1.3 & 5.2 Sustainability and Globalisation

Sustainability

Sustainable is an adjective for something that is able to be sustained, i.e, something that is capable of being continued at a certain level. Sustainability can be defined as the processes and actions through which humankind avoids the depletion of natural resources (which is influenced by the way societies are organised) to keep an ecological balance so that society's quality of life doesn't decrease.

In this chapter we will look at the three pillars of sustainability (Economic, Social and Environmental) to see how each pillar can be used to create (or destroy) a sustainably developed economic system.

- **Economic Sustainability**
  - This is the ability of an economy to support a defined level of economic activity indefinitely. It refers to the practices that support long-term economic growth (increasing GNI per capita) without negatively impacting social, environmental, and cultural aspects of the community.
  - Without profit a business cannot sustain itself into the future however without acting responsibly now and using its resources efficiently, a business will not be able to sustain its profits into the future
    - This is key economic challenge that businesses and countries face
  - **Indictors of Economic Growth**
    - **GNI – See chapter on National Income**
      - Note also the precautions when using National Income Statistics
    - **Human Development Index - See chapter on Economic Growth and Development**
      - UN ranking of countries
      - HDI explained – Tutor2U
      - HDI explained - UN
  - **Challenges of sustaining economic growth in the 21st century**
    - **Energy**
      - How we obtain energy from our environment currently, cannot continue to supply our energy demands. This renders economic sustainability an unachievable myth under these circumstances without viable sustainable alternatives being developed.
    - **Food**
      - Keeping a growing global population fed is a massive challenge, with global warming having a big impact in this regard.
      - http://www.fao.org/publications/sofi/en/
      - https://www.wfp.org/zero-hunger
      - https://stopfoodwaste.ie/resource/the-environmental-impact-of-food-waste
    - **Water**
      - Again, a growing population competing for a scarce resource.
      - https://www.worldwildlife.org/threats/water-scarcity

            - https://www.unwater.org/water-facts/scarcity/
        - **Humans versus machines**
            - Robotics and artificial intelligence are ever improving sciences. Gradually, some jobs are being replaced with machines. Finding alternative employment for those displaced by machines is a massive challenge.
            - https://www.bbc.com/news/business-48760799

    - **<u>Supporting local businesses as way towards economic sustainability</u>**
        - **Keeps the local economy healthy**
            - By spending your money locally, you're growing your local economy. Spending money at a local business helps create jobs in your town. Local businesses not only hire people in their communities, but they also employ other companies to support their growth. Local businesses need accountants, printers, agencies, wholesalers, farms, solicitors, etc. Every €10 spent locally on Irish products generates €24 of benefit to the local community. 45 cents of every Euro spent locally is reinvested locally in comparison to only 15 cents for the foreign multiple-national companies.
        - **Builds a sense of community**
            - The best social network is the one you build right outside your front door. When you frequent local businesses you're strengthening the relationships within your community.
        - **Positive environmental impact**
            - International shipping means planes, trains and cars that create traffic and air pollution. When you shop locally, even online with Irish businesses, there's less overall shipping and travel involved.

- **<u>Social Sustainability</u>**
    - Socially sustainable communities are equitable, diverse, connected and democratic places that deliver a good quality of life for the people who live there. They are places where human rights are respected, where laws are made to protect citizens and the environment and where people have the freedom to participate in the political process.
    - Poverty, inequality, poor access to health and education are symptoms of socially unsustainable communities
    - **<u>Indicator of Social Cohesion</u>**
        - Economic development is important, but strong economies alone do not guarantee strong societies. If people lack the most basic human necessities, the building blocks to improve their quality of life, a healthy environment and the opportunity to reach their full potential, a society is failing regardless what the economic numbers say.
        - The Social Progress Index is a comprehensive measure of real quality of life, independent of economic indicators. The Social Progress Index is designed to complement, rather than replace, economic measures such as GDP.
        - Social Progress Index

- **Indicators of Social Inequality**
  - **Gini Coefficient**
    - This system measures income inequality by comparing each household's income to that of other households. The coefficient is expressed as a value between 0 – 100 (or sometime 0 -1). A value of 0 would mean all income is distributed equally and a value of 100 would indicate that all income in a country is owned by one household.
    - Gini Coefficient - Ireland
    - Gini Coefficient explained
    - Gini Coefficient explained again!

