

The main features of
the global economy
and examine the
extent of
interdependence...



Economics Essay: Describe the main features of the global economy and examine the extent of interdependence between economies has affected the Australian economy. The global economy refers to the expansion of economies beyond national borders, in particular, the expansion of production by transnational corporations to many countries around the world. The global economy includes the globalization of trade, finance and communication, investment and labour.

These main features of the global economy affect Australia through primarily structural change and the resource boom. Globalisation was characterised by high levels of integration. This era began in the 1980^{??}™s with the introduction of transport, such as shipping and containerisation and the development in communication, predominately the internet. These developments facilitated the emergence of the global economy. And due to globalisation, domestic economies have become increasingly integrated and consequently their performances are becoming increasingly synchronised. Trade has grown rapidly recently due to globalisation. Trade is the importing (buying) and exporting (selling) of goods and services (G&S) internationally.

International trade has allowed for countries to specialise in their comparative advantage as structural change will shift resources to these sectors. The size of the gross world product; which is the sum of the total output of G&S by all economies in the world in a period of time, is nine times its level in the 1950^{??}™s and the volume of the world trade has grown to thirty three times its 1950s level. International finance is the most global

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feature of the world economy because money can be transferred at a higher rate than people and G&S. Global finance is the short term speculative shifts of money. Global finance refers to the foreign exchange market which is volatile as speculators have 95% ownership. The daily turn over in global foreign exchange markets is 3.

2 trillion, this is predominately the cause of financial deregulation in currency markets, foreign capital, bank interest rates and overseas investment in shares around the world in the 1970-80s. Global investment is the long term flow of money to buy or establish business as investments. The expansion of global investment refers to foreign direct investments (FDI) which demonstrate to the movement of funds between economies for the purpose of establishing a new company or buying a substantial proportion of shares in an existing company. There has been a surge in FDI flows from the 1980s.

From \$US201 billion in 1990 to \$US1.8 trillion in 2007, this is a nine fold increase. The labour market is far less internationalised as people are more restricted in their movements internationally, although there is an increase in individuals moving countries to seek better work opportunities. The World Bank (WB) estimates that around 200 million individuals or 3% of the world's population have migrated to work in other countries. These features of the global economy are the underlying reason that economies have become interdependent.

Their effect on Australia (Aust) has been heavily linked to China's growth and Aust's two speed economy, which is predominately the resources sector and non-resources sector. Recent economic (ec) growth in Aust has <https://assignbuster.com/the-main-features-of-the-global-economy-and-examine-the-extent-of-interdependence-between-economies-has-affected-the-australian-economy/>

been heavily influenced through its international ties, particularly China and their continuous economic growth. China's high demand for inelastic natural resources and Australia's capacity constraints have led to a fixed supply meaning prices for Australia's natural resources are high (shown in graph below).

Australia's uranium production is an inelastic commodity and as productivity increased by 1 per cent to reach 2659 tonnes in the December quarter 2008, uranium export earnings in the quarter increased by 66 per cent to \$246 billion.

It is also noted that mining contributes about 5.6% of Australia's Gross Domestic Product (GDP), this is up from only 2.6% in 1950. The initial change in aggregate demand from the resources boom is an increase in Australia's exports (terms of trade). This surge in exports has increased consumption through business opportunities created in the mining sector which augments investment and in turn boosts Australia's overall marginal propensity to consume.

Thus making the resources boom a heavy influencer in the extent to which Australia has interdependence on external economies, predominantly China's economy. Australia's strong growth has seen an associated high demand for their currency because the Australian dollar (\$A) is heavily linked to the mining sector and is therefore regarded as a stable currency. Demand for the \$A has caused the exchange rate to appreciate from \$US0.48 in 2001 to \$US1 in 2010. This international investment in the \$A has decreased non-mining Australian companies' global exporting competitiveness as less demand will be placed on these goods and services. Structural change will reallocate into industries

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with growth such as the natural resources sector. The globalisation of independent economies to create a global economy has broken national borders and allowed for maximum productivity where each economy is being altered through structural change and is working to their comparative advantage.

This heavily ties to Aust performance as Aust's natural resources are one of the four factors of production essential for productivity. This beneficial commodity is therefore in high demand internationally which has been advantageous domestically with the Aust economy continually growing and strengthening Aust interdependence with China through the global economy.