

FINAL TERM-FALL SEMESTER 2020

**SUBJECT:
GLOBALIZATION AND BUSINESS**

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Q 1. Explain the exploitation of natural resources in the context of trade and investment flow. Use examples from the oil rich countries.

Ans. The exploitation of natural resources in the context of trade and investment flow:

Natural resources: Natural resources come from the natural environment which is utilized by people. Our country is rich in natural resources and few examples of natural resources are air, water, wood oil, wind energy, natural gas, iron, and coal. Natural resources exist without any action of humankind.

The exploitation of natural resources is the use of natural resources for economic growth, sometimes with a negative indication of conducting environmental degradation.

Investment and trade flows are driven by profit seeking transnational corporations that are interested in the exploitation of natural resources. This pattern of trade and investment leads to a high growth, though that is subject to the alteration of terms of trade and risk return aspects of foreign investment.

Trade applies an influential impact on the exploitation and safety of natural resources. The impact of trade operates through several ways. Prices are affected by trade liberalization and fluctuate, which affects exploitation incentives. Trade can also have vast effects, such as impacts on labor markets and incomes, which directly impact demand for resource-intensive products, or for ecosystem services. Trade deals with, and can affect, the institutions governing the management of natural resources. Furthermore, trade can also affect ecosystems, in the form of invasive species. The above mentioned impacts have a potential to create challenges for the transformation of renewable resources, which inherently includes dynamic monetary and natural procedures. Exchange progression changes relative costs, which influence misuse motivating forces. Exchange can likewise have more extensive harmony impacts, for example, on factor markets and wages, which may influence interest for asset concentrated items—or for biological system administrations. Exchange interfaces with and can impact the establishments overseeing the administration of natural resources.

Current examples of natural resources abuse are earth damaging; socially unjust; and add to human uncertainty, political shakiness, and social clash.

A service relating to natural resources is subject to the disciplines of the General Agreement on Trade in Services (GATS) unless it is given in the exercise of governmental authority. In practice, administrations identify with natural resources from various perspectives, from manage to assurance, to investigation, misuse, specialized testing, transport, expediting and commercialization. A variety of services directly cover natural resources (e.g. services incidental to mining, pipeline transportation of fuels, services incidental to agriculture, hunting and forestry, services incidental to fishing). Different administrations may identify with an assortment of areas, including natural resources (for example, the executives counseling administrations).

Oil-exporting Arab nations face three-pronged approach difficulties: creating jobs in accordance with a quickly developing population, protecting their economy from unpredictability of oil costs and guaranteeing feasible development once oil resources are exhausted. Oil-exporting Arab economies are on the whole vigorously reliant on oil. In these nations, financial movement, monetary income, foreign exchange and remote trade are straightforwardly dependent on oil creation to a huge degree. Oil is the essential source of government income in all nations. In 2014, the share of oil revenue in total revenue ranged from 47 percent in Yemen to 94 percent in Iraq and averaged 77 percent across the group. Correspondingly, in all nations with the exception of the UAE, oil is the principle export good. Oil represents over 80 percent of total exports in half of the nations in the gathering, or more than 60 percent in every one of them with the exception of the UAE.

Q2: What is the major criticism of Heckscher-Ohlin Theory?

Ans: Heckscher-Ohlin Theory:

In this theory It says the country which can produce products easily, they will export it in a large amount and will eventually import the goods which are scarce in the country so if the poor country can not produce goods in large amount, there will be no trading between the rich and poor countries and it will leave out the poor countries out of the trading world.

Criticism:

The basic presumption of the Heckscher–Ohlin model is that the two nations are indistinguishable, with the exception of the distinction in asset gifts. This likewise infers the total inclinations are the equivalent. The relative plenitude in capital leads the capital-plentiful nation to create the capital-serious great less expensive than the work bountiful nation, and the other way around. At first, when the nations are not exchanging: The cost of the capital-escalated great in the capital-bountiful nation will be offered down comparative with the cost of the positive qualities in the other nation, the cost of the work serious great in the work plentiful nation will be offered down comparative with the cost of the positive qualities in the other nation. When exchange is permitted, benefits looking for firms move their items to the business sectors that have (impermanent) more significant expenses. Accordingly: the capital-plentiful nation will send out the capital-serious great, the work bountiful nation will trade the work concentrated great.

