Geofile Online

JANUARY 2004
464

PAUL GUINNESS

GLOBALISATION: MINI CASE STUDIES

How inclusive is globalisation?

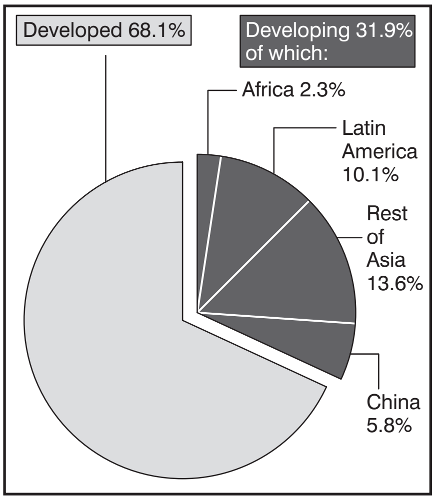
Global integration is spatially selective: some countries benefit, others it seems do not. A few developing countries have increased their trade substantially. These countries have attracted the bulk of foreign direct investment. Such low-income 'globalisers' as China, Brazil, India and Mexico have increased considerably their trade-to-GDP ratios. GDP per capita in these economies grew by an average of 5% a year during the 1990s, compared with 2% in the developed countries. However, on the other side of the coin are the two billion people who live in countries that have become less rather than more globalised (in an economic sense) as trade has fallen in relation to national income. This group includes most African (Case Study 1) and many Muslim countries. In these 'non-globalising' countries income per person fell by an average of 1% a year during the 1990s.

Case Study 1

Africa: by-passed by the benefits of globalisation

An Oxfam report published in April 2002 stated that if Africa increased its share of world trade by just 1% it would earn an additional £49 billion a year – five times the amount it receives in aid. The World Bank has acknowledged that the benefits of globalisation are barely being passed on to sub-Saharan Africa and may actually have accentuated many of its problems. Figure 1 shows that Africa accounted for only 2.3% of global accumulated inward direct investment in 2001. The entire African continental economy is no larger than Spain's at $580 billion.

Figure 1: Total inward direct investment by region, 2001



Source: *Financial Times*, 25 September 2002

The level of international aid given to Africa fell by 40% between 1990 and 1999. Although non-governmental organisations such as Christian Aid and Oxfam deplore this reduction they argue strongly that trade is the key to real development, being worth 20 times as much as aid. However, the trading situation of Africa will only improve if the trading relationship between MEDCs and LEDCs is made fairer to bring more benefits to the latter. In fact, Africa's share of world trade has fallen in recent decades. According to Oxfam, if sub-Saharan Africa had maintained its exports at the same level as 1980, its economy would be worth an extra $280 billion a year.

IMF-World Bank loans are usually conditional on African countries opening their markets. Historically, African trade barriers have been high but they have been reduced significantly in recent years. Although the situation varies across the continent, some countries such as Mali, Mozambique and Zambia are more open to trade than the EU and the USA. However, many countries complain that MEDCs, in particular the EU and the USA, are not implementing at home the free trade policies they expect African countries to follow. The high level of agricultural subsidies in the USA and the EU is a particular cause of concern, resulting in artificially cheap food flooding African markets. An example of the impact such 'dumping' can have is the fate of the Ghanaian rice industry which has collapsed in recent years as heavily subsidised US and Thai imports have undercut local producers. From being an exporter of rice, Ghana now imports £100 million of rice a year.

Transnational products and deindustrialisation

As manufacturers seek to reduce costs to maintain attractive prices in an increasingly competitive international market two trends have become very apparent in manufacturing industry:

- raw materials and components are being gathered from a wider and wider array of locations (Case Study 2)
- production is rapidly filtering down from MEDCs to different generations of newly industrialised countries. This is the filter down process of industrial location which has resulted in deindustrialisation in MEDCs (Case Study 2).

