Geo Factsheet

Number 86

Globalisation of Manufacturing

This Factsheet summarises the causes and effects of the globalisation of manufacturing. Globally, manufacturing output continues to increase and most manufacturing still occurs in industrialised countries. Although the relative contribution of manufacturing to most industrialised countries economies has declined, manufacturing remains fundamental to all economies.

Many of the newly industrialising countries (NICs) are dramatically increasing their manufacturing output. Initially, this was a result of industrialised countries' multi-nationals becoming established in the NICs but over the last 20 years many developing countries such as South Korea have established their own multi-nationals. These multi-nationals then established manufacturing plants in developed countries.

In certain forms of manufacturing NICs have a number of significant advantages over old industrialised countries:

1. Lower labour costs
2. Lower business taxes
3. Cheaper land
4. Fewer environmental controls

These four effectively combine to decrease set up and production costs.

However, in some new forms of manufacturing – bio-technology and materials technology, for example, industrialised countries have a **comparative advantage** - they have a much greater supply of highly knowledgeable graduates and a long established tradition of scientific research upon which to build. Some of the countries which deindustrialised in the 1970s are now using these new manufacturing technologies to reindustrialise.

As the costs of telecommunications and transport decrease and the speed of information dissemination increases, the pace of globalisation increases. Whilst many see this as a unquestionably good thing - more trade equals greater wealth equals faster development and higher standards of living – there are also many potentially harmful effects. Since the US and Europe were the first to experience the effects of globalisation, it is useful to take these two regions as examples. Since the 1980s imports of manufactured goods have increased in both regions. It was argued that these imports from countries with much cheaper labour effectively caused:

- a decline in domestic production
- increased unemployment
- decline in domestic wage rates

Because the impact of imports was not the same in different types of manufacturing, this could also lead to wage disparities between different sections of the US workforce, for example.

Labour-intensive manufacturers, in particular, were unable to compete with countries where labour costs were very much lower. This lead to a deindustrialisation in certain sectors and may have accelerated the growth of alternative sources of employment in, for example, the service sector. In economic terms, the areas in which Europe and the US enjoyed comparative advantage shifted, accordingly labour was redistributed into those types of employment where the US and Europe retained a comparative advantage.

Increasing international flows of goods and services may also lead to increased international **labour migration**. Immigration of foreign workers may cause domestic unemployment. Conversely, it could be argued that in large populations the proportion of foreign workers is low and this effect is minimal. Detailed analysis of foreign workers in Japan, for example, concluded there was no correlation between the ratio of foreign : domestic workers and unemployment rates. However, that study did show that as the proportion of foreign workers increased, government expenditure also increased. This is because the more varied the religious and social makeup of a country, the more expensive it is to manage. Countries such as Japan have rigorous work permit procedures, favouring workers with specialist technical expertise and making it very difficult for unskilled workers to enter the country.

Multi-nationals which are responsible for much of the acceleration of globalisation may have harmful social, political and economic effects (see Factsheet 49 - Transnational corporations - the problem or the solution?). On the other hand, the establishment of a foreign company may increase employment and may trigger the development of domestic companies working in similar fields.

Globalisation changes the comparative advantage of regions within countries, of neighbouring countries and, on a larger scale, groups of countries which are working both cooperatively and economically, e.g.. all OECD or Japan Sea Economic Rim Countries. The forces which encourage agglomeration of certain manufacturing industries in particular areas a century ago, are now producing new patterns of agglomeration which may be less likely to be influenced by national borders.

Globalisation inevitably increases pressure to liberalise trade and to eliminate tariffs and non-trade barriers. Again, this will change the comparative advantages of certain countries with respect to certain goods. Liberalisation of trade within OPEC clearly resulted in China, for example, gaining a comparative advantage over the US in the manufacture of machinery products. Similarly, the abolition of the multi-national fibre agreement (MFA) has begun to make Thailand an extremely competitive textile manufacturer again.

Globalisation will continue to bring more **direct and indirect investment**. Direct investment takes place when an enterprise locates a production facility in a foreign country. Indirect investment consists of financial investment of the international stock markets, currency trading etc. Foreign Direct Investment (FDI) is usually regarded positively. It is, in effect, a long term injection of capital and resources into a foreign country which is short of capital and resources. On the other hand, indirect investment may involve a sudden large influx of capital which can cause monetary crisis as seen in Mexico in 1994 and South-east Asia 1997-8 (Table 1).

