

Three significant
shifts geography
global economic
activity economics
essay



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Every since the Second World War of 1939-1945, the world has undergone huge changes. At no other period in Earth's bright history has change been such a potent force. Technology has changed immensely from year-to-year, so too, it seems, has politics, culture and society. Another huge change has been in global economics and this is the post-1945 change that this essay will be focusing on. Global economics is the world-wide integration of markets for goods, services, labour and capital. Ever since World War Two the individual economies of countries all over the world have become increasingly linked together to form one unit and this essay aims to investigate three shifts that have caused that linkage.

Widely considered to be the biggest shift in global economic geography since World War 2 is the growth of Asia, particularly East Asia – Japan, the four tigers and, most recently, China (Dicken, 2007). This economic rise can be split into four major processes:

The rise of Japan after World War 2

The rapid growth of the 'four tigers' – Hong Kong, Korea, Singapore and Taiwan – followed by a 'second tier' (the tiger cubs) – Indonesia, Malaysia and Thailand.

The huge growth of China

The potential economic dynamism of India

Japan's post-war economic growth in terms of manufacturing was monumental. In the 1960's it was ranked fifth in the world economy but by 1980 it had risen to second behind USA. Its rate of manufacturing growth

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was 13.6% per year – two and a half times greater than USA and four times greater than UK. FDI grew from 1% in 1960 to almost 12% in 1990 unveiling Japan as the biggest threat to USA and Europe (Dicken, 2007).

This growth, albeit huge after 1945, was not the beginning of Japan's surge in the world economy. Japan's transformation began under the Meiji Revolution around 1885 in which it underwent a major constitutional change. This change included the revamping of the legal system, the educational system was expanded and a modern banking system evolved. The state also encouraged the creation of a railway network, telegraphs and shipping lines. It supported industries like iron and steel, ship building and textiles. However, there were some fundamental weaknesses in that the country was still heavily dependent on agriculture but because of small holdings, agricultural productivity was not very high (Kennedy, 1989). Therefore, it is evident that the change in Japan's economy after World War 2 was not the fact that it started to experience economic growth but rather it started to experience rapid growth as opposed to the slower growth prior to the war.

During the late 1980's, Japan's growth rate fell almost as dramatically as it rose in the 1960's due to a collapse. Between 1990 and 2003, Japan's GDP grew annually by only 1.2% and its manufacturing sector by 0.7%. USA's fear in Japan subsided somewhat although Japan remained the second largest economy globally. Recently there have also been signs of a recovery too, putting pressure back on USA (Dicken, 2007).

In the 1960's, around the same time as Japan's economy was surging, a small group of East Asian countries emerged with manufacturing growth,

especially in labour-intensive industries, that lead to their economic development. Hong Kong, Korea, Taiwan and Singapore were branded 'the four tigers'. For example, Korea's manufacturing sector grew yearly at an average rate of 18% during the 1960's, 16% in the 1970's, 13% in the 1980's and 7% from 1990 to 2003. During the same periods, Taiwan's manufacturing sector grew at rates of 16%, 14%, 8% and 6% respectively (Dicken 2007). In the late 1980's FDI for the four tigers grew to a level that overtook Japan. The 'tigers', although grouped together, all followed their own distinct path of development: Korea has been relatively closed to FDI and relied on a small number of large conglomerates for its industrialization, Singapore relied heavily on investment from large foreign transnational firms, Taiwan depended on locally-owned small and medium-sized firms and Hong Kong's growth is based on its laissez-faire free market approach (Hobday, 1995).

Similarly to the four 'tigers', Malaysia, Indonesia and Thailand all displayed high rates of manufacturing growth around the same time. These have become known as the 'tiger cubs'. Along with the 'tigers', the 'cubs' have increased their collective share of world manufactured exports from 1.5% in 1963 to almost 20% in 1999-despite the East Asian financial crisis of 1997-1998 (Dicken, 2007). A possible reason for the growth of these countries could be in the decolonisation prior to the 1960's and after World War 2. For example, Indonesia gained independence from the Netherlands in 1949 nominally and completely in 1954 (Klein, 2003).

