Economic globalization

1) Introduction

There is an enormous debate in human geography and other social sciences disciplines about the concept of globalization, understood as the broad integration and growing interconnectedness of all aspects of social life at the planet-wide scale. Yet within this debate a large proportion of discussion has focused on a narrow aspect – the globalization of economic activity. In fact, in popular debates in the media and politics, globalization is itself often equated with economic globalization – the power of transnational corporations, the shift of manufacturing production to different locations around the globe or the nature of globalized finance. The concept of globalization itself refers to far more than this (see chapter one), but undoubtedly the globalization of economic activity has and continues to play a very central role in this process. We can define economic globalization therefore as the growing integration and interconnectedness of a range of different dimensions to the world economy, and whilst this has been going on for many centuries, it is more intense phase of economic globalization that has occurred since the end of the Second World War that has most concerned geographers. Since the later part of the twentieth century, economic geographers and other social scientists have argued that processes of economic globalization have made it increasingly appropriate to refer to one, integrated global economy. There are a range of factor that have led to this situation in the last forty or fifty years – the changing nature of international politics, deregulation, new information and communication technologies are just a few – but overall the degree to which economic activity in the twenty-first century is interconnected across the globe is greater than at any point in human history. For economic geographers, central to their analysis is to try to better understand and theorise how these processes have been an *uneven* with very different impacts in different parts of the globe.

The next section in this chapter examines how the globalized world economy that exists today has come about and considers how economic geographers have theorised this change as a transformation of economic activity. The third section then considers how we might think about indicators of economic globalization in general terms by examining patterns of trade and foreign direct investment (FDI). Sections four and five then move on to examine the key significance of transnational firms (TNCs) in the economic globalization of recent decades, discussing respectively both the development of globalized firms and the way in which they are leading coordinators of globalized production, distribution and consumption. Finally, the chapter ends with a conclusion which considers future trends in uneven global economic development in light of ongoing economic globalization in the twenty-first century.

2) The Emergence of a Global Economy

Something that might be called world economy has existed throughout human history, but until relatively recently economic activity largely was confined to the places and localities where it was undertaken. In pre-industrial societies, economic activity entailed the production of food and various manufactured goods that were largely produced and consumed in the same local areas. However, the earliest form of what we might regard as economic globalization does have a long history in the form of trade that took places across continents, regions and more recently national borders. In that sense, the integration of economic activity stretches back into antiquity, and human history over the last three millennia has seen a variety of different local regional, globally extensive trading systems. Early processes of economic globalization are evident a surprisingly long way back with, for example, the Roman Empire organising cross- continental economic activity around trade. The Chinese empire that existed for more than a thousand years in the middle ages also extended currencies, trade and other limited forms of economic activity at an inter- continental scale. In that sense, in the medieval period we can talk about a world economy, but its degree of global integration is very limited even if a few global-scale interconnections did exist (Held *et al* 1999).

In this respect, what we mean by economic globalization in today's world is related to the nature of today's capitalist world economy that has developed since the sixteenth century, and which has been 'global in its scope' since the nineteenth century (Wallerstein 2004). Capitalism as a form of economic organization emerged in western Europe and spread out through the globe through European colonial expansion and then later empires. During the twentieth century, an international system of nation-states gradually replaced these empires to cover the world map (see chapter 37). However, early economic globalization was sporadic in nature. During the nineteenth century, there was considerable integration of many new parts of the world into the capitalist system, but the two world wars and their political consequences in the first half of the twentieth century interrupted and in fact reduced some of this economic integration (Hirst and Thompson 1999). The world that emerged in 1945 after the Second World War was divided between the capitalist first world, the communist second world and the developing third world. This 'tri-partite' world had a range of barriers to further economic integration with states regulating how much money and how many goods and services could be traded across national borders. A large part of the global map was communist and disconnected from the capitalist world economy altogether.

