% past few decades

International and Regional Business Cycle

Globalisation has increased the degree in which the business cycle of a particular economy is synchronised with the global business cycle.

- The **international/ regional** business cycle refers to fluctuations in the level of economic activity in the global economy or region over a period of time.
- Synchronisation introduces volatility/ risk for the economy (i.e. GFC, Eurozone Crisis)

WHAT MAKES NATIONS MORE SUSCEPTABLE TO EXTERNAL SHOCKS:

- **Trade flows** (i.e. China growth during MIB affected AUS because we were in trade)
- **Investment flows** (eco. Conditions in one nation will affect the investment flows in)
- **TNC's** (exist within all economies thus, conditions in one will affect the overarch)
- **Financial Flows** (financial integration – i.e. downturn causes failure to repay loans)
- **Market confidence** (global markets share confidence – i.e. GFC)
- **Global Interest Rate levels:** As developing nations borrow from advanced economies
- **Commodity Prices:** Importance of resources (i.e. oil, energy) changes of prices will affect everyone – higher oil benefits oil exporting nations but disadvantages emerging economies who rely on this import.

WHAT MAKES NATIONS LESS SUSCEPTABLE TO EXTERNAL SHOCKS

- **Interest Rates:** Influence borrowing **(i.**e. High US Int. R. reduce borrowing from dev.)
- **Fiscal:** Ec. Growth is strongly influenced by fiscal stance adopted by gov.
- **Exchange R:** Impacts the level of International Comp. and confidence in economies

- **Structural Factors:** Level of growth depends on factors (sanitation, health, education)
- **Regional Factors:** Strongly linked to their region (i.e. ASEAN)

POSITIVE EFFECTS OF SYNCHRONISATION

- Ec. growth GWP as countries specialise in productivity and engage in trade
- As economic growth increases – individual economies are likely to benefit too

NEGATIVE EFFECTS OF SYNCHRONISATION

- More exposed to downturns in business cycle (regional and international)
- Need for coordinated macroeconomic policy (i.e. IMF recommend fiscal stimulus GFC)
  - Coordination of eco. Management and financial regulation is required for adequate management of the international business cycle.

TRADE, FINANCIAL FLOWS AND FOREIGN INVESTMENT

BASIS OF FREE TRADE

- **Free Trade:** can be defined as a situation where government impose no artificial barriers to trade that restrict the free exchange of goods and services between countries.
  - Argument of free trade is based on the economic principle of **comparative advantage (Riccardo):**
  - Nations should specialise in areas of production which they have the lowest opportunity cost and trade with other economies to maximise both output.

ADVANTAGE	DISADVANTAGE
Allow countries to obtain goods and services which they cannot product themselves to satisfy demand.	**Structural Unemployment:** Domestic firms find it hard to compete – should correct in long term (i.e. BlueScope Steel, Holden 2017)
Allow countries to specialise in their most efficient industries (resource allocation)	**Infant Industries** are not protected
Efficient allocation of resources product goods they have in comparative advantage.	**Dumping** may arise from surplus production – harming domestic industries.
Domestic firms are forced to compete with foreign producers **(international competitiveness)**	Encourages **environmentally irresponsible production** as firms try to undercut competitor's prices and forgo environmental protection
Innovation and spread of technology/ skills	
Higher Living Standards: lower prices, increased access to goods and services – economic growth	

ROLE OF INTERNATIONAL ORGANISATIONS

ROLE	POS IMPACT	NEG EFFECT

WORLD TRADE ORG.
○ 1995; 164 members
○ Implement global trade agreements
○ Resolve trade disputes
However:
○ Member nations can have veto rights
	○ Dispute resolution has improved economic/ political harmony
	    ○ Australia successfully challenged Korean restrictions on meat (2000)
	○ **Uruguay Round** (1986 – 1994)
	    ○ US and EU agreed to cut agricultural subsidies
	    ○ Sub. Cut by 20% - tariffs by 36%
	○ **Trade Facilitation Agreement**
	    ○ Reduced Red Tape costs by 15%
		DOHA ROUND 2001:
		○ Tried to reduce agriculture and manufacturing protection
		○ GWP would have been boosted $520b by 2015 – 140m out of poverty.
		○ 2004: Goals watered down
		○ 2008: Talks broke down due to veto rights of member nations

INTNTL. MON FUND
○ 1944; 189 members
○ Maintain financial stability
○ Provide assistance to economies in maintaining external stability (financial)
	During the GFC
	○ Injected $250b into global economy
	    ○ No austerity measures
	○ Lent funds to Ireland, Greece, Portugal during the EU sovereign debt crisis
	    ○ Austerity measures had adverse impacts
		ASIAN FINANCIAL CRISIS 90s
		○ Structural Adjustment policy forced contractionary FP
		○ Indonesia GDP contracted 15%
		EU DEBT CRISIS LENDING
		○ u/e at 20% - led to a riot outside Greek parliament 2011

WORLD BANK ○ 1944; 189 members ○ Assist poorer nations with ec. development ○ Provide loans to developing nations	**AIMS:** ○ Reduce extreme pov. To <3% ○ Inc. income growth by 40% of every country by 2030 ○ Half people living on <1USD from 1990 to 2010 **LOANS:** ○ Provided below commercial rates ○ GFC lending increased from 14b to 35 **HEAVILY INDEBTED POOR NATIONS PROGRAM:** ○ Provides debt relief to 36 poor nations ○ 75b worth of repayments	**DOMINATED** ○ Dominated by advanced economies ○ 'Washington consensus' saw the interests of projects compromised by interests of advanced economies. ○ **Zimbabwe** Hydro-power projects have displaced indigenous peoples and undermined national sovereignty.
UNITED NATIONS ○ 193 members, 80% GWP, 2/3 population	**SUSTAINABLE DEV. GOALS** ○ Targets to address poverty that are agreed upon by UN member states. ○ Official development assistance risen from $81b (2000) to $134b in 2014.	**DIFFICULT CONSENSUS** ○ Agreements are difficult to get consensus on by all member nations.

