

6.4: Understanding the Developed World

Learning Objectives

After reading this section, students should be able to ...

1. Understand what the developed world is.
2. Identify the major developed economies.

The Developed World

Many people are quick to focus on the developing economies and emerging markets as offering the brightest growth prospects. And indeed, this is often the case. However, you shouldn't overlook the developed economies; they too can offer growth opportunities, depending on the specific product or service. The key is to understand what developed economies are and to determine their suitability for a company's strategy.

In essence, developed economies, also known as advanced economies, are characterized as postindustrial countries—typically with a high per capita income, competitive industries, transparent legal and regulatory environments, and well-developed commercial infrastructure. Developed countries also tend to have high human development index (HDI) rankings—long life expectancies, high-quality health care, equal access to education, and high incomes. In addition, these countries often have democratically elected governments.

In general, the developed world encompasses Canada, the United States, Western Europe, Japan, South Korea, Australia, and New Zealand. While these economies have moved from a manufacturing focus to a service orientation, they still have a solid manufacturing base. However, just because an economy is developed doesn't mean that it's among the largest economies. And, conversely, some of the world's largest economies—while growing rapidly—don't have competitive industries or transparent legal and regulatory environments. The infrastructure in these countries, while improving, isn't yet consistent or substantial enough to handle the full base of business and consumer demand. Countries like Brazil, Russia, India, and China—also known as BRIC—are hot emerging markets but are not yet considered developed by most widely accepted definitions.

The following sections contain a sampling of the largest developed countries that focuses on the business culture, economic environment, and economic structure of each country.¹

The United States

Geographically, the United States is the fourth-largest country in the world—after Russia, China, and Canada. It sits in the middle of North America, bordered to the north by Canada and to the south by Mexico. With a history steeped in democratic and capitalist institutions, values and entrepreneurship, the United States has been the driver of the global economy since World War II.

The US economy accounts for nearly 25 percent of the global gross domestic product (GDP). Recently, the severe economic crisis and recession have led to double-digit unemployment and record deficits. Nevertheless, the United States remains a global economic engine, with an economy that is about twice as large as that of the next single country, China. With an annual GDP of more than \$14 trillion, only the entire European Union can match the US economy in size. An economist's proverb notes that when the US economy sneezes, the rest of the world catches a cold. Despite its massive wealth, 12 percent of the population lives below the poverty line.²



Figure 6.4.1: New York remains the financial capital of the world. (© 2003-2011, Atma Global, Inc. All Rights Reserved.)

Throughout the cycles of growth and contractions, the US economy has a history of bouncing back relatively quickly. In recessions, the government and the business community tend to respond swiftly with measures to reduce costs and encourage growth. Americans often speak in terms of bull and bear markets. A bull market is one in which prices rise for a prolonged period of time, while a bear market is one in which prices steadily drop in a downward cycle.

The strength of the US economy is due in large part to its diversity. Today, the United States has a service-based economy. In 2009, industry accounted for 21.9 percent of the GDP; services (including finance, insurance, and real estate) for 76.9 percent; and agriculture for 1.2 percent.³ Manufacturing is a smaller component of the economy; however, the United States remains a major global manufacturer. The largest manufacturing sectors are highly diversified and technologically advanced—petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber, and mining.

The sectors that have grown the most in the past decades are financial services, car manufacturing, and, most important, information technology (IT), which has more than doubled its output in the past decade. It now accounts for nearly 10 percent of the country's GDP. As impressive as that figure is, it hardly takes into account the many ways in which IT has transformed the US economy. After all, improvements in information technology and telecommunications have increased the productivity of nearly every sector of the economy.

The United States is so big that its abundant natural resources account for only 4.3 percent of its GDP. Even so, it has the largest agricultural base in the world and is among the world's leading producers of petroleum and timber products. US farms produce about half the world's corn—though most of it is grown to feed beef and dairy cattle. The US imports about 30 percent of its oil, despite its own massive reserves. That's because Americans consume roughly a quarter of the world's total energy and more than half its oil, making them dependent on other oil-producing nations in some fairly troublesome ways.

The US retail and entertainment industries are very valuable to the economy. The country's media products, including movies and music, are the country's most visible exports. When it comes to business, the United States might well be called the “king of the jungle.” Emboldened by a strong free-market economy, legions of US companies have achieved unparalleled success. One by-product of this competitive spirit is an abundance of secure, well-managed business partnerships at home and abroad. And although the majority of US companies aren't multinational giants, an emphasis on hard work and a sense of fair play pervade the business culture.

In a culture where entrepreneurialism is practically a national religion, the business landscape is broad and diverse. At one end are enduring multinationals, like Coca-Cola and General Electric, which were founded by visionary entrepreneurs and are now run by boards of directors and appointed managers who answer to shareholders. At the other end of the spectrum are small businesses—millions of them—many owned and operated by a single person.

Today, more companies than ever are “going global,” fueled by an increased demand for varied products and services around the world. Expanding into new markets overseas—often through joint ventures and partnerships—is becoming a requirement for success in business.

