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FINAL TERM
GLOBALIZATION AND BUSINESS
ANSWER SHEET

Q1: Explain the exploitation of natural resources in the context of trade and investment flow. Use examples from the oil-rich countries.

ANS: Natural resources are useful raw materials we receive from the earth. They happen naturally, which means people can't make natural resources. Instead, we use and modify natural resources in a way that is beneficial to us. Materials used in artificial objects are natural resources.

The earth's natural resources are crucial to the survival and development of the human population. However, these resources are limited by the earth's ability to renew them. Fossil fuels and minerals are not renewable. Although many of the effects of overfishing are felt at the local level, the growing interdependence between nations and international trade in natural resources makes demand and sustainable management a global issue. This part focuses on important developments in the use of renewable and non-renewable resources in Europe in the context of trade and investment flows.

Renewable Resources:

Food, water, forests and wildlife are all renewable resources. In order to ensure the sustainability of resource use, the rate of consumption should be maintained within the capacity of natural systems to regenerate. Current levels of depletion of land's renewable

resource reserves and levels of pressure on their regenerative capacity through production and consumption may in some cases already exceed this limit.

Non-Renewable Resources:

Minerals, oil, natural gas and coal are non-renewable resources: their use as materials and energy sources leads to the depletion of the earth's reserves. However, the period during which stocks may be available may be extended by recovery or improved use efficiency. Ultimately, restrictions will be imposed to the extent that the most efficient procedures can extend the use of non-renewable resource reserves, which requires them to be replaced by renewable resources and limitations on the volume of activity that existing stocks can maintain.

Extracting Oil and Natural Gas:

Recovering oil and gas from an underground presence is not as simple as drilling and filling the well. All factors in the underground environment, such as the porosity of the stone and the viscosity of the tank, can prevent the product from flowing freely into the well. In the past, it was common to recover just 10 percent of the oil placed in the tank, leaving the rest underground because the technology did not exist to bring the rest to the surface. Today, advanced technology allows about 60% of the resources for production training. There are three types of recovery which are given below:

Primary recovery:

The underground pressure to bring liquid to the surface depends mainly. When the pressure drops, artificial lifting technologies such as pumps are used to bring more fluids to the surface. In some cases, natural gas is pumped back directly under oil. The gas expands and pushes oil to the surface. Gas removal technology is often used in offshore facilities. Primary recovery is usually only 10% of oil in a warehouse.

Secondary recovery:

This is most applied improved recovery technique. Water produced and separated from oil in the initial drilling phase is re-injected into the oil formation to bring more oil to the surface. In addition to stimulating oil recovery, it also eliminates wastewater by returning it to where it comes from. This can bring another 20% of the oil to the surface.

Enhanced recovery:

The techniques are used to mobilize the rest of the oil. There are three common methods: thermal recovery, gas injection or chemical floods.

Example of oil rich countries:

Oil generates revenue for countries that produce more oil reserves than domestic consumption. For economies that are heavily dependent on imports, oil spending should be taken into account in national budgets. Not surprisingly, the unrest in the oil-producing regions, the exploration of new oil fields, and developments in mining technology are deeply affected the oil industry.

According to the latest data from the Energy Information Administration (EIA), oil production in 2018 averaged more than 80 million barrels per day (bpd). The five largest oil-producing countries account for nearly half of the world's crude oil production, condensate leasing, unfinished oils, and refined products from crude processing and liquids from natural gas plants. Some examples are given below:

Saudi Arabia:

Saudi Arabia contributes b/d 12.42 million, or 12% of global production. Saudi Arabia is the only member of the Organization of Petroleum Exporting Countries (OPEC) to make this list.

According to the World Fact Book, the oil sector accounts for about 42% of the country's gross domestic product (GDP), 87% of budget revenues and 90% of export revenues. Saudi Arabia's main oil fields include Ghawar, Safaniya, Khurais, Manifa, Shaybah, Qatif, Khorsaniyah, Euluf and Abqaiq. In short Saudi Arabia economy is fully dependent on their natural resource i:e oil.

United States:

The United States is the world's largest oil producer, averaging 17.87 million b/d, accounting for 18% of global production. That's up from 15.6 million b/d in 2017. For the past six years, the United States has held the top spot.

