
Section 2: Geographical views of the world

Notes

Chapter 4: Geographical views of the economy

Essential reading

- Bryson, J. and N. Henry 'The Global Production System: from Fordism to post-Fordism', in Daniels, P et al. *An Introduction to Human Geography: Issues for the 21st Century*. (Harlow: Prentice Hall, 2008).
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Aims of the chapter

This chapter is about how we understand the location of manufacturing, the flow of goods through trade and the movement of finance. It outlines how we might understand processes of internationalisation and globalisation, and whether the world is becoming simultaneously more global, regional and local. We consider both traditional economic geography and the emergence of so-called 'new economic geography'.

Learning outcomes

By the end of the chapter and relevant reading, you should be able to:

- understand the intellectual development of economic geography
- appreciate the key concepts and current debates in economic geography
- describe and critique trends in the processes of globalisation, regionalisation and localism.

Introduction

I pick up just about any recently purchased household item and ask one of my children ‘where is this made?’. China is their reply and they are usually right. In less than 20 years China has moved from a country obsessed with autarkic (self-sufficient) growth and distribution, to one driven by external oriented growth and less concern for distribution. This shift has been met by both excitement, as companies rush to manufacture in China, to buy goods made there and increasingly to sell them, as well as worry for the impact on global trade and finance. Growth in the Chinese economy has been around 10 per cent per annum for a decade. In 2005 the US Secretary for Trade visited Beijing to ask the Chinese to export less to the US, to recognise that the US trade deficit of \$70 billion per month was driving down the price of the dollar. He met a frosty reception and the answer that the US should produce more of what it consumes. US politicians have since attempted to impose trade restrictions in some goods, citing the undervalued Yuan as the reason for China’s success, but also to protect jobs in inefficient domestic manufacturing. I note ‘attempted’ because talking tough and acting have been limited both by the oversight of the WTO, but more pragmatically because China has been steadily buying US debt and assets; China is now the largest creditor to the US. Through buying assets the Chinese maintain a higher value of the dollar, preventing the US from exporting, keeping inflation down and interest rates low, thus fuelling the demand for credit and consumer goods...which are imported from China. If the US is too tough China may call in debts, thereby influencing US interest rates, albeit at the expense of the value of assets. A global China would appear to be teaching a protectionist US a lesson in neo-liberalism.

Simple location models

The vignette of the economic landscape described above seems a far cry from the foundational texts of economic geography. Here I want to note three texts. First, Johann von Thünen’s *The Isolated State* published in 1826. Von Thünen was influenced by neo-classical economics and therefore incorporated the assumptions of rational economic actors who attempt to maximise profit, possess perfect knowledge, face no restrictions to trade and occupy a flat (isotropic) plain. In his model, von Thünen applied the idea of marginal productivity to determine an idealised pattern of agricultural land use. He considered the key variables to be the rent of land (R), the yield (Y), production costs (C), the market price of the crop (P), distance to market (M) and transport costs (F) to derive the formula:

$$R = Y(p - c) - Yfm$$

In applying this formula to agriculture, von Thünen made a number of additional specific assumptions, most important being that the area was surrounded by wilderness (to prevent trade being outward to a competing market), soil quality is constant and there are no roads. Consequently, land use is a function of transport costs and land rent.

What von Thünen called Locational rent (gain per unit area) decreased with distance from the market, but the price of a commodity is calculated by locational rent plus transport costs and fixed production costs. In this model Locational rent is also land value, as it is the maximum amount the farmer could pay (but would prefer not to) for land after costs. Moving out from the market, Von Thünen concluded that it is only economical to cultivate certain crops, beyond which the cost of land is above value, transport costs increase or other crops have higher yields or lower costs.

As there are no roads to distort transport costs, the model produces a pattern of concentric rings of agricultural activity. Nearest to the market is dairy production, vegetables and fruit, followed by timber for fuel and building, followed by extensive crops such as grain that are light and can be transported over greater distances reducing their marginal cost, and lastly, animal husbandry.

The second text is Alfred Weber's *Theory of the Location of Industry* (1909). Weber was interested in where industries would locate and suggested that the decision would be determined by the least cost location according to transport and labour costs. Transportation costs were a function of the weight of the commodity being transported and distance. Unlike agriculture that would be organised into zones, industries would locate at points. To find these points would require an analysis of what Weber termed the Material Index – the ratio of weight of raw materials to the finished product. Using the Index Weber distinguished between Weight Losing Industries, where the weight of the final product is less than the weight of the constituent raw materials, and Weight Gaining Industries where final product is heavier than raw material inputs. An example of the former is furniture manufacture which takes place close to the raw material rather than the market. An example of weight gaining is food processing (and Weber discounted water as a raw material) which is mostly located close to demand. The Material Index, however, would only be one determinant of location. The other was labour, the cost of which might counteract transport. Thus, decision-making will need to consider the costs of labour and skill requirements. Unskilled labour is available everywhere and mostly cheap, whereas skilled labour is more scarce and expensive.

