Subject: GLOBALIZATION AND BUSINESS

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Program: BBA (HONS)

Semester: 6th

**Question 1**

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

***Answer:***

Natural resources account of 20% of world trade and dominate the exports of many countries. The instruments used include exports taxes, price controls, production quotas, and domestic producer and consumer taxes.

The presence or absence of natural resources and arable land effect can affect a nations economy drastically because natural resources and arable land are necessary for people to survive.

High life expectancy and high literacy rate can positively affect quality a labor in the country.

Natural resources can affect a country economy. Such as oil gas minerals and timber are expected to continue to play a significant role in resources abundant economies, as demand from rapidly growing economies increases, and as a supply of non- renewable resources decline and renewable resource harvest approach maximum.

* In Arab Saudi is the oil rich country due to rich oil country trade rate increases but on the other hand facilities other resources rate is very low almost everything in Saudi imported from the other countries like machinery and equipment, foodstuff, chemicals, motor vehicles, and textiles.
* **VENEZUELA**

**Proven oil reserves in 2013 (billion barrels): 297.6**

*Total oil supply in 2012 (thousand barrels per day): 2,489.2*

*Venezuela surpassed Saudi Arabia last year to become the holder of the largest oil reserves in the world. However, annual oil production of the OPEC supplier is considerably less than the Kingdom.*

**Question 2**

What is the major criticism of Heckscher-Ohlin Theory?

***Answer:***

**CRITICISM OF HECKSCHER-OHLIN THEORY:**

No doubt, the Heckscher-Ohlin theory has been found to be more exact, precise, scientific and analytically superior to the earlier approaches to the theory of international trade, still it has certain deficiencies for which it has been criticized by many a writer.

1. **PARTIAL EQUILIBRIUM ANALYSIS:**

Haberler although recognized Ohlin’s theory as less abstract, yet it has failed to develop a general equilibrium concept. It remains, by and large, a part of the partial equilibrium analysis. This theory seeks to explain the pattern of trade only on the basis of factor proportions and factor intensities, while ignoring several other influences such as transport costs, economies of scale, external economies etc., which too exert influence on the cost of production.

In such a situation, Ellsworth states that “with several causes operating simultaneously upon costs, it becomes a matter of adding up the influence of all cost-reducing and increasing forces to arrive at a net result.”

1. **OVERSIMPLIFYING ASSUMPTIONS**

This theory is based upon highly over-simplifying assumptions of perfect competition, full employment of resources, identical production function, constant returns to scale, absence of transport costs and absence of product differentiation. Given this set of assumptions, the whole model becomes quite unrealistic.

1. **STATIC ANALYSIS:**

The Heckscher-Ohlin model assumes fixed quantities of factors of production, given production functions, incomes and costs. It means the theory investigates the pattern of international trade in a static setting. The conclusions drawn from such an analysis are simply not relevant to a dynamic economic system.

1. **IDENTICAL FACTORS:**

This theory maintains that there are no qualitative differences in factors and that these factors are capable of exact measurement so that factor endowment ratios can be calculated. In the real world, however, qualitative factor differences exist. Moreover, there are more than one variety of each factor. This creates serious complications in the measurement and comparison of costs and the determinations of trade pattern.

**(V) NEGLECT OF PRODUCT DIFFERENTIATION:**

The theory overlooks the role played by product differentiation in international trade. Even when the production agents are identical in two countries, the international trade may still take place due to product differentiation. For instance, the Japanese machines are sold out in the U.S.A. and the American machines are sold in Japan. In this context, Wijanholds opines that factor prices do not determine cost. It is rather the commodity prices that determine factor prices.

Prices of goods are determined by their utility to the buyers (the force of demand) and prices of factors like raw materials, labor etc., are ultimately dependent on the demand and prices of final goods because the demand for them is the derived demand. So Wijanholds states that “prices are the only things we may accept as data. Everything else to be derived therefrom.” He regards both Ricardian theory and Heckscher-Ohlin theory as faulty as they related cost to factor prices and neglected the influence of product differentiation on international trade.

1. **FACTOR PROPORTIONS AND SPECIALIZATION:**

The H-O theory suggests that the relative factor proportions (or factor endowments) determine the specialization in exports of different countries. The capital-abundant countries export capital-intensive goods and labor-abundant countries export the labor-intensive goods. It implies that trade will not take place between such countries or regions as have similar relative factor proportions. But this is not true.

A large part of world trade is between the U.S.A. and the countries of Western Europe despite the fact that all of them have a relative greater capital- abundance and scarcity of labor. The H-O theory cannot provide a complete and satisfactory explanation of trade in such cases. In fact, the specialization is governed not only by factor proportions but also by several other factors like cost and price differences, transport costs, economies of scale, external economies etc. The H-O theory was clearly wrong in overlooking these factors.

