

Globalization and the New International Division of Labor (NIDL)

What? The shift of secondary economic activities to the developing world.

- Primarily light industrial activities, but increasingly heavier industries as well

Why? Wage differences

Results?

- a) Manufacturing jobs move to developing countries
- b) Technology change
- c) Geography: world cities & regional economies

Wage effects of NIDL on the developed world

Low skilled wages ↓

- Real wages of US males with high school education fell 20% from 1970 to 1990 and 30% at the entry level position.
- Wages fall not only in manufacturing, but also in the low skilled service sector due to *wage pressure*.
- Increased income disparity in the US. Increased unemployment in Europe.

The real geography here:

Wages and income disparity (=power disparity?) in the US and elsewhere are the result of economic changes across the globe.

Differences in Wage Rates

Av. 1996 wages of workers who make Suburbans

U.S. \$18.96/hr.
Mx. \$1.54/hr.

Suburbans produced

Mx. 80,400
U.S. 83,000

Characteristics of the Post-Fordist World:

1. Rapid shifts in production sites – offshore mfg.
2. “footloose industries” – new factors of production (env’l attractiveness, no unions, no pollution controls, etc)
3. Localities compete for jobs – subsidies and incentives
4. Govts. major player in location decisions but with weak bargaining power.
5. Unions weakened – individual incomes dropping, multiple workers in family, high risk of unemp.
6. Need to constantly increase skills and educ. – government investments
7. TINA !!! – neoliberal order triumphant

Implications of Globalization

- 1) EFFICIENT ALLOCATION OF RESOURCES, “SPECIALIZATION”
- 2) UNEVEN DEVELOPMENT INTENSIFIED, “RACE TO THE BOTTOM”
- 3) DECLINE OF THE STATE – “withering away?”
- 4) “GLOCALIZATION”
- 5) SHIFT IN CORE FROM MANUFACTURING PRODUCTION TO SERVICES

Globalization and the End of the Nation-State?

- Provocative thesis by Kenichi Ohmae arguing that nation-states have little power left to control the economic reality of the world and will wither away in time to be nothing more than administrative and policing units.

Ohmae’s observations on the global economy:

1. Investment has few geographical constraints
2. Industry: corporations are multinational
3. Information Technology means no restraint on ideas
4. Individual consumers want best and cheapest products and care little where they came from.

Ohmae: National Economies Do Not Exist!

A geographic argument: the borders of nation-states do not match economic reality!

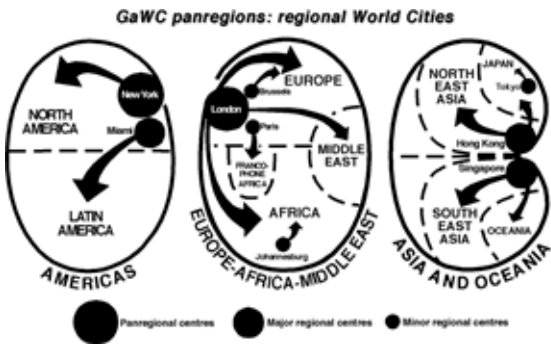
Arguments for:

1. Governments and countries don't trade, firms do.
2. National economies are accounting fictions
 - GNP
 - Trade deficits
3. Geographic competition of localities within countries and between countries. Local governance is what matters!
4. A transnational business community with few allegiances to specific countries already exists.

Intra-firm transfers for U.S. corporations

Exports:
1982 36 %
1994 50 %

Imports:
1982 31 %
1994 42 %



Ohmae: National Economies Do Not Exist!

Arguments against:

1. States still have a near monopoly on violence (military power).
2. While states tend to support the current globalizing trend, they have the power to reverse much of it.
3. States still are largely governed as a geographic whole.
4. Institutional inertia: powerful institutions tend to get larger through time, not smaller.
5. Events of 9/11 show that there are other global realities besides the global economy.
6. Nationalism may be weakening in some places, but is growing in most places around the world.

Nike example

- Phil Knight's basic idea:
Use cheap Asian labor as a way to undersell imported European goods
- Nike's (non) Production
 - Why doesn't Nike own factories overseas?
 - Long term investment in a specific *PLACE*
 - Advantages of contracting
 - Can switch production rapidly
 - Can always find lowest costs

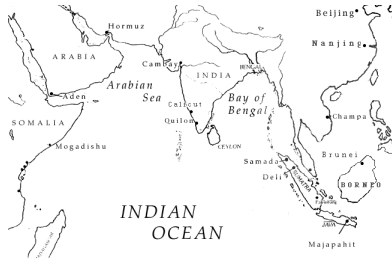
Globe-trotting Nike

- Early 1960s - Oregon
- 1967 - Japan
- 1972 - S. Korea and Taiwan
- 1986 - Indonesia, China and Thailand
- 1994 - Vietnam

A Geographic Diffusion Process

Moving westward through Asia

- Can be seen in cheaper textile goods



Criticisms of Nike

- Exploitation: do workers who make Nike products receive a “livable wage”?
- Development: is any Foreign Direct Investment (FDI) better than none at all?
- Gender Issues: workers are almost exclusively female

The role of the state

- **Global Scale of Reality:** competitive world capitalism
- **Local Scale of Experience:** labor conditions for workers, gender relations, rural-urban migration
- **National Scale of Ideology:** countries want FDI (taxes, investment in other sectors, growth of managerial class)

The interplay of these three scales creates the conditions we see today.

Question: how much leeway does a state have to both attract FDI and to protect its workers?