Weber did not explore in depth the effect of agglomeration (or spatial clustering) on decision-making. He recognised that clustering permitted firms to take advantage of internal and external economies; the latter are the attributes of an area that the firm does not directly have to support. A software company, for example, will benefit from the nearby location of IT support firms but too many software companies in a cluster will raise costs giving an incentive for deglomeration. This idea of agglomeration is developed more fully by Alfred Marshall in *Principles of Economics* (1890), the third foundation stone to Locational analysis in economic geography. Marshall identified three principles of agglomeration. First, associated industries provide each other with key inputs and markets for specific goods, encouraging a clustering. Second, firms are drawn to locations that have relevant skilled labour where they are less likely to experience labour shortages; firms are likely to remain even as other costs change as training is a long-term process across generations. Third, agglomeration provides knowledge spillovers, or a positive technology externality in the jargon, whereby firms benefit from learning and sharing information and new technologies.

Marshall's contribution to Economics is to move the optic from the individual firm or sector to consider the internal and external economies. Based on the above three principles, Marshall believed that positive economies of scale were achievable without large factories with an in-house division of labour. Rather, economies could be attained from the industry instead of the firm, leaving smaller more versatile firms to innovate and avoid bureaucracy. Small firms in districts of competitors supported by subsidiary suppliers, with a natural skill base instilled through generations, and where trust is high would be more efficient than large single firms. As Sunley (1992) has argued by revisiting one of Marshall's exemplars, the Lancashire cotton industry, Marshall's belief in an evolutionary or organic

view of the world (informed by Herbert Spencer in particular) led him to exaggerate the dynamism of industrial districts. As Sunley notes, the cotton industry that at the time of Marshall's writing was still ascendant had by the 1930s all but disappeared in parts of Lancashire as demand shifted, internal competition acted against co-operation and labour militancy rose. We return to Marshall and agglomeration later in the chapter.

From this short history lesson we can identify a number of dominant features in the early, and later, study of economic geography. First, the underlying intellectual framework for economic geography was neo-classical economics, with its conventional suite of examples and drive to find points of equilibrium. Second, study is organised around the notion of geographic scale. In the work of von Thünen, Weber and Marshall, scale is mostly local or regional; there is only one market and so on. Although it is not explicitly ignored, there is no discussion of a global space economy. Third, location decisions are determined by weight, whereas the contemporary economy in some parts of the world is increasingly understood as 'weightless' based on the formation and holding of information and ideas, and the speed at which decisions are made.

Structural models: from Fordism to new industrial division of labour

The idea of an industrial division of labour far predates the symbolic starting point of Fordism that most observers consider to be 1913 when Henry Ford launched the assembly-line method of production in Detroit. Josiah Wedgwood had already divided the production of pottery into seven constituent parts in order to attain both a consistency of design and increased efficiency. Adam Smith had famously recorded in *The Wealth of Nations* that 10 people each undertaking different tasks could produce 48,000 pins in a day whereas the same people making pins individually would produce 20. Nevertheless, Ford took the production-line method to a new level, reducing the time taken to produce a Model T from 728 worker-minutes in 1912 to 93 in 1913 (Bryson and Henry, 2008).

Fordism was clearly driven by a capitalist mode of production, to enhance the return on capital through increasing the surplus from labour, and therefore profit to the investor. It should be noted that while Fordism overlapped with the huge increase on consumption enjoyed by households, at least in the developed world, from the 1920s to the 1970s, it paid little attention by contemporary standards to the detail of consumer preferences. Indeed, Fordism's emphasis on 'mass production' required relatively homogenous goods – 'any colour so long as it's black' in the phrase (incorrectly) attributed to Henry T Ford – and could not cope with individual taste or cultural more. The 'saving grace' of Fordism, however, appeared to be the improvement in worker conditions. Large-scale production provided a critical mass of workers whose demands for welfare had to be respected, while the division of labour gave any one point in the production line the power to disrupt output as a whole. Particularly by the 1950s there emerged what Ian Roxborough once called a 'labour aristocracy', blue collar, unionised, mostly male workers, well-remunerated and difficult to fire.