Table 1. Percentage change in GDP before and after the Asian financial crisis

Average	Thailand	Indonesia	Malaysia	S. Korea
1980 - 90	7.6	6.1	5.2	9.4
1990 - 96	8.3	7.7	8.7	7.3
1997	-7	-16	-6	-5

Case Study:
Automobile Manufacture

The effects of globalisation can be clearly seen in recent changes in the automobile industry.

- *Vehicle manufacture is dominated by multi-national corporations Most are situated in developed countries but almost all manufacturers use a global production system. Multinational vehicle manufacturers have turnovers (sales) which are equal to or exceed some countries' gross domestic products (GDPs) - see Table 2.*
- *Four million people are employed in manufacturing, 10 million in material and components and 6 million in selling and servicing – 18 multi-national companies produce 94% of all vehicles.*
- *There is fierce competition between countries and between regions within countries to attract foreign vehicle manufacturers. In the UK. Nissan was lobbied by over 50 local organisations before it decided to locate in Washington, Tyne and Wear.*
- *The extent to which countries have allowed foreign vehicle manufacturers into the domestic market varies. Some countries such as Britain and West Germany have given almost unlimited access, whereas countries such as France have limited access.*
- *The governments of developed and developing countries which have allowed foreign vehicle manufacturers into the domestic market have specified that a certain proportion of components must be obtained from domestic suppliers, thus creating jobs and wealth and maximising added value. Governments have reduced import tariffs and favoured non-tariff quota agreements.*
- *Automobile manufacture is an assembly industry bringing together thousands of components many of which are manufactured in other industries.*
- *Vehicle manufacturers have great influence on governments. Toyota recently announced it was seriously considering closing the Washington Tyne and Wear plant if the UK did not join the Euro.*
- *The influence of the EU continues to increase as the region continues to grow in size. It is now the largest single market for motor vehicles.*
- *The NAFTA which links USA, Canada and Mexico illustrates the way in which groups of countries are continuing to try to make it difficult for major manufacturers such as Japan to exploit particular markets. In turn, this increases the likelihood that countries such as Japan will enter into their own trade agreement with other countries. Joint ventures between domestic manufacturers in, for example, China and established multi-national companies will increase.*
- *Since labour costs still account for 20-35% of total production costs, assembly at branch plants will continue to be set up in countries with the cheapest labour.*
- *Multi-national companies within newly industrialising countries (NICs) such as South Korea can combine cheap labour with high-technology and their share of world export markets is expected to continue increasing.*
- *In the United States and Western Europe decentralisation will continue, the location of new plants will be heavily influenced by government incentives and the availability of cheap non militant labour and low land costs.*

Table 2. Comparison of sales of global manufacturers with GDP of selected countries

Country / **Corporation**	GDP or total sales (US $ billion)
General Motors	164
Thailand	154
Norway	153
Ford Motor Co	147
Mitsui & Co	145
Saudi Arabia	140
Mitsubishi	140
Poland	136
S Africa	129
Greece	123
Toyota Motor	109
Wal Mart	105
Malaysia	98
Israel	98
Colombia	96

Case Study:
Manufacturing in Britain

In 1979 manufacturing accounted for 26% of national output, by 1999 this had fallen to 22%. Employment over the same period has fallen from 27% to 19%. The smoke stack industries and low skilled assembly line jobs have been hugely diminished, and have been replaced by service industry job and, those which form part of the knowledge economy. Between 1979 and 1981 UK manufacturing suffered greatly because:

1. *NICs aggressively exploited cheap labour and new technologies*
2. *High cost of sterling made UK manufacturing goods too expensive.*

Competition from China and Eastern Europe means that the UK is unlikely ever again to be a major manufacturer of cheap mass produced goods. The emphasis now in the manufacturing industry is to exploit high value and value added industries, introducing new technologies and service industries, especially those involved in legal, management and medical fields. Thus, whilst total manufacturing employment continues to fall, the manufacturing share of GDP may stabilise.

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