



# Reminders:

- Thursday: No Class
- Thursday by 11:59pm: Midterm exam (both parts) due
- Next Tuesday: Canvas homework AND NGO assignment
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# Today

- Globalization, Technology, Wages, and the Locations of Manufacturing



# Objectives

- Explore key terms
- Consider “locations of production” and the reasons for selecting these locations
- Ponder the **complex** trends and outcomes of economic globalization



# Review: what is globalization?

- “Economic globalization can be defined as the process by which markets and production in different countries are becoming increasingly *interdependent* due to the *dynamics* of trade in goods and services and *flows* of capital and technology”  
**(European Commission, 1997)**

# A bottom line definition of economic globalization?

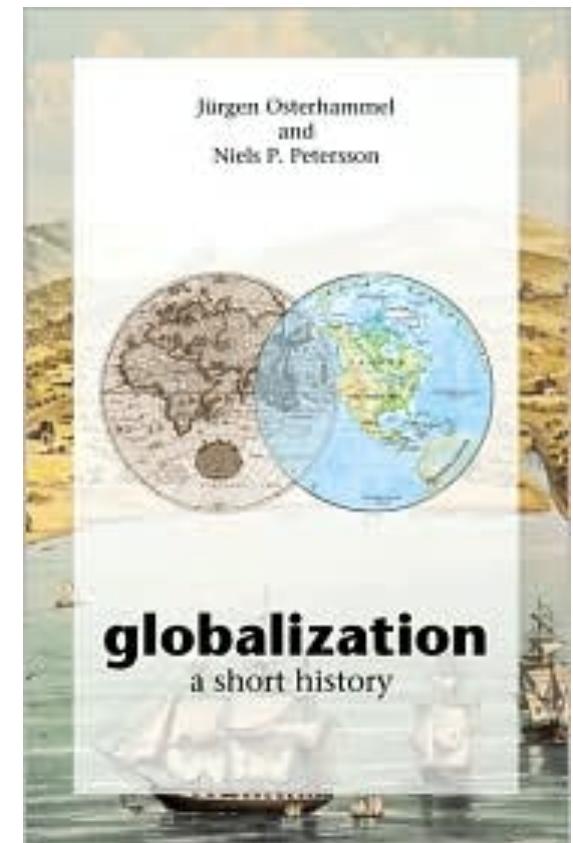
- The “global search for the lowest price” of production?
  - A “Race to the Bottom”?
- “Globalization, a word invented to convey the false hope of an integrated, inclusive world, has in reality meant the opposite: the rejection and exclusion of hundreds of millions who contribute little or nothing to the production and consumption and are thereby considered useless by 21<sup>st</sup> century capitalism.”
  - Susan George (qtd in Nayan Chanda 271)



The “Walmart Effect”  
(from 2006)

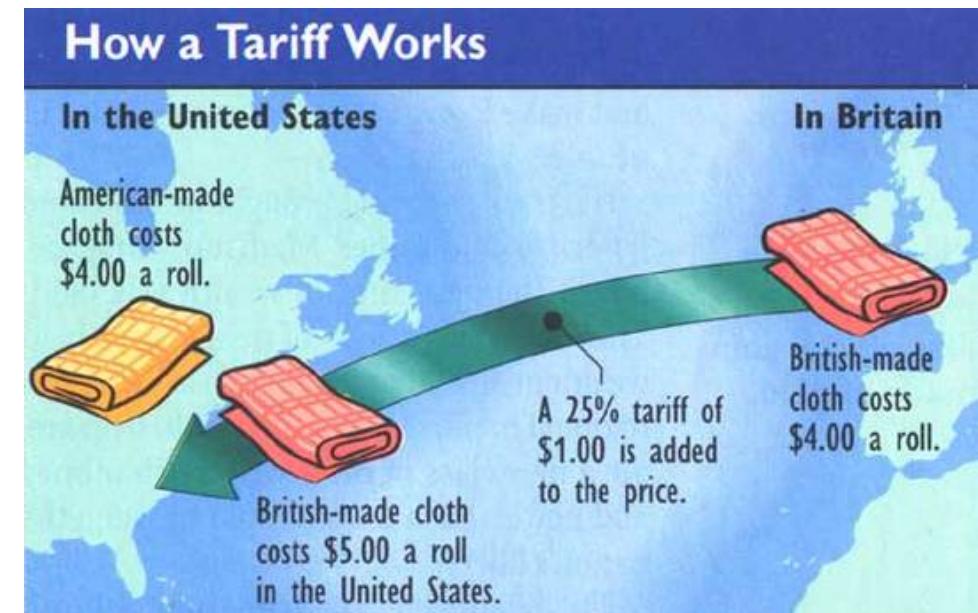
# Globalization has multiple effects

- Globalization never a “uniform process”
  - “Bundles of related processes”
  - ***Different speeds and different effects***