However, from the early 1970s this situation changed and the disconnected world economic system began to become more interconnected in a number of ways. During the 1970s, the degree of regulation of money exchange, flows and trade was progressively reduced as nation states and international organisations removed restrictions. In the advanced industrial first world, it became much easier to move money around the globe, for companies to invest overseas and for goods and services to be exported to new markets. This financial globalization was therefore an important basis for wider economic globalization as when combined in the 1980s with new informational and communications technologies, it made it easier to move goods, people and services, for overseas investments to be made and for economic activity to organised at the international level (see also chapter 25). However, the extent and pace of these economic globalization processes accelerated during the 1990s. The central reason was the collapse of the Soviet Union and the re-integration of most of the communist second world into the global capitalist economic system. Even those states that remained communist - most notably China – largely sought to open their economies to the world capitalist economy. Combined with further deregulation and liberalization of international trade associated with an increasingly dominant neoliberal ideology (see Box) and ongoing advances in information technologies, economic activity became increasingly interconnected across all national borders. It is therefore in the last 25 years that it has become meaningful to refer to a globalized economy since more or less most nation-states across the globe are integrated into the capitalist world economy.

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Neoliberalism

Neoliberalism is arguably the political and economic ideology that has underpinned economic globalization since the 1970s. It is based on a view that state's should intervene, manage and regulate economies as little as possible, and that free markets and free trade lead to economic growth and prosperity (Peck 2001; Harvey 2005). In this respect, the deregulation and liberalisation of the capitalist world economy was to a large extent driven by those who came from this ideological position, and by the 1990s neoliberal ideas dominated he view of what policies should be used to manage the global economy by supranational organizations like the World Bank and International Monetary Fund (IMF). This broad international policy agreement on how individual nation states and international organizations should manage the global economy was known as the 'Washington Consensus'.

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Economic geographers have examined how different national and regional economies have been affected by this economic globalization in the last forty years in very different ways. Some regions have experienced deindustrialization as economic activities decline in the face of global competition (Hudson 2002). Examples would be many of the old industrial areas of Europe or North America (the north-eastern rustbelt states including cities like Detroit) (see Photo 1). Other regions have benefited enormously from economic globalization as new industries have emerged, able to generate wealth by selling to increasingly globalized markets. Consider the success of regions such as Silicon Valley in California which has been at the centre of computer and software industries for many decades now. An important aspect of geographical thinking has been concerned with the degree to which groups or 'clusters' of firms in different industries benefit (or not) from being close together in a regional economy, enabling them to compete more effectively in a globalized world economy (Martin & Sunley 2003)

Yet equally at a broader level, a key concern for geographers has been how economic globalization continues to produce a changing global economic map with economic activity growing and declining across different national economies and regions. The major characteristic of this geographical change has been what Peter Dicken calls a ‘global shift’ in the last forty years, beginning in the 1970s and which has become more and more pronounced in recent decades (Dicken 2010). During the 1970s and 1980s, it became evidence that a number of newly-industrializing countries (NICs), mainly in south-east Asia had rapidly growing economies that were exporting to increasingly global markets. The growth of these economies was primarily based on manufacturing industries with products exported to the existing first world economies. By end of the twentieth century, this ‘global shift’ in economic activity had moved into many different industries not just manufacturing, and many more countries that were joining the list of more developed countries. Figure 1 shows a stylized diagram of the complexity this has produced in the global economy.

[INSERT FIGURE 1 ABOUT HERE]

However, in twenty-first century, this process has arguably reaching a critical point. Economic globalization has brought about a re-balancing of the global economy towards previously less developed economies to a point where the old geographical dominance of the first world is now increasingly questionable. Since the global economic downturn in 2007, the older advanced industrial economies have experienced ongoing economic difficulties whilst

Asian and other emerging economies have continued to grow at significant rates (see Photo 2). In effect, many of the major ‘emerging economies’ are rapidly catching up with the old first world – most notably the BRICs (see Box). In this respect, in the second decade of the twenty first century, what we mean by economic globalization along with its nature has arguable changed significantly. Asian economies and also Latin American countries like Brazil and Venezuela are increasingly significant and represent the leading areas of economic growth on the world map. The uneven map of global economic integration is therefore a highly dynamic one, and longer standing ideas of economic globalization corresponded to simple Americanization or Westernization look ever more inappropriate as descriptions of global economic integration in today’s world.

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The Rise of BRICs

The acronym BRICs was termed by an economist, Jim O’Neill, in 2001 to group together four of the largest developing world economies that were experiencing significant economic growth – Brazil, Russia, India and China. From his position at the US investment bank *Goldman Sachs,* O’Neill argued that these four economies were at a similar stage of advancing economic development and would soon become major economic powers on the global stage. The idea is not that these four countries will be in any kind of political alliance, simply that they will dominate the global economy in terms of their size. This varies by industry, with the original argument being that China and India will dominate manufacturing and services, whilst Russia and Brazil dominate energy resources and mineral extraction industries.

