

Chapter 7 – Globalization and Local Economic Development

- **Foreign Direct Investment** – Overseas business investments made by private companies
- 45% of foreign direct investments are targeted at periphery and semiperipheral countries
- Investments are reflected in increased levels of world trade in goods and services
- Foreign direct investment increases competition among local producers, forcing them to improve their performance
- Knowledge of new business practices and production technology spreads through the regional economy as regional manufacturers become suppliers to the enterprises funded through foreign investment and as personnel move from one firm to another
- The new international division of labour has created rising unemployment and wage inequality in core countries
- Most of the world's population now lives in countries that are either integrated into world markets for goods and finance or rapidly becoming so
- Only a few peripheral countries had opened their borders to flows of trade and investment capital
- 1/3rd of the world's labour force lived in countries, such as the Soviet Union and China, with centrally planned economies and at least another third lived in countries insulated from international markets

The Global Assembly Line

- Many transnational corporations have grown so large through a series of mergers and acquisitions that their activities now span a diverse range of economic activities
- Transnational corporations are companies with investments and activities that span international boundaries and with subsidiary companies, factories, offices or facilities in several countries
- Majority of Canada's transnational corporations grew up as domestic mining companies who developed operations in other countries to increase market share of world trade in a particular commodity
- After WWII, large corporations began to invest in overseas production and manufacturing operations as a means of establishing a foothold in foreign consumer markets
- Between 1957 and 1967, 20% of all new US machinery plants, 25% of all new US chemical plants and more than 30% of all new US transport equipment plants were located abroad
- By 1970, 75% of US imports were transactions between the domestic and foreign subsidiaries of transnational conglomerates
- By the early 1980s, 40% of all world trade was in the form of intrafirm trade
- By 1998, there were more than 53000 transnational corporations in the world, fewer than half of which were based in the US, Japan and Germany
- Reason for such growth in the number and scale of transnational conglomerate corporations has been that international economic conditions have changed
- Technological developments in transport and communications provided larger companies with the flexibility and global reach to exploit the steep differentials in labour costs that exist between core and peripheral countries
- Same developments in transport and communications made for increased international

competition, which forced firms to search more intensely for more efficient and profitable global production and marketing strategies

- **Transnationals and Globalization**

- Companies have had to reorganize their operations in a variety of ways, restructuring their activities and redeploying their resources among different countries, regions and places
- Local patterns of economic development have been recast time and time again as these processes of restructuring, reorganization and redeployment have been played out
- Local geographies of economic development have been increasingly interdependent, linked together as part of complex transnational commodity chains
- Commodity chains are networks of labour and production processes whose end result is the delivery of a finished product
- They are global assembly lines that are geared to produce global products for global markets
- Advantages to manufacturers of a global assembly line are:
 - Standardized global product for a global market allows them to maximize economies of scale
 - Allows production and assembly to take greater advantage of the full range of geographical variations in costs
 - Labour intensive work can be done where labour is cheap
 - A global assembly line means that a company is no longer dependent on a single source of supply for a specific component
- Global assembly line is constantly being reorganized as transnational corporations seek to take advantage of geographical differences among countries and regions

- **Maquiladoras and Export Processing Zones**

- Subcontracting carried out by major companies is encouraged by the governments of many peripheral and semiperipheral countries, who see participation in global assembly lines as a pathway to export-led industrialization
- Offer incentives, such as tax “holidays” to transnational corporations
- Maquiladoras are sister factories within the US-Mexico border, which allows duty-free assembly of products destined for re-export
- **Export-processing zones** – Small areas within which especially favourable investment and trading conditions are created by governments to attract export-oriented industries
- Conditions include minimum levels of bureaucracy surrounding importing and exporting, the absence of foreign exchange controls, availability of factory space and warehousing at subsidized rents, low tax rates and exemption from tariffs and export duties
- Many governments also establish policies that ensure cheap and controllable labour
- Countries are pressured to participate in global assembly lines by core countries and by the transnational institutions they support
- Countries pursuing export-led industrialization as an economic development strategy do not plan to remain the providers of cheap labour for foreign-based transnational corporations

