



Chapter 18: Development and Globalization

Section 4

Prentice Hall

ECONOMICS

PEARSON

In Partnership With
THE WALL STREET JOURNAL
CLASSROOM EDITION

Objectives

1. **Define** globalization and identify factors that promote its spread.
2. **Explain** four problems linked to globalization.
3. **Describe** three challenges that globalization creates.
4. **Identify** the characteristics needed for American workers and companies to succeed in the future.



Key Terms

- **globalization:** the increasingly tight interconnection of producers, consumers, and financial systems around the world
- **offshoring:** the movement of parts of a company's operations to another country
- **remittances:** cash payments sent by workers who have migrated to a new country to family members in their home country



Key Terms, cont.

- **“brain drain”**: migration of the best-educated people of less developed countries to developed nations
- **sustainable development**: the goal of meeting current development needs without using up resources needed by future generations
- **deforestation**: the large-scale destruction of forests



Introduction

- What are the effects of globalization?
 - The effects of globalization include:
 - Interconnected financial markets
 - The formation of multinational corporations
 - Population shifts
 - An increase in offshoring



Causes of Globalization

- The increasingly tight interconnection of producers, consumers, and financial systems around the world is known as globalization.
 - Globalization began in the Middle Ages with the spice trade connecting Europe, Asia, and Africa.
 - The colonization of the Americas in the 1500s and 1600s and the Age of Imperialism that began in the late 1800s, further increased the interconnectivity of world economies.



- Globalization today is taking place at a much faster pace than in the past.
 - One contributing factor to this is today's transportation and communication capabilities.
 - Jet airplanes allow producers to sell goods in distant markets while satellite communications and computers allow customers and suppliers on opposite sides of the world to talk quickly and clearly.
 - Checkpoint: How have modern communications contributed to globalization?



Expansion of the Free Market

- As a result of the shift to free market economies by many nations, the proportion of the world that practices free market economies has more than tripled.
 - These new free market economies are more open to foreign investment.
- The creation of trading blocs has changed the nature of competition in the global market.
 - The EU has given the United States some competition on the global market with its combined output of the 27 member nations.
 - Concerns about competition from the EU was one of the factors that prompted the signing of NAFTA.



What is Globalization?



- Due to interconnected free markets, financial markets in one country often affect people in another.
 - If the American stock exchange is experiencing financial difficulty, for example, it affects investors in the European and Asian exchanges.
 - These effects impact ordinary people as well as investors. As the value of assets in other countries fall, banks buy less of them, which means the banks have less capital available to make loans to people in their own countries.



Multinational Corporations

- The presence of multinational corporations in the global economy has sparked much controversy.
 - Supporters argue that MNCs bring many benefits to LDCs, such as technology, jobs, and training.
 - Critics argue that MNCs hurt LDCs by offering too-low wages, few jobs, and little profit for the host company.



Job Loss

- People in developed nations are concerned about job loss as the result of offshoring.
 - Offshoring may involve a single process, as when an American bank hires a call center in India or Kenya to handle its telemarketing.
 - Or it can be total, as when a multinational manufacturer closes a plant in the United States to build one in another country.
 - In either case, the result is job loss.



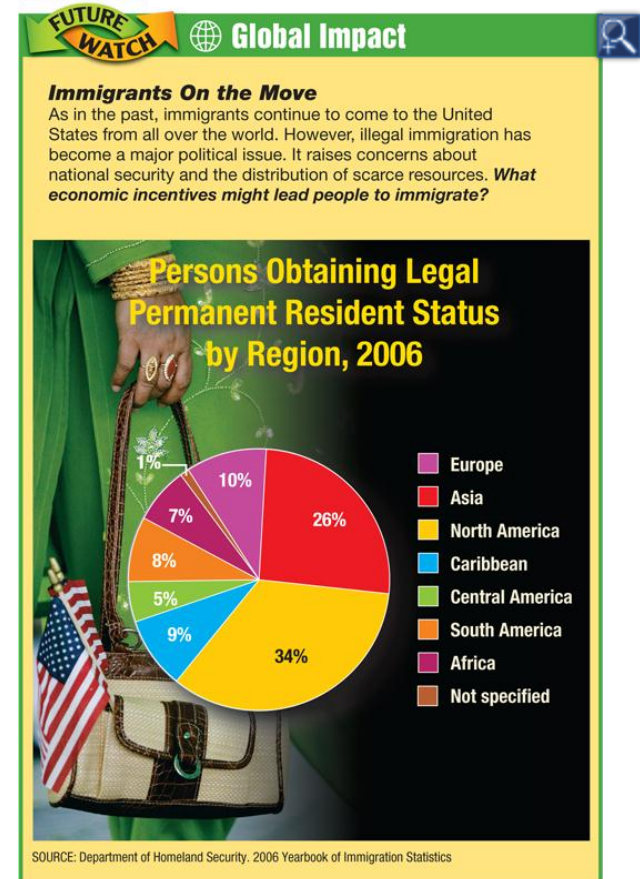
Population Shifts

- Globalization and development have accelerated population shifts.
 - Much of this migration takes place within a nation's borders.
 - In many LDCs, cities offer more job opportunities than rural areas. As a result, large number of people in villages are streaming into cities.
 - Rapid urbanization has caused several problems:
 - Inadequate housing, schools and sanitation
 - Poverty, crime, and disease are widespread



Population Shifts, cont.

- Each year, millions of workers leave LDCs in the hopes of finding jobs in developed nations.
 - Most immigrants come legally but those who come illegally raise security concerns.
 - Many immigrants send money back home to their families, providing an important source of income.
 - Some immigration hurts LDCs as the most-educated people leave for work in other countries.



Challenges

- Globalization creates opportunities but it also creates challenges. These challenges include:
 - The feelings by some LDCs that international trade and financial policies favor the wealthier nations.
 - The Group of 20 works to help this issue by promoting growth and learning how to combat the financing of terrorist operations.
 - Scientists worry that rapid development can cause environmental damage.
 - Deforestation and providing sustainable development are at the heart of this challenge.



Challenges, cont.

- Another challenge is competition for scarce resources.
 - In some regions, like China, it is increasingly difficult to find enough clean, healthy water to meet the needs of a growing population.
- Even if resources do not run out, the cost of scarce water and fuel causes problems.
 - The world oil crunch, for example, became yet another challenge to the struggle of LDCs to build their economies.



The U.S. in the World Economy

- Globalization even poses challenges for the U.S. economy.
 - Workers must keep up-to-date with new technologies so they can remain productive in their current jobs. When jobs do not provide training, workers must take responsibility to learn needed skills.
 - The American workforce has also become more diverse. To be productive, American workers must be prepared to work closely with people of different backgrounds.



Competition and Innovation

- Globalization has made economic competition more intense, American companies need to stay competitive.
 - Business managers face constant pressure to cut costs and increase profits.
- Growing competition spurs innovation.
 - The companies that develop new products or processes can quickly gain a large share of the world market.



"Can Billy come out and compete in the global economy?"



Review

- Now that you have learned about the effects of globalization, go back and answer the Chapter Essential Question.
 - Do the benefits of economic development outweigh the costs?