Fordism, supported by Keynesian economic policy, secured 'the post-war boom', marked by significant economic growth from the 1940s to approximately 1973, increases in social welfare and consumption. By the early 1970s, however, manufacturing in many developed countries was in severe decline, a trend that continued through the 1980s. In the United

Kingdom, the steel industry that had employed 165,000 people in 1980 employed fewer than 40,000 in 1999, clothing and textiles that employed 840,000 in 1980 had about 215,000 in 1999. It was a similar story for coal mining, shipbuilding, light and heavy engineering, some parts of the chemical industry, car and truck manufacture, and across much of Europe, the United States and Canada (Daniels, 2008).

Economic geographers were concerned in evidence of uneven development that in the structural theoretical frameworks popular from the 1960s laid the blame at the relation between capital and labour power (Smith, 1990). In *Social Justice and the City* (1973) David Harvey began to show that capital and labour did not attain an equilibrium state but were in a condition of constant flux. The problem of capital accumulation was partially addressed by a 'spatial fix' whereby capital was switched into and out from the built environment, and to different locales for production. This latter restructuring involved a shift from Fordist forms of production to smaller and more 'footloose' plants, responsive to changes in the market, able to take advantage of incentives in newly-industrialised regions, deregulated labour markets allowing for multifunctional workers to rotate jobs according to production quotas, and more involvement of marketing (Shaw, 2002). Flexible accumulation has coined terms to capture the faster, more responsive production systems as 'lean production', 'smoothing' to suggest the production of different goods in a single day, and the operation of low inventories as 'just-in-time'.

Flexible accumulation also involved moving certain production facilities abroad, and notably to developing countries. By the late 1990s almost 50 per cent of manufacturing jobs were located in the developing world, and over 60 per cent of developing country exports to the North were of manufactured goods, which represented a 1,200 per cent increase since 1960. In particular, we witness the rise of the transnational or multinational corporation (TNC/MNC) with the power to co-ordinate and control operations in more than one country, and by the late 1990s just 500 TNCs account for over 70 per cent of world trade (Dicken, 2003). These relocation or expansion decisions were aided by the shift in industrialisation policies in developing countries towards greater export orientation. To some extent this export orientation and deregulation was brought about by the conditionality of the World Bank and IMF following the debt crisis although some analysts express concern that Export Processing Zones (EPZs) are being used to 'muddle through' and avoid economy-wide trade liberalisation (Rodrik, 1999).

A particular feature of this shift are Export Processing Zones. The first EPZ was established in Shannon, Eire, in 1956, and by 1975 there were 31 EPZs in 18 countries, by 1987 260 in 40 countries. Today, almost all countries have at least one EPZ, with well-known examples in the Caribbean, North Africa (notably Tunisia and Morocco), Taiwan, Hong Kong, the Philippines, Thailand and Malaysia, Sri Lanka and Mauritius. The best example, however, remains the US–Mexican border where a free trade area was set up in 1965, allowing firms to set up branch plants (*maquiladora*) within five kilometres of the border, with special labour and fiscal laws. The zone was gradually extended and in preparation for NAFTA (operation from 1994) included the whole of Mexico. The growth of the *maquiladora* is shown in Table 4.1. By 1999 *maquiladora* accounted for 27 per cent of manufacturing employment in Mexico and in 2002 *maquiladora* were responsible for almost 50 per cent of total exports (and 35 per cent total imports). *Maquiladora* accounted for 15 per cent of GDP, while foreign trade generally increased from 13 per cent to just under 60 per cent of GDP between 1980

and 2002, and manufacturing exports rose from 23 per cent to 87 per cent of exports over the same period. However, when in 2000, NAFTA rules removed customs duties employment fell between 2000 and 2002, and 88 per cent of exports went to the US.

Year	Companies	Employees	Foreign exchange earnings (US\$m)
1966	57	4,000	n.a.
1975	454	67,000	454
1980	620	120,000	773
1985	760	212,000	1,450
1987	1,125	305,000	1,598
1991	1,914	467,000	4,134
1994	2,085	583,000	5,803
1997	2,661	888,000	7,593
2000	3,590	1,285,000	13,523
2002*	n.a.	1,066,000	n.a.

Note: *n.a.* = not available.

* January–April

Table 4.1: Mexico: *Maquiladora*, 1966–2002

(Source: cited in Gilbert, A.G. 'The urban revolution', in Gwynne, R.N. and C. Kay (eds) *Latin America transformed*. (Edward Arnold, 2004) pp.93–116.)