The Global Office

- Globalization of production and the growth of transnational corporations have brought about another important change in patterns of local economic development
- **Electronic Offices: Decentralization versus Concentration**
 - Growth of banking, financial and business services contributing to the expansion of the quaternary sector has been localized
 - Reasons for this concentration is due to the rise of metropolitan areas with the specialized level of infrastructure that can support this
 - Metropolitan areas have also established a comparative advantage both in the mix of specialized firms and expert professionals on hand, and in the high-order cultural amenities available
 - **World Cities** – Cities in which a disproportionate part of the world's most important business – economic, political, and cultural – is conducted
- **Offshore Financial Centres**
 - **Offshore Financial Centres** – Islands or micro-states that have become specialized nodes in the geography of worldwide financial flows
 - Examples: Bahamas, Bahrain, Cayman Islands, Cook Islands, Luxembourg
 - Chief attraction of these financial centres is simply that they are less regulated than financial centres elsewhere
 - Provide low-tax or no-tax settings for savings, havens for undeclared income and for “hot” money
 - Also provide discreet markets in which to deal currencies, bonds, loans and other financial instruments without coming to the attention of regulating authorities or competitors

Tourism and Economic Development

- Many parts of the world, including parts of the world's core regions, do not have much of a primary base
- For these areas, tourism can offer the otherwise unlikely prospect of economic development
- One in every 15 workers (worldwide) is occupied in transporting, feeding, housing, guiding, or amusing tourists
- Global stock of lodging, restaurant, and transportation facilities is estimated to be worth about \$3 trillion US.
- Most tourists are relative affluent people from the more-developed parts of the world, tourism is by no means confined to the less-developed peripheral regions
- People's desire to experience tourism on a much more extensive scale is the product of many of the socioeconomic changes
- Increasing average disposable income and leisure time have made tourism more possible for more people, while cheaper and improved long distance transportation have encouraged the growth of international travel
- Travel from overseas to Canada in 2006 continued the growth of the previous two years
- Number of overnight trips to Canada from destinations other than the US totalled more than 4.3 million and that overseas residents spend \$5.7 billion in Canada in 2006

- Few places exist in the developed world that do not encourage tourism as one of the central planks of their economic development strategy
- Tourism requires only a basic infrastructure and little industrial equipment, it has been estimated that the cost of creating one new job in tourism is less than one-fifth the cost of creating a job in the manufacturing industry and less than one-fiftieth of the cost of creating a high-tech engineering job
- Tourism can provide a basis for economic development in peripheral regions, but has adverse effects
- Though it certainly creates jobs, they often pay very little and are seasonal
- Dependence on tourism also makes for a high degree of economic vulnerability
- Tourism depends very much on matters of style and fashion
- Once-thriving tourist destinations can suddenly find themselves struggling for customers
 - Basically, tourism is a very variable market – it is very responsive to demand
- Tourism can help sustain indigenous lifestyles and regional cultures, arts and crafts; and it can provide incentives for wildlife preservation, environmental protection and the conservation of historic buildings and sites
- Tourism can adulterate and erode indigenous cultures and bring unsightly development, pollution and environmental degradation
- Tourism can also be a part of the processes of “place making” and are often fundamental to creating demand for tourism in an area
- Tourism, like any other human activity, is essentially a social and cultural construct and the “tourist gaze” can be turned on sites and sights as various as natural phenomena, folk housing museums, the homes of long-dead rock stars
- Can also involve exploitative relations that debase traditional lifestyles
- The behaviours and artifacts that are made available to an international market of outsiders can lose much of their original meaning
- Traditional ceremonies that formerly had cultural significance for the performers are now enacted only to be watched and photographed
- Alternative tourism emphasizes self-determination, authenticity, social harmony, preservation of the existing environment, small-scale development and greater use of local techniques, materials and architectural styles
- **Ecotourism** – an activity which, in addition to following the goals of “sustainable tourism” also
 - Contributes to the conservation of an area's natural and cultural heritage
 - Includes local indigenous communities in its planning
 - Interprets the natural and cultural heritage of the destination to the visitor
 - Is aimed at small-sized groups
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