

LESSON 3

Global Economies

ESSENTIAL QUESTIONS

- What influences global political and economic relationships?
- How do social and environmental issues affect countries differently?

READING HELPDESK

Academic Vocabulary

- currency
- dynamic

Content Vocabulary

- multinational corporation
- globalization
- collateralized debt obligation
- subprime investment

TAKING NOTES

Key Ideas and Details

Organizing As you read, use a table like the one below to identify global economic organizations and regional trade organizations.

Global Economic Organizations	Regional Trade Organizations

IT MATTERS BECAUSE

The technology revolution has closely tied together people and nations and contributed to globalization. Economically, globalization has taken the form of a global economy.

Global Economic Organizations

GUIDING QUESTION *What are the roles of global economic organizations in the world economy?*

The global economy began to develop after World War II and gained momentum in the 1980s and 1990s. After World War II, the United States and other nations set up the World Bank and the International Monetary Fund (IMF) as a means of expanding global markets and avoiding economic crises. The World Bank is actually a group of five international organizations, largely controlled by developed countries. It provides grants, loans, and advice for economic development in developing countries. The World Bank's stated goal is "a world free of poverty." The IMF, founded in 1945, is now an organization of 188 countries. Its goal is to oversee the global financial system. To achieve its goal, the IMF watches exchange rates and offers financial and technical assistance to developing nations.

Multinational corporations are another reflection of the global economy. Prominent examples of multinational corporations include Siemens, General Motors, Exxon Mobil, Mitsubishi, and the Sony Corporation. These companies are among the 200 largest multinational corporations, which are responsible for more than half the world's industrial production. In addition, these supercorporations dominate much of the world's investment capital, technology, and markets. A recent comparison of corporate sales and national gross domestic product revealed that only 49 of the world's 100 largest economic entities are nations. The remaining 51 are corporations. For this reason, some people believe that economic globalization might best be called "corporate globalization."

There is also a downside to the growing number of multinational corporations. As they increasingly tie one country to another in a global economy, an economic downturn in one country can create stagnant conditions in other countries. We live in an economically interdependent world.

Global trade is another important component of the global economy. Over the years, many nations joined in talks to make trade between countries free and easy. These talks led to the General Agreement on Trade and Tariffs (GATT). In 1995 the nations that had signed the GATT treaties agreed to create the World Trade Organization (WTO). Made of 162 member nations, the WTO arranges trade agreements and settles trade disputes.

The Group of Eight (G8) refers to eight industrialized nations in the West that meet annually to discuss global economic and security issues. This is an informal organization. Likewise, the Group of Twenty (G20) is an expanded group of twenty countries that meets to discuss international financial issues.

READING PROGRESS CHECK

Contrasting How are the World Bank and International Monetary Fund different?

multinational corporation

a company with divisions in more than two countries

WORLD'S LARGEST MULTINATIONAL CORPORATIONS 2015

CHARTS/GRAPHS

Rank/Company	Country of Origin	Industry	Sales (\$bil)	Profits (\$bil)
1. ICBC	China	Major Banks	\$166.8	\$44.8
2. China Construction Bank	China	Major Banks	\$130.5	\$37
3. Agricultural Bank of China	China	Major Banks	\$129.2	\$29.1
4. Bank of China	China	Major Banks	\$120.3	\$27.5
5. Berkshire Hathaway	United States	Diversified Financials	\$194.7	\$19.9
6. JPMorgan Chase	United States	Major Banks	\$97.8	\$21.2
7. Exxon Mobile	United States	Oil & Gas Operations	\$376.2	\$32.5
8. PetroChina	China	Oil & Gas Operations	\$333.4	\$17.4
9. General Electric	United States	Conglomerates	\$148.5	\$15.2
10. Wells Fargo	United States	Major Banks	\$90.4	\$23.1
11. Toyota Motor	Japan	Auto & Truck Manufacturers	\$252.2	\$19.1
12. Apple	United States	Computer Hardware	\$199.4	\$44.5

Source: www.forbes.com

In 2015 many of the largest multinational corporations were in the banking and the oil and gas operations industries and had their headquarters in the United States or China.