Another trend that has gained much media attention is outsourcing—subcontracting work, sometimes to foreign companies. It's now quite common for companies of all sizes to pay outside firms to do their payroll, provide telecommunications support, and

perform a range of operational services. This has led to a growth in small contractors, often operating out of their homes, who offer a variety of services, including advertising, public relations, and graphic design.⁴

European Union

Today, the European Union (EU) represents the monetary union of twenty-seven European countries. One of the primary purposes of the EU was to create a single market for business and workers accompanied by a single currency, the euro. Internally, the EU has made strides toward abolishing trade barriers, has adopted a common currency, and is striving toward convergence of living standards. Internationally, the EU aims to bolster Europe's trade position and its political and economic power. Because of the great differences in per capita income among member states (i.e., from \$7,000 to \$79,000) and historic national animosities, the EU faces difficulties in devising and enforcing common policies. The EU's strengths also come from the formidable strengths of some of its economic powerhouse members. Germany is the leading economy in the EU.

Spotlight on Germany

Germany has the fifth-largest economy in the world, after the United States, China, Japan, and India. With a heavily export-oriented economy, the country is a leading exporter of machinery, vehicles, chemicals, and household equipment and benefits from a highly skilled labor force. It remains the largest and strongest economy in Europe and the second most-populous country after Russia in Europe.

The country has a socially responsible market economy that encourages competition and free initiative for the individual and for business. The *Grundgesetz* (Basic Law) guarantees private enterprise and private property, but stipulates that these rights must be exercised in the welfare and interest of the public.

Germany's economic development has been shaped, in large part, by its lack of natural resources, making it highly dependent on other countries. This may explain why the country has repeatedly sought to expand its power, particularly on its eastern flank.

Since the end of World War II, successive governments have sought to retain the basic elements of Germany's complex economic system (the *Soziale Marktwirtschaft*). Notably, relationships between employer and employee and between private industry and government have remained stable. Over the years, the country has had few industrial disputes. Furthermore, active participation by all groups in the economic decision making process has ensured a level of cooperation unknown in many other Western countries. Nevertheless, high unemployment and high fiscal deficits are key issues.

Overall, living standards are high, and Germany is a prosperous nation. The majority of Germans live in comfortable housing with modern amenities. The choice of available food is broad and includes cuisine from around the world. Germans enjoy luxury cars, and technology and fashion are big industries. Under federal law, workers are guaranteed minimum income, vacation time, and other benefits. Recently, the government has focused on economic reforms, particularly in the labor market, and tax reduction.

Germany is home to some of the world's most important businesses and industries. Daimler, Volkswagen, and BMW are global forces in the automotive field. Germany remains the fourth-largest auto manufacturer behind China, Japan, and the United States. German BASF, Hoechst, and Bayer are giants in the chemical industry. Siemens, a world leader in electronics, is the country's largest employer, while Bertelsmann is the largest publishing group in the world. In the banking industry, Deutsche Bank is one of the world's largest. In addition to these international giants, Germany has many small- and medium-sized, highly specialized firms. These businesses make up a disproportionately large part of Germany's exports.

Services drive the economy, representing 72.3 percent (in 2009) of the total GDP. Industry accounts for 26.8 percent of the economy, and agriculture represents 0.9 percent. Despite the strong services sector, manufacturing remains one of the most important components of the Germany economy. Key German manufacturing industries are among the world's largest and most technologically advanced producers of iron, steel, coal, cement, chemicals, machinery, vehicles, machine tools, electronics, food and beverages, shipbuilding, and textiles. Manufacturing provides not only significant sources of revenue but also the know-how that Germany exports around the world.⁵

Japan

Located off the east coast of Asia, the Japanese archipelago consists of four large islands—Honshu, Hokkaido, Kyushu, and Shikoku—and about four thousand small islands, which when combined are equal to the size of California.

The American occupation of Japan following World War II laid the foundation for today's modern economic and political society. The occupation was intended to demilitarize Japan, to fully democratize the government, and to reform Japanese society and the

economy. The Americans revised the then-existing constitution along the lines of the British parliamentary model. The Japanese adopted the new constitution in 1946 as an amendment to their original 1889 constitution. On the whole, American reforms rebuilt Japanese industry and were welcomed by the Japanese. The American occupation ended in 1952, when Japan was declared an independent state.

As Japan became an industrial superpower in the 1950s and 1960s, other countries in Asia and the global superpowers began to expect Japan to participate in international aid and defense programs and in regional industrial-development programs. By the late 1960s, Japan had the third-largest economy in the world. However, Japan was no longer free from foreign influences. In one century, the country had gone from being relatively isolated to being dependent on the rest of the world for its resources with an economy reliant on trade.

In the post–World War II period, Japanese politics have not been characterized by sharp divisions between liberal and conservative elements, which in turn have provided enormous support for big business. The Liberal Democratic Party (LDP), created in 1955 as the result of a merger of two of the country’s biggest political parties, has been in power for most of the postwar period. The LDP, a major proponent of big business, generally supports the conservative viewpoint. The “Iron Triangle,” as it is often called, refers to the tight relationship among Japanese politicians, bureaucrats, and big business leaders.