It is worth emphasising that the largest of the BRICs countries by far is China. By 2010 China's ongoing rate of growth has reached a point where it is is estimated that by 2040, it will have overtaken the US to become the world's largest economy (PwC 2010). On current trends, India will also be the world's third largest economy 2050. Perhaps most significant, however, is the prediction by an updated report from Goldman Sachs that by 2050 the four BRIC countries could eclipse the richest countries of the in terms of the size of their economies. In that respect, by the middle of the twenty-first century the map of global economic power could be very different from the familiar one from the later twentieth century.

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3) The Globalization of Trade and Foreign Direct Investment (FDI)

In considering the nature of economic globalization in broad terms, two indicators are often used to understand patterns of economic integration: trade and foreign direct investment (FDI). Both indicators reveal how economic globalization in recent decades had both accelerated and produced a more complex set of interconnections in the economic activity.

Let us consider foreign direct investment first. It is a central factor in global economic integration and describes direct investment across national borders by a firm. This usually entails a firm either buying a controlling interest in a firm in another country, or setting up a subsidiary (Dicken 2010). It is called 'direct' investment to distinguish it from 'indirect' investment where you might buy shares in another firm. In terms of understanding economic globalization, the key thing to appreciate is the dramatic growth in the level of FDI in the world economy since the end of the Second World War (see Figure 2). This has not been continuous – there tend to be decline in periods of recession. However, in terms of understanding economic globalization geographers are particularly interested in the changing patterns of FDI. In this respect, most FDI until the 1970s originated from the advanced economies of North America and Europe. However, during the 1970s Japan became an important source, joined by other Asian 'Tiger' economies during the 1980s (for example, South Korea and Singapore). More recently, these patterns have become more complex as firms in economies formerly regarded as developing have begun to invest themselves. Asian and Latin American firms are thus becoming increasingly important in making foreign direct investments. In terms of global integration, the pattern is becoming increasingly complex reflecting an increasingly level of global interconnectedness in global economic activity.

[INSERT FIGURE 2 ABOUT HERE]

In relation to trade, both the total volume as well as the patterns of global trade are important measures that provide an overview of how economic activity has become more globally interconnected. Trade in the world economy refers simply to the buying and selling of goods and services between actors (individuals, firms, organizations) in different places. In the post Second World War period, trade liberalization has been an important facilitator of increasingly amounts of trade in the global economy. From the 1950s onwards, nation states negotiated trade liberalization through successive rounds of meeting between countries concerned with the General Agreement on Tariffs and Trade (GATT). During the 1990s, these trade liberalization negotiations became further formalised as the World Trade Organization (WTO) was set to oversee ongoing reductions in barriers to trade.

As the world economy has globalized, total trade has grown enormously but trade benefits some localities and not others depending on the nature of their economies. Whilst growth in total world trade stalled during the 2007-9 economic down-turn, the long term trend has been one of enormous expansion (IMF 2011). To get some idea of this, in 2008 total world trade measured in terms of goods exported from one country to another amounted to 15.8 trillion US dollars. In the same year exports of commercial services was worth 3.7 trillion US dollars but this remains unevenly distributed across the globe (OECD 2009). As with FDI, much international trade is concentrated between the wealthier countries in the global economy. However, as discussed above in today's world this is changing fairly rapidly. In the last decade countries like China and India have experienced huge trade growth with China's trade surplus becoming an increasing source of tension in international politics (IMF 2011).

Another issue that human geography is concerned with is, however, how globalization processes has made understanding the idea of trade much harder. The reason is simple: patterns of trade have become ever more complex and what we might count as 'trade' more difficult to measure. The conventional way was to measure trade at the national level with nation-states counting how many goods and services they exported and imported. However, globalization processes have complicated this in a number of ways. For one thing, a growing proportion of world trade is different parts of the same large transnational firm 'trading' with another part – this undermines the widely held assumption that trade as an activity comes to an end with the consumption of a good or a service. Another issue is the nature of what is traded, with not only services but also new digitized products (e.g. software, music, film) hard to measure because they are sold and bought in different parts of the global economy.

4) The Development of Transnational Corporations (TNCs)

Analyses of trade and foreign direct investment in the global economy do not provide a very detailed picture of the major actors in economic globalization in today's global economy: transnational firms (TNCs). It is these firms that produce the majority of products which are traded and make direct investments. Whilst there is a long history to the internationalization of business enterprises, it is primarily the growth in numbers and the extensiveness of corporate operations in the last 50 years that is emphasised as distinctive in contemporary economic globalization.

