

RGS-IBG Globalisation downloadable booklet for students

Introduction: Globalisation is the process of heightened communication, commerce and flows of information around the world. Whilst this process has been going on since earliest trading, modern globalisation is different. Modern globalisation involves **fast** communication, the **flexibility** flows of goods and information, and **efficacy**, the economic reasoning for conducting business internationally.

Whilst globalisation affects everyone differently and to different extents, the main motivation for globalisation is a commercial one. Of course in the time of empire, British communication with other parts of the world was also driven by trade and dominion.

Globalisation is an essential part of modern geography because it involves the way our world is shaped and the way that things operate within it. In order to understand the modern world, it is essential to understand the kinds of flows of information that now exist on the planet, and to have some understanding about what impact this information is having on the way we live.

What does globalisation do?

- it improves the level of wealth in countries
- it promotes a flow of ideas from country to country
- it improves international standards for things such as education and health
- it can provide a greater range of goods as well as a greater number of markets for internationally sourced produce/products
- it can shut down factories and increase unemployment in some sectors in MEDCs
- it can lead towards a kind of international culture
- it can make LEDCs susceptible to the head offices of transnational corporations TNCs.
- it can lead to higher carbon emissions and both local and global environmental issues

As transport technology has improved, as with the use of shipping containers, it has become easier for companies to operate globally. In some cases entire products are made abroad and shipped and in other instances components

are made in small factories around the world, brought to one, or a number of places and assembled.

The world car was perhaps the first example of a good that had components that were built all over the world and centrally assembled. The high value of cars and the range of their components made this a very good option. Other industries have globalised for other reasons. The fashion industry for example has made use of the expertise in clothes-making that has existed internationally and has also made use of the fact that garments can often be low in volume (to transport), and high in value. These factors helped many firms to decide to move their operations abroad.

But making goods abroad because they are cheaper has not been the only reason that TNCs have preferred the option to manufacture elsewhere. Choosing to manufacture abroad normally means that labour costs will be much lower in the country of new industry compared with the UK for example. In China, it is common, for example for those working in the fashion industry to be working long hours and long weeks in return for around US\$60 per month. In some instances too, factories can be dangerous with employees working with hazardous machinery and in the context of dangerous fumes etc. In some parts of the world children have also been employed in such conditions. In such instances, TNCs may not employ the same level of safety and worker protection that employees may be required by law to have in Europe or the USA.

The size and power of TNCs is also a matter of some concern. Whilst many people in the world are earning more money, the wealth of the wealthiest companies has been increasing greatly.

- Of the 100 largest economies in the world, 51 are corporations and 49 are countries.
- The combined sales of the world's top 200 corporations are greater than a quarter of the world's economic activity
- The top 200 economies have almost twice the economic power of the poorest four-fifths of the world's population

(Essential information/Ralph Nader: <http://www.essential.org/>)

Globalisation Case Studies

Transnational corporations are very large commercial entities which have a significant impact on the global economy. In the following table that shows a subset of the largest TNCs in comparison with various world zones shows just

how large some of these companies are in relation to the size of even very large and populous countries.

Table showing a range of TNCs by annual revenue and various areas by GDP for comparison.

TNC	Revenue 2006 \$m CNN/Fortune 500	GDP for 2006 \$m (From IMF)	Area
Wal-Mart	351 139	61 258 714	World
Exxon Mobil	347 254	13 111 389	EU
BP	274 316	12 229 276	USA
General Motors	207 349	8 817 394	China
Ford Motor	160 307	2 006 978	UK
AXA	139 738	1 835 696	France
Carrefour	99 014	640 914	Australia
Tesco	79 978	386 973	Pakistan
Nestlé	79 872	271 310	Greece
Sony	70 924	171 393	Ireland

1. Corporate retail TNCs. Wal-Mart is the world company which in 2006 earned the greatest revenue. In 2006 Wal-Mart earned a staggering \$351 139 million dollars. This revenue of Wal-Mart almost gives it a commercial size of Pakistan. In Europe Carrefour, a French company although being less than a third the size of Wal-Mart, still scores highly as a large TNC.

Wal-Mart operates around the globe under using different names. In the UK Wal-Mart trades as ASDA. ASDA began as a store called Associated Dairies and Farm Stores in 1949. In 1999 it was wholly acquired by Wal-Mart (USA).