The most recent and potentially biggest change in East Asian economy is the huge growth of China:
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“ Since shifting to a policy of reform and door opening in the late 1970’s, China has been undergoing a period of high economic growth while at the same time increasing its presence in the Asian economy. Riding the wave of the IT revolution in recent years, the country has been gaining international competitiveness not only in labour-intensive products but also in some IT products...” Chi Hung Kwan - 2002

Between 1980 and 2003, China’s GDP and manufacturing growth rates were the highest in the world - around 10% annually. It is now the world’s fourth largest manufacturing producer, the second largest agricultural, the fourth, soon to be third ahead of Japan, biggest exporter and the fourth biggest importer. China’s growth, along with the other countries (mentioned above), constitutes to making north-east Asia the most dynamic part of the world, causing problems for south-east Asia - Philippines, Malaysia and Thailand, Indonesia and Singapore - in terms of competition (Dicken, 2007).

The final process of change that has seen Asia become a huge force in the global economy is the recent, spectacular growth of India. This growth is in one specific activity: the outsourcing of IT services. With its huge population and other similar advantages, there has been much talk about how India could be the “ next China”. However, between 1980 and 1990 India’s GDP growth rate was only around 6% - above the global average but only half of China’s at the same time. India also does not sit with the elite in terms of manufacturing (13th in the world) and exports (outside of the top 15 globally). India’s strength lies in the service sector - 51% of its GDP is from service sector-based income, against China’s 33% - but still China generated nearly double the service exports of India. That is the difference to the other

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fast-growing Asian countries – India does not have strong exports. India does have the potential but currently it has some way to go before it can be placed amongst the elite (Dicken, 2007).

One of the earliest significant shifts in the geography of the global economy since 1945 was the integration of European countries. Before European integration came into place there were extreme forms of nationalism in the continent, especially during the war and economic activity between the European countries was limited due to tariffs, custom duties and trade barriers. Post war Europe saw many countries still at unease with one another so a form of peaceful integration was needed in order to reconstruct the economies.

This all started with the formation of the European coal and steel community (ECSC) which was first established in 1950. The aim of the ECSC was to bring together the French and German coal and steel production in a way that would banish the spectre of war and open the way to European integration (Europa 2005). The treaty of the ECSC was concluded in Paris whereby six nations signed up to it including; Belgium, France, West Germany, Luxembourg, and the Netherlands. This was now a form of production and distribution of coal and steel among the six countries and it was the beginning of a united Europe (Allen 2005).

The next part of this shift towards European integration was the treaty of Rome in 1957 which was signed by the same six countries and further enhanced the economic activity within Europe. This created two more communities, the European Economic community (EEC) and the European

Atomic Energy Community (EAEC). It also eliminated the customs duties between the countries and created a common external tariff (Dicken 2007) this external tariff removed tariffs on intra-EU trade and meant that it would cost more money for the areas outside of the treaty to import goods to these European countries, therefore it eliminated consumer choice and supported the industries based within the treaty and boosted the overall economy within these countries.

The community further enlarged between 1973-1986 with the introduction of Denmark, Ireland, United Kingdom, Greece, Spain and Portugal this helped changed the geography of the world economy as more countries were now involved within this community of economic integration and Europe as a whole was now becoming a dominant economic force in the face of the perceived soviet threat (Dicken 2007). This period also saw the establishment of trading agreements with former European colonies in Africa, The Caribbean and The pacific (ACP countries). This new establishment with the ACP nations was aimed to encourage there exports while stimulating growth and investment in an attempt to integrate these countries into the world economy. (Manchin 2006). This has effectively altered the geography of the world economy as without this link the ACP nations would find it hard to plug themselves into the global economy however the EC offer duty free access to the EC market for most products and offer them preferential access for agricultural products based on a quota system. This helps develop these nations in an attempt to boost there economies.