The United States took Russia into second place in 2012, surpassing the former Saudi leader in 2013 to become the world's largest oil producer. Much of the increase in U.S. production is due to fracking in shale formations in Texas and North Dakota. Since the beginning of 2011, the US has been a net exporter of oil (i.e. exports exceed imports).

Technological development changes the way resources are consumed and produced. This interactive chart highlights some of the possible changes in both resource supply and demand.

- Technology will raise productivity and improves safety in all areas of mining operation.
- Technology will make the oil field of the future more productive and safer.
- Technology will change the way consumers live and reduce resource consumption.

- Technology will enable a more resilient grid and more responsive and productive utilities.



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

ANS: Introduction:

The structure of modern international trade theory is based on the theory originally developed by Eli Heckscher and Bertil Ohlin. This theory has almost fully replaced the classical and neoclassical theories about international trade. But that doesn't mean there's a real clash between the Heckscher-Ohlin approach and the comparative approach to cost or the latter is invalid in an old way.

In fact, Heckscher-Ohlin's approach greatly complements the traditional approach. It goes behind the doctrine of comparative costs to investigate the root cause of the relative differences in these costs. Heckscher and Ohlin followed the causes of cost differences with relative factor donations and the density of relative factors. Therefore, this theory is also known as factor-relationship-intensity factor-factor-intensity-intensity theory. According to this theory, labor-rich countries will export labor-intensive goods and export capital-intensive goods to them.

Criticism:

To be sure, the Heckscher-Ohlin theory has been found to be more accurate, scientifically and analytically superior to previous approaches to international trade theory, but it still has some flaws for which it has been criticized.

1. Partial Equilibrium Analysis:

Haberler also recognized Ohlin's theory as less abstract, but was unable to develop a concept of general balance. It is a large part of the partial analysis of the budget. This theory aims to explain the commercial model only on the basis of the proportions of factors and the intensity of the factories, ignoring other influences, such as transport costs, economies of scale, external economies, etc., which also affect production costs.

In such a situation, Ellsworth states that “in various causes running simultaneously on costs, it becomes a matter of additional influence of all cutting costs and increasing forces to come with a clean result.

2. Oversimplifying Assumptions:

This theory is based on excessively simplistic assumptions about perfect competition, full use of resources, identical production function, constant returns, lack of transport costs and lack of product differentiation. Given this set of assumptions, the whole model becomes pretty unrealistic.

3. Static Analysis:

The Heckscher-Ohlin model assumes constant amounts of inputs, given production operations, income and costs. This means that the theory examines the model of international trade in a static environment. The conclusions of this analysis do not merely concern a dynamic economic system.

4. Identical Factors:

This theory states that there are no qualitative differences in factors and that these factors can measure correctly, so that the coefficient of donation indicators can be calculated. In the real world, however, there are qualitative differences in factors. In addition, there is more than a variety of each factor. This creates serious complications in measuring and comparing the costs and determinations of the commercial standard.

5. Neglect of Product Differentiation:

The theory ignores the role played by product diversification in international trade. Even when the inputs are identical in two countries, international trade can still take place due to product diversification. For example, Japanese machines are sold out in the United States and the United States is sold in Japan. In this context, Wijnholds believes that fare prices do not determine the cost. Commodity prices, on the other hand, determine the prices of tariffs.

Commodity prices are determined by their usefulness to buyers (the strength of demand) and prices for factors such as raw materials, labor, etc. ultimately depend on demand and prices of finished products, because demand is the demand generated. Thus, Wijnholds states that "prices are the only things we can take for granted. Everything else, we need to get out of there. It considers Ricardonian's theory and Heckscher-Ohlin's theory to be imperfect, since they referred to the cost of price factors and overlooked the effect of product differentiation on international trade.

6. Factor Proportions and Specialization:

The H-O theory suggests that the relative shares of the factors (or the allocation of factors) determine the specialization in exports from different countries. Capital-rich countries export capital-intensive goods, and labor-rich countries export labor-intensive goods. This means that trade between these countries or regions, as well as the proportions of similar relative factors, will not take place. But it's not true.