○ Broad agenda of ecos, security, environment, health etc.	○ Agreements seen by WB as necessary to economic development (blueprint)	○ **Trump** leaves Paris Agreement in 2017 (climate change)
OECD ○ 35 members ○ Researches economic issues and facilitates discussion. ○ Promotes sustainable economic/ employment growth/ level ○ Organisation for economic cooperation and development	**THE REPORTS** ○ Useful for government policy decision ○ 2008/9 OECD promoted use of MP and FP stimulus by members to avoid recession. ○ **2016** OECD focused on reducing u/e in member nations/ economies	**N/A**

INFLUENCE OF GOVERNMENT ORGANISATIONS

FORUM	EFFECTIVENESS
GROUP OF 7/8 ○ 60% of GWP, 14% Population ○ USA, France, Italy, UK, Canada, Germany, Japan ○ Russia expelled in 2014	○ Forum where most powerful economies discussed global economic decisions ○ Potential for the coordination of macroeconomic policy ○ Significant decline in power due to increase of left out economies (CHINA)

GROUP OF 20
○ 80% of GWP, 2/3 of population
○ G8 + Australia, Brazil, China, India etc.
	○ More effective than G8 due to amount of countries and representation
	○ **2009:** Improved fiscal coordination by gov. around the world
	○ **2009:** Increased supervision of global financial markets:
	    ○ resulted in $4t of stimulus packages, collective expansionary MP and FP – improved financial stability
	○ **LIMITATIONS:**
	    ○ Agreements are more lip-service
	    ○ Brisbane 2014 – 2% economic growth not backed by policy
	    ○ Hamburg 2017 – reaffirmed commitment to Paris Agreement
	    ○ Argentina 2018: Step towards regulation of cryptocurrency

ADVANTAGES AND DISADVANTAGES OF MULTILATERAL AND BILATERAL TRADE AGREEMENTS

AGREEMENT	OUTLINE
CHINA AUSTRALIA FREE TRADE AGREEMENT (CHAFTA)	○ Promotes trade with largest two-way trading partner ○ 86% of Australian exports to China are tariff free – 98% on full implementation ○ Improved competitiveness of agricultural industries ○ Greater market access into China for certain services

○ 2015	○ ***Flaws:*** Allows Chinese companies to bring in Chinese migrant workers at the cost of Australian jobs
AUSTRALIA – UNITED STATE FREE TRADE AGREEMENT (AUSFTA) ○ 2004	○ Reduced barriers in agriculture, manufactured goods, services, investment ○ Tariffs on all goods eliminated by 2015 ○ **2005 PC:** AUS GDP increased by 0.4-0.7% within 10 years ○ **PC:** Estimate growth of 6% in services due to reduction in regulations ○ No improvement for Australian sugar exporters
ASEAN – AUSTRALIA – NZ FREE TRADE AGREEMENT (AANZFTA) ○ 2010	○ Largest of Australia's FTAs ○ Covered 20% of trade in g/s – combined GDP of $3.1t ○ Eliminate tariffs on 96% of AUS X's to ASEAN nations by 2020 ○ Forecasted to boost the Aus. economy by US$19b during the 2010s
ASIAN PACIFIC ECONOMY CO-OPERATION FORUM 1989	○ Questionable?

TRADING BLOCS, MONETARY UNIONS AND FREE TRADE AGREEMENTS

Trading Bloc: A number of nations join together in a formal preferential trading agreement to the exclusion of other nations. Impose protection on non-member countries. (EU & NAFTA)

Monetary Union: The creation of a common currency and coordinated monetary policy between nations – compliments the creation of a single market improving trade efficiency.

POSITIVE IMPACTS	**NEGATIVE IMPACTS**
EUROPEAN UNION: 1959 – 28 countries, 14% of GWP	

○ Protectionist measures have benefitted EU
○ Common Agricultural Policy
○ **Monetary Union:**
    ○ Reduced transactional cost
    ○ No currency fluctuation risk
    ○ Est. increase to 1% GDP in EU
	○ CAP costs 38% of the EU budget
	    ○ Trade diverts away from AUS
	    ○ Lowered world prices and caused retaliation from the US
	○ **Monetary Union:**
	    ○ Loss on national currency control
	    ○ Loss of MP for individual economies

NORTH AMERICA FREE TRADE AGREEMENT: 1994: USA, Canada, Mexico	
○ Tripped trade between nations over 20 years ○ Non-member countries moving production facilities to Mexico to take advantage of reduced barriers (i.e. Japan) ○ Increased manufacturing in Mexico	○ Created trade diversion away from other nations ○ Trump plans to re-negotiate the terms of the NAFTA ○ i.e. 25% tariffs on steel and 10% on aluminium against Canada and Mexico