  - **S80/S20 Share Ratio**
    - This ratio shows of total income received by the 20 % of the population with the highest income to that received by the 20 % of the population with the lowest income. Income must be understood as disposable income.
    - This is less commonly used than the Gini coefficient
    - S80/S20 share ratio - data from the EU

- **Income and Wealth Inequality**
  - **Income and wealth**
    - **Income** is a flow of money you receive, such as wages for employment whereas **wealth** means a stock of valuable possessions (assets): anything from cash under your mattress, through shares and bonds, to the value of your house or your car.
    - Arguably it is the wealth gap that leads to greater inequality than the income gap – why?
    - Income and Wealth Inequality – Video: USA slant
    - Tasc Report
    - CSO Data
    - OECD article – "How does income inequality affect our lives?"

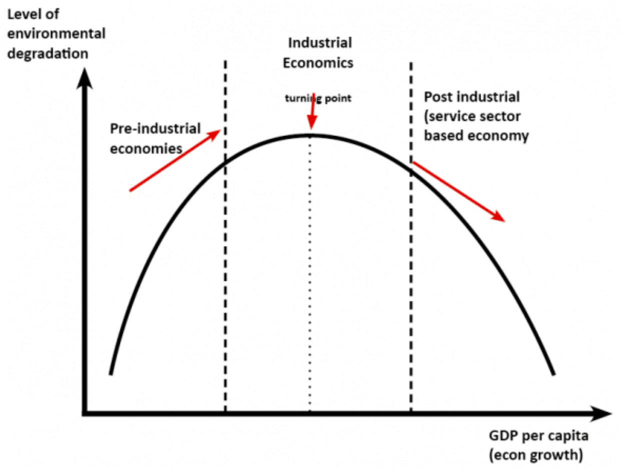
  - **Effects of Inequality**
    - **Lack of labour supply**
      - If there are large numbers of poor people without proper education or access to health services there will be a lack of supply of labour.
    - **Reduced aggregate demand**
      - If inequality "squeezes" the middle class, it may reduce their demand for goods and services.
    - **Undue influence of the wealthy**
      - If the rich may use their economic power to lobby against policies that don't serve their needs, for example investment in public health and education, they may further skew the economy in their favour exacerbating inequality further.
    - **Social capital solidifies the wealthy's position in society**

- In an unequal society, people's network of social relationships – their social capital – may not extend beyond their own income group and so may not be useful in helping them to find work. Equally, elite groups may use their social networks to exclude "outsiders" from economic opportunities
- **Social unrest**
  - Large wealth gaps can be associated with social conflicts, and with higher security costs, for both businesses and governments

- **<u>Environmental Sustainability</u>**
  - Our environment provides **resources**, provides **amenities** and **absorbs waste**. For our environment to be sustainable the following must be in place:
    - **Renewable resources** should not be harvested at a rate that exceeds regeneration
    - **Waste generation** should not exceed the capacity of the environment to deal with the waste
    - The depletion of **Non-renewable resources** should be matched by the development of renewable alternatives/substitutes.

  - **Environmental Performance index**
    - The 2018 Environmental Performance Index (EPI) ranks 180 countries on 24 performance indicators across ten issue categories: Air Quality, Water & Sanitation, Heavy Metals, Biodiversity & Habitat, Forests, Fisheries, Climate & Energy, Air Pollution, Water Resources, and Agriculture.
    - Ireland's Data in relation to the EPI

  - **Kuznets' Environmental Curve**
    - The environmental Kuznets' curve suggests that economic development initially leads to a deterioration in the environment, but after a certain level of economic growth, a society begins to improve its relationship with the environment and levels of environmental degradation reduces. The hypothesis was first advanced by economist Simon Kuznets in the 1950s and 1960s. However, critics argue there is no guarantee that economic growth will lead to an improved environment – in fact, the opposite is often the case. At the least, it requires a very targeted policy and attitudes to make sure that economic growth is compatible with an improving environment.