Much of world trade takes place between the United States and western European countries, although all have a relatively greater abundance of capital and a lack of labor. The H-O theory cannot provide a complete and satisfactory explanation of trade in such cases. In fact, specialization is driven not only by the proportions of factors, but also by other factors, such as differences in costs and prices, transport costs, economies of scale, external economies, etc. H-O's theory was clearly wrong to ignore these factors.

7. Neglect of Factor Demand:

The H-O theory assumes that the values of the factors are determined by the relevant capital of the factor of a country. This means that interest rates should be relatively low and wage levels relatively high in a plentiful country, but in a country of work. On this basis, the US should have a lower interest rate structure, but in reality it is higher because in this country with a capital surplus, the demand for capital is also very strong. Indeed, the prices of the relevant factors are affected not only by their supply, but also by their demand.

8. Factor Mobility:

This theory assumes the lack of international mobility of factors. This case is invalid. Authors such as Williams and Levin pointed out that the international mobility of factors is actually even greater than interregional mobility in the same countries. This is due to international capital flows from advanced countries to these export sectors in less developed countries, such as oil, minerals, plantations, etc.

Similarly, the high mobility of labor from third world countries to advanced countries has helped them to expand their production and exports. It is therefore clear that the H-O theory assumes an unrealistic hypothesis of the international immobility of operators.

9. Neglect of Technological Change:

The H-O model assumes an identical production function. This means that the technical conditions in a given country remain unchanged. Again, this hypothesis is not valid. Production technology has been constantly improved in both advanced and less developed countries. The careless technical change in H-O theory makes this model completely incompatible with real reality.

10. Factor-Intensity:

This theory puts great emphasis on the concept of factor intensity. This model assumes that one asset consumes a lot of capital and the other requires a lot of labor. The capital-intensive well remains capital-intensive in both countries and labor-intensive welfare remains labor-intensive in both countries. This means that the intensity of the factors cannot be reversed, i.e. the same product is capital intensive in one country, while intensive work in the other. Empirical evidence on this issue is contradictory. However, if there are any.



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: In the current globalization scenario, each country wishes to improve its economic global economy. We can say that sustainable progress and development in China over the last three or four decades country has special status in the context of the global economy that demonstrates its strength in the financial crisis 2007-08, where the Chinese economy emerged as a new economic power and also improved its role in global governance.

Each emerging economy also needed more energy to meet its needs on time with a limited route (short route) including cost savings, all these requirements of this emerging economic through the China-Pakistan Economic Corridor (CPEC) project.

Pakistan's geographical location is very important for world trade, as Pakistan is the maximum vital gateway to Middle East and Central Asia as well, it can be useful for China in the direction of the route because through Pakistan, China get smaller access to the Middle East, but also to Europe. That is why China is interested in the China-Pakistan Economic Corridor (CPEC), because this route will be safe for china imports and it will be work as time and cost saving route to make china's economy further strengthened.

The main objective of the China-Pakistan Economic Corridor (CPEC) is to connect the port of Gwadar (Baluchistan, Province of Pakistan) and the port of Kashgar, which is an important trading center in (Western China). China's mega-economy has strong energy demand in the form of oil which is about 70% to 80% affected using the Indian Ocean road. This road crosses the strait Malacca, which has been guarded by U.S. and Indian naval forces to protect cargo ships from pirates, this energy supply to China can be stopped if a clash occurs that will create the most difficult situation for China compared to the current Chinese route. The China-Pakistan Economic Corridor (CPEC) is safer, including reducing time and cost.

In line with China's perspective, the Pakistan Economic Corridor (CPEC) one belt, one road (OBOR) project to ensure regional connectivity, is expected to save EUR 2 billion per year Gulf countries, while the China-Pakistan Economic Corridor (CPEC) for trade offers an economic trade route between the western and central regions of China and the Middle East and the northern export market South Africa (MENA).

ECONOMIC IMPACT OF CHINA PAKISTAN ECONOMIC CORRIDOR

China emergence as an economic supremacy in the world as a great support and strengthening relations of Pakistan and China, Economic ties between the two countries are steadily deteriorating, bilateral ties are entering a new era reflecting coordination in different sectors, namely infrastructure development, the creation of energy and energy projects, telecommunications and strategic areas.