EPZs operate within a partial free trade regime but under conditions of exception different from the regulations that determine the rest of a country's economy. The host nation benefits from a rapid increase in its manufacturing base without having to provide the means for this production over a large area. Job creation and the potential stimulation of the local and national economy are further advantages. Conversely, firms in EPZs benefit from the availability of skilled, cheap labour, lower employment and environmental standards. As Wright (2004) shows for the Mexico case, these competitive standards have also relied on the feminisation of the workforce that has involved a sexualisation and infantilisation process, whereby women are represented as 'in training' and as socially and sexually unreliable. Useful articles on the labour conditions in EPZs or similar arrangements are Jauch (2002), Perrons (2005) and Standing (1999).

Instead of having Fordist plants in different countries producing goods for that country or region in a relatively autonomous fashion, TNCs increasing networked plants so that parts produced in different countries were assembled in another, and made available for global sale. The manner of TNC presence also changed, with Mergers and Acquisitions (M&As) the dominant form of entry and the setting up of subsidiaries organised through an array of joint ventures, strategic alliances and production consortia. The proliferation of new networks of corporate affiliates means the traditional structure of the firm has become blurred.

This new production regime was called a New Industrial Division of Labour (NIDL). To Massey (1995) the NIDL describes the new possibilities of disaggregating the productive process and the reallocation of each part according to comparative advantage determined by the price of labour. From a neo-Marxist or structuralist perspective, the profitability of single economic sectors, new work practices and investment 'restructure' production make

certain geographical areas more attractive (Massey, 1995). To some extent, however, research has tended to regard flexible accumulation as multidimensional leading to the criticism that few studies ‘unpack’ the dimensions and scales at which we can assess flexible accumulation. In some studies, it is production processes that are seen as specialised and flexible, while for others the notion applies to firms, for others it applies to workers and others to whole regions (Markusen, 1999, p.874). To Harvey (1989), however, the shift from Fordism to flexible accumulation can be seen simply as capitalism’s conventional response to crisis involving the devaluation of labour power as the instinctive response to falling profits.

From international division of labour to globalisation

Peter Dicken (2003) has argued that the growing strength and spread of TNCs, increased international trade and international economic agreements marked a ‘shallow integration’, whereas the globalisation of the latter twentieth century represents a ‘deep integration’. This new condition is marked by a capacity to work as a unit in real time through what Harvey (1989) calls ‘time–space compression’ or what Ohmae (1995) refers to as ‘accelerating interdependence’ that produce a global space economy.

Today’s economy is genuinely borderless. Information, capital and innovation flow all over the world at top speed, enabled by technology and fuelled by consumers’ desires for access to the best and least expensive products’. (Ohmae, 1995)

To Sachs and Larrain (1993) globalisation must encompass the idea of ‘macroeconomic unification’, which means that the world is now a single economy in the macroeconomic sense; the principal determinants of income and employment can now only be understood at a global level. But others have contended that in a global economy it is especially difficult to differentiate between the economic and the social as social conditions are less of a barrier to economic transaction (as financial services attest) while economic decisions in one location can have quickly transmitted impacts on social relations, from crime, drugs, fashion and beliefs, in another (Perrons, 2005). It seems necessary, therefore, to distinguish between economic and political globalisation.

A further distinction is between the globalisation of markets and the globalisation of production. ‘Deep integration’ would imply the globalisation of both trade and production, but also a shift in the ‘interaction capacity’ from one of linkages across nation states to the expansion of global capitalism (Buzan and Little, 2000). Let us look, first, at the evidence for and experience of the globalisation of trade and, second, the globalisation of finance.

The globalisation of trade

First, it is clear that international trade has increased dramatically. From 1945 trade has increased more than twice as fast as GDP; exports grew on average by six per cent annually from 1950 to 2000. To a large degree this increase is due to the dismantling of barriers to trade, import tariffs and quotas under General Agreement on Tariffs and Trade (GATT) rules from 1947, the rounds of trade negotiations but especially the Uruguay round (1986–1993) that culminated in the creation of the World Trade Organization in 1995 and its extension to include countries such as China. In 1940, the average tariff for a manufactured good was 40 per cent of its price and by 1995 it was four per cent (Dicken, 2003, p.93). Figure 4.1 shows the trend for trade from 1970 to 2000.