Poor Productive Power:

The first Heckscher–Ohlin model and expanded model, for example, the Vanek model performed ineffectively, as it appeared in the area "Econometric testing of H–O model hypotheses". Daniel Trefler and Susan Chun Zhu sum up their paper that "It is difficult to accept that the factor enrichment hypothesis could offer a sufficient clarification of global exchange designs". A typical understanding exists that in the national level HOV model fits well. Indeed, Davis and others found that the HOV model fitted very well with the local information of Japan. Even when the HOV equation fits well, it doesn't imply that Heckscher–Ohlin hypothesis is legitimate. Without a doubt, Heckscher–Ohlin hypothesis guarantees that the condition of factor enrichments of every nation (or every area) decides the creation of every nation (individually of every district) except Bernstein and Weinstein found that the factor blessings have

minimal prescient influence. The factor-enrichments driven model (FED model) has mistakes a lot more noteworthy than the HOV model.

No unemployment:

Joblessness is the indispensable inquiry in any exchange struggle. Heckscher–Ohlin hypothesis avoids joblessness by the very plan of the model, wherein all components (counting work) are utilized in the creation.

Leontief paradox:

The Leontief oddity, introduced by Wassily Leontief in 1953, found that the U.S. (the most capital-plentiful nation on the planet by any standard) traded work serious wares and imported capital-escalated wares, as opposed to the Heckscher–Ohlin hypothesis. Be that as it may, if work is isolated into two unmistakable variables, gifted work, and untalented work, the Heckscher–Ohlin hypothesis is increasingly exact. The U.S. will in general fare gifted work serious merchandise and will in general import untalented work escalated products.

Factor equalization theorem:

The factor leveling hypothesis (FET) applies just to the most progressive nations. The normal pay in Japan was once as large as multiple times the pay in Vietnam. These pay errors are not regularly in the extent of the H–O model investigation.

Heckscher–Ohlin hypothesis is gravely adjusted to break down South-North exchange issues. The presumptions of H–O are ridiculous regarding the North-South exchange. Salary contrasts among North and South are the worry that the third world cares most. The factor value leveling hypothesis has not given an indication of acknowledgment, in any event, for quite a while slack of 50 years.

Identical production function:

The standard Heckscher–Ohlin model accepts that the creative capacities are indistinguishable for all nations concerned. This implies all nations are in a similar degree of creation and have a similar innovation, yet this is profoundly ridiculous. The mechanical hole among created and creating nations is the primary worry for the improvement of poor nations. The standard Heckscher–Ohlin model disregards all these essential variables when one needs to consider the improvement of less created nations in the global context.[Even between created nations, the innovation varies from industry to industry and firm to firm base. Without a doubt, this is the very premise of the opposition between firms, inside the nation, and the nation over.

Capital as endowment:

In the cutting edge creation framework, machines and devices assume a significant job. What is alluded to as capital is nothing other than these machines and contraptions, along with materials and middle of the road items expended in the creation procedure. Capital is the most significant of elements, or one should state as significant as work. With the assistance of machines and contraptions, the individual got an enormous creation capacity. These machines, contraptions, and devices are delegated capital, or all the more definitely as solid capital, for one uses these things for a long time. Their amount isn't changed on the double. Be that as it may, the capital isn't a gift given by nature. It is made out of merchandise fabricated in the creation and frequently imported from outside nations. In this sense, capital is globally portable and the consequence of the past financial movement. The idea of capital as characteristic enrichment misshapes the genuine job of capital. Capital is a creative power amassed by past speculation.

Homogeneous capital:

Capital merchandise take various structures. It might appear as a machine-device, for example, a machine or a transport line. Capital products can be exceptionally specific and have no utilization past the exact activity they are proposed for. In spite of this, capital in the Heckscher–Ohlin model is thought to be homogeneous and transferable to any frame if fundamental. This suspicion not just clashes with the detectable decent variety and particularity of the capital stock yet in addition contains a further imperfection, in particular in how the measure of capital is estimated. For the most part, this would be done through the value framework, which relies upon the benefit rate. In any case, in the Heckscher–Ohlin model, the pace of benefit is resolved by how plentiful capital is. In the event that capital is scant, it has a high pace of benefit. On the off chance that it is bountiful, the benefit rate is low. In this manner, before the benefit rate is resolved, the measure of capital isn't estimated - however we have to know the measure of money to know the pace of benefit! This consistent trouble was the subject of the alleged Cambridge Capital Controversies, which at last presumed that the idea of homogeneous capital was illogical. This is a genuine hit to the Heckscher-Ohlin hypothesis, which has not had the option to disprove this hypothetical imperfection at the core of the model. For the most part by an arrangement of costs. Be that as it may, costs rely upon the benefit rate.