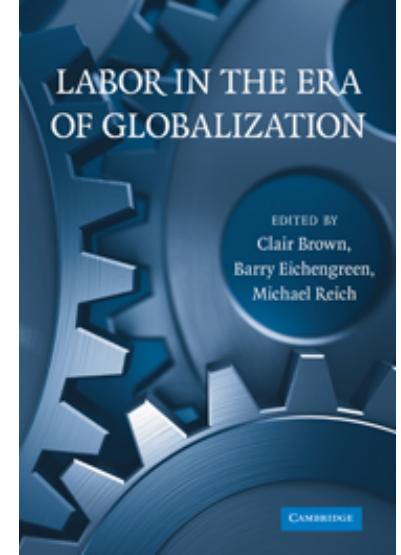
# Key Terms I

- Outsourcing
- Offshoring
- Global sourcing
- Insourcing
- Protectionism



# Key terms II

- “Right to Work” states
- Labor mobility
- Labor flexibility
  - Temporary labor / independent contractors





# Key Terms III

- Manufacturing-based economy / Service-based economy ([link](#))
  
- Globalization and Technology
  - The market and “Creative Destruction”
  - Mechanization / Automation
    - Higher productivity with fewer workers
  - Mobility of manufacturing and production sites

# The Dark Side of Globalization

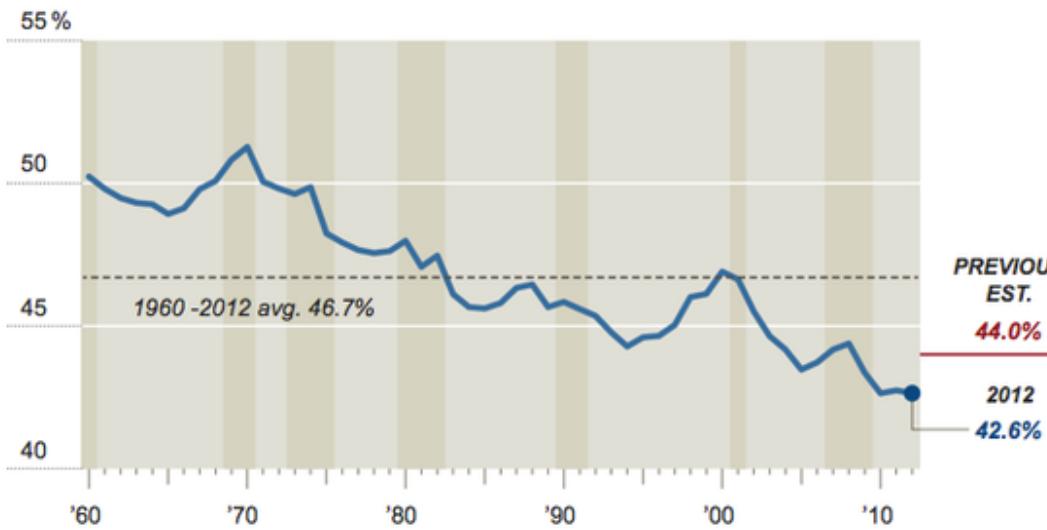
- Closing of factories
- Job losses
- Exacerbation of rural/urban divide
- Plant closings:
  - Textile factories
  - Delphi plant closings
  - Continental plant in Huntsville
  - Fort Payne