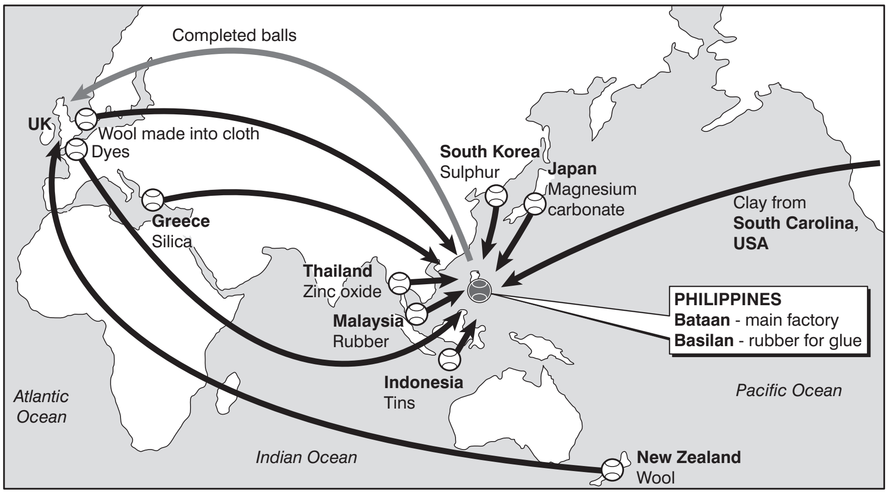
Case Study 2

Wimbledon tennis balls: a transnational product

The Dunlop Slazenger balls used at Wimbledon (48,000) and many other major tennis tournaments are the product of materials and labour from at least 10 different countries (Figure 2). Slazenger provided its first hand-sewn, wool-coated balls to Wimbledon in 1902. Today, tennis balls account for around a fifth of the £165 million annual turnover of Dunlop Slazenger, who produce about 20% of the 240 million tennis balls manufactured world wide each year.

The Philippines is now the focal point of production. The Dunlop Slazenger factory is at Bataan on the island of Basilan in the southern Philippines. Apart from manufacturing, there is also a laboratory dedicated to the development and testing of tennis balls at Bataan. The engineering department at the University of Loughborough and professional tennis managers in Cheltenham are also involved in the development and testing process. In the 1970s the Philippine government set up the Bataan Economic Zone in order to attract foreign investment. However, the economic zone never attracted the amount of investment initially hoped for and today much of it is

Figure 2: Tennis ball manufacture



Source: *Guardian*, 24 June, 2002

derelict as companies have left for locations such as China where labour is even cheaper. The main materials used at the Bataan plant are:

- The rubber in the core of the ball comes from Malaysia, where it is delivered to a processing plant in Prai, near Penang, from small rubber plantations in the area. The core of a ball is 40% rubber and 60% filler and chemicals.
- In addition rubber from Basilan is mixed with petroleum naphthalene to make glue for the balls.
- The greenish yellow cloth covering (wool and synthetic mix) is made in the UK at Dursley in Gloucestershire.
- The wool for the cloth is imported into the UK from New Zealand.
- The tins into which the balls are packed are from Indonesia.

Among the substances used to vulcanise the rubber and give it the right amount of stretch and bounce are:

- clay from South Carolina
- sulphur from Korea
- silica from Greece
- magnesium carbonate from Japan
- zinc oxide from Thailand.

From the 1940s until 2002 the company produced tennis balls in Barnsley, Yorkshire. However, all production was transferred to the Philippines in 2002 to reduce labour costs, yet another example of deindustrialisation and the filter down of production from an MEDC to an LEDC.

The increasing importance of tertiary sector transnationals

The ranking of the world's largest corporations is changing with the tertiary sector making strong gains. In 2002, the huge American retailer Wal-Mart (Case Study 3) became No.1 on the FORTUNE 500 list of the world's largest corporations, surpassing Exxon Mobil (Figure 3). The rise of the tertiary sector in the Fortune 500 is not surprising given its prominent role in the economies of MEDCs and its increasing importance in LEDCs. A number of banks are now prominent on the Fortune 500, with increasing size often due to mergers (Case Study 4).

