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GLOBAL PRODUCTION SYSTEM

Essay

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Abstract

The most significant transformations that globalization produces occur in production. Since the '60s, a new division of labor has made its presence felt in the world, arising from the "de-industrialization" of the developed and transfer production capacity of resource-intensive industries and pollutants from these countries to the developing world. "Dislocation" industry had the interim foreign direct investment made in the new industrialized countries, the latter becoming, in turn, sources of direct foreign investment, taking its capital in other countries in developing handsets. Currently, FDI destination is no longer a priority in developing countries, yet they are increasingly leaning towards the developed countries, due to the attractiveness offered by their economies.

Relocation is an immediate effect of the global and mobile factory (Maliţa, 2001). Economic globalization is often associated with the beginning of the shift of production outside national boundaries. Once with the *internationalization of production*, the classical national company became a *multinational company*, only to turn into a *network*, characterized by the incorporation of component parts manufactured in different places on the planet, into a finished product, and by the transportation, communication and information systems it entails. Hence the "image of the planet as an orange caught in overlapping hair nets related to transportation, communication, information, production, trade, finance, technology and science", expressing the "world's globality", the "network of networks through which goods, services, capitals and people flow unceasingly" (Malita, 2001).

Company networks - called "filières technologiques" in French and "keiretsu" in Japanese - favored the *integration of interdependent industrial and specialized production* on a global scale. Therefore, the mutations that define the contemporary global economy not only regard the globalization of markets, but also the *globalization of products*, in the sense that a finished product is the result of a combination of material inputs and services from different parts of the world. In the mid-80s, the research conducted on the globalization of the manufacturing industry revealed an advanced stage of globalization in the automotive industry, in consumer electronics, textiles and clothing. For example, research has shown that a motor vehicle described as "global" is built from parts coming from 16 different countries (Bari, 2001).

Once the restrictions regarding the *free movement of capital* – a freedom that was absent when the institutions from Bretton Woods were created - was eliminated, a process that culminated with the *liberalization and deregulation* measures taken in the 90s under the Reagan administration in the USA and Thatcher's government in the UK, the international financial markets knew a rapid development, even in the context of the debt crises that continued to have an impact at global level. Due to its scale and complexity, the financial landscape changed to the point to which it could no longer be recognized; this was in the moment when globalization really began to take shape (Soros, 1999; Griffiths, 2003).

The current world's "financial landscape" is the result of the deep mutations that occurred in the dynamics and structure of financial and exchange rate flows in the postwar period, and especially in the last decades of the 20th century. The international financial transactions experienced the fastest dynamics, forming a truly global financial system nowadays with distinct characteristics (Bairoch, 1982; Daianu, 1996; Clipa, 2004)

One such characteristic is that the *volume of financial and exchange rate transaction values experiences more pronounced dynamics than that of the trade in goods*, the latter serving, initially, as the support of the increased demand for financial services. "On a daily basis, on the London interbank market, amounts 10-15 times higher than the amount of transnational exchange rates circulate, of the eurodollar, [...] enroyen type, necessary for financing the global trade of goods and services" (Ducker, 1999; Clipa, 2008).

In recent years, once with the liberalization of financial flows and the enhancement and diversification of instruments used on these markets, the gap between the two flows in world economy has significantly widened. Moreover, a great part of the international capital flows is no longer intended to accomplish production and marketing related purposes - over 90% of financial transactions do not fulfill economic functions, but only financial ones; the "transnational" economy is thus no longer dominated by the "real" economy, but by the *"symbolic" economy* (Ducker, 1999; Barbu 2007). The financial transactions get "disconnected" from those related to trade in goods, forming a separate market, where most operations are conducted between banks and transnational companies (Kofman &Youngs1996, Brzezinski, 2000).

The exchange rate and financial flow stability, characteristic of the first decades of the postwar period was compromised once with the collapse of the international monetary system at Bretton Woods in the 70s and with the crises in the following decades. In the first phase, the collapse of the Bretton Woods systems and principles entailed generalized floating of exchange rates and the unstable evolution of the major currencies. Soon after, the first oil shock provided a considerable boost for financial flows, due to large amounts of "petrodollars" - currency surplus occurring in hydrocarbon-exporting countries, stored and then offered by transnational banks (Lawrence, 1996; Donnelly, 2001).

The deterioration of the balance of payments of the states affected by increases in raw material prices and by entering into credit agreements to balance the former provided a new dimension for financial transactions, especially for those intended for development, but only until the debtor states' going into payment default. With these, the financial and exchange rate flows increased and changed their destination to external debt service financing, at the expense of credits for investments. The generalization of the issue of foreign debts of developing countries in the eighth decade and the deterioration of their terms of trade, with implications on the balances of trade, reversed the direction of the financial flows aiding development. These countries became the net exporters of resources to developed countries. At the same time, the financial crisis from the 80s determined the displacement of the center of gravity from the private area to that of investments guaranteed by governments, many of the foreign private capital flows being guaranteed by authorized government bodies. A new crisis, created in the second half of the ninth decade, that mainly affected the Asian countries, but quickly spread to other geographic areas as well, proved that the globalization of financial flows can lead to the deepening of the crisis and to its expansion on a global scale, as a result of the interconnection of national economies and capital mobility.