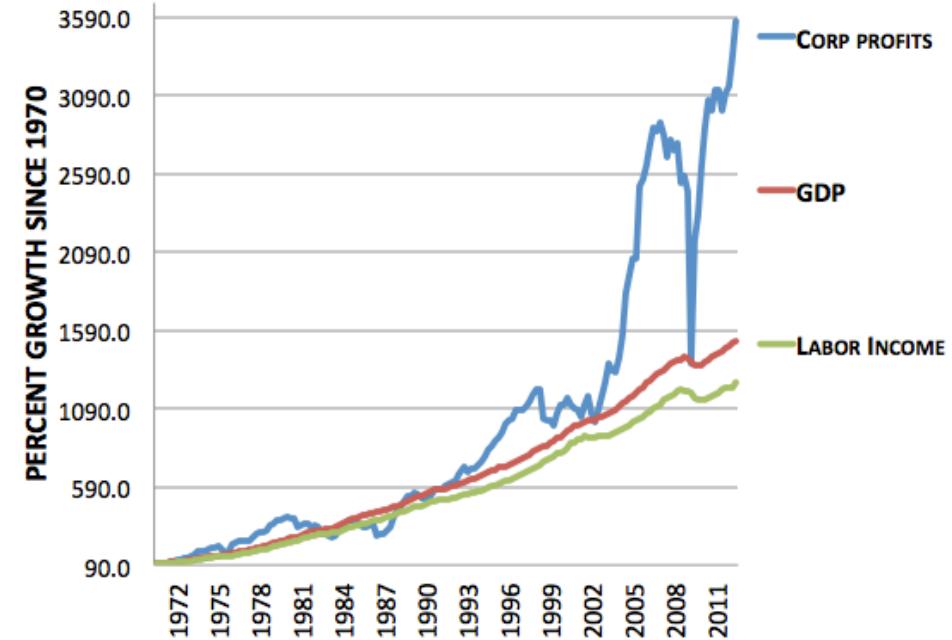
# “Squeezing of the Middle Class”

- Larger companies, higher profits /fewer employees and lower wages
- Role of globalization and technology

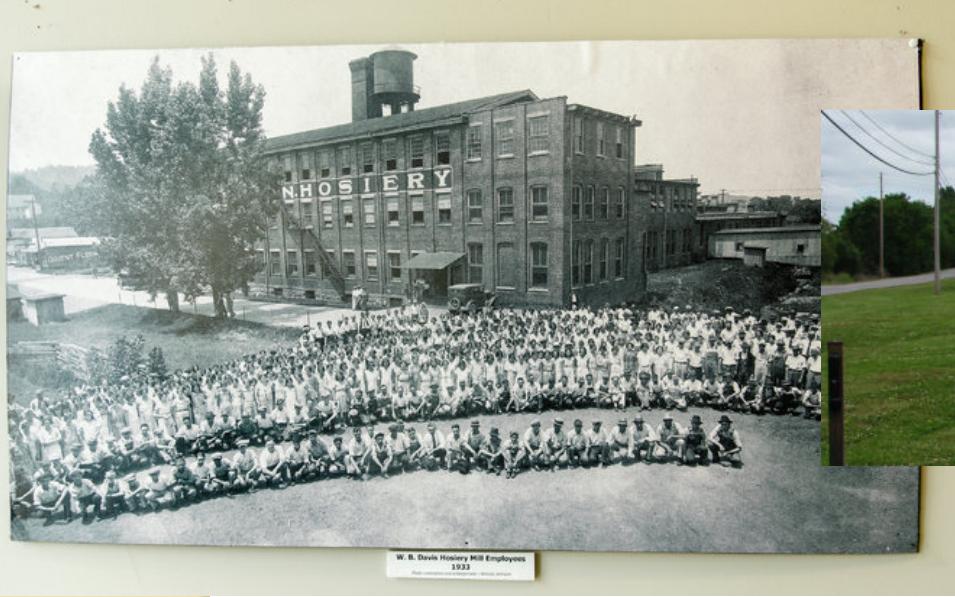
Personal wage and salary income, as a percentage of G.D.P.