1. **NEGLECT OF FACTOR DEMAND:**

The H-O theory assumes that the factor prices are determined by the relative factor endowments of a country. It means the rate of interest should be relatively low and wage rates relatively high in a capital-abundant but a labor-scarce country. On this basis, the United States should have a lower structure of interest rate but it is in fact higher because even in that capital-surplus country, the demand for capital too is very strong. In fact, the relative factor prices are influenced not only by their supply but also by the demand for them. The H-O theory failed to take into account the influence of demand for factors on their prices.

1. **FACTOR MOBILITY:**

This theory assumes that there is absence of international mobility of factors. This assumption is not valid. The writers like Williams and Levin have pointed out that the international mobility of factors is actually even more than the inter-regional mobility within the same countries. This is evident from international capital flows from advanced countries to such export sectors in the LDC’s as petroleum, minerals, plantations etc.

Similarly, the large-scale movement of labor from the Third World countries to the advanced countries has assisted the latter in enlarging their production and export. It is, therefore, clear that H-O theory takes an unrealistic assumption of international immobility of factors.

1. **NEGLECT OF TECHNOLOGICAL CHANGE:**

The H-O model assumes identical production function. It implies that the technological conditions in a given country remain unchanged. This assumption again is invalid. There has been continuous improvement in techniques of production both in the advanced and the less developed countries. The neglect of technological change in H-O theory makes this model quite inconsistent with actual reality.

**Question 3**

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

***Answer:***

1. **ENERGY INFRASTRUCTURE DEVELOPMENT**

Under the CPEC investment, about 34 billion USD is going to be invested in the energy sector of Pakistan through the development and installment of electric power generating resources through coal and gas. Moreover, about 2.5 billion USD has also been allocated for the construction of liqueﬁed natural gas (LNG)pipelines. The liqueﬁed natural gas (LNG) will be transported from Iran to Baluchistan (Gwadar) and Sindh (Nawab shah) to fulﬁll the energy requirement of both provinces [74].

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Further, a projected gas and oil pipe line between Pakistan and Iran will also satisfy the energy needs of both China and Pakistan. The suggested gas and oil pipeline under the CPEC project can transform into China, Pakistan, and Iran oil and gas pipelines. The components of energy projects under the CPEC will have a signiﬁcant impact on the economy of Pakistan. These energy projects will fulﬁll the needs of energy to the industrial sector of Pakistan and improve economic conditions. The GDP growth of Pakistan has been shifted down about 2%–2.5% due to the shortage of energy in the industrial sector. The electric power projects will be executed in all over Pakistan on a priority basis to fulﬁll the lack of electricity in Pakistan. The completion of the power projects under CPEC is expected to produce about 21,000 MGW of electric power.

1. **TRANSPORTATION INFRASTRUCTURE DEVELOPMENT**

The transportation and infrastructure development of Pakistan is the second component of the CPEC and has been allocated about 12 billion USD from the 46 billion USD CPEC investment. Infrastructure plays a vital role in the development of any country. Under the CPEC project, China is also constructing new infrastructure and upgrading the already existed transportation system in Pakistan. The Industrial Commercial Bank of China (ICBC), China Exim Bank, and the China Development Bank (CDB) are the ﬁnance providing agencies in transportation and infrastructure development projects. The construction of new and the up-gradation of the existing railway and high way networks will be included all over Pakistan according to the CPEC routes. A motorway about 1100 km long will be constructed to connect Karachi with Lahore, and this motorway will play an important role in internal connection and economic growth. Further, Karakorum Highway (KKH) will be extended to the other cities of Pakistan. A railway network between Peshawar and Karachi will also be constructed.

1. **SPECIAL ECONOMIC ZONES**

In the process of industrialization, SEZs and industrial clusters play a vital role. In diﬀerent cities of Pakistan, SEZs have been proposed under the CPEC project, which will further speed up the industrialization process in Pakistan [81]. Many SEZs are going to be developed under the CPEC project in Pakistan, and the Chinese government has also built an exclusive economic zone in the historical city of Xinjiang named Kashghar. Kashghar is located near the border area between Pakistan and China. Moreover, Kashghar will playan essential role in the full operationalization of the CPEC in Pakistan [82]. The Special Economic Zone (SEZ) approach is considered an eﬀective way to enhance economic development and trade within a country. In 47 states, according to the observation of the International Labor Organization (ILO), 176 special economic zones were established in the year 1986. Further, the network of special economic zones increased in 2006, and now3500SEZsareworking in130countries [83]. In China, attheprovinciallevel,750specialeconomiczoneshavebeenestablished, and these SEZs contribute to national GDP—imports about 22%, exports about 60%, and FDI about 46% [84]. Before the SEZ strategy, industrial estates were established in Pakistan to enhance economic growth, but these could not get satisfactory results [85]. China is going to establish the ﬁrst SEZ in Gwadar, and it is expected that the cost of shipping will signiﬁcantly decrease [86]. Habib Bank Limited Pakistan (HBL) and the Industrial and Commercial Bank of China (ICBC) are providing funds for the establishment of SEZs in Baluchistan and Punjab. The SEZs will be declared tax free for ten years by the government of Pakistan [87]. According to the Ministry of Planning, Development andReforms,27SEZshave been planned under the ﬂagship of the CPEC to enhance the local economic condition and trade. Through the suggested SEZs turnover will be about 1 trillion Rs with 2,000,000 job opportunities.

