

What are the causes of globalisation?

- Globalisation is driven by economic globalisation.
- It is a relevantly recent phenomenon and has developed out of **internationalisation**. Internationalisation is the extension of economic activities across national boundaries. Key period of internationalisation occurred between 1870 and 1914 (international trade tripled) when:
 - transport and communications networks expanded rapidly.
 - world trade grew significantly with a considerable increase in the level of interdependence between rich and poor nations.
 - there were very large flows of capital from European companies to other parts of the world.

What are the causes of economic globalisation?

- Liberalisation of trade and finance
- Improvements in transport and telecommunications
- Increasing global prosperity and new markets (emergence of NICs and integration of ex-communist countries into the capitalist system)
- Growth of TNCs
- Avoiding tariffs and other barriers to trade
- Out-sourcing of production and other services to exploit skills and lower wages
- Liberalisation of trade and finance
- World Trade Organisation (WTO) aims to reduce international trade barriers. It promotes free trade between member countries. Tariffs, quotas and regulations are much lower today than they were in the past.
- Similar liberalisation of finance and other services by removing controls on international capital (money) movement and discrimination in favour of domestic service providers (i.e. home nation companies) has increased economic globalisation even more.

Improvements in transport

- Significant reductions in the costs of transporting new materials and manufactured goods
- Huge advances in the use of IT and telecommunications
- Fall in shipping costs as larger vessels achieve economies of scale.
- Containerisation has also helped to reduce the cost of transporting manufactured goods *e.g. it costs just US\$10 to transport a TV from China to the UK and US\$0.10 to ship a bottle of wine from Australia to the USA.*

Improvements in communications

- In the past it was thought only goods could be traded internationally.
- Internet now means that services can also be traded internationally (fastest growing sector of international trade)
- Increasing numbers of large companies in MEDCs are transferring services (e.g. accounting, customer care, billing) to firms overseas – international **outsourcing**

Labour costs and skills

- Growth of emerging economies such as India and China on the world stage has attracted major investment from TNCs based in North America, Europe and Japan because of lower labour costs and, in some sectors, highly skilled workforces.
- In the past 10 years India has become the centre of the global IT industry as it has a highly educated workforce (with 2 million English-speaking graduates entering the workforce each year) and low wages.
- Textiles is another industry which is highly influenced by labour costs
- In addition to wages, labour costs in MEDCs are inflated by employers' social contributions to pensions, sick pay etc

Proximity to markets

- Many large TNCs have globalised production by locating factories overseas.
- Since the 1980s, Japanese and South Korean TNCs (e.g. Toyota, Sony), especially in the car and electronics sectors, have invested heavily in production facilities in North America and Europe.
- Foreign direct investment (FDI) of this type has two major advantages.
 - By locating close to the market companies avoid trade barriers such as import tariffs and reduces transport costs
 - Can also respond better to local market preferences and tastes in design
 - Car industry: factories have also attracted clusters of foreign parts manufacturers to supply parts 'just-in-time' for car production

Growth of TNCs

- TNCs and nation states (i.e. countries) are the two major decision makers. Nation states individually and collectively set the rules for the global economy but the bulk of investment is made by the TNCs, who are the main drivers of **global shift**. This has resulted in the emergence of an increasing number of **Newly Industrialised Countries (NICs)**.
- In Asia, four generations of NICs can be identified in terms of the timing of industrial development and their current economic characteristics. Japan is the only MEDC in the region.

Growth of TNCs

- Filter-down concept.
 - Japanese companies looked abroad for cheaper labour
 - looked to the most developed of their neighbouring countries (South Korea and Taiwan). Most other countries in the area lacked the physical infrastructure and the skills required by the Japanese companies
 - Companies from elsewhere in the world including the USA recognised the advantages of locating branch plants in such countries as well.
 - As the economies of the 1st generation NICs developed, the level of wages increased resulting in:
 - Japanese and Western TNCs seeking other locations where improvements in physical and human infrastructures now met their demand but wages remained low
 - Indigenous companies from the 1st generation NICs also moved routine tasks to their neighbours such as Malaysia and Thailand.