Case Study 3:

Wal-Mart: the largest global corporation

Wal-Mart, the world's largest retailer, is expanding rapidly. With worldwide sales of $245 billion in 2002 (profits of $8 billion) it could well double this figure in five years. With over 3,200 stores in the US it is aiming in particular to be a strong presence in the world's top twenty countries, which account for 60% of all retail activity. It has been estimated that between 1995-99, 25% of the US economy's productivity gains came from efficiencies at Wal-Mart. It is expected that 800,000 new jobs will be created by Wal-Mart in the US between 2003 and 2008. Some of the most significant stages in the expansion of the company are:

- The first Wal-Mart store opened in 1962 in Rogers, Arkansas.

Figure 3: The world's largest corporations, 2001

Company	Revenue ($m)
1. Wal-Mart Stores	219,812
2. Exxon Mobil	191,581
3. General Motors	177,260
4. BP	174,218
5. Ford Motor	162,412
6. Enron	138,412
7. Daimler Chrysler	136,897
8. Royal Dutch/Shell Group	135,211
9. General Electric	125,913
10. Toyota Motor	120,814
11. Citigroup	112,022
12. Mitsubishi	105,814

Source: *Fortune* 2002

- In 1968 the company expanded outside its 'home state' by starting outlets in Missouri and Oklahoma.
- In 1972 Wal-Mart was listed on the New York Stock Exchange.
- Wal-Mart makes its first acquisition, 16 Mohr-Value stores in Michigan and Illinois.
- In 1979 it became the first company to reach $1 billion in sales in such a short period of time. By now there were 276 stores in 11 states employing 21,000 people or 'associates' as they are called by Wal-Mart.
- Expansion continued at a rapid pace and by 1985 the company boasted 882 stores with sales of $8.4 billion and 104,000 employees.
- In 1987 the Wal-Mart Satellite Network (the largest private satellite communication system in the US) was completed, linking all operating units and the General Office.
- First Supercenter opened in Washington, Missouri in 1988.
- In 1990 Wal-Mart became America's largest retailer.
- In 1991 the company opened its first foreign outlet, in Mexico City. Expansion into Puerto Rico (1992), Canada (1994), Hong Kong (1994), Brazil (1995), Argentina (1995), China (1996), Germany (1998), Korea (1998), the UK (1999) and Japan (2002) soon followed.
- Within the USA the company entered its 50th state, Vermont in 1995.

Geofile Online © Nelson Thornes 2004

- In 1997 it became the largest employer in the US with 680,000 employees, with an additional 115,000 workers in other countries.
- In 1997 Wal-Mart exceeded the $100 billion annual sales mark for the first time.
- By 1999 the world wide workforce had reached 1,140,000, making the company the largest private employer in the world.
- In 2002, Wal-Mart became No.1 on the Fortune 500 list of the world's largest corporations, surpassing Exxon Mobil. By now the company was employing more than 1.3 million people worldwide through more than 3,200 facilities in the US and more than 1,100 units abroad. More than 100 million customers per week were visiting Wal-Mart stores worldwide.

It was not until 1998 that Wal-Mart ventured into Europe when it bought Germany's Wertkauf. It reached the UK in mid-1999 with the $10.7 billion acquisition of Asda's 229 stores. The Wal-Mart name appeared on a UK store for the first time in 2000 when the first Asda-Wal-Mart Supercenter opened in Bristol. Now there are seven of these facilities throughout the UK. More recently Wal-Mart established a presence in Japan, its tenth operating country, buying 34% of Seiyu, a leading retailer. In China the plan is to increase the number of stores from 25 to 40 in 2003. A recent article in *Time* magazine quoted Lee Scott, Wal-Mart's Chief Executive Officer as saying 'Simply put, our long-term strategy is to be where we're not.'

As the overall size of the company has increased, Wal-Mart has reached farther back into the supply chain to source products previously bought from intermediaries. The company has opened 21 offices around the world to oversee its supplier factories. The objective is to source goods universally for all stores where feasible, so that the 250 locations in Britain and the 20 locations in Brazil can get the same price as US outlets. It is also aiming to reduce inventory expenses by speeding up the supply lines. Wal-Mart buys big – in 2002 it purchased about $6 billion worth of goods from China alone. Its enormous size gives it a huge pricing leverage over suppliers.