Corporate Profits vs. GDP vs. Labor Income  
Since 1970



# Globalization = zero sum game?



On the one hand,

- Final manufacturing in China. Why?
- Goals: profits and happy shareholders

On the other hand,

- American innovation
- The iPhone: a “**globally sourced product**”  
<http://financesonline.com/how-iphone-is-made/>
- Apple employs 10s of thousands in US

# The Complex Case of Apple



# Opportunities from Globalization?

- Identification of manufacturing and trade goals (“industrial policy” and “trade policy”)
- Government incentives to attract Foreign Direct Investment (FDI)
- At stake: Jobs, jobs, jobs and politics

# FDI and Manufacturing in the US South

- Surge in new foreign firms
- Expansion of Foreign Direct Investment (FDI)
- Rejuvenation of and more employment in manufacturing
- Increase in foreign-born population
- Rise in per-capita income across the South

# International Efforts in Alabama

- State:
  - Alabama Department of Commerce
    - [International Trade Division](#)
- Alabama-Germany Partnership ([link](#))
- North Alabama
  - North Alabama International Trade Association (NAITA)
  - Global Ties Alabama (formerly International Services Council)
- Huntsville/Madison County Chamber of Commerce
- Successful recruiting of foreign firms
  - Toyota, LG, Panalpina, etc...



**It's Chattanooga!**

VW to spend \$1 billion, bring more than 2,000 jobs to tri-state area



Gates have obtained more than 500 acres of land in the Enterprise South Industrial Park since May to ready the site for Volkswagen.

# The Search for FDI



## Mercedes Benz

- \$253 million subsidy from Alabama
  - Land
  - Tax breaks
  - State purchases of vehicles (\$75 million)
  - Benefits:
    - Jobs
    - Recruitment of other firms

### Problems:

- Cost of incentives per employee
- Forfeiture of tax revenues

## Volkswagen

- \$1 billion investment by VW
- 2000 jobs plus additional contractor jobs
- Tax breaks
- Capital investment
- Land
- Infrastructure
- Assistance for job training

Total incentives offered by Tennessee:  
\$577 million  
By Alabama:  
\$400 million

# Emerging Economies

- Source of FDI and competition for locations for manufacturing and services
- The BRICS
  - Originally:
    - Brazil
    - Russia
    - India
    - China
  - Now also
    - South Africa

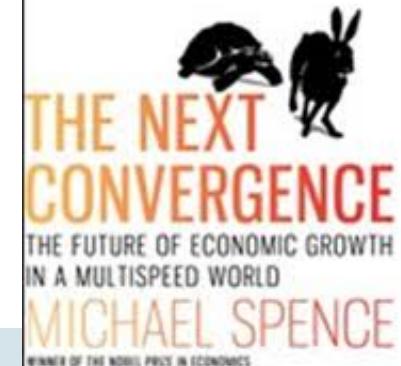


Not a unit like the  
EU or NAFTA!!!!

Goldman Sachs video:

<http://www.youtube.com/watch?v=AqXsuVJOQIk>

# The New Global Balance / The “Great Convergence”



## Global balance



Sources: AT Kearney; Bloomberg; BP; dotMobi; Fortune; IMF; UBS; UN; World Bank; World Steel Association; WTO