- Kuznet's Environmental Curve – video Tutor2u

- **EU Green Deal – How is Ireland performing?**
- **Irish Government's Climate Action Policy**
- **Conflicts and Synergies between the pillars of sustainability**
  - **Environmental and Social**
    - **Conflicts**
    - **Synergies**
  - **Environmental and Economic**
    - **Conflicts**
    - **Synergies**
  - **Social and Environmental**
    - **Conflicts**
    - **Synergies**

- **Sustainable development**
  - Sustainable development is development that **meets the needs of the present without compromising** the ability of **future generations to meet their own needs.**
  - Ireland's and the UN's Sustainable Development Goals
    - Video to explain
  - Challenges in achieving the UNs SDGs
    - Shocks to the economy
    - Converting the goals to local programmes
    - International Coordination

  - **Consumers**
    - How can we as consumers live more sustainably?
    - Ikea video
  - **Business**
    - How can businesses and organisations produce more sustainably?
    - Ikea demonstrating how they are being more sustainable
  - **Government's**
    - "Our Sustainable Future" – Government publication 2015

Globalisation

Globalisation means the world is one large marketplace. Through the process of globalisation the world is becoming interconnected by trade and culture exchange. Globalisation has increased the production of goods and services. The biggest companies are no longer national firms but multinational corporations with subsidiaries in many countries.

Globalisation has been taking place for hundreds of years, but has sped up enormously over the last half-century.

Globalisation has resulted in:

- **increased international trade**
- **greater dependence on the global economy**
- **freer movement of capital, goods, and services**
- **recognition of companies such as McDonalds and Starbucks in LDCs**

- **Factors giving rise to globalization**
  - **Saturation of domestic market**
    - If a company wants to grow it needs to increase sales and therefore will look abroad. If an Irish company focuses only on the Irish market it limit itself to a market of 5million people.
  - **Increased Consumer Demand**
    - Consumers want choice. We want to walk into a supermarket at any time of the year and not be limited to domestic seasonal products. We want strawberries at Christmas time, despite the Irish harvest finishing in September. For this to happen we need to import from abroad.
  - **Improvements in transportation**
    - The costs of ocean shipping have come down, due to containerisation, bulk shipping, and other efficiencies. The lower unit cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to those in export markets, and it makes markets more contestable globally. Transport improvements also mean that goods and people can travel more quickly.
  - **Freedom of trade**
    - organisations like the World Trade Organisation (WTO) promote free trade between countries, which help to remove barriers between countries. That said, it is worth knowing that, in the last few years, there has been a rise in non-tariff barriers such as import quotas as countries have struggled to achieve real economic growth and as a response to persistent trade and current account deficits.
  - **Improvements of communications**
    - the internet and mobile technology have allowed greater communication between people in different countries. Rapid and sustained technological change has reduced the cost of transmitting and communicating information – sometimes known as “the death of distance” – a key factor behind trade in knowledge products using web technology
  - **Labour availability and skills**

    - countries such as India have lower labour costs and also high skill levels. Labour intensive industries such as clothing can take advantage of cheaper labour costs and reduced legal restrictions in LDCs.
  - **Differences in tax systems**
    - The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI). Many countries have become engaged in tax competition between each other in a bid to win lucrative foreign investment projects.
  - **Growth Strategies of Multinational Companies**
    - In their pursuit of revenue and profit growth, increasingly global businesses and brands have invested significantly in expanding internationally. This is particularly the case for businesses owning brands that have proved they have the potential to be successfully globally, particularly in faster-growing economies fuelled by growing numbers of middle class consumers.