1. **ECONOMIC DEVELOPMENT REFERENCE** statedthatbothPakistanandChinahavemanyexpectationsfromtheCPECproject. TheCPECwillhaveasigniﬁcantroleintheenhancementofPakistan’seconomicsituation, and further, Sustainability 2019, 11, 6143 19 of 24 it will improve infrastructure and social development. However, the CPEC will also increase the trade of China with Pakistan and the other counties of the world because the CPEC will provide a safe and cost-saving shipment route to China. Reference [89] assessed that China is rising as a world economic power, and this wise has been playing a vital role in the strengthening of the Pakistan and China relationship. The economic relationship between both countries is going to mature, and the CPECwillfurtherimprovethesocio-economicrelationshipofbothcountriesandpromotecooperation in various segments such as the construction of infrastructure, the building of power and energy production units (both strategic and digital).Reference reported that the CPEC under the BRI will provide the various kinds of opportunities and beneﬁts for Pakistan from socio-economic development to improved security across the country. In short, the CPEC will improve governance in Pakistan, be helpful in the eradication of poverty, and attract foreign investment.
2. **POVERTY ALLEVIATION AND SOCIAL DEVELOPMENT**

reference said that the local people of Pakistan on diﬀerent routes of the CPEC will get many opportunities for employment and business, which will further enhance their income level. Moreover, in rural areas of Pakistan, the CPEC will create drastic changes and bring infrastructural development and prosperity. Reference assessed that the CPEC will uplift the social development of Pakistan through the implementation of diﬀerent projects such as energy production, infrastructure development, and the establishment of new industries. These projects under the CPEC will produce new job opportunities for Pakistani youth and will be helpful in poverty alleviation. Rural, remote areas will connect with cities. Moreover, technical and vocational centers will also improve the social conditionofthePakistanisocietybyprovidingtrainingaboutnewmoderntechnologythatwilltransfer to Pakistan under the CPEC.

1. **SUSTAINABLE DEVELOPMENT SUSTAINABLE DEVELOPMENT** Goals (SDGs) have become of central focus worldwide due to their favorable outcomes in health, environment, sustainability, quality of life, and economic development [92]. Thenecessaryfacilitiesoflifesuchashealth, education, transportation, market, and banking can be easily accessed through the CPEC in remote areas of Pakistan. Health and education are signiﬁcant factors in sustainable development, and improvement in these two factors e lead to a better standard of living. TheresultsofthebinarylogisticregressionshowedthatCPECwillbehelpful in the socio-economic development in the study area, and socio-economic development is the ladder towards sustainable development in Pakistan. According to globalization theory, culturalexchangeand communication, technology transfer, and interconnectedness are going to increase in the region under the BRI. Under the CPEC, the transformation of human capital knowledge and technology will play a vital role in the development of Pakistan. Physical capital is expected to improve the urban sector by industrialization, which will further stabilize the economy of Pakistan. Infrastructure-led development is the foundation of socio-economic development. Natural resources and social infrastructure are planned to be eﬀectively used under the CPEC. The results of this study are supported by growth theories, globalization, and infrastructure-led development theories. Pakistan has introduced many institutional reforms in the industrial sector to improve domestic economic growth. Additionally, the CPEC has become a source of FDI, which will play a catalyst role in the stabilization of the shaking economy of Pakistan. The CPEC is a multidimensional project under the umbrella of the BRI, which is the leading development process in Pakistan for sustainable development. The development of infrastructure will be helpful in socio-economic development, poverty alleviation, and improving the living standard of people. Further, it will also be helpful in the reduction of the development gap between diﬀerent regions. The goal of sustainable development can be achieved only through a multidimensional development project

**Question 4:**

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 wherever necessary.

***Answer***

Before I start let me explain what is Covid-19 and corona virus and its Spreading and state in Pakistan.

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). It was first identified in December 2019 in Wuhan, China, and has resulted in an ongoing pandemic. The first confirmed case has been traced back to 17 November 2019. Traces of the virus have been found in wastewater that was collected from Milan and Turin on December 18, 2019. As of 23 June 2020, more than 9.1 million cases have been reported across 188 countries and territories, resulting in more than 472,000 deaths. More than 4.52 million people have recovered.