No room for firms:

Standard Heckscher–Ohlin hypothesis accepts a similar creation work for all nations. This infers all organizations are indistinguishable. The hypothetical result is that there is no space for firms in the H–O model. On the other hand, the New Trade Theory accentuates that organizations are heterogeneous.

Political background:

From the center of the nineteenth century to the 1930s, mammoth progressions of migration occurred from Europe to North America. It is assessed that in excess of 60 million individuals crossed the Atlantic Ocean. A few government officials stressed over the negative outcomes of movement, for example, social clashes. For those government officials, the Heckscher-Ohlin hypothesis of Trade gave a valid justification "on the side of the two limitations on work relocation and facilitated commerce in products".

Q3: Refer to the research paper titled "Sustainable Development under Belt and Road Initiative: A Case Study of China- Pakistan Economic Corridor's Socio-Economic Impact on Pakistan" that has already been shared with you. On page 17, under the title 'Discussions', there is a flow chart given to summarize the development process of CPEC. Use your understanding from this paper to elaborate on the chart and what it signifies in terms of Pak-China trade relationships.

Ans:

Energy Infrastructure Development:

Under the CPEC speculation, around 34 billion USD will be put resources into the vitality part of Pakistan through the turn of events and portion of electric force producing assets through coal and gas. In addition, about 2.5 billion USD has additionally been allotted for the development of melted gaseous petrol (LNG) pipelines. The condensed flammable gas (LNG) will be shipped from Iran to Balochistan (Gwadar) and Sindh (Nawabshah) to satisfy the vitality prerequisite of both provinces. Further, an anticipated gas and oil pipeline among Pakistan and Iran will likewise fulfill the vitality needs of both China and Pakistan. The recommended gas and oil pipeline under the CPEC undertaking can change into China, Pakistan, and Iran oil and gas pipelines. The parts of vitality extending under the CPEC will significantly affect the economy of Pakistan. These vitality tasks will satisfy the necessities of vitality to the mechanical division of Pakistan and improve financial conditions. The GDP development of Pakistan has been moved down about 2%–2.5% because of the lack of vitality in the modern area . The electric force tasks will be executed in all over Pakistan on a need premise to satisfy the absence of power in Pakistan. The fulfillment of the force extended under CPEC is expected to create around 21,000 MW of electric force.

Transportation Infrastructure Development:

The transportation and foundation improvement of Pakistan is the second segment of the CPEC and has dispensed around 12 billion USD from the 46 billion USD CPEC speculation. Foundation assumes an imperative job in the improvement of any nation. Under the CPEC venture, China is likewise building new framework and updating the as of now existed transportation framework in Pakistan . The Industrial Commercial Bank of China (ICBC), China Exim Bank, and the China Advancement Bank (CDB) are the account giving organizations in transportation and foundation advancement ventures . The development of new and the up-degree of the current railroad and highway systems will be incorporated all over Pakistan as per the CPEC courses. A motorway around 1100 km long will be built to associate Karachi with Lahore, and this motorway will play a significant job in interior association and monetary development. Further, Karakoram Highway (KKH) will be stretched out to different urban communities of Pakistan. A railroad arrangement among Peshawar and Karachi will likewise be developed.

Special Economic Zones:

During the time spent industrializing, SEZs and mechanical groups assume an indispensable job. In various urban communities of Pakistan, SEZs have been proposed under the CPEC venture, which will additionally accelerate the industrialization process in Pakistan . Numerous SEZs will be created under

the CPEC venture in Pakistan, and the Chinese government has additionally manufactured an elite monetary zone in the authentic city of Xinjiang named Kashgar. Kashgar is situated close to the outskirts region between Pakistan furthermore, China. Also, Kashgar will assume a fundamental job in the full operationalization of the CPEC in Pakistan. The Special Economic Zone (SEZ) approach is viewed as a powerful method to upgrade financial turn of events and exchange inside a nation. In 47 states, as per the perception of the Worldwide Labor Organization (ILO), 176 exceptional monetary zones were built up in the year 1986. Further, the system of unique financial zones expanded in 2006, and now 3500 SEZs are working in 130 nations. In China, at the common level, 750 exceptional monetary zones have been built up; what's more, these SEZs add to national GDP—imports about 22%, sends out about 60%, and FDI about 46%. Prior to the SEZ procedure, mechanical homes were built up in Pakistan to upgrade financial development, yet these couldn't get good outcomes. China will build up the first SEZ in Gwadar, and it is normal that the expense of delivery will fundamentally decline. Habib Bank Limited Pakistan (HBL) and the Industrial and Commercial Bank of China (ICBC) are giving assets to the foundation of SEZs in Balochistan and Punjab. The SEZs will be announced tax exempt for a long time by the administration of Pakistan. As indicated by the Service of Planning, Development and Reforms, 27 SEZs have been arranged under the leader of the CPEC to improve the neighborhood's financial condition and exchange. Through the proposed SEZs turnover will be around 1 trillion Rs with 2,000,000 openings for work.

