ECONOMIC GEOGRAPHY

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Transport costs

\[ \text{Dollars per ton/mile of rail transport} \]

\[ \text{Fonte: Glaeser-Kahlhae 2004, p. 203} \]

Economic geographies of globalization

"Space-time compression" (Harvey)
Globalization and trade

*World exports, percentage of GDP, 1961-2012*

Source: WTO and World Bank, current prices

Globalization and foreign direct investment

*World FDI, percentage of GDP*

Source: World Bank, current prices

Reshoring and de-globalization?


Source: WTO

Reshoring and de-globalization?

Foreign direct investments vs. all international capital movements

Source: IMF; RBA
Transnational corporations

First generation (until WW2): extraction of natural resources and primary products from the Global South.

Second generation (since WW2): internationalization as a strategy to extend markets, substitute imports, bypass monetary and non-monetary barriers to entry («market-seeking», market-oriented, horizontal FDIs).

Third generation (since the 1970s): multinational services

Fourth generation (since the 1970s): multi-plant, multi-location, multi-product corporations that locate each production unit and component of the value chain in various places/countries to access local assets, save on costs, improve specialization, diversify risks, etc. («asset-seeking», supply-oriented, cost-oriented, vertical FDIs)

The global geography of transnational corporations

Two crucial variables: size of the destination country’s market; functional distance between origin and destination countries (Shatz-Venables 2000).

Labour: wages, productivity, specific skills, controllability

Non economic factors: relational proximities, political conditions
Why and how

«Market linkage»: export -> sales outlet -> production facilities

Vernon life cycle (1966): standardization -> internationalization

Why and how: conventional and shortest paths..

FDIs vs. export vs. production licences (commercial outsourcing)

Hymer (1976): Transnational corporations have a «specific advantage» with respect to local competitors, to counter-balance the barriers to entry, risks, uncertainties and difficulties of operating abroad

Dunning (1993): 1) specific advantage, 2) internalization advantage, 3) location advantage

-> FDIs occur because of market imperfections; in oligopolistic markets where advantages are more frequent and easier to protect; and if such advantages can be transferred in distant locations

Brown-field (merges and acquisitions) vs. green-field investments

Multi-plant and multi-location transnational corporations

Corporate headquarters: skilled labour, accessibility/connectivity, information and tacit knowledge, external economies, high quality external services -> «global cities» (dispersion and concentration)

Research and development: skilled labour, research and innovation centres. Concentration/scale vs. internationalization and specialization. Separation vs. integration with production and marketing

Sales units: dispersion; proximity and adaptation to the market

Production, manufacturing, processing, assembly, packaging, etc.: supply-oriented, cost-oriented, out-sourced...
Trans-national production networks

Designed in California, manufactured in China?
The production network of Apple’s iPhone

From transnational corporations to transnational production networks: global commodity chains, global value chains and global production networks

Integration

Concentration

Dispersion

From transnational corporations to transnational production networks: global commodity chains, global value chains and global production networks

Figure 1.3 Modes of organizing value chains

Source: Author’s drawing, based on Kimura and Ando 2005.
Transnational corporations and flexible specialization

The “newer” international division of labour (Coffey 1996): the increasing outsourcing from transnational corporations of non-strategic, standardized and competitive production activities to autonomous foreign firms + the increasing reliance on specialized, autonomous suppliers (60–67% of global trade value-added)

Inter-firm international relationships:

- **Horizontal linkages**: strategic alliances; production, R&D, commercialization, distribution joint ventures; cross-licensing agreements; adoption of common (global) standards.

- **Vertical (forward and backward) linkages**: global sourcing, multi-tiered (50-70% of inputs from autonomous suppliers); increasing complexity and formalization of TNC’s external relationships.

Global Commodity Chains

“An internationally integrated process of economic links between corporations and workers whereby commodities are gathered, transformed into goods and services, and distributed to consumers”, and whose organizational and spatial (historical) evolution creates interdependencies between firms, individuals and places.

