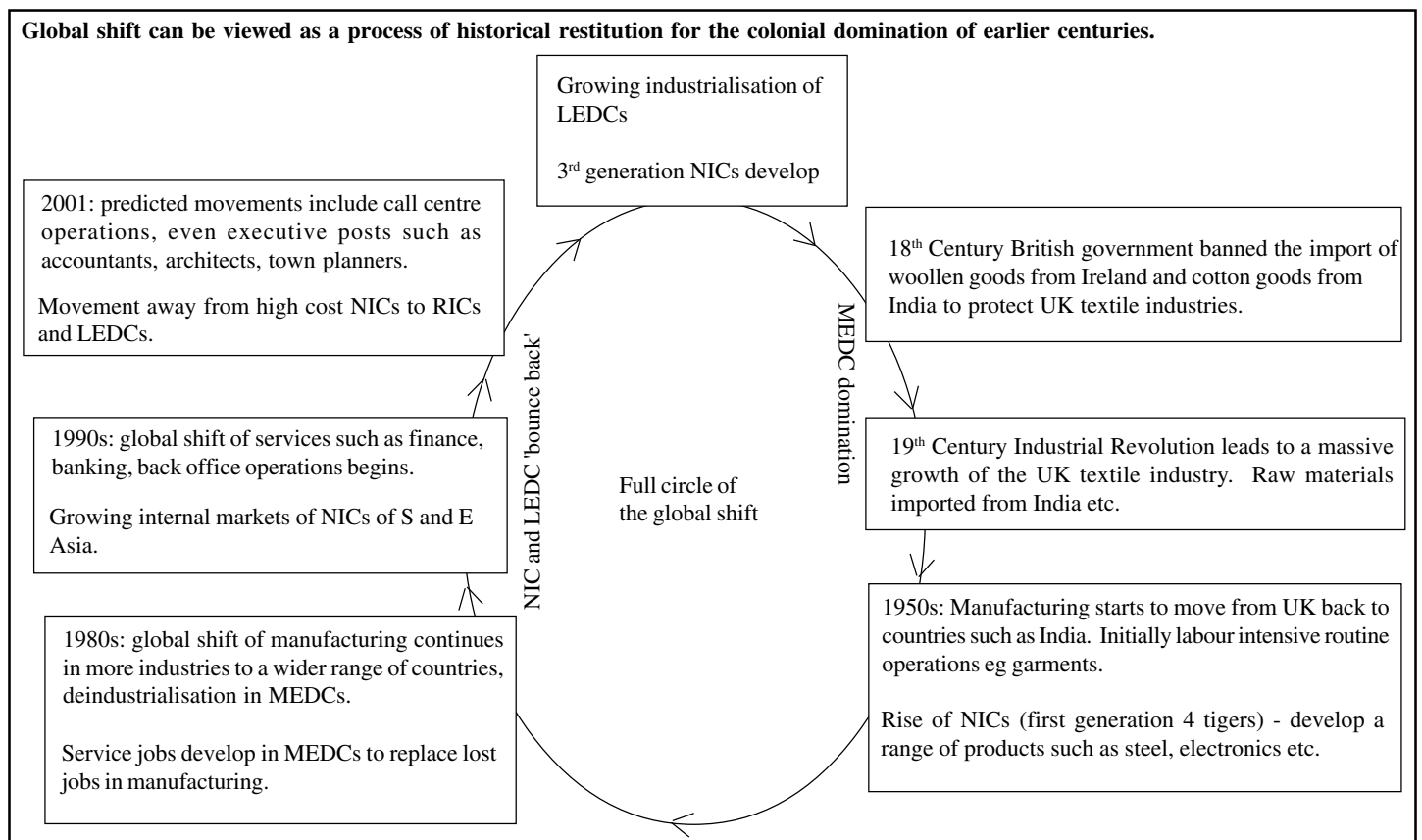




The Global Shift

The global shift is the movement of economic activity from MEDCs initially to NICs and more recently to LEDCs (especially in Asia and Latin America). Initially in the 1960s this was a movement of manufacturing activity, but since the 1990s, service activity has been involved. In most cases it is a relative shift, as economic activity expands overall, but in some cases economic activity in MEDCs is in absolute decline.