Unfortunately, the idea of a TNC is ambiguous as it is the successor to earlier (and similar) concepts – the multinational corporation (MNC) or multinational enterprise (MNE). These acronyms are all often still used interchangeably. Essentially, the 'trans-' prefix in TNC intends to imply that large international firms now exist 'across' national economic borders rather than just operating in multiple countries (as the prefix 'multi- denotes). Economic geographers have charted and mapped the rise of such corporations since the 1980s, but it was really in the 1990s that the term TNC came to be used for some of the largest, most globalized firms. Occasionally, TNCs may also be referred to as 'global corporations' but this concept is used lazily, and any differences with the more technical terms 'TNC' or 'MNC' are unclear.

The theoretical basis for distinguishing between a 'multinational', 'transnational' or even 'global' firm rests around the degree to which these economic actors are globalized in three dimensions: how they produce goods or services, where they sell them (markets) and how the firm is set-up as an organization. Some business commentators started talking about 'global corporations' as early as the 1970s, but in reality these companies only operated in a handful of countries at that time and in many ways just repeated their operations in each country separately. Car makers like Ford of General Motors, for example, bought foreign firms like Vauxhall in the UK or Opel in Germany which made cars in their respective national markets. In other words, multinational firms became multinational either by setting up new, wholly-separate operations in another country or buying up existing foreign firms that already made the same products in another country. Since the 1980s, however, this had changed in several ways.

First, there are far more firms operating in many countries and many different industries. Whilst early multinationals tended to be in mineral extraction or manufacturing, service industries like banking, hospitality (hotel chains), retail and software are all increasingly dominated by transnational firms (Dicken 2010). Second, today's transnational firms are not just companies from the rich global North but originate from many economies. Several of the biggest transnational shipping companies originate from Singapore, for example, and large oil and mineral companies have emerged from Latin America and Australia. Nine of the top ten steel firms in 2010 are Asian (see Photo 3). Thirdly, transnational firms these days are set up very differently with companies organising many parts of their business at the global rather than national scale. New product research, finance and advertising are all done at the global level where once each national operation had its own research or finance department. This is what the idea of a shift to a transnational or global corporate organizational form aims to capture (Jones 2005). However, economic geographers point to the highly variable and uneven way in which this shift has taken place. Some companies now are very much transnational whereas others, despite being very large, are much less so. Even small companies can globalized, and some in certain industries can be so as soon as they are founded – known as ‘born global’ firms (Melen & Nordman 2009). The degree to which firm themselves are globalized in today’s world economy therefore varies between firms of different sizes, from different countries of origin and in different industries.

5) The Globalization of Production & Consumption

Having considered the wider significance of transnational firms in the twenty-first century global economy, we need to consider their role in organising globalized production across many different national territories. Most people generally understand an economy to be the economic activity taking place within a nation-state, but globalization has dramatically changed this. In this respect, the economic geographer Peter Dicken argues that the world economy today should be understood as a complex set of what he calls globalized ‘geo-economies’. This argument stands in contrast to the traditional view that nation states each have an economy based and largely contained in the territory they govern. Dicken’s point is that globalization has opened up serious questions about what we mean when we refer, for example, to the US, German or Australian economies. He argues that economic globalization has produced ‘a new geo-economy’ that is different from previous eras in terms of how the processes of production, consumption and distribution are organised (Dicken 2010). All three of these processes no longer just happen in a small number of specific places within states, but exists as connections of many activities between places that are linked through flows of material objects (manufactured goods, components) and non-material elements (ideas, knowledge, services). The new global geo-economy is made up of many networks that span the whole globe, with different actors (TNCs, individual workers, consumers, nation-states) linked into these networks as ’nodes’ in different ways. However, amongst these actors TNCs play a leading role insofar as they are the primary organisers of production and distribution of goods and services.