## Emerging economies' world share

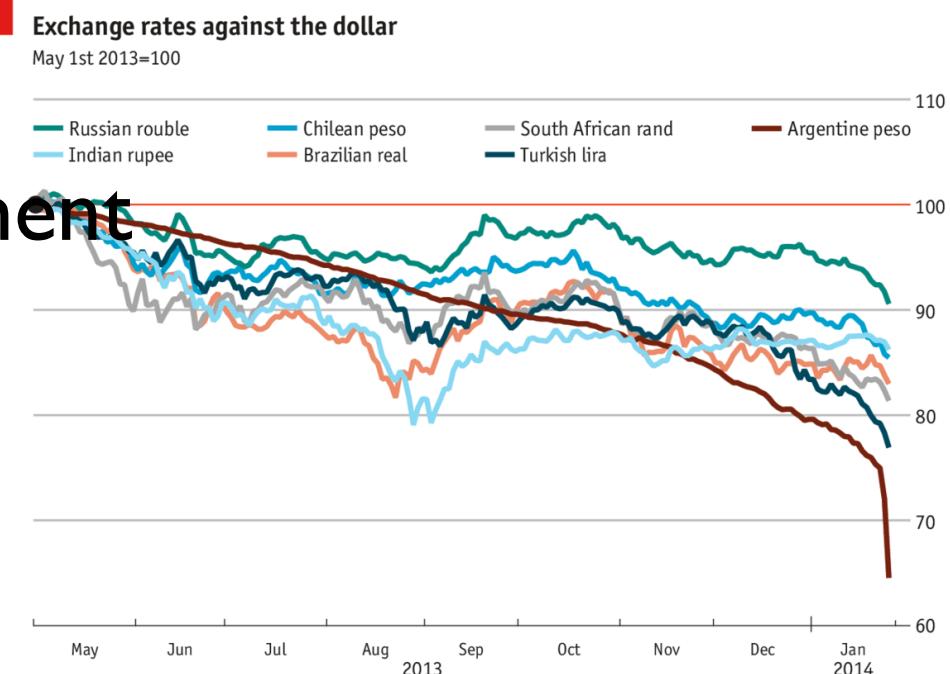
2010, %



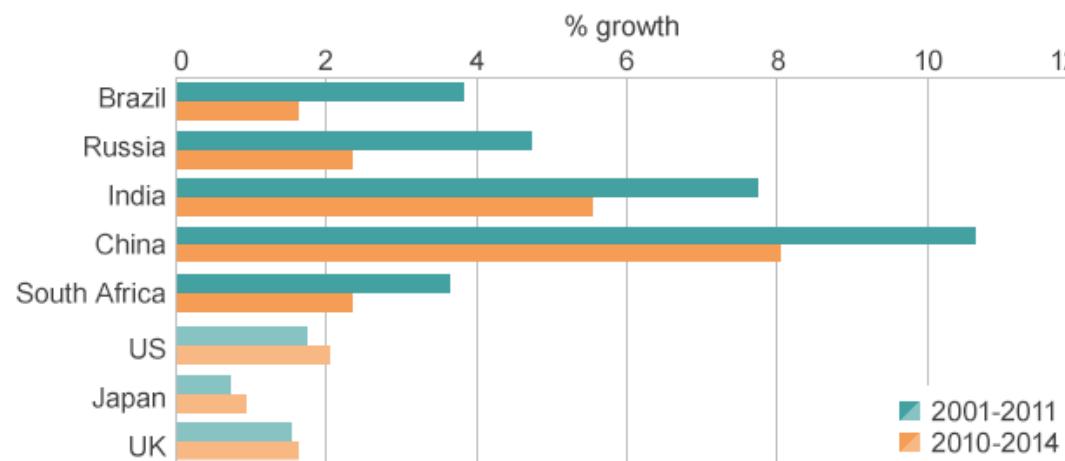
\* Purchasing-power parity  
† Foreign direct investment

# Challenges for the BRICs

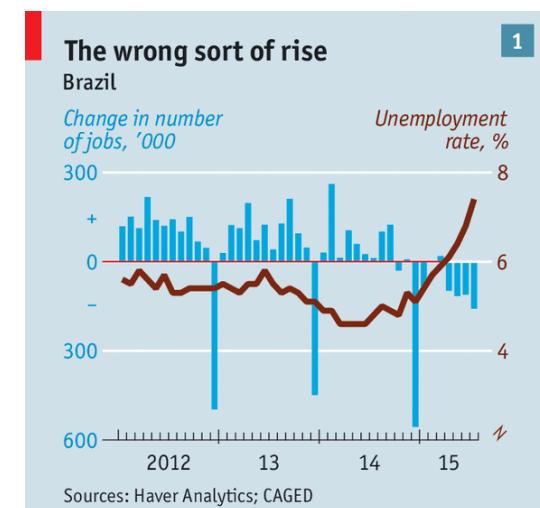
- Advantages not permanent
- Dangers of inflation
- Falling currencies
- Perils of “middle-aged development”



Average annual growth rates for the BRICS and three major developed economies



Source: Calculated from IMF World Economic Outlook Database October 2014





# Why Insourcing (Onshoring) (U.S.)

- Coordination of design and production
- Cheaper energy (natural gas)
- Rising wages in China
- More flexible labor environment
- Increase in labor productivity
- Quicker “time to market”
- Greater transparency of costs
- Intellectual property protection

# Lessons from “Insourcing”

## Google “Nexus”

- Marketplace report from 2012
- Designed and produced in US
- Higher price for “Made in the USA”
- Announced in summer 2012, pulled in January 2013. Why?