Economic Development:

Both Pakistan and China have numerous desires from the CPEC venture. The CPEC will have a critical job in the upgrade of Pakistan's financial circumstance, and further, it will improve framework and social turn of events. Be that as it may, the CPEC will likewise build the exchange of China with Pakistan and different regions of the world on the grounds that the CPEC will give a safe and cost-sparing shipment course to China. China is ascending as a world financial force, and this shrewdness has been assuming a fundamental job in the reinforcing of the Pakistan and China relationship. The financial connection between the two nations will develop, and the CPEC will additionally improve the financial relationship of the two nations and advance collaboration in different sections, for example, the development of foundation, the structure of intensity and vitality creation units (both key and digital). Some reports state that the CPEC under the BRI will give the different sorts of chances and advantages for Pakistan from financial turn of events to improve the security of the nation. To put it plainly, the CPEC will improve administration in Pakistan, be useful in the annihilation of destitution, and draw in outside ventures.

Sustainable Development:

Reasonable Development Goals (SDGs) have happened to focal center worldwide due to their great results in wellbeing, condition, manageability, personal satisfaction, and financial advancement. The vital offices of life, for example, wellbeing, instruction, transportation, advertisement, and banking can be effectively gotten to through the CPEC in remote zones of Pakistan. Wellbeing and instruction are huge components in supportable turn of events, and improvement in these two variables lead to a better way of life. The aftereffects of the parallel strategic relapse demonstrated that CPEC will be useful in the financial advancement in the examination territory, and financial improvement is the stepping stool towards practical advancement in Pakistan. As indicated by globalization hypothesis, social

trade and correspondence, innovation move, and interconnectedness are going to increase in the locale under the BRI. Under the CPEC, the change of human capital information and innovation will play a fundamental job in the advancement of Pakistan. Physical capital is required to improve the urban segment by industrialization, which will additionally balance out the economy of Pakistan. Framework-driven improvement is the establishment of financial turn of events. Common assets and social framework are wanted to be successfully utilized under the CPEC. The consequences of this examination are bolstered by development speculations, globalization, and framework driven advancement hypotheses. Pakistan has presented numerous institutional changes in the mechanical segment to improve household financial development. Furthermore, the CPEC has become a wellspring of FDI, which will assume an impetus job in the adjustment of the shaking economy of Pakistan. The CPEC is a multidimensional undertaking under the umbrella of the BRI, which is the main advancement process in Pakistan for feasible turn of events. The improvement of framework will be useful in financial turn of events, neediness easing, and improving the expectation for everyday comforts of individuals. Further, it will likewise be useful in the decrease of the turn of events hole between various districts. The objective of feasible improvement can be accomplished uniquely through a multidimensional advancement venture.

Q4) Refer to the research paper titled “Spillover of Covid-19: Impact on the Global Economy”. The article lists many spillover effects in different trade sectors for global economy. How many of those apply to Pakistan? Support your answer with sound arguments and data where necessary.

Answer: Initially, the perception was that the COVID-19 pandemic would be localized in China only. It later spread across the world through the movement of people, due to which people were asked to stay at home, because of with the severances was felt in multiple sectors of the economy which includes travel bans affecting the aviation industry, the prohibition of mass gatherings affecting the events and entertainment industries, sporting event cancellations affecting the sports industry (Horowitz, 2020; Elliot, 2020).

Spillover to import-dependent countries:

Many import-dependent countries were severely affected during the coronavirus pandemic. Many countries imported their essential commodities from major exporting countries like China, USA, UK, India, and Japan etc, and depend largely on these countries for the consumption of essential commodities. The slowdown of manufacturing in China due to the coronavirus (COVID-19) outbreak is disrupting

world trade and could result in a \$50 billion decrease in exports across global value chains, according to estimates published by The United Nations Conference on Trade and Development (UNCTAD).