In order to understand this role better, geographers have developed the concept of the global production network (GPN) (Coe *et al* 2008). The key issue is that national economies 'can no longer be said to contain production' inasmuch as many manufactured goods 'get made' in multiple places. A product like a car or even a laptop computer, for example, is likely to have many different components made by different firms at production facilities in many different countries around the globe. Components get shipped from one factory to another, and to make matters even more complicated, other aspects of production like design might take place in yet another set of locations. This makes the labels 'Made in the US' or 'Made in China' both misleading and inaccurate quite often. It also means that it is increasingly difficult to see production as a process that occurs in one given place at a given time. The concept of the GPN therefore aims to provide a better way of understanding the multiple relationships between different firms that are involved in making something. All GPNs have to operate across a range of scales – the local places where factories are situated, nation-states which have governments, and global markets where they have to eventually sell products across a world with much social and cultural diversity. The important thing to realise, therefore, is that although these are production networks, the consumption of their products is also a key factor because GPNs are ultimately driven by 'the necessity, willingness and ability of customers to acquire and consume products, and to continue doing so' (after Dicken 2010). This links back to the detailed discussion of production in chapter 24 and consumption in the global capitalist economy in chapter 26.

6) Conclusion: A New Phase of Economic Globalization?

Human geographers have been very much concerned with the nature and consequences of economic globalization, and as a process it continues to represent one of the major areas of research in relation to many different dimensions. Geographical work is not only interested in the way that regional and national economies have been affected by and responded to economic globalization, but also how it is transforming firms, industries and markets as well as reconfiguring the nature of production, distribution and consumption in global economic space. Over the last forty years, the tripartite global map of first, second and third worlds that characterised the decades after the Second World War has been dramatically altered by processes of economic globalization. A geographical perspective on this enables an understanding of the inherently uneven nature of these processes, and the way in which global economic integration is producing new patterns of complexity in the spatial organization of economic activity. The last forty years has thus seen a significant opening up of national economies and a shift away from national to transnational production to a degree that it is now meaningful to refer to an increasingly integrated global economy rather than a world economy made up of many different national economic spaces.

However, early in the second decade of the twenty-first century, it also appears that processes of economic globalization have reached a critical point in shifting economic power to new regions of the globe. Ongoing low growth in the older advanced industrial economies has only exaggerated the growing power of BRICs economies and other increasingly wealthy emerging economies in what used to be called the third world. It seems likely therefore that the patterns of global economic integration that characterise the global economic map by the mid twenty-first century will be very different from ideas of economic globalization as a spread of western and American capitalism that were proposed in the 1990s. In that sense, whilst economic globalization remains very much a feature of the world economy today and appears unlikely to diminish in the coming decades, it needs to be understood as a process increasingly influenced and led by Asian and other emerging economies. A geographical perspective on economic globalization is therefore more of a necessity than ever.

Summary

- Economic globalization refers to the ongoing interconnectedness of all aspects to economic activity at the planet-wide scale;
- Processes of economic globalization have a long history but the pace of integration increased dramatically over the last forty or fifty years;
- Human geographers are particularly interested in understanding the uneven nature and impacts of global economic integration on economics, industries, firms, markets and labour;
- Contemporary economic globalization are transnational corporations(TNCs) that increasingly account for a growing proportion of global output of goods and services, and organise globalized networks of production and distribution;
- Economic globalization has produced a global shift in the patterns of economic activity which in the twenty-first century is characterised by a shift of economic power to emerging economies.

Discussion Points

- Think about whether or not transnational corporations really as powerful as some critics of globalization have argued, given the ongoing significance of states in managing economic globalization;
- Assess the benefits of conceptualising production in terms of a global network between that includes not just transnational firms but also consumers, workers and others in different place.
- Consider the extent to which economic globalization led to a shift in power to Asian economies over the last decade.

Further Reading

Dicken, P. (2010) *Global Shift: Mapping the Changing Contours of the World Economy* (London: Sage) Chapters 1 to 5 in particular are essential reading in terms of understanding the nature of production in a globalized world economy.

MacKinnon, D. & Cumbers, D. (2011) *An Introduction to Economic Geography: Globalization, Uneven Development and Place.* (Harlow: Prentice Hall). Chapters 5, 6, 9 and 10 in different ways discuss different aspects of economic globalization from a geographical perspective.

[4683 words excluding references / formatting]

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Photo 1 [Picture of Industrial Decline in Detroit, USA]

Photo 2 Victoria Harbour, Hong Kong: the global economic downturn has had little impact on growth" (Corbis images available, copyright free)

Photo 3 Mittal Steel production facility, India

Figure 1 [diagram] 'A simplified analytical framework of the global economy', permission needed from Dicken 2010, page 53

Figure 2 [diagram] Global FDI inflows; [these graphs can be adapted from OECD data; to be prepared]