Wal-Mart is constantly trying to stay ahead of the competition. Many of its standard stores are being replaced by huge supercentres. It has expanded its product range significantly in recent years and is now on the verge of moving into services such as selling cars and banking. The company is also maximising its use of advanced technology.

Efficient air transport is an important part of company strategy, with a fleet of 20 jets kept near its Bentonville, Arkansas, headquarters. The objective is to allow managers to visit multiple markets in a single day and maintain tight central controls.

Such is the size of the company that its sales figures are as much an indicator of America's economic health as the latest government statistics. Although the company has a very positive image at home and abroad it has not been immune from criticism:

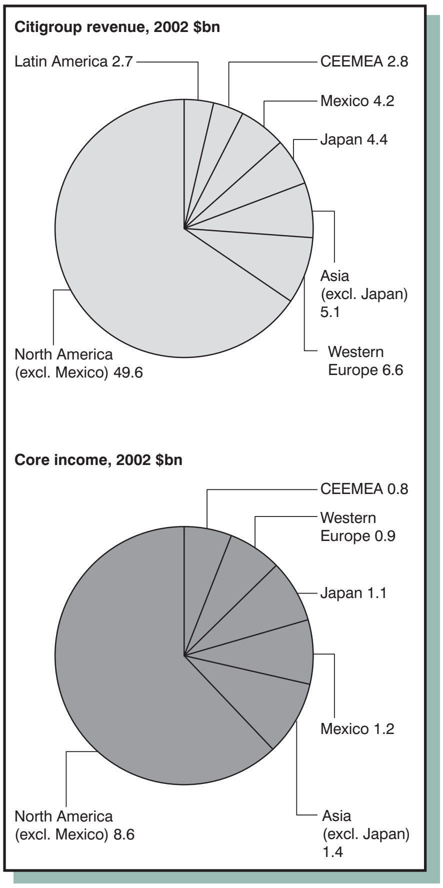
- Wal-Mart has attracted more lawsuits that any other firm in the US. This is largely as a result of its employment practices as it has battled aggressively to remain non-unionised.
- Civic activists accuse the company of turning CBDs into ghost towns by constructing stadium-sized superstores on the fringes of moderately sized urban areas.

Case Study 4

Citigroup

Citigroup (Figure 4) is the most profitable bank in the world, with operations in more than 100 countries. It was formed by the 1998 merger of Travelers and Citicorp. In 11th position in the 2002 Fortune 500 global corporations it is the highest-ranking finance organisation. The bank is constantly reviewing its global network, expanding in countries where potential profits are greatest and sometimes scaling back in nations where the outlook may not look so rosy. However, the company has always been extremely careful about not leaving countries as it can be a difficult process to get a banking license back from a host government. In November 2002, Citigroup became the first US bank to open a retail branch in Russia with services including internet and telephone banking. Shortly after this the company signed a 50-50 joint venture with the Shanghai Pudong Development Bank to market credit cards. The logic of the joint venture is that it allows Citigroup to begin the process about four years before the company could have done it on their own. This strategy has in fact allowed it to jump the competitive queue in the credit card business.

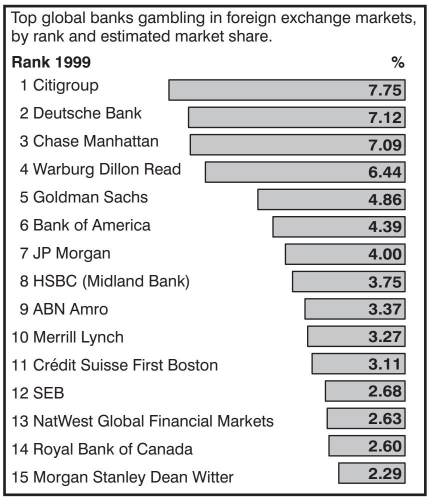
Figure 4: Citigroup revenues, 2002



Note: CEEMEA = Central & Eastern Europe, Middle East & Africa

Source: *Financial Times*, 27 Januart 2003

Figure 5: The foreign exchange market



Source: *W. Ellwood* (2001), The No-nonsense Guide to Globalisation, *New Internationalist Publications*