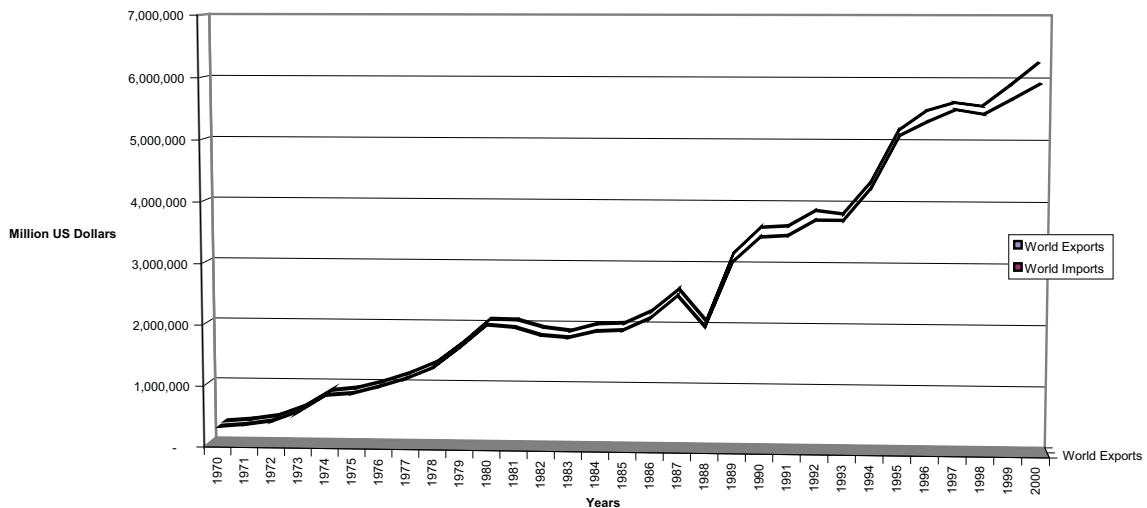


Figure 4.1: Total world trade, 1970–2000

(Source: UNCTAD, 2002)

Second, however, non-tariff barriers such as local-content and ‘rules of origin’, quotas, import-licensing policies, have increased, especially in sectors such as agriculture, energy and steel. Countries have also been accused of manipulating exchange rates to ‘dump’ goods – fingers are usually pointed at China by the US generally and by the European Union over textiles and shoes. It would seem that whatever the position of growth theory, that economic liberalisation and increases in trade are likely to reduce regional disparities, many lobbyists and governments believe the evidence that trade leads to greater concentration of economic activity and greater polarisation. The present debate is whether international trade is organised in such a way as to favour rich nations (see chapters in Goldsmith and Mander, 2001). If so, then the trade regime is international at best, and not a global space economy.

Third, we should recognise that some authors are sceptical as to the timing and shape of globalisation. Perhaps the best-known critique is offered by Hirst and Thompson who agree with the general assertion that ‘the world economy has internationalised in its basic dynamism, it is dominated by uncontrollable market forces, and it has as its principal economic actors and major agents of change truly transnational corporations, that owe allegiance to no nation state and locate wherever in the globe market advantage dictates’ (1999, p.17). But, they point out that the world economy was more open and more integrated between 1870 and 1913, when an open regulatory framework dominated, short- and long-run capital movements were unsupervised, and citizenship was freely granted to immigrants. Hirst and Thompson argue that under these conditions, markets linked a growing share of world resources and output, exports outgrew domestic output in the majority of capitalist countries, and the level of migration of labour was unprecedented. The position argues that the world today is more a ‘triad’ around the North American, European and Japanese economies. There is indeed some support for this view; in fact data show that in 1911 exports accounted for 12 per cent of GDP and in 1950 only seven per cent, but the percentage increased to 20 per cent by 2002.

Fourth, we need to consider the tension between globalisation, regionalism and localism. As a prominent area of commentary and study in the economic geography literature this point justifies more attention than the previous three and will be discussed in the final section of this chapter as the ‘new’ economic geography.

Global finance and foreign direct investment

The past 30 years has seen a staggering increase in the quantity and speed of money that circulates the globe. Any figure given here is likely to be wrong almost immediately but a conservative estimate would put bank holding of foreign assets at \$7 trillion or one per cent of global GDP. Of this figure about \$1 trillion is moved daily and in 2000 the international stock market activity was about \$1.2 trillion per day or 50 times the total value of annual international trade (Thrift, 2002). A great deal of this trade is the result of portfolio investment, an investment with the sole purpose of realising a profit, usually in the short term, and a large part of it conducted through 'emerging markets' in places such as South Africa, Malaysia, Mexico and Chile. Much of this increase in global flow of money is due to the rise of institutional investors such as pension funds and the 'securitisation' of funds (allowing firms to borrow directly from the markets rather than through banks). US mutual and pension funds invested \$60–70 billion per annum in developing country financial markets during the early to mid-1990s.