The main importance of this corridor is to stimulate the Pakistani economy and enable Pakistan to develop socially and in an infrastructure way, while on the other hand it will boom Chinese trade with Pakistan and the rest of the world, saving many transport and transport costs with a safer and shorter route that replaces the Strait of Malacca.

CPEC Effect on Gross Domestic Product:

Pakistan Minister for Planning Development and Reform Ahsan Iqbal, who outlines the post of Pakistan's minister in 2025 in Beijing in his speech at the Chinese think tank at the CPEC's Pak-China Joint Committee for Cooperation (JCC), said Pakistan itself is seeking its position from a low-income country to a high-income country that reaches its GDP per capita

target of \$4,200, to achieve this goal and create jobs for the new phase. In 2018 and 2025, Pakistan's growth target aims to reach the 8% growth target and lower the single-digit inflation rate in 2018 and 2025." Ahsan added that by -2025 the vision aims to increase exports from the current 25 billion euros to 150 billion dollars, the fiscal GDP ratio of 16-18%, the investment rate in the range of 22-25% of GDP through internal savings of 18-21% and external savings of 3-4% of GDP in the long term, said the main goal is peace and development of long-term sustainability in both countries. On another event, during the inaugural ceremony of the Pakistan Economic Corridor Council (CPECC) on 8 April 2015, Professor Ahsan Iqbal said that this multimillion-dollar project will solve many of the social and economic problems. Pakistan faces a slow pace of trade and unemployment. In another study, CPEC is expected to stumble on growth to add 2% of GDP and omit the economic barrier to investment of 7.6% of GDP or \$22 billion with a concession loan for the various projects.

He added that some of the investments of about \$18 billion represented a major investment in the port of Gawadar, railways and hydropower plants, which accounted for 20% and less for coal-fired power plants, which increased GDP growth by 2.1% annually in 2016-18 and GDP growth to 6% in fiscal year 2014. Add 15,000-plus MW national station grade and 74% of Pakistan's current electricity energy while the indirect effects are too much. This will have an impact on investment and private sector productivity.

Special Economic Zones (SECs):

Eight economic zones were planned in the CPEC from different parts of Pakistan. China's largest private bank, China's largest industrial and commercial bank (ICBC) and Habib Bank Limited are being to establish an economic zone in Punjab and Baluchistan, Pakistan. The Pakistani government has announced a special package for private economic zones, tax-free or duty-free import cars for a decade, the largest banks in both countries play a leading role in Pakistan's development, supporting credit and investor proposals. Pakistan has identified thirty economic zones for the investment government, twenty-nine industrial zones and twenty-two special economic zones in different parts of Pakistan. These special economic zones will stimulate the economy, create millions of jobs and business opportunities for the Pakistani people, eliminate poverty and unemployment in Pakistan and increase their living standards.

CPEC Effect on Trade:

Sustainable and high trade is one of the symptoms in developing countries, the economic and trade term correlated with commercial industry and the country's money. The CPEC will create trade opportunities and directly or indirectly improve current trade in Pakistan and neighboring countries, strengthening the economic situation of the Pakistani people. Planning, Development and Reform Minister Ahsan said at the third meeting of the Economic Corridor of China's Joint Consultative Committee in Beijing that by 2025 he plans to increase exports from the current \$25 billion to \$150 billion.

As mentioned above, economic and bilateral ties are strengthening in the early 2000s; the volume of economic trade between the two countries in 2003 is 4 billion, increasing with a steady relationship, but trade momentum after the 2006 free trade agreement in 2007. Chinese Ambassador Sun Wei Dong said in 2014 that the volume of trade between China and Pakistan was recorded at 12.8 billion in the last 10 months, showing an increase of 10% compared to the corresponding period of the previous year".

Increase in Revenue:

CPEC as a transportation project that the global export shipment of Gawadar imports to China and China to the world and the port of Gawadar will play a role as a center. Projected oil and gas revenues will be approximately \$1,000,000 (the economic importance of the port of Gawadar on November 10, 2009). According to the latest CPEC report, it will be operational in 2019, from \$1.5 billion to \$1.9 billion and reach \$5 billion by 2022. This amount will be financially strengthened in Pakistan.