Fig 1. The complexity of the global shift

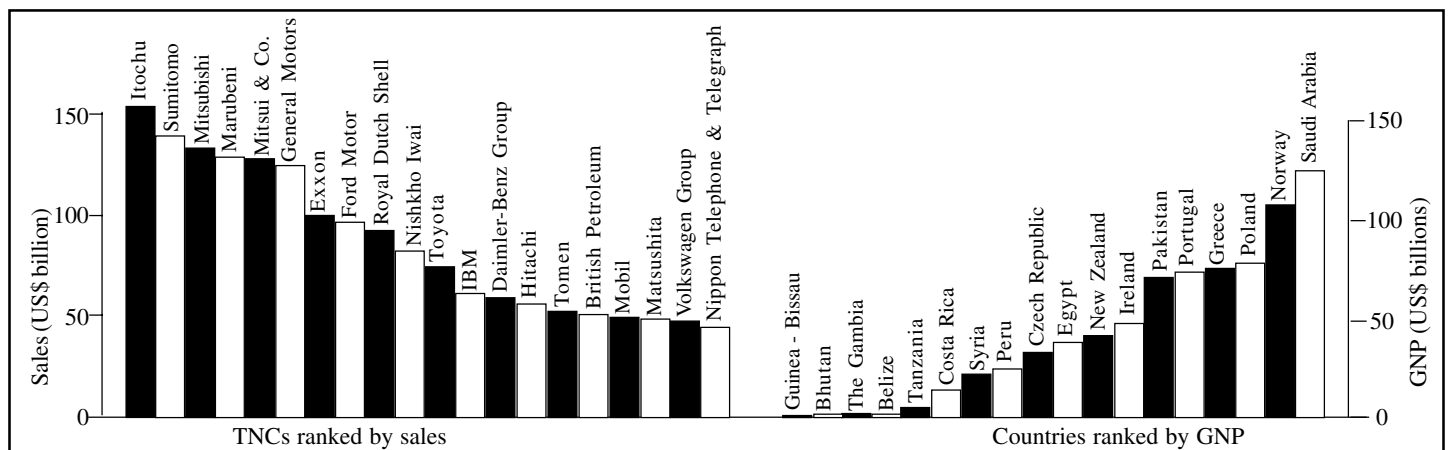


Reasons for the Global Shift

The global shift is powered by a number of processes.

- The key players in the global shift are multi-national and trans-national corporations (MNCs/TNCs). These large companies wield enormous economic power, far greater than most LEDCs (see Fig 2). They source materials, make products and supply markets worldwide in integrated globalised operations.

Fig 2. TNC sales and GNP of selected countries



It is suggested that over 30% of all international trade is **within** TNCs, and yet another 30% of international trade is **between** TNCs.

Most MNCs/TNCs have their headquarters in N. America, Europe or Japan and more recently in first generation NICs. They invest directly into countries overseas (FDI – foreign direct investment).

- They derive a range of advantages from locating production overseas such as:
 - getting around trade barriers such as tariffs and quotas which have been developed to protect home markets.
 - the ability to lower production costs by gaining access to lower cost labour and materials, and by operating in an environment with fewer and less stringent pollution controls.
 - achieving flexibility by moving production to areas with most favourable factors for production such as a favourable political climate, or a favourable industrial climate, with a highly educated, high quality work force.
- A number of other factors have facilitated the global shift. These included
 - the **transport revolution**, which means that materials, even heavy products such as steel, could be shipped around the world using VLCCs (very large crude carriers) or bulk carrier ships. Equally small parts could be air freighted around the world.
 - the **information and communications** revolution, which enabled globalised production systems to be set up (broadband, mobile telephones, satellite communication, undersea cables etc).
 - the development of a move towards **free trade** which permitted freer movement of imports and exports especially within trade blocs.
 - the evolution of a whole number of **fiscal policies** which permitted the freer movements of capital between countries.
 - the enhanced role of the **state**, with increased sophistication of government policies to attract investment from foreign companies to invest directly in NICs and LEDCs.
 - development of **technologies**, which devalue the role of skilled labour and make operations possible with limited training using standardised systems.

