

**Globalisation has made the planet more equal. As communication gets cheaper and transport gets faster, developing countries have closed the gap with their rich-world counterparts. But within many developing economies, inequality has worsened.**

**Discuss the effects of globalisation on the standard of living in the different economies. [25]**

*Synopsis: This question requires candidates to recognize the effects of globalization on standard of living comprising material and non-material SOL. Answers should also recognise that different countries are affected differently with some examples to illustrate. The extent to which economies are affected by globalisation depends on the nature of these economies, the size of the economy, the current state in which they are in and the policy options available to the governments.*

## **Introduction**

- Globalisation refers to the increasing integration of world economies leading to greater interdependence arising from freer flow of goods and services, labour, capital and technology and ideas. This is made possible due to the lowering of transport costs, enhanced communications and technological advancement.
- There are benefits and costs arising from globalisation affecting material and non-material SOL. Material SOL refers to the amount of goods and services available for consumption to each person in the country while non-material SOL refers to the quality of life in terms of health, literacy, social aspects etc.
- The impact of globalisation on SOL varies with different economies, depending on the nature of economy, size of the economy, the current state of development and policy tools available to the government.

## **Body**

### **A) Globalisation can lead to higher SOL in an economy**

#### **a) Benefits of free trade arising from globalisation leading to higher material SOL**

- Globalisation facilitates free trade which according to the Theory of Comparative Advantage (CA) can benefit all countries if each country specialises in producing the goods in which they have CA.
- A country enjoys CA when it is able to produce a good with a lower opportunity cost in terms of other goods foregone. Difference in opportunity cost arises from differences in factor endowments. For example:
  - China has abundance of low-cost labour → CA in labour-intensive goods such as shoes and clothing.
  - Singapore has abundance of skilled labour and high-end capital → CA in knowledge-based or capital-intensive industries such as pharmaceutical products or semi-conductor chips.
- Specialisation and trade leads to increased world output and allows economies to consume outside their PPC [illustrate using the PPC diagram].
- Due to the greater trade volume and hence greater quantity of goods and services produced / consumed, material SOL rises.
- Consumers also benefit from a wider variety of goods and services from other countries and better product quality due to intense foreign competition, of all which further raises material SOL.

Application:

- **Developing economies** like China with CA in labour-intensive industries will experience greater employment gains leading to improved living standards. This lifts millions of low-income Chinese citizens out of poverty.
- **Developed economies** like the US would experience a greater rise in RNY. Capital-intensive products tend to be high value-added suggesting that the rise in net exports and hence RNY would be significantly greater for developed economies.
- Economies with **small domestic markets** such as Singapore would benefit from access to global markets leading to increased output and lower prices through EOS. This leads to price competitiveness of exports, generating more income and jobs. However open economies are more vulnerable to the contagion effects of a global recession. When incomes of trading partners fall, demand for foreign goods and services fall. This lowers the net exports of the economy which leads to falling RNY and employment. Need for policies to mitigate the effects of external shocks.

**b) Globalisation facilitates economic growth & employment improving material SOL**

- Globalisation also brings about greater investments leading to a rise in FDI and increasing AD. Assuming the economy is below full employment, the rise in AD will lead to a multiplied increase in RNY and rise in employment. Hence, there are more goods and services available for consumption and greater accessibility to them, leading to a rise in material SOL [AD/AS diagram showing  $\uparrow$ AD].
- In the LR, rising investment on capital goods and technology transfer also leads to a rise in productive capacity and a rise in LRAS which increases the potential growth of the economy and hence future SOL [AD/AS diagram showing  $\uparrow$ LRAS].

Application:

- **Developing economies** gain from an inflow of FDI due to their cheaper cost of production. This aids in job creation and helps developing economies accumulate capital and technological transfer enhancing potential growth and future SOL.
- **Developed economies** benefit from outsourcing thereby lowering cost of production and enhancing competitiveness of their goods and services.

**c) Globalisation enhances price stability improving material SOL**

- Globalisation provides more opportunities to source for cheaper and better quality imports. With the removal of trade barriers such as import tariffs through the signing of FTAs, prices of imported raw material fall, lowering cost of production.
- With the free movement of labour, foreign worker inflow helps to keep labour cost low.
- When cost of production falls, SRAS rises leading to rising RNY and employment and hence an improvement in material SOL [AD/AS diagram showing rise in SRAS].

Application:

- **Small countries with limited resources** such as Singapore benefit from inflow of cheaper raw material and factors of production such as cheap foreign workers. However, these economies are also more susceptible to external shocks such as droughts in the US and Middle-East crisis leading to spikes in food and oil prices. Need for policies to mitigate the effects of external shocks.

