

Evaluate the major geographical shifts that have occurred in the global economy d...



Since the 1970's there has been a great change in the geography of different aspects of the global economy. The emergence of the tiger economies in South East Asia and Latin America has seen a global change in the geography of manufacturing from industrialised Western countries such as North America, the UK and West Germany. Using the measure of foreign direct investment (FDI) as an indicator, there has also been a change in the location of transnational companies (TNC).

In 1960, U. S TNC's accounted for nearly half the world total of FDI, with British, Dutch and Swiss companies making up the remainder (in rank order). Due to the expansion of the global economy over the past thirty years, the U. S now only provides a third of the world total, Britain just under fifteen percent in second and Japan and German TNC's close behind (Berry, 1997) (fig. 1). How important have these geographical changes been to the global economy?

Figure 1 - Berry, B. 1997 Global Economy in Transition

The significant shift in the geography of the manufacturing industry within the global economy is due primarily to the rapid growth of the Newly Industrialising Countries in the sector and the deindustrialisation of Western countries. Asian NIC's emerged in the 1960's, and began to grow rapidly; this success is due to a huge increase in FDI from Japan, USA and Britain. The TNC's from these countries wanted to take advantage of the number of opportunities in the Asian market.

One of the main attractions was that the price of labour in these countries was the fraction of the cost in their home country, therefore this would slash

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the cost of their products. The reason that labour was so cheap was the fact that many of the people who lived in South Korea and Singapore worked in the countryside prior to 1967. It was the government intervention of these countries that moved rural workers into the factories. In South Korea grain prices were held down in cities to help keep wages down. This also meant rural incomes were depressed between 1967 and 1976, leading to 7 million people leaving agriculture to become industrial labourers (Barnes, 1991). Foreign TNC's not only took advantage of cheap labour but other incentives as well.

Inducements from the governments of the Asian NIC's helped attract TNC's, because they would be able to cut product cost further. Export Production Zones (EPZ's) were established in which TNC's were given reliable and cheap access to electricity and an efficient infrastructure (Smith, 1995). In addition laws on pollution control and safety were relaxed, to cut costs for TNC's further, and at the time there was a lack of organised trade union activity. The majority of FDI from TNC's in South East Asia has been Japan, Sony developed television plants in Singapore, Taiwan, Malaysia and South Korea.

In fact by 1993 over 75% of Japan's overseas production of electrical components was located in South East Asia (Smith, 1995). Technological advances also allowed TNC's to locate on the Pacific rim. Advances in air freight and containerisation mean components could be shifted from country to country far more easily than before. FDI from other countries aided the tiger economies to take off and over the period 1965- 80 had a growth rate in GDP of over 8% (Smith 1995). This growth triggered a shift of manufacturing

from the Western world towards the developing world, causing developed countries to deindustrialise.

The main reason for deindustrialisation in the UK, West Germany and the USA was because of the comparative advantage that the Asian Economies have - a cheap, efficient manufacturing industry. Developed countries have to pay far more expensive labour costs and have far stricter safety and pollution measures, meaning costs rise, meaning both domestic and foreign investment in manufacturing reduced.

A change in focus of Western economy was to follow, with more emphasis on the service and TNC's. In the 1970's industrialised countries concentrated on the service sector, initially in the fields of health care, education and public administration, however they ceased to grow in the 1980's (Wallace, 1990). In terms of the global economy, emphasis was based on their knowledge and capital resources.

Half of the world's 50 largest manufacturing are based in the USA, followed by Japan, Germany and Britain (Berry, 1997). The headquarters of major corporations are all based in developed countries but the majority of their sales and assets are outside their home countries (see fig. 2). This would suggest that the control

Figure 2- Source: Based on data from Business Week, May 14, 1990

of these corporations are in the hands of developed countries with the knowledge and capital resource but the low- skilled labour is based in developing countries. There has been a shift of the manufacturing sector but

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has there been a change in location of TNC headquarters? In the developed world there has been a growth in the number of headquarters, but now the NIC's now also have their own TNC's, therefore there has been a shift in their distribution.

In the period 1965- 80 Asian NIC's grew rapidly due to a large amount of foreign investment. This allowed the tiger economies to amass huge amounts of capital, allowing them to invest in their own region (fig. 3). In this period South Korean companies Samsung, Daewoo, Goldstar and Hyundai had only just started

Figure 3- Geopress 1998

their first production of semi-conductors (1976) (Geopress, 1998). However in the period 1980- 90 these companies had developed more sophisticated products of their own, which closed the technological gap between their Japanese and US competitors. These companies which were once small have now grown in to huge conglomerates, with their operations spanning over the globe. The tiger economies rather than just accept FDI from other countries, now they also invest on foreign soil. South Korea is prime example, where Lucky Goldstar located in 1997, when they accepted a £180 million grant from the government (BBC website, 1997). TNC's have been major in the world's industrial transformation, especially in NIC's.

The TNC has been the most important single factor in changing the geography of economic activities in the past thirty years. They have changed areas of the world from completely agrarian cultures into industrialised

countries, namely South Korea, Hong Kong, Singapore and Taiwan, the ' four
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tigers'. In the thirty year period between 1970- 2000 the world has seen a shift of the manufacturing sector from the developed world to South East Asia. This has been because of large amounts of FDI and government intervention in the region.

Although there is still some manufacturing in Western countries, policies have shifted more towards finance and knowledge-based sectors. Currently another global shift is occurring. The NIC's have now got economies that are now more advanced than before. Labour costs have now gone up due to this advancement and are now higher than in new, second tier NIC's, such as Thailand and China. This means TNC's from both the Western world and first tier NIC's are now more likely to locate their manufacturing there. It is likely in the next thirty years that NIC's will deindustrialise in favour of a more advanced knowledge based economy.