CRITICAL THINKING

- 1 Transferring Knowledge** Create a bar graph that displays the multinational corporations with profits over \$20 billion.
- 2 Interpreting** Create a circle graph that summarizes the country of origin of the 12 largest multinational corporations.

Regional Trade Organizations

GUIDING QUESTION *What are the effects of regional trade organizations on national and regional economies?*

Groups of nations have also joined together to form trading blocs to foster regional prosperity. Mercosur, for example, is an economic union of Argentina, Brazil, Paraguay, and Uruguay.

NAFTA

In 1992 the Mexican president Carlos Salinas de Gortari began to work with U.S. president George H. W. Bush and the Canadian prime minister Brian Mulroney to form the North American Free Trade Agreement (NAFTA). It was ratified and put into effect in the beginning of 1994. It created a free-trade area for Canada, the United States, and Mexico. Some economists have argued that it has been beneficial to business owners but harmful to



The European Union 2015



GEOGRAPHY CONNECTION

1 PLACES AND REGIONS

What percentage of EU members is using the euro?

2 THE WORLD IN SPATIAL TERMS

Which countries of the former Yugoslavia are candidates for EU membership?

currency coins, for example, that are in circulation and used as a medium of exchange

others. Farmers in Mexico, for example, saw prices for their food products drop as cheap American foodstuffs were imported. Industrial workers in the United States lost jobs as American companies outsourced jobs to Mexico in order to use cheap labor. A similar agreement called CAFTA (Central America-U.S. Free Trade Agreement) was created by the United States and six Central American nations in the mid-1990s.

European Union

The European Community (EC) was chiefly an economic union. By 1992, it comprised 344 million people and was the world's largest single trading bloc. The Treaty on European Union was an attempt to create a true economic and monetary union of all EC members. On January 1, 1994, the EC renamed itself the European Union (EU). One of the EU's first goals was to establish a common **currency**, called the euro, adopted by 12 EU nations early in 1999. On June 1, 1999, a European Central Bank was created, and by January 2010, the euro had officially replaced 16 national currencies. The euro serves approximately 338 million people and has become the world's second largest reserve currency after the U.S. dollar.

In addition to having a single internal market for its members and a common currency, the European Union also established a common agricultural policy. It provides subsidies to farmers to enable them to sell their goods competitively on the world market. The policy also provides aid to the EU's poorest countries and subsidies for job training, education, and modernization programs.

The EU has been less successful in setting common foreign policy goals. Individual nations still see foreign policy as a national right and are reluctant to give it up. Although EU foreign ministers meet periodically, they usually do not draw up a uniform policy. Nevertheless, the EU did create a military force of 60,000 to be used chiefly for peacekeeping purposes.

In 2009 the European Union ratified the Lisbon Treaty, which created a full-time presidential post and a new voting system that reflected each country's population size. It also provided more power for the European Parliament in an effort to promote the EU's foreign policy goals.

✓ READING PROGRESS CHECK

Classifying Would you describe the European Union as solely an economic entity?

Aspects of Globalization

GUIDING QUESTION *What are the costs and benefits of globalization?*

Globalization is the process by which people and nations have become more interdependent. Politically and socially, globalization has led to the emergence of citizen groups and other transnational organizations that work across national boundaries to bring solutions to common problems. Not everyone, however, is happy with the globalization of the economy.

Protests

Global economic organizations have come under attack. Both the World Bank and the IMF have been criticized for forcing inappropriate Western economic practices on non-Western nations. Critics also argue that World Bank and IMF policies aggravate the poverty and debt of developing nations. The WTO has been criticized for ignoring environmental and health concerns and for leaving out small and developing countries.

There have also been direct protests against globalization. Critics of globalization have accused multinational corporations of maximizing profits by supporting pitiful workers' wages and working conditions and ignoring environmental concerns. Anti-globalization protesters have clashed with police when trying to disrupt meetings of the IMF and World Bank in cities around the world.

Another challenge to globalization stems from the wide gap between rich and poor nations. Rich nations, or developed nations, are located mainly in the Northern Hemisphere. They include countries such as the United States, Canada, Germany, and Japan, which have well-organized industrial and agricultural systems, advanced technologies, and effective educational systems. The poor nations, or developing nations, include many nations in Africa, Asia, and Latin America. They are often primarily agricultural nations with little technology and income inequality.