Walmart employs 1.6 million salespersons world wide with the majority of these being in the USA. The scale of operations of Wal-Mart is so large that it is able to dictate conditions to suppliers and if suppliers are unable to meet the terms of what is offered to them then Wal-Mart will not take the product. As Wal-Mart is so large a company can typically not afford to not be sold by Wal-Mart. If a company is not able to provide the goods at the price point that is offered to them, then they must restructure or find a way to provide the goods using other means. In many instances this has meant that companies have had to move operations off shore in order to compete. Most frequently, this means shutting down operations in the US and establishing factories in China. In this way the factory workers in the USA have to compete directly with those in China for work, and as the cost of living is so much greater in the USA, it is not possible for them to compete. With employees earning in a month less than what an employee would earn in a day in the US it is easy to see how relocation is unavoidable.

In July 2002, Wal-Mart began to sell Levi jeans. Levi Strauss had always been a premium brand, but it had been suffering from poor management. Between 1981 and 1990 Levi had closed almost 60 of its manufacturing plants and had relocated 25% of its sewing abroad. In the meantime Wal-Mart was selling more clothing than any other retailer in the USA. Levi at the time was still failing to deliver their goods on time, because they had an out of date management system, and it was not looking like they would be able to sell to Wal-Mart because the company demanded delivery absolutely exactly on time otherwise it would terminate the contract.

Yet there was another problem. Levi jeans were too expensive for Wal-Mart. Wal-Mart sold jeans at less than \$20 and all Levi jeans were more than \$30, so Levi had to undertake to have their jeans made abroad. From 2004 Levi no longer manufactured jeans in the USA, all garments were imported.

In this instance the power of the retailer and the need to price goods competitively drove one company to foreign manufacture. Although it is uncertain whether Levi would have survived the growth and popularity of Wal-Mart jeans, in this instance the relocation of industry can be seen as having been necessary for a product to remain competitive and a going concern. This is just the experience of one firm being pushed in this direction and there are many more.

Clearly with the growth of Wal-Mart this kind of strategy has been highly effective from a business point of view. What is perhaps most important here is that given the scale of Wal-Mart and the number of industries that have had to relocate operations, Wal-Mart has in itself, had a very significant impact on the nature and pattern of work and commerce in the USA and abroad.

Wal-Mart, however is a very big employer in the USA, and also has many employees in the UK. In the US there have been some problems with employment as staff are paid low wages and are not provided with health care as a matter of course, which is normally the case in the USA. On the other hand in the UK, although there have been some issues with ASDA management discouraging workers from being part of the union, the company has regularly won awards for good work practices.

Whilst ASDA is a big employer, broader issues are often at stake where the building of a low-price ASDA can also have the effect of putting other smaller, local retailers out of business.

Andy Rowell writing on an alternative news website called *Project Censored* writes (excerpt):

In the U.K, Wal-Mart's takeover of Asda has had a devastating effect. Award-winning food journalist Joanna Blythman's new book called "Shopped: The Shocking Power of British Supermarkets" published May

2004 outlines how: "I learned that UK supermarkets now jump to the tune of our second largest chain, Asda. Since 1999 when it was taken over by the biggest retailer in the world, the U.S. chain Wal-Mart, Asda's strategy of 'Every Day Low Pricing', has triggered a supermarket price war in which chains without buying muscle are disadvantaged. In order to keep up with Asda, our leading chains in the UK must be ever more ruthless in the way they operate or else risk losing their place at the supermarket superpowers, top table".

This means that suppliers are squeezed, farmers are squeezed and supermarkets source from the cheapest overseas suppliers where labor, human rights and environmental standards are the lowest. Every week in the UK, 50 specialist shops like butchers and bakers are closing and one farmer or farm worker commits suicide. We enter a race to the bottom where everyone loses, especially the consumer.

See: <http://www.projectcensored.org/publications/2005/25.html>

Carrefour

Carrefour is a French international hypermarket chain, which is second to Walmart in terms of retail sales. Carrefour operates in Europe, Africa, South America and Asia. In France Carrefour has around four thousand stores and in China, Carrefour has more than 700 stores. Carrefour did have several hypermarkets in the UK until the 1980s, at this point stores became Gateway stores and most have subsequently become ASDA (Walmart) stores.

Selected sources of information:

There are many short documentaries about globalisation that are available on YouTube. You might want to look at some of them. Be mindful about who made these images and why they were made.

- There is a short overview of globalisation at the tutor2u website here:
http://www.tutor2u.net/economics/content/topics/trade/globalisation_ukeconomy.htm
- The BBC World Service has a fact page on globalisation, and this may be found here:
<http://www.bbc.co.uk/worldservice/programmes/globalisation/>
- Worldmapper has a range of cleverly constructed maps that help to understand the process of globalisation.
<http://www.worldmapper.org>
- There are some examples of anti-corporate activity in India on the India Resource website:
<http://www.indiaresource.org/>
- To track corporate ownership the following website may be helpful although it is no longer being updated.
<http://www.whoownswho.org/>