## GE “Appliance Park”

- High end appliances
- Coordination of design and production
  - Engineers and assembly line workers
- Cost savings through better engineering and higher productivity
- More transparent calculation of costs
- Lean manufacturing

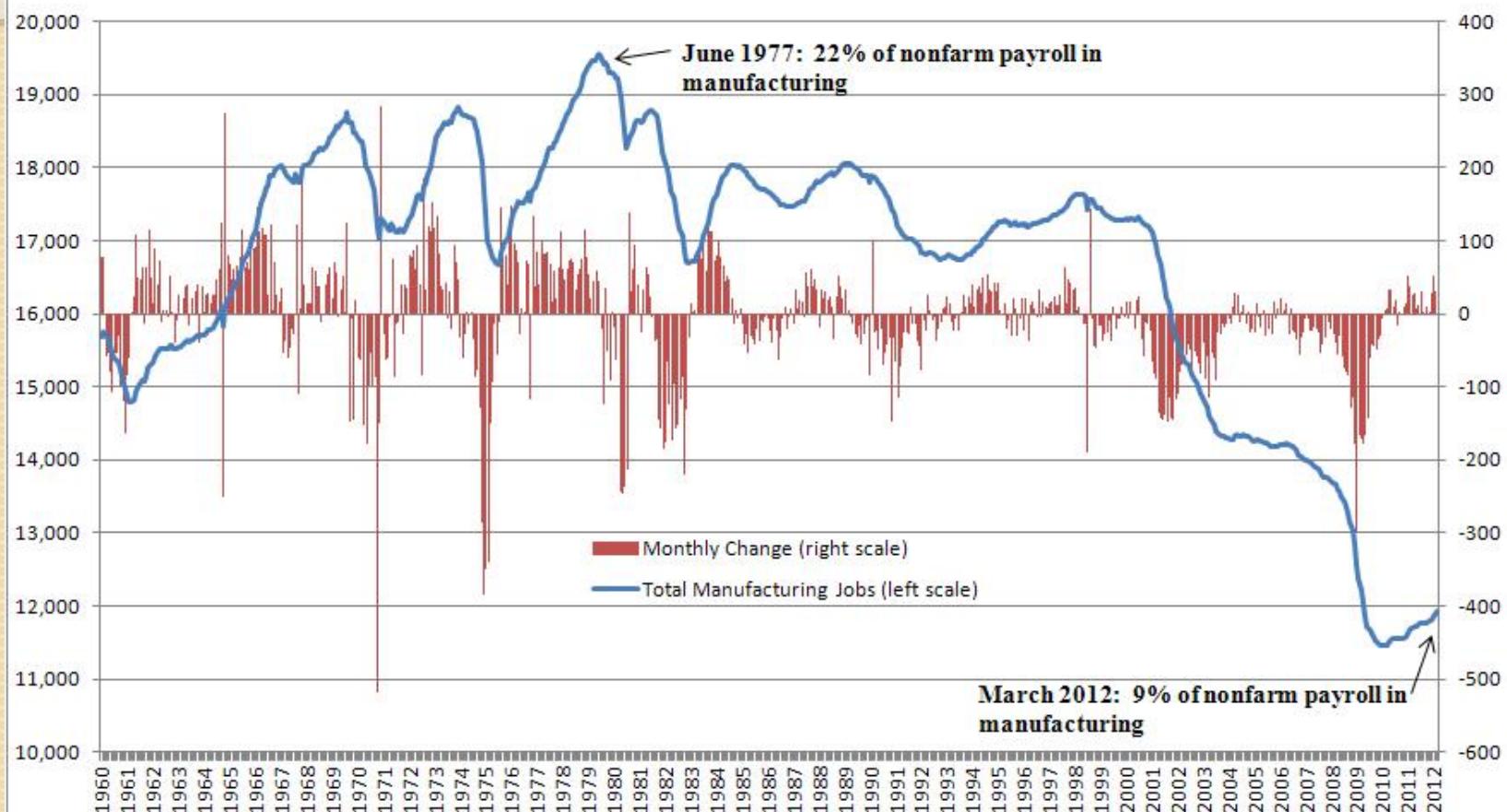
# Lessons from Smyrna and elsewhere



Nissan plant in Smyrna, Tennessee

# Rising employment, but...

**U.S. Employment in Manufacturing, thousands**



Data Source: BLS

Global Macro Monitor  
macromon.wordpress.com



# Conclusions/Questions

- Complexities of economic globalization
- Is “economic globalization” a good thing? A bad thing? Do you want globalization to continue?
- Should we only worry about the economic ramifications of globalization?



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