Global Financial Crisis

The global economy experienced worldwide financial troubles beginning in 2007 following the collapse of the U.S. housing market. Spurred by low interest rates in the early 2000s, easily available mortgages drove up housing values. In response, investors began selling financial investments called **collateralized debt obligations** (CDOs), or investments based upon bundled mortgages. Banks in New York sold CDOs to banks in Europe and elsewhere, spreading the wealth and the risk of investment. Many of these mortgages had been to borrowers with low credit ratings and high rates of default. As the initial rates on the mortgages ended, default rates increased and securities began to lose their value. By September 2008, a number of insurance and mortgage companies, investment firms, and banks fell into bankruptcy. Stock values fell by almost \$8 trillion from mid-September to November.

In effect, the crash of the United States housing market in 2008 led to a worldwide recession. As the American economy slowed, trade decreased

Thinking Like a HISTORIAN

Interpreting Secondary Sources

Widespread use of the term *globalization* to refer to the movement toward a more integrated and interdependent world economy is relatively recent. How old do you think globalization is as a historical phenomenon? For example, do you think it dates back to the rise of global trading empires that began during the Age of Exploration? Historians differ on whether the concept of globalization should be applied only to the modern era. Use your school library to locate secondary sources from two different historians with conflicting interpretations of this concept.

globalization the movement toward a more integrated and interdependent world economy

collateralized debt obligation a security guaranteed by a pool of bonds, loans, and other types of debt

▼ Anti-globalization activists protest outside World Bank headquarters in Washington, D.C.



worldwide because the American consumer, who had been consuming because of higher home values, could no longer do so. Production in Asia decreased and commodity prices fell, especially that of oil, making an impact on both Middle Eastern countries and Russia.

The United States responded to the financial crisis with an emergency program to recapitalize financial institutions and a stimulus package to support growth and to curb unemployment. Europe faced less severe problems than the United States, although European banks with exposure to **subprime investments** required government assistance to recapitalize. In Eastern Europe, recent free market economies experienced a drastic devaluation of their currencies as investors fled to the stronger dollar and euro. Governmental measures prevented a total failure of the world financial system. However, high unemployment and weak consumption plagued Western nations for years.

subprime investments

investments based on loans that have an interest rate that is higher than a prime rate and is extended especially to low-income borrowers

Emerging Economic Powers

China and India are experiencing economic growth on a scale rarely seen before. For the past 15 years, China's annual growth rate has been impressive. It has varied from 7.3 to 14.2 percent. India's annual growth rate has also varied; it was 7.3 percent in 2014. Both have the potential for such growth rates to continue for decades. Some economists predict that China's economy will overtake that of the United States by 2050.

The economies of China and India are not the same. China is supreme in mass manufacturing. India is a growing power in design services and software. Multinational corporations have their products built in China with software designed in India. One major result is the outsourcing of jobs from the United States to both India and China, much to the concern of U.S. political leaders who seem helpless to stop the trend.

But both countries have serious problems. Poverty is still prevalent for hundreds of millions of people in India and China. Moreover, environmental problems are growing. Fertile land is in increasingly short supply while the rate of air pollution, especially in China, is 10 times the level in the United States, contributing to growing health concerns. Smog smothers the air in both Shanghai, China, and Mumbai, India. Finally, no one is sure that both countries can continue on their **dynamic** rate of economic growth. Per capita income in the United States is six times as high as in China. In India, an estimated 21 percent of the population lives below the international poverty line.

dynamic an activity or change that is continuous and productive

READING PROGRESS CHECK

Analyzing Why have some individuals protested the practices of global economic organizations?

LESSON 3 REVIEW

Reviewing Vocabulary

1. **Drawing Conclusions** How does the large number of multinational corporations reflect increasing globalization?

Using Your Notes

2. **Identifying** Use your notes to identify different global and regional trade and economic organizations.

Answering the Guiding Questions

3. **Making Generalizations** What are the roles of global economic organizations in the world economy?

4. **Evaluating** What are the effects of regional trade organizations on national and regional economies?

5. **Differentiating** What are the costs and benefits of globalization?

Writing Activity

6. **Argument** Write an essay arguing whether free trade agreements are a good idea or a bad idea. Be sure to focus on the costs and benefits to both developed and developing countries.