Case studies of a range of industries would suggest that the nature of the global shift varies considerably between industries in spatial extent and timing.

- Industries which are most likely to have a highly dispersed global distribution, such as garment manufacture, were the first to shift and now take place in many LEDCs. These are labour intensive and perform routine production tasks – here **cost** is a vital factor.
- Industries which produce heavy bulky items such as steel, with huge transport roots, until recently were confined to MEDCs and NICs which had well developed internal markets. The transport and technology revolution have encouraged a recent movement to coastal locations in iron ore producing centres which add value to their exports. Steel production is frequently dominated by governments as it is perceived as a vital backbone of industry. Increasingly, giant TNCs such as the Indian owned TATA company are beginning to dominate and operate globally, with decline in MEDCs.
- Cars represent an interesting case study as they are in part market orientated in location (and the current main markets are in MEDCs and NICs). The industry is dominated by TNCs from USA, Europe and Japan. Production has shifted to certain key markets such as Brazil and South Africa, but only recently is the industry moving into India, China and Eastern Europe (lower cost locations with enormous market potential for 21st Century).
- Certain market orientated industries, such as fashion, rarely shift from their current MEDC locations, with New York, Paris and Milan currently very dominant.
- Complex capital intensive technologies such as electronics have a specialised global shift largely from MEDCs to first generation NICs. However, assembly stage operations have spread to lower cost areas such as China.

Call centre case study

The Global Shift of 'back office' functions (white collar administrative and customer service work) begun in the 1990s. General Electric, a giant US multinational conglomerate, was a pioneer, when it decided to shift thousands of back office jobs to India. What began as a trickle is now a flood with numerous leading companies in insurance, banking, travel, electricity generation and telecoms transferring their operations to India, a process known as 'outsourcing'. (Table 1)

Table 1. Recent moves east

Company	year moved	number of jobs
JP Morgan Chase	2001	3,000
Capital One	2002	1,200
Standard Chartered Bank	2002	4,500
Lloyds TSB	2003	1,000
BT	2003	2,000
National Rail Inquiries	2003	600
The countries compared	UK	INDIA
Avg. call centre wage	£14,000	£3,000
Working week	36 hours	+40 hours
Monthly rent	up to £4,000	Up to £2,000
GDP per head	£14,145	£1,600

In particular, the movement involved, call centre jobs to India, from an enormous range of locations, but many of them in places such as Dundee or Newcastle. Many of these towns are deindustrialised areas of traditional employment and for them the call centres represented the great hope for future employment, so the job losses are very significant.

Outsourcing can lead to a minimum of 20% saving on processing costs. Currently an Indian call centre worker earns (2003) around £3,000 per year, compared to £13,000 for a UK call worker in Newcastle. This cost saving will increase profits and shareholder's returns on their investment capital.

*However, many companies claim that they will achieve a better **quality** of service because of a higher quality of education and stability of their work forces (Indian graduates currently compete for perceived prestigious jobs at call centres and in other back office functions).*

*Equally, using outsourcing adds **flexibility** to the workforce profile, so that variations in demand can be more easily met. Using Far Eastern workforce can also provide a 24 hour service – known as the **time is money** advantage, whereby because of time zone differences data can be processed round the clock, without the high cost of night shifts etc.*

Improvements in computer software and better telecommunications have facilitated this because digital work can be electronically shipped around the world via satellite links and undersea cables etc. Technology such as that developed by Microsoft can lead to standardised packages which can be used by all workers around the world and therefore data can be easily interchanged.

*Currently the movement from the USA and UK to India is by far the largest flow – some estimate that a quarter of a million jobs have been outsourced from the UK alone. The choice of India is related to the widespread usage of high quality **English language** with very little accent. However as costs rise in areas such as Bangalore (a labour demand hot spot) the search is for new low cost locations – China, Egypt, Ghana, South Africa, Malaysia, Barbados, Jamaica and Eastern Europe are all beginning to be favoured. Hungary and Czech Republic - soon to join the EU may be the hot spots for 2005. **Agglomeration** tends to attract even more new arrivals.*

In the UK, where in 2003 call centres employed over 0.5 million people in 6,000 sites, analysis suggest that over one third of the large centres could be shut down – a loss of over 100,000 jobs by 2008.

