

FORCES DRIVING CHANGE IN THE GLOBAL ECONOMY

Derek Braddon

University of the West of England,
Bristol

SYSTEMIC CHANGES

- The end of the 'Cold War'.
- Market liberalisation and economic transition
- Privatisation
- Globalisation
- European Single Market and Enlargement
- US and European Industrial Restructuring

END OF THE COLD WAR

- Reduced need for military expenditure – peace dividend?
- Trade distortion – weakness of command economies – ‘market realism’ shock therapy
- New international order problem – destabilising effects
- Emergence of new threats & response

INDUSTRIAL RESTRUCTURING

- New industrial revolution – CIM; CAD/CAM; customisation etc
- Cross-border mergers; alliances; technology partnerships; teaming.
- Horizontal partnership planning – with China; India; etc
- Vertical partnership planning – with supply chain; ‘preferred suppliers’.

CLIMATE CHANGE

- Kyoto (UN) protocol – Feb 2005 – 183 nations
- New growth zones – China/India – pollution issue
- New government standards and targets introduced
- Focus on ‘sustainable’ production and development – resource depletion issue
- Industrial impact: airlines & aircraft; fuels (the bio-fuels debate); recycling etc.



THE WORLD'S MOST POLLUTED PLACES

- Sumgayit, Azerbaijan; potentially 275,000 affected
- Linfen, China; potentially 3m affected
- Tianying, China; potentially 140,000 affected
- Sukinda, India; potentially 2.6m affected
- Vapi, India; potentially 71,000 affected
- La Oroya, Peru; potentially 35,000 affected
- Dzerzhinsk, Russia; potentially 300,000 affected
- Norilsk, Russia; potentially 134,000 affected
- Kabwe, Zambia; potentially 255,000 affected
- Chernobyl, Ukraine; potentially 5.5m affected

- *Data: Blacksmith Institute, 2008*



[Photo: db™ on Flickr](#)

MARKET LIBERALISATION

- Financial market freedom – and the ‘overshooting’ phenomenon
- Privatisation
- ‘Contracting Out’ in public sector – ‘marketisation’.
- Globalisation
- Global market – but within trade blocs?

FINANCIAL MARKET FREEDOM

- Removal of barriers to movement of money after 1980
- Growth in creation of new credit instruments – ‘high multiples’ – making ‘easy money’ appear permanent
- Low interest rates encouraging financial market growth – mortgages etc
- The ‘Invisible Continent’ phenomenon: Kenichi Ohmae

CREDIT CRUNCH 2008/9

- Massive exogenous economic shock for most countries
- Huge credit shortfall triggering off banking and industrial decline
- 'Extreme' policies, fiscal and monetary, used to ward off economic depression – 'uncharted territory' in policy terms
- Uncertain outcome – which way next?

POWER IN THE GLOBAL ECONOMY

- USA GDP 2008 = \$10,208 bns
- Japan \$ 4,140 bns
- Germany \$ 1,487 bns
- -----
- UK \$ 1,424 bns
- France \$ 1,307 bns
- China \$ 1,159 bns
- Italy \$ 1,089 bns
- Canada \$ 700 bns
- Mexico \$ 618 bns
- Russia \$ 310 bns).



ECONOMIC POWER AND DEBT

- The estimated population of the United States is 303 millions and each US citizen currently owes over \$30,000.
- The National Debt has continued to increase an average of \$1.4 billion per day since September 29, 2006!



State St., Bristol, Tennessee

[Photo: brent_nashville on Flickr](#)

<http://www.usdebtclock.org/>

CORPORATE POWER

Exxon Mobil's revenue > Pakistan's GDP 2008
(95,000 employees) (141 million population)

General Motors > New Zealand

General Electric > Nigeria

GLOBAL ECONOMIC TRANSFORMATION

- 1945 – 1975: mixed economy; global integration through fixed exchange rates; commitment to full employment and free trade; national macroeconomic management.
- 1975 – 2006: return to market forces; liberalisation but within trade blocs; floating exchange rates but global integration through business links; global economic management?

THE STAGES OF TRANSITION

- Bretton Woods System + GATT; Keynesian economics; US 'locomotive'; rapid world growth.
- Excessive strain on \$ and on US economic power (US share of world GNP = 1/2 1940; 1/5 1990). 'Product Cycle' shifted US industry overseas. De-industrialisation + adverse trade effects.
- US too weak to act as 'locomotive' by 1970s; no easy replacement; non-competitive niche export markets now replaced by fierce competitive 'head to head' export environment.

