

There's More Online!

- ✓ CHART/GRAPH U.S. Housing Prices
- ✓ CHART/GRAPH World's Largest Economies
- ✓ CHART/GRAPH WTO Members
- ✓ IMAGE Ghanaian Migrant Worker
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- ✓ IMAGE Stock Market Trouble, 2008
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- ✓ MAP The European Union, 2010
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## 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 investments

#### 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 tied people and nations closely together 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 184 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 more than 150 member nations, the WTO arranges trade agreements and settles trade disputes.

### 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, 2010

### CHARTS/GRAPHS

Rank/Company	Country of Origin	Industry	Sales (\$bil)	Profits (\$bil)
1. JPMorgan Chase	United States	Banking	115.63	11.65
2. General Electric	United States	Conglomerates	156.78	11.03
3. Bank of America	United States	Banking	150.45	6.28
4. ExxonMobil	United States	Oil & Gas Operations	275.56	19.28
5. ICBC	China	Banking	71.86	16.27
6. Banco Santander	Spain	Banking	109.57	12.34
7. Wells Fargo	United States	Banking	98.64	12.28
8. HSBC Holdings	United Kingdom	Banking	103.74	5.83
9. Royal Dutch Shell	Netherlands	Oil & Gas Operations	278.19	12.52
10. BP	United Kingdom	Oil & Gas Operations	239.27	16.58
11. BNP Paribas	France	Banking	101.06	8.37
12. PetroChina	China	Oil & Gas Operations	157.22	16.8

Source: www.forbes.com

In 2010 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.

### CRITICAL THINKING

- Transferring Knowledge** Create a bar graph that displays the multinational corporations with profits over \$12 billion.
- 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 others. Farmers in Mexico, for example, saw prices for their food products drop as cheap American foodstuffs were imported. Industrial workers in



### GEOGRAPHY CONNECTION

- 1 PLACES AND REGIONS**  
*What percent of EU members are 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

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 2001, the euro had officially replaced 16 national currencies. The euro serves approximately 327 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 a low credit rating and high rate 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.



PHOTO: ©YURI GRIPAS/Reuters/Corbis

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 will probably plague Western nations for years to come.

### **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 20 years, China's growth rate has been 9.5 percent a year; India's, 6 percent. 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 350 million Indians earn less than one U.S. dollar a day.

**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.