The second type of investment is direct investment that captures funds moved for the purpose of a corporate takeover or for the acquisition of new plant and machinery in a company. Within this category is Foreign Direct Investment (FDI). From 1982 to 1994 the level of global FDI grew fourfold, and doubled as a percentage of global GDP to nine per cent. Through the mid-1990s, FDI growth levels accelerated mainly through an increase of 19 per cent to \$400 billion in the value of Mergers and Acquisitions (M&As). For OECD countries, M&As rose to 86 per cent of the value of inward FDI by the end of the 1980s. By the late 1990s FDI was growing at an average annual rate almost three times higher than that of trade and four times greater than world output. The 1990s are thus characterised as a decade in which international production by TNCs, financed through FDI, gradually began to replace trade as the mode through which economies were interlinked: a considerable proportion of this FDI is a transfer from one part of a TNC to subsidiaries elsewhere (data are from UNCTAD).

As with the data for 'global' trade, the flows of FDI are dominated by just a few countries and regions: approximately 75 per cent of FDI is within or between the US, European Union and Japan (Dicken, 2003, p.47). Similar to trade, Africa appears to be 'Falling Out of the World Economy' (Agnew and Grant, 1997). A crucial difference, however, is the impact on financial markets of the performance of 'emerging markets', as witnessed by the knock-on impacts of the financial crises in Asia, Russia and Brazil in 1998 and Argentina in 2002–4. The Mexican 'tequila' crisis of 1994–95 indicates the cause and consequence. The crisis itself was triggered by the realisation that the government was supporting the price of the peso, cutting foreign exchange reserves from US\$30 billion in February 1994 to US\$12 billion in early December, at the same time as domestic short-term dollar-denominated debt held in government bonds had reached US\$29 billion. The government had to devalue the peso, putting pressure on bonds and raising interest rates.

Mexico teetered on losing its status as an 'emerging market' and neo-liberal success story, and becoming once more a rogue debtor. Fearful that Mexico was just the start of another debt or liquidity crisis, and with a lot of US voters with pension funds geared into high-yield emerging markets, President Clinton put through a \$52 billion loan guarantee, most of which was used in just six months of 1995. As Thomas Friedman, writing in the *New York Times* noted:

In today's intertwined global market, Mexico is 'home'. There is far more American industrial investment and mutual-fund investment in Mexico today than there is in our own home state of New Mexico. And the economic collapse of Mexico would damage the US, Latin America and Canada far more than the bankruptcy of New Mexico. To some extent, 'home' is where the wallet is, and right now, if you check your pension fund or mutual fund, you will find your wallet is spread from Toronto to Tierra del Fuego. (1995)

Most Mexicans, of course, will point out that the real pain was not felt in Miami or Phoenix but in Mexico itself. The government's savings protection fund purchased \$100 billion of overdue loans at rates favourable to the banks, that then became risk-averse, drying up domestic credit to small-scale savers and borrowers who had never been part of the original credit boom.

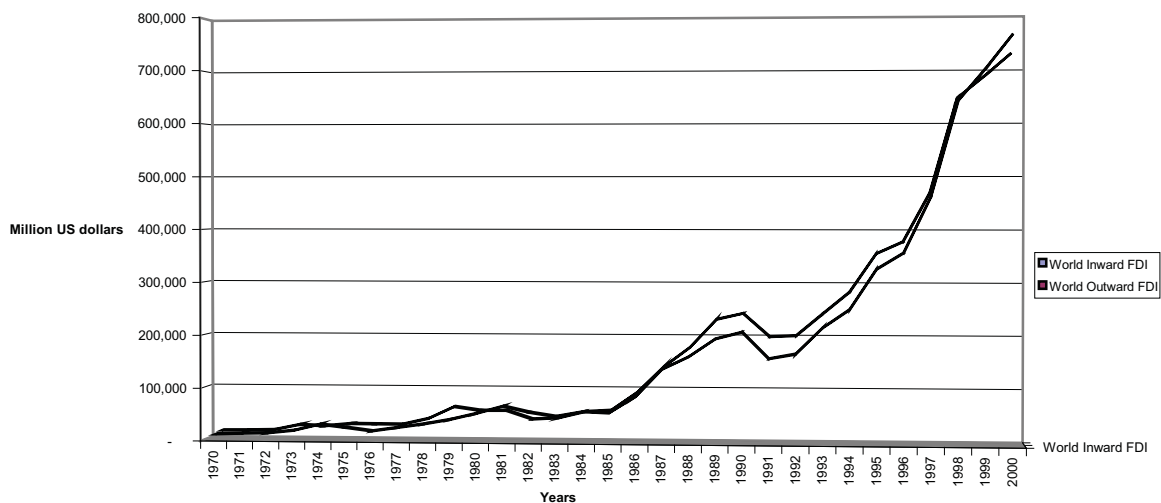


Figure 4.2: Total investment flows 1970–2000
(Source: UNCTAD, 2002)

