

World Economy

in

A Globalising World

Globalisation?

- Shrinking World
- Interconnected World
- Interconnectedness
refers to:

“ . . . worldwide processes that make the world, its economic systems and its societies more uniform, more integrated, more interlinked.”

Globalisation?

Companies, societies, and individuals that were little affected by events and economic activity elsewhere now share a singular economic world with other companies, societies, and workers.

Globalisation of Finance

- **Internet**

Companies can organise economic activity around the world from a single point, and can outsource(subcontract) banking and credit services

- **Telecommunications Revolution**

Pension and superannuation benefits in Australia can be affected by financial transactions in New York, Brazil, Argentina, or India

Transnational Corporations (TNCs)

- 500 TNCs are headquartered in only 19 cities (in US, Europe & Japan)
- 15 rich countries were headquarters to:

1970:	7,500	TNCs
1994:	25,000	TNCs
1999:	50,000+	TNCs
- TNCs (not countries) = primary agents of international trade
- TNCs control technology diffusion to LDEs

Transnational Corporations

TNCs evolve in 4 stages:

- Demand abroad satisfied by export from TNC's home country
- Establish production facilities abroad – exports from home country decline
- Overseas production facilities supply foreign markets
- Overseas production exports to home country

Why & How Firms Go Abroad?

- In search of maximum profits, by taking advantage of:
 - **superior technical knowledge**
 - **large size and scope of operation**
- **Highly interdependent decision making**
- **Carefully choose countries to enter**
 - **familiar culture**
 - **political stability**
 - **weak regulatory environment**

Historical Roots of Globalisation

- **Agricultural / Industrial Revolutions**
- **Growth of empires / Colonialism**
- **After WW II, US companies took the lead in spreading to all corners of the globe**
 - **Taking advantage of transportation & communications revolution, industrial technology, and tariff reductions**
 - **1970s: US corporations began to feel the heat of competition**
 - **1975: total value of foreign investment by US corporations = 8 times as large as that of Japanese companies**
By 1990 = only 3 times as large as Japanese foreign investment

Flows & Linkages

- From Primary to Secondary
- From Secondary to Primary
- From Secondary to Tertiary
- From Tertiary to Primary and Secondary
- Network – linkages in a region, for one or more related or interdependent production activities

Blocs / Divisions

- Four Worlds: First / Second / Third / Fourth
- North / South (Brandt line)
- Within South: commercial / subsistence agriculture
- Advanced Industrial Economies (AIEs) / Less Developed Economies (LDEs)
- Newly Industrialised Economies (NIEs)
- Oil Exporting Economies

Advanced Industrial Economies

- High per capita incomes, literacy rate, life expectancy
- **High number of doctors, low infant mortality rates**
- Labour specialisation, heavy reliance on mechanisation / automation
- **High degree of interconnection**
- Large and sophisticated service industries
- **Highly urbanised**
- Heavy reliance on resource / energy imports
- **Nuclear families**
- Problems related to industrialisation (environmental, social, psychological)

Less Developed Economies

- High birth, death, and illiteracy rates, low life expectancy
- Large rural, agricultural populations
- Subsistence agriculture side by side with cash crops
- Lack of industrial infrastructure and transportation facilities
- Low level of interconnection
- Rapidly expanding urban centres (shanti towns)
- Intensive poverty, high unemployment

Hurdles to Economic Development

- Industries in LDEs unable to compete with industries in the AIEs
- Lack of capital, technology, and infrastructure
- Poor resource base, cultural and/or political constraints
- Demographic factors; high natural growth, poor educational skills, and poor health standards
- **INTERNATIONAL FINANCIAL & TRADE REGIMES**

Oil Exporting Countries

- Subsidised basic necessities (i.e. medical care, education)
- A wealthy elite control most of the wealth, and engage in conspicuous consumption
- Prosperity has not filtered down to the bottom 30% to 40% of population
- Increasing interconnection
- Vulnerable to external pressures
- Often large arms expenditures

Newly Industrialised Economies

- LDEs (e.g. Asian tigers - Taiwan, Singapore, Hong Kong, South Korea, Malaysia) that have undergone recent, rapid industrialisation and experience:
 - rising incomes
 - high growth rates
 - internationalisation of their economies
- Typically NIE's have made progress because of government intervention to make markets work better through:
 - import substitution in early stages of industrialisation
 - investment in human capital
 - development of an export orientation