SOCIAL IMPACT OF CHINA PAKISTAN ECONOMIC CORRIDOR:

Employment Opportunities:

CPEC is an infrastructure and transport development project that will create many economic zones and industries that will create millions of jobs in the region. Gawadar Port Authority (GPA) President Dost Muhammad Khan said only that the port of Gawadar has created 40 million jobs. In 2013, about 114 different Chinese companies are involved in various projects that provide jobs to the local population. CPEC is in its infancy and 38,000 jobs have been created this year alone, 75% of which are covered by the local population of Pakistan. CPEC is a multi-billion dollar project and The CPEC is expected to generate two million jobs not only in Pakistan but for the whole region, as it is also beneficial to the Central Asian countries and Afghanistan.

Living Standard of the People:

CPEC is an infrastructure and development project that will provide thousands of opportunities for local populations, such as employment and income-boosting business opportunities. In addition, this project will provide easy access to basic life services such as banks, the market, transport, education and health. In particular, it will provide access to education and health in various rural and remote areas, these factors contribute directly or indirectly to the improvement of the standard of living of the Pakistani people and will lead them towards development and prosperity.

People to People Contact:

CPEC gives people the opportunity to contact people. The CPEC will trade China's culture and Pakistan tradition especially between China and Pakistan throughout the region. CPEC will promote different traditions and cultures from Pakistan and China and Chinese culture to Pakistan. In addition, the CPEC will promote the country's regional cultures and heritage. The CPEC will promote and develop cultural heritage and give identity to different cultures in Pakistan.



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 wherever necessary.

ANS: Coronavirus disease 2019 (COVID-19):

Coronavirus disease 2019 (COVID-19) is defined as a disease caused by a new virus now called coronavirus with severe acute respiratory syndrome 2 (SARS-CoV-2; formerly known as 2019-nCoV), which was first detected amid an outbreak of cases of respiratory disease in Wuhan City, Hubei Province, China. [1] Originally reported to the WHO on December 31, 2019. On 30 January 2020, the WHO declared covid-19 to be in crisis for global health. On 11 March 2020, WHO declared COVID-19 a global pandemic.

COVID-19 can cause symptoms like “flu” fever and dry cough (the two most common symptoms), fatigue, pain, and nasal congestion. As the pandemic spreads around the world, other symptoms have seemed, such as loss of smell or taste – these are not yet convincing evidence of infection with the new coronavirus, and the World Health Organization is investigating this.

Causes:

The virus seems to spread easily among humans, and more people continue to be discovered over time about how it spreads. The virus is spread by respiratory droplets that are released when someone with the virus coughs, sneezes or speaks. These drops can be inhaled or landed in the mouth or nose of a person nearby.

Complications:

Although most people with COVID-19 have mild to moderate symptoms, the disease can cause serious medical complications and lead to death in certain people. Older adults or people with pre-existing chronic diseases have a higher risk of severe COVID-19 disease.

Complications can include:

- Pneumonia and trouble breathing
- Organ failure in several organs
- Heart problems
- A severe lung condition that causes a low amount of oxygen to go through your bloodstream to your organs (acute respiratory distress syndrome)
- Blood clots
- Acute kidney injury
- Additional viral and bacterial infections

Prevention:

Although there is no vaccine to prevent COVID-19, you can take steps to reduce the risk of infection. Who and the CDC recommend that you follow these precautions to avoid COVID-19:

- Avoid large events and mass gatherings.
- Avoid close contact (within about 6 feet, or 2 meters) with anyone who is sick or has symptoms.
- Stay home as much as possible and keep distance between yourself and others (within about 6 feet, or 2 meters)
- Wash your hands often with soap and water for at least 20 seconds
- Avoid touching your eyes, nose and mouth.
- Avoid sharing dishes, glasses, towels, bedding and other household items if you're sick.

Currently no drugs or vaccines available to treat novel coronavirus, Whole world is closed. Borders are closed even there is an alarming situation in the world.

There are many industries that spillover due to covid-19, some are given below

- **Spillover to the travel industry:**
- **Spillover to the hospitality industry:**
- **Spillover to the sports industry :**
- **Spillover to oil-dependent countries**
- **Spillover to import-dependent countries:**
- **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 :**

Really sorry for not explaining spillover to industries due to covid-19, I have a lot to say but time is short even now I am typing and 10 minutes left for 9 o'clock. And due to shortage of timing also bonus question left from me. #Regret

