

## Globalisation

Worldwide economic integration where economies open themselves up to world-wide free trade allowing the free movement of goods and services, labour and capital like FDI and external finance.

Globalisation involves International Economic Organisations and is likely to involve harmonisation between economies in areas like regulation on pollution.

It is worth highlighting the dependency LDCs have on developed economies.

<b>Type of economic integration</b>	<b>Limitations to the extent of integration</b>	<b>Advantages to LDCs</b>	<b>Disadvantages to LDCs</b>
<i>Extension of free trade, facilitated by the World Trade Organisation</i>	Regional trade blocs such as the EU and NAFTA practise external protectionism	Allows developing economies to generate export earnings which can be used to finance imports	Primary exports suffer volatile prices which decline in the long run so reduce gains from trade
<i>Capital mobility allowing FDI by multinationals</i>	Lowest income economies such as those in sub-Saharan Africa get a very small share of investment	Access to technology and skills transfer	Technology maybe inappropriate which impacts on income shares
<i>Capital mobility allowing the flow of external finance</i>	Unequal access to commercial loan markets for the poorest and most heavily indebted economies	Ability to offset low domestic savings with borrowed funds	There exists a risk of high indebtedness which gives rise to opportunity costs (and the question of who is responsible)
<i>Labour mobility allowing international migration</i>	Legal/administrative barriers to movement of workers	Access to skilled labour	May lead to a net outflow of skills as skilled human capital migrates out of the economy
<i>Extension of market system, entitled "structural reforms" by the World Bank and IMF</i>	There is debate over the appropriate role for government intervention meaning in practise the preferred implementation is <u>market friendly</u>	Efficient resource allocation through the free market allows for rate of economic growth to be maximised	Market failures liable to hinder development

### Homework

Read the article "What are the Arguments For and Against Foreign Aid?" in *Economics Today*, November 2003 and add to notes as necessary.

Answer Essay Question 15 in Appendix 3 in the Study Guide for Monday 14<sup>th</sup> March 2005.