It is not just manufacturing TNCs

Figure 6: Profile of Phil Knight

1938: Born, Portland, USA

1959: Graduates from the University of Oregon where he met coach Bill Bowerman

1962: Graduates from Stanford University where his MBA paper was on trainer manufacturing

1964: Sets up Blue Ribbon Sports with Bowerman to import trainers from Japan

1971: Nike, named after the Greek goddess of winged victory, is founded. The swoosh is designed by Portland University design student Carolyn Davidson, who is later paid in shares

1972: Bowerman invents the waffle trainer shoe

1974: Jimmy Connors wins Wimbledon wearing waffle Nikes

1980: Nike lists on the New York stock exchange

1984: Carl Lewis and Nike dominate the LA Olympics

1985: Knight signs unknown basketball rookie Michael Jordan

1987: Nike launches Air Max

1988: Nike adman Dan Wieden says "you guys just do it" at a meeting, A company slogan is born

1997: Nike's rookie golfer Tiger Woods wins the Masters by a record of 12 strokes

1998: Signs $17m (£11m) annual deal with Brazilian football team

2000: Nike signs £300m deal with Manchester United giving it rights to all of United's merchandise

2003: Nike announces third quarter results with sales up 6% to $2.4bn (£1.4bn) and profits of $125m. Annual sales are forecast to be $10.6bn

Source: *Guardian*, 17 June 2003

that have their critics. According to The Citigroup Watch run by Inner City Press (June 9th 2003), 'Citigroup engages in questionable high interest rate lending in low income communities across the United States, and now globally. Through its investment bank, Citigroup underwrites and trades in pools of loans issued by other predatory lenders. Citigroup finances and is involved in such environmentally destructive projects as the Chad-Cameroon pipeline and China's Three Gorges dam.' Citigroup's prominent role in the foreign exchange markets has been criticised by a number of writers (Figure 5).

A transnational contracting out

Peter Dicken's definition of a transnational corporation is 'a firm which has the power to co-ordinate and control operations in more than one country, even if it does not own them.' Some of the most high profile TNCs such as Nike (Case Study 5) do not actually own any factories abroad. Although perhaps as well known as Wal-Mart and Citigroup, Nike is a considerably smaller entity as the sales figures in Figure 6 show.

Case Study 5

Nike

Nike, the world's largest maker of athletic shoes, does not make any clothes or shoes itself. It contracts out production to South Korean and Taiwanese companies. These companies operate not only in their home countries but also in lower wage economies such as the Philippines and Vietnam. Nike's expertise is in design, development, marketing and sales. In 2001 Nike's total sales were $9.5 billion with profits of $590 million (6.2% of sales). Phil Knight, co-founder and chief executive, is the public face of the company. Figure 6 is a profile of Knight's role in the development of the company.

The figures supplied by Nike for its cost/price chain are as follows:

- Contractors are paid an average of $18 a shoe by Nike. This is made up of $11 for materials, $2 for labour, $4 for other costs, and $1 for profit.
- Nike sells the shoes to retailers for $36. The mark up of 100% accounts for the costs of design, research and development, marketing, advertising, shipping, production management, other sales and business costs, taxes and of course a profit.
- Retailers mark up another 100% to $72 (on average) to cover wages, shrinkage, insurance, advertising, supplies and services, depreciation, taxes and profit.

Nike currently produces its products in more than 800 contract factories, employing more than 600,000 people, in more than 50 countries throughout the world, including the United States. In mid-2003 Nike paid $305 million to acquire retro shoemaker Converse. Most large transnationals grow by acquiring other businesses as well as generating their own growth.

Focus Questions

1. Discuss the reasons why Africa has been bypassed by the benefits of globalisation.

2. (a) Identify the locations of the raw materials used to make Wimbledon tennis balls.
(b) Why are these tennis balls no longer produced in Britain?

3. (a) Examine the development of Wal-Mart over its 40 year history.
(b) Why do some large companies like Wal-Mart decide to expand beyond the boundaries of their 'home' countries?

4. Using case studies 3, 4 and 5, discuss some of the criticisms levelled at large TNCs.

Geofile Online © Nelson Thornes 2004