As regards the geographical distribution of international capital flows, it could be argued that, for the entire postwar period, they were located, for the most part, within the perimeter of the developed countries, both as a source and as a destination. A surprising change that took place in the 80s regarded the change of status of the world's main creditor, which was held by the USA during the first postwar decades, and its transformation into a major debtor, alongside many developing countries (Clark, 1989; Calleo, 2002; Foot et al. 2003, Irimia et al. 2008). At the same time, Japan became the world's first financial power.

As a destination of global financial flows, an important weighting factor is the *developing countries* - located, from this perspective as well, behind the developed countries - as a result of the considerable needs for development funds, to restore the balance of payments and to cover the foreign debt service. At the same time, the political events that occurred in the late 80s and the early 90s, namely the fall of the communist regimes in Central and Eastern Europe, contributed to the widening of the scope of such flows, through adapting to market economy structures, an effort that was based on a massive injection of capital, both from public and private structures, into the economies in question, especially from developed countries and through EBRD.

A characteristic with a significant impact on financial market globalization is the emergence and the increase of *Eurocurrency flows* since the '60s. Eurocurrency is that currency deposited in banks outside the issuing country, the use of which is out of the control of the issuing state; this is the reason why these flows have become more and more extensive on the international financial market. The markets in which Eurocurrency transactions take place, called Euromarkets, have an important role in increasing the mobility of currencies and, implicitly, of international liquidity. At the same time, they constitute a source of instability by being a vehicle of interest mobility and inflation phenomena. The main Eurocurrency markets developed in Europe, in the large metropolitan areas (London, Paris, Zurich, Milan), but also in Southeast Asia and Latin America.

The liberalization of financial markets, the existing gap between capital needs, at international level, in terms of financing the functioning of world economy systems and the eradication of underdevelopment, on the one hand, and the reserves created at the global level, through authorized institutions, on the other hand, as well as the increasing volume of financial services related to multinational companies, led to the adoption of measures capable of rendering funding sources more flexible and to the introduction of new financial instruments and products (Euroshares, Eurobonds).

The internationalization of production, by means of the multinational companies that operate globally, imposed the performance of financial operations on the latter, in support of maximizing profits, through internal transfer mechanisms, such as transfer pricing, intercompany loans, distributing activity results between subsidiaries and parent companies - all of which contribute to the creation of *domestic financial markets* of major multinational companies which become, in many cases, true financial markets at global level.

The investment flow plays an important role in the international financial flows. The category of foreign direct investment has had and continues to have a decisive role in the creation of a global financial market and in the increasing globalization of production and trade, largely due to the liberalization of their legal regime in the 90s. For this reason, the correlated analysis of the dynamics of foreign direct investment (FDI), gross domestic product and export of goods and services is suggestive, even if it is only considered for the last two decades.

According to the data show in Table 1, the FDI inflows growth rate exceeded, for the past fifteen years, increased production and world trade. The exception to this rule is the year 2001, when the inflows diminished by almost 51% and the outflows by 55%. This reduction, which followed a stable growth, since 1991, and a spectacular increase in 1999 and 2000, is due to an economic downturn in most developed economies - which was reflected in a reduction of new investments, particularly of foreign mergers and acquisitions - and the decline registered in the stock exchange activity. The events from 11 September 2001, which occurred in the already present global economic recession, contributed to extending the decline in FDI inflows in the following year as well.

The banking market seems to be the economic field in which a global phenomenon can indeed be spoken of (Busuioc et al., 2014; Busuioc et al. 2016). This is also proven by the conclusions of a conference organized by the Federal Reserve Bank of New York, on 2 and 3 December 2004, on financial globalization. The project initiators start from the assumption that this can involve many potential benefits, among which:
- protection against national shocks;
- a more effective allocation of global resources;
- improving living standards on an international scale.

Unlike previous systems, an active and growing presence of transnational actors can be noticed in the current system. Their skills to establish or to influence the rules of the game are increasing. These actors' power is based on controlling finances, industrial processes - including scientific and technological processes and trade. They can, therefore, play the role of leaders in these segments of relations within the economic axis, thus contributing to a "dilution" of the hegemony of a state or group of states.

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Table 1
Growth rate of FDI flows, global production and export of goods and services, 1986-2001 (% annual variation)

	1986-1990	**1991-1995**	**1996-2000**	**2001**
FDI inflows	23.6	20.0	40.1	-50.7
FDI outflows	24.3	15.8	36.7	-55.0
GDP	11.5	6.5	1.2	2.0
Export of goods and non-factor services	15.8	8.7	4.2	-5.4

Source:
UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, p. 4.