- **<u>Positive impacts of globalisation</u>**
  - **Job creation**
    - Inward investment by MNCs helps countries by providing new **jobs** and skills for local people.
  - **Spin-off Effects**
    - MNCs bring **wealth** and **foreign currency** to local economies when they buy local resources, products and services. The extra money created by this investment can be spent on education, health and infrastructure.
  - **New experiences for locals**
    - The sharing of ideas, experiences and lifestyles of people and cultures. People can experience foods and other products not previously available in their countries.
  - **Improved global awareness**
    - Globalisation increases awareness of events in faraway parts of the world. Globalisation may help to make people more aware of global issues such as deforestation and global warming and alert them to the need for sustainable development.
  - **Increased Competition**
    - The arrival of MNCs to Ireland means more competition for indigenous producers and retailers which ultimately means the consumer will get better value for money.
- **<u>Negative impacts of globalisation</u>**
  - **Mostly benefits countries that are already wealthy**
    - Globalisation operates mostly in the interests of the richest countries, which continue to dominate world trade at the expense of developing countries. The role of LEDCs in the world market is mostly to provide the North and West with cheap labour and raw materials.
  - **Profits may not filter into the local economy**
    - There are no guarantees that the wealth from inward investment will benefit the local community. Often, profits are repatriated by the MNC.
  - **Closure of indigenous firms**

  - MNCs, with their massive economies of scale, may drive local companies out of business.
- **Exploitation of LDCs**
  - An absence of strictly enforced international laws means that MNCs may operate in LDCs in a way that would not be allowed in their base country. They may pollute the environment, run risks with safety or impose poor working conditions and low wages on local workers.
- **Creation of a global monoculture**
  - Globalisation is viewed by many as a threat to the world's cultural diversity. It is feared it might drown out local economies, traditions and languages and simply re-cast the whole world in the mould of the capitalist North and West. An example of this is that a Hollywood film is far more likely to be successful worldwide than one made in India or China, which also have thriving film industries.
- **LDCs threaten Irish jobs**
  - As LDCs develop and improve they will become a viable alternative for the location of manufacturing facilities for MNCs which may mean the loss of jobs in Ireland.

Multinational Corporations (MNCs)

Globalisation has resulted in many businesses setting up or buying operations in other countries. When a foreign company invests in a country, perhaps by building a factory or a shop, this is called **inward investment**. Companies that operate in several countries are called multinational corporations (MNCs). The US fast-food chain **McDonald's** is a large MNC - it has over 34,000 restaurants in 119 countries.

- **Characteristics of MNCs**
  - **Large Size**
  - **Multi-country operations**
  - **Centralised Ownership**
  - **Highly efficient – economies of scale**
  - **Deal in multiple currencies**

- **Reasons for the development of MNCs**
  - **Economies of Scale**
    - As a business grows in size it may be able to reduce to the **average cost of production per unit** as the fixed costs of production are spread out over a greater number of units.
  - **Market growth**
    - The market for a number of products tends to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. If a business wished to grow it often needs to look beyond the borders of the country in which it was established. An Irish business that doesn’t export is limited to the Irish market only.
  - **Avoid tariffs/regulations**
    - By basing an operation within a trading bloc and MNC may overcome tariffs being placed on its products. For example, if an

American company exported its products from the USA to the EU a tariff would be placed on the products which would make them more expensive. However, if the MNC established a manufacturing facility in Ireland it can sell the products made in Ireland to other countries in the EU (SEM) without facing tariffs.

- **Limit transport costs**
  - Manufacturing products, particularly bulky products, close to the market this will serve to reduce transportation costs. For example, Japanese car manufacturer Toyota has facilities in France, UK, Czech Republic, Russia, Portugal and Poland which allows easy transportation of vehicles to the European market.
- **Reduce production costs**
  - An MNC may select a manufacturing base in a foreign country as a means of reducing its cost of production. Low labour/land/raw material costs in developing countries are often pull factors for MNCs.
- **Friendly government policies**
  - Many MNCs leverage taxation rules to their advantage by having subsidiaries around the globe rather than having all their business located in one country. Ireland's corporation tax rate of 12.5% is a key reason that we attract so many MNCs to Ireland.
  - Also, governments are often keen to attract MNCs to their country for the employment they create therefore state agencies (like IDA Ireland) offer grants and incentives to MNCs basing themselves in Ireland.