The main developments in economically integrating Europe has occurred in the past 20 years, this period has seen the signing of the Treaty of the European Union in 1991, the creation of a single European market and the introduction of a single European currency in 1999. The creation of a single European market in 1992 eliminated and reduced trade barriers within Europe and enhanced welfare and efficiency within the European community. These reduced trade barriers increased the intensity of competition and reduced prices. This meant that the EU was now more economically competitive within the world markets; therefore it effectively helped change the geography of the world economy. (Allen et al 2005). The formation of the European Union signed in Maastricht in 1991 created the pathway for further European economic integration and Monetary union. European monetary union was created in 1999 with the single European currency; the Euro is currently used by 16 countries in the EU which make up the Euro zone. This has had a massive effect on the economics of the countries involved in the Euro zone. De Grauwe states that:

‘ Eliminating national currencies and moving towards a common currency can lead to an increase in economic efficiency as it eliminates transaction costs in exchanging money’

This elimination of transaction costs means that capital now flows through the European Union a lot easier and it makes FDI investment into these European countries a lot more appealing. The single European currency along with the reduced trade barriers within Europe attracts a lot of TNCs who have chosen to regionalize there production networks within the European Union. It has especially attracted US and Japanese TNC’s.

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Therefore in changing the geography of the global economy, not only is it boosting the economy for the countries within the EU but it is boosting the countries outside of it that are using the EU as a way of setting up their production and manufacturing chains.

A final major shift in the geography of global economic activity after the Second World War has been the major role of transnational corporations (TNCs). According to the UN (1978), TNCs are “all enterprises which control assets – factories, mines, sales offices and the like – in two or more countries”.

In the last 50 years or so the role of TNCs in the global economy has become more and more significant creating a situation now where, without them, the world, in terms of development, would most likely regress. However, Jenkins (1987) said that TNCs have been portrayed as an engine of growth capable of eliminating international economic inequality as well as a major obstacle to development. They are seen as a force capable of revolutionising the productive forces in economically backwards areas of the world but also as a major cause for underdevelopment through a massive drain of surplus to the advanced capitalist countries – i. e. they take a lot of money and resources from LEDCs and give it to MEDCs, widening the development gap.

Either way you look at it, TNCs have made the world economy much more of the unit that was mentioned in the introduction. Chang (2003) wrote that since 1982, FDI from TNCs has been growing four times faster than international trade and, since the 1970's; the combined output from TNCs has exceeded the volume of international trade. International trade had been

going on for centuries prior to World War Two and continues to this day but its significance has been shown to be dwindling with the new impact of TNCs. This therefore shows how, through the introduction of TNCs, the geography of global economic activity has changed in its orientation and that it does seem to be moving towards one, global economy with countries holding assets in almost every other country not being a reality too far away.

According to Chang (2003), TNCs are becoming more and more transnational and therefore 'stateless'. There is proof in the successfulness of TNCs in that countries which have had liberal policies towards FDI - like most of the Asian 'tigers' - have performed well and become successful developed countries, with stable economies. This shows that it is likely that more and more countries, including African ones where TNCs are still rare, will start accommodating for TNCs and so take the world towards being one, unified economy. The increase in the activities of TNCs since 1945 can therefore be said to have had a major impact in the shift of global economic activity that has occurred since World War Two and will continue to do so.

There have been numerous economic shifts that have helped shape the current global economy. However in this essay we have only focused on three. First we focused on the economic expansion of the East-Asian countries over the past 65 years, which most recently involved India and China who could pave the way for future global economic expansion. The explanation for the growth of these countries could be due to the fact that the demographic transition from high rates of mortality to low rates of mortality has been more drastic in the East-Asian region over the past century than any other region in the world. This constituted to the economic

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growth as between 1965-1990 the working population grew at a much faster rate than its dependent population which expanded the per-capita productive capacity of East Asian countries.(Bloom 1998). The second shift we focused on was the Increase in European integration, this has effectively shifted the global economy as it has integrated a whole range of countries and allowed capital and labour to flow more freely between them, effectively making the EU one of the strongest regions in the present day world economy. Finally we showed how an increase in TNC activity over the post war period has helped shape the global economy and bring about a more unified economy. Many Hyper-Globalists would argue that TNC'S help constitute to a borderless world whereby global is the natural scale of economic integration.

To conclude this essay these three shifts have effectively changed the global economy over history and there impacts are still present and will continue to be so for a very long time as they have set in motion economic integration on a global level.

Considering the economic Hiatus that occurred during the war when many international links were broken and there was a world wide recession, this recovery over a 65 year period where we now live in a world with an increasingly unifying economy has been truly astonishing.