For India, and even more in other countries, there are some negative impacts: the need for workers to adopt speech patterns and customs, and Western industries can lead to cultural issues and inevitably in any call centre, repetitive strain and stress take toll of workers. Some argue that the global shift merely transfers these problems abroad.

Exam Hint:

1. Using a book such as *The Global Shift* (P Dicken) use a World Map to track and record the complex pattern of the global shift in a chosen industry such as cars. The annotation of the map helps to explain exactly what has occurred. Try to develop a summary diagram of key phases as the global shift changes over time.
2. Obtain a company report for a TNC and map the pattern and nature of its global operations to assess the extent of the global shift. Compare TNCs with their headquarters in two different countries.

In **manufacturing**, the country which has recently experienced the greatest amount of new industry is China with other significant shifts to Mexico, Brazil and Eastern Europe. USA transnationals take advantage of the lower costs and weaker environmental legislation and locate just across the border in Mexico in Maquiladoras.

The global shift in **services** takes on an entirely different pattern. For example financial services have begun to disperse to world cities around the globe, largely to provide round the clock operation and to reflect the growing Far Eastern business market. The global shift in services also took place much later than that of manufacturing (See Fig 1).

For many service operations such as back office and customer care call service operations, the language spoken is the key. In India, for example the colonial rulers insisted on all Indians being taught English at school. It is India, therefore, that initially attracted the first and the greatest number of companies shifting their back operations. USA and UK service industries are particularly vulnerable to shifts because of the English language link. There is widespread concern that in the future there will be a massive movement of executive posts to countries like India and China as **outsourcing** becomes the way ahead for most large MNCs/TNCs. There could be a movement of employment in computer programming architecture, legal case work and even town planning. Where will it all end?

Evaluating the Global Shift

Clearly a movement of industry on this scale has major benefits and dis-benefits. It is very easy to over-emphasise the dis-benefits for MEDCs where the job losses occur, and the benefits for NICs and LEDCs who gain all these new jobs. In reality the situation is much more complex. Fig 3 sets out both the positives and negatives for both MEDCs and NICs/LEDCs.

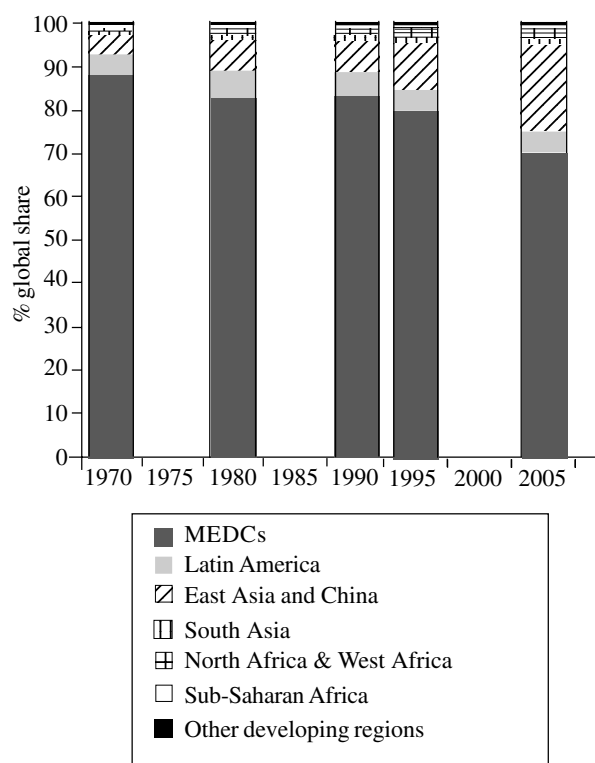
The real winners are the MNCs and TNCs who achieve great efficiencies by moving production around the most favourable often least cost operations. Some people would argue too that at a global scale world trade is promoted and thus growing choice and diversity for the consumer.