'New' economic geography: regionalism and global production clusters

Against the idea that globalisation should mean that spatiality is dominated by the global scale, a proposition seemingly confirmed by the weaker nation-state, we can observe the rise of the region and of the local as key geographical scales. Whereas conventional economics assumes that, all things being equal, spatial equilibrium will be achieved as capital seeks high profits and low rents while labour chases higher wages, in reality economic activity is highly clustered and spatial dis-equilibrium is the norm. In making this observation, geographers have pointed out that cities in particular play an important role and cannot be regarded as generic points on an isotropic plain, some are more attractive than others for specific activities; in the jargon, factor prices alone are insufficient to explain the location of economic activity in the real world. The 'new economic geography' then considers the costs of economic interactions across distance and the effect on the geographical distribution of economic activity.

In becoming interested in clusters, nodes and agglomerations the new economic geography is returning to many of the ideas put forward by Alfred Marshall a century ago. Economic geography has refocused on the relations between internal and external economies of scale; that is, the economies attained within a firm or from factors outside the firm but available in the

locale or region. As such; questions have been asked about what is so 'new' (see Martin, 1999). In defence of the 'new' we can observe that economic geographers pay more attention than their predecessors to the role of the state, in its declining role as an agent of redistribution, meaning that regional economic differences today are likely to be left unchecked compared to the past (Storper, 1997). The state has also exerted considerable leverage by shifting the behaviour of local (city) governments away from social service provision (schools, housing, hospitals) to an entrepreneurial boosterism emphasising place marketing (Harvey, 1989). The apotheosis is the claimed status of a 'global city' (see Chapter 10).

Two trends stand out: regionalism and localism. The organisation of proximate countries into regional trade blocs has appeared as a direct consequence of trade liberalisation (Buzan and Weaver, 1998). Most countries around the world are members of regional trade agreements, customs unions, free trade areas or other preferential arrangements. In the last 50 years, GATT and then the WTO have recorded over 200 Regional Trade Agreements (RTAs), 33 new regional agreements between 1990 and 1994 alone and 150 presently in force. The best known are the European Union, the North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations, the South Asian Association for Regional Co-operation, the Common Market of the South (Mercosur), the Australia–New Zealand Closer Economic Relations Agreement and the Southern African Development Community. These agreements indicate that nation-based political structures remain important even as economies internationalise or globalise. They also suggest that the rules that govern liberalisation are asymmetrical, obliging some countries to eliminate trade barriers while creating new ones, with particular bias against developing countries (Stiglitz, 2002, p.6).

Over one-half of all trade in manufactured goods therefore is between the small number of countries within the global core; almost 70 per cent within or between the EU, ASEAN and NAFTA. The difficult question is whether regionalisation lies in opposition to globalisation or whether regionalisation and globalisation are mutually reinforcing? Do regional arrangements for example bring economic integration closer? In 1996, the WTO General Council created the Committee on Regional Trade Agreements to assess whether regional groups are consistent with WTO rules and to examine how regional arrangements might affect the multilateral trading system. Indeed the WTO believes that regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade. The logic is twofold. At one level, while regionalism has meant relative declines in inter bloc trade, these have been more than matched by increases in intra bloc trade. At another level, under GATT and then WTO rules, regional agreements remove tariff and non-tariff within the membership group while no new restrictions can be set up for non-members.

The other trend is towards localism, or more specifically to production clusters. The argument runs that the disintegration of large Fordist units and the rise of smaller specialised locally-networked operations based on flexible working practices, a greater reliance on innovation and skills, the elimination of time in supply, creates a tendency towards spatial re-agglomeration in the form of clusters, functional urban regions or city-regions, and New Industrial Districts (NIDs) (Fujita et al., 2001). These neo-Marshallian nodes imply a return to place, a dependence on location proximity between different agents involved in any production circuit.

