

Modern World Economy

Alliances and rivalries

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Introduction

As noted in the research by P.J. Taylor (2002: 113), historically, the global economic environment was made up of a “...*competitive world of rivalry between states, [where] each has had to look to its own ends and use any means available to satisfy them.*”¹ (P.J. Taylor, 2002). Following the demise of the cold war and the advent of the information era, however, this global economic landscape has changed dramatically. Indeed, it was in recognition of this change that the ex-Prime Minister of the UK, Tony Blair observed in his 2006 speech to the Australian government argued “*you can't have a coherent view of national interest today without a coherent view of the international community*” (Blair 2006, n.p).

However, one has to consider the merits of this argument in the context of the rivalries and alliances that still exist globally across national economies. The objective of this essay is to examine the impact that these phenomena have, using examples from four main economic and political activities for this purpose.

Production

Advances in digital technology in the latter decades of the 1900s led to the globalisation of commercial activities and operations, which in essence related to the international spread of corporate production processes (Castells 2001). It was corporations in developed countries that were first to take advantage of the cost benefits arising from technological developments. With improved communication provided by the internet and other technological advances, these corporations soon began to move their production operations to locations in emerging countries in order to gain the competitive advantage available from the reduced production and employment costs available in these locations. To consolidate this global production network, corporations therefore to develop alliances and joint ventures with domestic businesses in these countries.

An example of this approach has been witnessed in the automobile industry, where in the late 1990s Daimler-Chrysler, keen to develop production facilities in the far east, purchased a controlling stake in an Indian production corporation (Editorial 1999). The globalisation of production in other industries have followed a similar pattern, with corporations making strategic decisions to either relocate part or the whole of their production operations to emerging or developing countries. This global trading development

¹ Word in bracket added

has been encouraged by international organisations, including the WTO² (2006, p.11), who have argued, “*it allows resources to be used more appropriately and effectively for production.*”

Nonetheless, while this process has benefitted corporations, it has also had significant political and economic implications for Western nations. It will be apparent that the cross-border movement of production has had a negative impact on domestic production, which includes the loss of domestic employment and a reduction in national revenues. Therefore, in an effort to limit the damage caused by this development, rival agreements have been set up, which encourage free trade between some of the nations most affected by the globalised production phenomena, an example of which is the NAFTA³ agreement initiated by the USA (Atkinson 2003). Indeed, as indicated in the research of Borrus et al (2000), similar rival agreements have also begun to occur between emerging countries as they also seek to protect themselves from the longer term impact of production globalisation.

Knowledge

The transformation of the global production environment has also been impacted by the manner in which scientific and technology knowledge is being shared across nations, and corporations, resulting in the development of what has been termed as the knowledge economy (Shaw 1999). This caused Shaw (1999: 3) to argue that the “*The rise of the so-called 'knowledge economy' has meant that economists have been challenged to look beyond labour and capital as the central factors of production*”.

During the early stages of the globalisation of production, corporations were actively sharing this knowledge with the organisations they had formed alliances, seeing this as a means of improving the performance and quality of the production output and for the purpose of achieving corporate objectives (Castells 2001). Nonetheless, as the knowledge economies of emerging countries, such as China, India and other, continued to develop, these same corporations, fearful of increasing rivalry from these locations, began to claim “*intellectual rights over new discoveries [and began]⁴ licensing the use of this 'knowledge' to other*” (Shaw 1999: 6). This has continued to occur despite the fact that there remains a significant gap between the ‘knowledge economies’ of developed and emerging and developing nations.

² World Trade Organisation

³ North American Free Trade Agreement

⁴ Brackets added

Finance

The liberalisation of financial markets is yet another area where globalisation can have a significant impact on national economies, as was witnessed in Mexico when, due to the consequence of cross movements of finance by international investors, Mexico was forced to devalue its currency to protect the economy from financial collapse (Pettis 2001). It is clear from the analysis of this event that these investors had lost confidence in the performance of the Mexican economy and this resulted in currency instability (Pettis 2001).

The Mexican example of economic and currency instability is not an isolated case. Consequently, it is not surprising to find that in order to protect themselves against such events, many countries have sought to develop cross. One of the most obvious of these alliances has been the creation of the single currency. For smaller European nations, aligning their currency to the Euro was considered a means of protecting their economy from risk of speculation and financial instability (Pettis 2001).

However, the development of the Euro zone was also inspired by rivalry. In this context, the nations of Europe, particular those with the strongest economies, including Germany and France, saw this financial alliance as providing a means to rival the pre-existing dominance of the US Dollar, therefore enabling the region to compete more effectively in the international environment (Pettis 2001).

Security

If the positive outcomes of globalisation are to continue to succeed, a final activity that needs to keep pace with this development is the global security environment. As noted by Buzan and Weaver (2003:3), during the cold war period security was clearly defined within a “bipolarity” global environment, with the USA providing security for the West and Russia being the dominant security power for the East. One the demise of the cold war it may have been considered that, especially as Russia had moved towards democracy that the subsequent global security environment would have morphed towards alliance with the USA system.

However, this situation has failed to materialise, despite attempts by the UN to create a global security framework (Buzan and Weaver 2003). The reality is that rather than this being the case, there has been an increase in rivalries in the arena of global security and, moreover, the changes have resulted in a more regionalised approach. For example, the liberated former Soviet Bloc states, by joining the EU, have allied themselves to the security environment offered in this region (Buzan and Weaver 2003). This particular development

can also, to some extent, be seen to provide a security environment that that provides a rival to the USA. Moreover, regionally based security environments have continued to develop in Eastern global regions, of which the alliance dominated by China and Russia have been the most noticeable (Buzan and Weaver 2003).

It has been argued that the development of these RSC's⁵ area positive development, not least because, as Buzan and Weaver (2003), in that it improves the ability to deal with security incidents that may arise at national, regional and global levels. However, as has been shown from recent events, there has often arisen conflict between these rival security groups which can delay appropriate and proactive responses to such issues.

Conclusion

The WTO (2006) suggested that the global movement towards free trade can form the foundation for the development of a framework for a harmonised approach to production, knowledge sharing, financial stability and security. However, it can be argued from the discussion presented in this essay that while it is true that alliances have resulted from globalisations, there has also been an increased prevalence of rivalries between nations and regions in all of these areas. Nowhere is this more apparent than in the concerns of Western nations related to the improving global influence of Eastern economies. Indeed "*News that the peril to the east is growing even faster than expected is the last thing politicians in the developed world wanted to hear*" (Economist 2005: n.p). Therefore, it can be concluded that if the objective of globalisation is the harmonisation in these four areas, there remains a number of important issues that have yet to be fully resolved.

⁵ Regional Security Complexes, Buzan and Weaver (2003, p.3)

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