THUROW'S MODEL OF THE EVOLVING GLOBAL ECONOMY

- Traditional economic system undermined by post-1945 success. New technologies destroyed old system and strategies.
- Green and materials science revolution reduced need for natural resources in economic development.
- Telecom – computers – transport – logistics revolutions allowed global sourcing and development of world capital market.
- In future, sustainable competitive advantage will depend on new process technology more than on actual product. Man-made comparative advantage is replacing natural comparative advantage.

KEY ELEMENTS OF THE NEW INDUSTRIAL REVOLUTION

- **Flexible manufacturing systems: CAD/CAM and CIM**
- **Just-in-Time inventory systems**
- **Cross-functional project teams**
- **Organisational reform - solar complex; strategic alliances, technology partnerships; the “virtual” firm**
- **Reverse marketing & procurement reform; partnership sourcing; non-core sub-contracting**
- **TQM and “continual learning” approach**

THE 21st CENTURY COMPANY

- **Flatten management hierarchies**
- **Joint ventures and partnerships**
- **SWOT team approach to new opportunities and synergies**
- **Aim for global product and scale economies**
- **Use technology & IT for scope economies**
- **Don't over-centralise - research/design/produce where best**
- **Be ready to move on - Intel: memory-microprocessors-systems**
- **use local management but with HQ experience**

LOCATION OF TECHNOLOGICAL EDGE

- **USA** - digital technology; biotech; basic science; microprocessors; environmental technology; aerospace
- **EUR (W)** - chemicals; pharmaceuticals; aerospace; transportation.
- **EUR (E)** - mathematics; computer science
- **RUSSIA** - physics; mathematics; aerospace; metallurgy
- **JAPAN** - miniaturisation; lasers; memory chips; robotics.
- **S.E.ASIA** - software (Singapore); electronics (HK); pc technology (Taiwan)
- **CHINA ?** - low cost manufacturing powerhouse?

OHMAE'S "INVISIBLE CONTINENT"

- The global economy is now either capitalist or highly dependent on capitalist economic processes.
- It is a new brand of capitalism in which productivity and competitiveness are a function of knowledge generation and information processing.
- Firms and territories are organised in networks of production, management and distribution where their core economic activities are global and where they have the capacity to work as a unit in real time, or chosen time, on a planetary scale .
- Firms operate in ultra-dynamic world of uncertainty, often in economic cyberspace – the 'new continent'.

THE FOUR DIMENSIONS

- The 'real' economy; economic actors work, consume, invest within recognised boundaries. Aware of forces shaping their lives which they can, to some extent, influence.
- The 'borderless' world; business and finance develop invisible inter-connections that transcend traditional boundaries. Decisions are more remote and less well understood by economic actors.

4 DIMENSIONS

- ‘economic cyberspace’; a new ‘continent’ where global transactions are conducted at tremendous speed and scale. Those affected often play no part in the process and may not even have realised what was happening.
- The world of ‘high multiples’; the explosion of high risk/high yield investments, generating multiples (share value/earnings) far higher than previously experienced and also massive wave of new credit instruments – all beyond government control (or anyone else!)

THE RESULT

Runaway capital, the growth of huge corporations more powerful than many governments; rampant speculation; employment insecurity and growing inequalities all point to a turbulent global economic system.

The failure of markets to attain natural equilibrium in the modern global business environment is therefore scarcely surprising, given the complexities and unexplored dimensions of the new 'invisible continent' and its unpredictability.

WHY DOES IT MATTER?

Policy-makers in business and government are unprepared for the catastrophes of the invisible continent; for example, millions of dollars might gush in or out of a local economy in nano-seconds, with the impact of a typhoon or hurricane on the population.

(Ohmae, 1999, The Invisible Continent)

UNSTABLE WORLD?

- Massive, volatile flows of capital
- The monetary sector of the economy (exchange rates & interest rates) adjusts much faster than the real sector (employment and output).
- Exchange rates often “over-shoot”, creating problems for real sector
- Governments no longer able to stabilise economy on their own & co-ordination can be problematic.
- Desperate need for economic choreography – but how?