Five key analytical elements:

a) Inter-firm relationships (integration/disintegration, internalization/externalization, vertical and horizontal relationships)
b) Governance (centralized/decentralized, hierarchy/autonomy)
c) Network structure (number of nodes, complexity, density, SNA)
d) Geographic dispersion and spatiality
e) Market regimes for each node (oligopoly, competition, etc.)


Global Commodity Chains

How is power (value-capture) distributed within the chain, how this changes, and what are the consequences for firms, places and the world economy?

Type of commodity -> market regime for each node of production/commercialization -> leading firms’ strategies and their external relationships -> industrial organization and spatiality

Leading firms tend to retreat from competitive nodes and focus on those components of the commodity chain that are less competitive, with higher barrier to entry and higher/more stable profits, to acquire/exploit market power, and coordinate indirectly the whole commodity chains by imposing technological, product and market standards

More competitive industrial activities will be outsourced, subordinated, fragmented and dispersed.
Global Commodity Chains

How is power distributed within the chain, how this changes, and what are the consequences for firms, places and the world economy?

Winners and loosers, 1980-2016

Barriers to entry:

a) Based on the capacity to innovate
b) Based on brand reputation and the control of distribution

Two macro-typologies of commodity chains:

1) Producer-driven: innovative and technologically intense goods; a few (oligopolistic) leading firms; outsourcing of a few standardized activities; hierarchical governance; spatial concentration

2) Buyer-driven: standardized goods; importance of the brand, of distribution facilities and marketing; manufacturing almost completely outsourced («manufacturers without factories»); decentralized governance; spatial dispersion.
Global Commodity Chains: the historical evolution of the industrial organization of commodity chains, how ‘power’ shifts from one node to another, and the restructuring of the world economy.

Global Value Chains: the variety of governance arrangements in global value chains, the role of individual nodes, regions or clusters, and how this influences economic development and regional economic development (“globalizing regional development”)

Global Production Networks: a more geographical and critical approach; emphasis on «varieties of capitalism», e.g. home-country (cultural) influences, on the relational/territorial embeddedness of global production networks, and on policy drivers/responses

«The most ambitious and consistent attempt to use the concept of the network as an analytical expedient to understand the world economy» (Dicken et al. 2001)

Transnational production networks

A relational/topological approach to centre-periphery relationships, technology transfers, economic development; ownership->control.
Competition : dispersion : disintegration : subordination : vulnerability

Complexity and ‘lenght’ of value chains by industry, 2008 (Oecd)

Governance of value chains

Three key variables:
- Complexity of transactions (transaction costs)
- Ability to codify transactions (codified knowledge)
- Capabilities in the supply base (availability of suppliers)

a) ‘Market’ chains (“buy”): episodic relationships, frequent changes of suppliers and partners; codified information; largely available, standard supplies = market purchase based on price

b) ‘Captive’ chains: standardized and simple components; need to transfer proprietary information; small, dependent suppliers dominated and «captured» by the buyer = to change buyer is complicated, or forbidden

c) Relational chains: non standard supplies; non-hierarchical relationships; high transaction costs; intense relationships between buyers and suppliers (e.g. diversified goods; just-in-time; knowledge intensive industries); stable relationships and strong interdependencies: clustering and relational proximities.

d) Modular chains: complex and specific supplies that the buyer cannot produce in-house = “modular” supplies (based on common standards) in order to reduce the costs of coordination, and avoid the need to transfer complex or proprietary information. Suppliers with market power and a plurality of buyers. Unstable relationships.

e) Hierarchical chains (“make”): highly specific inputs; tacit or proprietary information; unavailability of suppliers = in-house


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**Ex.: Agrifood chains**

Power relationships: transformation (cocoa, coffee), trade (cereals, cotton), distribution (fresh fruit, vegetables)

Historical evolution: production -> transformation -> distribution (-> seeds and fertilizers)

The influence of policies/politics (e.g. TRIPS agreement)

Problems and alternatives (e.g. alternative food networks)
The local effects of global value chains

At the origin: diversified effects on sectors, regions, social groups..

