

# [Effect of alliances and rivalries on the economy](https://assignbuster.com/effect-of-alliances-and-rivalries-on-the-economy/)

Modern World Economy

Alliances and rivalries

Introduction

Historically, we dwelt in a structured “…competitive world of rivalry between states, [where] each has had to look to its own ends and use any means available to satisfy them .” (P. J. Taylor, 2002) (Bracket’s added). However, since the end of the Cold War, this position changed significantly. In his third foreign policy speech, delivered in Georgetown, USA, Tony Blair identified that in the modern economic world, “ you can’t have a coherent view of national interest today without a coherent view of the international community.” However, is such a position attainable when one considers the alliances and rivalries that exist with world economies? The purpose of this paper is to study the global phenomenon of alliances and rivalries and the effect they have upon four key structures of the world’s economy.

Production

Since the birth of the Information and digital technology era in the 1970’s, the world has witnessed a steadily increasing movement towards commercial globalisation, a term referring to the international spread of production and technology (Castells, 2001). The first to recognise the value of globalisation were developed countries such as the US and UK. This move was driven by a desire for reduction in labour and production costs. Developed countries took advantage of these reduced costs to set up global production structures through alliances with emerging nations.

International alliances, creating global productions structures for business, have become commonplace. For example, in the automobile industry, corporations such as DaimlerChrysler have invested heavily in production plants in the Far East, for instance India where it has an 86% stake in a production business (Editorial, 1999). Many other industries are operating in the same way, with either full, or component production outside of their native location. Internationally, the development of free trade of this nature is encouraged. The WTO [1] briefing (2006, p. 11) states, “ it allows resources to be used more appropriately and effectively for production.”

However, politically international production structures have also become a problem. Lower production costs in the Far East and emerging countries, and the potential damage they are doing to the economies of developed countries, has led to the setting up of limited nations rival trade agreements, such as NAFTA [2] (Atkinson, 2003), which helps to protect the economies of the member countries from production areas such as the Far East and Europe. Such rivalry even exists between the emerging nations themselves (Borrus, M, Ernst, D. and Haggard, S. 2000).

Knowledge

As global production structures have changed, the structure of technological and scientific knowledge has begun to impact upon it. In fact, as Martin Shaw (1999) suggests “ The rise of the so-called ‘ knowledge economy’ has meant that economists have been challenged to look beyond labour and capital as the central factors of production. ”

In the initial stages of the globalisation, the sharing of technological and scientific knowledge of the developed countries was promoted in the interest of improvement of quality and production systems. West cooperated in knowledge alliances with East to satisfy commercial aims.

However, as the knowledge structure countries such as Japan, India, Taiwan and China, began to rapidly improve, the structure of these alliances has changed. At the business level, and in an attempt to both protect and increase their profit agenda, corporations increasingly claimed “ intellectual rights over new discoveries [and] [3] licensing use of this ‘ knowledge’ to others.” Martin Shaw (1999). Such rivalry is continuing despite the fact that it appears to be widening the “ knowledge” gap between the richest and poorest nations.

Finance

Perhaps the most complex structures within world economies are those that relate to finances. Instability within this area of an economy can have a dramatic effect upon a nation’s economic position, as was witnessed in Mexico in 1994 (Michael Pettis 2001) when it was forced to devalue its currency. As Pettis identifies, much of this stability is reliant upon investor confidence and belief. Once this has been damaged or exhausted, economic crisis can result.

To combat this, nations have sought financial alliances. The most well known of these occurred in Europe where they introduced the Euro. In other areas, such as Mexico, nations have sought to link their economies financial structure with larger countries such as the US.

However, even in the financial arena, rivalries have developed. For example, the UK steadfastly refused to become part of the single EU currency, preferring instead to stand in rivalry. The Euro itself was partially designed to act as a rival currency to the dollar, partially in an attempt to curtail the dominance of the dollar as a global currency.

Security

If the pace of economic globalisation and internationalisation is to continue unhindered, a cornerstones upon which it will rely for growth, stability and sustainability, is the global security environment. Prior to the end of the cold war, as Buzan and Waever’s (2003. p. 3) study shows, security operated within a simple “ bipolarity” system between the two superpowers, the U. S. A. and Russia. At that time global security alliances and rivalries were clearly defined. The Western world generally was protected and allied under the American umbrella, whilst Eastern and communist countries gathered within a Russian alliance.

One might have expected that the end of the cold war to have seen a movement to a more globally acceptable security structure, possibly acquiescing to the US stance that it would don the mantel of sole provider for world’s security. Alternatively, with the emergence of the United Nation, a single multinational structure might have emerged. However, neither of these options developed, although the UN has had some limited success. Instead, post cold war security has developed into a more regionalist situation (Buzan and Waever, 2003, p. 40-43). Areas of the world have formed more localised alliances. For example, with the fall of communism and the expansion of the EEC [4] , former Eastern Bloc states are moving towards a regional security structure that will be able to operate at the same level as the US. Similarly situations are developing in other areas of the world, such as South East Asia, China and Russia. This has led to an increase in rivalries. For example, an element of rivalry has developed between the EU and US that did not previously exist.

The development of these new regional alliances have, in some cases, successfully challenged the superpower dominance in issues of international concern, leading to more balanced resolutions of international disputes, examples of which can be seen in less US policy dominated decisions being made by the UN Security Council. The theory is that RSC’s [5] are seen to be the foundation for a more successful future approach. The key to this, as the Buzan and Weaver (2003. p. 52) study outlines, is their ability to address and involve themselves in security issues within the domestic, regional and global arena.

#### Conclusion

The impact of the present mix of alliances and rivalries with the modern world’s economy will have a significant impact upon the drive for harmonisation. The inherent fear of the west in respect of the depreciation of their economy as a result of the strengthening of emerging nations economies is hindering this process. As the Economist (2005) put it, “ News that the peril to the east is growing even faster than expected is the last thing politicians in the developed world wanted to hear”

The WTO (briefing 2006) suggests that a continued move towards free trade would address many of the problems that have been discussed in terms of the perfect global structure for production, knowledge, finance and security. However, achieving unanimity of international agreement in a world where individual nations demands are have significant importance is not going to be easy.

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### Footnotes

[1] World Trade Organisation

[2] North American Free Trade Agreement

[3] Brackets added

[4] European Economic Community

[5] Regional Security Complexes, Buzan and Waever (2003, p. 3)