Common symptoms include fever, cough, fatigue, shortness of breath, and loss of smell and taste. While the majority of cases result in mild symptoms, some progress to acute respiratory distress syndrome (ARDS) possibly precipitated by cytokine storm, multi-organ failure, septic shock, and blood clots. The time from exposure to onset of symptoms is typically around five days, but may range from two to fourteen days.

**Spreading**

The virus is primarily spread between people during close contact, most often via small droplets produced by coughing, sneezing, and talking. The droplets usually fall to the ground or onto surfaces rather than travelling through air over long distances.[7] However, research as of June 2020 has shown that speech-generated droplets may remain airborne for tens of minutes Less commonly, people may become infected by touching a contaminated surface and then touching their face. It is most contagious during the first three days after the onset of symptoms, although spread is possible before symptoms appear, and from people who do not show symptoms. The standard method of diagnosis is by real-time reverse transcription polymerase chain reaction (rRT-PCR) from a nasopharyngeal swab. Chest CT imaging may also be helpful for diagnosis in individuals where there is a high suspicion of infection based on symptoms and risk factors; however, guidelines do not recommend using CT imaging for routine screening.

**Preventive measures**

Recommended measures to prevent infection include frequent hand washing, maintaining physical distance from others (especially from those with symptoms), quarantine (especially for those with symptoms), covering coughs, and keeping unwashed hands away from the face. The use of cloth face coverings such as a scarf or a bandana has been recommended by health officials in public settings to minimize the risk of transmissions, with some authorities requiring their use Health officials also stated that medical-grade face masks, such as N95 masks, should only be used by healthcare workers, first responders, and those who directly care for infected individuals.

**Vaccination**

According to the World Health Organization (WHO), there are no vaccines nor specific antiviral treatments for COVID-19. Management involves the treatment of symptoms, supportive care, isolation, and experimental measures. The World Health Organization (WHO) declared the COVID 19 outbreak a public health emergency of international concern (PHEIC) on 30 January 2020 and a pandemic on 11 March 2020. Local transmission of the disease has occurred in most countries across all six WHO regions.

**Is covid 19 manmade or natural disease**

In the last months of 2019, we all came to through news that new virus has been originated in china which can be spread from one person to another, which is caused by eating haram food. later on, China claimed US that this virus has been sent to which is manmade and want to lower the economy of China. With the passage of time the virus started spreading over the complete globe, which now US claims that the virus is send to US. There are different concepts but yet the world is not clear that is this Natural or Artificial Virus. Whatever the case it is natural or artificial but it is very dangerous may Allah save compete humanity from this disease.

**Tension in world**

This disease has spread tension in the world not only the deaths but also people around complete globe is lockdown back at their houses, social distances no gathering no religious activities no else.

Ever one around the globe is praying for finishing of this naval disease.

 **Global Spillover**

Initially it was only China but now it is competing world.

 **Spillover to the travel industry**

It has spoiled the complete industry of the world even in lower level the labors are unemployed.

Spillover to the hospitality industry

It has spoiled the business of restaurants, hotel tourism business. there of thousands of people who are attached with the same business. All these people are job less now a days.

**Spillover to the sports industry**

Completely spoiled the sports as now a day’s sports is the main income of most of the countries which is also a source of entertainment. You have seen PSL going on in Pakistan was cancelled just because of this novel disease which further has given harm to sports stuff making big and small industries. All people relative to these industries are jobless today

**Spillover to oil-dependent countries**

It has spoiled economy of countries depended on oil, if there will be no industry open or no transport there will be no need fuels. All the golf countries come under this

**Spillover to import-dependent countries**

It has spoiled the import depended countries. All foreign businesses are closed no imports.

Other than that, it has spoiled almost every field of life for example

* **Spillover to the financial sector:**
* **Spillover to financial markets**
* **Spillover to the event industry**
* **Spillover to the entertainment industry**
* **Spillover to the health sector**
* **Spillover to the education sector**

Coming very much short this naval disease has spoiled mental, social, economic almost every field of life

**Bonus Question:**

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

***Answer***

Covid 19 would had devasting impact on globalization as the world is drowning I the disease so rapidly all if works industries factories international business finance tourism is all stopped there is highly loss to all countries experiencing this pandemic as all the world is like experiencing this may exacerbate on existing tendency for countries to turn inward.

There are two sides to the globalization coin on the positive side the cross-border flow of people money and information creates new wealth and opportunity on the on the negative side, though it can exacerbate global disparities enable international terrorism and cross border crime and allow for the rapid spread of disease

In the future world would face a load of difficulties and struggle for new beginning of GDP finance and to move countries again a track of progress.