- **Foreign Direct Investment in Ireland**

  Foreign Direct Investment (FDI) has been, and will continue to be, a key plank upon which Ireland's economy is built. Its contribution to the economy is far-reaching and it's estimated that **20% of all private sector employment** in the State is **directly or indirectly** attributable to FDI. It also contributes significant taxation revenue to the Exchequer, generates other commercial activity across the economy and helps to drive investment in research and innovation. At present, Ireland is now home to over **1,200 overseas company operations** that directly employ well over **230,000 people.** The country continues to attract businesses from sectors such as ICT, life sciences, financial services, engineering and business services.

  IDA Ireland is the State's inward investment promotion agency that is tasked with growing and sustaining FDI in Ireland. It achieves this by partnering with potential and existing investors to help them establish or expand their operations here. It also provides a range of supports, including grant assistance, to its client companies.

  - IDA Case Studies

  - **Impact of FDI in Ireland**
    - David McWilliams Article
    - Silicone Republic Article
    - **Positive**
      - **Government Revenue**

- In 2018, total corporation tax revenues were €10.4bn, representing nearly 20% of total tax revenues. Of this, 45%, nearly €5bn, came from 10 companies with a high proportion from a small number of multinational companies.

- **Employment**
  - **230,000 directly employed** by multinationals. Prevents "brain drain".
- **Spin-off Effects**
  - MNCs bring **wealth** and **foreign currency** to local economies when they buy local resources, products and services. The extra money created by this investment can be spent on education, health and infrastructure.
  - IDA research showing that for every 10 jobs created by FDI in Ireland, 8 more positions are generated in the wider economy.
- **Management Expertise**
  - MNCs often bring top executives to Ireland from across the globe. This allows Irish managers absorb these skills and perhaps use them to setup indigenous firms.

- <u>**Negative**</u>
  - **Powerful Influence on government policy**
    - Due to the level of employment they create MNCs have the potential to influence government policy for their interests which may not be in the national interest.
    - Union recognition article
    - Apple Tax appeal
  - **Pollution/Emissions**
    - Manufacturing firms may generate a lot of pollution and waste through their processes. Furthermore, these facilities may also contribute to our greenhouse emissions which makes it more difficult for Ireland to reach its sustainability targets.
  - **Difficulty achieving balanced regional development**
    - Many MNCs, particularly in the technology companies, like to be based in Dublin. This puts pressure on services in the capital. This concentration of technology companies in the main urban centres serves to depopulate rural areas and overpopulate urban areas.
  - **Two tier society**
    - Many technology MNCs pay wages fair in excess of those available to public sector workers like teachers, nurses, gardai. This has led to a shortage of employees in these sectors in the Dublin region as lower paid workers are priced out of the property market.
    - **Google pay in Ireland**

- **CSO Data Analysis**
  - CSO Data

€ million

	2017	2018
Flows - Abroad	-1,813	616
Flows - In Ireland	46,770	-23,786
Positions - Abroad - end year	822,832	823,501
Positions - In Ireland - end year	882,171	873,742
Positions - Net - end year	-59,339	-50,241
Net Income Flows	-51,810	-59,277

- "**Flows**" as referred to in the CSO statistics are **financial flows** that consist of equity transactions (buying shares in companies), reinvestment of earnings, and intercompany debt transactions during a particular period of time.
  - **Outward flows** represent transactions where Irish investors put money into foreign enterprises through purchases of equity

(shares) or reinvestment of earnings (putting company profits earned back into the company) or through lending money to foreign companies.
    - **Inward flows** represent transactions that increase the investment that foreign investors have in enterprises resident in Ireland
- **"Positions"**
    - The FDI "**positions abroad"** is the total value of Ireland's investors' equity in and net loans to enterprises in foreign economies. The
    - FDI "**positions in Ireland"** is the total value of foreign investors' equity in and net loans to enterprises resident in Ireland.
- **"Net Income Flows"** is the difference between income earned by Irish resident investors in foreign enterprises and the income earned by foreign investors through investing in Ireland. Note that "income flows" include dividends paid on equity (shares), profits taken out of companies and interest earned on loans given.