Agglomeration creates or reinforces an 'atmosphere' that nurtures the knowledge, communication and innovation structures required for retaining competitive advantage in a global economy (Gordon and McCann, 2000). Best known is the work of Piore and Sabel (1984) whose study of the successful expansion of mature industries in the Emilio Romagna region in Italy argued that NIDs owe their success to the role of small, innovative firms, embedded within a regional co-operative system of industrial governance, which enables them to adapt and flourish despite globalising tendencies. Scott (2000) studied a system of 'global city regions' based on the clustering of high-tech firms in 'technopoles' such as Silicon Valley. These regions offer distinct 'character' over other locations and become embedded in a global-city-centric form of capitalism, better connected to other regions than to the state or nation. Contrary to the idea that reductions in the cost of transportation and communication would lead to a more diffuse pattern of location, regions have become closely tied to clustered flexible networks of firms (Allen et al., 1998; Scott, 2000).

To understand agglomerations under conditions of trade liberalisation requires spatial variables for forward (access to markets) and backward (suppliers) linkages to be introduced. The argument is that under liberalisation firms can sell to external markets and have less need to locate in the largest domestic market. Firms will therefore disperse to locations with good access to foreign markets such as borders and ports; they will cluster but in a wider range of locations. This work introduces a new perspective on the regional analysis through the interpretation of factors such as distance to markets, trade barriers, wages and infrastructure. Among the most important factors highlighted, and which go against the arguments from the International Division of Labour theorists, is the relevance of low wages in driving the relocation (migration) decisions of firms from rich to poor countries. As Fujita et al. argue:

...low wages in the South are not enough to attract manufacturing because of the lack of sufficient forward and backward linkages. Eventually, however, further reductions in transport costs move the world into a globalisation phase. The value of proximity to customer and supplier firms diminishes as transport costs fall, and so the sustainable gap between North and South narrows. (2001, p.254)

According to Fujita et al. (2001), agglomerations are formed and survive because of the economic benefits derived from interaction, in which spatial concentration itself creates the favourable economic environment that supports further and continued concentration. Producers choose locations that have good access to large markets and to suppliers of goods that they or their workers require. A place that already has a concentration of producers tends to offer a large market, a good supply of inputs and consumer goods (some of which are made by producers already there). Because of what are essentially backward and forward linkages spatial concentrations of production tend to persist once they are established.

Again we can turn to Markusen (1999) for a coherent critique. Markusen argues that there are different types of industrial districts, or 'sticky places', which have demonstrated resilience in the post-Second World War period in advanced industrialised countries. This 'stickiness' connotes both the ability to attract as well as to maintain productive investments, and therefore it applies to both new and established regions, an important dimension in an era of huge shifts in the geography of industrial production. Based on an inductive analysis of the more successful metropolitan regions in the US,

Markusen shows that structures and dynamic paths are quite different from those captured in NID formulation. Contrary to the emphasis on small firms in NID formulation, these alternative models demonstrate the continued power of the state and/or TNCs to shape and anchor industrial districts. This power provides the 'glue' that makes it difficult for smaller producers to leave, encouraging them to stay and expand, and attracting newcomers into the region. Markusen's models exhibit greater propensities for networking across district lines, rather than within, and claims that industrial clusters have a greater tendency than in the NID formulation to be exogenously driven and thus focused on external policy issues.

My proposition, which you might wish to compare to views held by authors in the recommended literature, is that we should understand globalisation as a process, and therefore a 'deep integration' and interaction capacity might not be with us right now. We seem, however, to have gone beyond internationalisation, as a simple extension of economic activities across national boundaries implying partial market integration. Production, trade and the movement of finance are freer and more global in the past, even if they are not yet fully global. That is, globalisation remains uneven and thus an opportunity for study by geographers.

Activity 4.1

Thinking of the country where you live, what have been the debates about the impacts of economic globalisation? Has economic globalisation been regarded as positive or negative, and who or which organisations hold these positions? In your opinion, what is the evidence for positive or negative forms of economic globalisation in your country? Thinking back to Chapter 3, think how you might devise a research project from either a qualitative or quantitative perspective to investigate the evidence and impacts of economic globalisation.

A reminder of your learning outcomes

By the end of the chapter and the relevant reading and activities, you should be able to:

- understand the intellectual development of economic geography
- appreciate the key concepts and current debates in economic geography
- describe and critique trends in the processes of globalisation, regionalisation and localism.

Sample examination question

Compare and contrast the insights for industrial location offered by simple location models and the so-called 'new' economic geography. Use examples to illustrate your answer.