**d) Globalisation improves non-material SOL**

- Higher growth will generate greater tax revenue due to rising incomes ( $\uparrow$  income tax) and profitability ( $\uparrow$  corporate tax) while sales tax will also increase.
- Tax revenue can be spent on infrastructure development, increased access and quality of education and healthcare etc. which improves non-material SOL.
- This is especially felt in **undeveloped economies** especially in rural areas that lack basic infrastructure and amenities.

## B) Globalisation may result in lower SOL

### a) Structural unemployment due to loss of CA leads to a fall in material SOL

- With globalisation, there can be a loss of CA arising from technology and skills transfer, allowing other countries to compete more effectively. For example, China has been moving up the value chain in recent years and is increasingly producing mid to high-end electronic products such as telecommunications equipment (e.g. Xiaomi smart phones).
- Higher cost countries may lose CA as firms relocate to economies with lower cost of production leading to job losses. When retrenched workers in declining industries do not have the skills needed for the expanding industries, structural unemployment will occur. Material SOL will fall due to loss of incomes.

#### Application:

- **Developed economies** like US are more susceptible to losing their CA to cheaper production destinations from developing economies as they move up the value chain. This could potentially lead to structural unemployment but the impact depends on the ability of the government to pre-empt potential job losses by looking into new areas of growth and training their workforce for these jobs.

### b) Globalisation worsens income inequality leading to a fall in SOL

- With greater labour mobility, low-skilled workers in a country need to compete with the influx of cheaper foreign workers, depressing their wages. Conversely, higher FDI inflows raise demand for higher-skilled workers who are limited in supply, causing their wages to rise. This widens the income gap. In addition, workers in export sectors tend to benefit more from globalisation than those in the domestic sectors.
- As income inequality worsens, material SOL falls especially for the lower income group. A widening income gap also generates social unrest and discontent leading to a fall in non-material SOL.

#### Application:

- Globalisation has been linked to rising income inequalities in **developing countries** evidenced by the growing rural-urban divide in countries such as China, India and Brazil. A report by OECD showed that average wages paid by foreign MNCs were 40% higher than those paid by local firms pointing to the uneven benefits of globalisation especially for lower-skilled workers or poor ones in rural areas. Hence the need for redistributive policies to raise SOL of this group.

### c) Increased production causes environmental damage → fall in non-material SOL

- Increased production of goods and services for trade and rising FDI leads to greater use of resources. This gives rise to negative externalities like pollution, global warming arising from greenhouse emissions and environmental degradation, thereby lowering non-material SOL.

#### Application:

- FDI in **developing economies** such as those in sub-Saharan Africa tend to depend on natural resource use and extraction (e.g. agriculture, mineral, fuel production, coal, oil and gas etc.). This leads to depletion of natural resources limiting potential growth and future SOL of these countries. Increased FDI also leads to environmental pollution arising from excessive production especially in developing countries where environmental standards and policies tend to be more lenient.

## Conclusion and Evaluation

- The benefits of globalisation arising from increased trade generally outweigh the costs, bringing about an overall improvement in SOL to world economies.
- However, the benefits are uneven and gains from globalization tend to vary with different economies. Even for similar economies, the outcome tends to vary depending on factors such as the state of economy, factor endowments, government policies etc.
  - Economies with small domestic markets and limited resources gain substantially from globalisation. Export-led growth driven by access to world markets and imported raw materials would significantly raise material SOL of the economy. However, such economies are susceptible to external shocks.
  - Developing economies also benefit greatly from globalisation which drives their development needs through technological and skills transfers, and provides jobs through inward FDI raising material SOL. However, this comes at the expense of environmental concerns which lower non-material SOL.
  - Developed economies could experience improved SOL if the economy is able to meet the changing demands and dynamism of globalisation in terms of dealing with structural rigidities leading to job losses.
- The overall impact of globalisation on SOL depends on the ability of the governments to implement policies that would maximise the benefits and minimise the costs of globalisations on their economies.

**Mark Scheme: (Consider the approach that uses the different kinds of economies or one uses the SoL approach)**

Knowledge, Application, Understanding, and Analysis		
L3	For a well-developed answer that gives an explanation of both positive and negative effects of globalisation on SOL. Analysis is supported with real life examples in context of the different economies.	18 – 21
	For a well-developed answer that considers the effects of globalisation on SOL within the context of different economies.	15 – 17
L2	(Must consider the different economies to distinguish) For an undeveloped answer that gives an explanation of both positive and negative effects of globalisation on SOL to the different kinds of economies. The use of economic framework. Some application to different economies.	12 – 14
	For a well-developed one-sided answer with some use of economic framework to support the analysis.	10 – 11
L1	For an answer that shows descriptive knowledge of the effects of globalisation with limited attempts to link them to SOL	6 – 9
	A smattering of valid points on globalisation.	1 – 5
Evaluation		
E2	For an evaluative judgement based on economic analysis.	3 – 4
E1	For an unexplained evaluative judgement or one that is not supported by economic analysis.	1 – 2