Fig 3 – The positive and negative effects of the global shift

<p>A – In MEDCs</p> <p style="text-align: center;">+</p> <ul style="list-style-type: none"> • Cheaper imports of all relatively labour intensive products can keep cost of living down and lead to a buoyant retailing sector. • Greater efficiency apparent in surviving outlets. This can release labour for higher productivity sectors (this assumes low unemployment). • Growth in LEDCs may lead to a demand for exports from MEDCs. • Promotion of labour market flexibility and efficiency, greater worker mobility to areas with relative scarcities of labour should be good for the country. • Greater industrial efficiency should lead to development of new technologies, promotion of entrepreneurship and should attract foreign investment. • Loss of industries can lead to improved environmental quality (eg Consett). 	<p style="text-align: center;">–</p> <ul style="list-style-type: none"> • Rising job exports lead to inevitable job losses. Competition driven changes in technology add to this. • Job losses are often of unskilled workers. • Big gap develops between skilled and unskilled workers who may experience extreme redeployment differences. • Employment gains from new efficiencies will only occur if industrialised countries can keep their wage demands down. • Job losses are invariably concentrated in certain areas and certain industries. This can lead to deindustrialisation and structural unemployment in certain regions. • Branch plants are particularly vulnerable as in times of economic recession they are the first to close often, with very large numbers of job losses.
<p>B – In NICs and LEDCs</p> <p style="text-align: center;">+</p> <ul style="list-style-type: none"> • Higher export – generated income promotes export led growth – thus promotes investment in productive capacity. Potentially leads to a multiplier effect on national economy. • Can trickle down to local areas with many new highly paid jobs. • Can reduce negative trade balances. • Can lead to exposure to new technology, improvement of skills and labour productivity. • Employment growth in relatively labour intensive manufacturing spreads wealth, and does redress global injustice (development gap). 	<p style="text-align: center;">–</p> <ul style="list-style-type: none"> • Unlikely to decrease inequality – as new jobs tend to be concentrated in core region of urban areas. May promote in-migration. • Disruptive social impacts eg (Role of TNCs potentially exploitative and may lead to sweat shops. Also branch plants may move on in LEDCs too, leading to instability (eg in Philippines). • Can lead to over-dependence on a narrow economic base. • Can destabilise food supplies, as people give up agriculture. • Environmental issues associated with over-rapid industrialisation. • Health and safety issues because of tax legislation.

Exam Question (typical for A2)

(a) Describe and suggest reasons for the trends shown in Fig 5. [12]

changing regional shares of global manufacturing 1970 - 2000**Further research**

The Global Shift P Dicken Sage Publications
 Geo News Review September 2003 Call Centre Feature
 Geofact Sheets Deindustrialisation 43, Geography of Call Centres 107
 The Flight to India 12 October 2003, The Guardian (www.monbiot.com)
 The Challenge of Globalisation. Oxfam Publications
 Rethinking Globalisation Ed. Bill Bigelow Rethinking Schools Press

Useful Websites

www.corpwatch.org
 www.maquilasolidarity.org
 www.sweatshopwatch.org
 www.zmag.org

(b) With reference to either a named NIC, or a region in an MEDC, assess the impacts of the global shift. [13]

Answer Framework**Hints**

- always quote precise data and ensure a complete coverage
 - be sure to describe **and** explain
- (a) Note relative data – around 18% decline for MEDCs, 20% increase for East Asia and China. Use article to explain this. Comment briefly on fluctuations in Latin American share, steady increase from 1-5% of N. Africa. (RICs on Morocco and Tunisia). Note minimal contributions of South Asia and above all Sub Saharan Africa where most countries are least developed countries and barely industrialised.
- (b) Choice of area is vital
Hint – Always try to draw in an annotated map of your chosen country or region

NIC – need to examine environmental and economic effects of rapid growth, Taiwan, S Korea ideal. Be sure to include precise locations. Answer could include details of economic multiplier effect, but also problems of water and air pollution and sweat shop labour issues.

Region – need to look at environmental and economic effects of deindustrialisation, South Wales, NE England ideal. Try to give details of dates and examples of industrial closures. Note that whilst there are structural unemployment problems in re-training skilled male workers, when many jobs are suitable for unskilled workers. The environmental benefits may be high, with less air pollution and the potential of redeveloping brown field sites e.g. in S. Wales. One new issue is that some of the newly developed industries such as call centres are now themselves under threat from the second phase of the global shift (see call centre case study)

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