At the destination: a much easier and shortest path to increase income, capital, productivity, technological catch-up -> injection of capital (?) and foreign currency; (wanted and unwanted) knowledge and technology transfers; number and quality of jobs; indirect/induced effects on local firms

Long-term and ‘developmental’ benefits are a function of the degree of integration/embeddedness of global value chains in the regional/national economy -> that depends on the economic, technological and cultural proximity between origin and destination = openness/integration/upgrading vs. «industrialization without development»; vertical integration and «extractivism»; + market and technological displacement of local firms and entrepreneurs

Upgrading in the value chain

Participation of local firms or regions in a global value chain as an opportunity for ‘upgrading’, ie. an improvement of their position in the value chain in terms of value-added and value capture (relational spill-overs)

- Process upgrading: increased efficiency/productivity thanks to improved technology and/or organization.
- Product upgrading: diversification into more sophisticated, higher-value productions.
- Functional upgrading: taking on better, more skilled, high value-added functions.
- Inter-sectoral upgrading: upgrading based on moving into new industries or markets
- Social upgrading: improvement in working conditions, employment quality, equal distribution of costs and rewards..
The industrialization of the Global South

Inland/coastal disparities (and economic openess) in China, 1950-2010

Trans-border production systems

Maquiladoras (Mexico-US):
Programa de Industrialización Fronteriza, 1965: no tariffs, tax breaks. Textile, clothing, electronics, automotive, etc.

Geographical proximity + economic and regulatory asymmetries.

Labour cost: $2.48 per hour (vs. $15-40 in the US). 65% of Mexican exports. 95% of inputs from outside Mexico.

Effects: employment, exports, urbanization (factory cities), criminality, migration, militarization.
The regional effects of global value chains

*Risks:* Territorial and social unevenness. Dual economies. «Truncated» economies. The dangers of exogenous development and external control.

*Policy responses:* Openness or closure? How much open? How? To incentivize/command the transfer of capital, technologies, skills to local firms/managers. To incentivize/command the buying of inputs from local firms/suppliers.

*Global governance:* fair competition; labour conditions, standards, and regulations (e.g. sweatshops); environmental conditions, standards and regulations (vs. pollution havens); corporate social responsibility

The urban effects: «global cities» (Saskia Sassen)

Rescaling: the globalization and dispersion of production systems induces a huge concentration of economic power in a few «global» cities.

- Control and coordination functions (corporate headquarters, financial markets)
- Strategic advanced services (finance; business, consulting, accounting, legal services; marketing; research; public relations; lobby; communications; etc., that are increasingly outsourced)

«The more dispersed a firm’s operations across different countries, the more complex and strategic its central functions – that is, the work of managing, coordinating, servicing, financing a firm’s network of operations.»

Global cities as key sites of coordination and domination in the world economy
Global connectivity and local disconnections

«The economic fortunes of these cities become increasingly disconnected from their broader hinterlands and even from their national economies» (Sassen)

The concentration of wealth in global cities produce an unprecedented raising of social and spatial inequalities within those cities: low value-added, unskilled informal services, dual labour markets, spatial segregation
**Spatial segregation:** formation of homogenous urban areas in terms of class, wealth, income, race, ethnicity, etc.

**Urban inequalities:** distribution of medium/high skilled workers in Rome.

**Gentrification:** a process of renovating deteriorated urban neighborhoods by means of the influx of more affluent residents and expulsion of previous, low-income residents (and the paradox of urban renewal).

**The politics of globalization**
- Winners, losers, reactions, consequences...
- Power without responsibility vs. responsibility without power
- The paradox of economic openness
- Global networking vs. territorial embeddedness.
- The ‘space of flows’ as the new dominant organization of the economy and society, vs. the ‘space of places’ where people live, work...

«Elites are cosmopolitan. People is local». The space of flows «is not only an element of the social organization: it is the expression of those processes that dominate our economic, political and symbolic life» (Castells 2002)