Until recently, the overwhelming success of the economy overshadowed other policy issues. This is particularly evident with the once powerful Ministry of International Trade and Industry (MITI). For much of Japan’s modern history, MITI has been responsible for establishing, coordinating, and regulating specific industry policies and targets, as well as having control over foreign trade interests. In 2001, its role was assumed by the newly created METI, the Ministry of Economy, Trade and Industry.

Japan’s post–World War II success has been the result of a well-crafted economic policy that is closely administered by the government in alliance with large businesses. Prior to World War II, giant corporate holding companies called *zaibatsu* worked in cooperation with the government to promote specific industries. At one time, the four largest zaibatsu organizations were Mitsui, Mitsubishi, Sumitomo, and Yasuda. Each of the four had significant holdings in the fields of banking, manufacturing, mining, shipping, and foreign marketing. Policies encouraged lifetime employment, employer paternalism, long-term relationships with suppliers, and minimal competition. Lifetime employment continues today, although it’s coming under pressure in the ongoing recession. This policy is often credited as being one of the stabilizing forces enabling Japanese companies to become global powerhouses.⁶

The zaibatus were dismantled after World War II, but some of them reemerged as modern-day *keiretsu*, and many of their policies continue to have an effect on Japan. Keiretsu refers to the intricate web of financial and nonfinancial relationships between companies that virtually links together in a pattern of formal and informal cross-ownership and mutual obligation. The keiretsu nature of Japanese business has made it difficult for foreign companies to penetrate the commercial sector. In response to recent global economic challenges, the government and private businesses have recognized the need to restructure and deregulate parts of the economy, particularly in the financial sector. However, they have been slow to take action, further aggravating a weakened economy.

Japan has very few mineral and energy resources and relies heavily on imports to bring in almost all of its oil, iron ore, lead, wool, and cotton. It’s the world’s largest importer of numerous raw materials including coal, copper, zinc, and lumber. Despite a shortage of arable land, Japan has gone to great lengths to minimize its dependency on imported agricultural products and foodstuffs, such as grains and beef. Agriculture represents 1.6 percent of the economy. The country’s chief crops include rice and other grains, vegetables, and fruits. Japanese political and economic protectionist policies have ensured that the Japanese remain fully self-sufficient in rice production, which is their main staple.

As with other developed nations, services lead the economy, representing 76.5 percent of the national GDP.⁷ Industry accounts for 21.9 percent of the country’s output. Japan benefits from its highly skilled workforce. However, the high cost of labor combined with the cost of importing raw materials has significantly affected the global competitiveness of its industries. Japan excels in high-tech industries, particularly electronics and computers. Other key industries include automobiles, machinery, and chemicals. The service industry is beginning to expand and provide high-quality computer-related services, advertising, financial services, and other advanced business services.⁸

? Key Takeaways

- The developed economies, also known as advanced economies, are characterized as postindustrial countries—typically with a high per capita income, competitive industries, transparent legal and regulatory environments, and well-developed commercial infrastructure. Developed countries also tend to have high human development index (HDI) rankings (i.e., long life expectancies, high-quality health care, equal access to education, and high incomes). In addition, these countries often have democratically elected governments.
- The major developed economies include Canada, the United States, Western Europe, Japan, South Korea, Australia, and New Zealand.
- The United States is the fourth-largest country in the world—after Russia, China, and Canada. However, the United States is the world's largest single-country economy and accounts for nearly 25 percent of the global gross domestic product (GDP). The strength of the US economy is due in large part to its diversity. Today, the United States has a service-based economy. In 2009, industry accounted for 21.9 percent of the GDP; services (including finance, insurance, and real estate) for 76.9 percent; and agriculture for 1.2 percent.
- Germany, a member of the EU (European Union), has the fifth-largest economy in the world. The country is a leading exporter of machinery, vehicles, chemicals, and household equipment and benefits from a highly skilled labor force. It is the largest and strongest economy in Europe. Services drive the economy, representing 72.3 percent (in 2009) of the total GDP. Industry accounts for 26.8 percent of the economy, and agriculture represents 0.9 percent.
- Japan's post-World War II success has been the result of a well-crafted economic policy closely administered by the government in alliance with large businesses. It also benefits from its highly skilled workforce. Japan has very few mineral and energy resources and relies heavily on imports to bring in almost all of its oil, iron ore, lead, wool, and cotton. It is the world's largest importer of numerous raw materials including coal, copper, zinc, and lumber. As with other developed nations, services lead the economy, representing 76.5 percent of the national GDP, while industry accounts for 21.9 percent of the country's output.

References

1. The sections that follow are excerpted in part from two resources owned by author Sanjyot P. Dunung's firm, Atma Global: *CultureQuest Business Multimedia Series* and *bWise: Business Wisdom Worldwide*. The excerpts are reprinted with permission and attributed to the country-specific product when appropriate.
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8. CultureQuest Business Multimedia Series: Japan (New York: Atma Global, 2010); bWise: Business Wisdom Worldwide: Japan (New York: Atma Global, 2011)

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