According to UNCTAD estimates, the most affected sectors include precision instruments, machinery, automotive and communication equipment. Among the most affected economies are the European Union (\$15.6 billion), the United States (\$5.8bn), Japan (\$5.2bn), South Korea (\$3.8bn), Taiwan (\$2.6bn) and Vietnam (\$2.3bn).

UNCTAD has also included Pakistan in the list of 20 economies across the world that have been affected the most after China suffered slowdown because of novel coronavirus. The affected value chain for Pakistan is textiles and apparel which amounts to \$44 million from a 2% reduction of China exports in intermediate inputs.

Spillover effect in Pakistan trade sector:

Economies all over the world, including Pakistan, are now experiencing a slowdown. The impact of COVID-19 on Pakistan's economy can be severe and may lead to a reduction in GDP growth, deterioration in current & fiscal balances, disruption in supply chain and increased unemployment.

Pakistan Imports:

According to the Pakistan Bureau of Statistics (PBS), total imports of Pakistan stood at PKR 525.0 Bn during March 2020, down 18.7% y-o-y. As per SBP, the largest import partners from July 2019 to February 2020 were China, UAE, Singapore, USA, and Saudi Arabia cumulatively consisting of 51% of the total imports. China alone accounted for 21% of the total imports during this period. The decline in import value can be attributed to multiple factors, including disruptions in supply chains, lower demand in Pakistan, and a fall in prices of goods and commodities.

A decline in imports will have a positive impact on Pakistan's current account deficit; however, delays in imports of essential items could disrupt the supply chains of multiple industries. According to PIDC2, 32% of the total imports of Pakistan are final products which will not have a direct impact on the country's GDP. However, 68% of imports constitute raw materials, intermediate goods, and capital goods which are used to produce final goods that are consumed domestically or exported. A decline in these will, therefore, have a negative effect on investment spending as well as on exports. Consequently, Pakistan is likely to experience a cascading effect of falling imports, leading to an impact on the GDP.

Spillover to the travel industry of Pakistan:

After the extensive four-decade battle against terrorism in Pakistan, domestic tourism industry besides other industries restores its breath in a country. Majority countries who declared Pakistan as a terrorist state are now declaring Pakistan as the best holiday destination for 2019. Even Pakistan topped Forbes

and Conde Nast Traveler's list of best holiday destinations for 2020. Unfortunately by the end of Jan 2020, coronavirus pandemic changed the situation of the entire world. The World Tourism Organization (UNWTO) has alerted that "the COVID-19 pandemic could lead to a loss of \$300-500 billion in tourism receipts globally".

Pakistan's tourism and transportation sectors are also affected poorly as flights, markets, public places, restaurants and hotels closed. Due to the coronavirus pandemic, thousands of international tourists cancelled their reservations and bookings. This has had a negative impact on the tourism community, particularly porters, tour guides, street vendors, - all those who rely on tourist spending are suffering and affecting now.

Q5:What will be the future of globalization post COVID-19?

Ans:The "Incomparable Downturn" of 2008 brought new questions about it with some narrowing the issue down to money related globalisation. Uncertainties about the fate of globalization have emerged in the wake of the disturbances that the "Incomparable Lockdown" has caused in every single significant economy, with the conceivable special case of China. There are other people who have brought up that the worldwide economy is confronting various difficulties, not least from the exceptional monetary contention between the US and China, with the two nations attempting to gain authority. The procedure was relied upon to make a strong worldwide economy that would, thusly, advantage every taking an interest nation. In the five a long time before 2008, the worldwide economy had extended yearly by over 5%, however between 2010-19, the extension had declined to 3.8%, and in the previous five years, it was down to simply above 3%. The additionally stressing perspective for globalization was that significant economies have been giving indications of getting decoupled from the worldwide economy. For all major progressed and developing economies, their proportions of exchange to total national output (GDP), a marker of receptiveness, have declined. Information gave by the Association for Economic Cooperation and Improvement (OECD) shows that between 2005 and 2015, fares of major progressed what's more, developing economies have depended more on residential worth expansion, or in other Words, the import substance of the fares have been on the disappear. In any case, the factor that could ring alerts for globalization are the recovery of the Chinese economy, a long time before other significant economies can return to regularity. There is in this way an unmistakable chance that China would have the option to unite its situation in the worldwide economy further.